

Commodities Weekly

For the week ending Friday 26th April

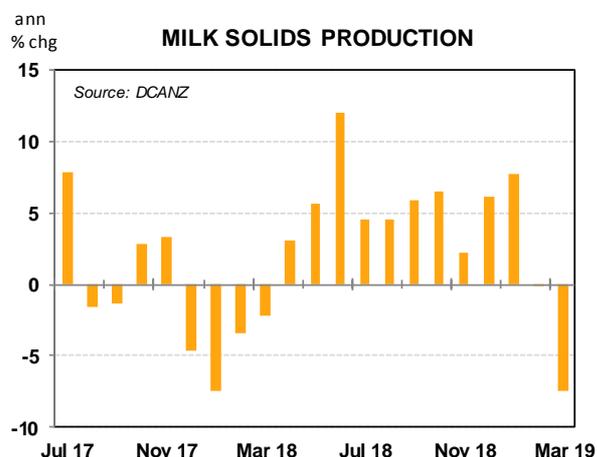


March dairy production not as solid

Milk solids production numbers down dramatically on last year

The hot weather led to a marked drop in dairy production during March compared with the same period last year. Milk solids production fell 7.5% from a year ago, taking us to the lowest level of March production in six years. This is a dramatic change from just two months ago in February, when production was up 7.7% on 12 months prior.

With strong growth in previous months, we are still on track for a good season – though a weaker one than previously expected. We had thought that production growth would hit 3% in the 12 months to May, but given the sudden slowdown, risks have grown that production could undershoot that.



Production is also slowing in other jurisdictions, supporting global milk prices. The US dairy herd shrunk for the ninth consecutive month in March, implying lower American production even as output per cow rises. Falling production and robust demand (particularly in China) signal prices moving in one direction: up. All-in-all, we are comfortable with our \$6.60/kg milk price forecast for this season and see upside risks to next season’s \$7.00/kg forecast. Still, the 2019/20 season is not yet underway, and unexpected movements could happen. Accordingly, our prediction comes with a large margin of error, and we will be watching production numbers in the coming months for signals on the supply-side drivers of the milk price.

Week ending 26 April

The ASB Commodity Price Index lifted modestly in NZD terms over the week, helped by some downward movement in the dollar. The NZD index rose 0.5% whilst NZD/USD dipped 0.4%.

The Index tracked sideways in USD terms (up 0.1%). Rises in Dairy (up 0.4%) and sheep/beef (up 0.2%) prices were met by declines in the prices of forestry and fruit (down 0.4% each).

The NZD/USD remained subdued at 0.6670 as of the time of writing.

ASB New Zealand Commodity Price Indices As at Friday 26th April 2019

	Index*	Week %	Year %**
Total NZD	108.6	0.5%	5.9%
Total SDR	102.8	0.4%	2.7%
Total USD	102.5	0.1%	-2.1%
Dairy USD	106.6	0.4%	4.7%
Sheep/beef USD	95.6	0.2%	-9.2%
Forestry USD	100.4	-0.4%	-5.7%
Fruit USD	103.7	-0.4%	0.1%
NZD/USD	0.6662	-0.4%	-7.6%

* For all indices 2017 average = 100

** Percentage change since same week last year

ASB Economics & Research

Chief Economist
Senior Rural Economist
Senior Economist
Senior Economist
Senior Economist, Wealth
Data & Publication Manager

Nick Tuffley
Nathan Penny
Jane Turner
Mark Smith
Chris Tennent-Brown
Judith Pinto

nick.tuffley@asb.co.nz
nathan.penny@asb.co.nz
jane.turner@asb.co.nz
mark.smith4@asb.co.nz
chris.tennent-brown@asb.co.nz
judith.pinto@asb.co.nz

Phone

(649) 301 5659
(649) 448 8778
(649) 301 5853
(649) 301 5657
(649) 301 5915
(649) 301 5660

www.asb.co.nz/economics

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