

## Fonterra Milk Price forecast bumped to \$7.40 kg/ms

**Dairy prices lifted a further 1.8% at last night's GDT dairy auction.** Price gains were recorded for all commodities except skim milk powder, which dipped 1.5%. Whole milk powder prices lifted by 2.3%, taking the average price of WMP to US\$3458/t. The continued strength in milk prices has prompted us to **lift our forecast for Fonterra's Milk Price for the current (2020/21) season from \$7.00 to \$7.40 kg/ms.** That's outside of Fonterra's current \$6.70-\$7.30 guidance, but is nevertheless warranted in our view.

**The big news in yesterday's RBA Board decision** was the announcement to extend the bond buying program by a further \$A100bn over six months, when the current Quantitative Easing (QE) program is completed in mid-April (all other policy measures were left unchanged). Extending QE while maintaining the pace of bond buying at its current rate of \$A5bn a week indicates no tightening in monetary policy is likely in the near term and, indeed, the Board noted the conditions for a higher cash rate would not be in place until "2024 at the earliest", a slight tinkering of its previous forward guidance.

**Overnight, the mood's been positive**, as stimulus hopes and the apparent deflating of the Reddit/Gamestop retail trading frenzy breathed life back into risk appetite. President Biden appeared to push forward with his \$1.9t COVID relief plan, meeting with Senate Republicans (who've countered with a US\$618b plan) in the hope of striking a deal. Both GameStop (-52%) and silver prices (-8.5%) fell sharply as retail investors pulled back. Some are suggesting the catalyst was the CME's move to raise margins on silver futures. Dallas Fed President Kaplan even appeared to shoulder some of the blame, noting the Fed's QE programme and associated wash of liquidity may have contributed to risk-taking in equity markets.

The major US share indices are all up just shy of 2%, with the VIX index (a proxy for risk aversion) dipping back below 26% from opening around 30%. European bourses had good night too (Eurostoxx +1.7%), helped by a stronger than expected set of Q4 GDP accounts. Eurozone GDP fell 0.7%, not as bad as the -0.9% feared but it nevertheless looks as if the area will record another, larger, quarter of contraction in Q1.

**FX update:** Interestingly, the positive market sentiment hasn't really flowed through to FX markets. The USD has remained bid, with most of the major FX pairs stuck around recent ranges. The CAD has outperformed thanks to a 2%-odd lift in oil prices, while the AUD has been confined to the bottom of the G10 FX rankings in the wake of the RBA's surprise noted above. While NZD/USD continues to hang around 0.7150, there's been a bigger move in NZD/AUD on the back of the RBA decision. The cross is up 0.6% to 0.9425, placing it back inside the 'fair-value' range estimated by our short-term valuation model of 0.9400-0.9800.

**Day ahead:** This morning's slew of labour market indicators are the highlight of the local data week (10:45am). We, the RBNZ, and the market all expect a modest lift in the unemployment rate to 5.6%. Employment is expected to be roughly stable, with the participation rate lifting slightly to 70.2% (market 70.3%). Markets will be most sensitive to an upside surprise, as it would continue the strong run of recent data and have markets again pushing the wholesale interest rate curve higher and steeper.

There's a smattering of second-tier data due in Australia, including building approvals & the January PMIs, and a forward-looking speech from RBA Governor Lowe at 2:30pm (NZT) that will be closely watched (titled "The Year Ahead").

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Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7151	-0.3%	NZD/SEK	6.020	-0.2%	NZX WMP	3385.0	0.6%	Dow	30768	1.8%
NZD/AUD	0.9426	0.5%	NZD/DKK	4.426	0.2%	Gold \$/o	1836.7	-1.3%	S&P 500	3838	1.7%
NZD/EUR	0.5950	2.3%	NZD/THB	21.5	-0.2%	WTI Oil \$/b	54.8	2.3%	NASDAQ	13633	1.7%
NZD/JPY	75.15	4.4%	AUD/USD	0.7586	-0.7%	<b>Money Market (%)</b>			FTSE	6517	0.8%
NZD/GBP	0.5239	0.4%	EUR/USD	1.202	-0.5%	90 Day BB	0.28	0.00	CAC-40	5563	1.9%
NZD/CAD	0.9160	1.6%	USD/JPY	105.1	0.2%	OCR	0.25	0.00	DAX	13835	1.6%
NZD/CHF	0.6428	7.9%	<b>10 Yr Bond Yields (%)</b>			<b>ASB Swap Rates (%)</b>			H.Seng	29249	1.2%
NZD/HKD	5.543	-0.3%	NZ	1.22	0.04	1yr	0.26	-0.02	Nikkei	28362	1.0%
NZD/SGD	0.9536	-0.1%	US	1.10	0.02	2yr	0.35	0.01	ASX200	6763	1.5%
NZD/CNH	4.621	0.2%	Aust	1.16	0.00	5yr	0.75	0.02	NZX50	13045	-0.4%

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