

# Commodities Weekly

For the week ending Friday 1<sup>st</sup> September

## WMP prices post gains from lower baseline

- Whole milk prices (WMP) have recovered a bit of ground at the latest Global Dairy Trade event overnight but remain close to three-and-a-half year lows.
- It's an open question on whether prices might be finding a floor, but we still don't anticipate a broader recovery for quite some time.
- The ASB Commodities Index declined again in NZD terms last week, with a bounce back in NZD the main culprit.

Dairy prices have mounted a modest comeback at the latest dairy auction overnight. The overall price index is up about 2.7%, underpinned by a 5.2% rise in WMP prices. That lift in WMP is stronger than the more modest increase anticipated by the futures market but comes after a 15% fall in prices over the season thus far.

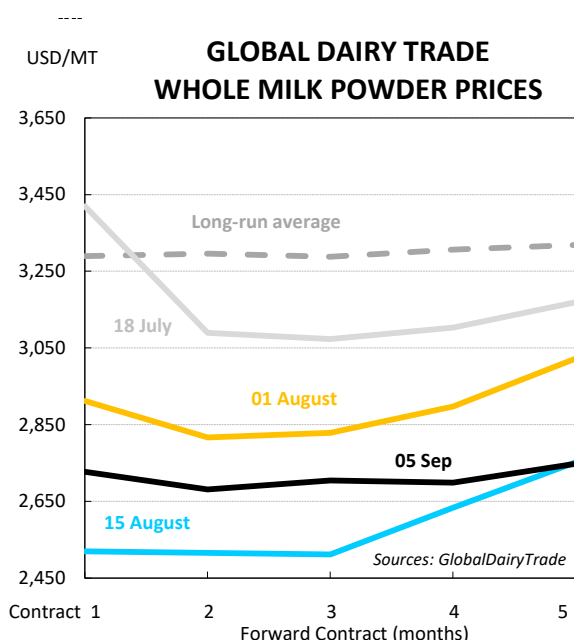
It pleasing to see prices recover a bit of ground, but we are still cautious on the outlook. Gains in WMP prices look to have been concentrated in the front end of the contract curve (where prices were at their lowest ebb after the sharp falls of last auction). Contracts with shipment dates further into the future are still trading at – or even slightly below – the prices they commanded in mid-August.

Interestingly, the bulk of WMP was once again bought by the Middle East and South-East Asia/Oceania, with China's share of purchases declining after its uptick over the last couple of auctions. As by far the dominant player in the market for NZ dairy exports, we still believe a more sustained recovery in Chinese demand is a necessary precursor to a substantial recovery in prices.

That still doesn't look imminent in our view. With the risk of sounding like a broken record, Chinese economic data remains underwhelming. Overnight, the Caixin/S&P Global Purchasing Managers' Index for the services sector (a timely measure of activity in the services

GlobalDairyTrade Auction Results

Product	% change in index since last auction	Weighted Average Price US\$/MT
Whole Milk Powder (WMP)	5.2%	2,702
Skim Milk Powder (SMP)	-1.6%	2,286
Anhydrous Milk Fat (AMF)	2.7%	4,561
Butter	1.0%	4,588
GDT Price Index	2.7%	n.a.



sector) showed activity expanding at its slowest pace since December. As we've noted over recent publications, Chinese consumer confidence remains weak, and stimulus measures announced by Beijing thus far look unlikely to be sufficient to turn the tide (such as loosening in home purchase restrictions and reductions in bank lending rates).

**Tightening in dairy production may help support prices, but only somewhat.** After strong growth earlier in the year, NZ milk production may struggle to keep up the momentum as it enters the peak production months. While some farm expenses have eased, others (like debt servicing costs) have worsened, and El Nino conditions usually crimp output. **But given the extent to which demand has softened, we still anticipate the global dairy market will be comparatively well supplied.**

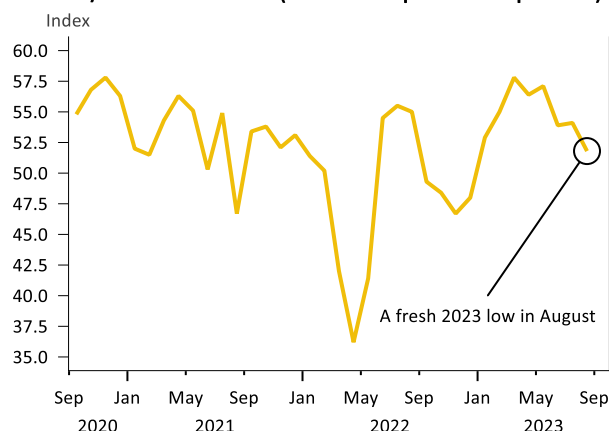
**All-up, we retain our \$6.60 per kgMS milk price forecast for the 2023/24 season.**

**Meanwhile, the ASB Commodities Index fell another 0.5% in NZD terms last week.** In a reversal of recent trends, it was gains in the NZD, rather than a decline in underlying commodity prices that underpinned that headline move.

The NZD bounced about 0.9% over the course of the week, though it continues to trade in a substantially lower range than it was managing only a month or two ago.

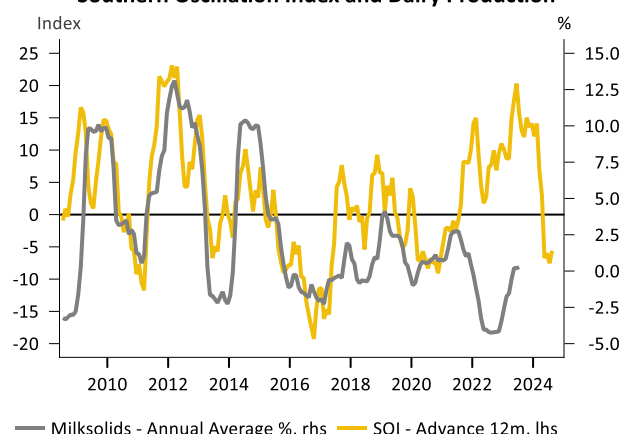
**Underlying commodity prices were mixed in USD terms last week.** Dairy prices shed 0.5% in advance of this morning's auction, while other sub-indices were modestly stronger. In general, prices for the major commodities NZ exports remain close to cyclical lows. All-up, our USD index managed a meagre 0.4% lift.

**Caixin/S&P Services PMI (above 50 represents expansion)**



Source: Macrobond, ASB

**Southern Oscillation Index and Dairy Production**



Source: Macrobond, ASB

**ASB Commodities Index as at 01.09.2023**

Index	Index*	Week %	Year %**
Total NZD	100.1	-0.5%	-14.7%
Total SDR	94.7	1.0%	-18.5%
Total USD	90.5	0.4%	-17.2%
Dairy USD	90.8	-0.5%	-24.4%
Sheep/beef USD	85.2	0.9%	-22.1%
Forestry USD	85.3	0.9%	-4.0%
Fruit USD	91.8	0.9%	2.3%
NZD/USD	0.5956	0.9%	-2.9%

Base Year 2019, Base = 100

## ASB Economics & Research

Chief Economist  
Senior Economist  
Senior Economist  
Senior Economist  
Economist  
Future Me Graduate  
Administration Manager

Nick Tuffley  
Mark Smith  
Chris Tennent-Brown  
Kim Mundy  
Nat Keall  
Sara Curry  
Caro Phillips

[nick.tuffley@asb.co.nz](mailto:nick.tuffley@asb.co.nz)  
[mark.smith4@asb.co.nz](mailto:mark.smith4@asb.co.nz)  
[chris.tennent-brown@asb.co.nz](mailto:chris.tennent-brown@asb.co.nz)  
[kim.mundy@asb.co.nz](mailto:kim.mundy@asb.co.nz)  
[nathaniel.keall@asb.co.nz](mailto:nathaniel.keall@asb.co.nz)  
[sara.curry@asb.co.nz](mailto:sara.curry@asb.co.nz)  
[caro.phillips@asb.co.nz](mailto:caro.phillips@asb.co.nz)

## Phone

(649) 301 5659  
(649) 301 5657  
(6421) 653366

(649) 301 5720

[www.asb.co.nz/economics](http://www.asb.co.nz/economics)

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