

Commodities Weekly

For the week ending Friday 16th February



Not such a Cruel Summer

- Dairy prices are finishing off the NZ summer holding onto the bulk of the season’s gains over recent weeks.
- An \$8 farmgate price is in reach for this season and prices will have momentum heading into the next one.
- Broader commodity prices are also enjoying a boost over the sunny season, with signs of life increasingly evident in protein prices.

Dairy prices have been flat overall at the latest Global Dairy Trade auction. That headline move in the GDT price index (+0.5%) concealed a bit more volatility under the hood, with WMP prices easing just shy of 2% but AMF experiencing another whopper 8.6% lift. Overall, dairy prices have had a pretty good summer – WMP prices have lifted 9% over the sunny season and the overall GDT index has risen 10½% over that period.

And as we’ve consistently noted, prices have proven reasonably resilient at a time when NZ’s key market – China – has been conspicuous by its absence. ‘North Asian’ buyers were a little bit more active at this week’s auction, but not dramatically so, with about half of the WMP sold going to that region. With Middle Eastern buyers taking a step back at this week’s auction, Chinese processors may have taken the opportunity to secure a bit of product. Our initial \$7 for the current season was underpinned by our fear that a weaker Chinese economy would weigh on the market, but dairy prices have managed to shake it off.

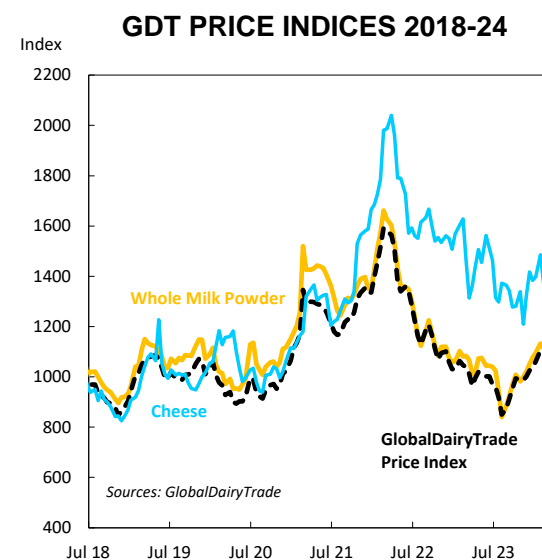
There’s not long to go now until the end of the season, and things are still on track for a farmgate price at or close to \$8 per kgMS. As we noted a fortnight ago, Fonterra should be largely hedged for the season, and increasingly, there isn’t that much product left to be priced (we think between a fifth and a quarter). Barring a sharp correction over the next auction or two, a price in the upper part of Fonterra’s present \$7.30-8.30 per kgMS forecast range looks likely.

It’s worth noting too that non-reference dairy products like cheese – that aren’t explicitly captured in the milk price formula – have also been continuing to outperform WMP and the broader GDT index, which should bode well for Fonterra’s other income streams, and ultimately any dividend that farmers end up receiving.

So, where are we going to be next season? Uncertainty is always pronounced this far out, but we can say a few

GlobalDairyTrade Auction Results

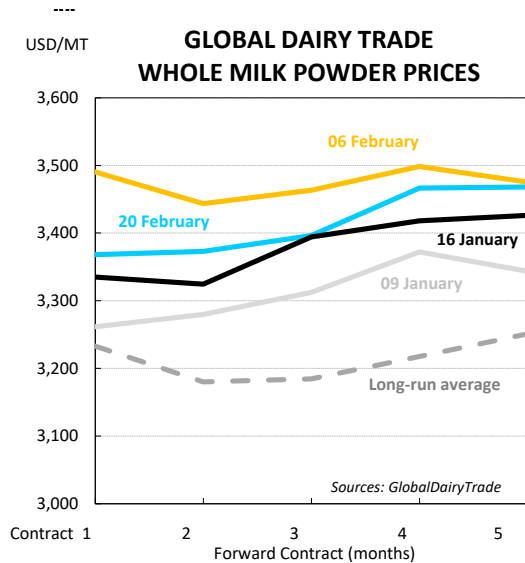
Product	% change in index since last auction	Weighted Average Price US\$/MT
Whole Milk Powder (WMP)	-1.8%	3,388
Skim Milk Powder (SMP)	1.3%	2,788
Anhydrous Milk Fat (AMF)	8.6%	6,552
Butter	0.2%	6,526
GDT Price Index	0.5%	n.a.



things with relative confidence. **Firstly, prices look to have a reasonable degree of momentum as we finish up the 2023/24 season and the dairy sector shifts the focus to 2024/25.** The latter dated contracts currently trading on the GDT platform are covering July, with prices stable across the curve, and above long-run averages. At the very least, WMP prices should start off the next season on the front foot.

Fonterra will also be well under way when it comes to hedging its exchange rate risk for the 2024/25 season. A quick back of the envelope calculation suggests the co-op might be about 35-40% hedged. While we expect the NZD to grind higher from its current level, Fonterra looks likely to secure another relatively favourable exchange rate. Based on historical experience, we'd typically expect the NZD spot to be around 1-3c higher based on where commodity prices are sitting today, which is a reasonable boon for the farmgate milk price.

With global growth set to continue slowing over 2024, we don't expect commodity prices to lift strongly. But the most pessimistic expectations around the global economy have proven unfounded thus far, and the prevailing dairy supply/demand balance looks sufficient for prices to retain reasonable support. **All of this points to another season where the farmgate milk price is above its ten-year average of circa \$7 per kgMS.**



Commodities Index

The bounce in dairy prices has helped propel our broader ASB Commodities Index to a reasonable gain over the summer. Both our NZD and USD indices are up 5-6% since the beginning of December, after another decent performance last week. Sheep & beef prices have been the laggard among major commodities over recent months, but prices stabilised last week with a 1% lift.

Currency movements have tended to be favorable for farmers and exporters of late, with the Kiwi a couple of cents down on the US 63+ cents mark it had been flirting with earlier in December and January.

ASB Commodities Index as at 16.02.2024

Index	Index*	Week%	Year %**
Total NZD	112.1	0.9%	0.4%
Total SDR	108.5	1.0%	-1.0%
Total USD	104.0	0.4%	-1.9%
Dairy USD	115.0	0.7%	0.1%
Sheep/beef USD	83.2	1.0%	-6.4%
Forestry USD	92.2	-0.5%	-4.2%
Fruit USD	115.9	-0.5%	0.6%
NZD/USD	0.6113	-0.5%	-2.3%

Base Year 2019, Base = 100

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