

Commodities Weekly

For the week ending Friday 29th September



Dairy prices claw back further ground

- Prices have risen in line with expectations at the latest dairy auction overnight.
- We're still cautious on the outlook and retain our \$6.60 per kgMS milk price forecast for the season, but flag some upside risk.
- The ASB Commodities Index was largely flat last week.

Prices rose 4.4% at the latest Global Dairy Trade auction overnight, with the majority of components pressing higher. Gains in milk powder prices underpinned that lift, with SMP prices up 6.6% and WMP prices up 4.8%.

Cheddar prices – which aren't a commodity used in the calculation of the farmgate milk price – were the main exception to the rule, declining 4.8% overnight.

This is the third auction in a row where prices have clawed back ground after their five-year lows earlier in the season. Prices are still south of where they started the season, but it's good to see some recovery and farmers will be hoping prices have found a floor and are set to sustain their recent gains from here. The contract curve does point to a little bit more momentum for prices in the near-term, with the latter dated contracts commanding a little bit of a premium over their near-term counterparts.

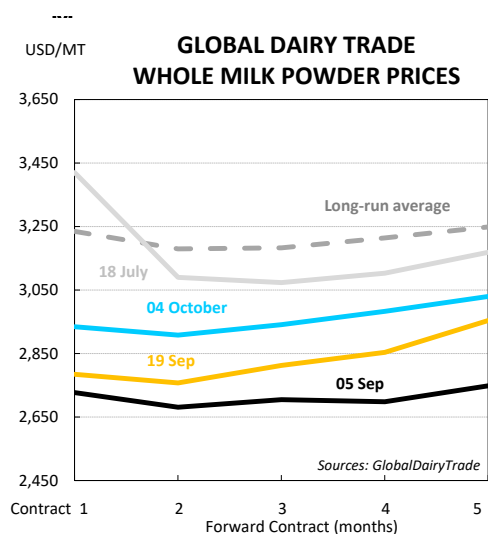
But in general, we remain cautious on the outlook for the season. After a bit of a blip last auction, there is still comparatively little sign of a return in purchases by China – something we've regarded as a precursor to any sustained recovery in prices, given its influence over global dairy demand. China is still only buying around 15-50% of the WMP on offer from auction to auction, far short of the proportions it was picking up when prices reached cyclical highs in 2021 and the beginning of 2022.

	2023/24	
	ASB	Fonterra
Milk Price*	\$6.60	6.25-7.75

* per kg of milk solids (excluding dividend).

GlobalDairyTrade Auction Results

Product	% change in index since last auction	Weighted Average Price US\$/MT
Whole Milk Powder (WMP)	4.8%	2,931
Skim Milk Powder (SMP)	6.6%	2,558
Anhydrous Milk Fat (AMF)	3.7%	4,979
Butter	1.3%	4,806
GDT Price Index	4.4%	n.a.



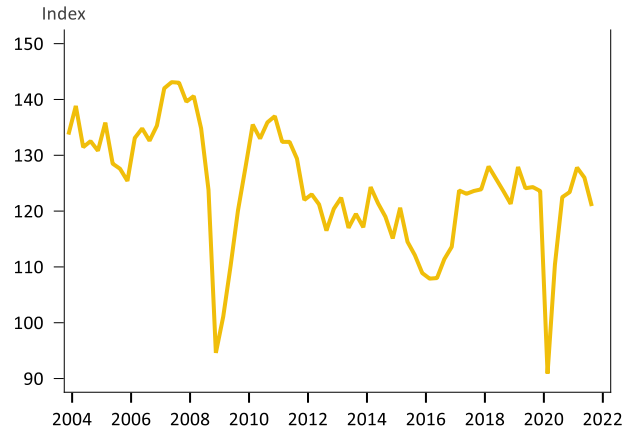
Southeast Asia and the Middle East have stepped in to pick up some of the slack, but it's difficult to see prices press much higher without a more active presence by the behemoth of global dairy imports. It remains to be seen when that will occur, with much of domestic Chinese economic data still looking fairly soft amid the property market downturn. Both Chinese business confidence (chart to the right) and PMI data continue to trend lower after their initial post-COVID recovery.

All-up, we retain our \$6.60 per kgMS farmgate milk price forecast for the 2023/24 season. It's pleasing to see prices continue to claw back a bit of ground, and we're hopeful of further gains in the coming auctions. But with the outlook for Chinese demand still looking fairly anaemic, we're not confident on that front just yet. **Nonetheless, with more and more of the season's product being priced, a bit more short-term strength does add a bit more upside risk to our forecast.**

With Fonterra already roughly 80% hedged and NZD largely continuing to hold south of the 0.6000 mark (with risks of further downside pressure) any downside risk from currency movement is also fading. **We'll continue to monitor trends at the coming auctions with a view towards firming up our view.**

Ahead of this morning's auction, commodity prices were largely flat over the past week. USD prices managed a 0.4% lift, predominantly off the back of a bump in meat prices (+0.8%), despite some more softening in our forestry index (-0.6%). Currency movement was adverse last week, with the Kiwi lifting 0.6% to end the week just shy of the symbolic 0.6000 mark. That left NZD prices very marginally lower over the week, down 0.2%.

China - Business Confidence - NBS



Source: Macrobond, ASB

ASB Commodities Index as at 29.09.2023

Index	Index*	Week %	Year %**
Total NZD	102.3	-0.2%	-19.5%
Total SDR	98.3	1.6%	-15.8%
Total USD	93.1	0.4%	-14.7%
Dairy USD	95.3	0.2%	-25.1%
Sheep/beef USD	87.6	0.8%	-14.7%
Forestry USD	84.8	-0.6%	-1.4%
Fruit USD	91.0	0.6%	10.0%
NZD/USD	0.5995	0.6%	6.0%

Base Year 2019, Base = 100

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