

Commodities Weekly

For the week ending Friday 30th June



Another status quo GDT keeps us conservative

- Dairy prices soften again at this week’s auction, taking dairy prices back to three-year lows.
- We remain conservative on the outlook for prices, with the absence of Chinese demand leaving a huge hole in the market and supply looking better placed than last season.
- A lower NZD spot and forward points are driving Fonterra’s effective exchange rate in a favourable direction, but with the co-op already likely to be ~65% hedged, the impact will be progressively less from here.

We’ve seen yet another soggy GDT overnight. Prices for all product streams are lower across the board, albeit with differing magnitudes. WMP prices eased a relatively modest 0.4%, outperforming futures market expectations (albeit still getting closer to three-year lows).

Meanwhile, prices for SMP (well oversupplied at this point), fell another 6%, deeper into three-year lows. The premium in butter prices has also continued to erode.

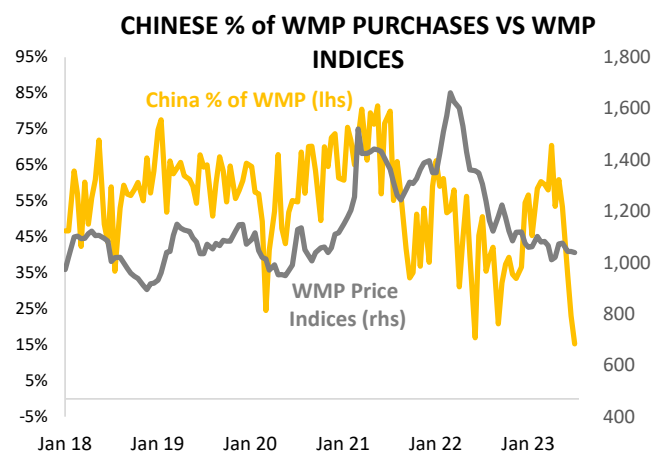
Not much has changed of late to dissuade us of our long-held conservative view on dairy prices. Our below-market \$7.25 per kgMS milk price forecast has rested on three legs, all of which are still in play: a lack of strong demand from China for milk powder imports, weaker dairy demand in most other parts of the world, and a comparatively better-supplied market than last season. For the last six months or so, GDT prices have largely travelled in line with, or perhaps even slightly below, our forecast track.

Of note, China continues to be largely absent from recent auctions. ‘North Asia’ took just 15% of the WMP sold at this auction, which by our count looks to be its lowest proportion in nearly a decade. As we’ve noted in earlier reports, Chinese WMP production remains strong at the same moment that domestic consumption is still soft.

With recent Chinese economic data underperforming, we’re not envisaging a big change to this story on the demand side here. Additional monetary stimulus has been signalled, but nothing dramatic, and with consumer

GlobalDairyTrade Auction Results

| Product | % change in index since last auction | Weighted Average Price US\$/MT |
|--------------------------|--------------------------------------|--------------------------------|
| Whole Milk Powder (WMP) | -0.4% | 3,334 |
| Skim Milk Powder (SMP) | -6.0% | 2,525 |
| Anhydrous Milk Fat (AMF) | -3.3% | 4,579 |
| Butter | -10.3% | 4,842 |
| GDT Price Index | -3.3% | n.a. |



confidence weak, there's a risk that households simply hoard cash in the event of interest rate cuts.

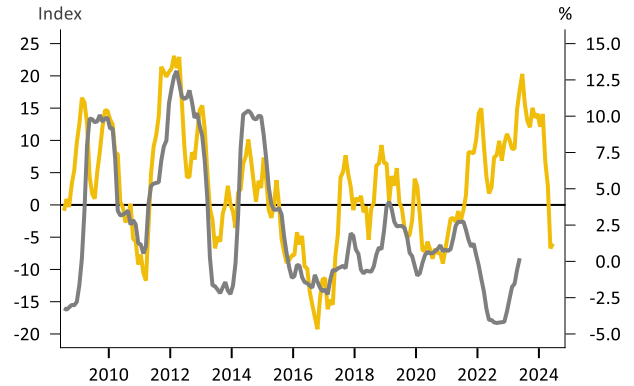
For now, Southeast Asia is helping prop up demand, though the economic outlook isn't rosy there either. And finally, broad strength in the USD continues to make things tricky for many dairy importers. The supply side story is much the same too. European production closes its peak period with decent year-on-year growth.

NZ production experienced a record May (+8.4% yoy), and while climate indicators are looking mixed for later in the season (by virtue of El Nino), output starts with a bit of momentum behind it. Softer WMP prices for contracts two & three suggest that buyers are feeling comfortable with the supply outlook for NZ's peak production months.

We retain our \$7.25 per kgMS farmgate milk price forecast for the season. A weaker NZD spot rate and falls in NZD forward points over the past few months mean Fonterra will end up with a more favourable exchange rate than we anticipated when the season began, but that's comparatively small fry compared with the underlying weakness in prices.

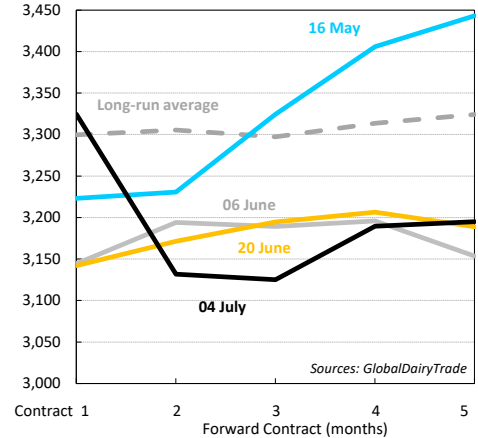
What's more, with point, there will be progressively less scope for further weakness in the Kiwi to lift our forecast as the season wears on.

Southern Oscillation Index and Dairy Production



— Milk Solids - Annual Average %, rhs — Southern Oscillation Index, lhs
Source: Macrobond, ASB

**GLOBAL DAIRY TRADE
WHOLE MILK POWDER PRICES**



| | 2022/23 | | 2023/24 | |
|-------------|---------|-----------|---------|-----------|
| | ASB | Fonterra | ASB | Fonterra |
| Milk Price* | \$8.20 | 8.10-8.30 | \$7.25 | 7.25-8.75 |

* per kg of milk solids (excluding dividend).

ASB Commodities Index

There was little change in the ASB Commodities Index in either NZD or USD terms last week.

USD commodity prices were mixed, with a 1.4% fall in our sheep and beef index offset by a 0.9% lift in dairy prices (note that this data is prior to the auction this week). That left the USD index unchanged in aggregate.

With NZD/USD marginally lower over the week, the NZD index managed a meek 0.1% gain.

ASB Commodities Index as at 30.06.2023

| Index | Index* | Week % | Year %** |
|----------------|--------|--------|----------|
| Total NZD | 105.4 | 0.1% | -14.5% |
| Total SDR | 101.3 | -0.3% | -15.6% |
| Total USD | 97.9 | 0.0% | -15.2% |
| Dairy USD | 105.7 | 0.9% | -24.7% |
| Sheep/beef USD | 92.3 | -1.4% | -9.9% |
| Forestry USD | 81.0 | -0.1% | -1.9% |
| Fruit USD | 96.1 | -0.1% | 4.8% |
| NZD/USD | 0.6126 | -0.1% | -0.8% |

Base Year 2019, Base = 100

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