

Commodities Weekly

For the week ending Friday 11th August



Dairy prices lower for longer, OCR higher for longer

- We've made a couple of forecast tweaks: we now expect a Farmgate milk price forecast of \$6.60 per kgMS and for the OCR to remain at its current 5.5% level until circa August 2024. Fonterra has also shaved the midpoint of its guidance range again.
- You can read our latest dairy note [here](#), and our latest OCR note [here](#).
- Ahead of this week's dairy auction, the ASB Commodities Index has fallen another 1% in USD terms.

We've made a few changes to our forecasts over recent days.

Firstly, we've lowered our farmgate milk price forecast for the 2023/24 season and now expect farmers to receive a figure around the \$6.60 per kgMS mark. Fonterra has also taken the unusual step of trimming its own guidance range for the second time in as many weeks, with a midpoint around the \$6.75 per kgMS mark off a range of \$6.00-7.50 per kgMS.

While we've been among the most bearish forecasters this season, we've still been wrongfooted by the degree to which headwinds have mounted. The GDT auction this week saw prices for WMP plunge as much as 11% and unless that move is entirely unwound over the next couple of auctions, prices will head into the NZ spring from a substantially lower starting point. We're not expecting a quick reversal, with the market well-supplied in the near term and the Chinese economy continuing to underperform. [Read our note here](#).

Secondly, we've adjusted our OCR forecasts off the back of the RBNZ meeting on Wednesday. The Bank left the OCR unchanged at 5.5% - as was expected by every man, woman and their dog – but policymakers are clearly still wary about declaring victory over inflation too soon and the publish rates track was revised up a shade in a signal the RBNZ thinks the OCR will need to remain at restrictive levels for some time to come (we agree).

The hurdle for further OCR moves – whether up or down – looks pretty high, and we've pushed out our expectations for further OCR cuts to August 2024 instead of May. **Mortgage and business rates look set to remain higher for longer, with an absence of much downward pressure until the latter part of next year – read our note [here](#).**

Meanwhile, the ASB Commodities Index edged 0.3% lower last week. Underlying USD commodity prices eased 1%, led by a 1.2% fall in dairy prices (prior to their plunge at the latest auction). A weaker NZD/USD offset some, but not all of that fall, with the Kiwi 0.8% lower over the week.

ASB Commodities Index as at 11.08.2023

Index	Index*	Week %	Year %**
Total NZD	101.3	-0.3%	-11.3%
Total SDR	95.4	0.4%	-18.1%
Total USD	92.0	-1.0%	-17.5%
Dairy USD	96.2	-1.2%	-21.8%
Sheep/beef USD	84.9	-1.0%	-24.3%
Forestry USD	80.3	-0.8%	-8.9%
Fruit USD	94.2	-0.8%	3.6%
NZD/USD	0.5985	-0.8%	-7.0%

Base Year 2019, Base = 100

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