

# Commodities Weekly

For the week ending Friday 12<sup>th</sup> January



## ASB revises up its 2023/24 milk price forecast to \$7.85kgMS

- Dairy commodity prices have continued to grind higher over recent auctions, despite China’s conspicuous absence from global dairy markets.
- Mechanically, this has pushed our Fonterra milk price forecast higher, and we now anticipate a price around the \$7.85 per kgMS mark for the season.
- Dairy prices are helping push our Commodities Index higher, despite continued weakness in meat prices.

**The first dairy auctions of the calendar year have got off to a healthy start, with the overall GDT index lifting 2.2% this week after a 1.3% rise a fortnight ago.** Most dairy commodities have gained ground, with WMP prices up a little over 4% over the last two auctions. Dairy prices are at their highest levels in nearly twelve months heading towards the end of the season. Prices for all WMP contracts are now US\$100-250MT above their long-run average, having spent most of the season at, or below, that benchmark.

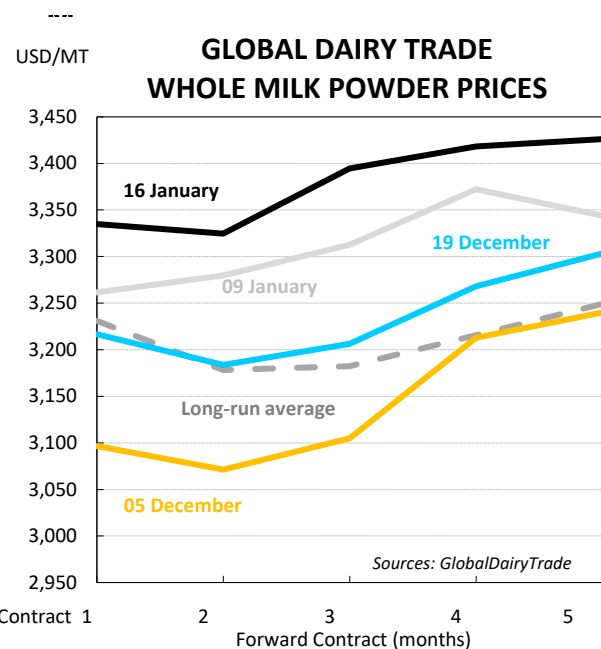
**We’ve been surprised by the resilience in dairy auction prices.** Dairy prices have outperformed where we’d expected them to be based on (reasonably decent) global dairy product and the (comparatively soft) global economic backdrop, particularly among major dairy importers like China.

We’ve long highlighted the relative absence of Chinese processors at this season’s GDTs and expected that a more sustained uptick in demand from China would be necessary to push dairy prices higher. **But dairy prices have continued to press higher despite China only buying low volumes of product on offer** (including its lowest proportion of WMP in around six months at this week’s auction).

**With so much of the season’s product already sold – around 65% based on previous shipment profiles – our 2023/24 farmgate milk price estimate has been mechanically pushed higher.** With Fonterra also largely hedged for the season, there’s also more certainty around what its effective exchange rate will be. Dairy prices would need to undergo a meaningful correction in the next few auctions to produce a milk price at or below the midpoint of Fonterra’s forecast range around \$7.50 per kgMS.

### GlobalDairyTrade Auction Results

Product	% change in index since last auction	Weighted Average Price US\$/MT
Whole Milk Powder (WMP)	1.8%	3,353
Skim Milk Powder (SMP)	1.2%	2,638
Anhydrous Milk Fat (AMF)	4.3%	5,842
Butter	5.8%	5,906
GDT Price Index	2.2%	n.a.



As a consequence, we've revised up our Fonterra farmgate milk price forecast for the season, adding 50c to around the \$7.85 per kgMS mark. That's a lower price than farmers have gotten used to over the past couple of seasons - particularly after taking into account elevated farmgate expenses - but it's better than the \$7.00 per kgMS we were forecasting at the beginning of the season.

Our forecast is a shade above current NZX milk price futures pricing. There's still a bit of uncertainty associated with the forecast, but farmers may want to consider their risk appetite and contemplate whether hedging some product would be prudent.

## ASB Commodities Index

Dairy prices began the year about 1-2% above where we left them last year. That included a 0.3-0.4% lift in prices last week ahead of this week's GDT. **Dairy prices have been the strongest performer in our index over the past few weeks, offsetting some continued softness in our sheep and beef index.** The latter is down about 1% in NZD terms over the last month, and down about 2% in USD terms.

ASB Commodities Index as at 12.01.2024

Index	Index*	Week %	Year %**
Total NZD	107.0	0.4%	-1.1%
Total SDR	105.3	0.9%	-1.7%
Total USD	101.6	0.3%	-2.8%
Dairy USD	109.6	1.0%	-1.4%
Sheep/beef USD	83.1	-0.4%	-8.5%
Forestry USD	91.2	-0.1%	-2.5%
Fruit USD	114.6	-0.1%	-0.8%
NZD/USD	0.6257	-0.1%	-1.8%

Base Year 2019, Base = 100

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