

Commodities Weekly

For the week ending Friday 16th June



Another flat GDT keeps us conservative on the outlook

- Dairy prices have been broadly flat at last night’s GDT event, with whopping gains for butter offset by continued weakness in SMP and a correction in near-term cheddar prices. WMP has been largely flat.
- China’s absence was especially pronounced at last night’s auction, and we don’t anticipate demand from South-East Asia will be able to offset that absence forever.
- Modest gains for the NZD have seen the ASB Commodities Index reach its lowest point since early 2021 in NZD terms.

A flat GDT overnight belies some chunkier movements for individual product streams – and more specifically, individual contracts. After their recent whopper gains, cheddar prices have eased 3.3% lower in aggregate – but that’s largely been driven by a 15% correction in the nearest contract rather than any substantial weakening in underlying demand. Note that cheese isn’t a reference commodity product so isn’t a direct factor in the farmgate milk price calculation.

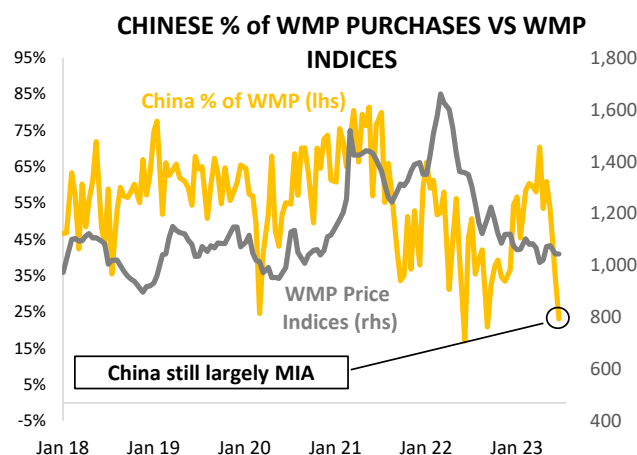
Butter prices surged 5.5%, with the gains mainly in contracts two to four and much of the purchasing coming from the Middle East – that might suggest one or two large buyers in that region have been caught short and are paying a premium to secure product. Shifts in WMP and SMP were a bit more uniform, with the former largely flat across the curve and the latter easing across most contracts. Powders performed marginally better than futures expectations. Coming auctions are likely to remain a bit noisy, with Fonterra offering less WMP and SMP at this event but increasing volumes for July and August.

When we dig a bit deeper into the auction data, we’re still pretty conservative on the outlook for the season’s

farmgate milk price. Chinese demand is still largely absent from the market. The North Asia region bought just 23% of the WMP on offer – a lower proportion than it was generally purchasing around this time last year during the midst of rolling zero-COVID lockdowns. Looking purely in terms of outright volumes, the 2,474 MT of WMP purchased by China at this auction looks to be the second lowest of the last seven years. It is possible that buyers are keeping their

GlobalDairyTrade Auction Results

Product	% change in index since last auction	Weighted Average Price US\$/MT
Whole Milk Powder (WMP)	0.0%	3,479
Skim Milk Powder (SMP)	-2.3%	2,667
Anhydrous Milk Fat (AMF)	0.4%	4,758
Butter	5.4%	5,379
GDT Price Index	0.0%	n.a.



powder dry until offer volumes increase over the coming auctions, but for now, it's a bearish sign.

For the time being, resilient demand from Southeast Asia is helping keep prices from falling further. The occasional short-term boost from a handful of Middle Eastern buyers seeking a particular product stream is helping too. But with growth set to slow in Southeast Asia over the course of 2023/2024 and purchase volumes already at a historically high baseline at this point last season, we see a limit to how far this region can support prices.

For a farmgate milk price in the upper end of Fonterra's forecast range, we'll need China to return to the party. Given weaker economic data and comparatively strong Chinese dairy production, that's doesn't look imminent in our view.

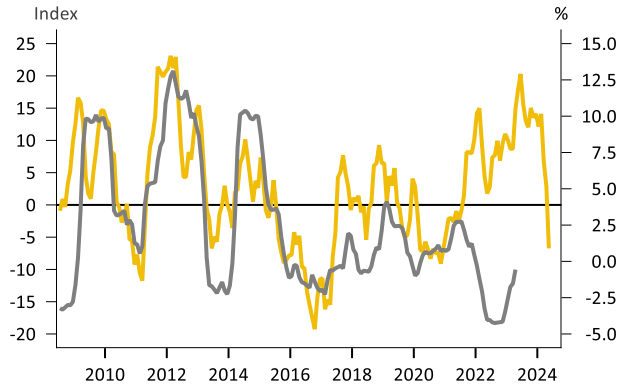
We retain our \$7.25 per kgMS farmgate milk price forecast for the 2023/24 dairy season. Both the NZD spot rate and the all-in NZD forward rate have underperformed our forecasts slightly and that's added a bit of upside to our forecast since we launched it as \$7.00 per kgMS six months ago. It'll be worth keeping an eye on local production data too (see above), with weather indicators for the season looking a bit mixed – though we still expect both global and local dairy production are past recent lows.

Still, the softer outlook for global demand is the key thing and as we've noted all along, we think farmers should prepare for the risk that the season's milk price is lower than the last couple. Our recent [note](#) on dairy sector resilience offers some thoughts on how farmers can build further resilience into their business in an environment where commodity prices are easing but debt servicing costs remain high. And on a more optimistic note, there's the possibility that the ongoing strength in Cheese prices is reflected in the bottom line for Fonterra's food service business and, ultimately, the dividend farmers receive.

ASB Commodities Index

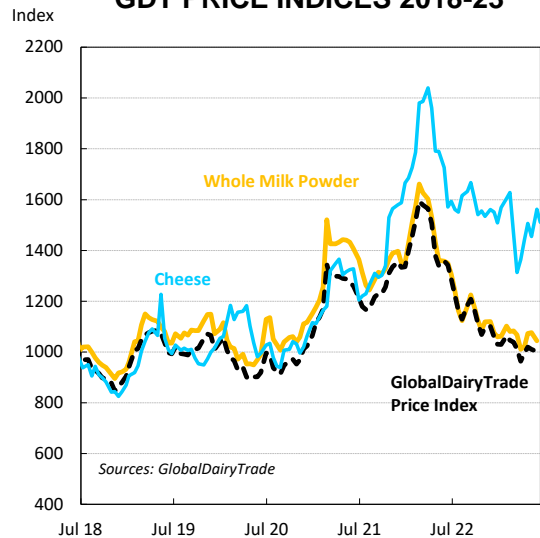
A stronger Kiwi weighed down ASB's Commodities Index in NZD terms last week. USD prices rose 0.4%, with a seasonal 2.3% lift in sheep & beef prices acting as the key driver. Underlying dairy prices were largely flat in the absence of a dairy auction. Forestry prices continue to ease markedly, down another 1.7% in updated data this month. But shifts in USD prices were dwarfed by a 1.6% lift in the Kiwi over the week, swept up in broader USD weakness following a softer patch of economic data. **That left our NZD index down 1.1% over the week – its lowest level since March 2021.**

Southern Oscillation Index and Dairy Production



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

GDT PRICE INDICES 2018-23



ASB Commodities Index as at 16.06.2023

Index	Index*	Week %	Year %**
Total NZD	104.0	-1.1%	-14.3%
Total SDR	101.1	-0.3%	-15.4%
Total USD	98.3	0.4%	-15.0%
Dairy USD	104.5	0.0%	-26.1%
Sheep/beef USD	94.5	2.3%	-7.1%
Forestry USD	82.3	-1.7%	-2.0%
Fruit USD	96.4	1.6%	7.1%
NZD/USD	0.6225	1.6%	-0.8%

Base Year 2019, Base = 100

ASB Economics & Research

Chief Economist
Senior Economist
Senior Economist
Senior Economist
Economist
Future Me Graduate
Administration Manager

Nick Tuffley
Mark Smith
Chris Tennent-Brown
Kim Mundy
Nat Keall
Kathryn Shearing
Caro Phillips

nick.tuffley@asb.co.nz
mark.smith4@asb.co.nz
chris.tennent-brown@asb.co.nz
kim.mundy@asb.co.nz
nathaniel.keall@asb.co.nz
kathryn.shearing@asb.co.nz
caro.phillips@asb.co.nz

Phone

(649) 301 5659
(649) 301 5657
(6421) 653366

(649) 301 5720

www.asb.co.nz/economics

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