

Rural Economic Note

Commodities Research: Dairy

10 November 2017

Dairy: Liquid Powder II

NZX's WMP futures market has continued to see growth in trading volumes. This note is a brief update of an in-depth discussion we published in late 2015. This update analyses the two further years of WMP futures trading since the earlier publication. The data are summarised in charts in the publication. The results are positive. The market has expanded substantially on several measures in that time. Our conclusion is that the WMP futures market has taken further steps along the path to becoming the benchmark derivative market for dairy in this region.

Volumes

The volume of trading has grown substantially over the past two years. Trading volume in 2017 is on course to double since 2015.

Trading has become more frequent since late 2015. Before then, trades would occur 1-2 days per week even in the busier time periods. Trades are now happening 3-4 days per week in similar time periods.

Futures trading has also grown in size relative to the physical WMP market. The futures trading volumes is now about 15% of NZ's WMP production. The proportion has more than doubled since 2015.

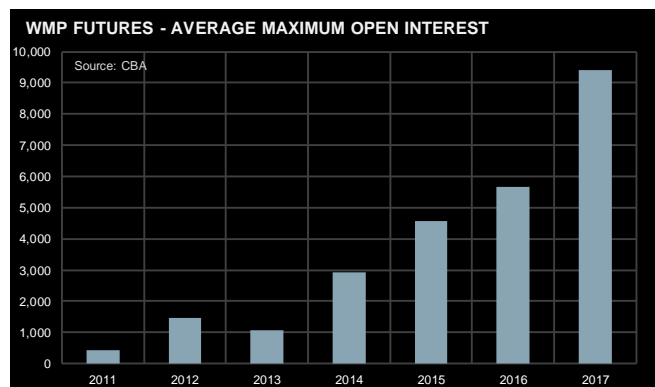
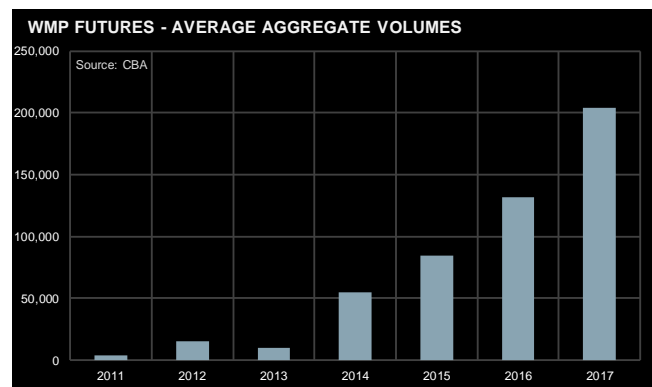
One feature of the volumes that did not persist was an emerging seasonal pattern. The data to 2015 suggested that volumes were rising more within NZ's main milking season than without. That pattern did not persist in either of the past two years.

Open Interest

Contract open interest continues to show healthy growth.

Average open interest in 2017 so far is above 9000, more than double the level in 2015.

Another feature of the open interest is that it rises earlier in the contract's trading life. The earlier trading means that traders can construct hedges for longer tenors more easily.



Tobin Gorey – CBA Agri Commodities Strategist

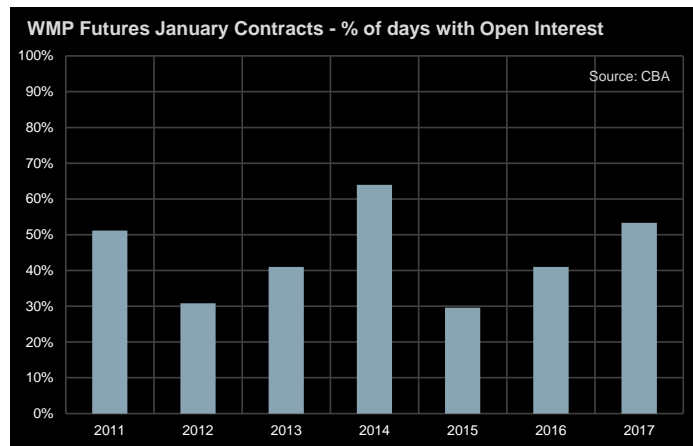
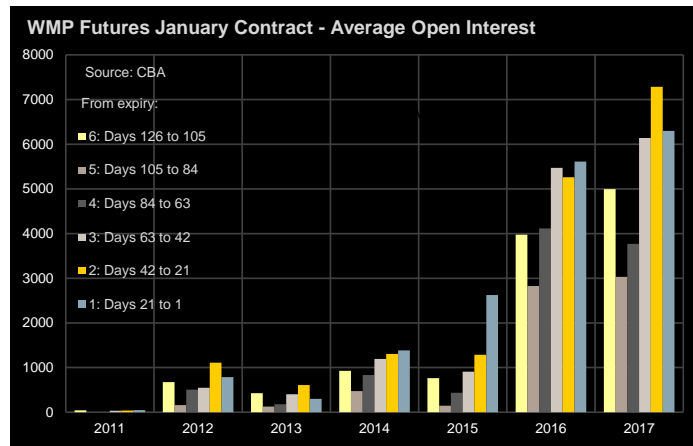
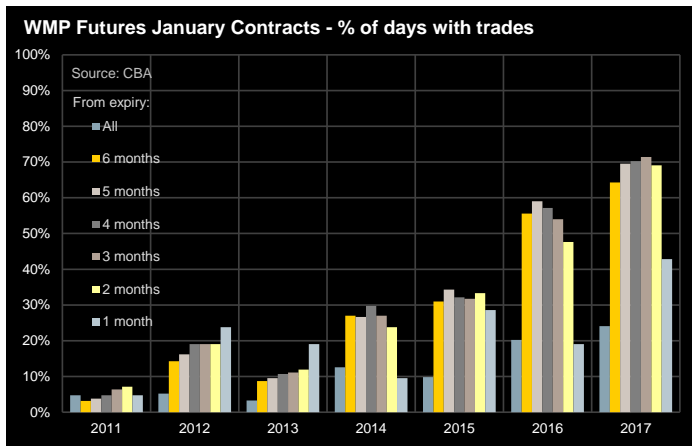
Ben Coulthard – CBA Graduate

Nathan Penny – Senior Rural Economist (64) 448 8778 nathan.penny@asb.co.nz

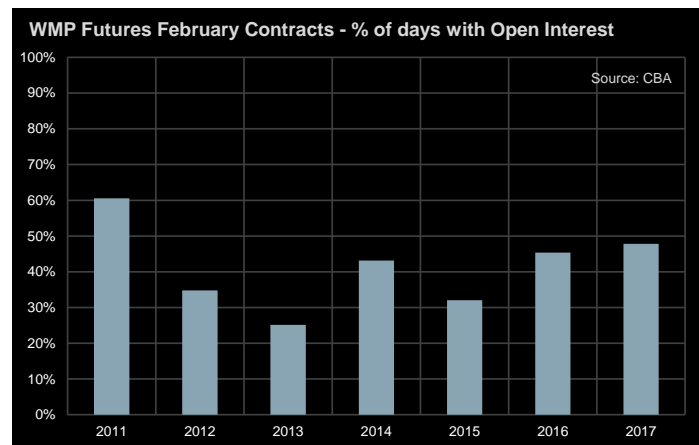
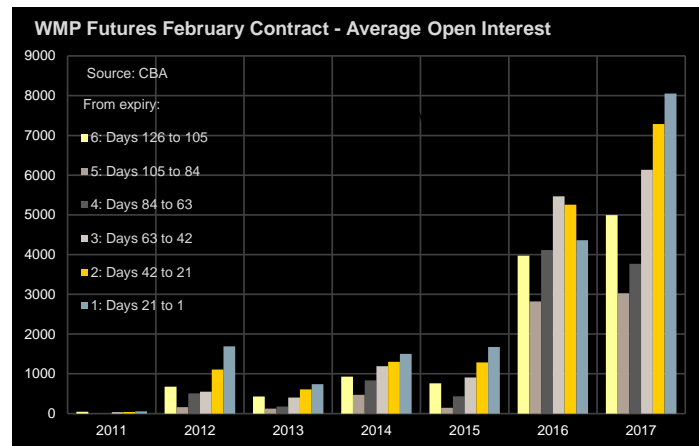
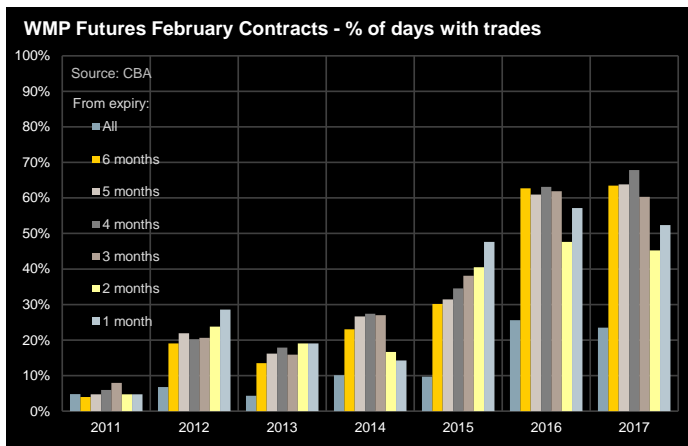
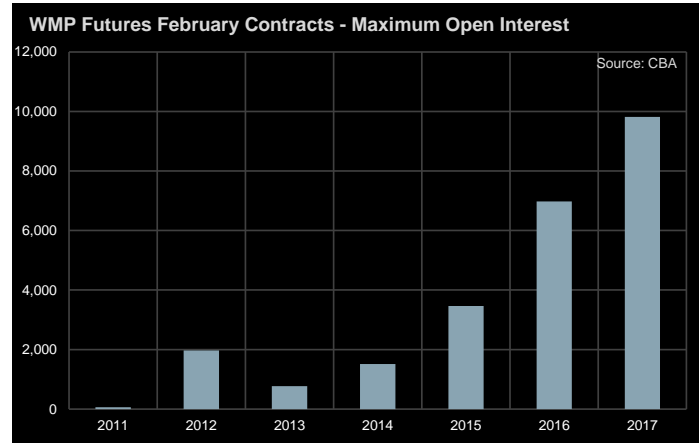
Conclusion

The WMP futures market has taken substantial steps forward in the past two years. Market participation is much greater. And market participation is greater for longer periods. Both developments mean the market now offers greater benefits to users. Traders can implement hedge strategies for clients more easily and at less cost. And hedging strategies can be implemented over long time horizons. Longer hedge tenors makes hedges much more useful. This evolution means the market is likely to attract still more users over time that will add to market depth and turnover. Certainly, the market's liquidity is still limited so there is still plenty more development to come. We think there is good reason to be optimistic that development will continue. The WMP futures market is still growing in its eighth year of trading. Many other new futures contracts have either become moribund or been delisted after that length of time.

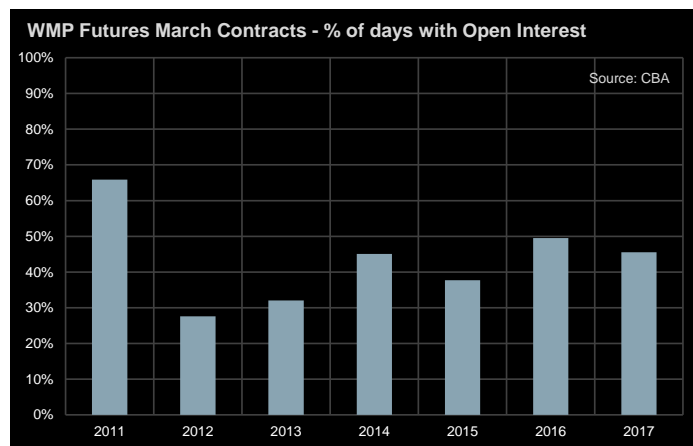
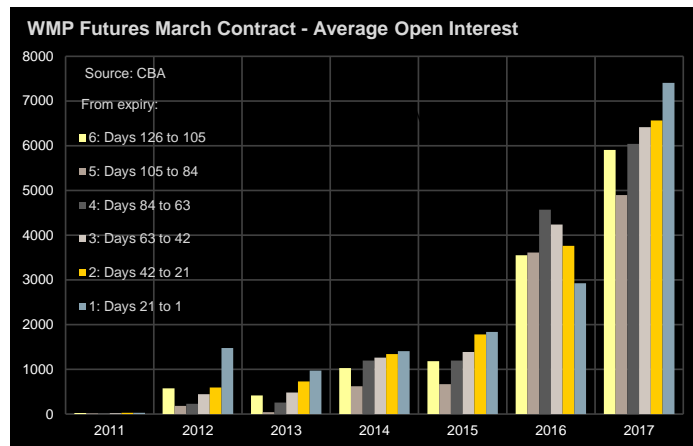
NZX WMP Futures – January Contract



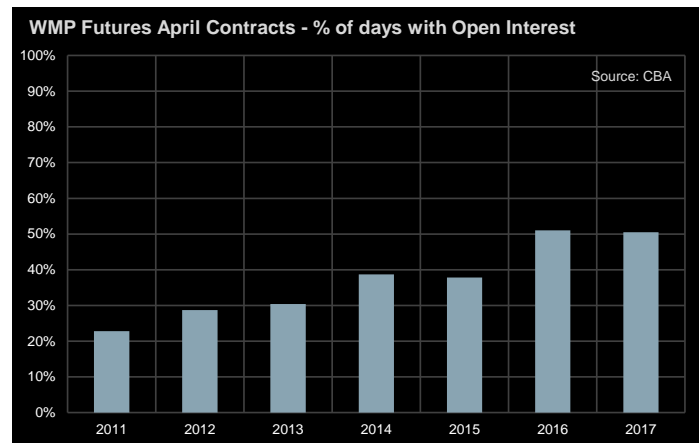
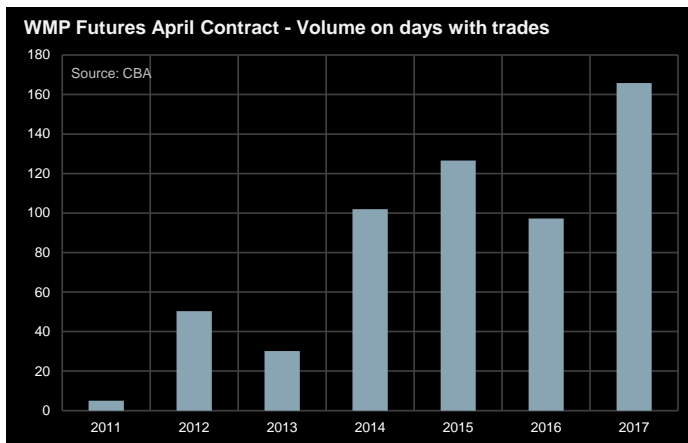
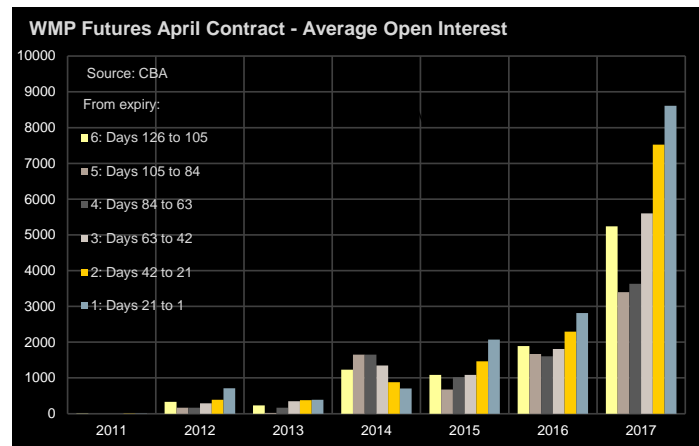
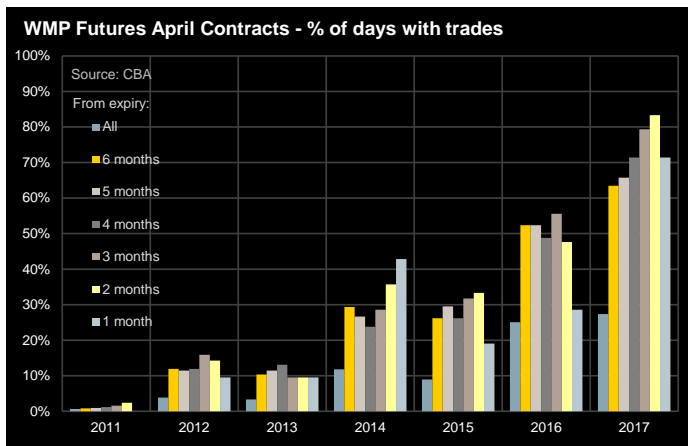
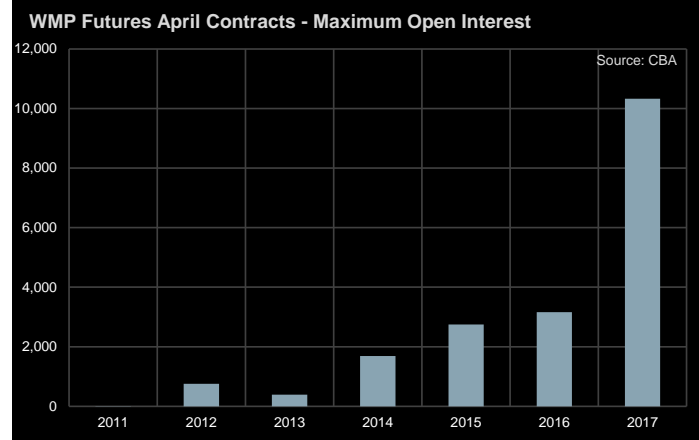
NZX WMP Futures – February Contract



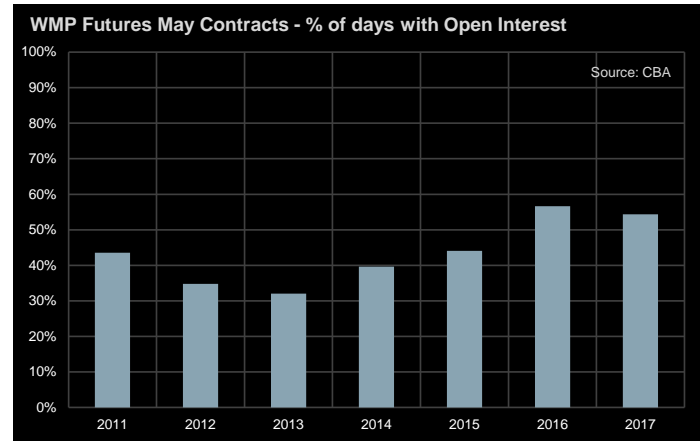
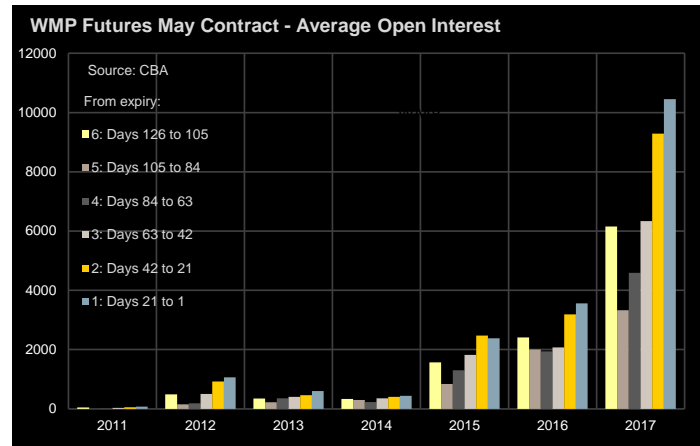
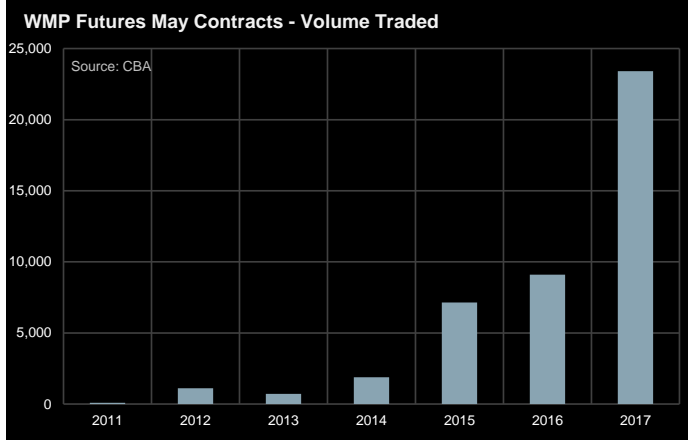
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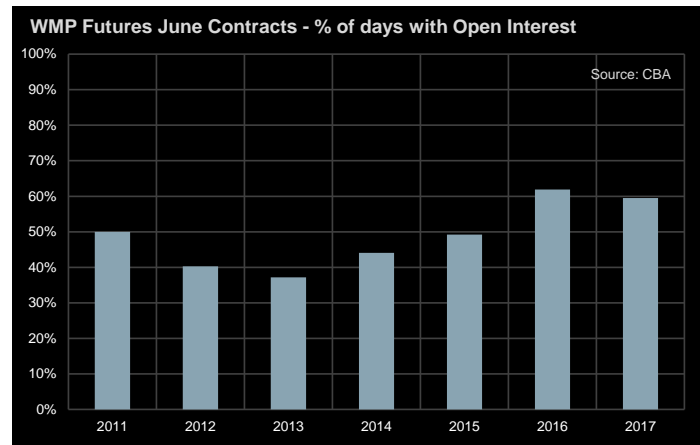
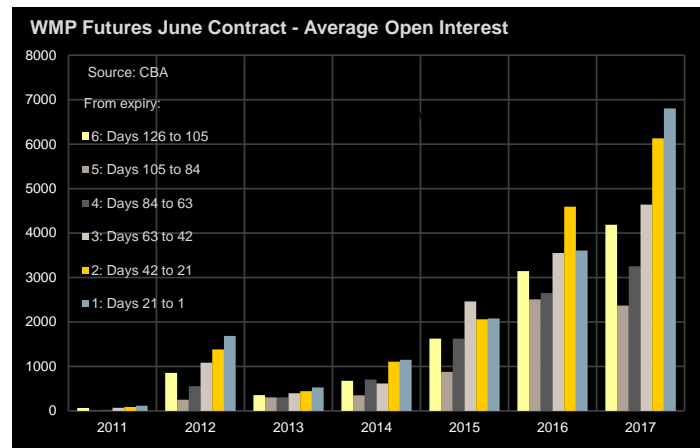
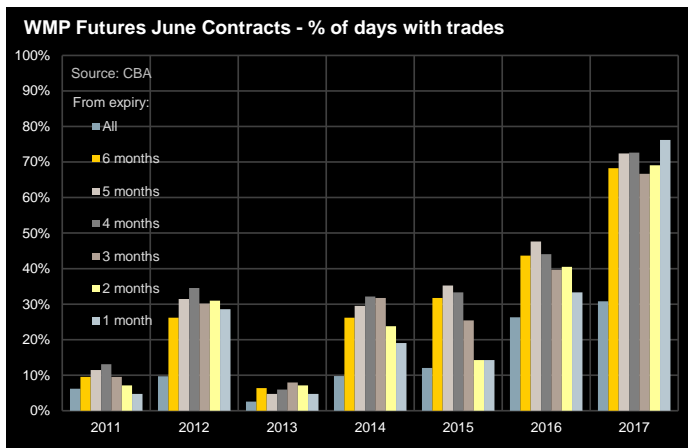
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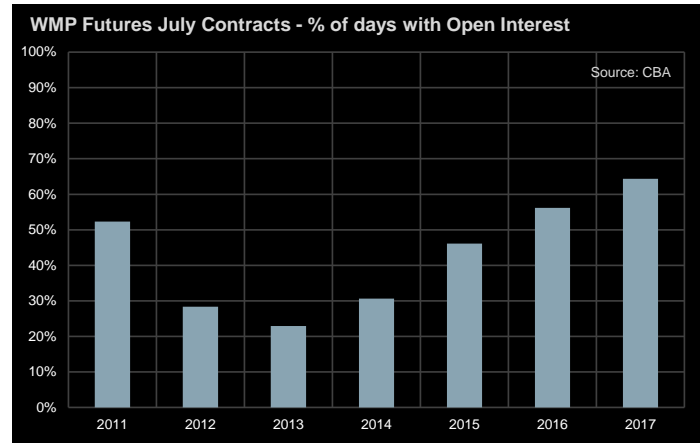
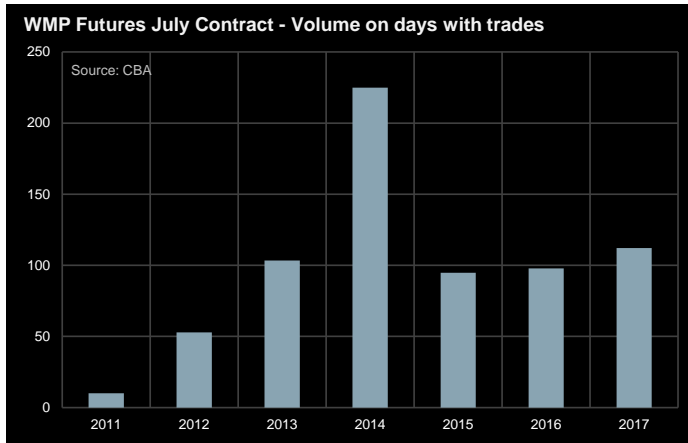
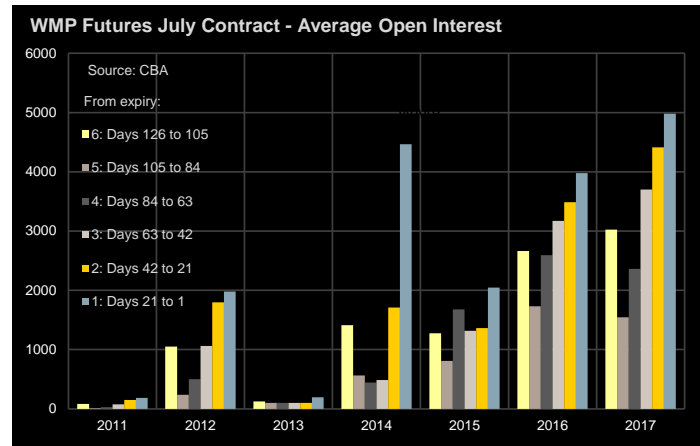
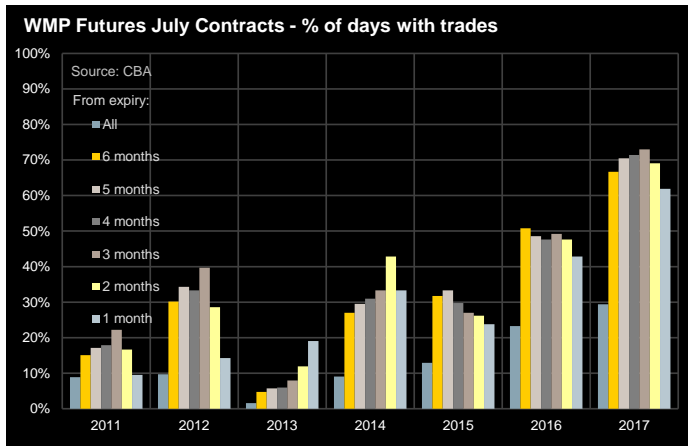
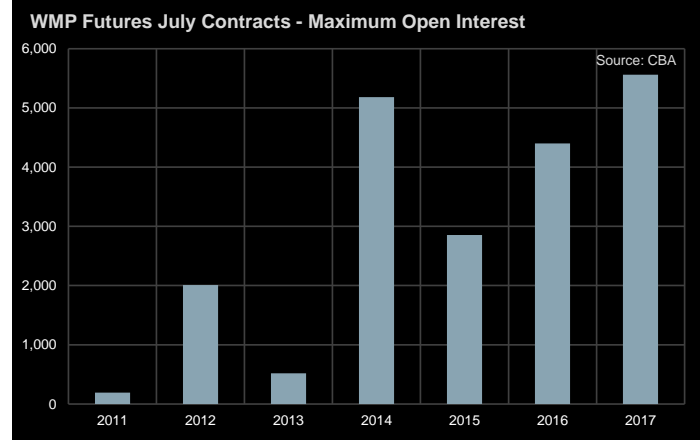
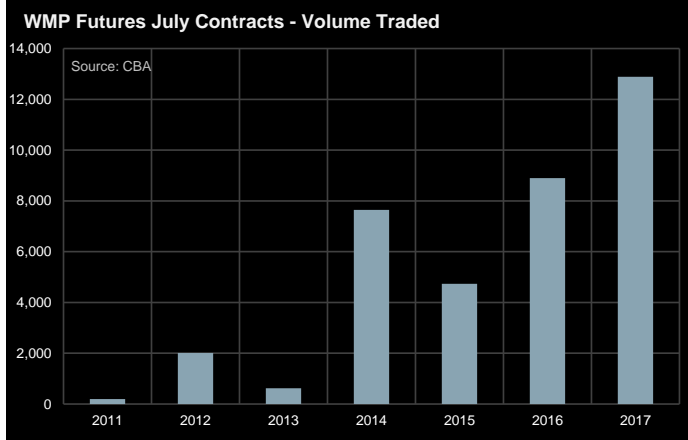
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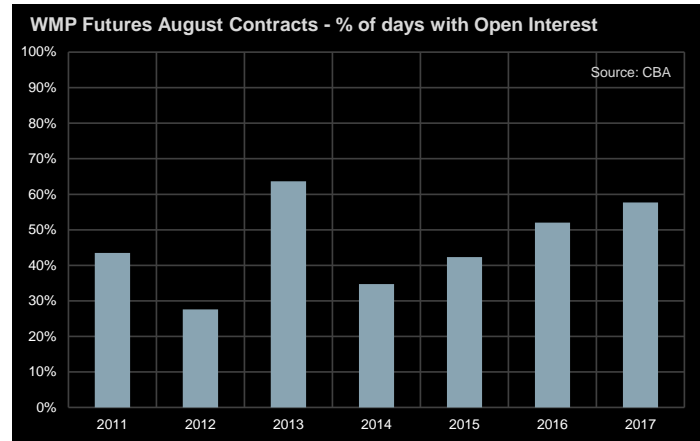
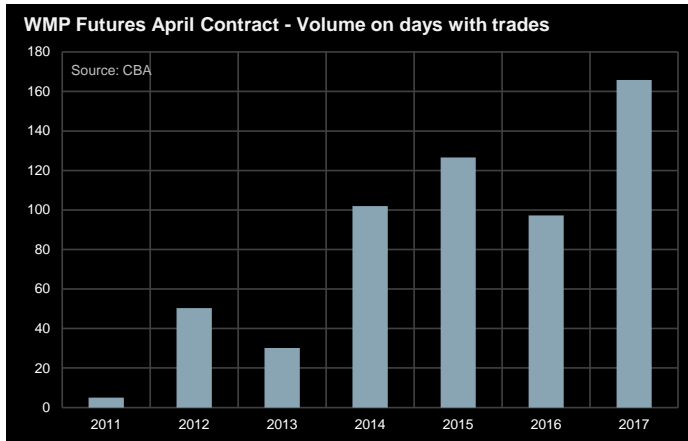
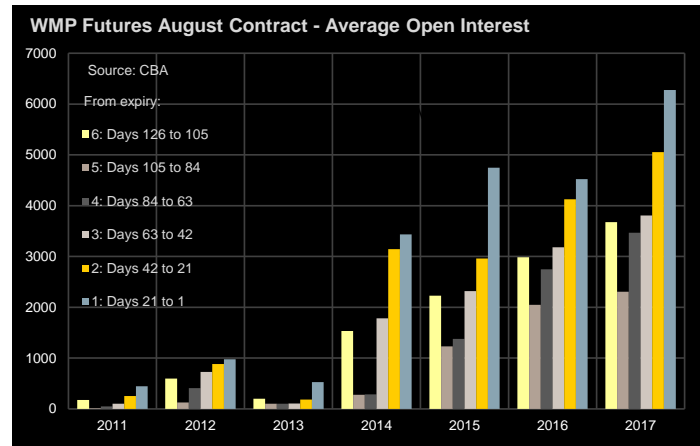
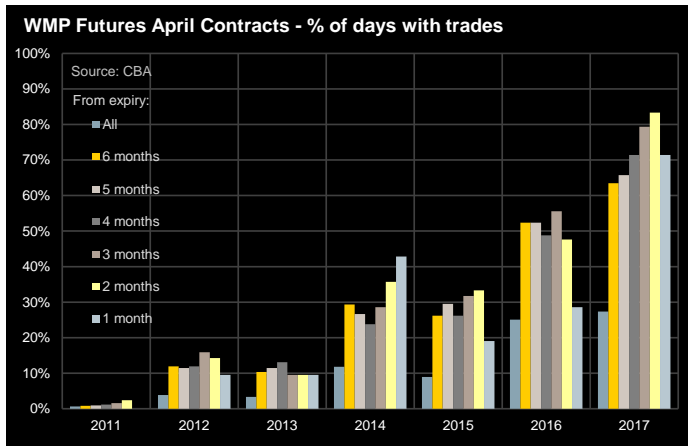
NZX WMP Futures – June Contract



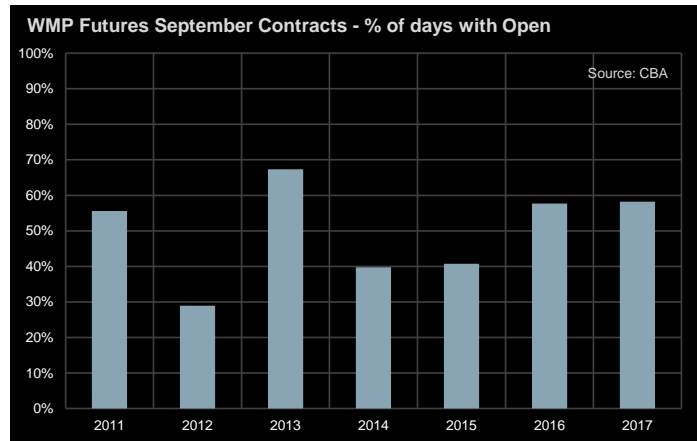
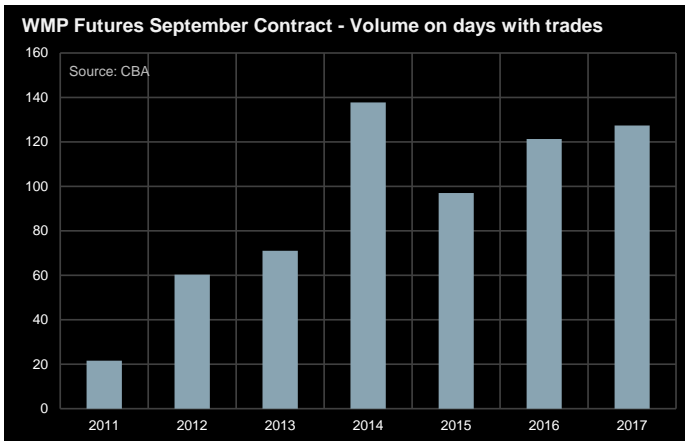
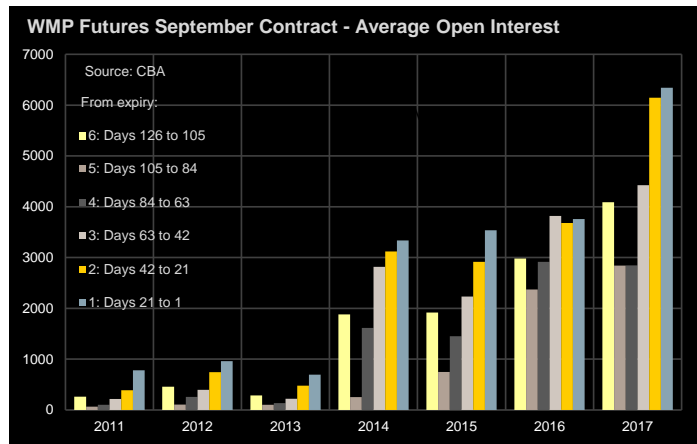
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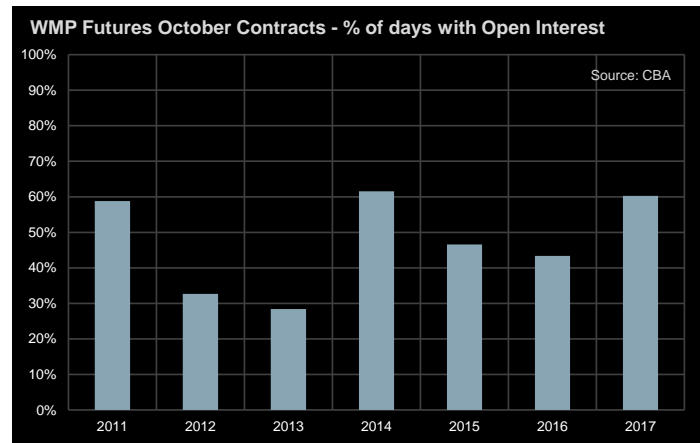
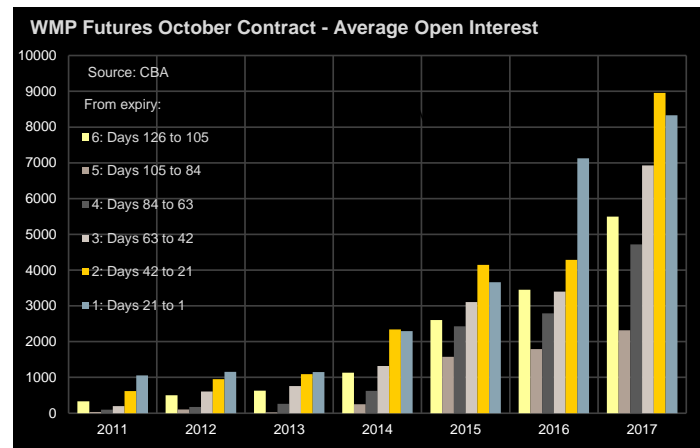
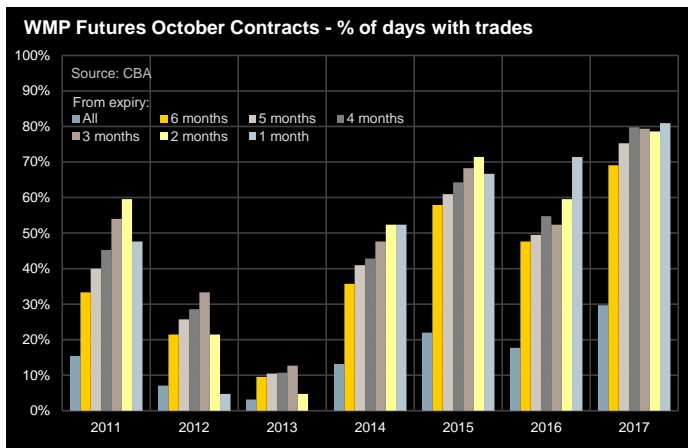
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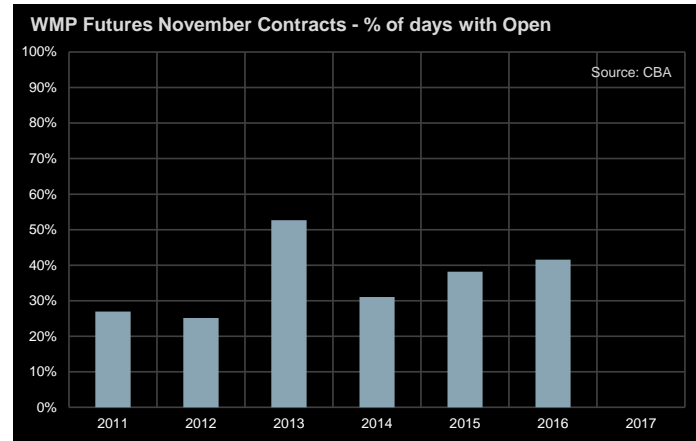
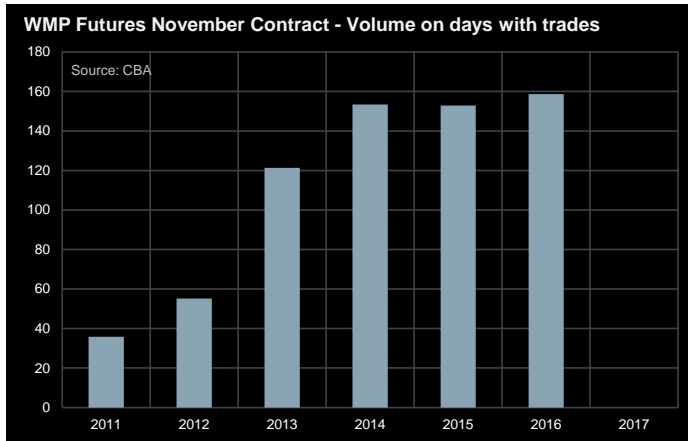
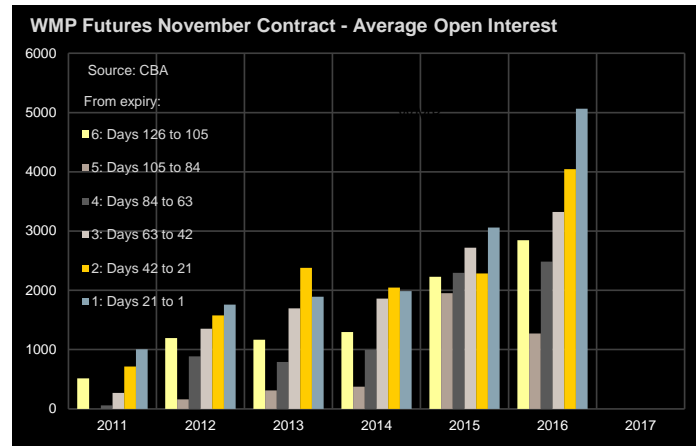
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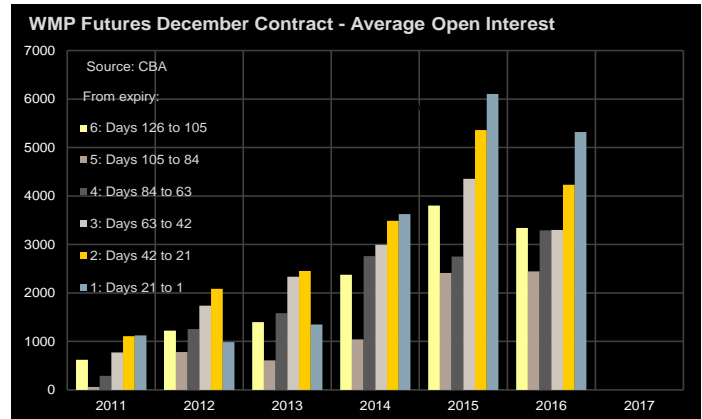
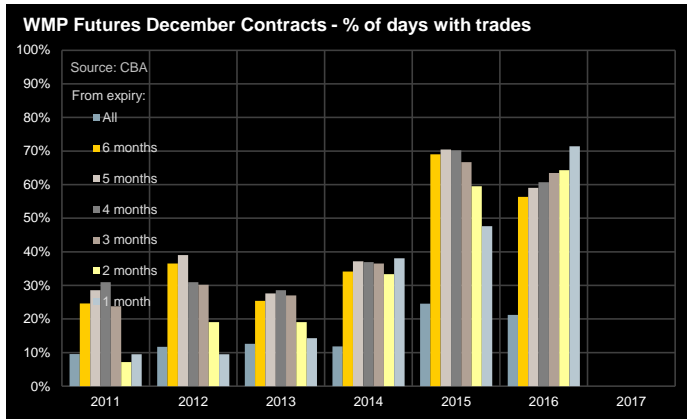
NZX WMP Futures – October Contract



NZX WMP Futures – November Contract



NZX WMP Futures – December Contract



ASB Economics & Research

Chief Economist
Senior Rural Economist
Senior Economist
Senior Economist
Senior Economist, Wealth
Economist
Data & Publication Manager

Nick Tuffley
Nathan Penny
Jane Turner
Mark Smith
Chris Tennent-Brown
Kim Mundy
Judith Pinto

nick.tuffley@asb.co.nz
nathan.penny@asb.co.nz
jane.turner@asb.co.nz
mark.smith4@asb.co.nz
chris.tennent-brown@asb.co.nz
kim.mundy@asb.co.nz
judith.pinto@asb.co.nz

Phone

(649) 301 5659
(649) 448 8778
(649) 301 5853
(649) 301 5657
(649) 301 5915
(649) 301 5661
(649) 301 5660

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