

### ASB New Zealand Commodity Price Indices

As at Friday 28<sup>th</sup> April 2017

|                | Index * | 1 Week % | Year % ** |
|----------------|---------|----------|-----------|
| Total NZD      | 174.2   | 1.9%     | 19.5%     |
| Total SDR      | 181.9   | -1.0%    | 22.1%     |
| Total USD      | 180.9   | -0.5%    | 17.7%     |
| Dairy USD      | 190.4   | 0.8%     | 42.8%     |
| Sheep/beef USD | 195.9   | -1.7%    | 7.3%      |
| Forestry USD   | 164.5   | -1.1%    | 6.3%      |
| NZD/USD        | 0.6868  | -2.3%    | -1.5%     |

\* For all indices 1997 average = 100

\*\* Percentage change since same week last year

#### Risks to commodity prices from stronger NZD

Currently, NZ beef, lamb and dairy prices are all on a reasonable footing. Further, to have all three commodities looking healthy at the same time is quite rare. In fact, we think that dairy, sheep and beef prices could all surpass the \$6/kg mark at some stage this year.

Dairy prices look set to reach, if not exceed \$6/kg by the end of the 2016/17 season. Further, the stellar 7.1% lift in lamb prices over April saw lamb prices hit \$6/kg. Beef prices, while healthy, are less certain of reaching the \$6 mark as they remain around 37 cents below \$6.

However, our recently revised NZD forecasts point to the risk that recent gains get slightly eroded, and could delay dairy and beef prices reaching the \$6 mark in the first place.

We have revised our NZ dollar forecasts higher against the US dollar, following recent political developments in the US. In particular, US President Donald Trump's failure to get his healthcare reform bill through Congress has created uncertainty over his ability to deliver his proposed tax cuts.

As much of the recent strength in the USD was predicated on Trump's tax reform, we see the NZD strengthening against the USD until the US enacts tax cuts. But those cuts may not take place until 2019.

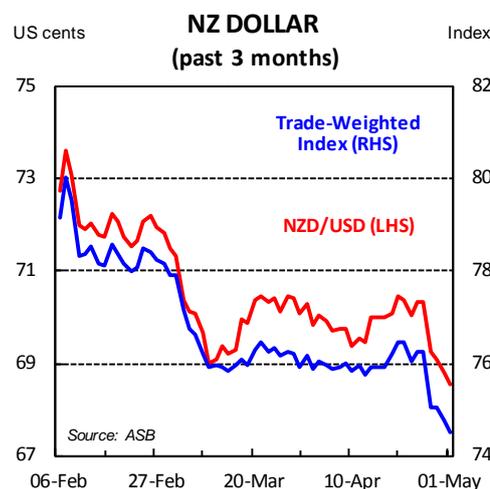
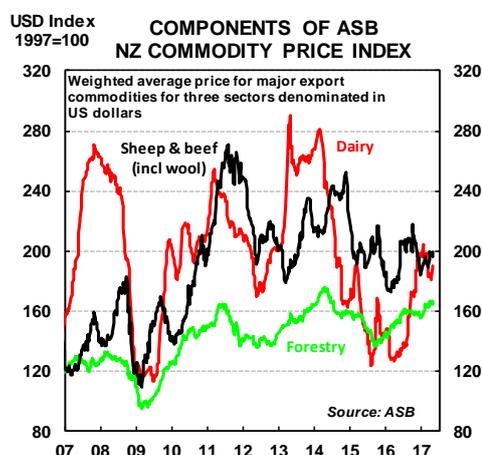
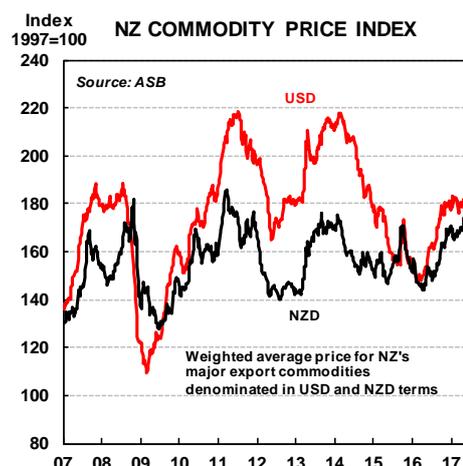
#### ASB NZ Commodity Price Index

NZ commodity prices fell in USD terms last week. However, this was offset by a weak local currency, resulting in the index rising almost 2% in NZD terms.

On a components basis, much of the fall in USD terms was led by a decline in meat prices. Beef prices slipped nearly 4% while wool prices edged down 1.1%. Lamb prices stayed in positive territory, rising 0.5%. The forestry index also headed lower last week, led by a 2.3% fall in log prices. Meanwhile, dairy prices stayed firm, in keeping with the better-than-expected outcome at this week's GlobalDairyTrade auction.

#### Currency Markets

The NZD struggled to gain ground against a strong USD, which edged higher on the back of US President Trump's tax reform plans, vague though they were. Trade in the local currency was also slightly subdued as the market held back ahead of the flurry of data due out this week. As at the time of writing, the NZD was trading at US\$0.6883.



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