

ASB New Zealand Commodity Price Indices

As at Friday 31st March 2017

	Index *	1 Week %	Year % **
Total NZD	169.6	0.3%	18.0%
Total SDR	182.2	0.3%	23.9%
Total USD	179.7	0.0%	19.8%
Dairy USD	184.6	0.0%	45.2%
Sheep/beef USD	198.8	-0.1%	9.7%
Forestry USD	163.8	-0.1%	7.4%
NZD/USD	0.7007	-0.3%	1.5%

* For all indices 1997 average = 100

** Percentage change since same week last year

Lamb prices continued their surprising lift over March

Lamb prices have kicked on over March, following surprising February gains. Moreover, prices continue to widen the gap compared to this time last season. For example, the per kg price for a 17.5kg lamb currently sits 19% higher than a year ago.

Driving prices higher are very low slaughter rates. Farmers are holding on to stock as feed (grass) is plentiful. This is particularly evident in places like the Hawkes Bay as this time last year feed was scarce and farmers destocked. As a result, **we think some of the current price strength may fade over time**. For example, low slaughter rates now are likely to lead to some catch up later on.

A lift in demand could support higher lamb prices for longer. In that regard, there has been some good news following the announcement this month of Chinese approval for chilled lamb exports. This deal has the potential to add additional value to what is already our largest market by volume. Similarly, the earlier lifting of Iranian trade sanctions and eventual re-commencement of lamb exports is likely to give lamb demand and export prices a further boost. Notably, Iran accounted for nearly 60% of NZ's lamb exports during the 1970s.

For now though, tight supply is driving prices higher. **Time will tell whether demand will join the party and help sustain the current surge in prices.**

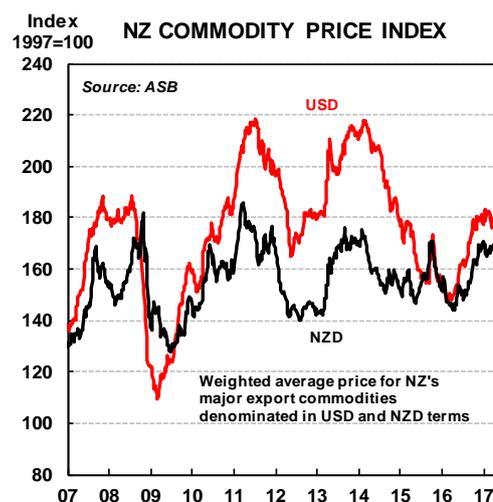
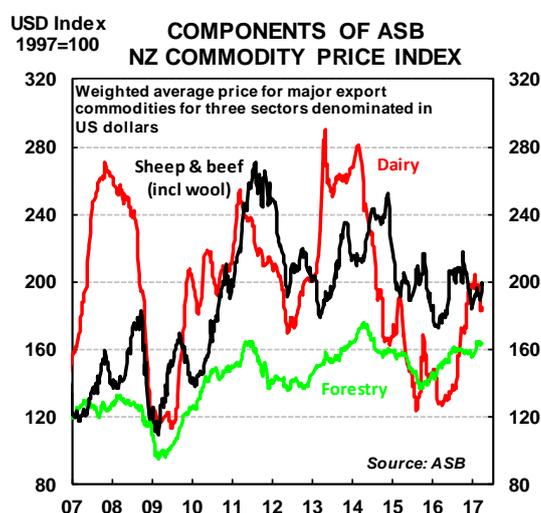
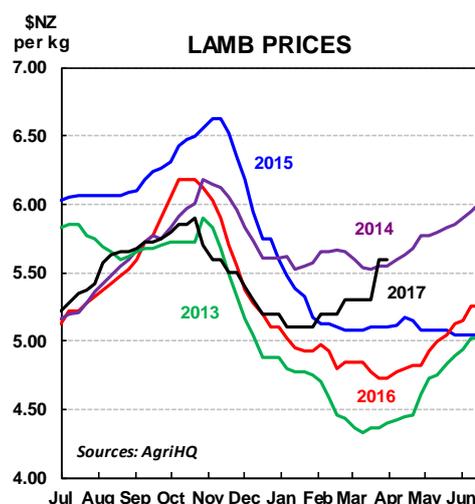
ASB NZ Commodity Price Index

NZ commodity prices were unchanged in USD terms last week, as steady dairy product prices offset minor movements in prices of other components. A marginally weaker NZD, however, pushed the index a notch higher in NZD terms. Among other products, dips in lamb and beef prices overshadowed a slight upward movement in the price of wool.

As a result, the overall meat index inched 0.1% lower in USD terms last week. The forestry index also edged down 0.1% on weaker log prices (down 0.3%).

Currency markets

Last week was another quiet one for currency markets with little economic data out to drive markets. As at the time of writing, the NZD was trading at US\$0.6965.



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