

ASB New Zealand Commodity Price Indices

As at Friday 4th August 2017

	Index *	1 Week %	Year % **
Total NZD	174.3	0.4%	15.2%
Total SDR	191.1	-1.0%	18.1%
Total USD	195.3	-1.0%	19.4%
Dairy USD	203.0	-1.1%	44.8%
Sheep/beef USD	222.1	-1.4%	8.7%
Forestry USD	175.2	-0.6%	9.7%
NZD/USD	0.7410	-1.4%	3.7%

* For all indices 1997 average = 100

** Percentage change since same week last year

Reserve Bank unmoved...

On 10 August, the Reserve Bank (RBNZ) kept the Official Cash Rate (OCR) at 1.75% as widely expected. In addition, the RBNZ kept its neutral bias. In other words, the RBNZ expects that there is roughly an equal chance of the next interest rate move being up or down.

For our part, we still expect that the RBNZ will start lifting the OCR at the start of 2019. In particular, we expect stronger economic growth and inflation over 2018 and 2019 than the RBNZ forecasts. But the start of 2019 is still a "considerable" time away, and later than that indicated by market pricing (see top chart).

In terms of interest rates, the RBNZ's stance should help anchor NZ short-term interest rates around current low levels. Although, longer-term rates may still drift higher, particularly if US benchmark interest rates continue their gradual lift.

...but, the NZ dollar heads lower

Over the day following the RBNZ announcement, the NZD dipped against all the major currencies that we monitor, including around a cent against the USD. Indeed, it seems that currency markets have latched on to some comments by RBNZ officials about the possibility of the Reserve Bank attempting to lower the high NZD.

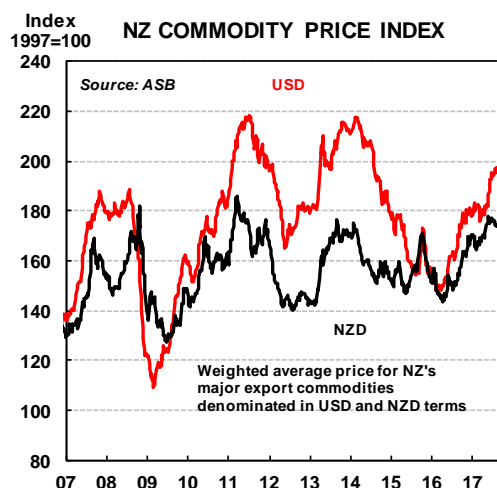
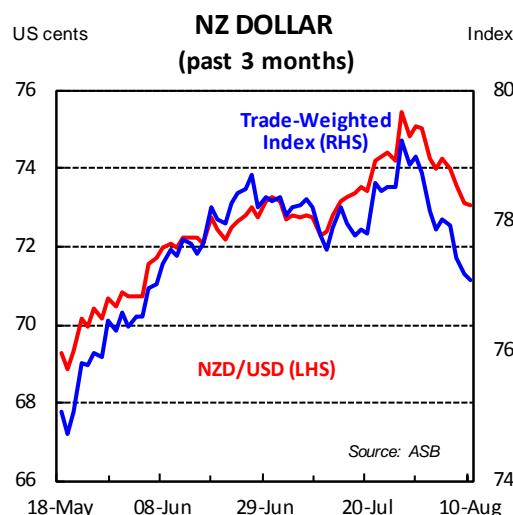
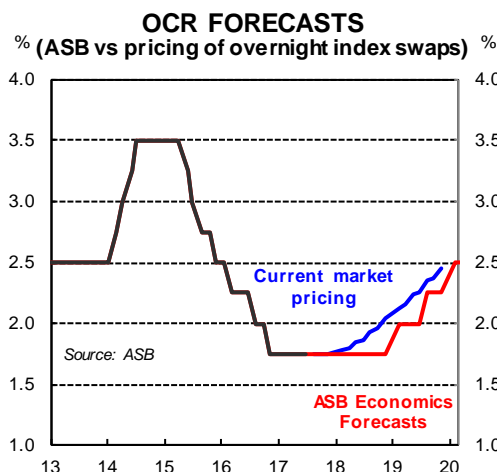
For our part, markets have over-reacted to these comments. In our view, the RBNZ is some way from intervening in the NZD market. In particular, the recent lifts in export commodity prices partly justify a higher NZD.

Nonetheless NZD has since firmed at this lower level. At the time of writing, the NZD was trading at US\$0.7270.

ASB NZ Commodity Price Index

NZ commodity prices lost ground in USD terms last week as all three component indices headed south. But a weaker NZD offset this fall, with the index actually rising 0.4% in NZD terms.

On a components basis, meat prices led the decline, slipping 1.4% in USD terms last week. Beef prices fell 1.6% while lamb and wool prices mirrored the 1.4% fall in the overall Sheep/Beef Index. The Dairy index followed suit, dipping 1.1% last week, pulled down by a near 4% plunge in skim milk powder prices. Meanwhile, the Forestry index also edged down 0.6% on the back of weak log prices.



ASB Economics & Research

			Phone
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659
Senior Economist	Jane Turner	jane.turner@asb.co.nz	(649) 301 5853
Senior Rural Economist	Nathan Penny	nathan.penny@asb.co.nz	(649) 448 8778
Senior Economist, Wealth	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 301 5915
Economist	Kim Mundy	kim.mundy@asb.co.nz	(649) 301 5661
Publication and Data Manager	Judith Pinto	judith.pinto@asb.co.nz	(649) 301 5660



ASB Economics

ASB North Wharf, 12 Jellicoe Street, Auckland

<https://reports.asb.co.nz/index.html>[@ASBMarkets](https://twitter.com/ASBMarkets)

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