

### ASB New Zealand Commodity Price Indices

As at Friday 10<sup>th</sup> March 2017

	Index *	1 Week %	Year % **
Total NZD	168.3	-0.3%	14.8%
Total SDR	179.6	-2.2%	22.0%
Total USD	176.1	-2.0%	17.8%
Dairy USD	183.0	-5.5%	41.9%
Sheep/beef USD	190.5	0.8%	7.1%
Forestry USD	163.0	-0.8%	7.9%
NZD/USD	0.6922	-1.7%	2.7%

\* For all indices 1997 average = 100

\*\* Percentage change since same week last year

#### Beef prices are tracking at record levels for the month

**It's still happy days for beef prices.** Indeed, prices (P2 steer/kg) have lifted 2.5% since the end of 2016 so far. Moreover, if prices maintain their average over March to date, prices will set a new record level for the month.

Moreover, **we expect the happy days to continue for a while longer.** Indeed, the lack of supply, both locally and from Australia, continues to keep NZ beef prices high.

**From an NZ perspective, slaughter rates are very low.** In particular, the supply of cull cows has dried up since the milk price forecast surged in late 2016. Since then dairy farmers have begun to rebuild their herds to take advantage of the improved outlook and higher dairy sector incomes.

Meanwhile, **US demand for imported beef remains firm, underpinning prices.** This firm demand comes despite the acceleration of US beef production over 2016. Indeed, it appears increasing US production has not been enough to offset falling Australian and NZ production.

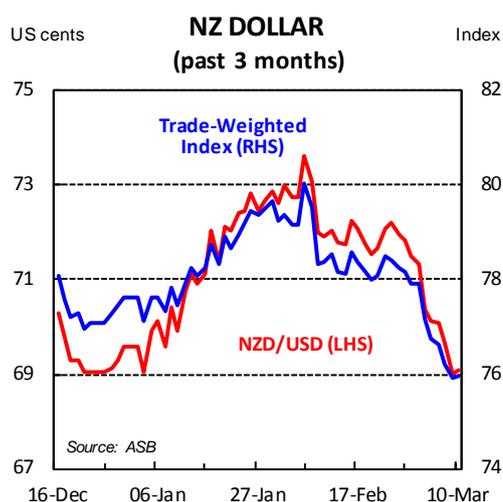
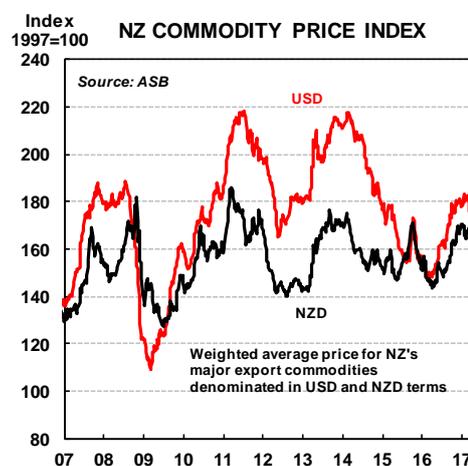
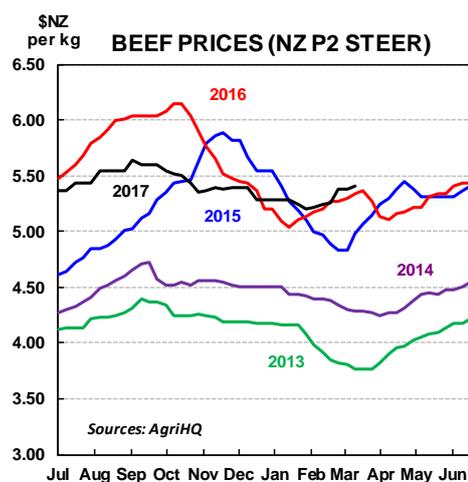
All up, **we expect beef prices to remain firm over the first half of 2017.** Accordingly, we push out the long-awaited moderation in beef prices to the second half of 2017.

#### ASB NZ Commodity Price Index

The ASB Commodity Price Index fell across the board last week, dragged down by a slide in the dairy index. Most dairy product prices slipped, in line with last week's drop in the Global Dairy Auction result. Skim milk powder plunged nearly 14%, followed closely by whole milk powder (-12%), cheddar (-4%) and casein (-1.3%). Only butter prices bucked the trend to lift 2.2% last week. The overall forestry index also slipped 0.8% last week, led by a 1.7% dip in log prices. Meanwhile, the meat index inched up 0.8% as strong wool prices (+10.2%) and higher lamb prices (+1.7%) more than offset a 1.7% fall in beef prices, in USD terms.

#### Currency markets

Last week, the NZD traded in a narrow range against the USD as the market awaited US Non-farm Payrolls data. This week, the local currency rallied against the USD after the Federal Reserve raised its key interest rate, but did not talk up more hikes for 2017. Later, the NZD gave up some of its gains against the US dollar as softer-than-anticipated local Q4 GDP data weighed on market sentiment. As at the time of writing, the NZD was trading at US\$0.6980.



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