

ASB New Zealand Commodity Price Indices

As at Friday 17th March 2017

	Index *	1 Week %	Year % **
Total NZD	167.5	-0.5%	15.5%
Total SDR	180.2	0.4%	23.6%
Total USD	177.7	0.9%	19.2%
Dairy USD	183.0	0.0%	43.4%
Sheep/beef USD	194.7	2.2%	8.6%
Forestry USD	163.9	0.5%	8.9%
NZD/USD	0.7017	1.4%	3.2%

* For all indices 1997 average = 100

** Percentage change since same week last year

Brazilian beef scandal may see beef prices test \$6.00/kg

We've changed our view on beef prices – **in the short-term, we expect prices to spike higher.** Prices may even challenge the magical \$6.00/kg mark (see top chart).

Moreover, **we expect prices to remain higher for longer.** Previously (as recently as last week), we thought prices would drift lower over the second half of 2017. In contrast, we now expect prices to remain healthy throughout the year.

The change in view comes as the world's largest beef exporter, **Brazil, is racked by a scandal involving its two largest meat companies.**

Brazilian police, in a sting with the codename 'Operation Weak Flesh', have accused inspectors in the world's biggest exporter of beef and poultry of taking bribes to allow sales of rotten and salmonella-tainted meats. Following the scandal, countries including China, South Korea, Japan as well as the EU have placed import bans on Brazilian beef (as well as poultry products).

So what does this mean for NZ beef exports and prices? **In short, we are likely to see a spike in prices.** How long this spike is maintained will depend on the length of the import bans and more importantly, how quickly Brazil can rebuild trust with consumers and its buyers.

In particular, **Chinese demand for NZ beef is likely to rise as Brazil supplied nearly a third of China's beef imports last year.** China is NZ's second largest market after the US. Moreover, with supply tight in Oceania and without regulatory approval for US imports, China has limited options for filling Brazil's supply gap. In other words, **prices are going to have to do most of the work.**

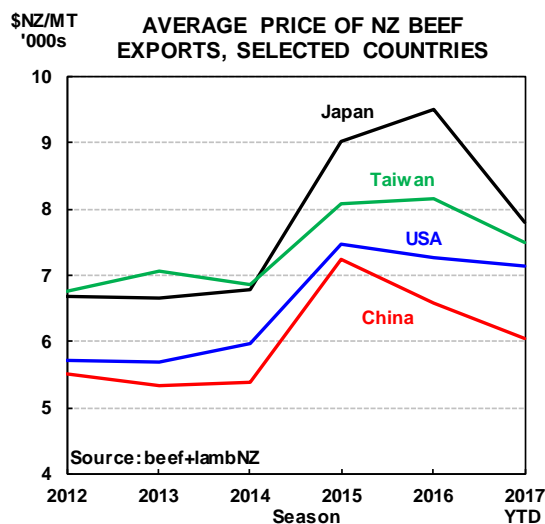
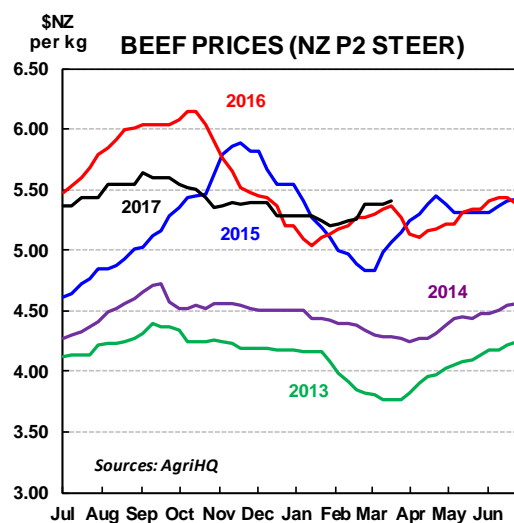
ASB NZ Commodity Price Index

The ASB Commodity Price Index bucked a three-week-falling trend to rise 0.9% in USD terms. However, a strong NZ dollar offset this gain, pushing the index 0.5% lower in NZD terms.

On a components basis, **the sheep/beef index climbed 2.2%** as gains in lamb (up 3.6%) and beef (up 3.7%) outweighed the 9.6% fall in wool prices. The dairy index was unchanged last week. However, at this week's GlobalDairyTrade auction, dairy prices lifted by a modest 1.7%. Meanwhile, the forestry index edged up 0.5%, underpinned by a 1.2% increase in log prices.

Currency markets

Last week, the NZD posted gains against the USD as while the US Federal Reserve lifted its interest rate, its outlook was weaker than markets expected. This week, the NZD continued strengthened in the wake of the stronger-than-expected dairy auction. **As at the time of writing, the NZD was trading at US\$0.7033.**



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