

### ASB New Zealand Commodity Price Indices

As at Friday 16<sup>th</sup> June 2017

	Index *	1 Week %	Year % **
Total NZD	175.9	-0.4%	16.1%
Total SDR	192.1	0.1%	21.8%
Total USD	192.9	0.1%	19.3%
Dairy USD	203.1	0.5%	50.4%
Sheep/beef USD	215.8	0.0%	4.9%
Forestry USD	173.0	0.3%	9.7%
NZD/USD	0.7251	0.6%	2.8%

\* For all indices 1997 average = 100

\*\* Percentage change since same week last year

#### Reserve Bank still in neutral

On 22 June, the Reserve Bank (RBNZ) kept the Official Cash Rate (OCR) at 1.75% as widely expected. In addition, the Reserve Bank's 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 end of 2018. In particular, we expect stronger inflation in 2018 than the RBNZ forecasts. But the end of 2018 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 US benchmark interest rates continue their gradual lift.

#### NZ dollar steps up a gear

The NZD lifted around 40 basis points against the USD following the RBNZ announcement, as some currency market participants had expected stronger language from the RBNZ around the NZD. Since May, the NZ Trade Weighted Index has risen around 3% since May and markets were likely expecting the RBNZ to express more concern around this lift in the NZD.

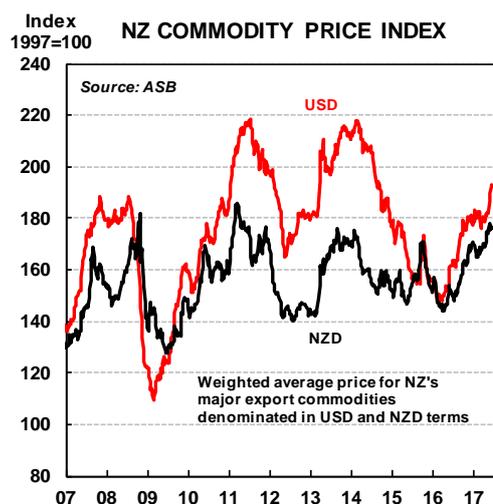
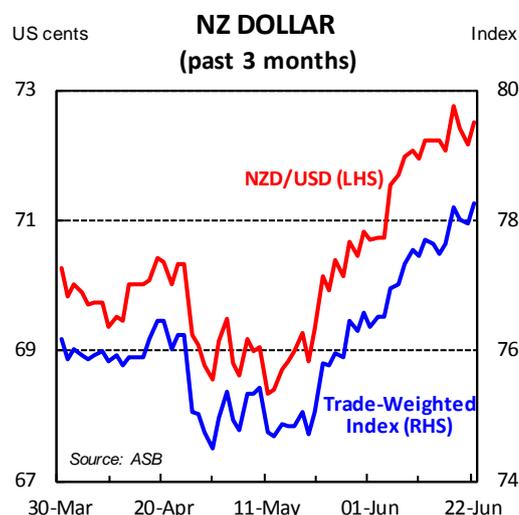
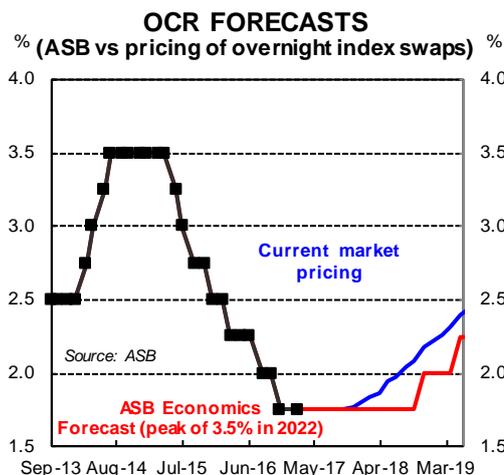
For our part, the muted NZD response was in line with our expectations. For example, the recent strength in NZ export prices partly justifies a stronger NZD.

The NZD has since firmed at this higher level. At the time of writing, the NZD was trading at US\$0.7260.

#### ASB NZ Commodity Price Index

NZ commodity prices were largely unchanged in USD terms last week, however a higher NZD took the ASB NZ Commodity Price Index 0.4% lower in NZD terms.

Looking at the components, dairy prices were on the positive side of the ledger, rising 0.5% last week. However, last week's rise has been superseded by the 0.8% fall at this week's dairy auction. Meanwhile, sheep and beef prices were mixed, with rising beef and lamb prices offset by weaker wool prices. Lastly, forestry prices lifted a touch, led higher by log prices.



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