

ASB New Zealand Commodity Price Indices As at Friday 24th February 2017

	Index *	1 Week %	Year % **
Total NZD	166.5	-0.7%	12.9%
Total SDR	184.5	-0.4%	25.3%
Total USD	181.3	-0.6%	22.7%
Dairy USD	194.7	-1.9%	51.8%
Sheep/beef USD	192.8	0.4%	11.1%
Forestry USD	164.4	0.1%	9.7%
NZD/USD	0.7204	0.1%	8.7%

* For all indices 1997 average = 100

** Percentage change since same week last year

2017: Forestry's banner year

The forestry sector is in a sweet spot. Both local and global demand are very healthy. In fact, local demand is better than healthy; it is booming.

Indeed, **the local construction boom is driving prices to record levels.** Moreover, the Auckland housing boom, driving log demand, is likely to remain a feature for years to come. In short, the local boost to prices is no flash in the pan.

Meanwhile, **export demand also remains very healthy.** This month, pruned export logs hit their highest level since records began, back in 2008. In addition, log export volumes lifted 9% over the December quarter compared to the same quarter a year ago.

The NZ dollar is also doing its part helping forestry returns. In NZD terms, the log price index is currently at a record high; whereas the index is only the highest since mid-2014 in USD terms.

It is not all one-way traffic for forestry, though. For example, there are some questions around whether shipping prices stay low and also around Chinese demand. In particular, the Chinese housing market has entered a downturn and is likely to put some downward pressure on log prices, this year.

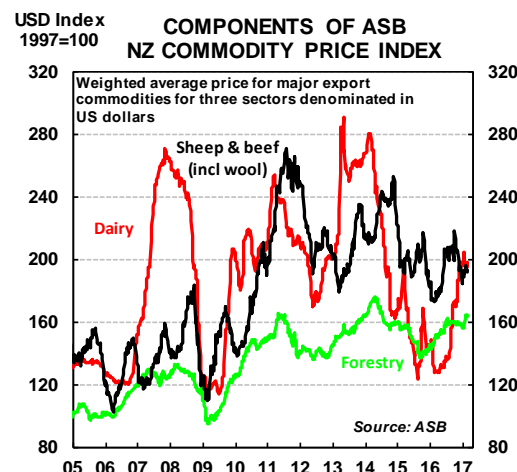
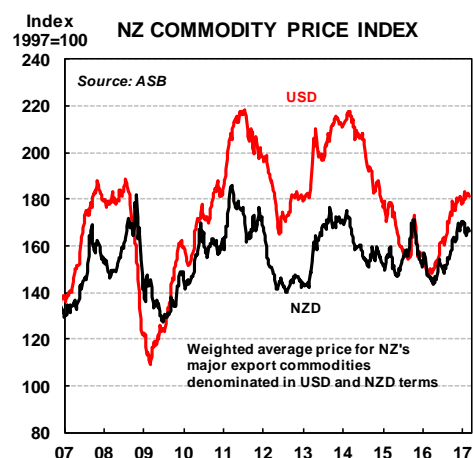
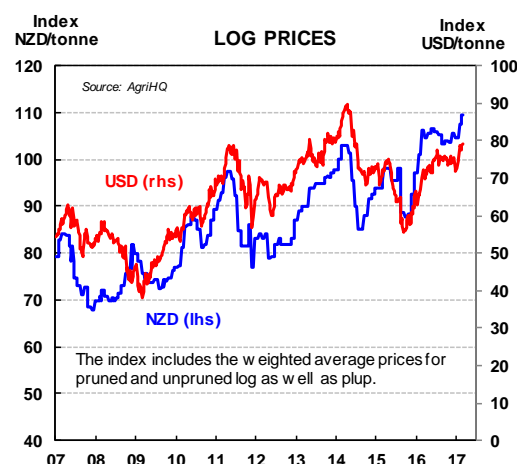
However, we believe that there are sufficient positives in play to more than offset these negatives in terms of forestry prices. All up, **2017 is shaping up as a banner year for forestry.**

ASB NZ Commodity Price Index

The ASB Commodity Price Index slipped across all denominations last week, dragged down by falls in dairy product prices. Skim milk power (-3.7%), whole milk powder (-3.7%) and cheddar (-2.6%) recorded falls, while butter inched up 0.5% and casein prices stayed put. Meanwhile, the sheep/beef index ticked up 0.4% on the back of upbeat wool prices, which climbed 4.2%. Higher beef prices, up 0.6%, also supported the rise. Together, these increases more than offset a 0.7% slip in lamb prices. Separately, the forestry index crept up 0.1%, helped by a similar increase in log prices.

Currency markets

With no major local data releases, last week was a quiet one for the NZD. However, earlier this week, the NZD/USD weakened on comments from US Fed officials about the strong likelihood of a US interest rate hike on March 16. As at the time of writing, the NZD was trading at US\$0.7056.



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
Economist	Kim Mundy	kim.mundy@asb.co.nz	(649) 301 5661
Economist	Daniel Snowden	daniel.snowden@asb.co.nz	(649) 301 5657
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)

Important Disclosures

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.