

### ASB New Zealand Commodity Price Indices As at Friday 1<sup>st</sup> September 2017

	Index *	1 Week %	Year % **
Total NZD	179.7	1.6%	16.4%
Total SDR	189.1	0.3%	12.4%
Total USD	194.5	0.4%	14.1%
Dairy USD	204.1	0.9%	29.8%
Sheep/beef USD	217.4	0.3%	4.4%
Forestry USD	171.8	-0.5%	7.4%
NZD/USD	0.7156	-1.2%	-2.0%

\* For all indices 1997 average = 100

\*\* Percentage change since same week last year

#### Relatively low NZD is boosting commodity prices

**Commodity prices in NZD terms are nearing record highs.** As at 1 September, the ASB NZ Commodity Price Index sat just 3.2% below the record high, set back in March 2011.

**The relatively low NZD explains a large chunk of the high Index level in NZD terms.** Indeed, while commodity prices are healthy in USD terms, the Index is still a significant 10.9% away from the record high.

Moreover, **commodity prices by category are mixed in USD terms.** Dairy prices are near their 10-year average. Meat prices are higher, sitting 12% above the same measure. However, it's only forestry prices which are near record highs, with current prices just 2.6% below the record high.

**With the above in mind, the NZD is low compared to commodity prices (see bottom chart).** The reasons for divergence include (though are not limited to) relatively low NZ benchmark interest rates and global geo-political events such as US-North Korea tensions.

Over the remainder of 2017 and early 2018, we expect NZ commodity prices to remain flat or to push higher in USD terms. All else being equal and the fact that the NZD is relatively low to begin with, **we anticipate that this may lead to some upwards pressure on the NZD over the period.** For producers and exporters, this means that the helpfully low NZD may not last.

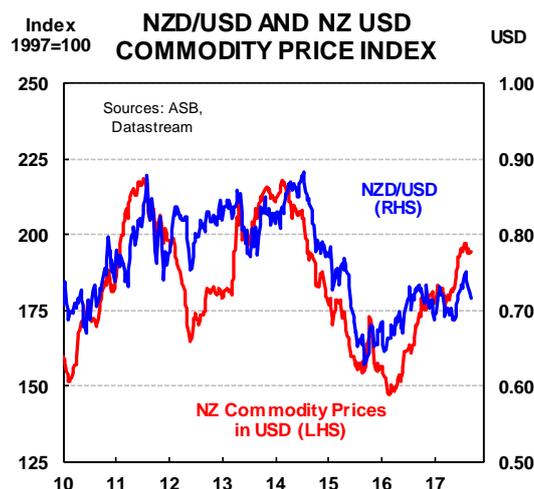
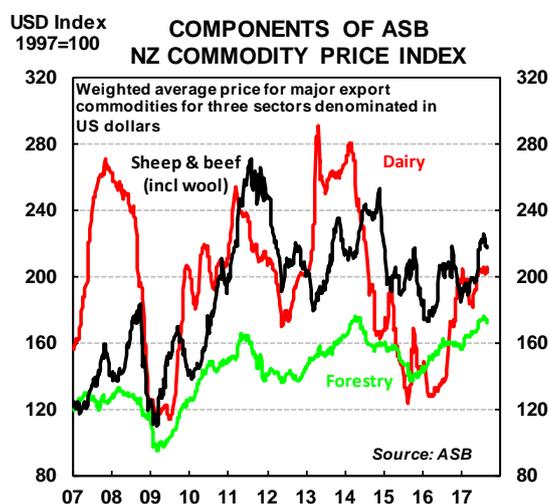
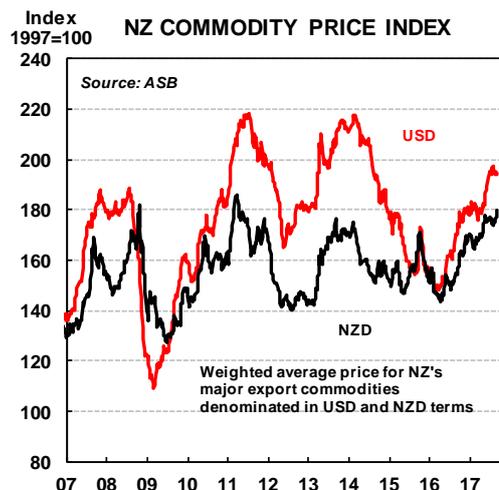
#### ASB NZ Commodity Price Index

**NZ commodity prices rose in USD terms last week on the back of firmer dairy prices.** Within the dairy price rise, whole milk powder notched a 3.3% increase, more than reversing the loss from the last week.

Among other components, lamb prices drove a 0.3% increase in the Sheep/Beef Index in USD terms. In contrast, the Forestry Index edged down 0.5%, as log prices headed 1.2% south.

#### Currency Markets

The NZD weakened last week as uncertainty ahead of the upcoming General Elections weighed on sentiment. The local currency recovered this week and **as at the time of writing, the NZD was trading at around US\$0.7240.**



**ASB Economics & Research**

Chief Economist  
 Senior Economist  
 Senior Economist  
 Senior Rural Economist  
 Senior Economist, Wealth  
 Economist  
 Data & Publication Manager

Nick Tuffley  
 Mark Smith  
 Jane Turner  
 Nathan Penny  
 Chris Tennent-Brown  
 Kim Mundy  
 Judith Pinto

nick.tuffley@asb.co.nz  
 mark.smith4@asb.co.nz  
 jane.turner@asb.co.nz  
 nathan.penny@asb.co.nz  
 chris.tennent-brown@asb.co.nz  
 kim.mundy@asb.co.nz  
 judith.pinto@asb.co.nz

**Phone**

(649) 301 5659  
 (649) 301 5657  
 (649) 301 5853  
 (649) 448 8778  
 (649) 301 5915  
 (649) 301 5661  
 (649) 301 5660

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