

### ASB New Zealand Commodity Price Indices As at Friday 3<sup>rd</sup> February 2017

|                | Index * | 1 Week % | Year % ** |
|----------------|---------|----------|-----------|
| Total NZD      | 164.4   | -0.2%    | 11.1%     |
| Total SDR      | 183.7   | 0.0%     | 25.5%     |
| Total USD      | 181.9   | 0.5%     | 22.5%     |
| Dairy USD      | 194.8   | 0.0%     | 46.9%     |
| Sheep/beef USD | 196.6   | 1.2%     | 13.0%     |
| Forestry USD   | 162.5   | 0.3%     | 10.9%     |
| NZD/USD        | 0.7315  | 0.7%     | 10.3%     |

\* For all indices 1997 average = 100

\*\* Percentage change since same week last year

#### RBNZ on hold as expected, NZD slides

On Thursday, the Reserve Bank of New Zealand kept the OCR on hold at 1.75%, as widely expected. The policy bias in the statement was the same as in November: “Monetary policy will remain accommodative for a considerable period.” Also, the RBNZ is more comfortable with the inflation outlook, given the large jump in Q4 inflation and signs of broader inflation pressures starting to come through.

The RBNZ’s own OCR projections show the OCR at 1.8% well into 2018, reinforcing the neutral bias. The RBNZ does have a 25bp hike built in eventually i.e. by early 2020. For our part, we continue to view OCR increases as a long way off i.e. towards the end of 2018.

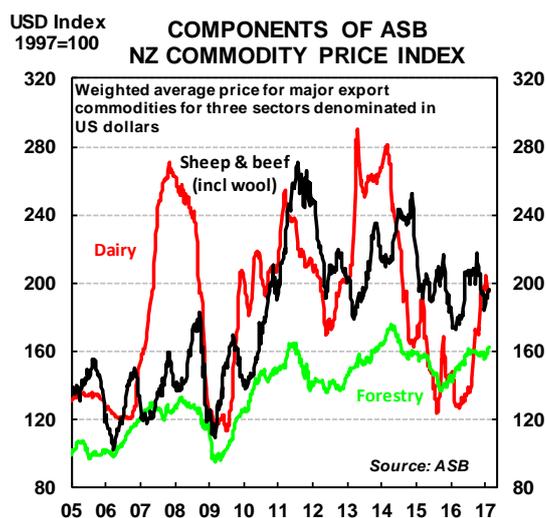
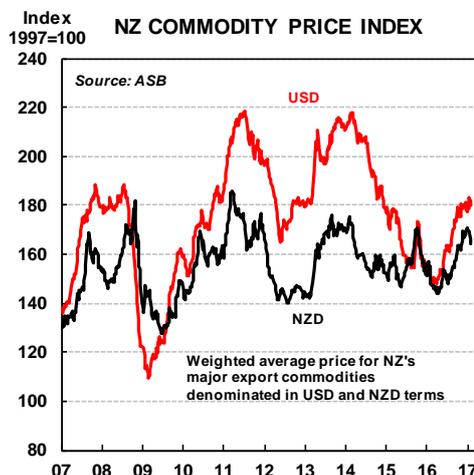
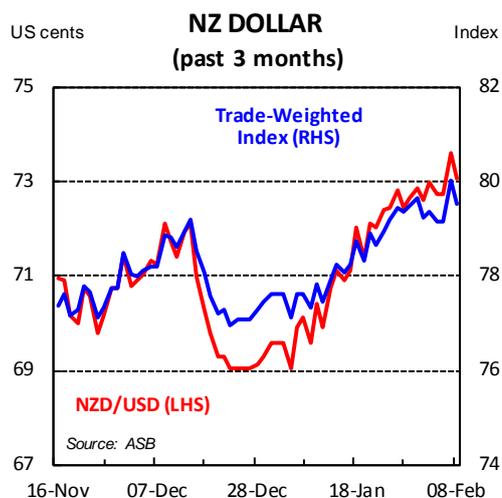
Moreover, the RBNZ will be pleased with the market’s reaction following the announcement. For example, the market pricing on an OCR hike by the end of 2017 fell from 92% prior to the announcement to around 50% today.

Meanwhile, the NZD also slid progressively over the day. With the RBNZ stating that “a decline in the exchange rate is needed” at several forums over the day, the NZD fell over a cent against the USD (from US\$0.7306 prior to the announcement to as low as US\$0.7176 at 4pm). At the time of writing, the NZD was trading at US\$0.7191.

#### ASB NZ Commodity Price Index

A spike in wool prices helped NZ commodity prices continue to head north, rising 0.5% in USD terms last week. But a strong NZ dollar more than offset this gain, pulling the index 0.2% lower in NZD terms.

Looking at the components, the 7% jump in wool prices accounted for the majority of the overall gain. Meat prices gained too, albeit at a slower pace, with both lamb and beef rising 0.7% last week. The Dairy Index was unchanged as all product prices (butter, skim milk, whole milk powder, cheddar, casein) stayed put last week. However, at the GlobalDairyTrade auction earlier this week, dairy prices lifted by a modest 1.3%. Meanwhile, the Forestry index inched up 0.3% on the back of a 0.7% increase in log prices.



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