

ASB New Zealand Commodity Price Indices As at Friday 9th December 2016

	Index *	1 Week %	Year % **
Total NZD	167.9	0.7%	9.5%
Total SDR	185.0	1.2%	20.1%
Total USD	181.1	0.6%	16.2%
Dairy USD	198.4	2.4%	37.1%
Sheep/beef USD	193.0	-1.1%	2.8%
Forestry USD	159.1	0.0%	12.2%
NZD/USD	0.7134	0.0%	6.1%

* For all indices 1997 average = 100

** Percentage change since same week last year

The US Federal Reserve hikes interest rates as expected

On 14 December, as widely anticipated the US Federal Reserve raised interest rates 25 basis points. This was the first and only rate increase over 2016 and follows what was the first increase in seven years this time last year. In fact, this is only the second rate hike from the Federal Reserve in the last 10 years.

Because a hike was widely anticipated, markets focused more on the release details; including forecasts for future rate hikes. In this regard, markets were surprised to see an extra interest rate hike factored in to 2017.

At this stage, the Federal Reserve refrained from commenting on any potential implications of Trump's fiscal policies on monetary policy. However, Trump's fiscal policies are likely to become a large part of the Fed's focus over the coming years.

Indeed, Trump's proposed policies have already had a sizeable impact on the US economy since his election win. US 10-year bond yields are roughly 80 basis points higher since early November as market participants anticipate that Trump's policies, including corporate tax cuts and infrastructure, will be highly inflationary (see also currency comments below).

Currency Markets

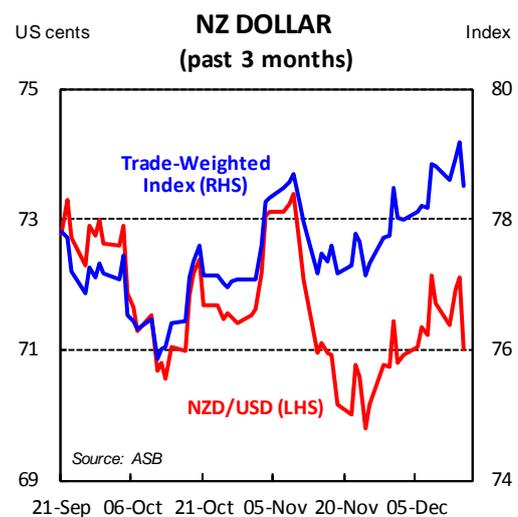
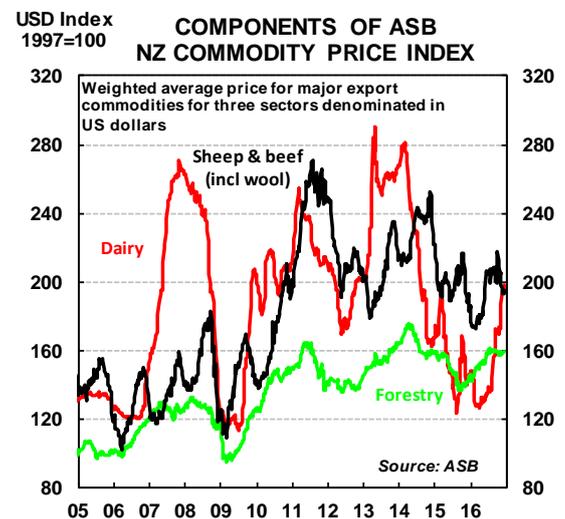
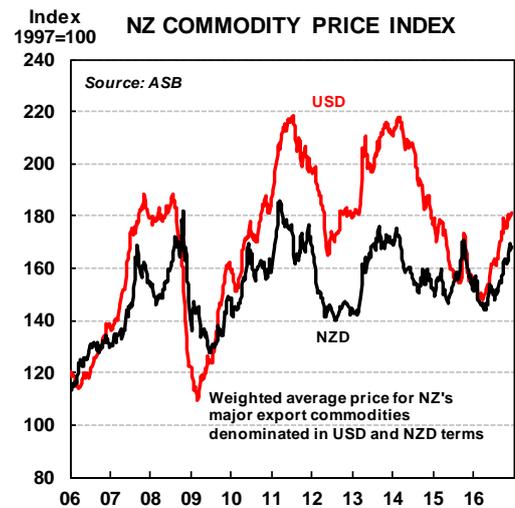
The USD has also lifted sharply since Trump's victory, now sitting over 5% higher than back in early November. Following the US Federal Reserve interest rate hike, the NZD fell from US\$0.72 to around US\$0.7040. At the time of writing, the NZD has lost further ground and is trading at US\$0.7023.

ASB NZ Commodity Price Index

Dairy prices led the ASB Commodity Price Index higher in all denominations last week.

All dairy components recorded rises. Whole milk powder led the way, rising nearly 3%, while cheddar and butter weren't too far behind rising 2.7% and 2.4%, respectively.

Turning to sheep and beef prices, these had a much leaner week, with the sheep/beef index dipping 1.1%. In particular, wool and lamb prices dipped 2.5% and 1.7%, respectively. Lastly, forestry prices were unchanged over the week.



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