

### ASB New Zealand Commodity Price Indices

As at Friday 14<sup>th</sup> April 2017

	Index *	1 Week %	Year % **
Total NZD	168.9	-0.8%	17.2%
Total SDR	181.3	-0.1%	22.8%
Total USD	178.8	0.1%	18.5%
Dairy USD	182.0	0.5%	41.7%
Sheep/beef USD	197.8	-0.1%	9.0%
Forestry USD	166.3	0.4%	8.4%
NZD/USD	0.6999	0.9%	1.1%

\* For all indices 1997 average = 100

\*\* Percentage change since same week last year

#### Magical \$6/kg price mark on the cards across beef, lamb and dairy

For the first time (at least since this analyst joined ASB), **NZ beef, lamb and dairy prices look similarly healthy**. In fact, there is a better than fair chance that all three sectors surpass the \$6/kg mark simultaneously at some stage this year, known as the *Magical Triple 6*.

**Dairy is already there** (click [here](#) for dairy auction note), with our milk price forecasts sitting at \$6.00/kg and \$6.75/kg for this season and next, respectively. Meanwhile over recent months, **lamb and beef have rapidly closed in on the \$6/kg price mark as well**.

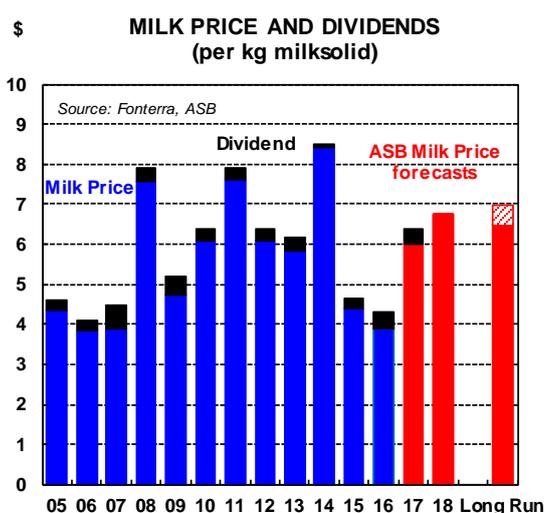
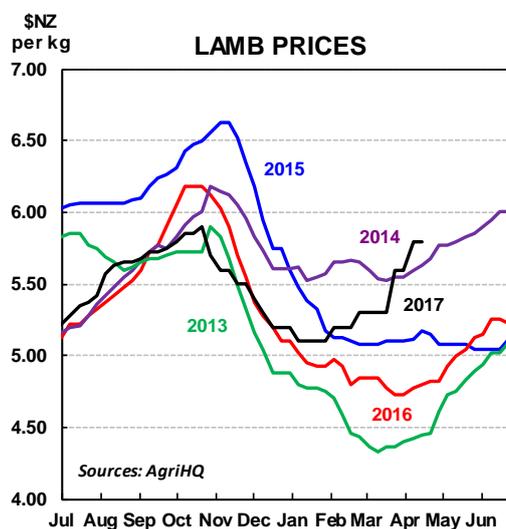
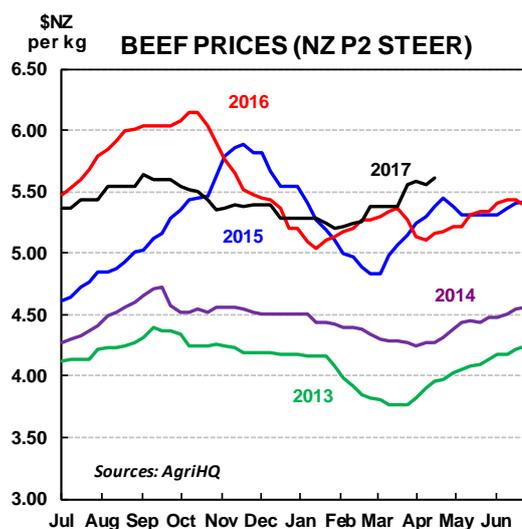
Firstly, **beef prices have drifted higher since February (up 7.9% over this period)**. General tightness in Australian and NZ (including a lower dairy cow cull) supply have contributed to this lift, while more recently the Brazilian beef scandal has given prices a further boost.

Meanwhile, **lamb prices have been on a tear over the same period, lifting 13.7%**. Indeed, this price surge goes against the grain of the normal seasonal pattern, where prices fall. The main impetus for this lift has been very low local slaughter and thus tight supply this year.

At this juncture, **we expect both meat sectors to at least touch the \$6/kg mark over 2017**. In particular, recent trends and continued tight supply support this view. However can these prices last?

For now, **we are optimistic that both beef and lamb prices can remain high next season, if not above \$6/kg mark**. In particular, we are seeing signs that demand is likely to underpin already tight supply. For example, the announcement this month of Chinese approval for chilled beef and lamb exports should lift average prices into this market. Similarly, the earlier lifting of Iranian trade sanctions and eventual re-commencement of lamb exports is likely to give lamb demand and export prices a further boost. Notably, Iran accounted for nearly 60% of NZ's lamb exports during the 1970s.

All up, **the outlook for all three sectors is positive, and the fact that all three are strong at the same time is a rare occurrence**. However, we retain some caution, noting that higher prices will induce a supply response. In particular, we expect lamb supply is likely to rebound in the spring and improved demand may not be able to offset the extra supply; this is likely to see prices moderate. The other cautionary tale is around input prices; with all three sectors healthy, we are likely to see input prices rise (livestock prices for example are already high in some cases, read beef) and put pressure on margins.



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