

### ASB New Zealand Commodity Price Indices As at Friday 22<sup>th</sup> September 2017

	Index *	1 Week %	Year % **
Total NZD	178.4	0.6%	12.8%
Total SDR	191.6	1.4%	12.4%
Total USD	198.0	1.3%	14.3%
Dairy USD	205.1	2.1%	19.5%
Sheep/beef USD	224.5	0.3%	12.5%
Forestry USD	176.2	1.7%	10.3%
NZD/USD	0.7341	0.7%	1.4%

\* For all indices 1997 average = 100

\*\* Percentage change since same week last year

#### Forestry's banner 2017 year is unlikely to repeat over 2018

**2017 has been a year out of the box for forestry.** Log prices as measured by the AgriHQ log index have been at or near record highs in NZD terms for most of 2017. The question then is: can it last? In short, probably no.

First up, **we expect the NZD to rise**, whereas the relatively low NZD has been supportive of prices this year. We expect the NZD to rise to US\$0.75 by mid-2018 and then US\$0.77 by the end of 2018, from around US\$0.72 currently.

Secondly, **Chinese demand has been consistently firm, but there are risks that Chinese demand may soften.** In particular, falling house price growth may translate into less construction activity.

Thirdly, **shipping rates continue to rise off last year's lows.** For example, Baltic Dry Index prices for September are some 63% higher than in September 2016.

**On the positive side, local demand is likely to remain firm.** The construction backlog is long and likely to continue to drive activity and demand for logs and timber for years to come. Indeed, the main question for local construction centres not on demand, but on the capacity of the construction industry to carry out the work.

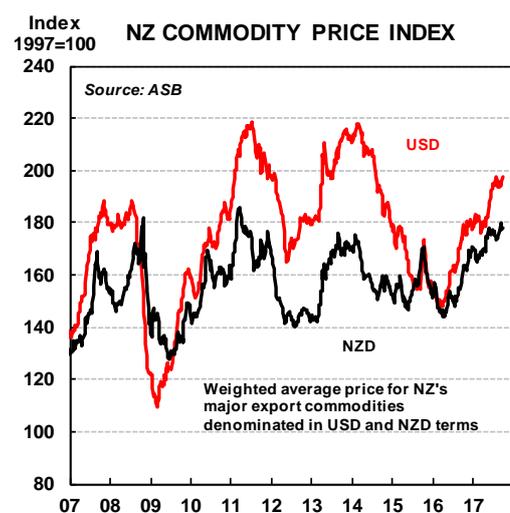
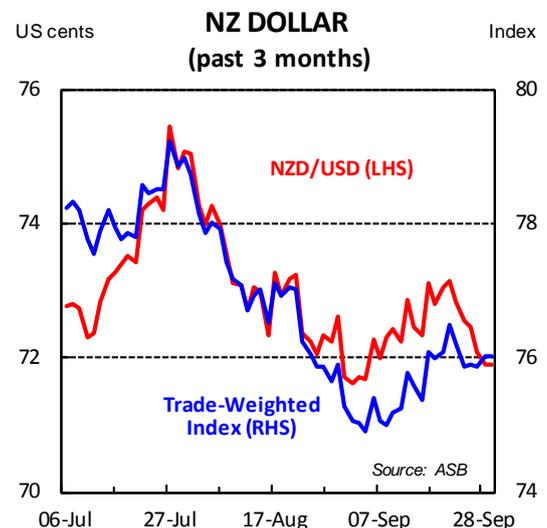
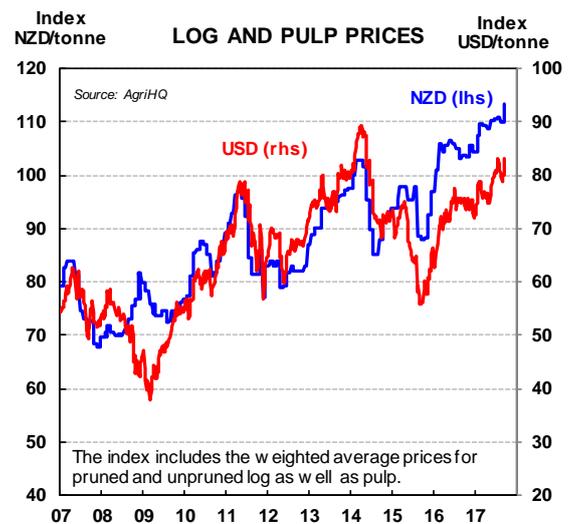
All up, **we expect forestry prices to ease over 2018.** That said, **prices are likely to remain high by historical standards**, with local construction still underpinning prices.

#### ASB NZ Commodity Price Index

**NZ commodity prices rose last week in all denominations**, led higher by rising dairy prices.

Looking at the index components, **dairy's lift owed to improving casein, butter and cheddar prices.** Notably, butter prices posted their second-highest level over the index's history. Meanwhile, the Forestry Index lifted 1.7% in USD terms to just shy of the record high. Lastly, sheep and beef prices rose a touch (0.3%) over the week.

**Currency Markets** The NZD lifted last week, as polls pointed to a National victory. This week the NZD has eased a little on uncertainty around the coalition negotiations; **at the time of writing, the NZD was trading at \$0.7230 against the USD.**



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