

Commodities Weekly

For the week ending Friday 27th August

Meat you at the top

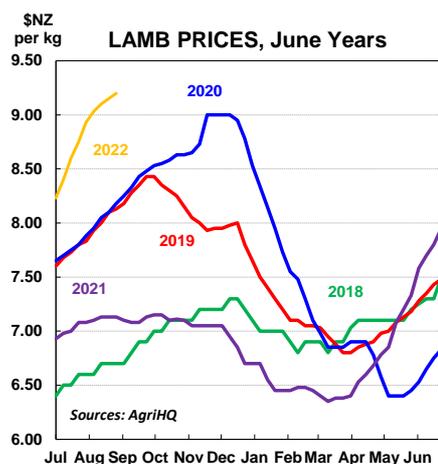
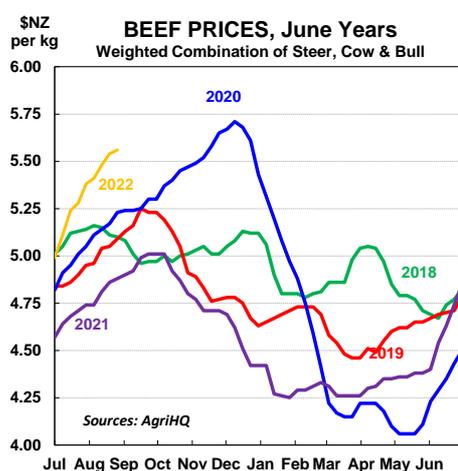
NZD meat prices have been on an absolute tear over the past couple of months. Kiwi lamb prices are currently at all-time highs, trading around the \$9.20 mark. AgriHQ's weighted beef price isn't quite there yet but is still running well ahead of the past few seasons when prices were already very high in a historical sense.

There's little sign that the lifting in alert levels a fortnight ago is impacting prices in either direction. Its early yet, but thus far prices for both beef and lamb have continued to follow the seasonal trend at a similar magnitude to what we've seen over recent months. As our friends at AgriHQ note, while saleyards have closed, that's been an issue for the store market, but is having a limited impact on processors (and even then, paddock trading carries on as usual). And of course, much of the country has now begun to move down alert levels.

It's good to see prices proving resilient, in line with our view that the new lockdown will have only a limited impact on most non-forestry agriculture commodities. In the absence of a dairy auction over the past fortnight, meat prices have been the most up-to-date signal.

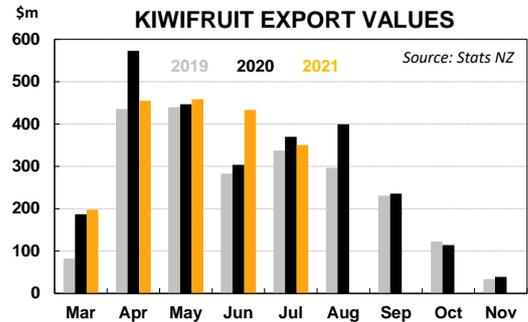
The more material development of late has been the return of African Swine Fever (ASF) in China, which is once again spreading rapidly. [Media reports](#) suggest there have been more ASF outbreaks than previously reported, with cases in various parts of China. We've previously highlighted the risk that a new outbreak could crimp the recovery in China's pig herd, re-ignite fears about the global protein shortage and drive meat prices higher. While it's too early to gauge the impact, the balance of risks skews towards global meat prices remaining supported over the remainder of the season.

Broader supply and demand trends also look positive for prices. While rising delta cases overseas and the winding down of, NZ trading partner growth forecasts for 2021 and 2022 still look healthy. In particular, US and Chinese demand continues to look healthy. A lot will be contingent on the ability of individual producers to take advantage of the situation as we exit the off-season, given the twin challenges of supply chain disruption and the labour shortages. **We think it's likely that the strength in prices will be able offset the revenue impact of constrained production for the industry as a whole.**



Kiwifruit continues its resilience

The kiwifruit season continues to look strong in the latest export data from Stats NZ. Export values over July came in at circa \$350m, about 5% below their level at the same time in 2020, but still a solid result and coming off a very strong June. As we approach the end of the season, season-to-date export values are running even with last year's record season. Despite all the talk of constrained shipping capacity, this season its actually stronger export volumes that are offsetting slightly softer (but still healthy) prices, rather than the other way round.



ASB Commodities Index

A higher NZD weighed on the ASB Commodities Index last week. Having fallen in the aftermath of the step up in Alert Levels, NZD recovered ground last week, particularly as RBNZ grandees hinted they still see OCR hikes in the near future. The stronger NZD/USD offset the impact of rising commodity prices to drive our NZD index 1.1% lower – a three month low, but still well above long run averages.

Underlying commodity index movements were generally neutral to bullish last week. Sheep and beef prices gained a healthy 3.1% in USD terms, while dairy prices were unchanged in the absence of a new dairy auction.

ASB New Zealand Commodity Price Indices As at Friday 27th August 2021

	Index*	Week %	Year %**
Total NZD	113.9	-1.1%	13.7%
Total SDR	110.6	1.3%	18.3%
Total USD	112.9	1.5%	18.2%
Dairy USD	114.8	0.0%	21.7%
Sheep/beef USD	123.7	3.1%	27.4%
Forestry USD	97.2	2.6%	6.2%
Fruit USD	102.3	2.6%	3.8%
NZD/USD	0.7002	2.6%	3.9%

* For all indices 2017 average = 100

** Percentage change since same week last

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