

# Commodities Weekly

For the week ending Friday 27<sup>th</sup> April



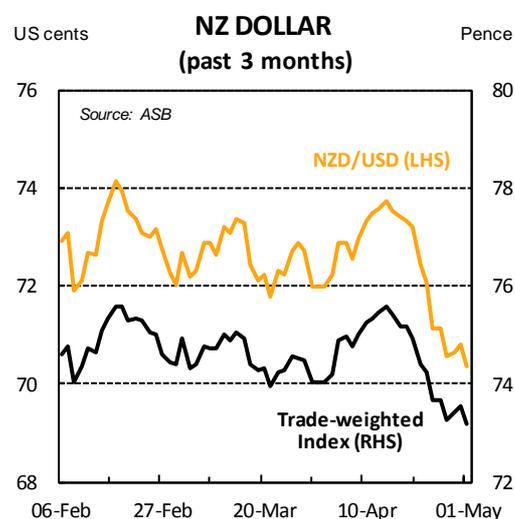
## NZD takes a tumble against the USD

### NZD/USD falls to its lowest level this year

**The NZ dollar has taken a tumble against the USD.** After approaching US\$0.74 in mid-April, the NZD/USD has now fallen to around 0.7000. Moreover, this fall has taken the NZD/USD to its lowest level over 2018.

**Notably, the drop owes more to USD strength than it does to NZD weakness.** In particular, the USD has strengthened as US benchmark interest rates have surged. For example, US 10-year Treasury yield broke through 3% for the first time in 4 years last week. At the same time, NZ interest rates have been relatively steady, with the NZ 10-year Government bond yield dipping below its US equivalent for the first time since the 1990s.

As a result, **the lower NZD is boosting commodity prices in NZD terms.** For example, the 2018/19 milk price future surged around 35 cents to \$6.60/kg last week, largely on the back of the tumbling NZD.



The question is however will the NZD/USD weakness continue? For now, **we expect NZD strength to return, particularly as NZ commodity prices remain firm.** On this basis, we expect the NZD/USD to average between 0.73 and 0.74 over the next six months. However, there is a growing risk that rising US interest rates continue to be the main driver the NZD/USD. If that is the case, then the NZD/USD could be lower than we currently expect and, in turn, NZ commodity prices in NZD terms could be higher as well. Watch this space.

### Week ending 27 April

**The ASB Commodity Price Index fell 1.4% in USD terms in the week ending 27 April.** However, a fall in the NZD/USD meant that the Index actually lifted in NZD terms.

**Sheep/beef prices led the fall in USD terms, dipping 2.1%.** In particular, beef prices continued their weak recent run, falling 3.2% in USD terms.

Meanwhile, forestry and fruit prices also fell 1.7% in USD terms last week. In contrast, **dairy prices drifted a touch (0.2%) higher last week, although this rise was offset by a 1.1% overall price fall at this week's dairy auction.**

### ASB New Zealand Commodity Price Indices As at Friday 27<sup>th</sup> April 2018

	Index*	Week %	Year %**
Total NZD	112.5	0.3%	7.1%
Total SDR	101.2	-0.6%	2.1%
Total USD	95.8	-1.4%	7.9%
Dairy USD	92.4	0.2%	4.5%
Sheep/beef USD	92.7	-2.1%	7.3%
Forestry USD	104.5	-1.7%	6.9%
Fruit USD	106.6	-1.7%	18.2%
NZD/USD	0.7085	-1.7%	0.7%

\* For all indices 2014 average = 100

\*\* Percentage change since same week last year

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