

Commodities Weekly

For the week ending Friday 26th November

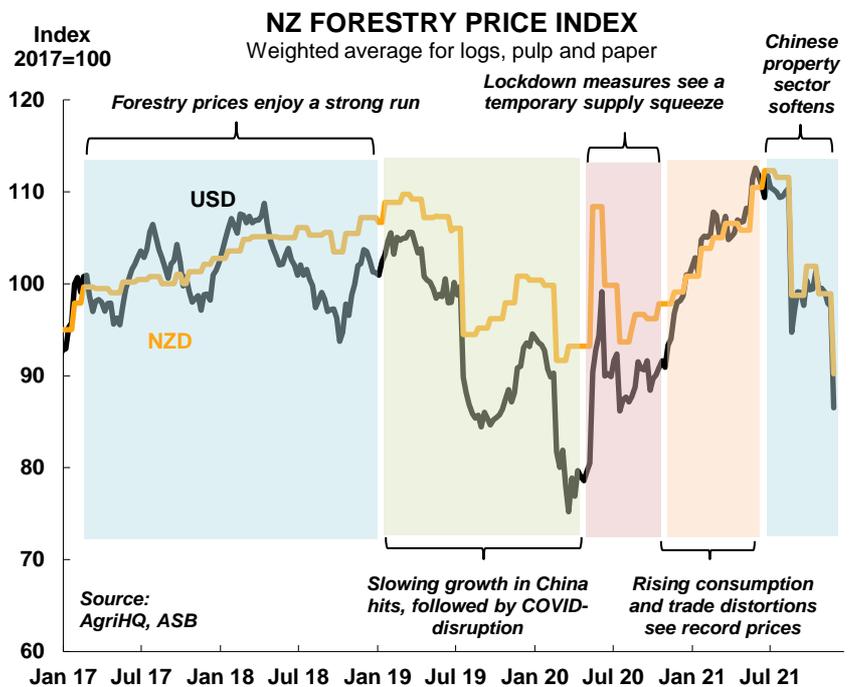
Crooked timber

Forestry prices have recorded another sharp fall. Our forestry price index, a weighted average of wood, pulp and paper, fell another 9% over November – its lowest NZD level in nearly six years. That’s down circa 20% on where it was at the beginning of August, when NZD prices were hovering around a record high.

Wharfgate log prices are easing, and much softer demand out of China is the culprit. A-grade CFR (cost and freight inclusive) log export prices have fallen 18% over a similar period. A small part of this decline is likely due to a slight easing in high shipping costs, but most of the decline is in the underlying log price.

Softer demand out of China is the culprit. The Chinese property market is looking a lot less hot than it once did, thanks to the debt woes faced by the massive property developer Evergrande, and ongoing defaults by a number of smaller developers. Our friends at CBA expect that investment in the Chinese real estate sector contracted 5.5%/yr, with construction indicators looking weak. China’s power crisis limiting broader output hasn’t helped either. Unsurprisingly, those headwinds have driven log usage down quite considerably, with port offtake rates down somewhere in the region of 10,000 m3 per day per AgriHQ’s research.

Volatility looks set to continue. Despite the slowdown in usage, Chinese port log inventories still look relatively low, and our friends at AgriHQ see a risk that Chinese supply starts to look a little tight heading into the New Year. Russia’s looming export ban won’t help on that front. Still, given the slowdown in the Chinese property sector, the demand fundamentals are weaker now, and we are unlikely to return to the price levels we saw earlier in the year.



ASB Commodities Index

The ASB Commodities Index continued to hover at an all-time NZD high just north of 122 last week. Underlying USD commodity prices actually eased a little over the week – the USD meat index continues to drift a little lower in line the seasonal trend, while forestry prices underwent a big correction and fell by more than 11%. Fortunately, dairy prices remained unperturbed after more than a fortnight with no auction (so stay tuned for next Wednesday). All up, the USD index fell 2.7%.

Fortunately, NZD commodity prices were supported by a sizable dip in the kiwi over the week (down a similar 2.7%) off the back of markets recalibrating OCR rate hike expectations.

ASB New Zealand Commodity Price Indices As at Friday 26th November 2021

	Index*	Week%	Year %**
Total NZD	122.2	0.0%	21.1%
Total SDR	117.6	-2.4%	19.7%
Total USD	118.1	-2.7%	17.5%
Dairy USD	132.4	0.1%	35.7%
Sheep/beef USD	122.7	-3.4%	23.3%
Forestry USD	86.5	-11.3%	-11.7%
Fruit USD	98.9	-2.7%	-19.3%
NZD/USD	0.6823	-2.7%	-3.0%

* For all indices 2017 average = 100

** Percentage change since same week last

ASB Economics & Research

Chief Economist
Senior Economist
Senior Economist
Senior Economist, Wealth
Senior Economist
Economist

Nick Tuffley
Jane Turner
Mark Smith
Chris Tennent-Brown
Mike Jones
Nat Keall

nick.tuffley@asb.co.nz
jane.turner@asb.co.nz
mark.smith4@asb.co.nz
chris.tennent-brown@asb.co.nz
mike.jones@asb.co.nz
nathaniel.keall@asb.co.nz

Phone

(649) 301 5659
(649) 301 5853
(649) 301 5657
(649) 301 5915
(649) 301 5661
(649) 301 5720

www.asb.co.nz/economics

[@ASBMarkets](https://twitter.com/ASBMarkets)

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