

Commodities Weekly

For the week ending Friday 30th March



Tit for tat – the Empire strikes back

China imposes \$3billion tariffs on US imports, following US trade moves

We've had tit, and now tat. Earlier this week, China imposed tariffs on 128 US imports, worth US\$3 billion, in response to US tariff increases last month.

On the one hand, **the Chinese tariffs measures were moderate.** For example, the tariff measures cover less than 2% of total Chinese imports from the US.

On the other hand, **we remain wary of the trade skirmish between the US and China.** Notably, the Chinese measures included tariffs on some agricultural goods, including items such as pork and fruit (this contrasts with US measures, which focused more on high-tech products).

So far though, **these measures are relatively minor and have little or no impact on NZ commodity exports to China or the US.** Indeed, NZ's key goods (and services) exports look to have mostly avoided higher tariffs so far. Notably, the dairy auction overnight passed largely with no signs of fallout from the trade skirmish. Meanwhile, NZ's steel and aluminium exports are small and the US accounts for a modest share of this (small) trade.

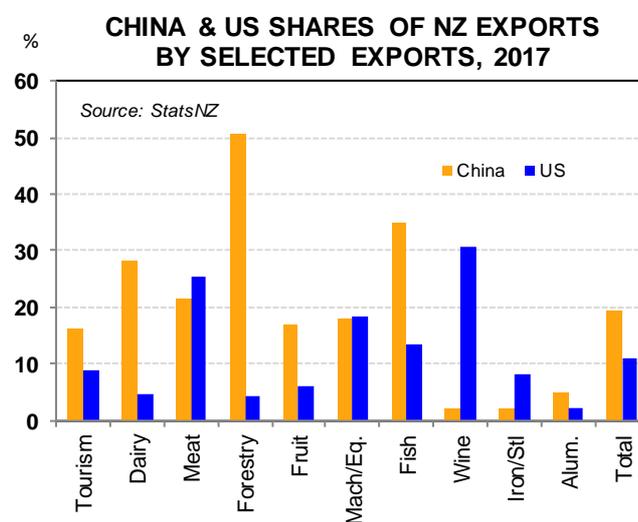
However, **if tensions escalate further and lead to an all-out trade war, then NZ exports will be exposed.** Essentially, a trade war would lead to lower incomes in both the US and China (and globally). In turn, lower global incomes would lead to lower demand for NZ exports, and thus would likely translate into lower NZ commodity prices.

That said, there is still a good chance that President Trump moderates his stance or that the measures are short-lived. Although, **the threat of a full-blown trade war cannot be ruled out and is something that should be kept in mind.**

Week ending 30 March

NZ commodity prices drifted lower in the week ending 30 March. The ASB NZ Commodity Price Index slid 0.4% in both NZD and USD terms.

Beef prices led most of the decline in the index in USD terms. Beef prices dipped 2.4% as NZ supply begins to ramp up and production increases in the US on the back of dry weather. Wool prices also drifted lower, so that the Sheep/Beef Index fell 1.0% over the week in USD terms.



Meanwhile, **dairy prices were largely unchanged last week**. Whole milk powder and anhydrous milk fat prices were a fraction lower, while prices for other dairy products were unchanged in USD terms. At the dairy auction this week, prices continued to track sideways.

Meanwhile, the NZD was largely unchanged over the week. This week, the NZD has strengthened; **as at the time of writing, the NZD was trading at US\$0.7260**.

ASB New Zealand Commodity Price Indices As at Friday 30th March 2018

	Index*	Week%	Year%**
Total NZD	109.4	-0.4%	6.0%
Total SDR	99.6	-0.1%	2.3%
Total USD	95.0	-0.4%	9.1%
Dairy USD	89.8	-0.2%	6.1%
Sheep/beef USD	95.3	-1.0%	12.6%
Forestry USD	106.7	0.0%	8.8%
Fruit USD	109.6	0.0%	12.6%
NZD/USD	0.7236	0.0%	2.9%

* For all indices 2014 average = 100

** Percentage change since same week last year

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