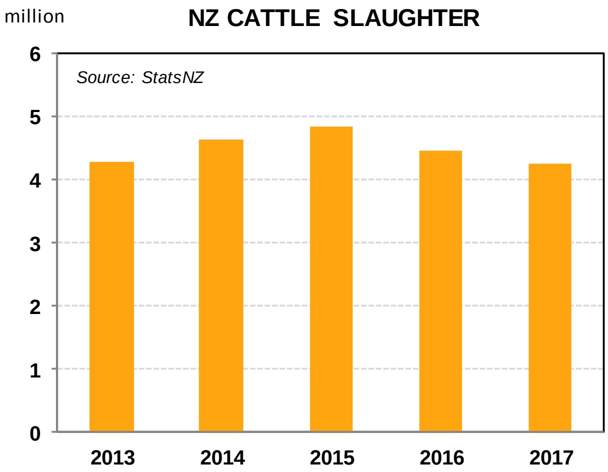
Commodities Weekly

For the week ending Friday 1st June

The path of least regret

Government to pursue phased eradication of Mycoplasma bovis

Last week, **the NZ Government announced that it will continue with plans to eradicate Mycoplasma bovis.** The plan involves culling a further 126,000 cattle over a 1-2 year period. The estimated costs of attempting phased eradication are around $900 million over 10 years, with the Government covering 68% of the costs and industry bodies the rest.



At the time of the announcement, 37 farms had been confirmed as infected properties with a further 260 suspect farms (out of 20,000). Also, **the Government expects that 192 properties in total will face stock culling, with 142 culled in the first year.** But high-risk animal movements have been traced to around 3000 farms. Accordingly, there is the risk that additional properties are added to the cull.

In the first instance, **the decision gives some clarity to the agricultural sector**, after a prolonged period of uncertainty. Indeed, it has been 10 months since the disease was first identified, and over that time agricultural sector confidence has been very low. However, **for certain farms (such as those heavily reliant on animal movements) uncertainty remains.** Indeed, these farms may need to make rapid changes to their farming systems to remain in business.

Turning to the impact on markets, **we expect beef prices to be largely unaffected over the next year.** 126,000 cattle represent less than 3% of NZ's annual slaughter. Also NZ is a relatively small beef exporter so swings in beef production overseas and changes in demand have the dominant impact on beef prices. In contrast, **the slaughter of dairy cows is likely to add to upward pressure on dairy prices over the next year**. NZ is the world's largest exporter of whole milk powder and butter. With the cull dampening NZ production, global dairy prices are likely to be higher than would have otherwise been the case.

Looking long term, **potentially farmers may look to make changes in farming practises and this may lead to a rise in costs**. For example, farmers may choose to build in more fat into their farm systems to limit the potential cost of infection. This may include holding less debt or moving to a more closed farming system. For the dairy sector, **some of these higher costs may simply be offset by a higher milk price** in lieu of NZ's large share of global dairy exports. However in the more competitive global beef market, **these costs are more likely to be borne by NZ producers.**

More information on Mycoplasma bovis is available from the Ministry for Primary Industries, Beef+Lamb and DairyNZ.

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Week ending 1 June

The ASB Commodity Price Index lifted in USD terms in the week ending 1st June. However, this rise was largely offset by a stronger NZ dollar.

Stronger meat prices led the commodity price rise. Indeed, lamb and beef prices rose 2.0% and 1.7%, respectively. Meanwhile, there was strength across all the index components as dairy, forestry and fruit also posted price gains in USD terms.

Meanwhile, the NZD/USD strengthened last week. This week the NZD has strengthened further as political concerns in Italy have eased. As at the time of writing, **the NZD/USD was trading at 0.7020.**

ASB New Zealand Commodity Price Indices

As at Friday 1st June 2018

	Index*	Week %	Year %**
Total NZD	114.9	0.1%	5.9%
Total SDR	103.6	1.1%	2.2%
Total USD	96.4	1.0%	4.7%
Dairy USD	94.1	0.7%	0.6%
Sheep/beef USD	95.1	1.8%	7.1%
Forestry USD	102.9	0.9%	3.7%
Fruit USD	97.5	0.9%	4.6%
NZD/USD	0.6983	0.9%	-1.1%

** For all indices 2014 average = 100*
*** Percentage change since same week last year*

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