

Commodities Weekly

For the week ending Friday 31st January



Coronavirus: commodity prices down, but not out?

Forestry sector hit hard, meat price impact mixed, dairy prices down, but not out

The coronavirus first round impacts are starting to show through in commodity price data. As expected, NZ commodity prices have taken a decent hit. There are some signs though that the impact could prove short-lived. Nonetheless, the situation remains fluid and price volatility is likely to continue. Indeed, risks and uncertainties remain in play.

Virus concerns drove dairy auction prices down sharply this week, although there was a sense that it could have been worse. Whole milk powder (WMP) prices slid 6.2%, while overall auction prices fell 4.7%. For comparison, futures prices had suggested that WMP prices would fall by around 7%.

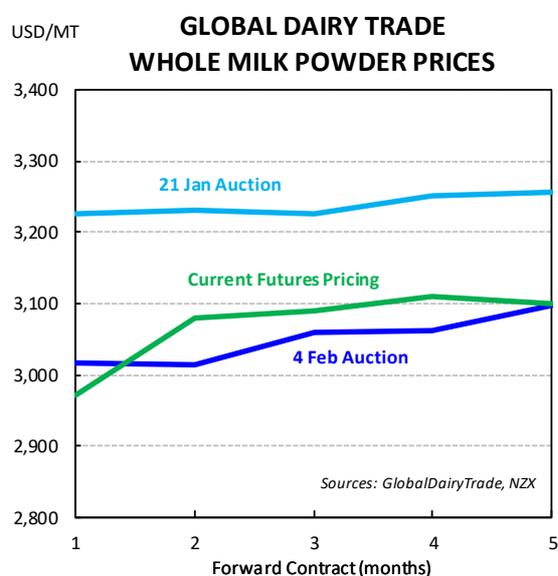
While early days, there were also a few signs that the fallout could prove short-lived. Indeed, Chinese buyers were still active at similar levels to recent auctions. Meanwhile, prices for later-dated contracts were higher than for shorter-dated ones and three auction product prices actually rose.

Meanwhile, the timing of virus outbreak is compounding its impact on the meat sector. Specifically, February coincides with a seasonal peak in slaughter levels, further compounded by very dry weather in some parts of the country. However, many meat works are not prepared to accommodate these extra volumes due in part to uncertainty around Chinese customers' buying plans and an inability to source cool storage.

The impact is also mixed, depending on meat type. Lamb prices are holding up relatively well as meat companies switch market focus to the US, UK and the EU. Similarly, attention for beef exports has switched to the US (manufacturing) market, which is still performing relatively well. The smaller mutton market is under the most pressure, with around three-quarters of exports going to China.

With the above in mind, there is also a sense that the meat sector is 'playing for time'. Chinese buyers are likely to return to market before long as Chinese consumers ultimately still need to eat. Generally, we agree with this sentiment. However, this expectation is not without risk for both meat companies and producers.

Forestry prices are feeling the pressure. Benchmark log prices are anecdotally down by around 12%. And while lower shipping costs and a weaker NZ dollar are helping, the magnitude of the log price fall has been enough for logging to grind to a halt completely in some regions.



Week ending 31 January

The ASB Commodity Price Index slid nearly 2% last week in USD terms. However, a weaker NZD/USD helped offset the fall.

All the major Index components recorded falls in USD terms last week. Meat prices continued to slump, falling 3.8%.

Forestry and fruit prices both fell over 2%. Dairy prices fell 0.6% last week, but this fall has been superseded by the circa 5% fall at this week's dairy auction (see above text).

Meanwhile, the NZD/USD dipped over 2% last week on Corona virus concerns. **As at the time of writing, NZD/USD was trading at US\$0.6450.**

ASB New Zealand Commodity Price Indices As at Friday 31st January 2020

	Index*	Week%	Year%**
Total NZD	109.5	0.3%	8.2%
Total SDR	101.0	-2.1%	2.7%
Total USD	100.4	-1.9%	1.4%
Dairy USD	104.9	-0.6%	11.8%
Sheep/beef USD	95.8	-3.8%	-3.6%
Forestry USD	90.7	-2.2%	-14.0%
Fruit USD	109.0	-2.2%	3.0%
NZD/USD	0.6464	-2.2%	-6.3%

* For all indices 2014 average = 100

** Percentage change since same week last year

ASB Economics & Research

Chief Economist
Senior Rural Economist
Senior Economist
Senior Economist
Senior Economist, Wealth
Senior Economist
Data & Publication Manager

Nick Tuffley
Nathan Penny
Jane Turner
Mark Smith
Chris Tennent-Brown
Mike Jones
Judith Pinto

nick.tuffley@asb.co.nz
nathan.penny@asb.co.nz
jane.turner@asb.co.nz
mark.smith4@asb.co.nz
chris.tennent-brown@asb.co.nz
mike.jones@asb.co.nz
judith.pinto@asb.co.nz

Phone

(649) 301 5659
(649) 448 8778
(649) 301 5853
(649) 301 5657
(649) 301 5915
(649) 301 5661
(649) 301 5660

www.asb.co.nz/economics

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