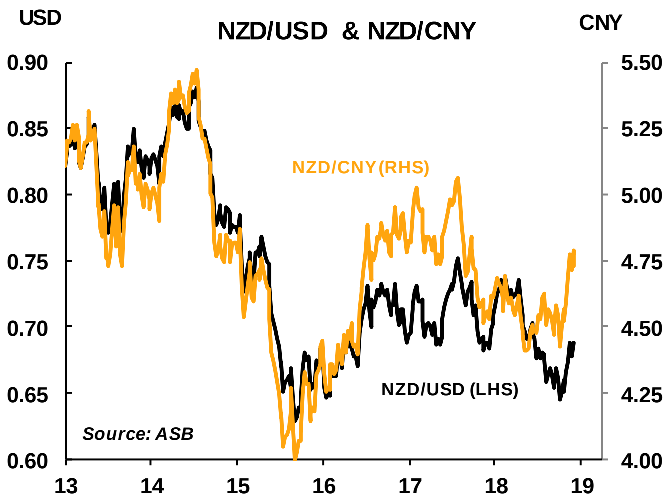
Commodities Weekly

For the week ending Friday 30th November

US and China call trade war truce, but will it hold?

US tariff increase, scheduled for 1 January, put on hold

The US and China agreed to a trade war truce at the G20 meeting over the weekend of the 1st and 2nd December. The truce, with a promise to halt the imposition of new tariffs, is for 90 days, and means the US will leave existing tariffs on $200 billion of Chinese goods at 10% and refrain from raising that rate to 25% as planned on 1 January.



In exchange, **it was initially reported that China has agreed to buy agricultural, industrial and energy goods from the US**. The delay in the increase in tariffs is subject to the outcome of 90 days of talks on intellectual property, cyber security and other sensitive issues.

However, in the days following the original announcement it has become unclear what has actually been agreed. For example, Chinese official statements have only mentioned that China will import more US goods, with no mention of buying agricultural or other goods specifically. Also, Chinese statements have made no mention of intellectual property or cyber security issues.

Further clouding the agreement is the arrest in Canada of Huawei executive, Meng Wanzhou. The exact charges remain unknown, but the US has been probing Huawei over possible violation of sanctions against Iran. If this is the case, Meng could face extradition to the US. Meanwhile, China has demanded her release and has said that her detention is possibly a (human) rights abuse.

With this in mind, **the initial positive market reaction to the trade war truce has faded**. For example, the NZD surged on Monday against the USD by around a cent to US$0.6970. But since then and with the details of the truce coming into question, the NZD has effectively given back all those gains. As at the time of writing, the NZD was trading at US$0.6880.

Similarly, **we initially viewed the agreement as positive for the NZ export sector and NZ commodity prices**. However, the more recent developments call this view into question. As a result and for now, we go back to our original view that the US-China remains a risk to the NZ export and commodity price outlook. In other words, it's very much a case of continue to watch this space!

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Week ending 30 November

The ASB New Zealand Commodity Price Index fell 0.7% in NZD terms in the week ending 30 November. However, the strengthening NZD accounted for all of the fall, with the Index posting a 0.8% lift in USD terms.

All of the major commodities posted gains in USD terms, with the exception of dairy prices. Forestry and fruit prices both rose 1.5%, while sheep/beef prices increased 1.3%. Meanwhile, dairy prices were effectively unchanged over the week (down 0.1%).

Last week, the NZD/USD jumped higher as the US Federal Reserve suggested interest rate hikes could be slower and fewer than previously indicated. As at the time of writing, **the NZD/USD is trading at a similar level (0.6880) to a week ago.**

ASB New Zealand Commodity Price Indices

As at Friday 30th November 2018

	Index*	Week %	Year %**
Total NZD	105.8	-0.7%	-4.0%
Total SDR	96.4	0.9%	-1.3%
Total USD	87.5	0.8%	-4.0%
Dairy USD	74.9	-0.1%	-13.1%
Sheep/beef USD	95.7	1.3%	1.5%
Forestry USD	103.5	1.5%	5.0%
Fruit USD	101.0	1.5%	1.6%
NZD/USD	0.6882	1.5%	0.0%

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

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