

Commodities Weekly

For the week ending Friday 1st February



Are record forestry prices too good to be true?

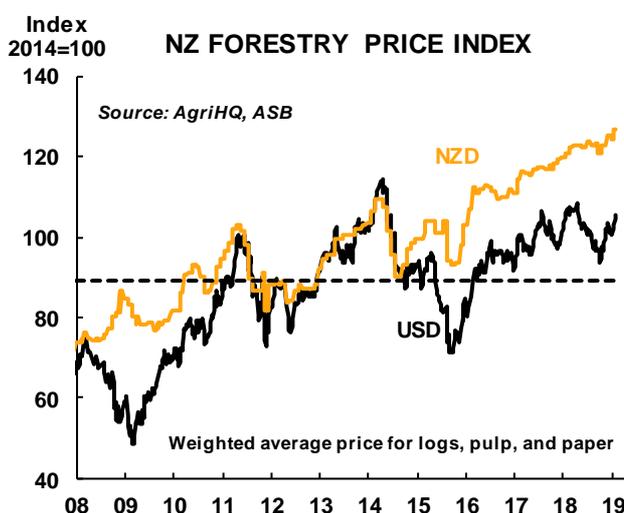
World log imports are falling, suggesting that the good times won't last

2018 was a fantastic year for forestry exports. Export receipts jumped \$684 million from 2017.

Moreover, forestry prices have started 2019 where they left off. Indeed, the Forestry Index has been at a record high in NZD terms since mid-January. But will prices continue at this level over 2019?

In this sense, we are doubtful. Global demand for logs is actually falling, with log import volumes dipping around 2% in three months to November compared to the same three months a year ago. In fact, the main reason NZ prices are strong is that NZ log exporters have grabbed significant share off the other major log exporters. For example over the same period, NZ's market share increased 4 percentage points to 42%. In contrast, the US and Canada's share has fallen 5 percentage points to 15%.

Looking ahead, **we anticipate that global log demand will fall further.** World economic growth is slowing, particularly in China. Recall that China is the world's largest importer of logs and NZ's largest market by a long shot. In other words, unless NZ can continue to grab market share from other exporters, NZ is unlikely to be immune from falling demand for a second successive year.



Week ending 1 February

The ASB Commodity Price Index lifted in USD terms in the week ending 1 February. However, a 0.9% jump in the NZD/USD more than offset the gain, so that the Index dipped 0.2% in NZD terms.

By component, the Index lift in USD terms was broad-based. Dairy, forestry and fruit prices all posted gains of around 1.0%, while sheep/beef prices gained 0.5%.

The NZD/USD strengthened this week. However, following a rise in the NZ unemployment rate this week, the NZD/USD has slipped, **trading at US\$0.6750 at the time of writing.**

ASB New Zealand Commodity Price Indices As at Friday 1st February 2019

| | Index* | Week % | Year %** |
|----------------|--------|--------|----------|
| Total NZD | 108.7 | -0.2% | 3.2% |
| Total SDR | 98.0 | 0.5% | 0.8% |
| Total USD | 90.1 | 0.7% | -3.2% |
| Dairy USD | 83.5 | 1.0% | -3.0% |
| Sheep/beef USD | 89.4 | 0.5% | -5.0% |
| Forestry USD | 105.3 | 0.9% | -1.4% |
| Fruit USD | 99.4 | 0.9% | 2.5% |
| NZD/USD | 0.6898 | 0.9% | -6.2% |

* For all indices 2014 average = 100

** Percentage change since same week last year

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