

# Commodities Weekly

For the week ending Friday 4<sup>th</sup> October



## NZD looking comfortable in a lower range

### Our thoughts on the recent NZD dip, and the outlook for year ahead

At the time of writing the NZD has ground its way back above 0.6300 vis-a-vis the USD, but over early October the pair traded down towards 0.6200, reaching the lowest level in over four years. The last time the NZD/USD exchange rate spent any length of time sub 0.6200 was over ten years ago, during the global financial crisis, Back then the NZD spent a brief period below 0.5000, and reached a low of 0.4895.

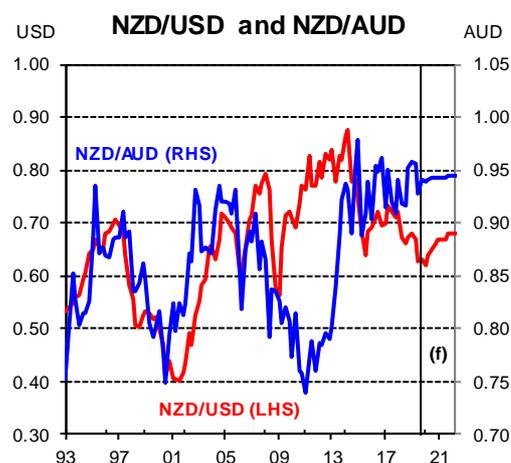
NZD vs.	Today	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
USD	0.6305	0.63	0.62	0.64	0.65	0.66
JPY	67.49	66.15	63.86	66.56	68.25	69.30
AUD	0.9366	0.94	0.94	0.94	0.94	0.94
EUR	0.5753	0.57	0.57	0.58	0.58	0.58
GBP	0.5161	0.53	0.53	0.53	0.53	0.54

We don't think the NZD will get anywhere near those lows in the foreseeable future, but we have lowered our outlook for the local currency recently (on 21/08/19). ASB/CBA's latest forecasts are tabled opposite.

Essentially the NZD has spent the majority of the last 4-5 years trading between 0.6500 and 0.7500 against the USD, and has now clearly broken out of the bottom of that range.

On a trade weighted (TWI) basis, the NZD TWI is down circa 5% on its average level over the past 5 years, and around 15% off the peak recorded back in 2015. This lower currency is desirable from the RBNZ's perspective, and should be music to the collective ears of the export sector.

However, it's not all beer and skittles. Australia is clearly an important trading partner with New Zealand, and both countries compete with each other in global market to sell products including red meat and wine. The NZD/AUD cross rate, at its current level just below 0.9400, can't be described as low. But it is down circa-6 cents from its peak, and is pretty much bang on the average level of the past 5 years. This cross rate can wax and wane on interest rate expectations for each country. Our forecasts include both the RBNZ and RBA cutting their respective cash rates to 0.5% over the coming months. Related to this, we expect NZD/AUD to trade in a range centred on its current level over the year ahead.



The latest commodity price index is on the following page.

## ASB New Zealand Commodity Price Indices As at Friday 4<sup>th</sup> October 2019

### Week ending 4<sup>th</sup> October

The ASB Commodity Price Index rose in all denominations last week. The Index rose 0.5% in NZD terms as the NZD/USD strengthened 0.3%. In USD terms the Index posted a stronger 0.9% lift.

Dairy prices rose 1.4%, more than reversing the preceding week's 1.2% decline. Sheep/beef prices rose 0.7%, building on the previous week's gains.

The Forestry and Fruit indices' moves were a function of the NZD change last week.

	Index*	Week %	Year %**
Total NZD	109.1	0.5%	5.0%
Total SDR	99.2	0.7%	2.3%
Total USD	97.8	0.9%	0.2%
Dairy USD	98.4	1.4%	8.8%
Sheep/beef USD	106.1	0.7%	-1.7%
Forestry USD	85.4	0.3%	-11.3%
Fruit USD	93.9	0.3%	-7.6%
NZD/USD	0.6318	0.3%	-4.5%

\* For all indices 2017 average = 100

\*\* Percentage change since same week last year

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