

Commodities Weekly

For the week ending Friday 5th March



On a tear

ASB Commodities Index nudging record highs, underpinned by dairy gains

Last week saw huge gains for the ASB Commodities Index, underpinned by a mammoth dairy auction. The underlying USD dairy indices lifted a whopping 12.9% over the week, powering the overall index to a 4.8% gain. The NZD indices rose 6.8%, helped along by a downward drift in the NZD/USD.

NZD prices in our index are now nearing their highest level since it began. Price gains over the past recent weeks have been so substantial that our NZD index is only about 1% below its previous high eighteen months ago.

Higher underlying dairy prices are driving the gains. Following last week's auction, our dairy index – which makes up around 45% of our overall index on its own – is now sitting at a seven-year high in NZD terms. Fruit prices make up a comparatively small portion of our index but are similarly helping things along nicely at record highs.

There is still an awful lot of variation among the other commodities in our indices. Despite the global vaccine rollout and the prospect of further easing in restrictions in the months ahead, commodities exposed to the hospitality sector continue to lag. Underlying USD meat prices have risen above where they were when the COVID shock first hit, but not by all that much, and the higher NZD/USD has crimped NZD returns.

We expect our index to remain high over the medium term.

Whilst some moderation in dairy prices after last week's auction is a possibility, genuine demand and supply factors have underpinned broader gains and a sharp correction is unlikely. Similarly, we expect meat prices to lift off their recent lows over the course of the year as overseas demand picks up.

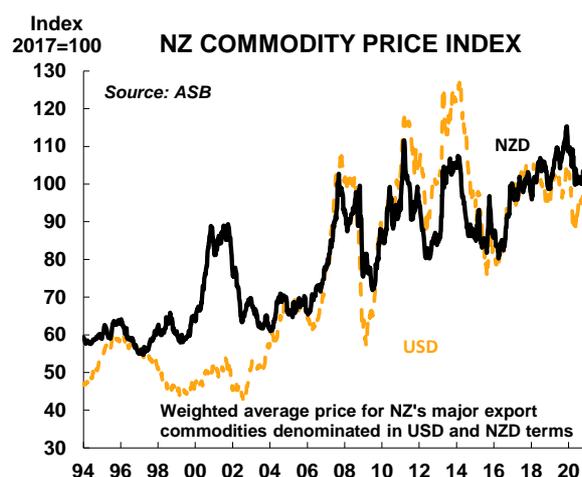
Given the sharp lift in commodity prices, further strength in the NZD is likely too. Our friends at CBA have revised up their forecast for the NZD/USD and now see it tending towards 0.7400 by the end of Q3.

ASB New Zealand Commodity Price Indices
As at Friday 5th March 2021

	Index*	Week %	Year %**
Total NZD	114.2	6.8%	9.1%
Total SDR	112.4	5.8%	19.6%
Total USD	115.6	4.8%	22.5%
Dairy USD	130.4	12.9%	30.1%
Sheep/beef USD	92.5	-2.7%	8.9%
Forestry USD	105.4	-1.9%	28.7%
Fruit USD	133.0	-1.9%	20.1%
NZD/USD	0.7141	-1.9%	12.3%

* For all indices 2017 average = 100

** Percentage change since same week last



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