

Commodities Weekly

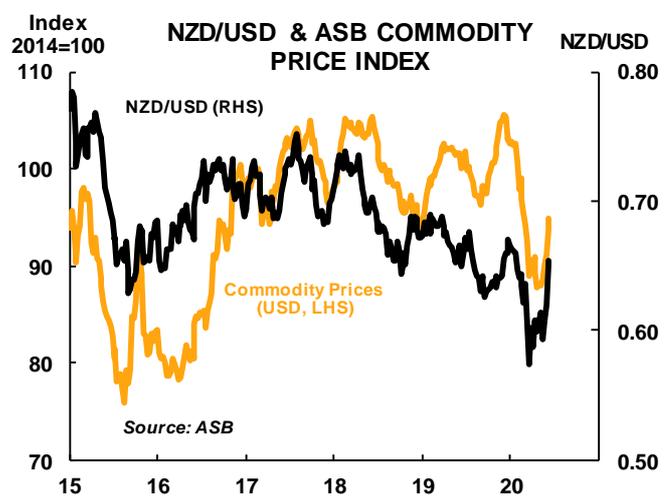
For the week ending Friday 5th June



NZD headwind picks up for exporters

The NZD has lifted 10c from the late March lows against the USD, offsetting the commodity price recovery. That’s what a free-floating exchange rate should do: buffer the price falls – as it did – and lift as prices regather.

We could debate for hours whether we are at the end of the beginning or the beginning of the end when it comes to dealing with COVID-19. In New Zealand, with no cases and a move to alert level 1, this week there is a feeling like it’s the beginning of the end. But looking at the case numbers in Brazil, Russia or even California, it feels like there’s a long way to go.



Commodity prices have lifted over recent weeks as sentiment regarding global growth improves. A notable recovery has been in oil prices, which have surged massively over April and May. At one stage a specific US oil futures contract was negative, implying someone would pay you to take oil, as storage for unused oil filled to capacity. Despite the subsequent price surge, at around US \$40-50 per barrel, prices are still low compared the peaks over the last 15 years.

New Zealand’s key commodity price movements haven’t been as dramatic as oil’s, but similarly, prices have risen off their lows as confidence in global growth prospects have improved. But while key NZ commodity prices are off their lows, sub-components of dairy, meat, and forestry are all down on year-ago levels in both USD and NZD terms. The NZD itself is basically flat on year-ago levels, trading in the mid-60s.

Focussing on FX, the USD lifted strongly against all the major in the early stages of the coronavirus crisis, and the weeks of late March through to late April were the low points for our commodity price indices and NZD/USD. The experience of 2010-2011 shows the USD can fall once a crisis is believed to be in the rear vision mirror. Similarly, we expect the USD to track lower this year against most currencies including the NZD if confidence that the worst of the global pandemic is behind us continues.

We think the NZD/USD is around estimates of its current “fair value” level. Over the long run we see the ‘equilibrium’ level for the NZD as being around USD0.70. The NZD tends to move in line with commodity prices and global economic fortunes. As global growth recovers over this year and next, we think the NZD can trade back towards 0.7000 against the USD.

Commodity index for the week ending 5th June 2020

The ASB Commodity Price Index lifted in USD terms last week, but the gains in the underlying commodity price indices couldn't offset the firmer NZD. The Index posted a gain of 3.6% in USD terms, while the 5% NZD lift from under \$0.6200 to over \$0.65 vis-à-vis the USD meant that the total NZD index was down 1.4%.

Sheep/beef prices led the gains in USD terms again, although the week's big 6.4% move was largely a function of the currency shift. Dairy prices were up 1.2% within the index, while the USD denominated forestry and fruit movements are a function of the NZD change as the underlying NZD prices have not changed.

In sum, the NZD resurgence continues to be a big part of the current picture for exporters. As confidence about the global outlook returns, commodity prices are recovering, and currencies like the NZD and AUD are lifting against the USD.

ASB New Zealand Commodity Price Indices As at Friday 5th June 2020

	Index*	Week %	Year %**
Total NZD	102.5	-1.4%	-4.7%
Total SDR	95.0	3.5%	-6.6%
Total USD	94.5	3.6%	-7.0%
Dairy USD	91.8	1.2%	-10.4%
Sheep/beef USD	86.9	6.4%	-12.3%
Forestry USD	99.1	5.0%	-1.4%
Fruit USD	110.1	5.0%	4.3%
NZD/USD	0.6505	5.0%	-2.4%

* For all indices 2017 average = 100

** Percentage change since same week last year

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