

Commodities Weekly

For the week ending Friday 7th August



Covid-19 continues to influence markets

The ASB Commodity Price Index eased again last week, led by sizeable falls for dairy, and more modest movements by the other major commodities in the index. The NZD/USD has backed away from its recent 0.6700 peak, and the 0.6% decline last week tempered the fall in NZD terms.

The ASB index posted a 1.1% dip in USD terms last week. USD denominated dairy prices registered a 2.5% fall, with more modest falls in USD denominated forestry and fruit prices. The USD sheep/beef index gained 0.2%, with beef and lamb prices both rose modestly in NZD terms last week (+1.5% and 0.4% respectively). As the chart suggests, NZD-denominated meat prices have made gains of late and are roughly 40% higher than a decade ago.

Covid-19 related influences are expected to impact meat supply and demand. In Victoria, meat processors are reducing their workforces significantly to comply with the State's stage 4 lockdown restrictions. That will impact processing capacity by a third for at least six weeks. In turn, this will impact the supply of Australian meat exports, but also could lead to a glut down the track. Demand is also being impacted by ongoing restrictions in activity in key offshore markets. The UK government's "eat out to help out" scheme led to a surge in activity in High Streets last week, and will be keenly monitored, as will the developments in Europe as economies reopen restaurants. Meanwhile in the US, domestic wholesale beef prices remain around three-year lows. That's despite some demand and price support over recent weeks as US consumers head into their labour weekend holidays in early September, at the tail end of the grilling season. Within the ASB index, prices have lifted off recent lows, but NZD beef prices are down 7% and lamb prices are down 12% on a year ago.

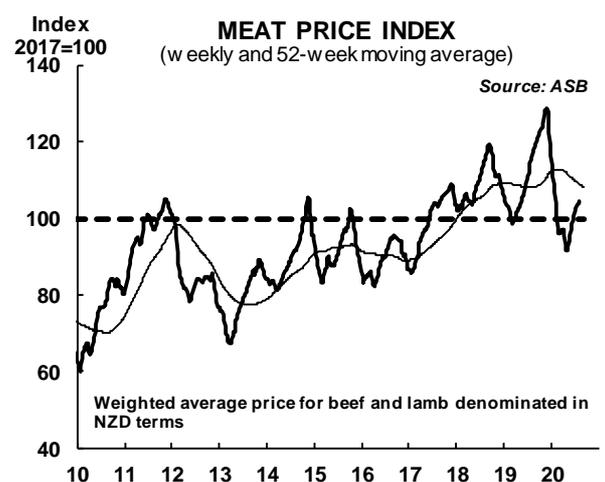
USD Dairy prices within the index eased 2.5% last week, led by a 4.5% decline in whole milk powder (WMP) prices. A feature of the futures market and last week's GDT auction has been the weakness in future price signals. Granted, the gap between WMP futures prices and WMP auction prices has closed a bit, and the downward slope of GDT contract prices is not as steep as it was a few auctions ago. But both still provide a negative signal about future demand. Local supply side conditions have been good for grass growth and calving over recent weeks, with warmer than usual temperatures recorded. Those favourable conditions have been seen first-hand by the author in the North Island. The lush grass growth in the garden is requiring far more regular mowing than usual for August, but on a more serious note excellent grass growth has been seen on field trips to the Waikato over recent weeks.

ASB New Zealand Commodity Price Indices As at Friday 7th August 2020

	Index*	Week %	Year %**
Total NZD	101.2	-0.5%	-4.6%
Total SDR	93.5	-1.2%	-4.8%
Total USD	95.0	-1.1%	-2.3%
Dairy USD	95.3	-2.5%	-2.4%
Sheep/beef USD	95.0	0.2%	-8.6%
Forestry USD	87.1	-0.6%	1.5%
Fruit USD	103.4	-0.6%	7.8%
NZD/USD	0.6619	-0.6%	2.3%

* For all indices 2017 average = 100

** Percentage change since same week last year



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