

Commodities Weekly

For the week ending Friday 6th August



A perfect storm?

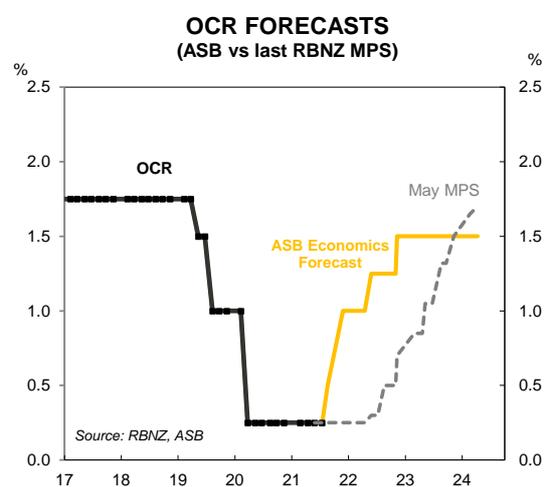
Next week's RBNZ meeting looks set to be a big moment for the NZ economy. Over recent weeks, we've seen yet more evidence the economy is running hot, with inflation and labour market data continuing to surprise on the upside (culminating in last week's strong employment data). With the RBNZ close to meeting its policy targets (if it hasn't already done so), we expect the Bank to start withdrawing stimulus with a 0.25% OCR hike next week.

We now expect the OCR to lift relatively quickly back to 1% by the end of the year. We think the uptick in inflation is such that the RBNZ will see a lot of merit in acting swiftly – we wouldn't rule out a 0.50% hike come Wednesday. The upshot here is that NZ interest rates look set to rise more swiftly – and potentially by a greater magnitude. Its particularly notable given most other major central banks are still some way off tightening.

The prospect of higher interest rates sooner also adds a bit of uncertainty to the outlook for the NZD/USD. The theme over the past few months has been 'USD strength,' with the outsized strength of the American economy supporting the greenback and crimping NZD/USD by extension. But the increasing likelihood NZ interest rates will outpace those offshore – which would make the NZD more attractive – throws a spanner in the works.

Prices for some commodities are starting to ease off their highs, and there's a risk that trend could combine with a higher kiwi to crimp returns at the farmgate. Up until recently farmers have been in a sweet spot, with global commodity prices hitting multi-year highs, but NZD/USD far lower than it's been during previous commodity booms (usually around the 0.6900-0.7200 mark instead of north of 0.8000), supporting farmgate returns. However, prices for many commodities have begun to ease over recent weeks – with soybeans, oil and some metals experiencing substantial losses over July.

While none of these are big components of the NZ export mix, commodity prices tend to move in tandem, and the easing could be a harbinger of broader trends. From a NZ perspective, we've seen dairy prices move lower faster than we anticipated as global production has ramped up and Chinese imports have lost momentum. There's now the possibility the so-called 'sweet spot' partly reverse itself, with farmers hit by both a higher NZD and softer underlying prices as the year wears on. For the most part, the major commodities that NZ exports remain close to multi-year highs, and we maintain our core view that 2021 should remain a strong year for farmgate returns. But the risk is there, and if there's one thing we've learned from COVID, it's that sometimes risks materialise.



ASB Commodities Index

Moves last week in the ASB Commodities Index were modest.

Our USD index was broadly unchanged at +0.1%, with the continued easing in dairy prices, offset by the ongoing seasonal recovery in meat prices. The kiwi rose over the course of the week off the back some strong labour market data, taking our NZD index a modest 0.4% lower. All-up, our NZD index remains close to record highs.

Despite the relatively modest headline moves, last week did see one commodity reach a milestone – NZD lamb prices hit an all-time high, north of the \$9 mark.

ASB New Zealand Commodity Price Indices As at Friday 6th August 2021

	Index*	Week %	Year %**
Total NZD	116.8	-0.4%	15.9%
Total SDR	113.0	0.3%	21.7%
Total USD	116.0	0.1%	22.8%
Dairy USD	117.7	-0.8%	23.5%
Sheep/beef USD	121.3	1.3%	27.7%
Forestry USD	110.0	0.4%	26.2%
Fruit USD	101.2	0.4%	4.4%
NZD/USD	0.7012	0.4%	5.9%

* For all indices 2017 average = 100

** Percentage change since same week last

ASB Economics & Research

Chief Economist
Senior Economist
Senior Economist
Senior Economist, Wealth
Senior Economist
Economist
Data & Publication Manager
www.asb.co.nz/economics

Nick Tuffley
Jane Turner
Mark Smith
Chris Tennent-Brown
Mike Jones
Nat Keall
Judith Pinto

nick.tuffley@asb.co.nz
jane.turner@asb.co.nz
mark.smith4@asb.co.nz
chris.tennent-brown@asb.co.nz
mike.jones@asb.co.nz
nathaniel.keall@asb.co.nz
judith.pinto@asb.co.nz

Phone

(649) 301 5659
(649) 301 5853
(649) 301 5657
(649) 301 5915
(649) 301 5661
(649) 301 5720
(649) 301 5660

[@ASBMarkets](https://twitter.com/ASBMarkets)

Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.