

Commodities Weekly

For the week ending Friday 6th November

Brexit beckons

Uncertainty hangs over beef and lamb as Brexit talks hit crunch time

Whilst the Donald Trump show hasn't been renewed for a second season, the Brexit show hasn't quite finished. Whilst the UK formally left the European Union back at the end of January, it remains part of the European Single Market and customs area until the 31st of December under the terms of the Brexit withdrawal agreement. With that deadline now looming, the pressure is on for the two to reach a deal that will govern the future trading relationship.

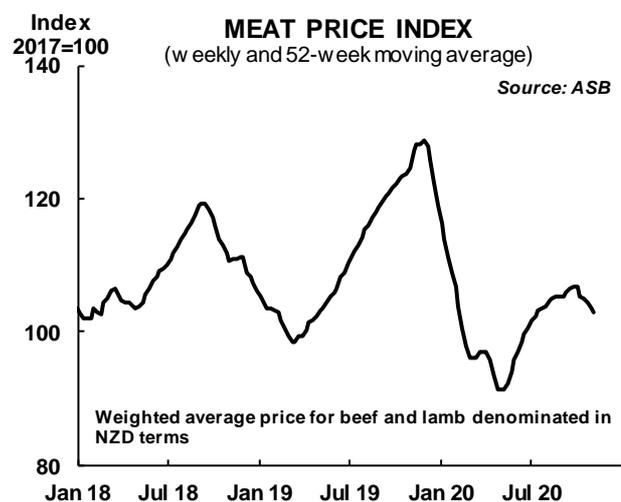
Right now, it's not clear how likely a deal between the two sides is. The UK Prime Minister Boris Johnson insisted over the weekend that the "outlines" of an agreement were there, but significant differences are believed to remain on issues like subsidies, regulatory standards and fisheries access. A prominent UK cabinet minister pegged the odds of a deal at "about 66%" when asked (in-line with estimates from betting markets), but analysts surveyed by the British newspaper [The Independent](#) were split, with answers ranging from 70% to under half.

The talks matters for NZ because Britain is still a key export market for many commodities, particularly beef and lamb. From 1 January 2021 (the end of the Brexit transition period), New Zealand exporters will still have access to the 'Country Specific Tariff Quotas' (CSTQs) for the UK, which incurs zero duty for sheep meat, and a 20% ad valorem duty for beef. Still, with a no-deal Brexit also [predicted](#) to cause chaos at UK ports, there is the risk that kiwi exports could be hit by lengthy delays at the border.

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The inflection point comes at a time when beef and lamb producers have been hit hard by the second and third waves of COVID overseas. Whilst prices have lifted off the lows of earlier in the year, both commodities have struggled to maintain momentum. As at the time of writing, renewed COVID outbreaks in Europe and North America are already shutting restaurants overseas and crimping demand.

Still Brexit isn't the only thing going on in global meat markets, and other events might stop prices from falling to low. Global protein supplies are being hit hard by the ongoing African Swine Fever outbreak which has weakened pork production, as has heavy flooding in China a bit earlier in the year. According to our friends at AgriHQ, there are also signs of a beef shortage out of Australia that might provide a bit of upside for kiwi producers, though its early days.



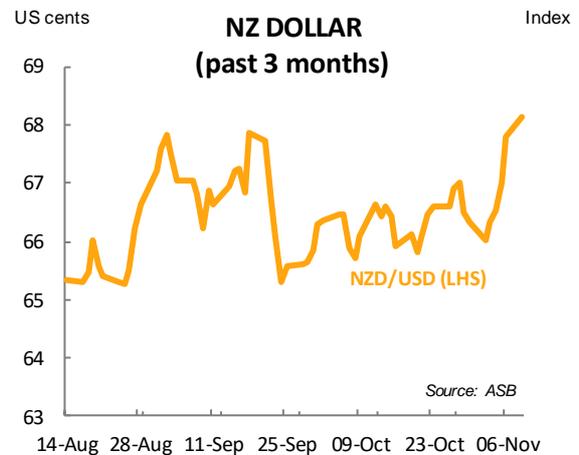
Behold the Biden Bounce

Over the past week, the NZD has lifted sharply in the aftermath of the US presidential election. After crashing to around 0.662 against the USD on election eve, the NZD managed a sizable rebound to finish the week at 0.677.

The NZD is being supported by a wave of optimistic risk sentiment in the aftermath of the election result. Markets were broadly cheered by the result, as shown by the big lifts in sharemarkets. Many expect a bit more stability, a greater focus on stimulus and an easing in trade tensions in the aftermath of Joe Biden’s victory in the race for the presidency, but with split control of congress, big tax rises or regulatory changes are probably off the agenda.

Consequently, we’ve seen the ‘safe-haven’ currencies like the USD and JPY recede, and, conversely the kiwi has advanced – enjoying a Biden bounce of its own.

With the election out of the way and risk aversion falling, our fair value estimate of the NZD/USD has moved into a higher range. Indeed, already we’ve seen the NZD/USD lift further this week off the back of some positive COVID vaccine news from the drug company Pfizer (it is trading at 0.682 as at the time of writing). That’s not to say there aren’t other events on the horizon that could buffet the NZD about a bit week-to-week, and with COVID cases rising in many parts of the world, we should be mindful that sentiment can deteriorate as well as improve.



ASB Commodities Index

The ASB Commodities index fell in NZD terms last week, amid strong gains for the kiwi over the course of the week.

The USD index lifted slightly by about 0.5%, and the SDR index fell a shade by 0.4%. However, the big story of the week was the strength of the NZD, which advanced by 2.4% as market sentiment turned markedly optimistic in the aftermath of the US presidential election (as we’ve discussed above). Overall, the NZD index receded by about 2.1%.

Both the NZD and USD dairy indices fell off the back of the softening in last week’s GDT. The USD dairy index fell 2%, while the currency effect meant that the NZD dairy index was down a larger 4.5%.

ASB New Zealand Commodity Price Indices As at Friday 6th November 2020

	Index*	Week %	Year %**
Total NZD	100.7	-2.1%	-11.7%
Total SDR	94.4	-0.4%	-8.6%
Total USD	96.9	0.5%	-5.3%
Dairy USD	96.4	-2.0%	-6.0%
Sheep/beef USD	96.5	2.2%	-12.7%
Forestry USD	93.3	2.6%	7.1%
Fruit USD	101.7	2.6%	-6.1%
NZD/USD	0.6784	2.6%	7.2%

* For all indices 2017 average = 100

** Percentage change since same week last year

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