

Commodities Weekly

For the week ending Friday 9th February



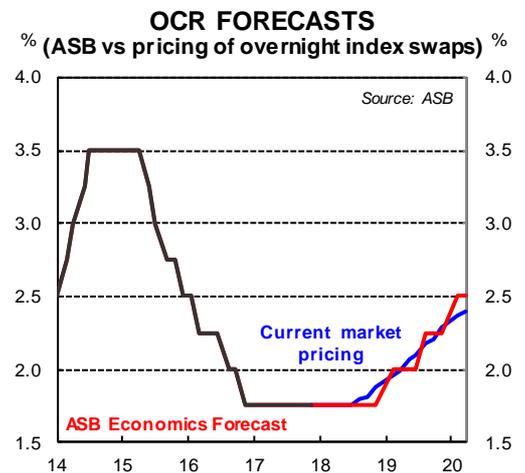
RBNZ on hold, but leaves door ajar to cuts

Official Cash Rate kept at 1.75%

Last week, the Reserve Bank (RBNZ) kept the Official Cash Rate (OCR) on hold at 1.75% as expected. Moreover, its Monetary Policy Statement contained little change from the last statement back in November.

The RBNZ's forecasts showed less inflation over 2018 and 2019, but the Bank still expects inflation to reach the mid-point of the target band as in previous forecasts. With this in mind, the statement reinforced risks that the OCR lifts later than our long-held view of February 2019.

In the press conference following the Statement, Assistant Governor, John McDermott, also raised the possibility of the next OCR move being a cut. He also noted that the RBNZ was comfortable with the level of the [NZD], and that core inflation still "needs a little shove to get it towards the midpoint of the target range."



NZD falls following the RBNZ announcement

These comments compounded the weak NZD sentiment following the OCR announcement. The NZD ended the day at around US\$0.7180, as opposed to US\$0.7260 prior to the announcement. Over the rest of the week, the NZD recovered some lost ground. Nonetheless, the NZD ended the week down 0.8% against the USD. The NZD has held this level so far this week; as at the time of writing, the NZD is trading at US\$0.7250.

Week ending 9 February

Dairy prices led the ASB Commodity Price Index higher in the week ending 9 February. The dairy price lift follows a similarly strong dairy auction last week. As in the auction butter prices (up 6.6% in USD terms) showed the largest rise. Whole and skim milk powder prices also posted solid gains.

Meanwhile, sheep/beef prices declined, with lamb prices dipping 2.3% in USD terms. In contrast, wool prices lifted 2.9%, so that overall sheep/beef prices fell 1.2% in USD terms. Lastly, forestry and fruit prices fell 0.8% in USD terms over the week.

ASB New Zealand Commodity Price Indices As at Friday 9th February 2018

	Index*	Week %	Year %**
Total NZD	107.9	1.3%	5.5%
Total SDR	98.9	1.2%	-1.4%
Total USD	93.9	0.6%	4.5%
Dairy USD	90.5	3.4%	-0.9%
Sheep/beef USD	93.8	-1.2%	15.1%
Forestry USD	105.3	-0.8%	4.8%
Fruit USD	94.6	-0.8%	-4.2%
NZD/USD	0.7246	-0.8%	-0.9%

* For all indices 2014 average = 100

** Percentage change since same week last year

ASB Economics & Research

Chief Economist
Senior Rural Economist
Senior Economist
Senior Economist
Senior Economist, Wealth
Economist
Data & Publication Manager

Nick Tuffley
Nathan Penny
Jane Turner
Mark Smith
Chris Tennent-Brown
Kim Mundy
Judith Pinto

nick.tuffley@asb.co.nz
nathan.penny@asb.co.nz
jane.turner@asb.co.nz
mark.smith4@asb.co.nz
chris.tennent-brown@asb.co.nz
kim.mundy@asb.co.nz
judith.pinto@asb.co.nz

Phone

(649) 301 5659
(649) 448 8778
(649) 301 5853
(649) 301 5657
(649) 301 5915
(649) 301 5661
(649) 301 5660

www.asb.co.nz/economics

 [@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.