

Commodities Weekly

For the week ending Friday 7th May



Unintended consequences

Trade distortions and logistics disruption prove a potent combination for log prices

As we've noted in [previous updates](#), prices for forestry products have risen over 2021 thus far. AgriHQ's forestry index (a weighted combination of logs, pulp and paper) is up around 5% since the beginning of the year. Excluding last year's brief lockdown-driven squeeze, raw log prices – the largest component of NZ's forestry exports – were at their highest level since 2019 in the March trade data.

In the weeks since our last update, shipping pressures around the world have continued to intensify. Shipping throughput indices are at record highs and show little sign of receding, keeping capacity under pressure. According to AgriHQ reporting, ships are travelling off-schedule, and avoiding NZ in some instances, given our isolation. We still think there's a transitory element to shipping pressures, and expect disruption to ease over time, but the story has further to run yet. Until then, the global supply bottleneck will keep the upward pressure on commodity prices.

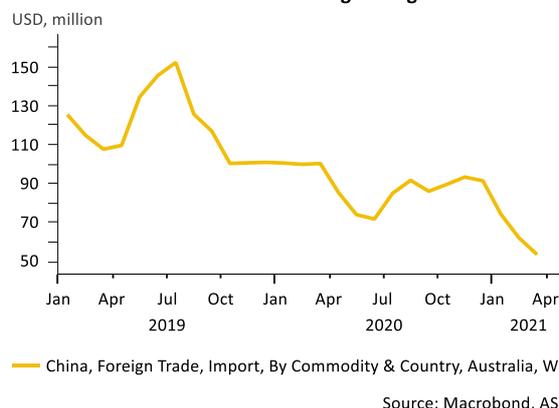
For now, higher prices are offsetting any impact of shipping constraints. March log exports hit the \$389m mark, their second-highest level on record. Log export volumes were down marginally on the usual March figure, but relatively modestly. Still, the situation remains fluid, and we'll be closely watching the April data in two weeks time.

We still expect that trade distortions overseas will drive up demand for NZ logs over 2021 and 2022. The Australia-China stoush has continued to escalate in the weeks since our last update. At the end of April, the Australian federal government vetoed two of the Victorian state government's 'Belt and Road Initiative' agreements with China. China responded by halting all activity under the two country's China-Australia Strategic Economic Dialogue initiative. For now, there remains little sign of an end in sight. As long as the skirmish continues, the absence of Australia's circa 6% share of the log market will continue to keep prices supported and bolster demand for NZ log exports.

World, RWI/ISL Container Throughput Index
Seasonally Adjusted, Jan 2020 = 100



Chinese Imports of Australian Wood and Articles of Wood
Three-month moving average



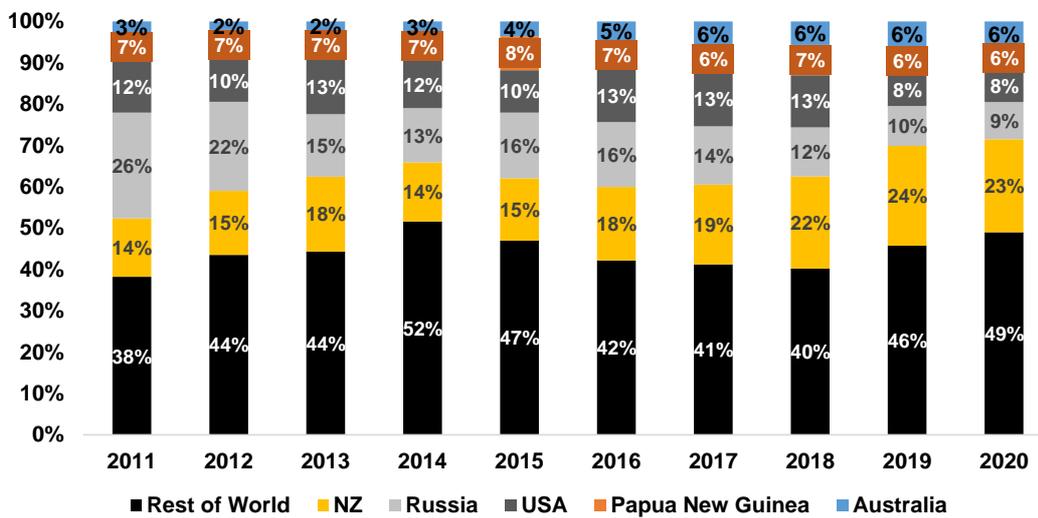
What’s more, after further analysis, we are more confident in our view that a looming ban on Russian log exports will be a boon for New Zealand exporters. The ban is the latest in a long line of measures intended to redirect logs towards domestic processing, following a series of export tariffs. Those measures have helped Russia increase its finished timber exports, but China has only partially offset the absence of Russian logs by purchasing finished timber – log imports have continued to rise, with China merely seeking other exporters.

Consequently, New Zealand has been snapping up a growing share of a growing pie in the log market. It’s a reminder that these sorts of protectionist measures often have far-reaching consequences beyond their intent, and we see little reason why doubling-down on restrictions will have a different effect this time around.

We note recent Chinese investment, consumption and construction data have also proven strong of late. Together, robust demand and will prove a potent combination for log prices over the course of the year.

Composition of Chinese Log Imports (Dec Years, HS 4403)

Source: ASB, UN ComTrade



ASB Commodities Index

It’s been yet another strong week for the ASB Commodities Index. The two big engines of our index – dairy and meat – both enjoyed strong gains over the week, lifting our overall index 2.1% in USD terms. A strong auction result saw the dairy index rise 2.1%, with substantial falls in fat prices offset by continued strength in milk powders (which make up more than half of our dairy index on their own). Our meat index rose an even larger 3.1%, with the pickup in demand overseas continuing to benefit the sector.

With the NZD/USD lifting a modest 1.4% over the week, our NZD index was up by a slightly smaller 0.7%.

ASB New Zealand Commodity Price Indices As at Friday 7th May 2021

	Index*	Week %	Year %**
Total NZD	113.3	0.7%	13.5%
Total SDR	113.0	2.1%	27.4%
Total USD	116.9	2.1%	34.4%
Dairy USD	129.0	2.1%	41.9%
Sheep/beef USD	100.7	3.1%	27.9%
Forestry USD	108.2	1.4%	34.4%
Fruit USD	122.1	1.4%	24.4%
NZD/USD	0.7274	1.4%	18.4%

* 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

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