

# Commodities Weekly

For the week ending Friday 8<sup>th</sup> January



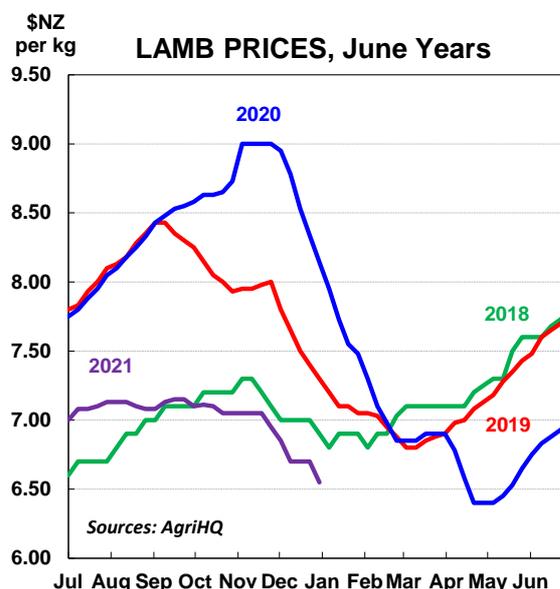
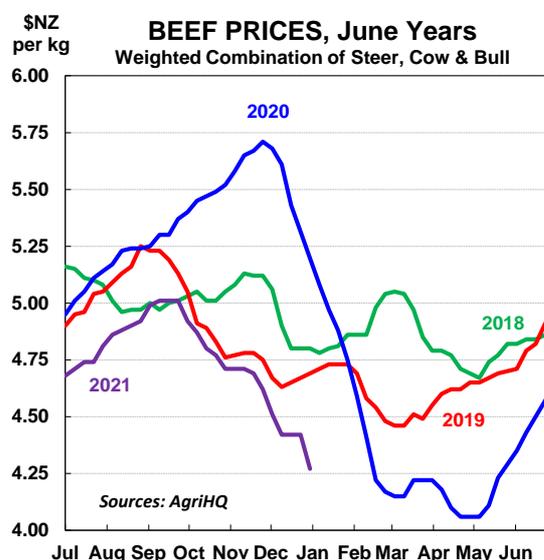
## Beef and lamb start the year on uncertain hoofing Ongoing COVID woes and recovering global protein stocks weigh on the sector

**2021 kicked off on a high note last week with the strong GDT dairy auction result, but it's a more muted start to the year for beef and lamb prices.** In NZD terms, beef prices are down 16% on a year ago, whilst lamb prices are down around 18%. Lamb prices in particular aren't too far above the lows we saw in the immediate post-pandemic churn. By contrast, ASB's dairy indices are only down about 8% in NZD terms (a reflection of the circa 9% NZD lift over the year), and our forestry and fruit indices are actually running ahead of this time last year in NZD terms, and are up strongly in USD terms.

**Two downside factors in particular are weighing on the meat sector:** ongoing COVID woes overseas and tentative signs the world is emerging from the global protein shortage of recent years.

**Beef and lamb prices have been hit particularly hard by the pandemic** given many cuts of meat – particularly for lamb – are consumed in restaurants, hitting demand and limiting the mark-up sellers can charge. Whilst the global vaccine rollout is tentatively underway, restrictions crimping the food service sector remain in place in many parts of the world. Notably, parts of the UK went back into a third national lockdown last week.

**Meat prices look set to lose a key support too as the Chinese pig herd continues to rebuild after being thinned by African Swine Fever (ASF).** The global protein shortage triggered by ASF has been a much-needed price support over recent years, partially offsetting the impact of COVID. At times, ASF has shrunk the Chinese pig herd by as much as 40%, forcing consumers to substitute pork for other types of meat. For now prices remain historically high. However, the latest data shows the pig herd back at 90% of normal levels as of the end of November 2020, suggesting things could start to ease a little as time goes on.



## ASB Commodities Index

The ASB Commodities Index fell 0.9% in NZD terms last week.

Once again, it was a mainly a currency story, with the NZD/USD lifting 0.8% over the week to trade around 0.7241. The NZD/USD actually exceeded the 0.73 mark during the week, reaching highs last seen in April 2018.

In USD terms, the index fell a modest 0.1%. It was a mixed bag for the sub-indices. Notably, the sheep and beef indices fell 1.8% in USD terms and 2.7% in NZD terms. The dairy index tracked sideways despite bumper gains at the latest GDT.

## ASB New Zealand Commodity Price Indices As at Friday 8<sup>th</sup> January 2021

|                | Index* | Week % | Year %** |
|----------------|--------|--------|----------|
| Total NZD      | 99.8   | -0.9%  | -8.6%    |
| Total SDR      | 98.4   | -0.2%  | -4.7%    |
| Total USD      | 102.5  | -0.1%  | -0.2%    |
| Dairy USD      | 101.2  | 0.0%   | -1.7%    |
| Sheep/beef USD | 94.9   | -1.8%  | -9.1%    |
| Forestry USD   | 102.6  | 0.8%   | 9.7%     |
| Fruit USD      | 128.5  | 0.8%   | 12.6%    |
| NZD/USD        | 0.7241 | 0.8%   | 9.2%     |

\* For all indices 2017 average = 100

\*\* Percentage change since same week last

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