

Commodities Weekly

For the week ending Friday 6th September



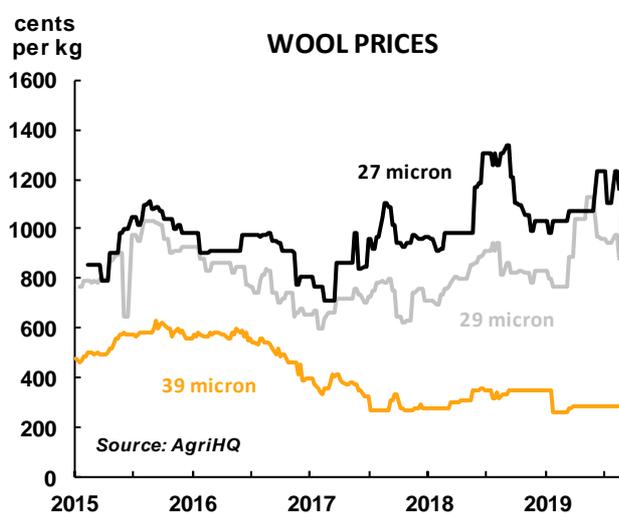
Wool wearing the brunt of trade war

Medium and fine wool prices have dipped on soft apparel markets and US tariffs

In recent publications, we have pointed out that NZ's food exports have been faring relatively well despite the US-China trade war and its impact on the global economy.

One of the supporting factors has been the idea that spending on and prices of essentials, including food, tends to hold up during weaker periods of weak growth, in contrast, to spending on luxuries which can rapidly fall. So far, this view is largely holding, with NZ dairy, meat and fruit prices all firm.

Wool prices, in contrast, are not faring as well. Often NZ wool ends up in higher end apparel markets which are sensitive to economic growth e.g. US and European markets. With these markets weak, demand for NZ wool has fallen, taking prices for NZ fine and medium wool lower (see chart).



Moreover, **US tariffs, announced in August, have targeted Chinese clothing imports.** With China importing wool from NZ for clothing production and then export, these tariffs will make the end price for US consumers higher. As such, US demand is falling, leading to lower demand for NZ wool from Chinese clothing manufacturers. With no clear prospect of a US-China trade agreement in sight, we anticipate that fine and medium wool prices will remain under pressure over 2019, if not well into 2020.

Week ending 6 September

The ASB NZ Commodity Price Index was mixed last week. In USD terms, the Index posted a 1.5% rise, however a rising NZD/USD translated into a small fall (0.4%) in NZD terms.

By component, sheep/beef prices led the way in USD terms. Lamb prices jumped 3.0%, with farmgate prices nearing record highs. Forestry and fruit prices were also firm (up 1.9%), while dairy prices lifted a more modest 0.6%.

The NZD gained last week as fears around slowing global growth eased. **As at the time of writing, NZD/USD was trading around US\$0.6400.**

ASB New Zealand Commodity Price Indices As at Friday 6th September 2019

| | Index* | Week % | Year %** |
|----------------|--------|--------|----------|
| Total NZD | 107.2 | -0.4% | 2.0% |
| Total SDR | 99.0 | 1.3% | 1.2% |
| Total USD | 97.8 | 1.5% | -1.0% |
| Dairy USD | 97.6 | 0.6% | 5.9% |
| Sheep/beef USD | 106.1 | 2.6% | -3.0% |
| Forestry USD | 86.0 | 1.9% | -12.5% |
| Fruit USD | 96.0 | 1.9% | -2.0% |
| NZD/USD | 0.6427 | 1.9% | -3.0% |

* For all indices 2017 average = 100

** Percentage change since same week last year

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