

# Commodities Weekly

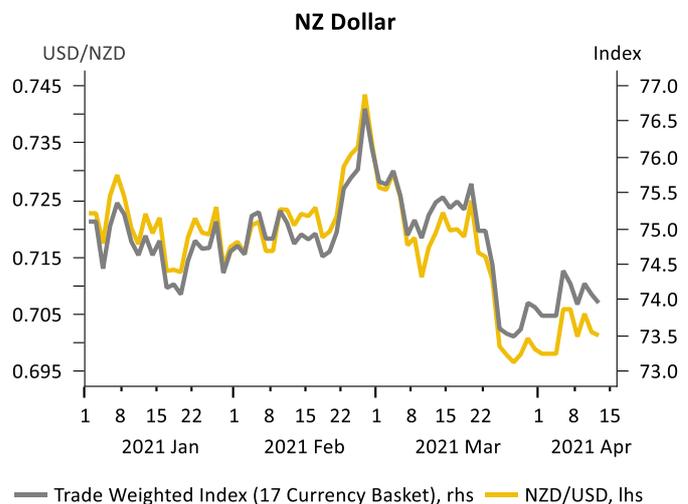
For the week ending Friday 9<sup>th</sup> April



## The sweet spot

Despite further NZD upside, our NZD Commodity Index could hit record highs

**The NZD has continued to trade in a lower range in the last three weeks following the Government’s housing announcement.** Markets have taken the view that the measures will (at least somewhat) cool rampant house price inflation, relieving some of the pressure on the RBNZ to tighten monetary policy in the near term. The NZD/USD dropped sharply in the aftermath of the announcement on 23<sup>rd</sup> March and, while it’s since crawled back some ground, it’s still well shy of the 0.7110-0.7445 range it traded in at the beginning of the year. The broader TWI has followed a similar trajectory.



Source: Macrobond, ASB

**We still think the fundamentals support a higher NZD, and strong commodity prices are a big part of the story.**

Our SDR commodities index (which takes out the impact of currency churn by using a weighted basket of currencies) has risen by about 11% since the beginning of the year, hitting heights not seen since the dairy price boom of 2013-2014. As we’ve noted in recent publications, we see meat prices recovering COVID losses, forestry prices facing further upside and dairy prices unlikely to undergo a sharp correction over the medium term. The upshot is there is further strength in commodity prices to come, keeping NZ’s terms of trade close to record highs and providing a key support for the NZD.

**More broadly, steady improvement in market sentiment is also underpinning the NZD.** As Mike notes in our latest [Economic Weekly](#), sharemarkets are hitting fresh record highs, and the VIX index (a proxy for risk aversion) is slumping to a post-COVID low. These factors are all positive for the NZD, both directly influencing investors’ risk appetite, and helping feed into higher commodity prices. **All-up, our forecasts sees the NZD/USD back at 0.7400 by the end of Q3.**

**A higher NZD will cap some of the upside from strong global commodity prices, but it won’t spoil the party.** While we expect further appreciation in the NZD, the currency is likely to remain much lower than it has been in previous periods of commodity price strength. Indeed, the NZD spent much of the 2013-14 dairy price boom north of 80 US cents. **The upshot is we could see our NZD Commodity Index hitting a new record high, even if underlying world commodity prices don’t quite reach the peaks they did eight or nine years ago.** That’s a sweet spot to be in, given it’s ultimately the NZD index that matters for tracking farmgate returns.

## ASB Commodities Index

It was another quiet week for the ASB Commodities Index. With little movement at last week's auction, the big behemoth of our subindices, the dairy index, was flat in USD terms. Meat prices continued to tick up, lifting our sheep and beef index by 0.4% in USD. All up, the overall USD index lifted marginally by 0.2%. With the NZD/USD also lifting 0.4%, the NZD index finished the week a modest 0.2% lower.

**All up, the ASB Commodities Index continues to oscillate close to historic highs in NZD terms.**

## ASB New Zealand Commodity Price Indices As at Friday 9<sup>th</sup> April 2021

	Index*	Week %	Year %**
Total NZD	113.6	-0.2%	7.7%
Total SDR	110.7	0.2%	19.7%
Total USD	113.5	0.2%	24.7%
Dairy USD	126.2	0.0%	29.7%
Sheep/beef USD	93.0	0.4%	14.5%
Forestry USD	105.5	0.4%	32.4%
Fruit USD	129.1	0.4%	25.4%
NZD/USD	0.7043	0.4%	15.8%

\* For all indices 2017 average = 100

\*\* Percentage change since same week last

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