

Commodities Weekly

For the week ending Friday 10th July

NZD continues to firm

The ASB Commodity Price Index rose 0.5% in NZD terms over the week ending 10th July, with the underlying global commodity prices offsetting the 0.8% lift in the NZD against the USD. The ASB index posted a 1.2% lift in USD terms, with the dairy and meat components of the index gaining 1.4% and 1.3% respectively. The USD denominated dairy index is close to year-ago levels, but the USD denominated sheep and beef sub-indices are still well down on year-ago levels. And with Covid-19 clouds still hanging over key markets, the relative pricing makes some sense considering how and where these products are consumed, and the associated challenges.

The NZD continues to slowly lift. This also makes sense, although it's frustrating for exporters. Global confidence that the worst is behind us (whether that's right or wrong), weighs on the countercyclical USD, and supports currencies like the NZD. And NZ's exit from lockdown is going better than in many other countries. Over the past week the NZD has traded within a few pips of 0.6600 against the USD and is around 0.6540 at the time of writing.

Beyond the global theme mentioned above, local factors have also supported the NZD. New Zealand's key commodity exports have held up reasonably well despite the deep global recession. Commodity prices lifted off their March lows as investor sentiment regarding global growth improved. Whole milk powder prices lifted strongly by 14% at the latest Global Dairy Trade (GDT) event. As mentioned in this report last week, that strength has prompted a review of our \$6.50 kg/ms milk price forecast. We will confirm any adjustment after next week's GDT event.

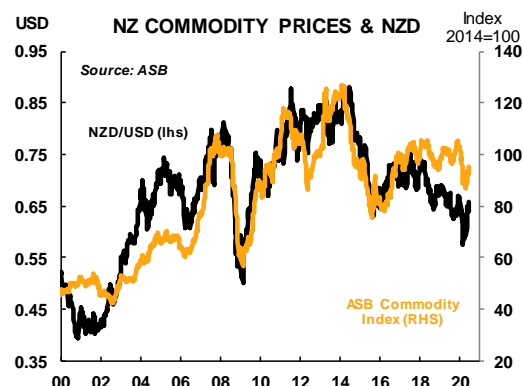
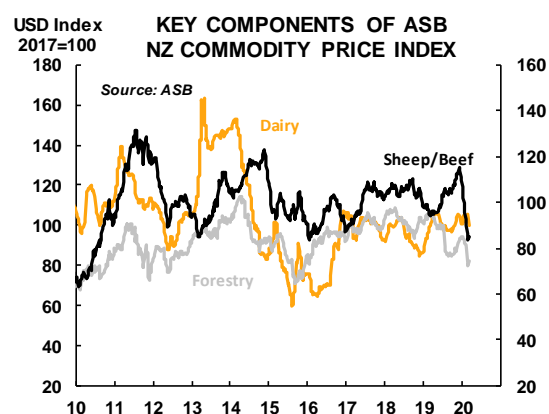
Overall, we expect New Zealand's key food export prices to be well supported over the second half of the year, as the global recovery continues. Continued improvement in commodity prices favours a firm NZD. We expect NZD/USD to consolidate in a 0.64-0.66 range over the next few months before lifting to 0.67 by mid-2021.

ASB New Zealand Commodity Price Indices As at Friday 10th July 2020

	Index*	Week %	Year %**
Total NZD	102.4	0.5%	-3.0%
Total SDR	95.8	0.8%	-4.7%
Total USD	95.5	1.2%	-4.6%
Dairy USD	95.1	1.4%	-2.2%
Sheep/beef USD	92.3	1.3%	-11.3%
Forestry USD	92.4	0.8%	-7.4%
Fruit USD	108.0	0.8%	8.1%
NZD/USD	0.6581	0.8%	-1.7%

* For all indices 2017 average = 100

** Percentage change since same week last year



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