

# Commodities Weekly

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



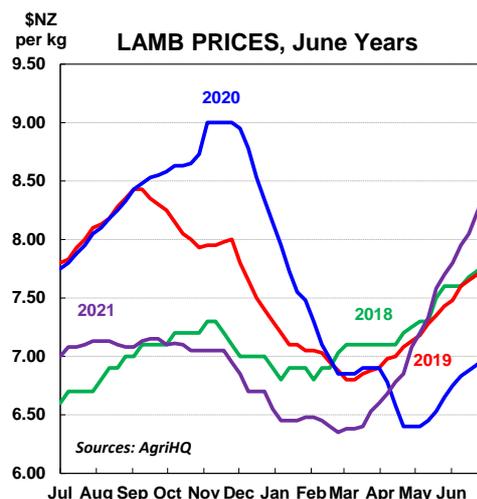
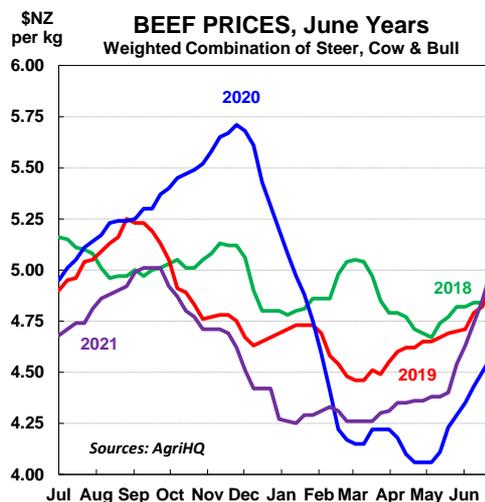
## The comeback

### Beef and lamb prices are enjoying a remarkable comeback.

After falling by double digits in the midst of the pandemic, NZD lamb prices have lifted 32% since March and our weighted NZD beef price (a mix of steer, cow and bull) has leapt by 20%. Gains have been substantial enough that prices for both commodities are running ahead of where they were at this point in each of the last three seasons.

**Both demand and supply factors are fuelling the surge.** As the global economy has begun to re-open and restrictions on the hospitality sector overseas have lifted, a pick-up in demand has seen prices reverse much of their COVID-driven falls. Given lamb prices were the hardest hit of the two by the pandemic, they've experienced the strongest gains. Broader supply conditions have remained supportive too. While the Chinese pig herd is increasing in size as the legacy of African Swine Fever eases, global protein supply is still relatively tight and renewed outbreaks are a perennial concern.

**Both beef and lamb could be in for a record season.** NZD lamb prices are almost guaranteed to comfortably exceed their previous all-time high in the 2019-20 season, when they peaked at the \$9 mark. As our friends at AgriHQ note, minimum price contracts for early spring are already trading around that level. Our weighted NZD beef price could yet exceed its own 19-20 peak.



## Taking an FX mulligan

**The NZD/USD has traded in a lower range over recent weeks.** After trading in a 0.7140-0.7300 range through May and the first half of June, the kiwi has hovered around the 0.6930-0.7080 mark for the last month or so. That's also a considerable undershoot from our own FX forecasts from earlier in the year, which saw the NZD/USD hitting the 0.7300 mark at the end of June, before continuing to head north to 0.7400 by the end of the year.

**A period of USD strength is behind the trend.** Typically, the USD is a ‘countercyclical’ currency, meaning it tends to fall in value when the US economy grows, as investors shift their cash into assets perceived as ‘riskier.’ However, at present, the turbocharged US economic recovery means the USD is behaving more like a ‘normal’ currency, attracting investors when the US recovery strengthens.

**Our friends at CBA think there’s scope for further USD strength in the medium term and have revised their forecasts accordingly – good news for commodity producers.** Those new forecasts now see the NZD/USD easing to around the 0.6650 mark towards the end of the year. The world of currency markets remains difficult to predict in these volatile times, but an exchange rate in that range would be excellent news for farmgate returns – last time global commodity prices were in this range, NZD/USD was trading north of the 0.8500 mark.

### ASB foreign exchange forecasts

(end of quarter)	Jun-21 «actual»	Sep-21 forecast >>	Dec-21	Mar-22	Jun-22	Mar-23	Mar-24
NZD/USD	0.73	0.69	0.67	0.68	0.69	0.72	0.72
NZD/AUD	0.91	0.93	0.92	0.94	0.92	0.92	0.92
NZD/JPY	80	78	76	79	81	85	85
NZD/EUR	0.59	0.59	0.59	0.61	0.61	0.60	0.55
NZD/GBP	0.51	0.51	0.50	0.50	0.51	0.51	0.51
NZD/CNY	4.7	4.5	4.4	4.4	4.4	4.5	4.5
NZD TWI	75.5	73.2	71.3	72.8	73.0	74.4	73.8

### ASB Commodities Index

**The ASB Commodities Index continues to oscillate around record NZD highs.** Last week, underlying commodities were mixed, with dairy prices losing some of their froth at the latest GlobalDairyTrade auction (down 3% in USD terms). On the other hand, sheep and beef prices continued their recovery, lifting 2%. All-up, underlying USD prices fell 1.1%.

**With the kiwi easing a modest 0.2% over the week, our NZD index finished the week down 0.9%.**

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

	Index*	Week %	Year %**
Total NZD	117.3	-0.9%	15.9%
Total SDR	113.3	-0.9%	19.9%
Total USD	116.0	-1.1%	23.0%
Dairy USD	122.4	-3.0%	28.7%
Sheep/beef USD	113.4	2.0%	22.9%
Forestry USD	110.2	-0.2%	19.4%
Fruit USD	100.9	-0.2%	9.5%
NZD/USD	0.6983	-0.2%	6.1%

\* For all indices 2017 average = 100

\*\* Percentage change since same week last

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