

ASB New Zealand Commodity Price Indices As at Friday 7th October 2016

	Index *	1 Week %	Year % **
Total NZD	163.6	0.7%	-4.3%
Total SDR	175.7	-0.3%	4.0%
Total USD	177.2	-1.0%	2.4%
Dairy USD	172.2	0.0%	2.1%
Sheep/beef USD	212.5	-2.4%	-1.8%
Forestry USD	158.5	-0.8%	13.2%
NZD/USD	0.7162	-1.7%	7.0%

* For all indices 1997 average = 100

** Percentage change since same week last year

Pounds dives, putting lamb and wine exports at risk

Last Friday, the Pound sustained its biggest intraday drop since the Brexit referendum on 24 June. The Pound plunged around 6% against the USD and other major currencies at one stage. At the time of writing, the NZD is buying around 58.2 British pence, from around 56 pence as recently as 10 days ago.

The dramatic fall highlights the vulnerability of the British currency to Brexit developments. Indeed, the last week's plunge may have been caused by European officials, including the French Prime Minister, calling for tough Brexit negotiations.

For NZ, lamb and wine exports are most vulnerable to a weaker pound. The UK accounts for a little over 20% of our lamb exports by value. Similarly, the UK is an important market for wine, taking a little under a quarter of our exports by value in the year to June 2016.

These exports are likely to see lower UK prices as demand falls. The lower Pound will decrease the spending power of UK consumers and at the same time make local produce relatively cheap, while a slowing UK economy is likely to decrease demand further. For example, according to AgriHQ, UK retailers have limited appetite to promote NZ lamb this Christmas.

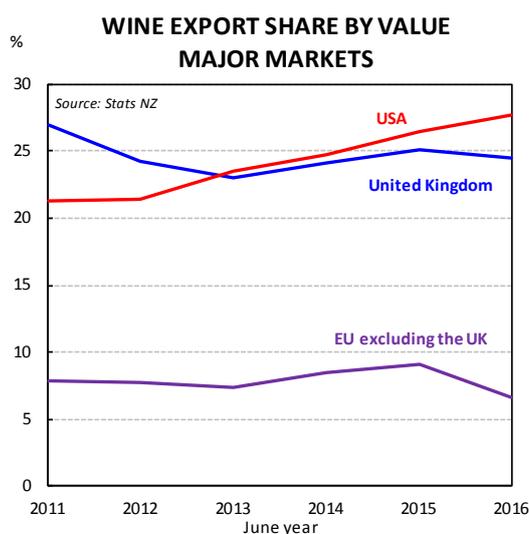
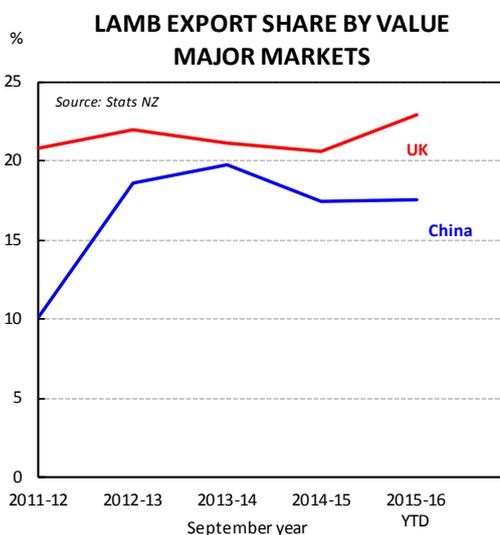
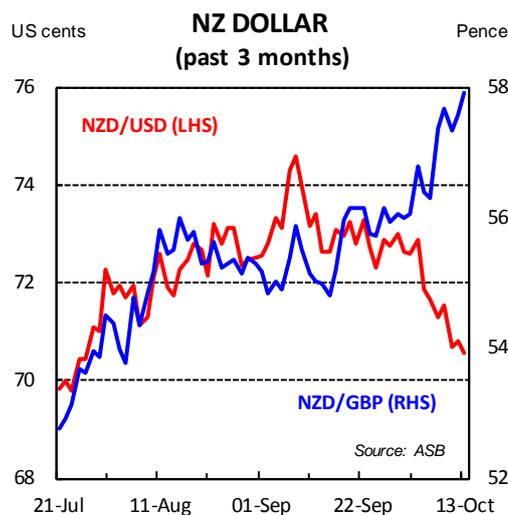
Currency Markets

A fall in global risk sentiment and lower dairy prices saw the NZD fall against the key global currencies last week. This week, the NZD continued to soften as minutes from the September US Federal Reserve meeting revealed that the case for a hike in key US interest rates had strengthened in recent months. At the time of writing, the NZD was trading at US\$0.7040.

ASB NZ Commodity Price Index

The ASB Commodity Price Index slipped 1.0% in USD terms, pulled down by lower meat prices. A weak NZ dollar, however, offset this decline, pushing the index up in NZD terms.

On a components basis, beef and lamb prices fell 3.6% and 1.7% respectively, dragging the Sheep/Beef Index down 2.4% last week in USD terms. Wool prices also dipped 0.7%. Overall, dairy prices were unchanged as a 3.6% fall in the price of whole milk powder was offset by rises in butter, skim milk and casein prices. Lastly, forestry prices edged down 0.8% on a 1.7% decrease in log prices.



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