

# Commodities Weekly

For the week ending Friday 8<sup>th</sup> February



## The heat is on

### In some cases, livestock are simply “too hot to eat”

**The heat has been on during January and February.** In fact, the heatwave during late January saw records tumble, with Wellington and Hamilton for example, recording all-time highs on 29 January.

**The heat has impacted on agricultural production in a somewhat curious way.** Farmers generally have plenty of feed on hand following excellent pasture growth in spring and early summer. However and despite the availability of feed, livestock are literally “too hot to eat”.

In this way, **this season is different to others where drought is normally the concern for farmers.** Indeed, relief from this heat can not only come via rain in the normal drought-breaking way, but also simply via a drop in temperature to a level where livestock start eating again.

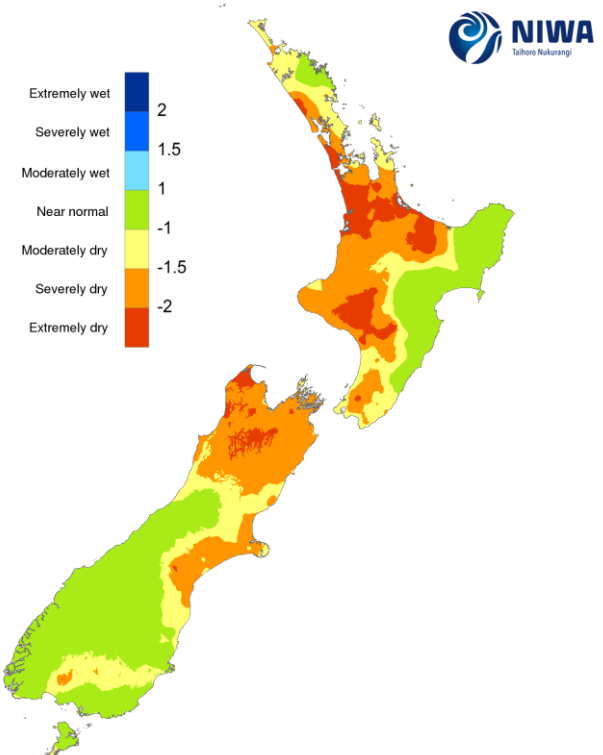
At this stage, **it’s likely that this heat is taking the cream off what has otherwise been an excellent production season.** Sheep and beef farmers are finding it hard to put weight on livestock so some animals are being slaughtered at lower than normal weights. Meanwhile, we estimate that dairy production in the season to January is running at around 5.7% ahead of the same stage last season. While we forecast a bumper 5% growth for the season as a whole, in the absence of rain or a drop in temperature, before long the risk is we end up closer to a more modest 3% or 4% lift.

**For the dairy sector, lower production growth is, however, likely to be offset by higher prices.** Indeed, we already see upside to our recently revised (upwards) 2018/19 milk price forecast of \$6.25/kg.

**For the sheep and beef sector, the heat is unlikely to come with such an offset.** Lower slaughter weights are likely to be compounded by lower prices as more farmers seek to slaughter stock as meat processors take advantage of the extra supply.

That all said, **sheep and beef prices have held well up so far.** In this sense and assuming the heat recedes over coming weeks, the 2018/19 season remains a positive one overall.

SPI for 9am 15/01/2019 to 9am 14/02/2019



## Week ending 8 February

The ASB Commodity Price Index lifted in NZD terms in the week ending 8 February, boosted by the fall in the NZD/USD. However, in USD terms, the Index was soft, falling 0.8% over the week.

By component, only dairy prices posted a gain (up 1.2% in USD terms). All the other major components fell by more than 2% over the week.

The NZD/USD fell last week. However, following the Reserve Bank announcement this week, the NZD/USD has strengthened, trading at US\$0.6840 at the time of writing.

## ASB New Zealand Commodity Price Indices As at Friday 8<sup>th</sup> February 2019

	Index*	Week %	Year %**
Total NZD	110.3	1.4%	2.5%
Total SDR	97.8	-0.2%	-1.0%
Total USD	89.4	-0.8%	-5.3%
Dairy USD	84.5	1.2%	-3.4%
Sheep/beef USD	87.2	-2.5%	-8.1%
Forestry USD	103.0	-2.2%	-2.9%
Fruit USD	97.2	-2.2%	-12.6%
NZD/USD	0.6746	-2.2%	-7.6%

\* For all indices 2014 average = 100

\*\* Percentage change since same week last year

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