

Commodities Weekly

For the week ending Friday 10th December



Ending on a high

Big sectors will continue to boost our index, but it's not plain sailing for everyone

As we fire off our last missives of the year, commodity markets have given the NZ economy an early Christmas present by reaching a new high. Underlying USD prices were mixed, with the dairy index edging up 1.3% off the back of another goodly auction. Sheep & beef prices edged 0.8% lower in line with the typical seasonal trend. The upshot saw the USD index lift 0.6%, but most of the impact was undone by currency movement, leaving the NZD index up a more modest 0.1%.

NZ commodity price strength is a three-legged horse of late: dairy, meat, and currency. Underlying (USD) meat and dairy prices are currently running circa 24% and 30% above long-run averages and have been for some time. Meanwhile, over the last six months NZD/USD has averaged up to 10 cents below where we'd have expected based on where commodity prices (and interest rates) are sitting. That's a solid additional boost to NZD returns at the farm gate.

Unsurprisingly, given they collectively make up circa 65% of our index on their own, the strength in meat and dairy prices has been enough to push it to new highs. However, the strength in those goliaths is belying a less spectacular performance for some of the smaller sectors. The graph on the next page shows horticulture (particularly apples), seafood, and wine prices are below their pre-COVID average in 2019, while forestry prices have lost all their gains from earlier in the year. Often, these smaller sectors have been more vulnerable to shipping- and labour shortage-driven capacity constraints, hurting export volumes.

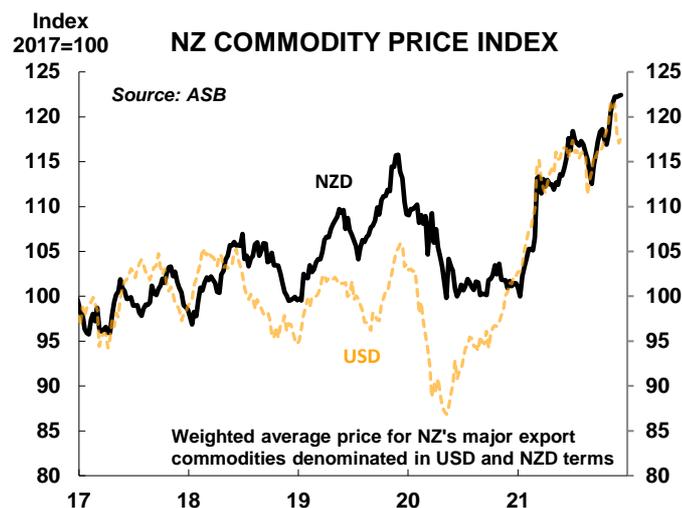
There is little to suggest that global meat or dairy prices will correct swiftly over the first half of 2021. As we end the year, global dairy supply is still looking very tight relative to demand, and dairy futures still expect whole milk powder prices to press higher from here. Beef and lamb prices will continue trending down from here in line with the seasonal trend but should find a floor at still-healthy levels.

ASB New Zealand Commodity Price Indices
As at Friday 10th December 2021

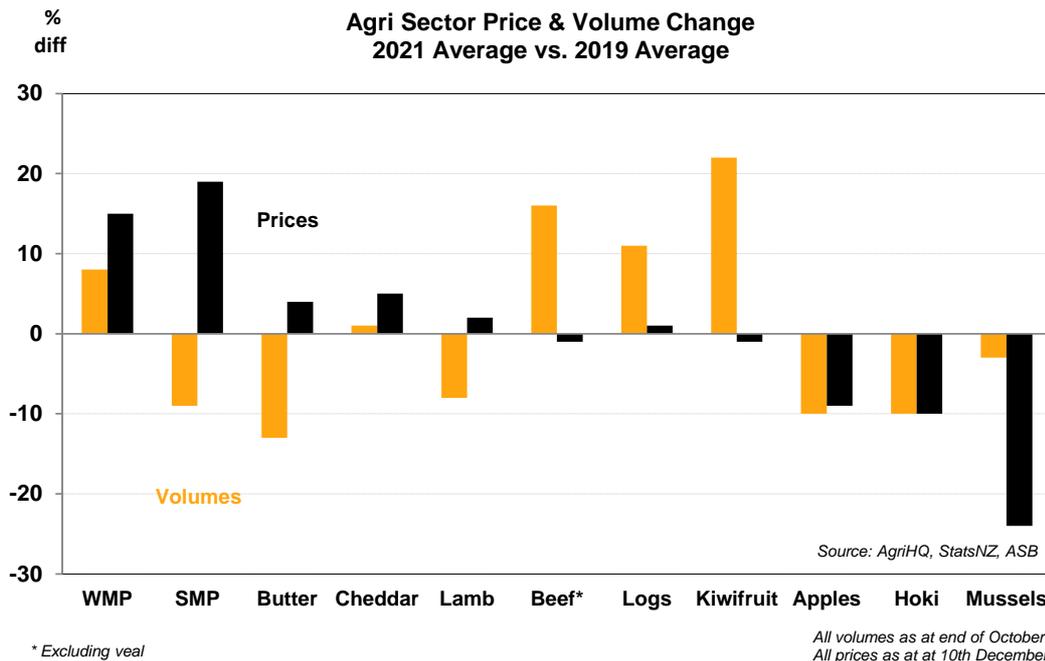
	Index*	Week%	Year %**
Total NZD	122.4	0.1%	21.1%
Total SDR	117.1	0.7%	19.3%
Total USD	117.8	0.6%	16.1%
Dairy USD	134.1	1.3%	34.6%
Sheep/beef USD	118.7	-0.8%	22.3%
Forestry USD	86.1	0.5%	-12.7%
Fruit USD	98.5	0.5%	-22.0%
NZD/USD	0.6792	0.5%	-4.1%

* For all indices 2017 average = 100

** Percentage change since same week last



But the flipside is that cost pressures will continue to crimp smaller export sectors. The familiar themes of high feed prices, labour market tightness and logistics disruptions look set to remain. We're expecting unemployment to stay south of 3.6% and annual inflation to stay north of 5% over the first half of the year. The strength in the behemoth meat and dairy sectors means both will be well placed to continue to weathering the storm, but in those smaller sectors that's less of a sure thing. And there's a risk that a less favourable exchange rate will shave down NZD returns at the margin, though we expect it to remain south of the 0.7500 mark, let alone the 0.8000 it reached during the last dairy boom.



This is our last *Commodities Weekly* for the year – we'll be back on the 12th of Jan. Happy holidays and stay safe everybody.

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