

Commodities Weekly

For the week ending Friday 10th January



2020: Year of the Rat racing to keep up with 2019

After 2019's record highs, we expect less spectacular NZ commodity prices in 2020

We expect NZ commodity prices to come off the record highs achieved in 2019. Recall that over October and November, the ASB Commodity Price Index set record highs in NZD terms, with meat, fruit, forestry and seafood prices all setting record highs on a component basis.

Nonetheless, **we expect NZ commodity prices to remain at healthy levels on a historical basis.** Indeed, key (fundamental) drivers including growing global incomes and food demand, global food supply constraints and the ongoing impact of African Swine Flu are likely to remain in play and supportive of prices over 2020.

Looking at African Swine Flu specifically, **we expect 2019 coincided with the peak impact on protein prices,**

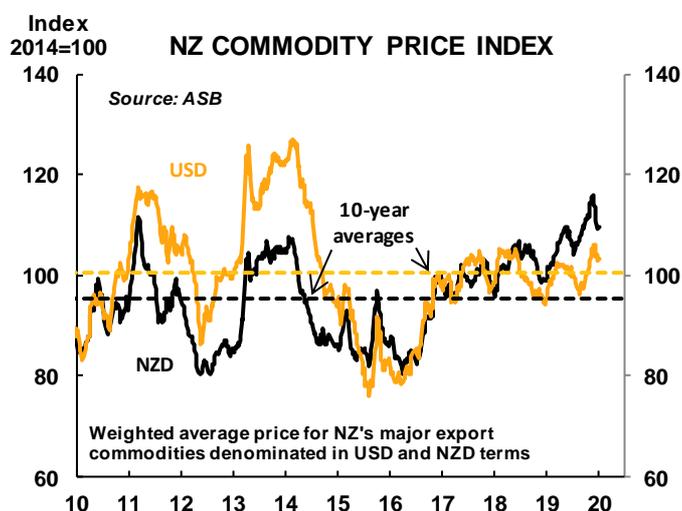
including on NZ meat export prices. However, the sheer magnitude of the rebuild in the global pork herd means that meat prices are likely to remain relatively high over 2020, if not beyond then, as the global pork herd slowly rebuilds.

It's a similar story with regards to the NZ dollar. We expect the NZ dollar to trade at levels that will be historically supportive for commodity prices in NZD terms. However, the risks are that the NZD/USD remains above its 2019 average of US\$0.6590. The level of commodity prices are consistent with NZD/USD trading closer to US\$0.70 over the course of the year, providing slightly less support overall for producer incomes in NZD terms.

Meanwhile, **we anticipate global dairy prices (in USD terms), will rise over 2020 on the back of tight global supply.** We expect zero growth in NZ production over the 2019/20 season. US and EU supply growth is low, while Australian production is likely to continue to fall rapidly. We anticipate underlying global dairy demand is likely to remain healthy and supportive of global dairy prices. With this in mind, our milk price forecasts for both the 2019/20 and 2020/21 seasons sit at a healthy \$7.50/kg.

Finally, **we expect the Phase 1 US-China trade deal to have a very minor impact on NZ commodity export prices.** Over 2019, we could not discern any impact on NZ export commodity prices from the trade war. In addition, Phase 1 can more accurately be described as a truce. The bulk of tariffs on Chinese exports to the US will likely remain in place until Phase 2 negotiations are successfully concluded.

All up, **we expect a relatively healthy year for NZ commodity export prices.** However, in terms of commodity price records, the Year of the Rat is likely to be a lot quieter than 2019.



Week ending 10 January

A fall in the NZD/USD helped the ASB Commodity Price Index rise in NZD terms last week. The Index largely treaded water in USD terms over the week.

Of the main commodities, only dairy prices posted gains, jumping 2.1% in USD terms. Sheep/beef prices led falls, down 2.5%, while forestry and fruit prices both dipped 0.5%. Of note, lamb prices per kg slipped back below \$8.00/kg last week on an NZD basis.

The NZD has started 2020 trading at around US\$0.66. This quiet start to the year continued this week, with the NZD/USD sitting at \$US0.6630 at the time of writing.

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

	Index*	Week %	Year %**
Total NZD	109.7	0.6%	11.1%
Total SDR	103.7	0.3%	9.1%
Total USD	103.2	0.1%	7.8%
Dairy USD	103.0	2.1%	15.5%
Sheep/beef USD	104.3	-2.5%	6.5%
Forestry USD	93.6	-0.5%	-8.7%
Fruit USD	119.5	-0.5%	16.0%
NZD/USD	0.6631	-0.5%	-3.0%

* For all indices 2014 average = 100

** Percentage change since same week last year

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