

Commodities Weekly

For the week ending Friday 10th August



NZD comes to the aid of the party

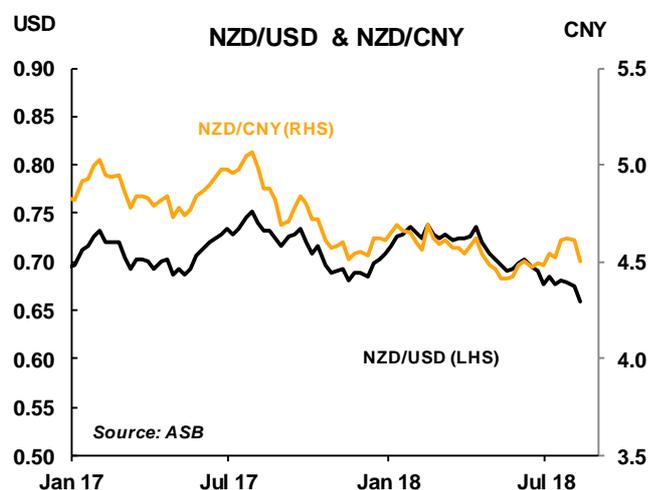
Weaker NZD means we can re-confirm our 18/19 milk price forecast at \$6.50/kg

The NZD fell sharply after the Reserve Bank surprised markets in its August Monetary Policy Statement (MPS). As at the time of writing, the NZD has fallen around two cents (2.3%) against the USD and over 1% on a trade-weighted basis immediately prior to the MPS.

The weaker NZD is boosting NZ commodity prices in local terms. For example, the ASB Commodity Price Index has lifted 8.3% annually in NZD terms. Moreover, the Index sits only 5% off its record high set back in 2011. In comparison, the Index is down 3.8% on this time last year in USD terms.

For us, the fall in the NZD means we can now re-confirm our 2018/19 milk price forecast at \$6.50/kg. Dairy auction prices had fallen around 9% over the last three months in USD terms and led us to put our forecast ‘under review’. However, we now anticipate that the weaker NZD is enough to offset the fall in dairy auction prices.

That said, we note that the Chinese yuan has been even weaker recently than the NZD (see chart). With China the largest export market for most of NZ’s commodities, further yuan weakness – in the absence of commensurate NZD weakness – poses a risk to the NZ commodity price outlook.



Week ending 10 August

The ASB Commodity Price Index rose 1.3% in NZD terms in the week ending 10th August. The lower NZD (down 2.4% against the USD) pushed up the Index in NZD-denominated terms. Meanwhile in USD terms, the Index actually fell 1.1% over the week.

Three out of the four major Index components posted falls over the week in USD terms. Forestry and fruit prices fell 2.4% in line with NZD/USD fall, while sheep/beef prices posted a more modest 1.9% fall. Dairy prices bucked the trend and were largely unchanged over the week.

ASB New Zealand Commodity Price Indices As at Friday 10th August 2018

	Index*	Week %	Year %**
Total NZD	114.9	1.3%	8.3%
Total SDR	99.4	-0.5%	-2.7%
Total USD	90.8	-1.1%	-3.8%
Dairy USD	85.4	-0.1%	-8.3%
Sheep/beef USD	95.1	-1.9%	-1.2%
Forestry USD	97.2	-2.4%	-7.2%
Fruit USD	94.7	-2.4%	-1.1%
NZD/USD	0.6581	-2.4%	-11.2%

* For all indices 2014 average = 100

** Percentage change since same week last year

ASB Economics & Research

Chief Economist
Senior Rural Economist
Senior Economist
Senior Economist
Senior Economist, Wealth
Economist
Data & Publication Manager

Nick Tuffley
Nathan Penny
Jane Turner
Mark Smith
Chris Tennent-Brown
Kim Mundy
Judith Pinto

nick.tuffley@asb.co.nz
nathan.penny@asb.co.nz
jane.turner@asb.co.nz
mark.smith4@asb.co.nz
chris.tennent-brown@asb.co.nz
kim.mundy@asb.co.nz
judith.pinto@asb.co.nz

Phone

(649) 301 5659
(649) 448 8778
(649) 301 5853
(649) 301 5657
(649) 301 5915
(649) 301 5661
(649) 301 5660

www.asb.co.nz/economics

 [@ASBMarkets](https://twitter.com/ASBMarkets)

Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.