

Commodities Weekly

For the week ending Friday 19th July



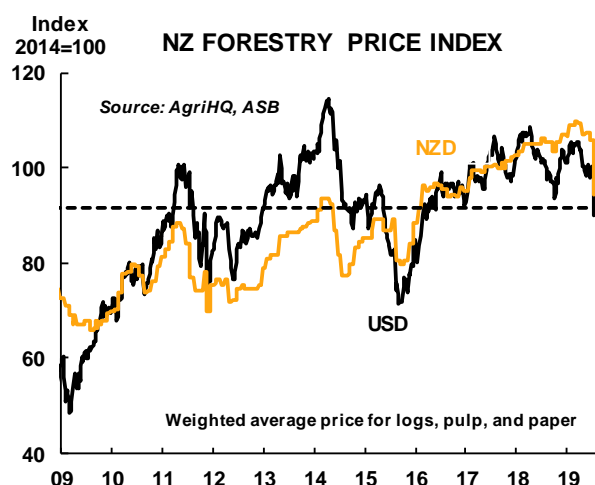
Timberrrrr

Log prices tumble after record-breaking run

Forestry prices have tumbled, ending a record-breaking run. The AgriHQ Forestry Index (weighted average log, pulp and paper prices) fell around 10% in both NZD and USD terms last week. Log prices accounted for most of the Index fall, with prices of export logs dropping from US\$130/m³ as recently as last month to US\$105-\$110/m³ by early July.

The catalyst for the price slide has been a lift in log supply, with European logs recently adding to already strong NZ supply. European supply has noticeably stepped up, with Beetle damage (leading to early harvest) as well as the opening up of overland transport routes to China combining to boost supply. **However, we have long noted that** underlying global demand was softer than appeared, despite the recent record log prices.

Looking ahead, we anticipate prices will stay near these new lows at least over the remainder of 2019, if not well into 2020. The economic growth outlook for China has softened this year, along with the global growth outlook more generally. As a result, we don't anticipate demand for logs to improve in the short term. **That said, the local harvest has slowed already, helping to balance the market – so anticipate that prices will stabilise relatively soon.**



Week ending 19 July

The ASB Commodity Price Index fell last week. In USD terms, the Index fell 1.4% and 0.3% in NZD and USD terms, respectively.

Forestry prices accounted for the overall Index fall (see above). In contrast, other commodity prices generally firmed over the week. Notably, both dairy and sheep/beef prices rose around 2% in USD terms over the week.

Meanwhile, **the NZD rose against all major currencies last week.** This week, the NZD/USD has softened. **As at the time of writing, the NZD was trading close to US\$0.6700.**

ASB New Zealand Commodity Price Indices As at Friday 19th July 2019

| | Index* | Week% | Year%** |
|----------------|--------|-------|---------|
| Total NZD | 104.5 | -1.4% | 0.0% |
| Total SDR | 100.7 | -0.2% | 1.6% |
| Total USD | 100.3 | -0.3% | 0.0% |
| Dairy USD | 99.3 | 2.1% | 3.4% |
| Sheep/beef USD | 106.1 | 1.9% | 0.4% |
| Forestry USD | 89.8 | -9.9% | -11.0% |
| Fruit USD | 107.0 | 1.1% | 5.0% |
| NZD/USD | 0.6764 | 1.1% | 0.0% |

* For all indices 2017 average = 100

** Percentage change since same week last year

ASB Economics & Research

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

Nick Tuffley
Nathan Penny
Jane Turner
Mark Smith
Chris Tennent-Brown
Mike Jones
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
mike.jones@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

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