

# Commodities Weekly

For the week ending Friday 14<sup>th</sup> August

## RBNZ scoping negative OCR setting

The ASB Commodity Price Index was flat in USD terms last week, but a 0.9% NZD decline helped the index rise in NZD terms. The ASB index posted a 0.9% lift in NZD terms last week. USD denominated dairy prices registered a 0.2% lift. The Sheep/Beef index dipped while the Forestry index gained within the overall ASB commodity index last week.

The RBNZ held the OCR steady at 0.25% at last week’s review. However, an increase in the size and tenure of the central bank’s bond purchase program and other “dovish” comments weighed on local interest rates and the NZD. In the wake of the RBNZ meeting, ASB economists changed our outlook for the [OCR](#), and the RBNZ’s overall policy settings.

We expect the RBNZ to cut the OCR next year, and for the first time ever, take the OCR into negative territory. We have a -0.5% OCR setting pencilled into our forecasts for Q2 2021. We also expect the RBNZ to set up a funding facility to provide long-term funding directly to banks, at a rate near to the OCR setting, with the goal of lowering borrowing costs to households and businesses.

Dairy prices eased across the board at the latest Global Dairy Trade auction overnight, sending the GDT Price Index down 1.7%. Whole Milk Powder prices slipped another 2.2%, with an average price of US\$2,936/MT. Butter prices were down 2% with an average price of US\$3,370/MT, while cheddar prices were down 3.6%, with an average price of US\$3,442/MT. If the softness we have seen at the last two auctions continues over the coming auctions, our \$6.75 kg/ms milk price forecast for the 20/21 season will need to be reviewed, albeit we still see milk prices tracking in the top half of Fonterra’s \$5.90 - \$6.90/kg range. Oceania whole milk powder prices appear to be finding a floor around \$2,900/MT at the last two events (see chart to the right), which is on the soft side of our longer-term price expectations within our 20/21 season forecast.

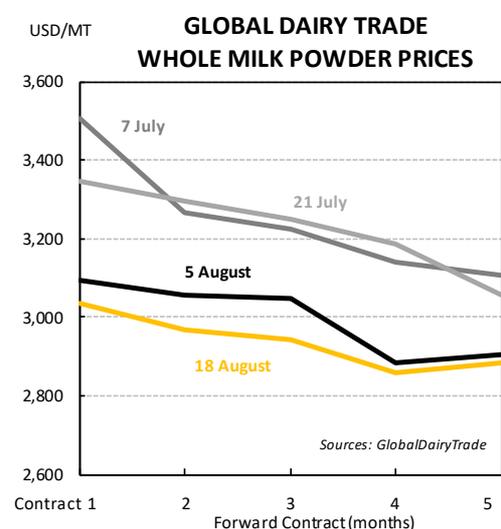
## ASB New Zealand Commodity Price Indices As at Friday 14<sup>th</sup> August 2020

	Index*	Week %	Year %**
Total NZD	102.1	0.9%	-4.2%
Total SDR	93.5	0.1%	-4.9%
Total USD	95.0	0.0%	-2.3%
Dairy USD	95.5	0.2%	-2.1%
Sheep/beef USD	94.5	-0.5%	-9.4%
Forestry USD	87.8	0.7%	2.8%
Fruit USD	102.4	-0.9%	7.5%
NZD/USD	0.6557	-0.9%	2.0%

\* For all indices 2017 average = 100

\*\* Percentage change since same week last year

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	-2.2%	-4.4%	2,936
Skim Milk Powder	1.1%	4.2%	2,608
Anhydrous Milk Fat	-2.9%	-24.3%	3,873
Butter	-2.0%	-17.7%	3,370
GDT Price Index	-1.7%	3.6%	n.a.



**ASB Economics & Research**

Chief Economist  
Senior Economist  
Senior Economist  
Senior Economist, Wealth  
Senior Economist  
Data & Publication Manager  
[www.asb.co.nz/economics](http://www.asb.co.nz/economics)

Nick Tuffley  
Jane Turner  
Mark Smith  
Chris Tennent-Brown  
Mike Jones  
Judith Pinto

[nick.tuffley@asb.co.nz](mailto:nick.tuffley@asb.co.nz)  
[jane.turner@asb.co.nz](mailto:jane.turner@asb.co.nz)  
[mark.smith4@asb.co.nz](mailto:mark.smith4@asb.co.nz)  
[chris.tennent-brown@asb.co.nz](mailto:chris.tennent-brown@asb.co.nz)  
[mike.jones@asb.co.nz](mailto:mike.jones@asb.co.nz)  
[judith.pinto@asb.co.nz](mailto:judith.pinto@asb.co.nz)

**Phone**

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

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