

# Commodities Weekly

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



## US-China trade frictions ratchet up another notch

### Latest US tariff increases sees Chinese imports worth \$250bn incurring tariffs

**Trade frictions between the US and China have ratcheted up another notch.** On 17 September, President Trump made good on his earlier threats, announcing that the US will apply a 10% tariff on 'roughly' \$US200 billion of imports from China from 24 September. Furthermore, the tariff rate will rise to 25% from 1 January 2019.

**The Chinese government responded swiftly,** announcing increases to its own tariffs on imports from the US. The Chinese government announced it will apply a tariff rate of 5-10% on \$US60 billion of imports from the US from 24 September. Notably, Trump also said the US would apply tariffs on another \$US267 billion of imports from China if the Chinese government retaliated.

The US already applies a 25% tariff on \$US50 billion of imports from China - **the latest increase brings the total amount of imports affected to \$US250 billion.** This is about half of the goods that the US imports from China.

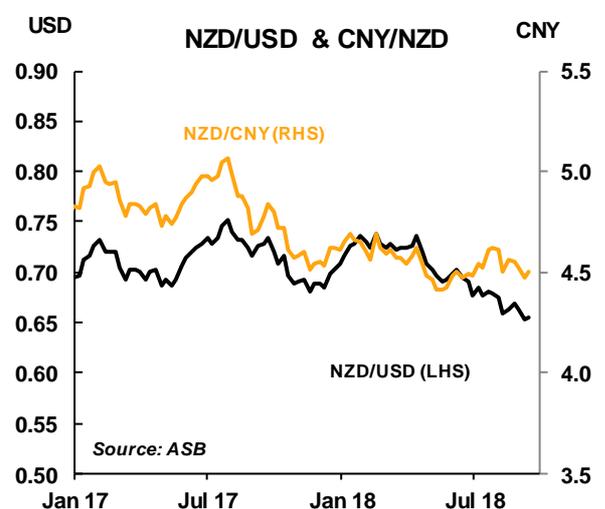
**We anticipate that these latest tariff increases will not be the last.** With that in mind, we assume that eventually the US will apply a 25% tariff on all of its \$US500 billion plus of imports from China.

### The repercussions for NZ commodity export prices are limited

At this juncture, **we continue to anticipate limited repercussions for NZ's exports and commodity prices.**

**The key risk to NZ commodity prices is a weaker Chinese (and global) growth outlook.** On that front, we have kept our 2019 Chinese GDP growth forecast unchanged at 6.3%, implying solid Chinese demand for our export commodities. On this basis, we anticipate little change in our commodity price outlook. Another factor insulating NZ export commodities is the fact that **NZ has low exposure to global supply chains.** Indeed, most of NZ's (food) export commodities are consumed soon after arrival in market.

That's not to say the higher US tariffs are not hurting Chinese growth – they are. Indeed, we estimate that the higher tariffs and weaker Chinese exports will trim 0.4 percentage points off Chinese growth over 2019. However, **we anticipate that the Chinese government fiscal stimulus program (focused on a recovery in infrastructure spending) will offset the tariff hit.** In addition, the recent yuan fall (down 9% since April) will help the competitiveness of



Chinese exports.

Nonetheless, we continue to be wary of fallout from the trade frictions. The Chinese yuan has been even weaker recently than the NZD (see chart, previous page). **Further yuan weakness, in the absence of commensurate NZD weakness for example, poses a risk to the NZ commodity price outlook.**

## Week ending 14 September

The ASB Commodity Price Index was largely unchanged in the week ending 14<sup>th</sup> September. For the record, the Index rose 0.2% in USD terms, while it was flat in NZD terms.

The only real hint of significant price movement came from the Sheep/Beef component. Wool prices rose 1.6% in USD terms, beef prices posted a modest 0.4% lift, while lamb prices posted were up a touch (0.2%). Prices were largely unchanged across the other major Index components.

Meanwhile, the NZD/USD rose last week as the USD weakened a touch. This week the NZD has continued to strengthen as data showed that the NZ economy grew strongly over Q2. **As at the time of writing, NZD was trading at US\$0.6640.**

## ASB New Zealand Commodity Price Indices As at Friday 14<sup>th</sup> September 2018

	Index*	Week %	Year %**
Total NZD	114.4	0.0%	5.9%
Total SDR	97.8	0.0%	-2.7%
Total USD	90.0	0.2%	-4.5%
Dairy USD	82.1	0.1%	-11.4%
Sheep/beef USD	98.0	0.4%	1.9%
Forestry USD	97.0	0.2%	-4.9%
Fruit USD	93.6	0.2%	-5.8%
NZD/USD	0.6548	0.2%	-9.9%

\* 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](mailto:nick.tuffley@asb.co.nz)  
[nathan.penny@asb.co.nz](mailto:nathan.penny@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)  
[kim.mundy@asb.co.nz](mailto:kim.mundy@asb.co.nz)  
[judith.pinto@asb.co.nz](mailto: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](http://www.asb.co.nz/economics)

@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.