

### ASB New Zealand Commodity Price Indices As at Friday 14<sup>th</sup> October 2016

	Index *	1 Week %	Year % **
Total NZD	163.7	0.0%	-1.9%
Total SDR	175.2	-0.3%	4.7%
Total USD	175.4	-1.0%	2.1%
Dairy USD	169.5	-1.6%	3.0%
Sheep/beef USD	210.0	-1.2%	-3.1%
Forestry USD	157.7	-0.5%	11.4%
NZD/USD	0.7085	-1.1%	4.0%

\* For all indices 1997 average = 100

\*\* Percentage change since same week last year

### Big Wet cements NZ dairy production fall

**Very wet weather in the North Island over September and October has slammed the brakes on NZ milk production.**

Fonterra has reported that October production in the key Waikato region is running at 10% behind the same period a year ago.

**The wet weather compounds an already weak production outlook.** NZ farmers had already responded to low milk prices by reducing cow numbers. We estimate that heavy slaughtering has reduced NZ's dairy cow herd by around 5% as at June 2016 compared to June 2015. Moreover, the likelihood that this lost production due to the wet weather can be made up later this season is low.

As a result, we expect these factors along with still very tight farm cashflows to contribute to a 5% decline in NZ production this season. In turn, **we expect NZ declining production as well as production declines in the other key exporter, the EU, to further support rises in global dairy prices over the remainder of this season.**

### ASB NZ Commodity Price Index

**The ASB Commodity Price Index continued to edge down last week, slipping 1% lower in USD terms.** A weak NZ dollar, however, offset the fall, with the index finishing unchanged in NZD terms.

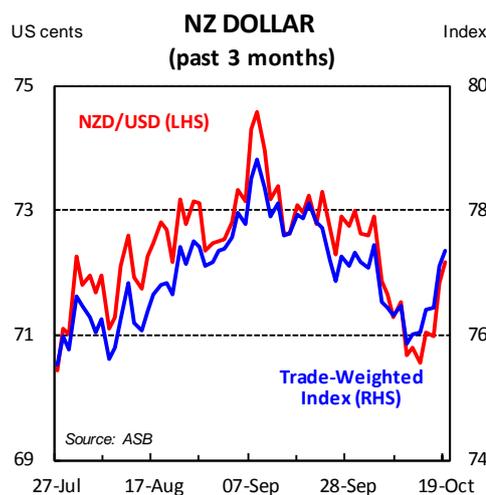
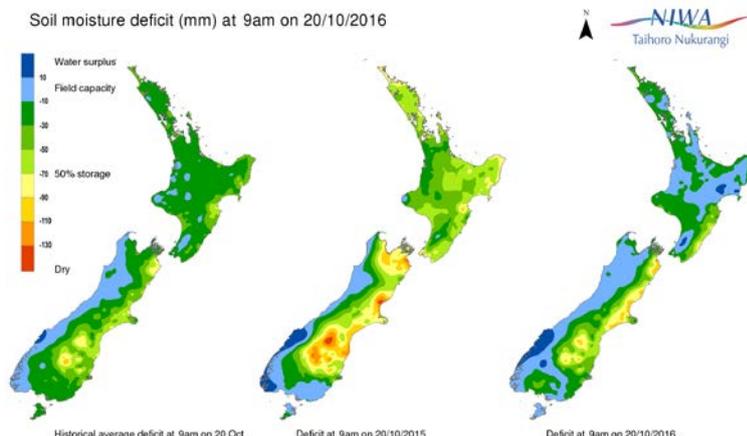
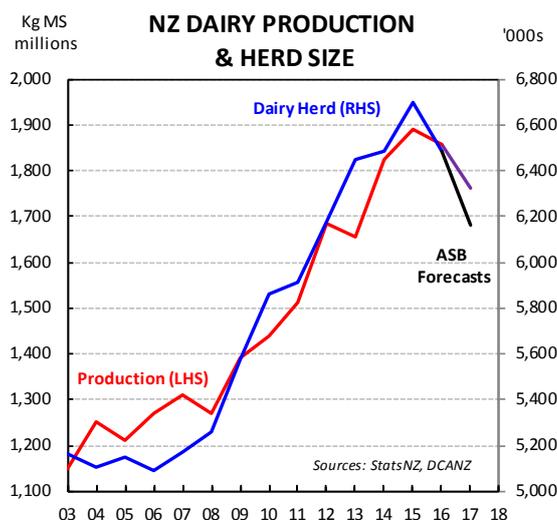
A large portion of the overall fall can be attributed to an 8% slide in skim milk powder. This dragged the Dairy Index down 1.6% over the week. **However, a similar-sized rise in prices at this week's dairy auction offsets this fall.**

Within the Sheep/Beef Index, all components – wool, lamb and beef – displayed some weakness with **the overall Sheep/Beef Index dipping 1.2% in USD terms.**

Looking at forestry prices, log prices were a tad lower, posting a 1.1% fall, while pulp prices were unchanged over last week.

### Currency Markets

The NZD edged down last week on further speculation that the Reserve Bank would cut the OCR in November. At the same time, the prospect for an interest hike from the US Federal Reserve increased, pushing the NZD even lower. However, the currency has rebounded this week, and **at the time of writing was trading at US\$0.7194.**



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