

Commodities Weekly

For the week ending Friday 14th December



2018: a year of two halves

NZ commodity prices strengthened through June, but then gave back all the gains

Commodity prices have been up and down – literally – over 2018. In the first half of 2018, the ASB New Zealand Commodity Price Index climbed 9.4% in NZD terms. Over the second half of 2018, however, the Index reversed most of this gain, falling 8.2%. In other words, the Index has effectively ended where it started.

Compared to long-run averages, however, 2018 commodity prices have fared well. The average level over 2018 has been comfortably above the 10-year average in both USD (+4.7%) and NZD (+12.3%) terms.

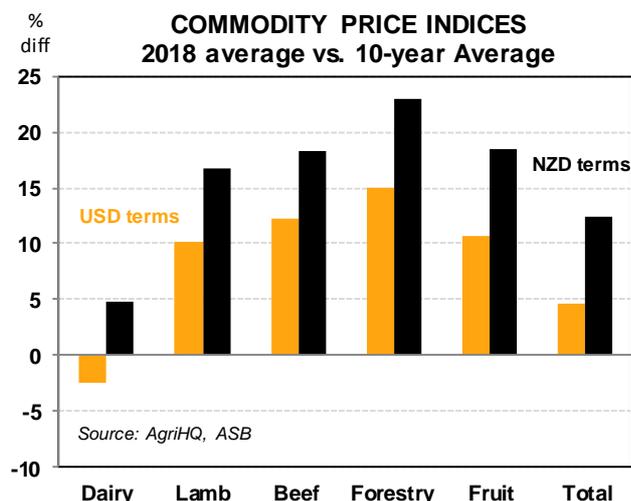
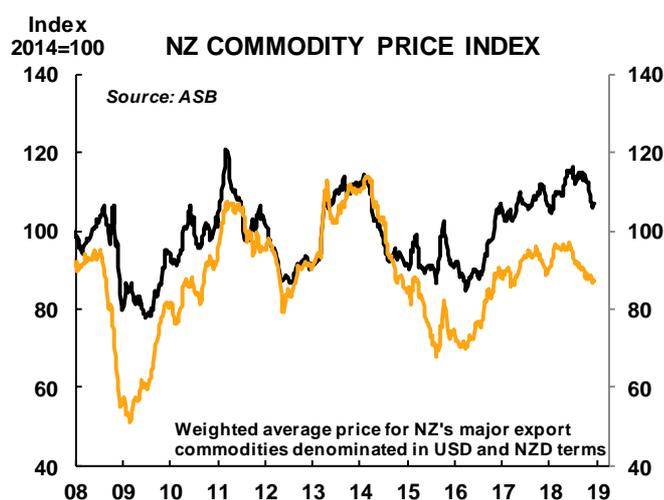
Moreover, the price firmness has been across most of the major commodities, at least in NZD terms. Dairy, lamb, beef, forestry, and fruit prices have all tracked above their 10-year averages over the year. In USD terms, that fact also holds, with the exception of dairy prices.

Forestry prices have been the 2018 star, with lamb, beef and fruit prices hot on its heels. Forestry prices have tracked 15% above the 10-year average in USD terms, while the other three have averaged at least 10% above their 10-year averages.

Meanwhile, **lamb prices hit record high levels in September.** Moreover, the record run continued for an extended period, with prices sitting above the previous record high for a whopping 10 weeks.

Meanwhile, **dairy prices have been 2018's laggard.** Indeed, dairy prices in USD terms have been on a downward trajectory since the start of the new season back in June.

Lastly, **the NZD has boosted all commodity prices.** The NZD has averaged 6.5% lower against the USD than its 10-year average. All up, **the price resilience to US-China trade tensions and slowing global growth has defined 2018.** Looking to 2019, we expect NZ commodity prices to soften a little as slowing global growth finally weighs on prices.



Week ending 14 December

The ASB Commodity Price Index rose 0.3% in NZD terms in the week ending 14 December. However, a 1.0% fall in the NZD against the USD accounted for the entire rise, with the Index actually down (0.7%) in USD terms.

Commodity prices were soft across the board in USD terms. Forestry and fruit led the falls, both dipping 1.0% in USD terms over the week. Dairy and Sheep/beef prices posted more modest falls of 0.6% and 0.2%, respectively.

Meanwhile, the NZD fell late last week following soft Chinese economic data. The NZD has largely maintained this level so far this week. As at the time of writing, the NZD was trading at US\$0.67780.

ASB New Zealand Commodity Price Indices As at Friday 14th December 2018

| | Index* | Week % | Year %** |
|----------------|--------|--------|----------|
| Total NZD | 106.8 | 0.3% | -1.1% |
| Total SDR | 96.1 | -0.2% | 0.5% |
| Total USD | 87.2 | -0.7% | -1.7% |
| Dairy USD | 76.5 | -0.2% | -9.0% |
| Sheep/beef USD | 92.6 | -0.6% | 0.8% |
| Forestry USD | 102.2 | -1.0% | 4.3% |
| Fruit USD | 102.7 | -1.0% | 15.2% |
| NZD/USD | 0.6797 | -1.0% | -0.6% |

* For all indices 2014 average = 100

** Percentage change since same week last year

Happy Holidays!

This is the final Commodities Weekly report for 2018. We will start up again in the week starting 7 January. On behalf of all the team at ASB Economics, we hope you enjoy your holidays and wish you all the best for 2019!

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