

Commodities Weekly

For the week ending Friday 14th February

Drought crimping agri's style

We now expect 2019/20 dairy production to finish up lower than in 2018/19

The NZ dry has deepened over the past week, prompting us to revise our dairy production growth forecast. We had previously expected 2019/20 production to equal 2018/19's, however, we now expect 2019/20 to finish up 0.5% behind.

This crimping of production and NZ supply will lift dairy prices as soon as next month in our view. So while we trimmed 2019/20 milk price forecast by 10 cents to \$7.40/kg earlier this week, the forecast change was the net price impact of coronavirus (down) and NZ drought (up).

Meat prices are taking a larger hit, continuing to decline on both the extra slaughter induced by the dry and the coronavirus disruptions to supply chains. For example, lamb prices have already fallen by around \$1.90/kg from the spring peak, compared to the normal \$1.25/kg seasonal decline.

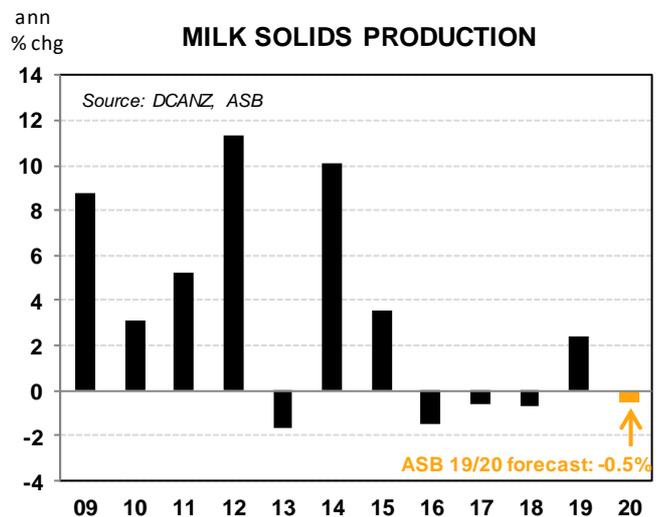
Meanwhile, a hot and dry summer can often boost production levels in the horticulture sector. That said, prices may fall as a result of the extra supply, while fruit quality is also key price-determining factor. We'll know more on this front as apple picking begins to ramp up over the next few weeks and as the kiwifruit harvest begins in a month or so.

Week ending 14 February

The ASB Commodity Price Index lifted in all denominations last week.

Dairy prices led the way, however a price drop at this week's auction has superseded this rise. Note, next week's Index will reflect the auction price fall. Meanwhile, Sheep/beef prices continued to fall on both virus concerns and the high seasonal and drought-related slaughter levels.

The NZD/USD rose last week following the relatively rosy Reserve Bank statement. However, this week the NZD has given back these gains, and is currently trading at **US\$0.6340**.



ASB New Zealand Commodity Price Indices As at Friday 14th February 2020

	Index*	Week%	Year%**
Total NZD	108.4	0.8%	6.3%
Total SDR	100.4	1.6%	1.0%
Total USD	98.9	1.3%	-0.3%
Dairy USD	104.8	3.7%	9.5%
Sheep/beef USD	90.1	-2.5%	-7.6%
Forestry USD	90.3	0.5%	-14.0%
Fruit USD	108.5	0.5%	3.0%
NZD/USD	0.6433	0.5%	-6.3%

* 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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