

Commodities Weekly

For the week ending Friday 18th May



EU free trade deal a step closer

EU negotiating mandate approved; FTA deal likely within 2 to 3 years

A free trade deal between NZ and the EU is a step closer.

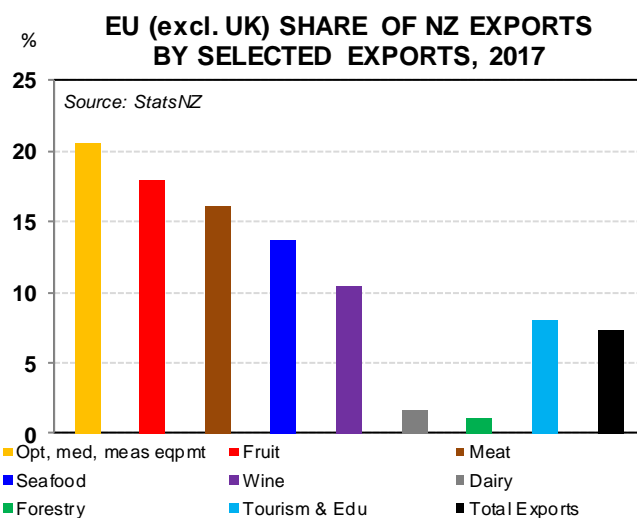
On Wednesday, the EU’s Foreign Affairs Council approved its negotiating mandate, paving the way for formal negotiations with NZ to begin later this year. From there, an FTA deal is likely within two to three years.

The potential gains for NZ from an EU FTA are significant.

The EU (excluding the UK) is NZ’s fourth-largest trading partner, with annual two-way trade of circa NZ\$16 billion.

NZ largest exports by value to the EU include meat (\$1.1bn); fruit (\$555m); and, tourism and education (\$1.3bn).

Notably though, the dairy and forestry EU export shares are low. This fact points to opportunities for these two export sectors to diversify their export mix into the EU.



The EU is also a key source of imports for NZ. The EU is the second-largest source of goods imports after China.

Importantly from a NZ perspective, **the announcement provides a modest counter to the rise in global protectionist rhetoric in recent years.** In addition, the FTA should eventually give a small boost to NZ commodity prices.

Week ending 18 May

The ASB Commodity Price Index hit a seven-year high in NZD terms last week. Indeed, since the start of 2017 the Index has lifted 8.5% and 5.9% in NZD and USD terms, respectively.

In particular, forestry and fruit prices are near record highs in NZD terms. Forestry prices are just 0.1% off their record highs, while fruit prices are just 0.9% back.

Meanwhile, the NZD/USD remains weak as the USD strength continues to dominate currency markets. This week, the NZD weakness has largely continued; **as at the time of writing, the NZD was trading at US\$0.6920.**

ASB New Zealand Commodity Price Indices As at Friday 18th May 2018

	Index*	Week %	Year %**
Total NZD	115.4	1.2%	7.0%
Total SDR	102.6	1.0%	3.8%
Total USD	95.8	0.4%	7.8%
Dairy USD	94.0	1.2%	3.6%
Sheep/beef USD	92.4	0.4%	8.2%
Forestry USD	101.8	-0.9%	6.8%
Fruit USD	104.0	-0.8%	14.8%
NZD/USD	0.6912	-0.8%	0.7%

* For all indices 2014 average = 100

** Percentage change since same week last year

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