Commodities Weekly

For the week ending Friday 18th September

The relative resilience of rural

The ASB Commodity Price Index fell a modest 0.1% in NZD terms last week, despite gains across a broad range of commodities in USD terms. The USD index rose a solid 1.4%, but the week also coincided with a strengthening in the kiwi as global risk appetite improved. The week's biggest mover were sheep/beef prices, up 2.1%. Dairy prices also enjoyed a 1.4% lift.

It was a big week for dairy, with the latest GDT auction on Wednesday and the Fonterra annual results both providing some signals about the direction of the milk price.

Fonterra finalised the 2019/20 milk price at $7.14, along with a 5c divided. For 2020/21, Fonterra has maintained its wide forecast range of $5.90 - $6.90. There is a lot of uncertainty in the current environment, given COVID-19's impact on consumer confidence and the potential for disruption in key markets, so it's understandable the co-op would stick with such a wide band. ASB's forecast is currently sitting towards the upper end of the range, at $6.75. However, we think the risks are skewed towards the downside, and will be watching the upcoming dairy auctions closely for signs things are likely to move closer towards the midpoint of Fonterra's price range. You can read our full coverage of the annual result here, including our analysis of the Fonterra's overall financial performance.

The prices of most key commodities remain well down on year-ago levels, but recent data has generally highlighted the relative resilience of the rural sector. In particular, our forestry index (covering logs, pulp and paper) is higher than it was twelve months ago. With NZ house prices shrugging off the recession thus far, and signs of a stronger-than-expected recovery in China, it is easy to see demand for timber remaining healthy. The meat price index is still down after its large falls earlier in the year. Even so, some components have proven resilient, with beef prices down a relatively modest 6% on an annual basis.

ASB New Zealand Commodity Price Indices

As at Friday 18th September 2020

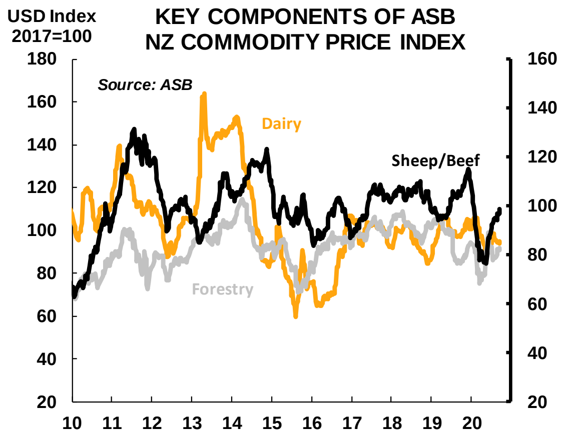
	Index*	Week %	Year %**
Total NZD	100.2	-0.1%	-8.8%
Total SDR	94.3	1.1%	-4.6%
Total USD	96.2	1.5%	-1.3%
Dairy USD	95.0	1.4%	-3.2%
Sheep/beef USD	98.8	2.1%	-5.0%
Forestry USD	91.6	1.1%	8.3%
Fruit USD	96.6	1.6%	-2.1%
NZD/USD	0.6776	1.6%	8.3%

** For all indices 2017 average = 100*

*** Percentage change since same week last year*

	2019/20		2020/21	
	Fonterra	Dividend	ASB	Fonterra
Milk Price*	$7.14	5c	$6.75	$5.90-$6.90

* per kg of milk solids (excluding dividend).



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Please refer to the important disclosures at the end of this document.

The latest ASB Regional Scoreboard showed rural regions with a presence in the primary sector at the top of the scoreboard, whilst the big urban centres generally tumbled. Our scoreboard measures regions across a range of economic statistics – everything from construction to new car sales – as a barometer to assess the performance of each New Zealand region. Over the June quarter, we saw activity fall or stagnate in the major urban regions, with Auckland, Wellington and Canterbury finishing in the bottom half of our scoreboard. Regions that were heavily dependent on tourist also suffered declines, like Nelson and Marlborough. By contrast, regions with a heavy presence in the primary sector did *comparatively* well, with Manawatu-Wanganui, Hawke's Bay, Gisborne and Taranaki topping the scoreboard. To see how well your favourite region is ticking, you can read our full write-up of the scoreboard here.

The primary sector's comparative resilience is unsurprising. **Most obviously, food production is an essential service, so most farmers can take comfort that whilst their peers in the service sector must face the possibility of further lockdowns, they can keep ticking over.** With borders largely closed to the movement of people, tourism is hurting, and that's having a negative flow-on effect on related sectors, like retail trade. **By contrast, goods exports have held up remarkably well.** Trade volumes will drop considerably this year, but far less than the 30% declines that were predicted earlier on in the COVID crisis (as noted by *The Economist*). Given our export sectors are particularly exposed to China – which has recovered from the pandemic far quicker than most – New Zealand's position is even better than most. Our current merchandise trade forecast suggests that export values actually *rose* 8.6% in August compared with the same time last year (we'll find out whether that's right on Thursday).

That's not to say everything is rosy – commodity prices have fallen considerably on what they were a year ago, and the pandemic will probably alter consumer behaviour in unpredictable ways. All up though, the rural sector continues to weather the storm better than its urban cousins.

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