

Commodities Weekly

For the week ending Friday 19th April



Capital Gains: Government's tax-tical retreat

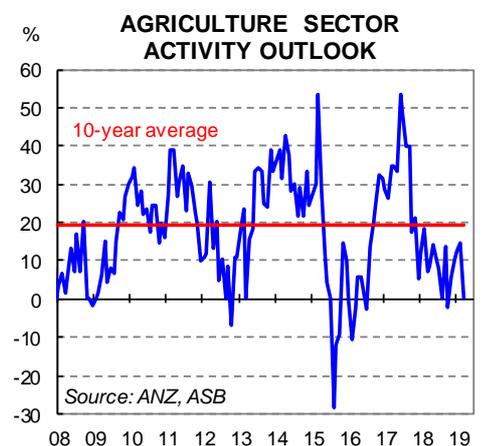
Coalition's backdown may help lift farmer confidence

The government has made the surprise announcement it will not implement a Capital Gains Tax (CGT). The Prime Minister stated that no government led by her would introduce a CGT. This means we are unlikely to see a CGT enacted even if a Labour-Greens government is formed without the support of New Zealand First after the next election. The PM has made a strategic decision to focus on other priorities, so **the prospect of a CGT in NZ is dead for now.**

Farmers have largely welcomed the news, so we expect confidence in the agri-sector to rise. As [we discussed](#) three weeks ago, uncertainty around government policy has been a key factor weighing on confidence in the agricultural sector. The PM's decision will provide farmers with some clarity,

and accordingly, we expect sentiment to improve in the coming months. Still, with the US-China spat ongoing, global growth slowing, and the prospect of higher interest rates in the agri-sector on the horizon (driven by proposed new bank capital requirements), confidence among farmers is unlikely to return to pre-election highs.

The shelving of the CGT plans is likely to lead to a lift in investment activity in the agri-sector. The expectation of higher taxes in the future may have deterred farmers from making new investments, so the news may trigger an uptick in activity moving forward. We could also see a boost in rural land sales, as land starts to look more attractive to buyers. **The upshot is that rural land prices are likely to lift; both relative to current levels and relative to what they would have done if the CGT had gone ahead.**



Week ending 19 April

The ASB Commodity Price Index rose in NZD terms (+0.9%), helped by a fall in the NZD/USD (-1.1%) after a soft CPI print.

The USD index was down, led by a big drop in forestry prices. Forestry prices fell 2.9%, with the overall USD index down 0.2%. Falls in prices for fruit (-1.1%) and sheep/beef (-0.9%) also drove the index lower. **By contrast, Dairy prices rose 1.4%.**

The NZD/USD has continued to drift lower. It was 0.6670 at the time of writing.

ASB New Zealand Commodity Price Indices As at Friday 19th April 2019

	Index*	Week %	Year %**
Total NZD	107.9	0.9%	7.3%
Total SDR	102.3	0.0%	2.3%
Total USD	102.2	-0.2%	-2.4%
Dairy USD	106.2	1.4%	6.1%
Sheep/beef USD	95.4	-0.9%	-11.3%
Forestry USD	100.8	-2.9%	-7.3%
Fruit USD	102.6	-1.1%	-3.0%
NZD/USD	0.6688	-1.1%	-9.1%

* For all indices 2017 average = 100

** Percentage change since same week last year

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