

Commodities Weekly

For the week ending Friday 17th April

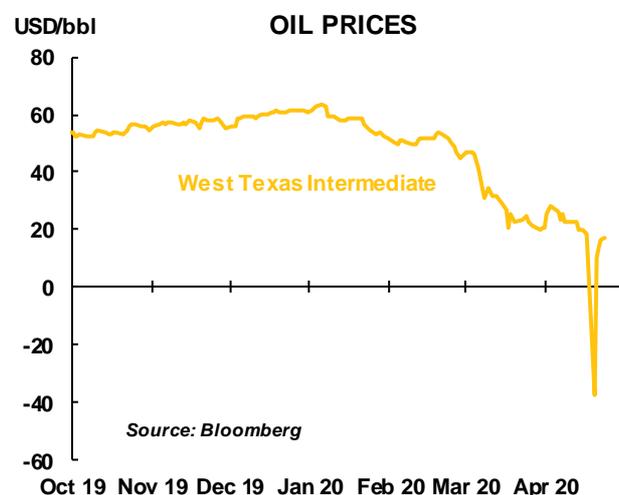


Plunging oil prices ultimately grease NZ's wheels

Lower oil and fuel prices ultimately boosts disposable incomes and food demand

In a year of unprecedented events, this week commodity markets added another to the list. West Texas Intermediate (WTI) oil prices traded in negative territory on Tuesday (NZT) for the first time ever.

Already reeling from plunging prices over 2020, WTI oil prices traded as low as -\$US40/barrel at one stage. The fall over 2020 owes to the COVID-19-induced collapse in global demand, while major producers also failed to agree on supply cuts quickly enough to stem the tide. And while OPEC has now agreed to supply cuts, they have yet to kick-in. The resulting temporary squeeze on almost full global storage has seen the plunge this week into negative territory. For example, the main US storage hub has gone from 50% full to 79% in just four weeks.



For NZ, the impact is mixed. But in our view, **we anticipate the net impact of plunging oil prices ultimately will prove positive for NZ commodity prices.** Indeed, we expect that lower oil and thus fuel prices will boost consumers' disposable incomes in our key markets and in turn lead to higher food demand. Moreover, NZ's key export markets, notably China, are net oil importers.

On the flipside, **we anticipate lower oil prices may hurt food demand in some markets, but not enough to offset the increased demand outlined above.** For example, lower Middle East incomes may lead to falling demand, although we continue to note that households are still likely to be prioritising food over luxuries for example. Meanwhile, from a supply perspective lower energy costs reduces the competitiveness of the US ethanol industry. As the ethanol industry competes for grain with the US farming industry, this is likely to see lower feed costs for US farmers.

NZ is a net oil importer so the impact on the NZ economy from that perspective will be positive. Note NZ exports some oil, but the quantity has fallen to such a low level that we removed oil from our Commodity Index back in 2019.

Turning back to NZ commodity prices, **we do acknowledge that there may be short-term contagion or a confidence impact on NZ commodity prices.** For example, overall dairy auction prices fell 4% this week. Ultimately, though we expect demand fundamentals to dominate and as consumers disposable incomes improve so should food demand and thus (NZ commodity) prices.

Week ending 17 April

The ASB Commodity Price Index declined in all denominations last week. The Index fell 1.9% in USD terms, while a declining NZD/USD meant the Index was down a more modest 1.1% in NZD terms.

All Index components recorded price falls in USD terms.

Sheep/beef prices continue their 2020 slide, dipping 3.1%, while dairy prices also fell 2.2%. Forestry and fruit prices both fell 0.8%.

The NZD fell last week, ending the week up 0.8% against the USD. This week the NZD has traded in a relatively tight range.

As at the time of writing, NZD was trading at US\$0.6010.

ASB New Zealand Commodity Price Indices As at Friday 17th April 2020

	Index*	Week%	Year %**
Total NZD	103.9	-1.1%	-3.4%
Total SDR	90.5	-1.7%	-11.3%
Total USD	88.9	-1.9%	-12.8%
Dairy USD	95.1	-2.2%	-10.4%
Sheep/beef USD	78.7	-3.1%	-17.4%
Forestry USD	79.1	-0.8%	-21.6%
Fruit USD	104.0	-0.8%	5.8%
NZD/USD	0.6034	-0.8%	-9.8%

* 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

@ASBMarkets

Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.