

# Commodities Weekly

For the week ending Friday 20<sup>th</sup> November



## Standing tall

### Forestry prices have weathered the COVID storm better than most

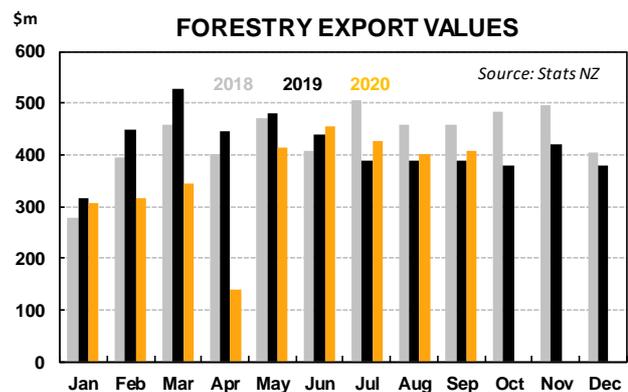
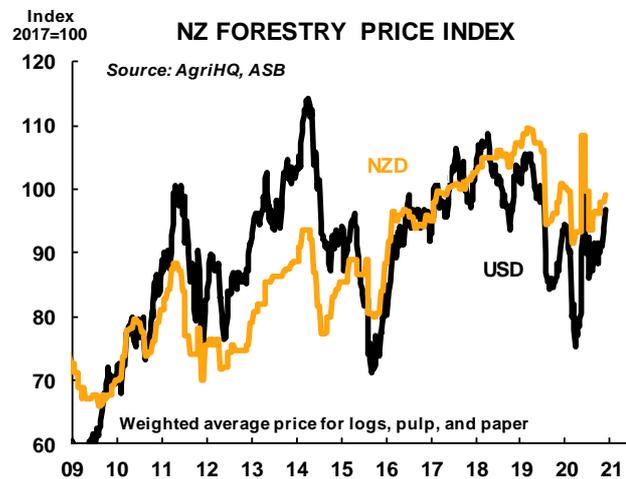
We've highlighted how the prices of many key commodities have held up surprisingly well post-pandemic, but one sector stands out: forestry.

Whilst prices for many commodities are still down substantially on year-ago levels, forestry prices are not far off where they were pre-pandemic. The AgriHQ Forestry Price index is up solidly in USD terms (+6.7%) and down only slightly in NZD terms (-1.7%), amid the strong kiwi. That's an impressive recovery given underlying USD prices fell by as much as 29% when the pandemic hit and activity ground to a halt.

The price recovery – along with resilient volumes – has helped export values outperform last year, and there may be further upside ahead. Recent data suggests the economy recovery in China (by far New Zealand's largest export market) is maintaining momentum, with industrial production beating expectations in October. Our colleagues at CBA have revised up their Chinese GDP forecast in recent weeks.

The ongoing China-Australia trade dispute may also carry an upside for New Zealand exporters. Aussie timber has been among the commodities targeted by China as part of the dispute. Queensland timber exports were banned earlier in November, and Victorian timber exports have since been indefinitely suspended amid a bark beetle discovery. Our friends at AgriHQ note that the measures are likely to put a big hole in Chinese log supply, and New Zealand could be a beneficiary as China seeks to plug that gap.

**Bumper NZ housing construction is another boon for the sector.** Construction data at the beginning of the month showed building consents holding up to their pre-COVID levels, which isn't surprising given our chronic housing shortage, and record low interest rates. We'll be watching out for the next building consents data release, out in just over a week on 3<sup>rd</sup> December.



## Higher NZD/USD looms

Having already hit two-year highs last week, the NZD/USD has continued to rise this week and was sitting at around 0.6973 at the time of writing. The optimistic tone has supported the NZD/USD of late, as the positive vaccine news has continued to trickle out, and the light at the end of the tunnel comes into focus (despite the near-term threat of COVID-19 as we enter the Northern Hemisphere winter). The NZD tends to move in line with the global economic growth outlook, so the recent trend is not a surprise.

The NZD is benefitting from a number of other key supports. The ongoing resilience of the New Zealand economy is one support, as are our Terms of Trade, which hit record highs in Q2 and should remain elevated. Markets are also increasingly sceptical that the RBNZ will take the OCR into negative territory next year.

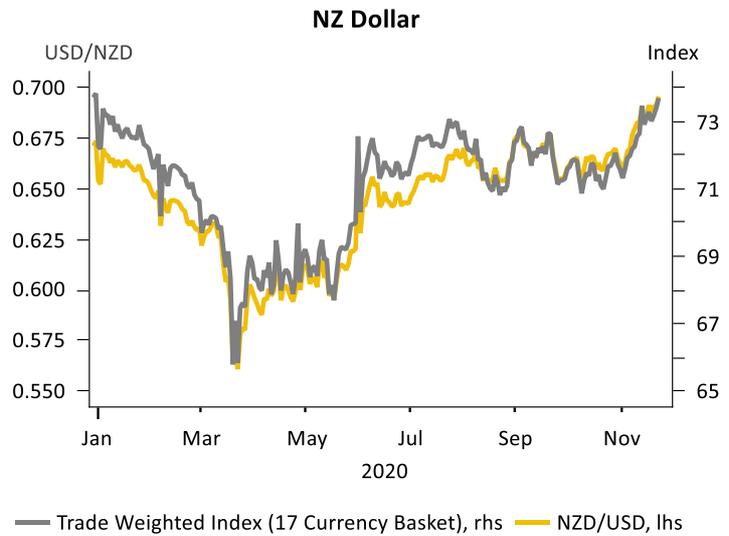
The upshot is our CBA colleagues have revised their currency forecasts upwards and foresee a broadly higher NZD/USD. The team expect the NZD/USD to trend to around 0.6900 out to the end of 2020, before gradually moving higher over 2021, hitting 0.7100 over the long run. That's one headwind that exporters may have to contend with moving forward.

A reminder too that you can keep up to date with our currency outlook by subscribing to our Economic Weekly [here](#).

## ASB Commodities Index

The ASB Commodities index was unchanged in NZD terms last week, as a lift in the NZD muted the impact of price rises for underlying commodities. The USD index rose 1.6%, and the NZD/USD lifted by exactly the same amount. Dairy prices advanced 0.9% after the decent auction result last week. The forestry indices lifted 2.9% USD terms and 1.3% in NZD terms over the week in line with the sector's impressive performance of late.

As we noted above, the NZD/USD has continued to advance this week. As the time of writing, the NZD/USD had reached around 0.6973 in the aftermath of Grant Robertson's announcement he had asked the RBNZ to consider house price stability as a factor in formulating monetary policy. Markets felt this diminished the prospects for future OCR cuts, and we saw the kiwi appreciate accordingly.



Source: Macrobond, ASB

## ASB New Zealand Commodity Price Indices As at Friday 20<sup>th</sup> November 2020

	Index*	Week %	Year %**
Total NZD	100.6	0.0%	-12.7%
Total SDR	96.4	1.4%	-8.9%
Total USD	99.1	1.6%	-5.4%
Dairy USD	97.9	0.9%	-7.1%
Sheep/beef USD	98.7	1.6%	-12.3%
Forestry USD	96.7	2.9%	6.5%
Fruit USD	104.1	1.6%	-5.1%
NZD/USD	0.6944	1.6%	8.3%

\* For all indices 2017 average = 100

\*\* Percentage change since same week last year

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