

Commodities Weekly

For the week ending Friday 19th November

Mind the gap

Yesterday, the RBNZ hiked the OCR another 0.25%. With inflationary pressures continuing to mount and the labour market looking resilient, the Bank opted for the second hike of the tightening cycle and signalled its willingness to tighten monetary policy further. That result was broadly in line with our expectations but was actually on the more dovish side of market expectations, which had been pricing a decent chance of a 50bp lift. The RBNZ judged that wasn't necessary, given both wholesale and retail interest rates have already lifted sharply, doing much of its tightening work for it.

Further hikes are coming, though the market may be getting

a little ahead of itself. With inflation threatening to remain outside the RBNZ's target band for a prolonged period, the RBNZ projects the OCR to end 2023 at roughly 2.6%.

There is little doubt about the direction of travel, but there are a few risks that could slow the pace of hikes in future (slowing house prices being one prime candidate) and we see a [risk](#) that the OCR peaks at a lower level (around 2%) than either the RBNZ or the market consensus.

Given the degree to which retail interest rates have already lifted, we may be getting to the point where the horse has largely bolted when it comes to locking in fixed interest rate loans. Businesses, households and farmers will need to think carefully about the value of that extra certainty versus its cost

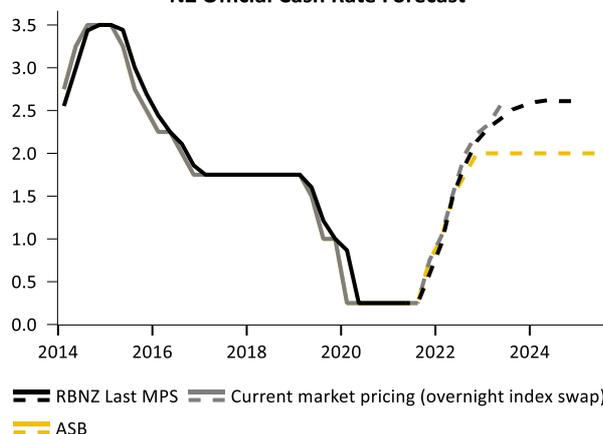
Still, with the RBNZ comparatively quicker than other central banks in hiking rates, our friends at CBA have revised

up their NZD forecast last week. The RBNZ now has two 25bp hikes on the board, while most other central banks are many months away from doing the same. That's a boon for the Kiwi given local interest rates will remain north of those overseas. As a result, instead of the NZD/USD remaining south of 0.700 out to the latter half of next year, it's now forecast to lift to a peak of 0.750 by the end of 2022.

Higher interest rates and a less favourable exchange rate will widen the gap between the current agri-sector

winner and losers. In the dairy and meat sectors, prices have touched multi-year highs and export volumes are proving resilient to freight disruption. Gains in revenue in these sectors are generally likely to more than offset the financial impact of rising costs and a less favourable exchange rate this season. For dairy that's doubly the case given Fonterra is well hedged for the season ahead. In some other primary sectors though – think seafood, some horticulture and potentially forestry – that's less likely to be the case, given global prices aren't making the same gains and export volumes have been more capacity constrained. Mind the gap.

NZ Official Cash Rate Forecast



Source: Macrobond, ASB

ASB Commodities Index

The ASB Commodities Index hit yet another new high this week, passing the 122 level for the first time in NZD terms, a whopping 20% gain on a year ago. It's largely dairy sector strength underpinning those gains, with underlying dairy prices up another 0.9% in USD terms off the back of last week's GDT auction lift. That was more than enough to offset another modest decline in sheep and beef prices from their historic high. Our USD index lifted 0.3%.

With NZD/USD also experiencing a 0.3% decline over the week, our NZD index lifted by 0.6% in aggregate.

ASB New Zealand Commodity Price Indices As at Friday 19th November 2021

	Index*	Week %	Year %**
Total NZD	122.0	0.6%	19.9%
Total SDR	120.3	0.7%	23.4%
Total USD	121.2	0.3%	21.1%
Dairy USD	132.2	0.9%	35.1%
Sheep/beef USD	127.1	-0.3%	28.7%
Forestry USD	97.5	-0.3%	0.8%
Fruit USD	99.1	-0.3%	-18.1%
NZD/USD	0.7014	-0.3%	1.0%

* For all indices 2017 average = 100

** Percentage change since same week last

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