

# Commodities Weekly

For the week ending Friday 22<sup>nd</sup> June



## Short-term gain, but long-term pain

### Global trade tensions: NZ commodity prices could rise in the short term

**Global trade tensions have risen further over the past few weeks.** For NZ, the escalation in tensions is becoming more real as agricultural products are being included in the US and China protectionist measures. Notably, China's most recent tit-for-tat move includes 25% tariff increases on selected US agricultural imports, including increases for beef and dairy products.

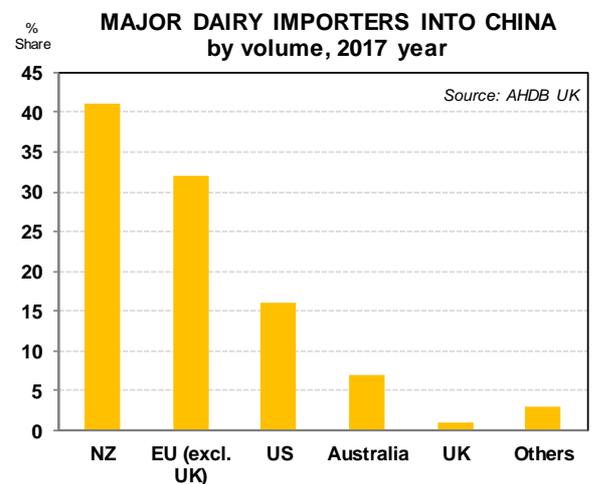
Ironically, **NZ commodity prices stand to gain in the short term** ([click here more detail](#)). Higher tariffs make US goods more expensive in the key Chinese market, and as this happens NZ goods become relatively cheap, boosting their demand. NZ commodity prices are likely to then rise as a result.

By product, **NZ dairy commodity prices could gain the most.** The US is the third-leading exporter to China, after the NZ and EU. Indeed, NZ – as the largest dairy exporter to China – is poised to gain the most from the proposed tariff increase. Meanwhile, the impact on US beef exports to China is likely to be smaller as the US is not a major exporter to China. Nonetheless, **NZ, Australia as well as Brazil stand to gain modestly** as Chinese beef demand is growing fast and the tariffs on US imports will reinforce these positions.

In addition, Chinese tariffs on US alfalfa imports – a key input into Chinese agricultural production systems – are ultimately likely to boost demand and prices for NZ dairy, beef and lamb. **This dynamic is occurs as higher inputs costs weaken the competitive position of China's domestic producers relative to NZ producers.** In turn, this move is likely to dampen Chinese domestic agricultural production, meaning more imports will be needed to fill the gap.

The trade tensions are also impacting on currencies, with for example the NZD/USD dipping over two cents over the past two weeks. If this move persists, **returns to NZ producers will be higher again in NZD terms.** For example, a one-cent dip in the NZD/USD increases the farmgate milk price by around 13c/kg at current dairy commodity prices.

However, **it's not all one-way traffic.** The increasing trade tensions pose material risks to global economic growth. If this risk eventuates, then global demand, including for NZ commodities, could fall and prices could weaken, in turn. Moreover, the currencies of some of our key export partners are also weakening against the USD, making commodities priced in USD more expensive, and potentially offsetting some increased demand described above. All up, **the escalation in trade tensions could lead to some short-term gain, but at the expense of long-term pain for NZ commodity prices.**



## Week ending 22 June

The ASB Commodity Price Index dipped 0.6% in USD terms in the week ending 22<sup>nd</sup> June. This fall was offset by a weaker NZ dollar, with the Index effectively flat in NZD terms.

### Softer dairy prices led the commodity price fall in USD terms.

Cheddar and Anhydrous Milk Fat prices led the fall, dipping 4.5% and 3.8%, respectively. Forestry and fruit prices both fell 0.6%, while sheep/beef prices fared better, and were effectively unchanged over the week in USD terms.

### The NZD weakened on the back of heightened US-China trade concerns last week.

This weakness has continued into this week. As at the time of writing, the NZD/USD was trading at 0.6780.

## ASB New Zealand Commodity Price Indices As at Friday 22<sup>nd</sup> June 2018

	Index*	Week %	Year %**
Total NZD	114.5	0.0%	7.0%
Total SDR	102.4	-0.6%	-0.1%
Total USD	95.0	-0.6%	2.0%
Dairy USD	91.6	-1.1%	-1.5%
Sheep/beef USD	95.5	-0.1%	1.5%
Forestry USD	101.8	-0.6%	-0.1%
Fruit USD	97.1	-0.6%	2.1%
NZD/USD	0.6908	-0.6%	-4.7%

\* For all indices 2014 average = 100

\*\* Percentage change since same week last year

### ASB Economics & Research

Chief Economist  
Senior Rural Economist  
Senior Economist  
Senior Economist  
Senior Economist, Wealth  
Economist  
Data & Publication Manager

Nick Tuffley [nick.tuffley@asb.co.nz](mailto:nick.tuffley@asb.co.nz)  
Nathan Penny [nathan.penny@asb.co.nz](mailto:nathan.penny@asb.co.nz)  
Jane Turner [jane.turner@asb.co.nz](mailto:jane.turner@asb.co.nz)  
Mark Smith [mark.smith4@asb.co.nz](mailto:mark.smith4@asb.co.nz)  
Chris Tennent-Brown [chris.tennent-brown@asb.co.nz](mailto:chris.tennent-brown@asb.co.nz)  
Kim Mundy [kim.mundy@asb.co.nz](mailto:kim.mundy@asb.co.nz)  
Judith Pinto [judith.pinto@asb.co.nz](mailto: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](http://www.asb.co.nz/economics)

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