

# Commodities Weekly

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



## Distortions on top of distortions

### President Trump pledges \$12bn aid program to offset retaliatory tariff impacts

In a further muddying of the US-China trade waters, President Trump has pledged this week to provide a \$12bn aid package to US farmers impacted by Chinese tariffs. The \$12bn package would offset the estimated \$11bn impact on US crop, fruit, nut and livestock farmers from the Chinese tariffs on US agricultural goods. The package includes a mix of direct payments to farmers, commodity purchases for food-aid programs, and stepped-up promotion of new export markets.

In terms of distortionary impacts on trade, **the package ranges from benign to quite distortionary**. Specifically, direct payments, if decoupled from production, are less distortionary, while promotion of new export markets falls more into the export subsidy basket. As a result, some of the proposed support may be challengeable at the WTO.

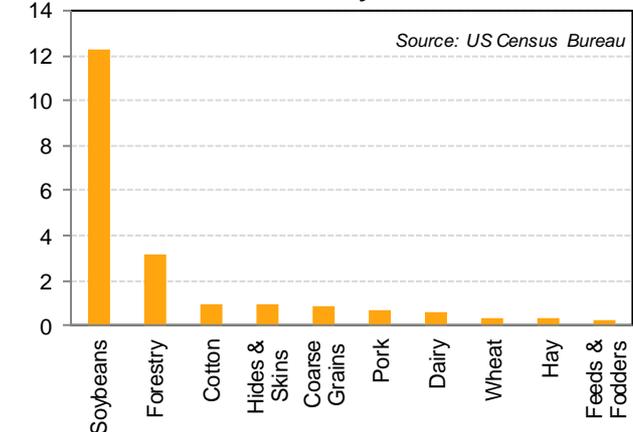
That said, from a NZ point of view, we anticipate that the package will have a small to negligible negative impact on NZ beef and dairy exports. Firstly, the US dairy and beef industries are likely to receive a relatively small share of the total support package. Indeed, the US soy industry is likely to grab the lion's share of the support package as it accounts for more US exports to China than the next 10 products combined. Soy bean prices, for example, have plunged around 20% since China first announced the tariffs back in April.

Secondly, **the US is not a key competitor for NZ in the Chinese dairy and beef markets**. The US exports very little beef to China, having just re-entered the market after a 14-year ban following a mad cow disease outbreak in the US. Meanwhile, its dairy exports are largely confined to products where NZ has a relatively small market share.

That all said, **the aid package represents another ratchet up of protectionist measures, which increases the risk of further tit-for-tat measures**. In turn, further protectionist measures risk derailing otherwise firm global growth.

**This potential slowing in global growth is the key risk to risk to NZ commodity export prices**. Specifically, slower global growth is likely to translate into weaker demand for NZ exports, and thus lead to lower prices. However, there has been one positive development on the trade front. That is the unexpectedly successful trade meeting between President Donald Trump and EU President Jean-Claude Juncker on 26 July has raised hopes that a much bigger trade war can be averted.

US\$ billions **US AGRICULTURAL EXPORTS TO CHINA**  
2017 year



## Week ending 20 July

The ASB Commodity Price Index fell in all denominations in the week ending 20<sup>th</sup> July. All up, the Index dipped 0.8% and 1.5% in USD and NZD terms, respectively.

Weak dairy prices accounted for most of the fall. Butter prices were particularly weak, crashing nearly 16% in USD terms, while anhydrous milk fat prices also fell around 5%. Meanwhile, sheep/beef prices were the best-performed Index component (up 1.1%), with rising lamb prices (up 1.7%) leading the way.

The NZD firmed against most currencies last week. This strength followed a pick-up in NZ's core inflation data over Q2. The NZD/USD has weakened a little this week, and at the time of writing was trading at US\$0.6785.

## ASB New Zealand Commodity Price Indices As at Friday 20<sup>th</sup> July 2018

	Index*	Week %	Year %**
Total NZD	112.1	-1.5%	5.3%
Total SDR	99.3	-0.8%	-3.1%
Total USD	91.7	-0.8%	-2.4%
Dairy USD	84.3	-3.0%	-9.9%
Sheep/beef USD	96.2	1.1%	0.2%
Forestry USD	101.4	0.7%	-2.1%
Fruit USD	98.0	0.7%	9.5%
NZD/USD	0.6809	0.7%	-7.3%

\* 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)

@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.