

# Commodities Weekly

For the week ending Friday 21<sup>st</sup> September

## Reserve Bank cautiously on hold

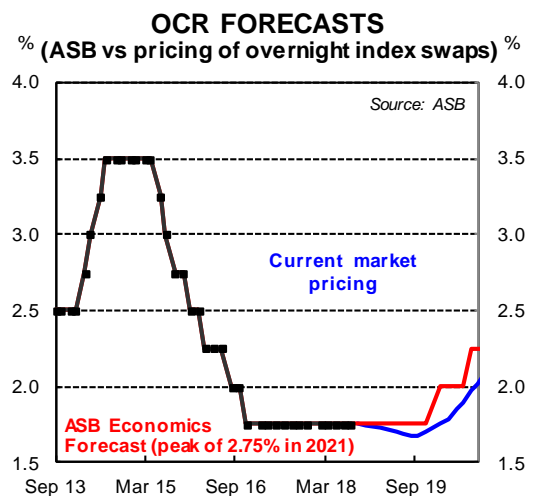
### RBNZ keeps OCR on hold at 1.75%

In yesterday's announcement the Reserve Bank (RBNZ) kept the Official Cash Rate (OCR) on hold at 1.75%. This announcement along with its continued neutral bias was largely as we and markets expected.

As a result, market reaction to the announcement was muted. The bellwether 2-year swap yield fell 1bp to 2.04%, while the NZD/USD lifted by around 10 pips to US\$0.6670.

Looking ahead, the RBNZ is wary of risks to its outlook. If anything, the RBNZ continues to signal that the risks are skewed towards an OCR cut, potentially in 2019. Primarily this risk centres on whether or not growth lives up to RBNZ expectations over the second half of 2018.

For our part, we continue to expect the RBNZ will keep the OCR on hold until early 2020 compared to the RBNZ's forecasts which show a late 2020 start to its hiking cycle. We expect that inflation pressures will pick up sooner than the RBNZ. In particular, we expect a greater degree of wage inflation and subsequent flow-through to consumer prices.



### Week ending 21 September

The ASB Commodity Price Index fell 1.9% in NZD terms the week ending 21<sup>st</sup> September. Notably most of the fall owed to a 2.1% rise in the NZD/USD, with the Index largely unchanged in USD terms.

By component, commodity prices were mixed. Dairy prices fell 1.2% in USD terms over the week, with whole milk powder and cheddar prices both dipping over 2%. In contrast, sheep/beef prices lifted 1.2%. Forestry prices, meanwhile, were largely unchanged over the week.

Meanwhile, the NZD/USD rose last week on the back of strong Q2 GDP data. This week the NZD has given back some of the gains as the USD has strengthened following the hike in rates by the US Federal Reserve. As at the time of writing, NZD was trading at US\$0.6610.

### ASB New Zealand Commodity Price Indices As at Friday 21<sup>st</sup> September 2018

	Index*	Week %	Year %**
Total NZD	112.2	-1.9%	4.0%
Total SDR	97.6	-0.1%	-3.2%
Total USD	90.1	0.2%	-4.6%
Dairy USD	81.1	-1.2%	-12.3%
Sheep/beef USD	99.2	1.2%	2.6%
Forestry USD	97.1	0.1%	-5.1%
Fruit USD	94.4	2.1%	-5.4%
NZD/USD	0.6686	2.1%	-8.3%

\* For all indices 2014 average = 100

\*\* Percentage change since same week last year

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