

# Commodities Weekly

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



## An update on our views

### We've made some revisions to our economic forecasts.

Recent developments have strengthened our view that inflationary pressures are set to persist for a prolonged period. Having pushed freight costs up to record highs over recent months, stretched shipping capacity looks set to remain an issue well into next year. Meanwhile, the labour market remains tight, housing-related inflation looks set to firm, and commodity prices are still surging.

### We now expect annual inflation to hit near the 6% mark by the end of the year – potentially remaining above the RBNZ's 1-3% target out to 2023.

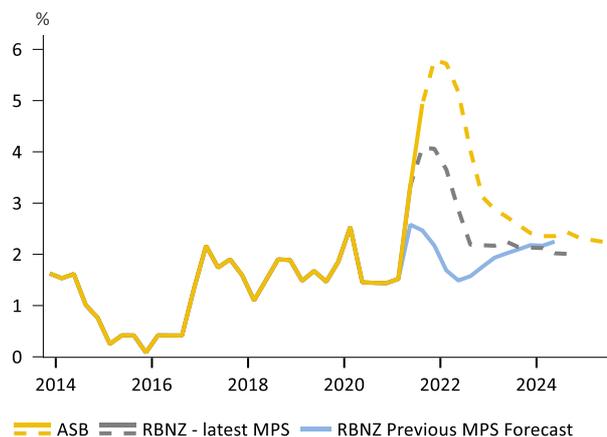
Having lifted the OCR for the first time in seven years at the beginning of the month, we now expect the RBNZ will speed up the pace of further hikes, taking the OCR to a higher end point. We see the now peaking at 2% late next year. In short, interest rates look set to rise higher, faster.

**We've also revised our view on the forestry market and expect prices to normalise further from here.** Q3 economic data in China released last week points to slowing growth, with industrial production weaker than expected, investment in infrastructure contracting, and the property market undergoing a downturn. While we expect Chinese economic growth to rebound somewhat, the Chinese property downturn is likely to continue into Q4 which is a bearish signal for log prices. We no longer expect that the looming absence of Russian logs from the export market from the end of the year will be sufficient to boost prices back around the highs they hit earlier in the year.

**Another development last week was the news that the UK and NZ have finalised a post-Brexit free trade agreement.** Under the agreement, the existing wine and fish tariffs are eliminated immediately, with tariffs and quotas for mussels, apples and dairy product progressively eased, culminating in the removal of beef and sheepmeat tariffs by the deal's fifteenth year.

**While it is positive to see more progress towards the elimination of agricultural tariffs globally, we expect gains from this specific deal to be modest.** The biggest gains are likely to be for our largest UK-bound export wine sector, which is subject to a range of tariffs at present depending on the variety, all of which will be removed on day one. For our other big export category to the UK, lamb, there's not much to say given NZ lamb exports already looked set to stay below the existing Country Specific Tariff Quota, incurring 0% duty. For dairy produce, it is worth noting the UK is not a major export destination (not even featuring among NZ's ten largest), and we expect NZ's exports to remain China-centric.

Consumer Price Index Inflation Forecasts



Source: Macrobond, ASB

## ASB Commodities Index

Currency movement saw the NZD-denominated ASB commodities index ease a little more off the record highs it hit at the beginning of October. Our underlying USD index lifted 0.7% over the week, but the effect was undone by a 1.2% appreciation in the NZD over the week, helped by a strong CPI reading on Monday.

Despite the generalised strength in commodity markets over recent weeks, price trends were mixed last week. Sheep and beef prices are still on a tear, +1.9% in USD terms. On the other hand, forestry prices have been crimped amid surging freight costs and a less frothy outlook for the Chinese construction sector. USD dairy prices edged up off the back of a decent auction (recall we've lifted our farmgate price forecast for the season to \$8.75/kgms).

## ASB New Zealand Commodity Price Indices As at Friday 22<sup>nd</sup> October 2021

	Index*	Week %	Year %**
Total NZD	117.0	-0.5%	14.2%
Total SDR	116.2	0.4%	23.0%
Total USD	118.5	0.7%	22.7%
Dairy USD	122.3	0.8%	26.9%
Sheep/beef USD	130.5	1.9%	36.3%
Forestry USD	99.5	-1.8%	8.6%
Fruit USD	105.0	1.2%	-4.2%
NZD/USD	0.7153	1.2%	7.4%

\* For all indices 2017 average = 100

\*\* Percentage change since same week last

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