

Commodities Weekly

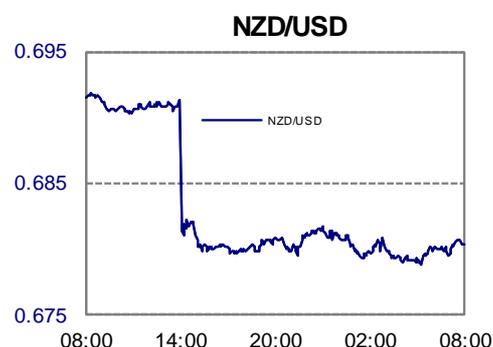
For the week ending Friday 22nd March



RBNZ prepares to stick its Orr in, sending NZD down

Frustrated by soft growth, the RBNZ signals it is willing to cut the OCR

The RBNZ left interest rates unchanged yesterday, and explicitly said it was more likely to cut rates in the near future than hike them. The RBNZ cites a number of risks to the economic outlook, including soft business confidence and weaker global growth. Solid Terms of Trade are still supporting the economy (thanks to high commodity prices), but with the shift in messaging by the RBNZ, we now anticipate an OCR cut in August – with the risk the RBNZ cuts as soon as May. At the least, OCR cuts will partially offset some of the increase in bank funding costs which are expected to arise as a result of the proposed changes in bank minimum capital requirements. **Nonetheless, we expect most borrowers will likely face an increase in borrowing costs over the coming years.**



The NZD moved downward sharply following the RBNZ's announcement on Wednesday at 2pm

The dollar was down sharply on the RBNZ news. The NZD slid against major crosses and remains subdued. The NZD fell against the USD, declining from USD\$0.6910 down to around 68 US cents. **If the NZ dollar remains subdued against the greenback, Kiwi exporters selling in USD are set to benefit.**

Still, despite the RBNZ's move, there are a number of supports that should stop the value of the NZD from heading too far south. NZ's Terms of Trade remain at high levels, acting as a major support to the NZD. The NZD tends to track commodity prices closely and these look set to remain high – particularly for the dairy sector, where global dairy trade auction results continue to show bumper price growth.

Week ending 22 March

The ASB Commodity Price Index was up in USD and NZD terms. The USD index increased 1.2%, whilst the NZD index rose 0.8%.

The USD index was led by a big increase in dairy prices, up 2.1% after a solid auction result. Sheep/beef prices (up 1.2%), and Fruit also rose (up 0.5%). **Forestry was the exception, with prices falling slightly for the first time this year.**

The NZD/USD rose 0.5%, so the gain for the NZD index was more muted. As discussed above, the NZD fell sharply this week after the RBNZ's comments. **The Kiwi was trading at USD\$0.6800 at the time of writing.**

ASB New Zealand Commodity Price Indices As at Friday 22nd March 2019

	Index*	Week%	Year%**
Total NZD	104.8	0.8%	2.7%
Total SDR	101.8	1.3%	2.0%
Total USD	102.1	1.2%	-2.1%
Dairy USD	102.7	2.1%	3.2%
Sheep/beef USD	96.0	1.2%	-10.4%
Forestry USD	105.6	0.0%	-1.0%
Fruit USD	105.5	0.5%	-8.0%
NZD/USD	0.6877	0.5%	-4.7%

* For all indices 2017 average = 100

** Percentage change since same week last year

ASB Economics & Research

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

Nick Tuffley
Nathan Penny
Jane Turner
Mark Smith
Chris Tennent-Brown
Judith Pinto

nick.tuffley@asb.co.nz
nathan.penny@asb.co.nz
jane.turner@asb.co.nz
mark.smith4@asb.co.nz
chris.tennent-brown@asb.co.nz
judith.pinto@asb.co.nz

Phone

(649) 301 5659
(649) 448 8778
(649) 301 5853
(649) 301 5657
(649) 301 5915
(649) 301 5660

www.asb.co.nz/economics

 [@ASBMarkets](https://twitter.com/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.