

Commodities Weekly

For the week ending Friday 25th September



Risk sentiment buffeting NZD

The ASB Commodity Price Index rose 1.7% in NZD terms last week, driven by a falling kiwi. The USD index fell 1.9%, with its sub-indices all lower or unchanged over the week. Yet the week's big story was the fall in the NZD/USD, which slid 3.5% to 0.6676.

Over the course of the month, our index has been bounced around a fair bit by the movements of the NZD/USD. Risk appetite has been a big theme recently, with sudden rises and falls in share markets (driven by moves in tech stocks) heavily impacting the currency. The USD tends to benefit from periods of risk aversion, so scary stories of rising COVID infections helped make for a potent mix. **Moving forward we expect market sentiment to continue as a key driver of NZD direction, and in turn our NZD index.**

Sheep and beef prices have been another commodity buffeted around the index over recent months. Whilst reports suggest Chinese demand appears to be holding up well, an uptick in COVID cases in Europe and the US adds another layer of uncertainty to the mix. If restaurants and bars remain closed – and consumers keep purse strings tightened – demand for premium cuts is likely to be subdued, limiting the mark-up sellers can expect.

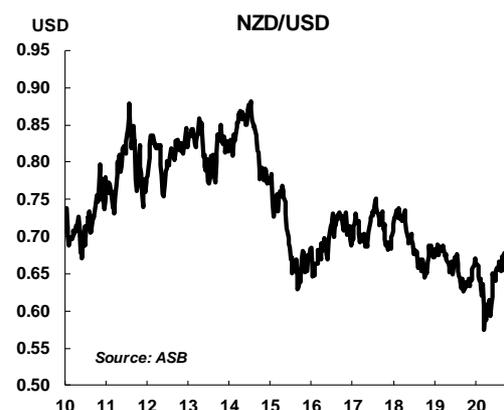
With no auction this week or last, there was little to move dairy prices – we'll be closely watching the result next week with a view to examining our own \$6.75 forecast for the 20/21 season.

Strong export values boosting Kiwifruit

Last week's trade data release showed one sector of the economy proving especially resilient – Kiwifruit. Kiwifruit export values were up a whopping 48% versus August 2019. Export quantities so far are up 11% over the five-month season to date compared with the same period last year. Export quantities have broadly increased across both green and gold kiwifruit, but the lift in the gold has been particularly strong. All up, it's been a solid harvest this season, despite occasional stories of worker shortages.

ASB New Zealand Commodity Price Indices As at Friday 25th September 2020

	Index*	Week %	Year %**
Total NZD	102.0	1.7%	-6.5%
Total SDR	93.6	-0.9%	-5.5%
Total USD	94.6	-1.9%	-2.9%
Dairy USD	95.0	0.0%	-2.1%
Sheep/beef USD	95.5	-3.4%	-9.4%
Forestry USD	88.4	-3.5%	3.8%
Fruit USD	97.5	-3.5%	-1.8%
NZD/USD	0.6537	-3.5%	3.8%



Whilst the strength in Kiwifruit exports was quantity led, prices have also held up well. Our weighted NZD price for Kiwifruit (which blends the prices for green and gold fruit), is down just 1% on this time last year. With the pandemic driving many consumers to be more health-conscious, it's no surprise that demand for fresh produce is holding up, and that should provide some support for fruit prices.

The resilience in Kiwifruit export volumes is particularly notable when you consider the predictions six month ago, that the pandemic was likely to lead to a broad slowdown in global trade. Whilst border restrictions and supply chain disruption are impacting global exports more broadly, the impact – with food production being an area more resistant to the COVID shock.

ASB Economics & Research			Phone
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659
Senior Economist	Jane Turner	jane.turner@asb.co.nz	(649) 301 5853
Senior Economist	Mark Smith	mark.smith4@asb.co.nz	(649) 301 5657
Senior Economist, Wealth	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 301 5915
Senior Economist	Mike Jones	mike.jones@asb.co.nz	(649) 301 5661
Economist	Nat Keall	nathaniel.keall@asb.co.nz	(649) 301 5720
Data & Publication Manager	Judith Pinto	judith.pinto@asb.co.nz	(649) 301 5660
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.