

Commodities Weekly

For the week ending Friday 24th January



Coronavirus: understanding the risks

The virus outbreak poses low risk to dairy prices, but seafood exports are exposed

The coronavirus outbreak in Wuhan, China poses the key short-term risk to NZ's commodity exports and prices. China is NZ's key goods export market, accounting for 27.9% of goods export values in the 2019 year.

At this stage, **we anticipate that key dairy exports will hold up relatively well** (note dairy exports accounted for 28% of total 2019 goods export values). Dairy forms a staple part of many Chinese diets (read infant formula) and with dairy often in powder form; it poses little health risk and can be stockpiled as necessary.

Looking at meat exports (13% of total exports), the outbreak poses low to moderate risk as meat

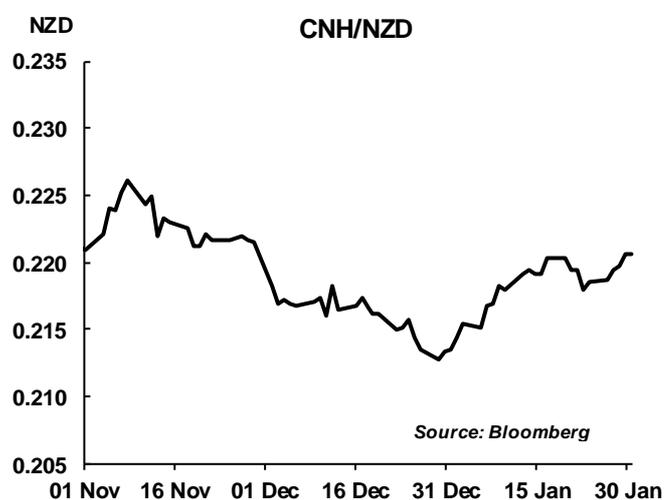
consumption often occurs at restaurants where many Chinese will now avoid going. On the other hand, meat bought, particularly in frozen form, poses little health risk, can be stockpiled and be consumed in the home.

We anticipate that NZ seafood exports are most-exposed (3% of total exports). Unlike meat and dairy, NZ seafood is a luxury item and is also often sold or served fresh (or live) in public places i.e. restaurants or markets. Already, the export of live crayfish (rock lobster) has ground to a halt, with reports of domestic prices falling to \$80/kg from the usual market price of around \$130/kg.

We also see some temporary weakness ahead for forestry prices (10% of total exports). The general (economic) uncertainty that the outbreak has created is likely to see construction activity slow. In many cases, we anticipate that buyers will prefer to sit on their hands, whilst relying on existing stocks. This will put downward pressure on log prices in the short term, at least until the status and implications of the outbreak become clearer.

Comfortingly, the NZ dollar is acting as a buffer so far. Indeed, the renminbi has strengthened against the NZ dollar by around 1% over the week, with the NZ dollar falling 1.8% against the US dollar over the same period. For example, whole milk powder futures pricing suggest a circa 1% fall (prices are in US\$/MT) at next week's dairy auction. Thus in NZD terms, auction prices will be largely unchanged.

Nonetheless, **the outbreak situation is very fluid and, with that in mind, commodity price implications are subject to change.** In other words, watch this space.



Week ending 24 January

The ASB Commodity Price Index lifted a touch last week in all denominations. Note these prices largely precede the news of the corona virus outbreak.

By component, dairy prices continued their positive start to 2020, lifting 1.6% in USD terms. In contrast, meat prices continued to slump, falling 2.1%. Meat prices have now fallen by around 14% since their December peak. Forestry prices also fell, while fruit prices were largely unchanged.

Meanwhile, the NZD/USD largely treaded water last week. This week, the NZD dipped on Corona virus concerns. **As at the time of writing, NZD/USD was trading at US\$0.6490.**

ASB New Zealand Commodity Price Indices As at Friday 24th January 2020

	Index*	Week %	Year %**
Total NZD	109.9	0.2%	8.5%
Total SDR	103.8	0.3%	6.3%
Total USD	103.0	0.1%	4.9%
Dairy USD	105.6	1.6%	13.4%
Sheep/beef USD	99.6	-2.1%	0.7%
Forestry USD	92.7	-0.7%	-11.4%
Fruit USD	119.1	-0.1%	15.5%
NZD/USD	0.6607	-0.1%	-3.4%

* For all indices 2014 average = 100

** Percentage change since same week last year

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