

## Terms of Trade – December 2016 quarter

Key Stats (qoq)	Actual	ASB	Market
Terms of Trade	5.7%	4.0%	4.0%
Export prices	4.8%	4.5%	-
Import prices	-0.8%	0.5%	-
Export volumes (sa)	-5.8%		
Import volumes (sa)	1.2%		

- The Terms of Trade jumped over the Q4 as expected.
- With the jump reflecting the earlier dairy price surge.
- In Q1, we expect a further Terms of Trade lift as the remainder of the dairy price surge flows through.

### Implications

From here (mainly in Q1), we expect the Terms of Trade to lift further as the remainder of the earlier dairy price surge flows through. This release has no implications for our OCR view. **We expect the RBNZ to be on hold at 1.75% until late 2018.**

### Detail

**The Terms of Trade (ToT) jumped 5.7% over the December quarter**, and by a touch more than our expectations for 4% rise.

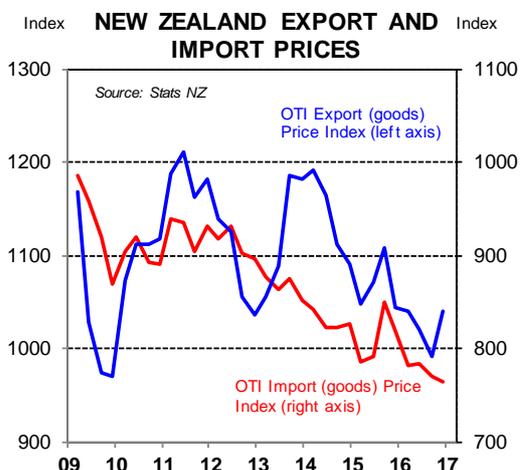
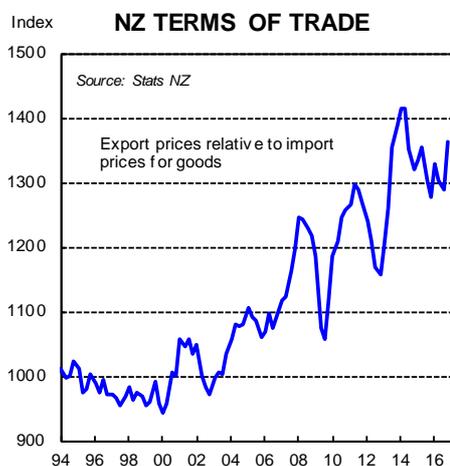
As expected **the earlier dairy export price surge accounted for much of the TOT jump**. Over the quarter, dairy export prices spiked 13.7%. Moreover, the export price lift was broad-based, with seven of the eight main categories posting rises.

Meanwhile, **most of the upside surprise in the TOT was due to a fall in import prices**. Overall import prices fell 0.8% for the quarter versus our expectations for a small rise.

Indeed, **the import price deflation trend remains in play, with six out of the nine categories posting falls**. Although notably, petroleum and petroleum products did post a 0.6% lift over the quarter.

From here (mainly in Q1), **we expect the Terms of Trade to lift further as the remainder of the earlier dairy price surge flows through**.

While the ToT jumped, **export volumes were weak, recording a 5.8% drop over the quarter**. Dairy export volumes were particularly weak (down 8.1%) reflecting the poor first half of the dairy season. Stronger production over recent months should see a partial dairy export volume recovery in 2017.



## 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.