

Import prices hold up better than expected

- Import prices did not fall as far as expected.
- Export prices fell as expected, including dairy
- Dairy prices, in particular, are set to lead the way higher over the next year.

Summary

While the Terms of Trade fell this quarter, the long-term outlook remains the opposite. In particular, spot dairy prices have recovered sharply in recent months, which will sharply lift the export side of the ToT picture going forward. Key whole milk powder prices, for example, have risen 69% since the early July low.

Oil prices did rise again this quarter, around 11%, but this was offset by a step decline in plant and machinery prices. However, the recent OPEC deal to limit production could push the oil price higher over the coming months, further supporting petroleum import prices.

While Stats NZ has released some limited volume data, they have not been able to release the seasonally-adjusted figures. That has made it difficult to analyse volume trends.

Comment

The Terms of Trade (ToT) fell 1.8% over the June quarter, greater than our expectations and those of the market.

The data release was again a limited version, as Stats NZ continues to come back online following the North Canterbury earthquake. As such, the full range of data are not available at this time.

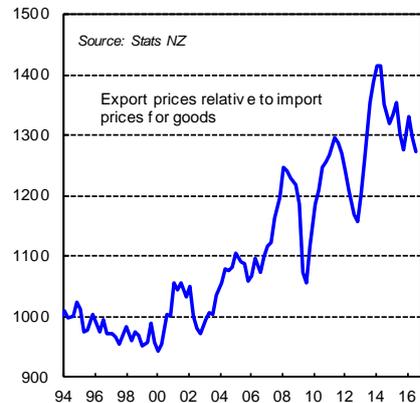
The decline in Q3 export prices was driven by dairy and meat. However, looking forward, dairy prices are already on the way back up, as evidenced by Fonterra's recent upward revision in the milk price forecast for this season. The Q3 trade data do not capture much of the recent move though. Over the quarter, dairy export prices fell 3.7%, a slower pace than Q2's 7.1% drop. Meat prices added to the decline, down 3.1%.

Meanwhile, import prices reversed last quarter's move, declining 1.0% after Q2's 0.2% rise. Key among this was plant and machinery, down 3.7%. However, oil's sharp rise over the quarter partly offset plant and machinery's price weakness.

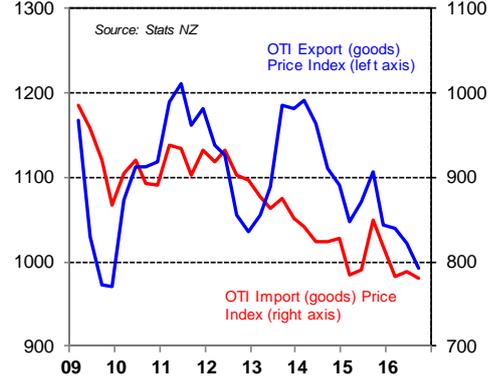
Turning to the volume data that was released, export volumes (unadjusted) and import volumes, unadjusted, both increased 4.3% from their year-ago level. Over the past year dairy volumes have grown nearly 9%, while meat is down 14%.

Despite the weak result, we still estimate that the ToT have now passed their cyclical low and will lift over the next year as dairy shipments start to reflect higher prices. Moreover, we expect low global inflation to continue to underpin the ToT.

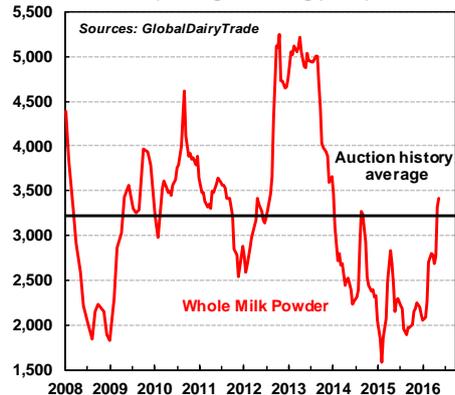
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USD/MT **GLOBAL DAIRY TRADE AUCTION (average winning price)**



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