

# Commodities Weekly

For the week ending Friday 21<sup>st</sup> April



## A big dip for forestry – and a note of GDT caution

The ASB commodities index had a very slight rise of 0.3% when measured in NZ dollar terms last week. The USD index was down 1.1%, with a significant drop of 8.3% for forestry being enough to offset the positive 1.9% gain seen in dairy prices, following on from last week’s dairy auction. Sheep and beef fell 1.5% and fruit fell 1.4%.

NZD/USD fell 1.4% over the week, offsetting those falls in underlying prices. It’s clawed back a little bit of ground – but not much – trading around 0.6150 as of the time of writing. As a commodity currency, NZD tends to move in concert with commodity prices, and its subdued performance of late is the silver lining for exporters.

In underlying USD terms, our index is at its lowest level since November 2020. As we’ve long expected, slowing global growth and a bit of easing in supply constraints for many commodities appear to be kicking in. Fruit remains the only major index item to be positive for the year, up 12.3%.

The big mover this month is our Forestry Index. Prices have eased despite a significant supply gap in the aftermath of recent weather events. Per our friends at AgriHQ, both higher shipping costs and weaker export prices played a role. Despite the reopening of the economy, the recovery in the Chinese property market remains subdued. The ongoing cooling in the domestic housing market is unlikely to be helping either. Our CBA colleagues expect China’s recovery to be consumption rather than investment-led, which implies food and fibre prices can outperform both forestry and harder commodities.

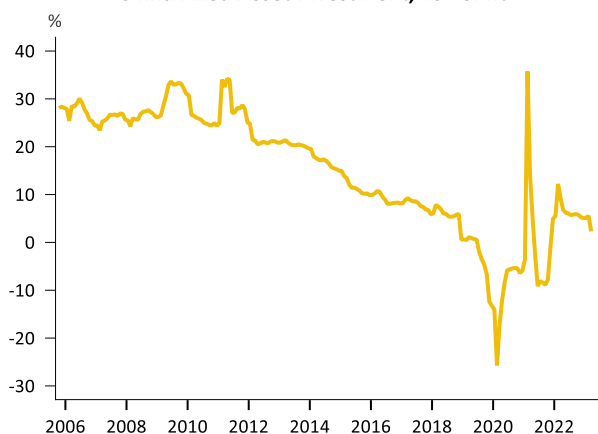
Our Dairy Index was the only major sub-index to experience a gain last week, courtesy of the surprise bounce in prices at last week’s GDT. In the subsequent days, the futures market has markedly lifted its expectations for the 2023/24 season milk price – up from circa \$7.50 per to \$8.30 as of the time of writing.

ASB Commodities Index as at 21.04.2023

Index	Index*	Week %	Year %**
Total NZD	108.0	0.3%	-9.9%
Total SDR	103.1	-1.2%	-15.9%
Total USD	100.5	-1.1%	-16.7%
Dairy USD	107.1	1.9%	-25.7%
Sheep/beef USD	89.4	-1.5%	-13.2%
Forestry USD	91.0	-8.3%	-7.3%
Fruit USD	100.4	-1.4%	12.3%
NZD/USD	0.6136	-1.4%	-7.5%

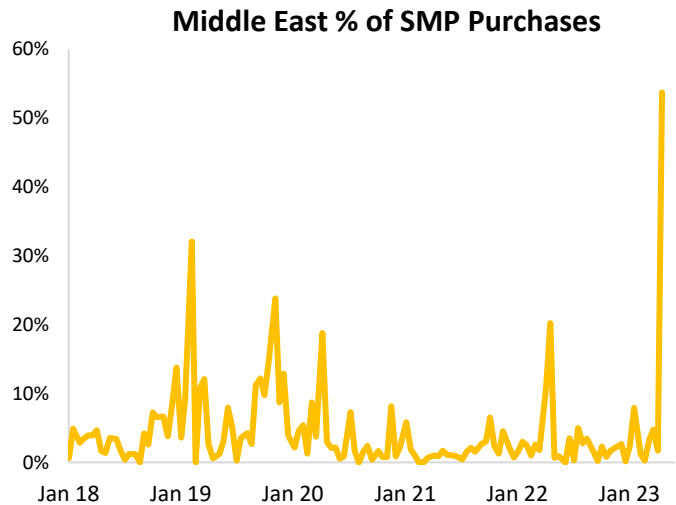
Base Year 2019, Base = 100

China Fixed Asset Investment, YoY Shift



Source: Macrobond, ASB

**We want to sound a note of caution about that expectations shift.** The GDT gains were led by a 7% increase in Skim Milk Powder, and more than half of the volume sold went to the Middle East. Given the region normally only takes about 5-10% of the SMP on offer, it looks like it was maybe just one or two buyers from the Middle East who were desperately in need of product, and they pushed prices higher. Purchases for both WMP and SMP from the region doubled and tripled respectively. With economies cooling in most other places, it's demand from China that will need to be in the driver's seat if dairy prices are to make sustained gains – and on that front, Chinese buyers were relatively quiet last week.



**We retain our \$7 per kgMS forecast for the coming season, but will watch next week's auction and Fonterra's opening guidance for the season with interest.**

**ASB Economics & Research**

Chief Economist  
 Senior Economist  
 Senior Economist  
 Senior Economist  
 Economist  
 Future Me Graduate  
 Administration Manager

Nick Tuffley [nick.tuffley@asb.co.nz](mailto:nick.tuffley@asb.co.nz)  
 Mark Smith [mark.smith4@asb.co.nz](mailto:mark.smith4@asb.co.nz)  
 Chris Tennent-Brown [chris.tennent-brown@asb.co.nz](mailto:chris.tennent-brown@asb.co.nz)  
 Kim Mundy [kim.mundy@asb.co.nz](mailto:kim.mundy@asb.co.nz)  
 Nat Keall [nathaniel.keall@asb.co.nz](mailto:nathaniel.keall@asb.co.nz)  
 Johnny English [johnny.english@asb.co.nz](mailto:johnny.english@asb.co.nz)  
 Caro Phillips [caro.phillips@asb.co.nz](mailto:caro.phillips@asb.co.nz)

**Phone**  
 (649) 301 5659  
 (649) 301 5657  
 (6421) 653366  
 (649) 301 5720

[www.asb.co.nz/economics](http://www.asb.co.nz/economics)

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