

Rising commodities point to high food prices

By PAUL MCBETH - BusinessWire Last updated 08:36 23/04/2010

The rising price of soft commodities on international futures markets may indicate higher food costs are set to continue this year, according to NZ Funds Management.

The investment firm with about US\$1 billion of funds under management says futures markets are used as a leading indicator of where the underlying commodities will head, and it expects food prices will keep rising throughout the year.

The price of grocery items rose 1 per cent in the three months ended March 31, and helped drive a 0.4 per cent increase in the consumer price index through the period.

“Soft commodities future prices declined dramatically a few years ago when measured in New Zealand dollars, and are now starting to show some signs of life,” said Dave Wilson, principal at NZ Funds. “If the relationship holds and this recovery continues, food prices will continue to rise and place upward pressure on inflation.”

Surging dairy prices helped underpin New Zealand's economic recovery, with the price for whole milk powder up to a 21-month high on Fonterra's online trading platform this month.

Wilson said last year's gains in the kiwi helped damp the impact of rising costs for household goods, and if the currency stabilises or depreciates in the coming year, that will add more fuel to inflation.

For the past year, Reserve Bank Governor Alan Bollard has consistently said he will begin to tighten monetary policy around the middle of this year, and as that approaches, investors are split on whether he will begin to hike the official cash rate in June or July.

The markets are betting Bollard will boost interest rates by 159 basis points over the coming 12 months, according to the Overnight Interest Swap curve.

Rising commodity futures hint at higher food costs this year, NZ Funds says

Friday 23rd April 2010

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