

Helter-skelter at the smelter

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The next issue of the *ANZ Commodity Price Index* is scheduled for release on: 4 February 2009 at 3pm.

The meltdown in commodity prices continues. International commodity prices weakened further in December, with the ANZ Commodity Price Index recording a 7.4 percent fall in the price of New Zealand's export basket. This is the fifth successive monthly drop in the series, and equates to a 27 percent cumulative fall in the index, since its peak in July 2008.

Record number of declining prices. Every commodity, except apples, recorded a fall in December, representing the broadest monthly drop in commodity prices that we've measured across the NZ export basket, since the series began in 1986.

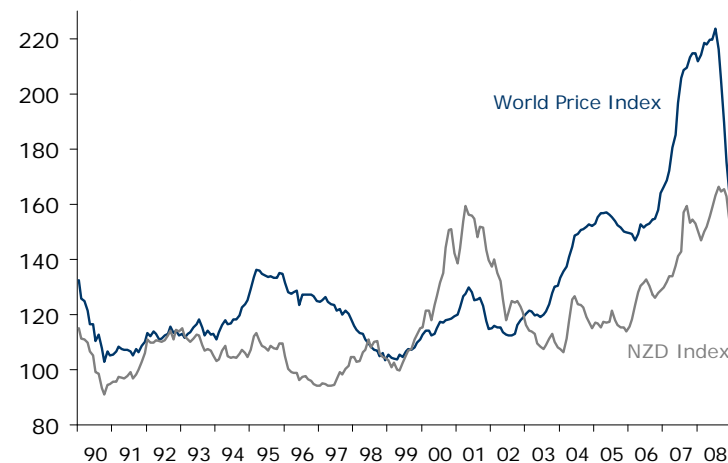
Pelt prices hit a new low, with wool not far behind. Pelt prices recorded the largest drop, slumping 62 percent from November, to a new record low in December. Aluminium prices fell 20 percent (*see feature article on page 3*), dropping to a five-year low. Wool and dairy prices recorded large falls, both in excess of 12 percent. Dairy prices are now at the level they were two years ago, before the start of the much heralded surge 18 months ago. Wool prices have dropped for six successive months, and are now only 2 percent above the lowest level we've recorded since 1986.

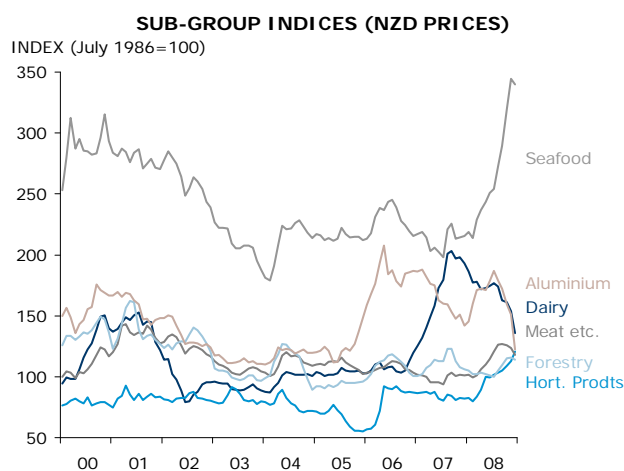
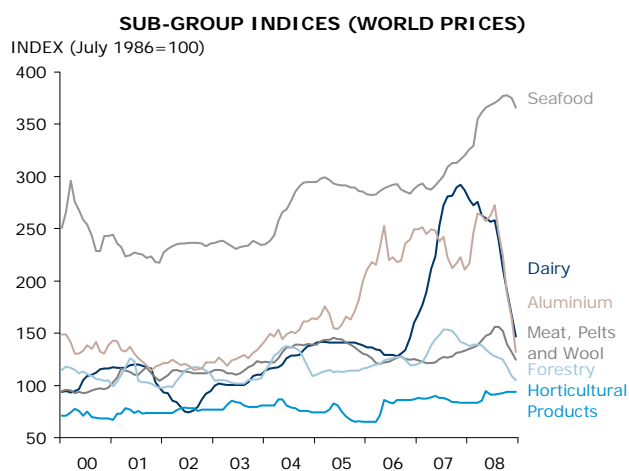
Smaller sized price declines were recorded in wood and meat. All the forestry prices suffered reasonable declines, with log prices dropping 4.4 percent, wood pulp prices down 3.7 percent and sawn timber prices easing 2.2 percent. Seafood and lamb prices both eased 2.4 percent, while venison and beef prices both dropped 1.4 percent. Kiwifruit prices slipped 0.2 percent. Apples, which are presently out of season, was the only commodity to avoid a price drop in December.

The NZ dollar index also dropped. The New Zealand dollar dropped in value in December, but its fall was minor compared to the overall drop in world commodity prices. Consequently, the ANZ New Zealand Dollar Commodity Price Index recorded a 6.1 percent fall in the month of December, with the series easing back to where it was a year ago.

ANZ COMMODITY PRICE INDEX

INDEX (July 1986=100)





	World Price Index	Monthly % Change	Annual % Change	NZ\$ Index	Monthly % Change	Annual % Change
Dec-03	130.3	0.1	9.6	108.2	-1.8	-10.4
Dec-04	152.1	-0.3	16.7	115.0	-2.1	6.3
Dec-05	149.9	-0.1	-1.4	114.0	-1.1	-0.9
Dec-06	164.0	3.8	9.4	128.7	0.7	12.9
Dec-07	214.7	0.0	30.9	153.1	-0.9	19.0
Jun-08	219.6	0.0	11.6	158.8	2.1	12.5
Jul-08	223.5	1.8	8.7	163.2	2.8	14.4
Aug-08	216.0	-3.4	3.5	166.4	2.0	6.1
Sep-08	204.9	-5.1	-2.1	164.6	-1.1	3.3
Oct-08	189.4	-7.6	-11.1	165.3	0.4	7.9
Nov-08	175.4	-7.4	-18.3	162.9	-1.5	5.4
Dec-08	162.4	-7.4	-24.4	153.0	-6.1	-0.1

Commodity Price Index weights are based on contributions to merchandise exports. Weights for the 2008 year are: Wool 0.043; Beef 0.086; Lamb 0.130; Venison 0.012; Skins 0.025; Dairy 0.382; Apples 0.020; Kiwifruit 0.043; Logs 0.034; Sawn Timber 0.050; Wood Pulp 0.034; Seafood 0.060; Aluminium 0.083

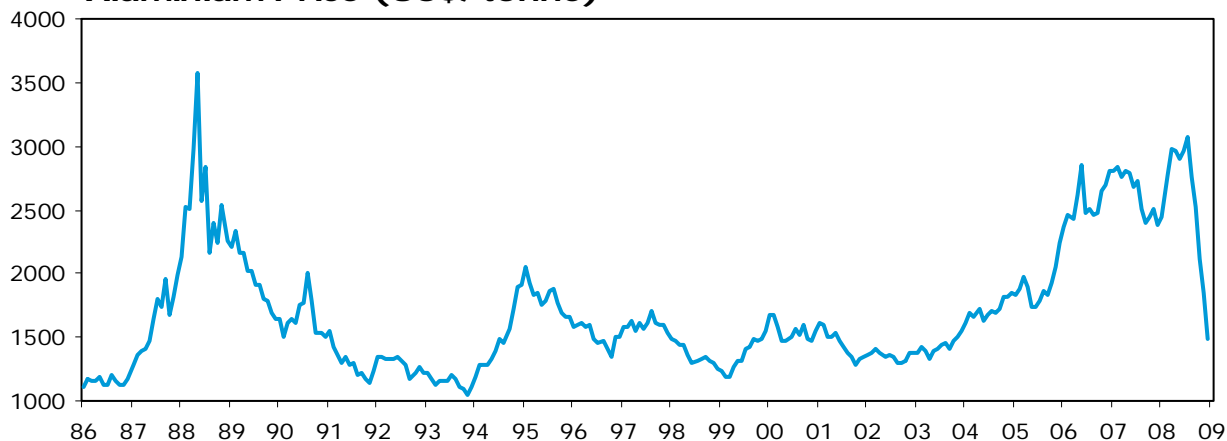
Featured Commodity: ALUMINIUM

New Zealand began exporting aluminium in the early 1970s. As a base metal, aluminium prices tend to follow the trend set by other hard commodities, being more aligned to world-wide industrial production and global sentiment. Not surprisingly, aluminium prices have slumped recently, in response to uncertainty and weaker demand in the current gloomy economic environment.

Historically speaking, aluminium is a relatively young metal and has only been produced commercially for just over 100 years. In comparison, copper, lead and tin have been used for thousands of years. Yet today, more aluminium is produced world-wide than all other non-ferrous metals combined. The light, durable and strong quality of aluminium makes it one of the most extensively used metals in the world, particularly in the transport industry, packaging and construction sectors.

Aluminium has been a relatively recent addition to NZ's export basket, when smelting first began at Tiwai Point in 1971. Electricity (which accounts for about a third of the cost of producing aluminium) holds the key to the electrometallurgical process of manufacturing aluminium – hence the location of the smelter in Southland. In short, alumina is heated to 950° and an electric current is passed through it – breaking up the alumina molecules into aluminium and oxygen. Tiwai Point was selected primarily for its proximity to the Manapouri Power Station, but also for the deep water harbour at Bluff and the proximity of Invercargill's labour force.

Aluminium Price (US\$/tonne)



Source: ANZ, Datastream

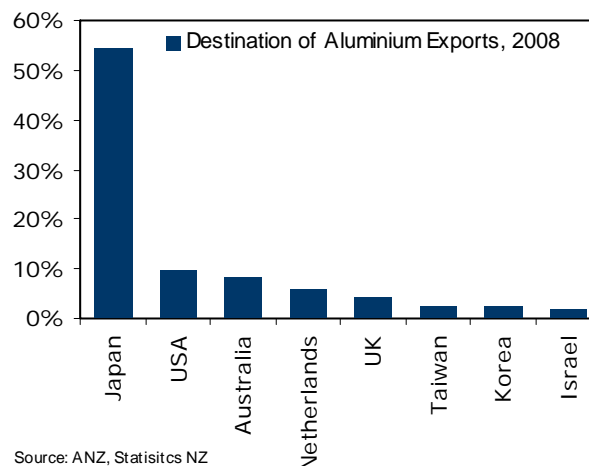
The aluminium price we include in our commodity price index is taken from the London Metals Exchange, where aluminium is the largest contract traded on the exchange. In July last year, aluminium prices hit a 20-year high, but have since slumped in response to the weaker outlook for the global economy.

With key leading economic indicators at their lowest levels in over thirty years, the outlook for base metal prices is poor. The erosion in aluminium prices has stalled over the past fortnight, but it is too early to say whether they have finished their downward descent entirely. One thing is certain, once the ructions from the global turmoil subsides, expect the recovery in aluminium prices to be mild and gradual.

In the year to June 2008, New Zealand's exports of aluminium totalled \$1.5 billion, which was 4½ percent of New Zealand's total export merchandise trade. However, the raw alumina we use to make aluminium is imported from Australia. Once this imported raw material is deducted, the net value is reduced to 3½ percent of overall exports.

On the world stage, production of aluminium in NZ is less than 1.2 percent of total world-wide output.

Japan is the largest destination for our aluminium exports, taking 55 percent of the total. Our next largest markets are the USA (10 percent), Australia (8 percent) and United Kingdom (6 percent). The Netherlands' share of our aluminium exports has doubled from a year ago, and Israel's share has risen from the 30th largest ranking in 2007 to 8th place in 2008.



Source: ANZ, Statistics NZ

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The Bank (in respect of itself and its principal officers) makes the following investment broker disclosure to you pursuant to section 41G of the Securities Markets Act 1988.

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- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
- Institute of Finance Professionals.

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- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;
- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;

- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

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At the time of providing this disclosure statement it is not practicable to provide accurate disclosure of the fees payable for all securities that may be advised on. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

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- Equity securities such as listed and unlisted shares;
- New Zealand and overseas unit trusts;
- Share in a limited partnership;
- Superannuation schemes and bonds;
- Group investment funds;
- Life insurance products;
- Derivative products including interest rate and currency forward rate contracts and options; and
- Other forms of security, such as participatory securities.

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If you wish to pay investment money to the Bank you can do this in several ways such as by:

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- Providing a cheque payable to the relevant product or service provider and crossed 'not transferable'; or
- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

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identifying your name, account number and investment purpose.

Any investment money lodged with the Bank for the purchase of securities offered by the Bank, its subsidiaries or any third parties will be deposited in accordance with your instructions, to your nominated account or investment. Such money will be held by the Bank according to usual banking terms and conditions applying to that account or the particular terms and conditions relating to the investment and will not be held by the Bank on trust unless explicitly accepted by the Bank on those terms. Any investment money or property accepted by the Bank on trust will be so held until disbursed in accordance with your instructions. Any investment property lodged with the Bank will be held by the Bank as bailee according to the Bank's standard terms and conditions for holding your property.

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The Bank will keep adequate records of the deposit of investment moneys or property and all withdrawals and dealings with such money or property, using the account/investment number allocated to your investment. You may have access to those records upon request.

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