

# NEW ZEALAND ECONOMICS ANZ COMMODITY PRICE INDEX

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The next issue of the *ANZ Commodity Price Index* is scheduled for release on: 1 July 2010 at 3pm.

## A NEW RECORD

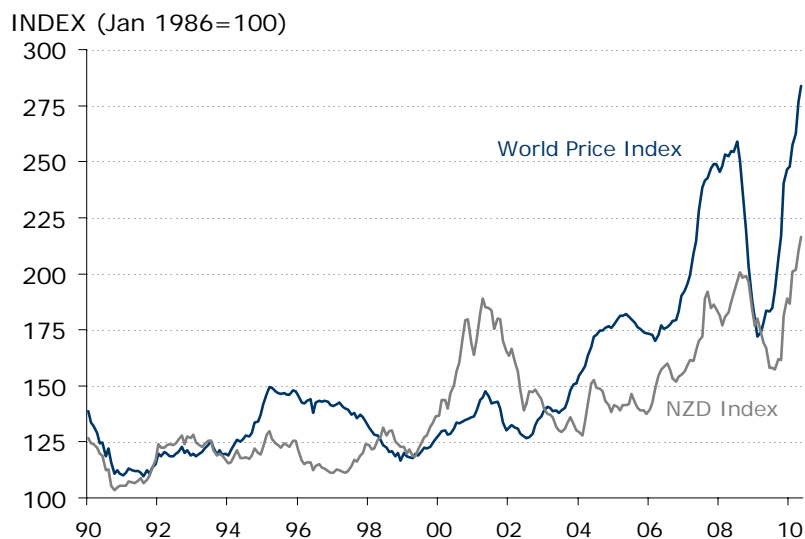
**The ANZ Commodity Price Index hit another record high in May.** The World Price Index registered its fourteenth consecutive monthly rise, increasing by 2.5 percent. It follows up upwardly revised 5.4 percent increase in April (originally reported as a 4.9 percent increase).

**Prices for eight of the thirteen commodities in the index rose.** Dairy prices continued to climb, rising 4 percent and are up by nearly two-thirds compared to 12-months earlier. Large monthly increases were evident for the prices of skins (up 12 percent) and kiwifruit (up 11 percent). Increases were also recorded for wood pulp (up 6 percent), wool (up 5 percent), lamb (up 3 percent), venison (up 2 percent) and logs (up 1 percent). Seafood prices were unchanged on the previous month.

**Prices for four commodities fell in May.** World prices for aluminium (down 11 percent), apples (down 6 percent), beef (down 3 percent) and sawn timber (down 2 percent) fell compared to the previous month.

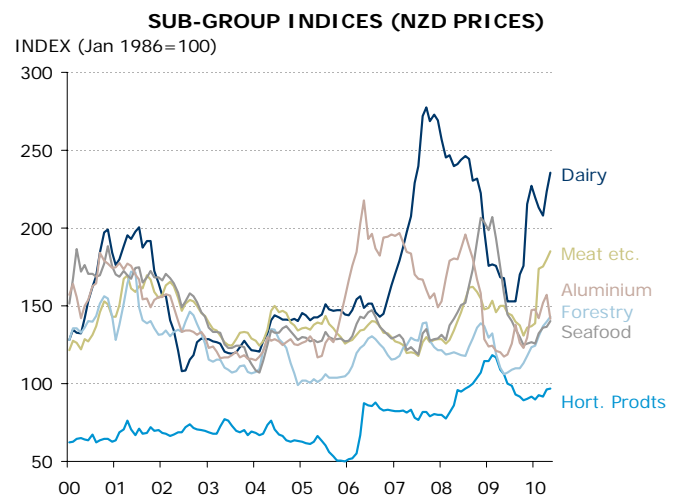
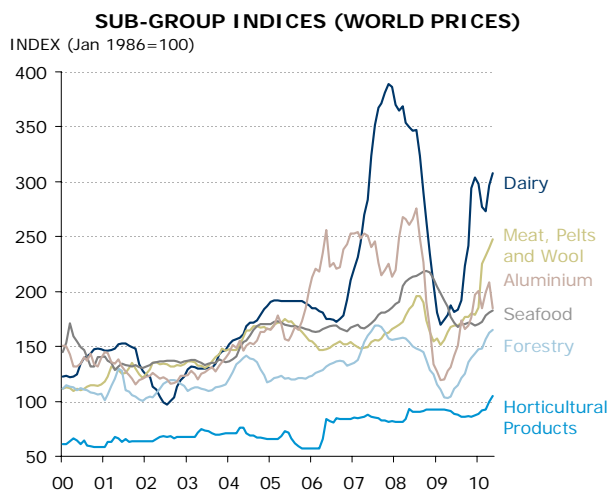
**NZD commodity prices also reached another record high.** NZD bilateral exchange rate movements were partly offsetting, with the NZD strengthening against the euro, pound, and Australian dollar, but weakening against the US dollar and Japanese yen. Consequently the ANZ NZD Commodity Price Index recorded a 2.9 percent lift. NZD export commodity prices have increased by 30 percent over the last 12-months.

**ANZ COMMODITY PRICE INDEX**



# ANZ COMMODITY PRICE INDEX

In consultation with the Reserve Bank of New Zealand and Statistics New Zealand, we have made some minor changes to the calculation of the sub-indices to make them more compatible with the methodology used to calculate the overall ANZ Commodity Price Index. These changes have a very minor impact on commodity price movements as represented by the overall ANZ Commodity Price Index. The expression base for the index has also been modified, with values in the January 1986 month now 100 as opposed to July 1986 previously. As such, published index values will differ from what has been previously published. The historical track of the index and the sub-totals, are available from the Bank's website:  
<http://www.anz.co.nz/about/media/library/cpi/Indexforpublication.xls>



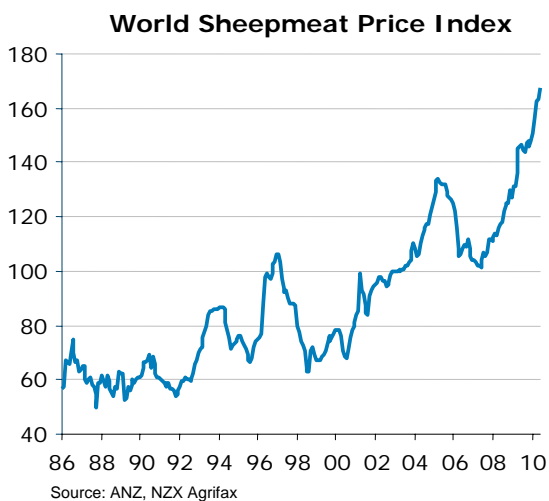
	World Price Index	Monthly % Change	Annual % Change	NZ\$ Index	Monthly % Change	Annual % Change
May-06	177.0	2.4	-2.7	157.1	1.7	11.1
May-07	214.5	2.6	21.2	165.6	2.7	5.4
May-08	254.6	0.9	18.7	187.4	2.5	13.2
May-09	183.5	2.9	-27.9	167.0	-1.3	-10.9
Dec-09	246.6	2.6	31.0	189.0	4.2	2.5
Jan-10	247.6	0.4	37.4	186.5	-1.3	5.7
Feb-10	257.6	4.0	49.8	201.0	7.8	11.7
Mar-10	262.4	1.8	50.9	201.7	0.4	16.0
Apr-10	276.6	5.4	55.1	210.3	4.2	24.3
May-10	283.6	2.5	54.5	216.5	2.9	29.6

Commodity Price Index weights are based on contributions to merchandise exports. Weights for the 2010 year are: Wool 0.033; Beef 0.093; Lamb 0.150; Venison 0.013; Skins 0.019; Dairy 0.383; Apples 0.021; Kiwifruit 0.053; Logs 0.049; Sawn Timber 0.045; Wood Pulp 0.030; Seafood 0.065; Aluminium 0.046

## FEATURED COMMODITY: SHEEPMATE

**New Zealand has the lion's share of the global trade in sheepmeat, particularly lamb. In contrast to the overall weakening of commodity prices recently, world sheepmeat prices have risen since mid-2007. Three quarters of our sheepmeat exports are sent to Europe and North America, with an increasing share going to China.**

Three years ago marked the 125th anniversary of the departure of the first shipment of frozen sheepmeat from our shores to Britain. Since those early days – through a combination of a temperate climate, technological advances on the farm and processing efficiencies – New Zealand has grown to be the fourth largest producer of sheepmeat in the world (behind China, Australia and India). On an annual basis, New Zealand produces in excess of 400,000 tonnes of lamb and around 100,000 tonnes of mutton – which represents about 6 percent of the world's production of sheepmeat. More noteworthy, with regard to the external trade in sheepmeat, New Zealand is the world leader, with around 40 percent of the global market. In terms of lamb, the share is higher, with New Zealand accounting for about 75 percent of world trade in lamb meat.

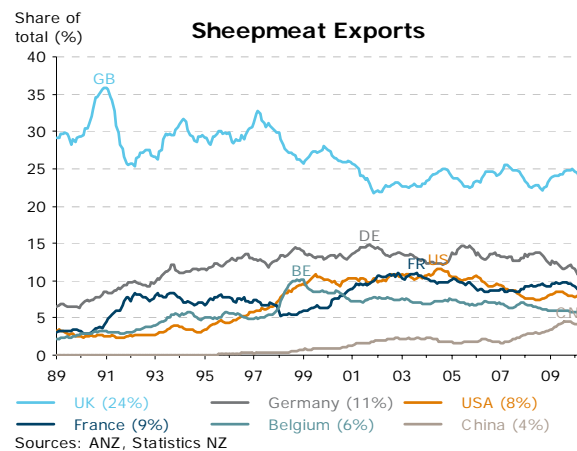


Sheepmeat prices have bucked the general trend of weakening commodity prices and have risen steadily over the past three years – and they currently sit at a record high. This reflects a tightening in the global supply of sheepmeat. Low returns for wool and meat in Australia and New Zealand has encouraged a change in land use over the past 15 years to cereals, dairying or dairy support. The structural change to the sheep industry has been exacerbated by droughts in Australia and New Zealand over the past 3-4 years, reducing numbers further. The New Zealand flock has reduced by 23 million sheep since

1990 and now totals 32 million. The productivity of the flock has improved significantly over that period but this hasn't offset the fall in numbers. An additional factor for the strength in sheepmeat prices has been reduced production in Europe, due to a partial removal of subsidies in the United Kingdom and Ireland.

In the twelve months to March 2010, New Zealand sheepmeat exports totalled \$2.8 billion, which accounted for 7 percent of New Zealand's total merchandise exports. Behind milk powder (which account for 12 percent of merchandise exports), it is the second most valuable commodity export.

The European Union is the largest market for our sheepmeat exports, taking nearly two-thirds of our mutton and lamb exports. One thing that hasn't changed since the first shipment was sent to Britain 128 years ago, is that the United Kingdom is still our largest single export market, taking nearly a quarter of our total sheepmeat exports. A noteworthy feature is the rapid rise of China as a key export market, taking close to 5 percent of our total sheepmeat exports.



Lamb exports, in product weight terms, comprise bone-in cuts (80 percent), boneless cuts (15 percent) and carcasses (5 percent). Carcasses as a proportion of exports have been on a declining trend for many years (replaced by pre-packaged cuts). While this share has been dropping, it is not expected to disappear completely, as there will always be a market for export carcasses to retail butchers, particularly in the UK. The second trend has been from frozen to chilled product. Chilled product now makes up about 20 percent of the total export volume, and this is expected to increase as demand in high-value markets continues to move away from frozen products.

# IMPORTANT NOTICE

## NEW ZEALAND DISCLOSURE INFORMATION

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

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.

### Qualifications, experience and professional standing Experience

The Bank is a registered bank and, through its staff, is experienced in providing investment advice about its own securities and, where applicable, the securities of other issuers. The Bank has been selling securities, and providing investment advice on those securities, to customers as a core part of its business for many years, drawing on the extensive research undertaken by the Bank and its related companies and the skills of specialised staff employed by the Bank. The Bank is represented on many bank, finance and investment related organisations and keeps abreast of relevant issues by running seminars and workshops for relevant staff and having its investment adviser staff attend external seminars where appropriate. The Bank subscribes to relevant industry publications and, where appropriate, its investment advisers will monitor the financial markets.

### Relevant professional body

The Bank is a member of the following professional bodies relevant to the provision of investment advice:

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

### Professional indemnity insurance

The Bank (and its subsidiaries), through its ultimate parent company Australia and New Zealand Banking Group Limited, has professional indemnity insurance which covers its activities including those of investment advisers it employs.

This insurance covers issues (including 'prior acts') arising from staff fraud, electronic crime, documentary fraud and physical loss of property. The scope of the insurance also extends to third party civil claims, including those for negligence. The level of cover is of an amount commensurate with the size and scale of the Bank.

The insurer is ANZcover Insurance Pty Limited.

### Dispute resolution facilities

The Bank has a process in place for resolving disputes. Should a problem arise, you can contact any branch of the Bank for more information on the Bank's procedures or refer to any of the Bank's websites.

Unresolved complaints may ultimately be referred to the Banking Ombudsman, whose contact address is PO Box 10-573, Wellington.

### Criminal convictions

In the five years before the relevant investment advice is given none of the Bank (in its capacity as an investment adviser and where applicable an investment broker) or any principal officer of the Bank has been:

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- 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.

### Fees

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.

### Other interests and relationships

When a security is sold by the Bank, the Bank may receive a commission, either from the issuer of a security or from an associated person of the Bank. Whether that commission is received and, if received, its value depends on the security sold. At the time of providing this disclosure statement it is not practicable to provide a detailed list of each security that may be advised on, the name of the issuer of that security and the rate of the commission received by the Bank. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

In addition to the interest that the Bank has in products of which it is the issuer, the Bank, or an associated person of the Bank, has the following interests or relationships that a reasonable person would find reasonably likely to influence the Bank in providing the investment advice on the securities listed below:

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- UDC Finance Limited (UDC), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. UDC may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- ING (NZ) Holdings Limited (ING), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ING and its related companies, including ING (NZ) Limited, may receive remuneration from a third party relating to a security sold by the Investment Adviser.
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### Securities about which investment advice is given

The Bank provides investment advice on the following types of securities:

- Debt securities including term and call deposits, government stock, local authority stock, State-Owned Enterprise bonds, Kiwi bonds and corporate bonds and notes;
- 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.

### PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

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 cash;
- 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.

Investment property (other than money) may be delivered to the Bank by lodging the relevant property (for example, share certificates) with any branch of the Bank offering a safe custody service, or by posting (using registered post) the documents or other property to a branch of the Bank, 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.

### Record Keeping

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.

### Auditing

The Bank's systems and operations are internally audited on a regular basis. The financial statements of the Bank and its subsidiaries are audited annually by KPMG. However, this does not involve an external audit of the receipt, holding and disbursement of the money and other property.

### Use of Money and Property

Money or property held by the Bank for a specific purpose communicated to the Bank (e.g. the purchase of an interest in a security) may not be used by the Bank for its own purposes and will be applied for your stated purpose. No member of the Bank's staff may use any money or property deposited with the Bank, for their own purposes or for the benefit of any other person. In the absence of such instructions, money deposited with the Bank may be used by the Bank for its own purposes, provided it repays the money to you upon demand (or where applicable, on maturity), together with interest, where payable.

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