

## On the whey down

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The next issue of the *ANZ Commodity Price Index* is scheduled for release on: 4 November 2008 at 3pm.

**Dairy prices drop again.** The ANZ Commodity Price Index recorded another sharp fall in September, dropping 4.9 percent from August. Once again dairy underpinned the weakness, recording a 7.9 percent decline in the month. The drop in September was the sharpest monthly fall in 21 years.

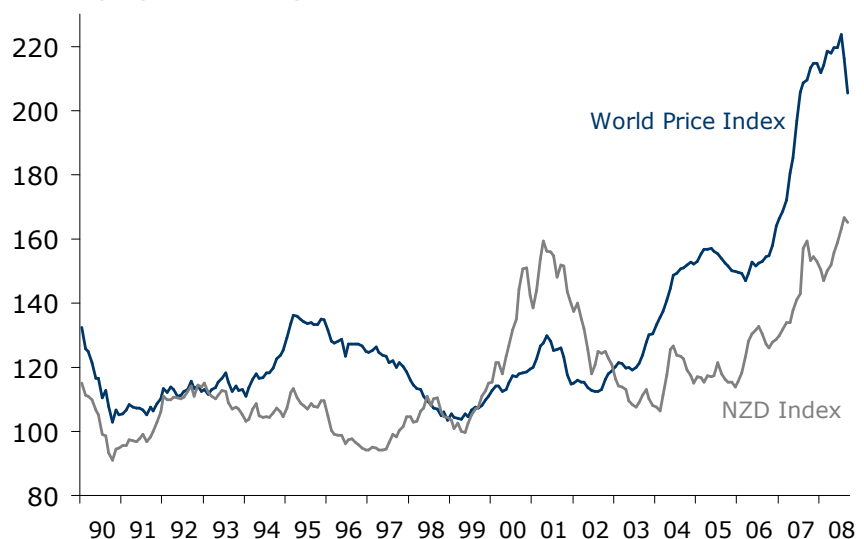
**Six commodities recorded lower prices.** Six commodities recorded a price decline in September, three were unchanged and four recorded higher prices. A 7.9 percent fall in international dairy prices in September had the most significant impact on the direction of the world commodity price index. Aluminium and beef also recorded sharp price declines. Aluminium prices fell 8.4 percent in September and beef prices dropped 7.2 percent. Wool prices dropped 3.4 percent, skins slipped 1.5 percent and sawn timber eased 0.5 percent.

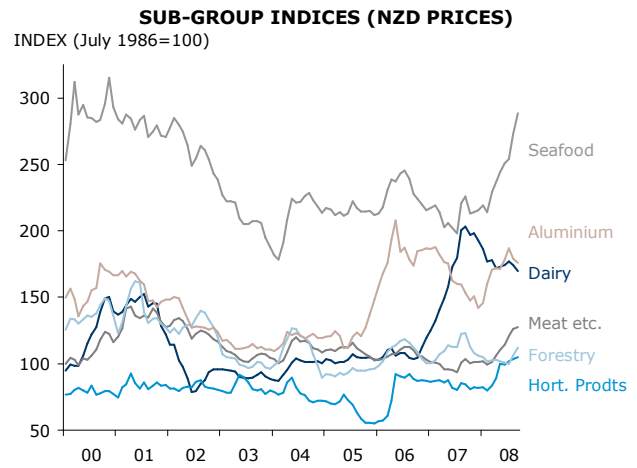
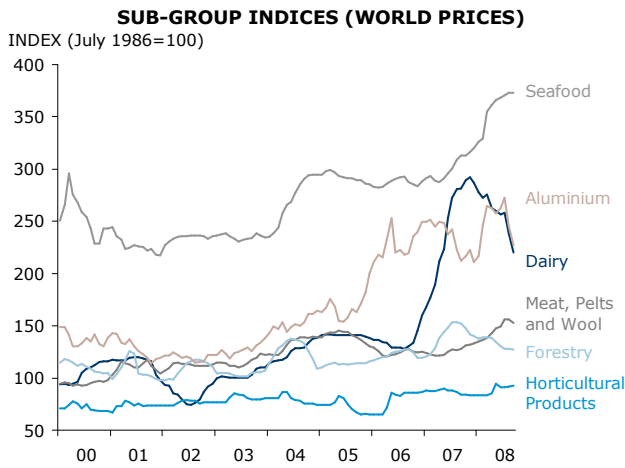
**Four commodities recorded price rises.** Apple prices increased 1.6 percent in September, coinciding with the end of the export season – when prices typically ease. Seafood prices posted their 17th consecutive monthly increase, lifting 0.9 percent in September. Lamb and log prices recorded modest rises of 0.8 and 0.5 percent, respectively.

**A falling kiwi dollar cushioned the fall, in NZD prices.** The kiwi dollar appreciated against the Australian dollar, was unchanged against the Great British pound and lost value against all our other main trading partners. The overall decline in the value of the New Zealand dollar only partially offset the falling export prices, resulting in a 0.9 percent fall in the ANZ NZD Commodity Price Index in September. Looking at dairy prices, we have seen international commodity price declines outstrip the NZ dollar fall, and in NZD terms, dairy prices are down 16 percent from their peak in November. Hence it is of no surprise to see guidance from Fonterra towards the forecast dairy payout for the current 2008/09 season being lowered, albeit of highs.

### ANZ COMMODITY PRICE INDEX

INDEX (July 1986=100)





	World Price Index	Monthly % Change	Annual % Change	NZ\$ Index	Monthly % Change	Annual % Change
Sep-03	123.7	2.1	9.5	111.2	2.1	-10.5
Sep-04	151.0	0.2	22.1	122.5	-0.6	10.2
Sep-05	152.4	-1.0	0.9	116.3	-1.4	-5.1
Sep-06	154.3	0.8	1.2	127.3	-2.4	9.5
Sep-07	209.4	0.4	35.7	159.3	1.5	25.1
Mar-08	218.3	2.0	26.9	150.1	2.1	12.0
Apr-08	217.7	-0.3	20.7	151.8	1.1	13.4
May-08	219.7	0.9	18.7	155.6	2.5	13.2
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	216.2	-3.3	3.6	166.6	2.1	6.2
Sep-08	205.5	-4.9	-1.9	165.1	-0.9	3.6

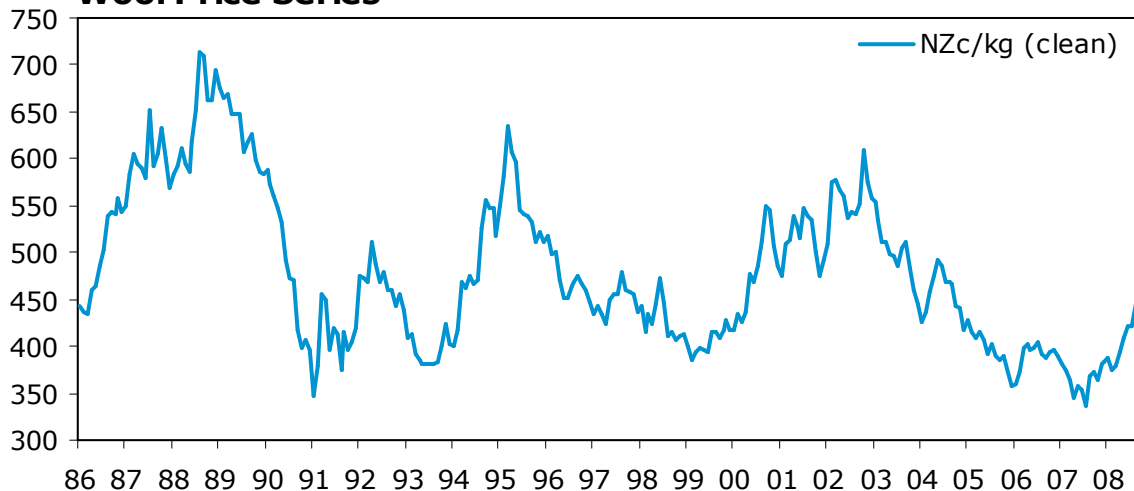
Commodity Price Index weights are based on contributions to merchandise exports. Weights for the 2008 year are: Wool 0.043; Beef 0.086; Lamb 0.130; Venison 0.012; Skins 0.025; Dairy 0.382; Apples 0.020; Kiwifruit 0.043; Logs 0.034; Sawn Timber 0.050; Wood Pulp 0.034; Seafood 0.060; Aluminium 0.083

## Featured Commodity: WOOL

New Zealand is the second largest producer of wool. Our export clip is predominately coarse wools; used in carpet production, yarns and blankets. The proportion of our total merchandise exports that wool makes has been on a steadily trend down for the past sixty years, and now only represents around 2½ percent of our total export basket.

New Zealand is the second largest producer of wool in the world, behind Australia, with coarse fibre dominating our wool production. Coarse wools are ideal for use in carpet production, hand-knitting yarns and blankets. About 70 percent of the NZ clip is 33 microns or more in diameter. This contrasts with Australian wool, of which over 90 percent is less than 28 microns. New Zealand is by far the largest producer of coarse wools, contributing over 40 percent of the world total. On a clean basis, crossbred wool accounts for about 89 percent of New Zealand's wool production, followed by mid-micron and merino (at about 5 percent each).

### Wool Price Series



Sources: ANZ, NZ Wool Services

The NZ dollar coarse wool market indicator dropped to a 15-year low last year, coinciding with the NZD/USD exchange rate hitting a post float high, and the Chinese government declaring that its 2007 wool import quota was already full, mid-way through the year. Since then, the Chinese quota issue has now been resolved and the exchange rate has since eased. The NZD indicator price has strengthened by over a third from its recent low and currently sits at a four year high.

Previous lows in wool prices have occurred in the 1986, 1991, 1993 and 1999. Despite the latest improvement, the general longer-term trend in wool prices has been distinctly downward. This partly reflects a switch away from woollen products towards synthetic goods. The cause of this trend is easy to identify. Hands up those that still wear woollen socks and singlets, or use a woollen blanket in preference to a duvet? Wool accounts for only 1 percent of world textile fibre usage. The balance is fairly evenly split between cotton and synthetic fibres.

As a result of the decline in world-wide demand for woollen products, wool has only accounted for an estimated 15 percent of NZ's gross farm income in recent years, compared with 35 percent twenty years ago. Likewise, wool as a proportion of our total exports has been on a steady decline over the past sixty years. Back in the 1950s, wool accounted for about 40 percent of New Zealand's total merchandise exports. In 2007, unprocessed wool earned NZ\$786m in exports, which represents 2.1 percent of NZ's total merchandise export receipts. This figure jumps to a little under NZ\$1b with the inclusion of carpets and other woollen products.

The five largest markets for NZ's wool exports are: China (22% of total wool exports), Australia (16%), Italy (10%), United Kingdom (10%) and India (7%).

There are about 14,000 wool growers in NZ. The South Island produces just over half of NZ's wool production. Total wool production has declined in line with falling sheep numbers. As at 30 June 2007, NZ's sheep flock has been estimated at around 34 million, half of the peak of 70 million in 1982.



Source: ANZ, Statistics NZ

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- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
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- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;

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- Placed in statutory management or receivership.

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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
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- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

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