

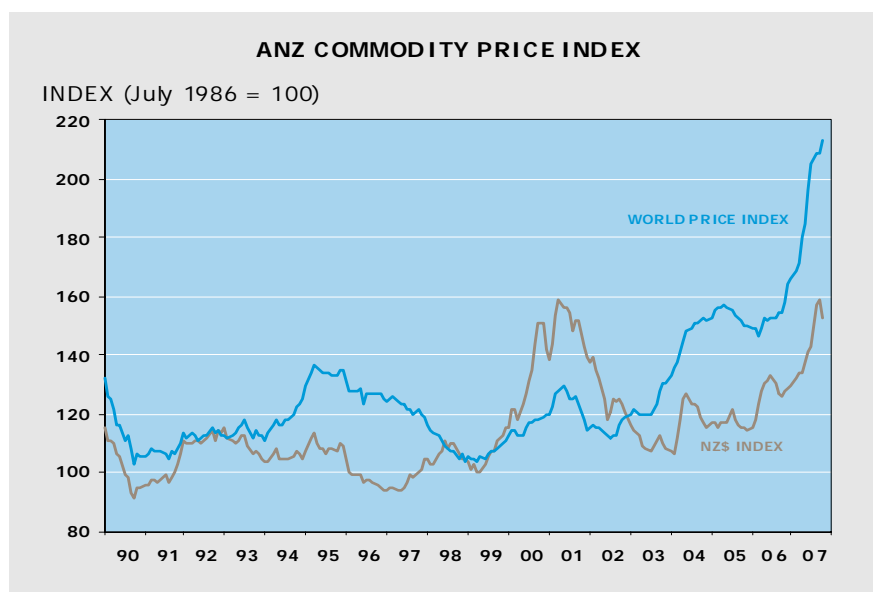
Onwards and upwards

The **ANZ World Commodity Price Index** increased 1.8 percent in the month of October. Eight commodities registered a lift in prices, one was unchanged, and the prices of four eased.

For the second month in a row, tanning products took the top spot, with the world price of skins and pelts recording the largest rise (up 14 percent) across the commodity basket. Lamb meat and wool prices increased around 4 percent. Dairy and aluminium prices recorded increases of between 2 and 3 percent, while venison, kiwifruit and seafood prices increased less than one percent. At the other end of the scale, sawn timber prices recorded a 5 percent fall. Apple and beef prices fell again (down 2 and 3 percent, respectively). The prices of logs eased slightly, and wood pulp prices were unchanged.

Commodity prices are up 38 percent on their level a year ago. Dairy prices continue to dominate the annual growth profile, surging 117 percent over the past 12 months. Skins and pelts increased 57 percent over the year, followed by sawn timber and logs, with increases of 28 and 18 percent, respectively. Apple prices (-20 percent) trail the annual percent growth profile, while other declines were recorded in the price of aluminium and beef.

The NZ dollar gained 4 percent on a TWI basis, more than reversing September's falls, with gains against all TWI currencies except for the Australian dollar. As a consequence, the **ANZ NZ Dollar Commodity Price Index** fell by 3.9 percent in October, although it remains elevated from an historical perspective.



Commodity Price Index Weights are based on contributions to merchandise exports. Weights for the 2007 year are: Wool 0.048; Beef 0.103; Lamb 0.137; Venison 0.015; Skins 0.027; Dairy 0.333; Apples 0.018; Kiwifruit 0.044; Logs 0.032; Sawn Timber 0.056; Wood Pulp 0.034; Seafood 0.068; Aluminium 0.085.

	World Price Index	Monthly % Change	Annual % Change	NZ\$ Index	Monthly % Change	Annual % Change
Oct-02	116.2	2.8	-5.6	124.8	0.5	-17.6
Oct-03	127.7	3.2	9.9	112.9	1.5	-9.5
Oct-04	151.8	0.5	18.9	119.1	-2.8	5.5
Oct-05	151.5	-0.6	-0.2	115.3	-0.9	-3.2
Oct-06	154.7	0.3	2.1	126.1	-0.9	9.4
Apr-07	180.4	4.9	20.9	133.9	-0.1	4.5
May-07	185.1	2.6	21.1	137.5	2.7	5.5
Jun-07	196.7	6.3	29.8	141.2	2.7	7.4
Jul-07	205.7	4.6	35.1	142.7	1.1	7.5
Aug-07	208.6	1.4	36.3	156.9	10.0	20.3
Sep-07	209.4	0.4	35.7	159.3	1.5	25.1
Oct-07	213.1	1.8	37.8	153.1	-3.9	21.4

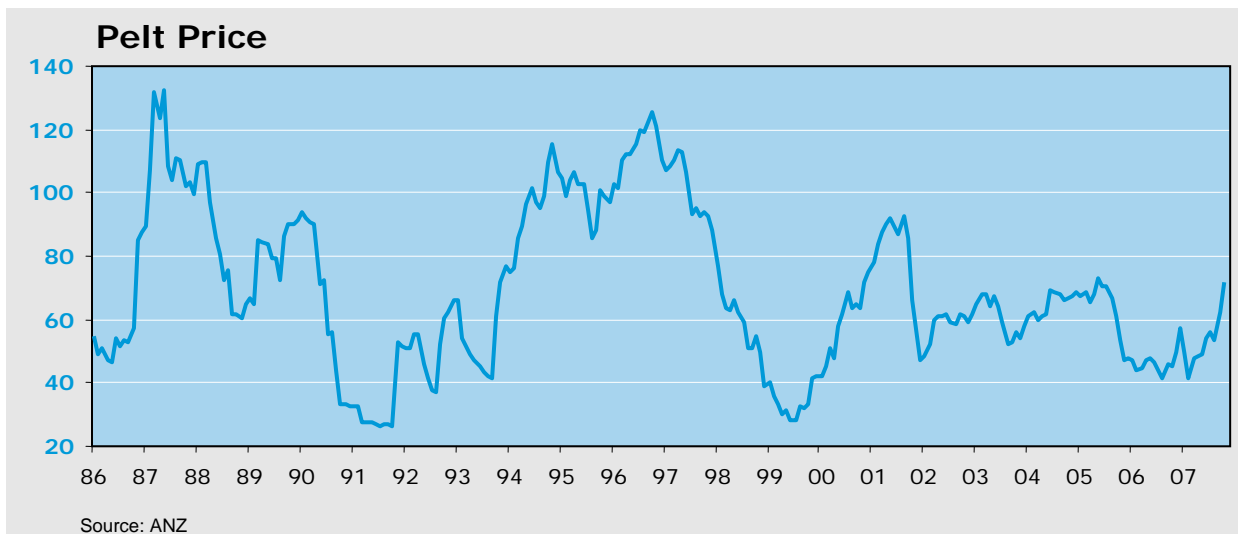
For more information contact: Khoon Goh
ANZ Senior Economist
Phone: (04) 802-2357
Email: gohk@anz.com

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FEATURED COMMODITY: PELTS

Globally, the leather industry produces about 1.7 billion square metres of leather a year, with a total value that is estimated at about US\$40 billion. New Zealand produces 10 percent of the world's unprocessed sheep skins, but only one percent of beef hides. Hides and skins are a by-product of the meat industry, and typically represent between 5 and 15 percent of the value of an animal.

Pelt prices have risen 73 percent in world terms in the past 8 months, hitting a 30-month high for the series. The two components of our pelt price series (sheep skins and beef hides) have quite different growth paths. World sheep skin prices have risen 141 percent since February, while beef hides have only increased 6 percent over the same period. The percentage increase in sheep skin prices is off a very low base in 2006 and early 2007. At their lowest point, sheep skin prices troughed at just over a third of their 21-year average. Prices have since recovered to currently sit 10 percent below the long run average.



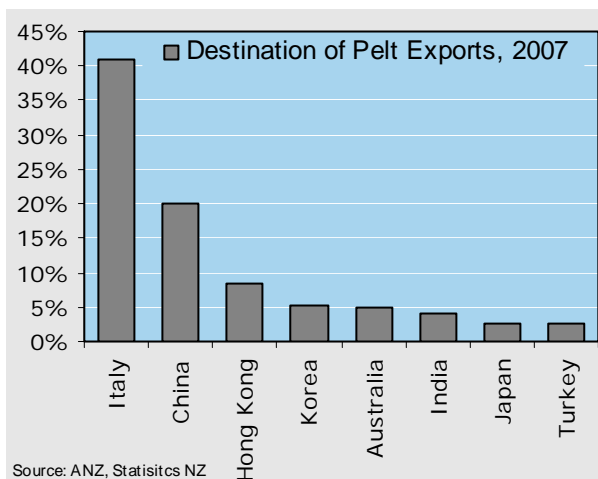
Recent weakness in pelt prices has been largely attributable to two influences. Firstly, there has been a general switch away from the use of leather. About 60 percent of all leather production world-wide is used to make footwear, with a further 16 percent used for garment production. The balance goes to uses including fashion items, furniture, and sporting goods. Over recent years, the fashion houses of Europe have shunned the use of leather and this switch has ultimately been reflected in the prices paid to New Zealand sheep farmers.

The second cause of weaker pelt prices has been an increase in the production from Asia, particularly China. In the ten years to 2004 (the latest available data), China's leather production has more than doubled. Although the quality of product from China is generally poorer, the increased supply on the world's market has nevertheless caused a weakening in pelt prices.

In the year to June 2007, exports of hides, skins and leather totalled \$479m – about one percent of our total export receipts. Exports of pelts have recovered over the past 12 months, reflecting the higher prices received. The amount of pelt exports in the year to June 2006 represented the lowest annual export figure of the past 21 years and was just over half of the peak (\$850m) recorded in 2001.

Italy is the largest destination for New Zealand's exports, taking 41 percent of our hides and skins exports. Our next largest market is China, taking 20 percent, followed by Hong Kong, Korea and Australia.

Italy takes a larger proportion of our exported beef hides in an unprocessed form. The main market for our processed hides is Australia, where they are used in footwear and furniture. Our sheep skins exports are sent to a more widespread area, particularly garment manufacturers in Asia, Australia and the USA.



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ANZ Bank, Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2000 Fax 64-4-496 8639
<http://www.anz.com/nz> e-mail ecmcs@anz.com