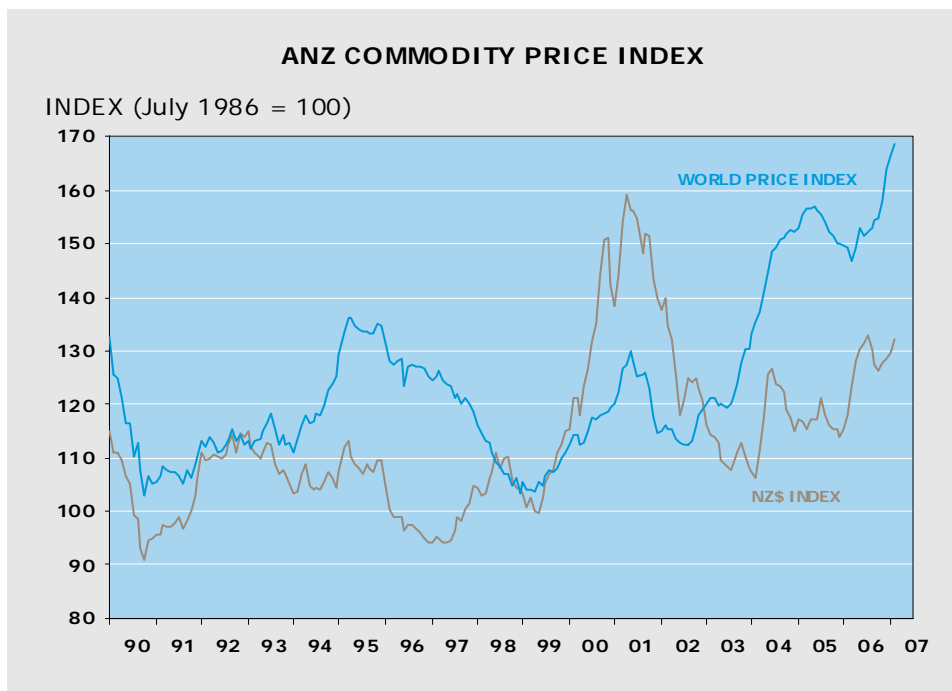


Milk Token

The prices received for New Zealand's key exports continue to strengthen. This was revealed by a 1.6 percent rise in the **ANZ World Commodity Price Index** in February — pushing the index to a new high. Dairy prices posted the largest monthly gain in February, rising 5.6 percent. Other large gains were measured in logs, wood pulp and sawn timber, all with increases in excess of 2 percent. The price of skins recorded the largest fall, dropping 17 percent, followed by modest declines in wool, kiwifruit and lamb.

Dairy prices have underpinned the recent surge in the commodity price index. When the index is calculated excluding dairy prices, it registered a 0.1 percent dip in February. Annual growth in the index was 13.1 percent in February, but when dairy prices are excluded, the index only rose 5.3 percent from a year ago.

When converted into NZ dollars, the **ANZ NZ Dollar Commodity Price Index** posted a 1.9 percent increase in February. The slightly higher monthly increase compared to the world index reflects a slight weakening in the value of the NZ dollar over the month. Compared to a year ago, export prices valued in NZ dollars are 12 percent higher. The rural income gains derived from the higher prices received have yet to be fully realised, as the volume of the goods being sold is light. Nevertheless, increased returns will eventually flow through to the producers, especially dairy farmers, as evidenced by the increased milk solid payout announced recently.



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 0.310; Apples 0.027; Kiwifruit 0.058; Logs 0.032; Sawn Timber 0.056; Wood Pulp 0.034; Seafood 0.068; Aluminium 0.085.

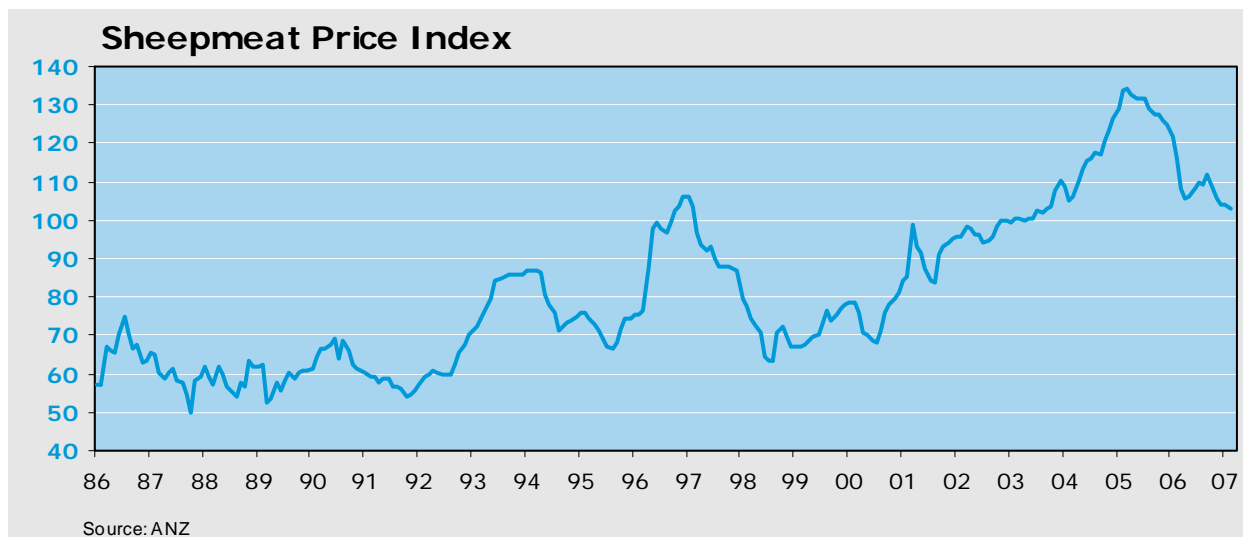
	World Price Index	Monthly % Change	Annual % Change	NZ\$ Index	Monthly % Change	Annual % Change
Feb-02	116.0	0.8	-5.3	139.8	1.7	-3.0
Feb-03	121.3	0.9	4.5	114.3	-1.6	-18.2
Feb-04	135.5	1.7	11.7	106.4	-0.9	-6.9
Feb-05	155.3	1.4	14.6	116.8	-0.3	9.8
Feb-06	149.2	-0.3	-3.9	118.1	2.2	1.1
Aug-06	153.0	0.5	-0.6	130.4	-1.7	10.5
Sep-06	154.3	0.8	1.2	127.3	-2.4	9.5
Oct-06	154.7	0.3	2.1	126.1	-0.9	9.4
Nov-06	158.0	2.1	5.3	127.8	1.3	10.8
Dec-06	164.0	3.8	9.4	128.7	0.7	12.9
Jan-07	166.2	1.3	11.1	129.7	0.8	12.2
Feb-07	168.8	1.6	13.1	132.1	1.9	11.9

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Forthcoming ANZ Commodity Price Index to be published: 5 April 2007.

FEATURED COMMODITY: SHEEPMEAT

Last month marked the 125th anniversary of the departure of the first shipment of frozen sheepmeat from our shores to Britain. Since those early days – largely through a combination of nearly ideal climatic and grazing conditions and ongoing refinements in processing efficiencies – New Zealand has grown to be the fourth largest producer of sheepmeat in the world. On an annual basis, New Zealand produces in excess of 400,000 tonnes of lamb 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 worldwide market. In terms of lamb, the share is higher, with New Zealand accounting for about 75 percent of world trade in lamb meat.



Recent export sheepmeat prices have, on the whole, been on a downward trajectory since peaking in March 2005. In the latest data for February, the sheepmeat price index hit a 3½-year low in world prices and a 6½-year low in New Zealand dollars. There have been three main reasons for the recent weakness in lamb prices. Firstly there has been an increased supply of lamb and mutton, resulting from destocking in the UK and Ireland following the European Union common agricultural policy payments being decoupled from production. Secondly, lamb supply from Australian has also been growing – however, the current drought there will temper production in the short-run with farmers likely to sell-off lamb at lower prices. The third caused of the decline in lamb prices has been an easing in the price for other sources of protein, such as beef, poultry and pigmeat. Mutton is a distant fourth in the global meat consumption hierarchy, behind these three alternatives.

New Zealand exports over 92% of its lamb production – the rest is consumed domestically. In the 2006 calendar year, New Zealand sheepmeat exports totalled \$2.3 billion, which accounted for just over 6½ percent of New Zealand's total merchandise trade.

The European Union is our 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 125 years ago – that is the United Kingdom is still our largest single market, taking a quarter of our total sheepmeat exports.

Lamb exports, in product weight terms, comprise carcasses at 5 percent, bone-in cuts at 80 percent and boneless cuts at 15 percent. Carcasses have been on a declining trend for many years – even as recent as six years ago, carcasses made up 17 percent of exports. 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 makes up about 20 percent of the total export volume, and this is expected to increase as demand in high-value markets continue to favour a move away from frozen to chilled products.



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