

Deerly beloved

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The next issue of the *ANZ Commodity Price Index* is scheduled for release on: 5 May 2008 at 3pm.

The level of prices of New Zealand's key commodities increased 2.0 percent in March. Seven of the component commodity series recorded a rise in prices in the month, three commodity prices were unchanged and three commodity prices recorded a decline. The latest increase has pushed the ANZ Commodity Price Index 2.0 percent higher, to hit a new high.

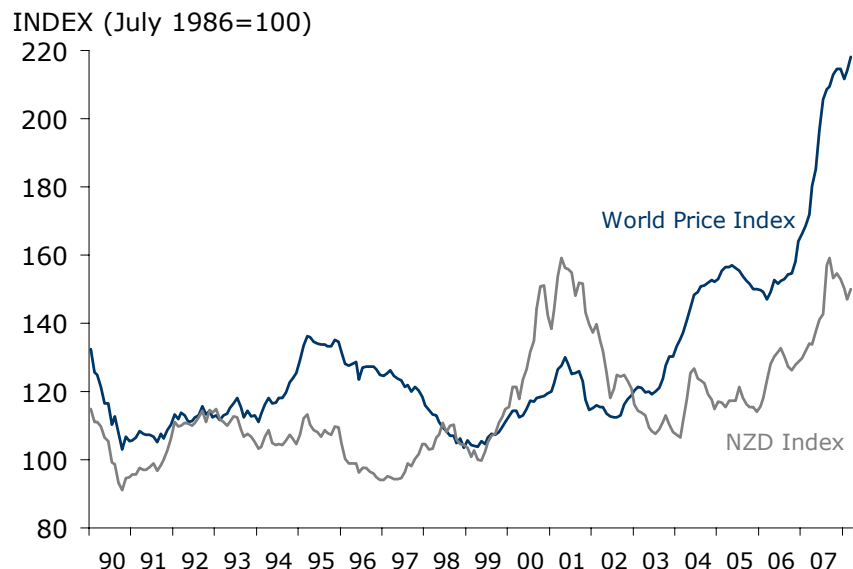
Dearer deer. Leading the price rises across the commodity basket last month was a 10.1 percent lift in the price of venison. This improvement reflects a combination of increased demand from German diners, following a marketing push there late last year, at a time when livestock numbers remain relatively constrained. Strong monthly price rises were also recorded in seafood (up 7.7 percent), aluminium (7.4 percent) and beef (4.0 percent). More modest price increases were measured for logs (up 1.2 percent), dairy (1.1 percent) and wool (0.7 percent).

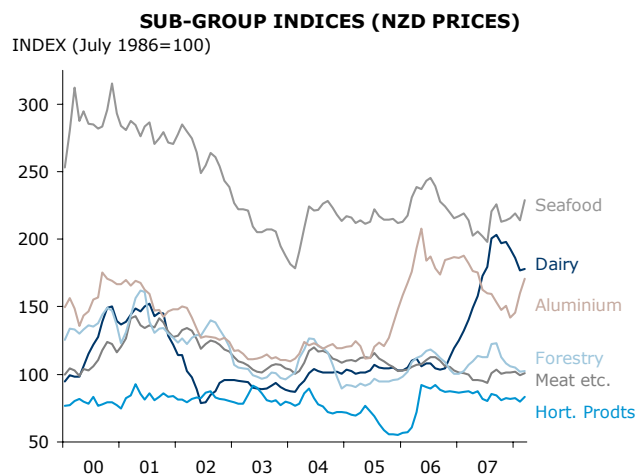
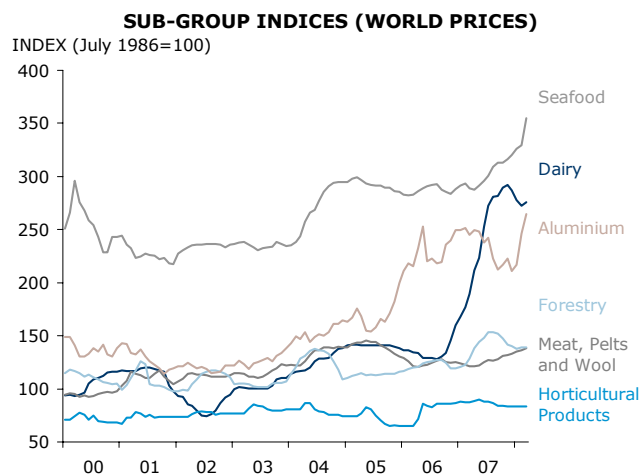
Skins down again. The price of skins recorded a 1.6 percent decline in March, the third successive monthly decline for the commodity. In addition, lamb prices eased 0.6 percent and sawn timber dipped 0.3 percent.

Annual increase in commodity prices is the strongest for skins and dairy. On an annual basis, skin prices have increased the fastest, up 61 percent on a year ago. Dairy prices are up 46 percent from the same period last year. The only commodity to record a lower price compared to a year ago is apples, which is off 20 percent from twelve months earlier.

Offsetting currency movements. The New Zealand dollar eased in value against all but one of our major trading partners in March. The exception was against the United States dollar, with which the kiwi dollar gained in value. The rise in NZD/USD exchange rate offset the falls against the other currencies. This resulted in the ANZ NZD Commodity Price Index rising by the same magnitude (2.0 percent) as the world price index.

ANZ COMMODITY PRICE INDEX





	World Price Index	Monthly % Change	Annual % Change	NZ\$ Index	Monthly % Change	Annual % Change
Mar-03	121.1	-0.2	5.0	113.8	-0.4	-15.6
Mar-04	137.2	1.3	13.3	111.4	4.7	-2.1
Mar-05	156.6	0.8	14.1	115.4	-1.2	3.6
Mar-06	146.9	-1.5	-6.2	123.3	4.4	6.8
Mar-07	172.0	2.0	17.1	134.0	1.6	8.7
Sep-07	209.4	0.4	35.7	159.3	1.5	25.1
Oct-07	213.1	1.8	37.8	153.2	-3.8	21.5
Nov-07	214.7	0.8	35.9	154.5	0.8	20.9
Dec-07	214.7	0.0	30.9	153.1	-0.9	19.0
Jan-08	211.7	-1.4	27.4	150.3	-1.8	15.9
Feb-08	214.0	1.1	26.9	147.0	-2.2	11.4
Mar-08	218.2	2.0	26.9	150.0	2.0	11.9

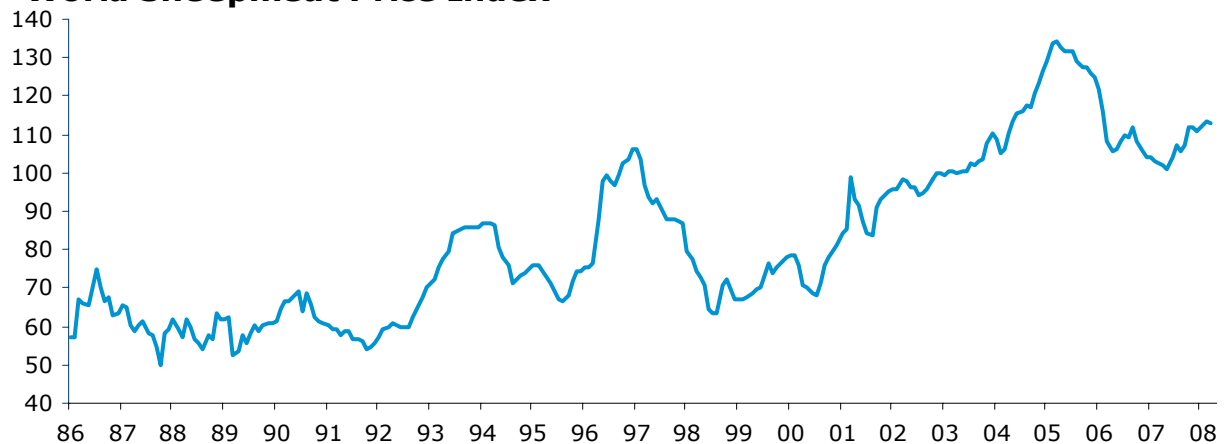
Commodity Price Index weights are based on contributions to merchandise exports. Weights for the 2008 year are: Wool 0.043; Beef 0.086; Lamb 0.130; Venison 0.012; Skins 0.025; Dairy 0.382; Apples 0.020; Kiwifruit 0.043; Logs 0.034; Sawn Timber 0.050; Wood Pulp 0.034; Seafood 0.060; Aluminium 0.083

Featured Commodity: SHEEPMEAT

New Zealand has the lion's share of the global trade in sheepmeat, particularly lamb. Since the second half of last year world sheepmeat prices have risen, primarily as a consequence of reduced supply due to drought conditions in Australia and reduced subsidies in the Northern Hemisphere. Ninety two percent of our sheepmeat exports are sent to Europe and North America.

Last year 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 worldwide market. In terms of lamb, the share is higher, with New Zealand accounting for about 75 percent of world trade in lamb meat.

World Sheepmeat Price Index



Source: ANZ, NZX Agrifax

Recent world sheepmeat prices have been steadily rising since hitting a four year low in May 2007. In the latest data for March, the sheepmeat price index eased slightly but has risen 12 percent off last year's low. Overall there has been a tightening in the global supply of sheepmeat. A major impact constraining the supply of sheepmeat has been the drought-induced reduction in breeding stock in Australia in 2006. This was exacerbated by a drought on the East Coast of the North Island last year. In addition, European sheepmeat production has eased, due to a partial decoupling of subsidies from production in the United Kingdom and Ireland, and also the outbreak of Foot and Mouth disease in the UK. Looking forward, sheepmeat prices are expected to rise in line with increasing meat prices generally – reflecting increasing incomes in developing nations and the rebalancing of land use from food production to energy production (particularly in the United States).

New Zealand exports over 92% of its lamb production – the rest is consumed domestically. In the twelve months to June 2007, New Zealand sheepmeat exports totalled \$2.4 billion, which accounted for 7 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 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. 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 the high-value markets continue to favour a move away from frozen to chilled products.



Source: ANZ, Statistics NZ

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