

## After the honeymoon

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The next issue of the *ANZ Commodity Price Index* is scheduled for release on: 2 April 2009 at 3pm.

**Seven month itch.** The level of prices received for the basket of New Zealand's key exports continued to fall in February. The ANZ Commodity Price Index recorded a 4.6 percent fall last month, the seventh consecutive monthly decline in the series. The index is now at its lowest level since March 2006.

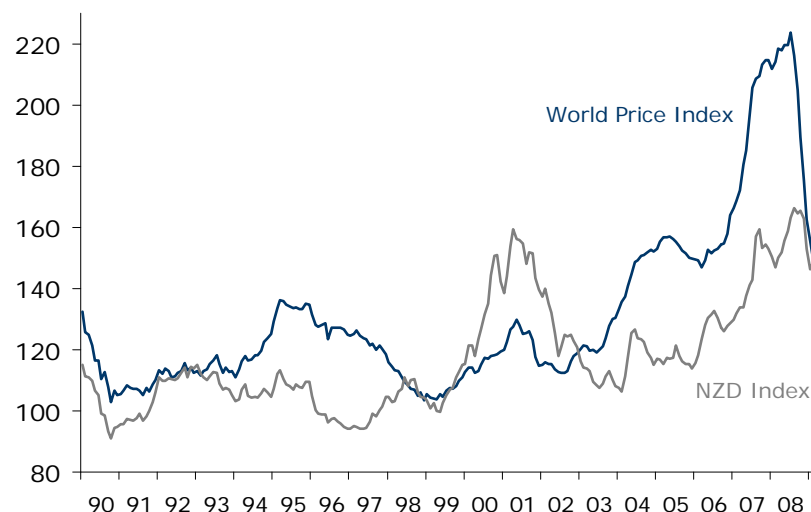
**Wool prices hit the hardest.** Ten commodities recorded a drop in prices in February, while the remaining three were unchanged from a month earlier. Wool and skin prices recorded the largest percentage fall in the month, dropping 7.6 and 7.2 percent, respectively. Beef prices eased 6.7 percent, while venison and seafood prices both dropped 2.7 percent. Aluminium prices fell 6.0 percent and forestry prices all declined (log prices fell 5.8 percent, lumber prices eased 4.4 percent and wood pulp prices slid 1.8 percent). Dairy prices dropped 5.7 percent in the first half of February but stabilised over the second half of the month.

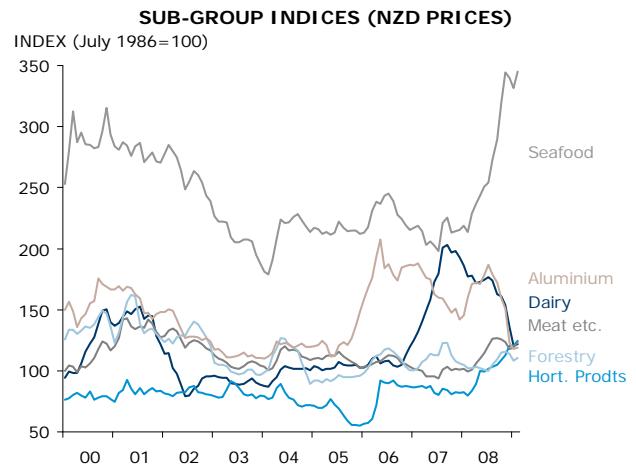
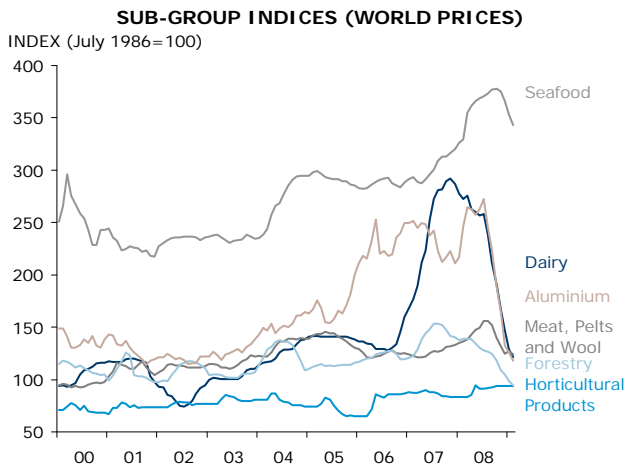
**Lamb a cut above the rest.** Three commodity prices recorded no change in February. Encouragingly, lamb prices were unchanged from a month earlier – which is a positive outcome given the broad-based weakness recorded in all of the other commodity prices. In the case of the two fruit exports (kiwifruit and apples), production is currently out of season and no prices are available.

**Kiwi dollar weakens.** The New Zealand dollar eased in value against all our major trading partners last month. The largest depreciation was with the United States dollar, which dropped 6.7 percent from a month earlier. Consequently, the ANZ NZ Dollar Commodity Price Index recorded a rise in February, lifting 1.9 percent in the month. The easing value of the New Zealand dollar continues to insulate exporters from the weaker prices received for our key merchandise exports. When valued in NZ dollars, the NZD commodity price index has dropped 10 percent from its peak, whereas the commodity index valued in world prices has fallen 34 percent from its peak.

### ANZ COMMODITY PRICE INDEX

INDEX (July 1986=100)





	World Price Index	Monthly % Change	Annual % Change	NZ\$ Index	Monthly % Change	Annual % Change
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
Feb-07	168.6	1.4	13.0	131.9	1.7	11.7
Feb-08	214.0	1.1	26.9	147.0	-2.2	11.4
Aug-08	216.0	-3.4	3.5	166.4	2.0	6.1
Sep-08	204.9	-5.1	-2.1	164.6	-1.1	3.3
Oct-08	189.4	-7.6	-11.1	165.3	0.4	7.9
Nov-08	175.4	-7.4	-18.3	162.9	-1.5	5.4
Dec-08	162.5	-7.4	-24.3	153.0	-6.1	-0.1
Jan-09	155.5	-4.3	-26.5	146.4	-4.3	-2.6
Feb-09	148.3	-4.6	-30.7	149.2	1.9	1.5

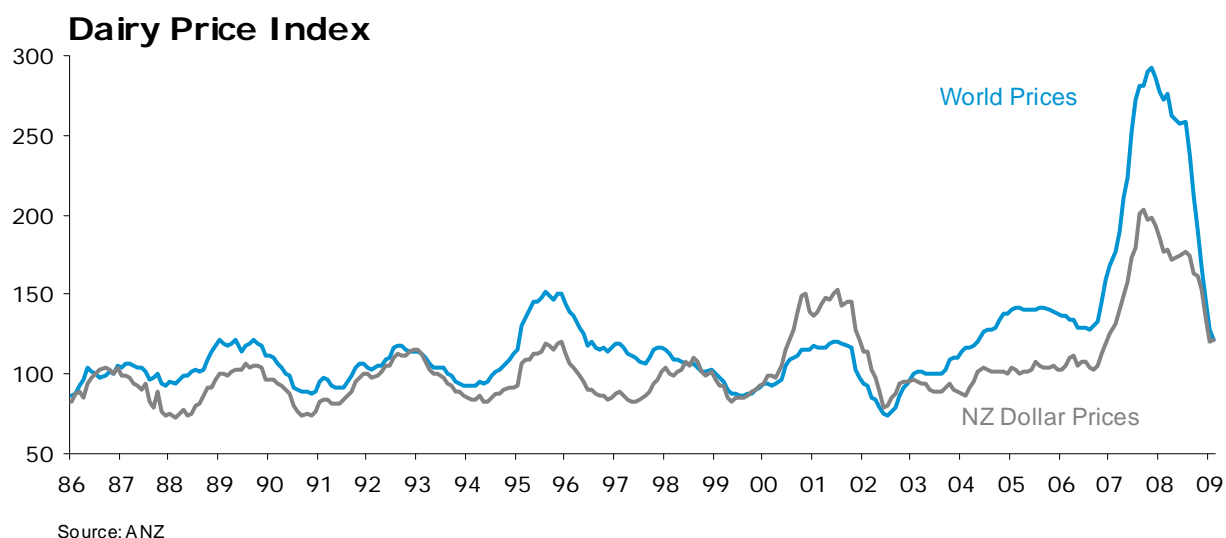
Commodity Price Index weights are based on contributions to merchandise exports. Weights for the 2009 year are: Wool 0.035; Beef 0.091; Lamb 0.131; Venison 0.015; Skins 0.025; Dairy 0.408; Apples 0.016; Kiwifruit 0.047; Logs 0.034; Sawn Timber 0.042; Wood Pulp 0.028; Seafood 0.059; Aluminium 0.069

## Featured Commodity: DAIRY

The much heralded surge in international dairy prices over 2007 was greeted by an equally rapid fall in prices over 2008. World prices have now returned to a five-year low, after falling 58 percent from their peak. When converted into New Zealand dollars, dairy prices have fallen 40 percent from the peak but still remain above the longer-term average.

New Zealand enjoys one of the lowest-cost milk production systems in the world. This comparative advantage has helped in NZ contributing about a third of the world's trade in dairy products; and accordingly dairy products forms the largest chunk of New Zealand's merchandise export basket. In the 2008 calendar year, exports of dairy products amounted to over \$10 billion of the \$43 billion of our total overseas merchandise trade. Dairy products can be broadly broken down into milk powders, butter and cream products, cheese, casein and whey. Milk powders account for nearly half of New Zealand's dairy product exports. Casein is a by-product from milk that is used to make baking products, emulsifiers, adhesives and plastics. Whey is the portion of milk left after cheese and casein is made, and is primarily used to make food products.

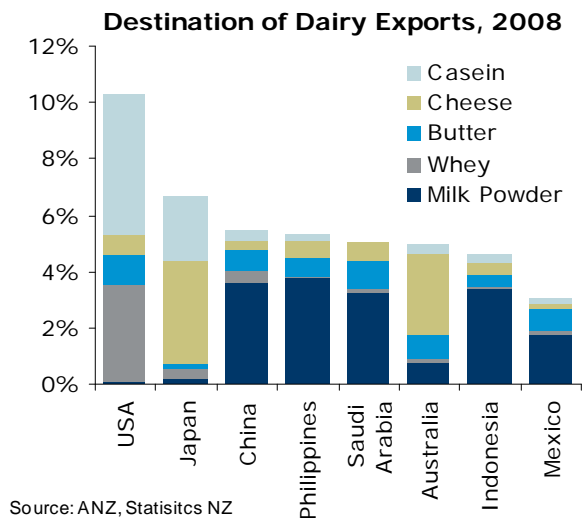
New Zealand's dairy farming industry is concentrated in the North Island, with over three quarters of all dairy farms. The South Auckland and Waikato areas account for a third of all dairy cattle in New Zealand. Canterbury has overtaken Taranaki as the next most populated region, with close to 13 percent of dairy cattle in 2007.



International dairy prices more than doubled between mid-2006 and the end of 2007. Since their peak, international dairy prices have returned to roughly where they were before the rapid rise. The surge in 2006 began as a consequence of an Australian drought restricting the supply of dairy products to the global market. This was exacerbated by news that European countries were to gradually phase out export subsidies. In addition, higher incomes in several developing nations, such as China, India and other Asian nations, was underpinning a longer-term lift in demand for dairy products. In response to rising dairy prices, some of the fringe dairy exporting nations gradually increased production, causing a retracement in global dairy prices. More recently the decline in dairy prices has intensified, reflecting the global economic slowdown and the uncertainty that this brings to commodity markets in general.

The range of markets that New Zealand's dairy products are exported to is large and diverse. Over a third of New Zealand's dairy products are exported to East Asia, 20 percent is sent to North America and 8 percent is shipped to both Europe and South America.

The United States of America is New Zealand's largest single market for dairy product exports. Last year, dairy product exports to the USA amounted to over NZ\$1 billion. The main dairy products supplied to the United States are casein and whey. Japan and Australia are major markets for cheese. While milk powder is predominantly sent to developing countries, such as China, the Philippines, Saudi Arabia and Indonesia.



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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.

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- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
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The insurer is ANZcover Insurance Pty Limited.

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- 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.

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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
- Other forms of security, such as participatory securities.

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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.

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