

## Beef it up

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The next issue of the *ANZ Commodity Price Index* is scheduled for release on: 5 May 2009 at 3pm.

**Positive once again.** The downward spiral in the prices received for the basket of New Zealand's key exports was arrested in March. The ANZ Commodity Price Index recorded a 1.0 percent increase last month, the first monthly increase since July 2008. However, compared with a year ago, prices are still down 31.4 percent.

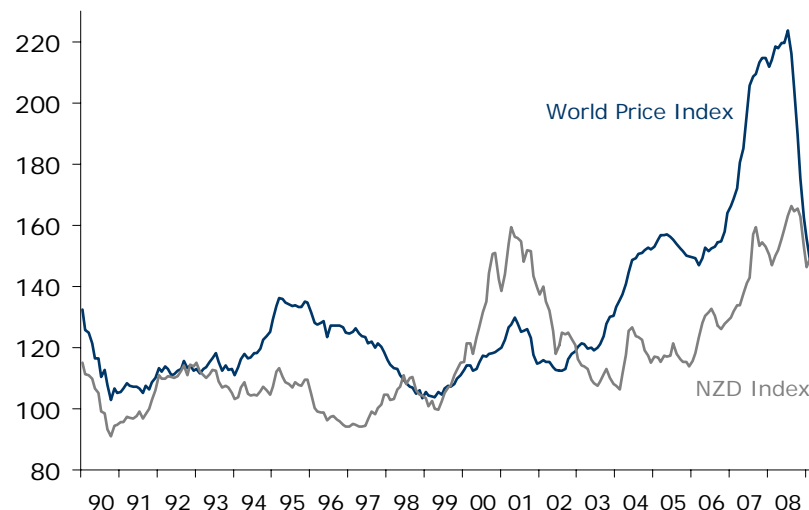
**Meat and dairy drive the increase.** Five commodities recorded an increase in March, three were unchanged, and five experienced falls from a month earlier. Beef and lamb prices recorded the largest percentage rise in the month, up 4.2 and 3.9 percent, respectively. Wool prices rose 3.1 percent, while dairy prices increased 2.8 percent. This is the first rise in the latter for seven months and comes after prices had fallen 58 percent from their peak. Aluminium prices rose 0.4 percent. Wood pulp, apples and kiwifruit prices were all essentially unchanged in the month, with no prices available on the latter two due to production being out of season.

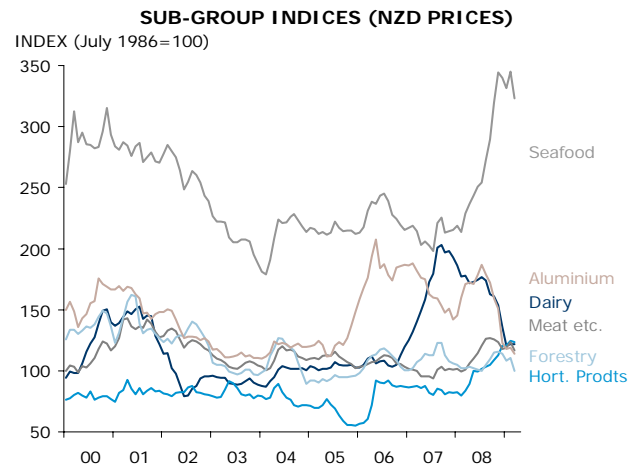
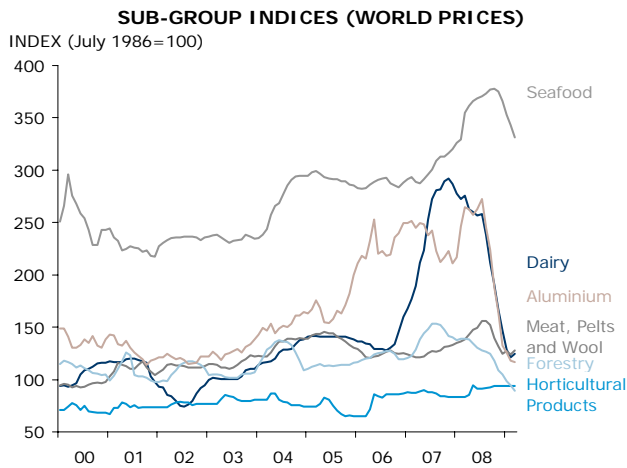
**Forestry prices felled.** Five commodities recorded a fall in price in March. The largest falls were noted for log prices, which tumbled 12.1 percent, and lumber prices, which fell 6.3 percent. Seafood prices fell 3.5 percent, while skins and venison prices fell 3.2 and 1.7 percent respectively.

**A higher NZD offsets gains.** The New Zealand dollar rose in value against all our major trading partners last month. The largest appreciation was against the Japanese Yen, rising 8.8 percent from a month earlier. On a trade-weighted basis, the New Zealand dollar rose 3 percent over the past month. As a result, the ANZ NZ Dollar Commodity Price Index slipped 3.4 percent in March and is down 4.0 percent compared with a year ago. While the level of the NZ dollar has provided some insulation to exporters from the previous falls in the prices for our key merchandise exports, this latest appreciation in the NZ dollar is not favourable. At a time when the domestic economy is still very weak, a higher NZ dollar is likely to delay any support the export sector is able to provide.

### ANZ COMMODITY PRICE INDEX

INDEX (July 1986=100)





	World Price Index	Monthly % Change	Annual % Change	NZ\$ Index	Monthly % Change	Annual % Change
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
Mar-08	218.3	2.0	26.9	150.1	2.1	12.0
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
Mar-09	149.8	1.0	-31.4	144.1	-3.4	-4.0

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

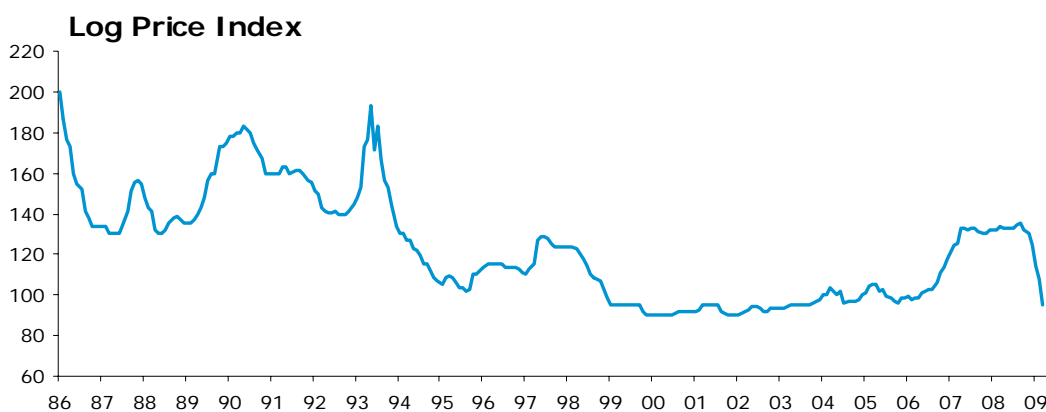
## Featured Commodity: LOGS

New Zealand has a comparative advantage in forestry production. Forestry-based exports account for around 10 percent of our total merchandise exports, of which logs account for nearly a fifth. After a six-year gradual rise, a surge in late 2006, and a period of stabilisation, international log prices are now falling sharply.

Mid-way through last century, the NZ Government undertook a strategic investment in forestry. The thrust of the initiative involved providing research, extensive plantings and a forestry management programme. The ultimate goal of the venture was to generate new employment opportunities and also earn foreign exchange from NZ's comparative advantage in forestry production. (Shorter growing times of NZ's plantations compare favourably with most softwood plantations in the Northern Hemisphere.)

While the ownership of our forestry assets has shifted into private hands, NZ is nevertheless enjoying the fruits of the investment made last century. New Zealand's forestry-based sector is now the third largest exporter, behind meat and dairy products. On the world stage, New Zealand supplies about 1 percent of the global trade in softwood lumber. *Pinus radiata* is the dominant production species and accounts for about 90 percent of the country's total plantation area. Over two thirds of NZ's total plantation area is located in the North Island, with the central North Island accounting for roughly half of this.

Last year the volume of NZ's total forestry exports was in the vicinity of 13 million m<sup>3</sup>. Of this, about 7 million m<sup>3</sup> (or 50 percent) was exported as logs and poles. This share has risen from around 10 percent in the 1960s – a time when the export of logs was a fledgling industry. According to the Ministry of Agriculture and Forestry, the forestry and logging sector directly employs about 6,600 people, with another 12,800 in first-stage wood processing industries.

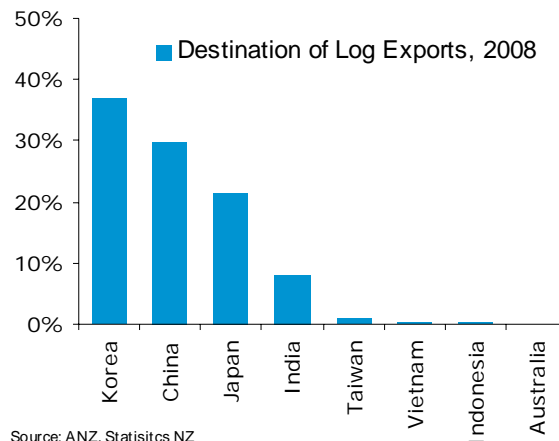


Source: ANZ

International export log prices strengthened over 2006, following a slow rise since the turn of the century. Part of this growth can be explained by China's growing demand for forest product imports, which was used to feed global demand for Chinese products such as furniture and panels, as well as growing demand within China itself. Over 2007 and 2008, log prices, by-and-large, moved sideways. However, prices have fallen sharply over 2009 on weakening demand from Japan and Korea. Weakening housing markets around the globe, as well as sharply lower trade flows – reducing demand for export crating lumber – has weighed on log prices. Given the outlook for the global economy, there seems little likelihood of a strong recovery in prices in the near-term.

In the 2008 calendar year, New Zealand log exports totalled \$800 million. This represented 2 percent of the value of our total merchandise exports.

Asia is the major destination of our log exports. Korea takes around 37 percent of our log exports, and China around 30 percent. In fact, the top four export destinations combined took 96 percent of our log exports. South Korean mill owners turn our logs into plywood, panels and timber. Radiata pine is used in Japan primarily for packaging materials and other low value end-uses. Elsewhere, logs are used in the production of plywood, wood pulp, paper, packaging products, sawn lumber and composite panel products.



Source: ANZ, Statistics NZ

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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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The Bank is a member of the following professional bodies relevant to the provision of investment advice:

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- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
- Institute of Finance Professionals.

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- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- 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.

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identifying your name, account number and investment purpose.

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