

## NEW ZEALAND ECONOMICS ANZ COMMODITY PRICE INDEX

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The next issue of the *ANZ Commodity Price Index* is scheduled for release on: 4 July 2011 at 1pm.

### NINE TIMES TABLE

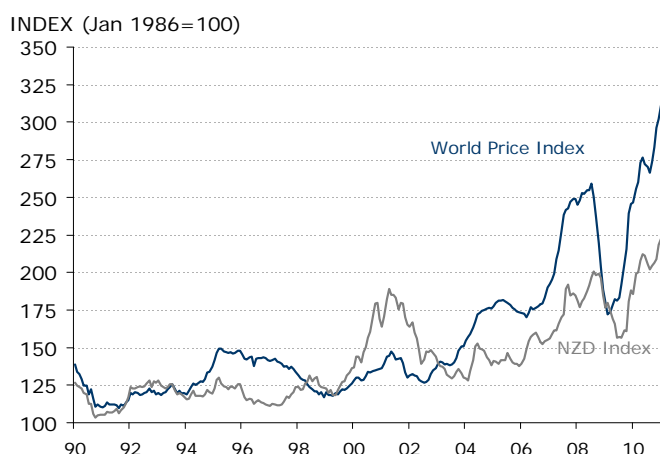
**Ninth monthly rise, albeit the smallest.** The ANZ Commodity Price Index lifted 0.3 percent in May. This is the ninth consecutive monthly increase in the series and the smallest monthly rise to be recorded since September. Nine commodities recorded a lift in export prices, six commodities recorded a weakening in prices and two were unchanged.

**Kiwifruit kicks-off the season.** The new season kiwifruit crop recorded the largest increase, with the traditional start of season seeing prices 27 percent above last year's season end price. Compared to the price a year ago kiwifruit prices are 19 percent higher. Skin prices lifted 4 percent and skim milk powder, lumber, cheese and sheepmeat prices all lifted 2 percent. Log and venison prices rose 1 percent and seafood prices lifted by a ¼ of a percent.

**Falling prices more numerous.** Apple prices drifted 7 percent lower in the month. Beef prices fell 5 percent, whole milk powder prices dropped 4 percent, aluminium prices dropped 3 percent and the price of butter eased 1 percent. Wool prices recorded its first price fall of the year, easing ¼ percent. Wood pulp and casein prices were unchanged.

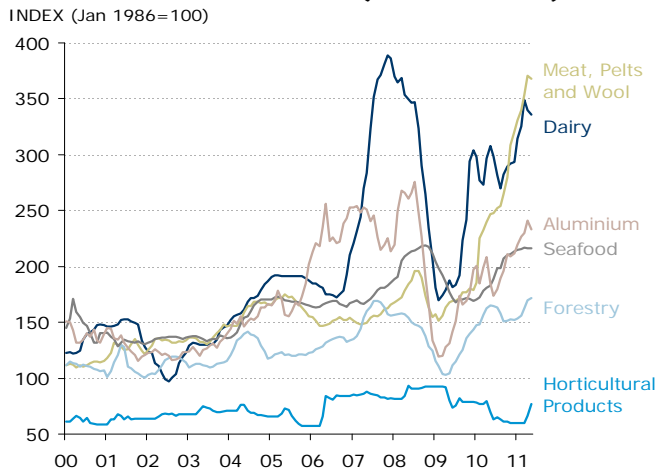
**High kiwi dollar hitting returns.** The value of the New Zealand dollar lifted to a new post-float high over the month. When averaged month-over-month, the value of the NZD/USD exchange rate was 1.3 percent higher. Against our largest trading partner, Australia, the value of the NZ dollar only inched up 0.1 percent. When translated into NZ dollar prices, the aggregate NZD Commodity Price Index slipped 0.8 percent, but remains at an elevated level and 12 percent higher than where it stood a year ago.

### ANZ COMMODITY PRICE INDEX

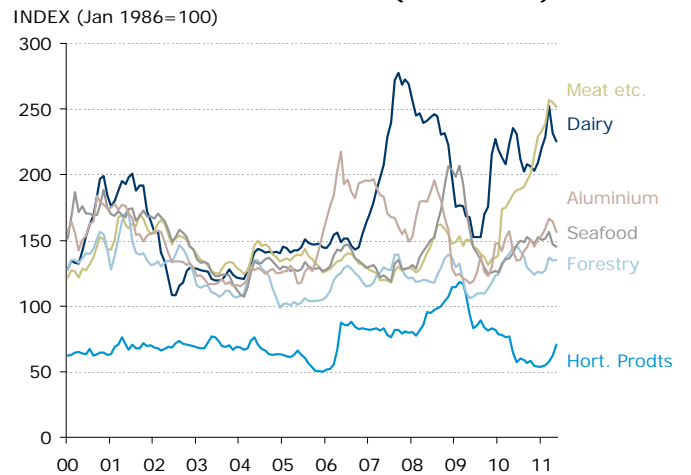


# ANZ COMMODITY PRICE INDEX

## SUB-GROUP INDICES (WORLD PRICES)



## SUB-GROUP INDICES (NZD PRICES)



	World Price Index	Monthly % Change	Annual % Change	NZ\$ Index	Monthly % Change	Annual % Change
May-07	214.5	n.a.	21.2	165.6	n.a.	5.4
May-08	254.6	n.a.	18.7	187.4	n.a.	13.2
May-09	182.2	n.a.	-28.4	165.8	n.a.	-11.5
May-10	276.6	n.a.	51.8	212.0	n.a.	27.9

Dec-10	301.9	2.0	23.0	218.3	4.5	16.1
Jan-11	313.3	3.8	27.2	223.2	2.3	20.4
Feb-11	321.7	2.7	25.9	229.7	2.9	15.3
Mar-11	337.1	4.8	29.6	248.4	8.1	24.2
Apr-11	342.5	1.6	25.4	238.7	-3.9	14.9
May-11	343.5	0.3	24.2	236.8	-0.8	11.7

Commodity Price Index weights are based on contributions to merchandise exports. Weights for the 2011 year are: Wool 3.3%; Beef 8.8%; Lamb 12.4%; Venison 0.9%; Skins 2.0%; Dairy 41.6%; Apples 1.5%; Kiwifruit 4.5%; Logs 6.1%; Sawn Timber 4.7%; Wood Pulp 2.8%; Seafood 5.9%; Aluminium 5.5%

## FEATURED COMMODITY: LOGS

**New Zealand has a comparative advantage in forestry production. Forestry-based exports account for nearly ten percent our total merchandise exports, of which logs account for about a third.**

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 much of the ownership of our forestry assets has shifted into private hands, NZ is nevertheless enjoying the fruits of the investment made in the second half of last century. New Zealand's forestry-based sector is now the third largest merchandise 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.

The volume of NZ's total forestry production was 21 million m<sup>3</sup> in 2010. Of this, the volume destined for exports was in the vicinity of 18 million m<sup>3</sup>, with about 60 percent exported as logs and poles. Over the past 50 years this share has risen from around 10 percent – 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 6,500 people, with another 11,000 in first-stage wood processing.

**Log Price Index (world prices)**



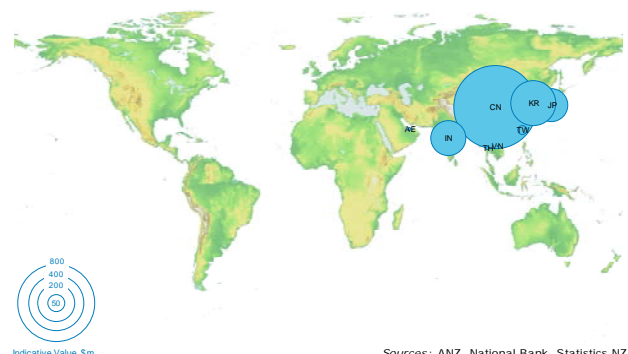
Source: ANZ

After plummeting in 2008, international export log prices have recovered, with prices firming in the past couple of months to an 18-year high. While the improvement in the global economy has been a factor, and more recently the Japanese tsunami, the bulk of this growth is due to China's growing demand for forest product imports – particularly logs. This increase reflects a large reduction in logs supplied by Russia, and Chinese concerns about the reliability of supply from other suppliers.

In the 12 months to April 2011, New Zealand log exports totalled \$1.6 billion. This accounted for over 40 percent of the sub-total of forestry exports and was 3½ percent of the value of our total merchandise exports. The latest figure for log exports represents a 27 percent increase on last year and is nearly a three-fold increase from the value recorded at the low point of the global financial crisis.

Greater Asia (which includes India) takes 99 percent of the total value of our log exports. China has overtaken Korea as the largest individual export market for logs, taking around 58 percent of our log exports in the 12 months to April 2011. India nudged Korea for the highest concentration of log exports, with logs representing a fifth (20 percent) of all of NZ's merchandise exports sent there. The equivalent figure for Korea was 19 percent, with China having the third highest concentration of log exports (17 percent of total NZ merchandise exports sent there).

**Destination of NZ's Log Exports**



Sources: ANZ, National Bank, Statistics NZ.

Chinese and South Korean mill owners predominantly 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.

# IMPORTANT NOTICE

## NEW ZEALAND DISCLOSURE INFORMATION

The Bank (in respect of itself and its principal officers) makes the following investment adviser disclosure to you pursuant to section 41A of the Securities Markets Act 1988.

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.

### Qualifications, experience and professional standing Experience

The Bank is a registered bank and, through its staff, is experienced in providing investment advice about its own securities and, where applicable, the securities of other issuers. The Bank has been selling securities, and providing investment advice on those securities, to customers as a core part of its business for many years, drawing on the extensive research undertaken by the Bank and its related companies and the skills of specialised staff employed by the Bank. The Bank is represented on many bank, finance and investment related organisations and keeps abreast of relevant issues by running seminars and workshops for relevant staff and having its investment adviser staff attend external seminars where appropriate. The Bank subscribes to relevant industry publications and, where appropriate, its investment advisers will monitor the financial markets.

### Relevant professional body

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

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

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The Bank (and its subsidiaries), through its ultimate parent company Australia and New Zealand Banking Group Limited, has professional indemnity insurance which covers its activities including those of investment advisers it employs.

This insurance covers issues (including 'prior acts') arising from staff fraud, electronic crime, documentary fraud and physical loss of property. The scope of the insurance also extends to third party civil claims, including those for negligence. The level of cover is of an amount commensurate with the size and scale of the Bank.

The insurer is ANZcover Insurance Pty Limited.

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The Bank has a process in place for resolving disputes. Should a problem arise, you can contact any branch of the Bank for more information on the Bank's procedures or refer to any of the Bank's websites.

Unresolved complaints may ultimately be referred to the Banking Ombudsman, whose contact address is PO Box 10-573, Wellington.

### Criminal convictions

In the five years before the relevant investment advice is given none of the Bank (in its capacity as an investment adviser and where applicable an investment broker) or any principal officer of the Bank has been:

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- 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.

### Fees

At the time of providing this disclosure statement it is not practicable to provide accurate disclosure of the fees payable for all securities that may be advised on. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

### Other interests and relationships

When a security is sold by the Bank, the Bank may receive a commission, either from the issuer of a security or from an associated person of the Bank. Whether that commission is received and, if received, its value depends on the security sold. At the time of providing this disclosure statement it is not practicable to provide a detailed list of each security that may be advised on, the name of the issuer of that security and the rate of the commission received by the Bank. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

In addition to the interest that the Bank has in products of which it is the issuer, the Bank, or an associated person of the Bank, has the following interests or relationships that a reasonable person would find reasonably likely to influence the Bank in providing the investment advice on the securities listed below:

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- UDC Finance Limited (UDC), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. UDC may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- OnePath (NZ) Limited, as a wholly owned subsidiary of the Bank, is an associated person of the Bank. OnePath and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.
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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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If you wish to pay investment money to the Bank you can do this in several ways such as by:

- Providing cash;



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- 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.

Any investment money lodged with the Bank for the purchase of securities offered by the Bank, its subsidiaries or any third parties will be deposited in accordance with your instructions, to your nominated account or investment. Such money will be held by the Bank according to usual banking terms and conditions applying to that account or the particular terms and conditions relating to the investment and will not be held by the Bank on trust unless explicitly accepted by the Bank on those terms. Any investment money or property accepted by the Bank on trust will be so held until disbursed in accordance with your instructions. Any investment property lodged with the Bank will be held by the Bank as bailee according to the Bank's standard terms and conditions for holding your property.

### Record Keeping

The Bank will keep adequate records of the deposit of investment moneys or property and all withdrawals and dealings with such money or property, using the account/investment number allocated to your investment. You may have access to those records upon request.

### Auditing

The Bank's systems and operations are internally audited on a regular basis. The financial statements of the Bank and its subsidiaries are audited annually by KPMG. However, this does not involve an external audit of the receipt, holding and disbursement of the money and other property.

### Use of Money and Property

Money or property held by the Bank for a specific purpose communicated to the Bank (e.g. the purchase of an interest in a security) may not be used by the Bank for its own purposes and will be applied for your stated purpose. No member of the Bank's staff may use any money or property deposited with the Bank, for their own purposes or for the benefit of any other person. In the absence of such instructions, money deposited with the Bank may be used by the Bank for its own purposes, provided it repays the money to you upon demand (or where applicable, on maturity), together with interest, where payable.

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