

ANZ Commodity Price Index

New Zealand

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Udderly amazing

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The next issue of the *ANZ Commodity Price Index* is scheduled for release on: 13 January 2010 at 3pm.

A double-digit increase in commodity prices. The ANZ Commodity Price Index surged higher in November, underpinned by a jump in dairy prices. The index increased 10.5 percent in the month, the second largest monthly increase on record. The index has recovered 39 percent from the low-point reached in February and is now 17 percent higher than where it was a year ago – the first positive annual rate of change since August 2008.

The milk run continues. Prices for eight commodities recorded a rise in November, while prices for three were weaker. International dairy prices leapt 22 percent in November. Dairy prices are currently 75 percent higher than the low point measured in February, but would need to rise by another third to return to the highs recorded two years ago.

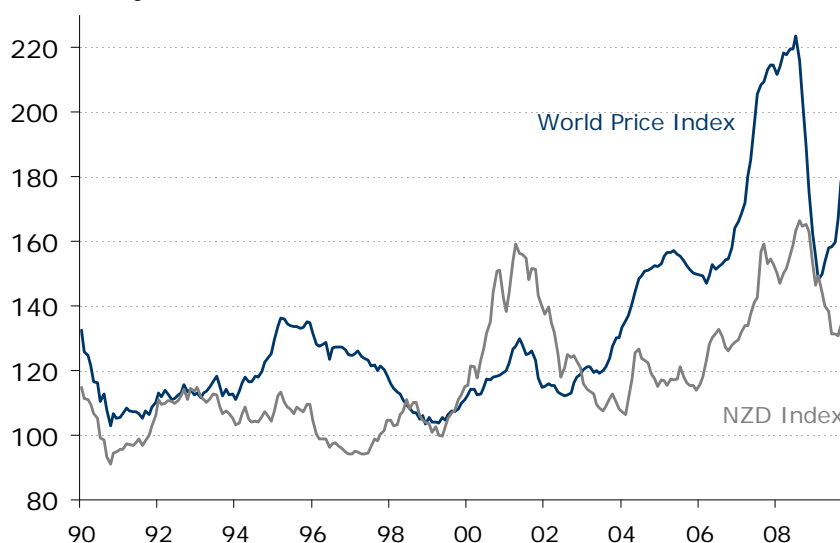
Wool gets a boost. The rise in dairy prices overshadowed a 8.8 percent increase in wool prices, which has sprung back to the levels recorded a year ago, after dropping by a third in the interim. Other price gains, ranging between 3-4½ percent, were noted for wood pulp, aluminium, sawn timber, beef and skins. Logs were the other commodity to post a price rise in November, lifting 0.7 percent.

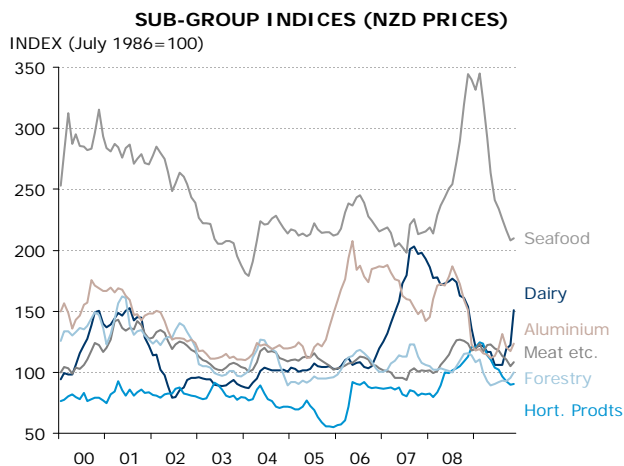
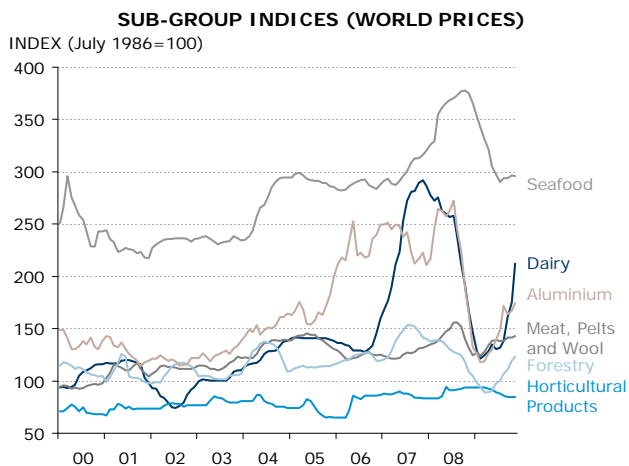
Lamb overcooked. Lamb prices retraced 1.4 percent in November, after hitting an all-time high the previous month. Venison and seafood prices eased 0.7 and 0.3 percent, respectively. Kiwifruit and apple prices were unchanged, following the conclusion of the Northern Hemisphere export season.

Kiwi caught. The New Zealand dollar weakened in the month of November. This resulted in a stronger lift in commodity prices when converted into local prices. Consequently, the NZ Dollar Commodity Price Index recorded an 11.7 percent increase, which is the strongest monthly gain in the series to date.

ANZ COMMODITY PRICE INDEX

INDEX (July 1986=100)





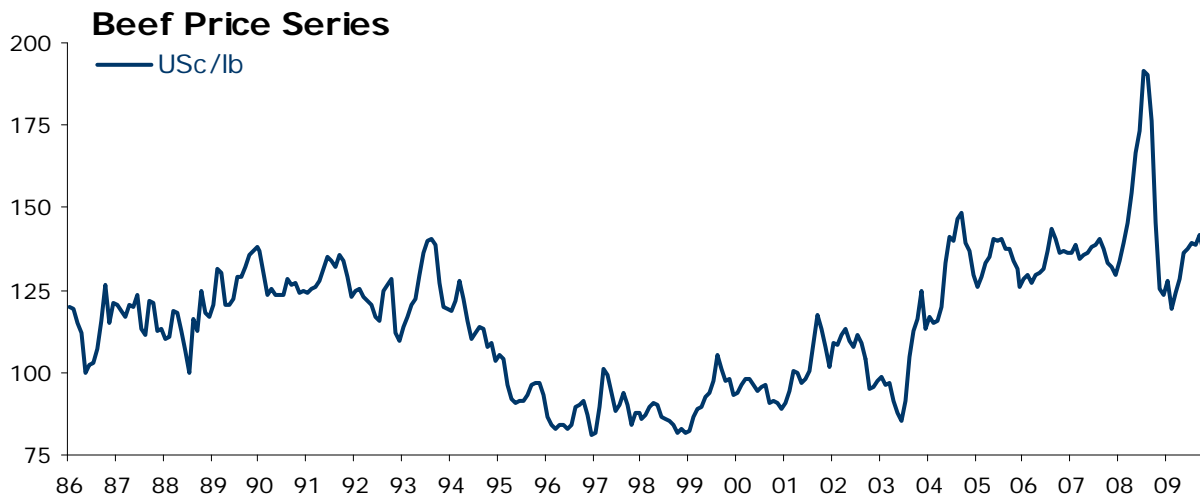
	World Price Index	Monthly % Change	Annual % Change	NZ\$ Index	Monthly % Change	Annual % Change
Nov-04	152.6	0.5	17.2	117.5	-1.3	6.6
Nov-05	150.1	-0.9	-1.6	115.3	0.0	-1.9
Nov-06	158.0	2.1	5.3	127.8	1.3	10.8
Nov-07	214.7	0.8	35.9	154.5	0.8	20.9
Nov-08	175.4	-7.4	-18.3	162.9	-1.5	5.4
May-09	158.0	2.8	-28.1	138.2	-1.4	-11.2
Jun-09	158.3	0.2	-27.9	131.3	-5.0	-17.3
Jul-09	159.9	1.0	-28.5	131.4	0.1	-19.5
Aug-09	166.9	4.4	-22.7	130.8	-0.5	-21.4
Sep-09	178.2	6.8	-13.0	133.9	2.4	-18.7
Oct-09	186.5	4.7	-1.5	133.5	-0.3	-19.2
Nov-09	206.0	10.5	17.4	149.1	11.7	-8.5

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: BEEF

Beef prices have traditionally followed an erratic path (beef jerky, perhaps?). The past couple of years has seen a large upswing followed by an equally dramatic correction. But the recent drop down has not been as severe as the falls recorded for most other commodities, with stable beef prices being measured over most of 2009.

The price for manufacturing beef in the US has been stable since the middle part of the year and around its pre-spike level. The normal seasonal pattern, induced by the height of the North American barbecuing season wasn't as prevalent this year. This was attributed to the weak domestic economy and the very competitive price of pork and poultry.



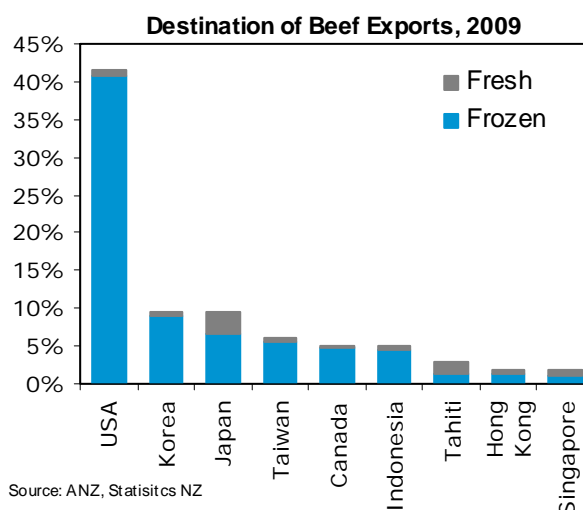
Sources: ANZ, Meat & Wool NZ

The United States beef market is on a knife edge, with demand and supply pressures evenly balanced. Total US meat production is running behind last year. Prices, as a generalisation, are similar to two years ago. Beef imports are down but the US domestic supply of manufacturing beef has been stable.

The cull dairy cow program in the US had the potential to disrupt the manufacturing beef market during 2009. The scheme accepted tenders, in two rounds during 2009, to take 175,000 dairy cows out of milk and into meat production by the end of September. The scheme is administered by the Co-operatives Working Together (CWT) group. However, the total number of dairy and beef cows processed in the 12 months to October is down 65,000 head or one percent, compared to the same date in 2008. The composition of the cow slaughter number reflects the CWT tenders. The numbers of dairy cows processed are up by 224,000 head. The numbers of beef cows processed is down by 289,000 head. That was interpreted as a late beef cow kill, the result of no further reduction in the beef cow herd or a combination of both. More recent weekly processing numbers suggest the former. A third tender round by CWT has accepted a further 26,400 cows. But this is hardly a big deal, relative to a total annual cow kill of over 6 million head.

The impact of the high corn price in 2008 is now showing in US meat production statistics. Monthly and year to date production of beef, pork and poultry is down between two and four percent. The corn price has fallen from the peak and is now oscillating around the pre-spike level. The profitability of grain fed meat was marginal at pre-spike levels and a production response to a lower corn price is likely to take a while.

New Zealand is the 8th largest producer of beef and veal in the world, with our production accounting for over 4 percent of the value of New Zealand's total merchandise export receipts last year. The United States and North Asia are important destinations for New Zealand beef, with over 40 percent of our beef production exported to the USA. When combined with the next six largest export destinations, 80 percent of all our beef exports in the 12 months to October 2009 were shipped to just seven countries. New Zealand has picked up market share in Korea and Japan, stemming from the Asian markets banning North American beef exports due to BSE-related trade restrictions.



Source: ANZ, Statistics NZ

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