

Beef with all the trimmings

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

Record fall in commodity prices. The ANZ Commodity Price Index recorded its third consecutive drop in October, falling 7.4 percent from a month earlier. The index has tumbled 15 percent from its peak in July, and now sits at an eighteen month low.

The decline was broad based. Nine commodities recorded a lower price in October, three recorded increased prices and one was unchanged. The price of beef recorded the largest fall across the commodity basket, falling 17.7 percent from September (*refer to the feature article on page 3*). Double-digit declines were also measured in skins (-16.2 percent), aluminium (-16.0 percent) and wool (-12.6 percent). Dairy prices just missed joining this group, with international dairy prices retreating 9.9 percent in October. Forestry products recorded the next largest falls. The price of sawn timber fell 5.8 percent, logs dropped 2.7 percent and wood pulp eased 1.3 percent. Lamb was the remaining commodity to record a price reduction, slipping just 0.1 percent from a month earlier.

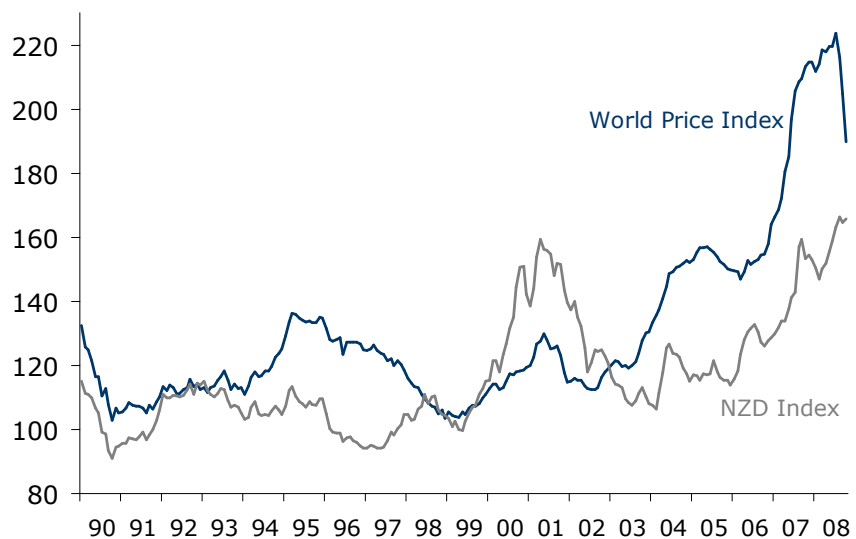
Fruit prices left unblemished. Kiwifruit recorded the largest rise in commodity prices, lifting 1.9 percent from September. Export apple prices remained firm as the season tailed-off, lifting 0.7 percent, at a time when prices are usually in decay. Seafood prices inched up 0.3 percent in the month, while venison was the sole commodity to record an unchanged price in October.

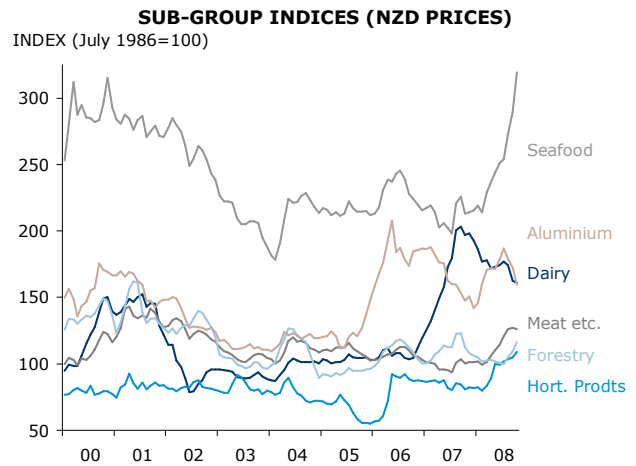
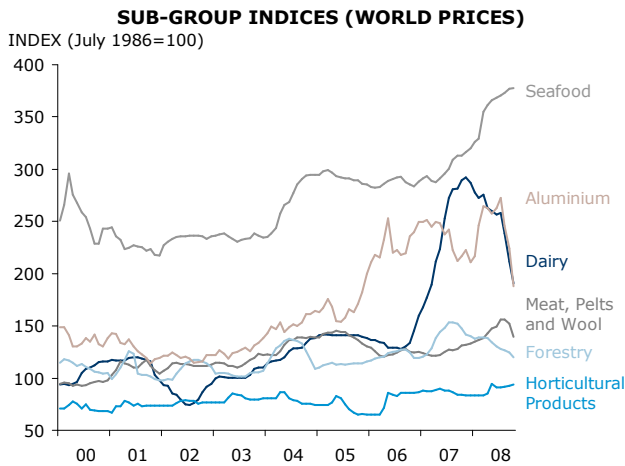
The falling kiwi dollar has offset the export price weakness. The fall in the value of the NZ dollar over the month of October outstripped the fall in the level of commodity prices. Consequently the level of the NZD Commodity Price Index ticked up 0.7 percent in October, to sit just below its all time high.

Collectively, the survey highlights two dynamics. Firstly, New Zealand's commodity prices have not been, and will not be, immune to global developments. And secondly, the importance of NZ's floating currency regime, with currency weakness acting as an important buffer.

ANZ COMMODITY PRICE INDEX

INDEX (July 1986=100)





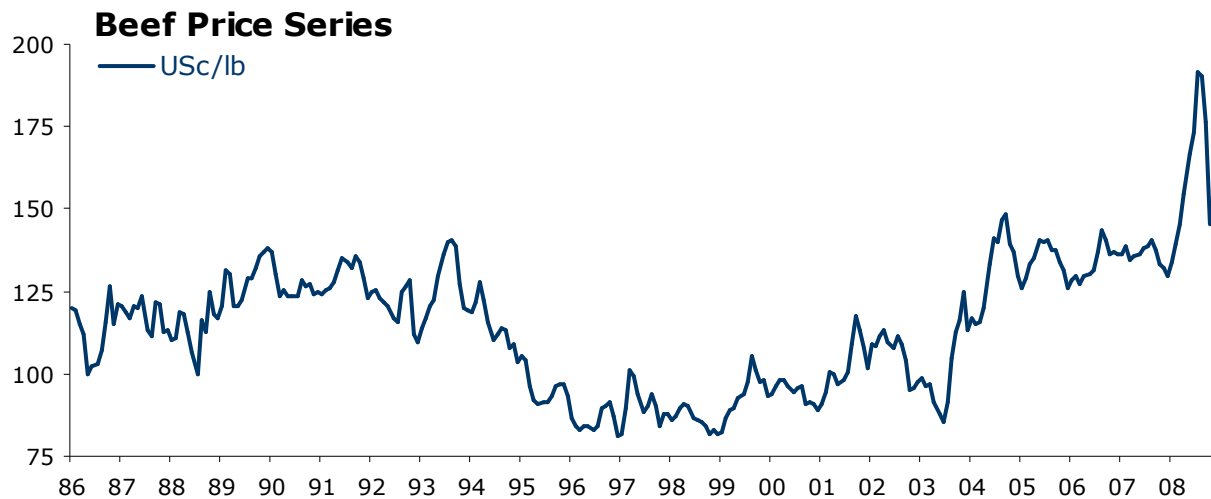
	World Price Index	Monthly % Change	Annual % Change	NZ\$ Index	Monthly % Change	Annual % Change
Oct-03	127.7	3.2	9.9	112.9	1.5	-9.5
Oct-04	151.8	0.5	18.9	119.1	-2.8	5.5
Oct-05	151.5	-0.6	-0.2	115.3	-0.9	-3.2
Oct-06	154.7	0.3	2.1	126.1	-0.9	9.4
Oct-07	213.1	1.8	37.8	153.2	-3.8	21.5
Apr-08	217.7	-0.3	20.7	151.8	1.1	13.4
May-08	219.7	0.9	18.7	155.6	2.5	13.2
Jun-08	219.6	0.0	11.6	158.8	2.1	12.5
Jul-08	223.5	1.8	8.7	163.2	2.8	14.4
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	189.8	-7.4	-10.9	165.7	0.7	8.2

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: BEEF

Beef prices traditionally follow an erratic path, and the past few months have been no exception – as prices recorded a sharp rise and then a reversal. This swing coincides with a heightened level of economic uncertainty in the United States and a downward trend in commodity prices, more generally.

The price for manufacturing beef in the US rose strongly over the first half of the year. It reached a peak in July, coinciding with the height of the North American barbecuing season and a shortage of supply created by diversion of Australian and Uruguayan beef to Russia. In the past three months, the retracement in beef prices on the way down has been even sharper than the rise on the way up.



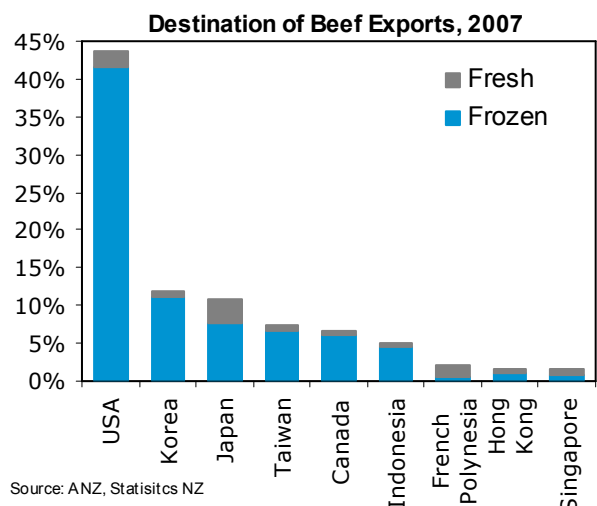
Sources: ANZ, Meat & Wool NZ

The latest drop in beef prices largely reflects a fall in demand because of increasing economic uncertainty and a surplus of low priced chicken and pork in the United States. American beef traders are showing almost no buying interest and there is little demand by consumers. Add to this scenario, a rise in the supply of beef as Australia and Uruguay return to the US market, after a major decline in Russian buying. Especially so, given the Australian traders desire to re-establish a foothold in the US market. In addition, the United States' mandatory country of origin labelling, implemented at the start of the month, is disadvantaging imported product, as retailers grapple with new requirements and want to deal with one product line.

The latest swing comes on top of several other factors recently affecting the trend in beef prices. Avian influenza (or bird flu) dented demand for poultry meat and conversely raised demand for alternative sources of protein, such as beef. Additionally, the Atkins diet provided a boost in demand for red meat. However, both of these influences are abating. A negative impact resulted from an incidence (albeit a very low one) of Bovine Spongiform Encephalopathy (BSE) in Canada and the United States (10 cases since 2003 in 110 million cattle). This was the catalyst that halted beef exports from these two countries to Japan and Korea. This, in turn, resulted in Asian demand switching towards other countries, which has proved to be a boon for beef producers here and in Australia. However, the US is now re-entering Asian markets.

Another recent factor driving up beef prices has been the rising price of corn. The beef industry in the US uses corn as a source of feed. But corn, and its by-products, are increasingly being used in the production of ethanol. Corn prices have eased recently, and this is being reflected in beef prices.

New Zealand is the 8th largest producer of beef and veal in the world, with our production accounting for 4.3 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 five largest export destinations, 86 percent of all our beef exports in 2007 were shipped to just six countries. As mentioned earlier, New Zealand has picked up market share in Korea and Japan, caused by the Asian markets banning North American beef exports due to BSE-related trade restrictions.



Source: ANZ, Statistics NZ

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- Group investment funds;
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