

FLIPPING BURGERS WITH CHEESE

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The next issue of the *ANZ Commodity Price Index* is scheduled for release on: 4 March 2008 at 3pm.

Several prices of NZ's key commodities eased in January. After stalling in December, the ANZ Commodity Price Index fell 1.4 percent in January – the first drop in the index since June 2006. Three of the component commodity series recorded a decline in the month of January, three were unchanged and seven recorded a rise.

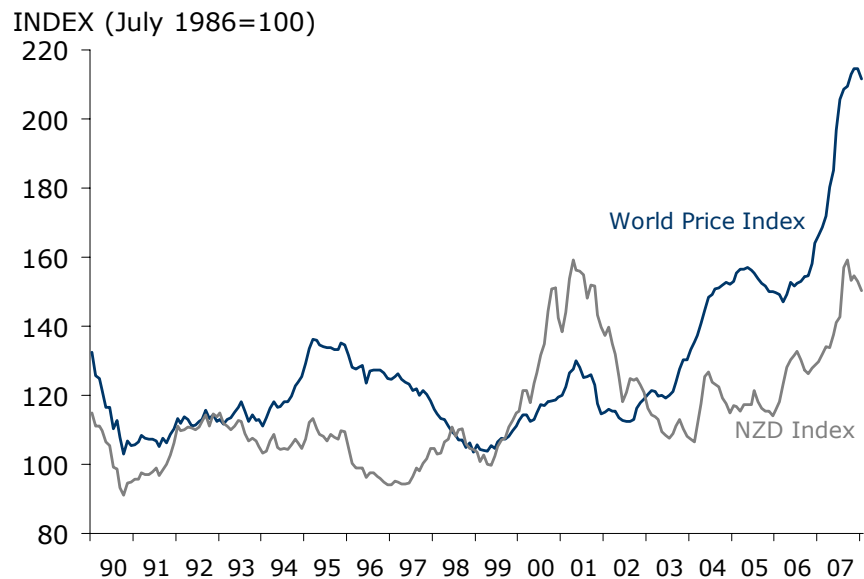
Easing international dairy prices was the main cause of the decline. The dairy sub-group of the Commodity Price Index recorded a 5.0 percent drop. This fall came on the heels of a 1.8 percent drop in December. How much further dairy prices could decline is uncertain. Prices in Oceania look to have stabilised over the final two weeks of January, and European prices have picked up, as buyer interest has re-emerged there. Skins and kiwifruit were the two other commodities to record a drop in price. Skin prices slipped 3.9 percent in January and kiwifruit prices eased 0.5 percent.

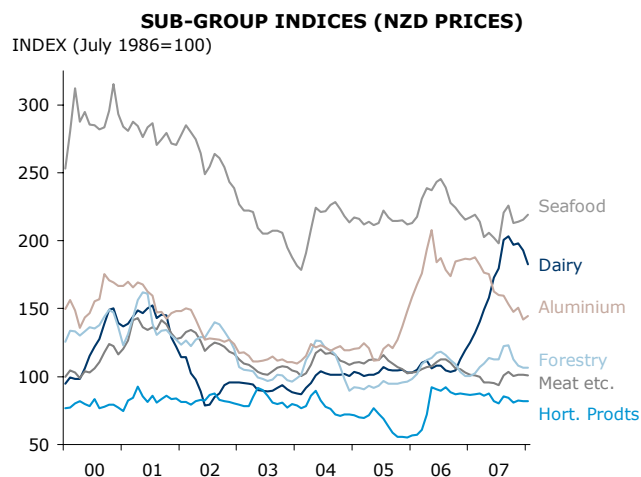
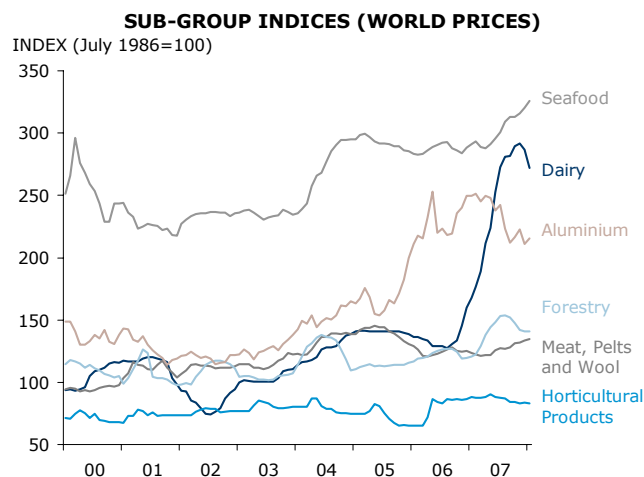
Meat prices bite back. Seven commodities recorded a rise in price in the month of January. Beef prices rose 3.2 percent – the first monthly rise since August last year. On an annual basis, beef prices are still 1.8 percent lower than the same time last year. Venison prices rose 2.5 percent and sheepmeat prices ticked up 1.1 percent. Other price increases were noted for aluminium (up 2.1 percent), seafood (1.9 percent), wool (0.6 percent) and sawn timber (0.2 percent).

Annual growth in dairy and skins prices remain on the table-top. Despite dairy and skins registering the largest monthly declines in price this month, the annual increase in these two commodities remains the strongest across the commodity basket, with respective increases of 63 and 69 percent.

A rising value in the kiwi dollar exacerbated the fall in NZD prices. The value of the New Zealand dollar firmed against both the US dollar and British pound but weakened against the yen, euro and Aussie dollar. On balance, the value of the kiwi dollar firmed slightly, resulting in the ANZ NZD Commodity Price Index falling 1.8 percent in January.

ANZ COMMODITY PRICE INDEX





	World Price Index	Monthly % Change	Annual % Change	NZ\$ Index	Monthly % Change	Annual % Change
Jan-03	120.2	1.1	4.4	116.1	-3.9	-15.5
Jan-04	133.3	2.3	10.9	107.4	-0.7	-7.5
Jan-05	153.1	0.7	14.9	117.1	1.8	9.0
Jan-06	149.6	-0.2	-2.3	115.6	1.4	-1.3
Jan-07	166.2	1.3	11.1	129.7	0.8	12.2
Jul-07	205.7	4.6	35.1	142.7	1.1	7.5
Aug-07	208.6	1.4	36.3	156.9	10.0	20.3
Sep-07	209.4	0.4	35.7	159.3	1.5	25.1
Oct-07	213.1	1.8	37.8	153.2	-3.8	21.5
Nov-07	214.7	0.8	35.9	154.5	0.8	20.9
Dec-07	214.7	0.0	30.9	153.1	-0.9	19.0
Jan-08	211.7	-1.4	27.4	150.3	-1.8	15.9

Commodity Price Index weights are based on contributions to merchandise exports. Weights for the 2007 year are: Wool 0.048; Beef 0.103; Lamb 0.137; Venison 0.015; Skins 0.027; Dairy 0.333; Apples 0.018; Kiwifruit 0.044; Logs 0.032; Sawn Timber 0.056; Wood Pulp 0.034; Seafood 0.068; Aluminium 0.085.

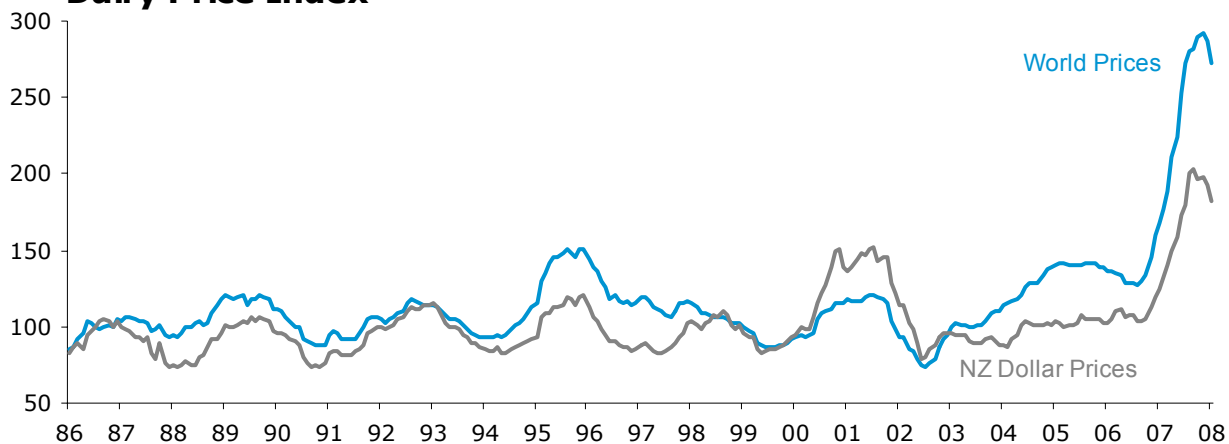
Featured Commodity: DAIRY

After a fifteen month streak, the much heralded surge in dairy prices looks to have ended, as increased output by dairying nations has seen international dairy prices retrace 7 percent from their peak in November last year.

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 2007 calendar year, exports of dairy products amounted to just over \$7.5 billion or over a fifth of our total exports of 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/Waikato area accounts 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 2006. This switch reflects an increased demand for NZ's dairy products, particularly from developing countries, that has triggered a surge in land conversion from sheep and beef farming to dairying. The New Zealand dairy industry produced over 14.1 billion litres of milk in the 2006 season, from 4.1 million cows in 12,300 herds. Over 1.3 billion kilograms of milksolids were processed into products, predominantly for export.

Dairy Price Index



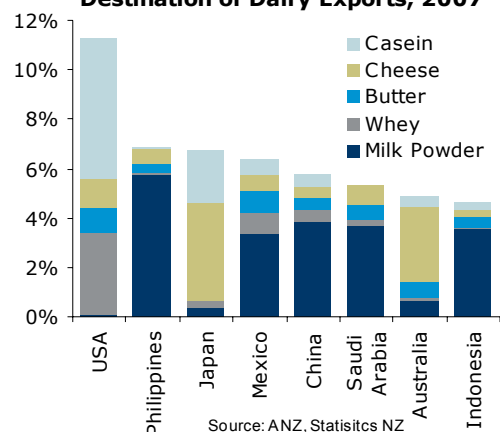
Source: ANZ

International dairy prices more than doubled between September 2006 and November 2007. This surge began as a consequence of an Australian drought restricting supply of dairy products to the global market. Also about this time was news that European countries were to gradually phase out export subsidies over the next eight years. A change in the mix of dairy products produced by European countries has benefited New Zealand producers. European dairy producers have been gradually switching away from producing milk powders and moving more towards cheese production. This has caused milk powder prices to rise faster than other dairy products. A longer-term trend increase in dairy prices is also in play, as a result of boosted incomes in several developing nations, such as China, India and other Asian nations. Another recent factor of dairy price strength has been higher oil prices increasing demand from oil producing countries.

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 total value of exports have risen strongly since 2000, with annual increases averaging over 8 percent each year.

The United States is New Zealand's largest single market for dairy product exports. Last year, dairy product exports to the US amounted to NZ\$935 million. 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 Philippines, China, Saudi Arabia and Sri Lanka.

Destination of Dairy Exports, 2007



Source: ANZ, Statistics NZ

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