On the cow’s back

The ANZ World Commodity Price Index pushed up 2.8% m/m in February, continuing the upward shift that commenced in January. Positive price movements were recorded for most sectors but the 6.6% lift in dairy prices was the main driver.

The NZD index lifted 1.8% m/m in February, tempered by a 0.8% lift in the trade-weighted exchange rate. In local currency terms the ANZ Commodity Price Index has increased 3.2% y/y, versus a 2.2% decline in world terms.

Dairy prices pushed higher on the back of tighter global supplies and steady demand. In annual terms prices still trail last year by 2.0%, but in local currency terms dairy prices are up 4.9% y/y. This is positive for farmgate returns and is reflected in Fonterra’s recent upwards revision of its 2018-19 milk price forecast to $6.30-6.60/kg milksolid. Whole milk powder (WMP) prices lifted 7.9% in February, while skim milk powder (SMP) gained 8.9%, resulting in a decrease in the heavy discount at which SMP has been trading relative to WMP for the past couple of years. The upward trend in dairy commodity prices is expected to be maintained in the short term.

The meat and fibre index lifted 0.7% m/m in February, continuing the recent upward trend. Returns for lamb meat softened slightly in both international and local currency terms, but this was more than offset by higher returns for beef. Compared to a year ago the returns for these two industries are in reverse, with lamb still up 6%, while beef returns are 3.3% weaker.

The horticulture index was stable on low seasonal volumes. Kiwifruit returns are expected to benefit from the ongoing trend towards the higher returning Sungold variety. The growth in planting of Sungold is occurring primarily on greenfield sites, but there is some grafting of gold onto existing green vines. This will curb production of green kiwifruit, which is expected to be supportive to prices. The price of new season apples may benefit from a slightly smaller crop than originally anticipated. A lack of water in the Tasman/Nelson region has growers rationing water at the expense of lower-returning varieties.
International forestry prices lifted 0.5% m/m in February, but eased 0.7% in local currency terms due to the appreciation in the NZ dollar. Thus far international market prices are holding at elevated levels, but are very reliant on ongoing demand from China for prices to be maintained. Risks of a fall in demand from China are heightened due to uncertainty surrounding economic growth, but thus far this has not played out into any decrease in demand for logs sourced from NZ.

Aluminium prices lifted 0.8% in February, stemming the downward trend in pricing that has been evident since May. Recently prices have bucked market expectations of further weakness due to anticipated lifting supply combined with easing demand. Sanctions on supply from Rusal were lifted at the end of January, which was expected to increase supply and therefore put negative pressure on prices. However, the opposite has occurred, with prices possibly benefiting from a recent uptick in buying from a major player, but it is unclear at this point where the end user demand sits. Tariffs on aluminium (and steel) remain a sticking point in the NAFTA agreement. Trudeau and Trump are discussing the issue with the Canadian leader pushing for tariff-free access for its aluminium while the US officials want to impose quotas in place of existing tariffs.

<table>
<thead>
<tr>
<th>Sub group indices (world prices)</th>
<th>Sub group indices (NZD prices)</th>
</tr>
</thead>
</table>

Source: ANZ

Commodity Price Index weights are based on contributions to merchandise exports. Weights for the 2018 year are: Wool 1.9%; Beef 9.9%; Lamb 12.1%; Venison 0.6%; Skins 1.2%; Dairy 38.0%; Apples 2.4%; Kiwifruit 7.0%; Logs 11.4%; Sawn Timber 3.5%; Wood Pulp 2.7%; Seafood 5.2%; Aluminium 4.0%
This document is intended for ANZ’s institutional, professional or wholesale clients, and not for individuals or retail persons. It should not be forwarded, copied or distributed. The information in this document is general in nature, and does not constitute personal financial product advice or take into account your objectives, financial situation or needs.

This document may be restricted by law in certain jurisdictions. Persons who receive this document must inform themselves about and observe all relevant restrictions.

Disclaimer for all jurisdictions: This document is prepared and distributed in your country/region by either: Australia and New Zealand Banking Group Limited (ABN11 005 357 522) (ANZ); or its relevant subsidiary or branch (each, an Affiliate), as appropriate or as set out below.

This document is distributed on the basis that it is only for the information of the specified recipient or permitted user of the relevant website (recipients).

This document is solely for informational purposes and nothing contained within is intended to be an invitation, solicitation or offer by ANZ to sell, or buy, receive or provide any product or service, or to participate in a particular trading strategy.

Distribution of this document to you is only as may be permissible by the laws of your jurisdiction, and is not directed to or intended for distribution or use by recipients resident or located in jurisdictions where its use or distribution would be contrary to those laws or regulations, or in jurisdictions where ANZ would be subject to additional licensing or registration requirements. Further, the products and services mentioned in this document may not be available in all countries.

ANZ in no way provides any financial, legal, taxation or investment advice to you in connection with any product or service discussed in this document. Before making any investment decision, recipients should seek independent financial, legal, tax and other relevant advice having regard to their particular circumstances.

Whilst care has been taken in the preparation of this document and the information contained within is believed to be accurate, ANZ does not represent or warrant the accuracy or completeness of the information. Further, ANZ does not accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect the accuracy of the information in this document.

Preparation of this document and the opinions expressed in it may involve material elements of subjective judgement and analysis. Unless specifically stated otherwise: they are current on the date of this document; and are subject to change without notice; and, all price information is indicative only. Any opinions expressed in this document are subject to change at any time without notice.

ANZ does not guarantee the performance of any product mentioned in this document. All investments entail a risk and may result in both profits and losses. Past performance is not necessarily an indicator of future performance. The products and services described in this document may not be suitable for all investors, and transacting in these products or services may be considered risky.

ANZ expressly disclaims any responsibility and shall not be liable for any loss, damage, claim, liability, proceedings, cost or expense (liability) arising directly or indirectly and whether in tort (including negligence), contract, equity or otherwise out of or in connection with this document to the extent permissible under relevant law. Please note, the contents of this document have not been reviewed by any regulatory body or authority in any jurisdiction.

ANZ and its Affiliates may have an interest in the subject matter of this document. They may receive fees from customers for dealing in the products or services described in this document, and their staff and introducers of business may share in such fees or remuneration that may be influenced by total sales, at all times received and/or apportioned in accordance with local regulatory requirements. Further, they or their customers may have or have had interests or long or short positions in the products or services described in this document, and may at any time make purchases and/or sales in them as principal or agent, as well as act (or have acted) as a market maker in such products. This document is published in accordance with ANZ’s policies on conflicts of interest and ANZ maintains appropriate information barriers to control the flow of information between businesses within it and its Affiliates.

Your ANZ point of contact can assist with any questions about this document including for further information on these disclosures of interest.

Country/region specific information: Unless stated otherwise, this document is distributed by Australia and New Zealand Banking Group Limited (ANZ).

Australia. ANZ holds an Australian Financial Services licence no. 234527. For a copy of ANZ’s Financial Services Guide please click here or request from your ANZ point of contact. If trading strategies or recommendations are included in this document, they are solely for the information of “wholesale clients” (as defined in section 761G of the Corporations Act 2001 Cth).

Brazil, Brunei, India, Japan, Kuwait, Malaysia, Switzerland, Taiwan. This document is distributed in each of these jurisdictions by ANZ on a cross-border basis.

Cambodia. This document is distributed in Cambodia by ANZ Royal Bank (Cambodia) Limited (ANZ Royal Bank). The recipient acknowledges that although ANZ Royal Bank is a subsidiary of ANZ, it is a separate entity to ANZ and the obligations of ANZ Royal Bank do not constitute deposits or other liabilities of ANZ and ANZ is not required to meet the obligations of ANZ Royal Bank.

European Economic Area (EEA): United Kingdom. ANZ is authorised in the United Kingdom by the Prudential Regulation Authority (PRA) and is subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request. This document is distributed in the United Kingdom by Australia and New Zealand Banking Group ANZ solely for the information of persons who would come within the FCA definition of “eligible counterparty” or “professional client”. It is not intended for and must not be distributed to any person who would come within the FCA definition of “retail client”. Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the Prudential Regulation Authority (PRA) and the FCA. ANZ is authorised in the United Kingdom by the PRA and is subject to regulation by the FCA and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request.

Fiji. For Fiji regulatory purposes, this document and any views and recommendations are not to be deemed as investment advice. Fiji investors must seek licensed professional advice should they wish to make any investment in relation to this document.

Hong Kong. This publication is issued or distributed in Hong Kong by the Hong Kong branch of ANZ, which is registered at the Hong Kong Monetary Authority to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. The contents of this publication have not been reviewed by any regulatory authority in Hong Kong.

India. If this document is received in India, only you (the specified recipient) may print it provided that before doing so, you specify on it your name and place of printing.

ANZ New Zealand Commodity Price Index | February 2019