What goes up must come down

The ANZ World Commodity Price Index fell 3.9% m/m in June, to record its first decrease this year. Weaker dairy prices were the main culprit for the drop. The index has fallen 2.4% in the past year.

The fall in the index was exacerbated by the stronger New Zealand dollar resulting in the NZD Index down 4.5% m/m in June.

### ANZ Commodity Price Index

**Dairy** prices fell 8.5% in June, reflecting the recent softening in dairy commodity prices. All of the major dairy ingredients weakened during the month with whole milk powder down 5%, and skim milk powder off by 6.6%. The fall in the milkfat products was even further pronounced, although these products remain strong in historical pricing terms.

The **meat and fibre** index lifted a further 1.7% in June with stronger prices recorded for both beef and lamb. Lamb supplies have eased which is supportive of prices. Beef supply is still strong but prices remain supported by strong demand from China where beef is now being consumed in greater quantities due to the shortage of pork.

The **horticulture** index fell 1% in June. Stronger returns for apples were not sufficient to offset weaker prices for green kiwifruit. Gold varieties continue to deliver strong returns which are bolstering returns from growers who hold licenses to grow Sungold fruit.

The **forestry** price index fell 3.5% in June with prices now retreating for the past three months. A larger fall in prices is expected next month as the surge of logs into China from New Zealand and elsewhere exceeds current demand. Prices typically weaken slightly at this time of the season due to lower offtake rates as construction activity slows during the hot summer months. However, it is not the fall in demand that is pushing down returns but a lift in supply. The current uncertainty in the market is expected to result in a slowing in harvest activity within New Zealand as some growers will opt to keep trees standing until prices improve.

Source: ANZ, Stats NZ

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The next issue of the ANZ Commodity Price Index is scheduled for release on 5 August 2019 at 1pm.

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Aluminium prices eased another 1.4% in June with prices now 22% down a year ago levels. Prices are now at their lowest level in three months which is squeezing profit margins for producers in China. Also impacting production in China is a cut in the flow in scrap aluminium being imported. At the beginning of July China imposed restrictions on imports of several types of scrap metal including aluminium. Some imports are still allowed but importers must apply for an import quota. However prices for aluminium imported by Japan are forecast to rise during the third quarter of 2019 which is good news as this is where the majority of New Zealand’s aluminium is destined for. Also positive is the recent waiver on the 10% tariff on aluminium exports from Japan to United States which Tesla uses in battery cells for electric vehicles.

## Sub group indices (world prices)

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<thead>
<tr>
<th></th>
<th>World Price Index</th>
<th>Monthly % Change</th>
<th>Annual % Change</th>
<th>NZD Index</th>
<th>Monthly % Change</th>
<th>Annual % Change</th>
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<tbody>
<tr>
<td>Jun-15</td>
<td>253.4</td>
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<td>2.3</td>
<td>231.8</td>
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<tr>
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<tbody>
<tr>
<td>Jan-19</td>
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<td>218.2</td>
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<td>231.6</td>
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<td>2.2</td>
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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%
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