**Beefed-up demand**

The ANZ World Commodity Price Index lifted 1.2% in October, with gains recorded in the majority of sectors. The index is currently 7.2% higher than it was a year ago, with dairy and meat being the main growth drivers.

In local currency terms the index lifted 1.5% m/m, bolstered by a slightly softer New Zealand dollar. The NZD-TWI eased 0.3% during October.

**ANZ Commodity Price Index**

![Graph of ANZ Commodity Price Index](image)

**Source:** ANZ, Stats NZ

**Shipping costs** eased in October, with the Baltic Dry Index down 5% on top of a sharp downward shift the previous month. Demand for shipping eased more than supply did, despite ships being temporarily taken out of service to have devices fixed to meet the new air pollution regulations that take effect in January. Not all ships are expected to meet the new regulations in time, meaning supply will be limited for the first half of 2020. At present, reduced demand from China for iron ore is helping keep the balance, but the reduced fleet is expected to underpin freight prices well into 2020.

**ANZ Commodity Price Index and shipping costs**

![Graph of ANZ Commodity Price Index and shipping costs](image)

**Source:** ANZ, Bloomberg
Dairy prices bounced by 0.4% in October following a 0.5% price decrease in September. Milk powders continue to display strength, as demand for milk powder products from developing markets remains robust. Cheese and butter prices are under some pressure as European products are more competitive on global markets than normal.

The meat and fibre index increased 3.3% during October, continuing the upward momentum that has been present throughout the year. Lamb prices lifted 3.2% to reach a new record, while beef prices lifted 4.5%. Beef prices are now a full third higher than a year ago thanks to strong international demand from both China and the United States more than offsetting elevated supply as the ongoing drought in Australia has forced farmers to reduce stock numbers.

The horticulture index lifted 1.7% in October. Kiwifruit prices firmed again. In-market prices for green kiwifruit are 3.4% firmer than they were a year ago as we head towards the end of the kiwifruit export season. Prices for traditional varieties of apples are under some pressure but this is being offset by gains in the newer apple varieties, which aren’t fully captured by this index.

The forestry price index lifted 0.4% in October following a 0.3% lift in September. Prices are gradually recovering from the sharp correction earlier this year; however, prices remain 10% weaker than a year ago. The easing in export demand means domestic mills have been able to source logs at cheaper prices, although good-quality milling logs remain sought after and continue to sell at a premium to lower-grade logs.

Aluminium prices decreased 1.6% in October. Prices are currently back 15% on an annual basis. Aluminium exported from New Zealand is of high quality and typically commands a premium, but the economics of producing aluminium at Tiwai Point is under review by the smelter owner, Rio Tinto, who has threatened to close the plant if they are not able to renegotiate a cheaper electricity supply. Meanwhile, Russian aluminium giant Rusal has secured preferentially priced funding based on achieving sustainability targets as they move to low-carbon technologies for aluminium production.

<table>
<thead>
<tr>
<th>Months</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>Oct-15</td>
<td>256.6</td>
<td>..</td>
<td>-11.6</td>
<td>202.7</td>
<td>..</td>
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<td>4.0</td>
<td>193.5</td>
<td>..</td>
<td>-4.6</td>
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<td>294.6</td>
<td>..</td>
<td>10.4</td>
<td>220.2</td>
<td>..</td>
<td>13.8</td>
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<tr>
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<td>..</td>
<td>-5.6</td>
<td>223.9</td>
<td>..</td>
<td>1.7</td>
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<td>247.1</td>
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<td>1.5</td>
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</table>

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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