

ANZ Commodity Price Index

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CONTACT:

Susan Kilsby
Agriculture Economist
 Telephone: +64 4 382 1992
Susan.Kilsby@anz.com

The next issue of the ANZ Commodity Price Index is scheduled for release on 5 February 2020 at 1pm.

Contact
research@anz.com

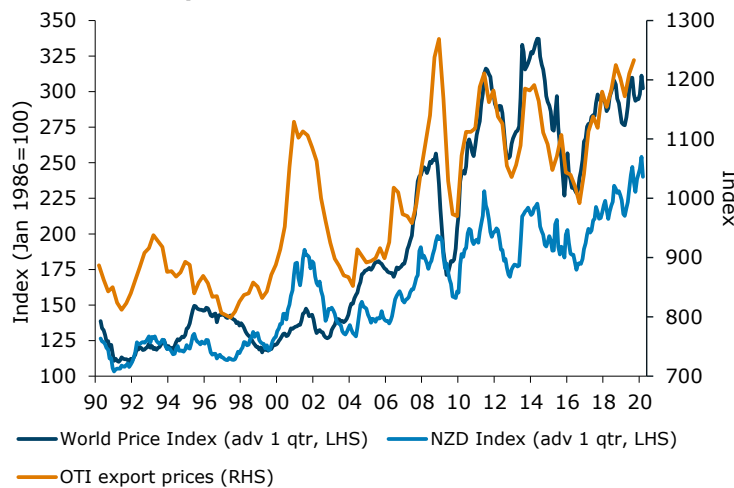
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Softer tone

The ANZ World Commodity Price Index fell 2.8% in December due to weaker prices for lamb, beef and kiwifruit. However, the overall index remains 9.4% higher than it was a year ago.

In local currency terms the fall in the index was even larger, down 5.5% m/m, due to the stronger New Zealand dollar. The NZD-TWI firmed 2.7% during December.

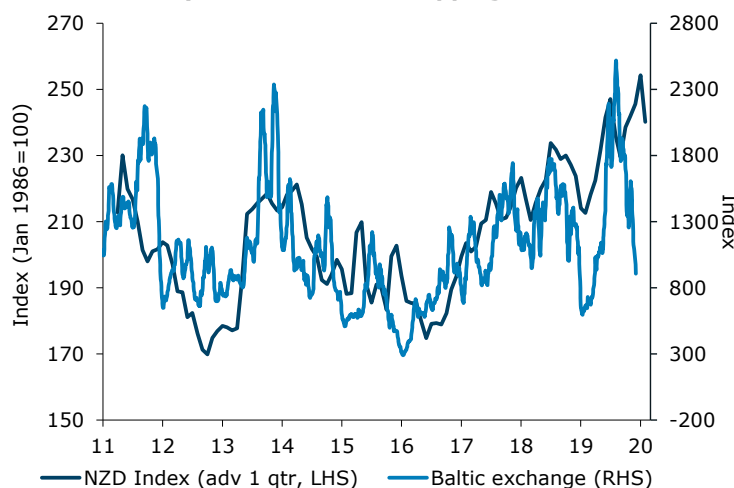
ANZ Commodity Price Index



Source: ANZ, Stats NZ

Shipping costs fell sharply towards the end of 2019. The Baltic Dry Index, a measure of global demand for shipping, fell a sharp 28% in December and is expected to ease further in January. The reduction in demand has offset the higher fuel costs associated with the new low-sulphur fuel regulations that came into play at the beginning of 2020. The new regulations mean general shipping costs will be higher from this point on, but the additional costs are unlikely to have a significant impact on export returns.

ANZ Commodity Price Index and shipping costs



Source: ANZ, Bloomberg

Dairy prices increased by 0.2% in December, to finish the year 21.3% higher than a year ago. However, the price momentum seen in the final quarter of 2019 did ease as the year drew to a close. Milk powder markets have softened and milkfat prices continue to be volatile. That said, fundamentals suggest that markets will be relatively well supported in 2020 due to limited growth in global milk supply. The Australian fires and a late monsoon in India are limiting milk production in these nations, while milk prices are not high enough to encourage strong growth in many of the major dairy-exporting nations.

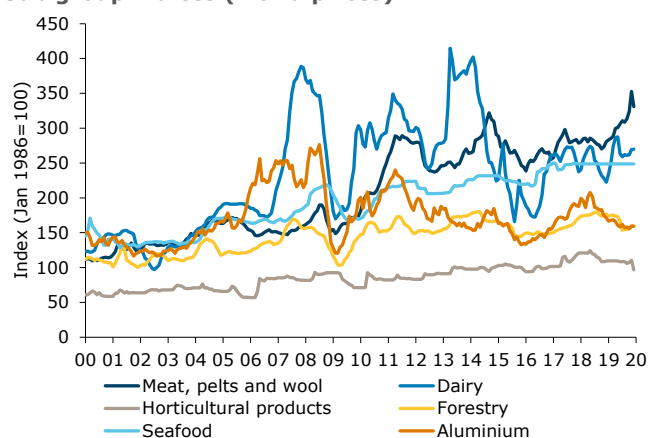
The **meat and fibre** index fell 6.1% during December after posting solid gains throughout 2019. Beef prices remain 29.6% higher than year-ago levels, while lamb prices are still up 13.2% y/y. Wool posted a modest gain of 0.5% in December to finish the year down 6%. The recent fall in meat prices has been driven largely by successful initiatives by Chinese authorities to release more meat into the market in order to ease price inflation. Protein production in China remains curbed due to the incidence of African Swine Fever in its pig population, but moves to import more meat and run down reserves have increased supply in the short term.

The **horticulture** index fell 12.4% m/m in December. This decrease was driven by lower prices for the small amount of end-of-season green kiwifruit being traded throughout European markets. Fruit quality tends to be poorer towards the end of the season. This price reduction will not significantly impact orchard gate returns.

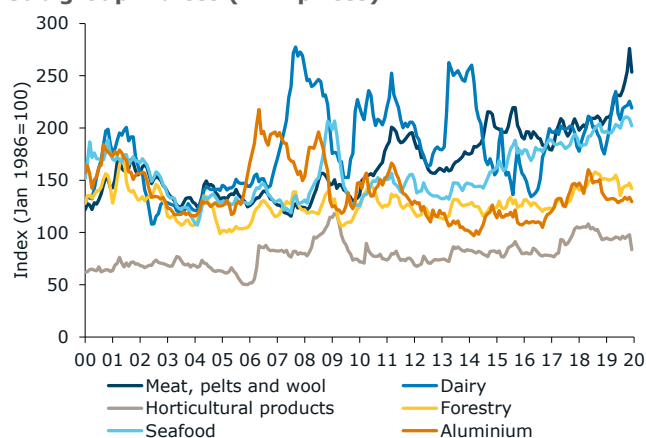
The **forestry** index eased 0.4% m/m in December, to end the year down 9.7% y/y. Log prices eased slightly in December, but are nonetheless 6% higher than they were in the middle of the year when prices crashed. Wood pulp pricing was also weak in December. Forestry demand from China is expected to be lacklustre in the short term due to building activity virtually grinding to a halt in the run-up to the Chinese New Year.

Aluminium prices in December traded on average at the same level as the previous month. Prices in the final month of 2019 were 6.9% weaker y/y. Rio Tinto has now had several of its smelters, including Tiwai Point, certified by the Aluminium Stewardship Initiative as achieving environmental, social and governance standards. Prospects for Tiwai Point remain uncertain as a strategic review on its future is yet to be completed.

Sub group indices (world prices)



Sub group indices (NZD prices)



Source: ANZ

	World Price Index	Monthly % Change	Annual % Change	NZD Index	Monthly % Change	Annual % Change
Dec-15	238.0	..	-12.9	186.0	..	-1.1
Dec-16	277.3	..	16.5	203.6	..	9.4
Dec-17	286.2	..	3.2	217.0	..	6.6
Dec-18	276.4	..	-3.4	212.6	..	-2.0
Jul-19	293.6	-1.4	-0.5	229.5	-2.8	0.3
Aug-19	294.6	0.3	0.9	238.5	3.9	3.7
Sep-19	294.7	0.0	3.4	241.9	1.4	6.5
Oct-19	298.2	1.2	7.2	245.6	1.5	9.7
Nov-19	311.2	4.3	12.4	254.2	3.5	18.8
Dec-19	302.4	-2.8	9.4	240.1	-5.5	12.9

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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