More downside to come

The ANZ World Commodity Price Index fell just 2.1% in February but there is more downside to come. The impact on export prices of the recent coronavirus outbreak in China is only partially captured in this month’s data. We expect further downwards pressure on commodity prices in March.

In local currency terms the index lifted 0.9% in February as the lower NZD helped offset weakness in commodity prices.

**ANZ Commodity Price Index**

The next issue of the ANZ Commodity Price Index is scheduled for release on 6 April 2020 at 1pm.

**Shipping costs** are on the rise again. The Baltic Dry Index, a measure of global demand for shipping, firmed 10% during February after a string of falls. Shipping costs are typically a good measure of global trade volumes; however, the recent lift in prices reflects the congestion in Chinese ports. It is taking longer to get ships unloaded, which is adding both time and cost to journeys.

**ANZ Commodity Price Index and shipping costs**

Source: ANZ, Bloomberg
**Dairy** prices were stable in February as higher cheese prices offset lower prices for milk powders. This data is yet to reflect the recent fall in GDT prices, which are back 9% since early February. Dairy exports remain robust but are not immune to the supply chain challenges all industries currently face.

The **meat and fibre** index fell 4.6% in February, continuing the downward trend in pricing that has been present for the past three months. Provisional trade data released earlier this week by Statistics NZ indicate exports of meat to China halved during the four weeks to February 23 versus a comparable period last year. Exporters have been diverting meat into other markets such as the US (beef) and more lamb is heading to Europe, but inventories are building. Prices for the higher-end cuts of lamb have been maintained but prices for the lower-value cuts and manufacturing grade beef are falling rapidly.

The **horticulture** index was unchanged in February. The export season for the major horticultural export products (apples, kiwifruit and wine) is just commencing. Apple-picking and exports are in full swing in the earlier growing regions, whereas the first shipments of kiwifruit are not expected to hit the water until late March. In-market consumer demand is strong but getting product to these consumers is the challenge. A shortage of containers and port delays are expected to present ongoing difficulties for logistics, and increased shipping costs could impact returns to growers. But at this stage in-market prices remain stable.

The **forestry** index fell 5.2% m/m in February. Prices are now at their lowest level in three years, with the recent fall eclipsing the decrease that occurred in mid-2019. Harvesting in New Zealand has slowed in response to the slump in demand from China – our main export market for logs. Demand from this market for logs was weak even before the recent logistical challenges. Provisional export data shows log exports to China in the four weeks to 23 February was down 13% on the corresponding period last year and was also lower than the same period in 2018.

**Aluminium** prices declined by 4.5% in February and are now 9.3% lower than year-ago levels.

### Commodity Price Index weights are based on contributions to merchandise exports. Weights for the 2019 year are: Wool 1.6%; Beef 10.9%; Lamb 11.7%; Venison 0.5%; Skins 0.8%; Dairy 40.2%; Apples 2.6%; Kiwifruit 6.8%; Logs 10.4%; Sawn Timber 3.1%; Wood Pulp 2.2%; Seafood 5.5%; Aluminium 3.6%

### Sub group indices (world prices)

<table>
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<tr>
<th></th>
<th>World Price Index</th>
<th>Monthly % Change</th>
<th>Annual % Change</th>
<th>NZD Index</th>
<th>Monthly % Change</th>
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