Drifting back

The ANZ World Commodity Price Index eased just 0.2% in September as lower dairy and meat prices were largely offset by stronger prices for logs and fruit.

In local currency terms the index fell 1.3% as the NZD strengthened by 0.6% on a Trade Weighted Index (TWI) basis during September. The NZD strengthened by 1% against the USD and also made strong gains against the euro and the British pound.

**ANZ Commodity Price Index**

Source: ANZ, Stats NZ

**Global shipping costs** have trended up sharply, climbing back to near pre-pandemic levels. In September the Baltic Dry Index gained 16%, and has firmed further in recent days. A large lift in the capesize sub-index was driven by strong demand from China for raw materials such as iron ore and copper, which has also resulted in some congestion in Chinese ports. Smaller handy-size vessels service New Zealand, but our shipping costs are influenced by the cost of moving goods on the larger ships.

**NZ Commodity Price Index and shipping costs**

Source: ANZ, Bloomberg
**Dairy** prices retreated by 1.3% in September, as prices continued to ease during the month, but the rate of fall has steadied. Skim milk powder and cheese gained in price, but the price of whole milk powder and butter eased. The differential between whole and skim milk powder is now back to normal levels. Dairy prices are holding up quite well considering there are large volumes of product being offered from New Zealand at this time of the year. There has been a strong start to the milk production season but these early-season gains are expected to ease as the season progresses.

The **meat and fibre** index fell 0.4% in September, wiping out some of the gain made the previous month. Beef prices eased by 1.5% but lamb gained 0.6%. Wool prices remain very weak but did manage to lift marginally during September. The volume of meat being processed at this time of the season is very low. Exporters are steadily working though stocks of product that built earlier in the year. There is still a lack of demand for high-end products such as prime beef steak and French racks of lamb due to reduced opportunities for eating out.

The **horticulture** index lifted 1.1% as kiwifruit prices lifted while apple prices eased. It has been a challenging season for apple exporters. Demand has been soft in some markets as COVID-19 restrictions have resulted in logistical and financing challenges, as well as uncertainty about end-user demand. Despite the challenges, the apple export season has now been completed and kiwifruit exports are also at the tail of the season. The main concern for the horticultural industry is now finding sufficient labour to pick the new season’s crops.

The **forestry** index gained 1.7% in September. Log prices are now 2% higher than they were a year ago, but are still well below the prices attained in early 2019. Demand for logs has been strong domestically and demand from China – our main export market – has also been strong. Construction activity is at its seasonal peak in China and this is bolstering demand from this market.

**Aluminium** prices lifted 0.4% during September, consolidating after the strong gains recorded the previous month. The London Metal Exchange is considering offering a contract for ‘green aluminium’, the type of aluminium produced at Tiwai smelter, but this plant is currently slated for closure.

### Sub group indices (world prices)

<table>
<thead>
<tr>
<th>Month</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>Sep-16</td>
<td>264.9</td>
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<td>10.6</td>
<td>189.4</td>
<td>..</td>
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<td>284.9</td>
<td>..</td>
<td>-3.6</td>
<td>227.2</td>
<td>..</td>
<td>5.8</td>
</tr>
<tr>
<td>Sep-19</td>
<td>294.7</td>
<td>..</td>
<td>3.4</td>
<td>241.9</td>
<td>..</td>
<td>6.5</td>
</tr>
<tr>
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<td>-9.2</td>
<td>243.8</td>
<td>-0.6</td>
<td>0.9</td>
</tr>
<tr>
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<td>-8.1</td>
<td>243.8</td>
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<td>-1.3</td>
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<tr>
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<td>-5.7</td>
<td>229.2</td>
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<td>229.3</td>
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<td>Sep-20</td>
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<td>226.3</td>
<td>-1.3</td>
<td>-6.4</td>
</tr>
</tbody>
</table>

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%.
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