Against the odds

The ANZ World Commodity Price Index gained 1.9% in October, reversing the downward trend present in the past couple of months. Recent strength in dairy prices has been the main factor driving the index higher.

In local currency terms the index also lifted 2.5% with the NZD broadly stable on a Trade Weighted Index (TWI) basis during October. The NZD depreciated 0.5% against the USD but gained against the AUD.

Global shipping costs have eased, with the Baltic Dry Index falling 25% in October. This follows a sharp lift the previous month when a shortage of vessels operating along with improving demand pushed up the cost of shipping. But while the fleet of vessels sailing has since increased, the number of ships calling at New Zealand ports has not really changed, and the cost of shipping goods from New Zealand remains relatively high.

Source: ANZ, Stats NZ

Contact Susan Kilsby for more details.

The next issue of the ANZ Commodity Price Index is scheduled for release on 3 December 2020 at 1pm.
**Dairy** prices lifted 3.6% in October. Demand for dairy products has been surprisingly resilient in recent months. The quantity of product being traded lifts at this time of the season, as does New Zealand’s milk supply. The additional volumes have readily been absorbed by global markets but there are mounting concerns that stocks may be building in-market rather than being consumed.

The *meat and fibre* index fell 1.7% in October, continuing the recent downward trend. Lower returns for beef were the main culprit, whereas returns for lamb products inched up on limited supply. Beef prices are under pressure due to strong supply of beef in the US and increased volumes of pork in China stemming their demand for beef. Lower-returning cuts of lamb are holding their value but the higher-priced cuts continue to be a challenge to sell. Wool posted gains during October but from a very low base. Coarse wool still has a long way to go before it will be adding to the bottom line of farm returns.

The *horticulture* index lifted 5.7% in October. Returns for kiwifruit have lifted in the European market, but we are now at the tail end of our kiwifruit export season, meaning any improvement in price will have minimal impact at the orchard gate. Kiwifruit producers in Italy’s main production region have been hit by a disease that is destroying the roots of vines, and a smaller harvest is therefore expected this year. Italy produces more kiwifruit than New Zealand but less than China who tops world production.

The *forestry* index gained 1.0% in October. Log prices are now 3% higher than they were a year ago. Demand for sawn timber remains strong with local millers now competing strongly with exporters to secure logs. Demand for logs from China has been strong with healthy usage rates but the quantity of logs in the market also increased in October. If stocks continue to increase then we may see some downward pressure on prices.

**Aluminium** prices lifted 3.3% during October, continuing the upward trend in pricing that has been in play for six months. Supply of aluminium from Rusal – the world’s largest producer – is increasing and demand remains strong for high-grade product. Last week US president Trump removed tariffs on Canadian aluminium.

### Sub group indices (world prices)

<table>
<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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<td>266.9</td>
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<tbody>
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<td>243.8</td>
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<tr>
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<td>231.9</td>
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<td>-5.6</td>
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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%
Meet the team

We welcome your questions and feedback. Click here for more information about our team.

**Sharon Zollner**
Chief Economist
Follow Sharon on Twitter @sharon_zollner
Telephone: +64 27 664 3554
Email: sharon.zollner@anz.com

**General enquiries:**
research@anz.com
Follow ANZ Research @ANZ_Research (global)

**David Croy**
Senior Strategist
Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.
Telephone: +64 4 576 1022
Email: david.croy@anz.com

**Susan Kilsby**
Agricultural Economist
Primary industry developments and outlook, structural change and regulation, liaison with industry.
Telephone: +64 21 633 469
Email: susan.kilsby@anz.com

**Liz Kendall**
Senior Economist
Research co-ordinator, publication strategy, property market analysis, monetary and prudential policy.
Telephone: +64 27 240 9969
Email: elizabeth.kendall@anz.com

**Miles Workman**
Senior Economist
Macroeconomic forecast co-ordinator, fiscal policy, economic risk assessment and credit developments.
Telephone: +64 21 661 792
Email: miles.workman@anz.com

**Kyle Uerata**
Economic Statistician
Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.
Telephone: +64 21 633 894
Email: kyle.uerata@anz.com

**Natalie Denne**
PA / Desktop Publisher
Business management, general enquiries, mailing lists, publications, chief economist’s diary.
Telephone: +64 21 253 6808
Email: natalie.denne@anz.com
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