

ANZ COMMODITY PRICE INDEX

Data for August 2017,
released 5 September 2017

CONTACT:

Con Williams
Agri Economist

Telephone: +64 4 802 2361

E-mail: con.williams@anz.com

SWEET 16%

The ANZ Commodity Price Index slipped 0.8% m/m in August, matching the fall in July (+16.3% y/y). Movements at the sub-category level were mixed. Six of the sub-components rose, eight fell and the remaining three were unchanged. **The dip in the NZD against most major peers during August helped buffer local returns (+0.2% m/m), with the NZD index also 16% higher than 12 months prior.**

- **Dairy prices largely traded sideways during August (-0.4%).** Skim milk powder prices slipped 5.2% m/m due to high Northern Hemisphere stocks, and processors in these regions continuing to favour a SMP/milkfat mix because of high milkfat prices, European Commission backstops, processing capabilities and market access/arrangements. Price movements for the rest of the dairy complex were fairly unexciting (WMP: +0.3%, butter: +0.6%, cheese: -0.6%, casein: -0.6%).
- **Meat prices had another rough month with prices falling 3.2% m/m. From the recent peak in May prices have fallen 8% in NZD terms. Beef prices and skins both suffered during August.** Higher US domestic production, reduced retail promotional activity and a passing of the seasonal demand peak have been the main drivers of lower beef prices. Venison (unchanged) and lamb (-0.7% m/m) prices were more resilient. Sheepmeat prices continue to be supported by low seasonal supply and inventory levels. NZD prices are receiving an additional boost from a lower NZD/Euro/GBP. Wool prices improved off recent lows too (+3.6%).
- **Seafood prices were unchanged and horticulture prices fell 1.7% m/m.** Apple prices rose 1.3%, led by the Royal Gala variety. Kiwifruit prices slid for the second month in a row (down 2.8%) as export volumes caught up from a late start to the season. Despite higher export volumes, the gold variety has sustained prices 14% higher than a year ago and achieved close to 60% premium on rival Chilean product.
- **The forestry group increased 0.7% m/m with offsetting movements at the sub-component level.** Log prices (+1.5% m/m) continue to be supported by Chinese demand, with port-level inventory and offtake continuing to track favourably. The Chinese Government has also announced lower import tariffs on logs in a bid to curb the use of logs from their own native forests. Local demand has experienced the usual seasonal slowdown, but unpruned demand for structural timber and posts/poles remains strong. Wood pulp fell 1.3% as Chinese demand for softwood products eased.
- **Aluminium prices lifted 6.2% m/m (23% y/y).** The aluminium market is clouded by uncertainty as China enforces environmental and regulatory changes and clamps down on illegal capacity. As a result, Chinese stocks and prices lifted amidst pending production cuts.

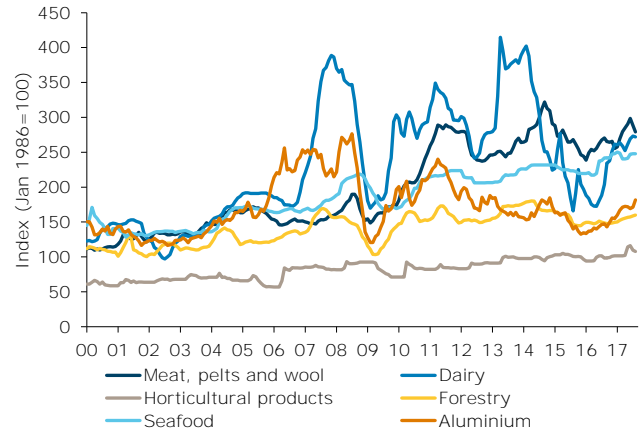
Still-elevated world and NZD commodity prices will provide a strong boost to rural incomes in 2018, which will diffuse through the broader economy. With the construction sector facing capacity constraints and not providing further impetus to growth (though operating at a high level), economic stimulus will have to come from elsewhere, and high commodity prices is one of those areas.

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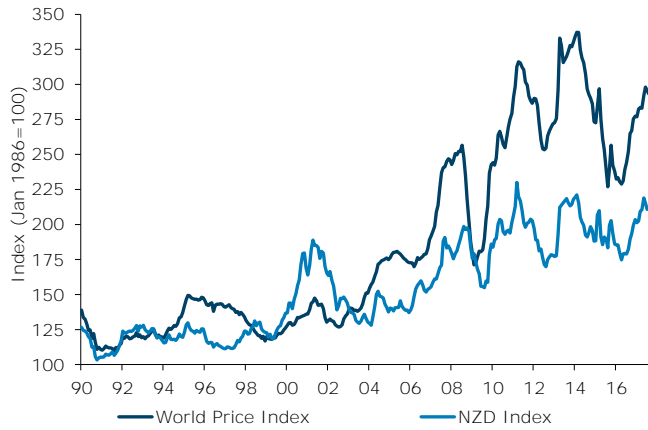
	World Price Index	Monthly % Change	Annual % Change	NZD Index	Monthly % Change	Annual % Change
Aug-13	320.1	..	25.7	218.5	..	28.6
Aug-14	296.8	..	-7.3	191.1	..	-12.5
Aug-15	226.9	..	-23.6	183.3	..	-4.1
Aug-16	252.1	..	11.1	182.3	..	-0.5
Mar-17	283.5	0.4	23.0	209.4	3.4	16.5
Apr-17	282.9	-0.2	23.7	210.5	0.5	20.4
May-17	291.9	3.2	26.3	219.0	4.0	22.3
Jun-17	298.0	2.1	24.6	215.4	-1.6	20.1
Jul-17	295.7	-0.8	21.1	210.8	-2.1	17.8
Aug-17	293.2	-0.8	16.3	211.2	0.2	15.8

Commodity Price Index weights are based on contributions to merchandise exports. Weights for the 2017 year are: Wool 2.7%; Beef 10.9%; Lamb 10.3%; Venison 0.6%; Skins 1.5%; Dairy 38.0%; Apples 2.8%; Kiwifruit 6.7%; Logs 10.0%; Sawn Timber 3.8%; Wood Pulp 2.5%; Seafood 6.3%; Aluminium 3.8%

SUB GROUP INDICES (WORLD PRICES)

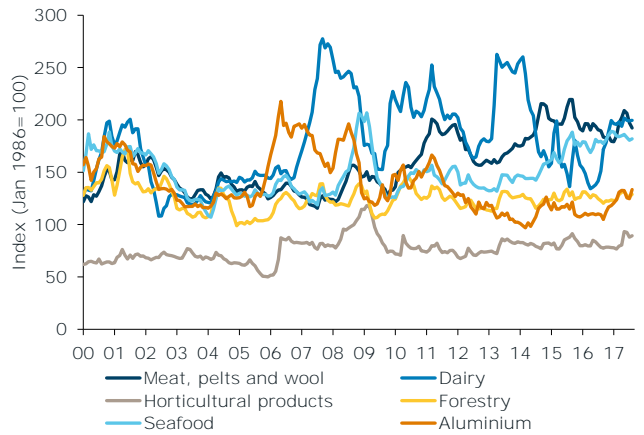


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SUB GROUP INDICES (NZD PRICES)



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