

NEW ZEALAND ECONOMICS ANZ COMMODITY PRICE INDEX

Data for January 2017,
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SLOW START

The ANZ Commodity Price Index dipped 0.1% m/m in January, led by weakness in a few components, particularly wool products and whole milk powder (WMP). **However, broad-based gains were evident elsewhere**, with 10 of 17 commodities rising. The index is 19% higher than this time last year.

The stronger currency put a dent in the NZD Commodity Price Index, which fell 1.1% m/m in January. The NZD lifted against most major trading currencies, with the AUD an exception. Notably, on an annual basis, the NZD has made large gains against the USD (+8.2%) and European currencies (GBP +27%, EUR +11%), putting a strain on NZD export returns, particularly in the meat sector.

In world price terms, non-dairy commodity prices were up 0.7% m/m. Six of the 12 non-dairy commodities in the index rose in January. Wool prices were down 8.6% m/m, while hides dipped 0.6% m/m. All major non-dairy groups in the index improved over the year, pushing the ex-dairy index up 7.4% y/y.

In terms of sector specifics:

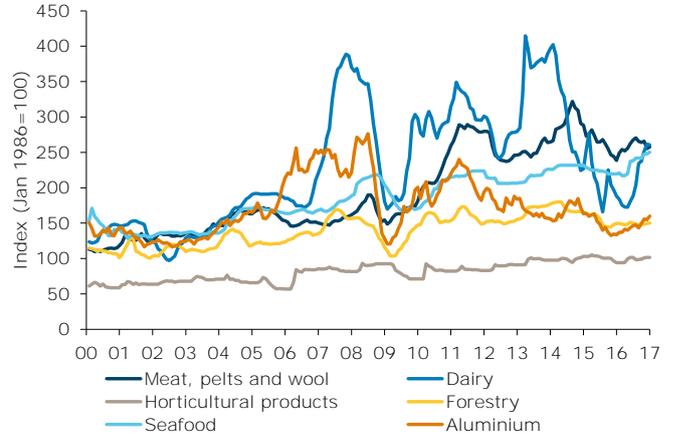
- **Dairy prices fell slightly in January (-0.4% m/m), due entirely to weaker WMP prices.** WMP prices fell 2.3% m/m after a strong finish to the year – prices have improved 55% since June. All other dairy-based products improved in January: skim milk powder rose 1.6% under challenging supply conditions. Butter (+1.0%), cheese (+0.8%) and casein (+0.4%) also saw modest lifts in the month. Dairy prices are up 38% y/y, with tight global milk supplies and improved Chinese import demand key support factors.
- **Across all products, the largest fall was again in wool prices, which fell 8.6% m/m to now be back 30% y/y.** This continues a string of losses – prices have fallen by more than 5% per month since September 2016. The main reason has been a lack of interest from China, which accounted for 50% of exports in 2015/16. There have been numerous suggestions as to why Chinese demand has been weaker, including lower end-product demand in Europe/UK, a weaker RMB, changed sourcing patterns towards cheaper product from the UK and Mongolia, liquidation of local cotton stocks, changed local fashion trends, and general high prices last year leading to fibre substitution.
- **Beef and lamb prices started the year on a positive note, with 1.9% and 1.6% m/m gains in January.** Lamb products are experiencing good demand from China and the Middle East. Low NZ supply is also supporting lamb prices, which are up 21% y/y. However, **it's notable that lamb prices are down 1.1% y/y in NZD terms.** NZD strength against the USD and European currencies is telling for NZ meat exports, particularly when you consider that the US, UK, Germany and the Netherlands accounted for 44% of NZ meat exports in 2016.
- **Seafood prices rose 0.9% m/m and are up 14% y/y.**
- **Forestry prices inched up 0.5% m/m; aluminium lifted 3.2% in January.** Log prices continue to find support from China and local construction activity. Wood pulp prices lifted 1.4% as surplus inventories have been snapped up by strong Chinese demand.

ANZ COMMODITY PRICE INDEX

	World Price Index	Monthly % Change	Annual % Change	NZD Index	Monthly % Change	Annual % Change
Jan-13	272.6	..	-6.0	177.1	..	-10.1
Jan-14	334.1	..	22.6	219.3	..	23.8
Jan-15	272.6	..	-18.4	188.4	..	-14.1
Jan-16	232.4	..	-14.7	185.4	..	-1.6
Aug-16	252.1	3.2	11.1	182.3	1.9	-0.5
Sep-16	264.9	5.1	10.6	189.4	3.9	-5.0
Oct-16	266.9	0.7	4.0	193.3	2.1	-4.6
Nov-16	275.4	3.2	13.6	199.5	3.2	3.0
Dec-16	277.3	0.7	16.5	203.5	2.0	9.4
Jan-17	276.8	-0.1	19.1	201.3	-1.1	8.6

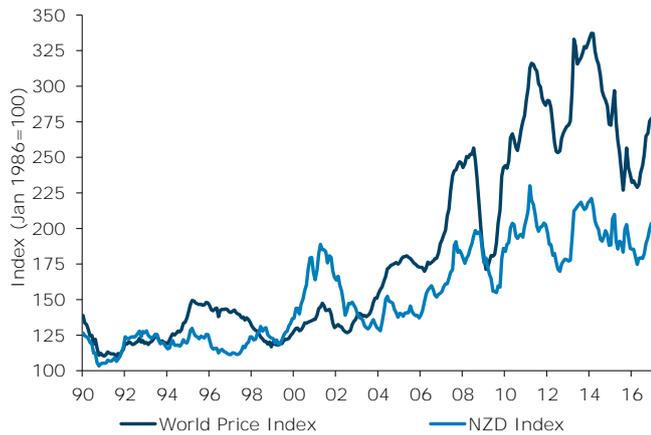
Commodity Price Index weights are based on contributions to merchandise exports. Weights for the 2017 year are: Wool 2.7%; Beef 10.9%; Lamb 10.3%; Venison 0.6%; Skins 1.5%; Dairy 38.0%; Apples 2.8%; Kiwifruit 6.7%; Logs 10.0%; Sawn Timber 3.8%; Wood Pulp 2.5%; Seafood 6.3%; Aluminium 3.8%

SUB GROUP INDICES (WORLD PRICES)



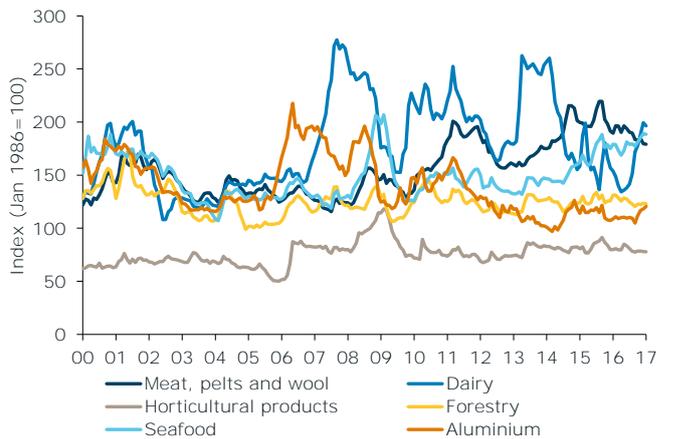
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ANZ COMMODITY PRICE INDEX



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SUB GROUP INDICES (NZD PRICES)



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