

ANZ COMMODITY PRICE INDEX

Data for March 2018,
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ONWARD AND UPWARD

The ANZ Commodity Price Index rose 1.2% m/m in March, starting the year with three consecutive gains to be 4.8% up on the 2017 close. There was broad based support driven by dairy, meat & fibre and forestry. The laggard was aluminium, which has been caught up in US-China trade tensions alongside increasing inventory levels.

The NZD also fell slightly against most major trading partners (NZD TWI down 0.5% m/m), **which provided a further boost to NZD returns, lifting 2.0% m/m.**

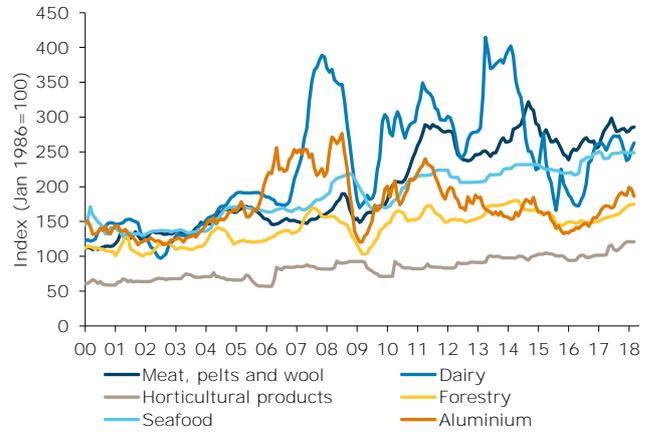
- Dairy prices continued to push higher in March (+3.0% m/m),** driven by lingering New Zealand supply concerns, very low GlobalDairyTrade (GDT) supply and solid demand from a number of key markets. Indeed, New Zealand production was back 5% y/y through the December/February period, which led to a reduction in GDT auction volumes, especially whole milk powder (WMP). Chinese demand also lifted post their New Year break and there was continued buying pressure from more price-sensitive markets such as Middle East and emerging Asia. Gains were broad-based, but were led by products where New Zealand is the more dominate global supplier – namely WMP (+4.4%) and butter (+5.6%). While New Zealand managed to maintain a significant premium versus other origins, skim milk powder prices slipped (-3.8%). This was due to higher seasonal supply from Europe and existing European Commission stocks continuing to weigh.
- The meat & fibre complex (+0.3% m/m) was lifted by wool and lamb prices.** Beef markets continued to perform well (unchanged in March) with tight Australasian supply and intermarket competition between the US and China. The US situation remains finely balanced. Demand indicators continue to point north and seasonal consumption will lift with the onset of spring/summer. But demand will need to be robust to absorb an increase in feedlot supplies and cow turn-off, driven by a larger breeding herd and deterioration in pasture conditions on the Southern Plains. Wool prices continued to lift off lows (+0.6% m/m) driven by bargain hunting, with current price competitiveness versus substitutes lifting demand. Higher demand has been driven by China with season-to-date exports up 35% y/y. Lamb prices have surprisingly lifted despite the close of the seasonal special-occasion window and shift to frozen product. Tight tradeable supply and solid demand across all major markets – except the UK – are also providing support.
- Seafood prices were unchanged. Horticultural products are still in hibernation.** New season product has just started to make its way to export markets where early season price indicators are positive, due to lower end-of-season Northern hemisphere product and solid economic conditions.
- Forestry prices managed a small lift (+0.3% m/m), which marks 18 months of consecutive gains for the sector.** Wood pulp prices were unchanged, halting a remarkable run that saw prices rise 35% in the six months to February 2018. Domestic and export log and lumber prices remain well above last year, with solid demand domestically and from China. However, upward momentum has flattened out in recent months.
- Aluminium prices fell 5.1% m/m.** The sector is not short on controversy. Front-and-centre are the recent tariff announcements from the US, but further **uncertainty is in store given China's clampdown on** excess production and capacity restrictions to improve air quality. For now, lifting stocks and US-China trade tensions have put downward pressure on prices.

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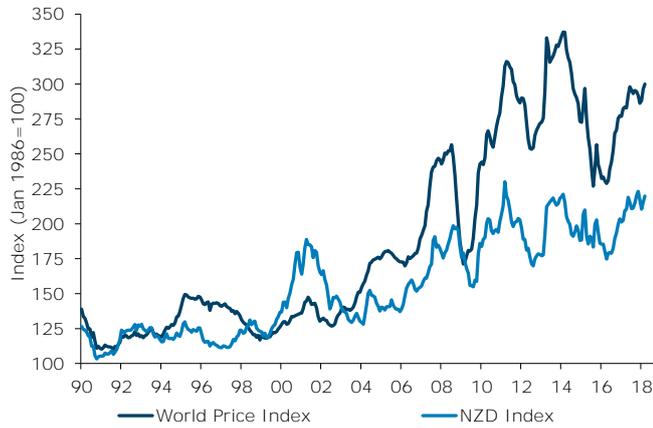
	World Price Index	Monthly % Change	Annual % Change	NZD Index	Monthly % Change	Annual % Change
Mar-14	337.0	..	14.0	215.3	..	11.7
Mar-15	296.9	..	-11.9	209.9	..	-2.5
Mar-16	230.5	..	-22.4	179.8	..	-14.3
Mar-17	283.5	..	23.0	209.4	..	16.5
Oct-17	294.6	-0.3	10.4	220.1	2.5	13.8
Nov-17	291.9	-0.9	6.0	223.2	1.4	11.9
Dec-17	286.2	-1.9	3.2	217.1	-2.8	6.7
Jan-18	288.2	0.7	4.1	210.5	-3.0	4.5
Feb-18	296.4	2.8	5.0	215.5	2.4	6.4
Mar-18	300.0	1.2	5.8	219.8	2.0	5.0

Commodity Price Index weights are based on contributions to merchandise exports. Weights for the 2017 year are: Wool 1.9%; Beef 11.2%; Lamb 9.9%; Venison 0.6%; Skins 1.4%; Dairy 41.0%; Apples 2.4%; Kiwifruit 5.7%; Logs 10.6%; Sawn Timber 3.5%; Wood Pulp 2.6%; Seafood 5.5%; Aluminium 3.8%

Sub group indices (world prices)

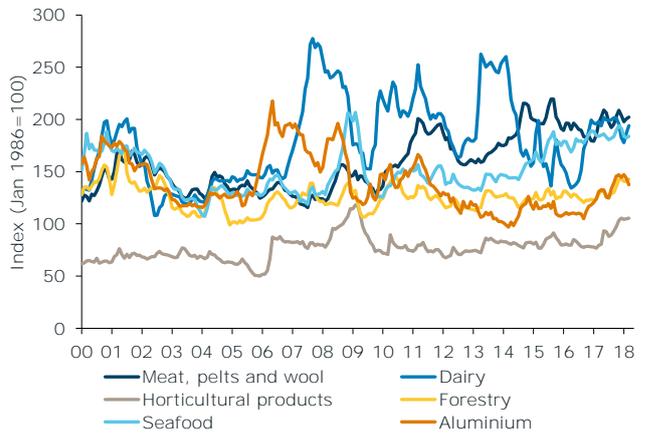


ANZ Commodity Price Index



Source: ANZ

Sub group indices (NZD prices)



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