

ANZ COMMODITY PRICE INDEX

Data for December 2017,
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RUNNING OUT OF PUFF

The ANZ Commodity Price Index ran out of puff in late 2017 with prices falling a further 2.2% in December. While dairy led the decline (-5.6% m/m) broader based weakness has started to creep in too, with non-dairy components slipping 0.4% m/m in December. The double-whammy for NZD returns was a 0.6% m/m increase in the NZD TWI. **This saw NZD commodity prices slide 3.0% m/m in December.** This was the largest fall in world and local prices since the current upward cycle in commodity prices began in early 2016.

Combined with the recent surge in oil prices, such dynamics will temper New Zealand's terms of trade outlook over the first half of 2018. We don't foresee a collapse, but expect around a 3½% moderation in the terms of trade from the September 2017 peak. The subsequent improvement in dairy prices during January due to reduced New Zealand supply helps. But we believe further increases will now become more difficult. For most other sectors, the price outlook is steadier at what are mostly historically high local returns. But the moderation in New Zealand's terms of trade is another indication of a likely more modest economic and employment growth picture in 2018.

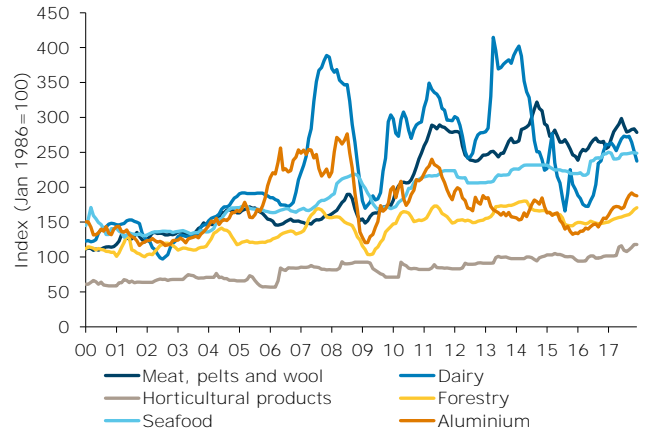
- **A synchronised upswing in global milk supply placed downward pressure on all major dairy product prices in late 2017.** Combined with lower seasonal demand, this saw milkfat prices lead the decline in December (Butter -10% & Cheese -11%). Milk powder prices suffered too, but not to the same extent (SMP -1.4% & WMP -2.2%). However, prices have reversed in the New Year as GlobalDairyTrade supply for WMP, SMP and butter were all reduced because of lower milk supply in December.
- **Meat and fibre prices were mixed in December (-1.8% m/m).** Lamb prices increased 1.9% m/m to finish the year 15% higher. While local supply picked-up, low frozen inventories, procurement pressure and demand for speciality occasions (i.e. Easter period) continued to underpin prices. Venison prices remained steady going against the normal seasonal drop-off. Very tight supply, low inventory levels, less wild game competition in Europe and inter-market competition are all providing support. However, beef prices slipped 4.8% m/m as seasonal supply factors (local & US) and the completion of Chinese New Year orders weighed on prices. Coarse breed wool prices continued to struggle (-5.6% m/m), with high local inventories, increased seasonal supply and continued lack of Chinese interest.
- **Seafood prices eased 0.2% m/m.** Small falls in mussels, ling and snapper were offset by marginal gains in hoki and salmon. **Horticulture prices ended a solid season 16% higher than where they started.** It will be a 3-4 month hiatus before the new season gets underway. Early indications are positive for both kiwifruit and pipfruit, with a fairly empty Northern Hemisphere market and strong economic momentum in Asia.
- **Forestry prices maintained positive momentum.** Wood pulp prices increased 8% m/m, up a whopping 45% y/y. While seasonal inventories are still low and Chinese demand is sufficient to keep the market tight for now, prices may stabilise somewhat as demand appears to be easing. Log export prices inched up another 0.5% m/m with record offtake in China (i.e. high demand) and seasonally low inventories.
- **Aluminium prices fell 0.7% m/m.** Forced production cuts to Chinese smelters are starting to take hold and volatility will likely continue as Chinese authorities pursue better environmental conditions and markets try to untangle the impact across the entire supply chain.

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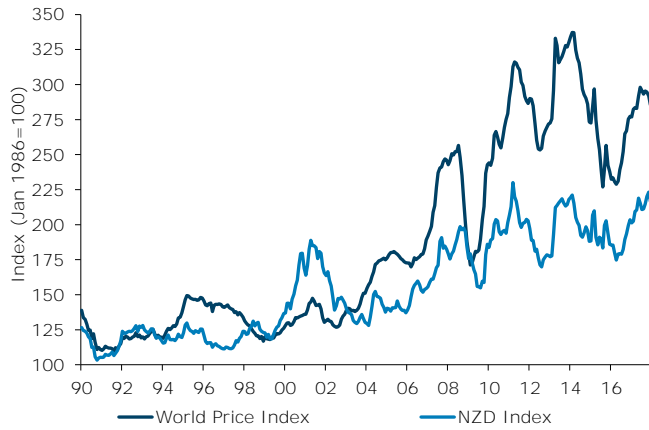
	World Price Index	Monthly % Change	Annual % Change	NZD Index	Monthly % Change	Annual % Change
Dec-13	330.2	..	21.5	218.1	..	22.5
Dec-14	273.4	..	-17.2	188.1	..	-13.7
Dec-15	238.0	..	-12.9	186.0	..	-1.1
Dec-16	277.3	..	16.5	203.5	..	9.4
Jul-17	295.7	-0.8	21.1	210.8	-2.1	17.8
Aug-17	293.2	-0.8	16.3	211.2	0.2	15.8
Sep-17	295.4	0.8	11.5	214.7	1.7	13.3
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	285.5	-2.2	3.0	216.6	-3.0	6.4

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)

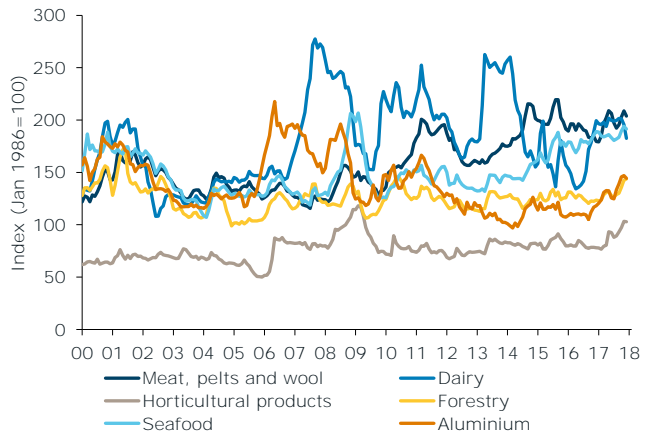


ANZ Commodity Price Index



Source: ANZ

Sub group indices (NZD prices)



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