

ANZ COMMODITY PRICE INDEX

Data for August 2018,
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CONTACT:

Sharon Zollner
Chief Economist
Telephone: +64 9 357 4094
Mobile: +64 27 664 3554
E-mail: Sharon.Zollner@anz.com

TRIPLE DOWN

The ANZ World Commodity Price Index fell 1.1% m/m in August – its third consecutive monthly decline, leaving the index down 0.5% y/y. Of the 17 commodities in the index, seven fell, four were unchanged and six lifted. Of the six broad categories, only forestry prices managed to squeeze out a small gain.

With the exception of the GBP, **a weaker NZD acted as shock absorber in the month, more than offsetting lower world prices and driving the NZD index up 0.4% m/m** to be up 8.9% y/y.¹

- **Dairy prices largely maintained last month's weakness, down 1.4% m/m** following a 6.5% m/m fall in July. Overall, dairy prices are down 7.9% y/y, with butter, cheese and whole milk powder down 21.1%, 7.4% and 5.5% respectively. New Zealand milk production has kicked off the 18/19 season on a solid footing, with June-July production up almost 8% y/y. While these are by far the lowest-producing months of the year, it seems a solid recovery is underway with weather conditions expected to remain favourable heading into the seasonal peak (October). Beyond that, the possibility of an El Niño drought causing a weak end to the season seems too uncertain and far away to warrant much attention. Meanwhile, the global situation remains mixed: dry weather conditions pose a threat to Northern Hemisphere production; inventories are at decent levels, particularly in China; and while the global demand backdrop remains favourable, global growth is looking past its peak and the trade war has introduced uncertainty. Overall, buyers are not demonstrating a sense of urgency to secure product at the current juncture.
- **The meat and fibre index (down 1.1% m/m) was mixed.** Beef prices fell 3% m/m to be down 9.2% y/y as US supply remains strong and Mycoplasma Bovis continues to boost domestic slaughter. Lamb prices rose 0.6% m/m to be up 8.9% y/y. **Horticultural prices fell 2.9% m/m** as Northern Hemisphere production lifted, but remain 6.8% higher than a year ago.
- **Forestry prices plateaued, rising just 0.1% m/m to be up 12.3% y/y.** Strong Chinese demand for logs continues, but the weaker CNY/USD appears to be impeding Chinese buyers' purchasing power. Prices into September look to be under pressure. Wood pulp prices were flat m/m, but are up 32.4% y/y owing to solid global demand and Chinese supply restrictions.
- **Aluminium prices fell 0.7% m/m, but were up 1.9% on a year ago.** There remains a fair amount of noise to look though for this metal, with US sanctions on Rusal disrupting global supply. Meanwhile, Chinese production has been on the rise. Overall, aluminium prices have held up well in recent months relative to other base metals, which have slipped as global trade woes have intensified.
- **In world price terms, the shine has come off New Zealand's export prices of late.** However, the NZD is doing its job and keeping exporter incomes afloat. To some extent softer world prices are to be expected, as global growth appears to be past its peak. The question is: to what extent will the weaker CNY/USD hamper Chinese demand? And more broadly, how will global trade uncertainties impact global demand? In this environment, a faster-than-expected slowdown in global growth is a key risk.

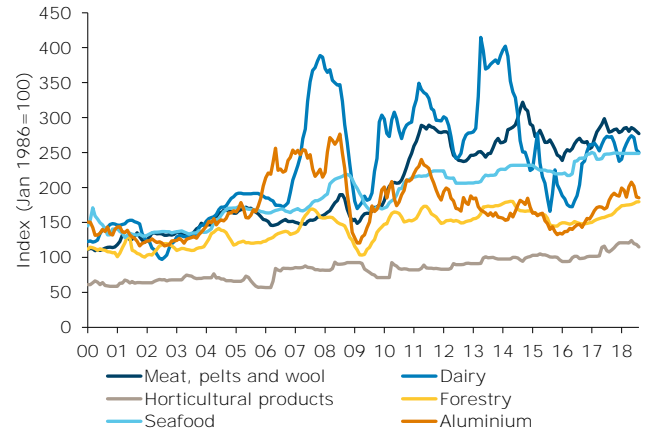
¹ The world price index and NZD Index for July have been revised due to a correction in the exchange rates used to compile the indexes.

ANZ COMMODITY PRICE INDEX

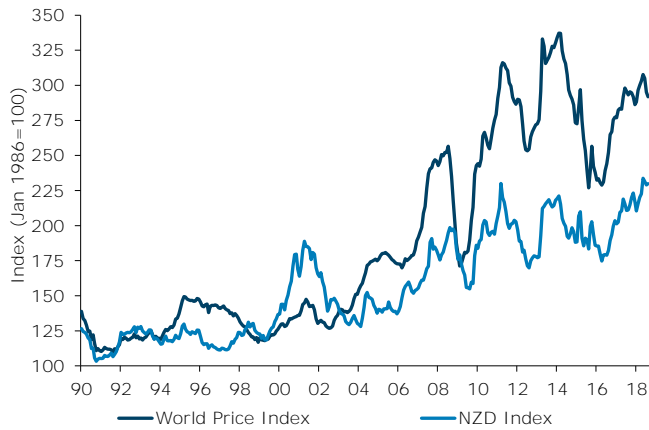
	World Price Index	Monthly % Change	Annual % Change	NZD Index	Monthly % Change	Annual % Change
Aug-14	296.8	..	-7.3	191.1	..	-12.5
Aug-15	226.9	..	-23.6	183.3	..	-4.1
Aug-16	252.1	..	11.1	182.3	..	-0.5
Aug-17	293.2	..	16.3	211.2	..	15.8
Mar-18	300.0	1.2	5.8	220.0	2.1	5.1
Apr-18	303.1	1.0	7.1	222.6	1.2	5.8
May-18	307.7	1.5	5.4	233.8	5.0	6.8
Jun-18	305.0	-0.9	2.3	231.5	-1.0	7.5
Jul-18	295.1	-3.3	-0.2	228.9	-1.1	8.6
Aug-18	291.9	-1.1	-0.5	229.9	0.4	8.9

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%

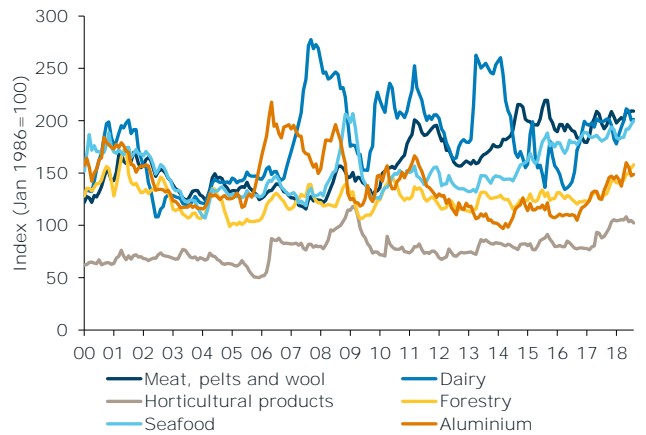
Sub group indices (world prices)



ANZ Commodity Price Index



Sub group indices (NZD prices)



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