

ANZ COMMODITY PRICE INDEX

Data for July 2018,
released 6 August 2018

CONTACT:

Miles Workman
Economist

Telephone: +64 4 382 1951
E-mail: Miles.Workman@anz.com

Liz Kendall
Senior Economist

Telephone: +64 4 382 1995
Email: Elizabeth.Kendall@anz.com

MILK SHAKE

The ANZ World Commodity Price Index slid a further 3.2% in July following a 0.9% dip in June, but is still 3.1% above late-2017 levels and broadly flat on a year ago. Of the 17 commodities in the index, 12 fell, three were unchanged and two lifted. Of the six broad categories, only forestry prices rose – a star performer.

NZD movements absorbed only a small part of the monthly decline, depreciating 0.1-0.2% m/m against all major trading partner currencies except the AUD, which was flat m/m. This saw the **NZD index dip 3.1% m/m and annual growth shed 1%pt from June to 6.5% y/y in July.**

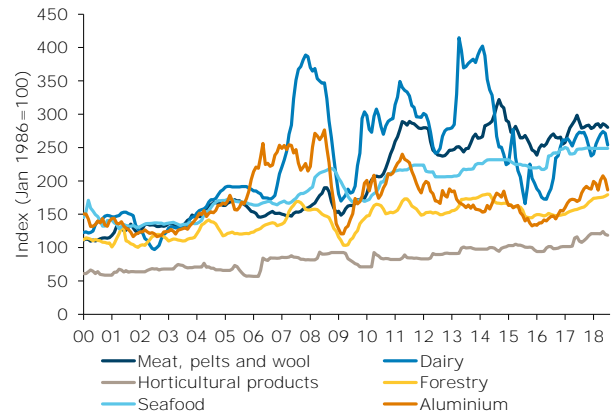
- A 6.5% m/m fall in dairy prices drove much of the monthly weakness, leaving this index down 7.1% on a year ago.** All five dairy components fell, with butter prices leading declines, down 8.9% m/m. Cheese, whole milk powder and skim milk powder fell 7.1%, 6.8% and 4.1% m/m respectively. A number of factors appear to be behind recent weakness, including decent global supply growth and inventory levels, particularly in China, and solid domestic milk production on the back of supportive weather conditions heading into the seasonal lull. New Zealand Q2 milk solids production was up 4.6% y/y. Overall, New Zealand butter prices look cheap at present and that should see a bit of additional demand come online. Solid global demand for whole milk powder should limit further downside over the medium term, but high European inventories suggest a bit of downside to skim milk powder prices as Southern Hemisphere production ramps up. Overall, however, global growth risks are skewed to the downside.
- The meat and fibre index (-1.1% m/m) was mixed.** Beef prices fell 1.3% m/m to be down 12.4% y/y reflecting strength in global supply, particularly in the US, and as Mycoplasma Bovis culling continues to boost domestic slaughter. Lamb prices rose 0.3% to be up 7.1% y/y, reflecting strong demand from China and the US, and as dry weather conditions hamper UK production.
- Just when it looked like forestry prices were beginning to plateau, monthly growth hit a six-month high,** up 1.3% m/m and 12.9% y/y. In large part, this reflects strong demand out of China as housing construction continues at pace. Wood pulp prices eased a further 0.4% m/m, but are up 30.7% y/y owing to solid global demand and Chinese supply restrictions.
- Aluminium prices fell 7.6% m/m, but remain 9% higher than a year ago.** It's been a wild ride for this metal of late with US import tariffs and sanctions on Russian supply driving prices higher. While the latter impact has now largely unwound, it is difficult to disentangle the recent price drop from the general weakening in base metal prices, which coincides with growing caution around the global economic outlook.
- New Zealand's goods terms of trade remain high by historical standards,** but with export prices turning more mixed and import prices set to lift as global inflationary pressures build, we don't anticipate any further record breakers any time soon. New Zealand's terms of trade generally follow the global economic cycle and data flow is suggesting this is near (or slightly past) its peak. If the global economy evolves [as we expect](#), the terms of trade should remain elevated and with it exporter incomes. However, risks are heightened as tit-for-tat tariffs between the US and a number of its trading partners (which have lifted demand for New Zealand product to date) are making markets nervous and could be stalling global investment and import demand.

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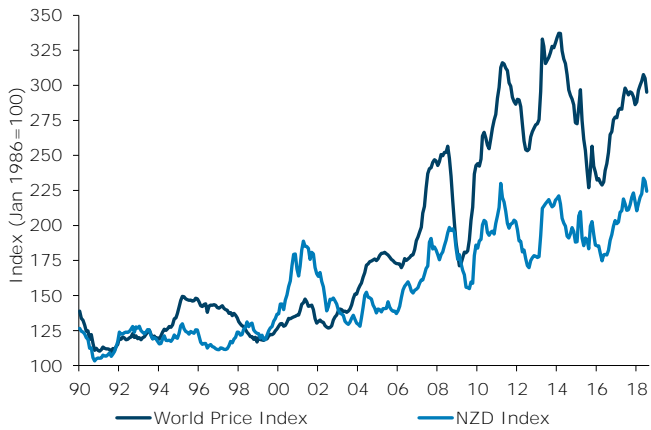
	World Price Index	Monthly % Change	Annual % Change	NZD Index	Monthly % Change	Annual % Change
Jul-14	307.6	..	-3.2	192.3	..	-11.4
Jul-15	239.5	..	-22.1	189.9	..	-1.3
Jul-16	244.2	..	1.9	178.9	..	-5.8
Jul-17	295.7	..	21.1	210.8	..	17.8
Feb-18	296.4	2.8	5.0	215.5	2.4	6.4
Mar-18	300.0	1.2	5.8	220.0	2.1	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	-3.2	-0.2	224.4	-3.1	6.5

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)

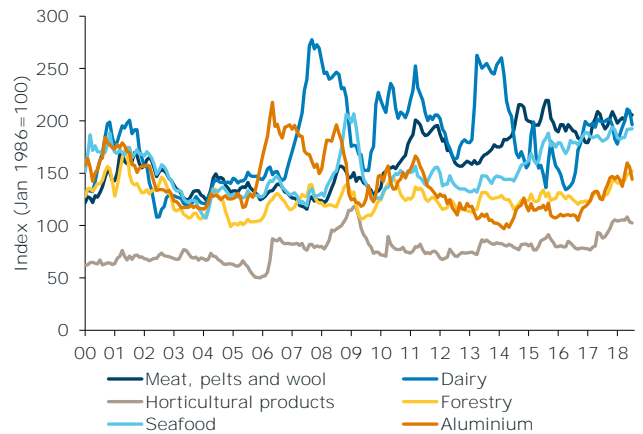


ANZ Commodity Price Index



Source: ANZ

Sub group indices (NZD prices)



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