

ANZ COMMODITY PRICE INDEX

Data for September 2018,
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SLIPPING IN SEPTEMBER

The ANZ World Commodity Price Index fell for a fourth consecutive month, down 1.8% m/m in September. This pushed annual growth further into negative territory, at -3.0% y/y. Price declines were relatively broad based, with 10 of the 17 commodities down, four unchanged and three lifting in the month. Five of the six broad categories fell, with seafood unchanged.

Lower world prices were partially offset by a 0.7% m/m fall in the NZD-TWI. The NZD index fell 0.6% m/m, with annual growth easing from nearly 9% to 6.5% y/y.

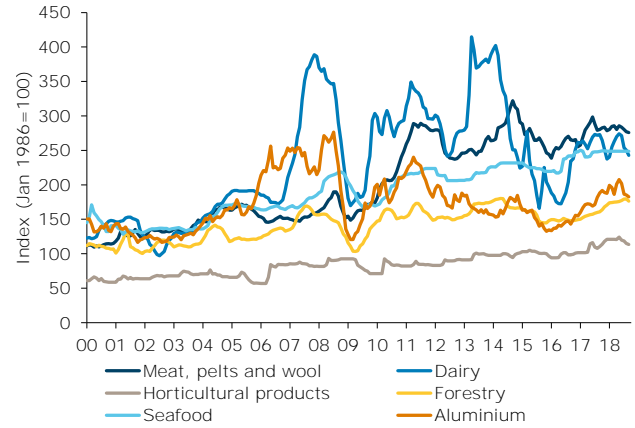
- Dairy prices fell 3.0% m/m and are now down 11.5% from their May peak (-11.1% y/y).** Falling butter, cheese and WMP prices have driven much of the recent moderation, down 22%, 12% and 11% respectively since May. To some extent this is a good-news/bad-news story, as part of the moderation in price appears to be related to the solid recovery in New Zealand milk production, with August production up 5.4% y/y season to date. However, global production has generally come in on the higher side of expectations too, particularly in Europe where it's so far proved resilient against the dry, hot summer. That said, European production growth is slowing on the back of squeezed margins from rising feed costs and that's expected to continue.
- The meat and fibre index fell 0.4% m/m (-1.6% y/y) in September.** Beef prices fell 1.5% m/m (-9.2% y/y), in part reflecting ample global supply. US production continues to run ahead of last year, while Australian supply has been boosted by drought-induced culling. Lamb prices fell 0.4% m/m to be up 7.4% y/y and look to be plateauing at a high level. Wool prices rebounded 4.3% m/m but remain down 0.6% y/y after falling almost 11% over the two months prior. **The horticultural index fell 1.3% m/m** with annual growth dropping to 2.6% y/y. A 7.2% m/m fall in apple prices (as fresh Northern Hemisphere product becomes more abundant) more than offset a 1.7% m/m rise in kiwifruit.
- Forestry prices fell 1.8% m/m, driven by a 2.8% fall in log prices,** with the reported main culprit being the weaker CNY/USD eroding Chinese purchasing power. Annual growth in the index slowed from 12.3% in August to 9.7% in September. Wood pulp prices were flat on the month, but are up 30.7% y/y owing to solid global demand and Chinese supply restrictions.
- Aluminium prices fell 1.3% m/m (-2.9% y/y).** The impact from supply disruptions owing to US sanctions on Rusal seem to have unwound slightly this month, but it's difficult to disentangle this from the global backdrop where growth looks past its peak and rising protectionism is impacting demand.
- Overall, **slippage in the world commodity price index in September suggests the global economy is finely balanced at present with commodity markets having little capacity to accommodate positive supply surprises.** This is unsurprising given growth is looking past its peak while households, businesses and policy makers continue to grapple with the potential fallout from the US-China trade war. From here our central view is that further downside to dairy prices will be limited as current price levels are deemed low enough to begin attracting marginal buyers. More broadly, global demand is expected to hold up, but continue moderating. However, this story relies partly on China being able to navigate the trade war without losing too much growth momentum, and there is considerable uncertainty on this front.

ANZ COMMODITY PRICE INDEX

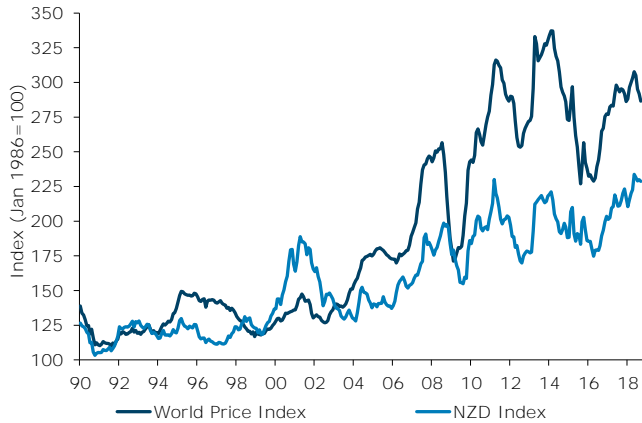
	World Price Index	Monthly % Change	Annual % Change	NZD Index	Monthly % Change	Annual % Change
Sep-14	292.9	..	-9.5	194.1	..	-9.9
Sep-15	239.5	..	-18.2	199.5	..	2.8
Sep-16	264.9	..	10.6	189.4	..	-5.0
Sep-17	295.4	..	11.5	214.7	..	13.3
Apr-18	303.1	1.0	7.1	222.6	1.2	5.8
May-18	307.7	1.5	5.4	233.8	5.0	6.8
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
Sep-18	286.5	-1.8	-3.0	228.6	-0.6	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)

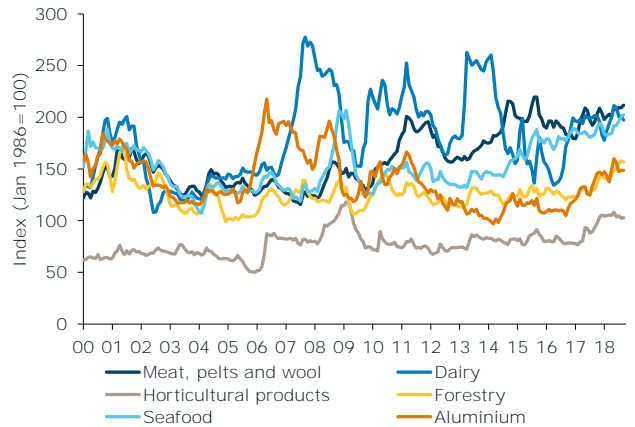


ANZ Commodity Price Index



Source: ANZ

Sub group indices (NZD prices)



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