

NEW ZEALAND ECONOMICS ANZ COMMODITY PRICE INDEX

Data for September 2016,
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ONE-HIT WONDER

The ANZ Commodity Price Index rose 5.1% m/m in September

(+11% y/y). This was the fifth lift in a row, with the index now at a 17-month high. That said, the lift in September was almost entirely driven by dairy, with prices elsewhere looking rather ho-hum. Ten of 12 non-dairy categories experienced a price decline, which saw the non-dairy index drop 1.3% m/m in the month (+2.0% y/y).

The NZD remains a thorn in the side of all commodity exporters. While the NZD commodity price index rose 3.9% m/m in September, prices are running 5% behind where they were at the same time last year. This has been a consistent theme throughout the winter with the NZD/USD and TWI both appreciating 7% since May (and both have increased even more in comparison to the same time last year).

In terms of sector specifics in September:

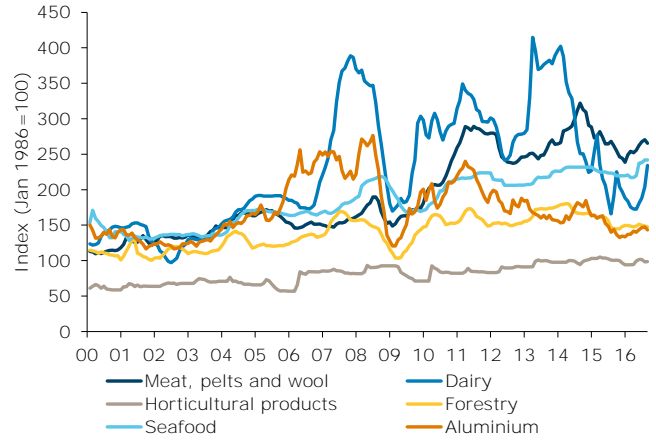
- **Dairy prices dominated price action (+15% m/m), with broad-based gains across all product categories.** Butter led the way, with prices up 23.6% m/m. Prices for skim milk powder (+16.1%), whole milk powder (+15.5%) and cheese (+12.4%) all registered strong gains too. A cooling down period for dairy prices looks likely as buyers await further information on supply dynamics and the Chinese FTA window closes. However, we continue to believe that the rally in prices has more durability than recent years. Milk supply is actually contracting in all major export markets bar the US; very tight New Zealand inventory levels are pushing demand onto the GDT platform; and recent demand at higher prices is more broadly based than China alone.
- **Outside of dairy, price gains were confined to lamb and kiwifruit.** Improved lamb returns are due largely to very low supply at present, which is helping support frozen product prices. However, farm-gate lamb returns remain challenged by Brexit issues and the resulting sharp appreciation in the NZD/GBP (+35% y/y).
- **All the other sectors experienced flat to lower prices in September.** The largest price declines were for apples (-5.5%), wool (-5.1%), beef (-4.6%), aluminium (-3.0%) and wood pulp (-2.8%). The clearance of end-of-season stock after good early-season prices is likely to be affecting current apple prices. Auction wool prices have been softer recently due to reduced Chinese demand. The US beef market is well supplied with increased local product at present and foodservice demand **hasn't been as strong as expected.** The US market has also faced some additional uncertainty in terms of what improved access for Brazilian beef will mean too.

ANZ COMMODITY PRICE INDEX

	World Price Index	Monthly % Change	Annual % Change	NZD Index	Monthly % Change	Annual % Change
Sep-12	263.3	..	-12.1	174.9	..	-13.0
Sep-13	323.5	..	22.9	215.5	..	23.2
Sep-14	292.9	..	-9.5	194.1	..	-9.9
Sep-15	239.5	..	-18.2	199.5	..	2.8
Apr-16	228.8	-0.8	-16.8	174.8	-2.8	-8.5
May-16	231.1	1.0	-11.7	179.1	2.5	-3.5
Jun-16	239.2	3.5	-5.6	179.3	0.1	-6.1
Jul-16	244.2	2.1	1.9	178.9	-0.3	-5.8
Aug-16	252.1	3.2	11.1	182.3	1.9	-0.5
Sep-16	264.9	5.1	10.6	189.4	3.9	-5.0

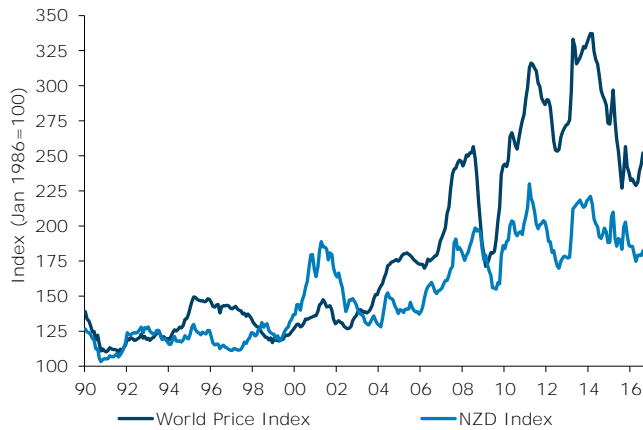
Commodity Price Index weights are based on contributions to merchandise exports. Weights for the 2016 year are: Wool 3.2%; Beef 12.4%; Lamb 11.6%; Venison 0.7%; Skins 1.9%; Dairy 39.3%; Apples 2.3%; Kiwifruit 5.4%; Logs 7.5%; Sawn Timber 3.7%; Wood Pulp 2.6%; Seafood 5.5%; Aluminium 3.9%

SUB GROUP INDICES (WORLD PRICES)



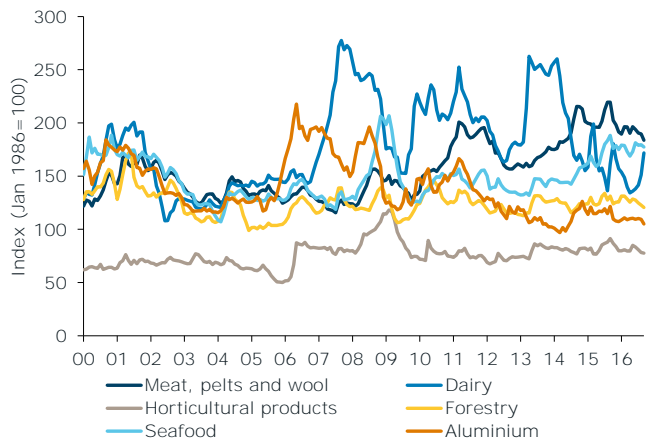
Source: ANZ

ANZ COMMODITY PRICE INDEX



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SUB GROUP INDICES (NZD PRICES)



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