

## ANZ COMMODITY PRICE INDEX

Data for February 2018,  
released 5 March 2018

## CONTACT:

**Phil Borkin**  
**Senior Economist**  
Telephone: +64 9 357 4065  
E-mail: philip.borkin@anz.com

**KICKING ON**

**The ANZ Commodity Price Index rose 2.8% m/m in February, kicking on from the 0.7% gain in January.** The lift was fairly broad-based, although the dairy group provided the major thrust, with a 6% gain. Despite some intra-month volatility, the NZD was broadly steady against major trading partners in the month (NZD TWI up 0.3% m/m), **which saw the NZD commodity price index lift 2.4%.** This is the first lift in NZD prices since November.

- **Dairy prices jumped in February (+6.0% m/m) driven by concerns about a potential early finish to the New Zealand season and cooler weather in Europe.** Indeed, New Zealand production was back 6% y/y through the December/January period, which led to a reduction in GlobalDairyTrade auction volumes. There was also buying pressure from more price-sensitive markets such as Middle East and emerging Asia, aided by USD weakness and less pressure from Chinese buyers on a New Year break. Gains were broad-based, but were led by SMP (+9.4% m/m), cheese (+6.8% m/m) and butter (+6.2% m/m).
- **The meat & fibre complex (+1.6% m/m) was lifted by wool and beef prices.** Beef markets continued to perform well with tight Australasian supply and intermarket competition between the US and China. The US situation remains finely balanced. Demand indicators continue to point north as seasonal consumption will lift with the onset of spring/summer. But demand will need to be robust to absorb an increase in feedlot supplies and cow turn-off driven by a larger breeding herd and deterioration in pasture conditions on the Southern Plains. Beef prices rose 3.9% m/m in February. Wool prices lifted off lows (+7.4% m/m) driven by bargain hunting and its current price competitiveness versus substitutes lifting demand. Higher demand has been driven by China with year-to-date exports up 27% y/y. There has also been a lift in demand from other smaller price-sensitive markets such as India, Nepal, Thailand, Australia and Eastern European countries. Lamb prices moderated from exceptional highs as the speciality occasion window (Chinese New Year and Easter) closed.
- **Seafood prices were unchanged. Horticultural products are in hibernation for the off-season, and were also unchanged.**
- **After a strong run, forestry prices eked out another small gain (+0.1% m/m).** Although the increase was led entirely by a 1.0% m/m lift in wood pulp prices, growth momentum in these prices is slowing as rebalancing among world markets takes place.
- **Aluminium prices fell 1.6% m/m,** holding onto most of a solid 6.2% m/m jump in January. While global growth momentum remains strong, it is arguably showing signs of peaking, which is perhaps weighing on sentiment. But the big focus going forward will most likely be the possible impact of recently announced US import tariffs. In time, this could weigh on the world aluminium price.

**New Zealand's merchandise terms of trade hit a new all-time high in Q4.**

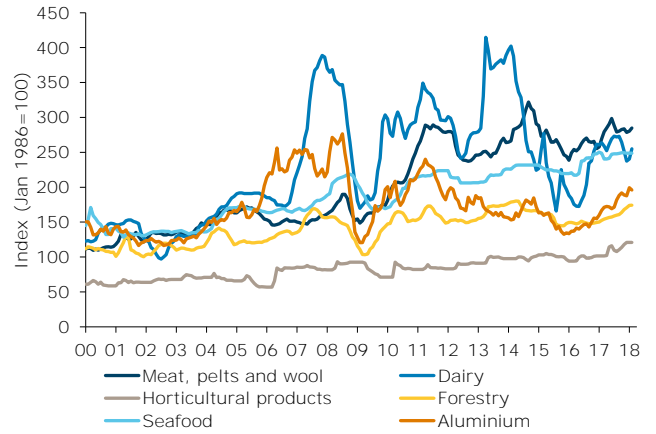
It represents a key purchasing power benefit for the economy. We are assuming that it stabilises around this level over the next couple of years. And while today's figures only represent half of the equation, the lifts seen over 2018 to date do suggest there is a possibility of some further near-term upside.

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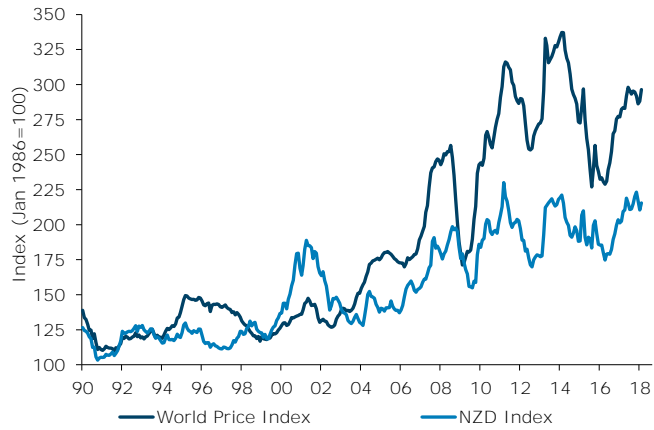
	World Price Index	Monthly % Change	Annual % Change	NZD Index	Monthly % Change	Annual % Change
Feb-14	337.2	..	22.4	221.2	..	24.4
Feb-15	284.0	..	-15.8	206.7	..	-6.5
Feb-16	233.5	..	-17.8	185.3	..	-10.3
Feb-17	282.3	..	20.9	202.5	..	9.2
Sep-17	295.4	0.8	11.5	214.7	1.7	13.3
Oct-17	294.6	-0.3	10.4	220.1	2.5	13.8
Nov-17	291.9	-0.9	6.0	223.2	1.4	11.9
Dec-17	286.2	-1.9	3.2	217.1	-2.8	6.7
Jan-18	288.2	0.7	4.1	210.5	-3.0	4.5
Feb-18	296.4	2.8	5.0	215.5	2.4	6.4

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)

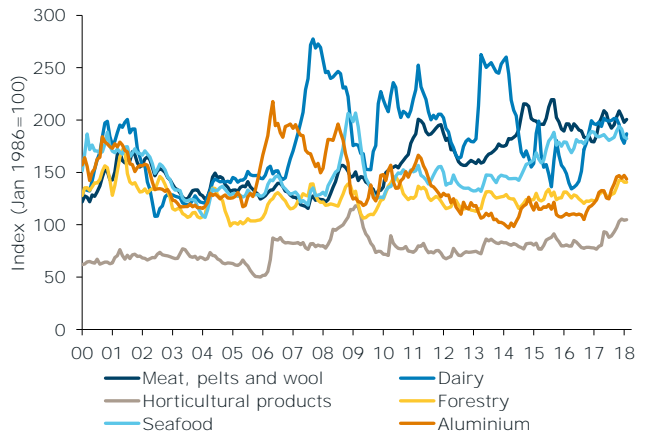


## ANZ Commodity Price Index



Source: ANZ

## Sub group indices (NZD prices)



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