

## NEW ZEALAND ECONOMICS ANZ COMMODITY PRICE INDEX

Data for December 2016,  
released on 12th January 2017

### CONTACT:

**Con Williams**  
**Agri Economist**

Telephone: +64 4 802 2361  
E-mail: con.williams@anz.com

### COMEBACK KID

**The ANZ Commodity Price Index rose 0.7% m/m in December, largely due to the continuing comeback story of dairy prices over the second half of 2016.** The December rise in the index was the eighth in a row, driving it 19% higher over the course of 2016.

**The NZD Commodity Price Index posted a 2.0% m/m lift in December.** This was the fifth month-on-month rise in a row and the fourth monthly gain above 2%. The NZD's continued descent against the USD and GBP in December was the key helping hand. The NZD TWI actually rose 0.1% m/m, however, implying little exporter relief elsewhere.

**Non-dairy commodity prices were the disappointment, falling 1.9% m/m.** Only 3 of the 12 non-dairy commodities in the index rose in December, with falls centred mainly in the meat and fibre group. However, many sectors saw price improvement throughout the course of 2016 (total non-dairy +7% y/y), though NZD moves continued to weigh on local returns in many cases.

In terms of sector specifics:

- **Dairy prices rose for the seventh time in a row, up another 3.9% m/m in December. Tight global milk supplies and improved Chinese import demand continued to be the main drivers.** All dairy-based products improved in December, led by butter (+6.2% m/m), followed closely by whole-milk power (+4.8%). The resurgence in these products now has prices up over 44% on last December. Cheese prices lifted a solid 3.1%, while skim milk and casein lifted slightly, up 0.5%.
- **The largest fall was a 6.2% drop in wool prices in what has been a tough 2016/17 season so far (down 26% y/y).** The main reason has been a lack of interest from China, which accounted for 50% of exports in 2015/16. There have been numerous suggestions as to why Chinese demand has been weaker, ranging from lower end-product demand in Europe/UK, a weaker RMB, changed sourcing patterns towards cheaper product from the UK and Mongolia, liquidation of local cotton stocks, and general high prices last year leading to fibre substitution and changed local fashion trends. With little data, it's difficult to say with any certainty what factors are the most important. Whatever the main driver, a 55% fall in year-to-date Chinese exports is telling.
- **Beef prices also fell 5.5% in December** with higher US supply weighing on import prices and some trader nervousness over holiday sales. **Lamb prices also fell 2.4% m/m** – the first fall of 2016. Still, in-market lamb prices were 20% higher than the year before due to tight tradable supplies and solid demand outside of Europe.
- **Forestry prices posted a small gain (+0.6% m/m) in December.** Log prices continue to find support from China and local construction activity. Pulp prices remained steady. The outlook for early 2017 is supportive as surplus inventories have been snapped up by strong Chinese demand.
- **Elsewhere there were only small moves.** Seafood posted a small 0.2% m/m gain and finished the year 13% higher. Aluminium prices fell slightly (-0.6%), but this was off two sizeable 4+% gains in the previous months. Horticulture finished the year 8% higher and remains well positioned for another very profitable 2017 harvest.

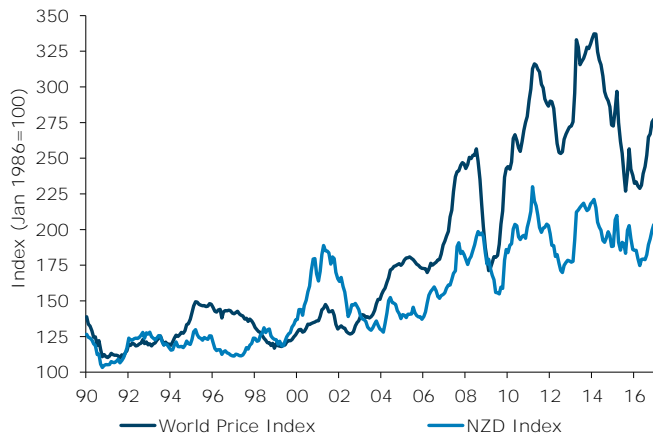
# ANZ COMMODITY PRICE INDEX

	World Price Index	Monthly % Change	Annual % Change	NZD Index	Monthly % Change	Annual % Change
Dec-12	271.8	..	-5.1	178.1	..	-12.2
Dec-13	330.2	..	21.5	218.1	..	22.5
Dec-14	273.4	..	-17.2	188.1	..	-13.7
Dec-15	238.0	..	-12.9	186.0	..	-1.1
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
Oct-16	266.9	0.7	4.0	193.3	2.1	-4.6
Nov-16	275.4	3.2	13.6	199.5	3.2	3.0
Dec-16	277.3	0.7	16.5	203.5	2.0	9.4

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%

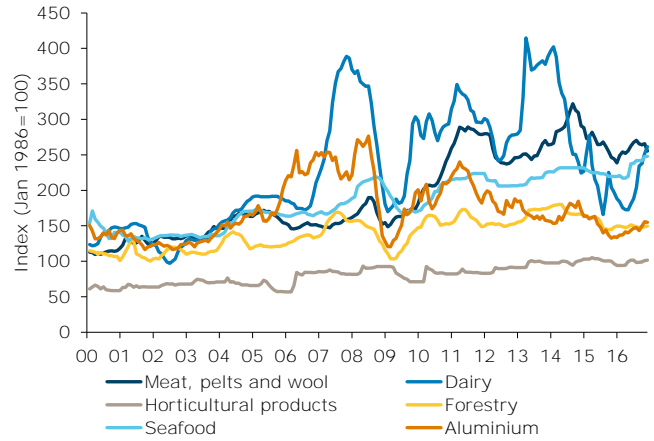
Please note index data for November has been revised due to incorrect data entry for cheese prices.

## ANZ COMMODITY PRICE INDEX



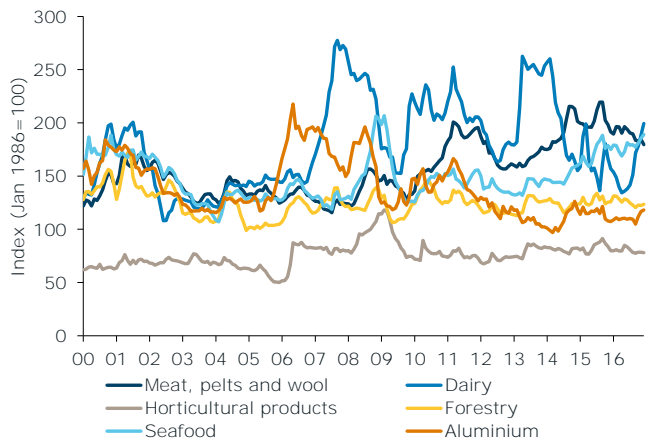
Source: ANZ

## SUB GROUP INDICES (WORLD PRICES)



Source: ANZ

## SUB GROUP INDICES (NZD PRICES)



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