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The next issue of the ANZ Commodity Price Index is scheduled for release on 3 April 2019 at 1pm.

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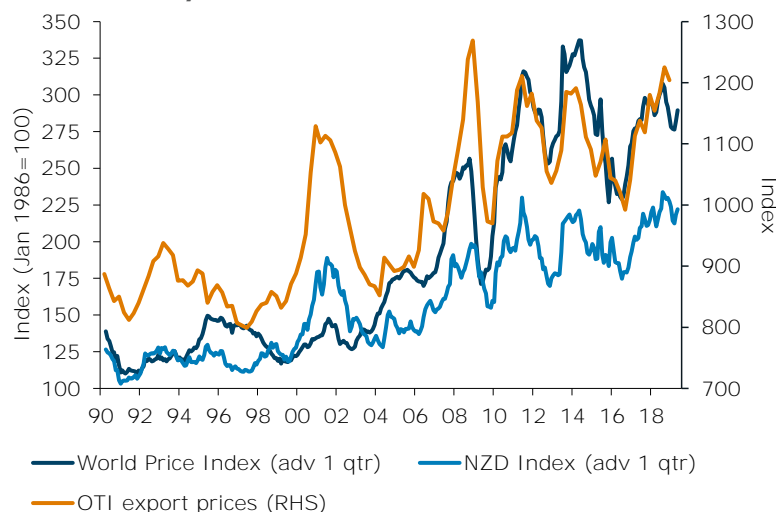
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On the cow's back

The ANZ World Commodity Price Index pushed up 2.8% m/m in February, continuing the upward shift that commenced in January. Positive price movements were recorded for most sectors but the 6.6% lift in dairy prices was the main driver.

The NZD index lifted 1.8% m/m in February, tempered by a 0.8% lift in the trade-weighted exchange rate. In local currency terms the ANZ Commodity Price Index has increased 3.2% y/y, versus a 2.2% decline in world terms.

ANZ Commodity Price Index



Source: ANZ, Stats NZ

Dairy prices pushed higher on the back of tighter global supplies and steady demand. In annual terms prices still trail last year by 2.0%, but in local currency terms dairy prices are up 4.9% y/y. This is positive for farmgate returns and is reflected in Fonterra's recent upwards revision of its 2018-19 milk price forecast to \$6.30-6.60/kg milksolid. Whole milk powder (WMP) prices lifted 7.9% in February, while skim milk powder (SMP) gained 8.9%, resulting in a decrease in the heavy discount at which SMP has been trading relative to WMP for the past couple of years. The upward trend in dairy commodity prices is expected to be maintained in the short term.

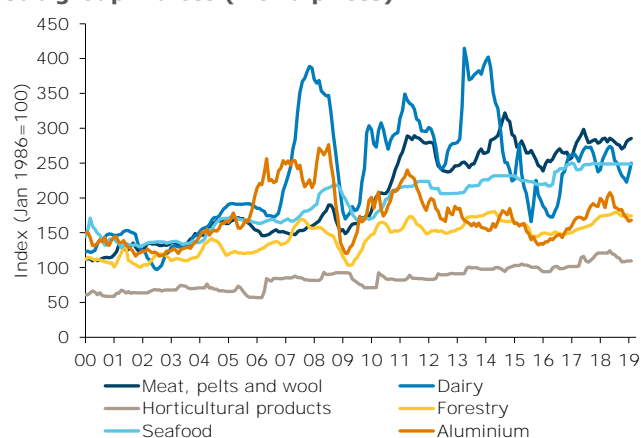
The **meat and fibre** index lifted 0.7% m/m in February, continuing the recent upward trend. Returns for lamb meat softened slightly in both international and local currency terms, but this was more than offset by higher returns for beef. Compared to a year ago the returns for these two industries are in reverse, with lamb still up 6%, while beef returns are 3.3% weaker.

The **horticulture** index was stable on low seasonal volumes. Kiwifruit returns are expected to benefit from the ongoing trend towards the higher returning Sungold variety. The growth in planting of Sungold is occurring primarily on greenfield sites, but there is some grafting of gold onto existing green vines. This will curb production of green kiwifruit, which is expected to be supportive to prices. The price of new season apples may benefit from a slightly smaller crop than originally anticipated. A lack of water in the Tasman/Nelson region has growers rationing water at the expense of lower-returning varieties.

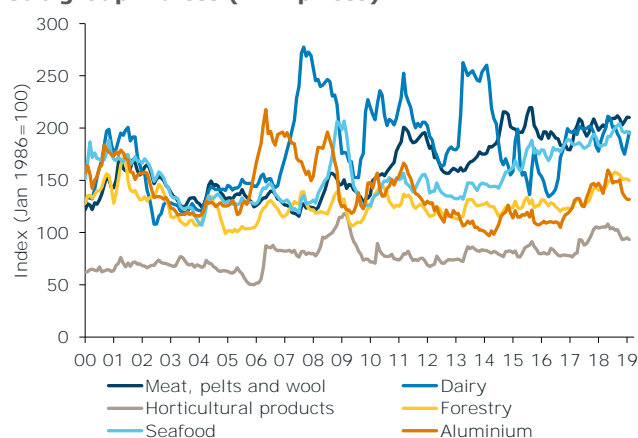
International **forestry** prices lifted 0.5% m/m in February, but eased 0.7% in local currency terms due to the appreciation in the NZ dollar. Thus far international market prices are holding at elevated levels, but are very reliant on ongoing demand from China for prices to be maintained. Risks of a fall in demand from China are heightened due to uncertainty surrounding economic growth, but thus far this has not played out into any decrease in demand for logs sourced from NZ.

Aluminium prices lifted 0.8% in February, stemming the downward trend in pricing that has been evident since May. Recently prices have bucked market expectations of further weakness due to anticipated lifting supply combined with easing demand. Sanctions on supply from Rusal were lifted at the end of January, which was expected to increase supply and therefore put negative pressure on prices. However, the opposite has occurred, with prices possibly benefiting from a recent uptick in buying from a major player, but it is unclear at this point where the end user demand sits. Tariffs on aluminium (and steel) remain a sticking point in the NAFTA agreement. Trudeau and Trump are discussing the issue with the Canadian leader pushing for tariff-free access for its aluminium while the US officials want to impose quotas in place of existing tariffs.

Sub group indices (world prices)



Sub group indices (NZD prices)



Source: ANZ

	World Price Index	Monthly % Change	Annual % Change	NZD Index	Monthly % Change	Annual % Change
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
Feb-18	296.4	..	5.0	215.5	..	6.4
Sep-18	284.9	-2.4	-3.6	227.3	-1.1	5.9
Oct-18	278.2	-2.4	-5.6	223.7	-1.6	1.6
Nov-18	276.9	-0.5	-5.1	214.3	-4.2	-4.0
Dec-18	276.4	-0.2	-3.4	212.4	-0.9	-2.1
Jan-19	281.9	2.0	-2.2	218.3	2.8	3.7
Feb-19	289.8	2.8	-2.2	222.3	1.8	3.2

Commodity Price Index weights are based on contributions to merchandise exports. Weights for the 2018 year are: Wool 1.9%; Beef 9.9%; Lamb 12.1%; Venison 0.6%; Skins 1.2%; Dairy 38.0%; Apples 2.4%; Kiwifruit 7.0%; Logs 11.4%; Sawn Timber 3.5%; Wood Pulp 2.7%; Seafood 5.2%; Aluminium 4.0%



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