

NEW ZEALAND ECONOMICS ANZ COMMODITY PRICE INDEX

Data for February 2016,
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CONTACT:

Con Williams
Agri Economist

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

THE GOOD, THE BAD AND THE UGLY

The ANZ Commodity Price Index stabilised in February (+0.4% m/m), following three consecutive monthly falls. Offsetting movements were apparent, with gains in beef and aluminium prices offset by price falls across the dairy complex. **A resilient NZD also meant aggregate local prices were unchanged, but there were variations across sectors.**

Prices are down 17.8% on a year ago (10.4% in NZD terms), with world prices 31% below early 2014 peaks.

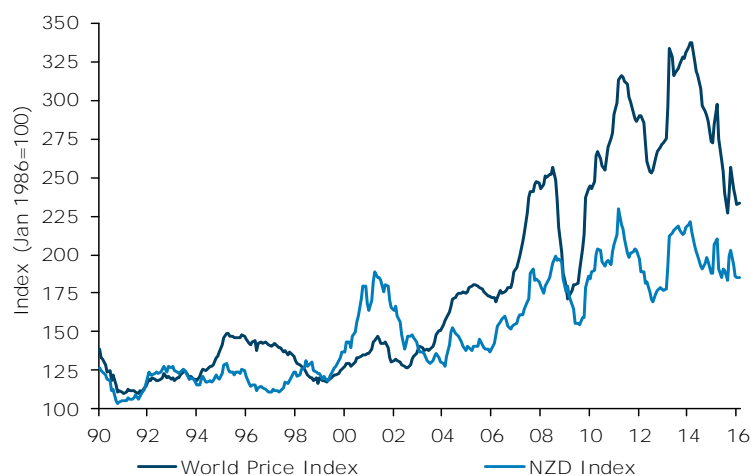
The good news in February was a 2.3% (m/m) rise in non-dairy prices. This was the first rise in 10 months perhaps suggesting a base could be near. Price improvements were largely confined to beef (+10.4% m/m) and aluminium (+2.6% m/m) suggesting some caution is still warranted. **In local price terms, non-dairy prices rose 2% m/m.**

The improvement in beef prices has been led by tighter supply out of Australia and New Zealand, seasonality in the US market and a reduction in inventory levels that had built up at the end of last year. Aluminium prices were supported by tightening Chinese inventories and coincided with price improvements for the rest of the industrial metals complex. Wool prices lifted a touch (+0.8% m/m), but prices for other non-dairy categories were flat.

In world terms, non-dairy prices are down 8.7% y/y (16% below 2014 peaks). But the lower NZD has buffered non-dairy export prices, with local non-dairy prices down only 0.8% compared to a year ago.

The bad news was across the board declines in dairy prices (-2.5% m/m for the aggregate dairy index). The largest price falls occurred for wholemilk powder (-3.2% m/m) and cheese (-2.6% m/m). The ANZ Commodity Price Index uses USDA prices, with the falls not as ugly as those seen on the GlobalDairyTrade platform. Oversupply is a headwind to imminent price recovery. European milk supply is being supported by the abolishment of production quotas, conducive weather conditions and low feed prices. New Zealand milk supply is faring better than earlier expected as well.

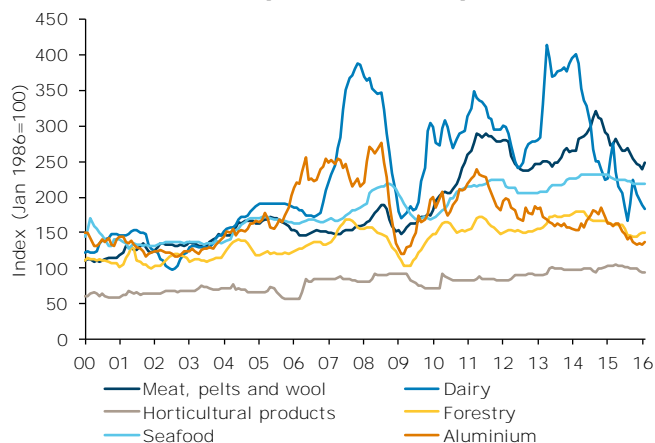
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Source: ANZ

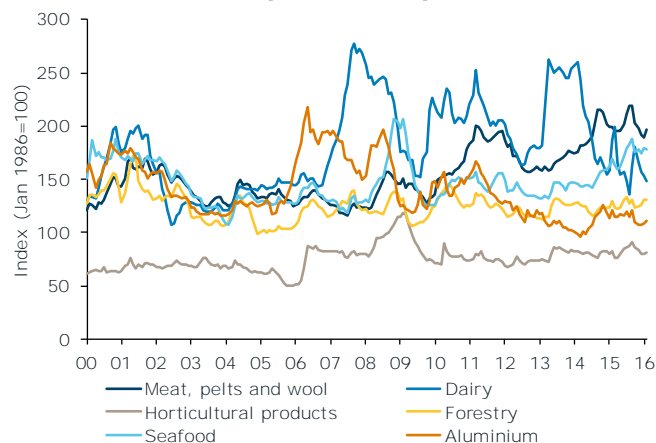
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SUB GROUP INDICES (WORLD PRICES)



Source: ANZ

SUB GROUP INDICES (NZD PRICES)



Source: ANZ

	World Price Index	Monthly % Change	Annual % Change	NZ\$ Index	Monthly % Change	Annual % Change
Feb-12	289.7	..	-3.0	189.0	..	-11.2
Feb-13	275.5	..	-4.9	177.8	..	-5.9
Feb-14	337.2	..	22.4	221.2	..	24.4
Feb-15	284.0	..	-15.8	206.7	..	-6.5
Sep-15	239.5	5.6	-18.2	199.5	8.8	2.8
Oct-15	256.6	7.1	-11.6	202.7	1.6	2.1
Nov-15	242.3	-5.6	-15.3	193.6	-4.5	-1.0
Dec-15	238.0	-1.8	-12.9	186.0	-3.9	-1.1
Jan-16	232.4	-2.3	-14.7	185.4	-0.4	-1.6
Feb-16	233.4	0.4	-17.8	185.3	0.0	-10.4

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%

Note: weights for the individual commodities have been updated to reflect share of trade in the last 12 months. Due to the fall in dairy earnings there has been an approximate 8% drop in its weighting within the index going forward (historical data is not revised).

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