

## ANZ COMMODITY PRICE INDEX

Data for July 2017,  
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## TAKING A BREATH

**The ANZ Commodity Price Index slipped 0.8% m/m in July, but international prices remain 21% higher than July last year.** Movements at the sub-category level were mixed. Eight of the sub-components rose, six fell and the remaining three were unchanged. **The strong NZD/USD weighed further with local returns down 2.1% m/m, but they are still 18% higher than 12 months' prior.**

- **Dairy prices increased 1.4% m/m in July (+45% y/y).** The increase was led by milkfat prices – specifically butter (+5.2%) and cheese (+3.4%). Milk powder prices were largely unchanged and casein fell 1.9%. Milkfat prices have posted new records in recent months with insatiable demand in developed markets and softer European milk supply limiting their export volumes. Seasonality has ensured tight Australasian supply too and Asian demand from a range of sources (especially foodservice/bakery) has driven tradable milkfat prices to new highs.
- **Meat prices fell for the first time this year (-3.4% m/m).** The decline was led by lamb prices, which dropped 6.8% m/m. Lamb leg and forequarter prices declined as new-season Northern Hemisphere production lifted and valuation concerns in lower-income markets impacted prices. Beef prices' hot run came to an end also. Higher US domestic production, reduced retail promotional activity and a passing of the seasonal demand peak have been the main drivers. Rounding out the rest of the category, skin prices rose (1.7%), while venison (0.0%) and wool (+0.3%) were largely unchanged.
- **Seafood prices were stable (+0.2%).** At the sub-category level there was an increase in salmon prices while the rest were unchanged.
- **Horticulture prices fell 5.6% m/m.** Higher seasonal volumes for both apples and kiwifruit saw a moderation versus early-season prices that had been pushed up by a late harvest for New Zealand's 2017 crops.
- **The forestry group increased 1.0% m/m with offsetting movements at the sub-component level.** Log prices (+2.2% m/m) continue to be supported by Chinese demand with port-level inventory and offtake continuing to track favourably. The Chinese Government has also announced lower import tariffs on logs in a bid to curb the use of logs from their own native forests. Local demand has experienced the usual seasonal slowdown, but unpruned demand for structural timber and posts/poles remains strong. Wood pulp prices fell 1.9% m/m, moderating the overall increase in forestry prices.
- **Aluminium prices lifted 1.2% m/m (17% y/y).** The market's focus remains on Chinese closure of spare capacity. Production cuts in regions around the Chinese capital have been mandated for environmental reasons during the coming winter heating season, which starts in November. Separately, "illegal" capacity is being closed too; there are rolling environmental inspections and all new capacity must be offset by the closure of older capacity. All these factors are supporting prices.

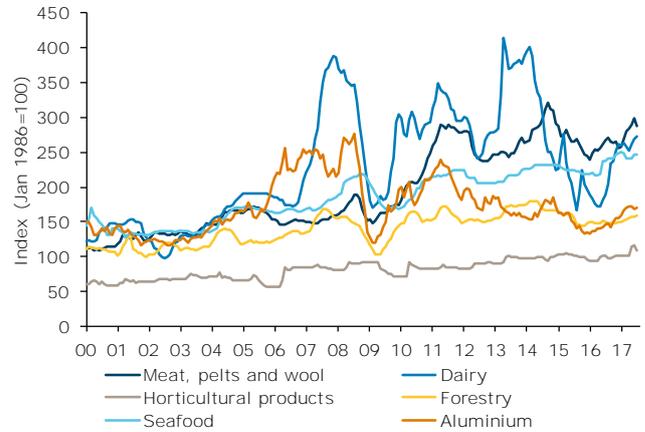
**While commodity prices are showing signs of levelling out, the lift from a year ago is still stark and this will support national incomes.** With the construction sector still booming, but not incrementally adding more to growth as capacity constraints bite, buoyant commodity prices will act as an important substitute in the growth stakes.

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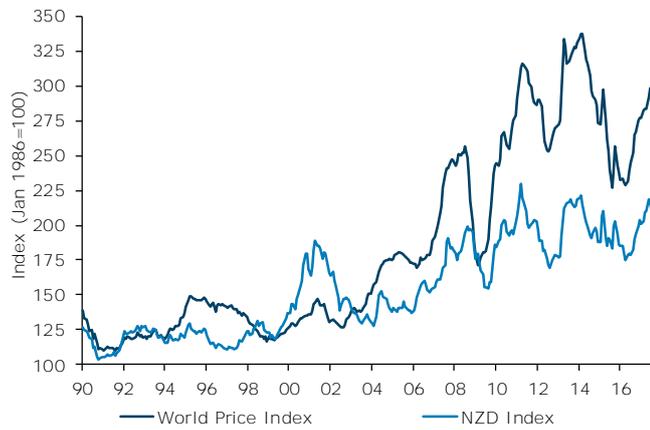
	World Price Index	Monthly % Change	Annual % Change	NZD Index	Monthly % Change	Annual % Change
Jul-13	317.7	..	25.5	217.0	..	26.7
Jul-14	307.6	..	-3.2	192.3	..	-11.4
Jul-15	239.5	..	-22.1	189.9	..	-1.3
Jul-16	244.2	..	1.9	178.9	..	-5.8
Feb-17	282.3	2.0	20.9	202.5	0.6	9.2
Mar-17	283.5	0.4	23.0	209.4	3.4	16.5
Apr-17	282.9	-0.2	23.7	210.5	0.5	20.4
May-17	291.9	3.2	26.3	219.0	4.0	22.3
Jun-17	298.0	2.1	24.6	215.4	-1.6	20.1
Jul-17	295.7	-0.8	21.1	210.8	-2.1	17.8

Commodity Price Index weights are based on contributions to merchandise exports. Weights for the 2017 year are: Wool 2.7%; Beef 10.9%; Lamb 10.3%; Venison 0.6%; Skins 1.5%; Dairy 38.0%; Apples 2.8%; Kiwifruit 6.7%; Logs 10.0%; Sawn Timber 3.8%; Wood Pulp 2.5%; Seafood 6.3%; Aluminium 3.8%

## SUB GROUP INDICES (WORLD PRICES)

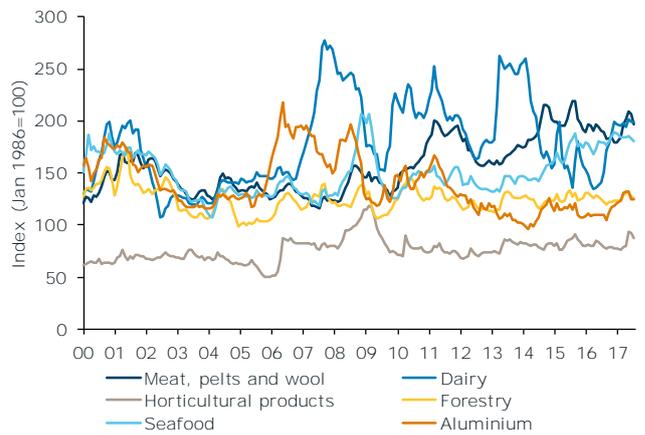


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## SUB GROUP INDICES (NZD PRICES)



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