

NEW ZEALAND ECONOMICS ANZ COMMODITY PRICE INDEX

Data for January 2012,
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NEW YEAR BOOST

The ANZ Commodity Price Index registered its **first monthly increase since May 2011**. The index rose 1.2 percent in January, after dropping a total of 9.8 percent in the preceding seven months.

There was **an increase in the price of nine commodities** in January, three commodities recorded a weaker price and five were unchanged.

The largest rise was noted in the price of aluminium, which lifted 6 percent over the month. This represents the first monthly increase in aluminium prices, following eight months of decline. (see feature article on page 3).

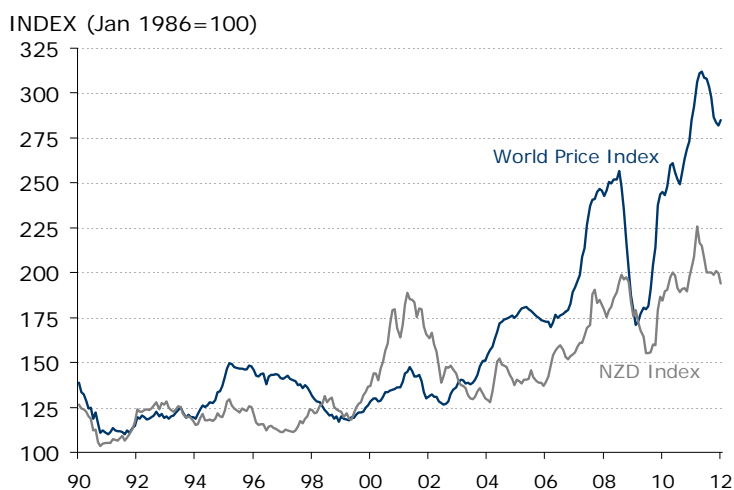
The next three largest increases in commodity prices were **dairy products**. Cheese prices firmed 5 percent while skim milk powder and butter prices increased 3 percent. Dairy prices have oscillated at different times over the past few fortnightly auctions but, month-on-month, aggregate dairy prices have lifted 2 percent between December and January.

Lamb prices lifted 2 percent in January after easing in the three months prior. Beef, logs, skins and whole milk powder all recorded price rises of around 1 percent.

The largest decline across the commodity basket was measured **in wool prices, which fell 7 percent**. Wool prices have weakened in five of the past six months and are currently 19 percent below the peak recorded in July last year. Kiwifruit prices eased 2 percent in January and venison prices dipped 1 percent.

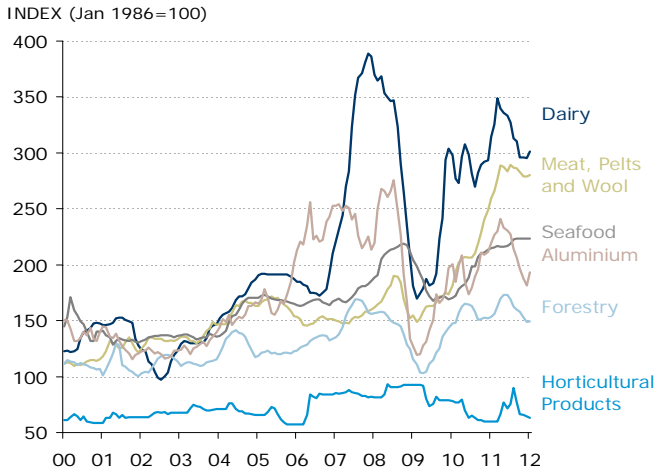
A strengthening in the New Zealand dollar weighed on the index, when priced in local terms. This resulted in **a 2.9 percent decrease in the ANZ NZD Commodity Price Index** in January, taking the index down to a fourteen month low.

ANZ COMMODITY PRICE INDEX

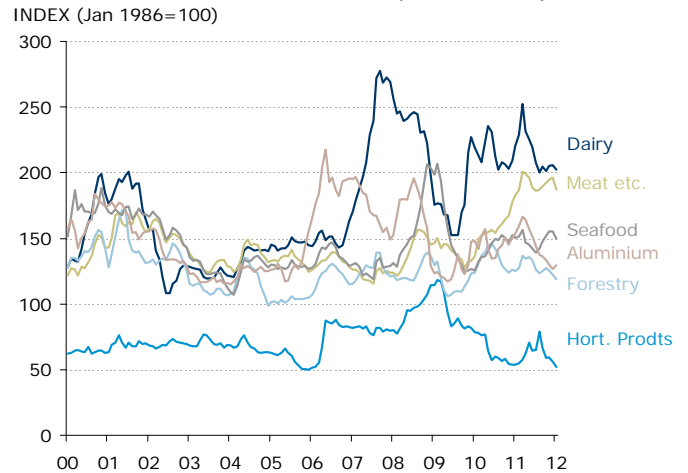


ANZ COMMODITY PRICE INDEX

SUB-GROUP INDICES (WORLD PRICES)



SUB-GROUP INDICES (NZD PRICES)



| | World Price Index | Monthly % Change | Annual % Change | NZ\$ Index | Monthly % Change | Annual % Change |
|--------|-------------------|------------------|-----------------|------------|------------------|-----------------|
| Jan-08 | 242.7 | .. | 26.4 | 179.2 | .. | 15.0 |
| Jan-09 | 179.4 | .. | -26.1 | 175.8 | .. | -1.9 |
| Jan-10 | 245.0 | .. | 36.6 | 184.5 | .. | 5.0 |
| Jan-11 | 284.8 | .. | 16.2 | 202.8 | .. | 9.9 |

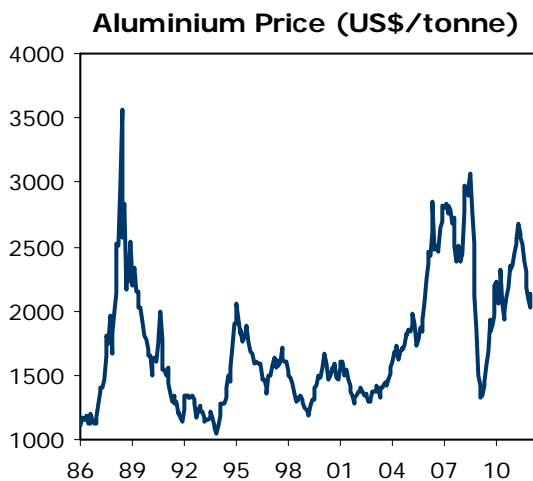
| | | | | | | |
|--------|-------|------|------|-------|------|------|
| Aug-11 | 303.8 | -1.4 | 22.0 | 200.0 | -0.2 | 5.7 |
| Sep-11 | 297.7 | -2.0 | 16.5 | 200.3 | 0.2 | 4.9 |
| Oct-11 | 286.9 | -3.6 | 9.0 | 198.8 | -0.7 | 3.8 |
| Nov-11 | 283.8 | -1.1 | 5.5 | 200.9 | 1.1 | 5.9 |
| Dec-11 | 281.7 | -0.8 | 3.1 | 199.7 | -0.6 | 1.2 |
| Jan-12 | 285.0 | 1.2 | 0.1 | 193.9 | -2.9 | -4.4 |

Commodity Price Index weights are based on contributions to merchandise exports. Weights for the 2012 year are: Wool 3.7%; Beef 8.4%; Lamb 12.3%; Venison 0.9%; Skins 2.3%; Dairy 42.8%; Apples 1.5%; Kiwifruit 4.4%; Logs 6.8%; Sawn Timber 3.8%; Wood Pulp 2.5%; Seafood 5.5%; Aluminium 5.1%

FEATURED COMMODITY: ALUMINIUM

New Zealand began exporting aluminium in the early 1970s. As a base metal, aluminium prices tend to follow the trend set by other hard commodities, being more aligned to world-wide industrial production and global sentiment. Not surprisingly, aluminium prices have slumped recently in response to uncertainty and weaker demand in the current gloomy economic environment.

Historically speaking, aluminium is a relatively young metal and has only been produced commercially for just over 100 years. In comparison; copper, lead and tin have been used for thousands of years. Despite this, more aluminium is produced world-wide than all other non-ferrous metals combined. The light, durable and strong quality of aluminium makes it one of the most extensively used metals in the world, particularly in the transport industry and the packaging and construction sectors.



Source: ANZ, Bloomberg

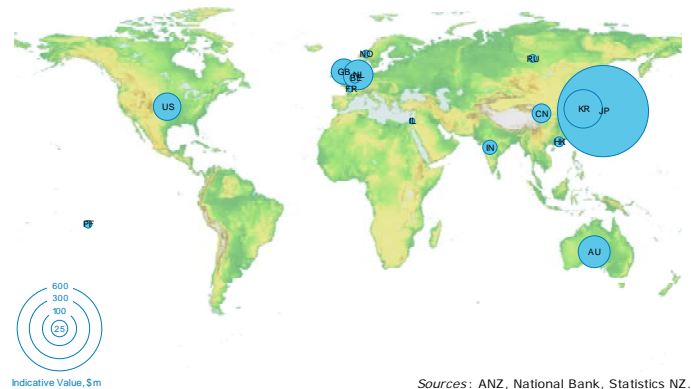
Aluminium has been a relatively recent addition to NZ's export basket, when smelting first began at Tiwai Point in 1971. Electricity (which accounts for about a third of the cost of producing aluminium) holds the key to the electrometallurgical process of manufacturing aluminium – hence the location of the smelter in Southland. In short, alumina is heated to 950° and an electric current is passed through it – breaking up the alumina molecules into aluminium and oxygen. Tiwai Point was selected primarily for its proximity to the Manapouri Power Station, but also for the deep water harbour at Bluff and the proximity of Invercargill's labour force.

The aluminium price we include in our commodity price index is taken from the London Metals Exchange, where aluminium is the largest contract

traded on the exchange. In mid-2008, aluminium prices hit a 20-year high, but then slumped 43 percent in response to the weaker global economy. Up until April last year aluminium prices had clawed back three quarters of the fall from 2008. This rise in global aluminium prices is connected to the rebound in the economic sentiment. More recently prices have slipped 20 percent on the back of the latest slump in prospects for Europe

In the 2011 calendar year, New Zealand's exports of aluminium totalled \$1.2 billion, which represented 2.6 percent of New Zealand's total export merchandise trade. However, the raw alumina that is used to make aluminium is imported from Australia so once this imported raw material is deducted, the net value is reduced to 1.9 percent of overall exports.

Destination of NZ's Aluminium Exports



Last month the Tiwai Point smelter produced the 10 millionth tonne of aluminium. This equates to 500 million kilometres of aluminium foil – enough to stretch to the moon and back 650 times. While a flabbergasting statistic, on the world stage, New Zealand's production of aluminium is a little over 1 percent of total world-wide output.

Japan is the largest market for our aluminium exports, taking over half of the total. Our next largest markets are Korea (10 percent) and Australia (8 percent).

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