

NEW ZEALAND ECONOMICS ANZ COMMODITY PRICE INDEX

Data for June 2011, released
on 4 July 2011

CONTACT:

Steve Edwards
Economist

Telephone: +64 9 357 4065
E-mail: Steve.Edwards@anz.com

The next issue of the *ANZ Commodity Price Index* is scheduled for release on: 1 August at 1pm.

MID-WINTER DIP

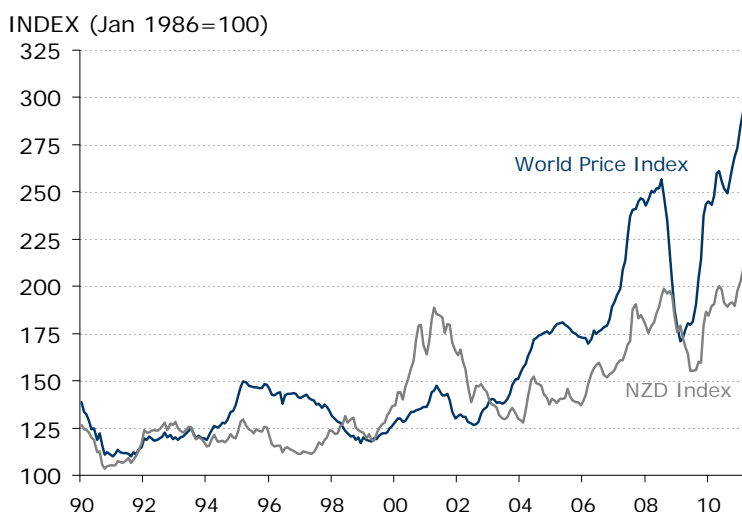
The first decline in ten months. The ANZ Commodity Price Index slipped 1.2 percent in the month of June. This represents the first monthly decline in the series since August last year. Nevertheless, the index remains at an elevated level, namely the third highest reading since the series began. The price of seven commodities recorded a drop in June, six recorded a rise and four were unchanged.

Kiwifruit and beef prices recorded the largest declines. Kiwifruit fell 9 percent from a month earlier, while beef prices dropped 8 percent. The price of whole milk powder and skins slipped 3 percent, aluminium and apples prices eased 1 percent and log prices fell very slightly. The decrease in the fruit prices reflects the traditional seasonal decline, as the Northern Hemisphere export season progresses and the price premium of the new season's fruit is reduced. The drop in beef prices reflects an oversupply of imported product into the United States. Demand had picked up late in the month, spurred on by the Fourth of July holiday weekend.

Wool prices hit a new record high. Wool and skim milk powder prices lifted 5 percent in June, and venison prices rose 3 percent. Lamb, sawn timber and seafood prices lifted by up to 1 percent.

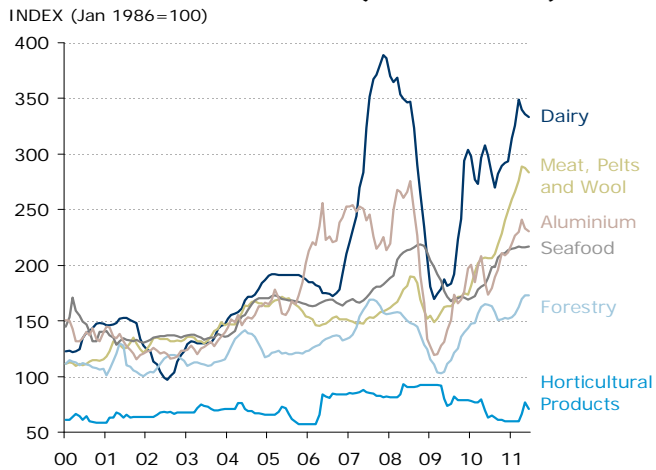
The kiwi dollar gathered strength. The New Zealand dollar lifted in value relative to all our major trading partners. On a trade-weighted basis the exchange rate lifted 2.2 percent. The NZD/AUD exchange rate lifted the most, rising 3.0 percent from May, to hit a six-month high on a monthly average basis. The lift in the value of the New Zealand dollar compounded the drop in commodity prices, resulting in the ANZ NZ Dollar Commodity Price Index dropping 3.3 percent in the month of June.

ANZ COMMODITY PRICE INDEX

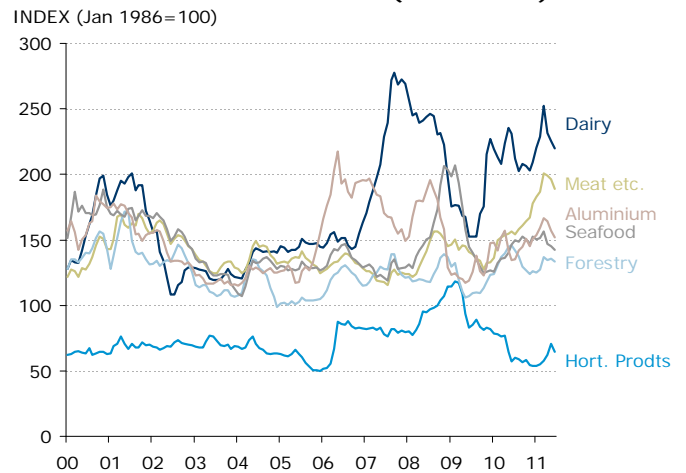


ANZ COMMODITY PRICE INDEX

SUB-GROUP INDICES (WORLD PRICES)



SUB-GROUP INDICES (NZD PRICES)



	World Price Index	Monthly % Change	Annual % Change	NZ\$ Index	Monthly % Change	Annual % Change
Jun-07	226.5	n.a.	29.5	169.1	n.a.	7.0
Jun-08	252.0	n.a.	11.2	189.4	n.a.	12.0
Jun-09	179.6	n.a.	-28.7	155.1	n.a.	-18.2
Jun-10	255.8	n.a.	42.4	198.2	n.a.	27.8

Jan-11	284.8	4.3	16.3	202.8	2.8	9.9
Feb-11	292.3	2.7	20.3	208.7	2.9	10.1
Mar-11	306.2	4.7	23.5	225.6	8.1	18.4
Apr-11	311.0	1.6	19.8	216.8	-3.9	9.8
May-11	312.1	0.4	19.6	215.1	-0.7	7.6
Jun-11	308.5	-1.2	20.6	208.0	-3.3	4.9

Commodity Price Index weights are based on contributions to merchandise exports. Weights for the 2011 year are: Wool 3.3%; Beef 8.8%; Lamb 12.4%; Venison 0.9%; Skins 2.0%; Dairy 41.6%; Apples 1.5%; Kiwifruit 4.5%; Logs 6.1%; Sawn Timber 4.7%; Wood Pulp 2.8%; Seafood 5.9%; Aluminium 5.5%

FEATURED COMMODITY: SHEEPMATE

New Zealand has the lion's share of the global trade in sheepmeat, particularly lamb. In contrast to the overall weakening of commodity prices recently, world sheepmeat prices have risen since mid-2007. Three quarters of our sheepmeat exports are sent to Europe and North America, with an increasing share going to China.

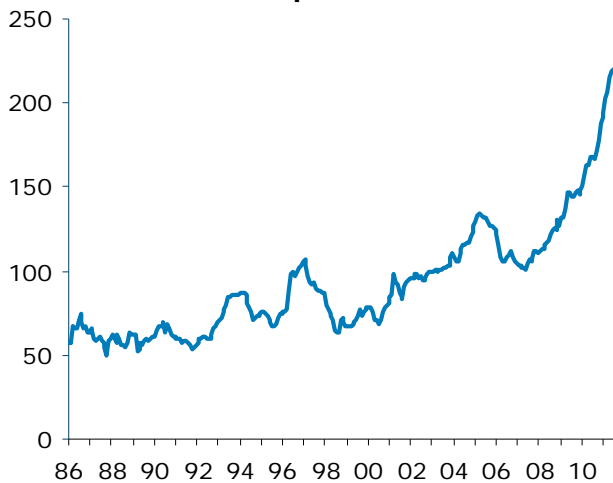
Four years ago marked the 125th anniversary of the departure of the first shipment of frozen sheepmeat from our shores to Britain. Since those early days – through a combination of a temperate climate, technological advances on the farm and processing efficiencies – New Zealand has grown to be the fourth largest producer of sheepmeat in the world (behind China, Australia and India). On an annual basis, New Zealand produces in excess of 400,000 tonnes of lamb and around 100,000 tonnes of mutton – which represents about 6 percent of the world's production of sheepmeat. More noteworthy, New Zealand is the world leader with regard to the external trade in sheepmeat, with around 40 percent of the global market. In terms of lamb, the share is higher, with New Zealand accounting for about 75 percent of world trade in lamb meat.

Zealand flock has reduced by 17 million sheep since the early 1990s and now totals 33 million. The productivity of the flock has improved significantly over that period, but this hasn't fully offset the fall in numbers. An additional factor for the strength in sheepmeat prices has been reduced production in Europe, due to a partial removal of subsidies in the United Kingdom and Ireland.

In the twelve months to May 2011, New Zealand sheepmeat exports totalled \$2.9 billion, which accounted for 6 percent of New Zealand's total merchandise exports. Behind milk powder (which accounts for 14 percent of merchandise exports), it is the second most valuable commodity export.

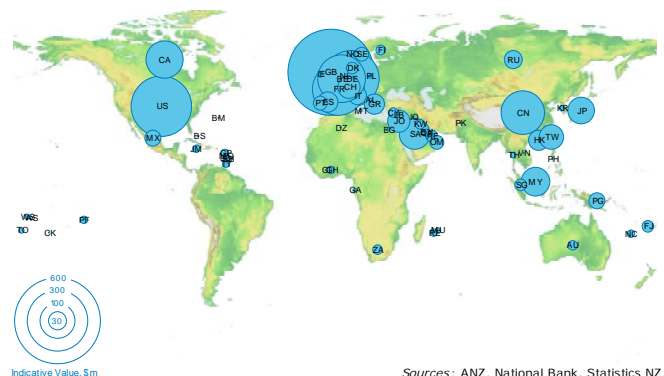
The European Union is the largest market for our sheepmeat exports, taking 58 percent of our mutton and lamb exports. One thing that hasn't changed since the first shipment was sent to Britain 129 years ago is that the United Kingdom is still our largest single export market, taking a fifth of our total sheepmeat exports. A noteworthy feature is the rapid rise of China as a key export market, now taking close to 6 percent of our total sheepmeat exports.

World Sheepmeat Price Index



Sheepmeat prices have bucked the general trend of weakening commodity prices and have risen steadily over the past three years – and they currently sit at a record high. This reflects a tightening in the global supply of sheepmeat. Low returns for wool and meat in Australia and New Zealand has encouraged a change in land use over the past 15 years to cereals, dairying or dairy support. This structural change to the sheep industry has been exacerbated by droughts in Australia and New Zealand over the past 4-5 years, reducing numbers further. The New

Destination of NZ's Sheepmeat Exports



Lamb exports, in product weight terms, comprise bone-in cuts (80 percent), boneless cuts (15 percent) and carcasses (5 percent). Carcasses as a proportion of exports have been on a declining trend for many years (replaced by pre-packaged cuts). While this share has been dropping, it is not expected to disappear completely, as there will always be a market for export carcasses to retail butchers, particularly in the UK. The second trend has been from frozen to chilled product. Chilled product now makes up about 20 percent of the total export volume, and this is expected to increase as demand in high-value markets continues to move away from frozen products.

IMPORTANT NOTICE

NEW ZEALAND DISCLAIMER

This publication is for information purposes only. Its content is intended to be of general nature, does not take into account your financial situation or goals, and is not a personalised adviser service under the Financial Advisers Act 2008. It is recommended you seek advice from a financial adviser which takes into account your individual circumstances before you acquire a financial product. This publication does not constitute an offer to sell or solicitation to buy any security or other financial instrument. No part of this publication can be reproduced, altered, transmitted to, copied to or distributed to any other person without the prior express permission of ANZ National Bank Limited (the "Bank").

This publication is a necessarily brief and general summary of the subjects covered. The information contained in this publication is given in good faith, has been derived from sources perceived by it to be reliable and accurate and the Bank shall not be obliged to update any such information after the date of this publication. To the extent permitted by law, neither the Bank nor any other person involved in the preparation of this publication accepts any liability for the content of this publication (including the accuracy or completeness thereof) or for any consequences flowing from its use.

UNITED STATES DISCLAIMER

This publication is being distributed in the United States by ANZ Securities, Inc. (Member of FINRA [www.finra.org] and registered with the SEC) ("ANZ S") (an affiliated company of Australia and New Zealand Banking Group Limited ("ANZBG") and the Bank), which accepts responsibility for its content. Further information on any securities referred to herein may be obtained from ANZ S upon request. Any US person(s) receiving this publication and wishing to effect transactions in any fixed income securities referred to herein should contact ANZ S 277 Park Avenue, 31st Floor, New York, NY 10172 USA, Tel: 1-212-801-9160, Fax: 1-212-801-9163, not its affiliates.

This publication is issued on the basis that it is only for the information of the particular person to whom it is provided. This publication may not be reproduced, distributed or published by any recipient for any purpose. This publication does not take into account your personal needs and financial circumstances. Under no circumstances is this publication to be used or considered as an offer to sell, or a solicitation of an offer to buy.

In addition, from time to time ANZBG, the Bank, ANZ S, their affiliated companies, or their respective associates and employees may have an interest in any financial products (as defined by the Australian Corporations Act 2001), securities or other investments, directly or indirectly the subject of this publication (and may receive commissions or other remuneration in relation to the sale of such financial products, securities or other investments), or may perform services for, or solicit business from, any company the subject of this publication. If you have been referred to ANZBG, the Bank, ANZ S or their affiliated companies by any person, that person may receive a benefit in respect of any transactions effected on your behalf, details of which will be available upon request.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this publication accurately reflect the author's personal views, including those about any and all of the securities and issuers referred to herein. The author however makes no representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this publication and are subject to change without notice. No part of the author's compensation was, is or will be directly or indirectly related to specific recommendations or views expressed in this publication. ANZBG, the Bank, ANZ S, their affiliated companies, their respective directors, officers, and employees disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.

This publication has been prepared by ANZ National Bank Limited, Level 7, 1 Victoria Street, Wellington 6011, New Zealand, Phone 64-4-802 2000, Fax 64-4-496 8639, <http://www.anz.co.nz> and e-mail nzeconomics@anz.com.

