

ANZ Commodity Price Index

New Zealand

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Onward and upward!

Contact:

Steve Edwards

Economist

Telephone: +64 4 802 2217

Email: steve.edwards@anz.com

The next issue of the *ANZ Commodity Price Index* is scheduled for release on: 1 February 2010 at 3pm.

An upbeat tone to the end of last year. The ANZ Commodity Price Index ended last year with a 2.6 percent increase in December. The cumulative rise over the calendar year was 30 percent, with the largest annual increases in commodity prices recorded in dairy, aluminium and sawn timber (up 50, 47 and 40 percent, respectively). The overall index remains at lofty levels, and is only 6 percent away from its record high, recorded in July 2008.

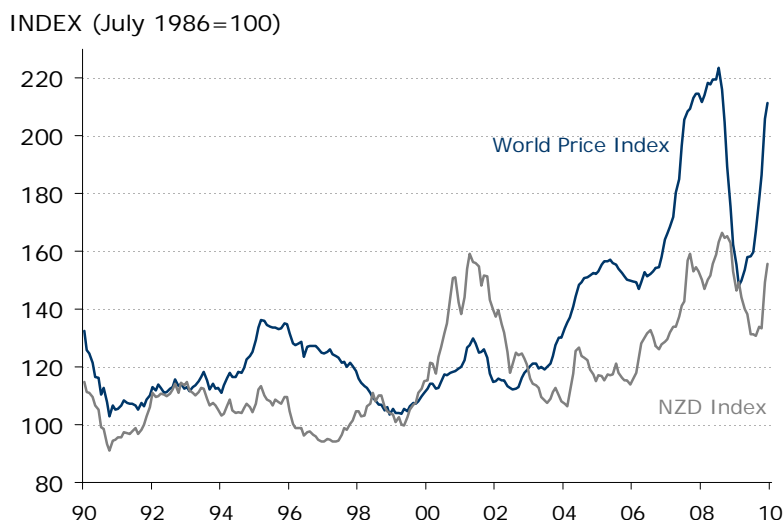
Aluminium, forestry and dairy the largest rises. Six of the commodities recorded a price rise in December, five recorded reduced prices and two were unchanged. The largest individual rise in the month was a 12 percent lift in aluminium prices. Forestry prices also rose, with increased prices for wood pulp (4.1 percent), sawn timber and logs (both lifting 2.0 percent), Dairy prices moved up 3.0 percent in December and lamb was the last commodity to register a rise in price in the month, lifting 1.4 percent.

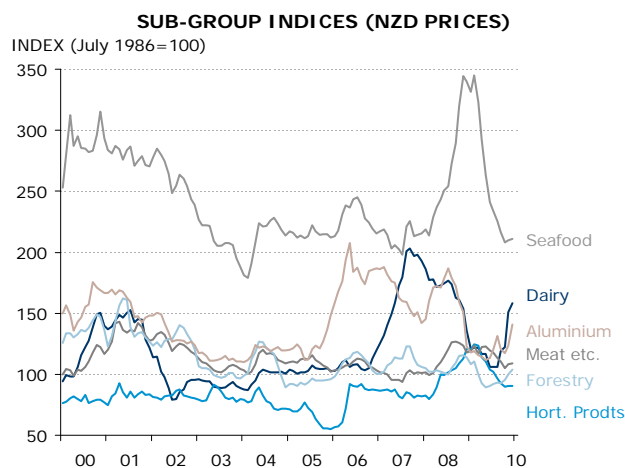
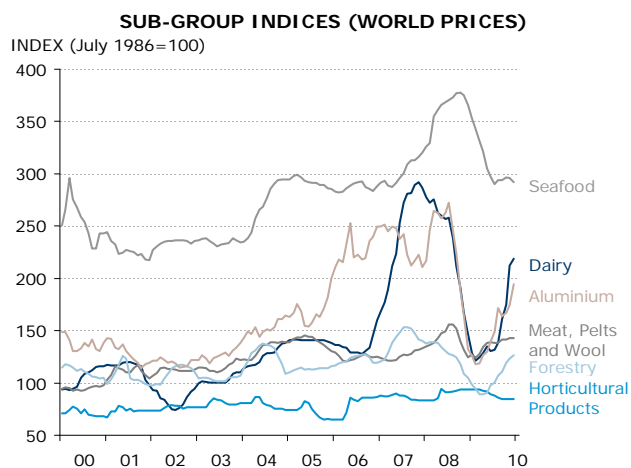
Wool and pelt prices dip. The largest price fall over December was jointly measured in wool and skins, which both eased 3.8 percent. Other price falls were measured in seafood (-1.2 percent), beef (-1.1 percent) and venison (-0.6 percent). The two fruit price series were unchanged in December.

International situation improving. As further confirmation that the global economy is on the mend, aluminium and sawn timber prices have both strengthened in nine of the last ten months. These two commodities are closely linked to industrial production. As such, they provide a timely gauge of the pulse of the global economy. Aluminium prices are now 65 percent above their February 2009 low and sawn timber prices are 56 percent above the level recorded in March. Dairy prices have increased for sixth consecutive month and are now 81 percent above their low in February last year.

Kiwi dollar mildly weaker. The New Zealand dollar eased against the US dollar and Japanese yen, was unchanged with the Australian dollar and recorded small rises against the pound and euro. Overall the lower value of the Kiwi dollar helped lift the NZ dollar commodity price index by 4.3 percent last month.

ANZ COMMODITY PRICE INDEX





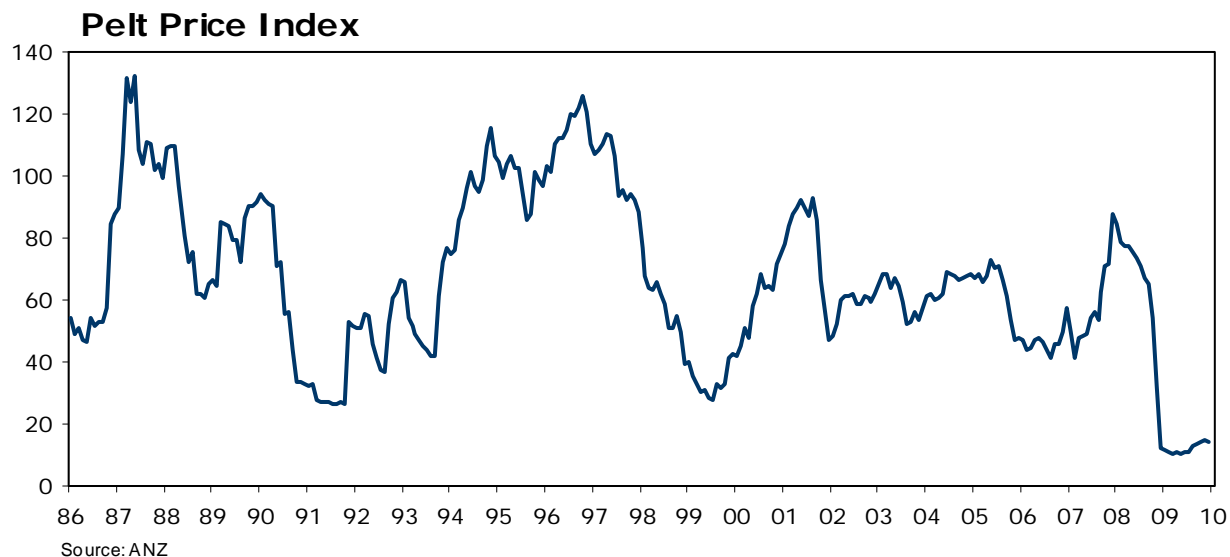
	World Price Index	Monthly % Change	Annual % Change	NZ\$ Index	Monthly % Change	Annual % Change
Dec-04	152.1	-0.3	16.7	115.0	-2.1	6.3
Dec-05	149.9	-0.1	-1.4	114.0	-1.1	-0.9
Dec-06	164.0	3.8	9.4	128.7	0.7	12.9
Dec-07	214.7	0.0	30.9	153.1	-0.9	19.0
Dec-08	162.5	-7.4	-24.3	153.0	-6.1	-0.1
Jun-09	158.3	0.2	-27.9	131.3	-5.0	-17.3
Jul-09	159.9	1.0	-28.5	131.4	0.1	-19.5
Aug-09	166.9	4.4	-22.7	130.8	-0.5	-21.4
Sep-09	178.2	6.8	-13.0	133.9	2.4	-18.7
Oct-09	186.5	4.7	-1.5	133.5	-0.3	-19.2
Nov-09	206.0	10.5	17.4	149.2	11.8	-8.4
Dec-09	211.3	2.6	30.0	155.6	4.3	1.7

Commodity Price Index weights are based on contributions to merchandise exports. Weights for the 2009 year are: Wool 0.035; Beef 0.091; Lamb 0.131; Venison 0.015; Skins 0.025; Dairy 0.408; Apples 0.016; Kiwifruit 0.047; Logs 0.034; Sawn Timber 0.042; Wood Pulp 0.028; Seafood 0.059; Aluminium 0.069

Featured Commodity: SKINS

Skin prices are largely determined by international economic fortunes. As with most other commodities, they have been caught in the rip of the global recession, with prices dropping to an all time low last year. Skin and pelt prices have also been under pressure from additional production sourced from Asia and, to a lesser degree, by overseas designer fashion trends.

Globally, the leather industry produces about 1.7 billion square metres of leather a year, with a total value that is estimated at about US\$40 billion. New Zealand produces 10 percent of the world's unprocessed sheep skins, but only one percent of beef hides. Hides and skins are a by-product of the meat industry, and typically represent between 5 and 15 percent of the value of an animal.



With the global crisis and resulting economic slowdown, the price of animal skins slumped to an all-time low in the middle of last year. A trend we noted over last year was that, for some grades of lamb pelts, the cost of removal was greater than the economic value of the pelt itself, resulting in sheep farmers having to pay abattoirs to have them removed at the time of slaughter. Skin prices have since recovered by about a third from the lowest point last year, but nonetheless they remain very weak from an historical perspective.

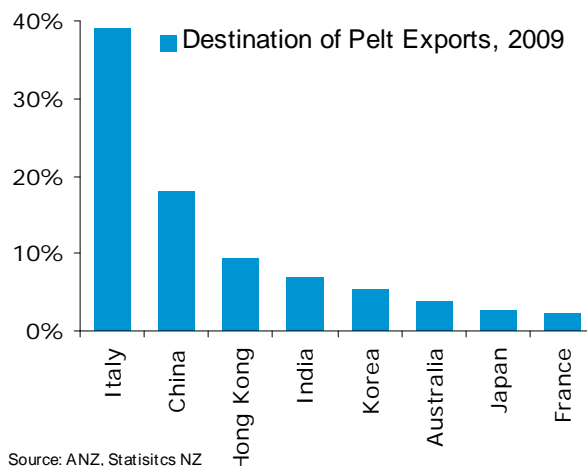
An additional factor to the price weakness has been a switch in consumer preference and increased production from Asia. There has been a general switch away from the use of leather. About 60 percent of all leather production worldwide is used to make footwear, with a further 16 percent used for garment production. The balance goes to uses including fashion items, furniture, and sporting goods. Over recent years, the fashion houses of Europe have shunned the use of leather and this switch has ultimately been reflected in the prices paid to New Zealand sheep farmers.

Another cause of weaker hides and skins prices has been an increase in the production from Asia, particularly China. In the ten years to 2007 (the latest available data), China's leather production has more than doubled. Although the quality of product from China is generally poorer, the increased supply on the world's market has nevertheless caused a weakening in pelt prices. Drought induced animal slaughter has also resulted in an above average level of production.

In the twelve months to June 2009, exports of hides, skins and leather totalled \$451m, or about 1 percent of our total merchandise export receipts.

Italy is the largest destination for New Zealand's exports, taking nearly 40 percent of our total hides and skins exports. Our next largest market is China, taking nearly 20 percent. Although, this is a reversal from last year when China took 25 percent of our hides and skins exports. Korea has slipped from third to fifth ranking last year, behind Hong Kong and India.

Italy takes a larger proportion of our exported beef hides in an unprocessed form. The main market for our processed hides is Australia, where they are used in footwear and furniture. Our sheep skins exports are sent to a more widespread area, particularly garment manufacturers in Asia, Australia and the United States.



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The Bank is a registered bank and, through its staff, is experienced in providing investment advice about its own securities and, where applicable, the securities of other issuers. The Bank has been selling securities, and providing investment advice on those securities, to customers as a core part of its business for many years, drawing on the extensive research undertaken by the Bank and its related companies and the skills of specialised staff employed by the Bank. The Bank is represented on many bank, finance and investment related organisations and keeps abreast of relevant issues by running seminars and workshops for relevant staff and having its investment adviser staff attend external seminars where appropriate. The Bank subscribes to relevant industry publications and, where appropriate, its investment advisers will monitor the financial markets.

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- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
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- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;
- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

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At the time of providing this disclosure statement it is not practicable to provide accurate disclosure of the fees payable for all securities that may be advised on. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

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- New Zealand and overseas unit trusts;
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- Superannuation schemes and bonds;
- Group investment funds;
- Life insurance products;
- Derivative products including interest rate and currency forward rate contracts and options; and
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- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

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