ECONOMICS

10 Mar. 10

Commodities Weekly

Dairy gains helps lift indices in all denominations.

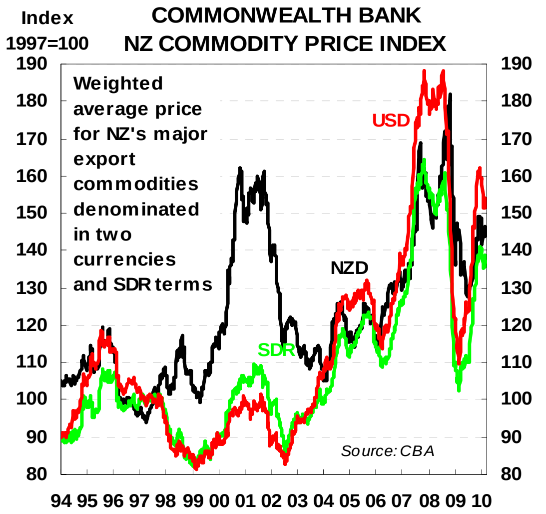
CBA NZ Commodity Price Indices

As at Friday, 5th March 2010.

Series	Index *	Week %	Year % **
Total NZD	146.5	1.4%	0.7%
Total SDR	138.9	1.6%	33.9%
Total USD	154.3	1.2%	39.6%
Dairy USD	185.0	2.5%	57.7%
Sheep/beef	144.3	-0.4%	29.7%
Forestry	131.0	-0.1%	37.5%
NZD/USD	0.6966	-0.2%	38.7%

* *For all indices 1997 average = 100*

*** Percentage change since same week last year*



The CBA NZ Commodity Price Index rose in all denominations last week. The NZD was little changed, and a 2.5% lift in USD dairy prices offset smaller movements in the other indices.

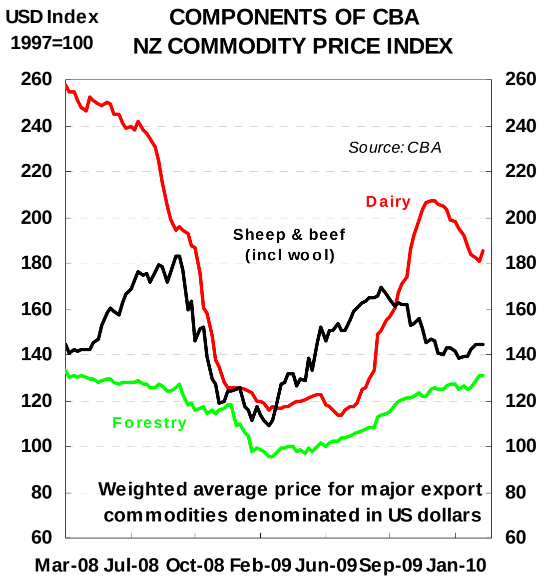
Lamb schedule prices remained steady in the South Island, but North Island schedules lifted around 40 – 50c/head. NZX Agrifax reports a lack of product is helping overseas frozen meat prices strengthen. In turn, the strong overseas prices combined with declining processing throughput are boosting local schedule prices.

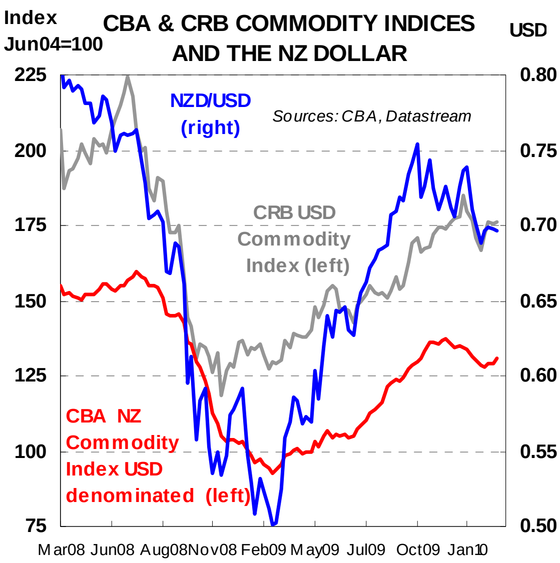
This week the focus for financial markets is firmly on the RBNZ. No change is expected for the Official Cash Rate, but the RBNZ Monetary Policy Statement will be closely inspected for clues as to when the Bank will start hiking.

Guest dairy comment from Professor William C Bailey, Chair, Department of Agriculture, Western Illinois University.

Both Fonterra's monthly auction and a widely watched US government price series combined to indicate the market may have found a short term bottom. Results of Fonterra's auction, at which skim milk powder (SMP) was offered for the first time, showed anhydrous milk fat prices moving down while WMP prices were basically flat. SMP auction prices came in a little higher than expected with deferred prices trading above nearby deliveries, indicating the market sees prices continuing to strengthen. WMP auction prices, however, continue to have the most deferred values trading at a discount to nearby prices. European prices, including butter, firmed slightly. In the US, butter prices have also increased recently, in part as a reflection of reduced production.

With reports continue to come in that production in Australia is not responding to recent rains as much as some anticipated and European production has been slowed by bad weather, –**see over**





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buyers may be looking at today's product prices as somewhat of a value, particularly if world output does not meet expectations. Production in Australia, for each of the months reported on this season, has trailed last year's poor output, with the deficient growing each month. The result is that overall production, from July – January, is nearly 7% behind last year at this time.

Russia has, once again, made public its intention to increase domestic milk production. It has made attempts to boost production in the recent past but, for a variety of reasons, those increases have not been either very successful or significant. Key factors driving this latest attempt is the intention to cut down on imports – Russia remains a major importer of cheese and butter – and a desire to keep domestic food prices down.

Interest Rates and Currency

The AUD continued to climb last week with the RBA delivering a 25 basis point cash rate hike on Tuesday, followed by the stronger than expected Q4 GDP on Wednesday. With the differing economic outlook between Australian and NZ once again in focus, the NZD/AUD came under further sustained pressure. The downward pressure is likely to remain in placeas the Australian employment data and RBNZ Monetary Policy Statement continues to highlight the diverging economic outlooks.

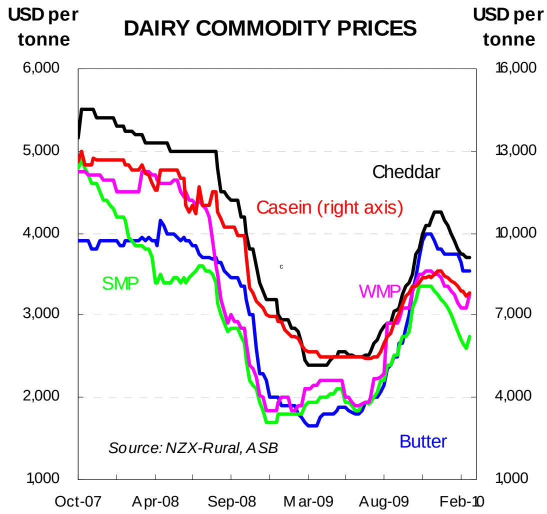
The NZD was weak against the USD early on last week, but gained back ground following the better than expected US non-farm payrolls report. The better employment figures boosted global confidence, benefiting the commodity currencies, with both the AUD and NZD rising over the last weekend.

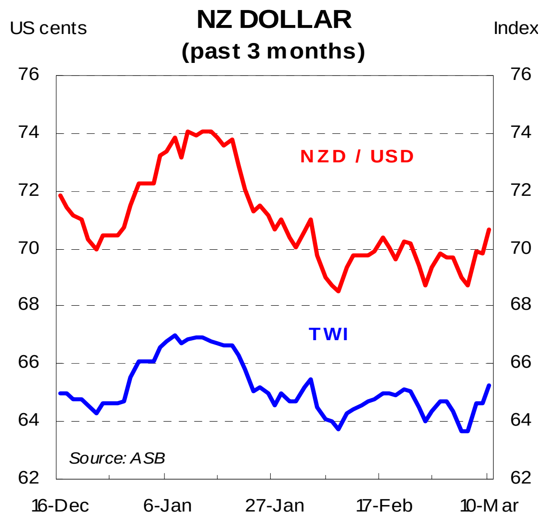
The euro and Pound stabilised last week. The Euro gained some support over the week as concerns around Greece gradually began to abate.

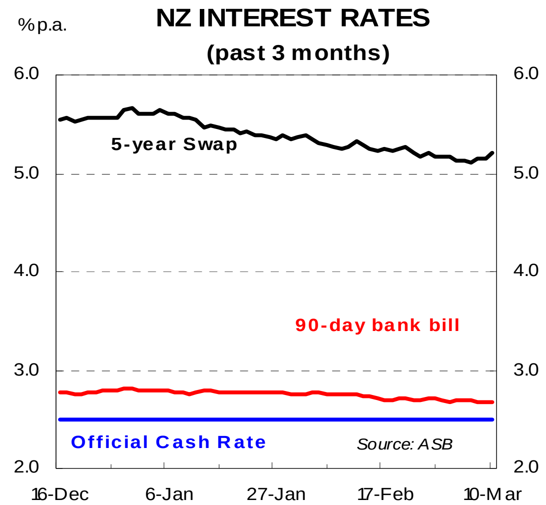
Rating agencies Fitch and Moody's have acknowledged Greece's new austerity measures lend credibility to the fiscal adjustment plan (4% GDP fiscal correction in 2010), although remain wary as implementation of this plan is key. In addition, further buoying investor confidence was the Greek issuance of €5b worth of 10 year bonds. The issue was oversubscribed but expensive, with a 6.3% yield.

NZ interest rates fell over the past week, as receiving interest dominated swap markets. Continued Japanese Uridashi issuance is one factor behind the demand to receive NZ interest rates.

Downward pressure on interest rates was offset to a degree by other offshore movements -stronger US data saw US interest rates end the week higher. In particular, non-farm payrolls data showed a smaller than expected decline in employment in February, sending yields higher.







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