

Commodities Weekly

Commodity price gains offset NZD lift.



ECONOMICS

16 Mar. 10

CBA NZ Commodity Price Indices

As at Friday, 12th March 2010.

Series	Index *	Week %	Year % **
Total NZD	146.8	0.2%	3.3%
Total SDR	139.6	0.5%	32.5%
Total USD	155.7	0.9%	38.1%
Dairy USD	186.0	0.5%	59.5%
Sheep/beef	147.7	2.4%	26.0%
Forestry	131.4	0.3%	35.5%
NZD/USD	0.7013	0.7%	33.6%

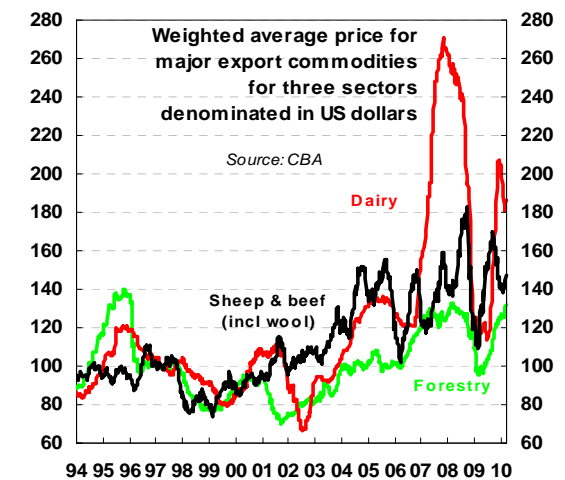
* For all indices 1997 average = 100

** Percentage change since same week last year

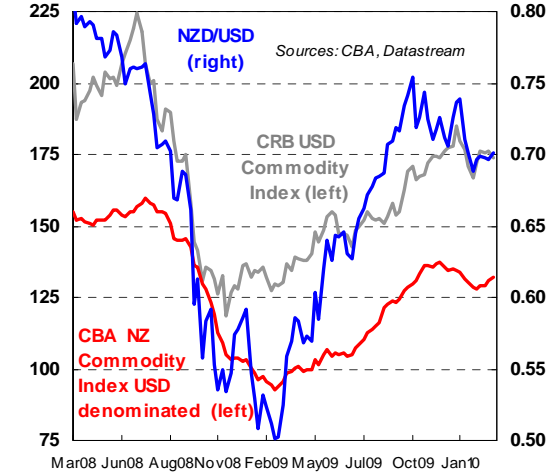
The CBA NZ Commodity Price Indices rose in all denominations last week, as a 0.7% lift in the NZD was more than offset by gains in the underlying commodity prices. The lamb and beef indices both posted gains, and the dairy index rose due to a US \$50 lift in the USD prices of both butter and skim milk powder. NZX Agrifax reports overseas lamb prices have continued to firm. Reduced lamb slaughter both in New Zealand and Australia is keeping export supply tight, which in turn is boosting international prices. Local lamb schedule prices were unchanged last week. South Island beef schedule prices were little changed, while beef schedule prices lifted an average 3-5c/kg in the North Island. Comparing the sheep and beef indexes to year ago levels provides an interesting contrast: beef prices have lifted to be up 5% on year-ago levels in NZD terms, while lamb prices, despite the offshore gains, are currently down 16% on year-ago levels in NZD terms. The increase in US beef prices reflects a lack of supply, rather than strong consumer demand. Both the lamb and beef indices are down just over 26% from their recent peaks. The NZD lamb index peaked in August 2009 and the NZD beef index peaked in September 2008. Despite the very good international prices for meat, the NZD strength remains a big negative for exporters. The NZD is up 33.6% on year-ago levels against the USD, and 21.5% on a trade-weighted basis. Based on our current forecasts, the high NZD will continue to offset the high price levels for lamb in offshore markets. This could affect prices through until next season. International beef prices are currently at very high levels for this time of year due to the supply interruptions in the US. While it is hard to see a change to this in the short term, if slaughter does pick up in the US we are also likely to see weaker local beef prices.

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

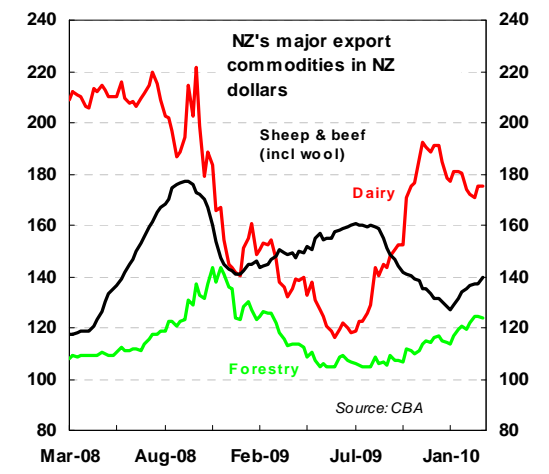
COMPONENTS OF CBA NZ COMMODITY PRICE INDEX



CBA & CRB COMMODITY INDICES AND THE NZ DOLLAR



COMPONENTS OF CBA NZ COMMODITY PRICE INDEX



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General Advice Warning

As this report was prepared without taking into account your objectives, financial situation or particular needs, you should not take any action in reliance of this report without considering your particular circumstances and, if necessary, obtaining professional advice.

World dairy price movements were mixed last week, with butter prices firming slightly while cheese and powder prices weakened. The market seems to be still digesting results of last week's Fonterra auction, with some analysts hesitant to draw too many conclusions from thinly traded markets. With many buyers only purchasing sufficient volumes to meet nearby needs, attempts to find a definitive market trend, either up or down, may be premature.

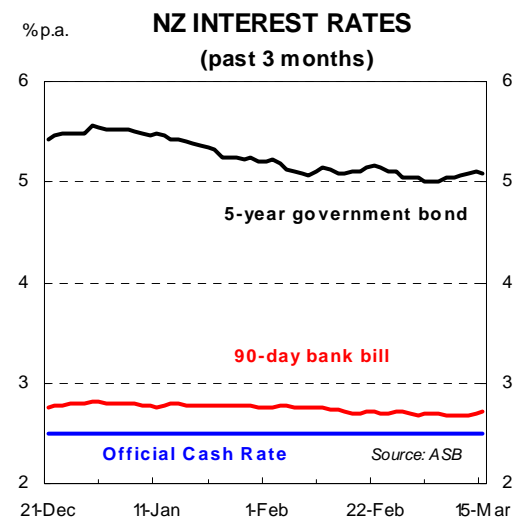
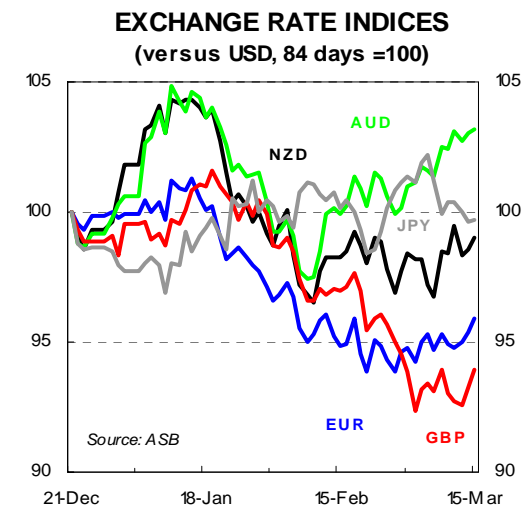
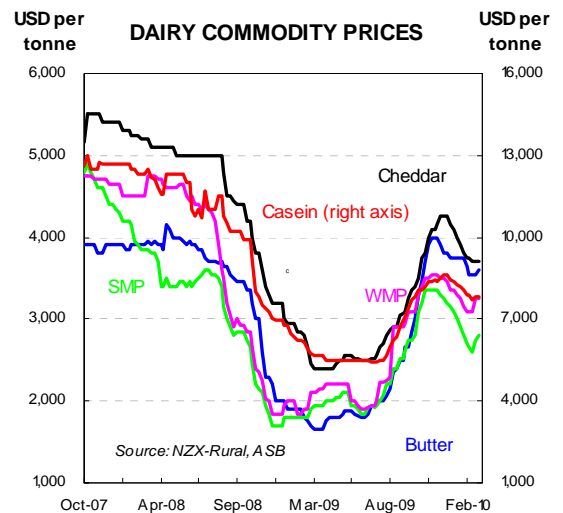
Production estimates from the US continue to show US farmers responding to reduced feeding costs and hopes of an improved international market. The most recent US government estimates show 2010 production exceeding 2009 levels, as has been anticipated here for some time. In fact, there remains a very real possibility 2010 output could exceed 2008 levels. Such a conclusion factors in reduced feeding costs, larger herds and the possibility of more aggressive use of recombinant bovine somatotropin (rbST). The impact of increased US production was reflected in 2010 forecast price declines for butter and nonfat dry milk powder, but those prices remain well above 2009 levels.

European Union production, unlike the US, has had a difficult time rising above last year's levels. The most recent production data shows output, through December 2009, trailing the previous year – not by much, less than 1% - but still reflecting both a rough winter and apparent reluctance of many EU farmers to push up production. Despite considerable discussion in the press about United Kingdom farmers leaving the industry, December 2009 output was essentially unchanged from 2008 levels. German, Danish and Swedish December 2009 production levels were all above December 2008. Although EU storage programs opened last week, with prices above intervention prices, no product has been put into storage.

Interest Rates and Currency

Last week was a relatively quiet for FX markets, with the NZ trade-weighted index barely changing. The NZD finished slightly up on the USD, JPY and GBP, and slightly lower against the EUR and AUD. The NZD has steadily lost ground against the AUD and has traded under 0.77 cents late last week and early this week.

The Official Cash Rate was held at 2.5%, as unanimously expected. The market focused on the lower medium-term 90-day outlook, and increased likelihood of smaller and more gradual rate hikes than previously envisaged. NZ interest rates ended the week slightly higher despite the small fall in interest rates shortly after the release of the RBNZ March MPS. Upward pressure on NZ interest rates came from the continued increase in Australian interest rates. US interest rates ended the week little changed, following a mixed bag of US data released over the week.



<http://reports.asb.co.nz/index.html>

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