

# NEW ZEALAND ECONOMICS ANZ COMMODITY PRICE INDEX

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The next issue of the *ANZ Commodity Price Index* is scheduled for release on: 4 April 2011 at 3pm.

## SIX OF THE BEST

**Sixth monthly rise.** The ANZ Commodity Price Index recorded a sixth consecutive monthly increase in February, lifting 2.7 percent from the preceding month. The index has risen a cumulative 21 percent over the past six months and has hit another record high.

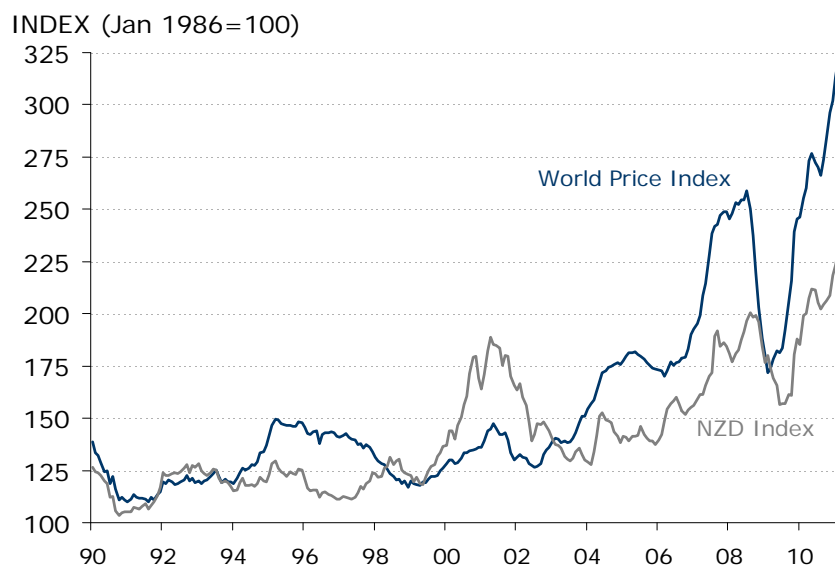
**Broad based rises.** Thirteen commodities recorded a higher price in February, two were unchanged and prices for two commodities fell. The price of skins recorded the strongest rise in February, surging 13 percent to a new record high. Milk powder, sawn timber and venison all lifted 5 percent. Sheepmeat prices rose 4 percent, while aluminium and butter prices rose 3 percent. Price for wool, casein, cheese and wood pulp lifted 1 percent and seafood prices increased just under ½ percent.

**Beef and logs prices ease.** Beef and log prices recorded declines, both retracing 1 percent from a month earlier. Kiwifruit and apple prices were unchanged.

**Stronger lift in NZ dollars.** When converted into New Zealand dollars, the ANZ NZD Commodity Price Index recorded a slightly stronger rise, lifting 2.9 percent. This reflected a narrow easing in the value of the NZ dollar against all the NZ TWI bilateral currencies.

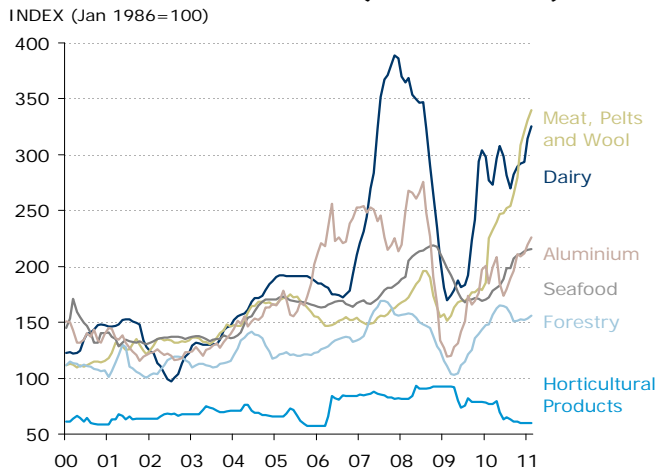
**Waiting for the follow through.** Rising export prices siphon money out of consumers' pockets. However, in aggregate the economy is still better off and it is simply a question of time before the income boost from higher commodity prices diffuses into the broader economy. Recent seismic events reinforce the importance of strong commodity prices as a crutch of support to the economy.

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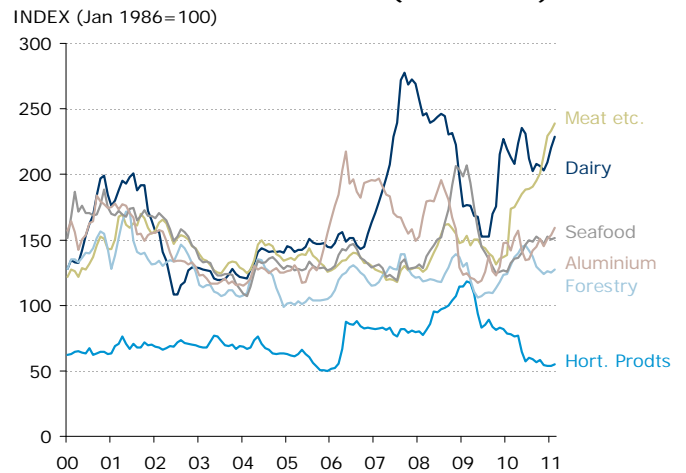


# ANZ COMMODITY PRICE INDEX

### SUB-GROUP INDICES (WORLD PRICES)



### SUB-GROUP INDICES (NZD PRICES)



	World Price Index	Monthly % Change	Annual % Change	NZ\$ Index	Monthly % Change	Annual % Change
Feb-07	195.4	1.4	13.1	159.0	1.7	11.6
Feb-08	248.0	1.1	26.9	177.1	-2.2	11.4
Feb-09	172.0	-4.6	-30.7	179.9	1.9	1.6
Feb-10	255.5	3.7	48.6	199.2	7.4	10.7
Sep-10	273.7	2.8	32.9	204.5	1.1	26.9
Oct-10	283.5	3.5	31.4	206.2	0.8	28.2
Nov-10	296.1	4.5	23.7	208.9	1.3	15.7
Dec-10	301.9	2.0	23.0	218.3	4.5	16.1
Jan-11	313.3	3.8	27.2	223.2	2.3	20.4
Feb-11	321.8	2.7	25.9	229.7	2.9	15.3

Commodity Price Index weights are based on contributions to merchandise exports. Weights for the 2011 year are: Wool 0.033; Beef 0.088; Lamb 0.124; Venison 0.009; Skins 0.020; Dairy 0.416; Apples 0.015; Kiwifruit 0.045; Logs 0.061; Sawn Timber 0.047; Wood Pulp 0.028; Seafood 0.059; Aluminium 0.055

## 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.**

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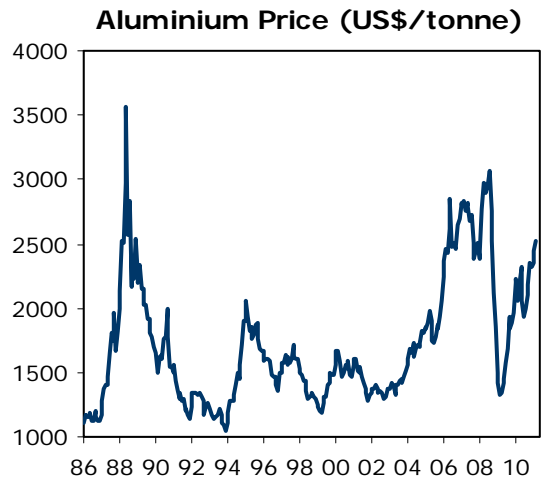
Historically speaking, aluminium is a relatively young metal and has only been produced commercially for just over 100 years. In comparison, copper, lead and tin have been used for thousands of years. Yet today, more aluminium is produced world-wide than all other non-ferrous metals combined. The light,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

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. Prices have clawed back over half of the slump between the high and low points recorded over recent years.

The latest rise in global aluminium prices is connected to the rebound in the economic environment, which will flow into increased demand

from the auto and construction sectors. This is especially true for China, where demand is expected to grow the strongest.



Source: ANZ, Bloomberg

In the year to January 2011, New Zealand's exports of aluminium totalled \$1.2 billion, which was 2.8 percent of New Zealand's total export merchandise trade. However, the raw alumina we use to make aluminium is imported from Australia. Once this imported raw material is deducted, the net value is reduced to 1.8 percent of overall exports.

On the world stage, export production of aluminium in NZ is less than 1.2 percent of total world-wide export output.



Sources: ANZ, Statistics NZ

Japan is the largest market for our aluminium exports, taking over half of the total. Our next largest markets are Australia (10 percent) and Korea (9 percent)..

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### NEW ZEALAND DISCLOSURE INFORMATION

The Bank (in respect of itself and its principal officers) makes the following investment adviser disclosure to you pursuant to section 41A of the Securities Markets Act 1988.

The Bank (in respect of itself and its principal officers) makes the following investment broker disclosure to you pursuant to section 41G of the Securities Markets Act 1988.

### Qualifications, experience and professional standing Experience

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.

### Relevant professional body

The Bank is a member of the following professional bodies relevant to the provision of investment advice:

- New Zealand Bankers Association;
- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
- Institute of Finance Professionals.

### Professional indemnity insurance

The Bank (and its subsidiaries), through its ultimate parent company Australia and New Zealand Banking Group Limited, has professional indemnity insurance which covers its activities including those of investment advisers it employs.

This insurance covers issues (including 'prior acts') arising from staff fraud, electronic crime, documentary fraud and physical loss of property. The scope of the insurance also extends to third party civil claims, including those for negligence. The level of cover is of an amount commensurate with the size and scale of the Bank.

The insurer is ANZcover Insurance Pty Limited.

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The Bank has a process in place for resolving disputes. Should a problem arise, you can contact any branch of the Bank for more information on the Bank's procedures or refer to any of the Bank's websites.

Unresolved complaints may ultimately be referred to the Banking Ombudsman, whose contact address is PO Box 10-573, Wellington.

### Criminal convictions

In the five years before the relevant investment advice is given none of the Bank (in its capacity as an investment adviser and where applicable an investment broker) or any principal officer of the Bank has been:

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- 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.

### Fees

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.

### Other interests and relationships

When a security is sold by the Bank, the Bank may receive a commission, either from the issuer of a security or from an associated person of the Bank. Whether that commission is received and, if received, its value depends on the security sold. At the time of providing this disclosure statement it is not practicable to provide a detailed list of each security that may be advised on, the name of the issuer of that security and the rate of the commission received by the Bank. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

In addition to the interest that the Bank has in products of which it is the issuer, the Bank, or an associated person of the Bank, has the following interests or relationships that a reasonable person would find reasonably likely to influence the Bank in providing the investment advice on the securities listed below:

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- UDC Finance Limited (UDC), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. UDC may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- OnePath (NZ) Limited, as a wholly owned subsidiary of the Bank, is an associated person of the Bank. OnePath and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.
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### Securities about which investment advice is given

The Bank provides investment advice on the following types of securities:

- Debt securities including term and call deposits, government stock, local authority stock, State-Owned Enterprise bonds, Kiwi bonds and corporate bonds and notes;
- Equity securities such as listed and unlisted shares;
- New Zealand and overseas unit trusts;
- Share in a limited partnership;
- Superannuation schemes and bonds;
- Group investment funds;
- Life insurance products;
- Derivative products including interest rate and currency forward rate contracts and options; and
- Other forms of security, such as participatory securities.

### PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

If you wish to pay investment money to the Bank you can do this in several ways such as by:

- Providing cash;



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- Providing a cheque payable to the relevant product or service provider and crossed 'not transferable'; or
- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

Investment property (other than money) may be delivered to the Bank by lodging the relevant property (for example, share certificates) with any branch of the Bank offering a safe custody service, or by posting (using registered post) the documents or other property to a branch of the Bank, identifying your name, account number and investment purpose.

Any investment money lodged with the Bank for the purchase of securities offered by the Bank, its subsidiaries or any third parties will be deposited in accordance with your instructions, to your nominated account or investment. Such money will be held by the Bank according to usual banking terms and conditions applying to that account or the particular terms and conditions relating to the investment and will not be held by the Bank on trust unless explicitly accepted by the Bank on those terms. Any investment money or property accepted by the Bank on trust will be so held until disbursed in accordance with your instructions. Any investment property lodged with the Bank will be held by the Bank as bailee according to the Bank's standard terms and conditions for holding your property.

### Record Keeping

The Bank will keep adequate records of the deposit of investment moneys or property and all withdrawals and dealings with such money or property, using the account/investment number allocated to your investment. You may have access to those records upon request.

### Auditing

The Bank's systems and operations are internally audited on a regular basis. The financial statements of the Bank and its subsidiaries are audited annually by KPMG. However, this does not involve an external audit of the receipt, holding and disbursement of the money and other property.

### Use of Money and Property

Money or property held by the Bank for a specific purpose communicated to the Bank (e.g. the purchase of an interest in a security) may not be used by the Bank for its own purposes and will be applied for your stated purpose. No member of the Bank's staff may use any money or property deposited with the Bank, for their own purposes or for the benefit of any other person. In the absence of such instructions, money deposited with the Bank may be used by the Bank for its own purposes, provided it repays the money to you upon demand (or where applicable, on maturity), together with interest, where payable.

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