

Westpac-NFF

# Commodity Index

Barley • Beef • Canola • Cotton • Dairy • Sugar • Wheat • Wool

September 2009

## Farmers look for spring rains to lift prospects

Over August 2009, the *Westpac-NFF Commodity Index* decreased 2.5%. The Index is now 17.6% lower than a year ago.

International commodity prices moderating in the month were wheat (-8.4%), barley (-4.9%), cotton (-3.6%), beef (-4.5%) and also dairy (-1.5%).

Commodity prices that lifted during August included sugar (17.6%), canola (1.3%), and wool (2.1%).

### Barley

Sluggish demand in international barley markets in August, had prices down 4.9% from last month.

Global production estimates were downgraded 8% from last year, with the Ukraine, Russia and Canada all reporting smaller crops this season.

Prices for malt barley are currently being kept low due to increased malt margins in the EU prompting amplified selling at a reduced price into Asia.

The predicted surplus of malt in the EU this year is expected to reach 3mmt, which may result in some farmers selling malt barley to the feedlot sector. This season European crops have exceeded yield expectations, with no indications of quality issues.

Production in Canada has been downgraded as a significant percentage of the crop struggles to catch up in development.

The international feed barley market was quiet during August, as

fresh crops covered local needs and no real export demand was experienced.

### Beef

International beef prices during August fell 4.5% on the back of subdued demand from global markets.

Argentina continues to sell off and cull its herd as drought conditions intensify.

US farmers are also being affected by lack of forage as locust activity in some states has left little plant life for winter feed.

Dairy herd retirements in the US continue and imported beef to the US is in tight supply.

There is currently a wait and see approach to imports in the US with uncertain demand, changes in US cow slaughter, currency issues and volatility in ground beef values all contributing.

Japan is also showing a wait and see approach as demand remains subdued and traders hope for falls in the A\$ before restocking.

There was slow demand in Korea during August, as Chuseok supplies had been mostly secured.

Lingering safety concerns continue to minimize sales of US beef into Korea.

### Canola

Reduced global production of canola by 2mmt with expected further reductions has lifted prices this month, up 1.3% from July.

The market remains volatile as weather concerns play on key

export regions. Predicted lower yields from Canada and FSU (Former Soviet Union) will be greater than expected increases from EU crops.

Currently, European and Black Sea prices are being discounted and are finding their way into Chinese and Mexican markets.

China continues to be the leading buyer, although they are sourcing canola from the Ukraine and Poland due to cheaper prices than Canada (who traditionally exports to China).

Black Sea canola prices are the most competitive at the moment and are getting lots of business from China.

Australian canola exports have lifted to a seven year high, due mostly to increases in domestic crush from China.

The rising A\$ will continue to impact the canola market for Australian farmers and is predicted to counterbalance any market rallies in coming weeks.

### Cotton

Mill demand for cotton was relatively quiet during August, with global prices down 3.6% from last month.

Concerns for the Indian crop intensify as further delays in monsoonal rains have adversely affected crop development.

Despite these concerns, the Indian government has announced that minimum price support for new cotton would remain unchanged and stock is selling at discounted prices to make way for any new crops in



Table 1. Component Indices.

Australian \$	Index				Percentage change over		
	Aug-09	Jul-09	Feb-09	Aug-08	1 month	6 months	12 months
Wheat (AU c/bu)	615	671	849	950	-8.4	-27.6	-35.3
Barley (AUD/t)	176	185	181	250	-4.9	-3.1	-29.6
Canola (AU c/kg)	475	469	524	605	1.3	-9.5	-21.6
Cotton (AU c/lb)	72.7	75.4	72.7	79.7	-3.6	0.0	-8.7
Sugar (AU c/lb)	26.6	22.6	20.4	16.5	17.6	30.0	60.9
Export beef index (AUD)	148	155	158	171	-4.5	-6.7	-13.3
Dairy price index (AUD)	114	115	124	161	-1.5	-8.2	-29.6
Wool (AU c/kg)	838	821	748	854	2.1	12.1	-1.8
USD Index 97/98 = 100	146	145	122	188	1.1	20.0	-22.3
AUD/USD	0.835	0.804	0.649	0.886	3.8	28.7	-5.8
AUD Index 97/98 = 100	120	123	128	145	-2.5	-6.8	-17.6

a) The indexes are calculated as monthly averages

b) Data sources are Bloomberg, USDA FAS.

storage.

Crops in China are developing well, with weather conditions reportedly stable.

The Chinese State reserve is guaranteeing supplies to millers until new crop harvesting is complete by releasing and auctioning additional reserves.

The US crop conditions have been slightly downgraded toward the end of August, with US cotton crops now rated as 52% good to excellent.

### Dairy

International dairy prices remained volatile this month, falling 1.5% during August, with rising production costs continuing to impact on global dairy farmers.

The US based program Cooperatives working together is expected to double the number of cows liquidated from the US system to over 200,000 cows.

This latest round of herd retirements expects to remove 815 million kilograms of milk from the industry and is preparing to have further rounds of retirement if needed later in the year.

Significant stock levels are still building in many regions through government and corporate intervention, thus price recovery not expected in the short term future.

As NZ increases its milk powder production which is now nearing EU levels, some European firms have begun to specialize in cheese.

Some regions have experienced a fall in supply, these include Australia, USA and Brazil, with declines to potentially increase in coming months as the results of dairy culls becomes more apparent.

Locally, rises in A\$ have offset any price recovery this month.

### Sugar

Drained global inventories and poor weather for growers in key exporting nations have resulted in international sugar prices reaching 28 year highs, with prices lifting 17.6% from last month.

The supply deficit is expected to last until next year, with demand predicted to exceed production by as much as 5 million tonnes for 09/10.

The Indian monsoon season is the driest in 7 years, with production estimates revised from just a couple of months ago from 20 million to 14.5 million tonnes.

Rainfall is down by up to 43% in some parts of India, although

rain late in the season may revive some damaged crops.

India will be looking to double its imports of sugar this year.

Heavy constant rain in Brazil has increased fears that production there will be greatly reduced on expected levels, and the sucrose content of crops is being leeched by the heavy rainfall.

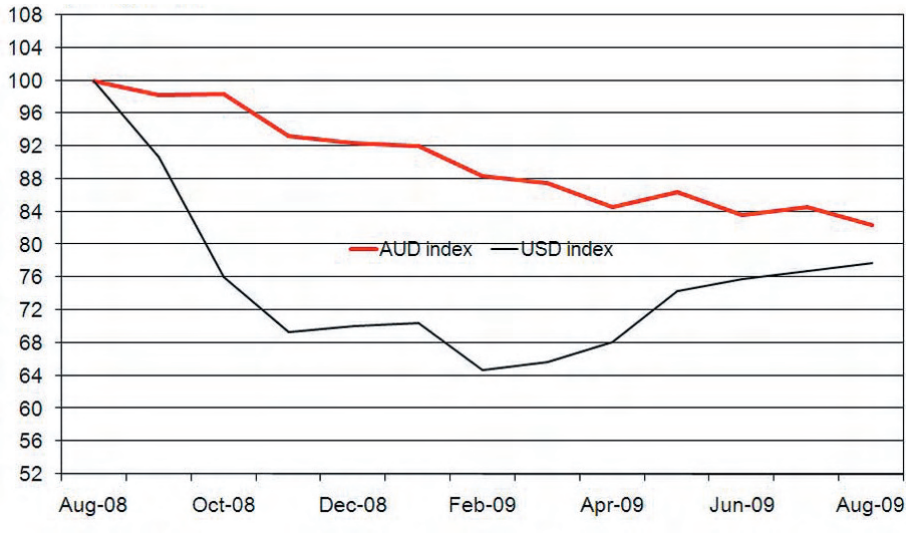
The recent report by the USDA estimates that US sugar supplies are expected to drop by 43% in 2010, prompting food manufacturing companies based in the US to petition government for changes to tariffs on sugar imports to boost supply and meet demand.

### Wheat

Global wheat inventory levels have reached their highest



Wheat growers take the biggest hit this month with prices falling 8.4%.

**Graph 1. Index Over 1 Year: Average Of First Month = 100.**

levels since 2001/02 due to reduced demand and larger international crops.

Prices during August fell 8.4% as the northern hemisphere harvest season draws to a close and 85% of the world harvest is complete.

Larger crop production in EU, US, China, Ukraine, Middle East and India may result in reduced export demand over the coming months.

Recent USDA reports estimate production has lifted, with large carryover stocks in many countries resulting in global stocks increasing by 14 million tonnes this year.

Improved conditions and higher yields in Europe have led to aggressive selling.

Lower world prices and reduced crop production due to storm damage has Japan in a position to increase imports to more than 3 year highs, which may present an opportunity for Australian farmers.

### Wool

The global wool market rallied during August, with all microns increasing in price and overall wool prices lifting 2.1 % from last month.

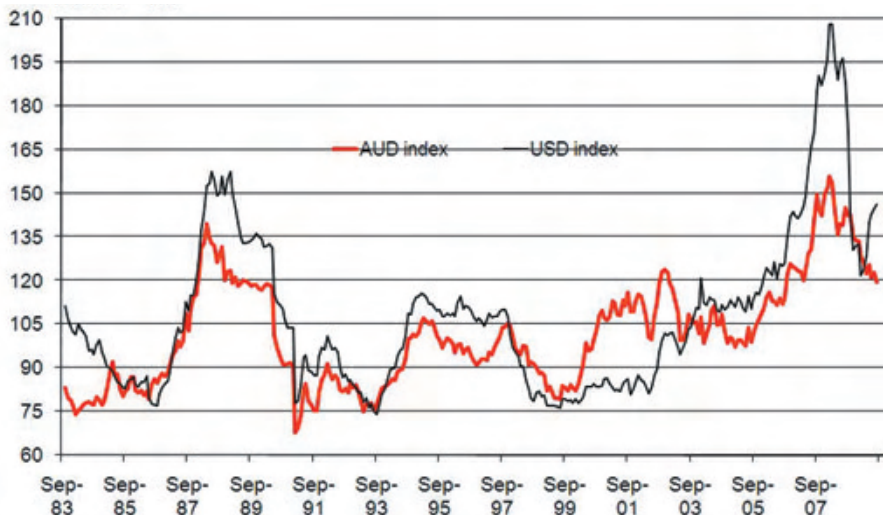
Reports from various global wool salesrooms indicate that low sheep numbers this year is having a positive effect on prices and is resulting in strong competition from buyers.

Mills stocks are currently very low, although most mills are awaiting lower prices to make bulk sales.

European buyers were quiet during August, as most are still in holiday mode.

China remains the dominant buyer of wool, although competition from large Indian mills is aiding in keeping prices up.

Domestically, the spring shear is underway and progressing well, although the wool is yet to enter the market.#

**Graph 2. Historical Index: Average Of 1997/98 = 100.**

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The Westpac-NFF Commodity Index is published monthly as a joint undertaking between the Westpac Banking Corporation (ABN 33 007 457 141) and the National Farmers' Federation (ABN 77 097 140 166).

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This index is updated on a daily basis and calculated in both SA and \$US so the effects of exchange rate differentials can be determined. The Westpac-NFF Commodity Index benefits all levels of Australian agribusiness by providing a relevant and timely indicator of commodity price movements.

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