

Westpac-NFF

# Commodity Index

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

October 2009

## Lessons to be learnt in the lead up to harvest

Over September 2009, the *Westpac-NFF Commodity Index* decreased 1.4% and is now 17.2% lower than a year ago.

International commodity prices easing during the month were wheat (-10.8%), barley (-7.6%), canola (-10.5%), cotton (-0.8%), and beef (-2.4%).

Commodity prices that lifted during September included sugar (1.5%), wool (4.2%), and dairy (8.4%).

### Barley

Large international stockpiles resulted in a flat global barley market in September, with prices dropping 7.6% from last month.

Substantial EU export surplus and cheap Black Sea barley is limiting prices received by farmers.

The market is being dominated by Black Sea sellers and Middle Eastern buyers.

Black Sea barley is currently out pricing anything else on market due to significant exportable surplus. Many local Australian growers are choosing to sit on stock as global prices continue to hover around EU intervention levels.

The local feed sector is showing some promise as interest increases from the local dairy sector due to low grain storage and improved margins.

### Beef

September proved a volatile month for beef producers as prices

moved 2.4% lower than last month.

There is little sign of demand or price improvements for markets in the US, Korea and Japan.

Japanese markets were quiet during Silver week (a series of public holidays spanning 19-23 September), as demand remained uncertain.

Korean retailers awaited increased demand for last minute Chuseok and Lunar Year sales.

Dairy herd retirements in the US are causing havoc in the US as the hamburger market has been flooded with stock and is forcing prices grinding beef down globally.

US domestic lean grinding beef is being sold at a considerable discount to imported products.

The Argentinean government has relaxed bans on exports due to oversupply of the domestic market.

September is usually associated with Australia's seasonal peak cattle values, although this has not been the case this year.

A rising A\$ continues to challenge beef trading and impact on returns.

### Canola

Prices for canola on international markets during September edged lower, down 10.5% from last month on the back of pressure from the northern hemisphere harvest and significant falls in value in the world vegetable oil market.

Several factors are weighing on the market currently; it has become clear that the EU will not be a significant importer this year due

to increased local production that will cover improved crush demand in that region.

Production in Canada has been revised downward as the harvest is presently only 65% complete compared to 95% average for this time of year.

As the harvest drags out in Canada, potential frost damage is becoming a concern, although yields thus far have been better than expected.

China is once again showing interest and crush margins remain good.

Frost in China has resulted in some crop damage which may provide Australian farmers with opportunities for export in coming months.

Local Australian crops are at a crucial development stage.

Further rain is still needed by most growers in order to improve soil moisture levels, and crop estimates are being wound back due to dry conditions in many growing regions.

### Cotton

A flat international cotton market in September saw prices fall 0.8% from last month, with mill buying at a minimum as credit and demand conditions remain volatile.

India received much needed rain, improving conditions slightly in some areas.

Weather concerns in China are intensifying as growing conditions deteriorate in the northern region affecting production, now forecast to be down 12.4% from



Table 1. Component Indices.

Australian \$	Index				Percentage change over		
	Sep-09	Aug-09	Mar-09	Sep-08	1 month	6 months	12 months
Wheat (AU c/bu)	548	615	805	906	-10.8	-31.9	-39.5
Barley (AUD/t)	162	176	177	241	-7.6	-8.3	-32.6
Canola (AU c/kg)	425	475	493	576	-10.5	-13.8	-26.2
Cotton (AU c/lb)	72.1	72.7	66.4	78.6	-0.8	8.6	-8.3
Sugar (AU c/lb)	27.0	26.6	20.1	16.6	1.5	33.9	62.6
Export beef index (AUD)	144	148	159	173	-2.4	-9.2	-16.3
Dairy price index (AUD)	124	115	124	156	8.4	-0.0	-20.3
Wool (AU c/kg)	873	838	751	859	4.2	16.3	1.7
USD Index 97/98 = 100	149	146	124	171	1.7	20.3	-12.8
AUD/USD	0.861	0.835	0.666	0.818	3.2	29.4	5.3
AUD Index 97/98 = 100	118	120	127	142	-1.4	-7.0	-17.2

a) The indexes are calculated as monthly averages

b) Data sources are Bloomberg, USDA FAS.

2008, to 7 million tones.

Prices in China are improving as ginners are looking to source early harvest cotton and state auctions continue.

Heavy rain in key growing regions in the US is impacting on harvest timing and quality of crops. Australian farmers continue to be affected by the high A\$.

### Dairy

Global dairy markets in September began to stabilise, with prices lifting 8.4% from last month.

Recent USDA reports estimate the current international dairy surplus to be 17.62 million tonnes.

Large stockpiles remain in the northern hemisphere and demand has improved in China, Russia, North Africa and the Middle East, who have all increased imports and consumption during September.

Chinese buying is accounting for 75% of the increase in the world milk price trade growth.

As culling continues in the US dairy retirement scheme, USDA price support for powdered milk and cheese is aiding US farmers.

EU dairy farmers intensified protests during the month of September, with farmers pouring three million litres of milk onto a major Belgian highway to protest low milk prices.

Some EU farmers have halted deliveries, and are either giving it away or throwing it away in protest.

Australian production continues to modestly drop.

Local milk companies are slowly increasing prices, but remain cautious due to a strong A\$.

### Sugar

International sugar stocks remain at record lows and continued to bolster the price of sugar during September, with prices lifting 1.5% from last month.

Production problems in Brazil and India have led to prices jumping 25% since the last 2006 peak.

Wet conditions have disrupted harvests and effected yields in Brazil, production estimates have been reduced by 3.7% from April forecasts.

India looks to remain a net importer for at least the next 2 seasons, looking to import 2 million tonnes more than forecasted after continued monsoonal delays and shortfalls, production has been radically reduced.

India s (the world s largest

consumer) failed monsoon resulted in substantial imports this year.

2009 has been the worst monsoonal season for India in nearly 4 decades.

Australian growers look set to capitalise on improved prices this season despite a dry winter, with expected yield decreases outweighed by increased sugar content.

### Wheat

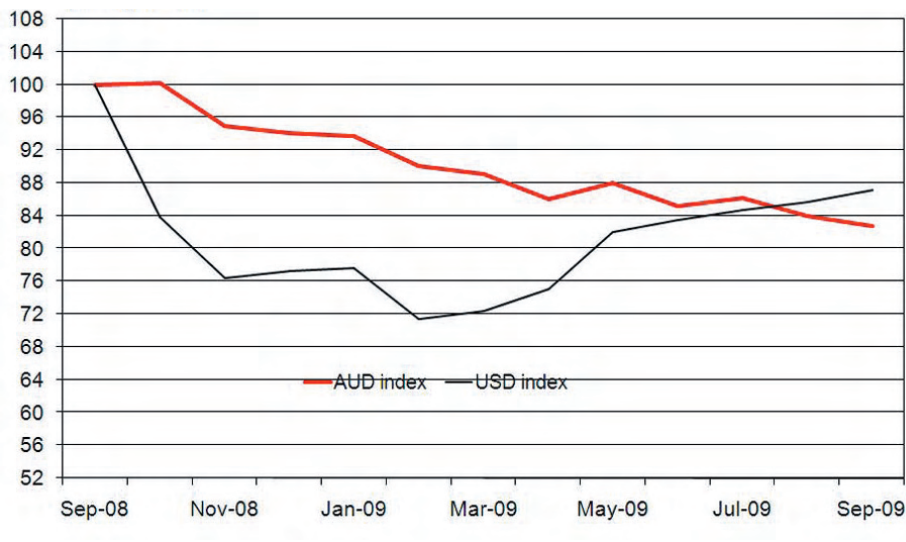
Global prices for wheat continue to fall as rising production and eroded demand build global inventories, forcing prices to drop this month 10.8% from last month.

The USDA released updated estimates this month, with wheat production up by 3 million tonnes due to improved estimates for Russia and the EU.

The recent USDA release



Dairy the biggest positive moooooover this month... global prices jump 8.4%.

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

also estimates that stockpiles are predicted to increase 10% this year.

Currently northern hemisphere crops are dominating supply, with the EU upgrading their estimates several times, which is contributing to the market glut.

US shipments of wheat are currently the slowest in 7 years, reflecting the low prices of other exporting countries this year, predominately from Russia and the EU.

Argentina is not expecting to export this year due to drought conditions and financial and political issues.

The latest USDA report has estimated Australian production to rise 7% from last year on the back of timely rains in many key growing areas, although the rising A\$ and northern hemisphere harvest pressure is keeping prices at a minimum.

### Wool

Competition from importers

on the global wool market is becoming increasingly aggressive as limited world stocks start to be felt by buyers despite limited consumer demand.

Global wool prices increased 4.2% from last month's prices.

The A\$ reaching 13 month highs has also affected buying activity.

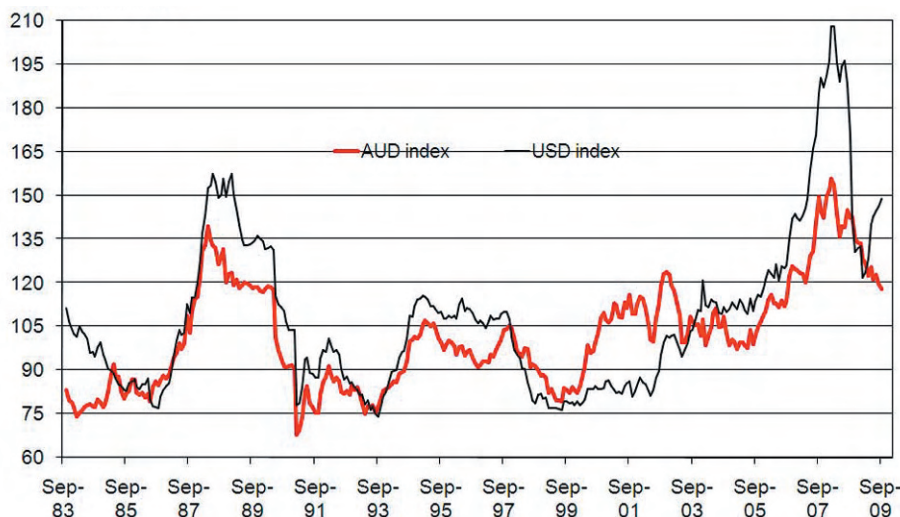
Inventory levels in China and India have become scarce and are forcing importers to secure stock on a hand to mouth basis.

There has been little inquiry from Japan and the US during September.

The European buyers have begun to reengage with the market, although not as a dominant force.

Chinese domestic demand remains low and mills are currently reluctant to place big orders due to uncertainty in consumer spending.

Despite a strong A\$, there remains optimism amongst producers that the market is moving in the right direction.#

**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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