

Westpac-NFF

Commodity Index

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

October 2007

High global prices trigger supermarket price swings

Continuing its record-breaking trend, the *Westpac-NFF Commodity Index*, which tracks global agricultural commodity prices, surged another 6.0% over September 2007.

Prices are now a staggering 30.6% higher than 12 months ago, putting upward pressure on food prices at home.

Numerous reports have recently over-simplified how domestic food prices are set.

At face value it looks a simple equation, but the relationship between higher food prices and the current drought is not cut and dry.

While Australia's drought is a factor, the price of agricultural commodities on the world stage is more critical to the ultimate price mix.

Australia's population of just 21 million people, means our farmers rely heavily on international buyers for their high quality food products.

In fact, while most of the food Australians consume on a day-to-day basis is grown and produced here at home - giving Australians great food security - this accounts for only 30% of our agricultural production.

Analysis of domestic prices must, therefore, include changing world demand, including trends such as the increasing use of grain and sugar

for oil production and skyrocketing economic growth, especially among our Asian neighbours.

So, global supply must be taken into account. For example, world grain stocks have diminished to their lowest levels in over 30 years.

However, this is not to

September increased for Barley (13.4%), Canola (5.6%), Wheat (16.7%), Wool (1.6%), Beef (2.4%), Cotton (2.4%) and Dairy (1.1%).

Only Sugar (-2.2%) experienced a decrease in price from previous month levels.

The overall weighted index increased by 6.0% during

“World prices are now a staggering 30.6% higher than 12 months ago.”

- NFF Vice-President, Charles Burke

down play the impact that Australia's drought can have on specific food prices at the local supermarket.

Australian exports of commodities such as beef, grain and skim milk powder comprise 19%, 15% and 17% of total world trade, respectively.

In specific examples such as these, drought in Australia can have a significant impact on world prices, which then flows through to what is paid at the supermarket check out.

Compared with August 2007 levels, global prices in

September, taking it to 30.6% above the same period last year.

Barley

A continuing shortfall in supply has forced the world price of barley up by 13.4% over September.

In particular, European farmers have been reluctant to sell into the international marketplace, however, some barley is expected to be released for export in the medium term.

A solid Canadian crop, as well as potential increased



Table 1. Component Indices.

Australian \$	Index				Percentage change over		
	Sep-07	Aug-07	Mar-07	Sep-06	1 month	6 months	12 months
Wheat (AU c/bu)	992	850	595	558	16.7	66.6	77.6
Barley (AUD/t)	225	198	196	161	13.4	14.7	39.6
Canola (AU c/kg)	500	473	397	357	5.6	26.0	39.9
Cotton (AU c/lb)	74.9	73.1	69.3	70.4	2.4	8.1	6.5
Sugar (AU c/lb)	11.5	11.8	13.2	16.0	-2.2	-12.4	-27.8
Beef (AUD/kg)	154	150	155	159	2.4	-0.6	-3.4
Dairy price index (AU\$)	218	215	143	116	1.1	52.5	88.1
Wool (AU c/kg)	958	944	1010	791	1.6	-5.1	21.2
USD Index 94/95 = 100	184	170	143	126	8.1	28.7	46.0
AUD/USD	0.845	0.829	0.793	0.757	2.0	6.6	11.7
AUD Index 94/95 = 100	149	140	123	114	6.0	20.8	30.6

a) The indexes are calculated as monthly averages

b) Data sources are Bloomberg, USDA FAS.

exports from the Black Sea, are also expected to bring some short- to medium-term price relief for buyers.

Beef

Korean demand for beef strengthened in September, coinciding with the nation's Chuseok holiday period, where beef features prominently as part of traditional meals and gift sets during the festive occasion.

Despite tight supplies, imported beef from the United States (US) lifted marginally in several product categories over the month.

Meanwhile, chilled beef prices in Japan were boosted by reduced exports from Australia.

The combination of all these factors saw the world beef price rise by 2.4% for the month.

Canola

The world price of canola increased another 5.6% during September, driven by higher competing crude oil and vegetable oil prices.

Oilseed meal prices are also being supported by the strength in the cereal market that has seen exponential growth over recent months.

However, in the coming weeks, traders are expecting some downturn in canola due to the falling value of the US dollar and strong harvest prospects from Canada.

Cotton

Despite abundant global cotton supplies, the world price rose 2.4% during September.

Cool weather in the US damaged domestic crops, yet, this has only had a minimal impact on the market.

Meanwhile, confidence in China's ability to meet their own domestic supply needs saw the nation shy away from import purchases.

In Brazil picking is almost complete, with the crop expected to be of significantly higher quality than last year.

Dairy

Persevering drought conditions in Australia continue

to underpin world dairy prices with the early spring season failing to produce the milk supply that was anticipated.

Milk production in Europe is also experiencing seasonal decline despite favourable and unusually warm weather conditions for this time of year.

The global dairy price rose another 1.1% during the month, lifting prices to an amazing 88.1% above year-ago levels.

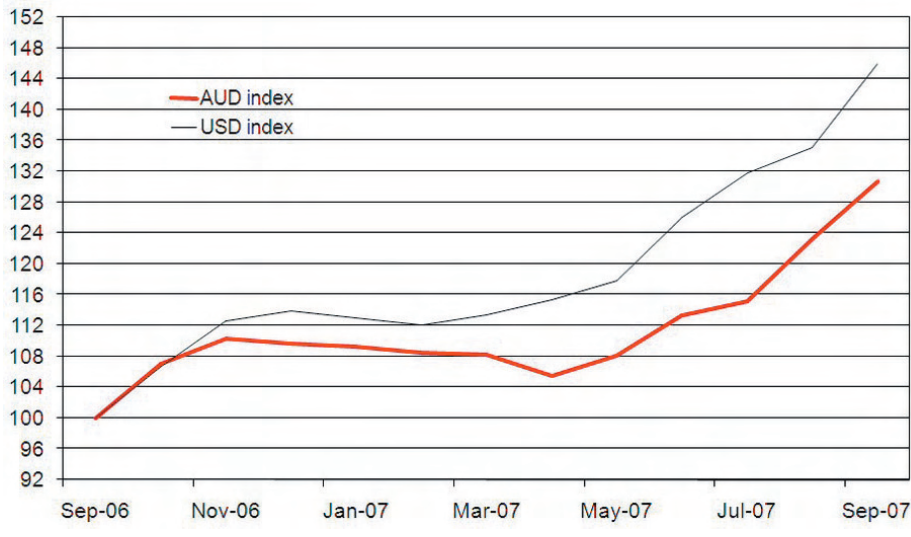
However, increasing input costs, including grain and fuel, have kept a lid on global production.

Sugar

A resurgent Australian dollar (AUD) has led to a further



Growing short... the world again experienced a severe shortage of barley during September causing prices to skyrocket up 13.4% during the month.

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

2.2% reduction in the world sugar price in AUD terms over September.

The International Sugar Organisation (ISO) has estimated that sugar production will reach 169.6 million tonnes for 2007-08.

New production from India is likely to provide over 75% of the projected global surplus.

This has led the Indian Government to allow ethanol production to commence using domestic sugarcane juice.

Wheat

World wheat prices were bolstered by another 16.7% in September as international supply continues to be hampered by weather-affected crops.

Hot and dry conditions in the south of Europe and Canada, a wet July across the US wheatbelt

(delaying harvest), and drought in Australia continue to drive prices higher.

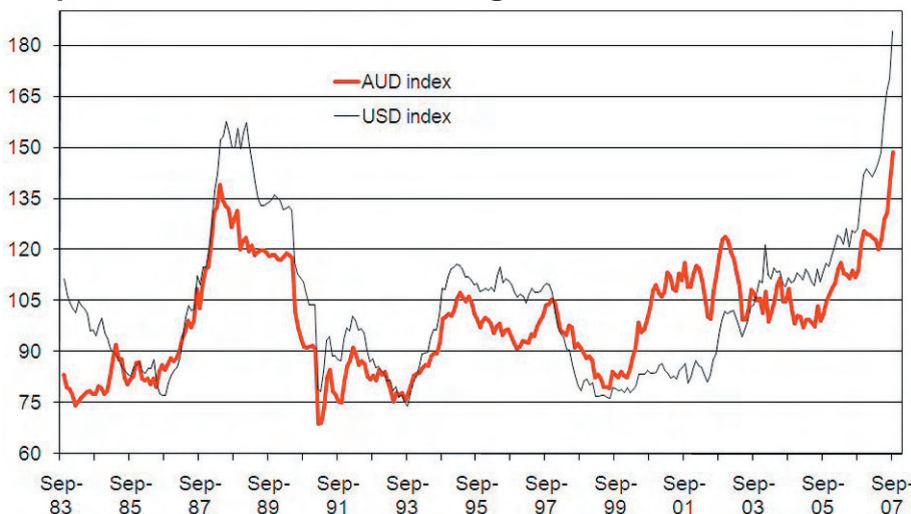
Wool

The global wool market has seen a draw-down of stocks over 2006-07, emerging largely from strengthening demand from China and a reduced Australian flock size.

This has led the Australian Bureau of Agriculture and Resource Economics (ABARE) to forecast an increase in the eastern market indicator price by over 2% for 2007-08.

Strong demand from China is expected to continue throughout 2007-08, despite the recent disruptions to import quotas.

Prices are now 21.2% higher than the same period 12 months ago.#

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

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The Westpac-NFF Commodity Index is weighted according to the value of Australian rural commodity exports only, dating back to June 1983. Therefore, unlike other commodity indices, rural export prices are not overshadowed by oil, mineral and energy prices.

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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