

Westpac-NFF

# Commodity Index

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

April 2009

## International response will help global agricultural prices

**G**lobal markets — including for agricultural products — showed a sense of optimism during March.

This reflected the glimmer of hope provided by key positive developments on international policy.

Most significant was the United States (US) administration announcement of a banking plan to help restore health to their ailing financial system and the constructive G20 meeting of global leaders in London.

"The US banking plan and the commitment at the G20 meeting to further bolster Government stimulus efforts will help to stabilise the global economy and enhance the prospect of recovery emerging during the second half of this year," Westpac Senior Agribusiness Economist Andrew Hanlan said.

"These announcements boosted global investor confidence. This lift was also enjoyed by many agricultural commodity markets whose prices showed some correction during the middle of the month.

"This improvement resulted in higher US dollar prices for a number of commodities — in particular, beef, dairy and wool.

"However, the boost to prices in Australian dollar terms was countered in March by the currency rising by 2.6%, a lift which also reflected the greater investor confidence."

National Farmers Federation (NFF) Vice-President Charles Burke added: "While action from large global players, such as the US, are important in dealing with investor

uncertainty, clearly a coordinated international response will be most effective in addressing the challenges that the global economy now faces.

"We have now seen how responsive global agricultural commodity prices can be to market signals by international leaders.

"If the rhetoric from G20 leaders can translate into genuine actions, farmers will hopefully be

### Barley

The lack of fresh demand for barley, large carryover stocks from last year and hostile selling by Russian exporters has resulted in international barley prices falling 2.4% in March.

The rising Australian dollar has impacted heavily on export feed markets, and there is limited trade in

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- Andrew Hanlan  
Westpac Senior Agribusiness Economist

able to expect more stability in the global prices offered for their produce."

Over March 2009, the *Westpac-NFF Commodity Index* fell by 0.9%, with the 2.6% rise in the Australian dollar more than offsetting the lift in global prices in US dollar terms.

The Index is now 17.3% lower than a year ago.

Commodities suffering falls were cotton (-8.7%), canola (-5.9%), wheat (-5.2%), barley (-2.4%) and sugar (-1.5%).

Only beef (0.6%), dairy (1.0%) and wool (0.5%) recorded upward price movements over the month.

the current market.

Both international and domestic buying is occurring on a hand-to-mouth basis, as demand is reduced from the dairy sector and funding is tight.

The malt market remained quiet in March, with little to no demand internationally, and domestic malt houses report ample stocks.

### Beef

Continued interest for low quality manufacturing beef has resulted in the international beef market lifting 0.6% from last month.

Korea is currently experiencing stock shortages and



Table 1. Component Indices.

Australian \$	Index				Percentage change over		
	Mar-09	Feb-09	Sep-08	Mar-08	1 month	6 months	12 months
Wheat (AU c/bu)	805	849	906	1173	-5.2	-11.1	-31.4
Barley (AUD/t)	177	181	241	257	-2.4	-26.5	-31.2
Canola (AU c/kg)	493	524	576	699	-5.9	-14.4	-29.4
Cotton (AU c/lb)	66.4	72.7	78.6	86.7	-8.7	-15.6	-23.4
Sugar (AU c/lb)	20.1	20.4	16.6	14.3	-1.5	21.4	40.8
Export beef index (AUD)	159	158	173	154	0.6	-7.6	3.5
Dairy price index (AUD)	125	124	156	169	1.0	-19.9	-25.8
Wool (AU c/kg)	751	748	859	989	0.5	-12.6	-24.0
USD Index 97/98 = 100	124	122	171	208	1.7	-27.4	-40.5
AUD/USD	0.666	0.649	0.818	0.925	2.6	-18.7	-28.0
AUD Index 97/98 = 100	127	128	142	154	-0.9	-10.8	-17.3

a) The indexes are calculated as monthly averages

b) Data sources are Bloomberg, USDA FAS.

currency fluctuations are aiding prices and increasing demand.

There have been increased sales into Japan as demand rises and more Japanese opt to eat at home.

Sales have also been aided by the Japanese yen's continued strengthening against our dollar.

The US market maintains its strong demand for manufacturing beef due to reduced domestic cow slaughter.

Australia is seeing renewed interest for its export beef as buyers are now keen to cover contracts due to export disruptions from poor weather in Queensland.

The increase in interest can also be attributed to a low Australian dollar, stock depletion, a seasonal lift in demand from Japan and Korea, as well as Russia returning to market and decreased competition from South America.

### Canola

The international canola market was volatile in March, with prices falling 5.9% from last month due to decreased global demand.

China continues to be the major importer, and although they are dominating buying, values are below those reached domestically in Australia and this has resulted in sellers pulling back from the market.

Canadian sellers are now entering the market in preparation for the new season, and Canada's record crop is expected to be up 6.6% from last year.

Domestic prices have also fallen, in line with limited demand.

### Cotton

The global financial crisis

has affected international cotton demand, resulting in a drop of 8.7% in price from last month.

Chinese prices remain steady as the state reserve continues to purchase local cotton.

Acreage estimates are expected to be cut in China, as farmers faced a disappointing season in 2008 and Chinese government subsidies are geared towards other crops.

The Indian Cotton Council continues to sell stock to its local mills in an incentive program offering discounts to bulk purchase.

The domestic market was quiet in March, with a weakened \$A shielding further drops in value.

### Dairy

Global dairy prices lifted in March, up 1.0% from last month.

The previous slump in global prices have affected Australia and New Zealand (NZ) the hardest, as

both countries have limited capacity for domestic consumption and are reliant on exports.

NZ farmers are reeling from big pay cuts, changed payment methods and higher feed bills, resulting in herd culling.

The US continued its cull of herds in March, although the situation is expected to ease after the USDA announced plans to purchase 200 million pounds of non-fat dry milk for domestic programs.

### Sugar

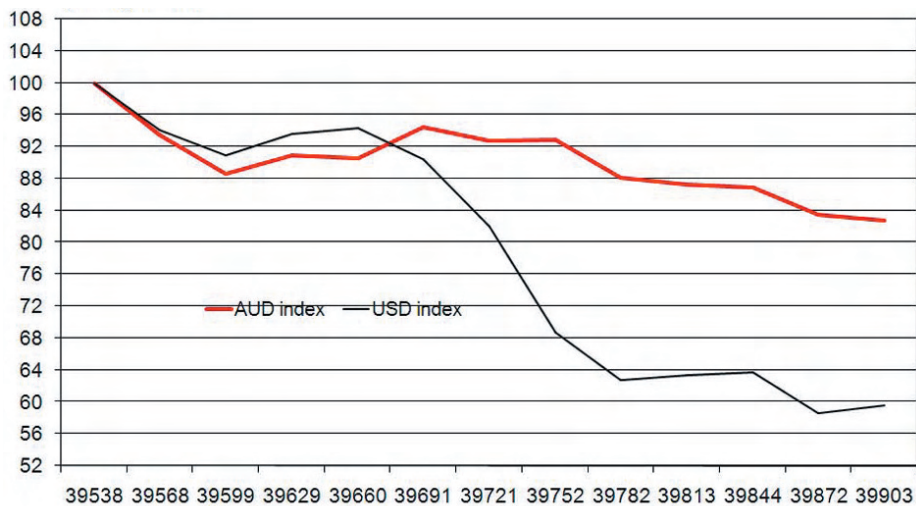
International sugar markets remain uncertain as the global financial crisis continues to impact demand, and large global inventories aid in weakening prices.

Australia has had its worst growing season in a decade and a half, with frost, floods, harvesting delays and general poor growing conditions affecting crops.

Lower production in India,



World commodity prices take a tumble... cotton the hardest hit

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

China, Pakistan and the European Union is expected to aid prices in coming months, and Brazilian diversion from sugar to ethanol is fuelling reduced global production.

### Wheat

Wheat prices fell 5.2% this month as international demand lags and inventories are well stocked.

World consumption is down, mainly attributed to lower consumption in Russia, less wheat being used for feed internationally and the global financial crisis taking its toll.

The USDA report has lifted global wheat stocks due to increased Australian production, despite losses in southern states.

There is still considerable carryover stock from last year, with many countries facing storage issues. For example, India will recommence exporting after a three-year absence in a bid to reduce storage problems.

Currently Australia is facing logistical problems with transport.

Complaints are growing from Indonesia, South Korea and Japan that rail and port bottlenecks in Australia are causing delays to shipments, resulting in some Asian buyers sourcing wheat elsewhere.

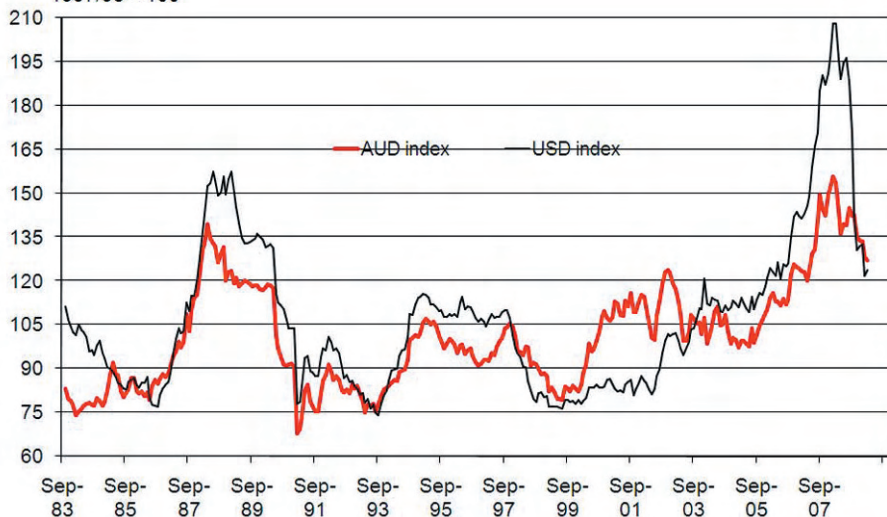
### Wool

Renewed interest due to tight supply and increased demand has resulted in global prices rising 0.5% from last month, with fine wools leading the gains.

Buying was ignited by competitors not wanting to miss out on the quality on offer.

A combination of favorable currency movement, diminishing supplies of fine wool and shipping issues helped prices spike on the back of good demand.

There was limited interest shown from Italy in March, with the main buyer being China, and expected to continue as the Chinese stimulus package increases processing activity.#

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

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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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