

Westpac-NFF

Commodity Index

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

April 2008

Labour shortages may thwart bumper season

The *Westpac-NFF Commodity Index* eased marginally by 0.7% during March, yet still remains a significant 25% above levels recorded this time last year.

Grain and cotton markets continued their upward trend as governments around the world attempt to curb food inflation by restricting exports and channel their supplies back to domestic consumers.

Australian farmers remain eager to capitalise on strong global prices, however, good winter rain is needed to make this a reality.

Farmers also need to ensure that they have sufficient resources available to maximise their output this year.

However, as unemployment levels remain close to 33-year lows, labour shortages pose a serious threat to agricultural sectors, possibly limiting farmers ability to get their produce to the world market.

Research by the National Farmers Federation indicates that agriculture should we return to normal seasons, will need an additional 100,000 employees.

Should the sector fail to attract this labour, the cost to the national economy will be substantial, upwards of around \$1.5 billion in agricultural Gross Domestic Product.

Such estimates continue to

swell, with world agricultural commodity prices tipped to climb further.

Compared with February 2008 levels, global prices in March increased for Barley (5.1%), Wheat (4.2%), and Cotton (8.7%). Canola (-2.0%), Sugar (-3.0%), Beef (-5.1%), Wool (-3.1%), and Dairy (-3.3%) all

experiencing logistical difficulties with shipping.

Export values of feed barley increased in March as the Saudi Government lifted subsidies.

However, old crop markets in Australia remained subdued, despite the relatively low price.

“Labour shortages pose a serious threat to agricultural sectors.”

- Westpac Regional and Agribusiness Banking
Chief Executive, Graham Jennings

experienced decreases from previous month levels.

The overall weighted index decreased by 0.7% during March, taking it to 25.3% above year-ago levels.

Barley

Despite a softening of the European Union's (EU's) new crop malt barley markets in early March, international prices rose a further 5.1% for the month.

Demand from China for Australian old malt barley also remained strong, despite

Beef

The global beef price decreased by 5.1% over March. Australian stock purchasing was unsettled pending the approval of legislation by the Japanese Parliament to extend the application period for temporary tariff rates.

If implementation of the legislation is delayed, the current beef tariff of 38.5% will lift to 50% from 1 April 2008.

Korean beef consumption has been seasonally slow during March and buyers of imported



Table 1. Component Indices.

Australian \$	Index				Percentage change over		
	Mar-08	Feb-08	Sep-07	Mar-07	1 month	6 months	12 months
Wheat (AU c/bu)	1175	1128	992	595	4.2	18.5	97.4
Barley (AUD/t)	257	245	225	196	5.1	14.2	31.0
Canola (AU c/kg)	698	712	500	397	-2.0	39.6	76.0
Cotton (AU c/lb)	86.8	79.8	74.9	69.3	8.7	15.8	25.2
Sugar (AU c/lb)	14.3	14.8	11.5	13.2	-3.0	24.2	8.8
Export beef index (AUD)	154	162	154	155	-5.1	0.1	-0.5
Dairy price index (AUD)	169	175	218	143	-3.3	-22.5	18.2
Wool (AU c/kg)	989	1020	958	1010	-3.1	3.2	-2.1
USD Index 97/98 = 100	209	208	184	143	0.5	13.2	45.8
AUD/USD	0.923	0.913	0.845	0.793	1.1	9.2	16.4
AUD Index 97/98 = 100	154	155	149	123	-0.7	3.7	25.3

a) The indexes are calculated as monthly averages

b) Data sources are Bloomberg, USDA FAS.

Australian beef remained quiet ahead of an anticipated announcement on the potential resumption of United States (US) beef imports.

US markets for imported beef softened in March due to increased supplies of Australian products. This, combined with a weaker Australian dollar (AUD) and low grinding beef prices in the US, dragged imported prices down.

The Argentinian Government continues to severely restrict beef exports to lower domestic beef prices.

Canola

Volatility in Canola prices continued in March, easing 2.0% during the month.

The severe storms that swept across China in February have reportedly wiped out 1.4 million tonnes from their canola crop, resulting in China aggressively buying up stocks.

India also contributed to pushing up oilseed prices as it sought to bolster new supply needs due to poor local crops.

Exports in canola increased as a weakening in market prices stimulated interest.

Cotton

Global cotton markets were, again, volatile throughout March, with New York's futures recording their highest level since 1995.

Despite subdued mill enquiries, the market was supported by ongoing high prices of other commodities and a weaker US dollar.

A report by the US Department of Agriculture stated the current supply of US and global ending stocks of cotton is more than sufficient. This helped subdue the market.

In India, despite a recent surge in production, cotton prices remained firm and were well supported by strong exports.

Prices in Pakistan also increased, while higher volumes of unsold yarn stocks in China curtailed demand.

Dairy

The global dairy price

decreased 3.3% in March, despite global demand remaining strong.

Reduction of exports from major suppliers, coupled with a slowing of stocks from the EU, fuelled demand.

As a result of attempts by the Chinese Government to curb inflation, two leading dairy producers were given authorisation to raise milk prices.

The European milk production season has begun with strong early output in France, Denmark, Germany and the Netherlands.

On 17 March, the European Commission's proposal for a planned 2% increase in milk production quotas was approved to meet growing domestic and international demand, and will come into effect on 1 April 2008.

Implementation of the increased quota is voluntary for each of the 27 EU member states.

Dry conditions in both Australia and New Zealand affected end of season milk production. While good rainfall was reported in both countries, farmers are shifting their focus to maintaining good herd condition ahead of the winter season.

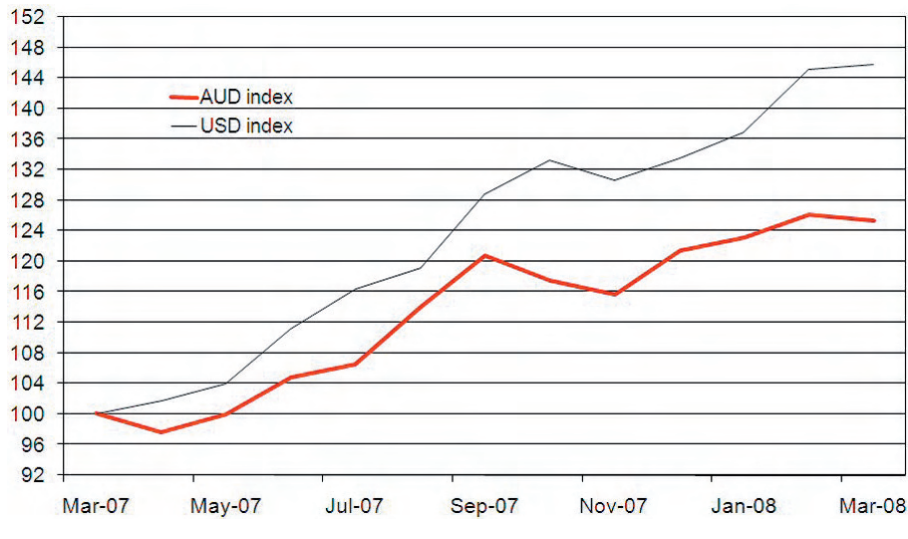
Sugar

Despite a decrease in official Indian crop estimates, international prices of raw sugar fell 3.0% during March due to delayed cane harvest and milling.

High domestic prices in India have also limited millers



Cotton on a roll... global prices soar to their highest point in over 13 years.

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

selling on international markets, resulting in buyers from Asia experiencing difficulty in securing raw sugar supplies.

Wheat

International wheat prices rose a further 4.2% in March, supported by sustained global demand in an environment of very tight stocks. Despite record high prices, Egypt, Japan, Turkey, Morocco and Bangladesh all bought wheat, and Iraq announced another tender.

In a response to shortages, many governments have attempted to ease escalating food prices by restraining exports. China banned exports, Russia instigated a 40% export tax for wheat and Argentina slowed export authorisations.

The EU has moved to boost supplies by allocating more

land for production.

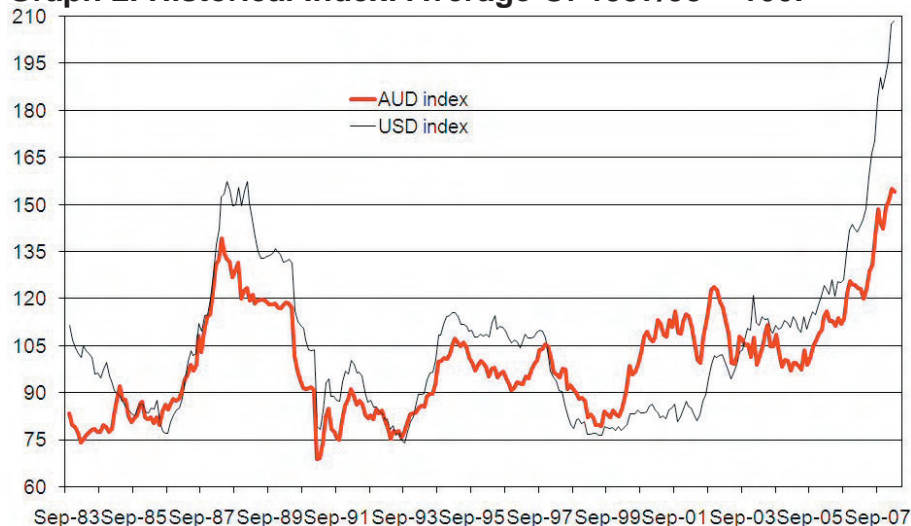
While improved weather conditions have been reported in the wheat growing areas of the EU and Black Sea, Chinese officials alluded to problems with their crops due to frost. Lack of moisture in the US also fuelled concerns over crop health.

Wool

Global wool prices decreased by 3.1% in March, as the strength of the AUD played a key part in curbing foreign demand.

Interest in the Australian wool market from China picked up as buyers returned from their New Year holiday recess and mills re-opened after being closed due to severe weather storms.

A weakening of the AUD saw buyers for China, India and Europe dominate the market.#

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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