

Westpac-NFF

# Commodity Index

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

December 2008

## Credit crisis highlights need for global trade reform

**T**HIS month world prices for agricultural commodities fell a further 2.2% in November — on the back of a 1.3% drop in October — as the global economy continues its slump.

While agricultural commodities remain buoyant, the credit squeeze has taken hold across most sectors precipitating major declines in world trade.

The credit crisis has provided a wake-up call for the importance of global trade reform. The sharp fall in exports is hurting economies around the world — a stark reminder that no one wins from a reduction in trade.

One positive from the crisis is that the World Trade Organisation (WTO) has increased pressure on countries to finalise trade reform negotiations.

With the globe's population growing by 100 million people a year, and world food production falling, now is not the time to be slipping back into out-dated protectionist dogma.

It is now, during this time of economic uncertainty, that those countries still dragging the chain on trade liberalization must break the shackles of their misguided and petty self-interest.

Average tariffs for agricultural goods are already more than three times higher than

for non-agricultural goods.

At the same time, antiquated and anti-competitive domestic support policies among many of our global trading partners have brought on, and exacerbated, the food shortage.

This must be the catalyst for world leaders to bring the WTO's Doha Round of trade

small increases in beef (0.3%) and canola (0.2%).

### Barley

Global barley markets this month faced hostile export sellers and weak demand, with a short-term surplus of feed grain having a negative effect on market prices.

**“With the globe's population growing by 100 million people a year, and world food production falling, now is not the time to be slipping back into out-dated protectionist dogma.”**

- Charles Burke  
Vice-President, National Farmers' Federation

reform to a productive and worthwhile end.

In the face of the global food shortage, existing trade barriers have actually forced the world's farmers to produce less food — it's a bizarre result.

Over November, the *Westpac-NFF Commodity Index* fell 2.2%. The Index is now 3.4% down on year-ago levels. Commodities experiencing decreases were cotton (-12.4%), dairy (-9.7%), barley (-4.1%), wool (-3.3%) and wheat (-1.6%)

These falls out-weighed a sharp rise in sugar (up 6.8%) and

Supplies flooding out of Russia have precipitated lower prices. Black Sea exporters are desperate to sell to recoup some of the losses from the financial crisis to fund next year's planting.

Heavy rain in northern Australia has hindered harvesting, and resulted in the downgrade of crops.

Falls in market prices are largely attributed to unsold cargo from the Black Sea.

Malting prices remain firm in Australia, but there will be limited crops for export as NSW, which should have surplus



Table 1. Component Indices.

Australian \$	Index				Percentage change over		
	Nov-08	Oct-08	May-08	Nov-07	1 month	6 months	12 months
Wheat (AU c/bu)	839	853	834	893	-1.6	0.6	-6.0
Barley (AUD/t)	210	219	262	222	-4.1	-19.8	-5.7
Canola (AU c/kg)	524	523	651	525	0.2	-19.5	-0.2
Cotton (AU c/lb)	67.6	77.1	77.5	73.2	-12.4	-12.8	-7.7
Sugar (AU c/lb)	18.4	17.2	12.7	11.2	6.8	44.7	63.7
Export beef index (AUD)	179	178	153	152	0.3	16.5	17.5
Dairy price index (AUD)	152	168	161	193	-9.7	-5.9	-21.4
Wool (AU c/kg)	767	793	872	1021	-3.3	-12.1	-24.9
USD Index 97/98 = 100	133	141	189	187	-6.0	-29.9	-29.1
AUD/USD	0.658	0.684	0.949	0.897	-3.9	-30.7	-26.7
AUD Index 97/98 = 100	138	141	136	142	-2.2	1.1	-3.4

a) The indexes are calculated as monthly averages

b) Data sources are Bloomberg, USDA FAS.

malting quality will likely move into Victoria as a deficit there is predicted.

### Beef

The global credit squeeze plagues the beef market despite a 0.3% rise on prices last month, resulting in buyers having difficulty sourcing credit to pay invoices and pressuring contracts.

Korea saw demand fall due to food safety concerns, as well as the financial crisis, despite steady imports from Australia and increased imports from the United States (US).

In the US, imported beef struggles against seasonal highs and cheaper prices for chicken and pork. Cheap US domestic prices are likely to continue to influence imported beef prices.

Japanese market prices fell despite higher interest from buyers. Japan has reported high stocks, possibly contributing to the price slump, as buyers only commit to short-term contracts.

Demand in Japan has also fallen due to subdued private spending, poor weather and fewer public holidays this month.

Storms across Australia, along with expected plant closures over the Christmas/New Year period, sparked interest from Japanese buyers.

### Canola

Canadian exports are dominating the global canola market and,

therefore, affecting prices, which have risen a mere 0.2% on last month.

Movements in prices over November saw growers across Europe and Canada refuse to sell due to the low prices. Buyers are still trying to source crops.

Pakistan is yet to source enough canola to cover its domestic requirements.

Weather has played a significant role in reducing the US and Australian crops. November saw wind and rain ravage damage crops and delay harvesting.

### Cotton

Global demand for sugar is weak, reflected in a plummeting price - down 12.4% on last month.

Planting in China in 2009 is expected to be fall following announcements that subsidies will be aimed at food crops.

The Indian harvest is underway, with no problems reported. Cotton prices in Pakistan are holding steady due to domestic mill activity. While the US harvest is halfway along, with many opting to hold crops in storage due to current low prices.

### Dairy

International prices for dairy have slumped 9.7% on the back of uncertain financial markets, rising drought-related cost in Australia and New Zealand, and continued backlash from the Chinese milk

contamination crisis.

International prices are falling as global demand falls. This is partly due to increased retail prices, economic market instability and the lifting of the US dollar - pushing down prices in the US dominated market.

### Sugar

Prices for sugar have risen 6.8% from last month, despite weak global demand. Buyers are lacking the credit to secure product, and this is especially a problem in Russia where there have been reports of returned deliveries.

Brazilian sellers are storing crops and holding out for better prices, although those requiring cash are still selling. Brazil still has steady supplies going to the European Union and Asia due to the lower freight costs.

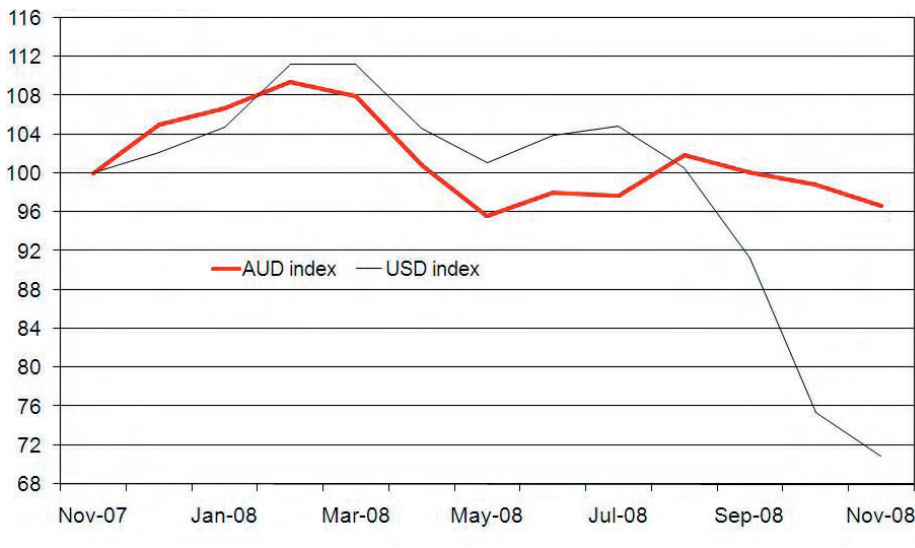
A stronger Brazilian dollar in November has led to plenty of sellers, but buyers are scarce.

Indian millers under pressure to clear stock to make way for new crops are selling at cheap prices.

In Australia, flooding earlier in the year prevented cane from being sown, resulting in a downturn in production with many growers experiencing the worst season in 13 years.

### Wheat

The global outlook for wheat in

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

November is weak with prices down 1.6% from last month.

Exports from Argentina, Europe and the Black Sea are pressuring market prices, but mostly at lower quality. Australian producers are selling reluctantly, with the price often not covering production costs.

Heavy rain in northern Australia hindered harvesting, and resulted in downgrading of crops.

The US is also experiencing a slow harvest due to poor weather. Drought in Argentina has resulted in the smallest wheat crop in years.

Global demand is strong for Australian wheat, particularly due to the lower Australian dollar. Buyers from Asia are sourcing better quality French, US and Australian wheat to blend with cheap Black sea wheat.

Export demand has tightened, and apart from Russia

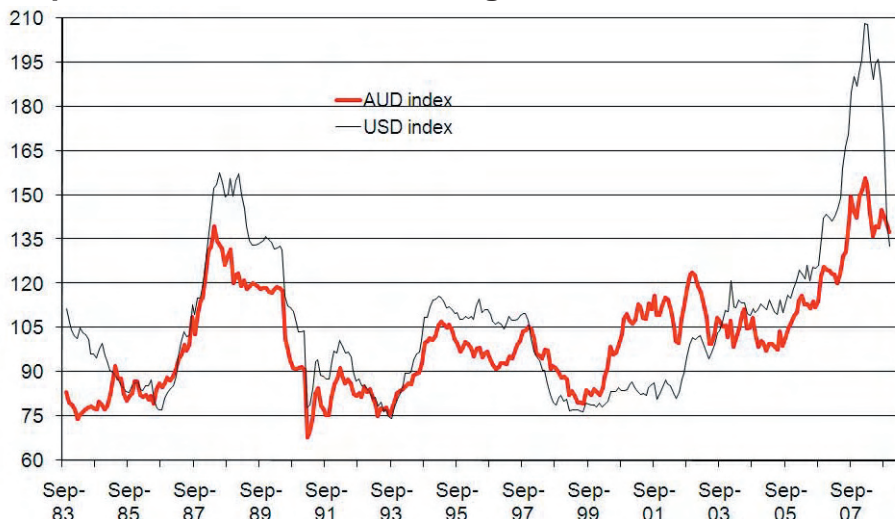
and Ukraine, German supplies are now aggressively competing.

### Wool

Credit issues still plagued the market during November, with Chinese and Indian mills only buying small quantities of material, and driving global prices down 3.3% on last month's returns.

Prices for wool are expected to increase in coming months with the announcement of stimulus packages in China and the US, lifting buyers confidence and enabling better access to credit.

November saw increased interest in Australian wool, due mostly to a weaker Australian dollar, increased buying from the Chinese and a rush in light of deteriorating season conditions in Australia.#

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

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## Commodity Index

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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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