

Westpac-NFF

# Commodity Index

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

July 2008

## Markets hold their breath for our climate change response

**G**lobal markets are extremely sensitive given the delicate balance of supply and demand, especially for agricultural goods. Climate change and responses to it — including an Emissions Trading Scheme (ETS) — must consider the potential impact on global international food and fibre prices.

The *Westpac-NFF Commodity Index* was largely stable during June, with strong prices continuing to be experienced, particularly in the grain and dairy sectors.

The Index highlights the delicate balance of supply and demand for agricultural goods on world markets.

Be floods in Iowa, export tariffs on food in Argentina or aggressive biofuels policies in Europe and the United States... all have a direct and immediate impact on world prices.

In such a volatile environment, markets are closely watching the complex problem of climate change, its potential impact on global farm output, and the policies proposed to mitigate global warming emissions.

Rarely do Government's pursue policies with such broad reaching ramifications and complexity and all decisions will lead to a level of change on the world markets.

Compared with the

previous month, global prices in June increased for Barley (0.1%), Wheat (8.7%), Cotton (0.2%), Canola (5.1%), and Dairy (2.2%).

Commodities experiencing price decreases during the month were Beef (-0.3%), Sugar (-0.2%), and Wool (-1.0%). The overall weighted index increased by 0.1% during June, and is now

until after the northern hemisphere harvest is complete before releasing it onto the world market.

Rising demand for malt barley from China and India is currently outstripping supply and looks to continue. Australian exports this month were limited to Japan (who imported a bulk

**“ETS... a new and additional factor putting pressure on supply and prices in Australia.”**

- NFF Vice-President Charles Burke

10.9% above year-ago levels.

### Barley

Canada and the Ukraine began reaping a strong crop during June with surplus malt and feed barley for export.

Despite this increase in supplies, the global barley price was largely stable during the month. Conditions in the EU are ensuring a dry harvest and sufficient supply of malt and feed barley to the Middle East.

The Saudis have large reserves of barley and are waiting

supply to satisfy its domestic food needs) with the majority of malt barley going to US.

### Beef

Australia increased its beef exports to the EU (mostly to UK, Denmark, and Germany) during June due to lower volumes coming out of Argentina (owing to government restrictions) and high Uruguay export prices. However, prices failed to increase accordingly largely due to disappointing consumption in Korea, with mass public protests



Table 1. Component Indices.

	Index numbers				Percentage change over		
	Jun-08	May-08	Dec-07	Jun-07	1 month	6 months	12 months
Wheat (USc/bu)	863	791	897	584	9.1	-3.7	47.8
Barley (CAD/t)	253	248	205	176	1.9	23.1	44.1
Canola (CAD/t)	661	617	496	390	7.1	33.2	69.4
Cotton (USc/lb)	73.9	73.5	66.4	56.7	0.5	11.3	30.3
Sugar (USc/lb)	12.1	12.1	10.7	9.3	0.2	13.2	30.1
Export beef index (AUD)	153	153	157	145	-0.3	-2.8	5.4
Dairy price index (US\$)	231	225	237	231	2.6	-2.6	0.0
Wool (AUDc/kg)	863	872	1039	979	-1.0	-16.9	-11.8
USD Index 97/98 = 100	199	199	191	159	0.4	4.3	25.5
AUD/USD US cents	0.952	0.949	0.873	0.841	0.3	9.0	13.2
AUD Index 97/98 = 100	143	143	149	129	0.1	-4.3	10.9
a) The indexes are calculated as monthly averages							
b) Data sources are Bloomberg, USDA FAS.							

after the Korean government attempted to resume US beef imports.

Protests continued until the Korean government struck an industry specific contract that requires all beef entering Korea to be labeled with the country of origin and the age of the animal.

Australia looked set to increase its export of beef to Korea but a scandal involving intentional mislabeling of beef products has had the effect of Koreans losing confidence in all imported beef.

Following confirmation that South American countries are free of Foot and Mouth disease, the EU resumed imports of fresh beef from Argentina, Brazil and Paraguay. Brazil was also given permission to import fresh beef into China and to resume imports of beef to Russia.

The US domestic market suffered losses after recent floods drove up grain prices, forcing up prices of imported beef.

Exports from Australia to the Russia have risen to near record levels due to increase in demand for high protein diets.

### Canola

Recent rain in Western Australia has crop predictions up from last month, although there has been some damage due to pests, seeing prices lift 5.1% during the month.

Markets in the EU and Black Sea continue to recover

from last year's drought and Canada have seen a record crop, after farmers were attracted by the high canola prices.

Floods in the US have had a drastic effect on crops, with widespread losses reported.

### Cotton

Decreased world supplies of cotton are emerging as other more highly priced crops are being adopted. In addition, the northern hemisphere has suffered a decrease in planting this month due to poor weather conditions.

The demand for raw Indian cotton increases, but this same market faces a decrease in production due to canal water shortfalls and the higher cost of production.



Having a cow... dairy prices surge but our farmers miss out due to drought.

Mills in China brought large stocks of US cotton during the month before the long weekend interrupted transportation.

### Dairy

Despite a further 2.2% lift in dairy prices during the month, dairy farmers in Australia and NZ have decreased production from last year levels due to a distinct lack of rain and ground moisture.

Europe is also suffering from a lack of moisture, detracting from production, but demand remains strong.

Most of the milk stocks of Western Europe are being used by the need for cream and cream-based products.

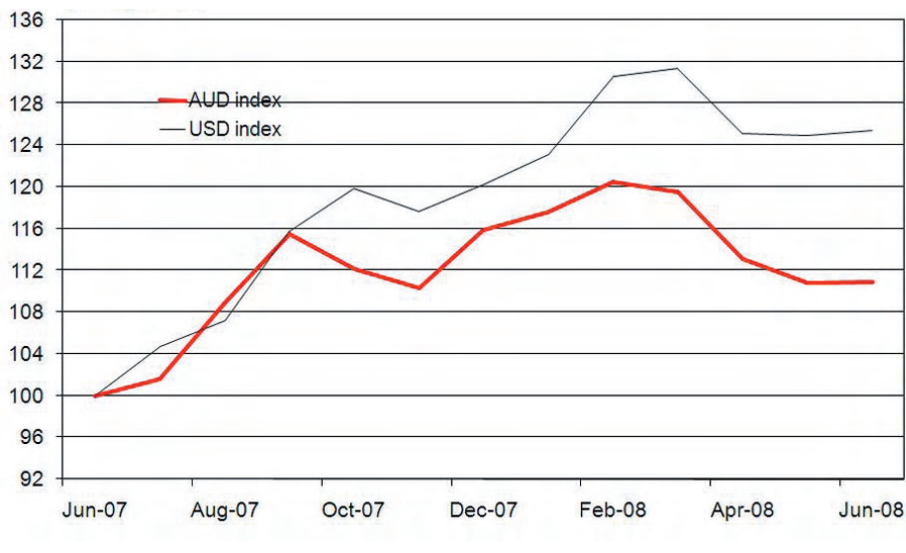
There were protests in the EU (Germany, Austria, Luxembourg, Belgium, the Netherlands and Switzerland) this month over falling farm gate milk prices and the new EU deregulation reforms.

Industrial action was taken by Germany this month, with a 10-day strike over retailers failing to increase their milk prices. A price increase was won in Germany and Switzerland.

### Sugar

Despite a relatively stable sugar price, there has been a general drop in the global sugar surplus during June.

Weather conditions in Australia have resulted in reduced

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

production, while countries such as Japan are facing falling domestic demand and are reducing imports of sugar.

Major sugar producers, Brazil, are set to increase exports to the US to keep up with demand for sugar cane to be used in ethanol.

### Wheat

Global prices for wheat rose another 8.7% during June due mainly unfavorable weather conditions (drought in Australia, floods in the US), an increase in the demand for biofuels and a growing world population intent on better diets.

Argentinean exports of grain were suspended this week when the roads were blocked in protest of the 44% tax on exported agricultural products.

Floods in America have

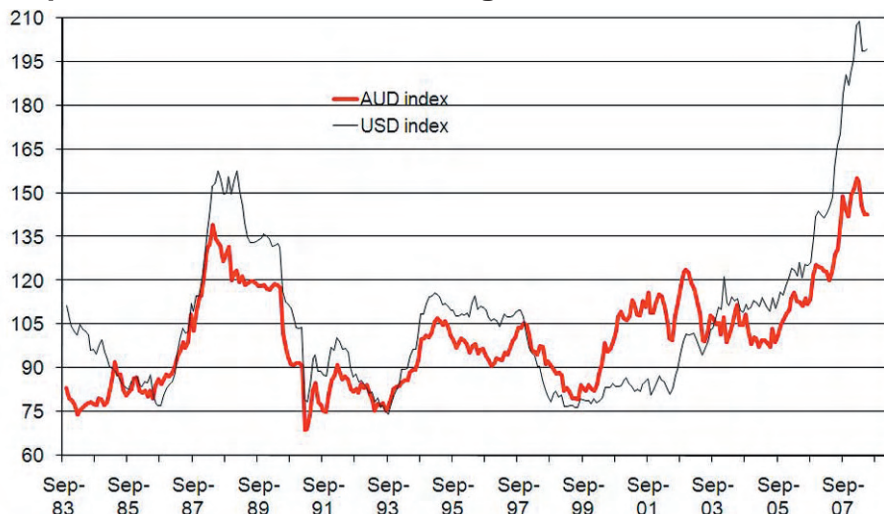
devastated the wheat export industry, with reports of a 20% loss of crops, and a backlog in transportation.

Other northern hemisphere harvests look to be on track with Europe, Russia and Ukraine all progressing unhampered. Recent rainfall in Australia has enabled the planting of winter crops.

### Wool

The selling season for Australian wool ended this month, with weakening demand for wool products globally seeing prices ease 1.0% during the month.

Italian clothing producers were sourcing fine grade wool and offering cash incentives for unmulesed wool. New Zealand companies are sourcing large supplies of Australian wool for the outdoor clothing market.#

**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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