

Westpac-NFF

Commodity Index

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

June 2008

High Aussie dollar dampening record global prices

As one of Australia's most trade exposed sectors, agriculture has been feeling the pinch from the ever strengthening Australian dollar (AUD) - peaking at over US\$0.96 in May.

The *Westpac-NFF Commodity Index* this month again reports strong international agriculture prices, now at 16.1% above year-ago levels.

So, while the United States (US) dollar value of the farm index may be up 34% on year-ago levels, the 15% rise in the AUD has dramatically impacted those gains.

One of the key factors behind the rising AUD is the noticeable weakening of the US economy.

However, more broadly, after weighting the currency impact according to the major export destinations for Australian agriculture, an appreciation of approximately 10% has taken place since May 2007.

The NFF has calculated that every 1% appreciation in the Australian dollar equates to a \$190 million erosion of farm incomes.

Therefore, the high Australian dollar has costed our farm sector over AUD\$1.9 billion since May 2007.

Compared with April 2008 levels, global prices in May decreased for Barley (-0.5%),

Wheat (-13.3%), Cotton (-4.0%), Canola (-1.8%), Sugar (-5.7%), Wool (-7.9%), and Dairy (-2.1%).

Only Beef (0.2%) recorded a marginal increase in the global price.

The overall weighted index decreased by 1.9% during May, taking it to 16.1% above year-ago levels.

crop.

Disappointing late rains in many areas of Australia and ongoing weather uncertainty fuelled concerns and drove volatility in the domestic market.

Beef

The continued

"The 15% rise in the Australian dollar has dramatically impacted gains."

- Westpac Banking Corporation
Senior Agribusiness Economist, Justin Smirk

Barley

Activity in global feed barley markets lifted modestly in May, with strong purchases from Iran and a large tender for feed barley issued by Jordan.

Barley values also rose across the European Union (EU), while in Australia, limited stocks and dry conditions during grower's sowing period supported new crop prices.

International malt barley markets fluctuated on the back of rising confidence in the new EU

appreciation of the Australian dollar again hindered export returns for Australian beef, erasing much of the price gains experienced in most markets.

Internationally, Japan celebrated Golden Week, a string of successive national holidays in early May.

This is the peak period of beef consumption on the nation's calendar, with seasonal beef gift sets very popular for this holiday.

However, demand overall was softer as consumers resisted the higher prices of Australian beef imports.



Table 1. Component Indices.

Australian \$	Index				Percentage change over		
	May-08	Apr-08	Nov-07	May-07	1 month	6 months	12 months
Wheat (AU c/bu)	833	961	895	605	-13.3	-6.9	37.8
Barley (AUD/t)	261	263	222	176	-0.5	17.8	48.6
Canola (AU c/kg)	650	663	524	418	-1.8	24.1	55.6
Cotton (AU c/lb)	77.4	80.6	73.3	62.5	-4.0	5.5	23.9
Sugar (AU c/lb)	12.7	13.5	11.3	11.4	-5.7	12.8	11.3
Export beef index (AUD)	153	153	152	146	0.2	0.9	5.0
Dairy price index (AUD)	162	166	193	169	-2.1	-16.2	-4.0
Wool (AU c/kg)	872	947	1021	1014	-7.9	-14.6	-14.0
USD Index 97/98 = 100	199	199	187	149	0.0	6.5	33.7
AUD/USD	0.950	0.932	0.895	0.825	1.9	6.1	15.2
AUD Index 97/98 = 100	143	146	142	123	-1.9	0.4	16.1

a) The indexes are calculated as monthly averages

b) Data sources are Bloomberg, USDA FAS.

The Korean Government's announcement of the resumption of US beef imports into Korea sparked violent, nationwide public protests from government opposition parties, local farmer's organisations and civic groups, over perceived food safety concerns of US products.

Fears of BSE and avian influenza negatively affected overall beef sales as consumption moved towards fish products in that country.

US product is expected to be available next month.

Canola

Global canola markets were volatile during May, easing on average by 1.8%.

Prices were predominantly driven by the ongoing grower's strike in Argentina as their Government refused to open a dialogue with farmers to discuss changes to grain export taxes.

The EU crop continued to develop well during May, and projections of a large crop grown in the Black Sea area did not temper market volatility.

In Canada, cool temperatures delayed early seeding, with conditions improving late in the month, despite a frost on the eastern side of the Canadian Prairies.

Cotton

Global cotton markets were again driven down by a

combination of short-term fundamentals, including large stocks, stagnant apparel prices and tight credit conditions in an uncertain economic environment.

Domestic cotton markets fluctuated in May largely due to the strong Australian dollar.

As cotton prices rose, mills were again disinclined to chase prices higher.

In Pakistan, cotton markets softened due to the cheaper cost of imported cotton, while in India, tight stocks drove local prices to hit season highs.

Dairy

Global dairy prices eased 2.1% during May as seasonally high levels of milk output in western and eastern Europe

ensured that manufacturing facilities ran at capacity levels.

Butter, milk powder and cheese production absorbed most of the available milk volumes.

Rocketing fuel, feed and fertiliser prices coupled with high labour costs continue to affect dairy farmers globally with many farmers in the US and EU suggesting that farm-gate prices are well below the cost of production.

Sugar

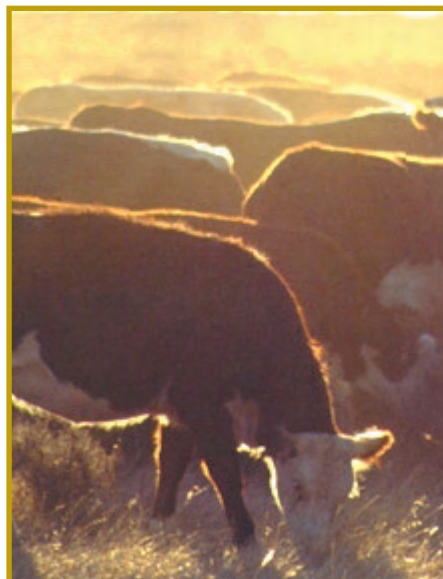
International sugar prices slid 5.7% in May as prices were dragged lower by a global surplus of stock on the market.

In Brazil, despite raw sugar's strong start in early 2008, factors including slow absorption of excess stocks, harvesting of another potential record crop, lack of storage space and rising freight rates all served to curtail buying and consequently, exerted a downward pressure on prices.

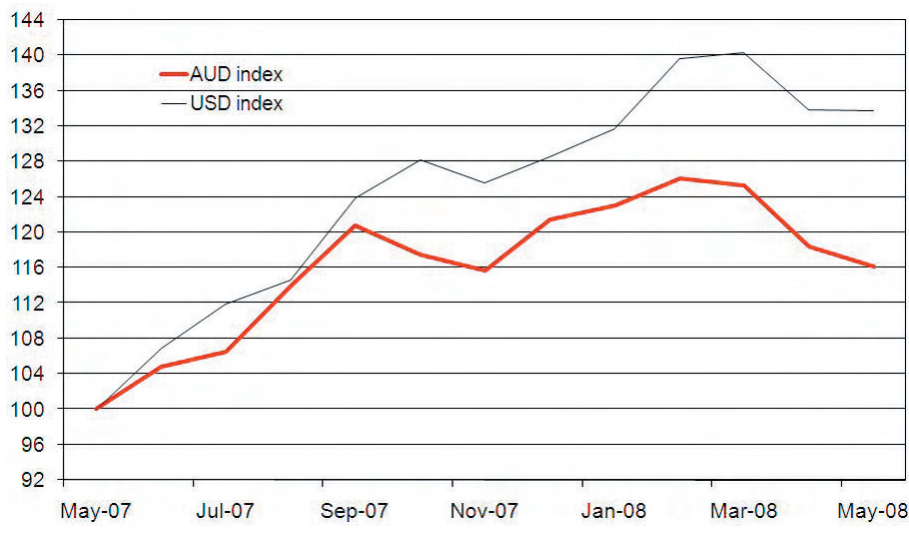
In Zambia, unprecedented heavy rains that diminished sugar crops and production last season have caused critical shortages of stocks in parts of the country in May.

The supply gaps also fuelled price spikes as the Sugar Producers Association of Zambia moved to dedicate current season's initial production to satisfy local market demand.

India's sugar factories were busy crushing the current season's sugarcane and were



Steering in the right direction...beef made marginal gains of 0.2% in May.

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

expected to continue crushing until early June.

Meanwhile, concerns were raised over a domestic sugar glut with expectations of a record production this season.

Wheat

The strong Australian dollar continued to place pressure on Australian wheat prices while the lack of widespread sowing rain drove the domestic new crop wheat market higher.

Despite rainfall recorded in key growing areas during late May, international concerns over Australia's dry conditions also supported market prices.

In global markets, new season wheat values eased as international reports reinforced the likelihood of a good northern hemisphere wheat harvest.

In Europe and China,

crops have reportedly developed well and the crop ratings in the key US key wheat producing state of Kansas have confirmed increased yield potential.

Reports say continued hot weather in East Asia and North Africa has stressed wheat health.

Wool

The Australian wool market eased a further 7.9% during May as the AUD scaled new heights and traded above US \$0.96 for the first time in over 24 years.

Poor international demand also pressured prices. The slowing of world growth and the impact of food inflation on many nations discretionary spending resulted in China's wool processing sector curtailing its purchasing of wool to balance the decrease in demand for textile products. #

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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