

Westpac-NFF

Commodity Index

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

May 2009

Glimmer of hope as stabilisation signs emerge

Over April 2009, the *Westpac-NFF Commodity Index* fell 3.4%. The Index is now 14.7% lower than a year ago.

Commodities suffering falls were wheat (-5.5%), beef (-4.1%), dairy (-5.3%), barley (-7.8%) and sugar (-5.2%).

Only cotton (7.0%), canola (1.6%), and wool (3.8%) recorded upward price movements.

Barley

The international barley market is currently lacking both buyers and aggressive sellers, resulting in prices dropping 7.8% in April from last month.

The market was quiet both domestically and internationally for the majority of April, with demand increasing slightly toward the end of the month.

The low prices being received for barley are resulting in many farmers switching to different crops, with prices in Europe around intervention levels.

The USDA report released early in April estimates that global barley acreage will drop 7% from 2008 levels, but that stocks are up 16% from this time last year, with most of the increase attributed to on-farm stocks.

Even with increased production, Australian barley exports are predicted to fall in 2009, as there has been significant increased production in Ukraine, Russia and EU.

There have been reports of moisture problems in Ukraine which have lowered production estimates

for that region by 10%.

This may result in less aggressive marketing, with market focus currently on Black Sea weather.

WA exports are still facing logistical issues, and no new business. A stronger \$A has impacted on Australian export markets. The absence of Chinese and other malt buyers is resulting in weak market conditions.

Beef

April saw beef export markets remain passive, with prices dropping 4.1% from last month.

Global consumers are still favoring lower end beef products. The international meat trade has been affected by the outbreak of (swine) influenza, with some markets banning all US meat due to concerns over food safety.

April is a traditionally slow month for beef in Korea, although concerns over swine influenza have exaggerated this trend, with Korean consumers turning away from meat products in general.

Korean importers are currently sourcing on as needed basis, and stocks there remain tight.

Buyers were active in Japan in the lead up to Golden Week (a series of public holidays), with most consumers looking for barbecue or grilling items, although most buying is centered around low value items.

The rising A\$ continues to impacted on US beef imports. The US has plenty of domestic stock as dairy herds continue to be culled. South American beef exports are

slowly recovering, due in large to a slight increase in demand and a reduction of high domestic stocks.

Australian exports to Asian countries are still being dominated by manufacturing beef (representing 36% of total exports during Jan to March), with the majority of product going to Indonesia.

Australian exports experienced a slow month, although seasonal peaks in key destinations are yet to hit.

Canola

International prices for Canola during April increased 1.6% from last month, with prices moving higher on the back of a stronger vegetable oilseed market.

Solid Chinese demand and building government reserves, coupled with lower production in Argentina and a slow tightening of stocks is aiding global prices.

US production is predicted to be down 20% from last year with Canada and Europe carrying near record stocks, this will offset any other production declines.

Currently the market is awaiting Canadian acreage estimates for 2009/10 season, as crops are expected to be bigger than last year, with areas increasing by up to 1million acres.

Locally, WA exports are still suffering logistical issues, and no new business is being reported.

Cotton

Firm demand and tightening global inventories have April international



Table 1. Component Indices.

Australian \$	Index				Percentage change over		
	Apr-09	Mar-09	Oct-08	Apr-08	1 month	6 months	12 months
Wheat (AU c/bu)	758	802	856	962	-5.5	-11.4	-21.2
Barley (AUD/t)	164	178	219	263	-7.8	-25.1	-37.6
Canola (AU c/kg)	499	492	523	663	1.6	-4.5	-24.7
Cotton (AU c/lb)	70.7	66.1	77.4	80.7	7.0	-8.6	-12.4
Sugar (AU c/lb)	19.0	20.1	17.3	13.5	-5.2	10.0	40.9
Export beef index (AUD)	152	159	187	153	-4.1	-18.5	-0.4
Dairy price index (AUD)	118	124	169	166	-5.3	-30.2	-29.0
Wool (AU c/kg)	782	753	793	946	3.8	-1.5	-17.3
USD Index 97/98 = 100	128	124	143	196	3.6	-10.2	-34.4
AUD/USD	0.716	0.667	0.682	0.931	7.3	5.0	-23.1
AUD Index 97/98 = 100	122	127	143	144	-3.4	-14.4	-14.7

a) The indexes are calculated as monthly averages

b) Data sources are Bloomberg, USDA FAS.

cotton prices up 7% from last month.

International mill demand is increasing as well as increases in Indian prices are aiding the market.

Tight inventories particularly in high grade stocks have mills in China scrambling to cover contracts.

Declining stocks in the US with growers releasing stock out of the loan program which is now significantly depleted, and lower expected acreage this year is also bringing relief to prices.

Increased prices in China due to tight stock and full state reserves that are not being released yet are encouraging farmers to plant more cotton acreage next year.

The Australian crop is on track and reports thus far are of quality being reasonable to good, with about 20% of the crop picked.

Estimates of the Australian harvest have more than doubled the yield from last year due to better weather this season.

The A\$ lifted during April to its highest level in 6 months, which has considerably softened the effect of increased international prices on local growers.

Dairy

Continued increases in global dairy production and inventories, coupled with reduced demand have prices down 5.3% from last month.

Production in NZ is up 4% from last year, as farmers begin to recover from drought and generally poor weather conditions.

Australian and US production is falling due to increasing herd liquidation.

US herds continue to diminish as falling world consumption and mounting on-farm

cost force producers to reconsider options.

UK farmers are currently experiencing the lowest herd numbers and production levels since the 1970 s, with price cuts causing many farmers to leave the industry.

The slowdown in demand is mainly attributed to declining economic conditions, falling demand in the US and Western Europe and deteriorations in key Asian market growth areas have compounded the situation.

Sugar

Sugar prices fell in April, down 5.2% from last month's value.

Increased production due to more favorable weather conditions this season in both China and Australia look to cover previously predicted international shortfalls.

China expects to increase production by 9% this year and state policies regulating prices paid to

farmers have encouraged increases in acreage.

India is currently facing short-term supply issues resulting in import duties being temporarily suspended on white sugar, along with obligations to re-export white sugar on raw sugar imports until July 31.

Short-term production deficiencies in the US have prompted lobby groups to urge the government to increase imports and reduce tariffs on large imports to help meet supply shortages due to increased demand.

Wheat

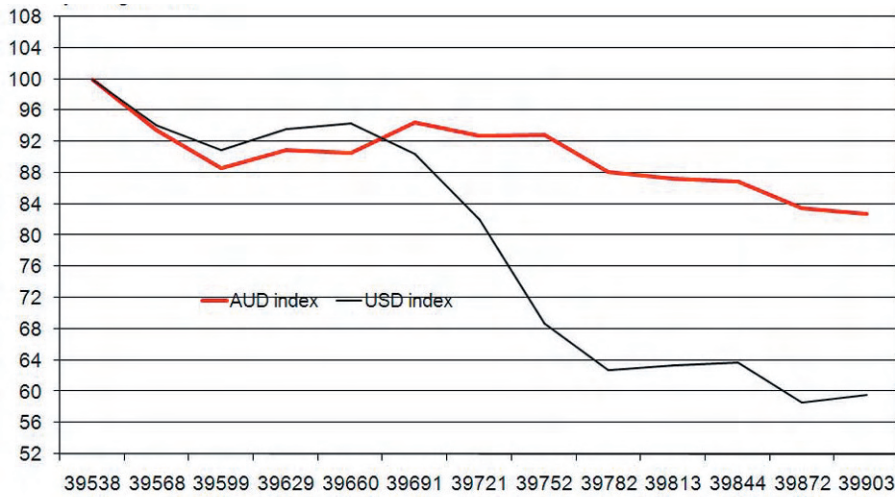
Wheat markets during April remained highly volatile, with prices falling 5.5% from last month.

The global financial crisis and heavy international inventories are keeping prices down.

The recently released USDA report of estimated international



The global cotton market turned around this month to record the biggest gain.

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

production for 2009/10 has heightened awareness of predicted global increases in production in both Europe, Russia and the US, as well as larger carryover from last year and decreased international consumption.

Recent rain in the US has offset freeze damage of winter crops in other areas of the country.

Argentina is expected to have a domestic shortfall this season as it experiences its smallest crop on record due to drought and export restrictions limiting planting incentives.

Brazil has expanded wheat area planted and is currently negotiating long term agreements with Russia and China to exchange products for wheat.

Indonesian interest in Australian wheat is fading despite the freight advantages, as cheaper Black Sea wheat begins to flood the market.

Competition from Eastern Europe has resulted in Australian

wheat being hard-pressed to find sales in some markets, although currently export schedules are meeting estimates.

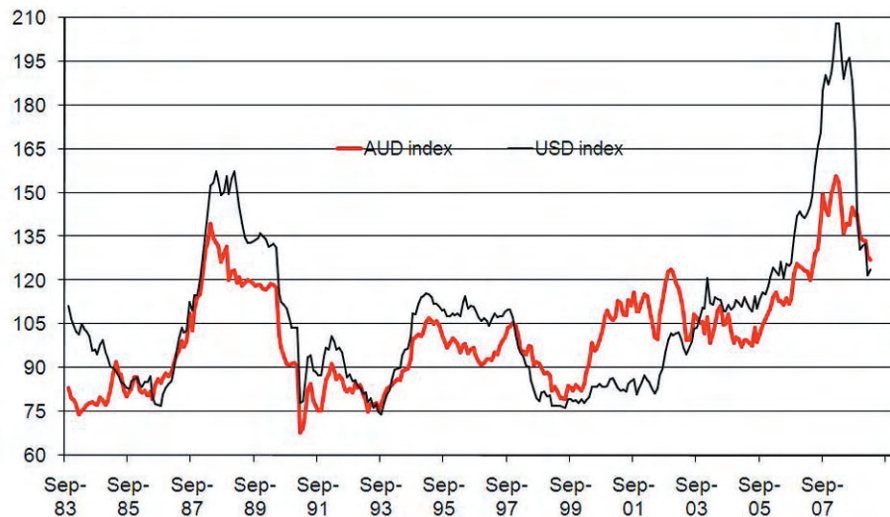
Wool

The global wool market in April experienced rekindled demand as international stocks dwindle and concerns over supply drive prices higher 3.8% higher than last month.

The situation of very limited stock is prompting buyers to scramble to meet contracts, resulting in higher prices for most microns, although the higher quality wools are showing the most promise.

Prices may rise further in the near future as exporters still needing to fulfill contract commitments may face further stock shortages.

The Chinese have been the most active buyers this month; they are facing declining stocks and increases in domestic demand, as well as increased manufacturing activity.#

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

Westpac-NFF

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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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