

Westpac-NFF

Commodity Index

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

May 2008

World food shortages impact Australian farmers

The *Westpac-NFF Commodity Index* softened slightly by 5% over April, yet continues to record agricultural commodity prices at 22% higher than year-ago levels.

International buyers have delayed purchasing additional stock on world markets over April, anticipating easing prices as the Northern Hemisphere begins their Winter crop harvest.

However, global demand continues to grow in an environment of stock shortfalls, with prices still near record highs.

Continued scarcity and record high prices for basic food items has precipitated violent riots across the world over April.

At home, Australian farmers are hoping for rain over the next five-weeks to allow them to grow a winter crop and enter their stock on the world market.

Yet, farmers must still contend with the ongoing drought, an exceptionally high Australian dollar and mounting fuel and other input costs.

Sound financial planning is crucial for Australian farm businesses in this environment of climate and market variability.

Compared with March 2008 levels, global prices in April increased only for Barley (1.9%).

Wheat (-13.5%), Cotton (-5.5%), Canola (-6.0%), Sugar (-4.1%), Beef (-0.5%), Wool (-2.3%), and Dairy (-1.3%) all

experienced decreases from previous-month levels.

The overall weighted index decreased by 5.0% during April, taking it to 22.0% above year-ago levels.

Barley

Malt barley markets

and Korea slowed in April, as surging demand from Russia raised prices across the board and tightened stocks.

Russia sought alternative beef supplies due to a three-week farmer's strike and food blockade in Argentina.

The strike resulted in domestic and international

“Global demand continues to grow in an environment of stock shortfalls.”

- National Farmers' Federation
Vice-President, Charles Burke

remained strong throughout April, however the European Union (EU) is forecasting a large crop, which is expected to ease concerns over current limited supplies on the growing global market.

Demand of Australian feed barley from Saudi Arabia during April has remained at reasonable levels.

Beef

Exports of Australian products to its traditional markets of Japan, the United States (US)

shortages in many staple items, including beef.

The strike was in response to the Government's move to lower domestic food prices by lifting taxes and tightening other trade restrictions on agricultural exports.

The shortfall in supply from Argentina, coupled with the high price of the Brazilian real, resulted in a sharp rise in orders for Australian beef from the EU, the Middle East and South East Asia as they also sought to substitute suppliers.

US stocks of imported



Table 1. Component Indices.

Australian \$	Index				Percentage change over		
	Apr-08	Mar-08	Oct-07	Apr-07	1 month	6 months	12 months
Wheat (AU c/bu)	1014	1173	938	582	-13.5	8.2	74.4
Barley (AUD/t)	261	257	230	181	1.9	13.5	44.5
Canola (AU c/kg)	670	713	497	382	-6.0	34.8	75.3
Cotton (AU c/lb)	82.0	86.8	73.9	64.0	-5.5	11.1	28.2
Sugar (AU c/lb)	13.7	14.3	11.1	11.8	-4.1	22.9	16.0
Export beef index (AUD)	153	154	152	145	-0.5	0.7	5.5
Dairy price index (AUD)	166	169	201	155	-1.3	-17.0	7.5
Wool (AU c/kg)	966	989	995	1004	-2.3	-3.0	-3.9
USD Index 97/98 = 100	199	209	191	145	-4.8	4.3	36.7
AUD/USD	0.926	0.925	0.899	0.827	0.2	3.1	12.1
AUD Index 97/98 = 100	146	154	145	120	-5.0	1.3	22.0

a) The indexes are calculated as monthly averages

b) Data sources are Bloomberg, USDA FAS.

beef remained low during April as reduced shipments from Uruguay and New Zealand left Australia as the only major exporter of manufacturing beef to the US.

Canola

Canola prices were again volatile during April as a combination of international factors placed pressure on limited old crop stocks and kept international markets on edge.

Record crude oil prices, blockades in Argentina by farmers, coupled with strikes in Brazil by port management as a result of pay disputes, threatened shipping trade out of Latin America.

The disruption to supplies left buyers cautious as they waited for the volatility to subside, with prices easing 6% as a result.

Cotton

Australian cotton prices were again supported by external commodity markets, including rising oil and grain prices.

However, mill demand was lacklustre in early April and cotton was deemed to be over-priced by the market, with prices subsequently easing 5.5% for the month.

Despite tightening global credit conditions, Indian and Pakistani cotton was purchased at competitive prices by leading mills and spinners. Cooler soil

temperatures in China delayed their cotton plantings.

In the US, large carry-over stocks, low levels of exports, reduced domestic consumption and lack of mill demand resulted in stocks increasing to unprecedented levels.

However, the recent weakening of the US dollar has sparked a mini-boom in exports.

Dairy

Dairy prices fell marginally during April as continued strong demand for butter and milk powder highlighted ongoing global supply issues.

The late season drought in New Zealand, coupled with increased demand for dairy

products are attributed as major factors behind the shortfall.

Milk production activity across the US and EU increased as favourable weather conditions set a positive trend.

Milk volumes in both regions are larger than previous years, ensuring that manufacturing is running at capacity.

Japan is reporting butter shortages with supply issues reportedly triggered by low levels of domestic raw milk production and expanding markets for dairy products in China.

Surging global grain prices have discouraged dairy farmers from increasing stock numbers.

Sugar

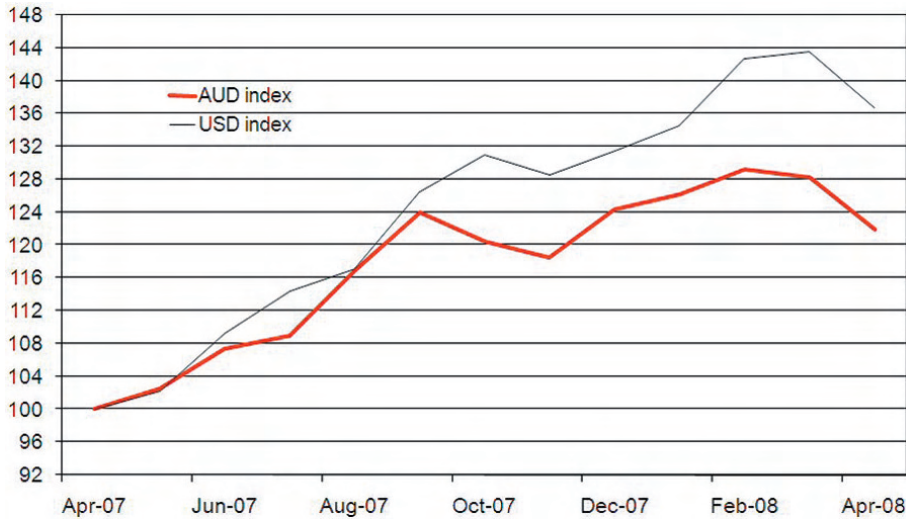
Global sugar markets were again volatile during April, however prices softened in the latter half of the month ahead of Brazil's 2008/09 sugarcane crop harvest.

As the world's top producer and exporter, sugarcane production in central and southern Brazil could potentially exceed 500 million tonnes and hit a record high.

Global supplies have remained tight for both cane-based ethanol and sugar as the macroeconomic pressures of the ongoing credit crisis, crude oil prices and weakened US dollar supported international market price levels.



Bucking the trend... barley is the only commodity not to soften this month.

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

Wheat

Sustained high prices for basic food items, including wheat, caused food violent riots in Egypt, Morocco, Senegal and Cameroon during April. Food-related riots have also broken out in Haiti, Indonesia and the Philippines.

Continued global demand in an environment of very tight stocks has sent prices surging to record highs in 2008, however, demand from some importing nations subsided in April as they near their 2008 season domestic crop harvest. The world price fell 13.5% as a result.

Confidence has risen in the potential strong yields on the increased acreage planted globally. Large plantings in Russia, Ukraine, Kazakhstan and the EU fare well with mild temperatures and expectations are

strong that production output will be significantly higher than last year.

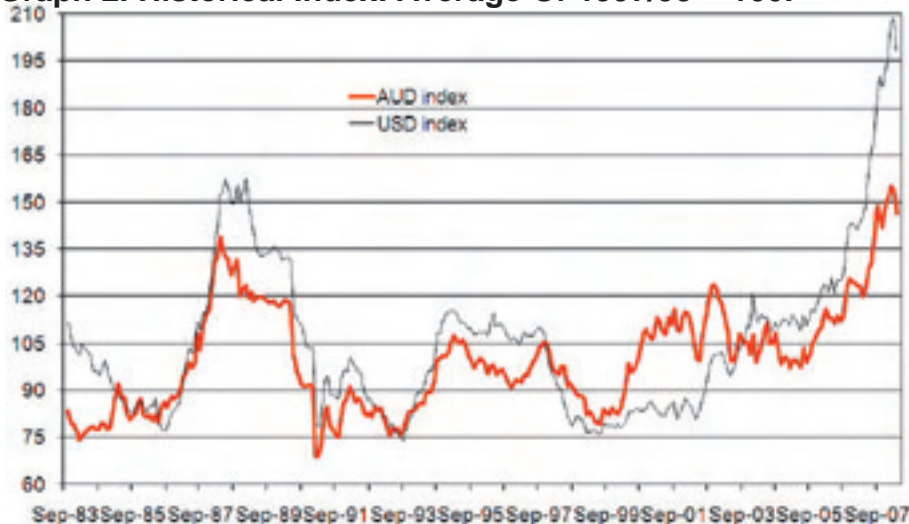
Wool

Australian selections of fine and superfine wools were again in demand from Italy, Korea and India during April.

However, as the Australian dollar peaked at a 24 year high late in the month, the domestic market eased 2.3% to trade at its lowest point in six months.

In conjunction with the effect of the strong dollar, the downturn is attributed to subdued demand from China.

The continuing concerns of a global recession has reportedly affected Chinese mill production and it has scaled back processing capacity in light of slowing consumer spending and decreased demand.#

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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