

Westpac-NFF

Commodity Index

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

November 2008

Winners & losers in a mixed bag this winter harvest

THE mixed fortunes of Australian farmers were evident this month as global prices and domestic production fluctuated across commodities and regions.

The weakening Australian dollar prevented what could have otherwise been an extreme month for global agricultural commodity prices.

To ram home the fluctuating fortunes that beset Australian farmer's prospects, the 2008 winter crop harvest is looking to be a real mixed bag.

As the winter grain harvest kicks off, farmers in much of northern NSW, Queensland and WA are looking at solid yields. However, a lack of spring rainfall across southern NSW, Victoria and SA has seen a noticeable deterioration in the winter crop forecast, with ABARE downgrading their winter wheat production forecast to less than 20 million tonnes.

With these uncertain weather patterns continuing to beset agricultural production in Australia there will be winners and losers this winter.

During October, the Index decreased by 1.3%, cushioned by the depreciating Australian dollar. The index is now 2.6% below year-ago levels. Commodities suffering falls include canola (-9.2%), barley (-9.2%), wool (-8.0%), wheat (-5.9%), and cotton

(-1.8%). These falls outweighed major price rises for dairy (7.6%), sugar (4.1%), and beef (3.3%).

Barley

Global demand for barley in October was stagnant, with prices dropping 5.9%. World prices are being pressured by

increases.

The Australian harvest is progressing well, and is expecting to produce a significant exportable surplus due to improved weather conditions in the north, with many crops showing better than normal malting categories.

“The weakening Australian dollar prevented what could have otherwise been an extreme month for global agricultural commodity prices.”

- Andrew Hanlan
Westpac Senior Agribusiness Economist

abundant European Union (EU) crops, with good quality yields particularly from the Czech Republic, Slovakia and Austria.

Prices for feed barley are down as the impact of a huge surplus from the Black Sea is felt.

Demand should stabilise due to population growth and a rising middle-class in south east Asia, Brazil and Russia.

China remains the largest buyer. Despite slow global demand, and its larger than expected local malt crop, demand for malting barley continues to grow as brewing demand

Beef

Traders in Korea, Japan and the United States (US) are facing difficult times as credit tightens, currencies fluctuate and safety concerns abound in Asia.

Toughened lending conditions have forced a slow down to minimum levels to keep up with currency fluctuations in Korea and Japan.

The falling Australian dollar has boosted beef prices, with values increasing by 3.3%.

In Japan, the fall of the dollar has sheltered the drop in



Table 1. Component Indices.

| Australian \$ | Index | | | | Percentage change over | | |
|-------------------------|--------|--------|--------|--------|------------------------|----------|-----------|
| | Oct-08 | Sep-08 | Apr-08 | Oct-07 | 1 month | 6 months | 12 months |
| Wheat (AU c/bu) | 853 | 906 | 962 | 937 | -5.9 | -11.4 | -9.0 |
| Barley (AUD/t) | 219 | 241 | 263 | 229 | -9.2 | -16.8 | -4.5 |
| Canola (AU c/kg) | 523 | 576 | 663 | 498 | -9.2 | -21.1 | 5.0 |
| Cotton (AU c/lb) | 77.1 | 78.6 | 80.7 | 73.8 | -1.8 | -4.4 | 4.4 |
| Sugar (AU c/lb) | 17.2 | 16.6 | 13.5 | 11.1 | 4.1 | 27.8 | 55.0 |
| Export beef index (AUD) | 178 | 173 | 153 | 152 | 3.3 | 16.4 | 17.1 |
| Dairy price index (AUD) | 168 | 156 | 166 | 201 | 7.6 | 1.4 | -16.2 |
| Wool (AU c/kg) | 793 | 863 | 947 | 997 | -8.0 | -16.2 | -20.4 |
| USD Index 97/98 = 100 | 141 | 171 | 196 | 190 | -17.4 | -28.0 | -25.9 |
| AUD/USD | 0.684 | 0.818 | 0.931 | 0.899 | -16.4 | -26.5 | -23.9 |
| AUD Index 97/98 = 100 | 141 | 142 | 144 | 144 | -1.3 | -2.0 | -2.6 |

a) The indexes are calculated as monthly averages

b) Data sources are Bloomberg, USDA FAS.

international beef prices, although this has resulted buyers holding out for cheaper deals.

The Korean market is experiencing its seasonal low (following Chuseok), as well as decreased consumption, exchange rate fluctuations and overall food safety concerns - with Australia's share in Korea falling since the US re-entered the market.

The declining Australian dollar has offset lower export prices in the US, where demand for beef is mostly for cheaper cuts. US beef imports have fallen as buyers are weary of forward buying due to credit restrictions.

Russia is demanding high quality beef products, strengthen its ranking as Australia's fourth biggest beef export location.

Canola

Global prices fell 9.2% due to weakening Asian demand, the strengthening US dollar and higher than anticipated surpluses out of the US. Chinese volatility continues, with demand waning.

Reportedly, the Canadian harvest is progressing well, with excellent crush margins. A firm European market with falling freight rates is currently aiding Australian exports.

Good rain in Australia has led to improved estimates for this year's crop. Harvest has begun in parts of Western Australia, with high quality and good oil content reported, although insects are pressuring crops in some areas.

Cotton

Prices for cotton fell 1.8% in October, fluctuating throughout the month as global markets take stock of the credit crisis.

Mill demand slowed despite falling prices (due to concerns over securing credit), and uncertainty about global cotton consumption.

The US released its October Supply and Demand report, indicating world production was up 1.4%, while consumption down 1.1%.

Cotton acreage in the US almost halved in the last year due to competition from other crops with better returns, poor economic returns (due to the high input costs), biotechnology in other countries increasing yields, synthetic fibre competition and a shift in production to Asia.

Harvesting is underway in the US, India and China, with reports of good crops all round.

A greater area has been planted in Australia due to timely rain, with the falling dollar offering modest price gains this month.

Dairy

Softer dairy prices have been offset by a weaker Australian dollar. As global economies remain unstable, the credit squeeze has seen world economies slow down - with global stock levels clearing, and demand significantly increasing for products from Australia, New

Zealand (NZ) and Europe, as China attempts to rectify its milk contamination issues.

Enquiries from Asia have increased by 20% from last month. This increased demand and the fall of the Australian dollar saw dairy prices rise 7.6%.

Many Australian markets are in recession (Japan, the US, NZ), although growth is expected to continue in China, India and the Middle East.

The EU continues to export more butter, and production has increased despite currently carrying butter stocks. Favorable weather conditions have led to an increase in production for NZ, Australia and South America.

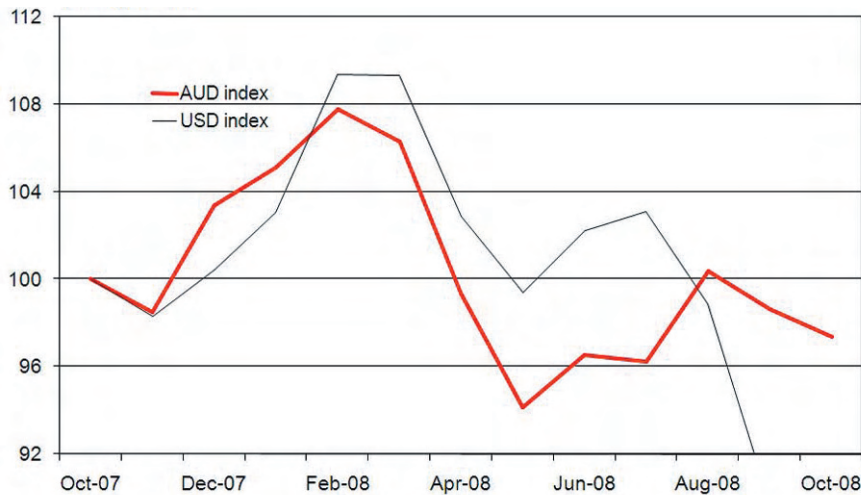
Sugar

Global sugar prices rose 4.1% on seasonal highs, with demand strong in the far east, the Middle East, Africa and South America. Mills in Brazil are likely to suffer as the credit crisis worsens - with larger companies taking the opportunity to buy smaller mills while they are cheap.

Indian mills are buying up on expectations supply will fall dramatically in coming months due to fewer plantings globally.

Mills in the south of India are selling to alcohol producers, as they are receiving a much better price.

China is seeking government permission (and

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

subsidies) to export surplus sugar, after the milk scare eroded demand for sugar in dairy products.

Wheat

Global crop abundance and the credit crisis have seen wheat fall 5.9%. World production rose 11% (from last year), with Russia, Ukraine, Europe, Canada and the Black Sea reaping large crops.

Dry conditions across Australia and Argentina have resulted in reduced crops, but, globally, the decline is more than offset by vast production increases.

The market is currently seeing buyers holding out on purchases, as freight and commodity prices fall with the fluctuating market.

The depreciation of the Australian dollar has failed to

offset declines in global wheat prices for Australian growers.

Wool

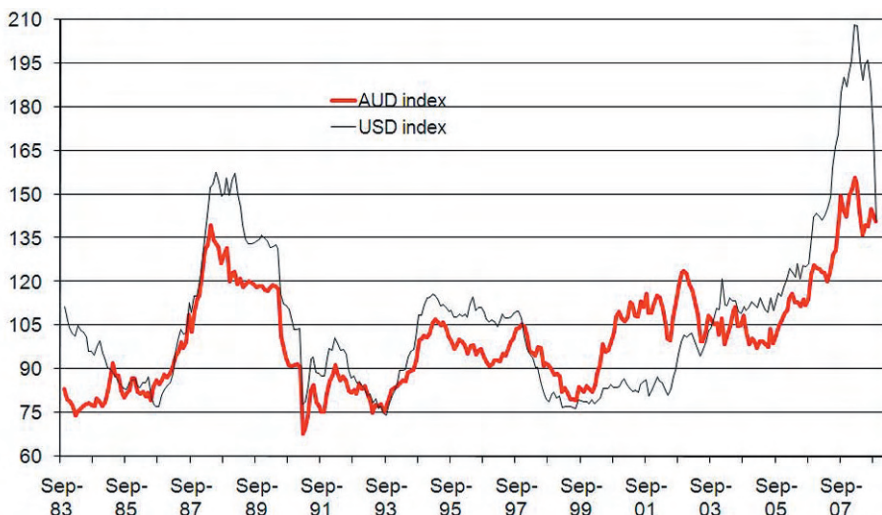
Prices fell 8.0% during October as confidence in the market failed. Demand remains subdued and credit worries abound, with the retail end keeping buyers at bay.

The falling Australian dollar failed to alleviate volatility in the market, with all categories hit by falls in world trade - and finer fleeces most affected.

However, the Chinese remain active buyers.

Indian mills are sourcing better quality fleeces, but at lower quantities to China.

There was also some interest shown from Italian buyers for finer micron wool, and some strong interest from European buyers for premium fibre.#

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

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Editor

Brett Heffernan

Economists

Andrew Hanlan (Westpac)

Charlie McElhone (NFF)

The Westpac-NFF Commodity Index is published monthly as a joint undertaking between the Westpac Banking Corporation (ABN 33 007 457 141) and the National Farmers' Federation (ABN 77 097 140 166).

Westpac Banking Corporation Head Office:
275 Kent St, Sydney NSW 2000.
[T] 02 9293 9270, [F] 02 8253 4128,
[W] www.westpac.com.au.

National Farmers' Federation Head Office:
NFF House, 14-16 Brisbane Ave, Barton ACT
2600. PO Box E10, Kingston ACT 2604.
[T] 02 6273 3855, [F] 02 6273 2331,
[E] nff@nff.org.au; [W] www.nff.org.au.

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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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For more information, enquiries should be directed to either:

Andrew Hanlan
Westpac
Westpac Banking Corporation
(02) 8254 9337

or

Brett Heffernan
General Manager - Public Affairs
National Farmers' Federation
(02) 6273 3855.