

Westpac-NFF

Commodity Index

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

September 2008

Lower dollar means things are looking up for farmers

DESPITE a recent rebound, the Aussie dollar has fallen by about 15% since July, with Australian farmers breathing easier on the back of improved international competitiveness and better prices on the global market

While the use of risk management practices ensure farmers are more insulated from currency variables than ever before, the sector remains sensitive to dramatic fluctuations.

Farmers were exposed when the dollar pushed towards parity with the United States (US).

A dollar around 83 cents is still high, but the relief is palpable.

Most agricultural commodities compete on international markets and will benefit from the improved competitive position the lower dollar brings — especially high volume commodities produced in the second half of this year.

With the winter harvest fast approaching and the firming up of production levels, grain growers will be particularly pleased by the lower dollar as they look to potentially lock in prices for their grain — prices linked to the new dollar rates.

The recent exchange rate movement is providing the cushioning role that the floating Australian dollar is designed to play.

The fall in the dollar is offsetting the effects of easing global commodity prices — not only for agricultural commodities that have reduced by almost 10% in US dollar terms since March this year, but also base metal prices that have fallen by 30% during the same period.

We must also keep in

farmers.

The *Westpac-NFF Commodity Index* lifted 5.2%, assisted by the Australian dollar's fall to be 3.1% above year-ago levels.

Commodities experiencing decreases were canola (-9.1%) and barley (-6.5%). However, these substantial falls were not

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- Charles Burke
Vice-President, National Farmers' Federation

mind the fact that a depreciating dollar elevates the price of imported farm inputs, such as oil and fertiliser.

It is fortunate that the price of crude oil has decreased from an early July peak of US\$145/barrel to its current level of around US\$120/barrel — making the dollar's impact on farm inputs less pronounced.

The depreciation of the Australian dollar has dominated agricultural commodity markets this month as international competitiveness and better prices are being attained by Australian

enough to negate the affects of robust wheat (9.8%), dairy (5.5%), wool (1.2%), cotton (4.7%), sugar (11.7%), and beef (7.4%) gains.

Barley

The global barley market lost ground in August, with prices dropping 6.5% as international demand eased and the Ukraine and the European Union (EU) returned good yields from their harvests.

Australia primarily sent its malt barley to Asia, as demand



Table 1. Component Indices.

Australian \$	Index				Percentage change over		
	Aug-08	Jul-08	Feb-08	Aug-07	1 month	6 months	12 months
Wheat (AU c/bu)	952	867	1128	851	9.8	-15.6	11.8
Barley (AUD/t)	250	267	245	198	-6.5	2.3	26.0
Canola (AU c/kg)	606	666	712	473	-9.1	-14.9	28.1
Cotton (AU c/lb)	79.8	76.2	79.8	73.2	4.7	-0.1	9.0
Sugar (AU c/lb)	16.5	14.8	14.8	11.8	11.7	12.0	40.0
Export beef index (AUD)	170	158	162	150	7.4	4.9	13.3
Dairy price index (AUD)	162	153	175	216	5.5	-7.4	-25.0
Wool (AU c/kg)	854	844	1020	944	1.2	-16.3	-9.5
USD Index 97/98 = 100	188	194	208	171	-3.3	-9.8	10.1
AUD/USD	0.884	0.962	0.913	0.828	-8.1	-3.2	6.8
AUD Index 97/98 = 100	145	138	156	141	5.2	-6.8	3.1

a) The indexes are calculated as monthly averages

b) Data sources are Bloomberg, USDA FAS.

for high quality malted barley to be used in alcohol continues to increase.

The majority of Australia's feed barley this month went to the Middle East where demand increased due to falling prices.

Beef

A decrease in the value of the Australian dollar has helped lift prices for export beef in August, with prices rising 7.4% from July.

Increased buying from Russia has offset decreased sales to Japan, Korea, Taiwan, US and Canada.

Australian beef prices are still high and export opportunities to countries outside the big three (Japan, US and Korea) are expanding as farmers seize new markets in Chile, Russia and the EU.

Japan's beef consumption continued to rise on the back of a strong presence of US beef and reduced safety concerns.

Korean stocks are building as importers are having difficulty selling due to lack of consumer trust in imported beef.

Canola

August saw a record harvest in western Canada, with increases in planting attributed mainly to biodiesel demand, prices at time of planting and increased crushing capacity.

As a result of the northern hemisphere harvest and weakening demand, the global canola price fell 9.1% during the month. Another factor affecting prices is the increased production of canola in the EU and the Ukraine.

Cotton

The global cotton market was quiet this month as prices increased by 4.7% from July.

Concerns early in August over lack of moisture in India, China, US and Argentina have been mostly allayed.

Drought has adversely affected production in Australia, and many farmers have switched crops and are now growing wheat in a response to water scarcity



Wheat prospects surge on the back of winter rains.

and relative prices.

India's production forecasts are looking good after early concerns, as improved weather conditions have enhanced yield quality, leading to expectations of a large surplus of high quality cotton.

India is expected this year to overtake the US as the leading international cotton exporter, and overtake China as the largest cotton producer.

Dairy

With global demand for dairy products still at record highs, prices lifted a further 5.5% this month.

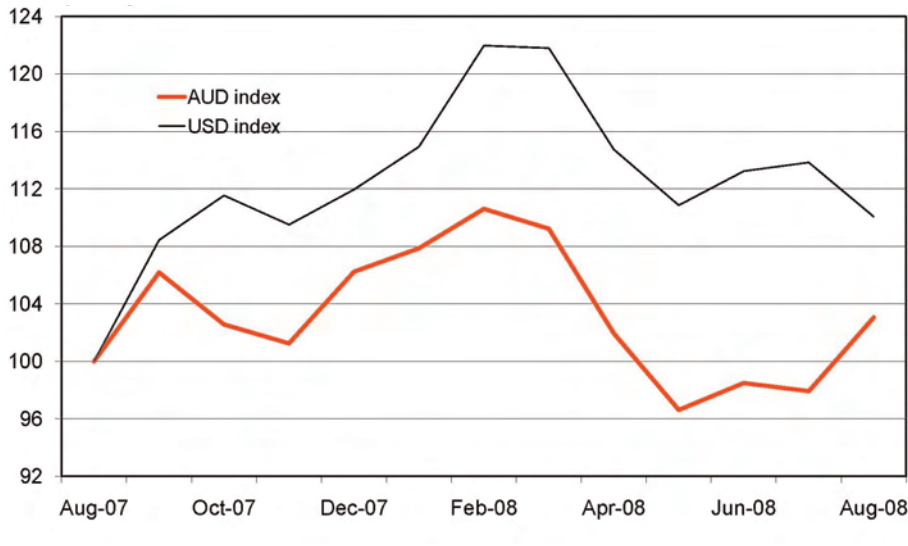
The United Kingdom and parts of continental Europe are facing seasonal supply problems due to falling production on the back of growing demand.

New Zealand and China have negotiated a free trade agreement, which has now eliminated all Chinese tariffs on imports of New Zealand dairy.

Sugar

Despite large international stockpiles, demand increases from fast growing economies and expectations of future global shortages saw sugar prices soar 11.7% during the month.

The expectation of tight global supplies are due to heavy rain damage to the Brazilian crop in the lead up to hurricane Gustav and reports of a poor season in

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

India.

Meanwhile, the US has will allow more sugar imports and Europe has announced that it will cut sugar subsidies by 9%.

Wheat

Global prices remain firm amid solid demand, with prices up 9.8% during the month. This comes despite global production increasing due to milder weather and increased plantings. Major exporters reportedly will have considerable surpluses that are expected to lead to strong competition for wheat from African and Middle Eastern markets.

Rain during July has strengthened Australian wheat harvest prospects with crops in above average condition.

Estimates for Australia's wheat crop increased, but risks

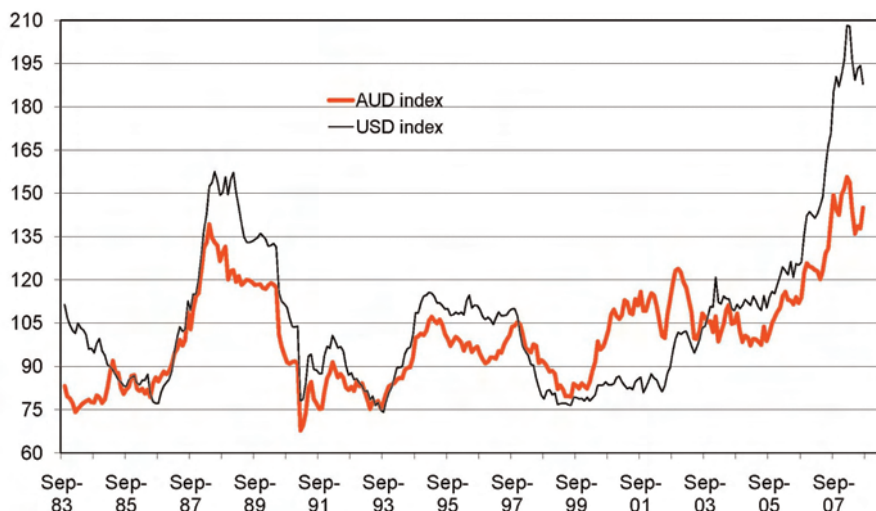
remain as spring rain is still needed.

Strong production in the US, Canada and Australia will increase competition into Asian markets. However, delayed rains in the EU have sparked quality concerns for the last harvest.

Wool

The global wool market remained slow in August with prices only marginally up from July. With the Olympics over, Australia's major Chinese wool buyers are back to work, although there is lower demand from the US due to the credit crisis.

Despite Chinese demand being relatively stagnant, the global market is seeing some interest from Europe — particularly from Italy in the fine wool categories, due to the weaker Australian dollar.#

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

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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).

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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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