

Westpac-NFF

Commodity Index

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

March 2009

Economic slowdown impacts on agricultural consumption

As global consumers become increasingly discerning about their purchasing behavior, the *Westpac-NFF Commodity Index* is showing signs that food and fibre consumption is not immune to the world economic downturn. The index fell 4.0% during February, taking the Index to 17.6% below February 2008 levels.

It is fair to say that agricultural commodity markets, like all commodity markets, are still feeling the impacts of the mass exodus of speculating investors once the global financial crisis hit, said National Farmers Federation (NFF) Vice-President Charles Burke

Now, however, we are starting to see some of the medium term impacts emerging. These are more indicative of underlying consumer behavior rather than the fluctuating vagaries of the speculator market that have dominated agricultural markets for the past six months.

While food is an essential item that is generally less sensitive to income, there is significant variance in the price points available to consumers in this category. With consumers less confident about their income security, they are showing signs of moving away from the premium end of the market and towards cheaper staples.

In the beef sector for example, reduced demand for prime cuts towards more economical options such as mince and sausages, or even poultry and pork has contributed to a 9.4% fall in the world price of beef during February.

Westpac Senior Agribusiness

Economist Andrew Hanlan added: Global economic conditions were particularly difficult late in 2008. That was certainly true for our key beef export markets of Japan and South Korea, with Japan's economy contracting by 3.3% in the December quarter and South Korea's by 5.6%. We expect that to be the worst of the downturn in Asia — but equally the downturn is yet to end. The 2009

market was quiet in February, with prices dropping 3.3% from last month.

Barley acreage estimates have been reduced for 2009 due to a reduction in global planting and a return in the Northern Hemisphere to average yields, but is still estimated to remain above the five-year average.

Although their dominance

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- Charles Burke
Vice-President, National Farmers' Federation

year will be a challenging environment for Australian exporters. That makes it all the more critical that exporters quickly adjust to shifting consumer spending patterns.

Over February 2009, the Index fell 4% to be 17.6% lower than February 2008. Commodities suffering falls were beef (-9.4%), wheat (-4.6%), cotton (-1.3%), barley (-3.3%), dairy (-0.5%) and wool (-1%). Only sugar (9.8%) and canola (0.6%) recorded upward price movements.

Barley

The international barley

has eased, the Black Sea remains competitive in international markets due to a weak local dollar, a large export surplus and improved inland logistics as a result of the ending of winter.

The Middle East has shown activity in February with Jordan and Saudi Arabia being the notable buyers.

Malt values remained stagnant during the month, the absence of Chinese buyers who are still well stocked is being felt.

Locally, there have been major congestion issues in Western Australia effecting exports. This has resulted in many exports leaving South Australia as the main port,



Table 1. Component Indices.

Australian \$	Index				Percentage change over		
	Feb-09	Jan-09	Aug-08	Feb-08	1 month	6 months	12 months
Wheat (AU c/bu)	848	888	950	1128	-4.6	-10.8	-24.9
Barley (AUD/t)	181	188	250	245	-3.3	-27.4	-25.9
Canola (AU c/kg)	524	521	605	713	0.6	-13.4	-26.5
Cotton (AU c/lb)	72.5	73.4	79.7	79.9	-1.3	-9.0	-9.3
Sugar (AU c/lb)	20.4	18.6	16.5	14.8	9.8	23.5	38.0
Export beef index (AUD)	158	175	171	162	-9.4	-7.1	-2.3
Dairy price index (AUD)	125	125	161	175	-0.5	-22.8	-28.7
Wool (AU c/kg)	747	754	854	1020	-1.0	-12.6	-26.8
USD Index 97/98 = 100	122	133	188	208	-7.9	-35.1	-41.3
AUD/USD	0.649	0.677	0.886	0.912	-4.1	-26.7	-28.8
AUD Index 97/98 = 100	128	134	145	156	-4.0	-11.5	-17.6

a) The indexes are calculated as monthly averages

b) Data sources are Bloomberg, USDA FAS.

which may alter the number of willing sellers due to increased freight costs.

Beef

The economic downturn continues to impact on the global beef market, with prices falling a dramatic 9.4%.

Interest in the lower end beef products continues to grow, but high end products have suffered losses. Large quantities of exports exiting Australia and New Zealand as well as reduced demand from Russia and Korea have not benefited prices.

Demand in Japan remains low, and supplies are now considerably reduced, but with a drop in the country's GDP the situation is not expected to improve in coming months.

The United States (US) is reporting that restaurants are experiencing fewer customers, and buyers are operating in a hand-to-mouth manner. US herds are currently at the lowest levels seen since 1963.

Korea is showing some interest for Australian products, as importers turn away from US beef in light of disappointing sales for New Year gift packs and lingering public safety concerns.

The implementation in Russia of new standards in microbial and bacterial testing has resulted in 20 exporters from Australia being blocked. Locally, a weak Australian dollar has partially offset limited export demand.

Canola

Weak Australian and Canadian dollars are aiding canola

prices this month - up 0.6%.

The international inventory of canola still has large supplies carried over from 2008. Canada has another record crop, and is setting the price for export canola.

China is still the largest buyer, although Europe and Japan are also active and expressing interest in the Australian and Canadian crops.

Concerns over Argentina's crops being damaged by poor weather are also influencing prices.

The US has benefited from improved exports on the back of weather issues in South America.

Cotton

The depreciating macro economic climate continues to impact on demand for cotton, with prices down 1.3% from last month, resulting in volatile pricing conditions as India, Africa and Central Asia are all reporting plentiful supplies.

Prices are being supported by a weaker US\$ and aggressive Indian sellers.

Currently the US is the only country offering any sizeable exports.

As demand continues to decrease, the acreage of planting is also decreasing.

The weather has played havoc with crops in February in both China and the US with damage from drought.

Dairy

The international dairy market was quiet this month, with prices down 0.5% from last month.

The biggest falls were seen

in butter, cheese, butter oil and whole milk powder, as the market is feeling the negative effects of reduced demand, increased global production and changing food consumption patterns.

The end of drought conditions in New Zealand has increased production, and European Union (EU) subsidies are also influencing trade prices.

Falling prices and collapsing global demand resulted in the US having the highest slaughter of dairy herds in 20 years as farmers can't afford to feed them.

Some good news for Australian producers this month is that Australia and India have resumed trade in dairy for the first time since 2003, and changing demographics in India may provide opportunities to Australian trade due to India's growing middle class.

Sugar

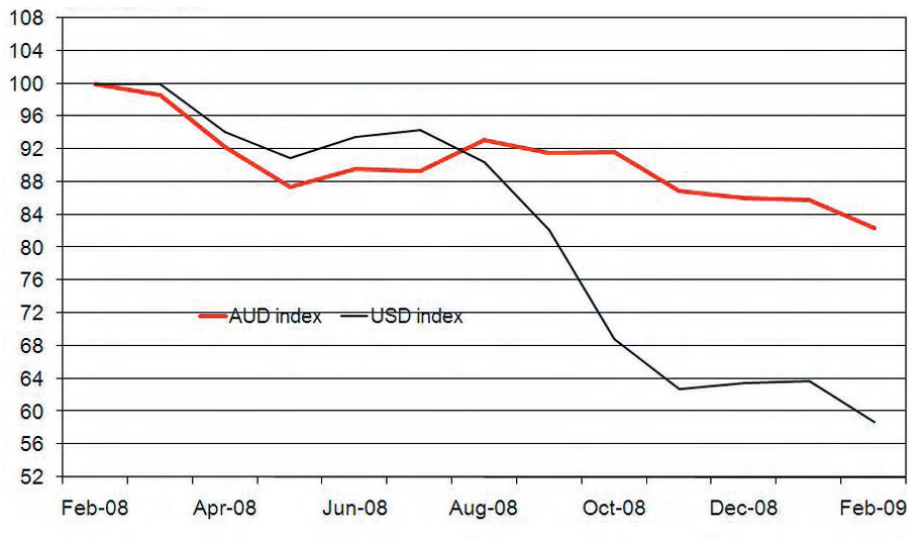
Global prices for sugar rose 9.8% from last month due to weather issues late last year and early this year affecting crops internationally.

Sugar is in short supply in India, with as many as 28 factories already stopping production and the crushing season expected to end a month earlier than usual.

Long dry spells at the beginning of the monsoonal season has resulted in the worst growing season for India in three years.

The Indian Government is looking at raising the price up to 50% on what mills pay to farmers to promote more planting next season.

Persistent widespread flooding in Northern Australia is expected to cost the industry substantial losses, with production

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

expected to drop 10-15% this season. damage to crops.

Wheat

Prices for wheat in February were down 4.6 % from last month, despite problematic weather conditions affecting crops globally.

China is experiencing a dry winter, which looks to be affecting up to 40% of the crop and hampering yields, but modest rainfall and extensive irrigation projects have helped drought-hit areas.

China's large state reserves should buffer the drought impact.

India's crop estimates may have to be revised after a prolonged period of hot temperatures.

Increased planting in India last year has forced the government to make a decision in early March as to if it reconsiders its three-year ban on wheat exports in light of mounting concerns over the ability to store its record domestic purchases, national granaries are swelling.

Improved weather conditions in Argentina have prevented further

Wool

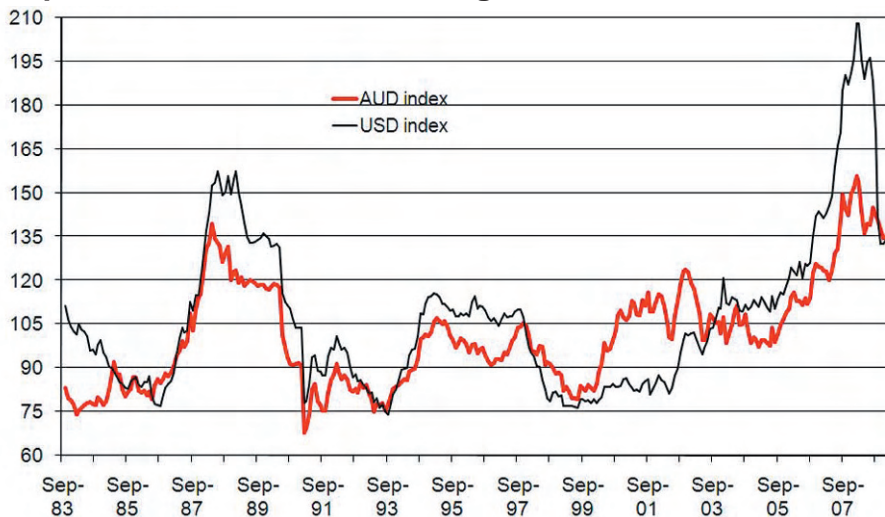
Short term demand in February helped prices, but retail declines will continue to influence global markets as seen by this month's decline of 1.0%.

The trend to lower supply inventories is continuing, with importers selling old expensive stock before any new purchases are made.

The upside to this is that once inventories are exhausted, falling supplies should improve prices. Italy and Western Europe remain quiet in February.

China is the dominate buyer, they are mostly sourcing fine and super fine wools, although some mills are experiencing difficulty moving stock.

The weaker Australian dollar is helping producers, with India showing some interest for use domestically and a lack of supplies is keeping Australian domestic prices steady.#

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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