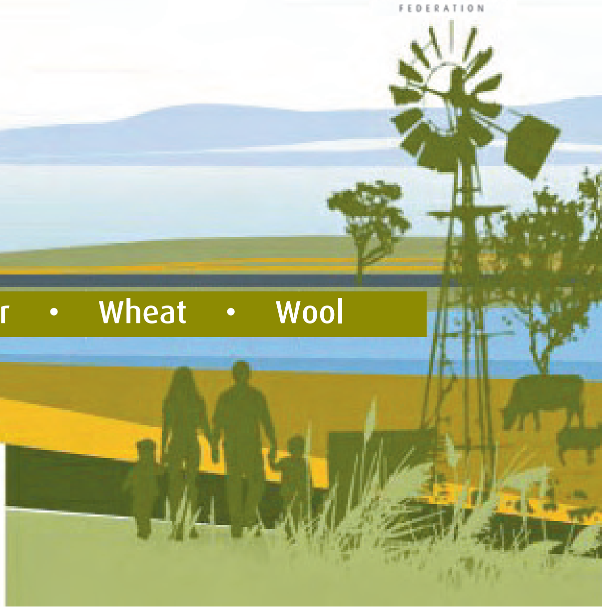
Westpac Agribusiness

National Farmers' Federation

Westpac-NFF

Commodity Index

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



February 2009

Prices hold steady despite emerging protectionism

THE *Westpac-NFF Commodity Index* broadly held steady this month with both significant upward and downward commodity price movements recorded..

While the prospects are for prices to consolidate off their 2008 lows, concerning signs are emerging that protectionism may endanger already fragile global markets.

It has been well reported that in addition to a dairy supply glut that has seen dairy prices fall 10.4% during the month, dairy producers have been further hit by the announcement that the European Union (EU) will implement dairy export subsidies.

This is a concerning sign for global dairy prices already struggling for stability, and highlights a concerning trend as international governments look to protectionist policies as part of their overall approach to addressing the current economic crisis.

On a more positive note however, global cotton prices rose 8.2% in the month on the back of reduced supplies released onto international markets by major cotton exporters. Wheat also experienced an 8.2% rise in price, reflecting lower production estimates for 2009, while rising global demand for canola drove prices up a surprising 10.5% from last month.

The current global economic crisis requires a co-ordinated and consistent policy approach from governments and central banks. One key ingredient, at this time of weak activity, is a sharp lift in public spending - in particular on infrastructure.

Another key element is for countries to advance significant trade reform. Global trade experienced a sharp setback late in 2008 as the global credit crisis intensified — a kick-start to trade would be a welcome development that will help to bring forward the global recovery.

Over January, the Index rose 0.3% to be 11.1% lower than a year ago. Commodities suffering falls were dairy (-10.4%) and wool (-2%). These falls were slightly out-weighed by gains in canola (10.5%), wheat and cotton (8.2%), sugar (5.8%) and barley (2.6%), while beef recorded no change.

Barley

The international barley market rose 2.6% from last month, with cheap EU, Black Sea and Canadian crops fueling increased buying. Saudi Arabia reduced its import tariffs this month, which may also be supporting market prices in the short term.

China was notably absent from the market due to New Year celebrations. Locally, the malt trade is quiet, and is expected to remain so until Chinese buyers return to the market.

The current gap in prices between quality grades of barley has resulted in many Australian farmers cleaning their cereal to achieve the higher quality segregations.

Beef

The economic downturn continues to impact the global beef market, with prices remaining unchanged from last month, as producers internationally are hit with high fodder costs and widespread depression of the market.

Exports were flat during

"This is a concerning sign for global dairy prices already struggling for stability, and highlights a concerning trend as international governments look to protectionist policies."

- Charles Burke
Vice-President, National Farmers' Federation

Table 1. Component Indices.

Australian $	Index Jan-09	Dec-08	Jul-08	Jan-08	Percentage change over 1 month	6 months	12 months
Wheat (AU c/bu)	888	821	866	1025	8.2	2.6	-13.4
Barley (AUD/t)	188	183	267	243	2.6	-29.8	-22.9
Canola (AU c/kg)	521	471	666	631	10.5	-21.7	-17.5
Cotton (AU c/lb)	73.4	67.9	76.1	80.6	8.2	-3.5	-8.9
Sugar (AU c/lb)	18.6	17.5	14.8	13.6	5.8	25.5	36.2
Export beef index (AUD)	179	179	158	160	0.0	12.9	11.5
Dairy price index (AUD)	128	143	162	180	-10.4	-21.1	-28.9
Wool (AU c/kg)	754	769	844	1068	-2.0	-10.7	-29.4
USD Index 97/98 = 100	134	133	196	196	1.1	-31.7	-31.7
AUD/USD	0.677	0.672	0.963	0.881	0.8	-29.7	-23.1
AUD Index 97/98 = 100	135	135	139	152	0.3	-2.8	-11.1

a) The indexes are calculated as monthly averages
b) Data sources are Bloomberg, USDA FAS.

January despite a low $A and international demand remaining stable. The lunar New Year celebrations brought about market activity in both Korea and Japan, although demand was generally for low quality, cheaper products this year.

Australian exports to the US are increasing for lower grade beef, although fluctuation in the $A are deterring some US buyers, and demand is declining for the higher end beef products at both a restaurant and grocery level.

Canola

Interest from China is the predominate factor lifting prices 10.5% from last month, as the New Year celebrations have steadily increased demand.

Other factors effecting prices are competition from the Black Sea easing, the EU reducing plantings and South America suffering drought conditions.

Prices should remain stable despite a large crop coming out of Canada, as long as concerns remain over South America s problem weather. Domestic prices continue to benefit from a weak $A and are rising with the international market.

Cotton

For the first time in history, major cotton growers India, Pakistan, China and US have all had their cotton prices supported by government programs.

The biggest buyers this month have been the government sponsored support schemes, it is expected that the Chinese and Indian governments will end up owning more than 20% of the total 2008 global cotton production, as both countries have committed to buying up to 50% of the 2008 crops.

Cotton prices this month have risen 8.2% from last month. The intervention of these countries on the global market prices may also have an effect on prices in coming months. Mills are still experiencing tight credit conditions and demand remains weak outside of government support programs.

Poor weather in South America has put further pressure on the market, prompting concerns over supplies for 2009. Domestic prices continue to rise as the $A falls.

Dairy

Global dairy prices fell a dramatic 10.4 % in January due to numerous factors. The falls were partially in response to the financial crisis and falling international demand, particularly in formerly growing Asian markets now spooked to some extent from the melamine scare of last year.

The international market was further rattled by announcements from the EU that export subsidies for various dairy products would resume. There is also a current glut in world dairy product supplies, increased production in NZ and to some extent Australia have added to the excess, but some comfort can be gained that the decline in prices eased toward the end of the month.

Sugar

International demand for sugar strengthened in January while supplies remained tight, resulting in an increase of 5.8% on last month's prices.

Competition into Asian markets has risen in the last couple of months due to freight prices decreasing, resulting in Brazilian sellers gaining cheaper access.

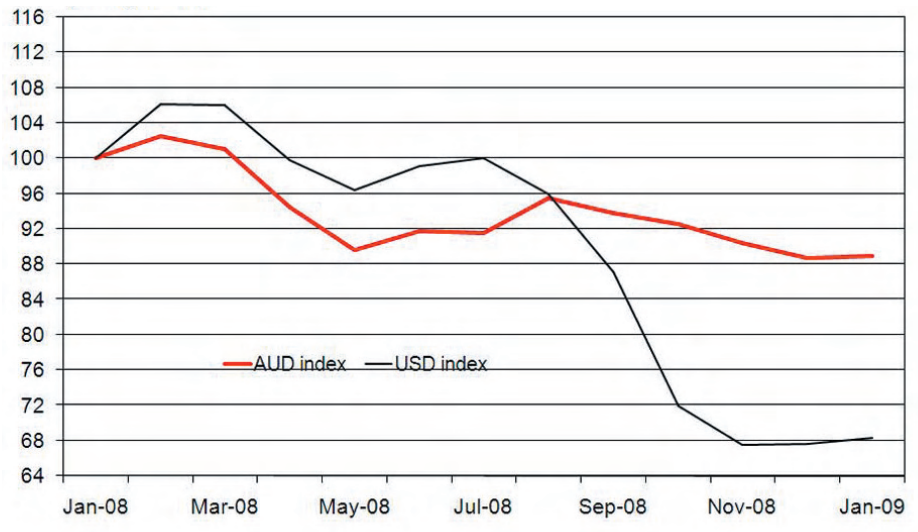
Earlier in the month, a nationwide trucker strike in India disrupted supplies, helping to drive prices higher. The strike came to close after five days, with it prices fell as supplies returned to the market.

A drop in production in India has prompted speculation of imports for sugar this year to meet domestic demand. Despite heavy rain early in the month, Brazil looks set to harvest a boom crop which may put pressure on global prices in coming months. The financial crisis has affected Brazils expansion of the sugar industry, with 46 large projects cancelled or postponed in the last month.

Wheat

The global wheat market lifted in January 8.2% from last month. Currently the market is well supplied from last year s record production, although global acreage is expected to be contracted and return to average yields in 2009 which could result in a global

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



deficit.

Export demand has fallen slightly this month, which has been offset by the fall in South American production due to the drought conditions. There is a growing perception that the supplies from the Black Sea are beginning to dry up, easing the dominance they had on the market last year, which may also be contributing to a lift in prices. Milling quality wheat is still in high demand, and the low value of the $A is assisting prices internationally, despite the delay in harvests.

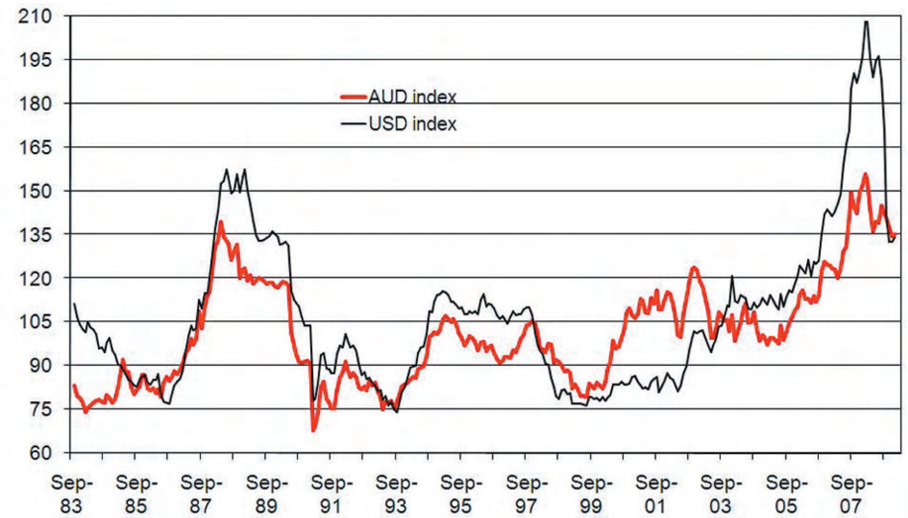
The EU and the Black Sea producers look set to have a large harvest this year, and sellers are keen to move last year s stock to make way for the next harvest. Prices are rising in the US due to the stock market stablising, the US dollar value dropping and the drought in South America. Planting in the US is down this year due to last year s falling prices, resulting in lower projections of production for 2009.

Wool

Global demand for wool was weak, with prices dropping 2% from last month. The economic downturn is still weighing on international demand; the first sales of 2009 indicate that interest and prices are down. Finer wool is bearing the biggest falls, with Italy showing little interest in the market.

Chinese buyers are showing some interest in lower grade wool to use for blending with already stocked higher quality wool. Interest early in the month and higher prices reflected a weaker $A and the need to complete contracts rather than a lift in the market. The biggest issue facing the market this year is the number of decreased herds globally. Australia has its lowest number of sheep since 1916.#

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 overshawdowed by oil, mineral and energy prices.

This index is updated on a daily basis and calculated in both $A 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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