



Economic Report

Rural Commodities Wrap

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October 2013

- **Global bond yields fell in September from the US Fed surprise decision not to initiate the tapering of its quantitative easing program. Meanwhile, commodity markets weakened further.**
- **The strong pace in the economic recovery in big advanced economies evident in the first half of the year has lost some sizzle in the latest data, despite more positive business surveys in the US and Japan.**
- **Within Australia, business and consumer confidence rose to more robust levels in September and forward indicators and capacity utilisation from the NAB survey also improved.**

The US Federal Open Market Committee (FOMC) surprised the markets by not announcing the start of a gradual phasing down in its asset purchases and that boosted share prices. We expect the Fed to announce in December that it will gradually cut back on its asset buying but the US Fed funds interest rate is only expected to start rising in the second half of 2015. Central banks in the other big advanced economies show little interest in lifting their low policy rates for a long time but, closer to home, the Reserve Bank of New Zealand could well begin lifting its cash rate next March.

The trend rise in global bond yields that began in April, as expectations firmed that the Fed would cut back its asset buying through the next year, did not extend into September. US 10-year bond yields, which had risen from 1.7% in April to 2.9% in early September, were down to 2.6% by the end of the month. As global bond markets have been moving in parallel with US yields, this shift in the US market fed through into other nation's bond markets and their yields fell too. Commodity markets have continued their downward trend.

The first half of 2013 saw a clear upward trend in activity across the advanced economies, but the latest data showed a modest setback to this picture of an economic upturn gradually gathering momentum. The rate of 3-month annualised industrial growth fell slightly in July and the level of industrial output levelled out or dipped slightly in North America and the Euro-zone. Purchasing manager surveys for the UK and the Euro-zone, although still consistent with industrial growth, turned down slightly. US and Japanese business surveys, on the other hand, have kept rising. Across the big emerging markets, recent trends have been mixed. The Chinese economy has been faring better than many feared with recent indicators of industrial output, fixed investment and retail trade failing to show any evidence of an economic "hard landing".

2013/14 Estimates, Rural Prices & Production		
Commodity	Production	Price
Wheat	21.0%	-16.0%
Beef	3.0%	-1.4%
Dairy	1.6%	27.4%
Lamb	-7.1%	15.8%
Wool	-3.3%	3.4%
Sugar	4.7%	-1.6%
Cotton	3.0%	18.3%
Oil	-	-0.2%

*Source: NAB Group Economics
These forecasts represent year-on-year average changes in Australian production and corresponding AUD prices between 2012/13 and 2013/14 financial years*

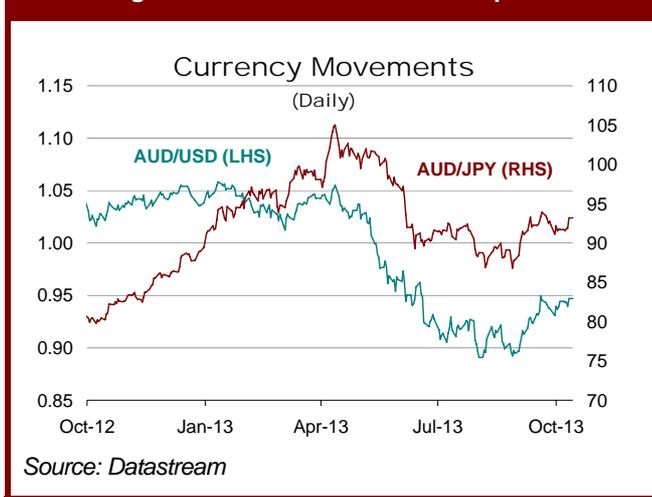
Within Australia, business and consumer confidence rose to more robust levels in September and forward indicators and capacity utilisation from the NAB survey also improved. These may be the first portents of stronger growth in the Australian domestic economy. For the time being, business conditions remain weak. Our forecasts are based on little change to the overall macroeconomic fiscal policy settings given the new government's objective of returning the Budget to surplus over the medium term. We have left our GDP growth forecasts broadly unchanged. We still expect quarterly growth to soften to 0.4% in the September quarter, before strengthening to 0.6% in Q4, yielding 2.3% in 2013 (was 2.2%). Consistent with this, the unemployment rate is expected to exceed 6% by year end. We have deferred our cash rate cut call to February due to the RBA seeming more comfortable about future conditions given the recent improvement in sentiment and asset (i.e. housing) prices.

In September, the prices of livestock continued their downward trend from last month as slaughter rates showed no signs of slowing. Dairy prices remained largely unchanged in September from the previous month but continued to track historically high levels from strong global demand when southern hemisphere supplies are ramping up. Global wheat prices turned the corner to be an upward trend due to lower forecasts of lower global supply from weather damage in South America. Cotton prices corrected marginally from the high base of August but continued to gain support from the Chinese government's purchasing activity. Meanwhile other soft commodities performed better, with wool prices rising from improvements in buyers' sentiment and sugar prices benefiting from worsened sugar cane harvest prospects in Brazil.

Currency Movements

Since the surprise decision by the FOMC not to initiate the tapering of its asset purchase on 19th September, followed subsequently by the US government shutdown, the AUD has been holding in a very tight range between USD 0.92 and 0.95, while awaiting the outcome of debt ceiling negotiations to be concluded. If the debt situation is resolved, the US economy can get back to recovering, and the FOMC is likely to proceed with the commencement of its tapering which will be USD supportive, conversely, AUD weakening. However, the shutdown is already creating some uncertainty with regards to economic growth in the quarter perhaps similar to that of a natural disaster but without the infrastructure spend. We expect the government shutdown to cause a 0.1% drop in the US GDP growth this quarter (annualised) for each week that the shutdown is in progress, followed by a rebound in the following quarter. This means that some volatility in FX will stem from distortion in the near-term US economic data. If there is a debt crisis, the reaction of the USD, apart from increased volatility, is unclear given we are entering uncharted waters. Currency markets have been buffeted by the European debt crisis, and have become accustomed to last-minute deals, and so are cautious about reacting ahead of time. Given this, FX participants are sitting on the side-lines, waiting for a resolution but cautious about the low-probability, high-risk crisis. In such times, currency markets are in stasis. The speculative market, evidenced by the IMM data, has seen a reduction in net short AUD and long USD positions; and while we have not had updated data due to the US Government shutdown, our analysts estimate that this position reduction has continued. Assuming a resolution of the crisis, they now forecast the AUD to maintain its momentum around USD 0.92 by the December quarter this year before gradually winding down to 0.84 by the end of 2014.

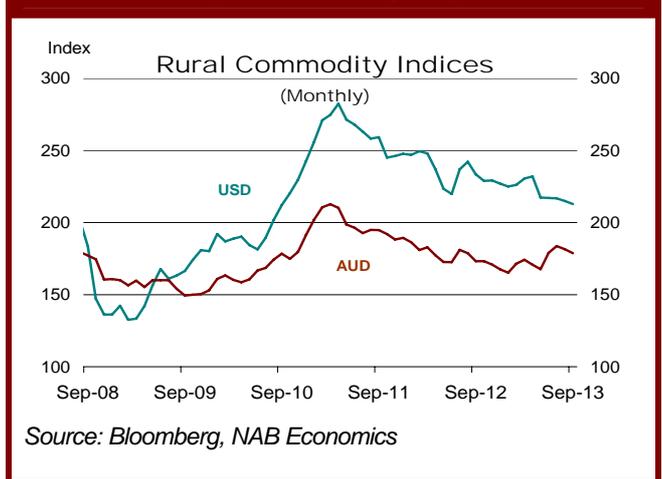
The AUD gained further momentum in September



NAB Rural Commodity Index

In September, the continued loss of momentum in the prices for lamb and beef, accompanied by a marginal (0.5%) appreciation in the AUD, witnessed a 1.5% fall in the NAB Rural Commodity Index in AUD terms in the month and a corresponding marginal decline of 1.0% in USD terms. After falling by 7% in August, lamb continued to lead the pack in losses in September again to fall by 8% in AUD terms. It was followed by beef (-3%), cotton (-3%), wheat (-1%), barley (-0.7%) and dairy (-0.5%). These were partly offset by rises in wool (+6%) and sugar (+1%). In the near-term, the declining trend in livestock prices, plus a potential correction in dairy and cotton prices, suggest that the risks to the commodity are skewed towards the downside, especially when the AUD is expected to maintain its strength against the USD in the next few months.

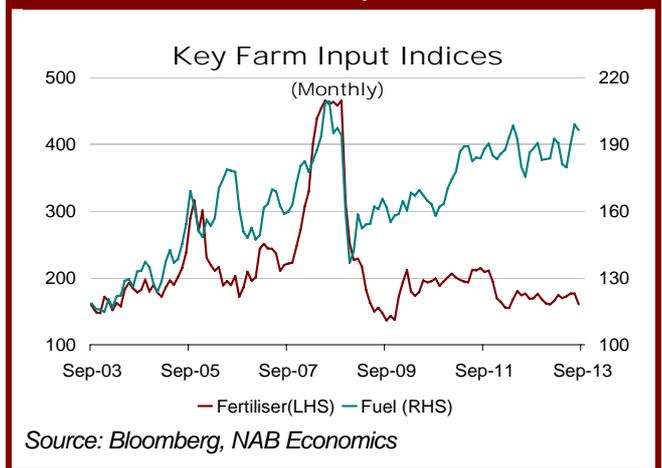
Rural Commodity Index fell marginally in the month



NAB Farm Input Indices

The global fertiliser market remained at historically subdued levels in September, but price movements were mixed across commodities. In AUD terms, a sharp fall was recorded in the price of Diammonium Phosphate (-5%), which was offset by rises in natural gas (+5%) and urea (+4%). The offsetting movements resulted in the overall index only recording a minor fall of 0.5% in the month. Sluggish global demand and an overhang of global inventories have kept a lid on fertiliser prices. China's low export tax window for Diammonium Phosphate and urea, which are currently in effect and will run through to mid to late October, have also ensured a consistent stream of nutrient exports from the country, keeping upward price potentials in check. The oil price index was unchanged in September, with domestic prices still reflecting the pass-throughs of the geopolitical uncertainties in the Middle East.

Fertiliser prices remained subdued but petrol prices still reflect Middle East crisis premium



NAB Weighted Feed Grains Price

Feed grain prices continued their downward trend September, as decent rains in key growing regions at the start of the month helped to ease previous concerns about a worsening winter crop outlook due to persistent dry conditions in the northern parts of the country and WA. The fall in the feed price index is consistent with a domestic futures market that is increasingly geared towards new crop prospects away from the tight old crop situation. In its latest commodity report, ABARES has forecast Australian coarse grains production to rise by 12% in 2013-14 on more a favourable weather outlook.

In Focus – Dairy

- **Global dairy prices have maintained at historically high levels despite Oceania peak production period now underway, supported by a strong pent-up demand from the downturn in supplies from New Zealand, US and Europe earlier this year.**
- **Globally, the high prices are beginning to entice a positive global supply response, with New Zealand and the United States likely to generate the greatest quantity of surplus milk to be processed into dairy commodities in 2013-14. In Europe many countries are showing strong growth in output but demand from their domestic market is currently soaking up the newly available milk.**
- **Sentiment of Australian dairy farmers has improved on more favourable price and production prospects but they have yet to see substantial cashflow impacts. The individual farms' ability to leverage on the improved margins and expand production is likely to vary widely, with many needing to pay down high debt levels and rebuild their stocks before they see any cashflow benefits.**

After a New Zealand drought-induced milk shortage sent dairy prices to record highs in April, dairy prices have remained at stubbornly elevated levels. The tightness in global supplies was further compounded by a weak US and EU production season in the Northern Hemisphere spring, which subsequently contributed a large pent-up demand that is only recently experiencing some relief from increasing supplies in NZ and Australia as they commenced their 2013-14 production season. In early August, the alleged discovery of some potentially botulism-causing bacteria in a whey sample from Fonterra, the largest dairy company in the world based in New Zealand, prompted large-scale product recalls and import bans by China, Vietnam and Russia.

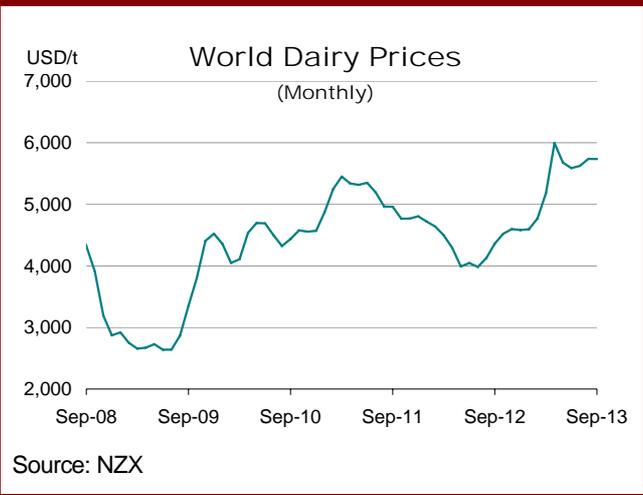
Sustained high dairy commodity prices have left those buyers who had been waiting for prices to recede initially to have no choice but to pay high prices to secure supply. Since the start of this year, strong import demand from China was the main market mover, as its domestic production was constrained by high feed costs, favourable weather conditions and outbreaks of Foot and Mouth Disease. Nonetheless, longer-term supply-side restrictions remain in the form of the fragmented supplier network of small farms, and increasing competition for scarce farm land and labour resources.

Further exacerbating the global supply shortage issue has been Fonterra's decision to reduce the volume of product it has forecast to offer for sale on GlobalDairyTrade (GDT) as competing demand from alternative sources have become more lucrative for Fonterra. The products that it plans to offer on GDT will mainly be focussed on the higher-valued segments. GDT is the world's largest online auction platform for internationally-traded commodity dairy products and it has market-price setting power in many commodities which often become industry benchmarks factored into contract negotiations around the world.

Globally, the high prices are beginning to entice a positive global supply response, with New Zealand and the United States likely to generate the greatest quantity of surplus milk to be processed into dairy commodities in 2013-14. In Europe many countries are showing strong growth in output but it is mostly absorbed by domestic consumption. While it has been relatively slow to come that surge is beginning to build in most of the main milk exporting countries. New Zealand and the United States are expected to generate the greatest quantity of

surplus milk, available for manufacture into dairy commodities suitable for export. In Europe many countries are showing strong growth in output but demand from their domestic market is currently soaking up the newly available milk.

Dairy prices stayed at historically high levels



The northern hemisphere is currently going through its low-point in the annual production cycle meaning that global market attention is focussed on the southern hemisphere producers. New Zealand has experienced a robust start to its production season, with milk intakes reported to be very strong in August and September, so much so that milk intakes needed to be freighted from North Island to South Island where there is more processing capacity. So far the increase in production has not had a dampening effect on prices, with most of it being absorbed by existing orders. In comparison, Australia's production season started on a weaker note, with year-to-date milk flow (comprising July and August production) being around 4% lower than the season last year, according to the latest data from Dairy Australia.

However, ample irrigation water supplies and better-than-normal pasture growth conditions are pointing to reasonably solid production prospects in Oceania and this could temper near-term upward price potentials. Overall, we see 2013-14 New Zealand milk production rising around 6% on the previous season which was significantly set back by drought conditions. At this early stage, risks around this forecast are probably tilted to the upside. For Australia, we expect milk production to rise by 1.6% to 9.5 billion litres, which still represents a very solid outcome in terms of overall production levels, particularly given the decreasing dairy herd size.

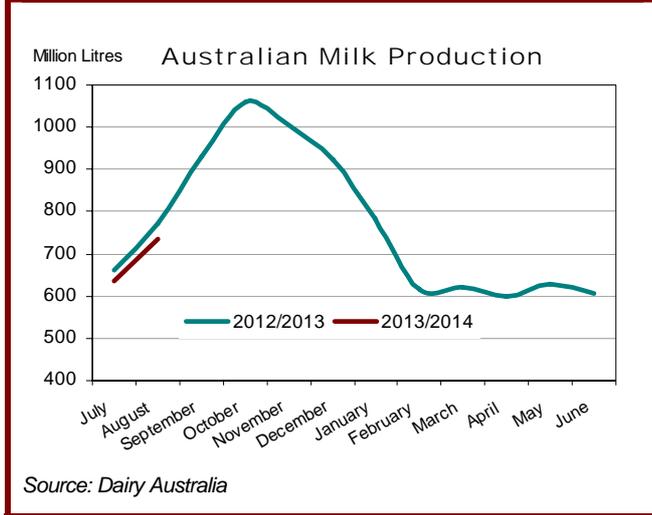
Looking ahead, we expect price movements to remain bullish through the rest of 2013 as Oceania supplies play catch up with existing and new orders. Overall, we expect 2013-14 global prices to average moderately higher than 2012-13, driven by continuing firm growth in import demand, particularly from the developing countries of Asia. However, once the pent-up demand situation eases and market dynamics converge to a more sustainable balance, prices are likely to experience some form of correction, which is long overdue, especially during the early months of 2014 when the Northern Hemisphere production season is more in focus.

Australian Outlook

2012-13 represented a year most dairy farmers would rather forget. A confluence of factors: constrained milk output due to ongoing dry conditions, low milk prices and lack of fodder availability which led to a widespread cash cost increase has

constituted a perfect storm for the dairy industry. As a result, the financial conditions of dairy farms have been dealt with a serious blow. According to the Australian Bureau of Agriculture and Resource Economics and Sciences (ABARES), the average farm cash income for dairy farms is estimated to decline from \$143,200 per farm in 2011–12 to \$87,000 in 2012–13, a staggering 39% fall to be around 2% below the average for the 10 years to 2011–12. In particular, dairy farms in South Australia and western Victoria were the worst-hit and are estimated to have experienced the largest fall in farm cash income in 2012–13.

2013-14 year-to-date milk production is slightly lower than the same period last year



Encouragingly, the 2013-14 season is off to a more positive start. The season's opening prices for liquid milk and milk solids at farm gate have lifted by an average of 20 to 25% for southern exporters, as a number of major milk processors, including Murray Goulburn Co-operative and Fonterra Australia have announced significant step-ups in the liquid milk and milk solids prices they are prepared to offer farmers. On average, milk opening price is currently around 42-45 cents per litre, while milk solids this season should exceed AUD \$6/kg. Farmgate prices for northern producers are also expected to rise with the general tide, but not to the same degree. This is because the farms in Queensland, NSW and WA are mainly producing milk for domestic consumption, which typically gear towards a year-round supply of stable milk market and have very limited exporting activity. While southern farmgate milk prices are responding to an upswing in export demand at the moment, northern prices are significantly less responsive.

Providing further impetus to this season's dairy industry outlook has been a notable improvement in seasonal conditions with ample rainfalls in the southern states during autumn and winter, coupled with a timely fall in the AUD.

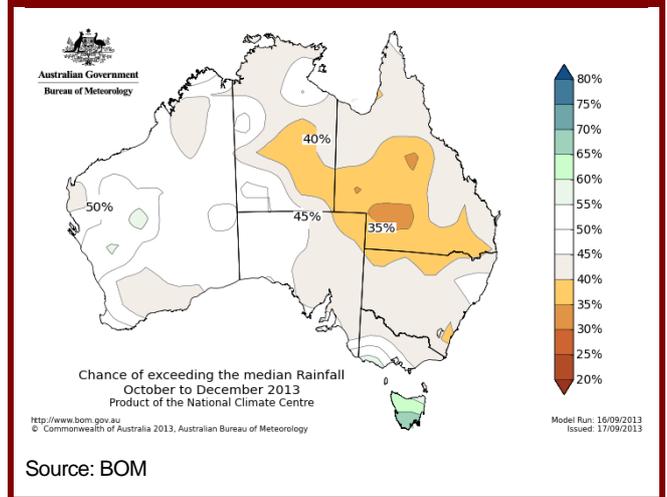
On the production side, however, the new season's year-to-date milk flows have not shown signs of a pick-up in response to the strong price signals. In fact, all milk producing regions in Australia have recorded slightly lower total milk flows for July and August combined, compared to the same period last year. According to Dairy Australia, marketing year-to-date milk flows in Australia in August is around 4% lower than that of 2012. The overall trend in Australian production is dominated by trends in Victoria, which is responsible for about two-thirds of the total Australian production. Victoria showed a similar magnitude of fall in milk production year-to-date, but wide regional variations exist. The northern region is the best performer, which showed a cumulative 1.5% increase in August compared to the same time last year, while the western region's 8% fall has a

disproportionate impact on the overall state average. In all other states, production falls ranged from the least of 0.5% in Western Australia to the largest 9% in South Australia, but their production volumes are relatively small compared to Victoria's.

While we are still in the early stages of the new marketing year, this year's relative underperformance so far suggests that there are downside risks to our earlier forecast of 9.5 billion litres of milk for 2013-14. Despite that, we expect milking activity to pick up in the coming months from a moderate rise in dairy herds as the seasonal calving farms see a return of lactating cows to their herds, and improved yields following a return of more favourable weather conditions. As grain and fodder accounts for around 25% of dairy farmers' cash costs, lower supplementary feed prices from an expected bumper crop of grains this year is expected to result in increased feeding of supplements and higher average milk yields in 2013–14. The availability of irrigated water supplies will not be a constraint either, with the Murray-Darling Basin currently around 80% full. Meanwhile, average rainfall conditions are forecast for the upcoming months in key dairy producing regions of Victoria, New South Wales and Tasmania.

Reflecting the more optimistic outlook in dairying conditions, 73% of farmers surveyed in the update of the National Dairy Farmer Survey conducted in August cited that they were fairly-to-very positive about the future of the national industry, up from 44% in February. At this stage, the turnaround in input conditions has yet to filter through to cashflows. The individual farms' ability to leverage on the improved margins and expand production is likely to vary widely, with many needing to pay down high debt levels and rebuild their stocks before they see any cashflow benefits.

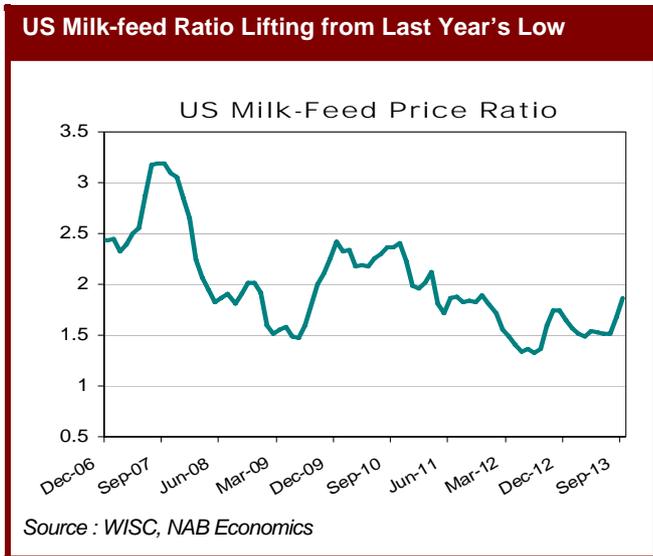
Normal rain conditions likely for key dairy producing regions in the next few months



US Outlook

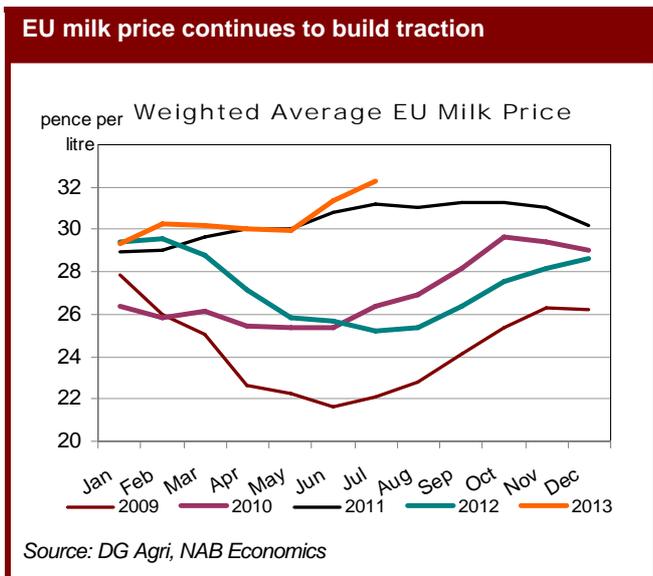
Dairying conditions in the US have improved over the last few months to record noticeable pickup in July and August. Much of the growth in 2013 has been concentrated in Midwestern states like Wisconsin; while in the west, Californian production has only recently ended a cycle of contraction. An early-July heatwave dampened production for several weeks, but milder conditions and episodes of decent rain since then have led to partial recovery. A return of more normal seasonal conditions after the worst drought in more than 50 years last year will witness a bumper grain crop in the US this year, with forecast lower feed grain prices expected to lead to an increase in the milk-to-feed price ratio and improved profitability in the dairy sector. This will entice dairy farmers to rebuild their herds. This, together with continued gains in milk yields, will be the main drivers for a rise in production in 2014.

Given the partial shutdown in the US government that is currently in place, the US Department of Agriculture (USDA) has not issued any new agriculture updates since 30th September. The World Agricultural Supply and Demand Estimates (WASDE) released in mid-September has forecast US 2013 milk production to rise by 1.5% relative to 2012 to reach 201.8 billion pounds (91.7 kilo tonnes), and gain further traction to 204.5 billion pounds (93.0 kilo tonnes) in 2014.



EU Outlook

The European milk production season got off to a slow start this year from a prolonged, harsh winter which saw a delayed arrival of spring weather. Unseasonably wet and cold conditions in the first quarter of the marketing year have impeded fodder harvests significantly. These, combined with high feed grain prices, have further impacted the margins. Overall, EU-27 milk deliveries were 1.2% lower (in seasonally adjusted terms) in the first half of 2013 compared to 2012



As a result of the supply shortage built up for the first half of this calendar year, farm gate milk prices rose to elevated levels, with prices in July averaging 17% above the 5-year average. The eventual improvements in seasonal conditions and the sustained high prices subsequently triggered a positive supply response from a number of countries such as Ireland, Germany and Netherlands. Some other countries such as

France and the UK have also shown improvements in production but the first movers have shown more ability to adjust their production capacity at short notice and are likely to be the ones which can expand their production quite readily when the EU milk quota is abolished in 2015.

Comments from the field

The dairy industry is in recovery mode from the very expensive season last year for milk production primarily caused by extreme weather. The outlook for dairy is positive after coming out of a dry autumn that has put pressure on fodder reserves. Confidence is slowly improving with solid opening prices for this season and anticipated favourable seasonal conditions coupled with continued strong demand for commodities globally.

Kathryn Davies, Regional Agribusiness Manager, Southeastern VIC

The WA dairy industry is continuing to show a general improvement in conditions, with confidence levels amongst producers high going into the spring months. The winter months in South West WA have been the wettest for many years - after a near record dry June conditions have been very wet in July - September. Temperatures during the winter months have been warmer than normal and along with the wet finish to winter pasture levels going into spring are at some of the highest levels for many years. Wet conditions have seen a delay to the traditional hay season which normally starts in early October, in most areas conditions remain too wet to access paddocks. The very high pasture levels should see hay and silage crops well above average, which will provide farmers with a very good feed base going into the summer months. This will see production levels over the coming months increase significantly.

Over the course of the last 6 months the 3 Milk processors in WA have provided price rises ranging from 2 - 4 c/litre. With a solid feed base many farmers are retaining young stock or purchasing in cows to increase their milking herds to increase overall production levels and take advantage of increased prices. Going into the summer months confidence levels are high as farmers look to offset rising costs and undertake much needed capital expenditure where possible.

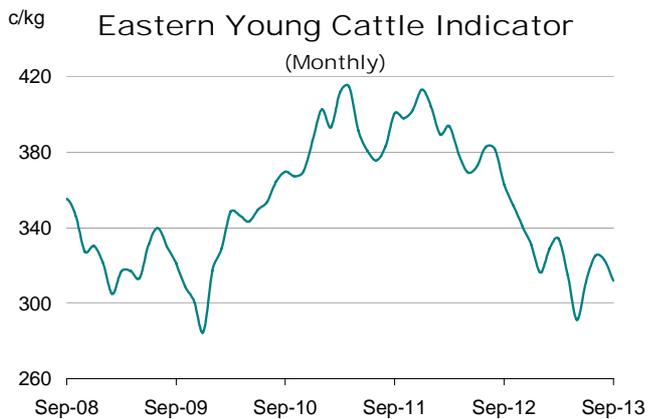
Chris Omodei, Agribusiness Manager, Bunbury, WA

Industry sentiment has improved but still awaiting positive cashflow impacts. The average price in 2012/13 season was \$5.05 kgMS and predicted final numbers for 2013/14 are above \$6 kgMS. The significant price increase this season is providing for some excellent cashflow forecasts, although actual cashflow is still short largely due to unpaid creditors from last season and new season water bills coming due. Majority of NAB clients in Central Vic are looking to grow cow numbers as quickly as possible to maximise volume and take advantage of higher returns. Supported by most farms finishing spring calving, this is already pushing cow prices up. Temporary irrigation water is consistent at \$70 per meg, however with water traders struggling to find water vendors this price may rise as the season dries up into Summer.

Megan Hodge, Agribusiness Manager, Shepparton VIC

Key Commodity Prices

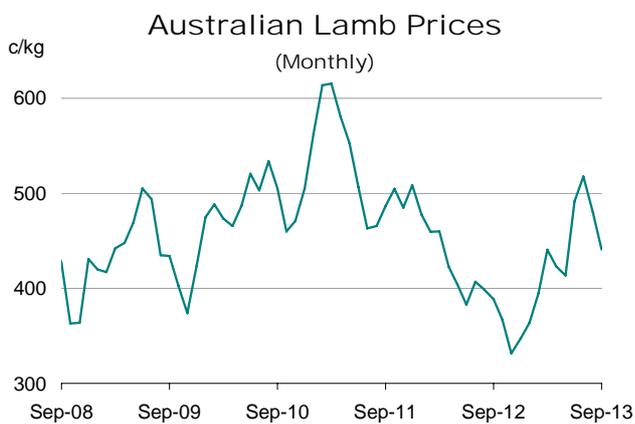
Cattle prices continued their fall on high slaughter rates and persistent dry conditions in northern Australia



Source: MLA

Cattle prices continued their downward movement in August to fall marginally in September, with producers' sentiment weighed by the continued dry conditions and high temperatures in the northern part of the country which turned out to be the hottest September on record for Queensland. In contrast, warm temperatures with decent rainfalls in south eastern Australia continue to create superior conditions for producers there. The offsetting performances between the north and south saw the Eastern Young Cattle Indicator (EYCI) fall by 1% in the month to be 15% below the same time last year, which was the start of a steep decline in cattle prices after two very good years. Despite the AUD rising over August and September to average around 92.5 US cents in the month, beef and veal exports have maintained momentum to record close to 95,000 tonnes swt, the highest September on record. Exports to the largest export destination of Japan were subdued to be 6% lower than the same time last year, but this was more than counteracted by significantly stronger year-on-year performance by the US, Korea and emerging countries.

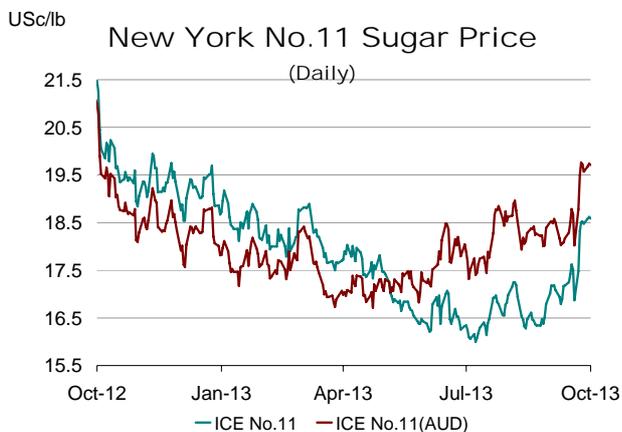
Lamb exports to China set a new monthly record in September



Source: MLA

Similar to the trend in beef prices, heavy lamb prices fell by 8% in September to average around 441 AUD cents per kilo, as the persistent dry and hot weather in the north impacted on the quality of lamb offered by those regions. Meanwhile, supplies were ample in the south. Yardings across major producer regions in Victoria, such as Ballarat, Horsham and Bendigo surged in the final week of the month, with the arrival of new season's lamb also propping up supplies. Average eastern states weekly lamb slaughter for September, as collected by MLA's National Livestock Reporting Service, totalled 352,511 head – a rise of 2% when compared to the corresponding period last year. There was also a 10% lift year-on-year across the eastern states in lambs supplied at physical markets. The large number of light-weight new season lambs and general availability of feed supplies have presented purchasing opportunities for restockers, who generally paid a lower price to trade weight replacements. Exports of lamb were also resilient in the month, reaching 17,114 tonnes swt which represents an increase of 22% on the same period last year. Exports to China set a new monthly record in September to amount to 4,371 tonnes swt and account for 26% of total exports.

Global sugar prices rose on a more pessimistic Brazilian production outlook



Source: Bloomberg

Global sugar prices were boosted by a number of bullish factors in September to rise by 2% in monthly average terms. After experiencing a sharp depreciation between early May and late August and dragging down sugar prices with it, the Brazilian real turned the corner and rose by 3.5% in September, which in turn provided some fundamental support to sugar prices. Moreover, the advent a number of major global events in the month, such as the easing of the Syrian conflict and the subsequent "surprise" decision by the US Federal Reserve not to initiate the reduction of the pace of its monthly asset purchases also provided some positive price impetus to the sweetener. However, the biggest driver in the month had been the news of excessive rains which hampered sugar cane harvesting in Centre South of Brazil, a region that accounts for around 90% of Brazilian sugar production. Subsequently, a downgrade in the forecast cane harvest for 2013-14 by UNICA, the Brazilian Sugar Cane Industry Association, by 0.4% to 587 million metric tonnes caused sugar prices to skyrocket to the highest in more than six months towards the end of September/beginning of October.

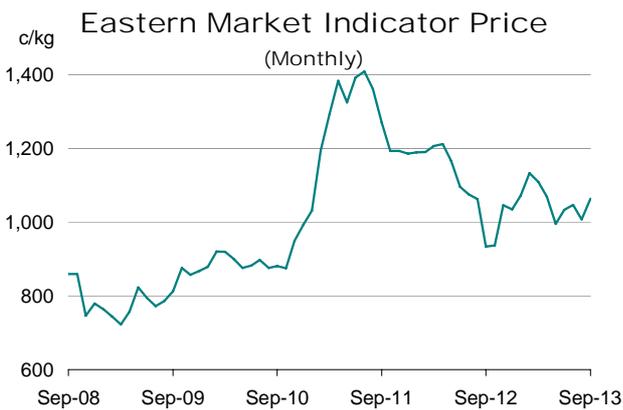
Cotton prices moderated from speculation-driven rally in August but remained at elevated levels



Source: Bloomberg

According to ICE#11 Index, cotton prices fell by 3.5% in September from a high base in August to average around 84.3 US cents per pound. A sharper than expected reduction in the global supply forecast in the September issue of US Department of Agriculture (USDA) World Agricultural Supply and Demand Estimates (WASDE) Report triggered a sharp but short-lived speculative rally in mid-August, but prices soon unwound as non-commercial investors reduced their net long positions in cotton futures by nearly half in the ensuing two weeks. Despite starting on from a lower base, market developments in the month were mostly price-supportive. The start of the stockpiling season by the Chinese government for the 2013 crop as well as reported poor weather conditions in major producers of the US, China and India towards the end of the month helped to put prices on an upward trajectory, only partly counteracted by the revised forecast by the USDA of a higher 2013-14 world ending stock of 94.7 million bales from 93.8 million bales in the August report. This level represents 10.0% higher than last crop year and more than 50% higher than the record levels that existed prior to the 2010/11 spike in fibre prices, but 60% of it is accounted by China. Looking ahead, the slowing in the pace of import accumulation by the Chinese reserve system is likely to weigh on cotton prices in

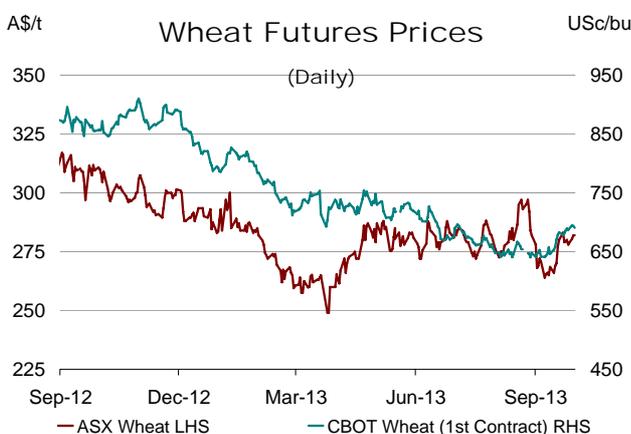
Wool prices stayed resilient as improved buyers' sentiment keeps demand robust



Source: Bloomberg

Australian export wool prices, indicated by the Eastern Market Indicator (PMI), rose marginally to 1064 AUD cents per kilo in September. Activity in the month was generally supported by more positive sentiment amongst major buyers, following on the views expressed by participants in the annual Nanjing Wool Market International Wool Trade Conference that “the worst economic conditions are now behind us”. This, combined with low new season supplies, saw the wool market start on a strong note in September, and prices rose by 6% in the first weekly auction of the month. However, a notable rise in the AUD in the first half of September, coupled with a relative few buyers in the market, subsequently took some sizzle out of demand in the following two weekly auctions. This, combined with a positive supply response to the high prices in the preceding weeks, served to dampen prices to some extent. Looking ahead, the wool market continues to be subjected to volatility from lumpy, just-in-time buying activity by major buyers, especially China, but a recovering global demand is likely to offer some price support.

Domestic wheat basis fell on the easing concerns of weaker crop prospects in NSW and WA



Source: Bloomberg

Global wheat prices turned the corner in September to be on a long-term uptrend, after touching a 13-month low in August on the Chicago Board of Trade. Despite staying largely unchanged in monthly average terms, CBOT 1st contract wheat prices were 5% higher over September, driven by a lower forecast in global supply after reported severe crop losses due to frost in Brazil and Paraguay, and weakened prospects in Argentina due to dry conditions. As such, Brazil is likely to be a wheat net importer in 2013-14, mainly relying on supplies from the US. Demand for US wheat is also likely gain further support from China, wheat imports are expected to reach the highest in years from a poor quality harvest that sent local prices soaring. In Australia, wheat prices remain highly resilient in the transition period towards new crop harvest while the old crop situation remains tight. However, prices did fall substantially in early September as episodes of decent rain in key growing regions eased concerns of a drought-induced fall in winter crop production, but they have since returned to around the average level in the past 5 months.

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