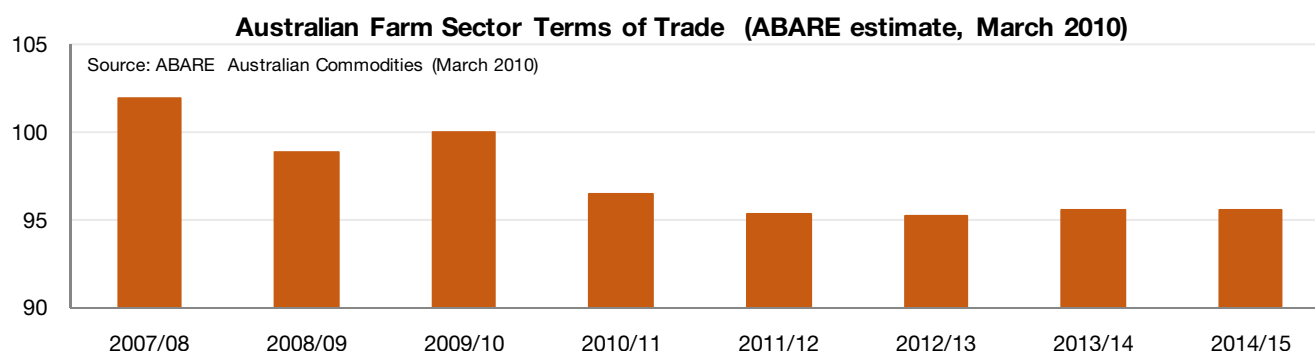


## ABARE Outlook Conference – Summary

### Key Points

ABARE held their 2010 Outlook Conference last week. At the same time they released their March 2010 Australian Commodities report. We provide a summary of ABARE's outlook.<sup>1</sup>

- **Wheat** prices to remain depressed in 2010/11 because of large global supplies
- **Coarse grain** prices tipped to decline as higher production offsets higher use.
- **Oilseed** prices forecast to firm throughout 2010/11 due to strong demand.
- **Cotton** prices to will benefit from several years of low production and improving economic conditions.
- **Sugar** prices will remain supported in the next 12 months because of the international supply shortage.
- **Wine and wine grape** prices are expected to remain low over the medium term, pressured by excess capacity.
- **Beef** prices may come under pressure from export competition; however herd rebuilding will provide support.
- **Sheep and lamb** prices should be supported by firm demand and constrained supplies.
- **Pork** prices are forecast to remain significantly higher than their recent 5 year average.
- **Poultry** industry growth is expected to remain strong over the medium term.
- **Wool** prices are forecast to rise over the next 5 years because of tight supplies and improving demand.
- **Dairy** prices should be supported by improving economic growth and the westernisation of diets in Asia.
- **Farm profitability** is forecast to deteriorate in 2009/10, mainly because of poorer performance of NSW and Qld broadacre cropping properties and weaker dairy industry performance. The net value of farm production is forecast to gradually improve from 2012/13.
- The value of **farm exports** are forecast to fall 9.5pct in 2009/10 to \$29bn and remain near that level in 2010/11, before recovering to \$36.3bn by 2014/15 (nominal terms).
- **Farm sector terms of trade** are expected to decline from 2009/10 to 2012/13 (down 4.8pct) before stabilising through to 2014/15.



<sup>1</sup> Unless otherwise stated, the views expressed in this report are that of ABARE.



## Grains & Oilseeds Outlook

### Wheat

- Relatively large global wheat supplies (production plus stocks) are expected to place downward pressure on prices.
- World wheat production in 2010/11 is forecast to fall 2pct. However this is expected to be offset by higher beginning stocks.
- US wheat exports in 2009/10 are at their slowest pace in 30 years owing to stronger export competition, particularly from the Black Sea region.
- Australia's wheat production in 2009/10 is forecast at 21.7mt (in line with CBA estimate) while planting in 2010/11 is forecast to be slightly lower than 2009/10 (CBA forecast a 5pct fall in Australia's wheat area for 2010/11, with production forecast at 20mt).
- Australia's wheat export earnings in 2010/11 forecast at ~\$3.8bn, down 4pct from 2009/10.
- Long term global wheat stocks are forecast to gradually fall from 31pct (2009/10) to 27pct by 2014/15. (*CBA comment: This is not a significant decline and downside risks to stocks may exist.*)
- Globally, the proportion of wheat used for livestock feeding purposes is expected to grow over the medium term.

### Coarse Grains

- Higher carryover stocks, namely a result of larger world corn crops, are expected to weigh on coarse grain prices in 2010.
- US corn acreage in 2010/11 (planting over next month) is expected to exceed last year's large area. World barley production is forecast to fall in 2010.
- Ethanol is expected to be a significant driver of world coarse grain demand, as livestock feeding demand is expected to be weak.
- Australian sorghum area in 2009/10 is forecast 43pct lower than 2008/09 due to insufficient planting rain.
- Global coarse grain stocks are forecast to be under pressure over the medium term as demand growth outstrips yield advancements. This is supportive medium term prices.
- Long term growth in ethanol consumption is expected to be the primary source of new demand growth.

### Oilseeds

- World soybean production is tipped to fall in 2010/11 after huge crops in 2009/10. Canola production may rise but will not offset the smaller soybean crop, resulting in lower total oilseed production.
- Strong vegetable oil and protein meal demand is expected to drive overall oilseed demand in 2010/11, particularly in Asia. This strong demand profile is tipped to support prices.
- Long term growth in biodiesel consumption is expected to be the primary source of new demand growth in the oilseed sector.
- ABARE highlight the growing significance of South America: *"The potential for Brazil and Argentina to further extend their influence on the world grains and oilseeds market is substantial, and is driven by the potential availability of land for cropping and continued increases in productivity. Further development of infrastructure, particularly transport, in these countries would significantly enhance their competitiveness."*



## Cotton Outlook

### Near term

- Recent falls in global cotton production and improved economic conditions should support cotton prices in the near term.
- World cotton production is forecast to rebound sharply in 2010/11 as producers respond to higher prices. However continuing tight stocks should support prices over this period.
- Australian cotton lint production in 2009/10 is forecast at 371kt, up 13pct from 2008/09.
- Widespread flooding rain in key regions throughout early 2010 is setting up 2010/11 domestic cotton production.

### Medium term

- Improvements in cotton yield may slow over the next 5 years as the global adoption of GM cotton nears saturation point.
- Cotton's share of total apparel consumption should continue to decline, losing share to polyester. The main factors influencing the world demand for cotton are world population and economic growth and the price of cotton relative to competing apparel fibres, particularly polyester.
- When water is abundant, Australia has the capacity to plant over 500,000 hectares. From 2007/08 to 2009/10 Australia's cotton area has been only 63,000, 164,000 and 202,000 hectares. ABARE expects Australia's cotton area to improve to 345,000 hectares in the medium term.
- Government water buybacks have only had a minor affect on potential cotton production capacity to date.

## Sugar Outlook

### Near term

- World sugar prices are forecast to average over US\$23/lb in 2009/10 because of the failed 2009 Indian monsoon reduced yields in Brazil. Current stocks are extremely tight.
- Downward pressure to prices throughout 2010 will be the result of an anticipated recovery in global production in 2010/11.
- The international sugar balance is forecast to return from a deficit of 5mt in 2009/10 to a surplus of 5mt in 2010/11, with much of the production increase forecast in India. Brazilian, Thai and Australian output is also forecast higher.
- Forecast high world sugar prices will deliver favourable returns to Australian cane growers in 2009/10 and 2010/11, despite the strength of the Australian dollar.
- Australian cane production in 2010/11 is expected to increase 7pct, reversing the decline in cane areas from 2002/03. Australian sugar production in 2010/11 is forecast at 4.8mt, up 0.3mt from the prior year.

### Medium term

- Over the medium term, global sugar stocks are forecast to rise resulting in downward pressure on prices. Big production increases over the medium term are expected in Brazil with area forecast to be 36pct higher in 2014/15 than in 2009/10.
- Global sugar consumption growth is forecast to slow from 2.5pct pa in the 10 years to 2008/09 to 2.1pct pa over the next 5 years. Factors affecting the demand for sugar are population growth; consumer incomes; the prices of alternative sweeteners, particularly high fructose corn syrup; and, increasingly, a range of low calorie artificial sweeteners.
- Indian government sugar policies and developments within the global ethanol industry (particularly in Brazil) will be important to the fortunes of the sugar industry over the medium term.



## Wine and Grapes

- Domestic wine grape prices are expected to remain low over the medium term, pressured by excess local capacity issues. Global supply is abundant and there remains a continued trend toward bulk wine shipments.
- The domestic wine grape area is expected to be smaller in 5 years time. Research from industry bodies estimates that 20pct of Australia's bearing vines are unprofitable.
- Australian wine drinkers are increasingly looking offshore. In 1998/99 imported wine accounted for 5pct of total sales, but by 2008/09 they account for 14pct. Most are white wines from New Zealand.
- Australian per person consumption is projected to increase by about 1.5pct a year, increasing to around 24.5 litres a person by 2014/15.

## Beef and Veal

- The Australian weighted average saleyard price for beef is forecast to be around 279c/kg in 2009/10 and 272c/kg in 2010/11, compared with 296 c/kg in 2008/09.
- The forecast lower domestic beef prices in the short term mainly reflect the effect of increased competition for Australian beef in key export markets – namely increased US competition to Japanese and Korean markets – and the high Australian dollar. Herd rebuilding is the main upside risk to ABARE's near term outlook.
- In the medium term, the Australian cattle herd is projected to increase gradually on the assumption of favourable seasonal conditions. The herd is projected to grow by almost 3pct to 28 million head by the end of 2014/15.
- Australian beef consumption per person may fall from 34kg in 2009/10 to 28.9kg by 2014/15.
- ABARE expects the recent modification to Australian beef import conditions (with respect to BSE) will have only minor implications to Australian beef imports and the Australian beef industry.

## Sheep meat

- ABARE expects the domestic sheep industry to continue to focus on meat production as opposed to wool.
- The Australian weighted saleyard price of lambs is forecast to increase by 3pct in 2010/11 to average 450c/kg. Reduced lamb production combined with increased demand is forecast to result in higher prices. Prices over the next 5 years are expected to remain strong.
- The long run trend of declining national sheep flock is expected to continue this year, however the flock is expected to begin to gradually rebuild from 2011/12 to reach 72m head by 2014/15 (71.6m head at 30 June 09).
- Lamb consumption per person is expected to remain relatively stable at 10.4kg over the next 5 years; however consumer substitution to cheaper protein sources is a risk to the consumption outlook.

## Pork

- Pork prices in the next few years forecast to remain significantly higher than their recent 5 year average.
- Over the outlook period, the pig to feed grain price ratio, which is an indicator of returns from pig production, is expected to remain largely unchanged from current levels.
- Domestic pork production is tipped to be largely unchanged in 2010/11 at 329kt but may increase to 338kt by 2014/15. Exports are forecast to remain mostly steady.

## Poultry

- Over the past 2 decades local poultry consumption and production has grown strongly (~ 4pct per year), and this



trend is tipped to continue in the near term.

- Per person chicken consumption is the highest amongst the meat groups. Furthermore consumption is tipped to expand from 38kg per person per year (2009/10) to 41.7kg pp/yr by 2014/15.
- Over the next 5 years retail prices for fresh whole chickens are forecast to fall in real terms as lower production costs and increased supplies put downward pressure on prices.

## Wool

- The Australian Eastern Market Indicator (EMI) price for wool is forecast to average 920c/kg (clean) in 2010/11, which is an increase of 6pct vs 2009/10. Prices are forecast to continue to rise gradually over the next 5 years.
- The ongoing decline of the Australian sheep flock and increased demand for textiles are the principal drivers of the forecast rise in the price of wool.
- Shorn wool production in 2010/11 is forecast to fall 3pct in 2010/11 to 320kt (greasy equivalent). A very gradual recovery in shorn wool production is forecast from 2012/13, with an increasing proportion of fine wool production. Exports are forecast to follow the same pattern.
- In the medium term, world wool consumption is expected to remain under pressure because of consumer trends and competition from synthetics and cotton.
- China imported over 70pct of Australia's wool in 2009/09 and is expected to remain the dominant buyer over the next 5 years. India is also becoming increasingly important.

## Dairy

### Global Outlook

- Global dairy prices recovered strongly in 2009/10 after falling sharply during the Global Financial Crisis.
- In 2010/11, world prices for most dairy products are forecast to rise, driven by increased demand for dairy products in developed and major dairy importing developing countries. Recent culls to dairy herds in the EU, US and Australia will constrain the global production response.
- Longer term prices are forecast to remain firm. Increased global demand for dairy products is due to income and population growth as well as changing diets in favour of dairy, particularly in developing countries.
- Milk production in most major producing nations is forecast to increase after the downturn of 2009/10. In the medium term production is expected to grow in non traditional countries such as China, India and South America.

### Domestic Outlook

- Despite assumed higher global prices, the expected strong Australian dollar is likely to remain a constraint to domestic prices.
- Australian milk production is forecast to decline by around 5pct to 8930m litres in 2009/10. Most the decline is expected in Vic/Tas where farmers are more focused on producing manufacturing milk and thus more exposed to fluctuations export markets. Years of low water availability has resulted in significant herd cull in NE Victoria.
- Domestic milk production should gradually recover from 2010/11 through to 2014/15 driven mainly by improved seasonal conditions and productivity increases.
- The value of dairy exports in 2010/11 is expected to grow by 7pct to \$2bn. The value of exports is expected to remain mostly steady (in real terms) over the next 5 years.

## Farm Performance

- Overall, broadacre farm financial performance is projected to decline 18 pct in 2009/10, reversing some of the improvement recorded in 2008/09.



- Reduced farm cash incomes are expected for broadacre farms in NSW and Qld as a consequence of reduced crop production combined with lower grain prices and reductions in receipts from beef cattle.
- In Victoria, South Australia and Tasmania, farm cash incomes are projected to rise because of improved seasonal conditions, increases in winter crop production in 2009 and higher prices for wool, sheep and lambs. In Western Australia farm cash incomes are projected to be lower than in 2008/09, but remain relatively high.
- Average farm cash income for dairy farms is projected to decline further in 2009/10 in response to lower prices for manufacturing milk, continued dry conditions and low availability of irrigation water in some dairy regions.
- New investment in vehicles, farm equipment and improvements in 2008/09 was the highest recorded in the past 20 years. Overall, broadacre and dairy farms had strong farm equity at 30 June 2009 and debt servicing has been assisted by historically low interest rates in 2008/09 and 2009/10.



## Research

Commodities		Telephone	Email Address
David Moore	Base & Precious Metals, Oil	+612 9118 1099	MoorDa@cba.com.au
Luke Mathews	Agri Commodities	+612 9118 1098	luke.mathews@cba.com.au
Lachlan Shaw	Iron Ore, Coal, Steel, LNG	+613 9675 8618	lachlan.shaw@cba.com.au

Economics		Telephone	Email Address
Michael Blythe	Chief Economist	+612 9118 1101	michael.blythe@cba.com.au
Michael Workman	Senior Economist	+612 9118 1019	michael.workman@cba.com.au
John Peters	Senior Economist	+612 9117 0112	john.peters@cba.com.au
James McIntyre	Economist	+612 9118 1100	james.mcintyre@cba.com.au

Fixed Income		Telephone	Email Address
Adam Donaldson	Head of Debt Research	+612 9118 1095	adam.donaldson@cba.com.au
Jarrold Kerr	Interest Rate Strategist	+612 9117 0013	jarrod.kerr@cba.com.au
Philip Brown	Fixed Income Quantitative Strategist	+612 9118 1090	philip.brown@cba.com.au
Michael Bors	Credit Research Analyst	+612 9118 1108	borsma@cba.com.au
Steve Shoobert	Credit Research Analyst	+612 9118 1096	steve.shoobert@cba.com.au
Winnie Chee	Securitized Product	+612 9118 1104	winnie.chee@cba.com.au
Tally Dewan	Quantitative Analyst	+612 9118 1105	tally.dewan@cba.com.au
Kevin Ward	Database Manager	+612 9118 1960	kevin.ward@cba.com.au

Foreign Exchange		Telephone	Email Address
Richard Grace	Chief Currency Strategist	+612 9117 0080	richard.grace@cba.com.au
Joseph Capurso	Currency Strategist	+612 9118 1106	joseph.capurso@cba.com.au
Sara Hoenig	Economist	+612 9118 1107	sara.hoenig@cba.com.au

Delivery Channels & Publications		Telephone	Email Address
Monica Eley	Internet/Intranet	+612 9118 1097	monica.eley@cba.com.au
Ai-Quynh Mac	Information Services	+612 9118 1102	maca@cba.com.au

New Zealand		Telephone	Email Address
Chris Tennent-Brown	CBA NZ Economist	+64 9374 8819	chris.tennent-brown@asbbank.co.nz
Nick Tuffley	ASB Chief Economist	+64 9374 8604	nick.tuffley@asb.co.nz
Jane Turner	Economist	+64 9374 8185	jane.turner@asb.co.nz
Christina Leung	Economist	+64 9369 4421	christina.leung@asb.co.nz

## Sales

Institutional	Telephone	Equities	Telephone
Syd FX	+612 9117 0190	Syd	+612 9118 1446
	+612 9117 0341	Asia	+613 9675 6967
Credit	+612 9117 0020	Lon/Eu	+44 20 7710 3573
Japan Desk	+612 9117 0025	NY	+1212 336 7749
Melb	+613 9675 6815		
	+613 9675 7495	<b>Corporate</b>	<b>Telephone</b>
	+613 9675 6618	NSW	+612 9117 0377
	+613 9675 7757	VIC	+612 9675 7737
Lon FX	+44 20 7329 6266	SA	+618 8206 4155
Debt & Derivatives	+44 20 7329 6444	WA	+618 9482 6044
Corporate	+44 20 7710 3905	QLD	+617 3015 4525
HK	+852 2844 7538	NZ	+64 9375 5738
Sing	+65 6349 7077	Metals Desk	+612 9117 0069
NY	+1212 336 7739	Agri Desk (Corp)	+612 9117 0157
		Agri Desk	+612 9117 0145



Please view our website at [www.research.commbank.com.au](http://www.research.commbank.com.au). The Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945 ("the Bank") and its subsidiaries, including Commonwealth Securities Limited ABN 60 067 254 399 AFSL 238814 ("CommSec"), Commonwealth Australia Securities LLC, CBA Europe Ltd and Global Markets Research, are domestic or foreign entities or business areas of the Commonwealth Bank Group of Companies (CBGOC). CBGOC and their directors, employees and representatives are referred to in this Appendix as "the Group". This report is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy any securities or financial instruments. This report has been prepared without taking account of the objectives, financial situation and capacity to bear loss, knowledge, experience or needs of any specific person who may receive this report. No member of the Group does, or is required to, assess the appropriateness or suitability of the report for recipients who therefore do not benefit from any regulatory protections in this regard. All recipients should, before acting on the information in this report, consider the appropriateness and suitability of the information, having regard to their own objectives, financial situation and needs, and, if necessary seek the appropriate professional, foreign exchange or financial advice regarding the content of this report. We believe that the information in this report is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this report. Any opinions, conclusions or recommendations set forth in this report are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by the Group. We are under no obligation to, and do not, update or keep current the information contained in this report. The Group does not accept any liability for any loss or damage arising out of the use of all or any part of this report. Any valuations, projections and forecasts contained in this report are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. The Group does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met. Past performance is not a reliable indicator of future performance. The Group has provided, provides, or seeks to provide, investment banking, capital markets and/or other services, including financial services, to the companies described in the report and their associates. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject any entity within the Group to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to the Group. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior written permission of the appropriate entity within the Group. In the case of certain products, the Bank or one of its related bodies corporate is or may be the only market maker. The Group, its agents, associates and clients have or have had long or short positions in the securities or other financial instruments referred to herein, and may at any time make purchases and/or sales in such interests or securities as principal or agent, including selling to or buying from clients on a principal basis and may engage in transactions in a manner inconsistent with this report.

**US Investors:** If you would like to speak to someone regarding the subject securities described in this report, please contact Commonwealth Australia Securities LLC (the "US Broker-Dealer"), a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (the "Exchange Act") and a member of the Financial Industry Regulatory Authority ("FINRA") at 1 (212) 336-7737. This report was prepared, approved and published by Global Markets Research, a division of Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945 ("the Bank") and distributed in the U.S. by the US Broker-Dealer. The Bank is not registered as a broker-dealer under the Exchange Act and is not a member of FINRA or any U.S. self-regulatory organization. Commonwealth Australia Securities LLC ("US Broker-Dealer") is a wholly owned, but non-guaranteed, subsidiary of the Bank, organized under the laws of the State of Delaware, USA, with limited liability. The US Broker-Dealer is not authorized to engage in the underwriting of securities and does not make markets or otherwise engage in any trading in the securities of the subject companies described in our research reports. The US Broker-Dealer is the distributor of this research report in the United States under Rule 15a-6 of the Exchange Act and accepts responsibility for its content. Global Markets Research and the US Broker-Dealer are affiliates under common control. Computation of 1% beneficial ownership is based upon the methodology used to compute ownership under Section 13(d) of the Exchange Act. The securities discussed in this research report may not be eligible for sale in all States or countries, and such securities may not be suitable for all types of investors. Offers and sales of securities discussed in this research report, and the distribution of this report, may be made only in States and countries where such securities are exempt from registration or qualification or have been so registered or qualified for offer and sale, and in accordance with applicable broker-dealer and agent/salesman registration or licensing requirements. The preparer of this research report is employed by Global Markets Research and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, the New York Stock Exchange, Inc., any other U.S. self-regulatory organization, or the laws, rules or regulations of any State.

**European Investors:** This report is published, approved and distributed in the UK by the Bank and by CBA Europe Ltd ("CBAE"). The Bank and CBAE are both registered in England (No. BR250 and 05687023 respectively) and authorised and regulated in the UK by the Financial Services Authority ("FSA"). This report does not purport to be a complete statement or summary. For the purpose of the FSA rules, this report and related services are not intended for retail customers and are not available to them. The products and services referred to in this report may put your capital at risk. Investments, persons, matters and services referred to in this report may not be regulated by the FSA. CBAE can clarify where FSA regulations apply.

**Singapore Investors:** This report is distributed in Singapore by Commonwealth Bank of Australia, Singapore Branch (company number F03137W) and is made available only for persons who are Accredited Investors as defined in the Singapore Securities and Futures Act and the Financial Advisers Act. It has not been prepared for, and must not be distributed to or replicated in any form, to anyone who is not an Accredited Investor.

**Hong Kong Investors:** This report was prepared, approved and published by the Bank, and distributed in Hong Kong by the Bank's Hong Kong Branch. The Hong Kong Branch is a registered institution with the Hong Kong Monetary Authority to carry out the Type 1 (Dealing in securities) and Type 4 (Advising on securities) regulated activities under the Securities and Futures Ordinance. Investors should understand the risks in investments and that prices do go up as well as down, and in some cases may even become worthless. Research report on collective investment schemes which have not been authorized by the Securities and Futures Commission is not directed to, or intended for distribution in Hong Kong.

**All investors: Analyst Certification and Disclaimer:** Each research analyst, primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the report. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing, and interpreting market information. Directors or employees of the Group may serve or may have served as officers or directors of the subject company of this report. The compensation of analysts who prepared this report is determined exclusively by research management and senior management (not including investment banking). No inducement has been or will be received by the Group from the subject of this report or its associates to undertake the research or make the recommendations. The research staff responsible for this report receive a salary and a bonus that is dependent on a number of factors including their performance and the overall financial performance of the Group, including its profits derived from investment banking, sales and trading revenue.

Unless agreed separately, we do not charge any fees for any information provided in this presentation. You may be charged fees in relation to the financial products or other services the Bank provides, these are set out in the relevant Financial Services Guide (FSG) and relevant Product Disclosure Statements (PDS). Our employees receive a salary and do not receive any commissions or fees. However, they may be eligible for a bonus payment from us based on a number of factors relating to their overall performance during the year. These factors include the level of revenue they generate, meeting client service standards and reaching individual sales portfolio targets. Our employees may also receive benefits such as tickets to sporting and cultural events, corporate promotional merchandise and other similar benefits. If you have a complaint, the Bank's dispute resolution process can be accessed on 132221.

Unless otherwise noted, all data is sourced from Australian Bureau of Statistics material ([www.abs.gov.au](http://www.abs.gov.au)).