



## Ag markets precariously positioned.

Precariously positioned. That's how we've been describing the state of the agricultural commodity complex over the past few months.

Precariously positioned because existing agricultural commodity inventories are at extraordinarily tight levels. Precariously positioned because agricultural commodity prices are already at record levels. And precariously positioned because the world cannot afford any major weather-induced production failures in 2011.

Prices could go either way in 2011. A year of favourable weather would see agricultural production bounce back and stocks rebuilt. Under this outcome, prices would fall. Yet if crops fail, stocks will be squeezed even more. Under this outcome, prices would rise to fresh record highs.

Over the past few weeks, the price-pendulum has swung to the bull's camp. Particularly in the grain complex.

The USDA recently indicated that US corn stocks as at 31<sup>st</sup> March 2011 were only 6 ½ billion bushels, down 15% from a year-earlier, and the smallest March stocks position since 2007.

More alarming than the small stock position, however, is the pace of US corn use. In the March quarter, a record large 3 ½ billion bushels of US corn were either exported or used domestically. Most alarming is the fact that this record consumption result came in the midst of near-record high prices, signalling that corn demand is not being rationed. If rationing does not begin soon, the US will run out of corn.

It is little wonder then that US corn prices are rising. Indeed, prices have just reached an all-time record, exceeding the June 2008 peak of 765 US cents per bushel. But the need for demand rationing means that higher prices are probably still to come. For Australian grain growers, this is a positive development in the lead-up to the 2011 planting season.

Figure 1: CBA Rural Commodity Price Index

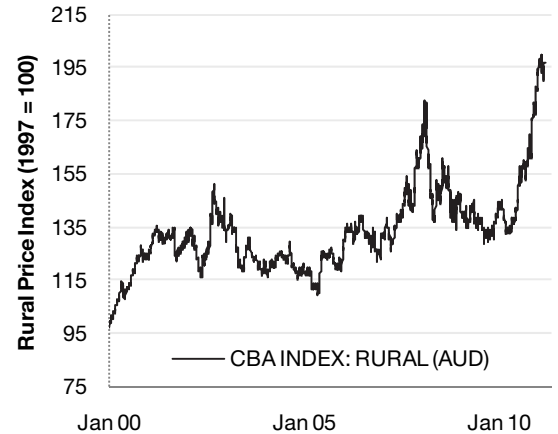


Figure 2: Quarterly US corn stocks

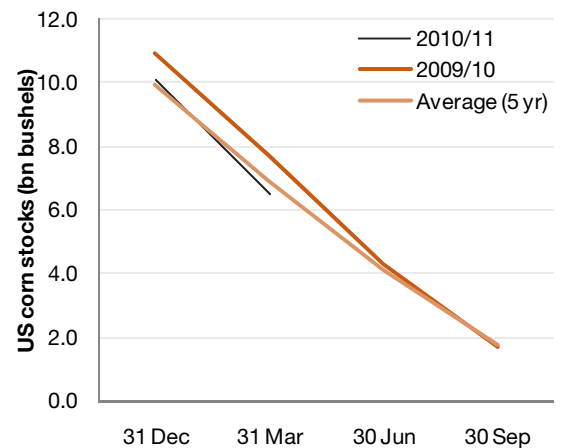
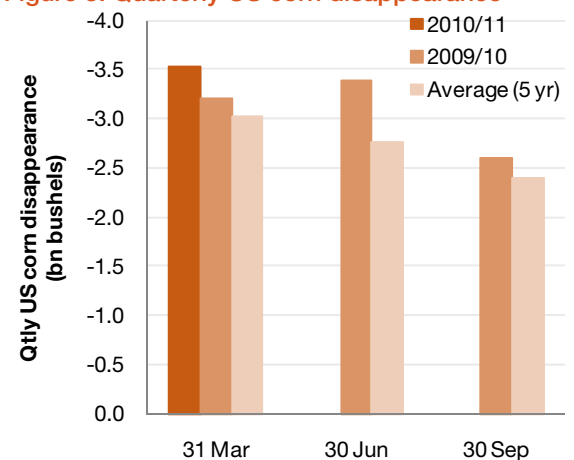


Figure 3: Quarterly US corn disappearance



Source: USDA, Bloomberg, CBA



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## Research

Commodities		Telephone	Email Address
Luke Mathews	Agri Commodities	+612 9118 1098	luke.mathews@cba.com.au
Lachlan Shaw	Mining & Energy Commodities	+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
Philip Brown	Fixed Income Quantitative Strategist	+612 9118 1090	philip.brown@cba.com.au
Alex Stanley	Associate Analyst, Fixed Income	+612 9118 1125	alex.stanley@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
Peter Dragicevich	FX Economist	+612 9118 1107	peter.dragicevich@cba.com.au
Andy Ji	Asian Currency Strategist	+65 6349 7056	andy.ji@cba.com.au

Delivery Channels & Publications		Telephone	Email Address
Monica Eley	Internet/Intranet	+612 9118 1097	monica.eley@cba.com.au
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New Zealand		Telephone	Email Address
Chris Tennent-Brown	CBA NZ Economist	+64 9374 8819	chris.tennent-brown@asb.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
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Melb	+613 9675 6815	<b>Corporate</b>	<b>Telephone</b>
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NY	+1212 336 7739	Agri Desk	+612 9117 0145