



## Japan's importance for agricultural commodity markets

- Japan is a significant importer of many international agricultural commodities.
- Japan takes the largest slice of Australian agriculture exports, with one-fifth market share.
- Agriculture commodity prices are collapsing today in-line with wider risk-aversion.

### Summary

Friday's devastating earthquake and subsequent tsunami resulted in a sharp sell-off in most US agricultural commodity markets. The natural disaster, which is still unfolding, added to the already-bearish mood circling agricultural markets. Earlier in the week, before the quake hit, grain and oilseed markets had fallen between 5% and 11%. Additional losses of 2-3% were observed after the quake struck. Prices have slumped in today's trade on escalating fears of a nuclear meltdown.

The future impact of this natural disaster on agricultural commodity prices is uncertain as events are still unfolding. Large tremors are expected to continue for some time, further tsunamis are possible, and nuclear reactors in the region are currently in a delicately-fragile state. Estimates on the likely loss of life, property and infrastructure are, at this stage, simply guesstimates. But the sad-reality is that the magnitude of devastation will be significant, at least for the near-term anyway.

Japan is an important nation for agricultural markets. Not from a production perspective, but rather because they are important consumers of agricultural goods in global markets. Further, because domestic production of many commodities is limited, the Japanese are significant importers of many commodities. If Japanese agricultural consumption falls, import demand will likely wane, and global prices are likely to come under pressure.

Because events are still unfolding, we are hesitant to quantify the impact on global agricultural markets. Instead, the purpose of this note is to outline the relative importance of Japan for global and Australian agricultural markets.

NOTE: General investor risk aversion created by the disaster, in particular the immediate threat of a nuclear reactor meltdown, is expected to weigh on prices for all risk assets, including agricultural commodity prices. Therefore, this report provides guidance on which commodities may perform relatively better (or relatively worse) than their peers.

### Japan's influence on global agricultural markets

Japan's direct influence on agricultural commodity markets is most pronounced in the coarse grains (corn) markets, oilseed (canola) markets, and livestock (pork) markets. In particular, Japan is the world's largest importer of corn with 18% market share, the largest importer of canola with 24% market share, and the largest pork importer with 21% market share. In the absence of developments elsewhere, the fallout from the Japanese quake could be felt most acutely in these commodities.

Japan's direct influence on the global wheat market is less pronounced than for the coarse grains, oilseeds or livestock markets. With only 1% of world wheat consumption, a decline in Japanese wheat consumption is hardly going to shift the global balance sheet. However, as the 5<sup>th</sup> largest wheat importer (4% market share) developments in Japan still do have some relevance to the world wheat market.

A fallout in Japan should have a relatively insignificant impact on world sugar markets (compared to other commodities). Japan contributes only 1% to world sugar consumption (number 10 rank), and only 3% to global imports (number 11 rank).

Within the dairy space, Japan's influence is most significant in the cheese market. Japan is the world's second largest cheese consumer behind Russia.

### Japan's influence on Australian agricultural markets

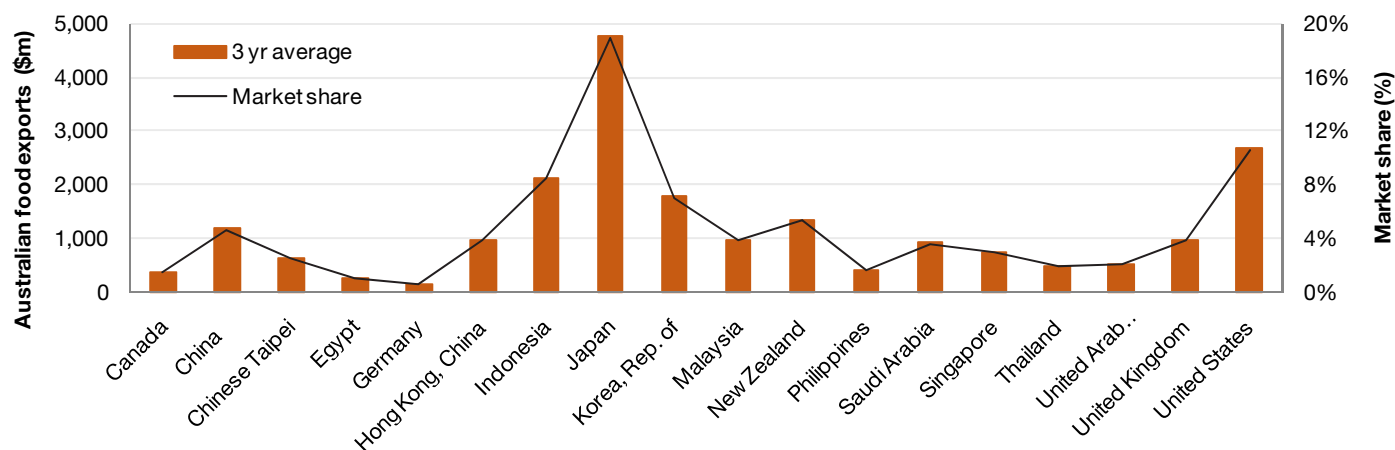
Japan's relevance for the Australian agricultural market is more pronounced than their importance for global agriculture markets. This is because Japan is Australia's largest agricultural/food export market. Data from ABARES reveals that in the 3 years to 2009/10 the value of Australian food exports to Japan averaged \$4.8 billion, or 19% of total exports. The next largest food export destination over the period was the US with \$2.7 billion (11%). Because of this export reliance, an unexpected downturn in the Japanese economy could place pressure on the Australian agriculture industry.



## Japan's influence on Australian agricultural markets (cont.)

Most Australian agricultural commodity production is exported. Japan ranks, in many cases, as the major destination. Table 2 details Japan's importance for Australia's main commodity classes. Japan is Australia's largest beef, sorghum, cottonseed, cheese and fish export market. Furthermore, they are our second largest market for wheat, barley and canola.

Figure 1: Value of Australia's total food exports, 3 yr average (2007/08 to 2009/10)



Source: CBA and ABARES

Figure 2: Importance of Japan for Australian agriculture commodities (2008/09-2009/10 average)

	Australian production	Australian exports	Proportion local production exported	Japanese imports from Australia	Japanese imports rank and market share	Largest importer (if not Japan)
<b>Grains</b>						
Wheat	21.7 mt	13.6 mt	67%	0.94 mt	Rank # 2, 7%	Indonesia (2.8 mt)
Barley	8.0 mt	4.1 mt	51%	1.0 mt	Rank # 2, 24%	China (1.3 mt)
Sorghum	2.1 mt	928 kt	43%	720 kt	Rank # 1, 78%	~
<b>Oilseeds</b>						
Canola	1.9 mt	1.1 mt	58%	155 kt	Rank # 2, 14%	Pakistan (552 kt)
Cotton seed	507 kt	71 kt	14%	50 kt	Rank # 1, 70%	~
Canola oil		82 kt		3 kt	Rank #2, 4%	NZ (21 kt)
<b>Softs</b>						
Sugar	4.6 mt	3.3 mt	71%	400 kt	Rank # 4, 13%	Sth Korea (1.0 mt)
Cotton	358 kt	327 kt	91%	19 kt	Rank # 5, 6%	China (115 kt)
Wool (greasy)	360kt	437 kt	~ 100%	3 kt	Rank # 8, 1%	China (331 kt)
<b>Livestock</b>						
Beef and veal	2.1 mt	1.4 mt	66%	357 kt	Rank # 1, 38%	By value, Japan = 43%
Pork	337 kt	50 kt	15%	~ 2 kt	Rank 3 , 4%	Singapore (50%)
Poultry	852 kt	41 kt	5%	~	~	Sth Africa & Philippines
<b>Dairy</b>						
Cheese	346kt	168 kt	48%	82 kt	Rank #1, 52%	~
<b>Horticulture</b>						
Wine		\$2.3b		\$48m	Rank # 8, 2%	US (30%)
<b>Fisheries</b>						
Fin fish (value)	\$897m	\$297m		0.33 \$157m	Rank # 1, 53%	~

Source : Commonwealth Research

Note: Australian production and export months may differ



Figure 3: Importance of Japan for international agriculture commodities (2006/07 – 2010/11 average)

	Japanese consumption	Consumption rank and market share	Largest consumer (if not Japan)	Japanese imports	Imports rank and market share	Largest importer (if not Japan)	Japan's importance
<b>Grains</b>							
Wheat	5.9 mt	Rank # 19, 1%	EU27 (123 mt)	5.5 mt	Rank # 5, 4%	Egypt (9 mt)	Medium low
Corn	16.4 mt	Rank # 6, 2%	US (265 mt)	16.4 mt	Rank # 1, 18%	~	High
Barley	1.6 mt	Rank # 14, 1%	EU27 (57 mt)	1.4 mt	Rank # 3, 8%	Saudi Arabia (7 mt)	Medium high
Sorghum	1.5 mt	Rank # 12, 3%	Nigeria (11 mt)	1.4 mt	Rank # 3, 22%	Mexico (2 mt)	Medium high
Rice	8.2 mt	Rank # 10, 2%	China (132 mt)	0.7 mt	Rank # 14, 2%	Philippines (2 mt)	Low
<b>Oilseeds</b>							
Soybeans	3.9 mt	Rank # 7, 2%	China (55 mt)	3.7 mt	Rank # 3, 5%	China (43 mt)	Medium
Canola	2.2 mt	Rank # 5, 4%	EU27 (21 mt)	2.2 mt	Rank # 1, 24%	~	High
<b>Softs</b>							
Sugar	2.3 mt	Rank # 11, 1%	India (23 mt)	1.4 mt	Rank # 10, 3%	EU-27 (3 mt)	Low
Cotton	negligible	n/a	China (10.4 mt)	negligible	n/a	China (2.4 mt)	Low
Coffee	7.0 thous bags	Rank # 5, 5%	EU-27 (46 thous bags)	6.9 thous bags	Rank # 3, 7%	EU-27 (46 thous bags)	Medium high
<b>Livestock</b>							
Beef and veal	1.2 mt	Rank # 10, 2%	US (12 mt)	0.7 mt	Rank # 3, 10%	US (1.2 mt)	Medium high
Pork	2.5 mt	Rank # 5, 2%	China (48 mt)	1.2 mt	Rank # 1, 21%	~	High
Poultry	2.0 mt	Rank # 8, 3%	US (13 mt)	0.7 mt	Rank # 2, 10%	Russia (0.9 mt)	Medium high
<b>Dairy</b>							
Fluid milk	4.4 mt	Rank # 7, 2%	India (43 mt)	n/a	n/a	n/a	Low
WMP	negligible	negligible	n/a	negligible	negligible	n/a	Low
SMP	207 kt	Rank # 5, 6%	EU-27 (807 kt)	32 kt	Rank # 7, 4%	Mexico (160 kt)	Medium low
Cheese	246 kt	Rank # 8, 1%	EU-27 (6.3 mt)	203 kt	Rank # 2, 19%	Russia (287 kt)	Medium high
Butter	84 kt	Rank # 8, 1%	India (4.2 mt)	negligible	n/a	Russia (132 kt)	Low

Source : Commonwealth Research

Figure 4: Global corn consumption (% world total)

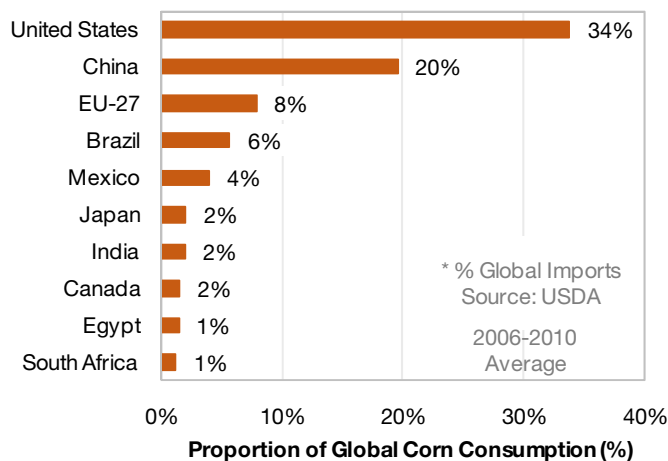
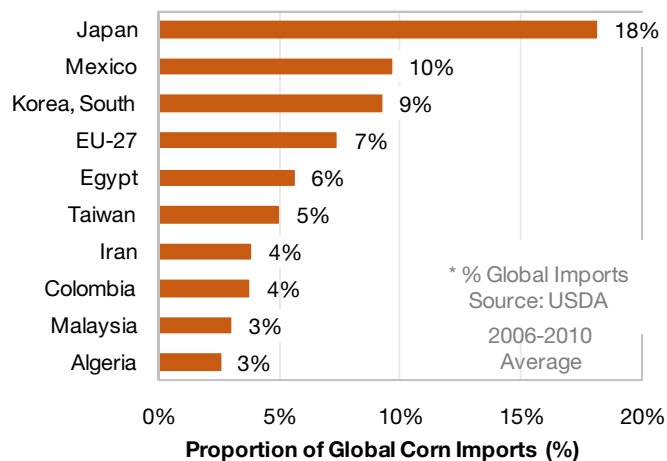


Figure 5: Global corn imports (% world total)





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