



Agricultural commodity price outlook downgraded

Our near-to-medium term agricultural commodity price forecasts have been revised lower. The revisions reflect (1) mark-to-market adjustments in response to the September price slump; (2) deteriorating global economic growth prospects; (3) the recent easing agricultural inventory tightness; (4) the recent strength in the USD; and (5) CBA's recent downward revision to its crude oil price forecast.

Deteriorating economic growth prospects drives risk-off trade in September.

The deterioration in global economic growth prospects weighed heavily on risk asset prices in September, including agricultural commodities. The S&PGS agriculture commodity price index slumped more than 20% for the month (USD terms), while the CBA rural commodity price index fell 16% in USD terms.

Ructions in Europe have contributed to a raft of downward revisions to global economic growth prospects. European economic data has been weak, credit markets have tightened significantly, and the scalps of two European leaders have been claimed. In September, the IMF revised down its global growth forecasts to project real GDP growth of 4.0% in 2010 and 4.0% in 2011. CBA's global economics team believes the IMF will further shave their global growth estimates over coming months. But not by much. CBA anticipates global growth of 3.8% for 2011 and 3.9% for 2012.

CBA is not forecasting a repeat of GFC Mark I, mainly because we believe (1) Europe and the US will avoid a deep recession, and (2) the European sovereign debt crisis will be contained. Importantly, economic growth in emerging nations is forecast to remain robust growth. China is forecast to grow by 9.3% in 2011 and 9.0% in 2012. While downside risks do exist, the ability of emerging market central banks and governments to ease policy, if needed, is significant.

Reflecting weaker economic growth, CBA now forecast a year-end EUR/USD of 1.39, down from the prior estimate of 1.48 (i.e. a stronger USD profile), and forecast the year-end AUD/USD at 1.04, from the previous estimate of 1.09. Similarly, CBA energy analysts this week reduced their 2012 WTI crude oil to USD96/bbl from their previous estimate of USD100/bbl. Both revisions are important for the agricultural commodity price outlook. A stronger USD provides a negative valuation impact for USD denominated, exchange traded agricultural commodity prices. Weaker crude oil prices reduce the cost of agricultural production and also reduce the profitability of ethanol and biodiesel production.

CBA's current revisions to global economic growth, currency markets and energy markets are modest. If the European debt crisis is not contained, the adverse impact on economic growth and financial markets would escalate. In our October 7 Agri Updates report ([available here](#)) we outlined the possible impact of a severe downturn on agricultural commodity prices.

Agricultural inventory tightness eases.

Contributing to the recent decline in many agricultural commodity prices, and the downward revision to our price forecasts, is the apparent easing in agricultural inventory tightness over the past few months.

For example, the USDA's September forecast for 2011/12 US corn stocks was just 672 million bushels, resulting in a stocks-to-use ratio of just 5.3%, virtually in line with the 1995/96 record low. But by November, the USDA had lifted its estimate of 2011/12 US corn stock to 843 million bushels, up 25% from the September estimate. The revision reflected slower than expected US consumption in, slower US corn export demand and better production prospects. US and world wheat stocks have been revised higher, with world wheat inventories now forecast to exceed 202 ½ million tonnes, up 8 million tonnes from their September forecast. The large Australian crop and record domestic carry-over supplies have contributed to the large world wheat supply. US soybean supplies have been revised higher because of reduced export demand for US soybeans. And US and world cotton inventory estimates continue to creep higher because of sluggish export demand.

In the case of the sugar, mixed news has hit the market over the past few months. Official estimates of the Brazilian crush have been revised lower, as widely expected. The Thai cane crop has been hit by massive floods, but output is still forecast to hit a fresh record high. And the Indian industry continues debate the extent of this year's export program, not to mention their domestic cane payment structure. In all, the market is still forecasting a modest global sugar surplus in the year ahead.

Livestock markets, both domestic and abroad, remain strong because of limited supplies. Firm domestic restocker demand, aided by favourable seasonal conditions and pasture availability, remains supportive for local livestock prices.



Figure 1: Global agricultural commodity price forecasts – Commonwealth Research

		Current	Actual (Quarter Average)				Forecast (Forecast (Quarter Average)												
		at 16/11/2011	Dec 10	Mar 11	Jun 11	Sep 11	Dec 11	Mar 12	Jun 12	Sep 12	Dec 12	Mar 13	Jun 13	Sep 13	Dec 13	Mar 14	Jun 14	Sep 14	Dec 14
North American Grains & Oilseeds																			
Wheat (CBOT)	US\$/bu	617	721	796	712	676	640	712	692	638	632	642	615	600	583	577	581	585	588
	US\$/t	227	265	292	262	248	235	261	254	235	232	236	226	220	214	212	213	215	216
	A\$/t	225	268	288	243	237	227	247	236	217	215	222	222	223	223	223	225	234	244
Corn (CBOT)	US\$/bu	643	580	692	710	672	654	717	692	633	617	592	525	470	455	452	455	458	460
	US\$/t	253	228	272	280	264	258	282	272	249	243	233	207	185	179	178	179	180	181
	A\$/t	251	231	268	260	252	248	266	253	231	225	220	203	188	187	187	188	197	204
Soybeans (CBOT)	US\$/bu	1188	1288	1394	1358	1327	1224	1275	1250	1250	1200	1200	1167	1083	1000	954	960	966	972
	US\$/t	436	473	512	499	488	450	468	459	459	441	441	429	398	367	351	353	355	357
	A\$/t	433	478	503	463	465	434	442	427	425	408	416	422	403	383	369	371	387	403
Canola (ICE)	C\$/t	527	551	590	570	554	537	550	540	510	460	440	420	420	422	427	429	432	435
	US\$/t	514	544	601	594	560	534	554	549	520	469	449	423	409	398	399	401	398	391
	A\$/t	510	550	591	551	534	515	522	510	482	435	424	416	415	414	420	422	434	441
Australian Grains																			
Wheat, NSW (ASX)	A\$/t	223	292	309	270	249	226	242	236	221	222	236	244	245	233	237	246	256	254
	US\$/t	224	289	314	290	261	235	256	254	238	239	250	248	242	224	225	234	235	225
Feed Barley (ASX)	A\$/t	190	202	221	210	212	183	192	186	171	175	196	204	205	193	197	206	216	214
	US\$/t	192	200	224	226	222	190	203	200	184	189	207	207	202	186	187	196	198	190
Sorghum (ASX)	A\$/t	210	235	231	223	227	212	208	196	181	182	196	204	205	193	187	196	206	204
	US\$/t	211	232	235	241	238	219	221	211	195	196	207	207	202	186	177	187	189	181
Softs																			
Raw Sugar (ICE)	US\$/lb	24.5	29.6	31.2	25.0	28.6	24.8	22.0	18.0	16.0	16.0	16.1	16.2	16.0	16.1	16.5	16.6	17.0	17.1
	US\$/t	541	652	688	551	631	548	485	397	353	353	354	356	353	354	365	367	376	378
	A\$/t	536	660	677	511	602	528	458	369	327	327	334	351	358	369	384	386	410	426
Cotton (ICE)	US\$/lb	103.5	132.1	191.3	165.7	102.2	101.5	98.0	95.0	90.0	86.7	80.3	80.8	81.3	79.5	75.3	75.8	76.3	76.7
	US\$/bale*	518	661	956	829	511	507	490	475	450	433	402	404	407	398	377	379	381	384
	A\$/bale*	513	668	939	769	489	490	462	441	417	401	379	398	412	414	396	399	416	433
Wool, Aust (EMI)	A\$/kg	12.06	9.76	12.88	13.73	12.73	11.89	11.25	10.50	10.00	10.00	9.80	9.50	9.20	8.97	9.04	9.09	9.15	9.21
	US\$/kg	12.16	9.66	13.11	14.78	13.37	12.34	11.92	11.30	10.80	10.80	10.39	9.66	9.08	8.61	8.59	8.64	8.39	8.16
Livestock																			
Cattle, Aust (EYCI)	A\$/kg	4.04	3.76	4.02	3.94	3.87	4.01	3.83	3.75	3.65	3.52	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
	US\$/kg	4.08	3.72	4.09	4.24	4.05	4.16	4.06	4.04	3.94	3.80	3.71	3.56	3.45	3.36	3.33	3.33	3.21	3.10
Currencies (period end)																			
AUD/USD		1.01	1.02	1.04	1.07	0.97	1.04	1.07	1.08	1.08	1.08	1.05	1.00	0.98	0.95	0.95	0.95	0.90	0.88
AUD/CAD		1.02	1.02	1.00	1.03	1.01	1.04	1.06	1.06	1.06	1.06	1.03	1.00	1.02	1.02	1.02	1.02	0.99	0.99

Note: Cotton bales refer to Australian bales (500lb or 227kg)

Source: CBA Research



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