CBA AGRI UPDATE

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WHAT TO LEARN FROM 2009?

If nothing else, 2009 was a year to learn from. Fear, uncertainty, and optimism all had a place. And where there is such a wide range of emotions volatility reigns.

The year started with the global economy and financial system imploding, where most pessimists were fearing the return of the great depression. Governments and Central Banks responded to these fears by pumping unforeseen quantities of cash into the system and cutting interest rates to record levels. That provided stability and allowed green shoots of recovery to sprout in the first quarter. These sprouts gave way to a surprisingly strong recovery over the remainder of the year. A recovery that was fuelled by the resilient, soon to be rampaging, Chinese economy. A recovery that favoured Australia through strong demand for resource commodities, pushing up the value of the Australian dollar and meaning interest rates were soon on the rise as well. Three consecutive RBA rate rises in the last quarter of 2009, with more to come in 2010, means the local currency will continue be supported.

Volatility and mixed fortunes were themes in agricultural commodity markets. Prices of all commodities were at times influenced by what was happening in the wider economy, with equity markets, energy markets and the value of the US dollar providing guidance at times. But prices also responded to the fundamental forces of supply and demand. International oilseed prices firmed due to tight global supplies. Feed grain prices, particularly barley, remained weaker than many were hoping due largely to the sluggish recovery in livestock feed demand. While wheat prices maintained a relative weak bias because of two consecutive record wheat crops globally and a sharp build in inventories. Indeed, many people argued that world wheat prices could have been sharply lower considering the ample supply internationally and weak export demand.

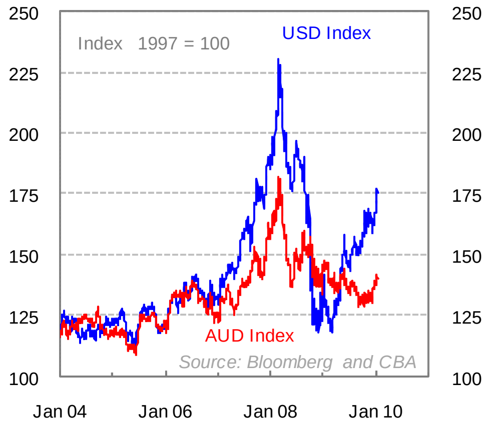
But the world's wheat farmers generally sat back and watched prices fall in front of their eyes, not taking any protection over price risk. Most Australian farmers were hopeful that the market would return to the glorious values seen in 2008 that surpassed $500/t. Many of these producers ignored the growing global supplies, weak export results, and soaring Australian dollar. They were hopeful that local wheat prices may reach their targets as a result of support from 'other markets' or some isolated weather related events. Some producers had their objectives satisfied, but on the whole, most did not. A large proportion of Australian wheat producers remain sitting on unsold, unhedged, grain. This wheat needs to be sold someday, but the only problem is that most of the information in the market at the moment retains a negative bias. The fact that world wheat supplies will be comfortable for the coming season, the fact that exports from key countries remains slow, the fact that the Australian dollar will push toward parity in the first half of this year, and the fact there is a large quantity of wheat still to be sold means rallies in prices may be difficult to sustain in the near term.

So a possible lesson for farmers coming from 2009? (1) Manage exposures, and (2) Don't view the previous season's price as the basis for the next season. Future prices will respond to the events of the future, and these are uncertain. There are already many uncontrollable factors associated with farming. Prevent prices falling into that category.

CBOT WHEAT PRICES

Source: Bloomberg and CBA

CBA RURAL COMMODITY PRICE INDEX



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