

Italy's debt crisis trumps the USDA – ag markets fall...

- **Markets:** Global sharemarkets slumped overnight in response to Italy's debt crisis. Italian bond yields rose to 7.5%, a lift in yields to the 7% level had previously prompted bail outs in other countries like Portugal and Ireland. Emergency measures look certain to be required to stabilise the situation, but the magnitude of the task at hand has market extremely anxious.
- **Currencies:** The AUD dropped 1.4% to USD1.0195 overnight (London close) while the USD index surged 1.8% to 78pts.
- **Weather:** A trough is triggering scattered storms from the country's northwest to the southeast. These storms are potentially severe in QLD, VIC and NSW. Very warm and humid northerly winds are affecting eastern Australia ahead of the trough. A front is bringing a cooler change to VIC.
- **Grains:** US grain markets fell overnight.
 - CBOT wheat (Dec 11) fell 2.1% (14¢) to US\$643/bu (–A\$233/t) last night with heavier losses further out the curve. The wheat market was pressured on many fronts last night. Firstly, the entire commodity complex faced an extremely bearish macro-economic environment last night with Italy's crippled bond market taking centre stage. The USD surged nearly 2% for the session as investors sought a safe haven. Secondly, the USDA increased its forecast of world wheat production in last night's WASDE report and world wheat stocks were revised higher to 202.6 million tonnes – a comfortable level in anyone's language. And US wheat stocks, despite being trimmed slightly this month by the USDA, also remain very comfortable. The one good piece of news for local producers is the fact the AUD/USD slumped last night.
 - CBOT corn (Dec 11) closed 4 ½ cents (0.7%) weaker at US\$656/bu despite the USDA reducing its estimate of this year's US corn crop to just 12.3 billion bushels, down from last month's estimate of 12.44 billion and trade estimates of 12.4 billion bushels. US corn stocks were cut to 843 million bushels, giving a stock to use ratio of 6.7%. Normally, confirmation of such extremely tight inventories would have supported corn prices. However the market is currently extremely anxious of the deteriorating credit environment in Europe.
 - ASX NSW wheat (Jan 12) traded \$2 higher to \$224/t yesterday while WA Jan 12 wheat bounced \$9 to \$237/t. Increasingly frequent reports of widespread quality downgrades to the WA wheat crop (low falling number results and sprouted grains) supported values for the session. Heavy rain has fallen in SE Australia over the past 24 hours.
- **Oilseeds:** CBOT soybeans (Jan 11) fell 1.6% (19½¢) to US\$1185.5/bu last night, pushed down by the renewed bout of risk aversion that swept through global financial markets. The USDA cut their forecast of US soybean yields and production in last night's WASDE report. But this was offset by reduced global demand for US exports, resulting in an upward revision to US soybean ending stocks from 160 million bushels last month to 195 million this month. Nonetheless, we would caution that this is a tight US soybean carry-out result. World soybean production was revised higher, including an increase to the size of the Brazilian crop. Canadian canola (Jan 11) ended virtually unchanged at C\$524.5/t.
- **Cotton:** NY cotton (Dec 11) traded both sides of unchanged before closing 49pts (0.5%) weaker at US\$97.14/lb last night. The USDA reduced its estimate of the US cotton crop to 16.3 million bales from last month's forecast of 16.6 million. The result was also below most trade estimates. Partially offsetting the smaller crop was another downward revision to US cotton exports, resulting in only a small reduction in US cotton stocks to 3.8 million bales. This is more than a million bales higher than average inventory levels of the past 2 years. Global cotton inventories were revised slightly higher by the USDA, despite lower production.
- **Sugar:** NY raw sugar (Mar 12) slumped 2.1% (55pts) to US\$25.36/lb on the back of the Italian credit market turmoil.
- **Crude Oil:** NYMEX crude oil (Dec 11) fell 0.9% to USD95.89/bl.

Ag Commodity Markets: Daily Price Summary*

US Wheat (CBOT)	Dec 11	Mar 12	Dec 12
USc/bu	643 -2.1%	662 -2.5%	739 -2.9%
AUDt **	233 -0.8%	242 -1.2%	276 -1.7%
AU Wheat - East (ASX)	Jan 12	Mar 12	Jan 13
AUD/t	226 +2.0%	228 +1.8%	255 +1.6%
AU Wheat - WA (ASX)	Jan 12	Mar 12	Jan 13
AUD/t	237 +3.9%	239 +3.9%	261 +1.0%
US Soybeans (CBOT)	Jan 12	Nov 12	Nov 13
USc/bu	1186 -1.6%	1205 -1.6%	1182 -1.1%
AUDt **	430 -0.2%	449 -0.3%	455 0.0%
CA Canola (ICE)	Jan 12	Mar 12	Nov 13
CAD/t	525 -0.2%	531 0.0%	524 -0.1%
AUDt **	509 +0.8%	517 +0.8%	535 +0.5%
AU Canola (ASX)	Nov 11	Jan 12	Jan 13
AUD/t	560 0.0%	550 0.0%	550 0.0%
US Corn (CBOT)	Dec 11	Mar 12	Dec 12
USc/bu	656 -0.7%	665 -0.9%	597 -2.9%
AUDt **	254 +0.7%	260 +0.5%	238 -1.7%
AU Barley (ASX)	Jan 12	Mar 12	Jan 13
AUD/t	187 +1.6%	189 +1.6%	206 +1.5%
AU Sorghum (ASX)	Nov 11	May 12	May 13
AUD/t	209 0.0%	217 +1.4%	221 +1.4%
US Raw Sugar (ICE)	Mar 12	Oct 12	Oct 13
USc/lb	25.36 -2.1%	24.04 -1.5%	23.91 -1.2%
AUD/t **	554 -0.8%	534 -0.2%	543 0.0%
US Cotton (ICE)	Mar 12	Jul 12	Jul 13
USc/lb	97.14 -0.5%	97.99 -0.6%	97.96 -1.0%
AUD/bale **	483 +0.9%	492 +0.7%	505 +0.2%
AU Wool EMI (AWEX)	Latest	% chg	Last Pricing
AUD/kg	12.24	0.0%	9/11/11
AU Cattle (EYCI)	Latest	% chg	Last Pricing
AUD/kg	4.04	0.5%	9/11/11
Crude Oil (WTI)	Latest	% chg	Last Pricing
USD/bl	95.89	-0.9%	9/11/11
AUD/bl **	94.06	0.5%	9/11/11
Commodity Indices	Latest	% chg	Last Pricing
S&P Agri & L'stock (USD)	1240	0.0%	8/11/11
S&P Agri & L'stock (AUD)	1199	0.0%	8/11/11
S&P All Commodities (USD)	5052	0.0%	8/11/11
S&P All Commodities (AUD)	4886	0.0%	8/11/11
Currencies	Latest	pts chg	% chg
AUD/USD	1.0195	-0.0144	-1.4%
AUD/CAD	1.0372	-0.0092	-0.9%
AUD/JPY	79.23	-1.20	-1.5%
USD Index	78.0	1.4	1.8%
Equity Markets	Latest	pts chg	% chg
ASX S&P200	4346	52	1.2%
US DJI	11789	-382	-3.1%
UK FTSE	5460	-107	-1.9%

* Prices are the closing exchange traded futures prices.

Changes are daily. Last pricing date is 09/11/11, previous pricing date is 08/11/11

Sources: Bloomberg and CBA

** AUD Equivalent Price



Figure 1: CBOT Wheat (1st Contract, US\$/bu)

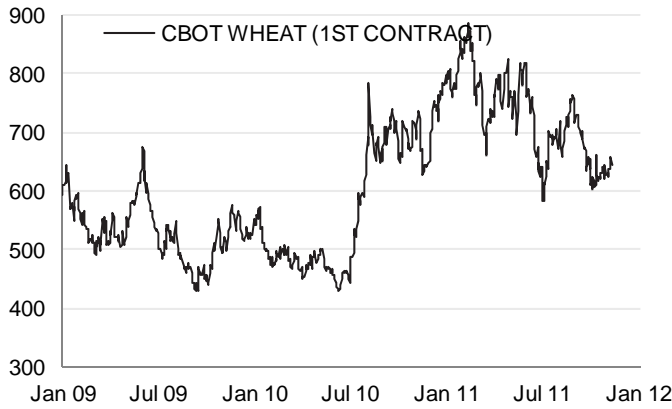


Figure 2: ASX NSW Wheat (Jan 12 Contract, A\$/t)

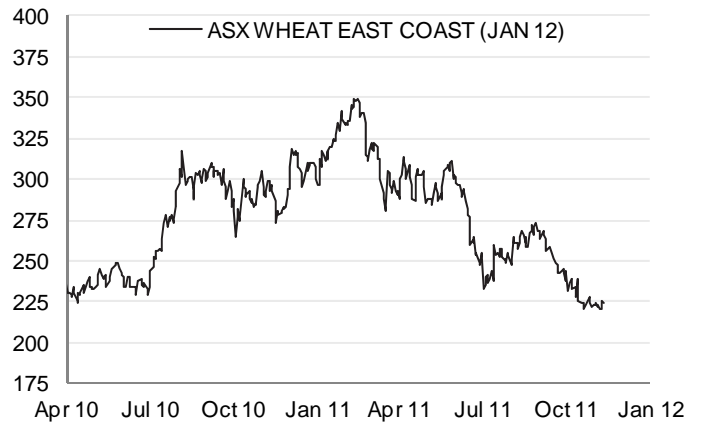


Figure 3: CBOT Corn (1st Contract, US\$/bu)



Figure 4: ASX Feed Barley (Jan 12 Contract, A\$/t)



Figure 5: CBOT Soybeans (1st Contract, US\$/bu)

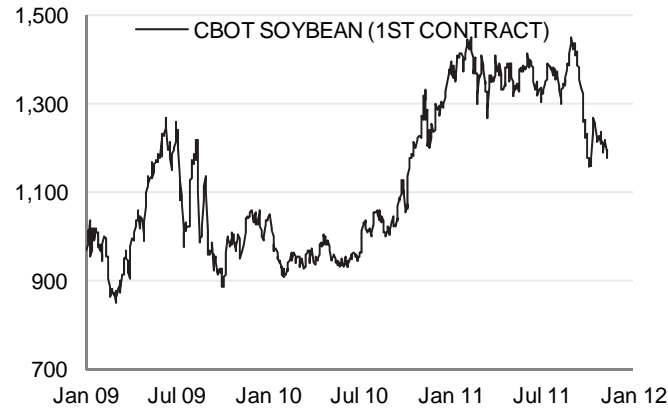


Figure 6: ICE Canola (1st Contract, C\$/t)



Figure 7: ICE Cotton (1st Contract, US\$/lb)



Figure 8: ICE Sugar (1st Contract, US\$/lb)





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