



Global financial crisis and agricultural commodities

Nuffield Australia

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Food & Agribusiness Research and Advisory



Rabobank

World economy

Supply chain

Agricultural commodities

The past: how did we get here?

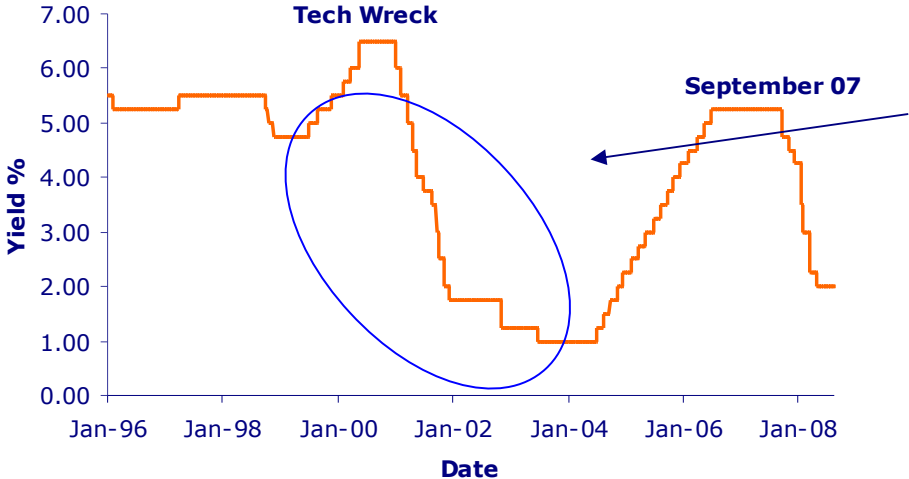
- A huge credit bubble developed from 2003 to 2007
 - centred in the US but spreading to Europe and Asia Pacific
- The bubble created major increases in asset prices and debt volumes
- The bubble burst in July 2007 precipitating a credit crisis that culminated in a financial crash in September 2008

Seeds were sown earlier this decade

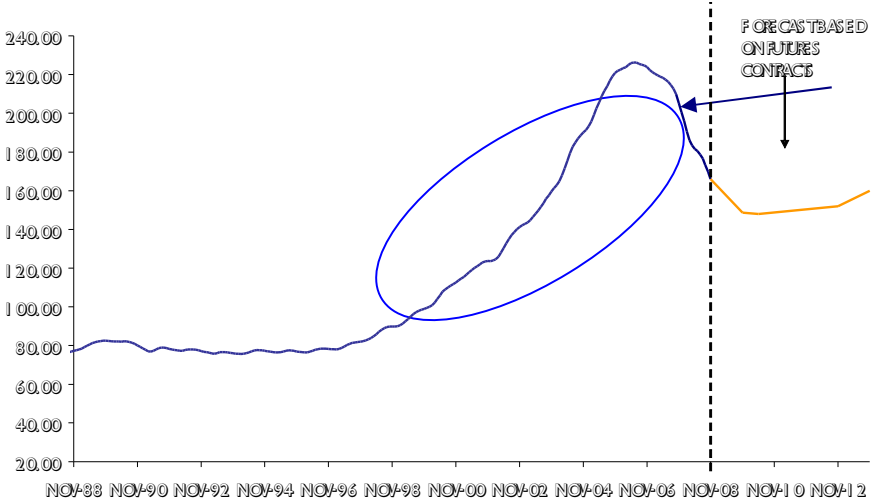


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USD Short Term Interest Rates



Excessively low USD interest rates



Response from US homebuyers

Source: Bloomberg

S & P CASE-SHILLER COMPOSITE 10 HOME PRICE INDEX

US subprime



- NINJA Loans – teaser rates
- Loans packaged and sold to institutional investors across the globe (USD 2.4 trillion)- including Australia
- Borrowers began to default in large numbers (interest rates higher or reset)
- Foreclosures, falling residential housing prices and losses to investors - USD 1.1 trillion (so far)

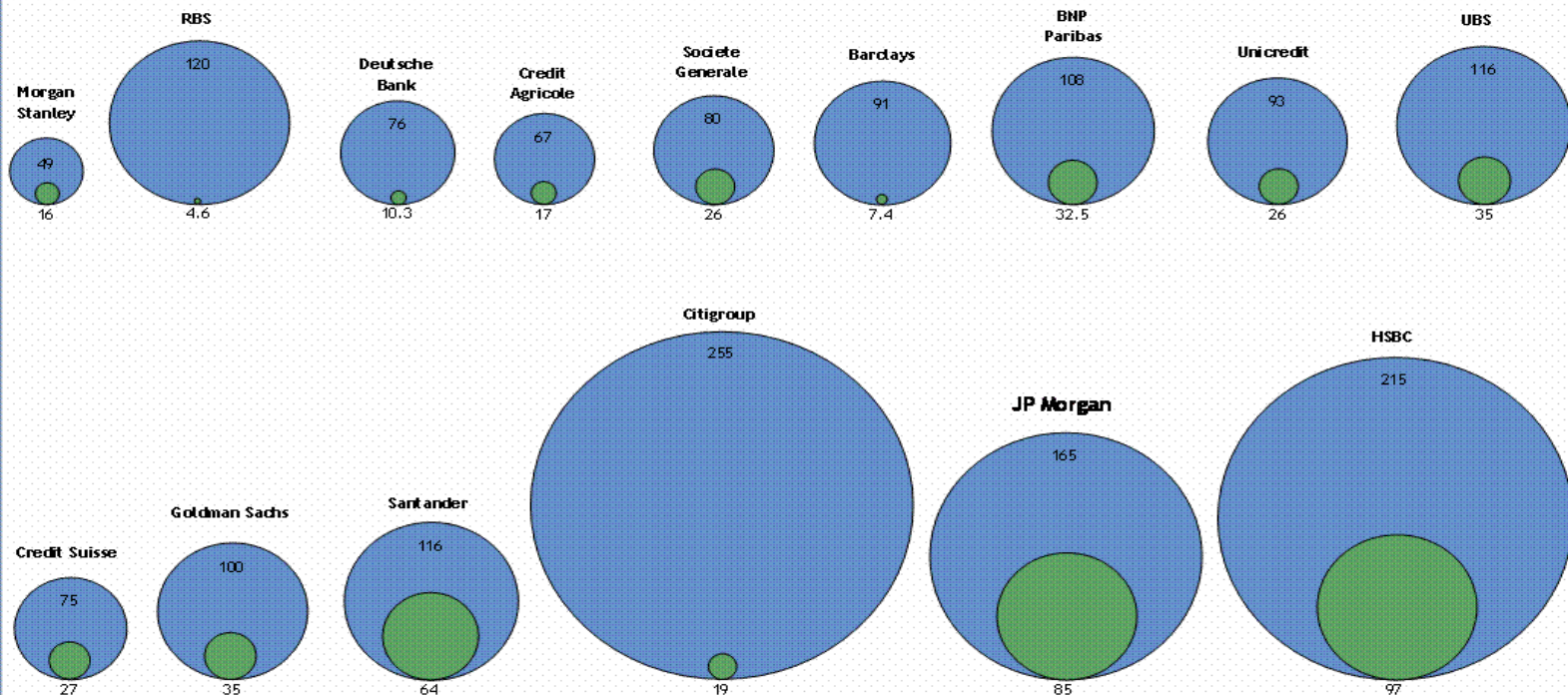


Credit write-downs are almost USD 1.1 trillion so far - IMF predicts losses of USD 2.2 trillion



Banks: Market Cap

- Market Value as of January 20th 2009, \$Bn
- Market Value as of Q2 2007, \$Bn



J.P.Morgan

Financial crisis became economic crisis



Financial

- “De-levering” by investors
Banks sell assets, reduce lending, raise capital
- Price falls across all asset classes
- Banking system freezes “crisis in confidence”
- Tighter lending and higher

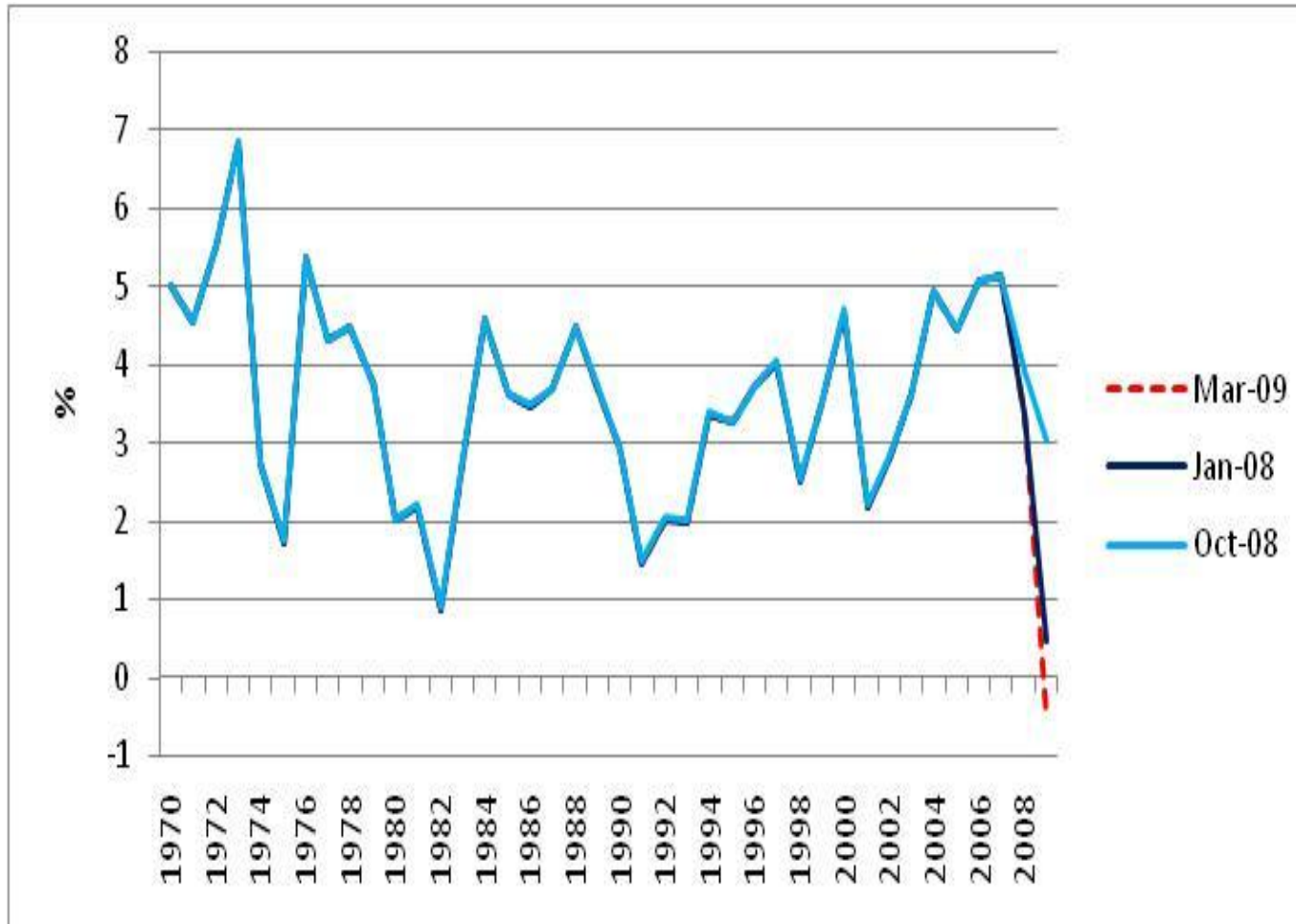
Economic

- Consumer confidence down – wealth effect
- Businesses cut jobs, manufacturing /trade declines
- **Leading to first global economic downturn since WWII**

As of early 2009 economic outlook remains uncertain

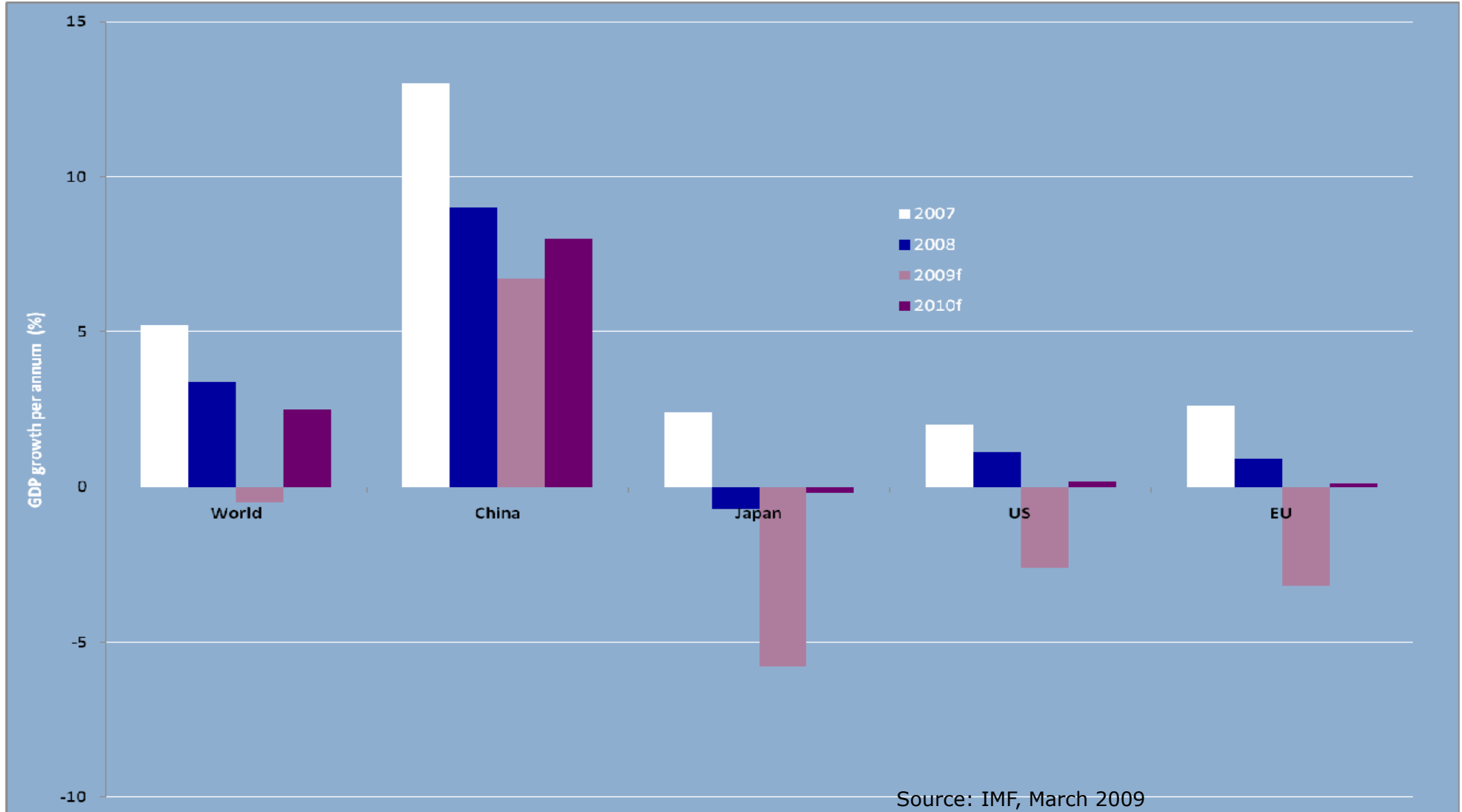


Global GDP forecast



- Economic growth unlikely until at least late 2009
- Trade finance to remain tight until at least H2 2009
- Downside risk

Including in key Australian export markets





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Primary production: little room to manoeuvre



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- Input costs were high, but are declining
- Price hedging is becoming difficult
- Credit from banks is still available but is more stringent
- Pre-financing is significantly lower
- Competitive position is affected by FX

Traders faced with volatile and risky environment



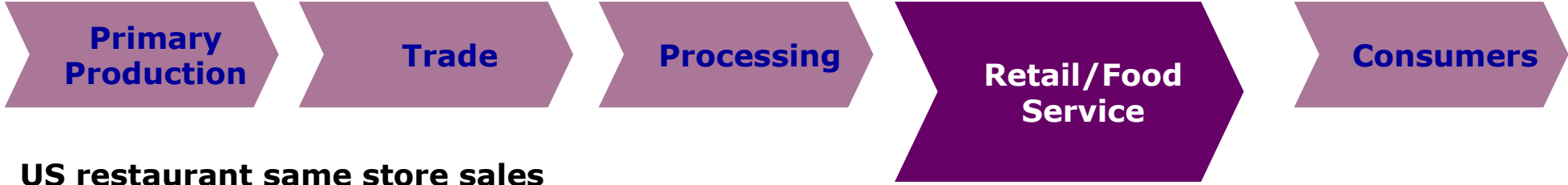
- Availability of LCs and credit insurance is an issue
- Hedging is becoming more expensive
- Default risks of counterparties have risen rapidly
- Lower availability of working capital
- WTO forecasts trade to decline by 9% in 2009

Manufacturing companies in a weaker position

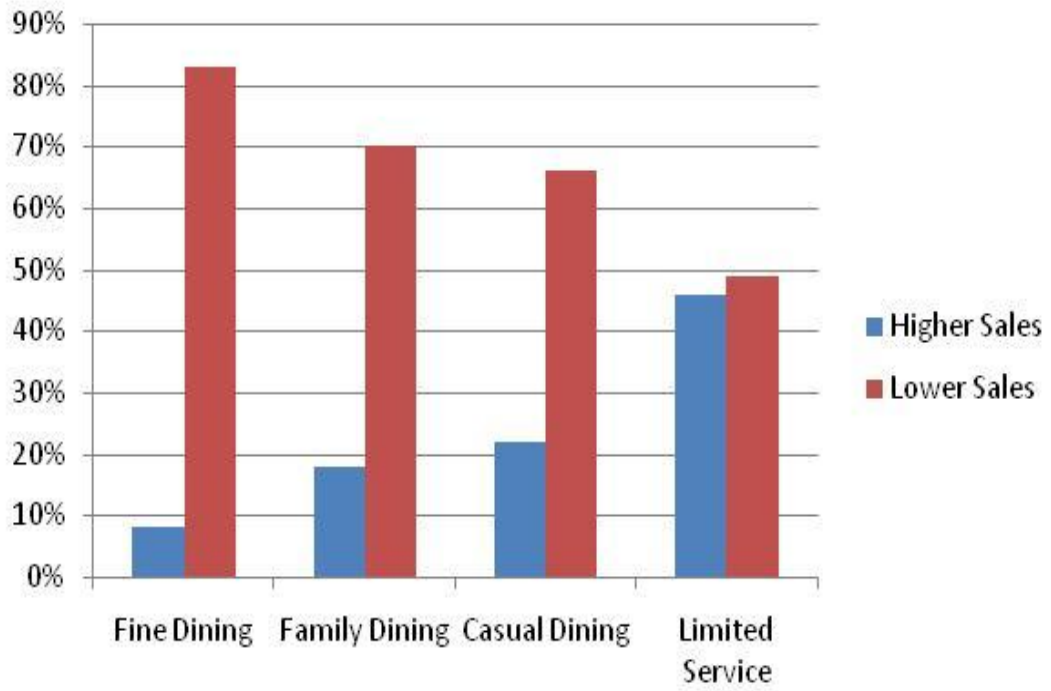


- Buffers were consumed due to high commodity prices
- Lower availability of credit; end to highly leveraged balance sheets
- Sourcing strategy at the forefront in current volatile environment
- Reluctance to hold large inventories
- Hand to mouth

Retail and food service



**US restaurant same store sales
Dec 08/ Dec 07**



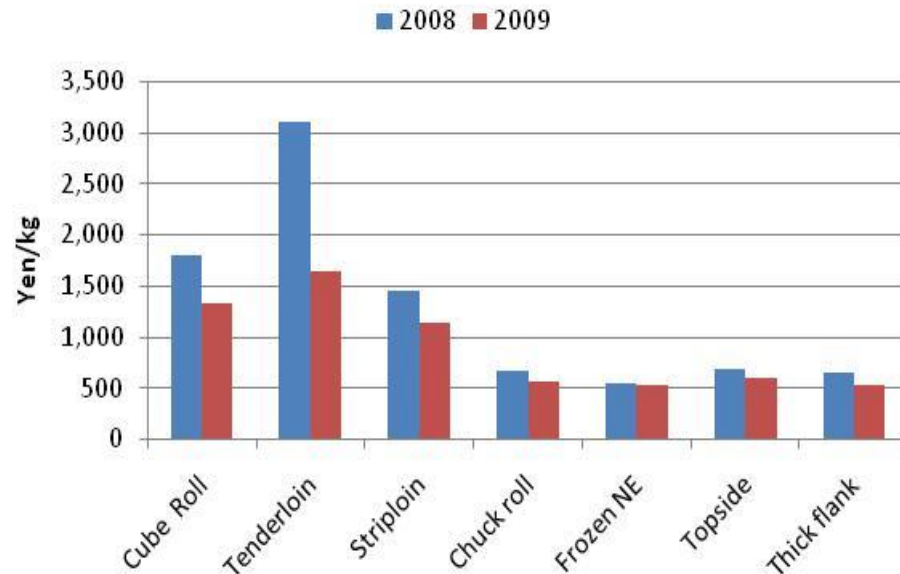
- Fall in business confidence
- Tightening credit lines

Source: National Restaurant Association

Consumers are trading down



Japanese wholesale beef prices



- Consumers trading down
- Availability of credit
- Private label vs branded
- Out of home vs at home consumption



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No immunity from impact

Drivers in F&A markets remain in place during economic crisis



Other price factors

- Exchange rates
- Freight rates
- Crude oil prices
- Technical specifications

Supply factors

- Agricultural land
- Yield (output/ha)
- Farm management
- Farm input prices
- Weather
- Diseases

Commodity price

Demand factors

- Feed
- Food
- Biofuels
- Industrial

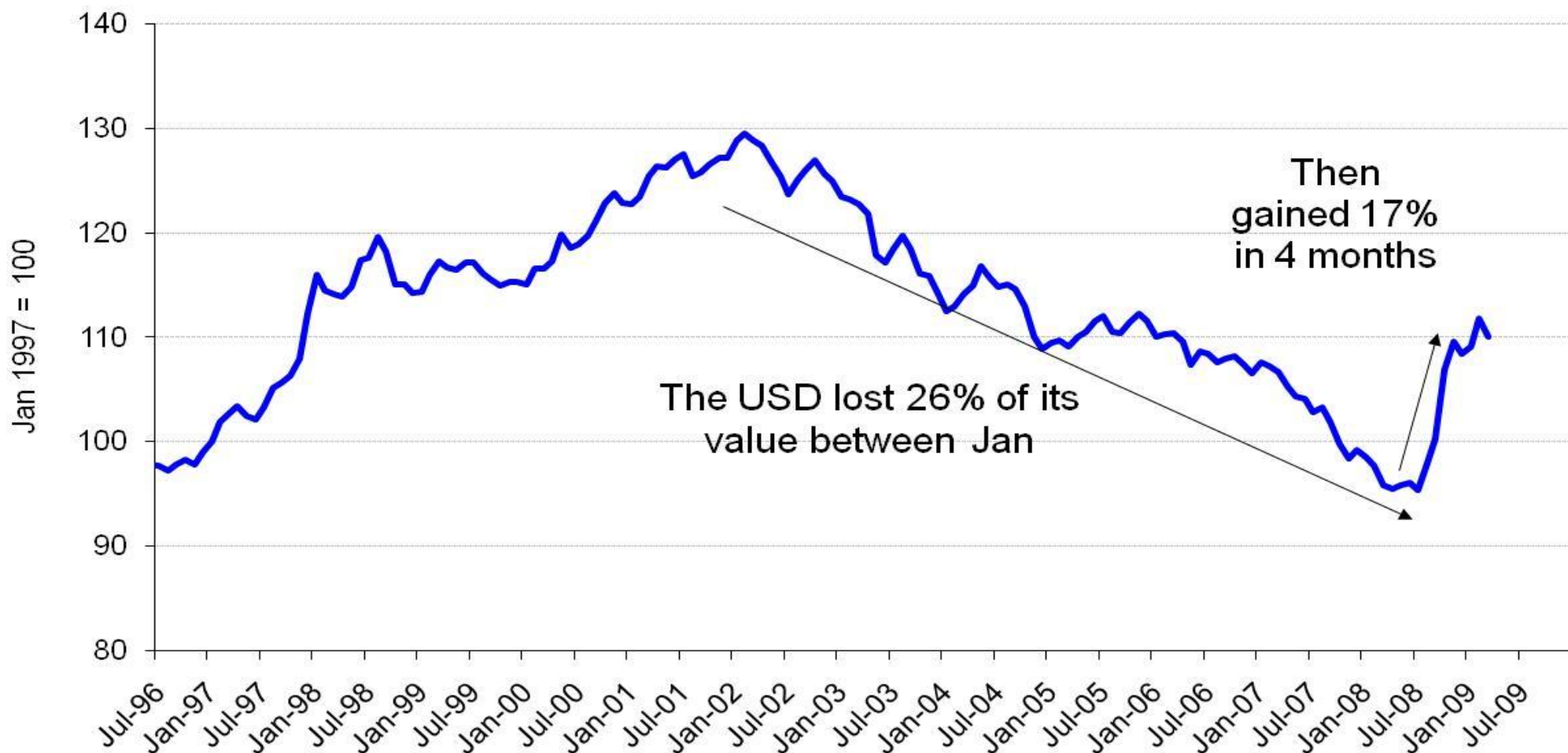
Policies

- Trade Policy
- Agricultural Policy
- Biofuel/Energy policy
- Food safety regulations
- Sustainability criteria

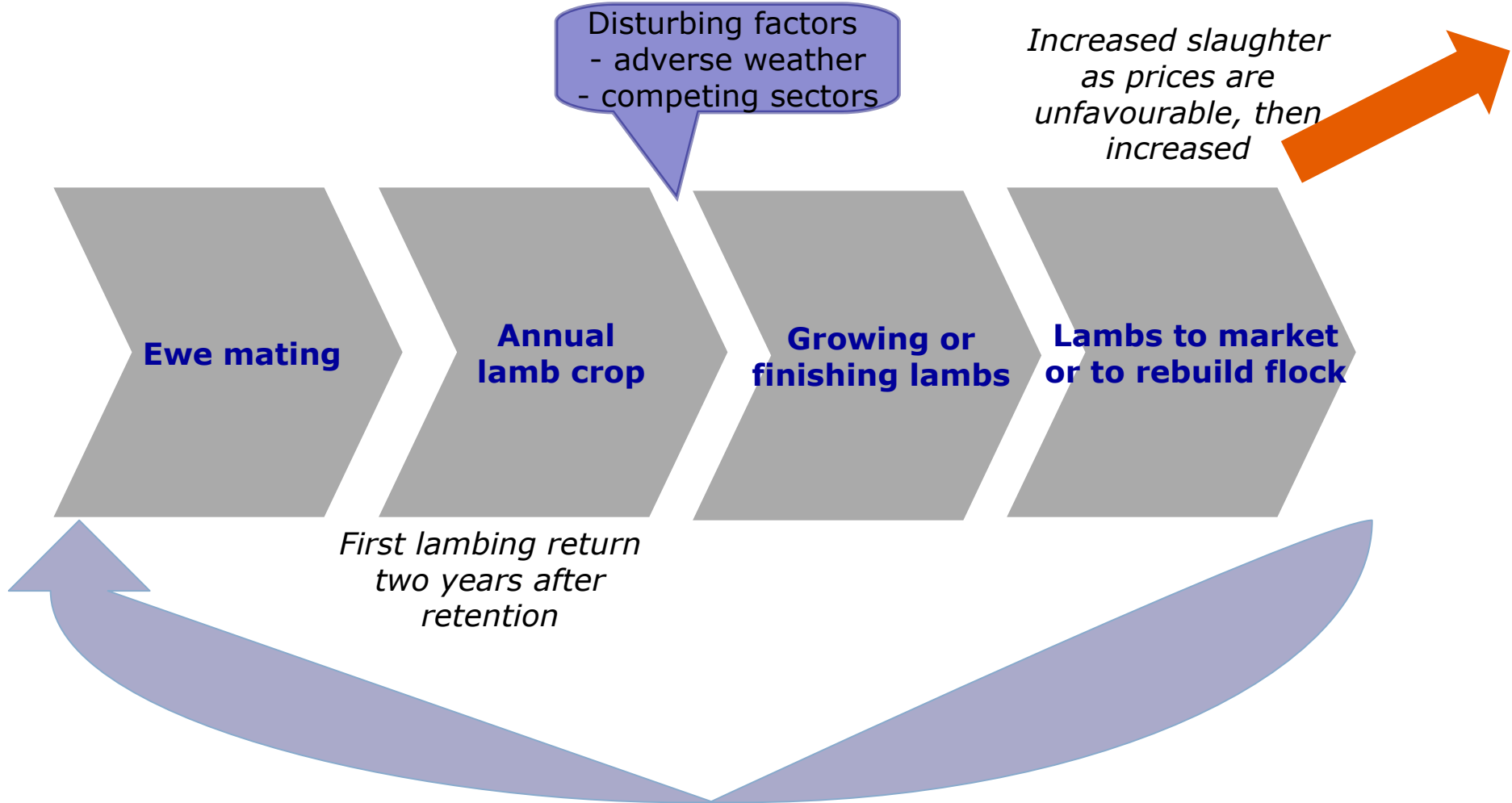
The US dollar effect kicks in....



USD - Nominal Broad Index



Delayed supply response = cyclicality



Supply response to price changes is delayed by several years

Challenging year for agriculture in 2009



Supply factors

- Lower supply availability
- Low inventories in supply chain
- Lower margins throughout the F&A value chain
- Short-term focus and less investment

Commodity price

Demand factors

- Food demand elasticity low overall, risks for high value products
- GDP will continue to grow in developing world → slowing shift in diet from rice to meat and dairy
- Global stimulus packages

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Agriculture is a bright spot



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