Banking and Agriculture after the GFC

Brendan White
Executive General Manager
Regional and Agribusiness Banking
Commonwealth Bank of Australia

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What's coming

- The Banking Landscape
- The Australian Economy
- The outlook for Agriculture

Honey I shrunk the Banks !!

Oz banks in much better shape than G20 banks

Source: JP Morgan: Market Value QII 2007 = $US1,726bn QI 2009 = $US 511bn

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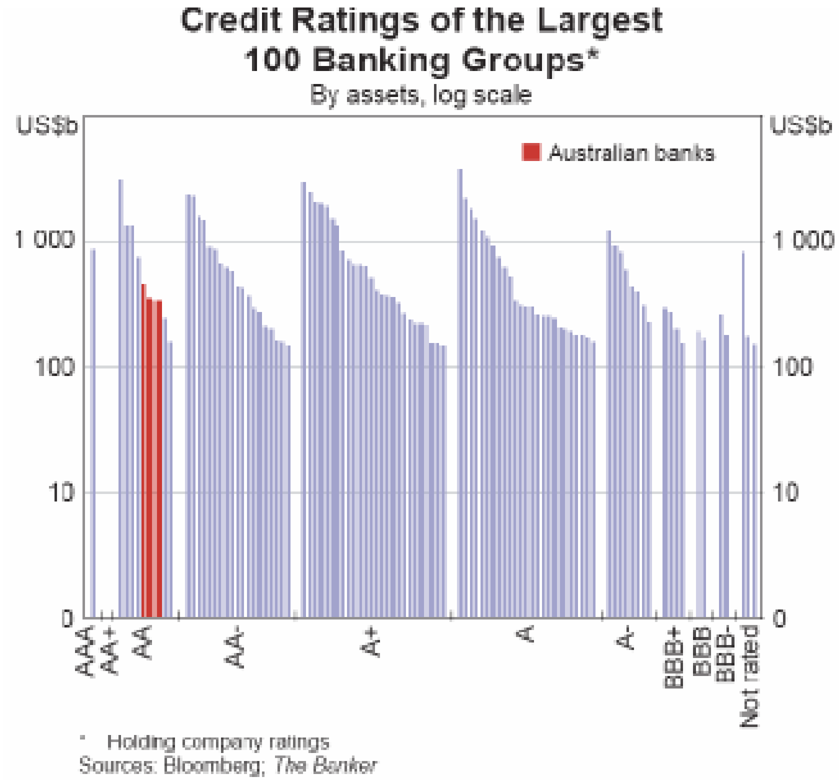
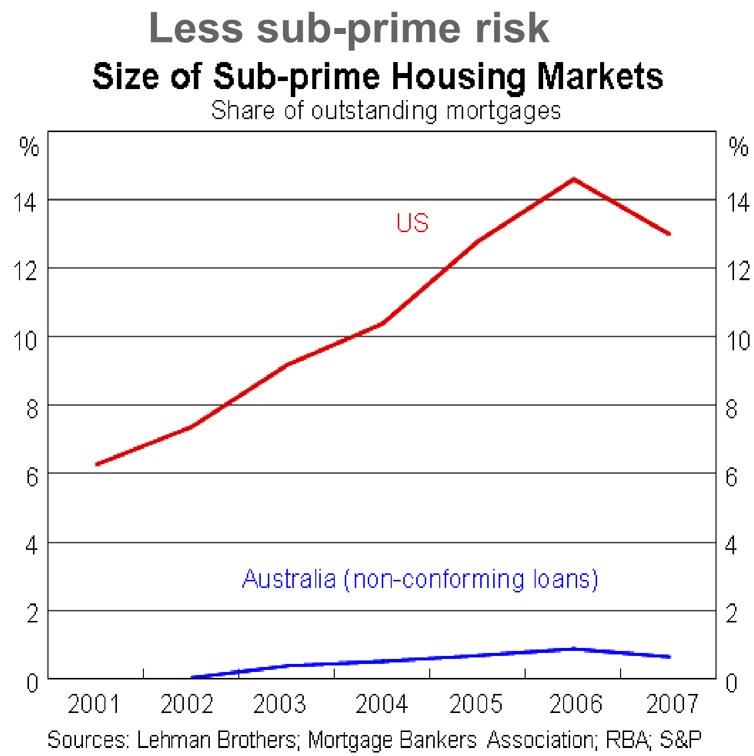
Oz Banks hale & hearty vs G20 Banks





- 4 Oz major banks are among only 11 globally with AA Rating or better!
- Miniscule OZ sub-prime debt levels
- Market capitalisation of Australian banks

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The Facts around Money Supply in Australia: Cost of funds

•Australia needs to raise at least 45% of its deposits and funding costs from the Wholesale Markets

•At least half of this is from offshore

•Australia's banking industry has enough liquidity to cover the housing mortgages only.

•Therefore all commercial lending needs to be funded from wholesale markets.

•Prior to the GFC, Australian Banks could raise wholesale funds at around BBSW and the Swap Curve. This was about 0.13% for 5 year money.

•Post the GFC – that price has blowing out to a high of 2.20% and is currently (Nov 09) about 1.50%.

•The Bad News is that the current cost of funds will remain high.

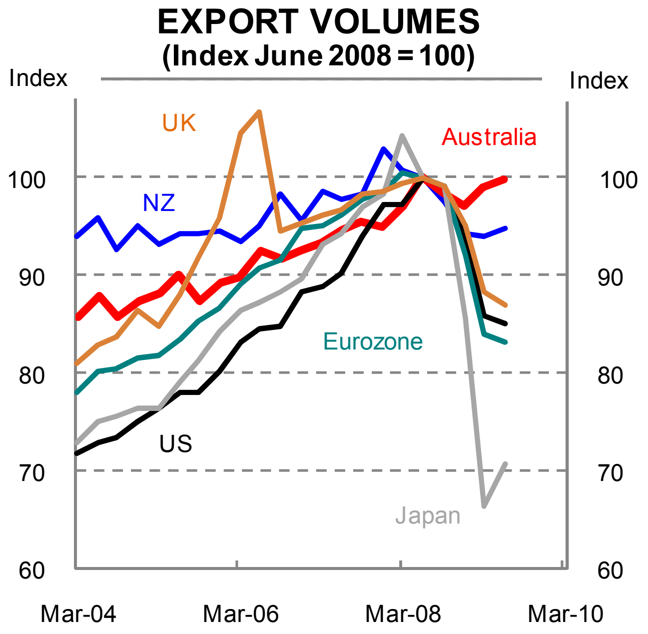
Australia's Relative Health is Excellent

Relative GDP Comparisons - Selected Economies			
		Cumulative Contraction in GDP (Since Recession Began)*	Current GDP YoY %
1	Japan	-7.7	-6.4
2	UK	-6.1	-5.2
3	Euro-zone	-5.0	-4.7
4	US	-3.5	-3.9
5	New Zealand	-2.3	-1.1
6	Australia	0.3	0.6

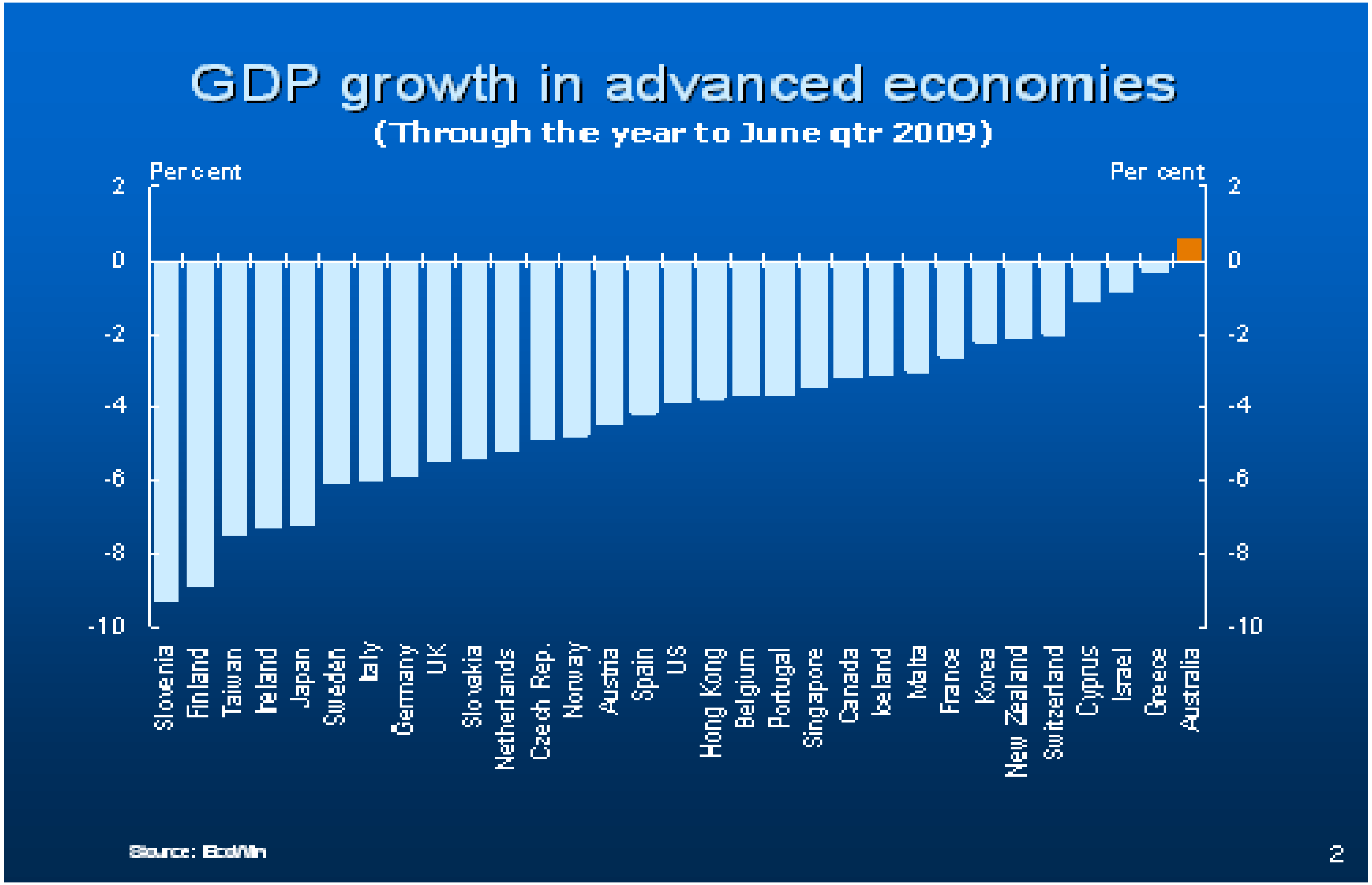
* Latest Avaliable Data

Relative Unemployment Rates - Selected Economies			
		Rise in Unemployment Rate (%pt) (Since Recession Began)*	Current Unemployment Rate
1	US	5.4	9.8
2	UK	2.7	7.9
3	Euro-zone	2.4	9.6
4	New Zealand	2.0	6.0
5	Japan	1.9	5.5
6	Australia	1.8	5.7

* Latest Data Available



Australian Economy: Gold medal performance



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Why did Australia escape the worst outcomes?

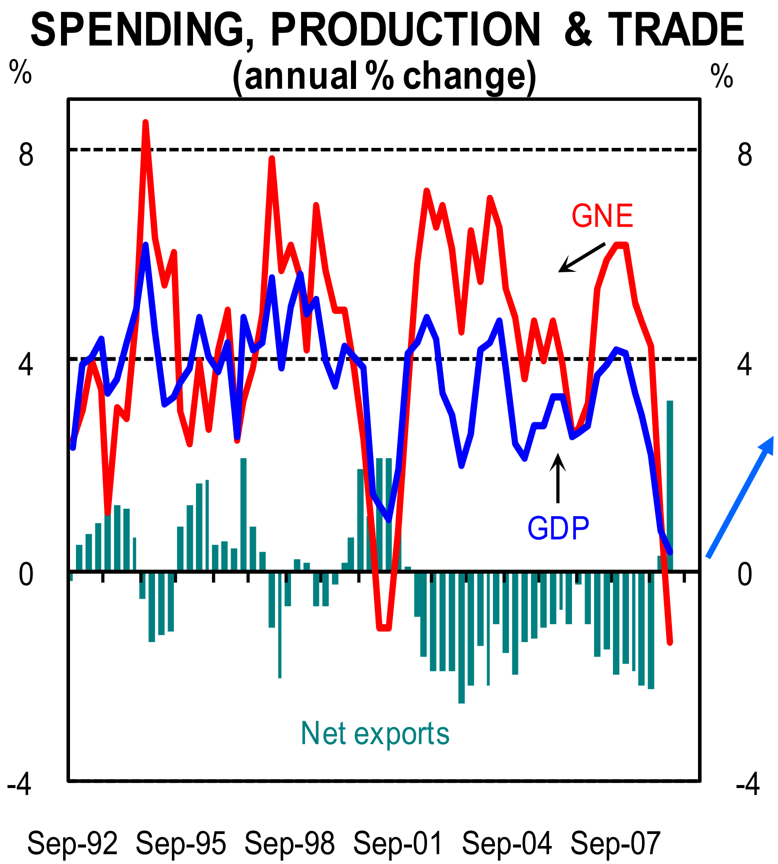
- **Big reduction in interest rates & government handouts**
  - Helped businesses and families by boosting profits & disposable incomes.
  - Rate cuts were made early before jobs losses started.
  - Government handouts were very large, targetted & timely.
  - Infrastructure spending still coming over next 2 years
- **Financial sector works & housing market stable**
  - Australia's banking system sound, low bad losses.
  - Housing prices relatively stable compared to big falls in US and UK.
  - Jobs market has weakened but not as badly as expected
- **China's growth still running near 9%pa**
  - World commodity demand has recovered quickly
  - Iron ore & coal prices set to rise by 20% in 2010
  - China's growth rate stronger than expected

Australia 'fire-proofed' to a large degree

Combination of Good Policy & Good Luck!

- ***Well regulated financial system*** with banks in comparatively good shape
- ***Oz housing sector*** in good shape in sharp contrast to US and UK
- ***Monetary and fiscal policy*** levers have allowed large pre-emptive stimulus at maximum speed
- ***AUD*** fell by nearly 40% vs USD in late 2008 as global financial system imploded
  - **a huge boost to exporters and import competing sectors.
- ***Massive deregulatory reforms*** of Fed Governments in 1980s &1990s modernising economy resulted in an open, efficient, flexible, outward looking, low inflation and high productivity economy. Flexible Oz poised to capitalise on global recovery led by China & emerging economies.
- ***Australia in the right place*** in the sense that many of our major trading partners in Asia continue to grow – i.e. China, India and ASEAN. These partners, especially China, are now rebounding strongly.
- ***Strong population growth*** (high migration intake).

Australia: 2009 GDP: 2%pa…… 3% in 2010



SECTORS WITH WEAKEST GROWTH OUTLOOK

Manufacturing – car industry, textiles
Commercial construction, rentals & fit-outs
Professionals: architects, surveyors, legal/finance
Mining construction, related services groups
International/domestic tourism, business travel

STRONGEST GROWTH OUTLOOK

Staples – groceries, food, cosmetics, (gambling?).
Infrastructure – roads, rail, water, power.
-related construction, engineering & services.
Energy related mining, construction & exports.
Mining export sectors & related loading/transport.
Health, defence, education; Government related.
New Housing construction, alts & adds.
Retail (discretionary) in 2010.

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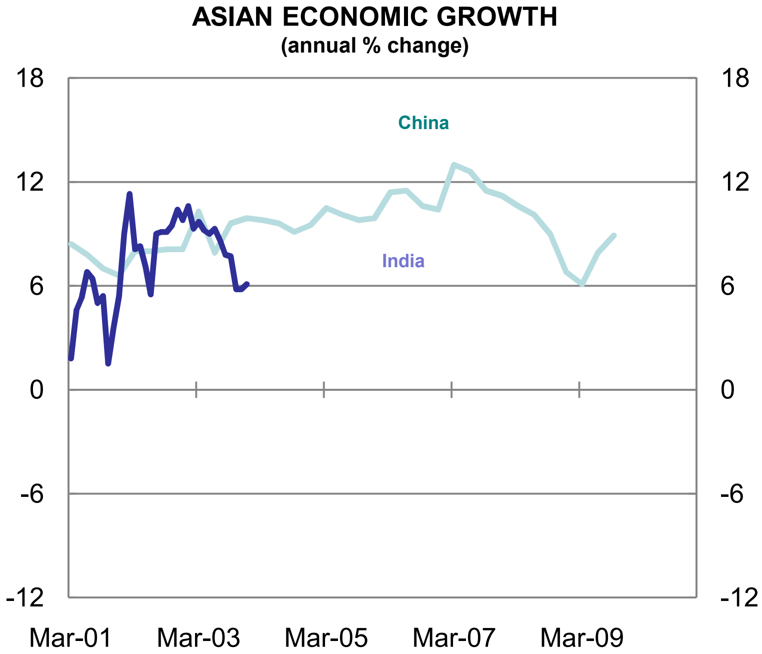
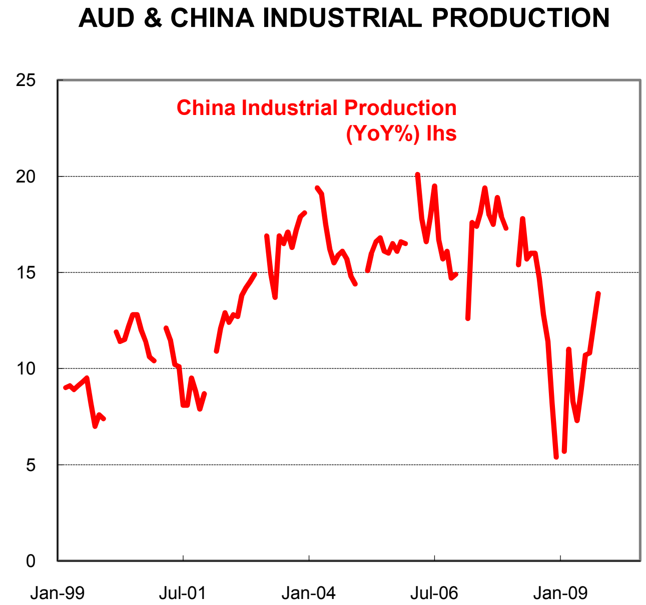
The Global Backdrop

Chinese dragon & Indian tiger firing up again!





- GDP growth in China accelerated to 8.9% in QIII, from 6.1%pa in QI 2009.
- China's giant stimulus package has also boosted QIII industrial production which lifted 14.7%pa.
- GDP & IP will accelerate in QIV and into 2010, with GDP heading to 10%.

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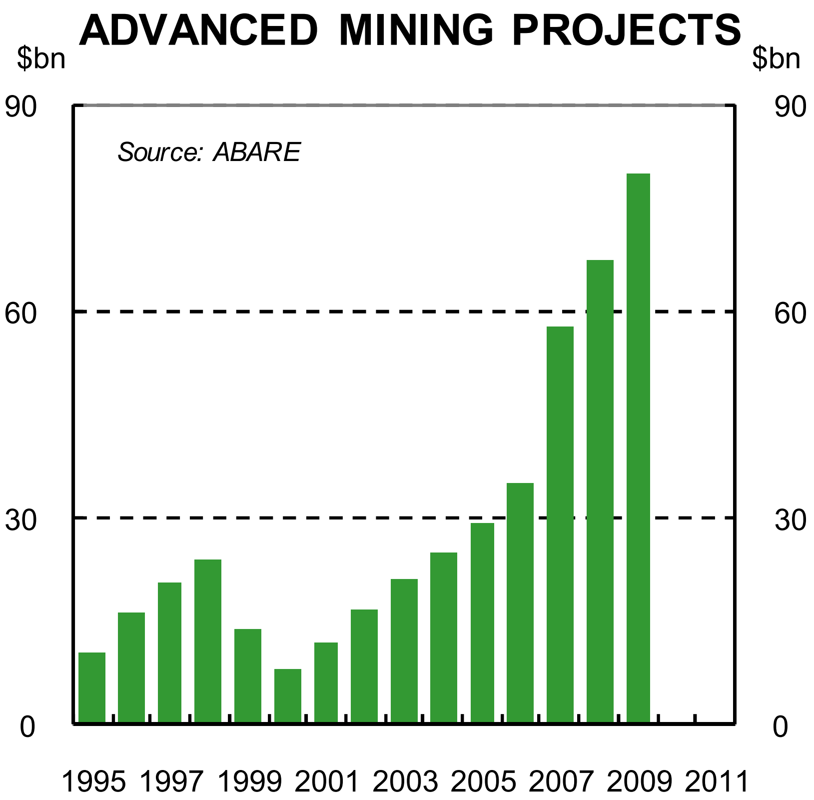
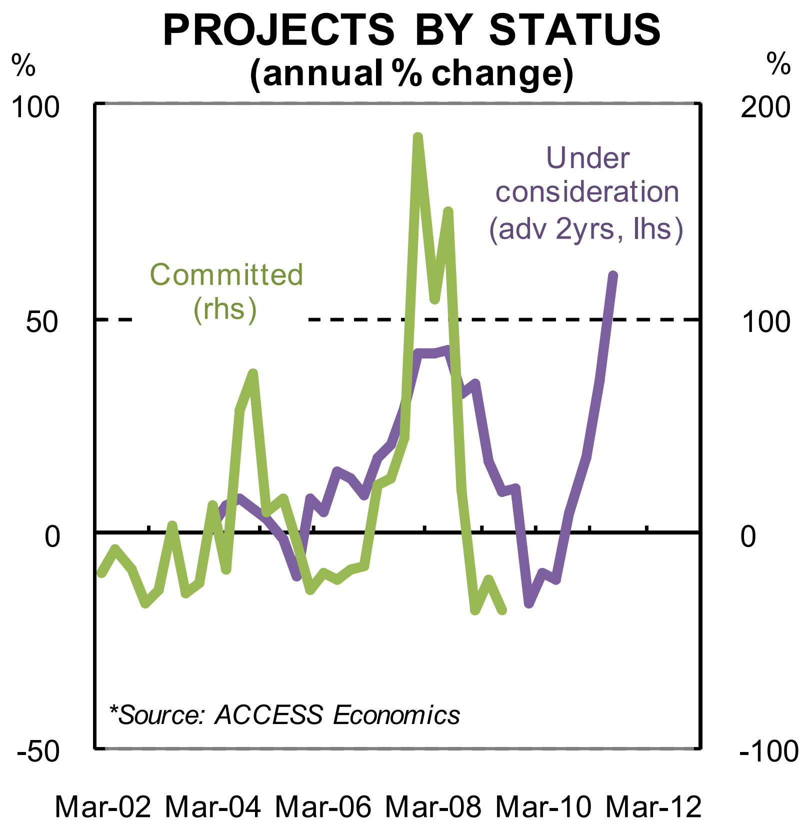
Mining projects rising again

Resilience





- **Value of advanced mining projects still moving higher.**
- **Pipeline of projects under consideration has started to lift again.**

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Australian Economic & Financial Market Outlook

Direction of Risks in 2010

International Growth	⇧	Growth to shrink1.3% pa in 2009; lift to 3¾%pa in 2010
Domestic Growth	⇧	To grow by 0.8%pa in 2009 & 2¾%pa in 2010
Monetary Policy	⇧	RBA to lift rates to 4% by QI 2010 & to 5% by QIV
Underlying CPI	⇩	To ease to 2-3% in 2009/10
AUD Outlook	⇧	US$0.98 by mid 2010 & testing parity with US$

Key Risks to Australian Outlook

- ***Faltering consumer spending*** if unemployment rises too substantially.
- ***Sharply deflating Capex*** boom.
- ***Any loss of momentum by China*** and major trading partners like India and ASEAN.
- ***Further meltdown in global credit markets*** (like in the wake of the Lehman Bros fiasco) e.g. failure of US Administration's current banking bailout package.

IN SUMMARY…..

Australia

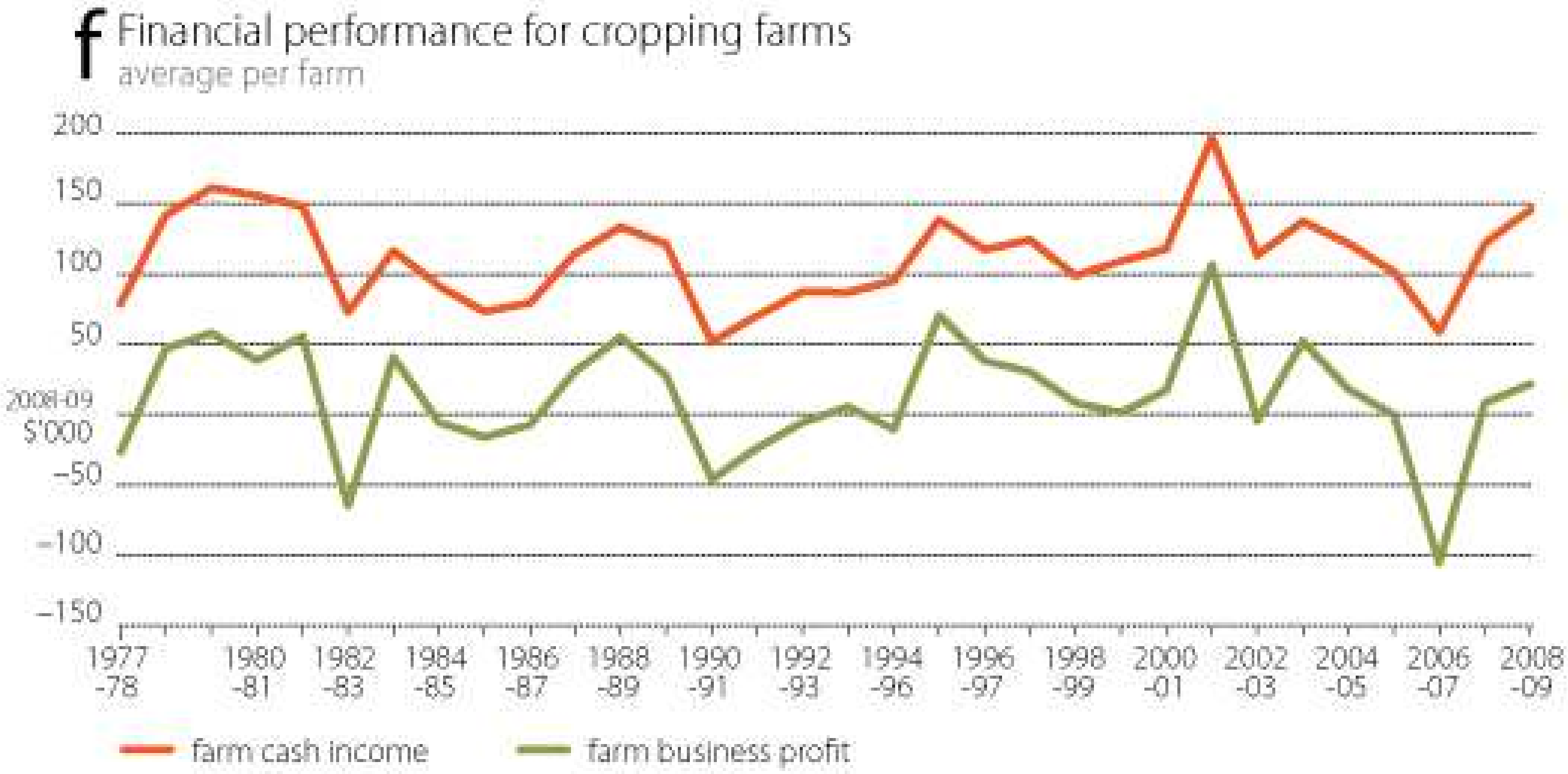
Western Australia → **Well Positioned for GROWTH**

AUSTRALIAN AGRICULTURE

1. Strong Banking System
2. Projected Population Growth → 35% increase by 2050
3. Rising Global Demand for Food → 70% increase in demand for food
4. Proximity to Asia
5. Land and Water Scarcity: Land clearing restriction and climate change
6. Resilience, Innovation and Technology

CONSULTANTS: KEY PLAYERS IN THE FUTURE GROWTH IN AUSTRALIAN AGRICULTURE

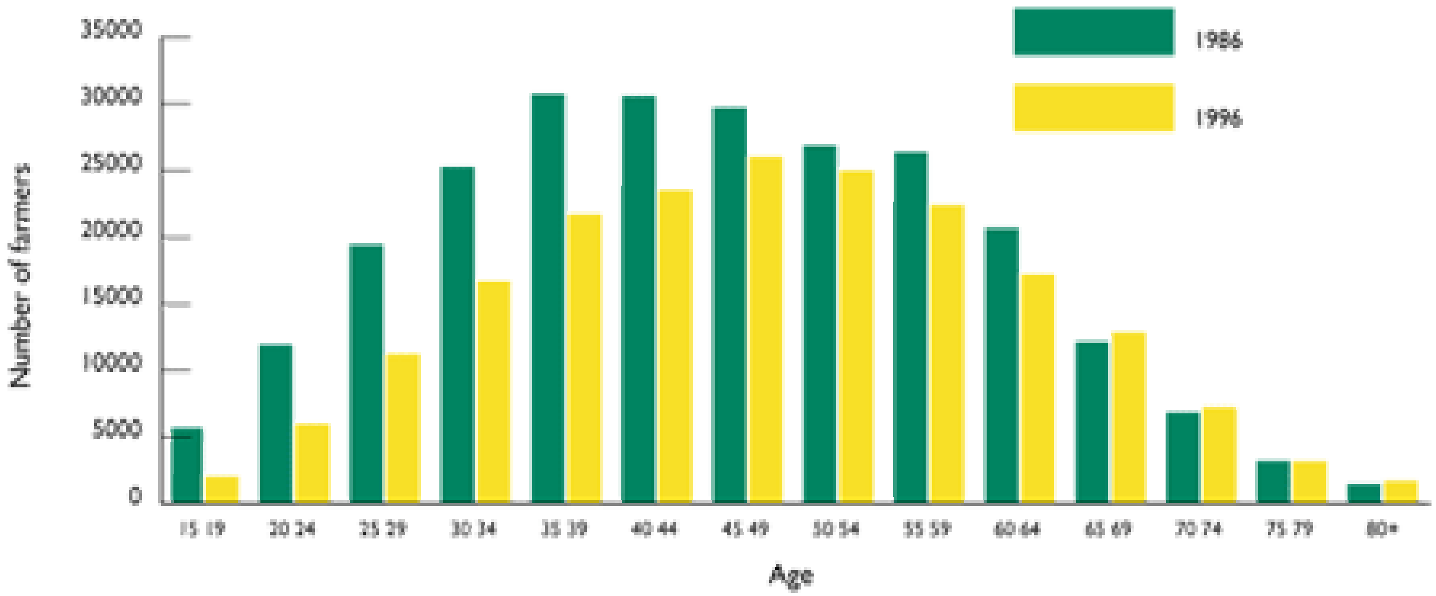
Now lets look at Agriculture in Australia…Financial performance on Australian farms is improving…



Source: ABARE

But our farmers are getting older….

Figure 3.7. Number of people with farming as their main occupation by age group 1986 and 1996.

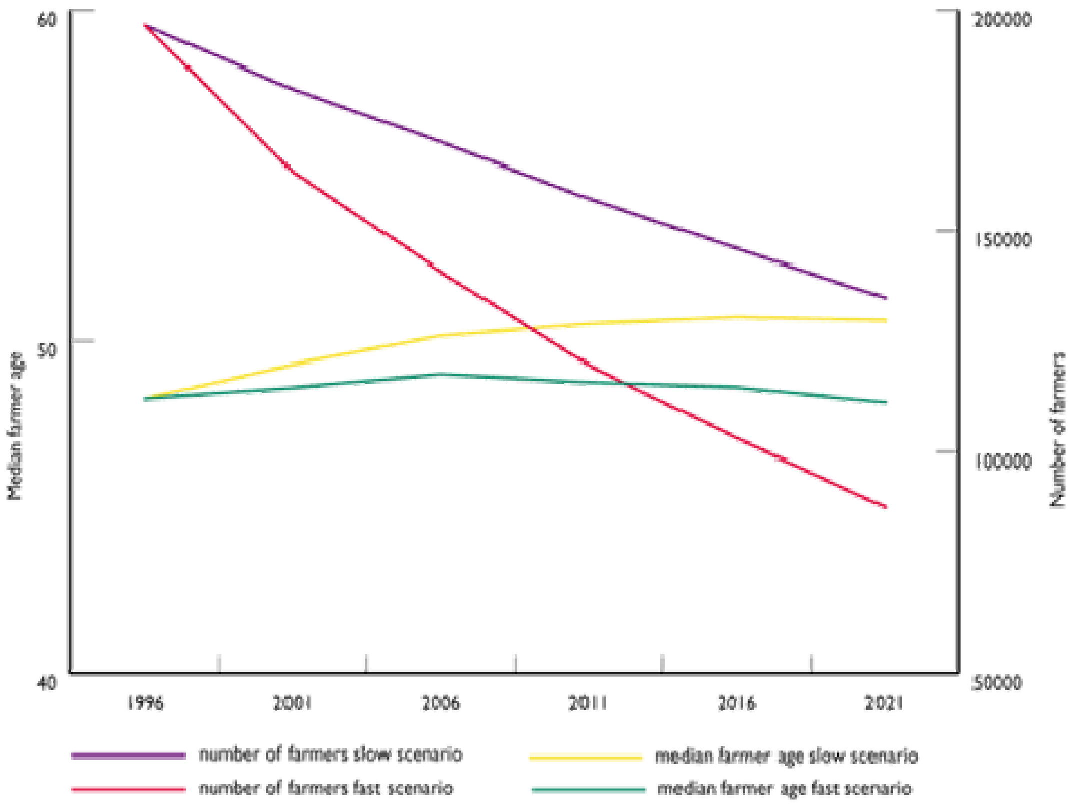


Data source: ABS Australian Population and Housing Census

Source: ABARE

And fewer in number……

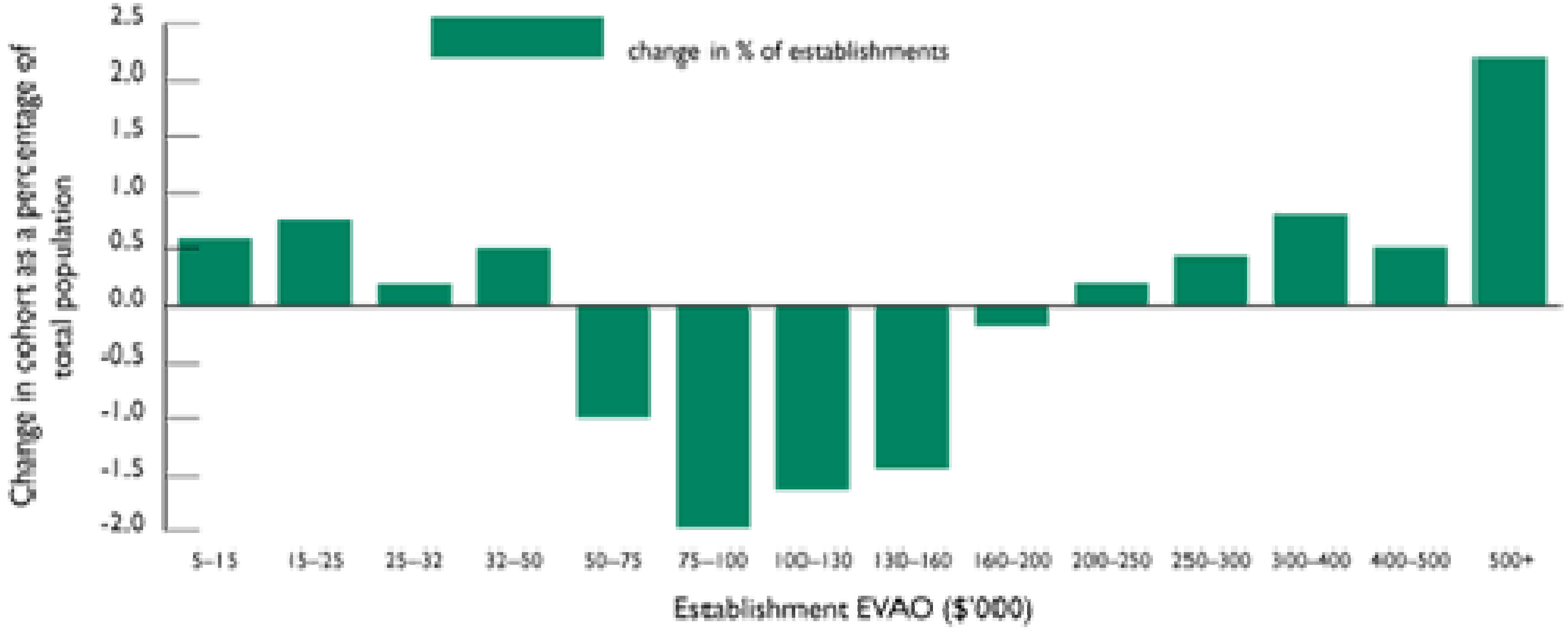
Figure 3.10. Projected Australian farmer numbers and farmer age 1996 to 2021 using slow and fast adjustment scenarios.



Source: Derived using ABS Population and Housing Census data. See Barr (2001) for methodology

The growth is in hobby farms and large farms

Figure 3.5. Change in number of farm establishments by estimated value of agricultural operations grouping as a percent of all farm establishments 1986 to 1996.



Source: ABS Australian Agricultural Census data.

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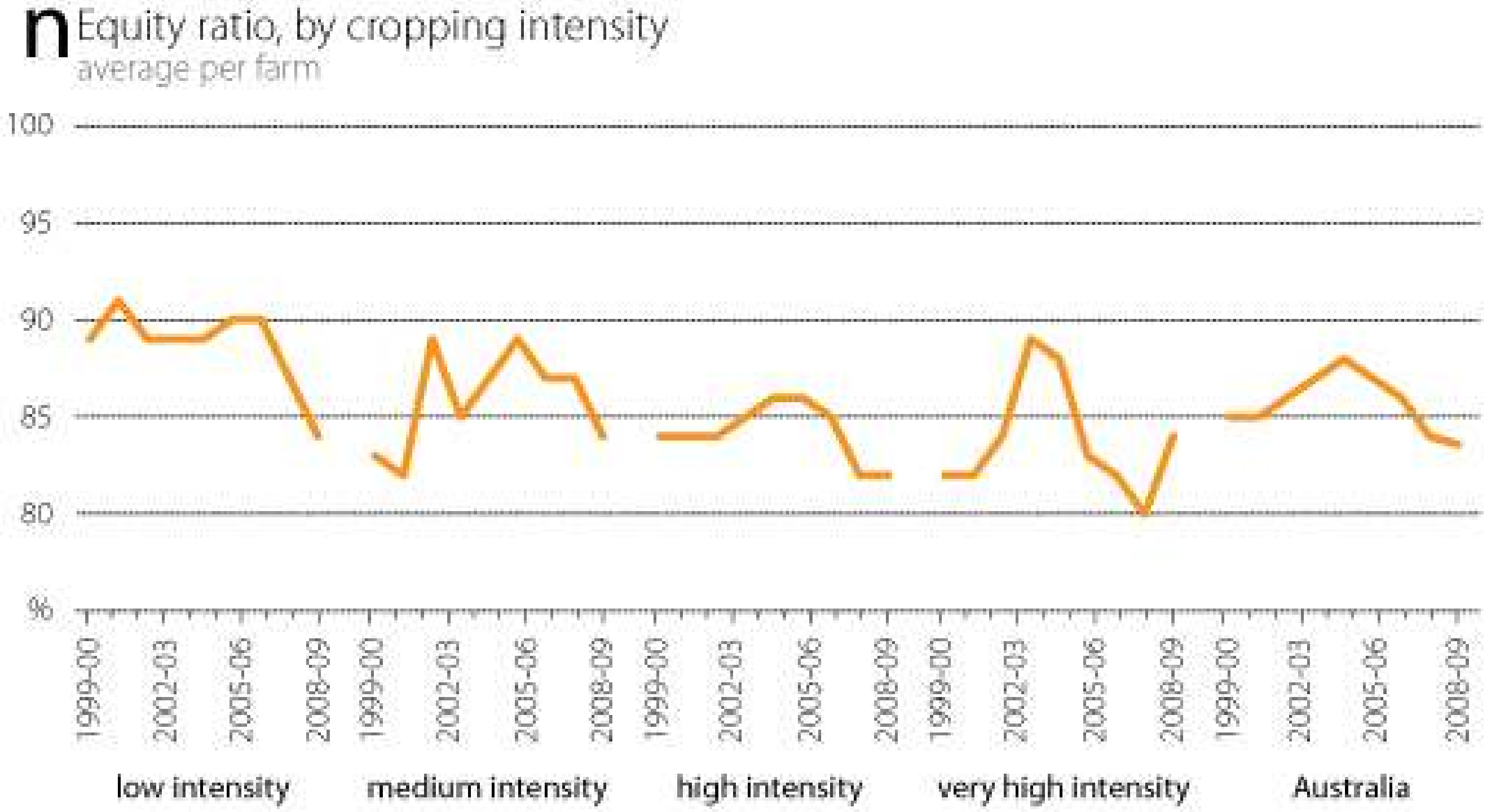
Equity levels have fallen – but are still high….



Source: ABARE

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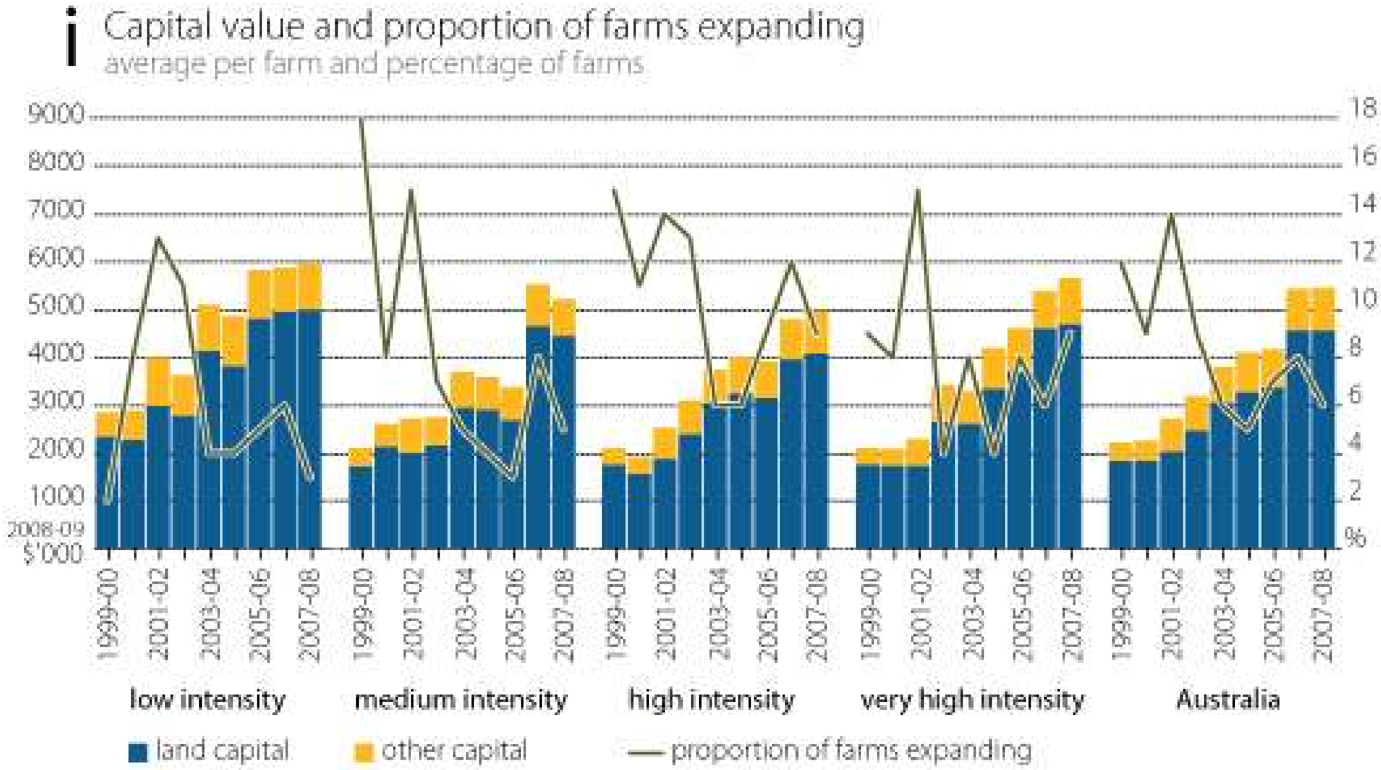
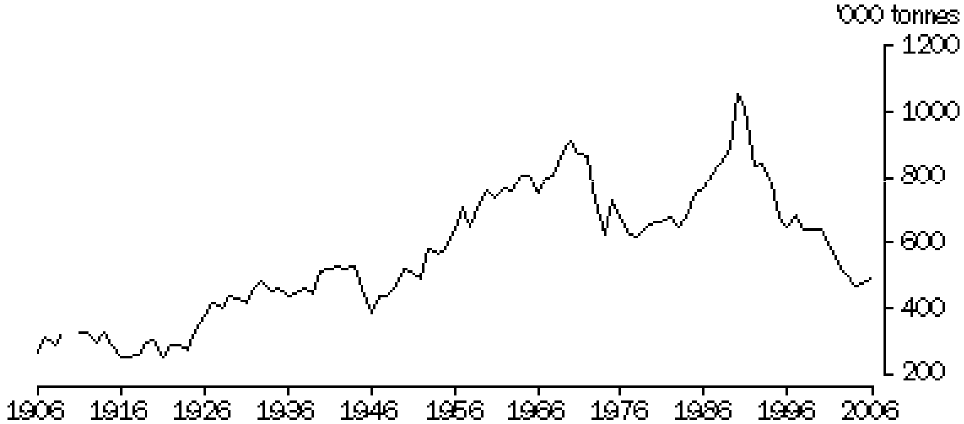
Capital values are rising – but the number of farms expanding is declining……



Source: ABARE

We no longer ride on the sheep's back..

Sheep numbers have collapsed…



(a) Shorn, dead and fell mongered, 1906–73. From 1974, shorn wool received by brokers and dealers.

Source: ABS data available on request.

So has wool production

(a) Due to the scale of this graph, breaks in time series have not been noted.

Source: Historical Selected Agriculture Commodities, by State (7124.0).

Source: Australian Bureau of Statistics

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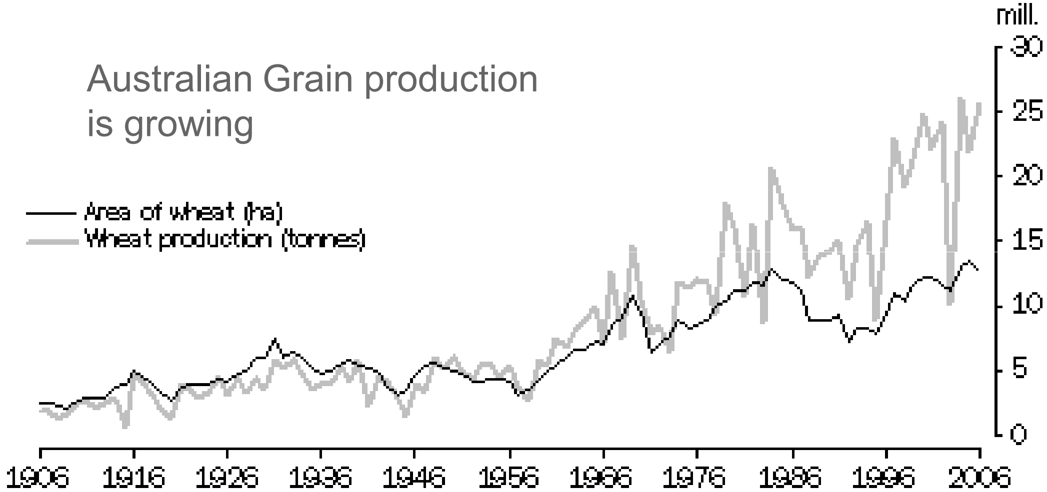
Grain production is increasing – and prices will recover

Australian Grain production
is growing



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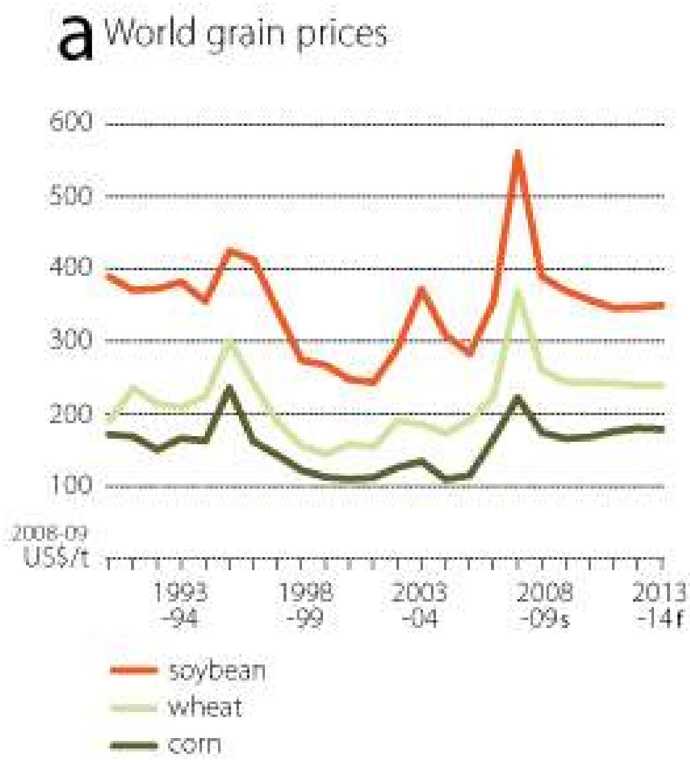

Source: ABARE

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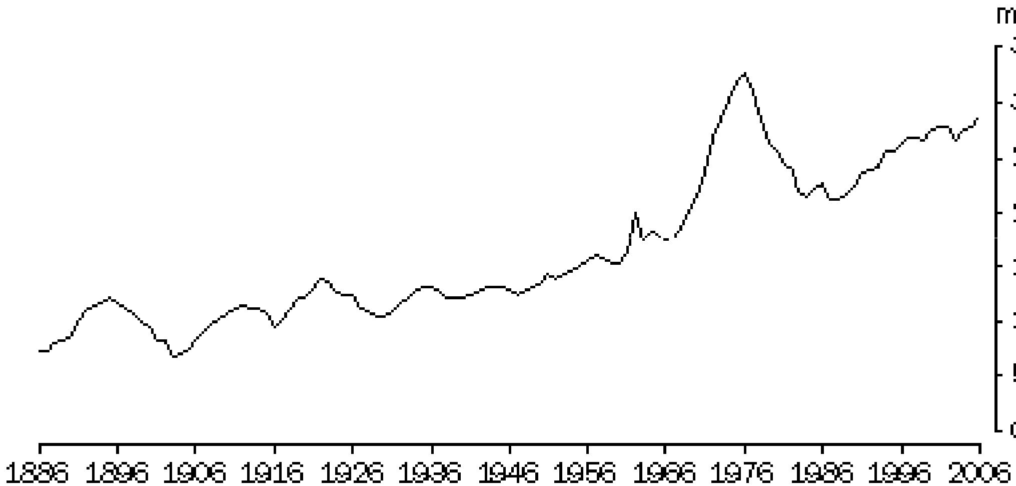
Very strong medium term prospects for Animal Protein

Australia's beef herd is growing

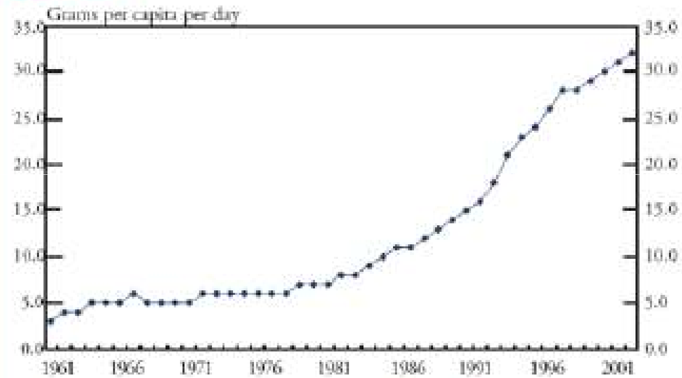


(a) Milk and meat cattle.

Source: Historical Selected Agriculture Commodities, by State (7124.0).

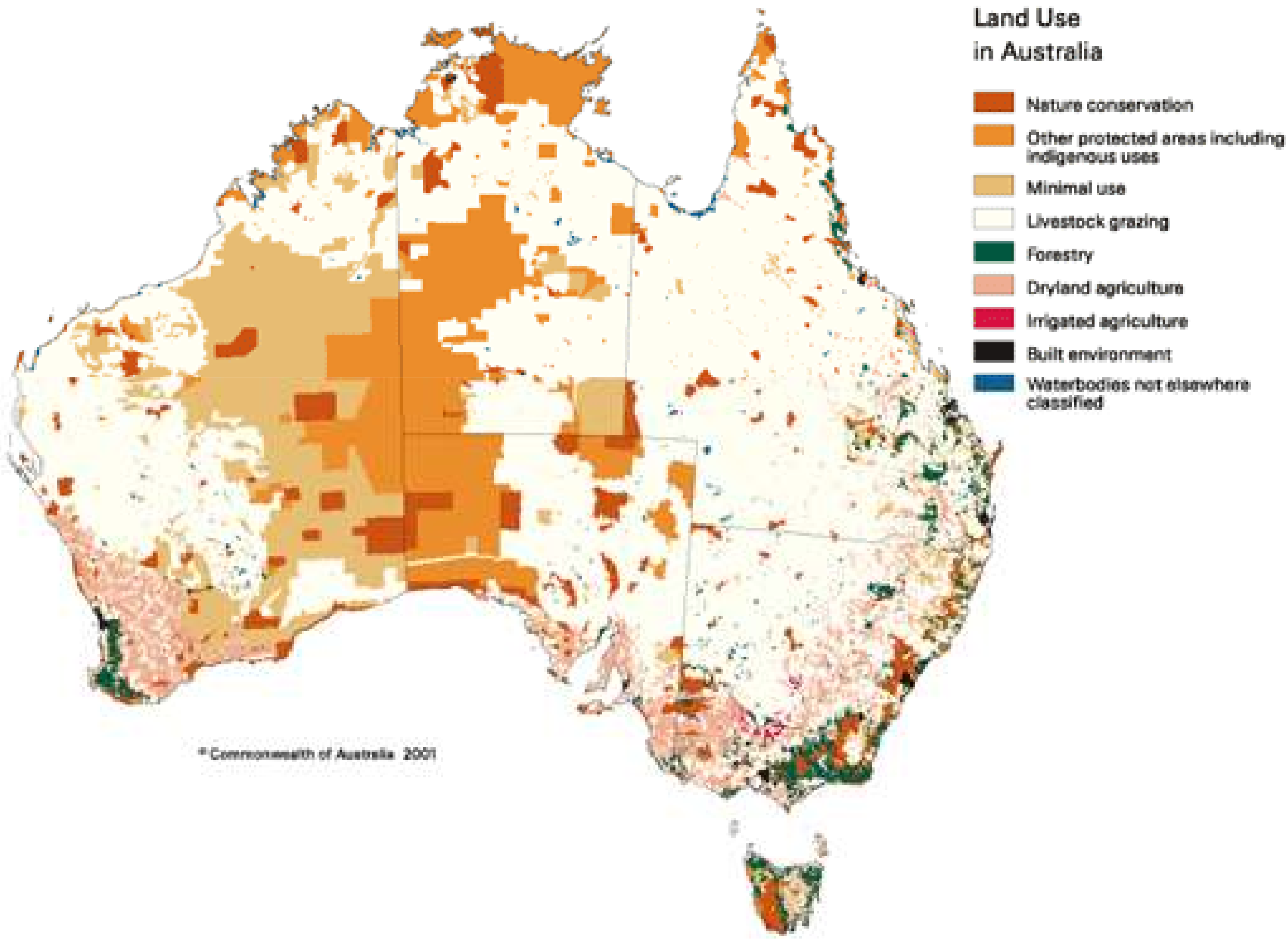
Driven by growing demand for animal protein

Chart 6. China Protein Consumption from Animal Products

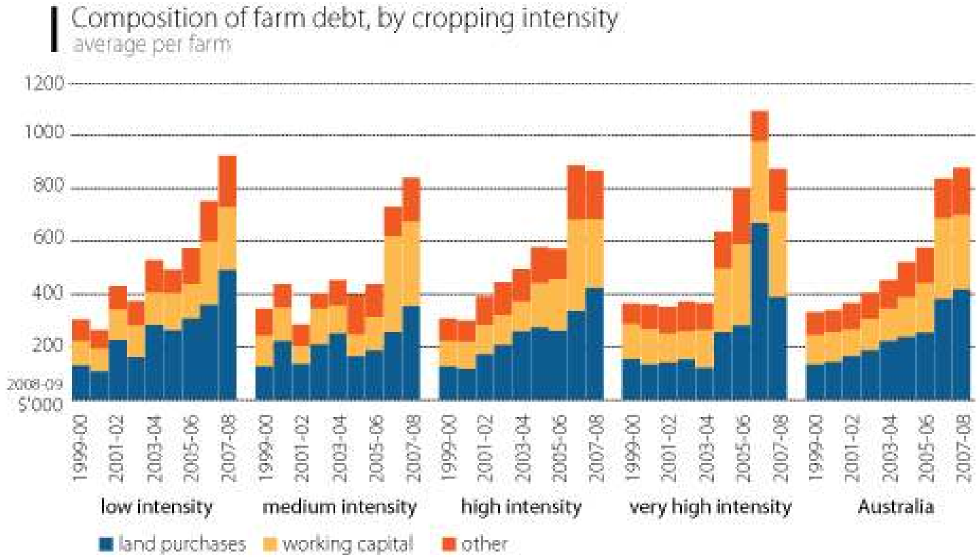


Source: Food and Agriculture Organization of the United Nations (FAO)

Not much room to expand …unless we work out how to get more production out of pastoral property and the North…



The market for agricultural finance is strong and growing…



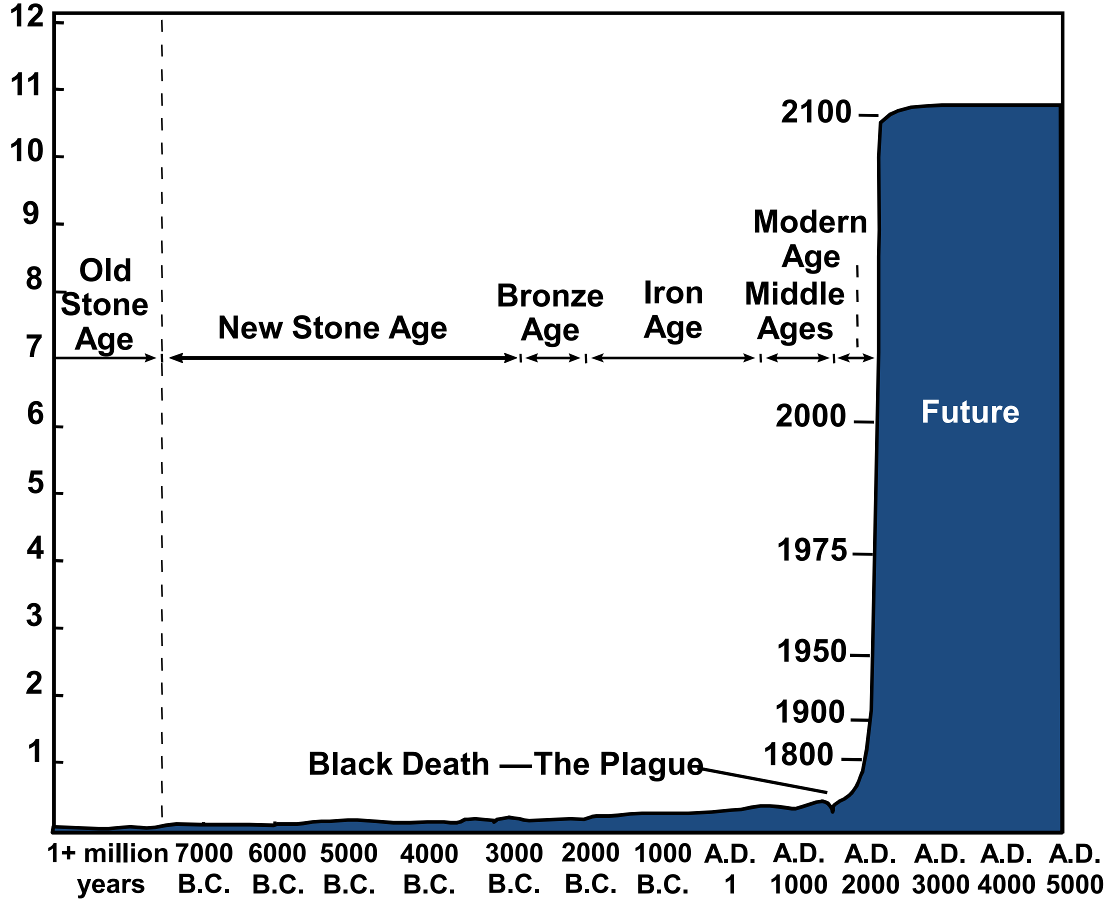
Source: ABARE

There are plenty of providers of finance for agriculture in Australia and we see potential for further significant growth in the Medium term.

With strong equity levels in Australian farms and cash income increasing, there will Continue to be a strong market to provide Financial services to the sector.

What about the medium term? We have a lot of people to feed and the number of people will continue to grow…

Billions

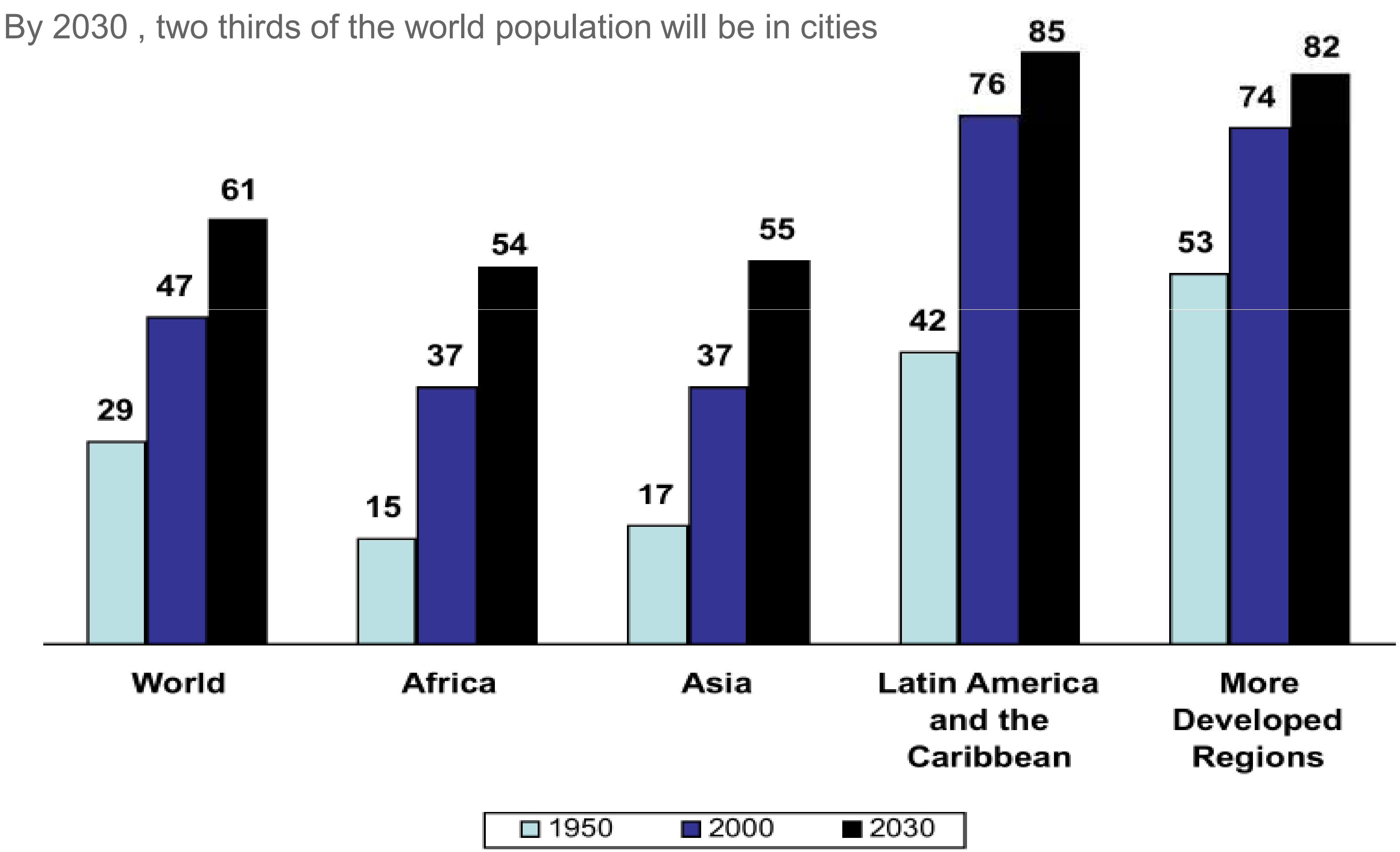


Source: Population Reference Bureau; and United Nations, *World Population Projections to 2100* (1998).

We will all be in cities and need feeding…

Urban Population

Percent



Source: United Nations, *World Urbanization Prospects: The 2003 Revision* (medium scenario), 2004.

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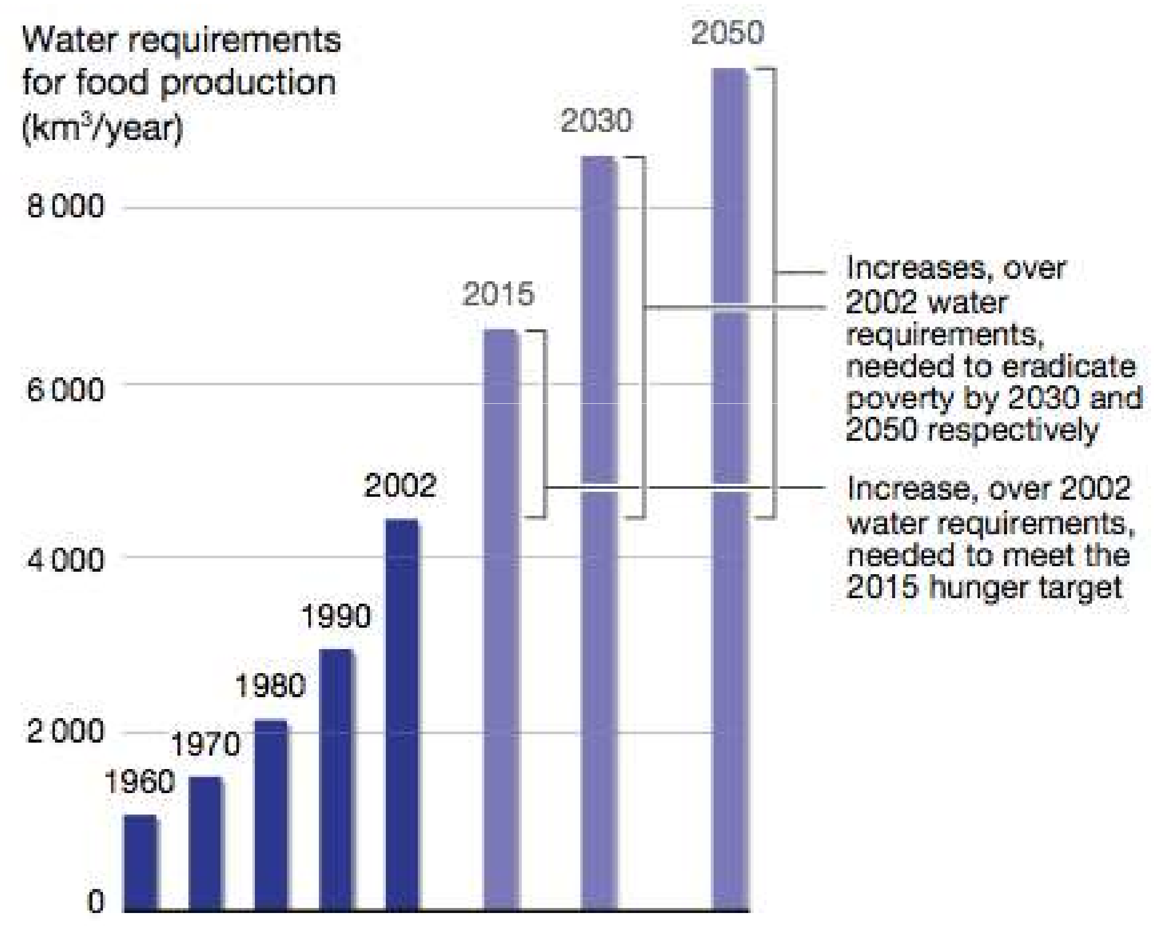
We will need lots of water…….



Source: UNDP

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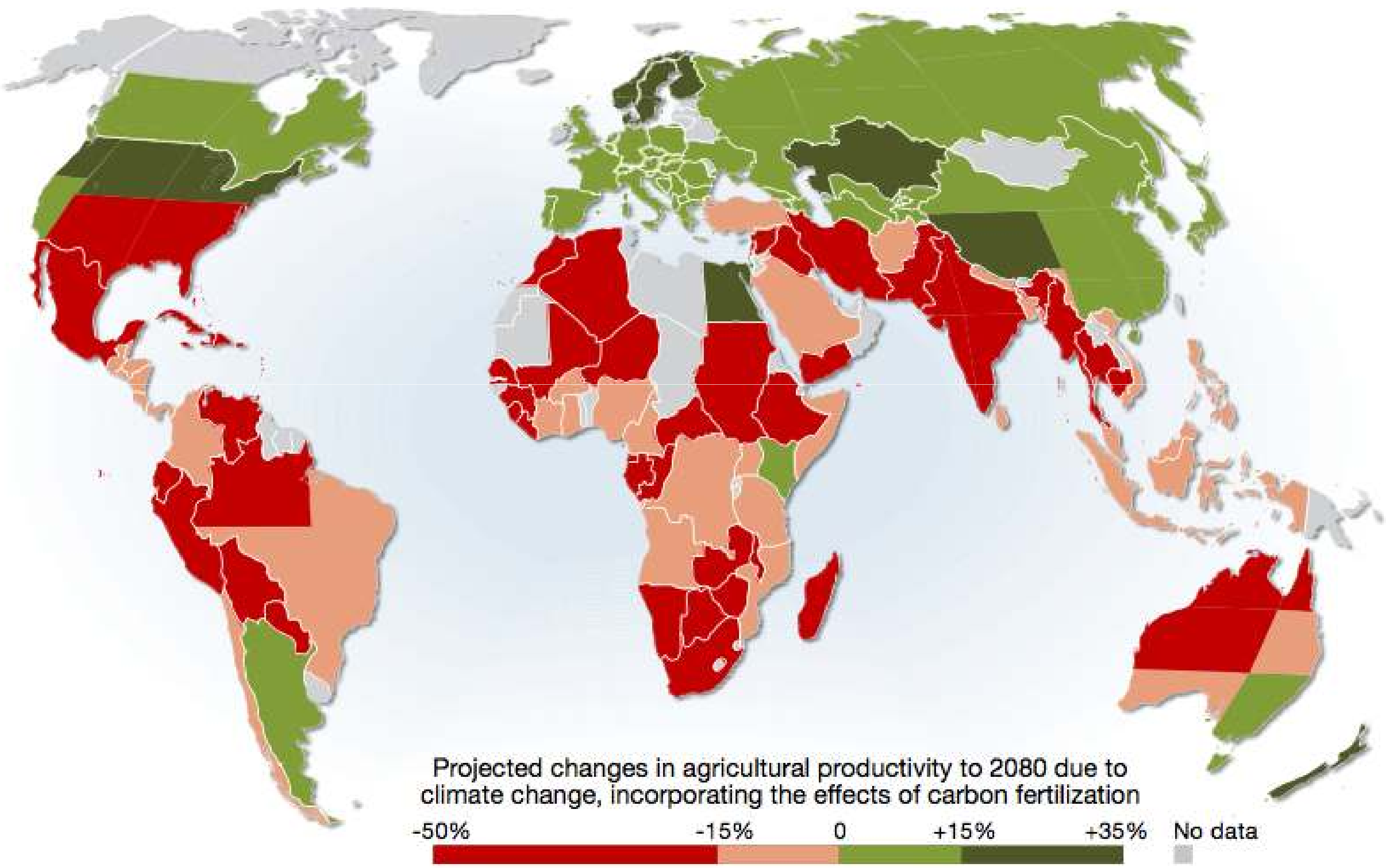
Climate Change will reduce our capacity to grow food ….



Source: UNDP

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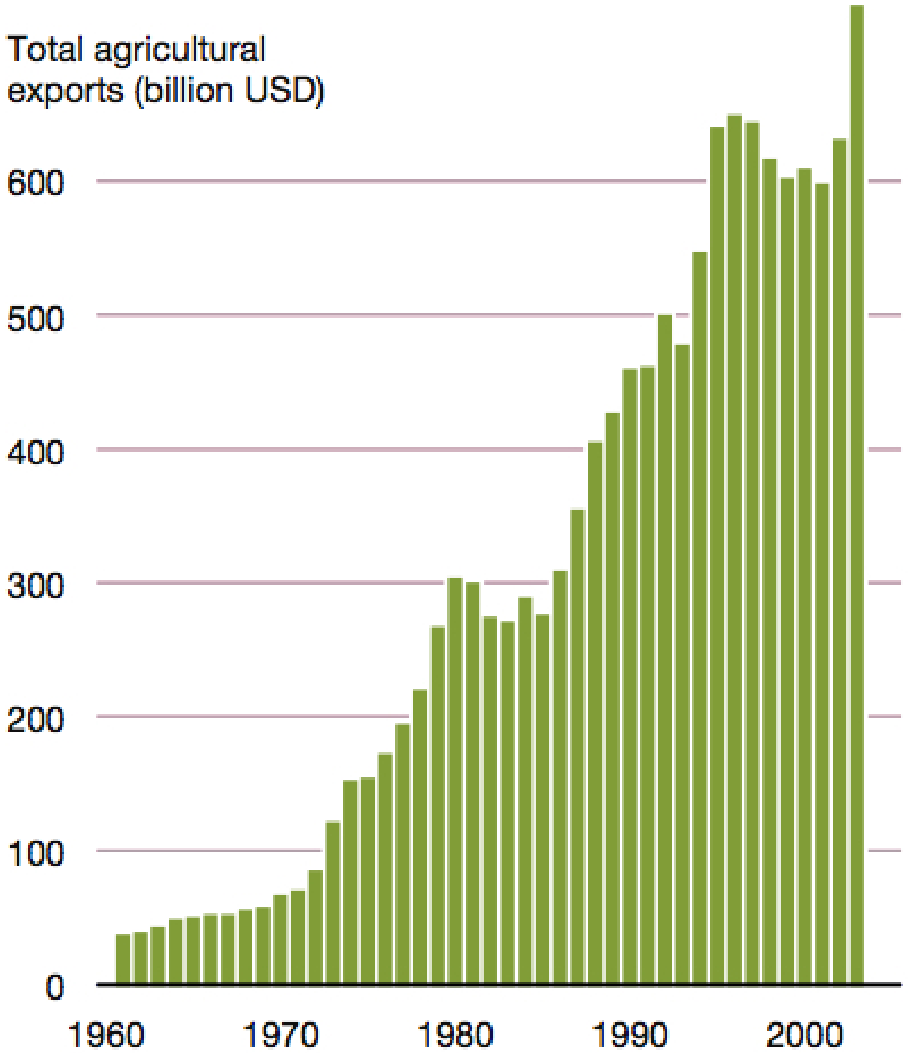
The Bottom Line: Food demand will continue to grow



Australian agriculture has a very strong future and will continue to attract strong investment activity – driven by fundamentals and a desire for stable returns.

Source: UNDP

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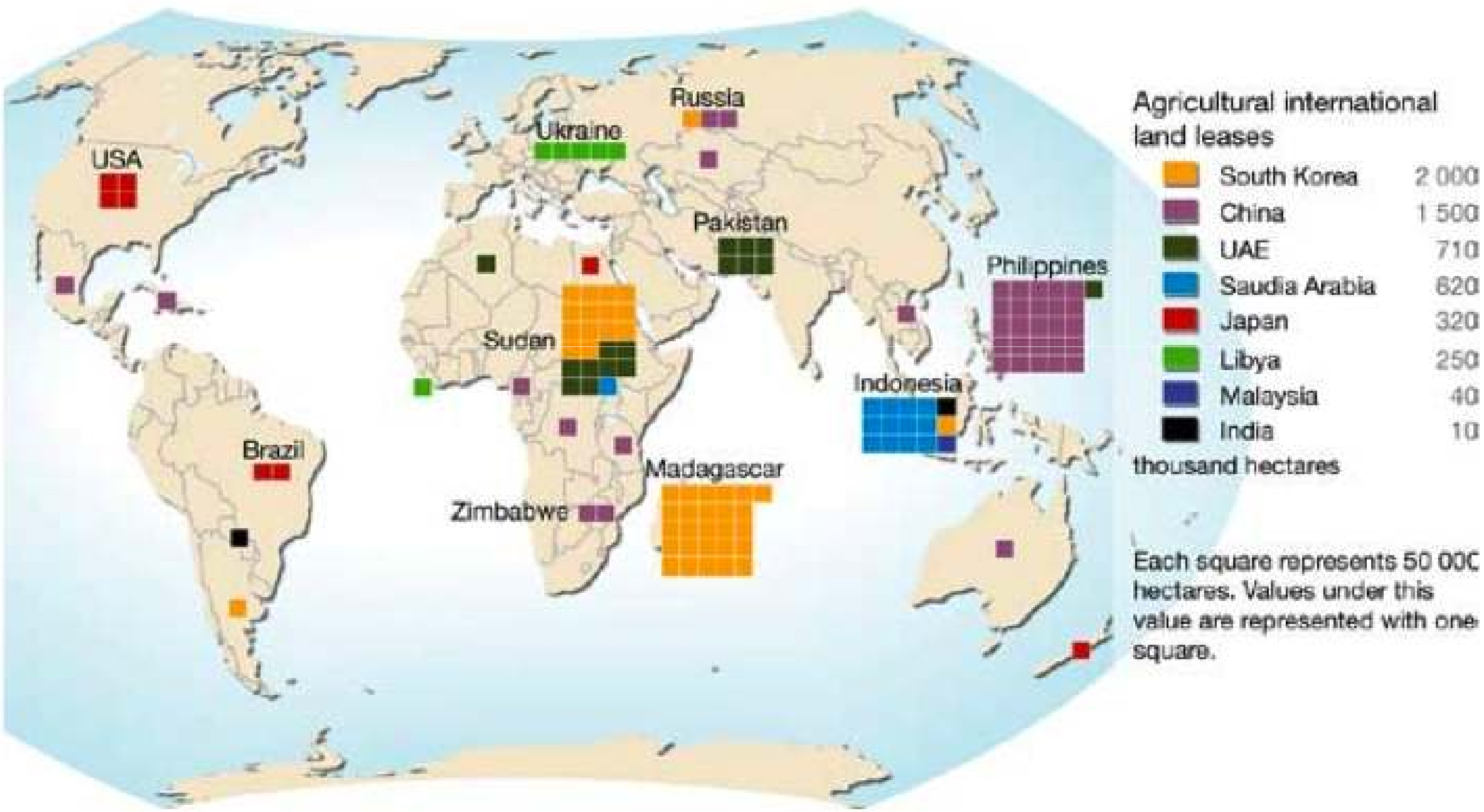
Food Security concerns driving sovereign and corporate investment into agriculture around the world. Will Australians use their expertise to assist?



Source: UNDP

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Some of our team in WA – give us a call

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