The North West STAR

SE news

HD **Agriculture key component for big banks**

WC 508 words

PD 15 December 2014

SN North West Star

SC FNWEST

LA English

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AUSTRALIA"S prosperity in the past decade may have been underpinned by the resources industry but it might be worth knowing that the big four banks have roughly twice as much exposure to agriculture than they do to resources.

As of September this year the exposure was about $107 billion.

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National Australia Bank's exposure at default to agriculture is the most pronounced. As Australia's leading agribusiness bank by market share it had an exposure of $38.1 billion as of September while its exposure to resources was only $9.5 billion.

At ANZ, total exposure at default to agriculture was $31.3 billion while resources, including oil and gas, coal ore and mining services was $17.6 billion.

It is a similar story at Westpac and Commonwealth Bank of Australia.

After ANZ promised a 12-month moratorium on farm repossessions in northern and western Queensland and north-west NSW last week, it might also be worth looking at the health of the banks" exposures to agriculture.

Stressed exposures in agriculture are roughly twice that of mining but the important thing to note is that the stress in the mining sector is growing while the stress in the agricultural sector is actually going down.

So when ANZ placed the moratorium on receiverships maybe the bank had figured out the worst was behind it " at least in those areas where it promised no receiverships.

Maybe the bank is counting on a good wet season in the north or the benefits stemming from the plummeting Australian dollar, or maybe the gains to be had from a big jump in cattle prices with both Australia's and the United States" cattle herd at low levels and demand rising in China, Indonesia and Thailand. Beyond northern and western Queensland and north-west NSW you may still see plenty of receivership work pop up across Australia.

If banks can see that the manager is not good there will be a temptation to replace them.

Westpac's big receivership in agriculture in the last year was RM Williams Agricultural Holdings and judging by the fact that the company's directors were grilled in the Supreme Court this year about the running of the company, it is clear the bank had good reason to force the company into receivership.

Placing a farm in receivership and selling it off to a potentially better manager who is potentially better capitalised can help maintain the value of the farm " which is good for the broader farming community.

Roughly 60 per cent of the value tied up in a farm is the underlying property.

The bank prefers not to see a forced sale because it can often sell for less and lower the overall value of nearby farms. And while the banks takes a big hit when a farm sells for cheaper, such action can end up destroying a farmer's livelihood - which in our society is a lot worse a thing.

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AN Document FNWEST0020141216eacf00006