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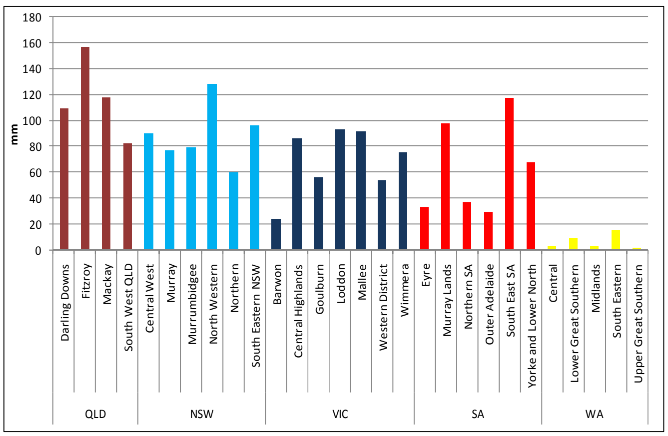
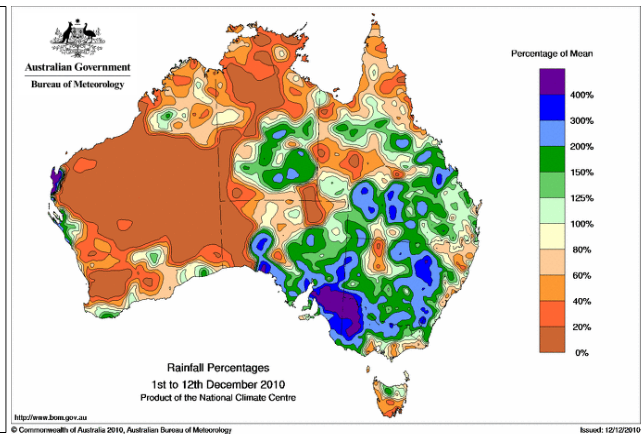
MONTHLY MARKET REPORT

southern ag grain

WEATHER

Delayed harvest is the common theme throughout the eastern half of the country, with plenty of rain throughout December already. Quality downgrades are the norm, while throughout parts of NSW losses are accumulating. The majority of the regions on the east coast are well in excess of the December average whereas WA is at the other extreme and harvest continues relatively unimpeded. Southern NSW has been some of the hardest hit and we wait to see the scale of losses recent flooding has created.





WHEAT

Volatility has been very evident in the wheat market throughout this year and whilst US wheat futures prices today sit at similar levels to where we were just over a month ago, we have had plenty of volatility in between and even more locally. The second half of November saw wheat lose favour with export demand continuing to wane and an exodus by hedge funds into the year-end. Wheat then spent the second half of the month trading sideways as the world waited for the arrival of the huge Australian crop and consumers worldwide continued to buy in a hand-to-mouth fashion. Then, as has been the case often this year, the weather threw down some curve balls with ongoing and extremely unseasonal rainfall across the Eastern States of Australia. For the entire growing season the global wheat market has managed to resist buying temptations on Australian weather despite a severe drought across Western Australia that resulted in a crop half the size of last year. The reason was obviously the exceptional conditions across the eastern states with NSW potentially there to return a crop double the size of last year! Such has been the volatility in weather globally, and even locally this year, I guess it was too much to expect to have normal harvest weather across Australia. With many regions receiving double, triple and four times their monthly rainfall so far in December the appearance of shot and sprung wheat has become common. A combination of yield loss and certainly quality losses has occurred and premiums for quality grains exploded. APW launched to a $100/t premium over FED1 and H1 another $70 over that as buyers scrambled to cover shorts in a non-existent market. The problems sparked interest in an otherwise dull international wheat market and futures have rallied 100USc/bu this month already as it appears likely the US will be required to carry the weight of the quality wheat market on its shoulders this year, something we expected the USDA to reflect in their WASDE report on Friday night, but didn't. The USDA increased their Australian production number from 24mmt to 25.5mmt, reduced exports by 1mmt from Australia but didn't alter US exports. For the balance of the month it will be all about getting a reality check on Aussie quality and quantity. Is there 5mmt of Feed wheat or 10mmt? Then we run into January, which is setting up to be a very dramatic month as fund money re-enters and the USDA try to get their house in order, but for the time being, farmers and traders alike sit and wait as we try to get some tangibility in this Aussie wheat situation.

BARLEY

Barley has been a major victim of the terrible weather across the eastern states over the last month. Traders were falling over themselves to sell feed barley at the start of the month, looking for any kind of proxy hedge for feed wheat. So much so that we saw feed barley trade to $180 port and to huge discounts to wheat over a 2-year period, discounts to global corn and feed barley values and become the cheapest grain in the world and in the meantime pushing the malt premiums north of $100/mt after being modest at under $40/t only six weeks ago and all this despite the AU$ falling from parity to 95.5USc. However, with wheat markets gapping up on a daily basis feed barley was able to come back to reality and put on $30/t and start to re-align with global and local markets alike. From here, it seems the market will continue to be dictated to by its bigger cousin in the feed wheat market, but we still have a lot of unknowns on quality with a lot of Victorian barley still yet to have a decent harvest assessment carried out. This week will answer a few questions no doubt, then it will be time to take stock and dive in for a pretty busy post harvest marketing campaign.

CANOLA

After a disappointing end to November prices as the canola market followed the world commodity markets lower, we have certainly turned the corner in December. Globally, South American weather is causing concern and seeing soybean crops reduced, China continue to buy huge amounts of soybeans and the Europeans are now finally starting to act on the fact that they once again have a shortage of rapeseed and need to pick up their import pace. Add this to a very problematic Eastern Australian crop and the buffer is gone. Locally we have seen prices advance $70/t thanks to a $4-50/t pick up globally and a surge in local basis levels thanks to both European buying and increasing local supply concerns. As the WA canola harvest draws to a close, with production coming in higher than many expected, likely due to another big jump in planted area, the eastern states are just getting started. The coming week will tell us plenty about yields and with a lot of uncertainty surrounding the barley and wheat harvest to follow along with the strong global and local prices for canola, we can expect to see some active trade in canola in the coming weeks.

GROWER NEWS

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