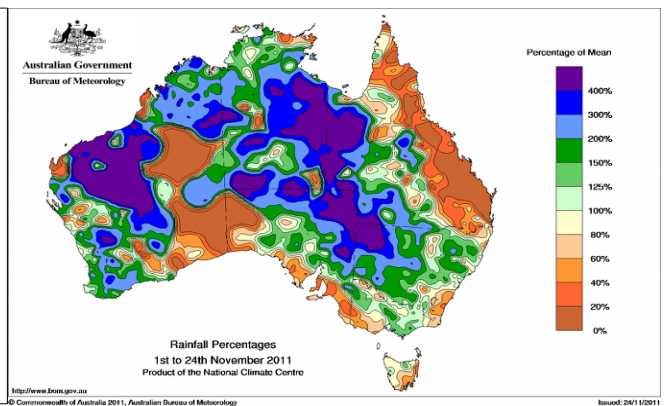
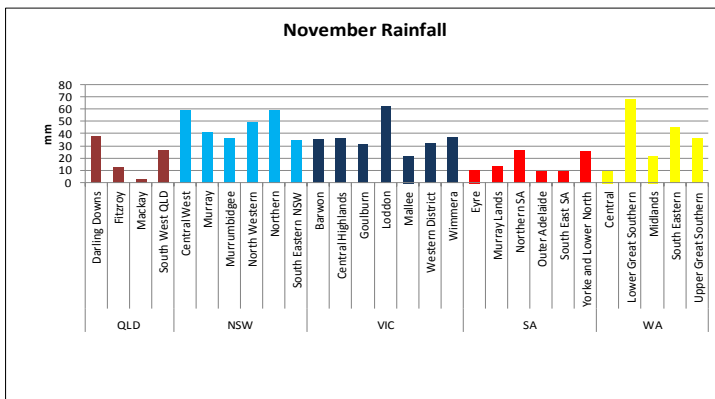


MONTHLY MARKET REPORT

WEATHER

The recent trend towards La Nina conditions has brought rain to many parts of the country, particularly through QLD and NSW. A strong weather system is currently moving south through these regions and bringing with it some heavy rain before it pushes into parts of Victoria and clears by the end of the weekend. This has been the general trend in recent times with the systems developing in northern Australia and pushing into the eastern states, but generally steering clear of a lot of Victoria. After a wet start to the month WA have had a clear run for a few weeks now while SA have also managed to miss most of the rain with only some of the northern regions recording some larger falls. The BOM 3 month outlook is predicting above average rainfall for NE NSW and SW QLD, as well as for much of WA, while SA and VIC in particular are only forecast to have a 40-45% chance of above average rainfall. The La Nina pattern has not changed drastically in the past month and the indicators are still slightly exceeding the thresholds showing it is considerably weaker than the 2010-11 event.



WHEAT

With the Australian harvest slowly progressing wheat prices have continued to remain very soft, which has stemmed from a combination of the uncertain global economic environment and a lack of fresh supportive news in the grain market. The European economic situation has deteriorated considerably in recent times, and with it currently showing no sign of abating traders have proceeded to take a 'risk-off' approach, leading to some large short positions taken by the funds. It may be difficult to find too many positives in the current environment, particularly with the Australian crop pushing towards record levels again, however there are some issues that are worth exploring. There are a number of reports of low protein levels of the wheat being stripped through QLD and parts of NSW due to low nitrogen levels following the floods, and this has led to some large spreads developing for the higher protein grades. Returns for the better grades are therefore currently quite attractive if growers are confident in meeting these specs. For APW and the lower grades the situation isn't quite as rosy. There is the large carry-over of feed wheat in Australia from last season to deal with and, while there is a shortage of high protein wheat around the world, total global wheat stocks remain at sound levels. Demand is still present though, highlighted by reports that US livestock margins are good across the board. Demand from Asia is also sound and with Australian feed wheat pricing into these countries at significant discounts to US corn we are in a good position to take advantage of it. The issue is though consumers are happy to take a hand-to-mouth approach in the current environment as with so much uncertainty surrounding the economic climate they are not willing to commit too far forward. Until we get more clarity in Europe this may remain the case.

Although it may be hard to grapple at the moment, things can change very quickly in these volatile markets and we only have to look back over the past couple of years to witness this. Six months is a long time in this industry and anything can happen, such as a weather problem in one of the major producing countries, and prices can easily push to more attractive levels. The current situation in the Black Sea region is an example of this as dry weather is leading to low emergence levels of the current crop before the northern hemisphere winter arrives, potentially impacting yields. Patience is needed and for many cash flow will dictate selling in the short term. The higher grades of wheat and other commodities such as canola will be the initial focus for growers due to their better returns, before attention turns to what remains.

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BARLEY

Like wheat, barley prices have come under heavy pressure of late due to the global economic uncertainty. With feed wheat prices at such low levels demand for feed barley has been relatively soft, although there has been some trade into the Middle East of late. Harvest in Australia has begun through many areas and with malt production reportedly quite good we have seen the spread between malt and feed tighten quite quickly. Malt prices are currently at levels that are pretty unattractive for a lot of growers and we are therefore likely to see some warehousing for the short term as many wait for an improvement. Brewers are in no hurry to secure supply in this environment and we are unlikely to see this change in the near future. In the feed sector Australia is currently pricing strongly into all of the major markets around the globe, and any pick up in demand from these regions should see us be very competitive in gaining the business. Much like a lot of the wheat market, grower selling would be fairly limited at these levels, and, as we mentioned, the volatility in markets these days will hopefully provide support in the medium term.

CANOLA

Canola prices in Australia have come under heavy selling pressure in the past couple of weeks as growers look to take advantage of attractive returns, particularly in comparison to wheat and barley. Prices have fallen some \$30-40/t and despite the softness selling is expected to remain quite strong in the short term. The fall has resulted in positive margins for importing Australian seed to Europe and we should expect them to price up a lot of demand at these levels. While grower selling in Australia has been strong, in Canada it is quite the opposite as farmers have been holding out for better prices. Prices have therefore remained quite firm in Canada and as a result there has been some interest from places such as the sub-continent to switch to Australian supply. Tight European stocks and a slow planting pace for the coming season means the Europeans will need to come to the table to secure the required non-GM seed from Australia. We may then see a pick up in basis levels in Australia if this does eventuate, although grower selling may limit this to a certain extent. The local crop is reportedly coming off very well and some are predicting production to push up towards an optimistic 3mmt –well above record levels. Globally there are issues with planting in Europe while in the Ukraine dry weather has led to roughly 20% of the crop not emerging prior to the winter dormant period. With this in mind, demand for Australian product moving forward may remain strong.

GROWER NEWS

Revolutionary financial facilities established to support you – the grower

Southern Ag Grain (SAG) has secured finance through joint venture partner Emerald's landmark syndicated \$475,000,000 Inventory Finance Facility - Structured by ANZ as the leading Financier with CBA, HSBC, NAB and Westpac as participant banks.

This harvest, you can depend on Southern Ag Grain.

For more information, contact Southern Ag Grain 02 6932 4400 | www.southernaggrain.com.au



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