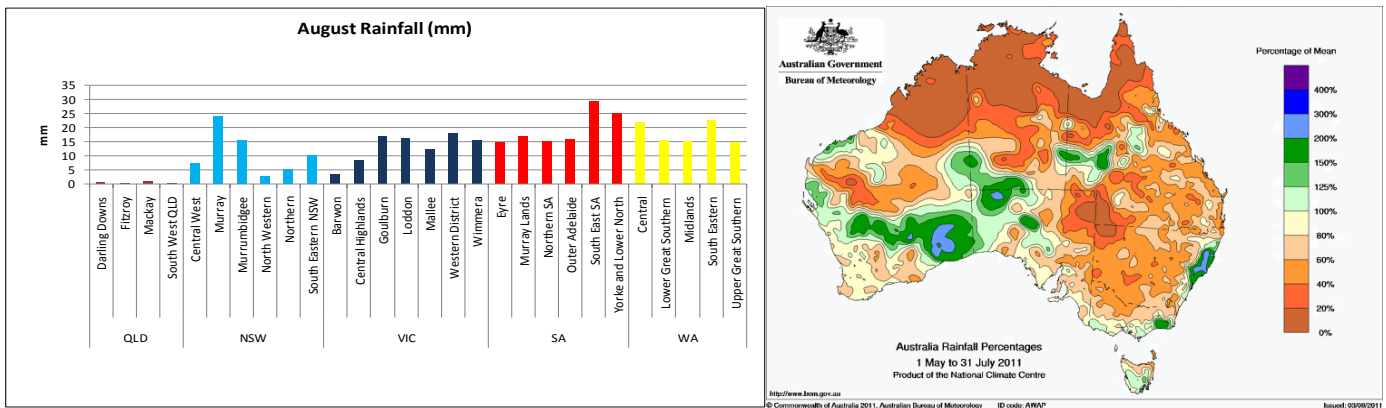


MONTHLY MARKET REPORT

WEATHER

A continued lack of rainfall through the central and northern regions of NSW and Queensland remain the biggest concerns. Conditions have improved drastically in WA with plenty of rain in the past month, although subsoil moisture is still limited due to the severe drought last year and a dry period has the potential to change things quickly. Parts of SA continue to see some of the best conditions, particularly the EP where it is shaping up to be a third bumper season in a row. Recent rainfall through northern VIC and southern NSW has been extremely welcome although more is needed before the critical spring period. The forecast for this week is showing a strong front moving through WA over the weekend which is tipped to move across into the eastern states and reach into southern NSW as well. The three month outlook from BOM is suggesting only a 30-40% chance of above average rainfall for the south and west of the country, although this does seem to slightly contradict some of the indicators with the SOI tending positive in recent times to +9.9, with anything above +8 leaning towards La Nina conditions.



WHEAT

In amongst the focus on volatile global equity markets, accentuated by the historical US credit rating downgrade, the USDA released its monthly production estimates overnight and with the department slashing corn yields greater than what the market was expecting this is forecast to have significant implications on the global demand for wheat. The market was expecting only a slight reduction in the corn yield estimate however yields were downgraded to 153bu/acre in comparison to trade expectations of 155-156bu/acre. Along with the sharp fall in yield estimates was a big reduction in demand with consumers expected to favor the use of wheat in feed rations. This is particularly so following the USDA increasing global wheat production by almost 7mmt with forecasts of further upward revisions to follow. Production figures through Russia, Ukraine and Kazakhstan were revised up by over 7mmt while European wheat estimates rose 1.4mmt to 133.5mmt, however this is seen to be a little too conservative with many analysts now expecting production to be up around 135-137mmt. And although Canadian production remained at 21.5mmt following the USDA's dramatic cut last month, some analysts are forecasting this to be revised back to 24mmt. This potential upside to global wheat supply may perhaps temper further gains in the corn market but also provide support to wheat prices. The one possible issue here is the supply and prices from Russia and other Black Sea countries where after a 12 month export ban consumers are now gaining more confidence in their ability to execute trades and the discount to other origins is proving to be too difficult to ignore. The USDA did increase Russian wheat exports for 11/12 by 4mmt to a total of 16mmt although it must be noted that there is a difference in quality and Russia will likely remain at a discount in order to move large volumes.

Despite the situation in the Black Sea region the outlook for wheat is positive. If Australia does produce another bumper crop and exports are to push up to a record amount then it may place some pressure on local basis however the fundamentals are still generally supportive for wheat. Old season feed wheat demand should remain strong following the revised corn situation in the US and the ports in the SE of the country are expected to keep busy as a result. Feed wheat from Australia and the Ukraine remain the cheapest feed grain in the world and major feed importers such as South Korea and China will likely focus on local supplies. While conditions in Australia are currently OK on both sides of the country with spring fast approaching weather will remain a key focus leading to a level of risk premium to be maintained in the market.

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BARLEY

The global outlook for barley has turned even more bullish in the past month following reports that Saudi Arabia, the world's largest feed barley importer, is looking to import 2.7mmt during the Aug-Sept period, with a further 3.5mmt to be supplied by the end of the calendar year. This has the potential to be explosive for the barley market given that global supplies are already forecast to reach extremely tight levels. Growing conditions in Europe and the Ukraine have been less than ideal while the total area planted in Australia has dropped significantly on last year limiting our ability to participate. Therefore, the question needs to be: where will the supply come from to meet this demand? Russia may perhaps come to the party to some degree and other origins could provide small parcels however there is seemingly just not enough around and we may well need to see prices move to a higher level in order to ration global demand. This situation has been reflected in local prices in recent times with feed barley trading at around a \$20/mt premium to that of feed wheat. With feed barley prices in the Black Sea region also trading at a premium to milling wheat the immediate price outlook remains positive.

CANOLA

The recent heat wave through the US was expected to take some toll on the soybean crop, however given the critical growing period came after the heat had passed it came as some surprise that the USDA cut bean yields by 1.4bu/acre. This has tightened the US soybean balance sheet further and while there is the possibility that yields could be revised higher with favorable growing conditions for the rest of the season it is not going to drastically solve the stocks situation. Despite this, until we get an indication of harvest results and the South American crop size the bean market may continue to follow that of corn. With the soybean situation tightening and crush margins in China favoring canola Canada and China have recently extended their agreement to ship seed to black leg free ports for another year, paving the way for potentially a further 2-3mmt of purchases. With this in mind the outlook for Canada remains positive although it is a little different here in Australia where new season canola prices is resulting in us being priced out of a lot of foreign markets. The one exception is perhaps Europe although with harvest over there keeping a lid on prices Australian prices may need to pull back in order to stimulate further demand. Conditions remain sound across most of Australia although further moisture is needed in areas of NSW and Victoria.

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