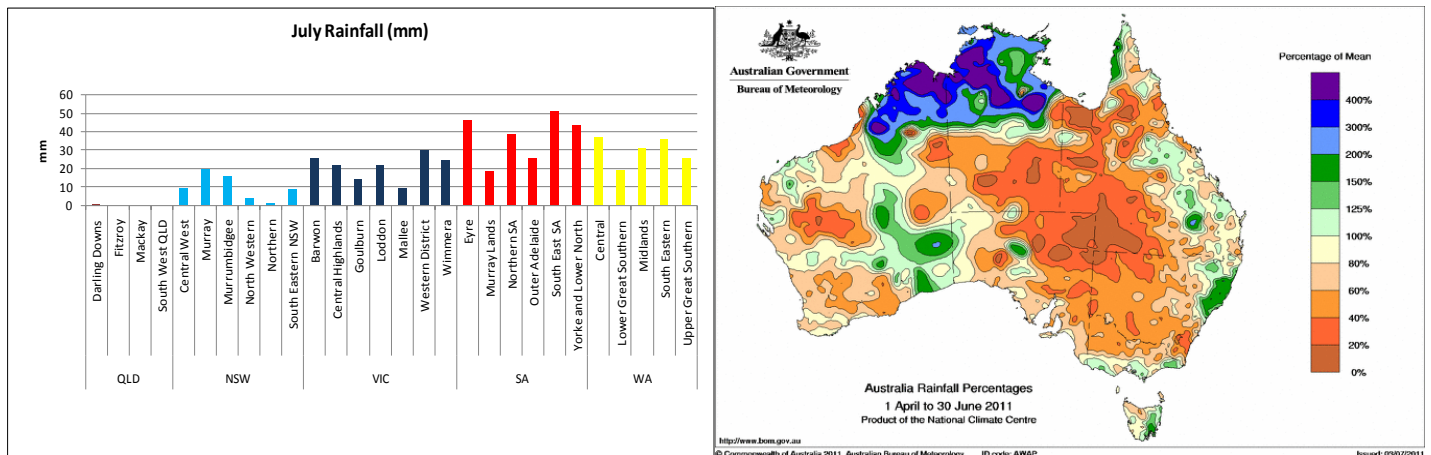


MONTHLY MARKET REPORT

WEATHER

In the past couple of months following the extremely wet summer parts of VIC, NSW and SA have had well below average rainfall. In recent times there has been a little relief, particularly through SA, however northern Victoria and south/central NSW are still looking for much needed moisture. There may be some relief for parts of NSW, particularly through the central regions, although the south will still be looking for more rain. WA continues to see good rain and after a solid start to July the forecast is showing a strong front pushing through the state today and over the weekend. The three month rain outlook from BOM is suggesting most growing areas across Australia only have a 40-45% chance of receiving above average rainfall. All atmospheric and oceanic indicators are currently at near normal levels and the majority of international models are suggesting these neutral conditions will remain through the spring period.



WHEAT

Along with all agricultural commodities the wheat market plunged following the shocking USDA stocks and acreage report released at the end of June. The USDA 'found' an extra 370mbu of corn stocks which almost unbelievably suggested that corn feeding for the March-May quarter was at its lowest on record despite key indicators, such as cattle on feed figures, suggesting otherwise. The most recent monthly USDA update, released on Tuesday, went some way to confirming that these numbers are incorrect by only cutting 10/11 feed usage by 150mbu instead of the full 370mbu. Adding further buoyancy to the grains market was a sharp increase in new crop corn demand, which resulted in 11/12 carry-out being 143mbu below market expectations, and the market immediately responded with prices closing sharply higher. The increase in demand came about largely due to a surge in Chinese interest following the fall in prices and imports for the 11/12 year are tipped to be around 2mmt, although some analysts are suggesting this will be up around 3mmt. While corn stole all of the headlines US wheat stocks for 11/12 also came in below market expectations despite an increase in estimated production. This came about largely due to Canada's 11/12 production being slashed from 25mmt to 21.5mmt and total exports falling 2mmt, of which the US is tipped to pick up some of the shortfall. Concerns do linger over what effect lower prices from Russia will have on demand from the US. While consumers were initially reluctant to purchase from the Russians due to the risks on quality and execution, we have seen in recent times some countries beginning to test the waters and purchase wheat at prices significantly below those from other origins.

The volatile path lead by corn in recent times is expected to continue as we enter the key weather period with pollination taking place. The immediate outlook is of particular concern with the forecast for the next 6-10 days through the key US Midwest region showing extreme heat and limited rainfall. Adding to these concerns is the longer term outlook which has tended towards more heat/dryness in recent times and could have a significant impact on corn yields. With stocks already tight following the USDA report any hiccup in demand is going to make things very interesting. Therefore, for those local growers holding on to old season feed grain expect the global markets to remain volatile. The one lingering issue is the congestion in the ports which is helping keep Australian feed grain prices well below those around the world. If we can clear some of the backlog of vessels this should hopefully bring the buyers back to the market and ultimately provide support for prices.

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BARLEY

The barley market has been a little bit hidden amongst all the headlines generated from the corn pit however there is still plenty happening that is impacting an already tight market. Feed barley continues to trade at a premium to that of feed wheat both locally and around the world given the tight global supplies. We have seen recently Jordan reject offers for a 100kmt feed barley tender as the prices offered were greater than those which Jordan purchased milling wheat from Russia for! The tight stocks were further compounded by adjustments to the Ukraine barley crop where the USDA cut production by 1mmt to 7.5mmt due to significant flood and hail damage. The situation in Europe has eased somewhat with late season rains proving to be more beneficial than first thought and production was revised up 350kmt by the USDA after last months dramatic cuts. With the Russian harvest in the south coming into full swing we should get an indication soon of whether prices will be significantly less than other origins, like those of wheat. Locally, as mentioned in the wheat section port congestion remains an issue. However with the global situation remaining tight once these logistical issues are resolved we will hopefully see local price support.

CANOLA

The oilseed market has also ridden on the back of the corn fluctuations in recent times despite the USDA stocks and acreage report being supportive for soybeans. Estimated soybean area in the June report came in 1.3m acres below market expectations due to the greater area planted to corn. However the weather forecast remains a concern for soybeans, with traders building a weather premium into the market as we approach the critical yield producing stage in August, while the short-term hot and dry outlook is also fueling these concerns. It is a similar story for canola production in Canada, with conflicting stories on the state of the crop in the west of the country also helping to build a weather premium into the market, while in the Ukraine reports are suggesting yields are coming off well below initial expectations. With these weather markets upon us in the northern hemisphere we can expect volatility to remain in place for the near future. The potential reduction in available exports from Ukraine may further increase Europe's demand for Australian canola and should help keep new season local prices firm into the future. Concerns linger over local production though with the lack of recent rainfall through NSW/northern Victoria and the effect of mice on planted crops a couple of issues that may impact production.

GROWER NEWS

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