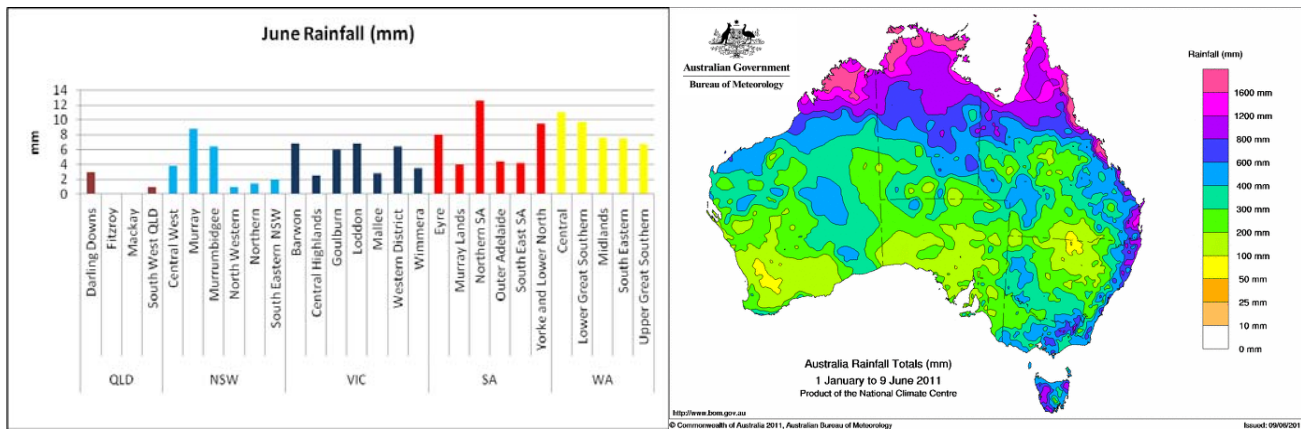


MONTHLY MARKET REPORT

WEATHER

Western Australia has seen a good start to June following from the break at the end of May, there are areas of the Kwinana zone in particular that are looking for further moisture. A front is forecast to move through the area early next week which should provide some relief. Northern parts of NSW are still lacking in moisture, while the rest of the country is sitting in a good position. The three month winter rain outlook from BOM is suggesting key SW areas of WA have a 60-75% chance of being below average while Queensland is tipped to be wetter than normal. La Nina conditions have weakened further in recent times and now sit at neutral levels, suggesting neither a La Nina nor El Nino pattern. Forecasts suggest this will remain the case and neutral conditions will remain later in the year.



WHEAT

The international wheat market has been impacted by a number of factors this past month, most notably the lifting of the export ban by Russia as well as weather related issues in Europe and the US. Despite all the talk surrounding US winter wheat crop issues the USDA report actually increased winter wheat production estimates when most analysts were expecting a decline. HRW yields in the south are currently above expectations and as a result production increased 15mbu whereas the market was expecting a 21mbu drop. The USDA did not make any revisions to spring wheat production estimates due to planting delays through northern US, adding to the bearish tone, and as a result all wheat production was sharply higher than trade estimates. They did however provide a very bullish corn report when they surprisingly slashed planted acreage by 1.5m acres, resulting in the stocks:use ratio being at its tightest level ever for June. With the weather still to play a major role through the corn growing season there is no room for any hiccups and we may finally see the demand rationing that is needed.

European wheat production was revised sharply lower by 7mmt to 131.5mmt, although a number of analysts are using a figure closer to 125mmt, while exports from the region were also slashed by 3mmt to 15mmt, its lowest figure since 2007/08. This should flow through to other major wheat exporters with demand expected to increase from countries such as Australia and Canada, providing production is reasonably normal. Despite the slightly bearish figures on US wheat production concerns remain over spring wheat plantings in which areas are still waiting for country to dry out, with parts of Canada also facing similar issues. Western Australia has seen some good rain in recent times but is still in need of further follow up moisture. The weather will undoubtedly still play a role in the near term before settling down somewhat when the northern hemisphere harvest gets under way.

There hasn't been much development in the Russian situation, although local wheat prices soared following the announcement and there remains the possibility the government may well attempt to control inflationary issues through export taxes or quotas. Russian politics is one thing no one can really predict and it will just be a matter of seeing how the situation unfolds.

Locally, WA remains the big concern while the rest of the country is generally looking good. For those still holding old season feed wheat they should be encouraged by the US corn/wheat spread narrowing from 360c back in February to 120c today. This should flow through to Australia by placing pressure on the Australian FED1/APW spread to narrow after being historically extremely large.

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BARLEY

The barley market is certainly showing signs of turning in quite a big way and there are a number of key issues that will likely provide support to prices in the future. Similarly to wheat, the European weather is impacting production with the USDA slashing estimates by 2mmt and also reducing exports by a staggering 78% to just 1mmt, while Canadian exports were also reduced by 18% after production declines. This all suggests local prices will find good support, particularly when production in Australia is also expected to fall as a result of growers shifting away from barley and into wheat and canola. The unknown again is the Russians and what level of participation they will have in international trade. Although this will counter some of the production issues we are seeing around the globe, total world production is still low and of more concern is that ending stocks are estimated to be at levels last seen in 2006/07 and 2007/08. The overnight USDA corn report should also lend support to global feed barley prices and for those holding on to old season grain prices should find some support. The sentiment for barley is therefore bullish, which just shows how quickly things can change given that a couple of months ago barley seemed well out of favour.

CANOLA

The USDA report did not provide a lot of direction for the oilseed market, as soybean numbers remained relatively unchanged and because of this the markets took a slightly bearish tone. Despite the reduction in US corn acres there was no change to estimated soybean plantings resulting in stock estimates increasing slightly. They did however slash EU canola production from 20mmt to 18.8mmt and increase imports by about 7%. This has had a significant influence on Australian new crop canola prices in recent times with basis jumping which has provided some good selling opportunities for local growers. European demand is expected to continue to lend support to prices as the majority of Australian exports are anticipated to head there. All is not entirely well locally though given the break in WA came too late for a lot of growers who had already made the decision to switch to out of canola. As a result there have been some big reductions in area particularly through the Kwinana zone given they have missed some of the rainfall that other parts of the state have seen. This should be partially offset in the eastern states where canola area has increased, however export capacity may again be an issue given the large amount of grain expected to head offshore again this year.

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