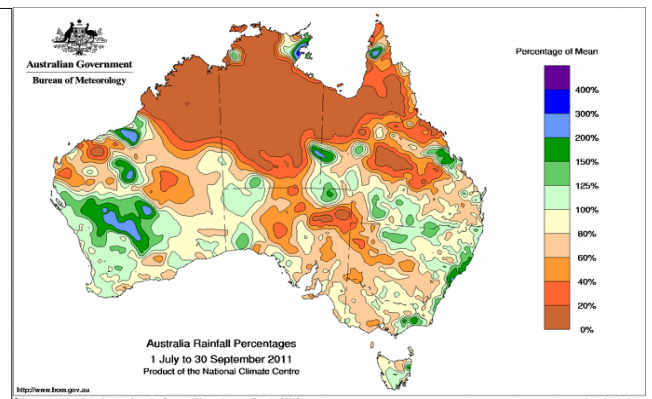
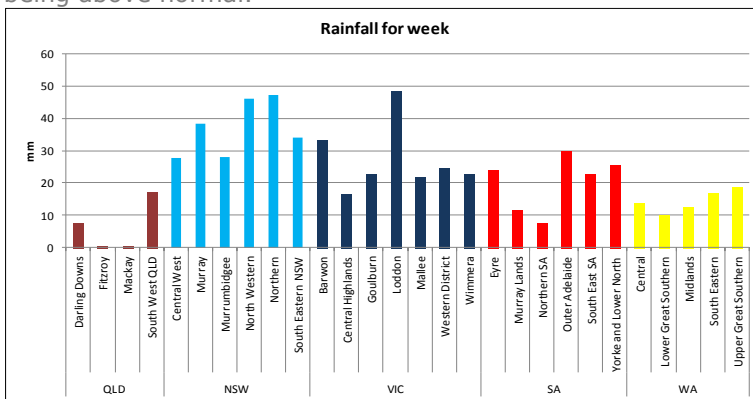


MONTHLY MARKET REPORT

WEATHER

The front that arrived last week was long overdue and, for a lot of regions through northern Victoria and southern/central NSW, came just in time to assist crops. Up until that point rainfall has been quite scarce for these areas while some growers will be hoping for further follow up rain. Northern NSW and QLD also benefitted from recent heavy falls, and while it may have come too late to improve yields, it may assist in improving the quality profile. Rainfall through WA has been very sound, keeping up with averages through the growing season, and after a great start to October are setting up for a good finish. Many indicators are now pointing towards a La Nina event during the last quarter of 2011 with the SOI increasing sharply since our last report to +9.3 – anything over 8 may indicate a La Nina event. The BOM is now forecasting above average rainfall for the October-December period for most of the country, with the exception of southern Victoria and Tasmania, where there is only a 30-40% chance of rainfall being above normal.



WHEAT

Grain prices in recent times have copped a hammering largely due to the uncertainty surrounding the global economy and the bearish USDA quarterly stocks report, released last week. Firstly let's cover the USDA report. The USDA managed to create a few more surprises as stocks of both corn and wheat came in well above market expectations. While there is some rationale on the higher corn stocks, given the expectation that end users are switching from corn to wheat due to the large price spread, the jump in wheat stocks is a little more difficult to comprehend. With animals on feed at very high levels, particularly in the case of cattle due to the drought through the south of the country, the expectation was that users would be using large quantities of feed grains in their rations. The stocks report implies that the animals must be eating something else as the combined feed and residual use of both corn and wheat was at its lowest for the Jun-Aug quarter in 35 years! Analysts are now trying to understand how the USDA came to these estimates and whether there is other issues at play. Have they underestimated the size of US wheat crop? Maybe the end users are yet to take delivery of the wheat they have purchased? Whatever the reason the fund managers took it as their cue to jump ship and reduce their exposure, which just happened to coincide with a few issues the other side of the Atlantic. The end result was a sharply lower market which helped margins across the board jump significantly as livestock margins improved markedly and ethanol margins were reported at two year highs. Speculation has also increased that China will begin importing US corn to replenish low supplies, despite their harvest about to begin, as demand continues to outweigh supply. Despite the adjustment to US stocks the basic fundamentals of the grain industry have not changed drastically and corn stocks remain at very tight levels. Which brings us to the European banking crisis and with still no resolution approved by EU officials investors have continued to de-risk and shift their money into the safe haven of cash. Until we get more clarity on the way forward this may be the path we tread. But if/once we do get a resolution we can expect the funds to return to the market in a potentially strong manner. Until then though, expect the global economy to dominate proceedings. In Australia, the recent rain event came just in time for many growers after a very dry few months. Local prices have slumped in line with global markets, although the large drop in the Australian dollar has offset some of the falls. With many growers watching the markets fall and haven't got a lot of grain committed for the coming season, look for some clarity to come from Europe and investor support to return before making too many big decisions, while the monthly USDA report due out next week will also provide some rationale behind recent USDA estimates.

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BARLEY

The local barley market has certainly not been immune to the recent global volatility as new crop feed prices have declined sharply. However, the export market is still ticking along strongly, providing some support to old crop prices, and after a large August program where over 400kmt was shipped, another 470kmt is currently on the stem for September. Offshore demand remains strong, particularly from China and Japan, while Saudi Arabia is still quiet on what their import intentions are after speculation a couple of months ago they would re-enter the market in a big way. The recent price drop may be the catalyst they need to pick up their demand. Unfortunately we are dictated by both the global economy and also the corn market, which have both been working against those supportive of the global barley story. Projections still show global barley supplies are tipped to tighten to levels last seen in 2007/08 but with these other issues stealing the limelight it is hard to currently garner too much support. The recent rains are expected to be very beneficial for local crops and have tempered any price rises resulting from the dry weather.

CANOLA

Despite US soybean stocks coming in slightly lower than market expectations, at 215mbu versus estimates of 225mbu, beans were ultimately dragged lower by the bearish corn and wheat numbers. Along with the sharp decline in prices comes a major boost in margins for processors and end users, potentially stimulating further demand. Margins in China have also improved significantly and with Chinese soybean meal prices also softening the growing hog market has received a major kick. The Canadian canola crop is having minimal troubles through harvest, with yields strong and production is expected to reach well over 13mmt, despite StatsCanada's most recent estimate being just below this figure. The Australian crop seems to have dodged a bullet this past week with the widespread rain reaching right through NSW, although there are some reports that yields have been affected by recent dry weather in some parts. A lack of production issues combined with the wider economic problems are the main drivers behind the lower prices. Support needs to come from a resolution in Europe, although adverse dry conditions may hamper canola plantings in Eastern Europe and Ukraine. While consumers are dipping their toes back in to the market many may wait until next week's monthly to report to get more clarity on US soybean yields before stepping in more aggressively.

GROWER NEWS

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