

# WEEKLY MARKET REPORT

## WEATHER

Very light falls recorded during last week but much more hopeful this coming week with thunderstorm activity giving potential for some good rain over most of the Eastern states mid week. Southern NSW looks to score well and showers should extend into the weekend benefiting all the thirsty cropping areas.

TOWN	WEEKLY	September	2011
Narrandera	1.5mm	8.9mm	462.2mm
Cowra	3.2mm	12.4mm	361.4mm
Hillston	0.2mm	7.2mm	313mm
West Wyalong	0mm	10.8mm	364.8mm
Oaklands	3mm	6.4mm	428.2mm

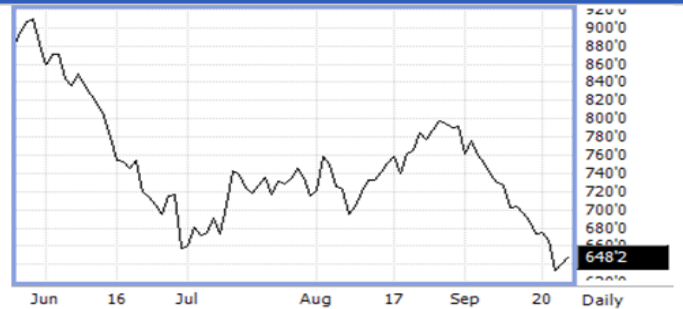
## LOCAL

Crops continued to be pressured by the dry, warmer conditions over the past week. Most canola in Kembla is now through flowering with the exception of the far east, and cereals are flowering in both zones. Although loss of canola flowers and leaf curl/yellowing in cereals have been reported, the crop outlook still remains positive pending rain this week. Even with softer local values this week, due to European sovereign debt concerns, growers still came to the market for the close of 3 windows on Friday. With the Express Pool scheduled for release after this, we will be into a harvest market before we know it.

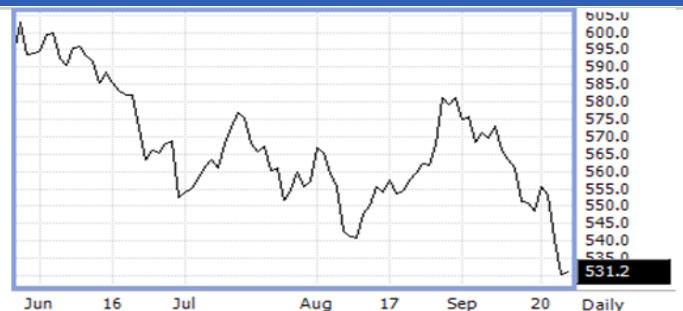
## GLOBAL

Global economic jitters have weighed heavily on all markets in the past week and commodities have certainly not been spared. Uncertainty surrounding the situation in Europe has spooked investors and while they have seemingly sold off everything and anything it is still a day to day proposition and currently there is some hope that a new stability package could help ease concerns. With market suggesting that GFC2 is imminent grain prices have taken a tumble despite fundamentals not changing too much. The lower prices could well be stimulating demand as well with US corn now at far more attractive levels for the Chinese to re-enter the market while livestock margins in the US have also improved significantly. The USDA quarterly stocks report is out at the end of the month which may provide some stimulation however the macro markets are likely to remain the focus in the coming weeks and will dictate movements in the agricultural sector.

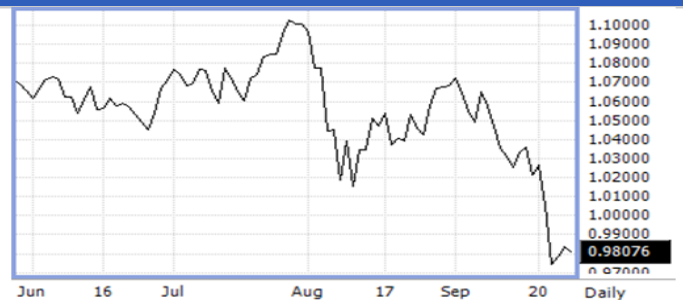
## DEC '11 CBOT WHEAT



## NOV '11 WCE CANOLA



## AUD/USD



CONTRACT	LAST	DAILY	WEEKLY	MONTHLY	YEARLY
CBOT Sep 11 Wheat	USc 658.25	↑ 10.00	↑ 3.9%	↓ -17.4%	↓ -10.8%
CBOT Sep 11 Corn	USc 652.25	↑ 4.25	↑ 0.3%	↓ -15.0%	↑ 36.5%
CBOT Sep 11 Beans	USc 1,263.00	↑ 3.25	↓ -1.6%	↓ -11.3%	↑ 16.4%
ICE Nov 11 Canola	AUD 534.90	↑ 3.70	↓ -1.0%	↓ -5.7%	↑ 16.8%
ASX Sep 11 Wheat	AUD 242.00	↔ 0.00	↓ -8.2%	↓ -12.1%	↓ -8.3%
ASX Sep 11 Barley	AUD 219.50	↔ 0.00	↓ -1.6%	↑ 3.3%	↑ 5.1%
ASX Sep 11 Canola	AUD 560.00	↔ 0.00	↔ 0.0%	↔ 0.0%	↑ 8.5%
AUD/USD spot rate	0.9906	↑ 0.00	↑ 1.6%	↓ -6.3%	↑ 2.4%
AUD/CAD spot rate	1.0104	↔ 0.00	↑ 0.7%	↓ -2.6%	↑ 1.4%
ASX/CBOT Wheat basis	-AUD 4.48	↑ 5.02	↓ -25.79	↑ 1.30	↑ 11.97
ASX/ICE Canola basis	AUD 26.68	↓ -4.87	↑ 11.17	↑ 18.33	↓ -29.63

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## FOCUS—POTENTIAL IMPACT OF GFC2

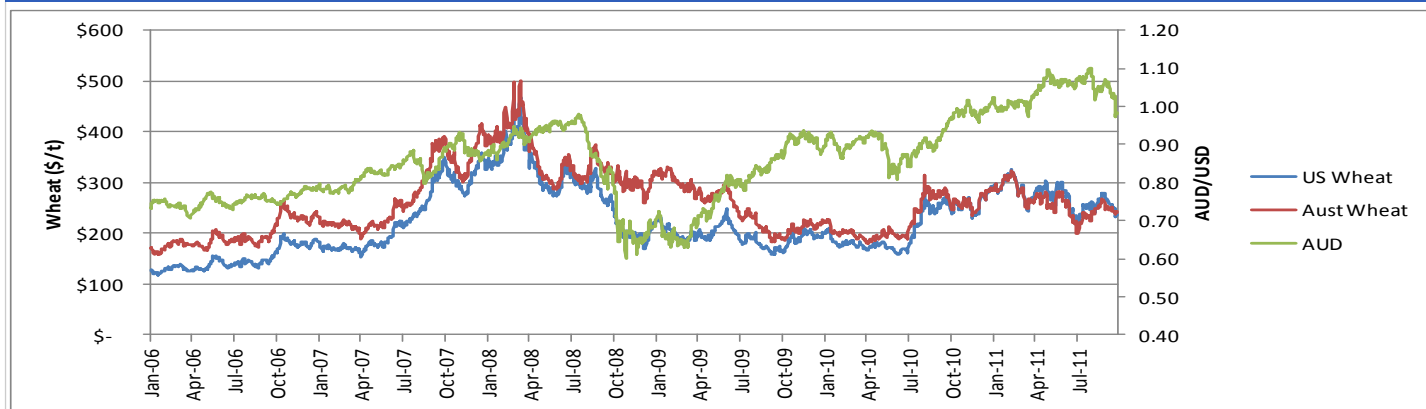
There is currently no escaping the European debt crisis with recent volatility attributed to whether Euro-zone officials can shore up the Europe financial system and prevent the crisis from derailing an already fragile world economy. Many reports are suggesting the world is teetering on the edge of GFC2 and this could have significant implications on agricultural commodities as well. We only have to look back a couple of years to 2008 to see what type of effect a fall on global financial markets has on grain prices. There were some remarkable falls during this period with CBOT wheat shedding over half of its value from a peak of 1270c/bu in March '08 to 457c/bu in December of the same year. The crisis also saw investors pull their money out of the Australian dollar which promptly fell from a peak of around 97c to 60c in the space of just three months. Local wheat prices were ultimately not spared, although due to the local drought and a shortage on global supplies prices were falling from historically high levels of well over \$400/t to \$260-280/t later in the year.

Back in 2008 global wheat supplies were at very tight levels however a pick-up in wheat production in many of the major growing regions around the globe ultimately weighed on prices. We saw local wheat prices tumble significantly from levels not seen before to prices that are quite similar to those of today. It is therefore hard to imagine that, if the current financial crisis deepens, it would have the same level of impact this time around given that the fundamental issues underlying the grain market haven't changed. While

wheat stocks were the issue in 2008 this time around it is corn that has been the main driver of grain prices and, unlike wheat, corn stocks are not expected to improve due to well publicised production problems in the US. Stocks in the US are still anticipated to fall from 23mmt to a historically tight 17mmt in 2011/12, showing it as an issue that will certainly not disappear in the short-term. Demand rationing still needs to take place in order to alleviate the pressure and the fall in prices will not be assisting in this process. Reports are suggesting current prices are at very attractive levels for the Chinese who are potentially looking to shore up supplies after drawing down on local stocks.

On that note, the USDA will release its quarterly stocks report on Friday which has caused some big issues in the past. If we go back to the most recent report in June you may remember the stocks report implied that feed/usage for the March/May quarter was only 670mbu, the lowest on record for the quarter and a 44% decline on last year. With livestock numbers remaining strong it is difficult to understand this rationale, however the USDA does have a history of producing some odd numbers in their stock reports. In June 2010 the USDA lost 300mbu of corn without any explanation which was then 'found' again in the September report, and we therefore wait to see if any adjustment will be made or whether the USDA believe demand rationing is taking place.

## US/AUST WHEAT AND AUD MOVEMENTS



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