

# WEEKLY MARKET REPORT

## WEATHER

There were a few light falls through the region but nothing of serious note. Totals have generally been well below average for the month of May with the Murray region at just 40%. The forecast is remaining clear for the week with possible showers through the weekend.

TOWN	WEEKLY	May	2011
Narrandera	3.4mm	41.5mm	339.4mm
Cowra	5.4mm	34.8mm	242.6mm
Hillston	2.6mm	9.8mm	244mm
West Wyalong	1.4mm	20.2mm	285.4mm
Oaklands	1mm	17mm	320.4mm

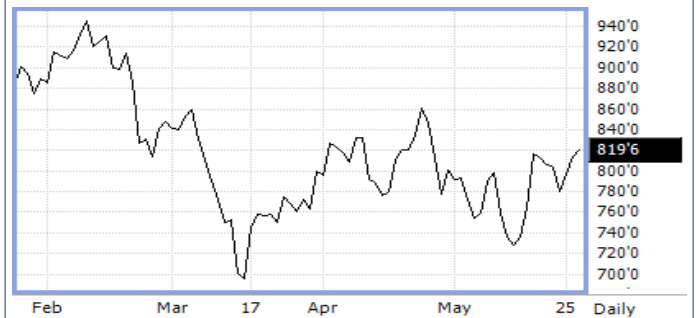
## LOCAL

Southern NSW growers are seeing changing appetites across different grains and grades as FOB and local positions close out and new opportunities appear. Southern Ag Grain is now actively bidding for GM canola in the Port Melbourne zone and for F1 barley out of selected sites. In 11/12 pricing we have seen markets pick up across all grains over the last week though most notably in canola with port values well in excess of \$600/mt. However, new crop feed values may see some downside given today's announcement of Russia lifting export bans as of 1 July 2011 and the length of current stocks in both Melbourne and Port Kembla zones. Sowing operations are now winding down across most of the region, though mice activity will require some re-sowing of current acreage.

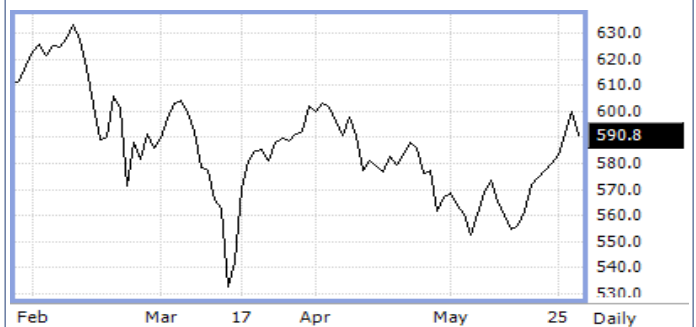
## GLOBAL

Russia's announcement that their export ban is to be lifted as of 1<sup>st</sup> July may lead to some short term bearish sentiment in the grain market. With US markets closed overnight it was up to the European, Canadian and Australian futures to lead the way and the result was mostly in the negative. European wheat was down 12 euro and canola followed closing 6 euro lower while Canadian canola finished \$9 down. This follows strong local canola prices particularly for 11/12 as European demand has stepped up following the ongoing dry weather. Delays in Canadian plantings also suggest production has the potential to reduce there as well. Despite the uncertainty surrounding what implications the Russian announcement will have on the international markets, there are still major production issues around the globe. The drought in Europe and delays in plantings in the US and Canada for corn, wheat and canola should maintain support for grain and oilseed prices in the longer term.

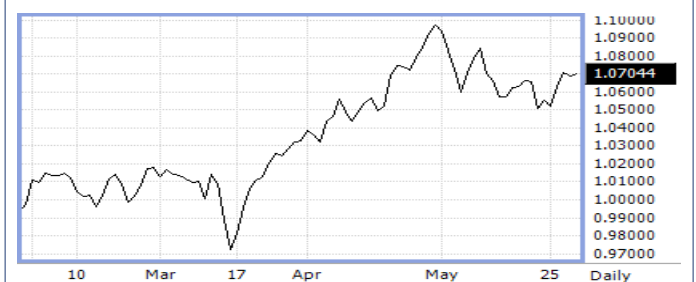
## JUL '11 CBOT WHEAT



## JUL '11 WCE CANOLA



## AUD/USD



CONTRACT	LAST	DAILY	WEEKLY	MONTHLY	YEARLY
CBOT Jul 11 Wheat	US:819.75	0.64	5.1%	2.3%	44.4%
CBOT Jul 11 Corn	US:758.50	13.00	3.4%	0.3%	85.3%
CBOT Jul 11 Beans	US:1,379.75	-5.00	0.5%	-1.0%	46.6%
ICE Jul 11 Canola	AUD590.80	-8.90	1.8%	4.1%	48.4%
ASX Jul 11 Wheat	AUD296.50	0.00	0.2%	8.2%	33.7%
ASX Jul 11 Barley	AUD227.50	0.00	6.1%	11.2%	12.9%
ASX Jul 11 Canola	AUD535.00	0.00	0.0%	-0.9%	3.4%
AUD/USD spot rate	1.0707	0.00	1.4%	-2.4%	26.4%
AUD/CAD spot rate	1.0457	0.00	1.5%	0.9%	17.1%
ASX/CBOT Wheat basis	AUD14.73	0.20	-9.28	10.51	39.09
ASX/ICE Canola basis	-AUD30.82	8.41	-2.47	-21.67	-102.29

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FOCUS

The major news in the past couple of days has been the announcement by the Russian government that they will lift their export ban from July 1<sup>st</sup>. The immediate reaction on global markets was bearish (although US markets were closed) as the feeling was that the extra supply of grain from the region will push down prices. While we can understand the initial negative sentiment as the market tries to digest what implications this decision will have, there remains plenty of uncertainty over a number of issues while other global stories are still providing strong support for commodity prices.

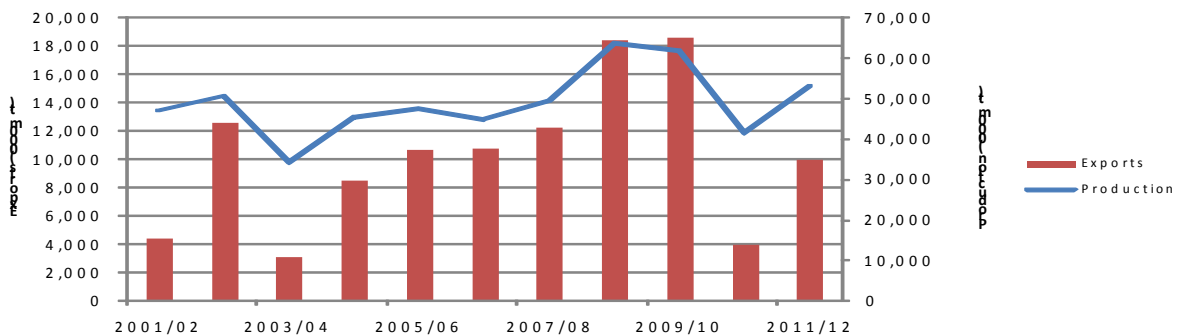
The first point to note is that the date for exports to begin is 1<sup>st</sup> July, which leads to the first query – why the one month delay? If there is sufficient grain available now before the coming harvest why not begin exports immediately? There is talk that if Russian domestic wheat prices rise sharply due to new export demand, then this will translate into higher food prices. Russia is a country that does what's best for Russia, and potential food inflation worries may result in wheat export taxes or export quotas. The government surprisingly has already increased interest rates, stating food inflation due to this export issue as the major reason.

The second question is regarding the amount of grain that is expected to be available for export for the 11/12 period. The USDA was forecasting 10mmt of wheat and 0.8mmt of barley exports for the year, while the Russian Grain Union tipped total grain exports to be at 15mmt. Therefore the RGU are suggesting there will be a 4.2mmt exportable surplus. This of course depends on

Russian grain production for 11/12. The Russian Ag Ministry forecast an 85-90mmt grain crop which suggests a yield of around 2.1t/ha – the second highest in the past 6 years. Other sources are more conservative and are tipping a crop more in the 80-85mmt range. The RGU are also forecasting a 10% increase in area but with so much winter wheat not seeded due to the drought last year the expectation that this will be made up in spring wheat is perhaps too high. With 3-4 months of important growing/harvest weather ahead there is still a lot of time for things to change.

What do we conclude from all of this? Mostly that there is still a lot of water to go under the bridge before we establish the effect this has on global markets in the longer term. Our feeling is that it will be a negative influence in the short-term but there are plenty of other stories around the globe that will outweigh this impact and will provide continued support for grain prices. The ongoing drought in the EU is pushing production estimates down 5-10mmt while exports are tipped to fall up to 35% from last year. Ongoing wet weather in the US Northern Plains and Canada is resulting in very late seeding, with expectations that a portion of the crop will not be sown at all. Forecasts are for above average rain in these areas for the next 6-10 days, increasing the likelihood of this occurring. Southern US HRW areas are also in drought and production is expected to be cut here as well. In the longer term these issues will likely have a greater impact on the market than the Russian announcement and we feel will maintain support for global grain prices.

RUSSIA WHEAT PRODUCTION & EXPORTS (USDA)



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