

WEEKLY MARKET REPORT

WEATHER

It's been a solid start to July for most of the region with further moisture expected in the coming days. This has helped alleviate some of the dry issues of recent times but further moisture would be welcome. Showers will linger over the next few days before clearing through the weekend.

| TOWN | WEEKLY | July | 2011 |
|--------------|--------|-------|---------|
| Narrandera | 8.9mm | 8.9mm | 370.5mm |
| Cowra | 5.2mm | 5mm | 258mm |
| Hillston | 9mm | 9mm | 259mm |
| West Wyalong | 7.8mm | 7.8mm | 303mm |
| Oaklands | 13mm | 13mm | 356mm |

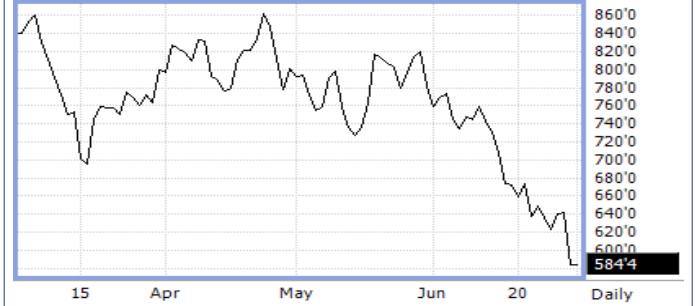
LOCAL

Depreciation in local market values continued last week as a result of a bearish USDA report, with 5-10% coming out wheat. Currently there is little grower interest in these values and barley, even though this was better supported comparative to wheat. This could be attributed to current barley production issues in the northern hemisphere. Though canola also came back, fundamentals remain strong here and local values should continue to offer value to the grower. On a more positive note the market drop saw end users jump into the market and gave traders the opportunity to unwind basis levels. Light rainfalls on Sunday will be welcomed by the emerging / developing crop. Unevenness in emerging crops has been noted across most of the Southern Ag Grain draw area and has been attributed to mouse activity and/or the germination capacity of retained crop from last season.

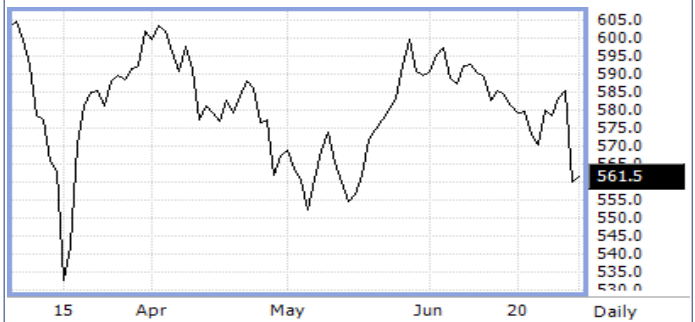
GLOBAL

The news has been dominated by the shocking stocks and acreage report released by the USDA last week. Despite the market struggling to comprehend some of the figures, particularly in the corn sector, the bearish nature of the information caused local and international prices to fall considerably. Wheat and corn in particular bore the brunt of the negative news, and although the oilseed figures were not as bearish prices were ultimately dragged lower. The possible direction from here is discussed in today's focus section but the fall in prices should at the very least stimulate further demand. We are already seeing this with reports the Chinese have possibly bought a whopping 1.1mmt of US corn. With US markets closed at the beginning of this week we will need to wait a little longer to see whether this provides some support for futures. For now though, the focus has shifted to if and when the markets will recover from this major blow.

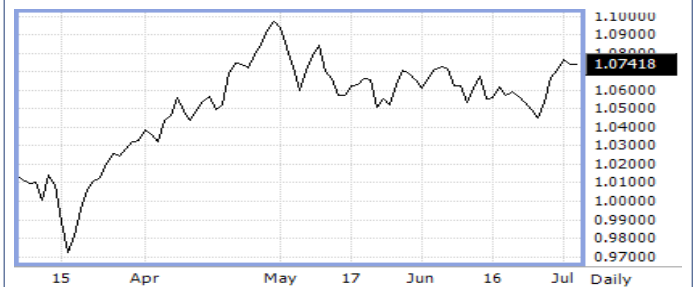
JUL '11 CBOT WHEAT



JUL '11 WCE CANOLA



AUD/USD



| CONTRACT | LAST | DAILY | WEEKLY | MONTHLY | YEARLY |
|----------------------|--------------|---------|---------|----------|----------|
| CBOT Jul 11 Wheat | USc 584.50 | ↓ -0.25 | ↓ -8.8% | ↓ -24.5% | ↑ 0.0% |
| CBOT Jul 11 Corn | USc 640.75 | ↑ 11.75 | ↓ -8.2% | ↓ -15.0% | ↑ 57.4% |
| CBOT Jul 11 Beans | USc 1,322.25 | ↑ 16.00 | ↓ -0.9% | ↓ -6.5% | ↑ 42.5% |
| ICE Jul 11 Canola | AUD 561.50 | ↑ 1.30 | ↓ -4.0% | ↓ -6.0% | ↑ 33.4% |
| ASX Jul 11 Wheat | AUD 220.00 | → 0.00 | ↓ -9.1% | ↓ -24.0% | ↓ -15.1% |
| ASX Jul 11 Barley | AUD 197.00 | → 0.00 | ↓ -3.2% | ↓ -11.1% | ↑ 4.5% |
| ASX Jul 11 Canola | AUD 535.00 | → 0.00 | → 0.0% | → 0.0% | ↑ 3.4% |
| AUD/USD spot rate | 1.0743 | ↑ 0.00 | ↑ 0.7% | ↑ 0.3% | ↑ 26.2% |
| AUD/CAD spot rate | 1.0314 | → 0.00 | ↓ -0.4% | ↓ -1.6% | ↑ 14.9% |
| ASX/CBOT Wheat basis | AUD 18.17 | ↑ 0.69 | ↓ -0.81 | ↓ -2.74 | ↑ 11.26 |
| ASX/ICE Canola basis | -AUD 13.68 | ↓ -2.69 | ↑ 20.79 | ↑ 27.04 | ↓ -62.23 |

Information independently provided by

FOCUS

The lead-up to the USDA stocks and acreage report had many, including us, believing that it could provide some support to global markets that has been missing in recent times. The report could not have been any more opposite to what most were expecting and futures markets progressed to trade down their limits while local prices didn't escape the carnage either. So where did it all go wrong and how could estimates from the majority of analysts be so far out?

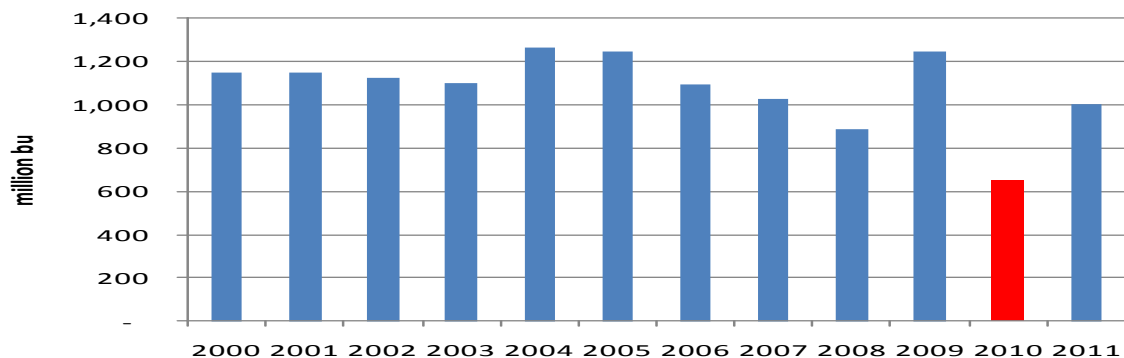
Firstly to corn and the USDA 1 June stocks figure came in a whopping 368mbu above market expectations. What the USDA is implying here is that feed/residual use of corn for the March/May quarter was only 670mbu which is the lowest on record and a 44% decline on last year. It is extremely difficult to fathom this for a number of reasons. Firstly, livestock margins were generally profitable during this period and cattle on feed and hog numbers were greater than last year. Secondly, any major switch from feeding corn to wheat would not have begun until after the 1 June stocks estimate was done. Thirdly, the cash market in the US is not signaling basis values that reflect higher stocks with reports of end users struggling to acquire physical corn. The concern is that the USDA has gone down this path before. The same report last year saw the USDA 'lose' 300mbu without any explanation, which was promptly 'found' again in the next stocks report in September. Unfortunately we will need to wait until September before finding out whether a similar scenario has taken place, but until then the market will trade these numbers.

Secondly, corn acreage was 1.5m acres above expectations and an increase on March estimates. This is despite major delays in plantings due to wet weather and their own surveys suggesting prevent plant acres were up considerably. We hope the USDA know what they are doing as the consequent fall in prices has led to a stimulation in demand. Wires suggest China bought 1.1mmt of corn *before* the USDA report was released and we will therefore be eagerly watching to see whether this number grows. The drop in prices will also improve ethanol and livestock margins as well.

While corn was the main story wheat didn't escape the carnage either. This was mainly due to stocks being 35mbu higher than market expectations, while the USDA also cut spring wheat area by 800kha due to wet weather through the north of the country. Although the final figure was still above the average trade estimate of 13.3m acres, a USDA regional branch was reporting a 6.3m spring wheat acre loss only days before the report whereas USDA only went with a 2.3m acre fall. The USDA did announce they will be re-surveying some areas and results will be released in August.

For growers looking for cash flow but still want to participate in the market the use of swaps is one option. The price between old season feed wheat and new crop milling wheat has narrowed significantly since harvest and it is now not as rewarding to be carrying the old season grain. With this in mind, growers could look to sell the feed grain to generate cash flow and purchase new season ASX milling wheat swaps which would give time for this spread to widen to more normal levels.

MARCH-MAY CORN FEED & RESIDUAL USE



Information independently provided by

LACHSTOCKCONSULTING

www.lachstockconsulting.com.au

DISCLAIMER/DISCLOSURE: This publication has been prepared solely for the information of the particular person to whom it was supplied by Southern Ag Grain ("SAG"). This publication contains general advice only. In preparing the advice, SAG has not taken into account the objectives, financial situation and particular needs of any particular person. Before making any decision on the basis of this advice, you need to consider whether the advice in this publication is appropriate in light of your particular needs, objectives and financial situation. The information and opinions contained in this document have been compiled or arrived at from sources believed to be accurate and reliable at the time of the report, but no warranties of accuracy, reliability or completeness are given (except insofar as liability under any statute cannot be excluded) by SAG, Lachstock Consulting Pty Ltd (LS), and its associates. Opinions are subject to change without notice. Neither SAG, nor LS, or other associated parties accept any liability whatsoever for any direct or consequential loss howsoever arising from any use of this document or its contents or otherwise arising in connection to it. No responsibility for any errors or omissions or any negligence is accepted by SAG, LS, or any of the respective directors, employees or agents. This document may not be reproduced, distributed or published, in whole or in part, for any purpose, except with the prior written consent of SAG.

CONTACT SOUTHERN AG GRAIN
02 6932 4400

Suite 2/17 Gurwood Street Wagga Wagga NSW 2650
www.southernaggrain.com.au | info@southernaggrain.com.au

southern ag grain