

WEEKLY MARKET REPORT

WEATHER

There was some welcome rain across most of the southern parts of NSW although the amounts decreased as you moved further north. Some areas have already received around 60% of the August average and further showers are predicted in the coming days.

TOWN	WEEKLY	August	2011
Narrandera	37.6mm	37.6mm	421.2mm
Cowra	27.8mm	27.8mm	304.8mm
Hillston	10.8mm	11mm	280.6mm
West Wyalong	15.8mm	16.2mm	325.8mm
Oaklands	19.4mm	21.6mm	395mm

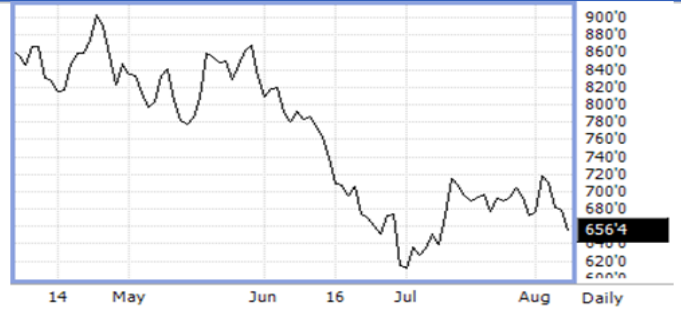
LOCAL

All crops and growers welcomed the weekend's rainfall, now forecasted to continue well into this week. Local wheat markets finished strongly on the back of reports of dryness across Central and Northern NSW. FED1-AGP1 are in demand at Port with domestic millers also chasing AH9 in Port Kembla. Barley markets continued to firm on the back of FOB demand and currency movements. Canola values followed volatile currency movements finishing stronger overall. Grower liquidity continues to be low in line with market volatility and production uncertainty. Contact the office for full details on this week's opening of 3 Windows for wheat and barley.

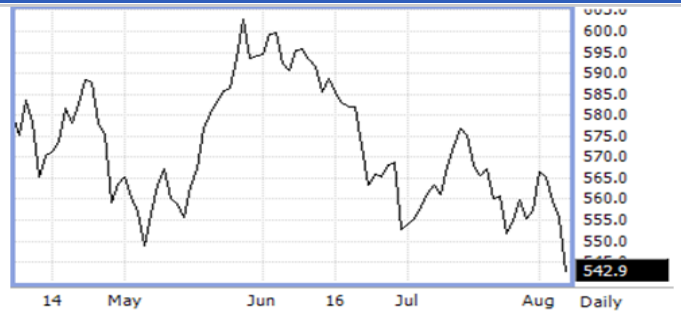
GLOBAL

Amid all the chaos over the broader economic environment the other important piece of information out this week is the monthly USDA report and in particular their estimates on US corn yields. The USDA has previously used a 158.7bu/ac number however many analysts are forecasting yields to drop to between 150-155bu/ac due to the recent heat wave. The USDA is likely to take a more conservative approach and expectations are they will report yields around the 156-157bu/ac mark. More significant changes are expected in Sep/Oct when further detail is known, however for now high population counts and a lack of data on corn ear weights should lead to a smaller reduction by the USDA. The bumpy ride is expected to continue though as investors focus on wider economic factors which will in turn mean grain markets will be pulled along with it.

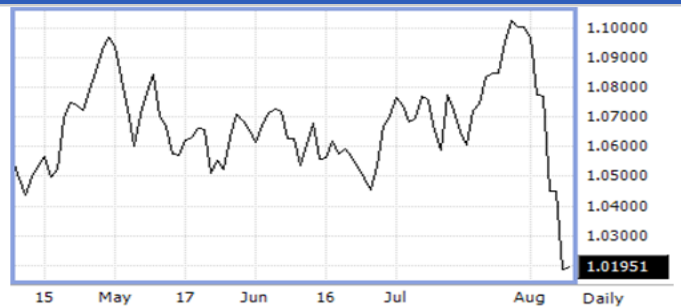
SEP '11 CBOT WHEAT



NOV '11 WCE CANOLA



AUD/USD



CONTRACT	LAST	DAILY	WEEKLY	MONTHLY	YEARLY
CBOT Sep 11 Wheat	USc 656.50	↓-22.50	↓-7.6%	↑0.8%	↓-9.0%
CBOT Sep 11 Corn	USc 675.25	↓-17.75	↓-4.4%	↑5.1%	↑52.7%
CBOT Sep 11 Beans	USc 1,304.50	↓-23.50	↓-4.3%	↓-3.0%	↑26.9%
ICE Nov 11 Canola	AUD 542.90	↔0.00	↓-3.9%	↓-3.6%	↑28.2%
ASX Sep 11 Wheat	AUD 252.80	↔0.00	↓-2.3%	↑7.6%	↓-14.9%
ASX Sep 11 Barley	AUD 218.30	↔0.00	↓-0.5%	↑9.7%	↓-14.6%
ASX Sep 11 Canola	AUD 540.00	↔0.00	↔0.0%	↑0.9%	↑11.1%
AUD/USD spot rate	1.0187	↔0.00	↓-5.4%	↓-5.3%	↑11.2%
AUD/CAD spot rate	1.0111	↔0.00	↓-2.4%	↓-2.4%	↑7.5%
ASX/CBOT Wheat basis	AUD 14.27	↓-7.11	↑0.05	↑4.02	↑6.75
ASX/ICE Canola basis	AUD 0.00	↓-2.07	↑9.47	↑14.43	↓-35.92

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FOCUS

The events of the past few days cannot be ignored in the grain market and this week we take a small diversion and focus on the broader economic situation. The global economic environment has taken a dramatic turn recently and sharemarkets around the world have plunged in the past few sessions following the historical US credit rating downgrade, as well as lingering concerns over the situation in Europe. Panic has quickly spread across the markets following the announcement with the Dow Jones having its worst day since the Global Financial Crisis.

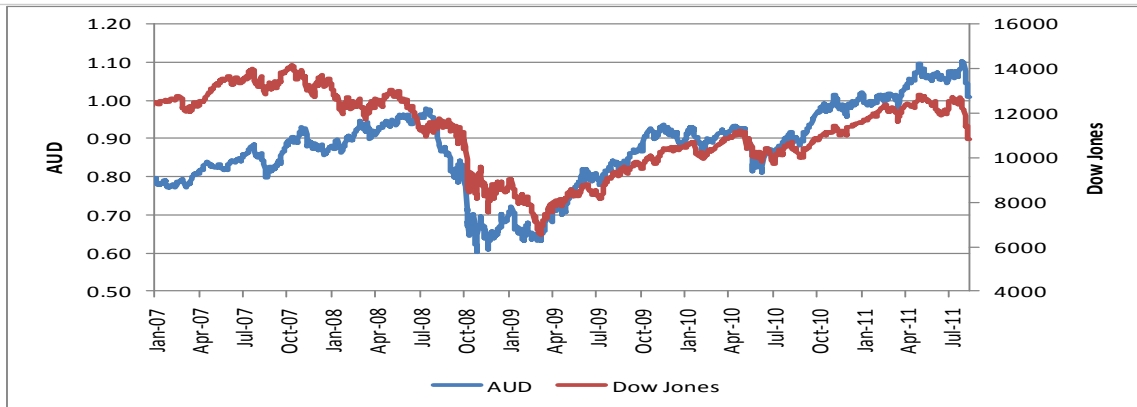
The US credit downgrade was the catalyst for the huge global sell-off this week in which the US rating was cut by Standard and Poors to AA+ from AAA. While it seemed to come as a shock to the market given the reaction of investors a lot of this downgrade may have already been factored into the market over the past couple of months. Back in April S&P revised their outlook for the US to negative referring to the amount of political and policy risk which has since eventuated through the recent stalemate in discussions over the US debt ceiling. Then in July S&P placed the US on their credit watch and said that action would likely be taken within 90 days in which the possibility of cutting their rating two levels to AA was broached. In comparison Australia is among only 16 countries to maintain its AAA rating, which includes Singapore and a number of Western Europe and Scandinavian countries. Investors are now beginning to question whether the worst of it has passed or whether we are likely to see

markets plunge further. To put the recent events into context, during the GFC the biggest falls experienced in the Dow during any month was 14% in October '08 and 11% in February '09. The Dow has dropped some 11% in August '11 already and at this pace it would put it up there with one of the largest monthly falls, which also suggests downside may be limited in the immediate future. If you look at it in a quarterly context the Dow fell around 20% in the Oct-Dec '09 period. There may be some resistance in the Dow around 10,000 given in the post GFC rally it lingered here for about a year.

Amidst it all the Aussie dollar hasn't been spared and has fallen around 8% in the past week to be pushing back towards parity. The AUD has almost mirrored the Dow's movements since the depths of the GFC and has appreciated some 80+% since October '08 before taking a tumble. There has been some talk in recent times that the dollar could soar to unprecedented levels which really goes to show how quickly sentiment can turn! The drop in the dollar has helped cushion some of the falls in local grain prices and as the chart below suggests any further decline in the economic situation could may perhaps lead to further depreciation in the currency.

We can expect volatility to be high in the near term with fear and panic still dominating all markets. The grain sector is therefore likely to continue to take a back seat and wait for some stability and confidence to return to encourage buyers back into the markets.

AUD & DOW JONES MOVEMENTS



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