

WEEKLY MARKET REPORT

WEATHER

Very little rain recorded across the region last week, although this may well change as the week goes on with the central areas of NSW in particular looking like they will get some heavy rain. With the weather beginning to warm up growers will be looking for further moisture to push things along.

TOWN	WEEKLY	August	2011
Narrandera	0.4mm	0.4mm	453.7mm
Cowra	0mm	0mm	349mm
Hillston	1mm	1mm	306.8mm
West Wyalong	0.2mm	0.2mm	354.2mm
Oaklands	3mm	3mm	424.8mm

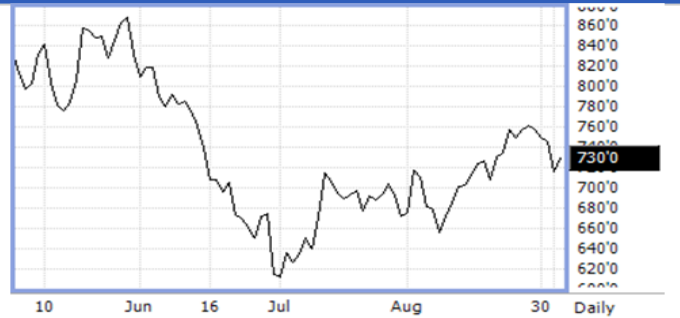
LOCAL

Another dry week for most of the draw area except for a few isolated showers on Sunday. With a favourable forecast promising good rainfall, anywhere from 10-50mm, crops will be well positioned to finish strongly. Further gains across the market early in the week revived new crop grower interest which was then tempered late in the week as the market slid backwards sharply. Old crop wheat and barley values continue to find support on the back of sustained FOB demand with most stem fully booked into October/November. In addition to wheat and barley 3 windows, Southern Ag Grain is pleased to announce the release of canola 3 windows and a new multi-milling wheat contract this week. Contact the office for further details.

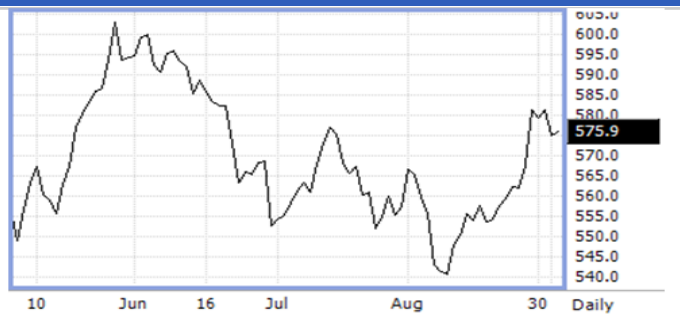
GLOBAL

Markets have been mixed in recent times with profit taking causing prices to fall sharply last week only for concerns over the US weather to resurface leading into the US long weekend. As a result markets jumped on Friday night, however with the US on holiday we will need to wait another day to get any further leads. We won't have to wait long for things to heat up again though with the first USDA report out on Monday following the much publicised US crop tour in which yield estimates for corn were slashed considerably by a number of sources. In the past few days FC Stone have also cut yields to 146.3bu/acre although the market consensus is still around the 149-150 mark. It will be a surprise if the USDA slashes their yields to under 150bu/acre although they have been known to pull a few surprises. Soybean yield estimates have generally been a lot stronger, however recent forecasts for hot and dry weather is providing some strong price support.

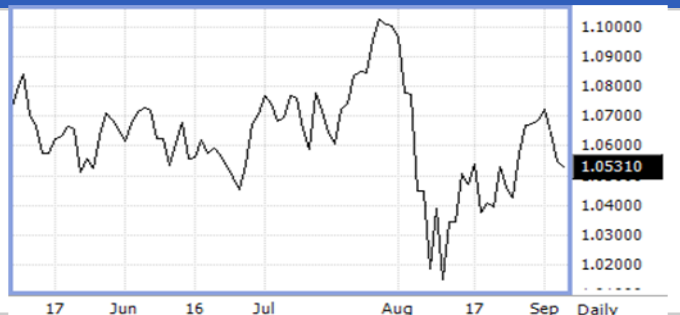
SEP '11 CBOT WHEAT



NOV '11 WCE CANOLA



AUD/USD



CONTRACT	LAST	DAILY	WEEKLY	MONTHLY	YEARLY
CBOT Sep 11 Wheat	USc 730.00	↑ 14.50	↓ -2.0%	↑ 7.5%	↓ -0.4%
CBOT Sep 11 Corn	USc 750.25	↑ 21.50	↓ -1.0%	↑ 8.3%	↑ 59.5%
CBOT Sep 11 Beans	USc 1,436.00	↑ 11.25	↓ -0.9%	↑ 8.1%	↑ 37.1%
ICE Nov 11 Canola	AUD 575.90	↑ 0.90	↓ -0.9%	↑ 3.7%	↑ 32.2%
ASX Sep 11 Wheat	AUD 258.00	↔ 0.00	↓ -0.3%	↑ 2.5%	↓ -13.1%
ASX Sep 11 Barley	AUD 212.50	↔ 0.00	↔ 0.0%	↓ -5.1%	↓ -20.0%
ASX Sep 11 Canola	AUD 540.00	↔ 0.00	↔ 0.0%	↔ 0.0%	↑ 11.1%
AUD/USD spot rate	1.0525	↓ 0.00	↓ -1.5%	↑ 0.7%	↑ 15.6%
AUD/CAD spot rate	1.0427	↔ 0.00	↓ -0.3%	↑ 1.7%	↑ 9.3%
ASX/CBOT Wheat basis	AUD 2.66	↑ 7.76	↑ 0.60	↓ -9.54	↑ 1.37
ASX/ICE Canola basis	-AUD 13.20	↓ -3.38	↑ 2.94	↓ -9.17	↓ -42.54

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FOCUS—WILL USDA REVISE CORN YIELDS SHARPLY LOWER?

Last week we reported on the results of the annual US crop tour and how corn yield estimates were being revised lower by Profarmer who adjusted their outlook to 147.9bu/acre. That theme continued for much of the week as FC Stone were the next analyst to peg their yield estimates below the 150bu/acre mark, predicting it to be at 146.3bu/acre in comparison to the August USDA estimate of 153bu/acre. That USDA figure continues to look too high however we will wait and see whether they will adjust their forecasts by as much as what some analysts have or whether they will take a more conservative approach. The expectations at this point in time are for the USDA to lower yields marginally and wait for a larger flow of data on crop yields before making a more concrete adjustment.

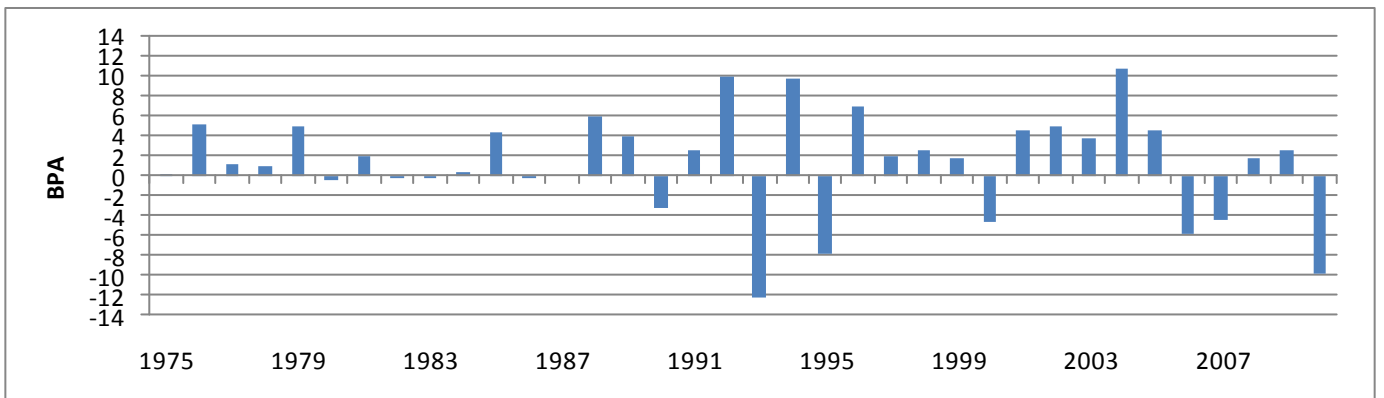
Having said that, as mentioned above it isn't stopping other industry analysts from predicting yields to be well below 150bu/acre. FC Stone's August-September adjustment represents a 7bu/acre decline and a drop which the trade has not experienced since a 15bu/acre fall all the way back in 1983. Since then the largest August to September fall has been slightly less than 5bu/acre back in 1995. In 2010 the USDA did adjust yields lower at this point of the season, falling around 2-3bu/acre. If we take a look at final yield estimates against those done in September, in the past twenty years there have been some major adjustments. Last year was one of those as the final yield ended up just below 10bu/acre lower than the September estimates. This highlights the fact that while the USDA

may adjust their numbers slightly this month they will more likely wait for further information before making any drastic changes. This should help keep the bears at bay as the possibility of sizeable adjustments down the track in an already tight US market could have significant implications.

For soybeans it is a slightly different story as market yield estimates are currently trending similar to those of the USDA. We shouldn't expect too many fireworks on this front and beans will likely be lead by corn when the report is released. While the crucial weather period for corn has passed, for soybeans it is still a primary focus and the dry recent weather has been supportive for prices.

The USDA has been known to pull some big surprises in the past, however the general expectation is that they will take more time before adjusting yields lower by a significant amount. For the corn market to progress further we would need to see either a sharp decline in yield estimates, a significant September frost or increased buying by either domestic users or importers. Adding to these issues is the effect of strong South American selling as well as uncertainty over the impact of two tropical storms approaching the Midwest. However it all still provides good support for global wheat demand with many consumers, both locally and internationally, switching from corn to wheat. Look for any major adjustments by the USDA on the demand side as well as any production changes which could also assist in supporting prices.

US CORN YIELD - FINAL VS SEPTEMBER



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