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southern ag grain

WEEKLY MARKET REPORT

WEATHER

A few storms were experienced mainly up through the central areas, with the south missing out. A rain band moving across the country may not quite reach NSW, however with more unsettled weather developing in the west there is the possibility of further activity next week.

TOWN	WEEKLY	October	2011
Narrandera	0mm	24.2mm	496.8mm
Cowra	9.2mm	38.2mm	413.4mm
Hillston	0mm	15.6mm	342.8mm
West Wyalong	4.4mm	35.8mm	417.2mm
Oaklands	0mm	4.6mm	467.7mm

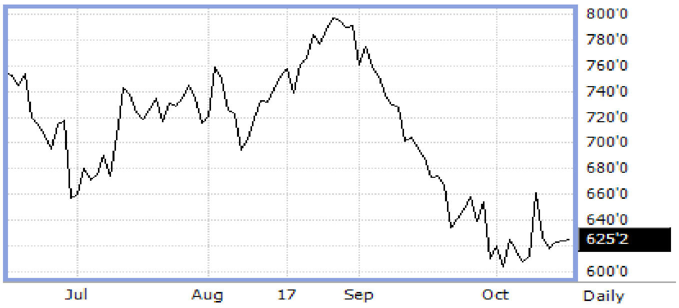
LOCAL

Harvest is now on our doorstep with early north/western Port Kembla canola crops close to windrowing this week. Barley and wheat crops are positioned for a good finish though most require a final top of rain to maintain the above average forecasted yields. Growers continued to sit out of the cash market last week with wheat and barley values offering little to get excited about. The Express Pool opened this week providing an alternative to traditional pool and cash options to average out the cash market between now and July 2012. Southern Ag Grain will be at Lockhart Races this Friday, 21st October 2011. Gates open at 12:00pm with the first race at 1:30pm. Catch up with us at the tent for a drink and a bite to eat.

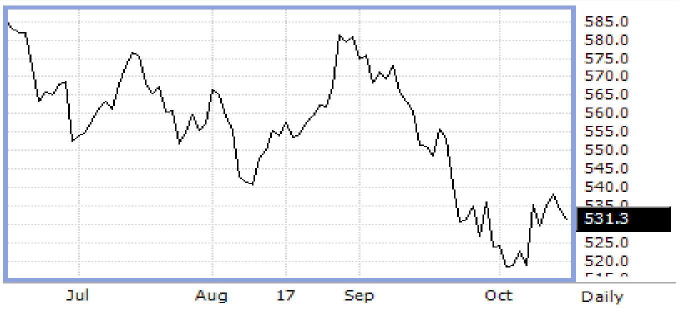
GLOBAL

The monthly USDA report was the main focus last week and in a nutshell the report was slightly bullish for soybeans, neutral for corn and bearish for wheat. The USDA took the September stocks report for wheat at face value and ultimately projected a bearish tone, magnified by production increases in Canada, Australia, Europe and Kazakhstan. Despite these changes, the wheat market may continue to follow the lead of corn where the market is waiting on confirmation of Chinese purchases. It is a similar story for soybeans where speculation has suggested the Chinese have re-entered the market in a significant way and, combined with the cut to US ending stocks last week, the outlook for oilseeds has turned quite bullish. The equity markets staged a mini-recovery last week with fears over the European situation subsiding a little, although they have since taken a backward step this week due to a lack of action.

DEC '11 CBOT WHEAT



NOV '11 WCE CANOLA



AUD/USD

CONTRACT	LAST	DAILY	WEEKLY	MONTHLY	YEARLY
CBOT Dec 11 Wheat	USc 625.25	↑ 1.00	↑ 1.2%	↓ -7.1%	↓ -19.1%
CBOT Dec 11 Corn	USc 644.00	↑ 3.50	↑ 0.9%	↓ -7.0%	↑ 26.4%
CBOT Nov 11 Beans	USc 1,250.75	↓ -2.25	↓ -0.5%	↓ -6.4%	↑ 9.0%
ICE Nov 11 Canola	AUD 531.30	↓ -2.40	↓ -0.7%	↓ -3.2%	↑ 9.2%
ASX Nov 11 Wheat	AUD 223.50	→ 0.00	↓ -7.6%	↓ -15.2%	↓ -15.3%
ASX Nov 11 Barley	AUD 185.00	→ 0.00	↓ -9.8%	↓ -17.0%	↓ -11.4%
ASX Nov 11 Canola	AUD 560.00	→ 0.00	→ 0.0%	→ 0.0%	↑ 8.5%
AUD/USD spot rate	1.0253	↑ 0.01	↑ 0.7%	↑ 0.4%	↑ 5.6%
AUD/CAD spot rate	1.0409	→ 0.00	↑ 0.1%	↑ 2.9%	↑ 3.8%
ASX/CBOT Wheat basis	-AUD 2.07	↓ -1.04	↓ -19.68	↓ -19.95	↑ 26.58
ASX/ICE Canola basis	AUD 46.54	↑ 2.68	↑ 5.02	↑ 35.30	↑ 15.69

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FOCUS—WASDE REPORT A MIXED BAG

We were looking for a bullish monthly USDA report to provide the kick to grain markets that many growers have been looking for and while it produced a positive theme for the oilseed sector with a lower than expected carry-out figure for soybeans, the wheat market was a different story. Despite some concerns over the accuracy of the September stocks estimates where it was implied feed wheat usage was at levels that was simply difficult to comprehend, the monthly report took the numbers at face value and therefore adjusted feed/ residual estimates lower by some 80mbu from the September report. The end result was a carry-out figure larger than the average trade estimate, resulting in a sharp sell-off of wheat futures. To add to the bearish tone, the USDA also bumped up global wheat stocks through increasing production in Canada (+0.2mmt), Australia (+1mmt), EU (+0.5mmt) and Kazakhstan (+3mmt), resulting in an 8mmt boost to global inventories.

For corn, the US balance sheet barely changed, with yield estimates remaining at 148.1bu/acre and to offset a slight reduction in harvested acreage exports were reduced by 50mbu. While there were some expectations that yields could have been revised higher, there are also reports suggesting the USDA is still too optimistic at 148.1bu/acre and could potentially be lowered in the coming months given the breakdown across the states. Recent newswires have suggested that China have purchased some 1.5mmt of US or Argentine corn, providing some support to the market, which is expected to help prop up the wheat price as well. Other significant changes were mainly made to the Chinese balance sheet, where the USDA not only revised production higher for 11/12, but also for the past two years by a total of 10.2mmt. Oddly, they also increased feed usage as well, and therefore stocks did not change, but it does imply a higher base level of feed usage for future estimates, which could have significant implications moving forward.

One significant positive for local canola growers were the changes made to the US soybean balance sheet, where yields were lowered slightly from last month to 41.5bu/acre and harvested acreage was also reduced by 100kha. Ending stocks therefore came in 26mbu below the average market estimate. On top of this the Chinese bought 672kmt of US soybeans last week amid expectations that, like corn, they may look to take advantage of the recent price falls. With US stocks in both commodities relatively tight an increase in demand from the region may be the tonic needed to give investors the confidence to return to the market. The funds still remain on the sidelines and we need their participation in order to see some decent upside to prices. The Australian dollar has also been jumping all over the place due to the European situation and after falling to around 95-96c, a more positive sentiment on the global economy allowed it to shoot back up to 1.03c very quickly. Like many we would like to see this level of upside extend to the grain markets as well.

WASDE REPORT SNAPSHOT

	USDA Oct '11	Market Average	Range	USDA Sep '11
Production estimates 2011/12				
Corn	12,433	12,479	12,200-12,690	12,497
Soybeans	3,060	3,032	3,050-3,200	3,085
Yield Estimates 2011/12				
Corn	148.10	148.73	145-150.9	148.10
Soybeans	41.50	42.06	41.42.9	41.80
Stocks 2011/12				
Corn	866	804	575-990	672
Soybeans	160	186	153-255	165
Wheat	837	753	663-900	761

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