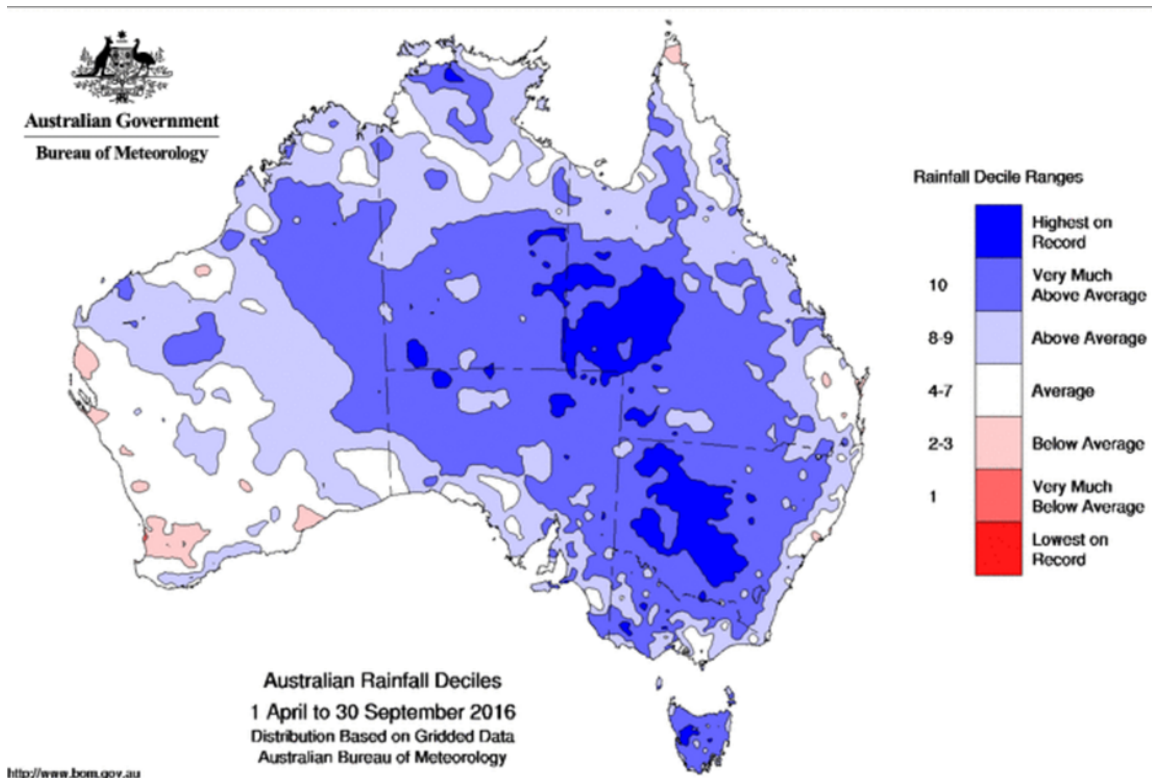


The 2016/17 Australian winter crop was on track to achieve record yield levels. However, in the last two months, multiple weather events have decreased the expected yield and softened the expected quality. As a consequence, the premium for Australian milling wheat basis remains high. Also, it is worth noting that at current values, Australian wheat and barley are priced very competitively into key markets versus other origins.

The Grain Industry of Western Australia October report stated that “September saw the coldest average minimum temperatures on record across the grain belt”. It went on to say “the ongoing frost events... caused localised losses in early sown barley and wheat crops”. The full impact of this cold weather won’t be known until harvest, but many industry participants are stating 1MMT (or more) of production could have been wiped out.

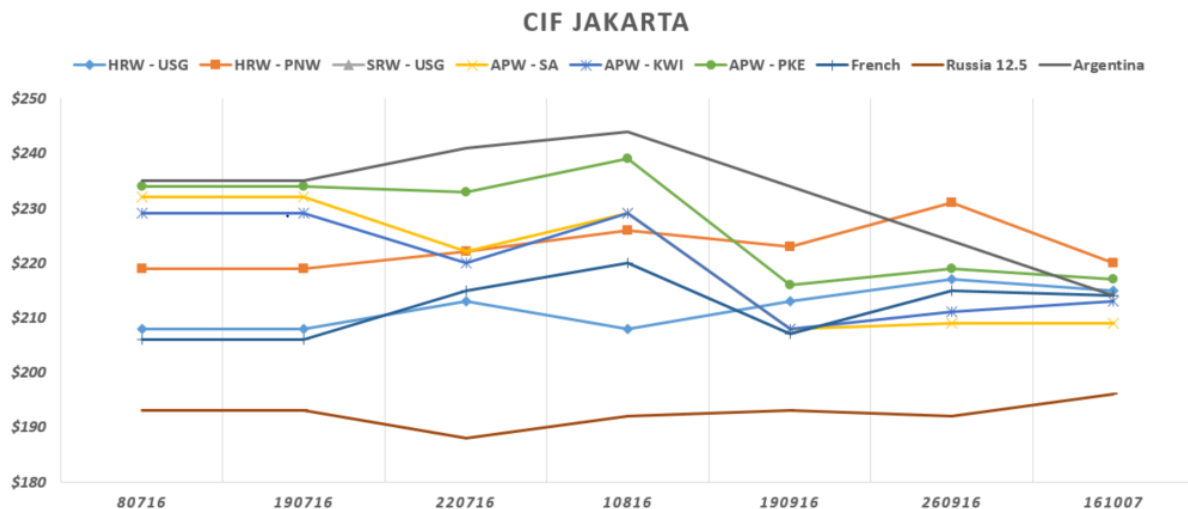


Through mid-September NSW experienced severe waterlogging from Narrabri to Wagga Wagga. This resulted in Forbes being declared a natural disaster zone by both state and federal governments. Once again the mythical bin buster was not to be. Victoria and South Australia have also experienced excessive rain and storm weather.

These combined weather events across the country have resulted in a reduction in the national production forecasts for winter crops. It is now highly unlikely Australia will beat its 2011/12 winter wheat and barley harvest when production hit a record of 29.8MMT and 10.6MMT respectively. The 2016/17 wheat production is penciled in at 28MMT and barley at 9.5MMT. If achieved, this will put production at the second largest crop ever. Despite the wet and cold weather, the crop left standing will benefit from the high profile of moisture.

The soft and frosty season will likely lead to a shortfall in milling style wheat (ASW/APW/H2) and middle to higher protein wheat. However, Asian flour millers continue to develop the technology to mill ASW into lower cost noodles for their customers.

A quick analysis of competitor pricing shows that both WA and SA are very competitively priced into key markets versus other origins. Russian quality is still \$13 USD cheaper to the key Indonesian market place. However, Australian APW regularly commands a \$20 USD premium to Russian quality. This is due to the higher screenings, lower test weight and greater bug damage.



The good news is, we are now finding export demand for November forward into our key Asian homes as well as irregular consumers. On top of inelastic South Asian demand, in the last week India has been a buyer of wheat and China has been in the market for barley. These factors bode well for the start of the 2016/17 export campaign.