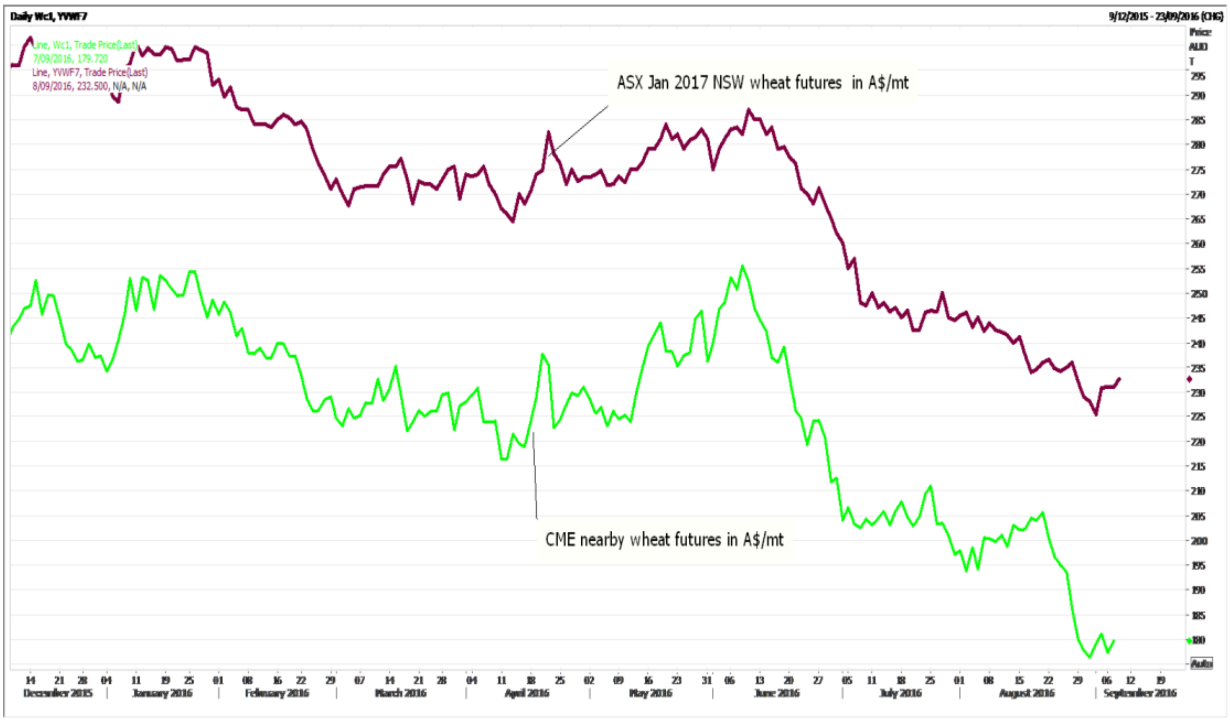
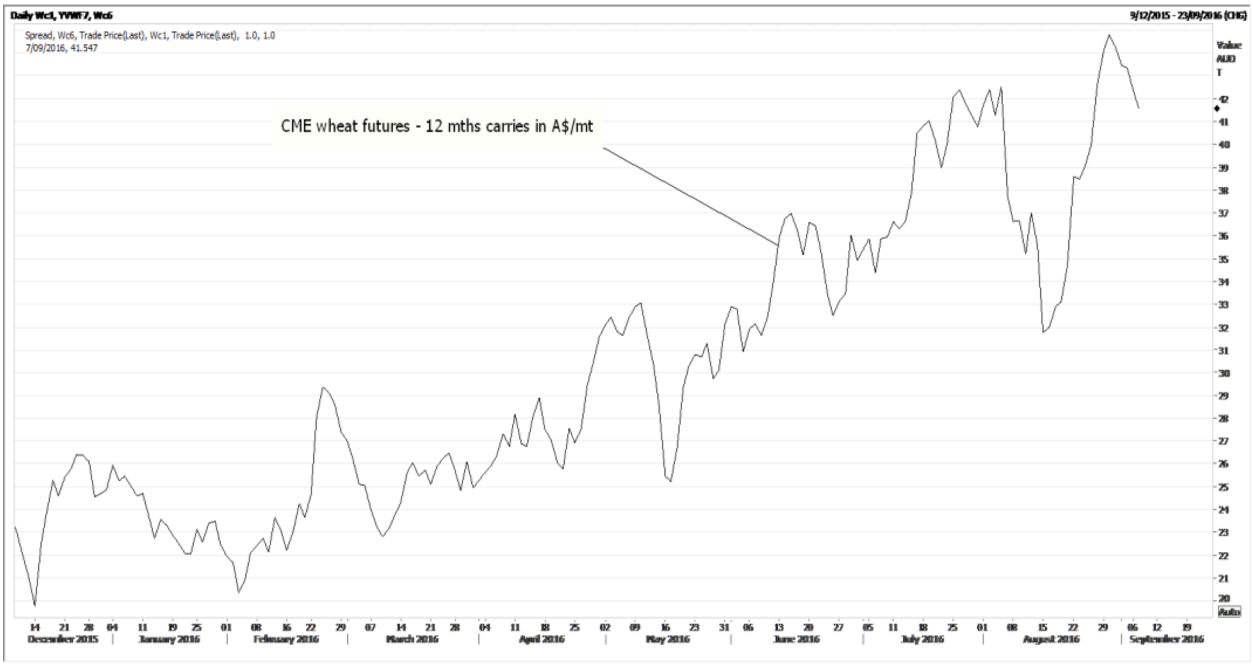
The grain outlook and what to monitor

The last few weeks have seen global grain prices dip even further in an effort to reduce the ample supply of wheat and feed grains around the world. This price drop, as shown in the chart below, has started to restrict the supplies of wheat, as growers have stopped selling both globally and within Australia.



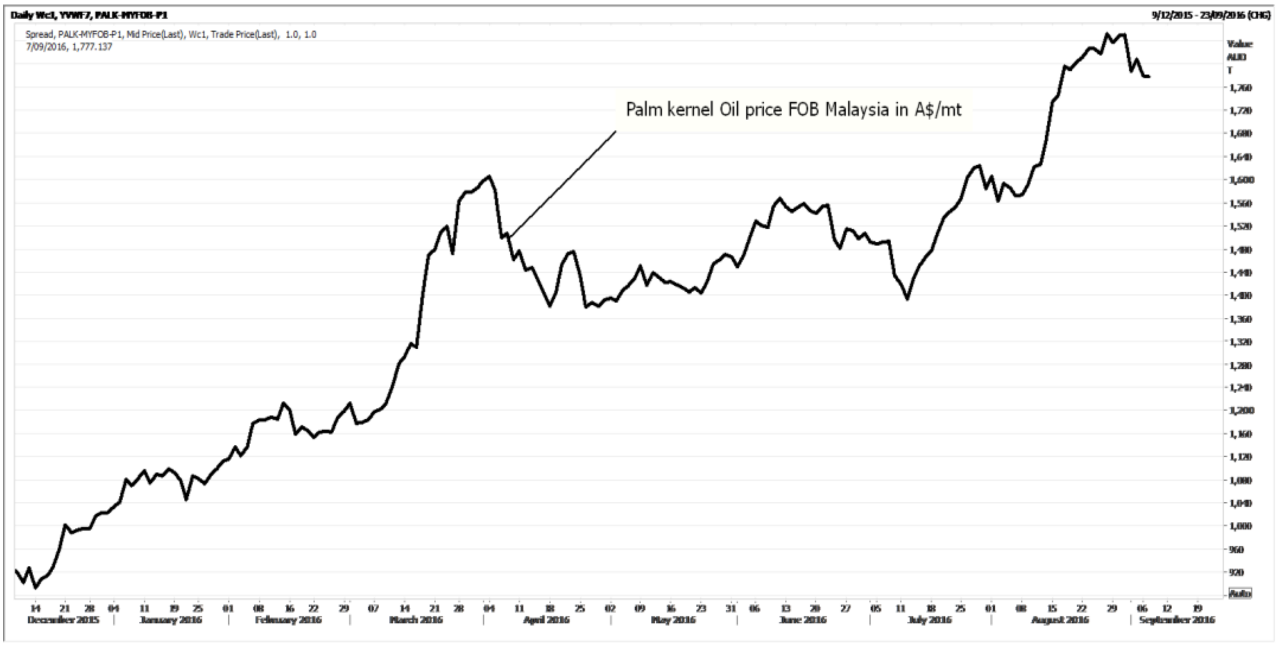
The lack of grower selling combined with lack of good quality wheat has seen Asian consumers step up and pay good money for the start of the Aussie wheat export program. The longevity of this will, to a large degree, depend on the number of growers selling from the header at harvest and, of course, the final quality of the wheat crop. It is possible we may retain a strong premium for Aussie wheat, but it is worth bearing in mind that last time Australia had to export a large wheat crop (2011/12), prices were at a significant discount to CME wheat futures. Although this is an unlikely scenario, it may be hard to maintain the premium during harvest as many growers are largely unsold. One factor that may help maintain our premium for Aussie wheat is the carries that traders can earn by hedging in CME or KCBT wheat futures.



The above chart shows how the hedge market in CME is rewarding traders for buying and holding grain. This year there is a $40/MT + carry built into the wheat market. This is twice as much as a trader could expect to achieve holding wheat last year. This in turn could mean traders regain some of their appetite from the current timid state. Therefore, our prices may hold a relative decent premium for most of the season, however still at an overall low compared to the previous four to five years.

One important observation in terms of our export demand is that Australia will be loading close to 500KMT of barley in bulk during the month of September. Our barley prices are currently some of the cheapest in the world and have managed to find demand at current levels. Most of the barley is sold for shipment to China as traders are trying to make a quick dollar while local prices are kept artificially high by the Chinese government. It doesn't change the fact that China still has a massive surplus of feed grains that they don't quite know what to do with. This demand may not be a long lasting one if China changes the rules, which they intend to do.

On a further positive note, we have seen global vegetable oil prices continue to strengthen. This has led to a strong demand for canola given the high oil content compared to soybeans.



This strong demand is likely to continue throughout the season as canola has one of the tightest balance sheets of all the grains/oilseed.

The big question for most oilseed traders is whether the Canadian government will be able to solve the serious fungal disease 'blackleg' issue with the Chinese government.

If this issue is resolved, we will see more competition from that side into China. This may impact negatively on our prices here, despite the overall positive outlook for canola globally.

Harvest is just around the corner and with prices for most grains likely to stay on the low side it becomes important to have a plan, not only for what to sell, but also a plan for what to do if selling is unpalatable. Spending time to understand the many products and sales programs available will really add value to your marketing strategy as well as your cash flow. Bear in mind that the best selling decision this harvest may well end up being not to sell.