Current Factors Influencing the Grain Markets

Over the last three seasons we have seen global grain inventory balance sheets expand with multiple seasons of (overall) well yielding harvests in Australia, the Black Sea and North America. This has led to an environment in which we have seen prices decline for cereals. However, consumption growth remains very solid into South Asia for both cereals and oilseeds.

Any analysis must start with the supply and demand tables to paint a picture of the global scenario.

The below is derived from the United States Department of Agriculture statistics.

Overview of Global Agriculatural Markets					
	13/14	14/15	15/16 Estimated	16/17 Forecasat	
Wheat					
Production (MMT)	717	729	734	730	
Trade (MMT)	162	161	172	175	
Consumption (MMT)	699	716	720	731	
Carryover Stocks (MMT)	194	215	239	236	
	27%	29%	33%	32%	Balance sheet loose
Corn					
Production (MMT)	999	1016	972	1015	
Trade (MMT)	122	125	127	132	
Consumption (MMT)	950	992	973	1002	
Carryover Stocks (MMT)	182	206	206	220	
	18%	20%	21%	22%	Balance sheet neutral to loose
Soybeans					
Production (MMT)	285	320	323	327	
Trade (MMT)	114	127	129	137	
Consumption (MMT)	281	311	321	329	
Carryover Stocks (MMT)	62	78	74	73	
	22%	24%	23%	22%	Balance sheet neutral
Barley					
Production (MMT)	144	141	147	147	
Trade (MMT)	24	30	26	27	
Consumption (MMT)	141	141	147	151	
Carryover Stocks (MMT)	24	24	25	21	
	17%	17%	17%	14%	Balance sheet neutral to tight
Canola					
Production (MMT)	72	72	68	68	
Trade (MMT)	15	15	14	15	
Consumption (MMT)	66	68	67	67	
Carryover Stocks (MMT)	8	7	5	5	
	11%	10%	7%	7%	Balance sheet tight

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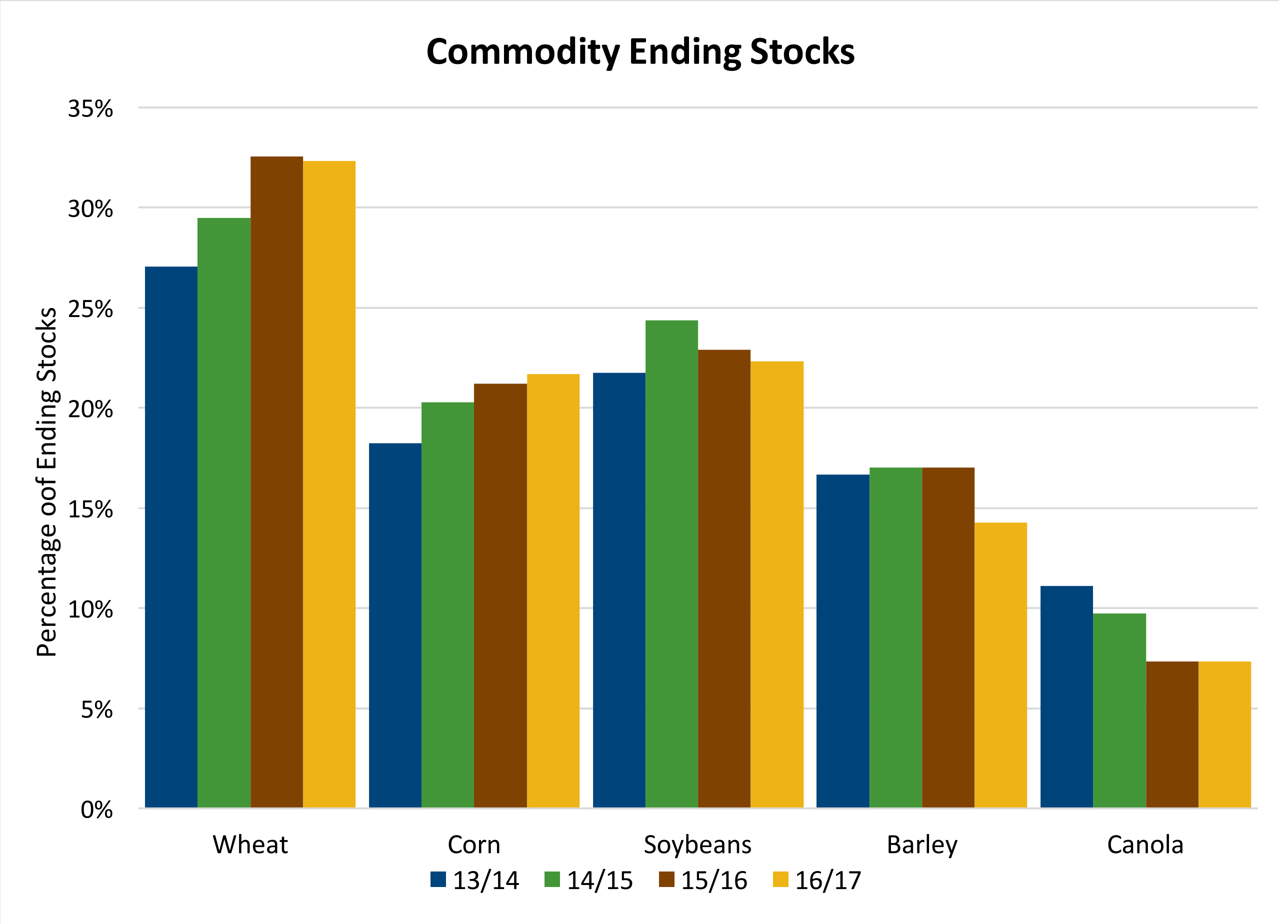
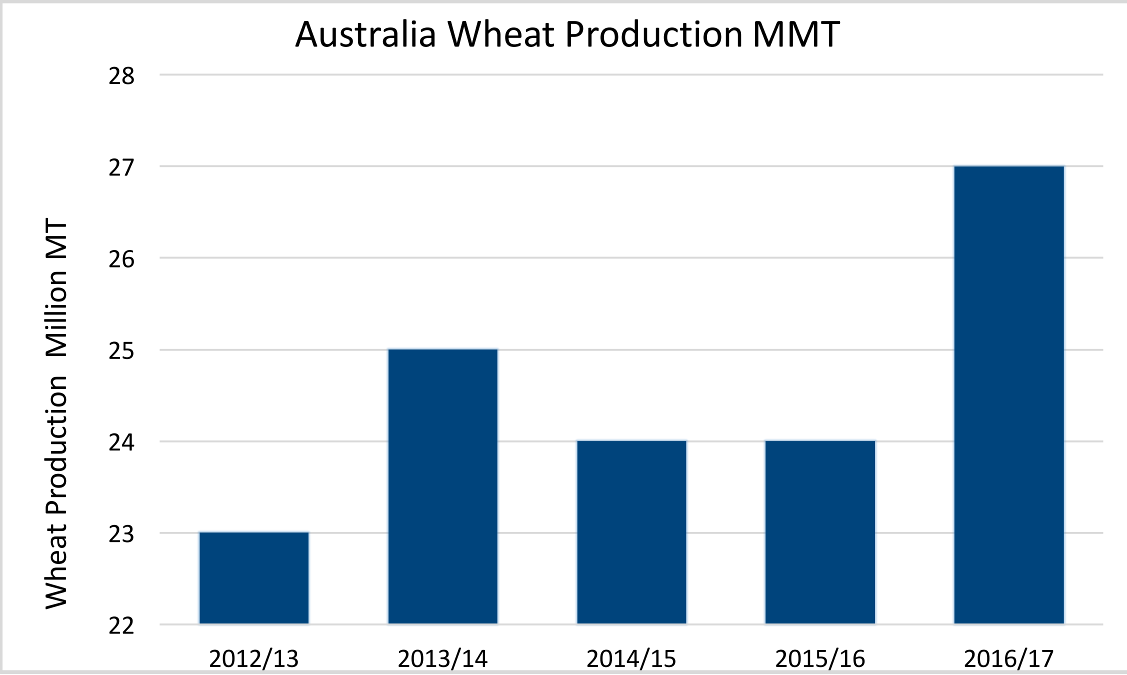
The simplest way to understand what is driving pricing from the above tables is to analyse the carryout stocks represented as a percentage of consumption. From that point, we can see whether the function of an efficient marketplace is to increase or decrease the price of the commodity. This function will either serve to conserve stock in short supply with higher pricing, or drawdown stocks in a surplus environment with lower pricing.



We can withdraw from the above chart:

- Wheat prices have decreased as stocks have increased
- Corn prices have decreased as stocks have increased
- Oilseed prices should remain more well supported due to a drawdown in canola and soybean failing to increase supply
- Barley stocks have declined this season but will be reliant on Chinese demand to drive pricing for Australian stock

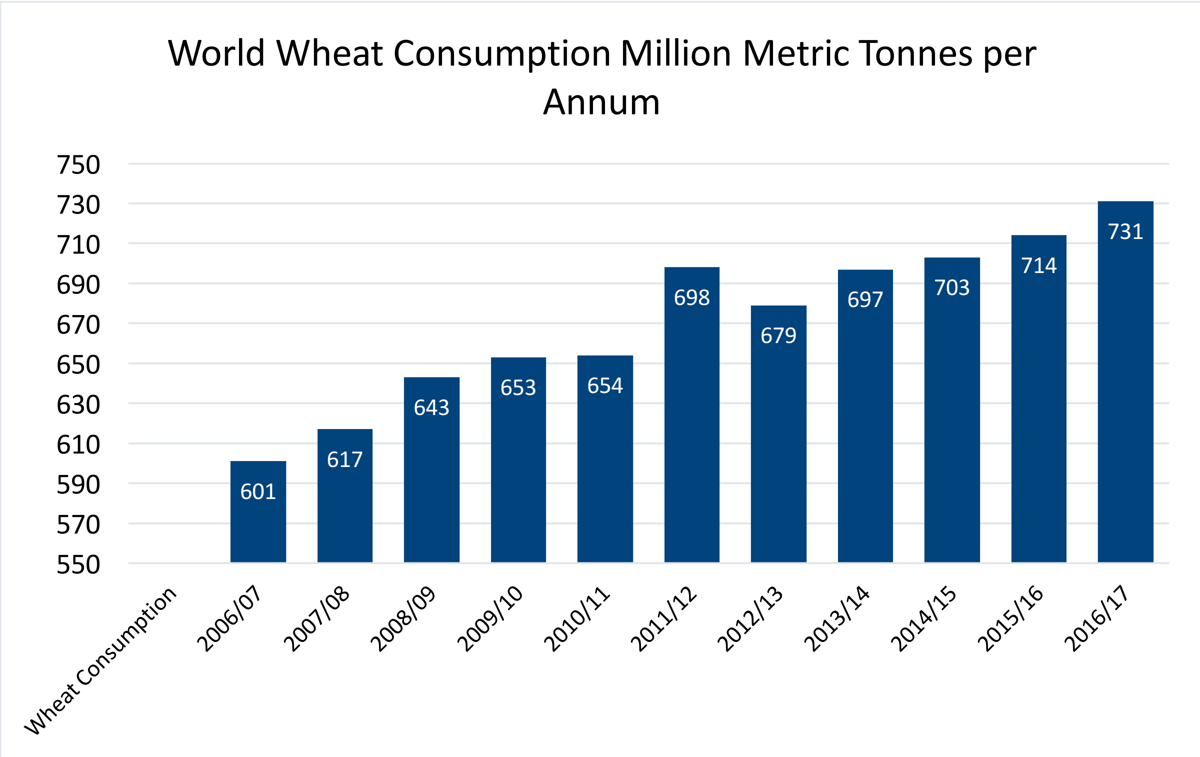
Wheat production has been fairly consistent in Australia over recent years. However, most industry participants are projecting a larger production year for 2016/17 providing a reasonable finish to the season.



In reality, the increased supply in wheat stocks has come from producing origins abroad. Growth in wheat production has occurred over the last five seasons in the Black Sea and Europe. Russia, Ukraine and Europe have combined for a projected, 57MMT increase in production.

	2012/13	2013/14	2014/15	2015/16	2016/17	Change
Russia	38	52	59	61	65	**27**
European Union	134	145	157	160	156	**22**
Ukraine	16	22	25	27	24	**8**

It is important to note that wheat consumption has grown dramatically in recent times. In the last 10 years, wheat consumption has increased by 130MMT. This is a direct result of the Asian Food Bowl theory. As more people enter the middle class in Asia their diets improve and consumption of grain in the form of noodles, pasta or bread increases. It is also worth noting that a large part of the increase is due to increased consumption of meat protein which is a by-product of grain by way of feeding cattle, chicken and pork for human consumption.



Over the third and fourth quarter of 2016 we must work through the following to get a better understanding of the real balance sheets for 2016/17 season as opposed to the current projections:

- A reasonable finish to the Australian winter cropping season
- North American summer cropping of corn and beans
- The setup for winter wheat in North America, European Union and the Black Sea; all of whom are major exporters

Basis the above, production risk will continue to ebb and flow as the seasons work through. Any real supply disruption, be it production or political, will have a highly bullish impact on pricing due to the ever increasing consumption rate.