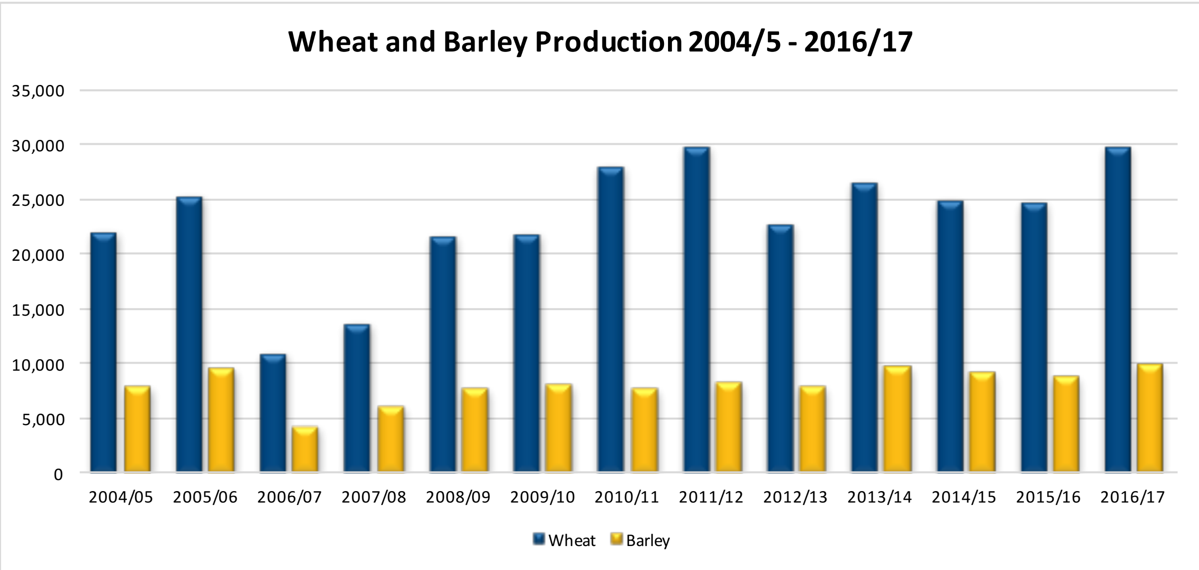
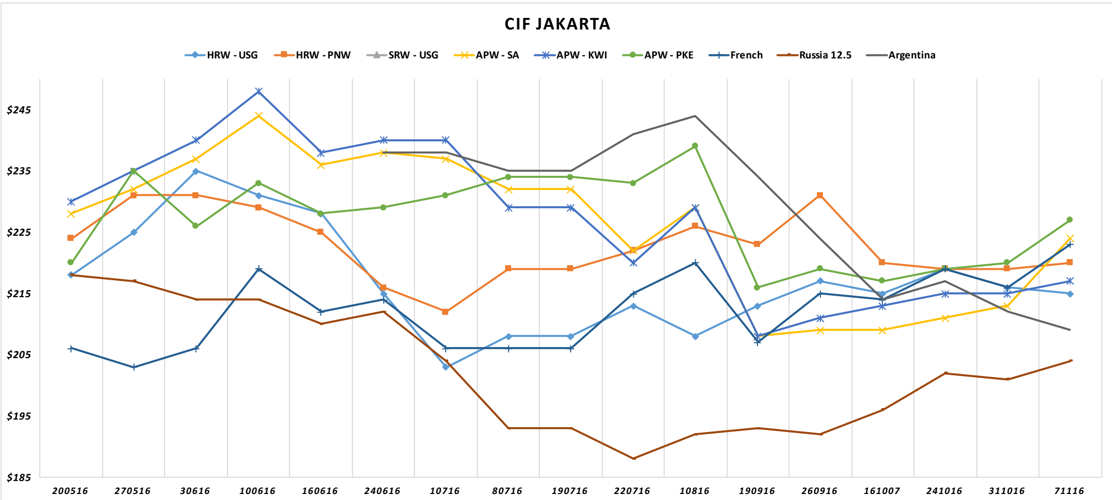
The 2016/17 harvest is underway, albeit with a slow start, and Australia is poised to produce a record yield through some areas. Some production estimates have this year's wheat crop near 29.8MMT which would be equal to Australia's record in 2011/12. Barley is also penciled in to be a bin buster with the potential to exceed the previous record set in 2005/06 of 9.7MMT. With the quantity of the crop profile unlikely to change unless we see unfavorable weather conditions, all eyes are now on the quality profile. Expectations are the protein will be lower on a percentage basis compared to previous years, however due to the increase in the crop size, we will still see large amounts of APW and hard wheat about this year.



The 2016/17 harvest has been delayed by approximately three weeks across many growing regions of Australia due to the cool and wet growing window. The delays coupled with bigger yields are expected to have an impact on harvest period logistics. Expectations are, logistics will be tight and costlier than recent harvests.

Recently, we have seen a run up in wheat tenders and a higher than usual purchasing program for wheat by the Egyptian Government purchasing department, the General Authority for Supply Commodities (GASC). It has been speculated that this run in recent demand was a hedge in case the currency devalued in the event of it being floated.

Loans to Egypt of $US12 billion from the International Monetary Fund to help stimulate the economy again, came with a caveat. The Egyptian Pound was to be floated against the green back. This led to a quick devaluation of nearly 50%. Egypt is the world's largest importer of wheat at approximately 12MMT per year. This fall in Egyptian currency values certainly will not assist with the purchase of wheat imports. However, we suspect any ruling government in the Middle East or North Africa will quickly remember the Arab Spring riots. Some theories indicate one of the main triggers was excessive food inflation.



The above chart illustrates the global export parity into Jakarta.

Australian exporters have been making sales to our traditional export demand points for wheat, barley and canola. Most recently, the Philippines tender produced results that ASW traded at $AU208 track equivalent and barley into China has been trading at $AU185 delivered port. Also, Indian demand has been very strong for APW with reports of possibly 800KMT having been sold for December forward.

The import permit requirements for Indian wheat are stringent. For a permit to be granted, stock must be treated with methyl bromide at port before loading. This limits the port zones which can offer the service and supply the stock to the market place.

These examples of elastic and intermittent buyers of Australian grain will be important in a big production year if we wish to maintain the current firm basis across most port zones. Although, basis CME values seem high, we are not too highly priced against other competing origins such as Russia. We are currently priced at $10 – 15USD over Russia into key South Asian markets. This is ok. Australian wheat still commands a premium over Russia due to lower bug damage, lower moisture, consistent quality and counter party trade performance, and good flour extraction.

Good luck with harvest and remember to keep it safe.