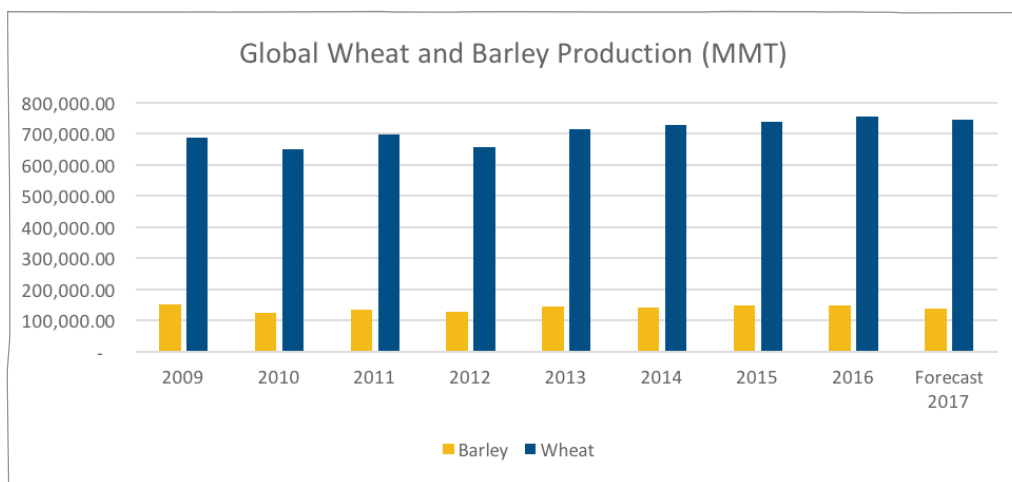


### Wheat and Barley Price Volatility Not Seen in Three Years.

Wheat and barley prices are showing price volatility not seen for three years, both globally and in Australia. The 2016/17 harvest saw 10 year lows in grain prices, while the month of June and into July saw a rally of up to 30%. It has been said before, and still rings true, the cause of this rally can be put down to four interconnecting factors; global weather, global production, supply and demand. Why do these factors have such a dramatic impact on global grain prices and what does it mean for Australian domestic and international demand?

Figure 1: Global Wheat and Barley Production.

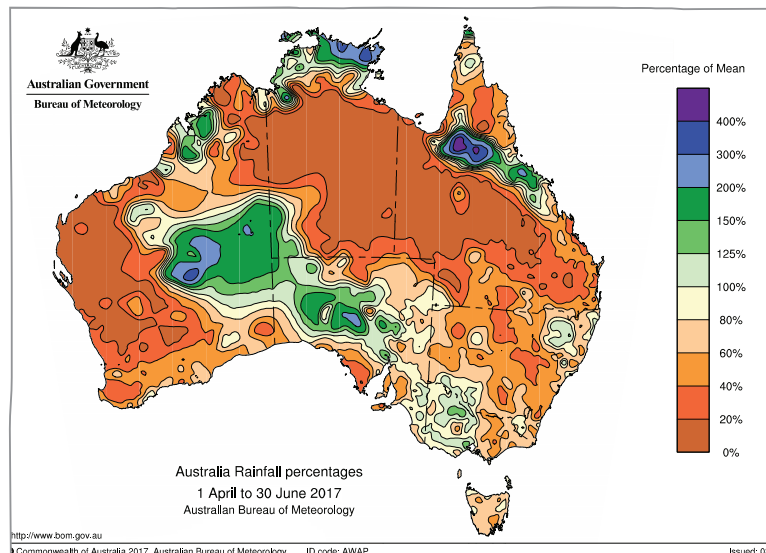


First, let's look at the current global weather. Producers in the Black Sea and Europe have experienced a dryer and warmer than usual season. France is currently at approximately 75% of their annual rainfall for the season, Italy at approximately 77% and Spain at 66%. Since the Australian planting window opened, the majority of the cropping belt has experienced below average rainfall resulting in

unfavourable growing conditions, less planted acres and yield penalties. These global growing conditions have caused expected global wheat and barley production to decrease for the first time in five years. When there is a decrease in global production the demand for grain needs to be rationed, therefore typically, prices rise. Those who really need the grain will pay a premium to secure it, and those who can hold off for now, will. This causes global price rallies to occur.

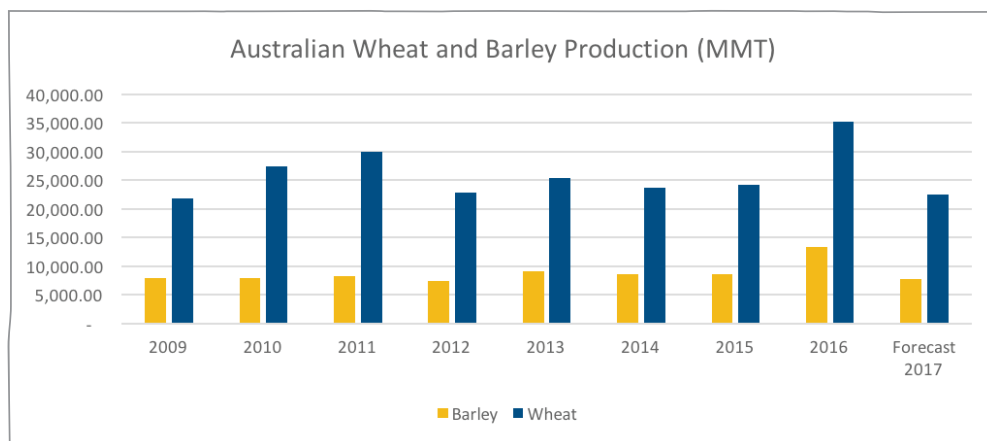
Figure 2: Australian Rainfall Percentages 1st April to 30th June:

Source: Australian Bureau of Meteorology



The same scenario occurs in domestic grain markets. When Australian production decreases, demand needs to be rationed and local millers and feed producers usually pay a premium to have their needs filled before grain is exported away from Australian shores. Naturally, this also works in reverse as seen in the record 2016/17 Aussie season where there was so much grain it didn't need to be rationed, it needed to be moved. The increased supply of grain pushed prices to lows not seen in 10 years. The 'cheap' grain attracted new international demand which absorbed the sharp increase in production and resulted in a year of record exports from Australia, gradually pushing prices higher throughout the year as supply decreased.

Figure 3: Australian Wheat and Barley Production 2009 - 2017



The record pace and quantity of grain shipped from Australia has caused 2016/17 ending stocks to be less than originally thought, 8.5MMT for wheat and 800KMT for barley, contributing to the 30% kick in grain prices. The wheat and barley forecast for the 2017/18 season is 21.5MMT and 7.7MMT respectively, placing total supply at 30MMT and 8.5MMT. Australia has a strong inelastic

demand base from both domestic consumption and key export homes. This inelastic demand needs to be filled prior to supplementary demand, therefore is priced more competitively to ensure they get their fill. This year, Australia's forecast domestic demand for wheat is approximately 8.4MMT and 3.5MMT for barley, leaving an exportable surplus of 16MMT and 3.5MMT. To put the year on year change into perspective, Australia has already exported close to 16MMT of wheat and 6MMT of barley, and it is only July. With the expected pull back in grain production both globally and domestically, more buyers have come to market to secure their demand needs, pushing prices so high, Australia is no longer competitive into elastic export markets, and as a result, will only export to key inelastic homes. As it stands today on relative prices, Australia will export somewhere between 12-14MMT of wheat which is at the low end of what we should be exporting for the coming season.

### So what does it all mean for Australia?

The recent run up in wheat and barley prices has rationed enough demand to offset the expected decrease in production and ensure all inelastic domestic and export demand can be filled for the coming season. Unfortunately for the Australia grain grower there is a double edged sword. All factors remaining constant, prices should remain firm for the short term, at least until good rain is received and new crop production prospects become a little brighter. Until that time, the waiting and watching game continues, to see if the 2017/18 season will turn out as predicted, or take a significant turn.

Figure 4: Forecast of Inelastic Wheat Exports for 2017/18

