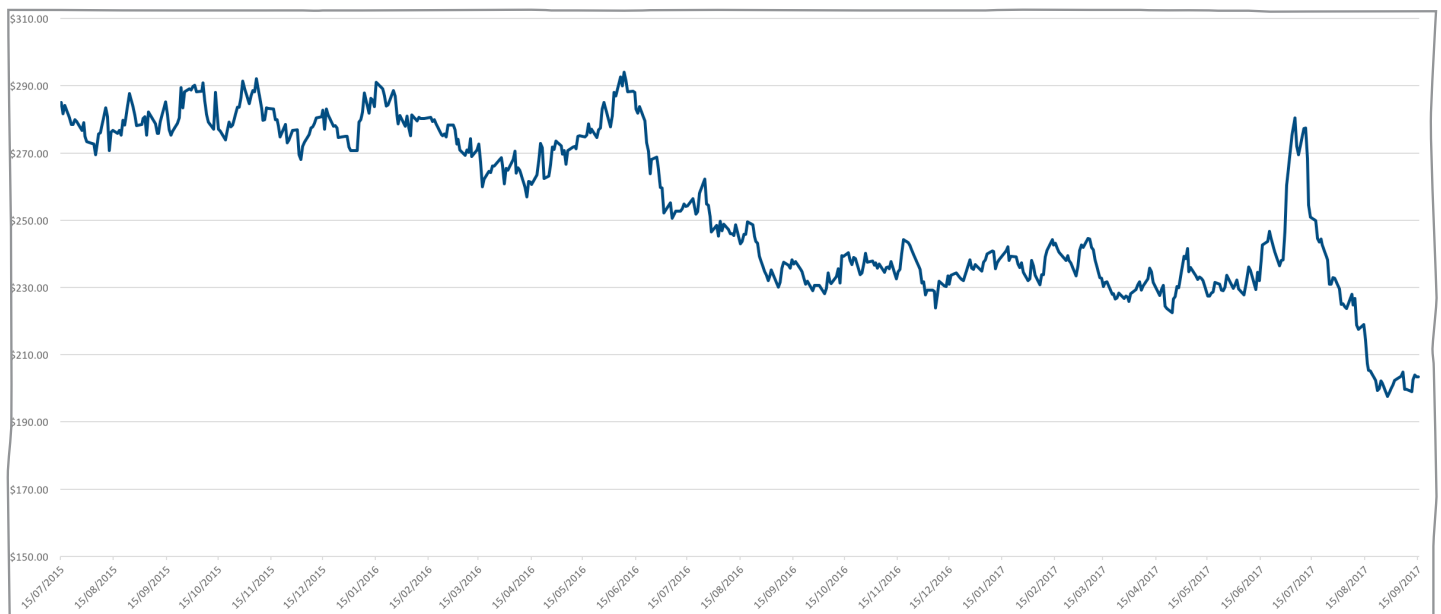


## AUSTARLIAN GRAIN SETTING OWN VALUES.

Chris Coore, Agfarm Advantage Manager

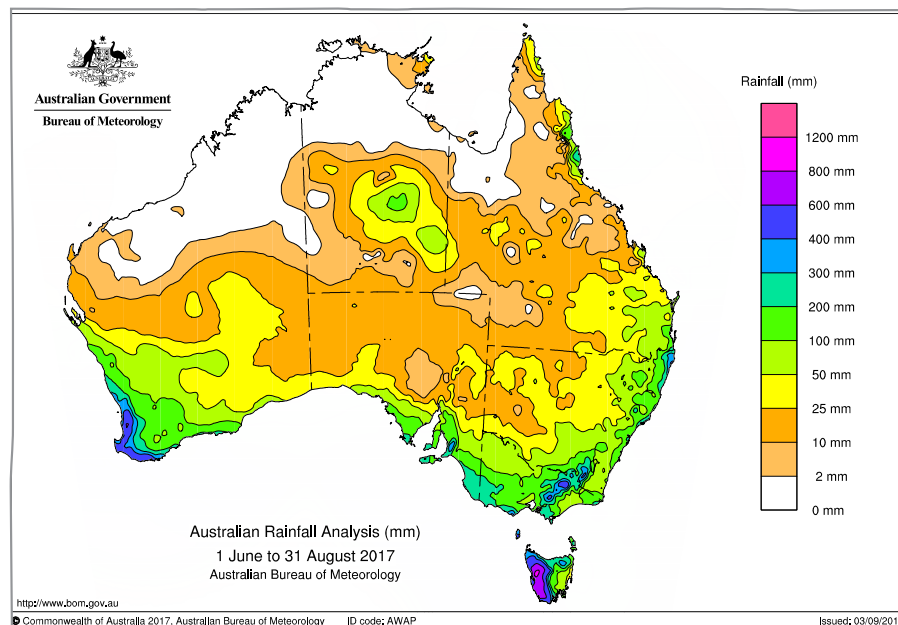
The Russian and Ukraine harvests are coming to an end and putting pressure on international grain values, and as a result the Chicago wheat price in AUD/MT continues to trade at the lows. Traditionally, this would be reflected here in Australia, as with much of the world, our prices are often dictated by offshore markets. However, these offshore prices are having next to zero affect here in Australia, as adverse weather conditions over the past three months have put our local markets in a small state of panic. Why? With the Australian grains market fluctuating and an increase in volatility due to the fear of drought in the north, the Aussie focus has moved away from what is happening overseas, to what is happening here in our own backyard. How is this season going to pan out? What will be the size of our crop? How are we going to meet our own domestic demand and our inelastic export demand? Will those up north actually get a crop?

*Chicago Wheat in AUD/MT 15/07/2015 - 15/09/2017*



As a quick summary of Australian crop conditions, Queensland (QLD) and New South Wales (NSW) are experiencing a very dry year with both wind and frost damage. Initially it was thought South Australia (SA) would fare the same, however over the past month an increase in rainfall across the state lifted spirits and is now looking at close to an average year. Western Australia (WA) is looking for more rain, however have also had a favorable August so are faring better than originally expected and Victoria (VIC) could turn the tap off and still be satisfied with the outcome. In short, the dry start coupled with the lack of rainfall, especially in NSW and QLD is causing an expected decrease in yield, on top of an already known decrease in planted acres.

## 3 month rainfall from 1 June – 31 August 2017 from [www.bom.gov.au](http://www.bom.gov.au)



In terms of our inelastic export demand, this is not negotiable, it needs to leave our shores.

### Where will the grain come from if we are looking at reduced production?

It's expected the majority of this will depart from SA and WA, as the two states have had an uplift in production estimates over the past month, and in terms of current pricing, are a lot cheaper into the export market compared to east coast grain. The other reason; the east coast must support its domestic consumption. There are many east coast

domestic consumers who have a significant demand for feed grain, and supply is looking pretty limited. For example, the Darling Downs currently have higher numbers of cattle on feed, therefore are paying a premium to draw more grain from southern markets to help cover the demand and ensure these cattle are fed. This is causing new crop price spreads between VIC, NSW and QLD to be the highest many have ever seen.

The spread between Geelong and Port Kembla is currently at \$44/MT. If this spread is maintained during harvest, it's expected, where possible, VIC grain deliveries will cross the NSW border to achieve the higher price. The spread doesn't just stop with VIC and NSW either. With SA in higher spirits than originally expected, and a spread of \$86/MT between Adelaide and Brisbane, it is likely a lot of grain will be loaded on either a boat or inland rail to land in Brisbane and supply those markets.

Estimated Value week ending 15/09/2017	
Track Zone	APW Price
Brisbane	\$341.00
Newcastle	\$325.00
Port Kembla	\$315.00
Geelong	\$271.00
Adelaide	\$255.00
Kwinana	\$271.00

### What does it all mean?

While we can't answer the initial questions with complete confidence until the grain hits the bin, what we can tell you is this. The dry and adverse weather in NSW and QLD combined with added domestic consumption has resulted in prices firming dramatically. We can tell you these prices have absolutely nothing to do with offshore markets and we are pricing into a possible drought. As we stand today, this looks to be unsustainable, grain is being priced purely to draw from SA and VIC markets to feed the Darling Downs. And the market is being fed by fear and is jumping at shadows. However, unless there is a significant summer crop to take the heat away from these markets, it doesn't look as though prices will taper off any time soon.