

Domestic grain outlook

Wheat – MIXED WEEK FOR WHEAT PRICES

New crop wheat contracts soared to new contract highs of 930US¢/bu on strong demand before falling on Argentine and Ukraine export news. The market seemed to be struggling to ration old crop demand and is seeing a new urgency to claw back spring plantings.

The International Grains Council has the 2008–09 crop at over 640mmt on a 3% lift in plantings but already, Indian crops are struggling and parts of the Russian, Ukrainian and the US HRW crop needs more snow cover. The widening in interest rate differentials between \$A/US has long-dated \$A/US forward exchange rates at a steep discount to spot.

This morning's FX rate A\$=88.84US¢ (spot), becomes 85.96US¢ in December and 0.7821US¢ three years out. December 2008, 2009 and 2010 bank swaps are today A\$390/t, A\$393/t and A\$401/t, respectively.

Canola – OILSEEDS AT THE CROSSROADS

Intercontinental Exchange – or ICE – (formerly the Winnipeg Commodity Exchange) canola futures traded lower during the week (down about CA\$10/t from contract highs, to CA\$570/t) as the weak tone in Malaysian palm oil and European rapeseed markets pressured values amid a lack of commercial demand. Demand remains sluggish as the recent strength in the \$CA has stymied export interest and eroded crush margins.

But prices rallied on a recovery in US soybean prices buoyed by strength in outside markets (metals, equities and wheat) and another reduction in the US Fed interest rate. Favourable growing weather in South America and forecasts for good weather over the next several days limited the upside move.

Will soybeans continue to fight for acres from spring wheat and thereby support the global oilseed complex or will weakness in crude (economic concerns) drag soybeans back to the field?

Sorghum – EARLY HARVEST RESULTS STRONG BUT WON'T LAST

Harvest on Queensland's Northern Downs is just starting, with reports some yields are running 8–9t/ha, which is huge. These yields will not last, as more growers commence harvest next week. The later crop on the Northern Downs needs rain and will not be up to the standards of the early crop. A significant portion of the Northern Downs crop is late.

The Central Downs early harvest is going 3.7–5t/ha, with some screenings issues. The mid crop (late October–November plant) is suffering but this is only 20–25% of the crop (with most of the crop early or irrigated).

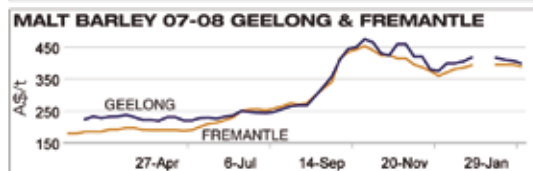
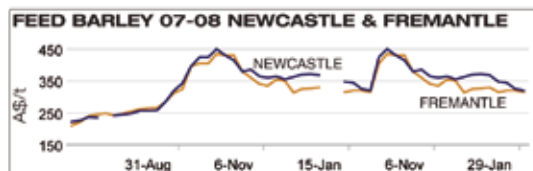
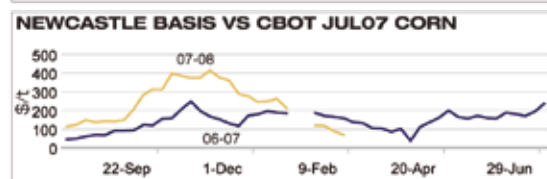
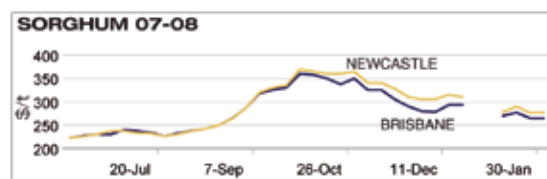
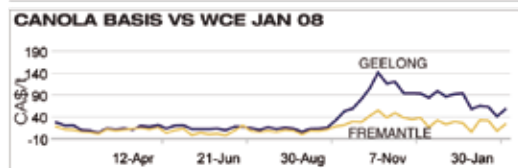
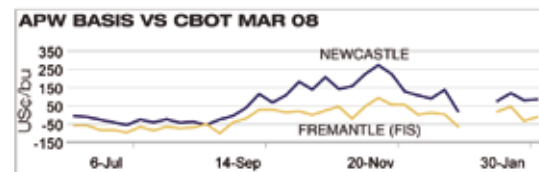
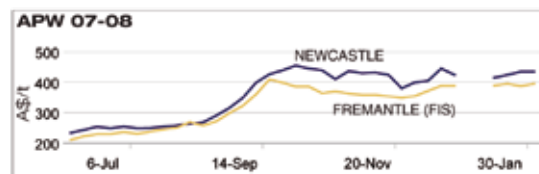
Southern Downs has not started yet. Western Downs crops are going well at 2.5–3.7t/ha (mostly double skip) on the early crop.

Lack of rain since early December on the Downs proper means the middle crop has suffered yield reduction and the late crop will also suffer if it does not get rain in the next few weeks.

Barley – EXPORT INTEREST REMAINS SUBDUED

Barley export demand remains slow, with Middle Eastern buyers reducing imports due to a lack of selling interest from Black Sea countries as a result of export embargoes or export taxes. The Black Sea has been the main supplier to this region. EU barley is not competitive into the Middle East. Saudi Arabia bought heavily during the October–November period on a fall in international values and on the Saudi Government's decision to increase import subsidies. Slowing in Black Sea activity may open the door for Australia as Saudi stocks dwindle.

Locally, barley is having a hard time as local feeder demand shifts to sorghum. It is not expected that barley demand will pick up until the size of the sorghum crop is known or export demand picks up from March onwards ahead of new crop northern hemisphere supplies. A lift in export demand for sorghum, or a lift in prices, may help to support barley values.



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