

Domestic grain outlook

Wheat – NERVOUS MARKET TRANSITIONS

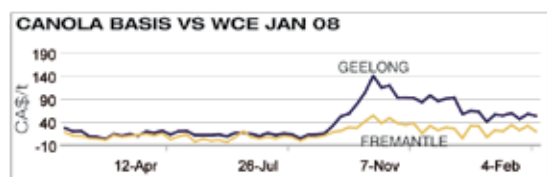
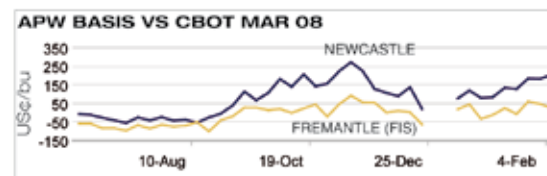
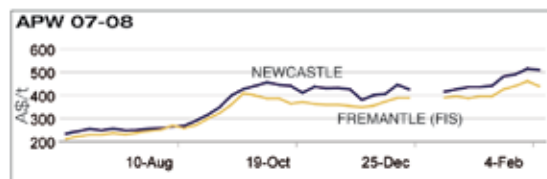
Despite continued strong demand – Iraq, Egypt, Morocco and Japan have all bought wheat recently – wheat futures eased back from the dizzy heights of late February. Local prices followed international futures lower, the exception being old crop milling wheat prices in SA, where traders successful in the recent export application are actively sourcing wheat. Grower new crop selling slowed as multigrade prices slipped back below A\$400/t, to A\$385–390/t.

The retrace in futures can be seen as a correction from last late February trading, which was influenced by a major trading house having to trade out of an unauthorised position. While expectations on new crop production are rising (IGC at 646 mmt – up from 642 last month and 42 mmt above 2007–08), serious crop concerns remain. IGC reports good conditions in the EU and Black Sea but frost is thought to have damaged crops in China, and dryness lingers in the US southern plains and spring wheat areas in North America.

Canola – RALLY MUST BE REWARDED WITH SALES

Ongoing demand for oil from China and India, looking to cover new crop needs owing to poor local crops, created the impetus for a new round of buying. In early March, speculators flocked to buy palm oil futures on fears that Indonesia would restrict palm oil exports. Crushers were active in securing seed ahead of an expected lift in export demand for oil. Plus, speculators were drawn like bees to a honey pot as strong fundamentals combined with new record highs in crude oil, record lows in the \$US and further warnings of inflationary pressures.

Although fundamentals appear bullet-proof, we must not underestimate the role of the spec' community. Oilseeds are vulnerable to lower crude oil prices or a stronger \$US (we expect both by mid-year). Just as we have been surprised by the strength and speed of the ascent, we will also be startled by the pace of descent.



RUBBER HITTING THE ROAD TO DEREGULATION

The technicalities of legislation to usher in a new era of deregulated wheat export marketing were discussed at meetings in Canberra in early March between Agriculture Minister Tony Burke and rural lobby groups.

Predictably, the lobby group views on the legislation depended on which side of the single desk fence they sat on. Pro-single desk views could be summarised by WA Farmers who are 'worried that the legislation means it is a case of every man for himself' and are concerned that the draft legislation did not include provisions for a buyer of last resort and/or an Estimated Pool Return.

On the other hand, pro-deregulation parties were complimentary of the legislation, suggesting that it 'was precisely what the federal government said it would deliver'.

Burke's clear understanding of some of the risks of the new system was highlighted in comments he made at the ABARE Outlook Conference: 'We also have to make sure that we don't design a system in such a way that we replace a single monopoly exporter with three monopolies at the port terminals of ABB Grain Ltd., CBH Group and GrainCorp Ltd.'

An interesting piece of the legislation is the export licence requirement for bulk handlers to allow 'reasonable' access

to port infrastructure. Some of the bulk handlers say they are already compelled to do this through state legislation.

Mr Burke said that under the wheat export reforms, Wheat Exports Australia (WEA) would have the power to establish an accreditation scheme for bulk wheat.

Companies will have to provide an annual compliance report and provide certain export data to the WEA. The minister will retain the power to direct the regulator to investigate a matter.

The accreditation scheme would include the following tests:

- That the applicant is a corporation;
- That it is a fit and proper company to trade in wheat; and,
- For bulk handlers it will include a requirement that it must have an access arrangement in place, if it operates a port terminal facility for bulk grain.

An access test will be implemented in two stages:

- Up to September 30, the company must agree to grant access and publish the terms and conditions for that access.
- After September 30, the company must have an access undertaking agreed by the ACCC.