

Domestic grain outlook

Wheat – RALLIES ON STRONG FUNDAMENTALS AND OILSEEDS

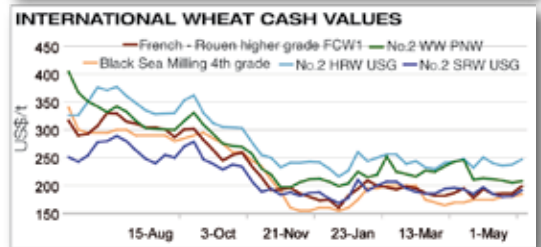
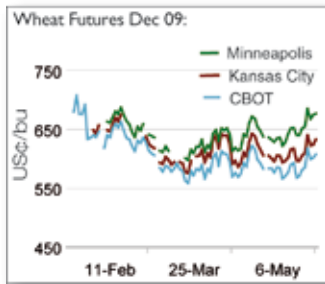
After last week's drop in values we saw a welcome turn around in global wheat prices. The rally was brought on by continued delays in wheat plantings, a strong oilseed market and aggressive short covering in wheat futures.

Egypt purchased 60,000t of Canadian wheat at US\$179/t FOB, with US SRW \$4–14/t higher, Russian \$1–8/t higher and French \$10–18/t higher, which puts origin values in the tightest range for a while. Iraq was also buying last week, picking up 100,000t of Australian wheat for Jun/Jul at US\$240/t (A\$300/t port equivalent), 100,000t Canadian at US\$236/t and 50,000t German wheat at US\$222/t.

US winter wheat planting is still slow, but not worse than the market has been expecting. Spring wheat is 23 per cent planted vs 15 per cent last week and 59 per cent normal. The main concern is North Dakota, which has only planted 3 per cent of their crop so far vs a 51 per cent average. North Dakota produces 15 per cent of the US wheat crop – at the top of the list along with Kansas at 7–8 mt per year – and more importantly for protein and grade spreads produces 50–60 per cent of the US durum crop and 40–50 per cent of the US spring wheat crop.

The International Grains Council, forecasts the 2009–10 global wheat crop to be 651 mt – down 37 mt vs 2008–09. With dry conditions across the CIS and a general trend to more normal yields, we could see production lower than this. However, we wouldn't necessarily view this as bullish given the higher opening stocks and softer demand.

Local values have managed a modest lift this week, up A\$5–10/t in thin trade with movement in basis and futures largely offsetting each other.



Canola – EUROPE PLAYS CATCH-UP BOOSTING AUSSIE CANOLA VALUES

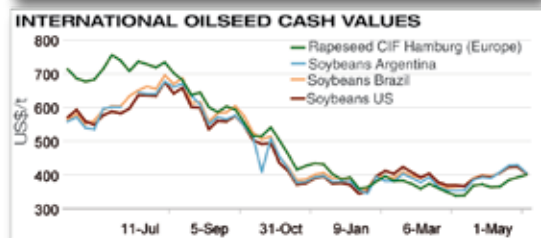
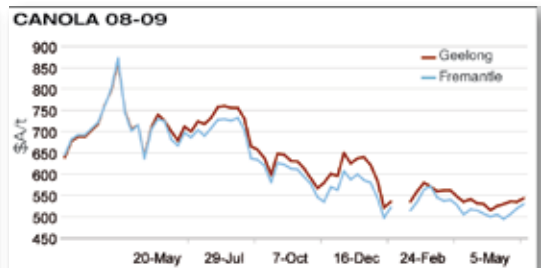
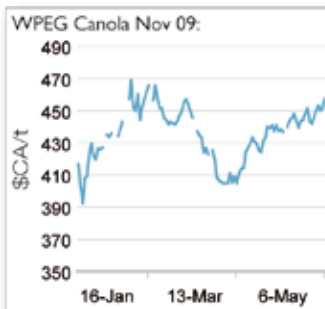
Oilseeds put in a pretty solid week with spot beans pushing to their highest level since September 2008 with a close above \$US11/bu. Markets continue to figure out how to ration old season demand with a huge export program getting bigger thanks to continued cuts to bean production in Argentina – there are talks that the crop is as low as 31 mt, but most still see it around 34–35 mt.

Canola prices made some good ground this week (up CA\$20/t) – despite continuing to lag soybean prices in spot months – which again attracted some farmer selling across Canada.

The big mover this week has been the EU markets. With a day off for May Day, EU values come out with a bang this week in an effort to play catch up to global strength during their holidays and also price – in the increased weather risk that is dawning on the Black Sea and European countries.

This EU strength is helping our Aussie values – Victorian prices pushing over A\$540/t port and WA prices over A\$525/t FIS Freo, which attracted some light selling from east-coast farmers in time with the recent rain.

New crop prices in Australia are also pricking up a few ears, with east coast prices above A\$560/t port and WA prices over A\$560/t FIS. But despite the strong prices, farmer selling remains low with basis levels still weak and dryness in WA. The dry weather in WA is likely to see hectares move from canola across to wheat and barley; however we shouldn't see a mass exodus yet with many growers happy to plant into the second half of May.



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