

Domestic grain outlook

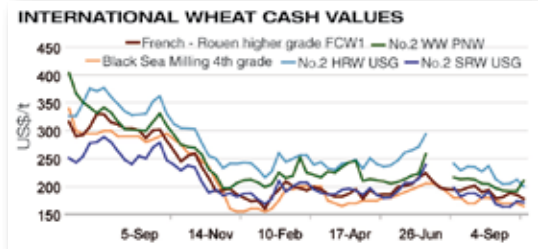
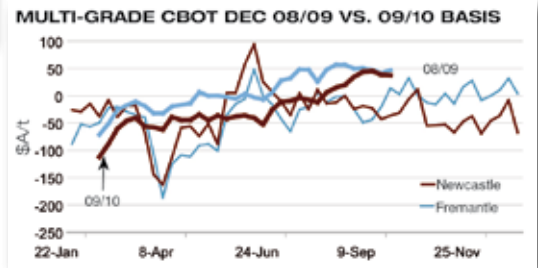
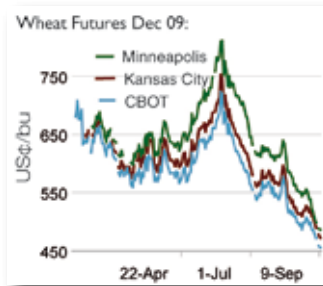
Wheat – FEELS THE BRUNT OF A BIG CROP

Another week and unfortunately another US\$30/bu drop in US wheat future prices, pushing spot quotes to their lowest levels in nearly three years. Combine this with a weak US\$ and this shows an even greater impact in AU\$ or Euro priced wheat, with local new season port prices approaching AU\$200/t.

In a world where we expect the need for more food demand due to a growing global population – which is also becoming more wealthy and able to consume higher protein foods that require more grain to be produced, along with higher oil prices and higher input costs – these three year low prices are certainly not very palatable for global grain producers.

While the long term picture still stands, and has been reflected by rebound in global economic indicators and equity markets, this does not solve the question of what to do in the short-term. The short-term picture has been bullied by record crops that continue to defy odds and so far dodge every weather bullet that has been thrown its way, taking any hope of a supply lead rally with it. This week we saw rain in Argentina and Northern parts of Australia providing temporary relief to maturing crops. So where to from here?

With little supply issues likely to impact global markets now (bar an unexpected frost in the coming week or so in the US), the key shifts to the demand side. Wheat is priced competitively to other commodities, but the consumer is sitting very still, watching the market come to them every day. With the funds short, and adding, we need to see the consumers or funds step up to start getting some coverage and jolt the market in the opposite trend.



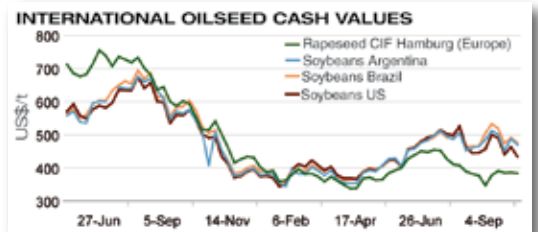
Canola – BUMPER CROP SCARES PRICES

Despite longer-term fundamentals, oilseed, lead by a US\$70/bu fall in soybeans and a CD\$30/t drop in Canola prices, were a strong reflection of the abnormally favourable conditions of the American crops. Crops remain well behind normal, beans 7% dropped leaves versus 18% average, meaning we are about two weeks from even starting harvest vs. average of around 15% done at this time of year.

Likewise, canola harvest is only 1% done in Saskatchewan, Canada, vs. the normal 33% harvest progress and many crops not even swathed yet. Normally Canada would receive their first frost in the third week of September and much of the Corn Belt in the first week to 10 days of October. The forecast for now doesn't show any severe frost, but if we did get a normal frost but it has the potential to do some more damage. As every week passes without a frost it leans the market towards above average yields – which was the main impetus for the market sell off this week.

On the positive side, we have now got back to CD\$400/t support levels in futures where we have found good buying interest in the past and again we have seen a couple of cargo's trade into China with crush margins improving there, along with some increased demand from crushers in nth America, Europe and improving biodiesel margins all conspiring to try and give the canola job some life.

Locally we now enter the key spring period that will make or break many crops. Conditions largely look good across the canola belt at the moment, with good subsoil in parts of WA, much of SA and southern Victoria.



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