Grains

Wheat: bountiful harvest

When we assessed the wheat market in our last quarterly report, back in July, we highlighted that supply and inventories were sharply in focus. That has certainly remained the case.

The 2009/10 wheat crop upgraded ...

Wheat is in abundant supply, with the world crop set to be only a little below the record of last year. ABARE upgraded their 2009/10 crop forecast to 662mt, well up from the 647mt forecast of three months prior. If achieved, that would be just 4% below production in 2008/09. Output prospects in each of the major five producing nations have improved, particularly in China. Indeed, production in China and India is expected to slightly exceed that in 2008/09.

... to be only a little below last years record.

The upshot is that wheat stocks are set to climb sharply for a second year. Closing stocks were at a relatively low 118mt in mid-2008. After jumping to 163mt in mid-2009 they are expected to rise a further 12% to 183mt, with gains concentrated in India and China. That would be the highest level of stocks since 2001/02. Interestingly though, wheat stocks held by the five major exporters (Argentina, Australia, Canada, the EU and the US) are forecast to remain largely unchanged in 2009/10 at around 46Mt.

Wheat prices have fallen accordingly.

Against this backdrop, wheat prices have lost altitude – particularly in Australian dollar terms. By way of comparison, CBOT wheat futures in October at around A$210 were above the historic average of the 1990s and first half of this decade, by a moderate 15%. The average pool return for Australian premium white wheat is forecast by ABARE to be $267/t, down from $317/t.

Australia's wheat crop shaping up nicely ...

The Australian 2009/10 wheat crop is shaping up nicely – albeit with the typical regional divergences. Production is forecast to be around 22.7mt, up from 21.4mt last season. Unfavourable weather has reduced the Qld crop significantly and reduced the NSW crop also. This has been offset by upgrades to crops in the other three mainland states.

... and barley crop to be largest in four years.

Turning to barley, domestically, expectations remain for a sharp rise in barley production. The crop is expected to be 7.9Mt, the highest since 2005/06 and up 16% from 6.8Mt last season. Increases in the Victorian and South Australian crops, aided by favourable conditions, are expected to more than offset declines elsewhere. Australian feed and malting barley prices are forecast to decline in 2009/10, with downward pressure from the increase in domestic production and anticipated lower world prices. Feed and malting prices are forecast to average $213/t and $266/t, respectively.

Oilseeds: record production

Oilseed production – it's a record!

A sharp rise in world oilseed production is set to shape the market in 2009/10. Expectations are for record production and higher stocks, with higher production to outweigh the effect of any increase in world consumption. ABARE is forecasting the world oilseed indicator price to average around US$390/t, down about 8% from $425 in 2008/09.

World production of oilseed is forecast to rise to 423mt in 2009/10, up 7%. This reflects an expected 16% jump in soybean production to 244mt. Each of the major producing countries, the US, Brazil and Argentina, will lift output. This reflects increased plantings, favourable seasonal conditions and, in particular, a more than 50% rebound in Argentina's crop.

Boosting inventories substantially.

Little wonder then that global inventories are set to rise and rise substantially. ABARE is forecasting an increase of 17% to 63mt in 2009/10.

Consumption of world oilseed is strengthening, with a rise of 3% anticipated to 413mt. A lift in vegetable oilseed consumption of 5% to 136mt is anticipated, with 108mt of that to be for human consumption. Industrial use of vegetable oil, mainly for biodiesel production, will continue to be a supportive factor given widespread government mandated use of biodiesel use. That said, ABARE is forecasting a more modest increase in industrial use of 6% in 2009/10, compared with the 15% annual average over the last five years.

Australian canola crop to moderate as yields ease.

Domestically, canola production is likely to be down on last season. ABARE is forecasting an 8% decline to 1.7mt in 2009/10. The crop was in a reasonable position at the start of spring. However, WA production (which accounts for just over 50% of national output) is expected to drop by as much as 28% as yields moderate from last year's record, given less favourable seasonal conditions at planting time.

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Chart 1.

Wheat prices

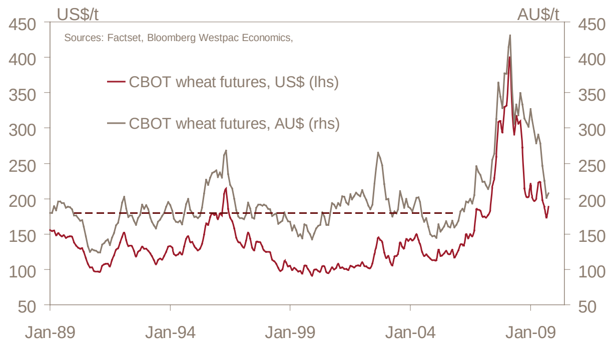


Chart 2.

Wheat supply surge drives down prices

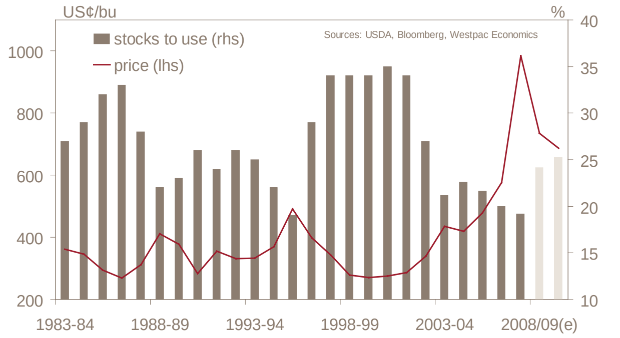


Chart 3.

World corn and barley prices

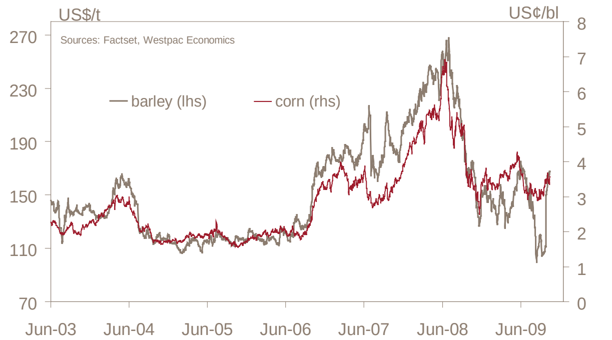


Chart 4.

World canola & soybean prices

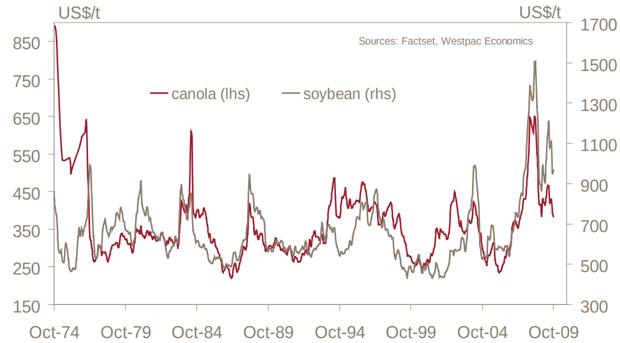


Chart 5.

Ethanol spread to gasoline

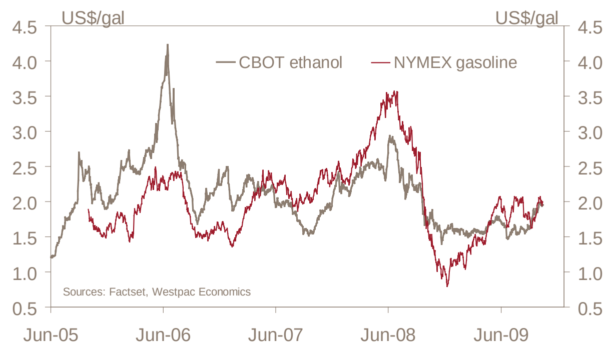
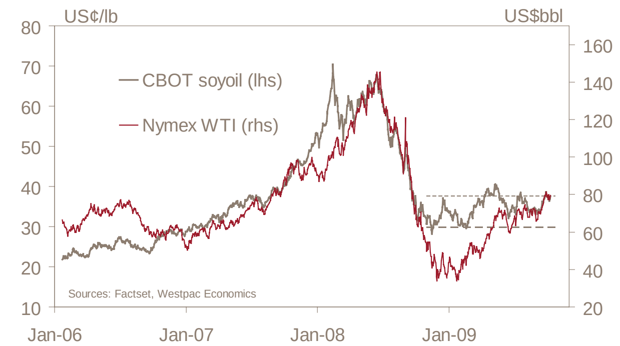


Chart 6.

Soyoil prices "range bound" in 2009



Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.