

Australian grain market update

- We have revised Australia's 2011/12 wheat production prospects 3% lower to 23.5 million tonnes.
- East-coast production losses account for the national decline, with WA wheat production prospects revised higher.
- Widespread east-coast rainfall is required to allay fears of further production losses.

Australia's grain production prospects fall

Australia's wheat production prospects for 2011 have declined over the past few months because of deteriorating conditions on the east coast. We now forecast the Australian wheat crop at 23.5 million tonnes, 3% lower than our May estimate of 24.3 million tonnes. Our east-coast wheat crop forecast now stands at 11.5 million tonnes, down 1.7 million from our May estimate. But the WA crop has been revised roughly 1 million tonnes higher to 8 million tonnes.

Conditions in NSW and Qld have deteriorated since May. We now forecast the NSW wheat crop at 7 million tonnes, down 14% from the May forecast and 33% below the record large 2010/11 crop. Dry conditions have evolved since June, with minimal topsoil moisture currently available in many regions. Rainfall in July was either 'below average' or 'very-much-below average' across most of central-west NSW, northern NSW and southern Qld. And while subsoil moisture profiles remain generally adequate – owing to flooding summer rainfall – crop development is slow and many crops are thin. Yield penalties are already likely to have occurred in many regions, and widespread rainfall is required over the next few weeks to allay fears for further yield losses. The rainfall currently forecast in NSW from 4th to 8th August is important to achieve our revised production forecast. If rainfall is not forthcoming in NSW and Qld over the next month, production prospects will fall further. Potential mice damage during spring in NSW, Vic and SA will also be closely monitored.

Winter crop production prospects in Western Australia have improved markedly over the past few months because of increased rainfall. We have subsequently increased our WA wheat area and yield estimates. Our 2011/12 WA wheat production estimate now stands at slightly more than 8 million tonnes, up from our May estimate of 7 million. Conditions in the Geraldton zone are good, the Albany and Esperance zones are mostly favourable, but yield prospects for the Kwinana zone are, at best, average. Timely spring rainfall will be required to achieve this production forecast considering limited subsoil moisture exists in many regions.

Figure 1: Australian wheat production forecast (August 2011)

	NSW	Vic.	Qld	SA	WA	Tas.	Aust.	East coast
	'000 tonnes	'000 tonnes	'000 tonnes	'000 tonnes	'000 tonnes	'000 tonnes	'000 tonnes	'000 tonnes
2008/09	6,963	1,756	2,016	2,376	8,274	35	21,420	10,770
2009/10	5,348	2,974	1,374	4,052	8,148	27	21,923	9,723
2010/11	10,600	4,089	1,305	5,600	4,700	31	26,325	16,025
2011/12 (Aug f/c)	7,056	3,188	1,256	3,994	8,011	33	23,538	11,533
2011/12 (CBA May f/c)	8,232	3,498	1,465	3,994	7,027	33	24,250	13,229
2011/12 (ABARES Jun f/c)	8,309	3,076	1,838	4,163	8,742	26	26,159	13,249
5 Yr Avg	5,591	2,339	1,285	3,154	6,415	28	18,812	9,243
10 Yr Max	10,600	4,089	2,016	5,600	11,070	35	26,325	16,025
10 Yr Min	2,477	879	601	1,446	4,047	18	10,132	4,013
F/c vs '10/11	-33%	-22%	-4%	-29%	70%	6%	-11%	-28%
F/c vs Avg	26%	36%	-2%	27%	25%	19%	25%	25%

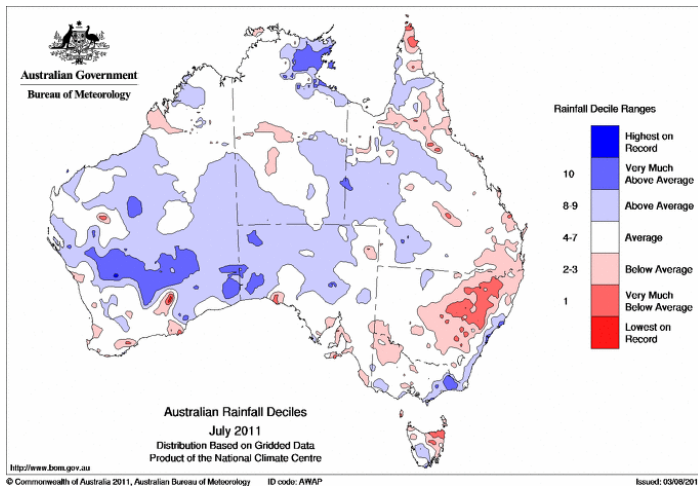
Source: Commonwealth Bank Research



Seasonal conditions and outlook

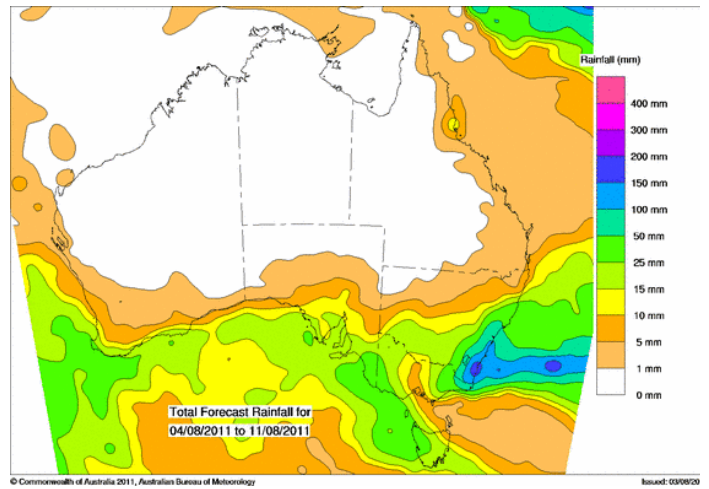
- Australian winter rainfall has been disappointing, particularly from central NSW to southern Qld.
- The latest Bureau of Meteorology eight-day forecast (4th August to 11th August) suggests much needed rainfall will fall across southern and central NSW. Forecast totals in northern NSW and Qld are light. Over the past few days, the Bureau's forecast rainfall totals have declined, suggesting the weather pattern is weakening.
- The Bureau's latest 3-month outlook suggests drier-than-normal conditions across the south and west of the country, but normal conditions across the north and east of the country.

Figure 2: Australian rainfall deciles – July 2011



Source: Bureau of Meteorology

Figure 3: Australian 8-day rainfall forecast (4th to 11th Aug)

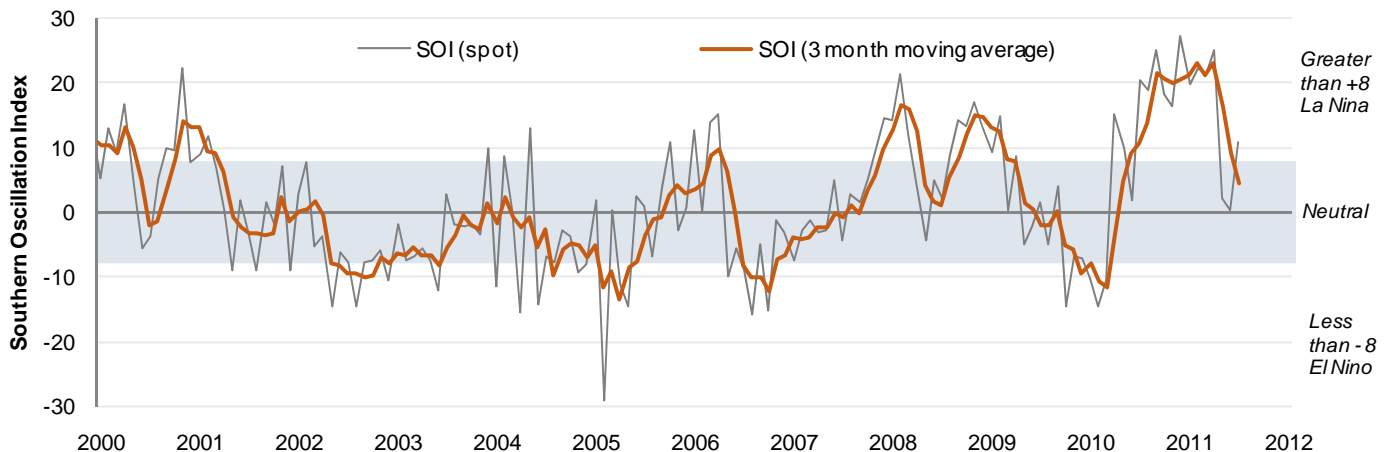


Source: Bureau of Meteorology

Southern Oscillation Index

- The Southern Oscillation Index (SOI) weakened dramatically in autumn 2011, consistent with the termination of 2010 La Nina (which brought widespread and heavy rain to eastern Australia in 2010). The decline in the SOI in autumn was consistent with reduced rainfall compared to previous periods.
- The current monthly SOI reading (end July) is 10.7, while the 3-month moving average is 4.3. These readings are consistent with a neutral weather pattern (neither La Nina nor El Nino). Therefore, the current SOI does not provide a strong signal for future rainfall prospects.
- The Bureau of Meteorology currently suggests that a neutral SOI pattern is likely to persist through winter and into spring.

Figure 4: Southern Oscillation Index



Source: Bloomberg and Commonwealth Bank Research



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Research

Commodities		Telephone	Email Address
Luke Mathews	Agri Commodities	+612 9118 1098	luke.mathews@cba.com.au
Lachlan Shaw	Mining & Energy Commodities	+613 9675 8618	lachlan.shaw@cba.com.au
Paul Hodsmen, CFA	Mining & Energy Commodities	+613 9675 8532	paul.hodsmen@cba.com.au
Elise Aaternir	Mining & Energy Commodities	+613 9675 6202	elise.aaternir@cba.com.au

Economics		Telephone	Email Address
Michael Blythe	Chief Economist	+612 9118 1101	michael.blythe@cba.com.au
Michael Workman	Senior Economist	+612 9118 1019	michael.workman@cba.com.au
John Peters	Senior Economist	+612 9117 0112	john.peters@cba.com.au
James McIntyre	Economist	+612 9118 1100	james.mcintyre@cba.com.au

Fixed Income		Telephone	Email Address
Adam Donaldson	Head of Debt Research	+612 9118 1095	adam.donaldson@cba.com.au
Philip Brown	Fixed Income Quantitative Strategist	+612 9118 1090	philip.brown@cba.com.au
Alex Stanley	Associate Analyst, Fixed Income	+612 9118 1125	alex.stanley@cba.com.au
Michael Bors	Credit Research Analyst	+612 9118 1108	borsma@cba.com.au
Steve Shoobert	Credit Research Analyst	+612 9118 1096	steve.shoobert@cba.com.au
Winnie Chee	Securitized Product	+612 9118 1104	winnie.chee@cba.com.au
Tally Dewan	Quantitative Analyst	+612 9118 1105	tally.dewan@cba.com.au
Kevin Ward	Database Manager	+612 9118 1960	kevin.ward@cba.com.au

Foreign Exchange and International Economics		Telephone	Email Address
Richard Grace	Chief Currency Strategist & Head of International Economics	+612 9117 0080	richard.grace@cba.com.au
Joseph Capurso	Currency Strategist	+612 9118 1106	joseph.capurso@cba.com.au
Peter Dragicevich	FX Economist	+612 9118 1107	peter.dragicevich@cba.com.au
Andy Ji	Asian Currency Strategist	+65 6349 7056	andy.ji@cba.com.au
Chris Tennent-Brown	FX Economist	+612 9117 1378	chris.tennent.brown@cba.com.au
Martin McMahon	Economist Europe	+44 20 7710 3918	martin.mcmahon@cba.com.au

Delivery Channels & Publications		Telephone	Email Address
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New Zealand		Telephone	Email Address
Nick Tuffley	ASB Chief Economist	+64 9374 8604	nick.tuffley@asb.co.nz
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