



Australia's 2011/12 wheat crop forecast at 24.3 million tonnes.

- Australian wheat production for 2011/12 is forecast at 24.3 million tonnes, down 2 million tonnes from last year's record.
- Relative crop prices suggest farmers will look to increase wheat area at the expense of barley.
- Prevailing seasonal conditions suggest mixed plantings and yields throughout the regions. WA remains in drought.

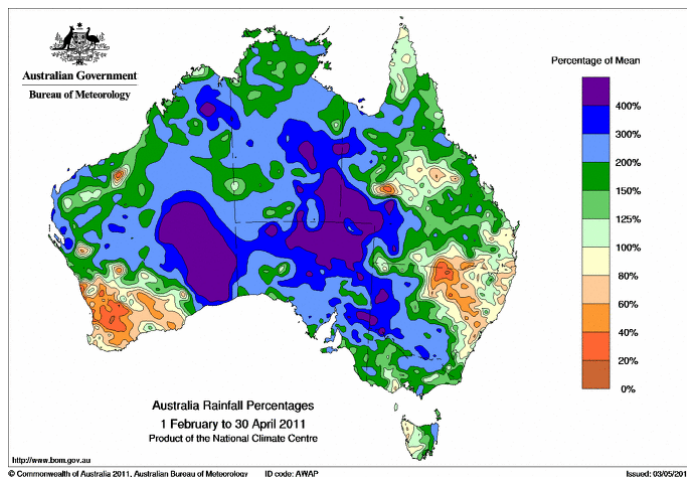
Summary

Australian grain producers look set to follow up last year's record large national wheat crop, with another large crop in 2011/12. In our first estimate for the season, we forecast the 2011/12 crop at 24.3 million tonnes. Prevailing seasonal conditions suggest mixed plantings and yields throughout the regions, although, with farmers only just planting the crop now, significant uncertainty exists. The 2010 WA drought has persisted, and is cutting into the optimal WA wheat planting window. We forecast the WA wheat crop at 7 million tonnes (vs. 4.7 million tonnes in 2010), but they need rain. On the east-coast, subsoil moisture is abundant across most regions; however the topsoil has recently become too dry in northern NSW and southern Qld. We forecast the east-coast crop at a very large 13.2 million tonnes, although this is well below last year's record 16 million tonne east-coast crop.

Australian winter crop planting seasonal conditions are currently mixed.

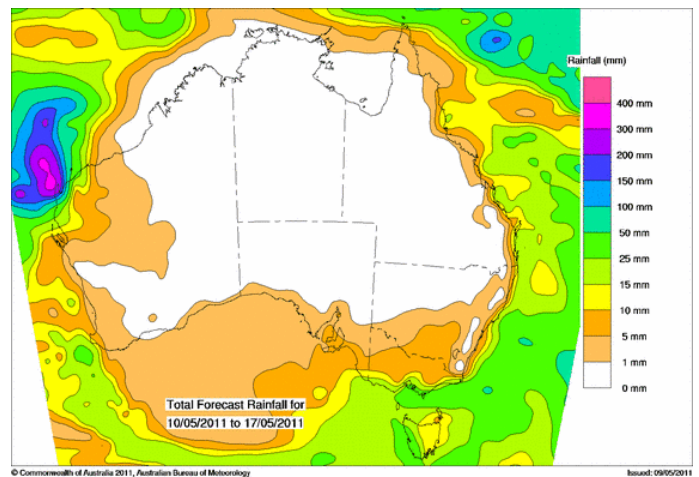
Current seasonal conditions across Australian winter cropping regions are mixed. Western Australia, traditionally the premier grain producer, remains in drought and urgent rainfall is needed to allow the planting of winter crops. Conditions across the south-eastern states are favourable, but northern NSW and southern Qld crop-areas have recently dried down and require rain.

Figure 1: Three-month rainfall percentages (Feb to Apr)



Source: Bureau of Meteorology

Figure 2: Eight-day Australian rainfall forecast (to 17th May)



Source: Bureau of Meteorology

Conditions in WA are alarming. Severe moisture deficiencies exist throughout the majority of the grain-belt. Rainfall over the next three-months must be well above average just to lift soil moisture conditions from the current serious-deficiency rating, according to the Bureau of Meteorology. Unfortunately, the 8-day WA forecast offers few rainfall opportunities, while the Bureau's three-month rainfall outlook suggests there is only a "50% chance of exceeding median rainfall" in the West.

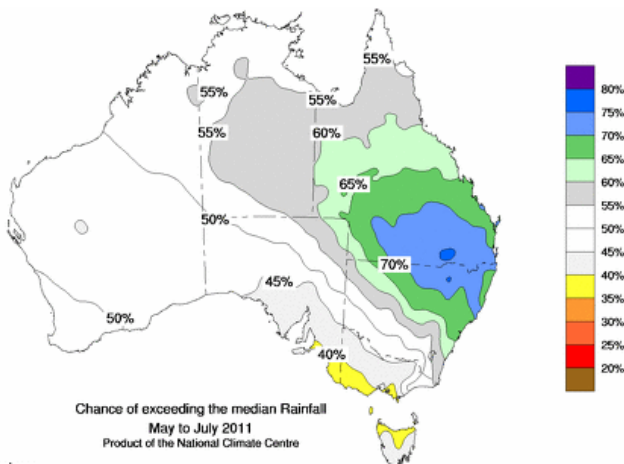
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Conversely, in parts of eastern Australia the Bureau’s three-month outlook shows a moderate-to-strong shift in the odds favouring above average rainfall. Higher than normal east-coast rainfall is consistent with the elevated SOI and the incumbent La Niña. The SOI, at 21.5, remains firmly above the +8 reading which usually signals a La Niña event. Even so, the Bureau expects the La Niña to decay over the next few months, with neutral conditions expected by winter.

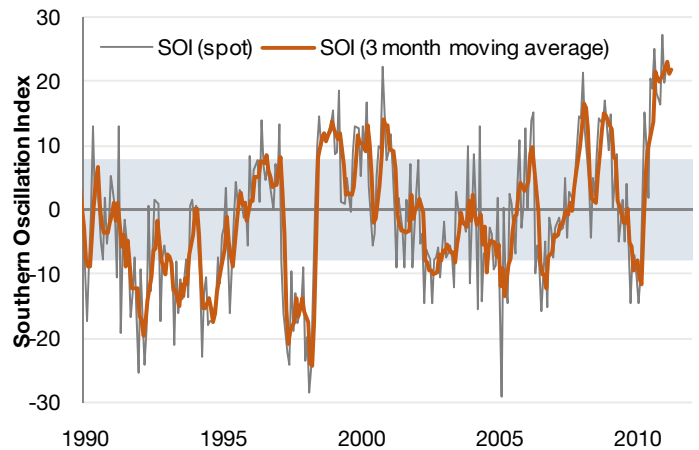
The three-month forecast for eastern Australia suggests improved planting conditions for northern NSW and Qld, plus continued favourable conditions in southern NSW, Vic and SA. But despite the Bureau’s favourable medium-term east-coast forecast, producers in northern NSW and Qld will become increasingly nervous if rains are not received in the next fortnight. The 8-day forecast suggests few rainfall opportunities exist for northern NSW and southern Qld.

Figure 3: Three month rainfall outlook (May to Jul)



Source: Bureau of Meteorology

Figure 4: Southern Oscillation Index



Source: Bloomberg and CBA

Relative crop prices favour wheat planting over barley.

In addition to prevailing seasonal conditions, relative crop prices will help determine the Australia’s winter crop area. Australian grain and oilseed prices are strong, some 40 to 50% higher than year ago values, suggesting Australia’s total crop area will lift in 2011. Within the complex, relative forward prices suggest wheat area will increase most significantly, largely at the expense of barley. For example, the wheat – barley spread for January 2012 delivery (i.e. 2011/12 harvest pricing) was around \$90-100 per tonne in early 2011. This compared to \$60-70 per tonne spread for the 2010/11 harvest pricing a year earlier (Figure 6).

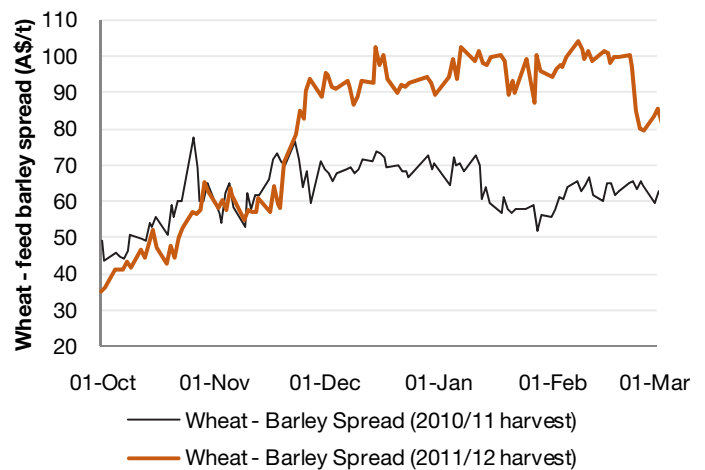
Figure 5: Commodity market price summary

	NSW wheat ASX A\$/t	NSW barley ASX A\$/t	Canola ICE A\$/t	Cotton ICE A\$/bale
06 May 11	266	197	529	716
Mar '11	289	209	591	966
Mar '10	202	139	408	439
Mar '09	282	197	481	335
Avg (2005 to current)	262	213	423	413
Mar 11 vs Mar 10	43%	50%	45%	120%
Mar 11 vs Mar 09	2%	6%	23%	188%
Mar 11 vs Avg	10%	-2%	40%	134%

* First futures contract

Source: Bloomberg and CBA

Figure 6: East-coast wheat – feed barley spread (A\$/t)¹



¹ Note: ASX NSW wheat futures vs. ASX feed barley futures. The 2010/11 harvest pricing series uses the Jan 2011 wheat and barley contracts. The 2011/12 harvest pricing series uses the Jan 2012 wheat and barley contracts



Australian 2011/12 wheat production prospects are strong, but it's early days.

We forecast Australia's 2011/12 wheat crop at 24.3 million tonnes, down 8% from the 26.3 million tonne record crop produced last year, but still 30% higher than the average crop of the previous five seasons.

Area forecast to lift in response to prices

Strong wheat prices are expected to result in a lift in wheat area plantings by 78 thousand hectares to 13.5 million hectares this season. East-coast farmers are forecast to lift total wheat area by 390 thousand tonnes (6%) as farmers switch away from barley; however a recent lack of rain across northern NSW and southern Qld introduces uncertainty for the east-coast area estimate. WA wheat plantings are forecast to fall by more than 310 thousand hectares to 4.5 million hectares because of persistently dry conditions and poor rainfall forecasts. Dry conditions in WA may result in an increase in barley plantings because of its shorter growing season.

Yield prospects diverge from last year

Yields throughout the regions are forecast to differ significantly from those observed in 2010/11. East-coast yields are forecast to fall 22% from last year's record level, but still remain nearly 40% above the past five-year average. Recent dryness throughout northern NSW poses a risk to this yield forecast. WA wheat yields are expected to lift by 60% from last year's drought affected result, but still remain 10% under trend-potential due to dryness. If dry conditions persist, WA yield potentials will fall further.

Figure 7: Australian wheat area and yields

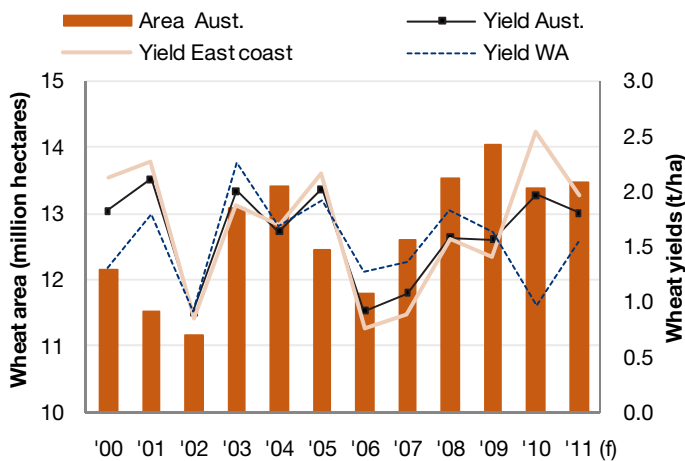


Figure 8: Australian wheat production by region

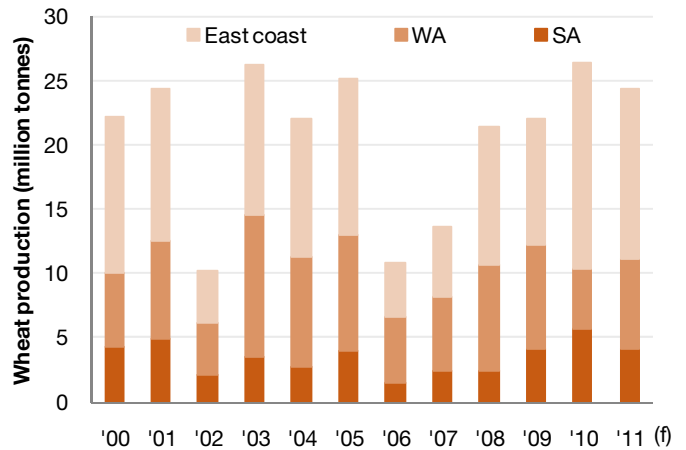
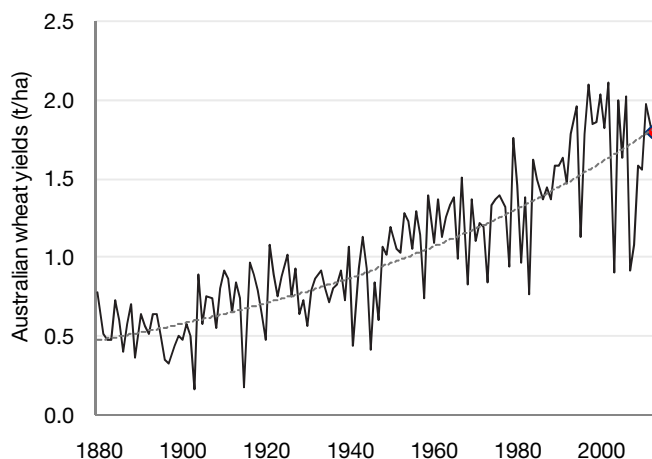
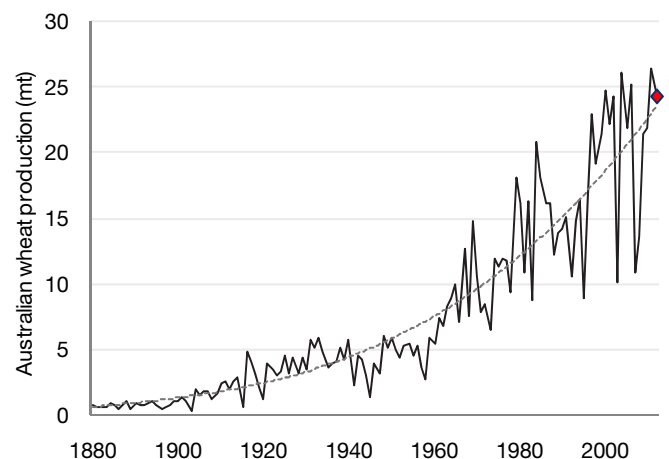


Figure 9: Long-run Australian wheat yields (including CBA's 2011/12 forecast)



Source: ABS and CBA

Figure 10: Long-run Australian wheat production (including CBA's 2011/12 forecast)



Source: ABS and CBA



Appendix 1. Australian wheat production forecasts

	Area							
	NSW	Vic.	Qld	SA	WA	Tas.	Aust.	East coast
	'000 ha	'000 ha	'000 ha	'000 ha	'000 ha	'000 ha	'000 ha	'000 ha
2008/09	4,322	1,534	1,020	2,104	4,542	9	13,530	6,885
2009/10	4,095	1,793	984	2,148	5,001	8	14,028	6,880
2010/11	3,950	1,476	900	2,190	4,850	8	13,374	6,334
2011/12 (f/c)	4,148	1,624	945	2,190	4,538	8	13,452	6,724
5 Yr Avg	3,994	1,533	842	2,147	4,538	8	13,062	6,377
10 Yr Max	4,322	1,793	1,020	2,190	5,118	9	14,028	6,885
10 Yr Min	2,996	1,136	514	1,957	4,037	6	11,170	4,756
F/c vs '10/11	5%	10%	5%	0%	-6%	0%	1%	6%
F/c vs Avg	4%	6%	12%	2%	0%	1%	3%	5%

	Yield							
	NSW	Vic.	Qld	SA	WA	Tas.	Aust.	East coast
	t/ha	t/ha	t/ha	t/ha	t/ha	t/ha	t/ha	t/ha
2008/09	1.61	1.14	1.98	1.13	1.82	3.89	1.58	1.56
2009/10	1.31	1.66	1.40	1.89	1.63	3.20	1.56	1.41
2010/11	2.68	2.77	1.45	2.56	0.97	3.88	1.97	2.53
2011/12 (f/c)	1.98	2.15	1.55	1.82	1.55	4.12	1.80	1.97
5 Yr Avg	1.39	1.51	1.49	1.46	1.41	3.48	1.42	1.43
10 Yr Max	2.68	2.77	1.98	2.56	2.25	4.29	2.11	2.53
10 Yr Min	0.62	0.65	1.17	0.67	0.91	2.57	0.91	0.76
F/c vs '10/11	-26%	-22%	7%	-29%	60%	6%	-8%	-22%
F/c vs Avg	43%	43%	4%	25%	10%	18%	27%	38%

	Production							
	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 (f/c)	8,232	3,498	1,465	3,994	7,027	33	24,250	13,229
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	-22%	-14%	12%	-29%	50%	6%	-8%	-17%
F/c vs Avg	47%	50%	14%	27%	10%	19%	29%	43%



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