

Australia's wheat crop revised higher to 25.2 million tonnes.

- We have revised Australia's 2011/12 wheat production prospects higher to 25.2 million tonnes, the third largest in history.
- Crop prospects are favourable on both the east and west coasts.
- Australia's exportable wheat surplus in 2012 is forecast to be a record because of the big crop and large carry-in stocks.

Australia's wheat crop revised higher

A month is a very long time in agriculture. A sharp improvement in east coast conditions and a continued strong season in Western Australia has warranted a 7% upward revision to our Australian wheat crop forecast. We now forecast the Australian crop at 25.2 million tonnes, up slightly from our August estimate of 23.5 million tonnes. If realised, the 2011/12 crop would be the third largest in history, only slightly behind the record 26.3 million tonne crop harvested in 2010/11.

Figure 1: Australian wheat production forecast (Commonwealth Bank)

	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 (CBA Oct f/c)	7,527	3,279	1,326	4,089	8,971	33	25,224	12,164
2011/12 (CBA Aug f/c)	7,056	3,188	1,256	3,994	8,011	33	23,538	11,533
2011/12 (ABARES Sep f/c)	7,655	3,310	1,600	4,600	9,000	31	26,196	12,596

Source: CBA

East coast production prospects revised higher

Following difficult growing conditions from June to mid-September – including a mid-September heat wave – east coast grain and oilseed crops received yield saving rains in the final 10 days of the month. Additional rain and cooler weather over the past fortnight has boosted yield prospects, supporting an upward revision to our crop forecast.

We have revised higher the NSW wheat crop to 7.5 million tonnes, up from our August forecast of 7.1 million tonnes. Overall, our east coast wheat crop forecast for 2011/12 now stands at 12.2 million tonnes against our August estimate of 11.5 million. Despite this upward revision, the 2011/12 east coast wheat crop estimate is nearly 25% smaller than last year's record, and 3.5% smaller than ABARES' east coast wheat crop estimate.

Conditions in Western Australia continue to improve

Winter and spring rainfall has been favourable for much of the WA grain belt, with only the Esperance port zone experiencing below-average rains. Conditions in the northern wheat belt have been close to ideal this season and the Geraldton port zone appears set to achieve a record harvest. Favourable spring conditions have been also observed throughout much of the central wheat belt. We subsequently have revised higher our WA wheat production forecast by nearly 1 million tonnes to 9 million tonnes. If realised, the 2011/12 WA wheat crop will be 90% larger than the drought affected 2010/11 crop and the third largest in history.

The South Australian crop remains solid

Our South Australian wheat production estimate has been revised slightly higher to 4.1 million tonnes. If realised, this would be the fourth largest SA wheat crop in history.



Key risks to yields or grain quality

Yield prospects are getting closer to being locked in. Crops in the northern WA wheat belt, Qld and north-west NSW are ripening. While crops in the rest of the country are either filling or flowering. Frosts are now the key risks to yields, and many Victorian, SA and NSW producers are closely monitoring forecasts for cold weather for the next few nights. At this stage, no significant damage is expected.

Grain quality will soon become the focus of the market. Last year's wet weather induced quality downgrades are fresh in the minds of the Australian wheat industry. The recent rise in the SOI and forecasts for returning La Nina conditions raise the prospects for a wetter than normal harvest again this season. Indeed, most weather forecasters suggest northern NSW and southern Qld has a high probability of heavy rain over the next 30 days. Some quality issues may surface, but at this stage, we are not forecasting a repeat of the 2010 harvest delays or quality downgrades.

Wheat stocks

Carry-in wheat supplies for the 2011/12 season (at 1st October 2011) are forecast at a record 8.1 million tonnes, owing to last year's record wheat crop. At the national level, this large inventory position will provide a buffer against adverse late-season weather.

The most significant YOY increases in 2010/11 wheat stocks is on the east coast, owing to the record east coast crop last year, with east coast inventories are forecast to rise from 2.3 million tonnes in September 2010 to a forecast 4.9 million tonnes by September 2011. Wheat stocks in Western Australia are forecast to fall by 1.3 million tonnes to a tight 700 thousand tonnes, reflective of the 2010 WA drought.

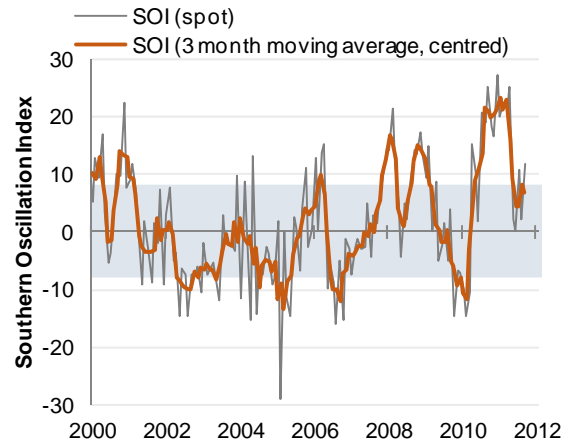
Complicating the east coast inventory analysis is the unusually large supply of feed wheat this season, owing to the wet-weather downgrades last harvest. Current ABS data suggests that of the 9.8 million tonnes of wheat stored in the bulk handling system as at 31st August 2011, only 52% (or 5 million tonnes) was milling grade. This was, in fact, 14% below the 5.9 million tonnes of milling wheat on hand a year earlier. Therefore, despite much higher total wheat supplies this year, milling wheat supplies are tighter.

The relative WA wheat stock tightness explains the west coast price premium that has existed over the past 12 months. The relatively tight supplies of milling wheat compared to feed wheat supplies indicates explains why east coast feed grain prices, particularly in southern NSW and Victoria, have remained depressed.

The large supply of carry-in wheat will have two main consequences for the markets in 2011/12.

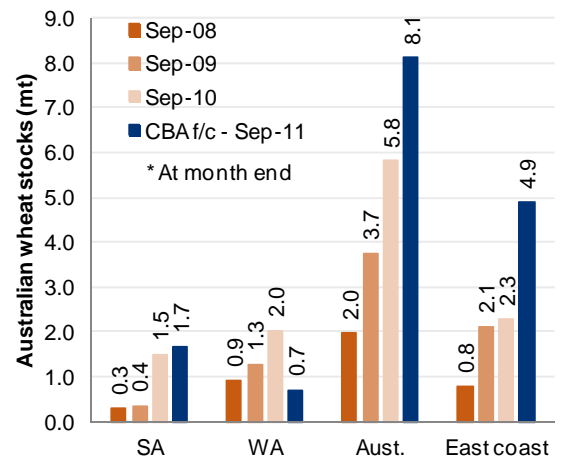
- Firstly, total wheat availability¹ in 2011/12 will be a record 33.3 million tonnes in 2011/12, exceeding last year's record of 32.1 million tonnes². This will underpin Australia's 2011/12 wheat export program, which we believe could slightly exceed our forecast 19 million tonne program in 2010/12 (1st October to 30th September marketing year).
- Secondly, large domestic grain supplies should keep Australian basis subdued over the coming year. Most notably, feed wheat values in southern NSW and Victoria should remain relatively subdued. This feed wheat price pressure will also pressure southern feed barley markets. The Western Australian milling wheat premium is likely to moderate further because of the forecast large 2011/12 crop.

Figure 2: Southern Oscillation Index



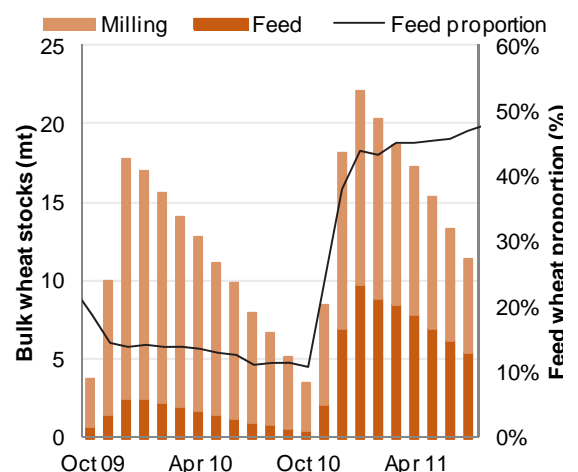
Source: Bloomberg and CBA

Figure 3: Australian wheat stocks (all locations)



Source: ABS and CBA

Figure 4: Australian bulk wheat stocks by grade



Source: ABS and CBA

¹ Total supply = production+ carry-in.

² Calculated using ABS official wheat inventory data and wheat production forecasts (ABARES for 2010 and CBA for 2011)



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