

Global Barley Supply Situation

2010/11 – A season to forget...

Global barley production declined 17% to 124 million tonnes in 2010/11, the smallest crop since 1970, because of weather-induced crop failures.

Global yields fell 9% year-on-year and the area harvested fell 8½% because of droughts and floods. A higher rate of crop-abandonment in 2010/11 exacerbated the 30-year trend of lower plantings. Barley has previously been losing ground to crops such as canola, wheat and corn.

In Europe, which accounts for around 42% output, barley production slumped 13%. In Russia and Ukraine, who account for 12% and 7% of the global crop, output fell 54% and 28% respectively. Of the top-5 producing regions, only Australia observed a year-on-year increase in production in 2010/11.

Against the backdrop of dwindling production prospects, demand remained resilient. The resilience in barley demand was largely because of limited global corn supplies.¹ As a result, feed grain users found it difficult to substitute from barley into other feed grains such as corn.

Subsequently, the global barley production deficit in 2010/11 was a record 14 million tonnes, causing inventories to slump to historically tight levels. In 2009/10, global barley stocks were 36 ½ million tonnes, some 35% above the decade average. A year later, stocks had dropped to 22 million tonnes, nearly 20% below the decade average. The decline in global barley supplies in 2010/11 was the steepest on record.

2011/12 – Production should bounce back.

Importantly, the drawdown in global barley stocks was because of weather-induced crop failures. This feature will help shape 2011/12 production and price prospects.

Global barley production is expected to increase sharply in 2011/12. The world's farmers are forecast to respond to high prices by increasing planted area. And a return to 'normal' weather in 2011/12 will see yields increase and less area should be abandoned.

We currently forecast the global barley area to increase 10% in 2011/12. Yields are forecast to recover 9%, allowing global production to jump 20% to 149 million tonnes. Consumption may grow by a more sedate 2% to 142 million tonnes, resulting in inventories rebuilding by 7 million tonnes to 29 million tonnes. If achieved, this will bring global barley inventories back above the average level of the past decade, and should weigh on prices over the next 12 months.

The major price risks include poor weather in 2011, which could directly affect barley production or impact other crops such as corn and wheat, or a stronger than expected consumption profile. Realistically, 2011/12 production prospects will not become clearer for several months.

Fig 1: Global barley area and yields

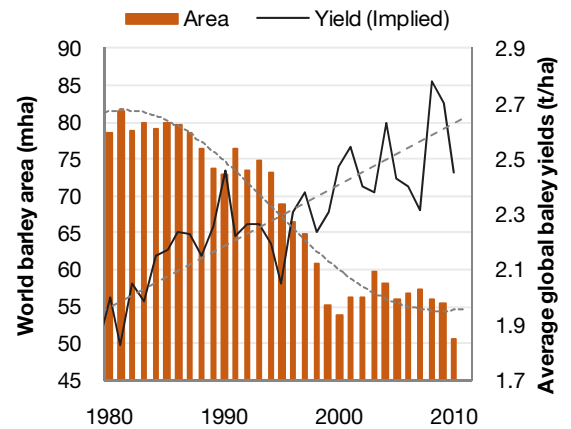


Fig 2: Global barley production, use and stocks

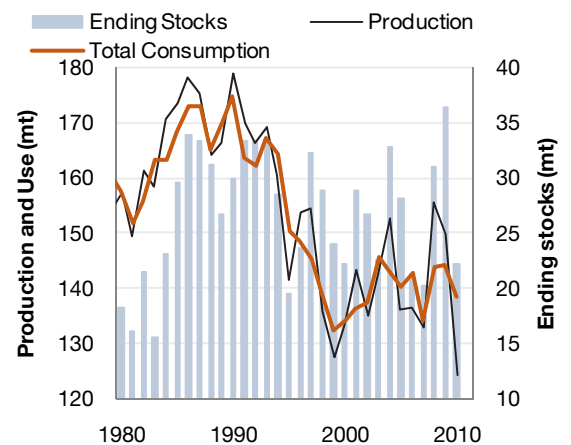
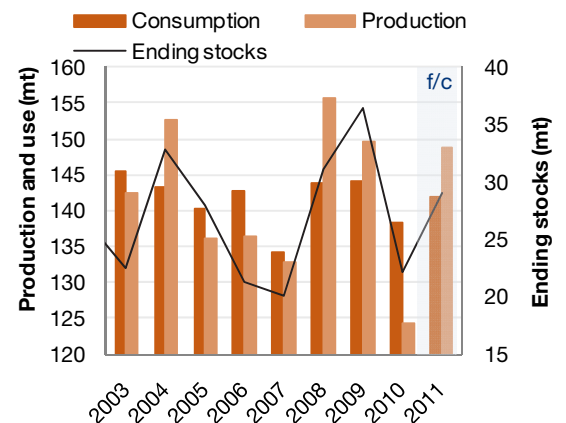


Fig 3: Forecast 2011/12 output and stocks



¹ The global corn stock-to-use ratio in 2010/11 is forecast at 13.3%, the tightest level since the mid-1970s.



Australian barley supply

Australia's east-coast barley producers experienced near ideal growing season conditions in 2010.

Titanic east-coast yields lifted the national average to near record levels, despite negative influence of drought in Western Australia – traditionally Australia's premier barley producing state.

The national barley yield has been pegged at 2.3 tonnes per hectare, up 30% year-on-year, comparable with the 2004 record, and 43% above the 5-year average.

Australian barley production is subsequently forecast at 9.3 million tonnes in 2010/11, up 1.4 million tonnes from a year earlier and 26% higher than the 5-year average. The big barley crop, combined with the record wheat crop², has ensured that Australia currently has an abundant supply of feed grains.

In a 'typical' season, such a large supply of feed grains would weigh heavily on domestic feed grain prices. But the global feed grain shortage has afforded strong export opportunities for Australian feed barley.

ABARES suggest that Australian barley exports will reach 5.2 million tonnes this season – the best result since 2005/06. But still, based on ABARES figures, Australian barley stocks will swell by a further 1.5 million tonnes by the start of the 2011/12 season.

An abundant domestic supply of feed grains has resulted in the barley-wheat price spread widening over the past eight months. Only strong export demand from feed grains has prevented this spread from widening further. This historically-wide spread is likely to persist for the next 12 months as domestic feed grains remain plentiful compared to high protein milling wheat supplies.

Fig 4: Australian barley area and yield

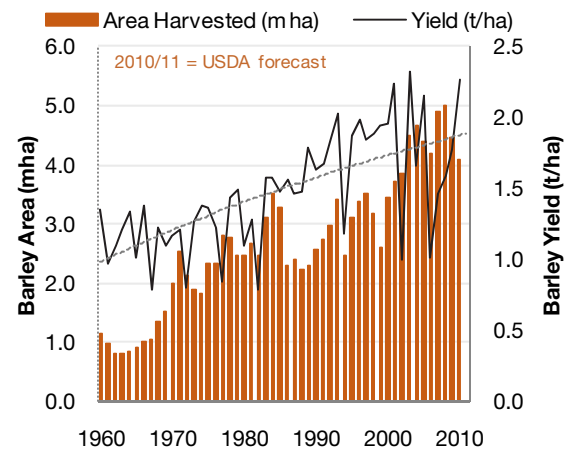


Fig 4: Aussie barley output, use and exports

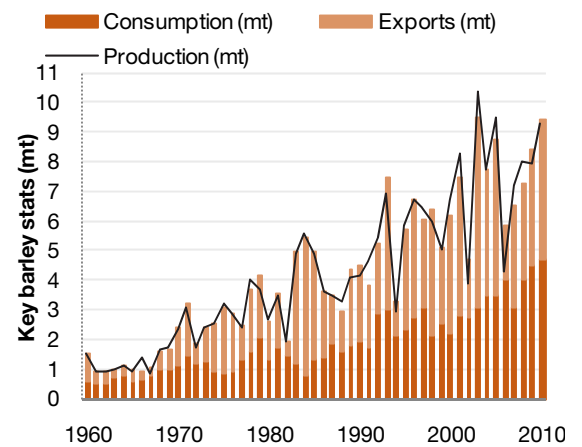
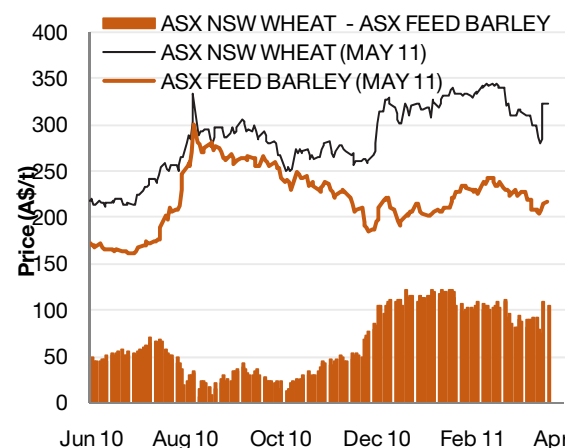


Fig 6: ASX NSW wheat vs. feed barley spread



² The wheat crop was largely downgraded to stockfeed quality because of excessive summer rainfall.



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