



Rains disrupt local grain harvest

- Global grain prices have been under significant pressure over the past quarter, largely due to the Euro sovereign crisis.
- In addition to flat-price pressure, Australian grain producers are now facing rain-induced harvest disruptions and grain quality downgrades. Further rain is forecast over the coming week. The impact on total grain volumes is minimal.
- Wheat quality spreads have widened. Low quality wheat prices have fallen to uneconomic levels, reflecting the record old-crop stocks and expected new-crop quality downgrades.
- Complications at grain receival sites are being encountered due to (1) the huge supply old-crop grain still present at many sites (2) the large volume of grain produced this season and (3) additional quality-related segregation requirements.
- The recent rainfall will be welcome by livestock producers (because of additional pasture availability and cheap feed grain supplies), summer crop producers and the dairy industry.

“November Rain”

Most of Australia’s grain growing regions have experienced widespread rainfall over the past month, headlined by the torrential falls in across the east-coast wheat belt over the past week.

Above average late October and early November rainfall fell throughout the WA wheat belt, in particular throughout the Geraldton port zone. Meanwhile, torrential rainfall in central-northern NSW over the past week has taken the month-to-date rainfall total to 300mm for some regions, and totals between 100-200mm are widespread for the NSW wheat belt. This is up to 300% of the “normal” rainfall for the month of November. The Bureau of Meteorology forecast further heavy rain will fall through central/northern NSW and QLD over the coming eight days. South Australia has avoided the heaviest rainfall so far.

The rain has come at precisely the wrong time for the nation’s winter grain and oilseed producers. Wheat, barley and canola crops are either ripe or ripening. The rain has therefore resulted in harvest delays, grain quality downgrades and logistics disruptions. A significant financial penalty is being experienced by winter grain producers because of the steep price discount for low-quality grain.

The current weather related issues are reminiscent of the 2010/11 east-coast harvest, which was one of the most challenging in memory.

Extent of grain quality downgrades

Weather induced grain quality issues will be most prevalent in wheat this harvest. This is because the barley and canola harvests were nearing completion prior to the most recent, and significant, rain events.

Lower-than-normal wheat protein levels had previously been noted across the vast majority of the NSW and QLD wheat belt, prior to the harvest rainfall. This has been attributed to the ‘soft’ finish to the season, inadequate in-season urea application, and nitrogen lock-up owing to the widespread floods last summer. (Note, the same low protein issues contributed to the above average proportion of malt barley delivered this year). Deliveries of APH1, APH2 and H1 wheat in northern NSW and QLD has been below expectations. Consequently, the APH1-APW premium (Newcastle track) widened to A\$90-100/t, by early November, up from A\$35-40/t in September. The current APH1 premium is close to the extraordinary levels observed during the 2010/11 harvest.

But the recent rain-induced quality downgrades are likely to have a more pronounced impact on markets than the earlier protein deficiencies. Prices for prompt delivery have already lifted, reflecting harvest delays.

Figure 1: Australian rainfall (November 2011)

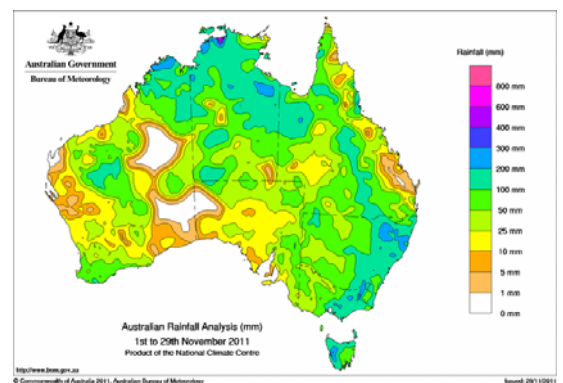
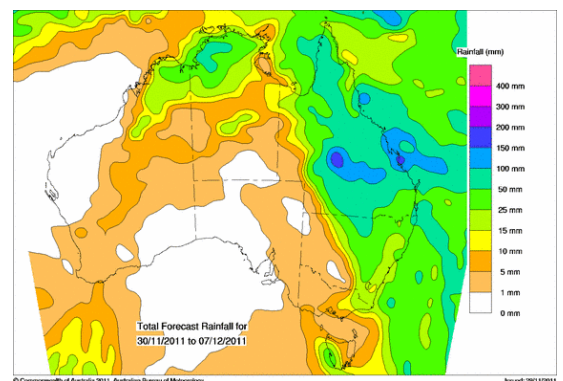


Figure 2: Australian rain forecast (30/11 to 7/12)





In particular, quality downgrades are now expected to be significant in NSW, concentrated in north-east, central and southern districts where the wheat harvest was less advanced. Quality downgrades should be less severe in north-west NSW and QLD where the majority of the harvest was complete, however unharvested crops are likely to be downgraded.

We estimate that over 70% of the north-west NSW wheat crop, a third of the north-east and central-west crop, and less than 20% of the Riverina crop had been harvested prior to the most recent rain. On rough calculations, this implies 4.5 million tonnes of wheat remains unharvested in NSW. We are now hearing widespread reports of wheat samples with poor test weights, low falling number results and sprouted grains, resulting in AUH2, GP and FEED grading, even in regions that received relatively low rainfall.

In Qld, the vast majority of the wheat crop is in the bin. But in Victoria, the wheat harvest is just commencing, particularly in the north-east and Wimmera. The Mallee wheat harvest is more advanced, however rainfall has been less widespread in Victoria and quality downgrades are expected to be much less severe than in NSW. By all accounts the SA harvest is progressing relatively well. While in WA, a recent improvement in weather has allowed improved harvest progress. WA grain volumes are reportedly exceptional, however grain quality in regions north of the Great Western Hwy continue to show the adverse effects of early harvest rainfall. Grain quality in the southern districts of WA has reportedly held up well.

Total feed grain supplies bulging...

The ABS, in its latest bulk wheat stocks report, showed that total bulk wheat supplies at the end of October were 7.3 million tonnes, a record high. Total 'feed' wheat bulk stocks were a record 3.5 million tonnes, over 3 million tonnes more than a year earlier.

The combination of record carry-over wheat supplies, of which 50% are of 'feed' quality, and the current grain quality downgrades will result in another 12 months of record feed grain availability in Australia. In our view this will continue to weigh on feed wheat values in the year ahead. The discount of GP and FEED wheat to APW may widen further, in our view.

Livestock and summer crop producers benefit.

The November rain has provided a silver lining for some agriculture sectors. Summer crop production will benefit, despite adverse flooding in some areas. Livestock producers will benefit from additional pasture growth and cheaper feed grain availability, as will the dairy industry.

Figure 3: Wheat spreads (Newcastle, A\$/t)

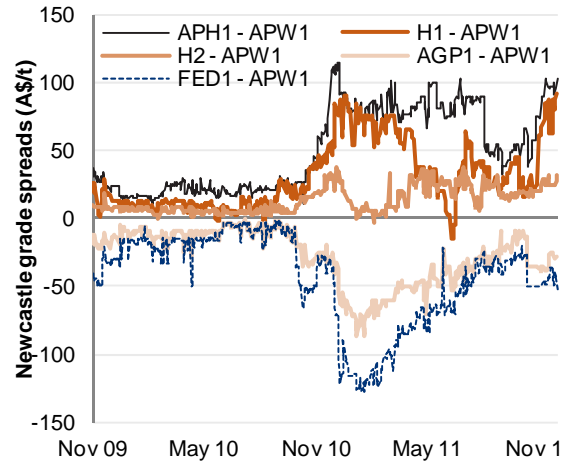


Figure 4: Australian bulk wheat stocks

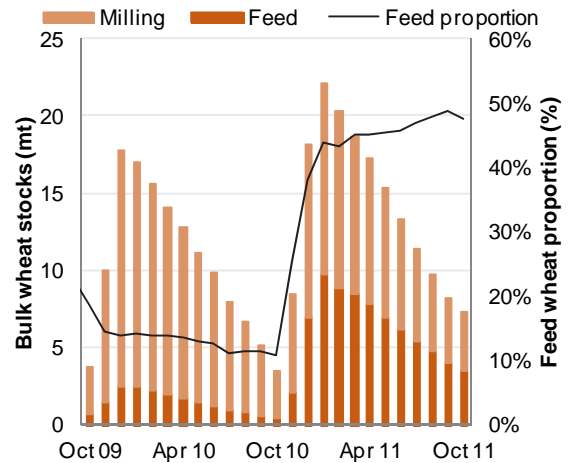
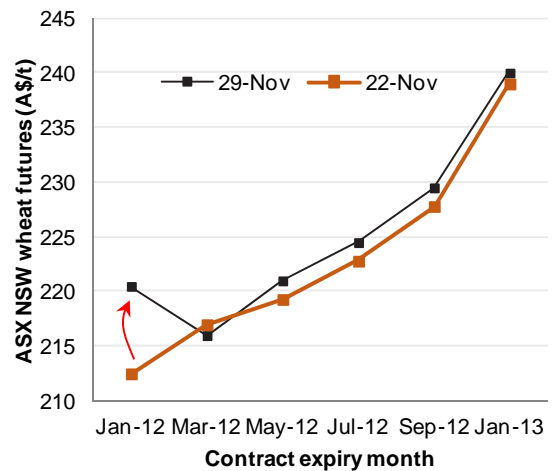


Figure 5: ASX NSW wheat futures curve





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