

Explosive environment for grain prices

By Luke Chandler, Rabobank Australia

A combination of record low global inventory levels, weather induced supply side shocks, surging outside investor influence, record oil prices and structural changes in demand for grains and oilseeds have created an explosive environment for prices.

While it is still early days, the outlook for the Australian grain and oilseed industries appears more positive than recent seasons, with the overall outlook for world grain and oilseed prices expected to remain strong for the medium term.

The deregulation of the container market, impending deregulation of bulk exports and a growing domestic feed market are all likely to see a different looking industry emerge in 2008 and beyond.

Wheat crop area in Australia and globally is expected to increase quite sharply in 2008, driven higher by record price levels and the overall improvement in the outlook for seasonal conditions. Wheat plantings are



Luke Chandler.

also expected to increase at the expense of barley in a number of regions.

A number of the world's major grain and oilseed markets entered 2008 in uncharted price territory, following an extraordinary bull run in prices over the previous 18 months.

Prices for soybeans outpaced competi-

tor crop prices in the US during 2007; but wheat price gains have accelerated at a faster pace in early 2008. Soybean prices reached a seasonal and a historic high of US 1221 cents per bushel in December 2007, 84 per cent higher than the year's lows.

Wheat prices have surged to record levels over the past 12 months, with world stock to use levels reaching critical lows.

Supply side factors

Production of the world's major grain and oilseed crops came under significant pressure in 2007, due to the combination of adverse seasonal conditions in a number of major producing regions and increased competition for land between crops as demand shifted upwards.

Australia's grain producers have been crippled by successive widespread droughts which restricted national wheat production to 10 million tonnes (mt) in 2006 and 13

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mt in 2007 – well below the previous ten year average of 22 mt. This production shortfall in one of the world's largest grain exporters has also been a significant contributor to the tight supply situation on the world's grain markets.

Where will prices move in 2008?

World grain and oilseed stocks fell sharply throughout 2007, due to production shortfalls and continuing strong demand growth in a number of markets.

Looking ahead, the world grains and oilseeds complex remains delicately balanced with a number of the world's major markets heavily reliant on a return to good seasonal conditions in 2008.

The price outlook appears more positive for those commodities directly linked to biofuel markets (corn, soy) given the increasing demand expectations from this sector.

Non-agricultural markets have also been a significant driver in the sharp rallies in grains and oilseed prices during 2007. These markets are fundamentally helping shift the demand curve for grains and oilseeds to the right, whereby more is demanded at each price point thus forcing prices up.

Global plantings in 2008

The record high prices of 2007 and early 2008 are expected to encourage a significant expansion in lands sown to grains and oilseeds in the coming season.

Soybeans, canola and wheat are expected to rebound most strongly, whilst corn acreage is forecast to be down slightly, relinquishing some of last season's record gains.

Rabobank expects world wheat plantings to increase by five per cent in 2008 in response to record prices. Significant gains are forecast in the US, EU and Black Sea regions, with high plantings also expected in the southern hemisphere later in the year, provided seasonal conditions improve on last season.

Soybeans are expected to regain around half of the acreage that was lost to corn in 2007. Coupled with slightly higher yields, US soybean production is expected to jump 12 per cent year-on-year but remain below the record levels of 2006.

Demand set to remain strong

In 2008, there will be immense pressure on new crop production to not only meet annual consumption, but also to rebuild stock levels.

Following back-to-back seasons of world wheat consumption outpacing production, by a total of 38 mt over the past two years, Rabobank expects a partial recovery in world wheat stocks in 2008, with production forecast to exceed consumption by over 12 mt.

This is expected to increase world wheat stocks by nine per cent to 117 mt, lifting the all important world stocks-to-use ratio by two per cent to 19 per cent. But this would represent the second lowest level on record, and it is therefore likely to take a number of years of strong production to rebuild world wheat stocks to more traditional levels

Impacts for Australian farmers

Looking ahead, Australian production is forecast to rebound, possibly doubling in 2008 depending on rainfall. Rabobank estimates a wheat production range of 23–26 mt, which, if achieved, would result in a strengthening of Australian exports in late 2008 and early 2009 and also ease domestic shortages.

The current prices being offered for different grains in Australia for the 2008 season suggest that there is likely to be a significant swing towards planting wheat and oilseeds at the expense of barley. ■

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