

Domestic grain outlook

Wheat – WILL AUSSIE WHEAT FOLLOW EUROPEAN OR US PRICES?

Wheat futures were meandering happily along before the shock of the USDA reports that lifted corn plantings and increased June 1 stocks of all grains. The rise in plantings is easily shaken off, but the lift in stocks is the first indication that high prices are finally doing their job. Wheat bounced strongly again last night on more US corn crop weather threats.

Egypt bought 150,000t of wheat from Russia, Ukraine and Canada. Pakistan bought 405,000t of probably Black Sea wheat. Japan is tendering to buy 200,000t, with about half likely to be Aussie. Struggling sth hemisphere crops will remain supportive in the face of increased nth hemisphere harvest supplies. But here is the rub – Black Sea wheat is priced at US\$290–310/t FOB, compared to US wheat futures at US\$310/t. And the Black Sea enjoys a big freight advantage into export markets. If US wheat is to compete in export markets, prices must ease, but how much of this wheat will be absorbed domestically? And if US wheat isn't exported, do our prices follow European values?

Canola – LEFT IN SOYBEAN JETSTREAM

Soybeans have been galloping to new all-time records on poor crop conditions and a 1.7-million-acre cut in soybean 'harvested' acres, which implies 125 million bu less production potential. This is bullish when read in concert with the USDA's already tight June forecast of only 175 million bu for 2008–09 US soybean ending stocks. Record crude prices provided further tailwinds.

Canola has been well and truly left in the soybean jet-stream. Strong EU early barley yields imply strong canola yields. Attractive rapeseed prices relative to barley mean that EU farmers will be inclined to sell rapeseed and hold barley. Otherwise, poor export demand for Canadian canola is being cited as another reason for the disappointing performance of canola futures. But is it such a big concern? Ag Commodity Research reports that a new Cargill crushing plant (entire production will be on contract and go to McDonald's) is due to be commissioned from September and will boost Canadian crushing capacity by 750,000t, to 4.65 million tonnes (Canadian crush has doubled since 2002–03). The Canucks are leaving us Aussies for dead.

Barley – EUROPEAN CROPS PRESSURE PRICES

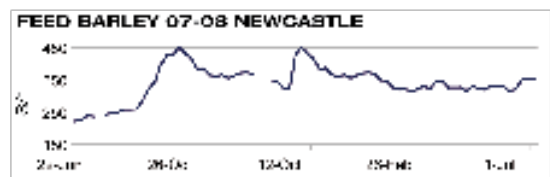
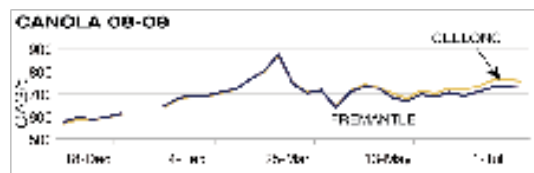
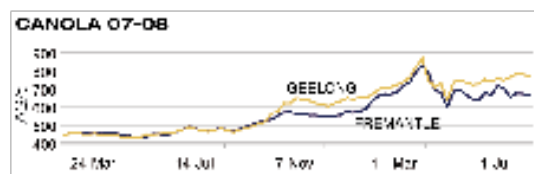
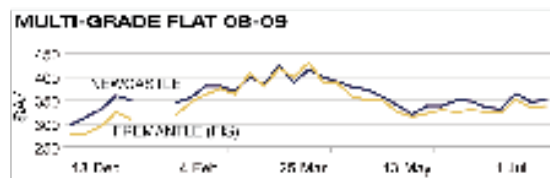
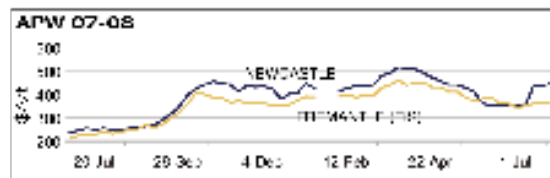
International feed barley offers were mostly lower, weighed by harvest pressure and forecasts of larger European crops. Turkey and Jordan issued tenders to buy 100,000t of new crop barley, and Algeria is in the market today for at least 25,000t of feed barley from optional-origins. Western European bids are uncompetitive, but the European grower is expected to be more inclined to sell canola and hold barley. In Ukraine, UkrAgroConsult raised its 2008 production forecast by 0.4 mt from previously, to 10.3 mt (6.2 mt a year ago) and raised 2008–09 export projections by 0.9 mt, to over 5 mt (1.1 mt a year ago).

Enough uncertainty remains around some major barley producers to keep this market on edge. Despite larger Black Sea and EU supplies, barley stocks are forecast to barely rise, and disappointing crops in Canada or Australia could reverse this. Plenty of Black Sea barley will find export demand in Asian feed grain markets to replace expensive US corn.

Durum – QUALITY RISK KEEPS PRICES FIRM

ProFarmer Canada reports that the international durum market continues to incorporate a large risk premium due to an uncertain new crop outlook for both quality and quantity. Demand has been slow due to the high price of old crop but with stocks very tight, the market is expecting demand to start ramping up soon.

Conditions in North Africa were dry over the past month, which helped boost harvest progress and preserve crop quality. Significantly larger EU crops than last year are forecast, which should reduce import demand, but weather remains a threat to quality. Poor crops in Syria and Turkey will limit export competition from the eastern Mediterranean region. Western Canadian and American desert durum production is expected to be significantly larger this year, which has pressured prices. But other North American durum areas report mixed conditions, with poor subsoil moisture conditions reported in western North Dakota and in central Saskatchewan.



DURUM WHEAT (incl. semolina)		05/08	05/07	07/08	08/08 (forecast)	26.05.08
IMPORTS						
EU/US	1,295	2,019	500	1,700	1,500	
ProFarmer	52	28	2	100	100	
USA	2,28	627	550	750	750	
China	51	37	30	150	100	
Peru	177	156	55	150	100	
Other Asia	240	225	90	200	450	
Japan	279	225	220	20	250	
Other Asia	1,264	1,580	700	2,000	1,800	
Other Asia	33	130	50	100	100	
ProFarmer	655	619	600	600	600	
Other Asia	249	241	250	250	250	
Other Asia	25	25	20	20	20	
Other Asia	215	215	215	215	215	
WORLD TOTAL	7,334	7,321	6,400	7,600	7,200	
of which semolina	223	200	200	200	200	
EXPORTS						
China	3,297	4,372	3,700	4,200	5,000	
EU/US	10	200	200	200	1,000	
Other Asia	775	200	200	200	200	
USA	1,255	1,255	1,000	1,000	1,000	
Other Asia	250	250	250	250	250	
ProFarmer	450	275	600	500	600	
Other Asia	150	150	150	150	150	
Other Asia	200	150	150	150	150	

Supplied July 3 by ProFarmer Australia. Information available at www.profarmer.com.au or call 1300 302 143