

Domestic grain outlook

Wheat – SLIDE CONTINUES

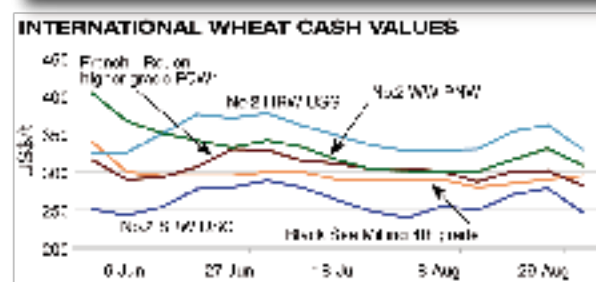
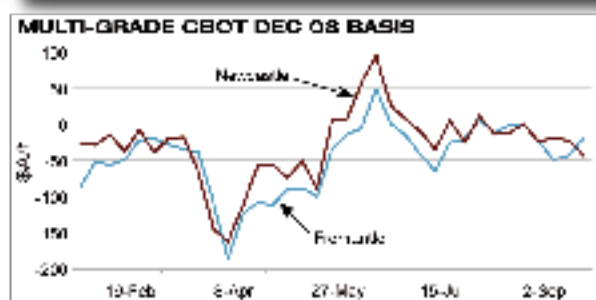
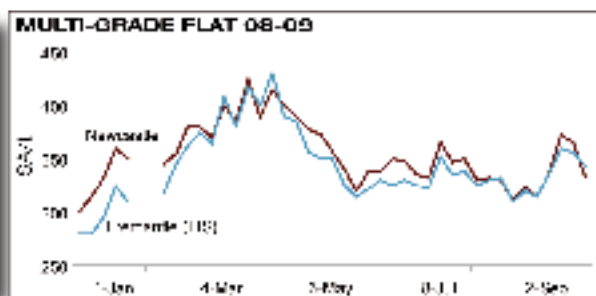
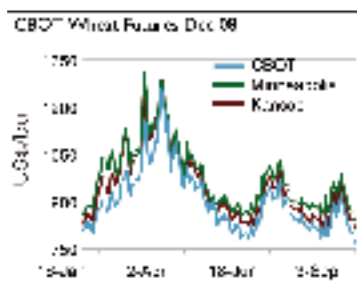
Wheat continued its recent slide in early September, falling 90¢ as concerns over dryness in Australia were partly alleviated with welcome rain over the weekend, a continued sell-off in the broader commodity markets, a strengthening US\$ and further speculation the Commodity Future Trading Commission would announce changes to the CBOT/Chicago

Mercantile Exchange wheat contract to promote greater convergence between cash and futures markets at delivery time.

Spring US wheat harvest progressed another 20% this week, to 81% complete. The Canadian Wheat Board raised its price projections \$10-22 from its July estimates – a weaker \$CA and lingering drought conditions in Australia the impetus for the rise.

Taiwan bought 40,000t of US wheat for October. This was made up of 23,000t dark nth spring at \$401/t, 12,000t HRW at \$368/t and 5,000t of white wheat at \$368/t. Jordan bought 100,000t Ukrainian for October at \$369/t; Japan bought 13,000t of wheat and Egypt has agreed to buy 1mmt of wheat from Kazakhstan to meet local market needs.

ASX wheat futures have fallen \$21/t this week, to \$334/t, as the futures decline and the reasonable rain event over the weekend more than offset the \$A's near 12-month lows. AWB 07/08 National pool EPRs remain unchanged following the fortnightly review – APW #1 Pool is at \$418/mt FOB, while APW #2 Pool is at \$399/mt FOB. WA Farmers released a new wheat pool available to their members, managed by the Emerald Group – the pool offers quality payments for protein, moisture, screenings and test weight. The wheat pool will offer a hectare contract (\$4/t bonus), fixed tonnage contract (\$10/t bonus), and an access contract.

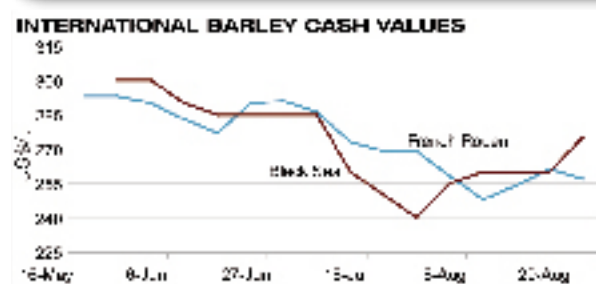
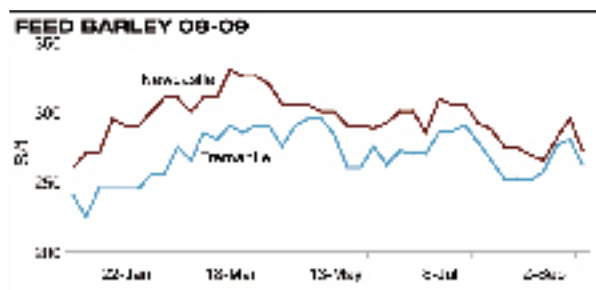


Barley – MARKET SOFTENS

The global barley market is softer this week, following the broader grains market, in sympathy with a lower wheat and corn market globally. The Canadian Wheat Board reduced barley prices, with pressure from lower corn prices and harvest pressure weighing on the market. Canadian feed barley production is expected to be similar to last year's level and crop conditions remain good. Harvest of the Canadian crop has just begun in the main barley growing regions, with quality dependent on weather conditions in the coming weeks.

Producers in Europe and the Black Sea region have largely completed harvest, and quality concerns around the Northern European crop have allowed malting barley prices to stabilise, with the Ukrainian barley harvest across 4.17mha yielding 13.4mmt. Malting barley prices have also been supported by declining crop conditions in Australia. Japan bought 21,000t of barley under the SBS system.

ASX futures fell \$29/t this week, to \$260/t, in line with local wheat values. No pool updates or new pools were released this week. In cash markets, malt remains at a \$75-85/t premium over feed values in both multi-grade and fixed grade contracts.



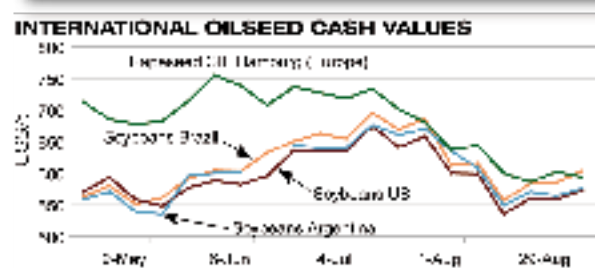
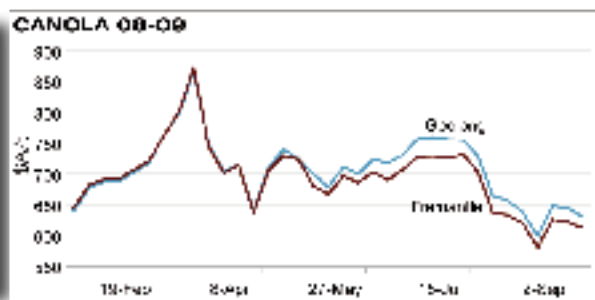
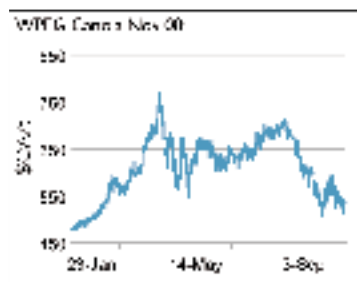
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Canola – BEARISH SENTIMENTS SPREAD

In early September, canola futures and canola futures were down 40¢ and \$CA10, respectively, as bearish sentiment spread through the commodity markets. Asian vegetable oil markets continue to be savaged by defaults and the continued overhang of the 500,000t of bean oil stocks held by the China State Reserve. Palm oil values are now nearing that equivalent to mineral oil, which should start to lend support to the Asian vegetable oil markets.

But in the short-term, with increasing numbers of contractual defaults in the region, more pressure may be seen until buyers and sellers sort out the differences and re-enter the market to re-cover the open demand. Soybean crop conditions were lower than expected. The next two weeks are critical to see if conditions (and therefore yields) can turn around as we near the end of pod set. Ukrainian rapeseed exports continue to exceed expectations, with more than 2mmt (of the 2.8mmt harvest) now in storage. Exports will slow with a large European crop now harvested. Storage availability will remain a problem in the Ukraine, with a large sunflower and corn crop yet to be harvested. Ukraine is expected to export 1.5–2mmt of grains and oilseeds per month this year.

Pakistan purchased 100,000t of Canadian canola at \$700–750/t for Sept shipment. Canola futures fell \$15–20/t this week in sympathy with European and Canadian futures. Local basis is nominally softer, with rain across the weekend benefiting many canola growing regions across the nation. Areas in sth NSW and parts of WA are among those that received disappointing falls, and will need follow-up rain shortly to avoid further crop deterioration, particularly in sth NSW.



Sorghum – DECLINES WITH WEIGHTY WHEAT MARKET AND RAIN

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 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.

