

Domestic grain outlook

Wheat – USDA REPORT AND DEMAND PRESSURE

Wheat futures again failed to consolidate at the higher price levels during the second week of November, as the global markets again reverted to concerns over global economic conditions and poor earnings' forecasts. The fundamental picture focused on the November USDA report and the demand pressure the US market is burdened with by aggressive European and Black Sea sellers. Also, the large amount of feed wheat availability has capped corn prices, which is also flowing into the global milling wheat market. Global demand remains hand-to-mouth as consumers lack confidence in price direction.

November's USDA report didn't bring many changes or surprises and made only minor changes to the global picture. Global production increased by 2 million tonnes, with the EU bumped up another 3 mt and a 2 mt increase in the former Soviet Union taking the combined region to a massive 53 mt year-on-year increase (total global production is up 70 mt for the year). Offsetting these increases were decreases in Australia, Argentina and China, with declines of 1.5 mt, 1 mt and 1 mt, respectively. World wheat stocks increased 1 mt – up 26 mt from the super tight 2007–08 stock levels.

The Australian market has started to work through a larger chunk of harvest, thanks to a break in rain across the north and western cropping belts. Quality remains varied, with some surprisingly high screenings in the north given the finish. ASX futures were largely unchanged this week at A\$260–265/t, with the currency and futures moving in sync, while lower grades continue to be hampered by the weak local feedgrain markets.

Canola – RESILIENT AND STEADY

Despite weaker outside markets, oilseed prices managed to hold steady in early November and showed some positive signs of resilience. Strong export demand from China continues, pushing recent business well ahead of last year's pace. Similarly, soybean oil demand remains strong with active trade across eastern China. Following on from our note in previous weeks regarding China looking to stimulate the economy via agricultural reforms and encourage urbanisation, this week they put some teeth into it by announcing a \$US600b stimulus package over the next two years – the equivalent of 1.5% GDP per year (vs. the Australian stimulus package of 1% GDP). Their actions as the fourth largest economy in the world are providing some positive signals and oilseed markets are certainly the short-term benefactors.

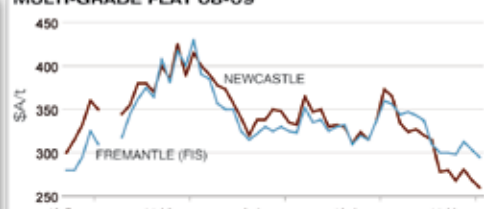
Similar to the US ethanol support likely to be given by the election of a Democrat to the White House, biodiesel will also find some support. On the supply side, the Brazilian Ag ministry lowered its 2008–09 production estimate to 58.4–59.3 mt (down from 60.1–61.3 mt) and assumes 'only' a 2% reduction in area across Mato Grosso. The USDA also reduced its Brazilian crop estimate to 60 mt – down from 62.5 mt last month. The US crop was marginally reduced, with the USDA cutting yield by 0.2 bu/ac to 39.3 bu/ac, with no changes to acreage for a change! Canadian canola exports continue to track at a very rapid pace, with 1.8 mt done during Aug/Oct so far this year (up 400,000 mt vs. last year).

Local canola markets remain largely steady, with currency fluctuations offsetting the futures movements. ASX was nominally \$620/t, with the early northern NSW harvest starting to feed a bit of volume into the marketplace.

CBOT Wheat Futures Dec 08:



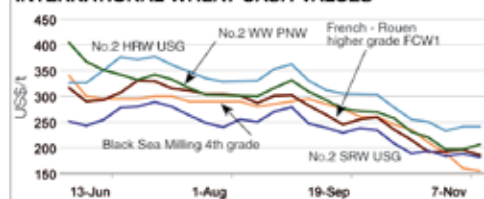
MULTI-GRADE FLAT 08-09



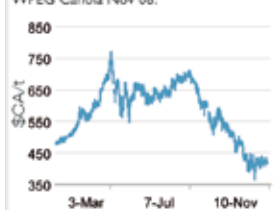
MULTI-GRADE CBOT DEC 08 BASIS



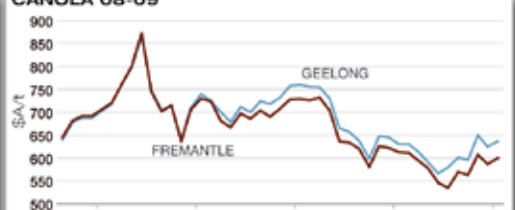
INTERNATIONAL WHEAT CASH VALUES



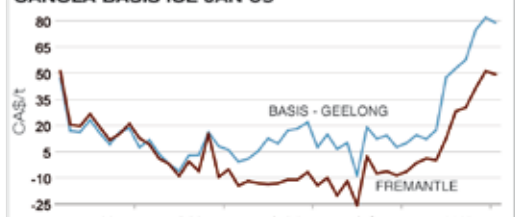
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CANOLA 08-09



CANOLA BASIS ICE JAN 09



INTERNATIONAL OILSEED CASH VALUES

