ONE WORLD GRAIN

ATS

20 JANUARY 2012

Market Outlook

International Outlook

Last weeks USDA REPORT in Brief:

- Most traders were anticipating a fall in supplies and so stocks and therefore prices would be underpinned. Turns out most were wrong!
- The USDA report came out last Friday and US futures prices were slammed. The USDA re-ported on increases in US production and larger than expected figures for surplus stocks, sending corn prices limit down at CBOT. The ending stocks figure for corn was 100 million bushels higher than the trade had anticipated. Yields were raised, rather than lowered, and carryout was left the same when the trade expected a reduction.
- The USDA is forecasting a smaller corn crop for South America due to its drought; those losses however will be offset by larger supplies in China and Ukraine.
- The US report was also negative for wheat, estimating its world stockpile higher due to increased production from Kazakhstan, Brazil and Russia. It also reported US winter wheat plantings are up, despite concerns about severe drought in the Southern Plains and too wet conditions in the eastern Midwest that has supposedly kept producers from planting. However, it did also raise US export projections.
- Most traders were expecting a bearish wheat report but thought we may see the USDA upping their wheat for feed usage numbers because of their low corn usage numbers—the US feedlotters need to be feeding something if they are not feeding corn. We are all left scratching our heads on this one.

News From The Outside Markets

- Index Fund Rebalancing has lasted through to Mid Jan as most analysts were expecting with selling in corn and crude oil and buying in wheat. *Essentially Index fund rebalancing means that the Index Funds are rewriting their portfolios based on their relative performance or lack there of, of various asset classes.* Since wheat was pretty much the worst performer in the grain commodities in 2011, Wheat has been the commodity that needed balancing up.
- Very mild weather in the US and Canada with minimal snow cover on the dormant wheat, along with poor sub soil moisture, means wheat may have some upside of its own accord as we progress. Unseasonably warm temperatures across the US—the mildest Christmas in Chicago in 17 years some US residents are saying and Canadian producers are noting that Canada's western wheat belt is now the driest it has been in the past five years. *The trade isn't talking about this much yet as its focus has been on South America's corn and soybean production, but it certainly should be on our radar.* Latest reports are that the La Nina weather pattern is still strong and will remain in place for the short to medium term.
- The EU situation continues to simmer, causing the Euro to continue its downward slide and the US to push up against it. With tensions again mounting in the Eurozone the nerves of the traders are again becoming fragile. Big money will be watching sovereign yields, especially with the large redemption schedules coming down the pipe.
- Global inflationary pressures are easing, giving central banks a further scope to ease monetary policy in 2012. This is certainly the case in Australia, recent inflation outcomes have been favorable, allowing the RBA to cut interest rates twice in late 2011. Also, the US economic figures have improved, the employment figures seem to be rebounding and consumer credit is on the rise, posting its biggest monthly gain since 2001.

The wheat markets are heavily influenced by corn.

- In Argentina, roughly another 15–20% of the allocated area for corn still needs to be planted. The fields are in desperate need of a drink and producers are apprehensive about throwing the "big money", that is associated with corn growing at these fields as they are currently looking like they have no chance. 15–20% may not seem like a lot, and if the weather improves it may not be, but if the weather continues to decline and so do the corn crops then the already tight corn balance sheet will get tighter. Global corn stocks-to-use ratios prior to the USDA were looking like it was the lowest since 1973/74. However, the USDA revised this figure, which is still quite low, to be similar to 1995.
- The trade "thinned" in 2011 and a reduction in total "open interest" suggests that they are somewhat apprehensive about buying into a weather rally wholeheartedly. The corn markets in 2011 have been battered by the feed wheat glut, creating a cheaper feed source alternative for the global feed markets, slowing

BULLISH NEWS

- Australian harvest mainly completed
- Fresh hope of a near solution to the Greek debt issue
- New season local grain becoming availble

BEARISH NEWS

- USDA report released
- Australian new season wheat available for export markets
- Strength of the La Nina pattern seems to be weakening which is tempering the dry conditions in the US mid west. Weak La Nina likely to give smooth plantings for crops there
- US origin (wheat & corn) is becoming increasingly competive
- Forecasted rain for Argentina plantings, this weekend

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demand from China, as well as the thinning crowd of investors. However Standard Chartered believe that corn prices will find their feet and lead the feed grains market higher in 2012 as market sentiment improves and the trade crowd resumes business. But a bearish USDA report may have waned their enthusiasm on this statement.

- When world stocks are counted, often they include countries that do not necessarily export large amounts. For example people are quick to argue that world wheat ending stocks will be more than enough to offset any of the additional losses in corn from South America and Ukraine, but 50% of the worlds ending stocks of wheat are in China. As China is not generally an exporter this would mean that 50% of the worlds wheat supply is actually not available to the world, so is there less wheat to go around than many analysts are saying?
- With feed wheat currently in reasonable demand as a feed substitute across the world, Aussie feed wheat is pricing relatively strongly compared to milling grades. Any earlier discussions about a rise in milling grade premiums have been shot to pieces as feed wheat has inflated in price, whereby we have a double whammy of a higher feed base and lower demand both squeezing premiums.
- The outlook for 2012 wheat is that the EU are forecasting the largest wheat crop since 2008, and it's not only the EU increasing their wheat areas. US wheat plantings are also predicted to be higher, with a 186 million metric tonne surplus predicted by the latest USDA report, wheat may struggle to find legs of its own this year. It will certainly look to corn for direction. But reports for corn are looking questionable too. Thoughts are that there will be 95 million acres of corn planted, what happens if all this corn actually does ok? We now need to consider maybe the reverse of last week where weather was causing shorts in the market; now favourable weather may cause more corn to be grown, more than the world could dream of using. Bearish corn equals bearish wheat!
- The next couple of weeks will be the telling path as to how the trade has digested this USDA report. This particular report (the Jan end of year USDA report) has a tendency to create knee jerk reactions and last Friday's trade was certainly not unusual. The problem we face in the current trade environment is extreme volatility and unfortunately it is not isolated to once a year when a major report comes out. We must use this as a reminder that volatility caused by events, news, or economies is part of our marketing environment now and we must plan as best we can to ensure that volatility spikes and lulls are mere blips in our marketing strategy.

A quick note on pulses

Lentils are still feeling pressure from Canada who is still carrying large stocks from the past two seasons. Chick and field peas are finding support from strong growth in India as they are experiencing a production deficit needing to be filled with imports from Australia and Canada. Their demand tends to wane and flow. Good demand for Aussie human consumption beans into Egypt is supporting the bean prices at the moment.

Australian Update

Central Victoria

RAIN AND CROP CONDITIONS: Harvest is now 100% complete on winter crop. Some growers have summer crop consisting of corn, soybeans and sunflowers to look forward to for the short term.

We have had a scattering of rain that was anywhere from 5–15mm across the Mallee over the week end which will promote the growth of summer weeds nicely. Currently spraying conditions have not been ideal, but with some rainfall, growers should now be able to get on and get it done.

Wimmera and Western District

RAIN AND CROP CONDITIONS: The Wimmera received approx. 50 mm of rain over the past 2 weeks with another 5mm falling over the weekend. Spraying for summer weeds in the early hours of the morning is taking up most growers' time with harvest across the Wimmera now virtually finished.

11/12 CROP: Overall the Quality of grain over harvest was fair with most wheat binned as ASW1 or APW1 and a majority of the barley making Malt. Most growers have reported good quality legumes which is a relief after last year's weather damaged products still relativity unsold on farm.

SA & VIC Mallee

RAIN AND CROP CONDITIONS: With almost all growers having completed harvest, the majority have continued with summer spraying to keep weeds under control after recent rainfall improved growing conditions. After yet another taxing harvest had by all, growers will be looking to find time to have a much needed break before they commence sowing.

Eyre and Yorke Peninsulas/Mid North

RAIN AND CROP CONDITIONS: Headers have been blown down, washed, some polished, greased and parked in the shed after another good yielding season for Eyre Peninsula growers.

Despite the Xmas and new year hot spell, growers still found time to get out in the paddocks to start their 12/13 cropping season by cranking the sprayers up to knock over the summer weeds. With little summer rains on the E.P. this first pass should clean the paddocks up nicely in preparation for this year. But! We still have to market a good portion of the 11/12 crop. We are ever so slightly seeing growers release ASW1 and AWP1 for sale.

The year that was and the year that could be…

- We started 2011 wondering when the European leaders would sort out their Sovereign debt mess, and we start 2012 with the same question! Surely this time next year we will not still be pondering this question!
- The Eurozone crisis not only plagued the commodity markets with extreme volatility, but also saw a rise in bank funding costs. If banks have to raise more capital and choose to pass that onto customers, it may require larger cuts from the RBA than would otherwise be the case.
- The Aussie dollar hit a high of 110.8 US cents in July 2011 and a low of 94.4 in October, but spent most of the year above parity. Developments in Europe and China, an easing of global concerns and a better growth outlook will be crucial to the path of the Aussie dollar in 2012.
- 2011 certainly started promisingly with tight US corn stocks and the ban on Black Sea grain exports both supportive of global grain prices, but a flood of cheap grain from Russia softened prices considerably. Further being exacerbated by the European debt crisis.

- Generally the Aussie 11/12 wheat yields were a little disappointing with rust, frost and dry periods per-haps causing more damage than first thought, however barley yields were generally at or above average. To have beaten the harvest average prices you would have had to sell malt barley prior to Nov 28th, high protein wheat prior to December 6th and canola prior to Nov 22nd.
- With inputs prices across the world increasing, a more cautious approach to farm decision making is in the forecast. A reduction in the use of fertiliser is potentially one input that may be wound back. This could potentially see the resurgence of soil mining for phosphate if input costs do not soften in line with agri-commodity prices. While on input costs, some in the trade are worried that an issue in the "Strait of Houmuz" could spike crude oil prices.
- There have now been only two times since they started keeping records that we have seen three consecutive years of below trend yields. Most US farmers and analysts are saying the odds of a third bad US crop are really low.
- One US climatologist is suggesting seasonal conditions this year may be similar to 1989.
- Standard Chartered are predicting that there will be a rise in corn prices back to 750 (USc/b) early 2012?!?
- So we start 2012 with production concerns in South America, US, Canada and Ukraine. The European economic problem remains lurking in the shadows and the trade complex is still trying to get wind back in its sails after it was left bruised, battered and destroyed from the MF Global bankruptcy debacle. And it is still very early in the year! One thing's for certain for 2012—VOLATILITY! Hold on, buckle in and let's see how the 2012 commodity ride goes! Make sure your 2012 marketing plan allows for extreme volatility in the grain markets.

In 2011 it was Queensland's floods and cyclones, Christchurch and the Japanese earthquakes, rioting in the Middle East, the US debt ceiling issue and subsequent ratings downgrade by S&P, and the MF Global bankruptcy. In each and ever year, something unexpected comes along that impacts on economic activity and drives financial markets. What will 2012 bring…

Local Market Overview

Local Market Pricing and Comments

CANTERBURY GROWER PRICE INDICATIONS PER TONNE

	2012 FREE CROP	2012 CONTRACT CROP	2011 FREE CROP
FEED BARLEY	$370–380	$370–380	$440–450
FEED WHEAT		$400–410	$440–450
MILLING WHEAT		$425–480	

COMMENTS FOR THE LOCAL MARKET THIS FORTNIGHT

- After December predictions of carryover Feed Wheat stocks we have seen this wheat purchased by dairy farmers and feed manufacturers due to contract shortfalls and the late 2012 harvest. 2011 feed barley stocks are also cleared although we now have ample tonnages of new crop barley available for limited markets. Most local buyers seem to be only buying grain to cover short term requirements at this stage. There is no current inquiry from North Island buyers for grain. Current Import pricing and supply seems to be more acceptable to North Island buyers.
- Growers are reporting high yields and excellent test weights from early harvested crops of barley with some non-irrigated crops reading over 10/tonne per Hectare on combine yield monitors'. Cereal crops across the board look to have above average yield potential with surplus tonnages likely.
- Don't forget grain storage facilities should be inspected now if you have not already and treated as required for potential pests.
- ATS Seed are looking for all types of grain to supply a wide range of end users. If you have free or uncontracted grain that you would like to sell please drop a sample at any ATS store, or contact the ATS customer service centre on 0800289287 to arrange sample bags or pickup.
- CONTACT ATS SEED FOR GRAIN CONTRACT OPTIONS.

Imported Grain Pricing for 2012

COMMODITY	GRADE	SHIPMENT	AUS CONTAINERS DELIV AUCK MILL
WHEAT	70TW/10Sc	JAN/FEB	385.00
BARLEY	F1	JAN/FEB	395.00

The table shows new crop pricing for 11/12 harvest out of East Coast, Australia; where this is priced delivered New Zealand mill as of 20.01.2012

Imported Grain Pricing Trends for 2011