ProFARMER

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* * MEDIA RELEASE * *

Friday 27th June

What has changed since last quarter?

Since the end of the last quarter, there have been some significant moves in grain values, and rampant food inflation is shifting sentiment toward bio-fuels. CBOT wheat futures have risen from +$12/bu to $9/bu, while corn prices have risen to over $7/bu on US crop concerns. Soybean and canola futures have pulled back off their highs despite new records in crude oil, as speculative interest has diminished as the ongoing credit crunch and threats of commodity market regulations have seen non-commercial investors sit on the sidelines.

In the past quarter, bio-fuels have been linked to high levels of food inflation, placing pressure on governments globally to rethink support of bio-fuels and attack global food price inflation. G-7 leaders have expressed a desire to halt the decline in the $US as one strategy to halt the ongoing rise in food prices.

“Locally, feeders have switched out of expensive wheat and into barley and sorghum, but feeding activity remains very depressed”, says ProFarmer Managing Director Richard Koch. Local old crop cereal prices fell sharply, led by wheat, and all other grains have followed suit to some extent. Prices have recently strengthened on US corn crop problems and scarce local cereal supplies.

Sorghum values have improved on the back of a rise in corn prices. But crop estimates vary widely, and feeders are buying hand-to-mouth. “With the rally in corn prices, export demand is picking up, which should move local values back towards export parity and support local values”, says Mr Koch.

What do these changes mean?
“Poor US corn crop prospects and strong ongoing demand will have a major impact on export parity levels for Australian grains in the coming year”, says Mr Koch. Record crude oil prices look set to underpin ongoing strong demand for bio-fuel crops and by increasing production costs, should also underpin firm values across the grain complex.

“Rising production costs will also underpin our prices at very strong levels during the forecast period”, says Mr Koch. Unless prices remain strong, global plantings may pull back and tighten stocks further. “We assume that support of bio-fuel industries will continue in the short-term and plateau in 2009, and these policies will remain supportive of higher grain prices over our forecast period”, says Mr Koch.

But once global growth slows, the $US strengthens and crude oil prices ease back, what happens to commodities? “Until global markets are confident that they have arrested the decline in grain stocks, we believe prices will remain well supported”, says Mr Koch.

The lift in global wheat production, and a rebuilding in stocks, has brought the large premiums for wheat back to more traditional levels, but the ongoing decline in stocks of all grains will limit the extent to which wheat prices can fall from here. The desire to rebuild wheat stocks should hold prices above normal premiums to feed grains during 2008.

International corn prices will largely dictate the levels for other Australian feed grains. "We expect our coarse grain prices to be supported at around current levels", says Mr Koch. Some of the reduction in export demand for US corn will flow through to demand for Australian grains. "We will first see this in the form of greater demand from Japan for Australian sorghum in late 2008", explains Mr Koch.

"We expect that the $A will peak sometime during the second part of 2008 and therein, become supportive of Australian grain prices", says Mr Koch. The main risk to our forecasts appears to be that high crude oil prices and rising inflation crush global growth. But does that necessarily flow onto lower commodities? Stocks of all grains are still declining; the world needs to eat; and rising input costs are increasing the risk/reward scenario for global food producers dramatically. Any efforts to support the $US will work in our favour.

Available now!

The ProFarmer June 2008 Australian Grain Market Report has just been released. It includes discussion on food price inflation, analysis of international markets and their likely impact on Australian grain markets, and discussion on local crop conditions, production forecasts and planting updates.

The report provides forecast prices of each of the major grains by state for the year ahead and a state-level 10-year grain price history for the major grains. It is well suited to Australian corporate agribusinesses.

If you are interested in subscribing to ProFarmer, please contact the office on 1300 302 143.

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Background Information:

ProFarmer is Australia's leading independent supplier of Agricultural commodity market information and strategic advice. ProFarmer offers national coverage of all broadcare commodities through its network of analysts with over 50 years of combined experienced. The flagship ProFarmer Newsletter and Market Update is read by over 2,000 of Australia's top farmers weekly. ProFarmer also offers advisory, consulting and training services.