# Global Wheat Outlook

## November 2009

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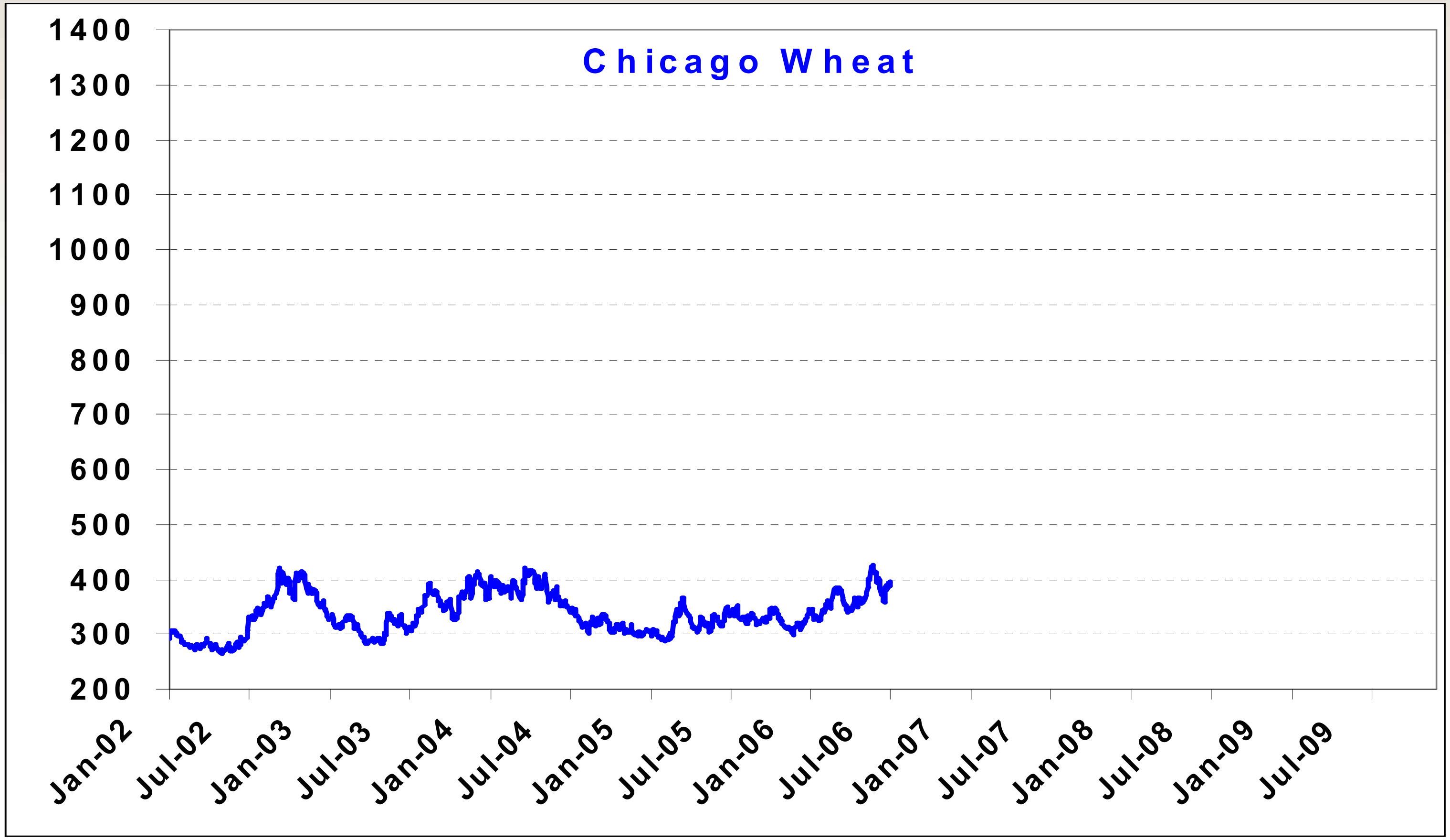
**AWB**

# World Wheat price – What are the drivers?

- Supply and Demand!!!
- Supply in major exporter nations is key, and by far the largest swing factor
- Global import demand.  Far less volatile than production in totality, BUT… One tonne lost production in many importing nations with significant domestic production is a tonne of increased import demand.
- Futures markets… Can lead price for many grades/origins of wheat
- Supply and Demand multi faceted
  - Global
  - Domestic
  - Grades  (eg. Hard vs Soft)
- Perception of where risk lies in the balance sheets is the real driver of short to medium term prices

# World prices – How did we get here?

- 2005/06 season and prior… two years of comfortable world stocks post global tightness 2002/03 season.
  - Futures stuck broadly between 300 to 400 c/bu
  - Global Wheat FOB values during 2005… 125 -150 USD/mt

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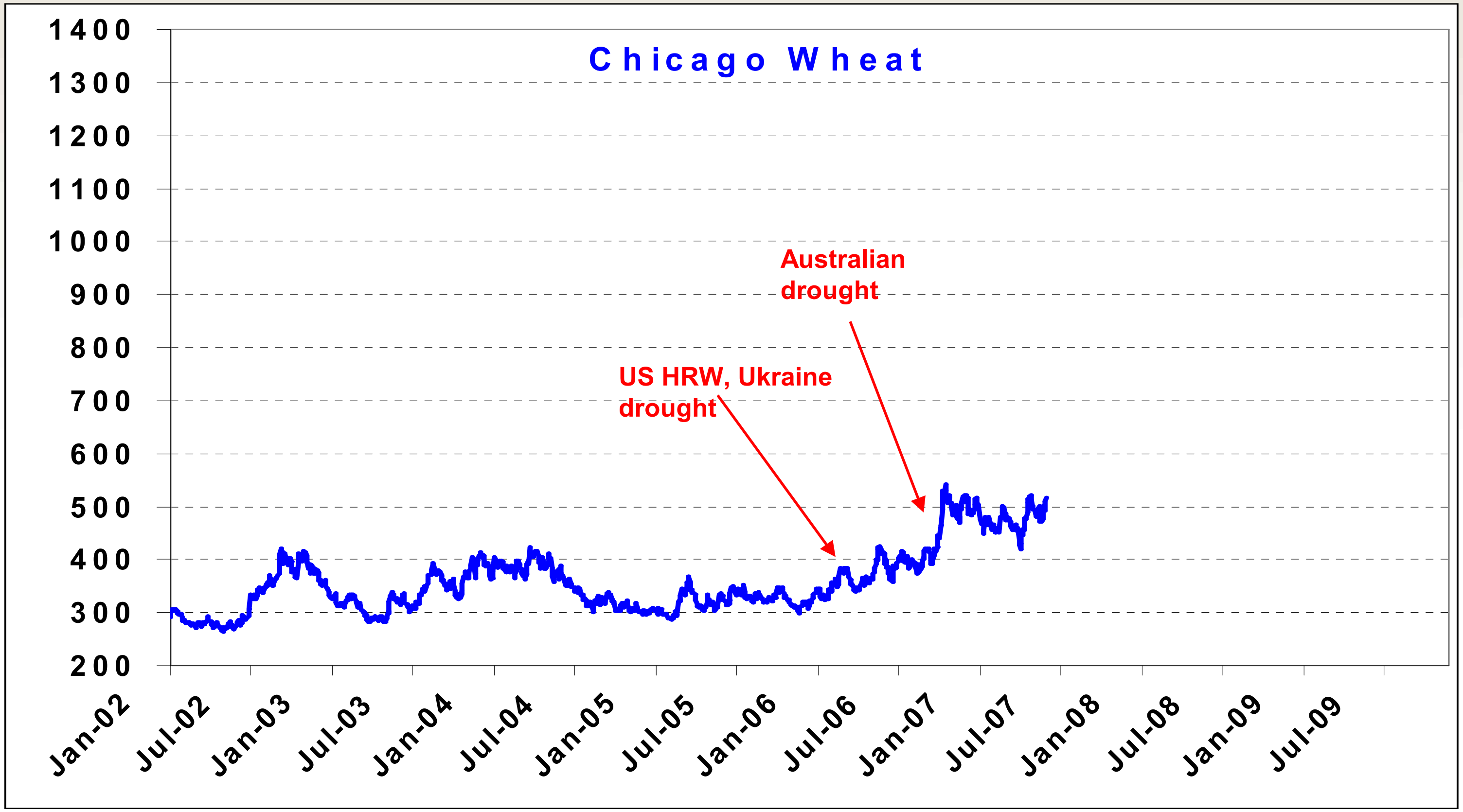
# World prices – How did we get here?

•2006/07… Production issues surface… US HRW drought.. Ukraine drought.. Australian drought… slash major exporter production 23mmt year on year… ending stocks fall to 13% stocks/use.

- US Futures push through 500c level
- Global FOB values led by mid/high protein wheat above USD 200 FOB by late 2006

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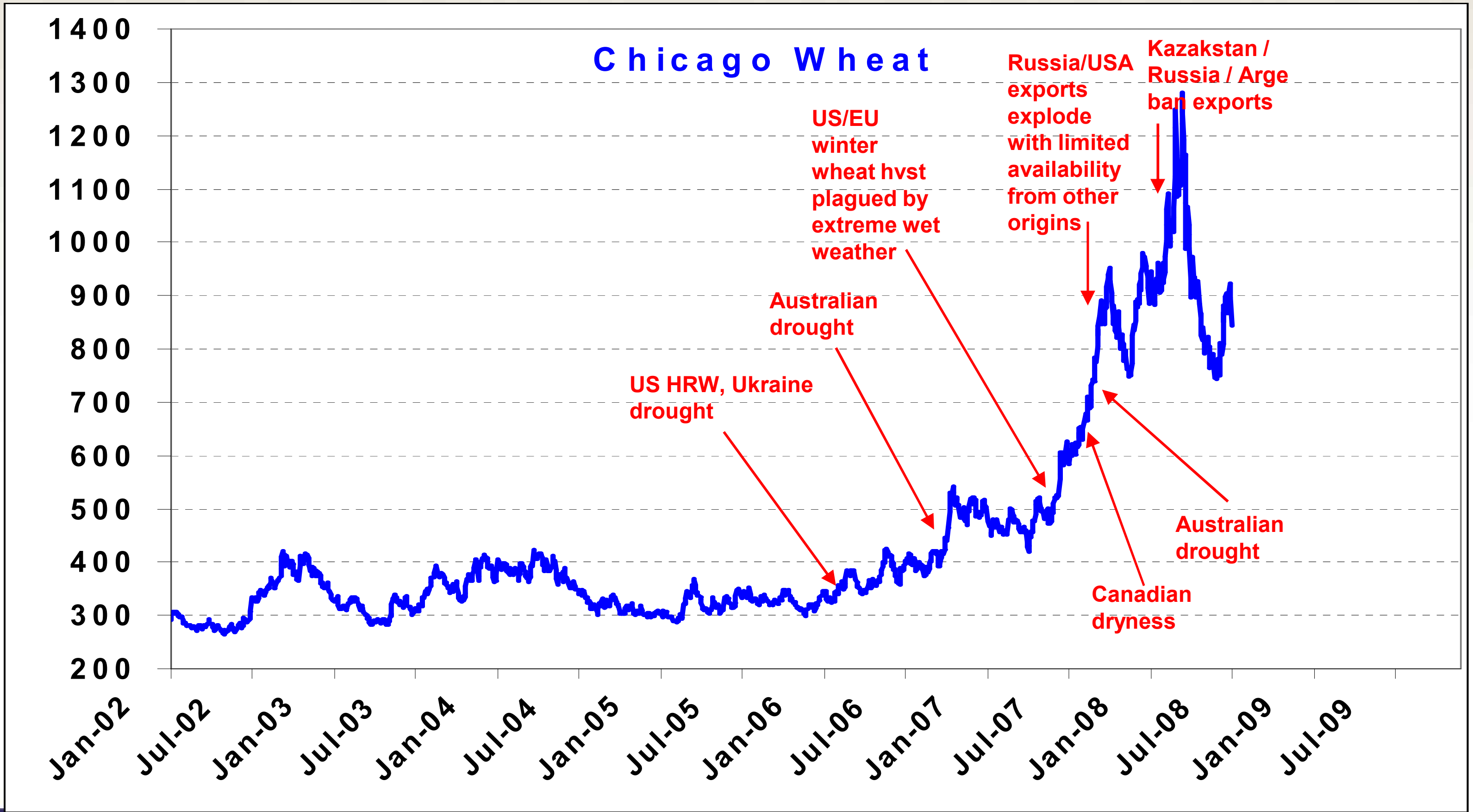
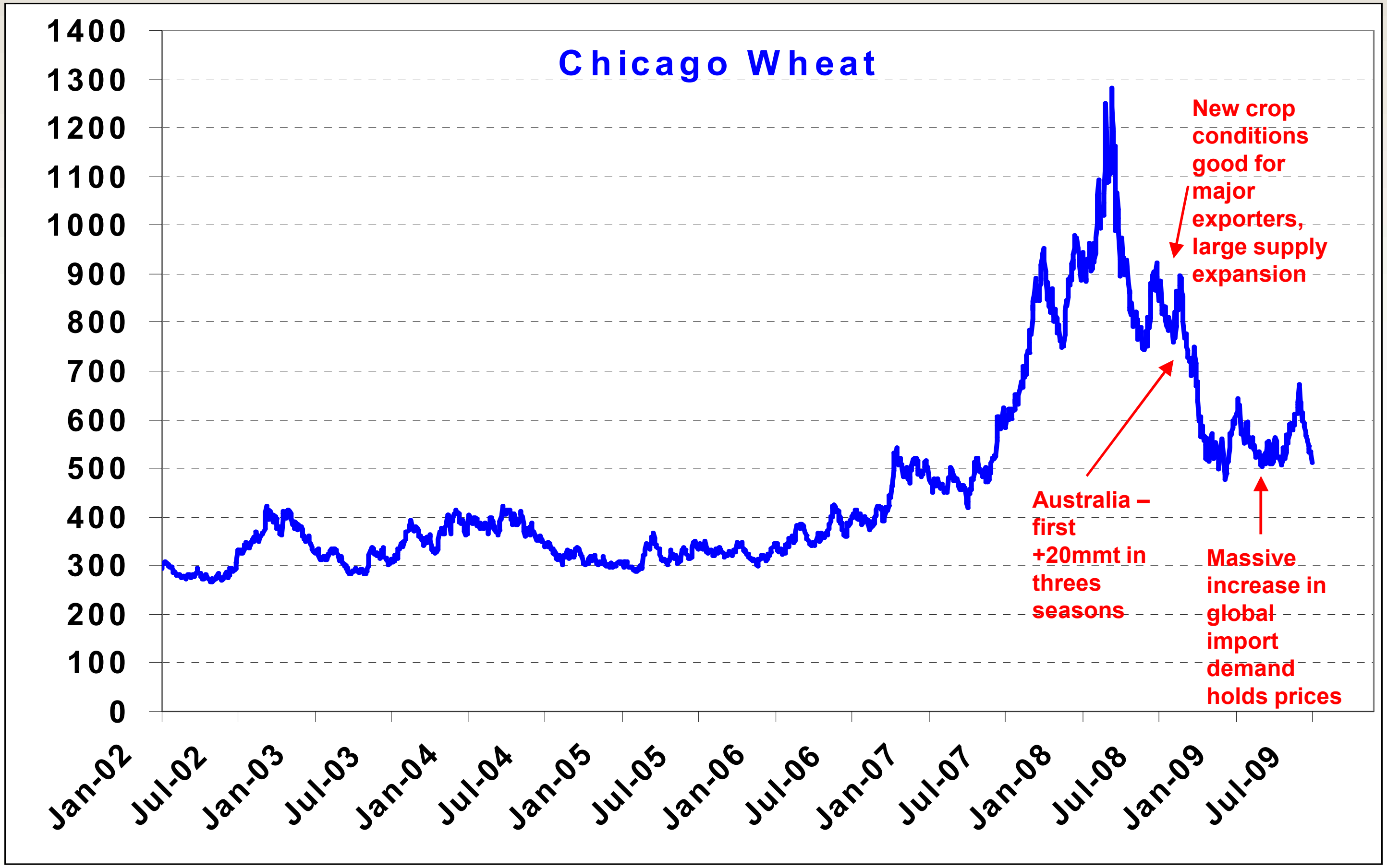
# World prices – How did we get here?

- 2007/08… consecutive production disasters in Australia and Ukraine… Canadian, US and EU production forecasts reduced late in the season… Combined with tight carry in stocks, S&D is explosive! Price responds accordingly…
  - US futures explode to over 1300 c/bu
- Global FOB values reach record levels over 500 USD/mt early 2008



# World prices – How did we get here?

- **2008/09… Massive increase in prices leads to acreage expansion… Major exporter yields also in general good to excellent.. A massive supply side response. Middle East drought increases global import demand dramatically, dampening scale of price slide.**
- **Sub 200 USD/mt FOB APW wheat trades late 2008**

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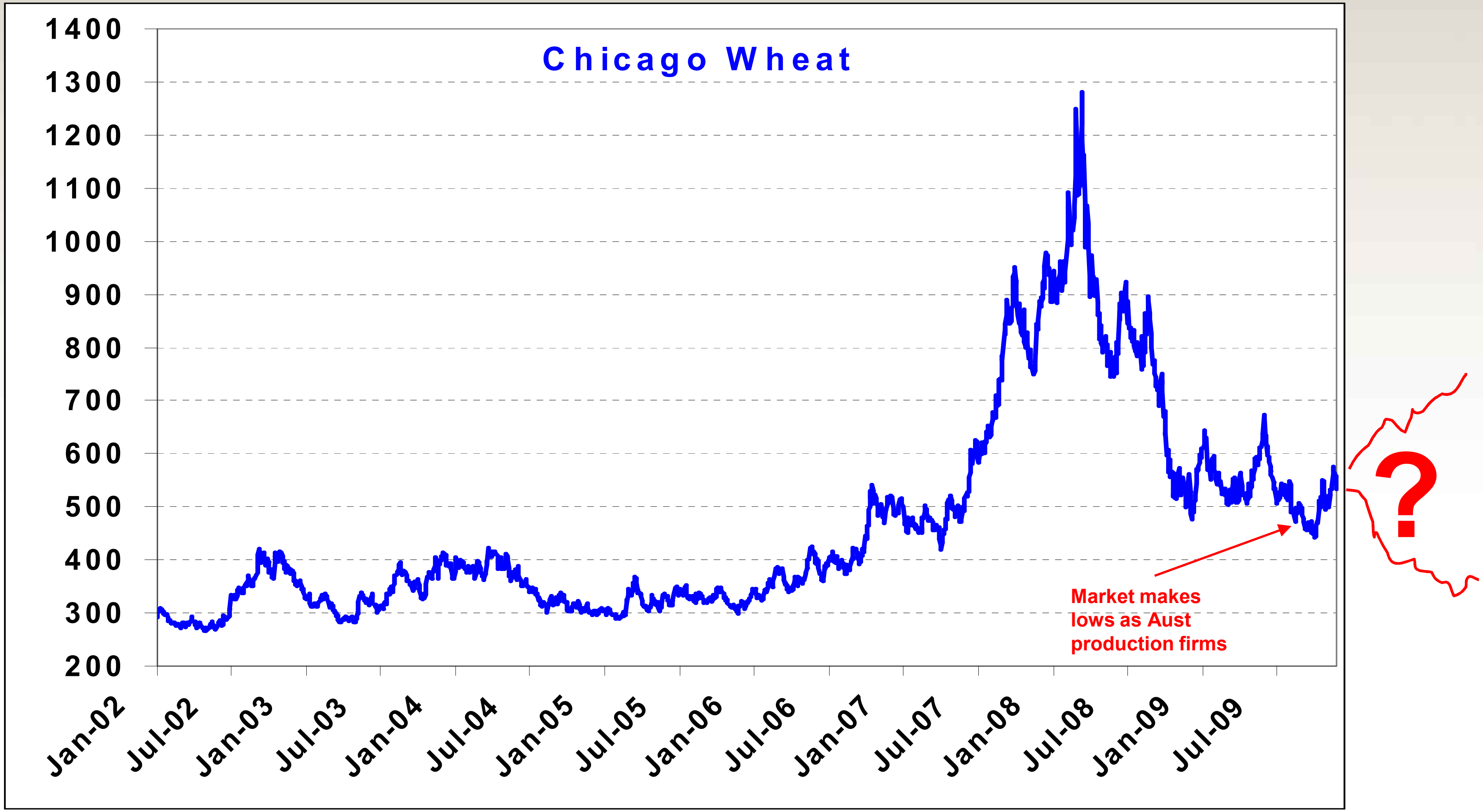
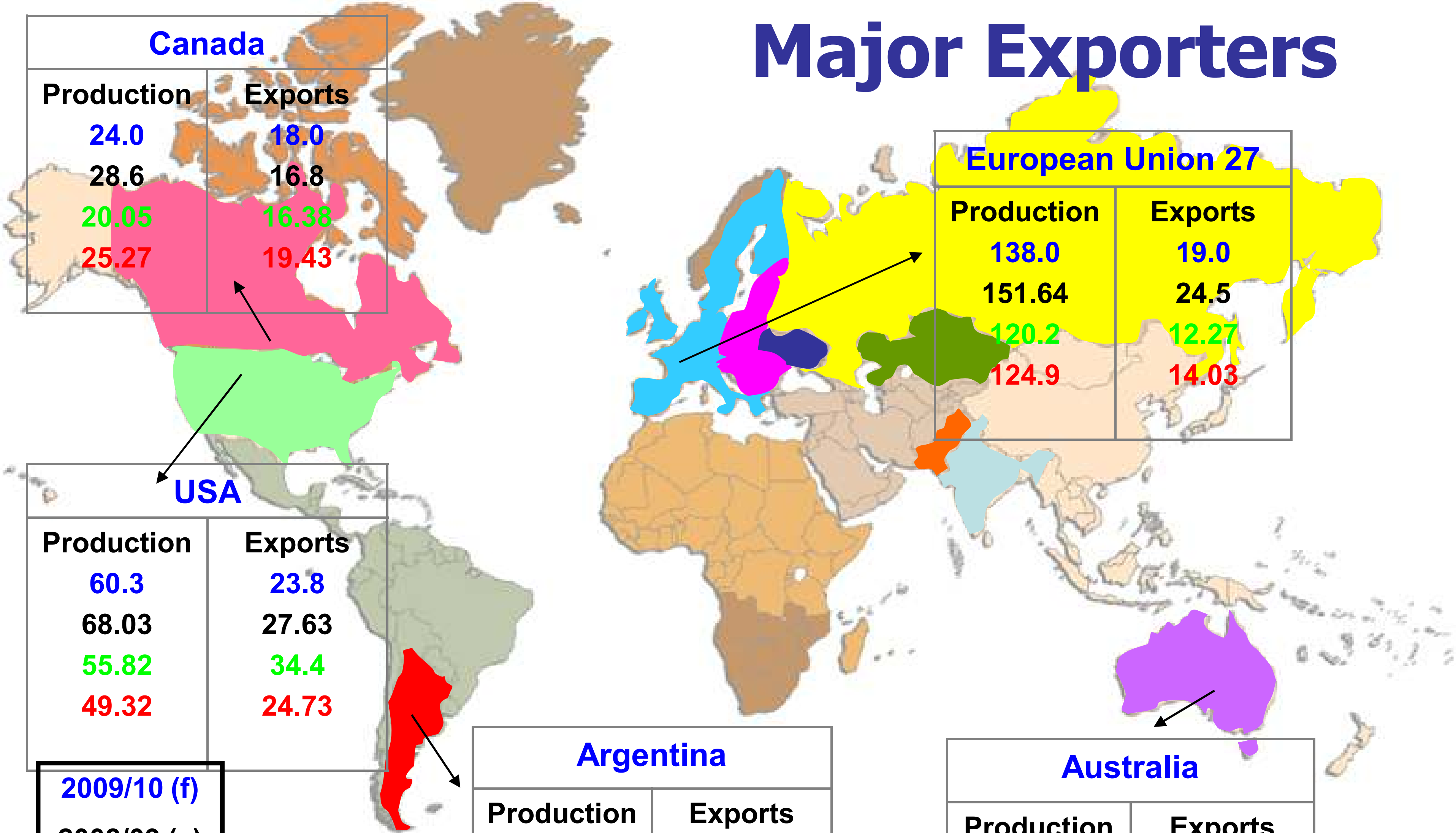
# World prices – How did we get here?

- **2009/10… No major production issues anywhere!!! Price slide complete.. How low can we go???**



# Major Exporters



| Canada | |
|---|---|
| Production | Exports |
| 24.0 | 18.0 |
| 28.6 | 16.8 |
| 20.05 | 16.38 |
| 25.27 | 19.43 |

| European Union 27 | |
|---|---|
| Production | Exports |
| 138.0 | 19.0 |
| 151.64 | 24.5 |
| 120.2 | 12.27 |
| 124.9 | 14.03 |

| USA | |
|---|---|
| Production | Exports |
| 60.3 | 23.8 |
| 68.03 | 27.63 |
| 55.82 | 34.4 |
| 49.32 | 24.73 |

| Argentina | |
|---|---|
| Production | Exports |
| 8.0 | 2.5 |
| 8.4 | 5.5 |
| 18.0 | 11.2 |
| 15.2 | 10.5 |

| Australia | |
|---|---|
| Production | Exports |
| 23.5 | 15.5 |
| 21.5 | 14.0 |
| 13.8 | 7.5 |
| 10.8 | 8.7 |

2009/10 (f)
2008/09 (e)
2007/08
2006/07
(mmt)

Source: USDA, E= Estimate, F = Forecast

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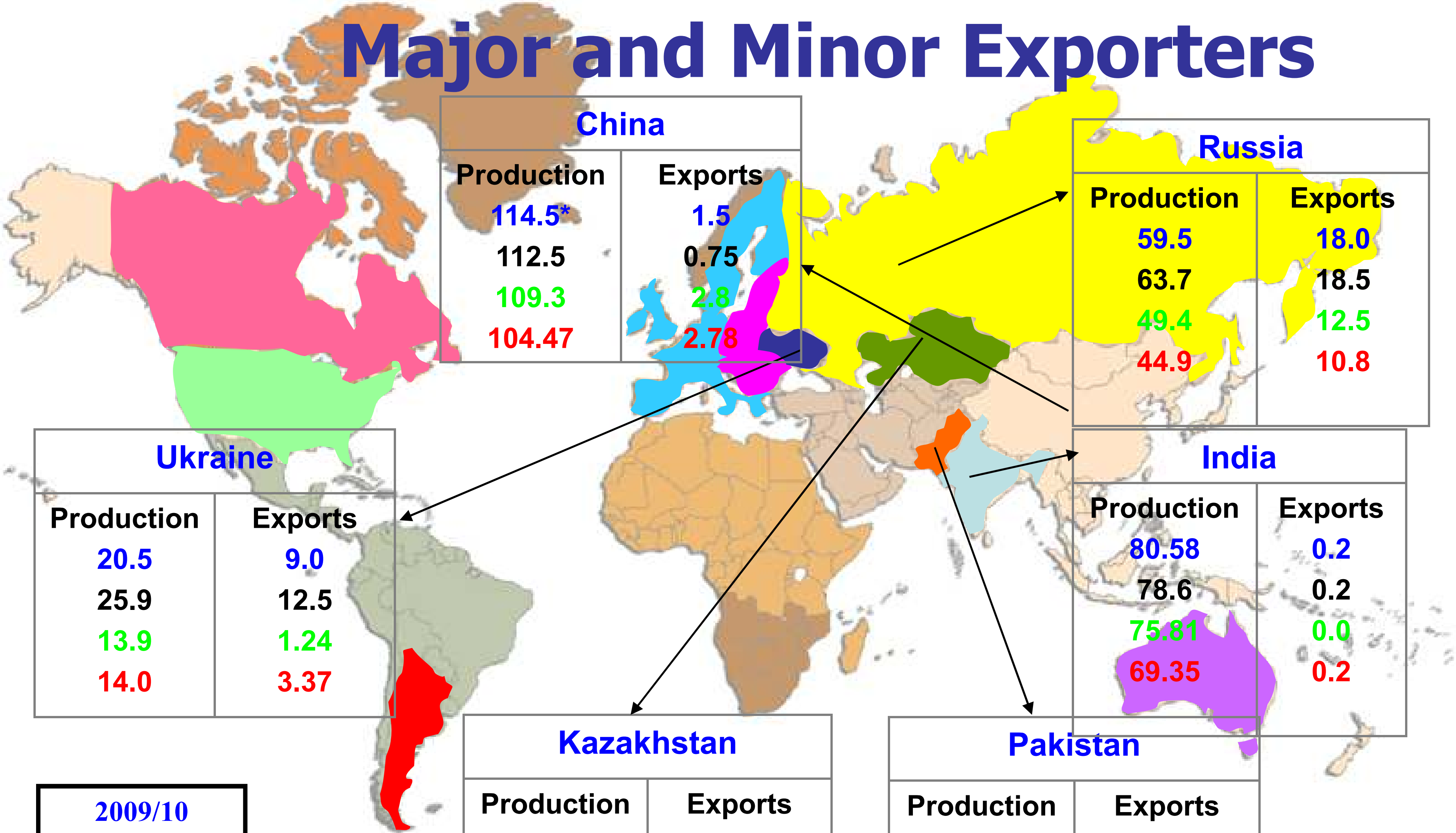
# Major and Minor Exporters



**China**

| Production | Exports |
|---|---|
| 114.5* | 1.5 |
| 112.5 | 0.75 |
| 109.3 | 2.8 |
| 104.47 | 2.78 |

**Russia**

| Production | Exports |
|---|---|
| 59.5 | 18.0 |
| 63.7 | 18.5 |
| 49.4 | 12.5 |
| 44.9 | 10.8 |

**Ukraine**

| Production | Exports |
|---|---|
| 20.5 | 9.0 |
| 25.9 | 12.5 |
| 13.9 | 1.24 |
| 14.0 | 3.37 |

**India**

| Production | Exports |
|---|---|
| 80.58 | 0.2 |
| 78.6 | 0.2 |
| 75.81 | 0.0 |
| 69.35 | 0.2 |

**Kazakhstan**

| Production | Exports |
|---|---|
| 17.0 | 7.5 |
| 12.5 | 5.0 |
| 16.6 | 8.2 |
| 13.5 | 8.1 |

**Pakistan**

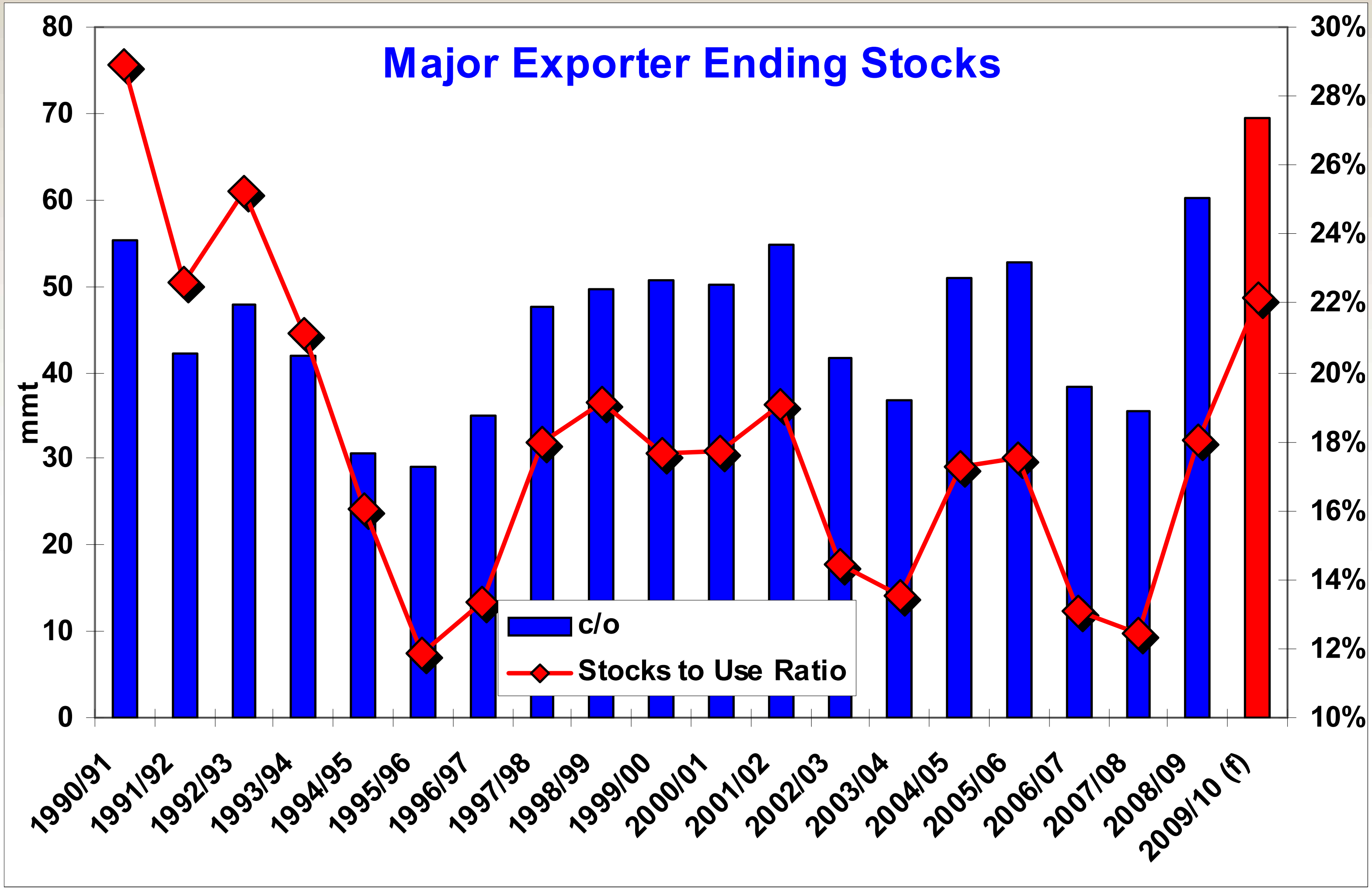
| Production | Exports |
|---|---|
| 24.0 | 1.0 |
| 21.5 | 2.4 |
| 23.3 | 2.2 |
| 21.7 | 0.2 |

2009/10
2008/09 (e)
2007/08
2006/07
(mmt)

Source: USDA

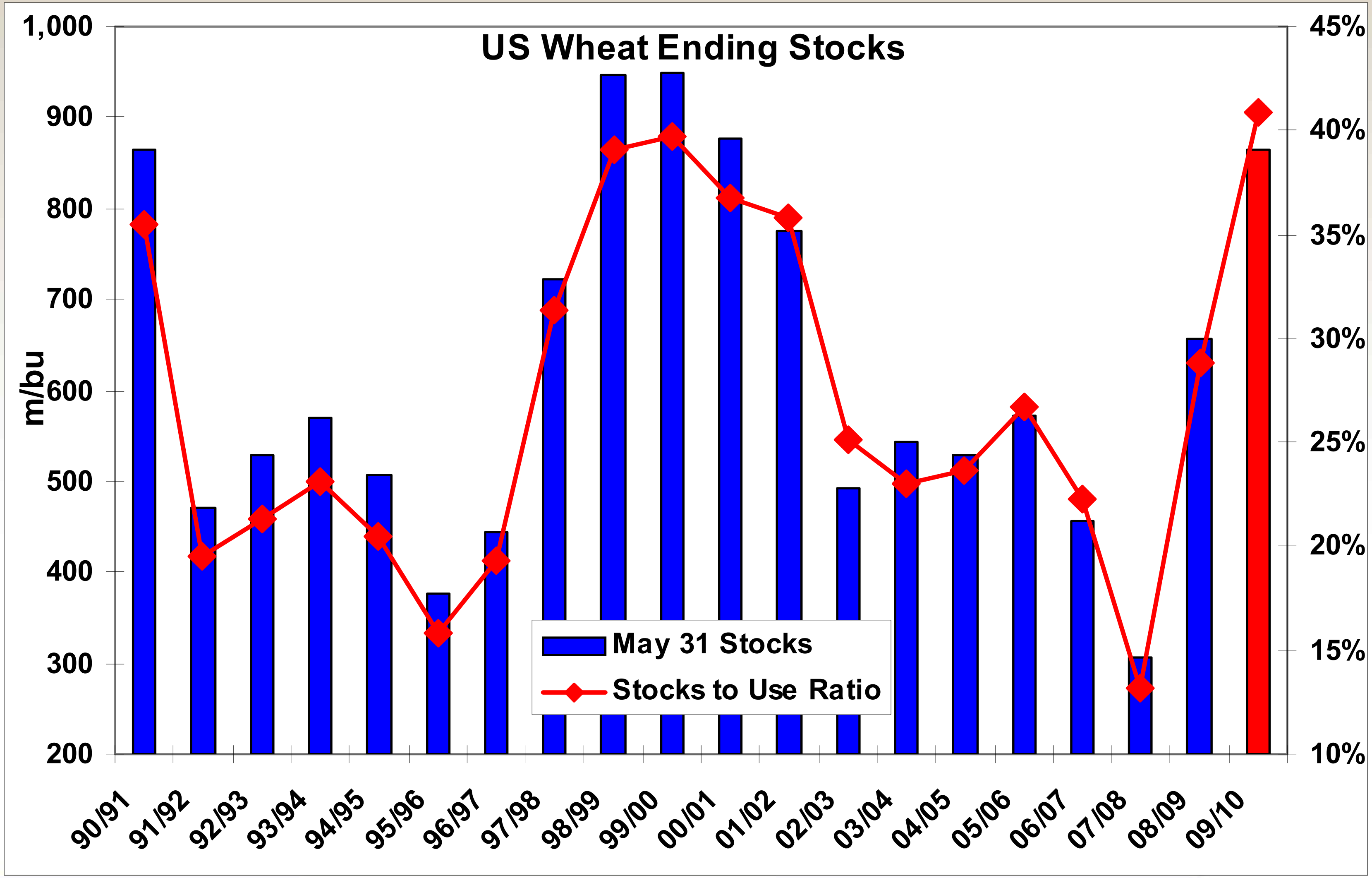
# Current situation – Global stocks are loose!

- Major exporter stocks are the driver of the global price of wheat
- Despite production falling 34mmt, ending stocks still rising!!



# Current situation – Global stocks are loose!

- US stocks now to the point of extreme market overhang
- Production down 8mmt year on year, ending stocks still rising!

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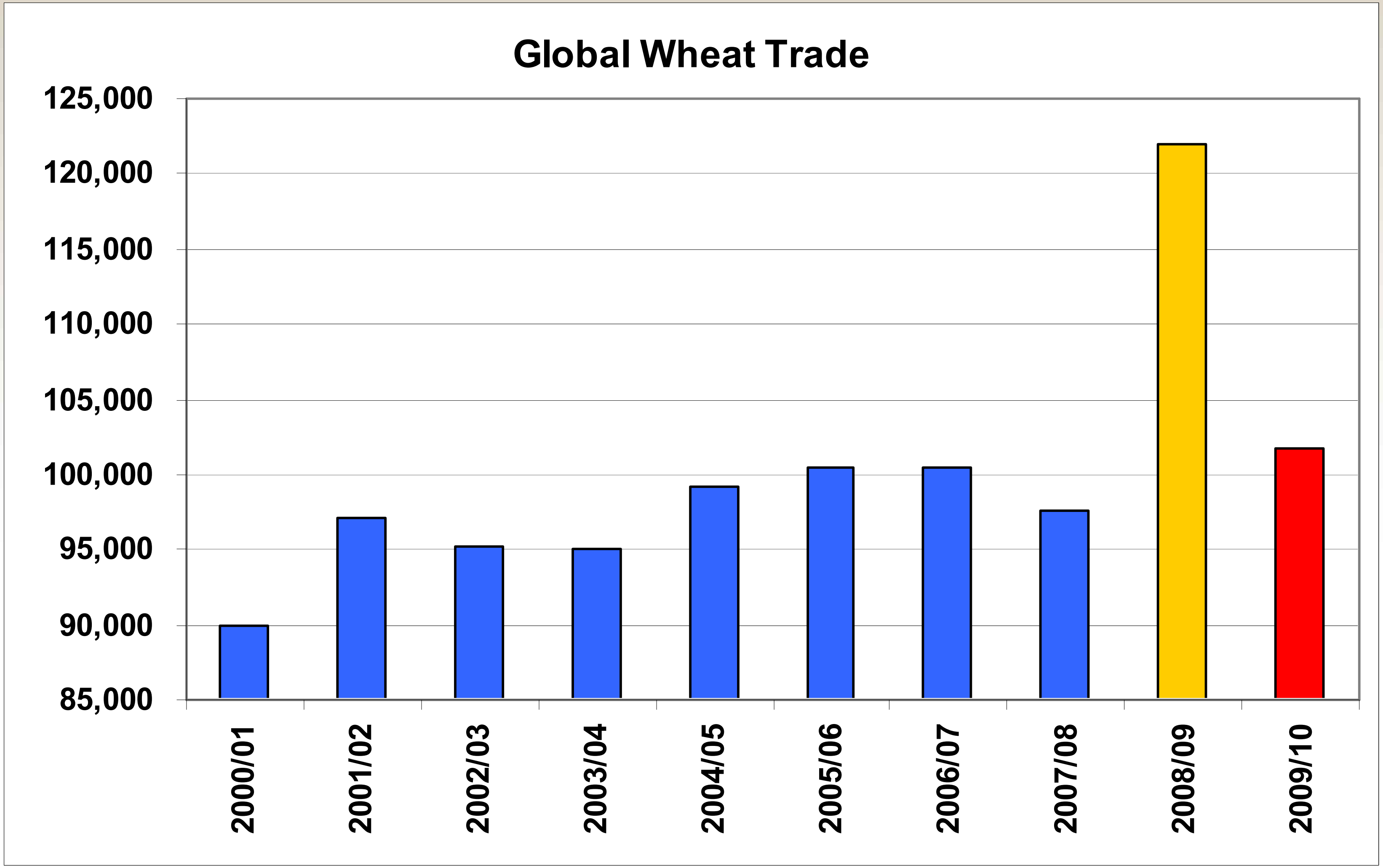
# Current situation – Global stocks are loose!

- **Import demand is benign**

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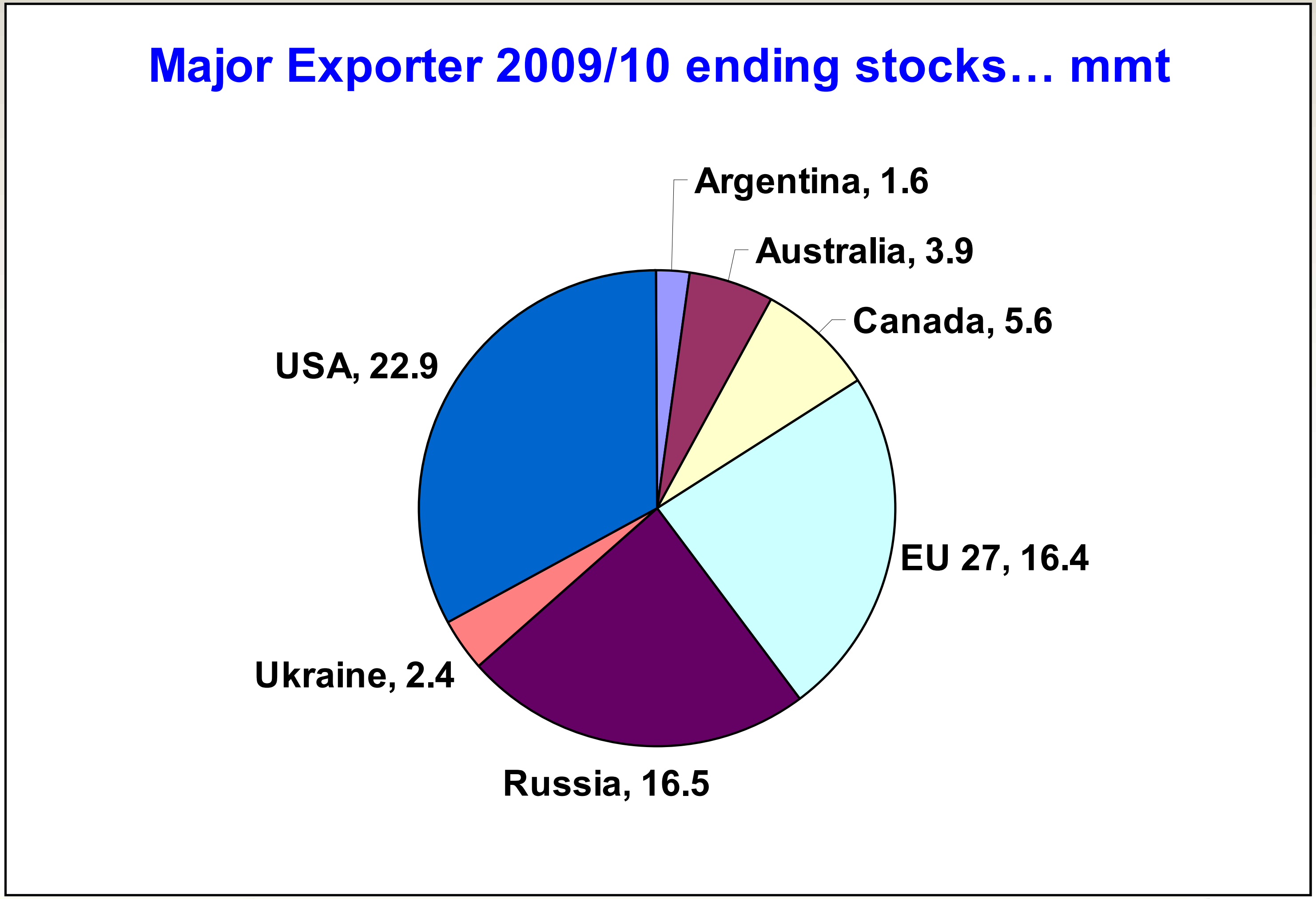
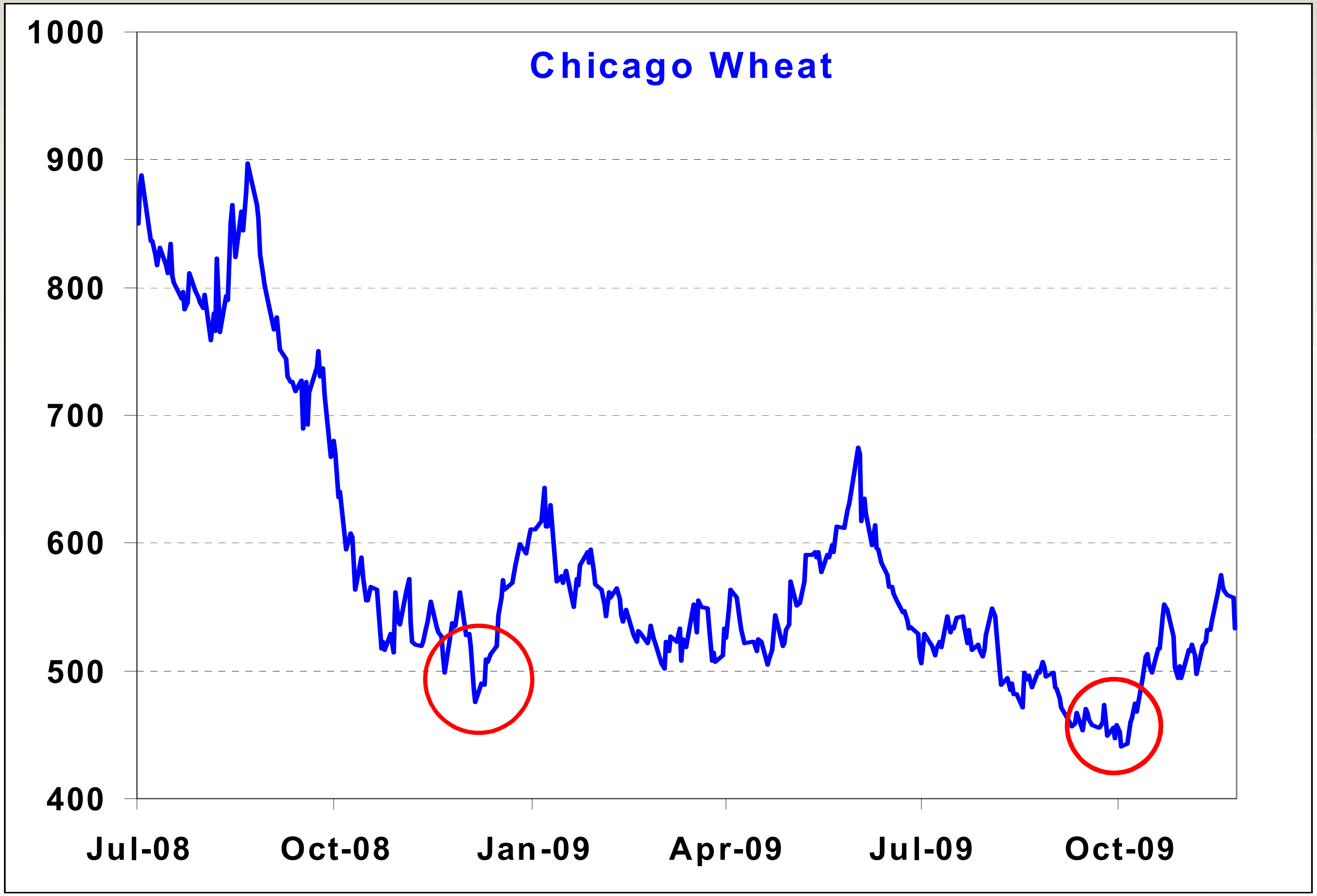
# Current situation – Global stocks are loose!

- **BUT!!! The stocks are NOT evenly distributed… RUSSIA and USA carrying the majority of the exportable surplus stocks**
- **Russian government long 8mmt wheat and rising**



# 2010/11 – Looking Forward

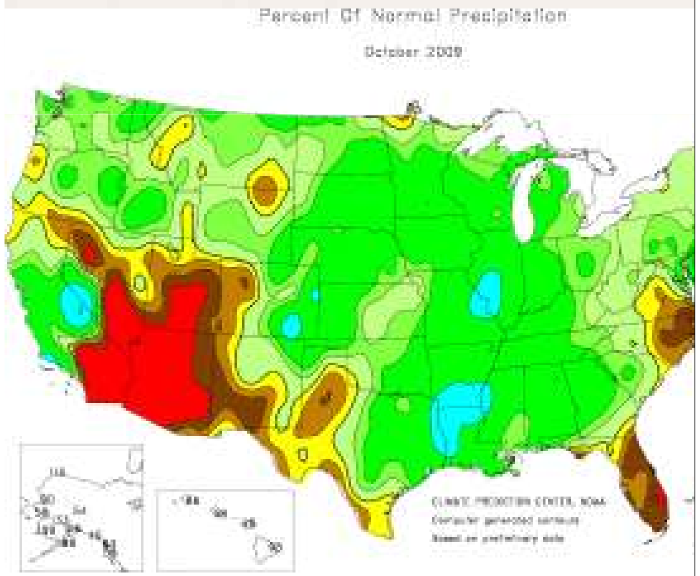
- **The market typically reaches a point sometime in October to December where it switches attention from current season to New Crop...**

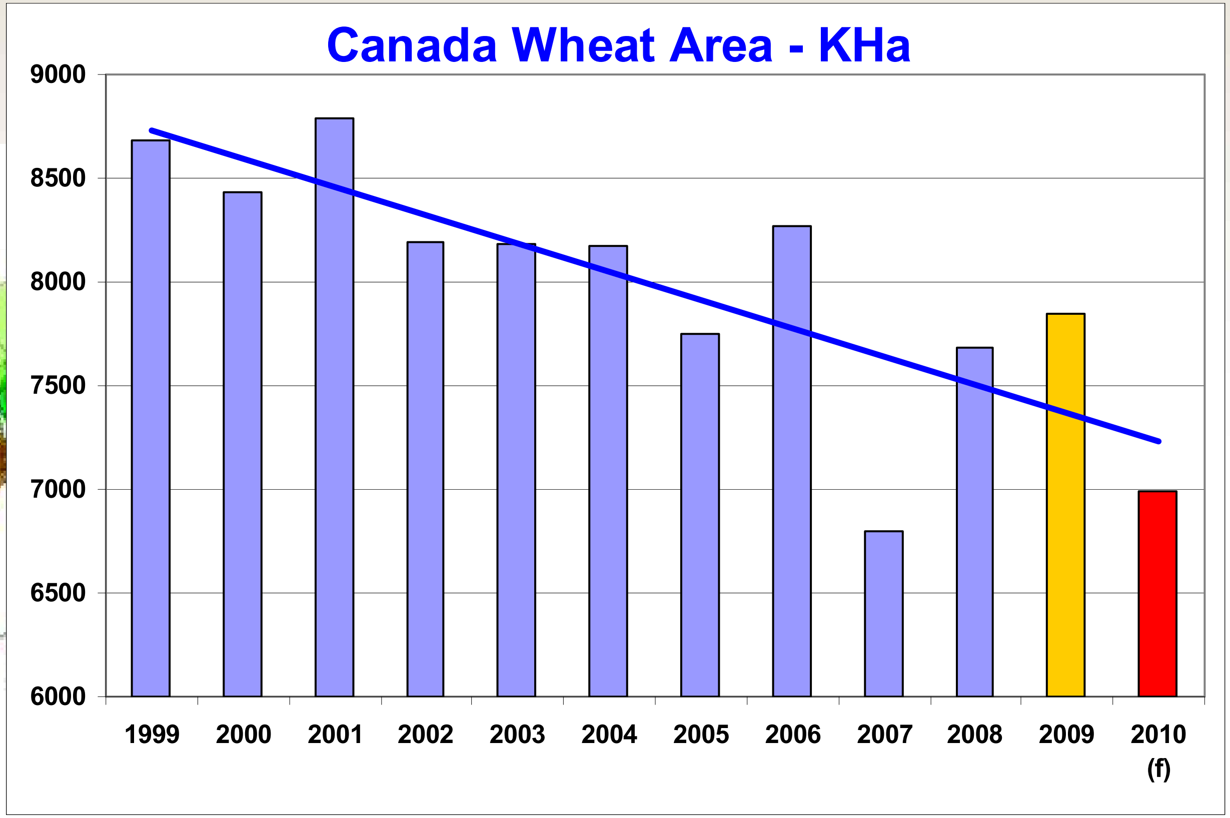


# 2010/11 – Looking Forward

- So where will the problems develop???

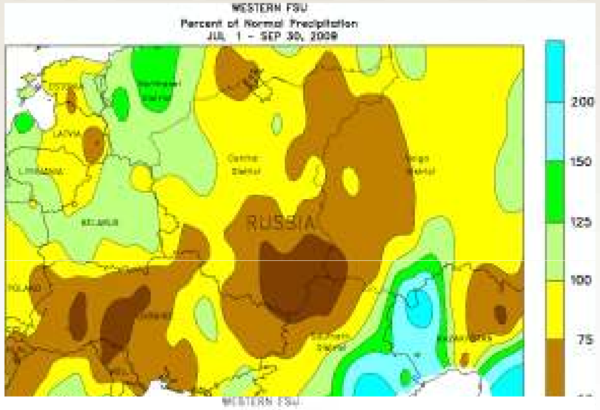
- NORTH AMERICA – Significant reduction in planted area, price and weather induced.
  - US SRW area down 20-30%
  - US HRW area down 5%
  - Canadian Wheat area in long term decline!!!

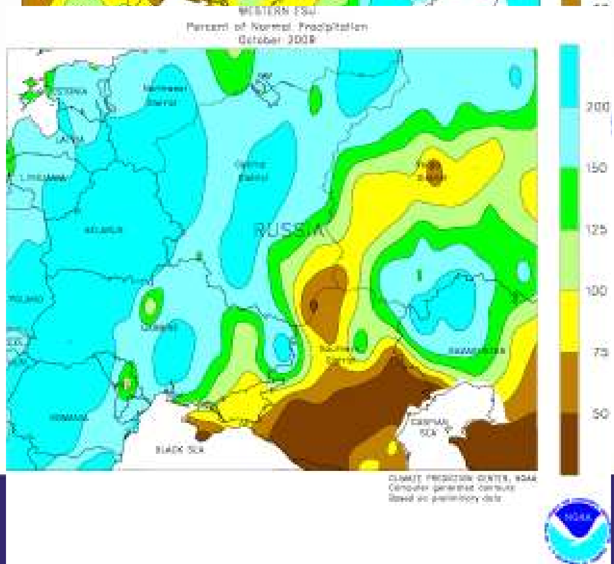


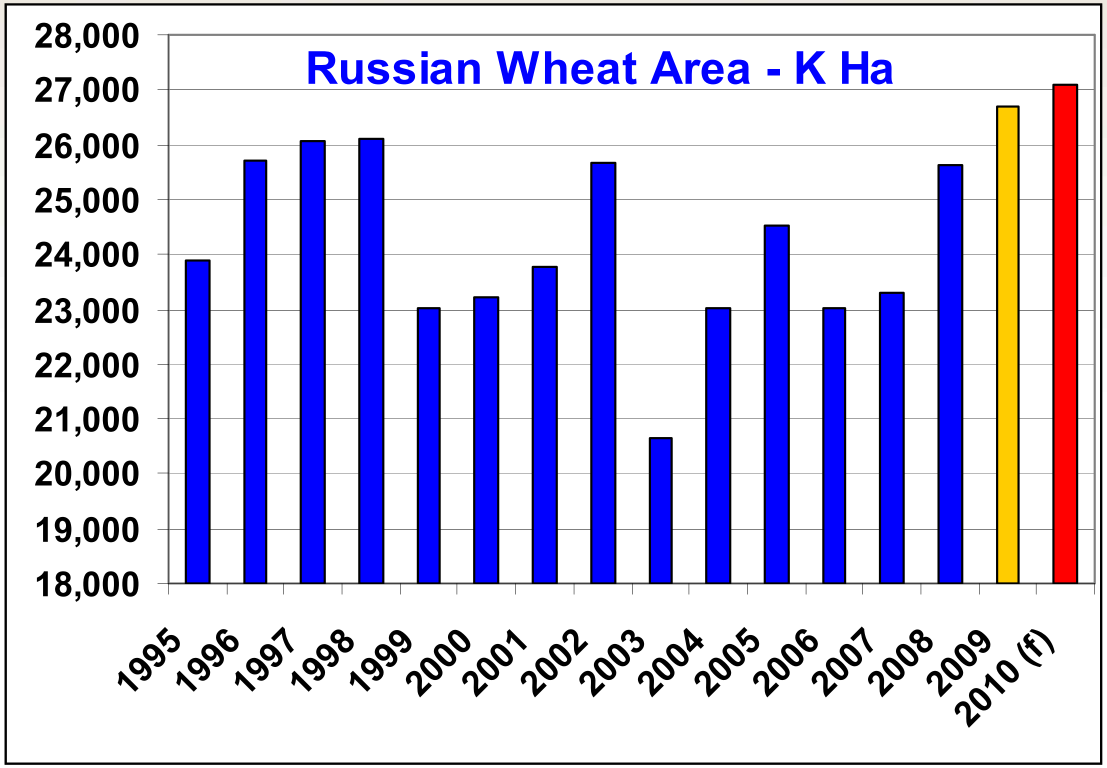



# 2010/11 – Looking Forward

- **So where will the problems develop???**
- **EU / Russia / Ukraine… NOT losing wheat area!!!**
- **New crop conditions generally ideal in EU… Area up slightly**
- **Ukraine dryer than ideal, but improved over last month**
- **Russian winter wheat area actually increased significantly over last year!!**
- **Poor snow cover and planting conditions will increase market sensitivity to winter kill potential**



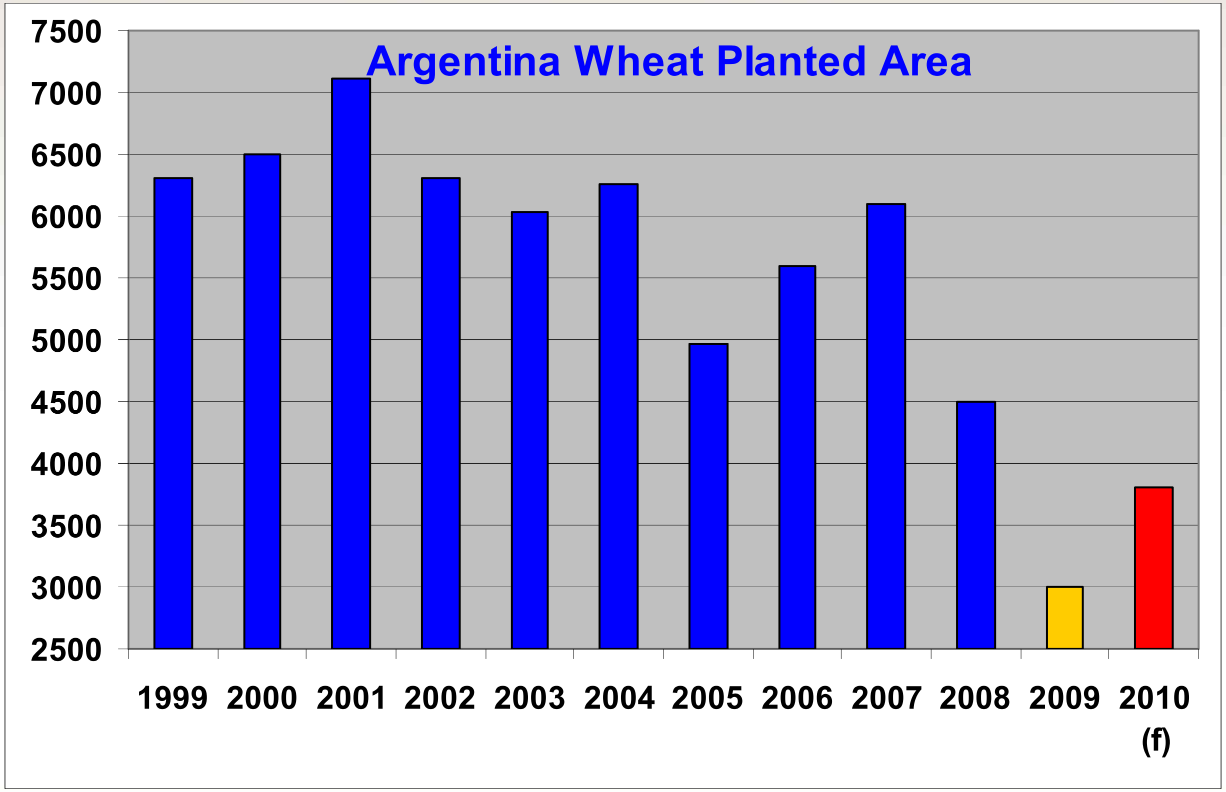



# 2010/11 – Looking Forward

- So where will the problems develop???

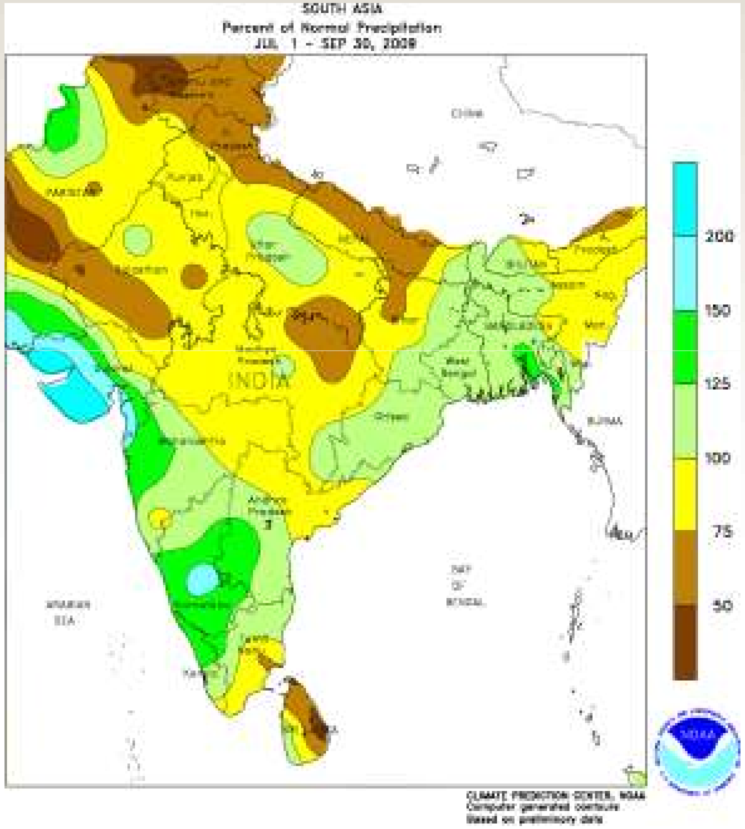
- **ARGENTINA….** Wheat area has plummeted!!
- Farmer upset with excessive government taxes… not receiving the world price for their wheat! Switching to oilseeds
- Successive poor seasons (drought) also hurting production
- Argentina no longer a major player in global wheat export markets

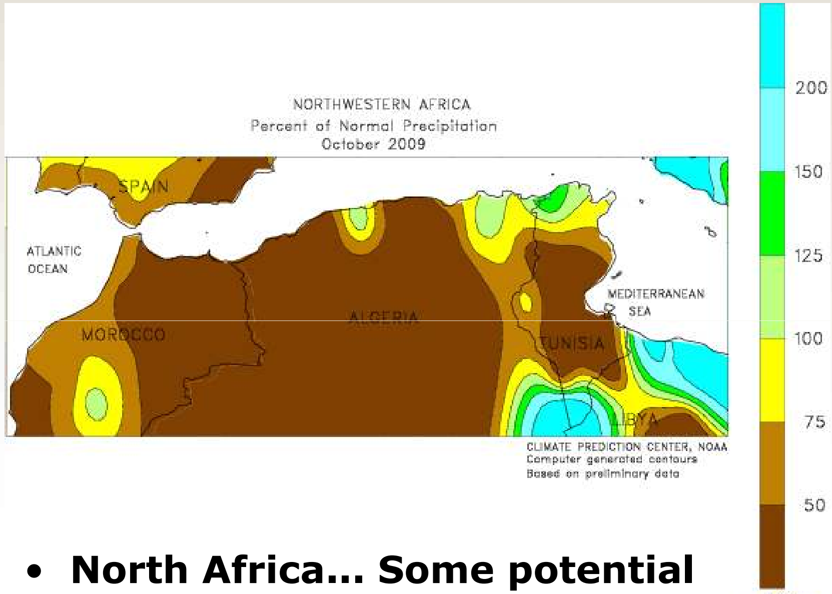


# 2010/11 – Looking Forward

- Global Importers… Are there any issues?

- India a potential wild card… Poor monsoon… Usually followed by below trend yields… Watch local crop conditions carefully! Private Import program already underway.



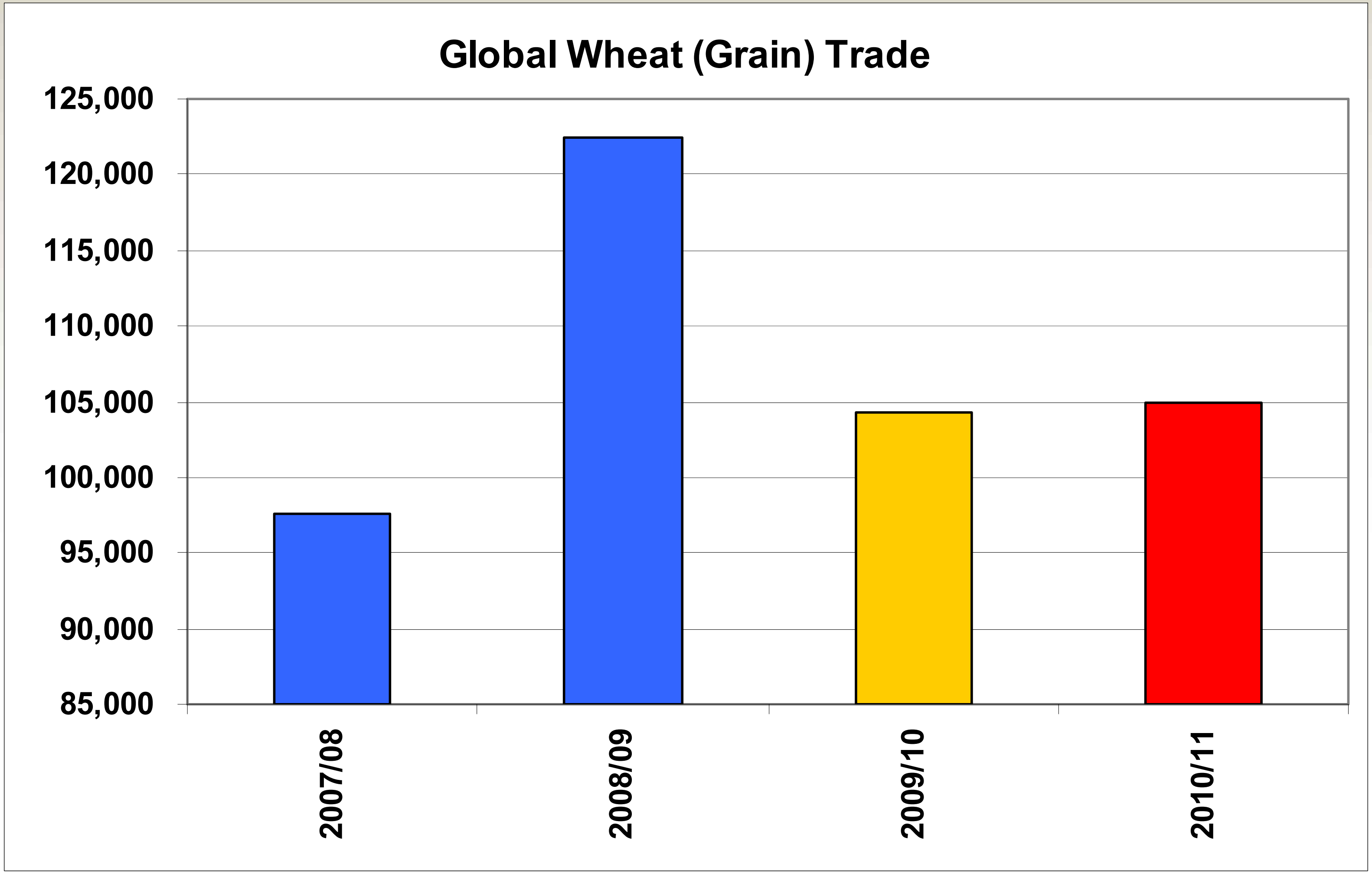




- North Africa… Some potential weather problems developing with dry start to season… A key for EU exports

- Middle East conditions currently ideal
- Saudi Arabia Imports increasing as domestic production winding down.

# 2010/11 – Looking Forward

- **Initial forecasts of Global import demand show no demand surprise on the horizon**
  - **But, its only November… 2010/11 forecast has more potential to rise than fall**

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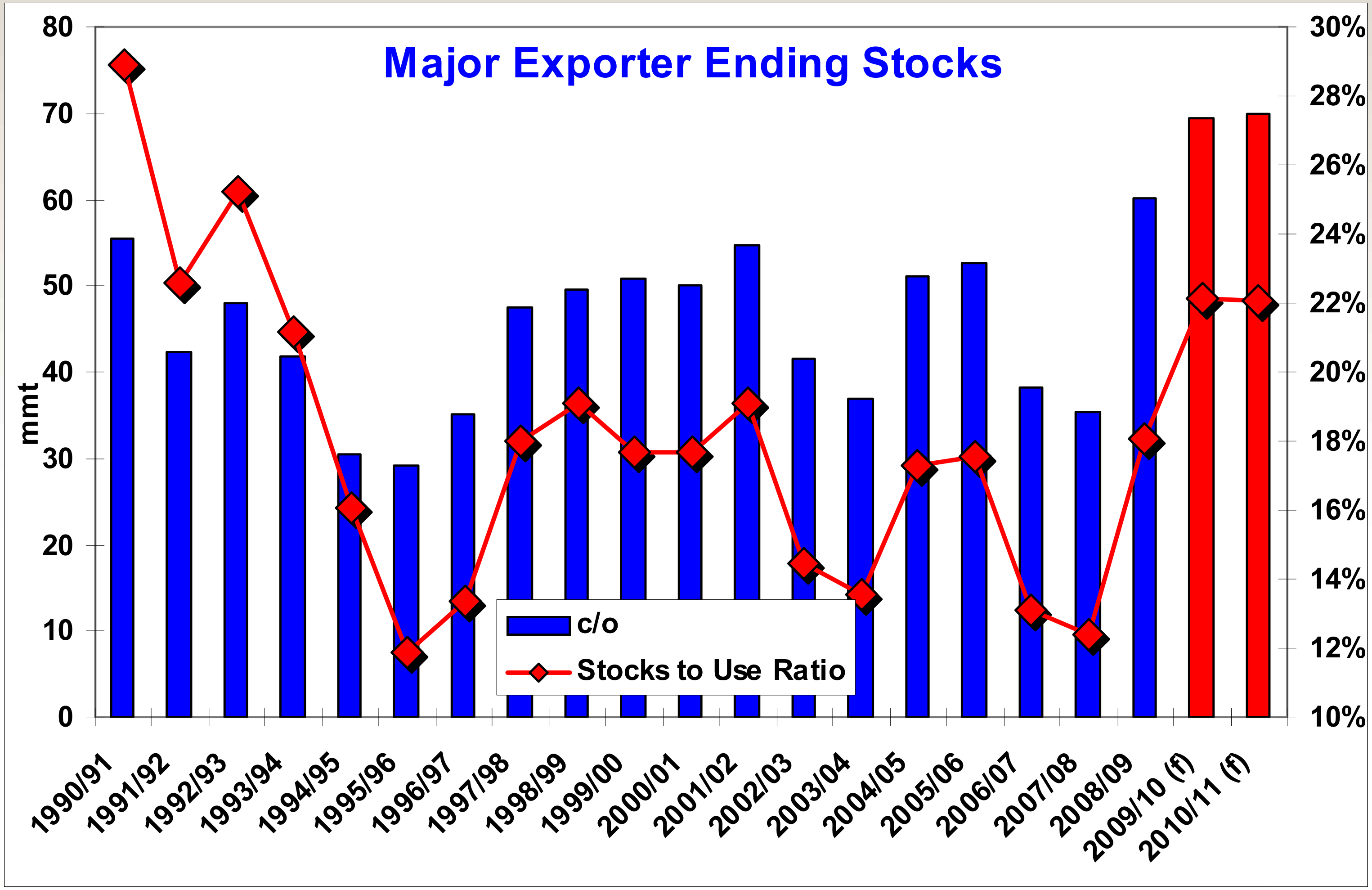
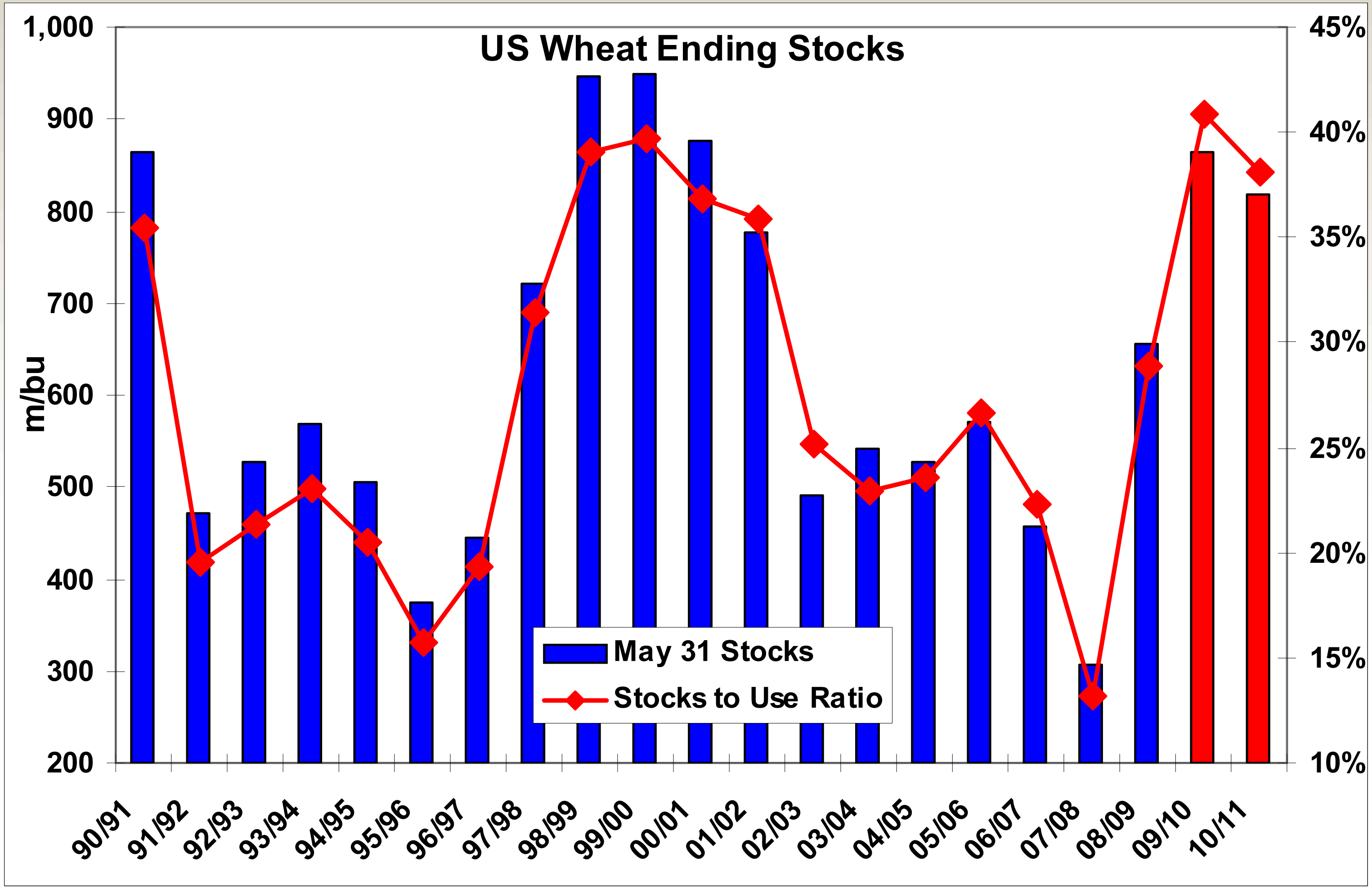
# 2010/11 – Looking Forward

- **Ending Stocks overhang from 09/10 season is so large it will take very significant production issue to threaten the balance sheet!!**



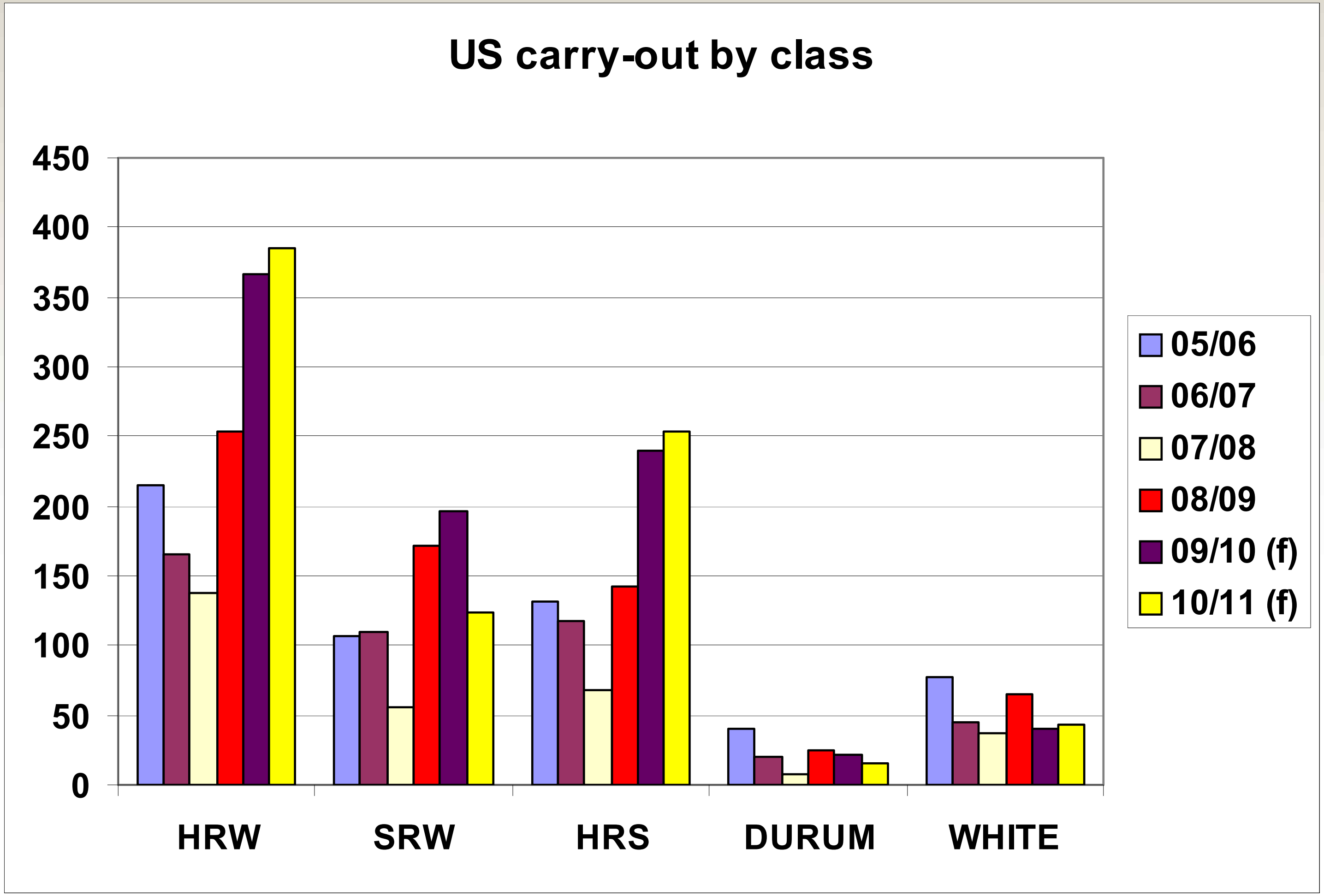
# 2010/11 – Looking Forward

- **US Balance sheet some modest tightening seen, but still an extremely loose stocks situation!!**



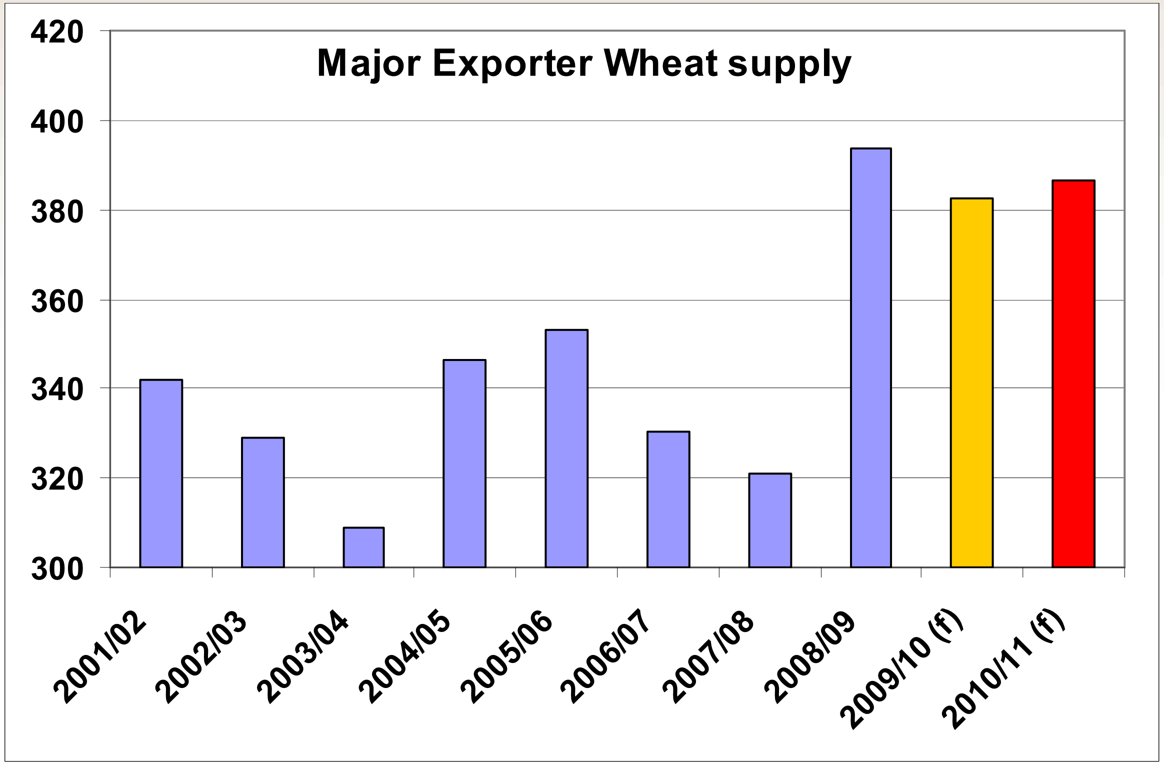
# 2010/11 – Looking Forward

- **Total US ending stocks hides the imbalance between US hard and soft wheats**
  - **SRW tightening very significant for Chicago futures**



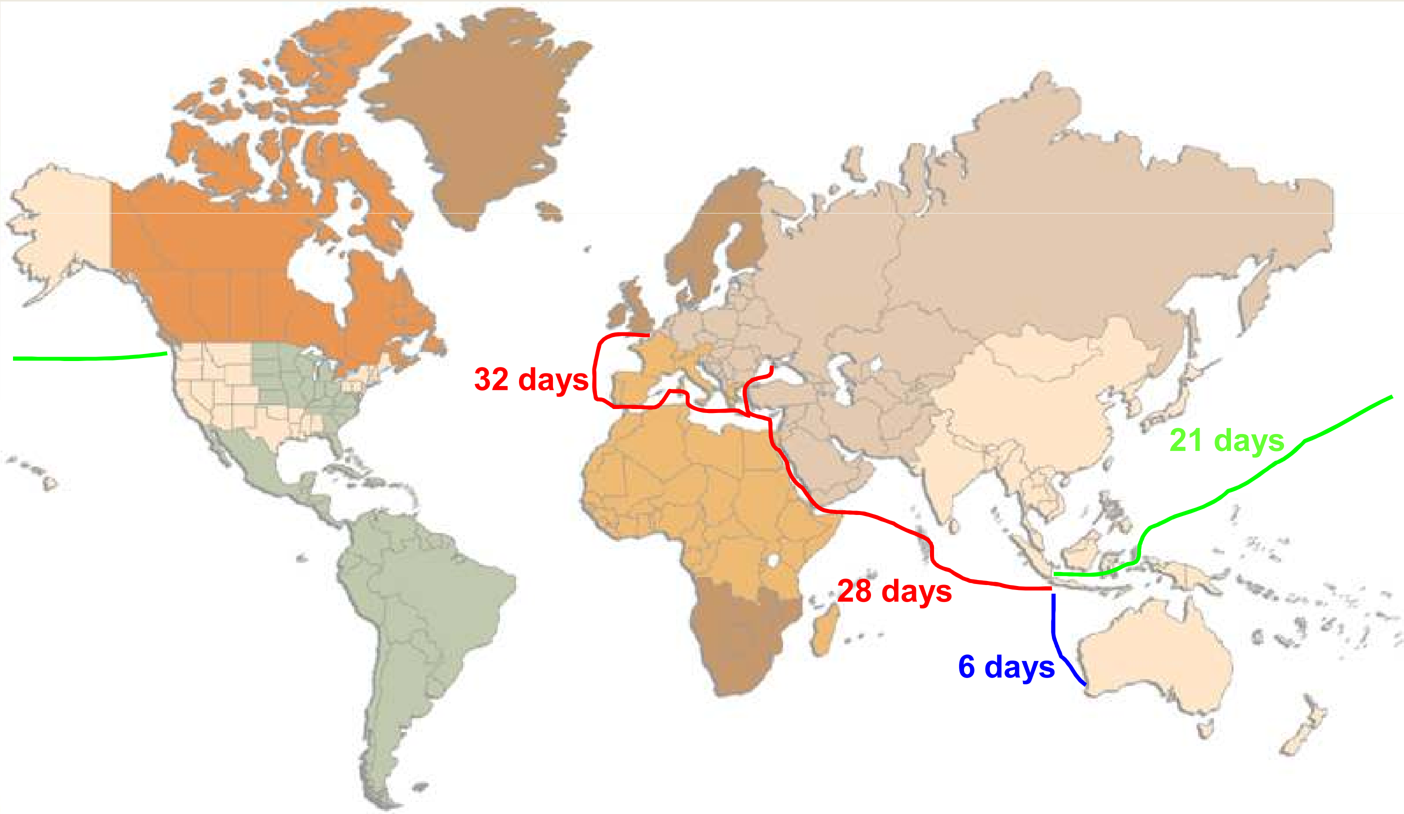
# 2010/11 – Looking Forward

- **With major exporter ending stocks near 70mmt and US carryout 800+m/bu, how can the market rally?**
  - **Because 2010/11 production risk is all in front of us, and is very real!**
- **Lose 20 – 30 mmt of production in major exporters/importers, and the picture gets interesting!**



# 2009/10…2010/11 – Australian Context

- **What does it mean for Australia?**
- **Australian geographical location in relation to Consumers in Asia / Middle East is a real advantage over competing origins**
- **Rallying freight markets increase this advantage**




- **Sailing time to Indonesia**

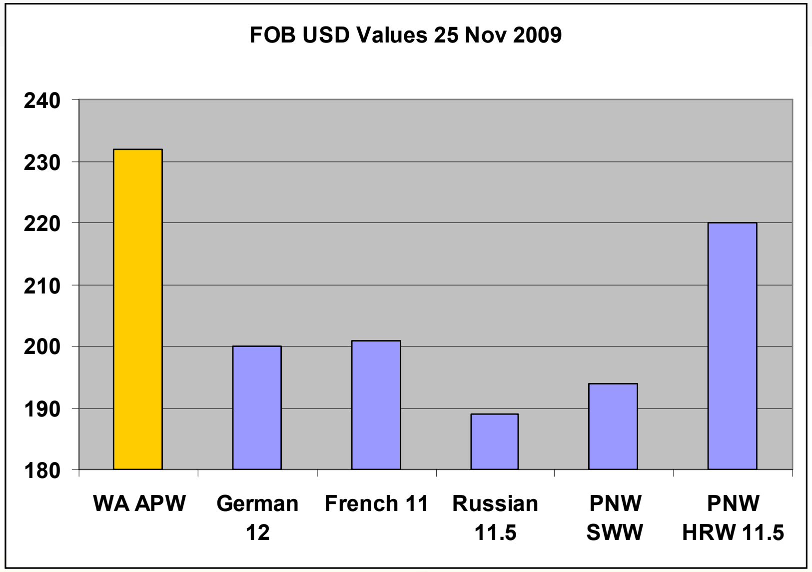
- **WA – 6 days**
- **US/Canada Pacific - 21 days**
- **Black Sea – 28 days**
- **EU – 32 days**

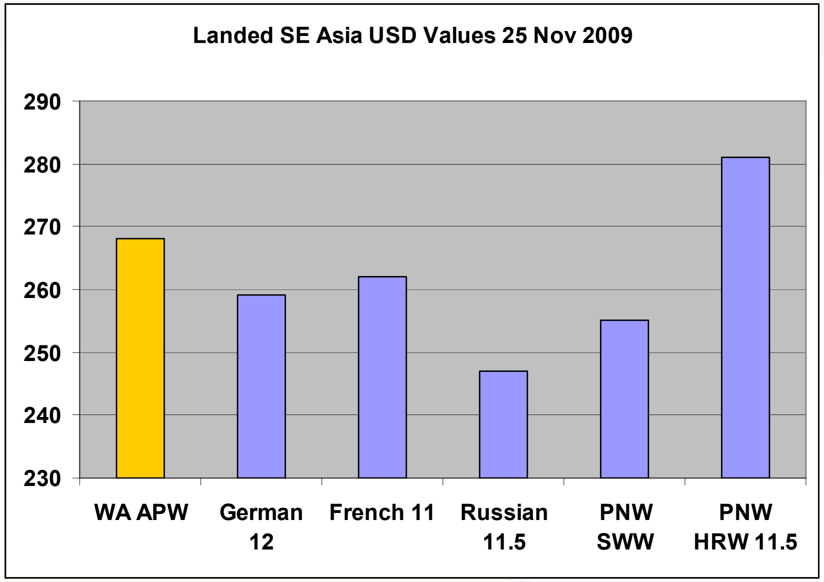
# 2009/10...2010/11 – Australian Context

**Australian wheat values are currently firm in the global context**

- **WA APW FOB today compared to competition...**
  - **+35 USD to German 12 pro**
  - **+35 USD to French 11 pro**
  - **+45 USD to Russian 11.5**
  - **+38 to US SWW**
  - **+12 to US PNW HRW 11.5**

- **For reference, freight spread to SE Asia is approximately:**
  - **25 USD mt vs PNW, EU, Black Sea**

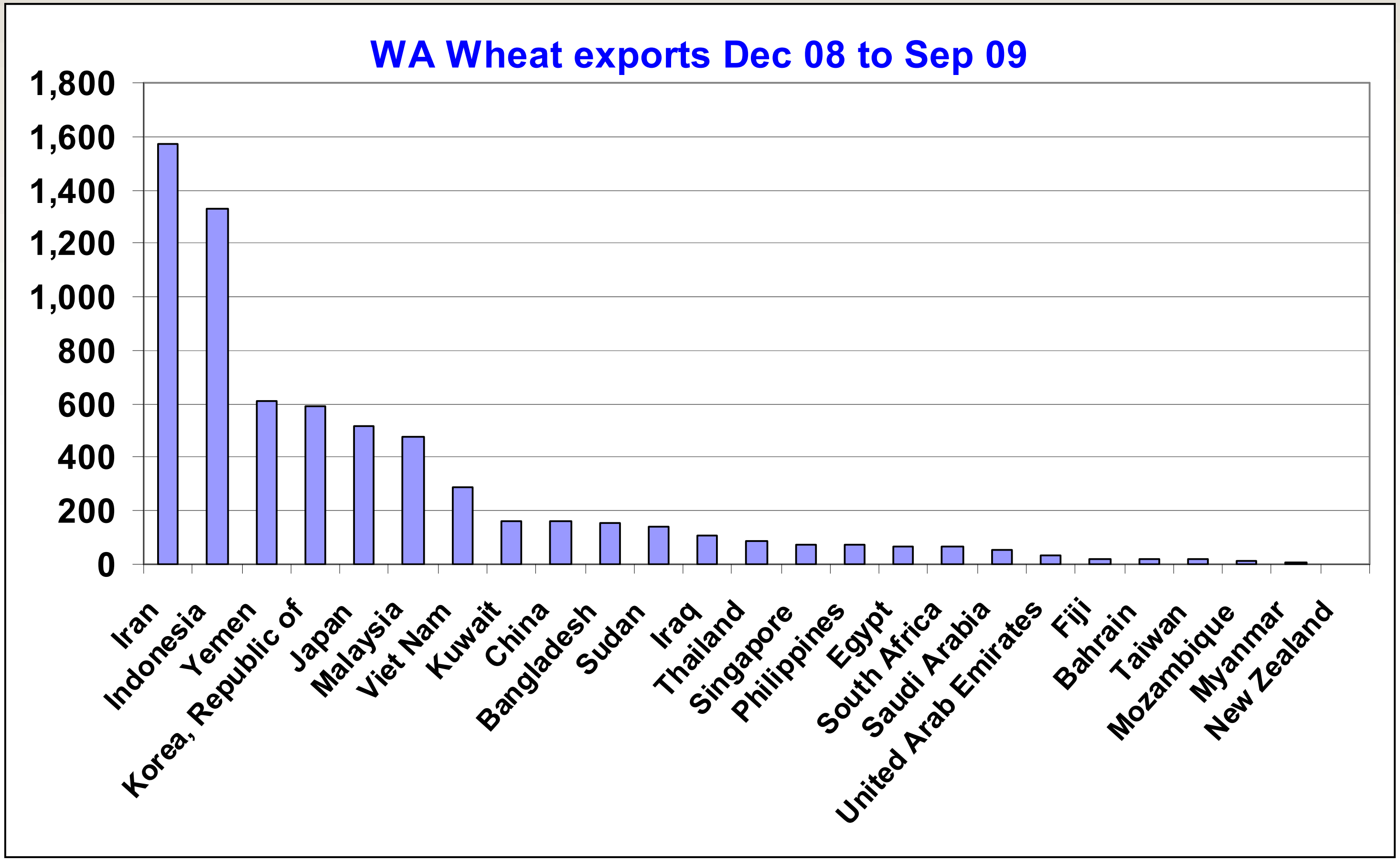


# 2009/10…2010/11 – Australian Context

- **Where does WA wheat go?**
- **Bigger crops in SA/Vic real competition for WA**
- **Freight Spread still provides some protection for WA**

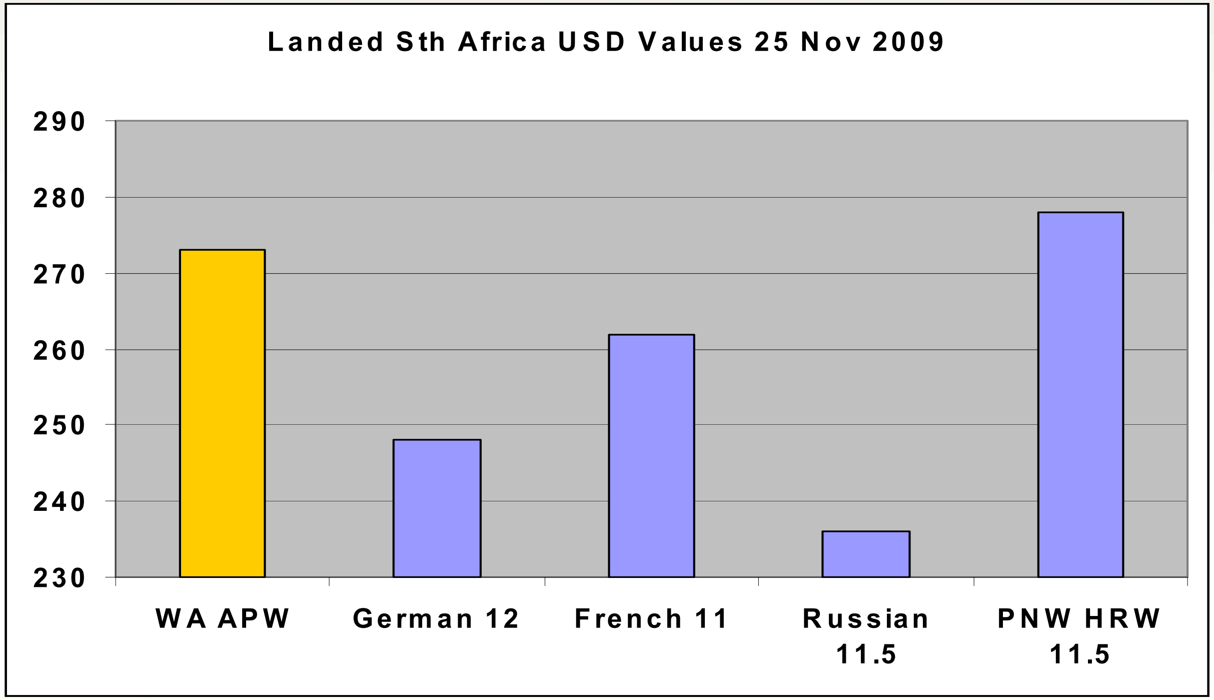
| | kmt |
|---|---|
| Iran | 1,571 |
| Indonesia | 1,333 |
| Yemen | 613 |
| Korea, Republic of | 589 |
| Japan | 516 |
| Malaysia | 478 |
| Viet Nam | 291 |
| Kuwait | 162 |
| China | 160 |
| Bangladesh | 157 |
| Sudan | 139 |
| Iraq | 104 |
| Thailand | 90 |
| Singapore | 74 |
| Philippines | 72 |
| Egypt | 70 |
| South Africa | 64 |
| Saudi Arabia | 55 |
| United Arab Emirates | 32 |
| Fiji | 23 |
| Bahrain | 22 |
| Taiwan | 17 |
| Mozambique | 11 |
| Myanmar | 7 |
| New Zealand | 1 |
| **Total** | **6,651** |



# 2009/10…2010/11 – Australian Context

- **Where will WA wheat find lost demand from last season?**

- **India – dependant on relaxation of import requirements for Bulk exports**
- **China – low grade wheat**
- **East Coast and South Africa**
- **Middle East – more higher protein demand (East Coast Aust.)**
- **Bottom line is price… WA wheat will need to move to a level of COMPARATIVE price competitiveness**



# Coming Year – Conclusions

- **Today… WHAT WE KNOW**

- **2009/10 season global wheat S&D is loose**
- **Northern Hemisphere 2010/11 season winter wheat acres are down, but only significantly in USA**
- **Australian wheat is approaching the expensive end of price relative to competing origins**
- **Market is forward looking and 2009/10 season fundamentals are known, and have already been traded**
- **Nature of bounce from October lows means market will be very cautious to push wheat to these levels again until we have clarity**

- **Today… WHAT WE DON'T KNOW!!**

- **2010/11 production**
- **New season spring wheat and southern hemisphere acres are a huge unknown.**
- **Ukraine / Russia winter wheat has had a less than ideal start to the season**
- **Major importers such as North Africa have not had an ideal start to the season**
- **Will Indian crop disappoint?… Potential for an import program.**
- **When will the Russian government start selling its soon to be 10mmt stockpile?**
- **USD strength/weakness, fund inflows… Will this continue?**