

# **Global Wheat Outlook**

**November 2009**

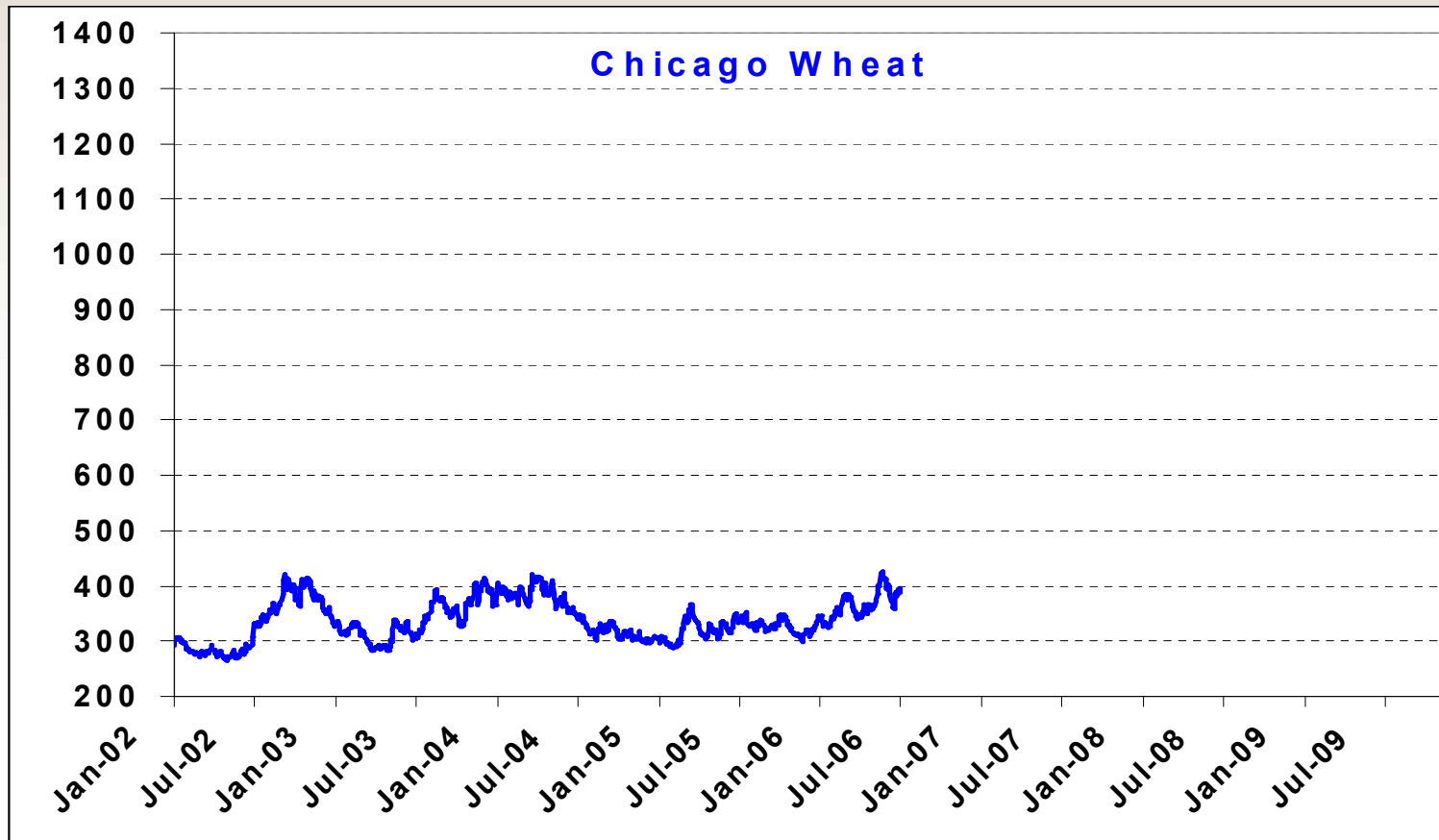
**Will Reid  
AWB**

# 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**

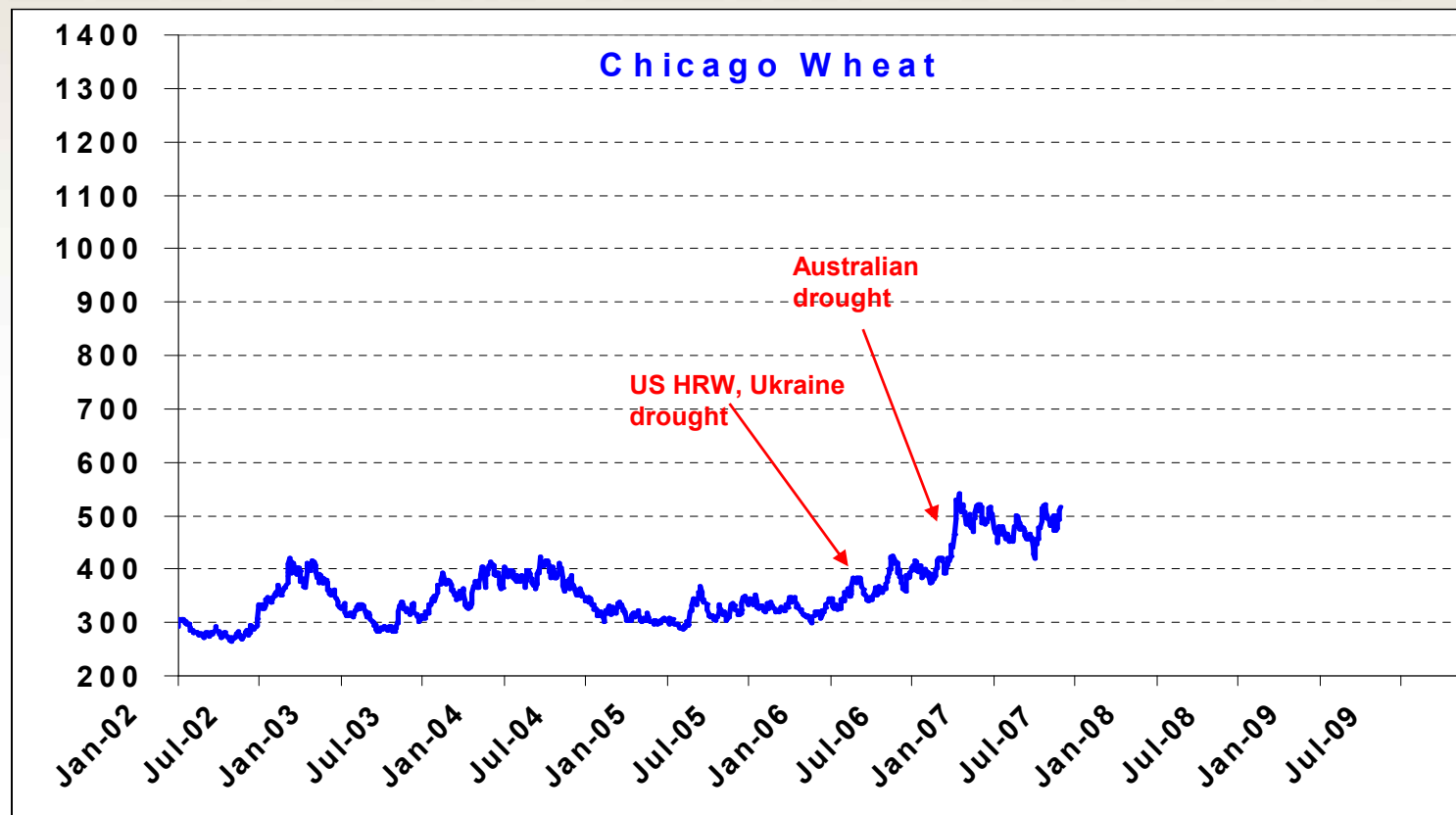
# World prices – How did we get here?

- 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



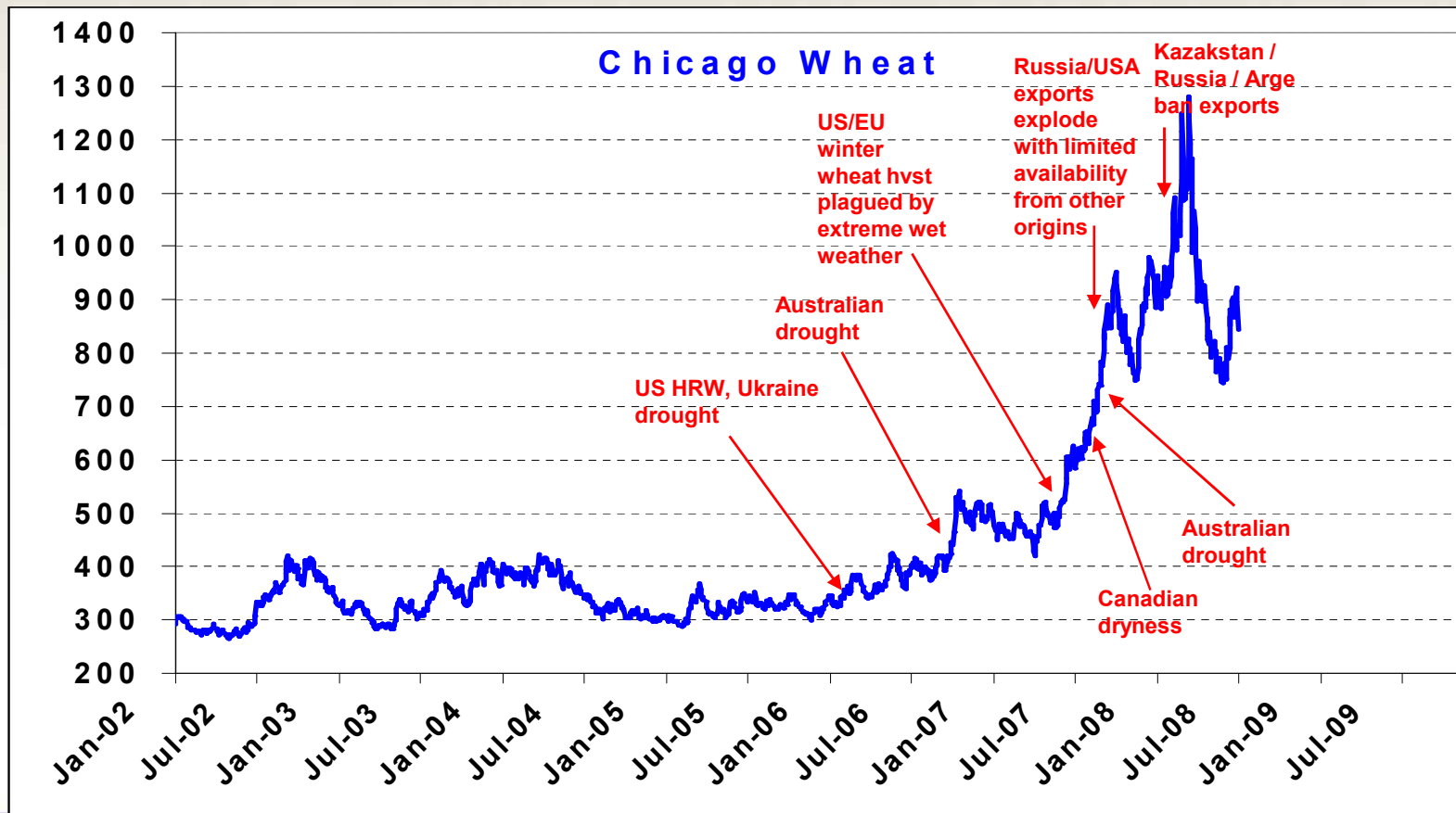
# World prices – How did we get here?

- 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



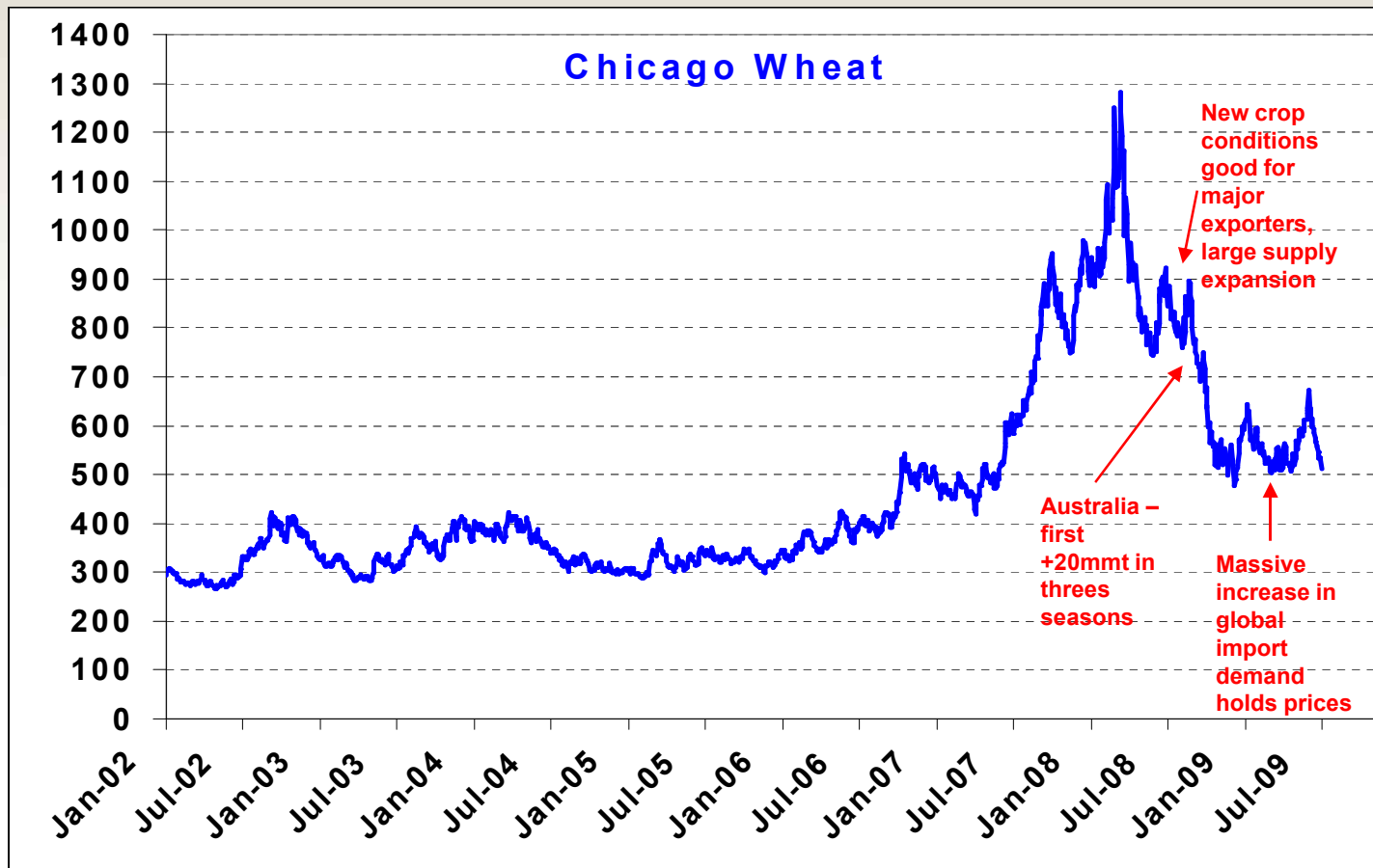
# World prices – How did we get here?

- 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



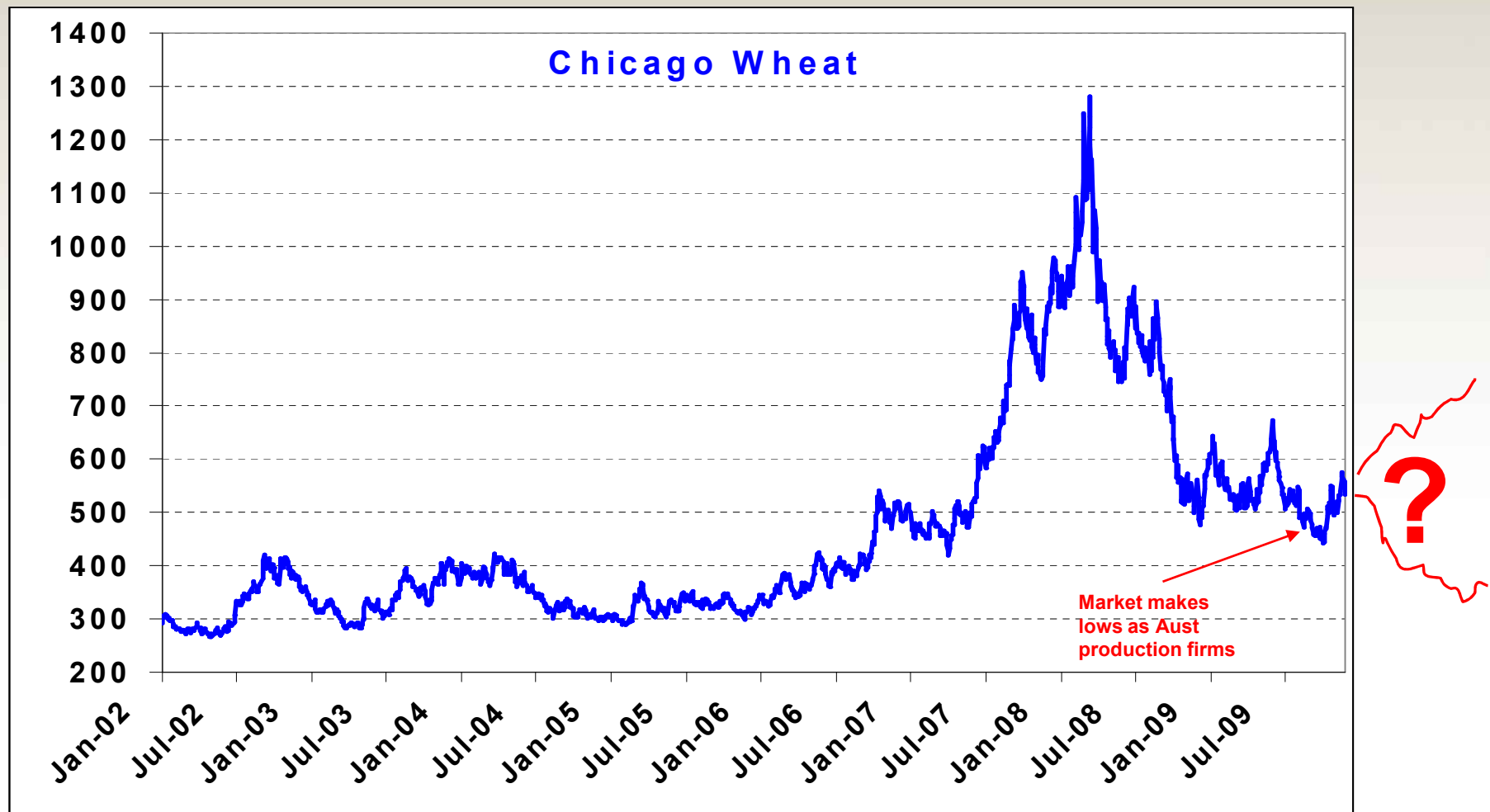
# World prices – How did we get here?

- 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

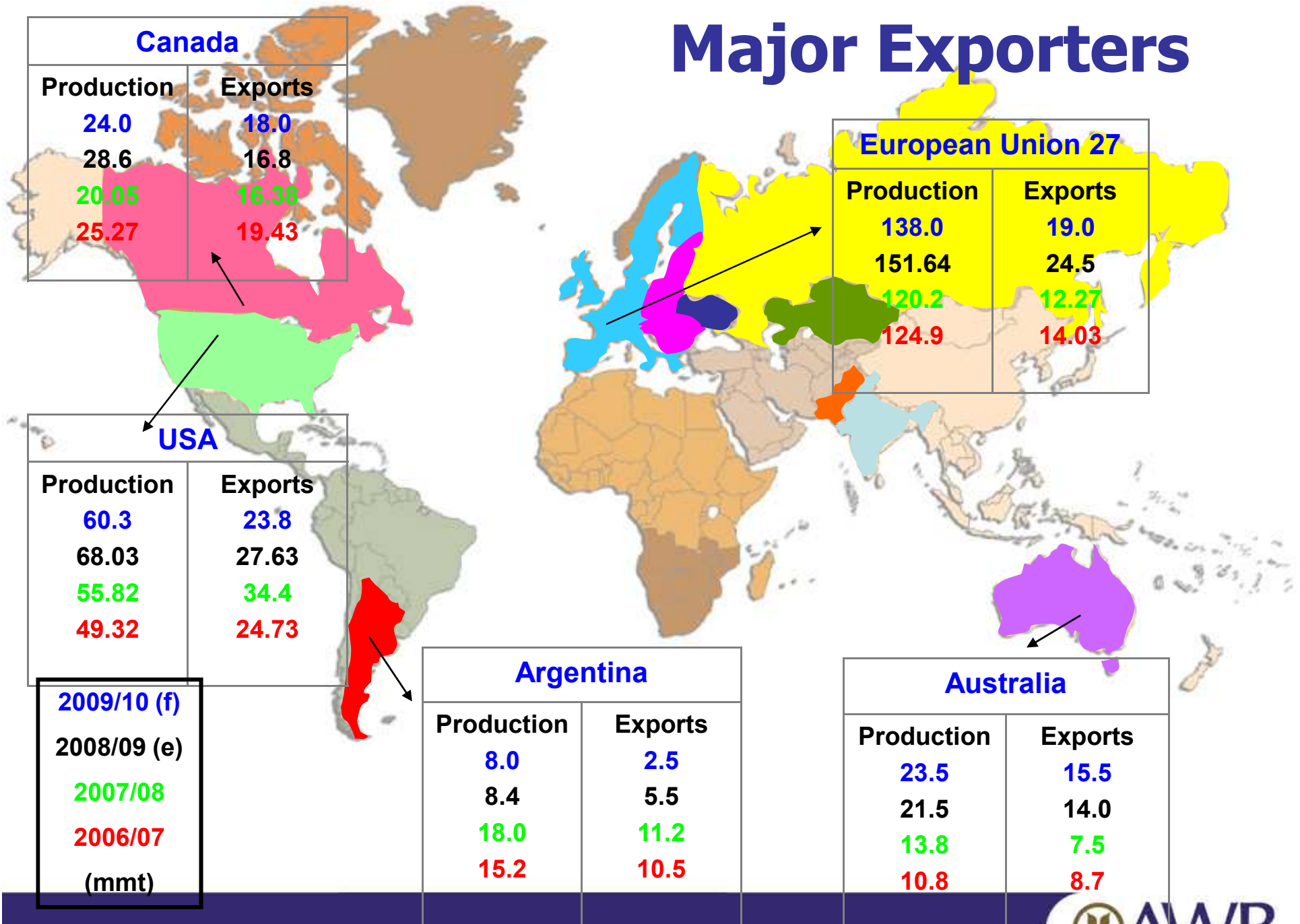


# World prices – How did we get here?

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

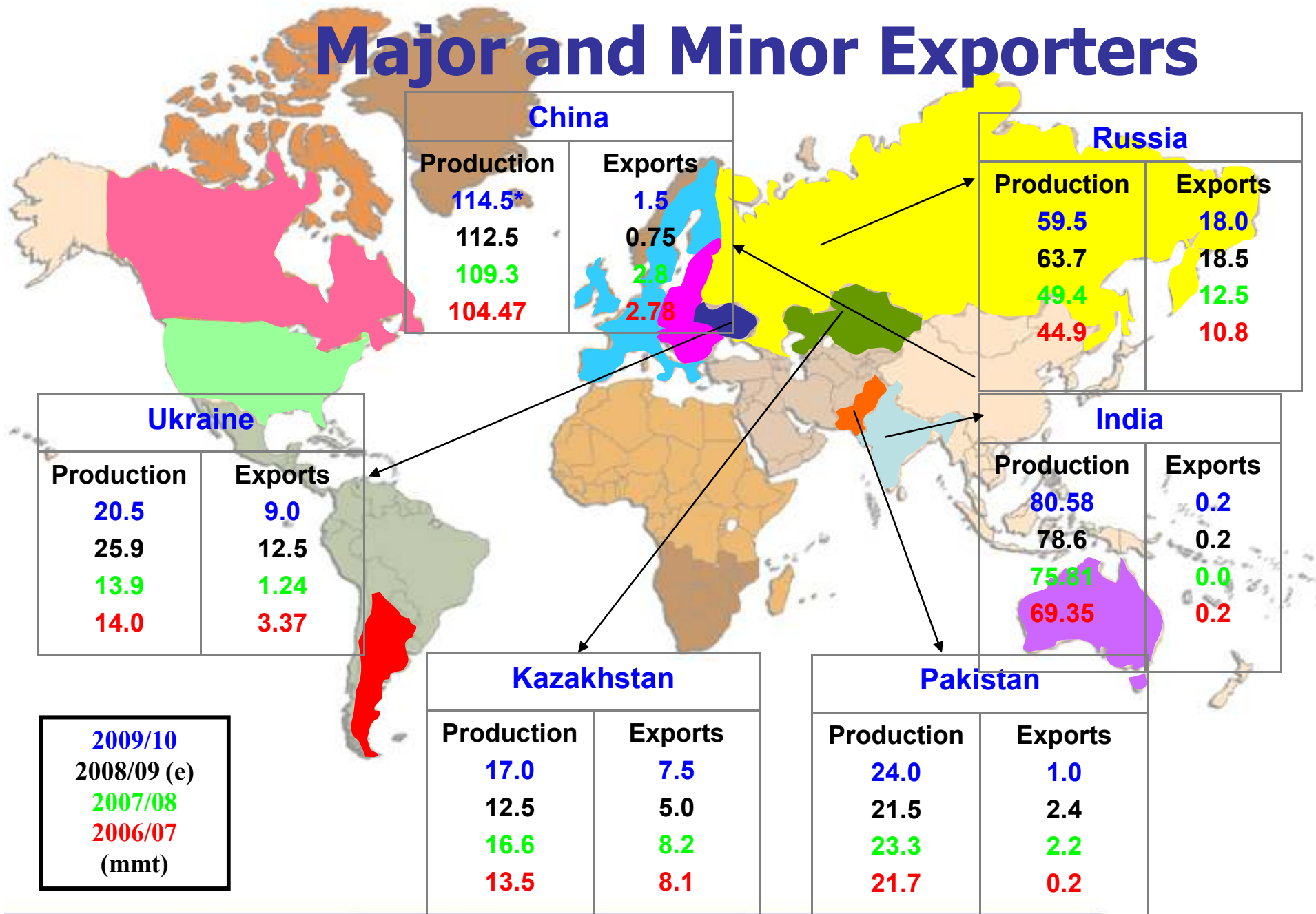


# Major Exporters



Source: USDA, E= Estimate, F = Forecast

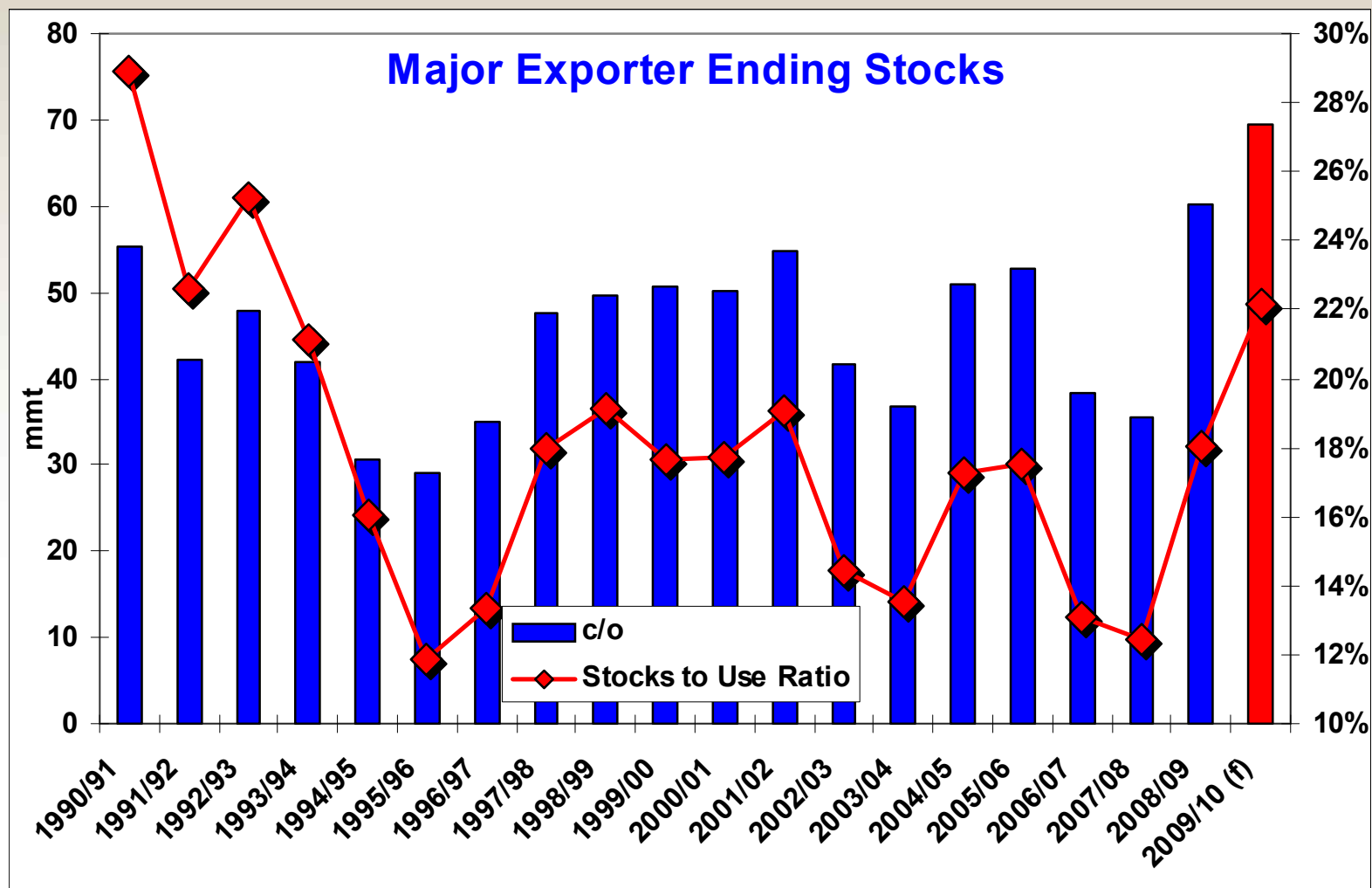
# Major and Minor Exporters



Source: USDA

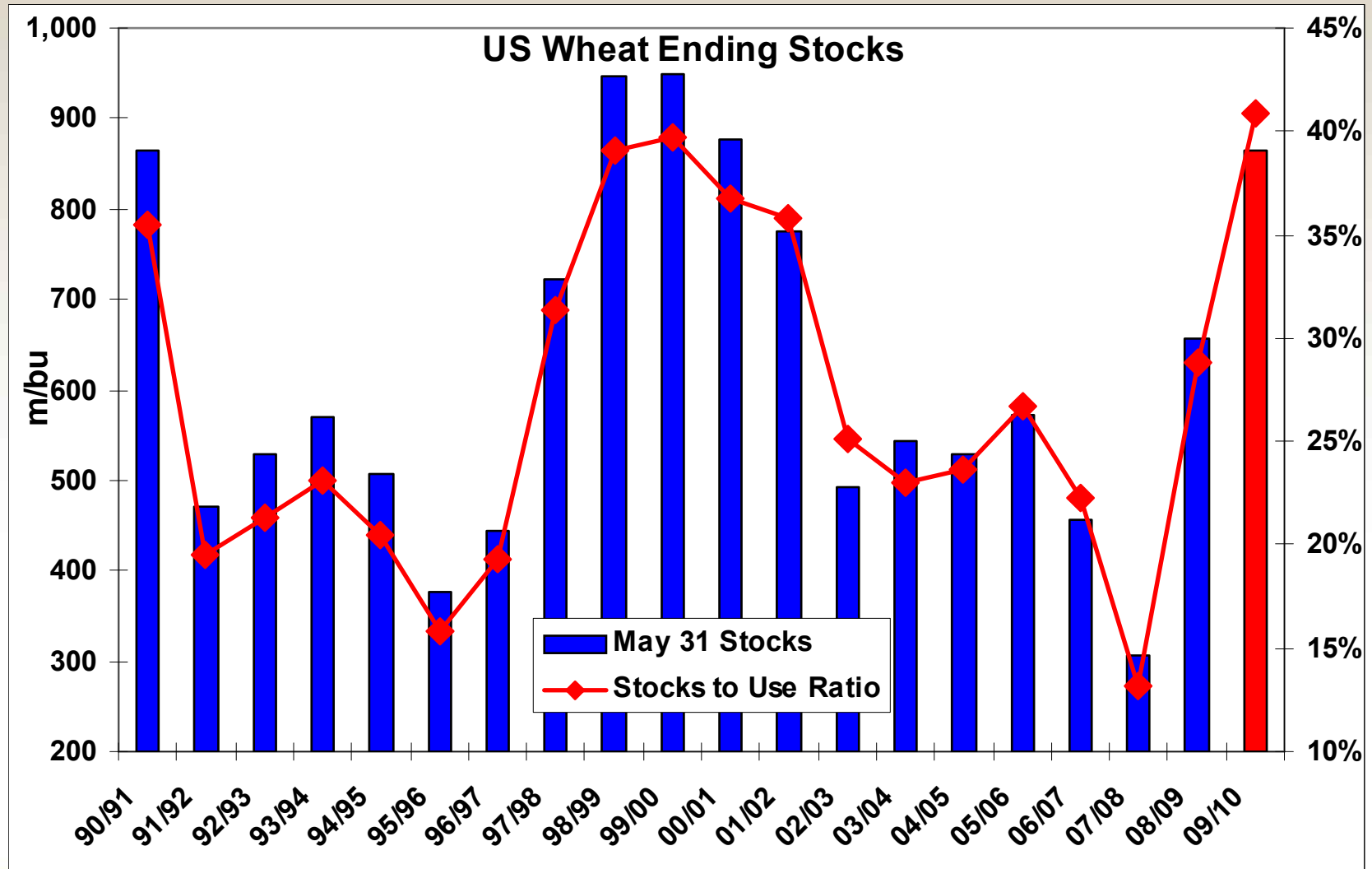
# Current situation – Global stocks are loose!

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



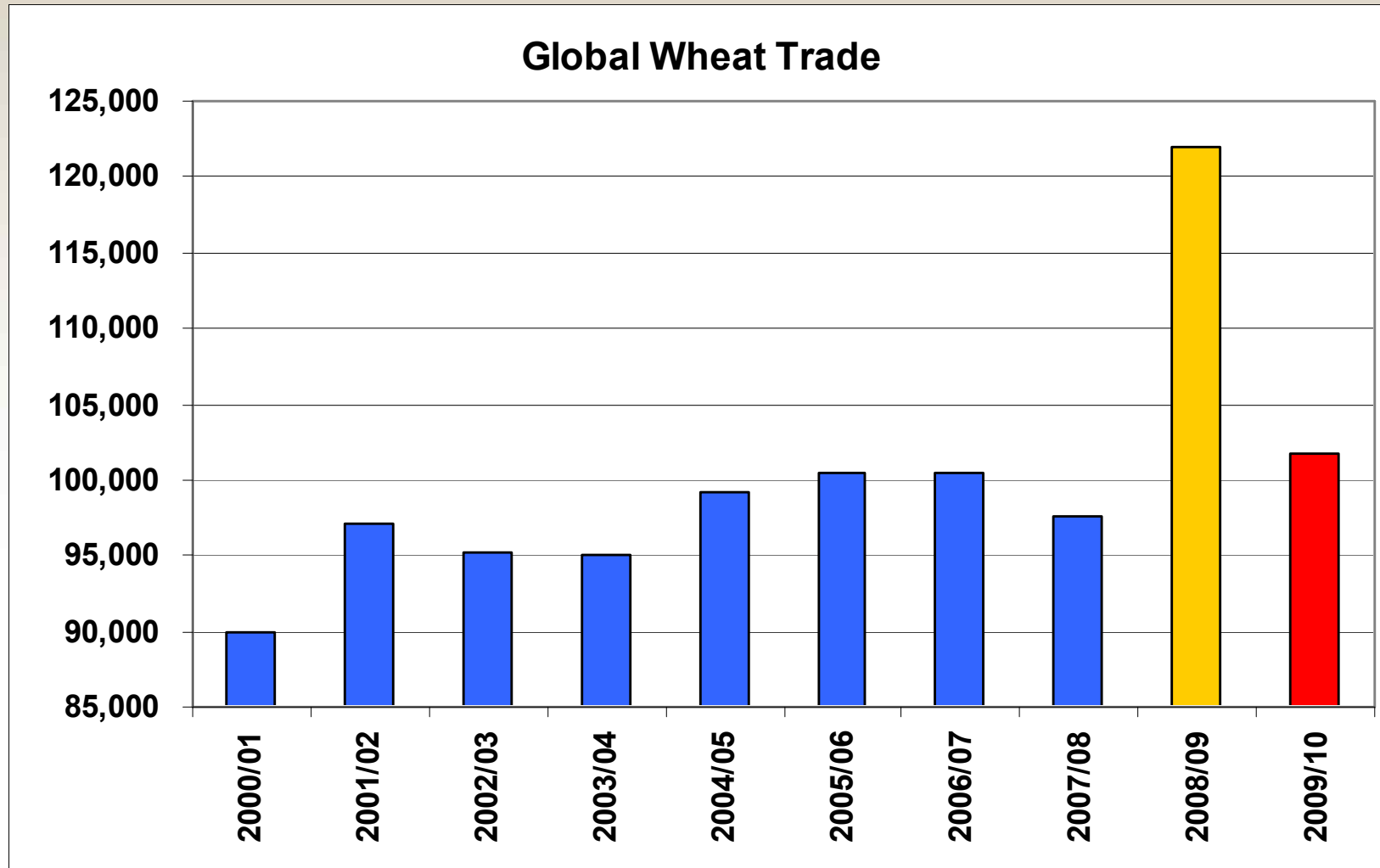
# Current situation – Global stocks are loose!

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



# Current situation – Global stocks are loose!

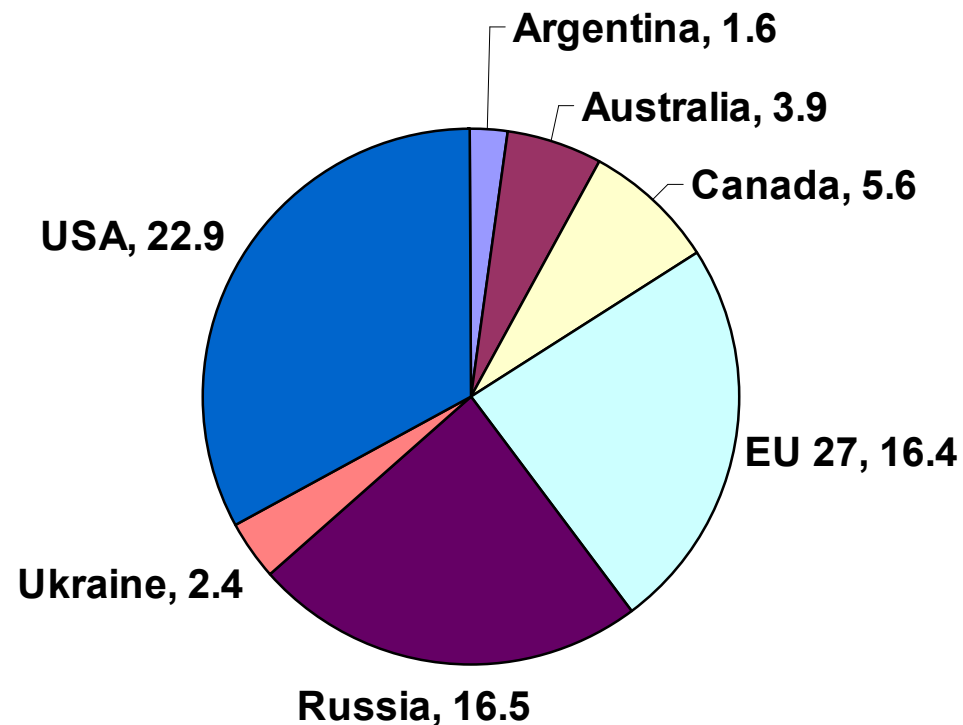
- Import demand is benign



# Current situation – Global stocks are loose!

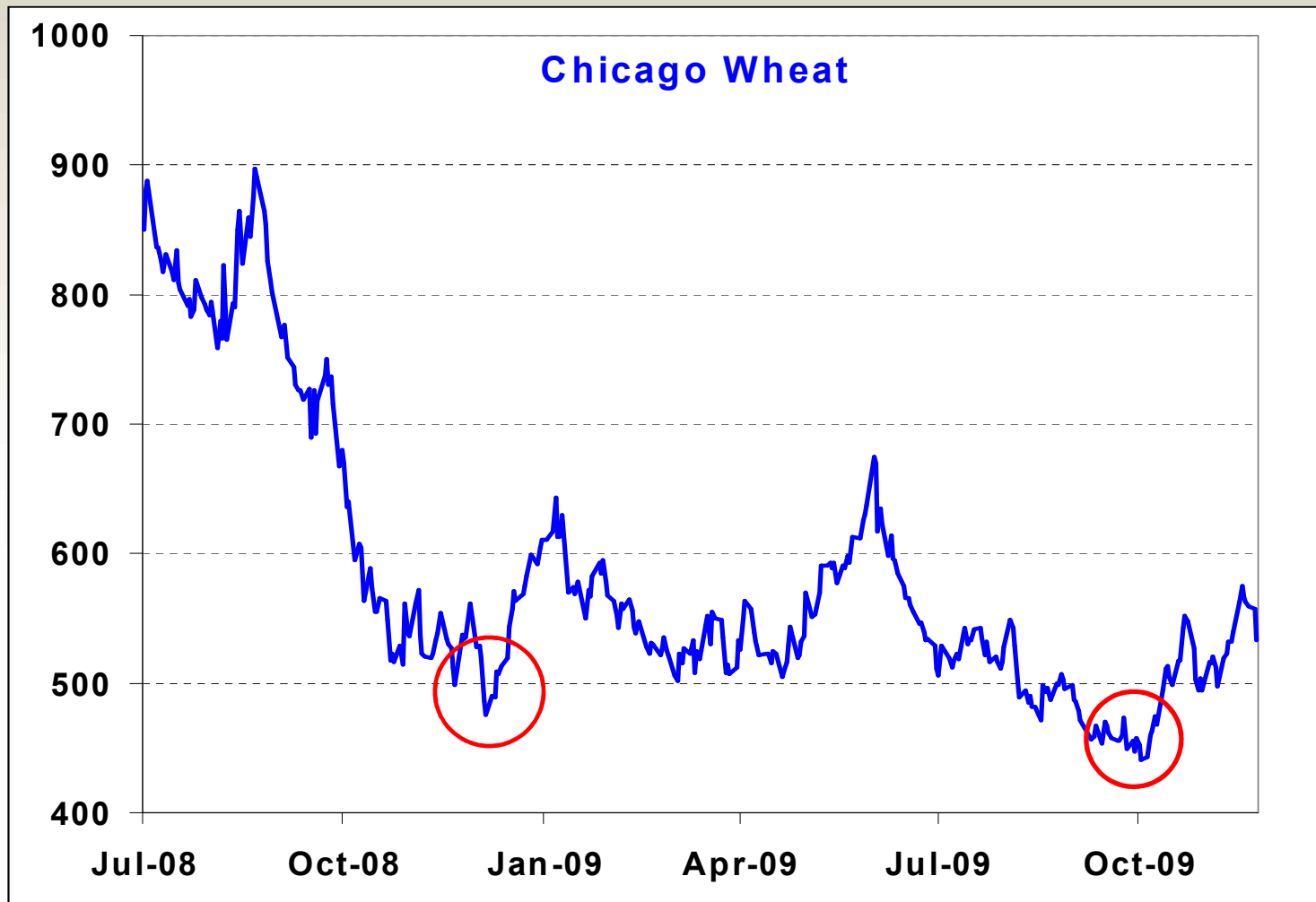
- **BUT!!!** The stocks are NOT evenly distributed... **RUSSIA** and **USA** carrying the majority of the exportable surplus stocks
  - Russian government long 8mmt wheat and rising

## Major Exporter 2009/10 ending stocks... mmt



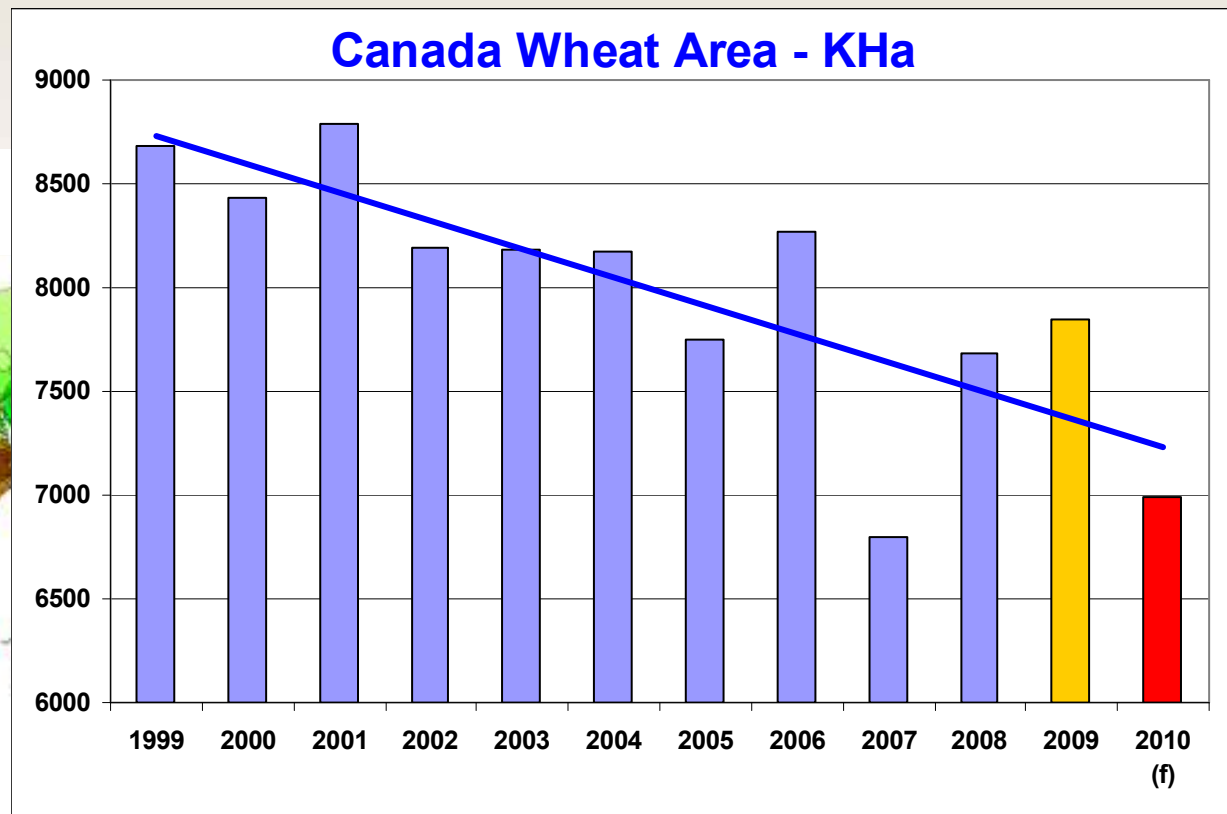
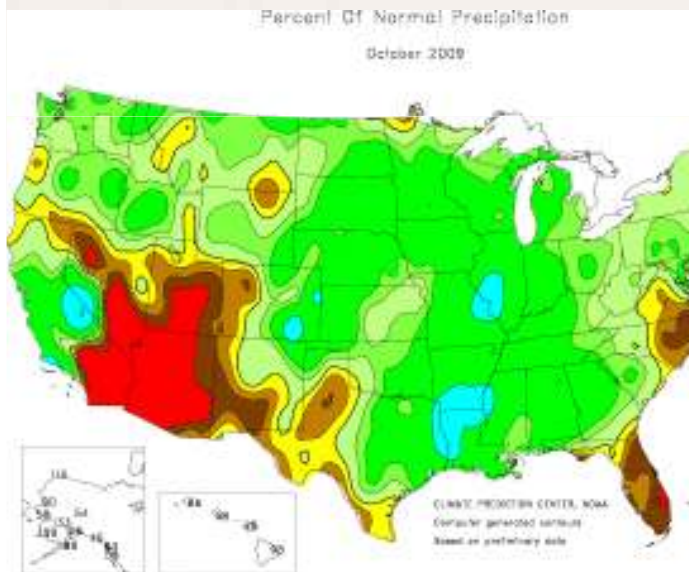
# 2010/11 – Looking Forward

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



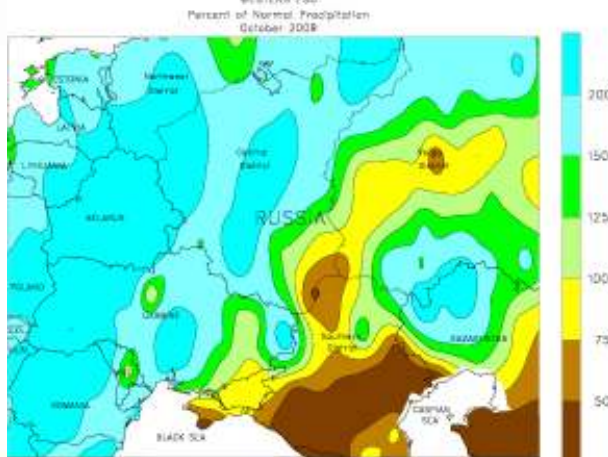
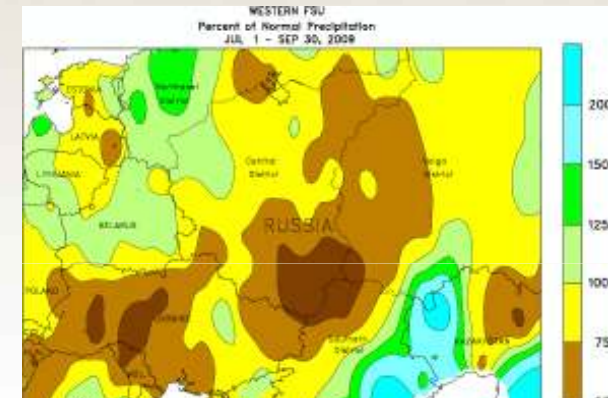
# 2010/11 – Looking Forward

- 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!!!

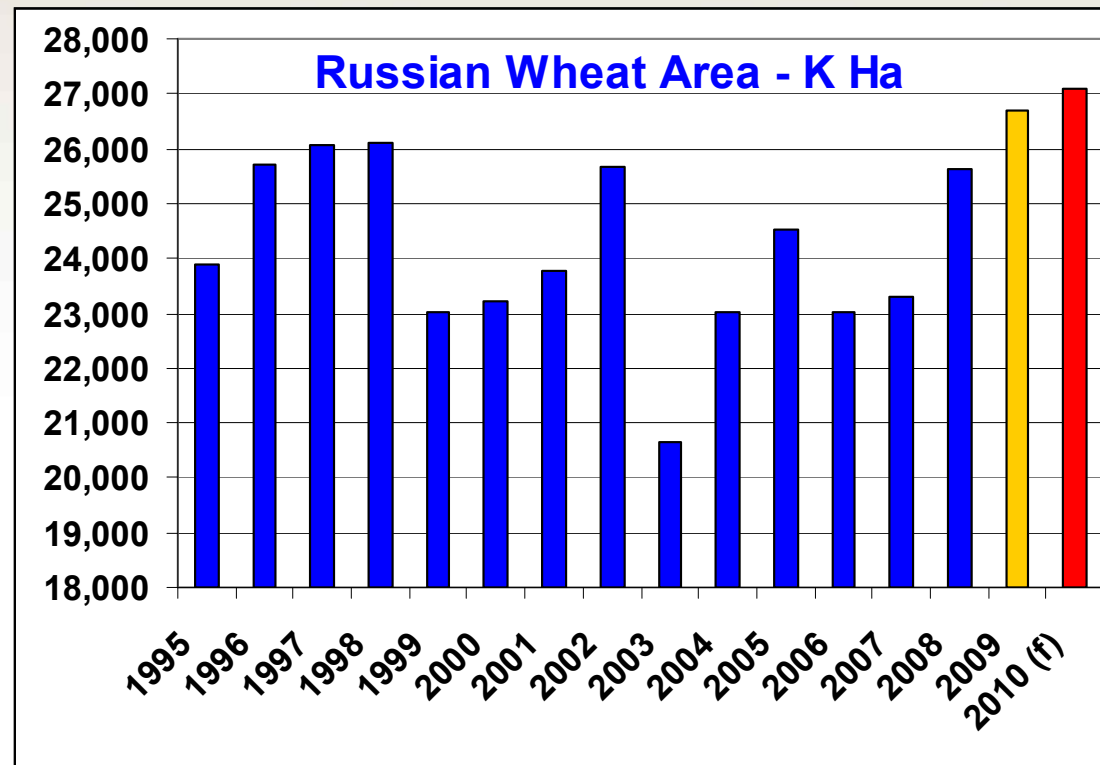


# 2010/11 – Looking Forward

- 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**

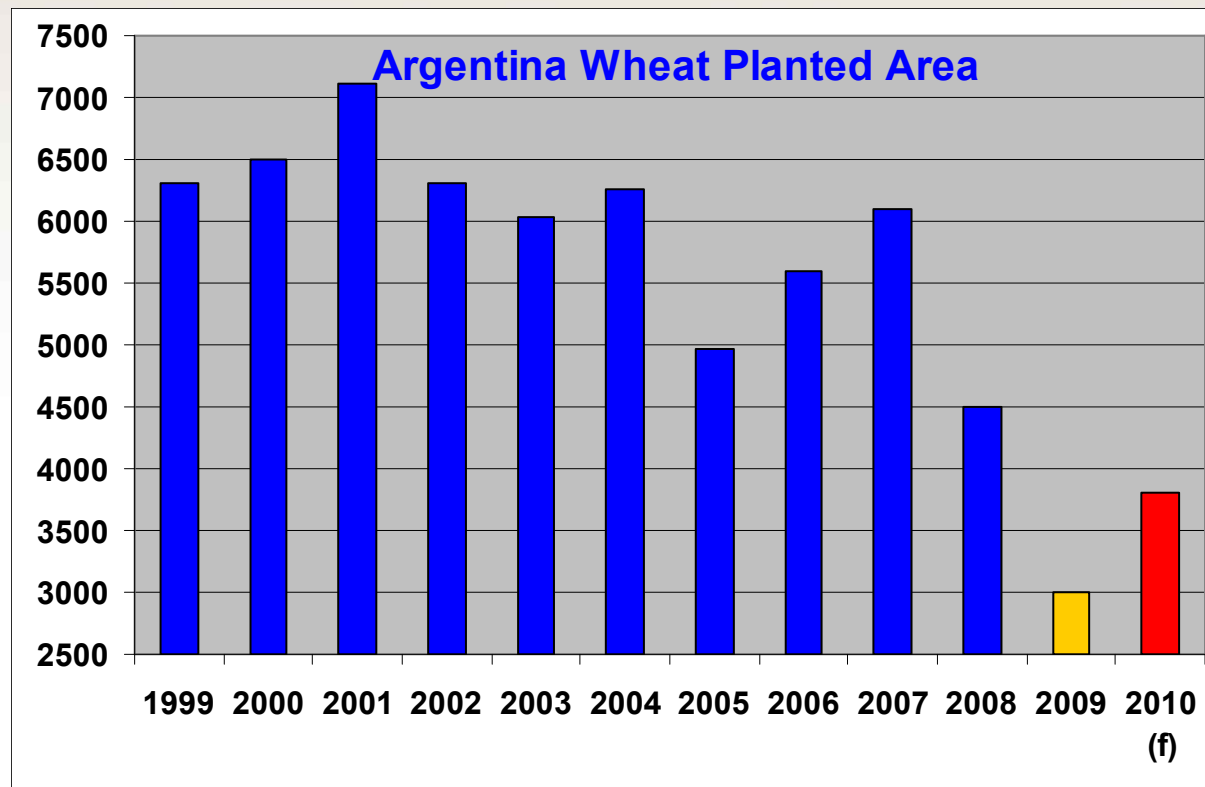


CLIMATE PREDICTION CENTER, NOAA  
Computer generated content  
Based on preliminary data



# 2010/11 – Looking Forward

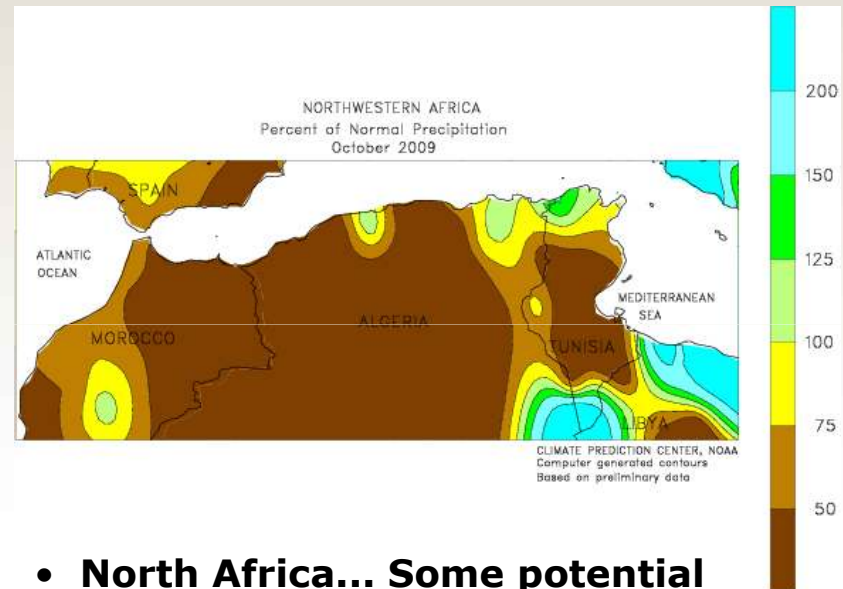
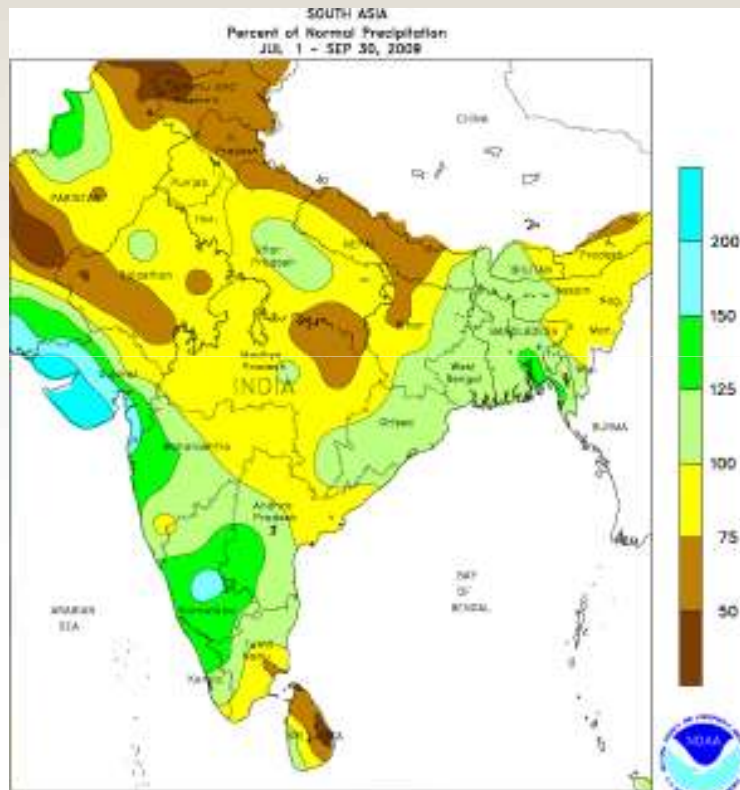
- So where will the problems develop???
- **ARGENTINA....** Wheat area has plummeted!!
- Farmer upset with excessive government taxes... not receiving the world price for their wheat! Switching to oilseeds
- Successive poor seasons (drought) also hurting production
- Argentina no longer a major player 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.**

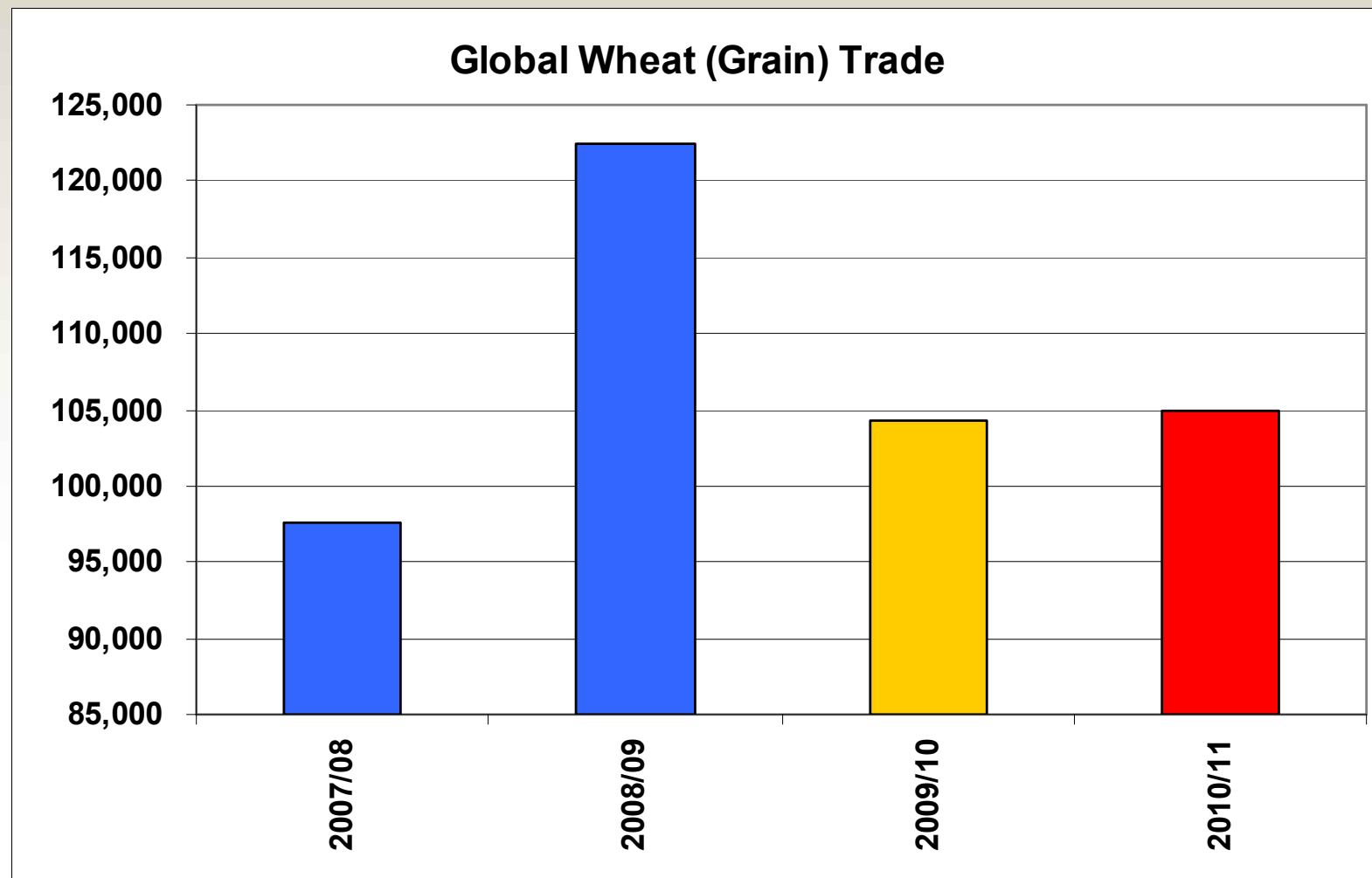


- **North Africa... Some potential weather problems developing with dry start to season... A key for EU exports**

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

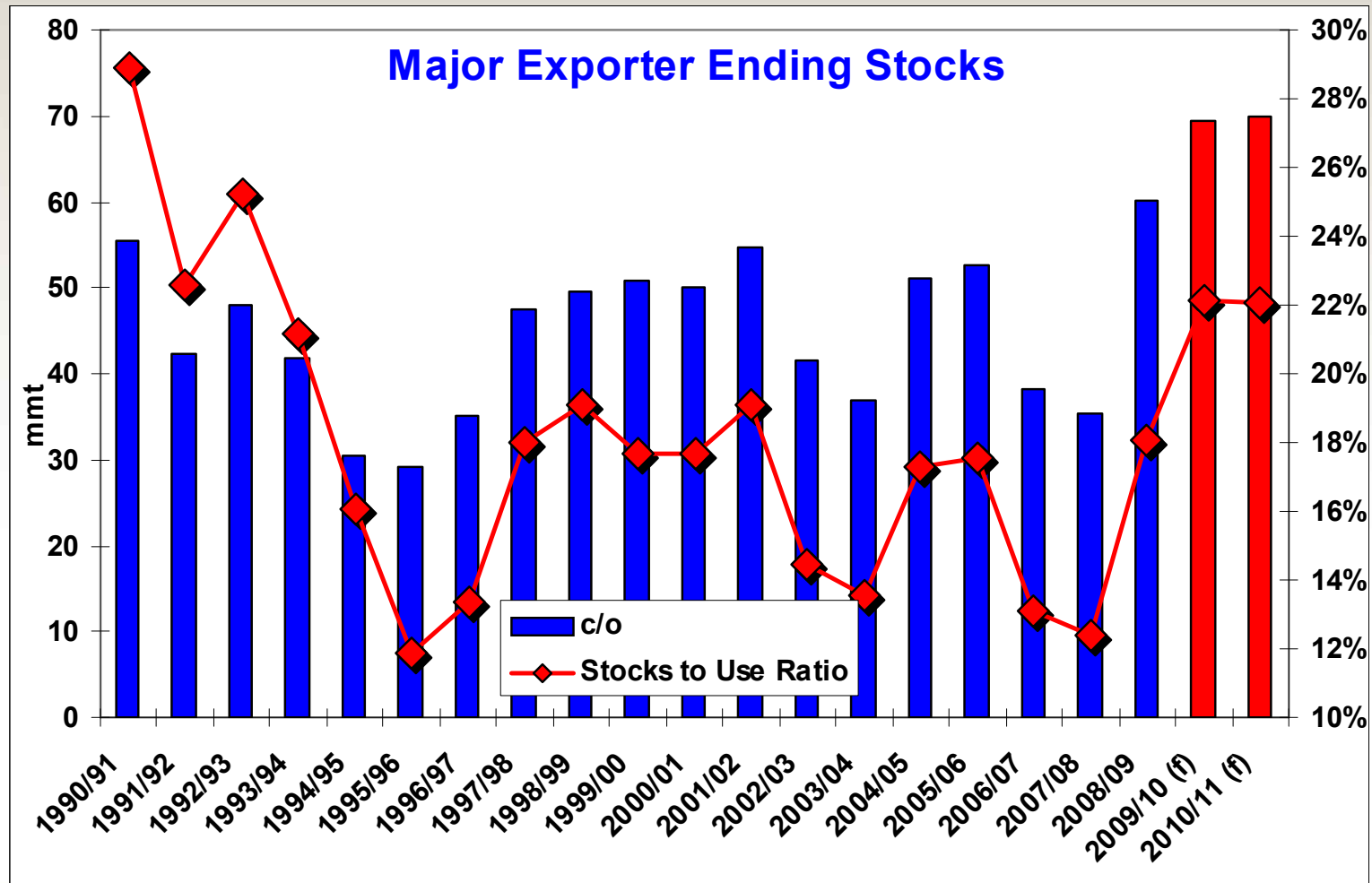
# 2010/11 – Looking Forward

- 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



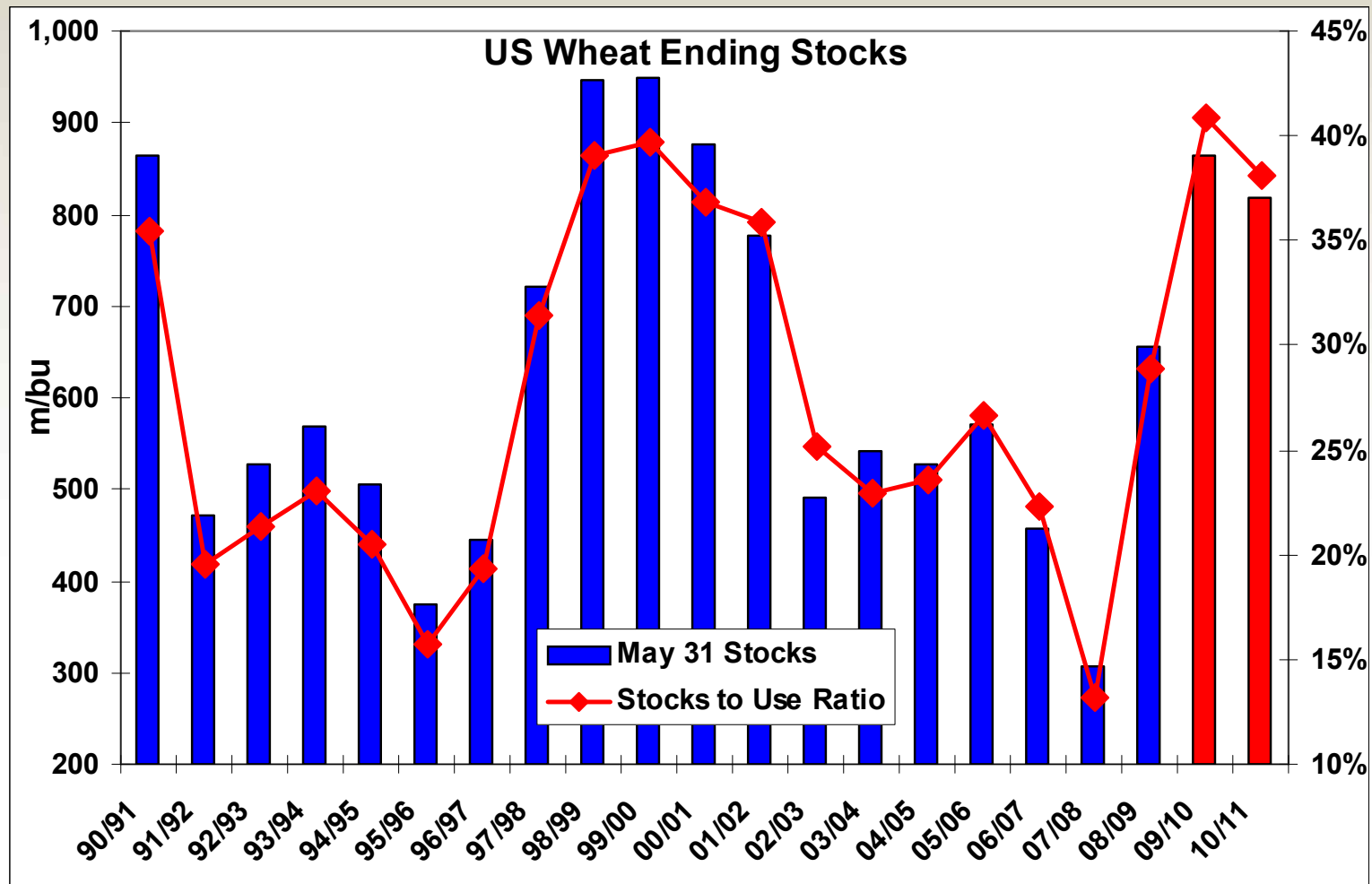
# 2010/11 – Looking Forward

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



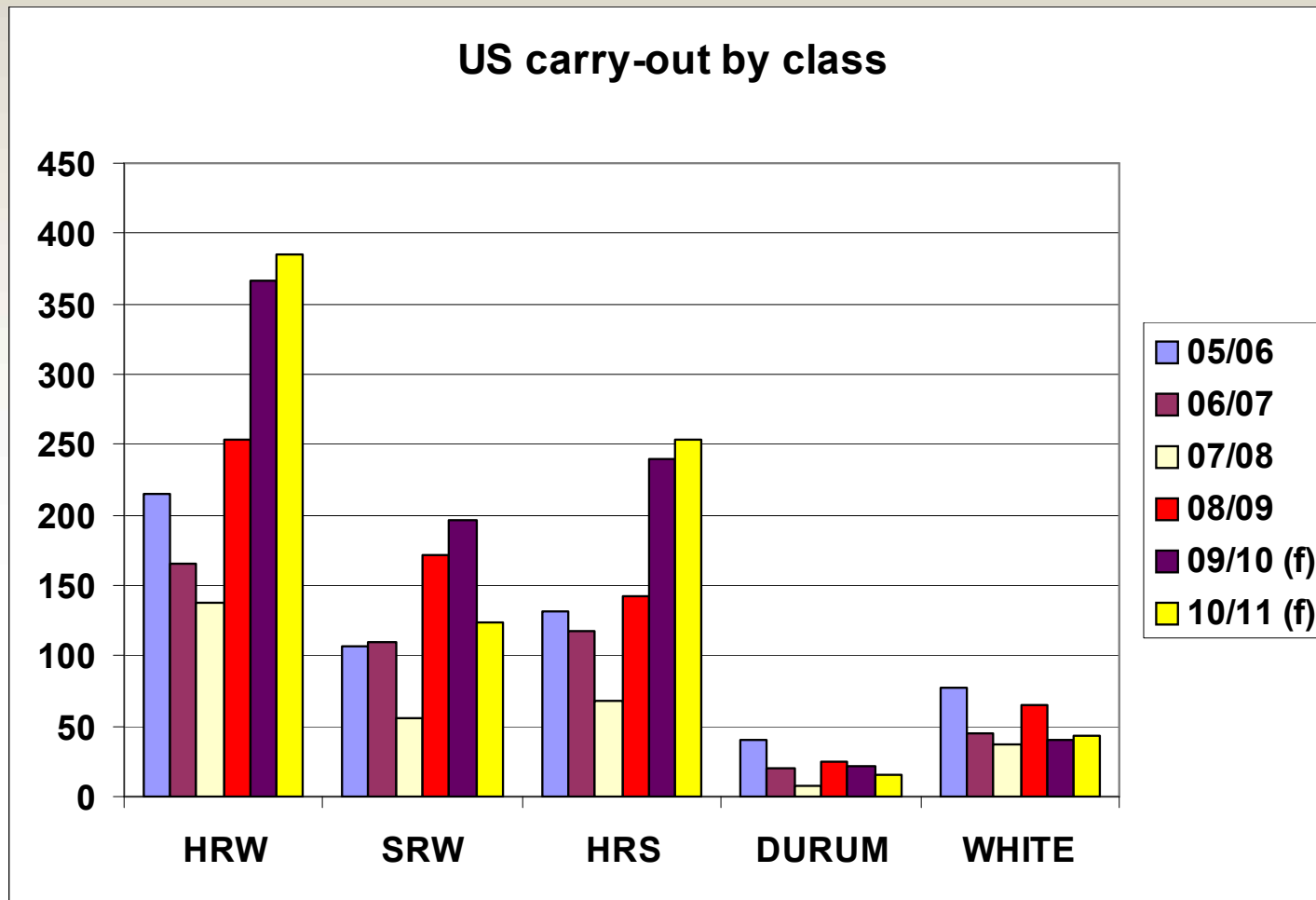
# 2010/11 – Looking Forward

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



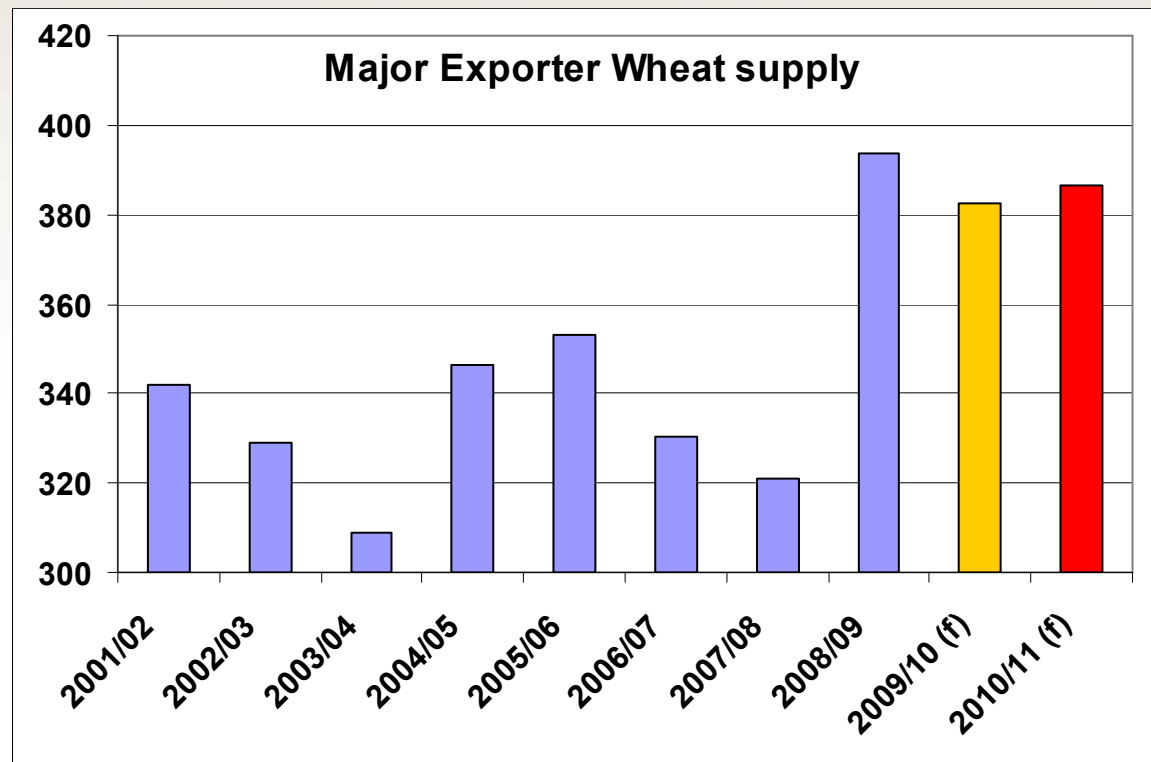
# 2010/11 – Looking Forward

- 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

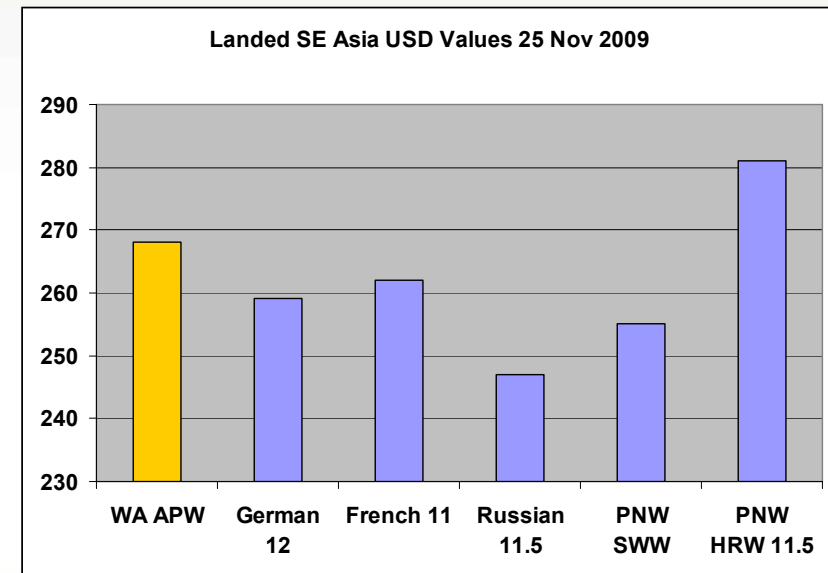
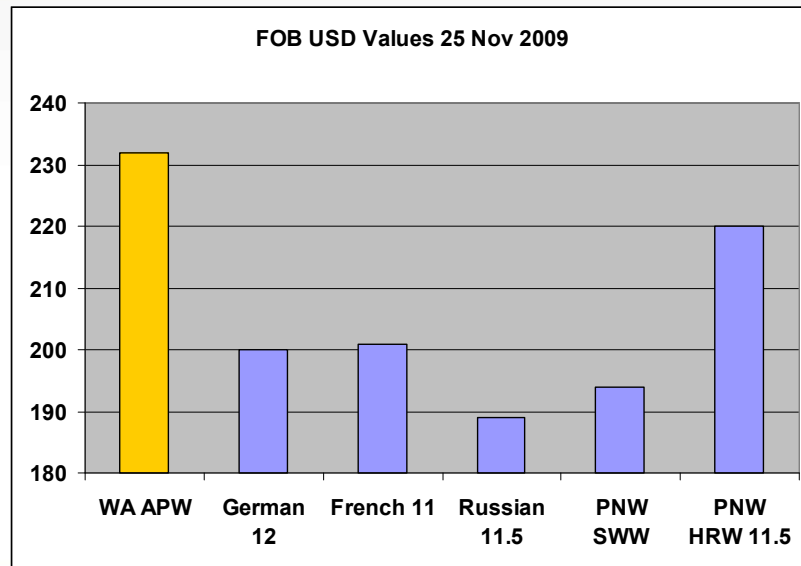
Australian wheat values are currently firm in the global context

- **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:**

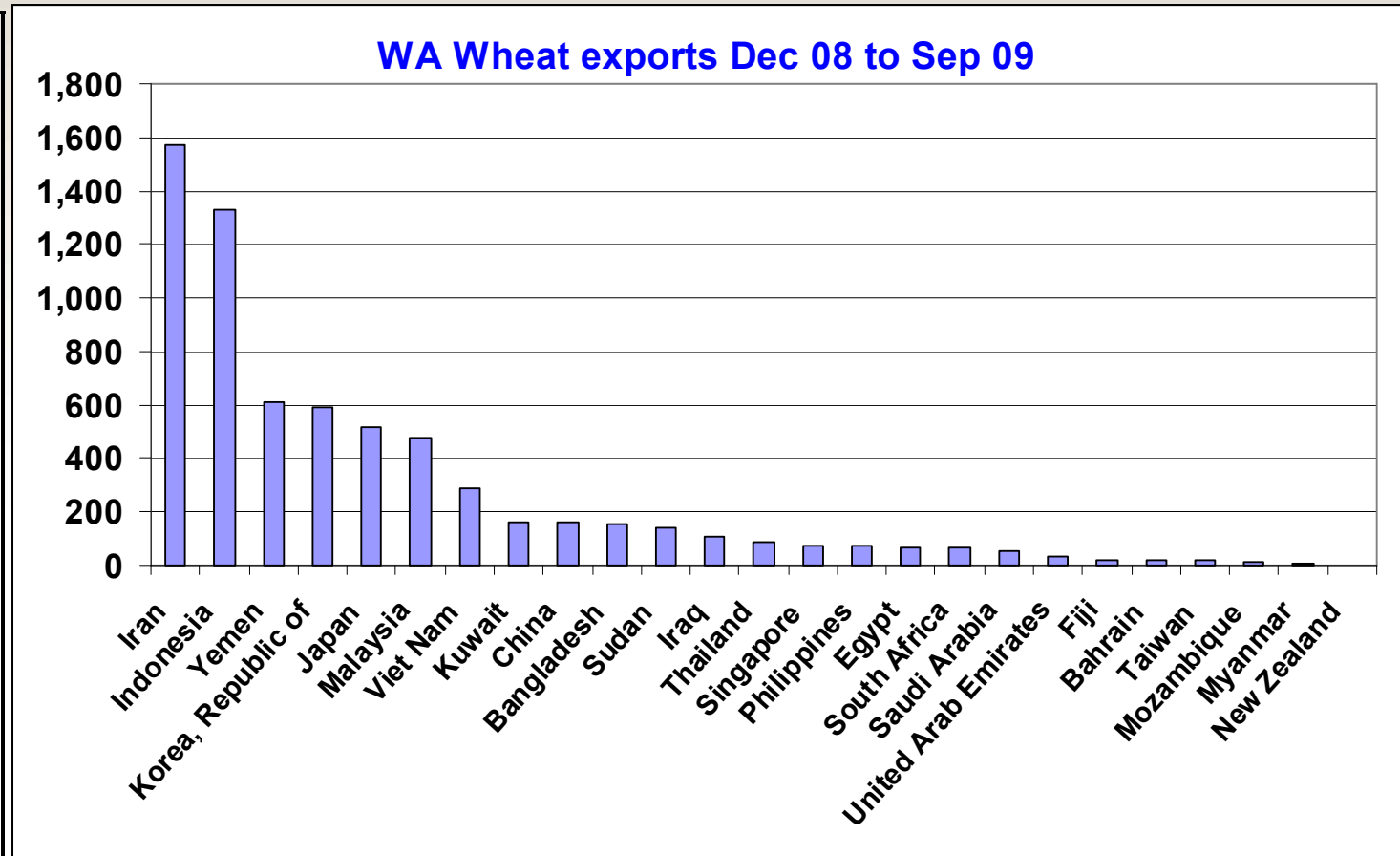
- **25 USD mt vs PNW, EU, Black Sea**



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

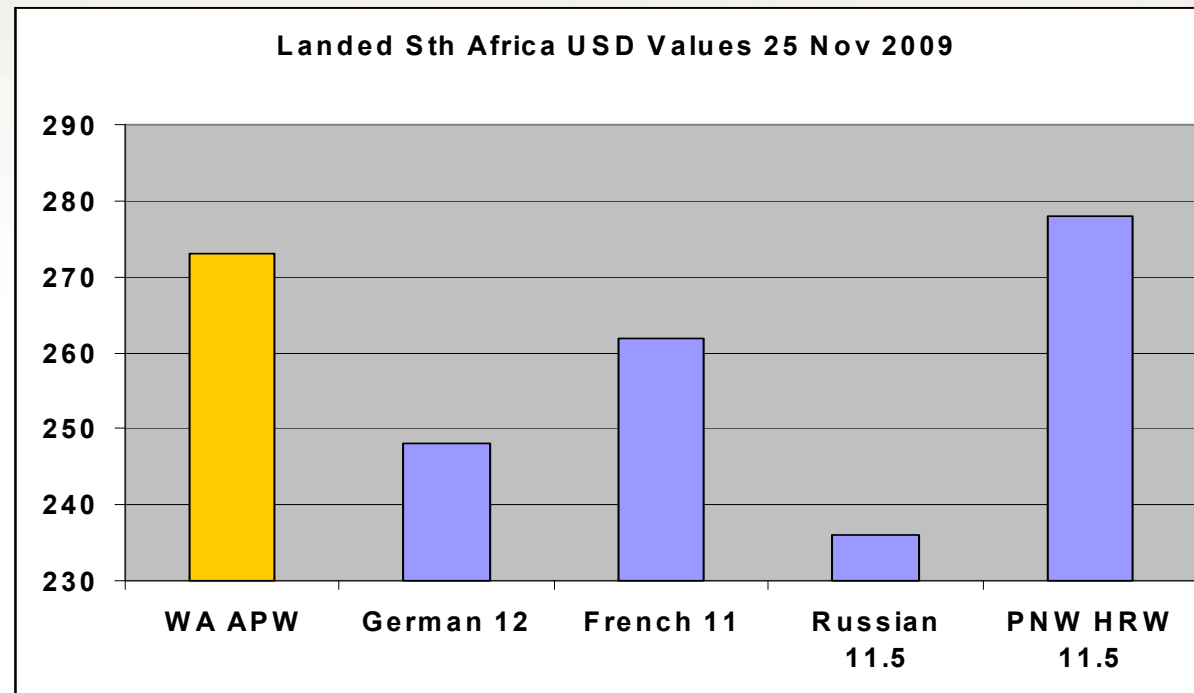
- Where does WA wheat go?
  - Bigger crops in SA/Vic real competition for WA
  - Freight Spread still provides some protection for WA

|                      | 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            |
| <b>Total</b>         | <b>6,651</b> |



# 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?