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Australia

Grain and Feed Update

Grain and Feed Lockup - August 2010

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Report Highlights:
Widespread and well timed rainfall has improved the outlook for crop production in Australia, following years of prolonged and severe drought. Forecast wheat production and exports have been increased significantly as has rice production and exports. Both barley and sorghum production forecasts remain unchanged. All crops are expected to experience above-average yields. The primary constraint for crop production in Australia continues to be low prices at time of planting, however recent improvements in grain prices is likely to see the outlook for exports improve somewhat.

Post: Canberra

Commodities: Wheat
Barley
Sorghum
Rice, Milled

Executive Summary:

Australia continues to move towards more normal climatic conditions following prolonged and severe drought, the worst in recorded history. Excellent falls of rain, which began on Christmas day, have continued though to the time of writing this report. Post advises however, that rainfall in terms of recorded totals, has not exceeded long term averages but the timing of rainfall events has been excellent, particularly for winter cereals (wheat and barley).

Planting of winter cereal crops is now complete. Planting began earlier than usual as well timed rainfall events (including follow-up rain) allowed for planting programs to proceed in an orderly fashion, rather than the more typical late rainfall and rushed planting that has occurred in recent drought years. Some states, namely Western Australia and Queensland, have experienced more difficult conditions but continue to receive rain. Above-average yields for forecasting wheat and barley production for 2010/11 have been used.

Planting for 2011/12 summer crops (sorghum and rice) is not due to commence until October. However, Post has already factored in improved weather conditions compared with last year. Soil moisture levels at planting time are expected to be improved due to a return to more seasonal conditions.

Irrigation water allocations remain historically low in some key areas, particularly in southern NSW, following record breaking drought conditions which began in 2002/03. However, Post has factored in some increases in future water allocations, which are expected to be announced in August and September, and this should boost sorghum and rice production somewhat.

Low grain prices (and improved cotton prices) at the time of planting and their effect on planted area, are expected to provide the primary constraint to Australian grain crop production going forward. However livestock production, which has been greatly constrained during the drought, is expected to increase steadily over time and will not likely displace crop production significantly in the short term.

Post has assumed that the more normal weather conditions experienced over the past six months will continue. No major shifts in export demand or currency pricing, which could potentially shift the balance between exports and stocks, has also been assumed. Large scale pest or disease outbreaks have not been accounted for by Post which has instead assumed that a small portion of the crop will likely be constrained by such threats.

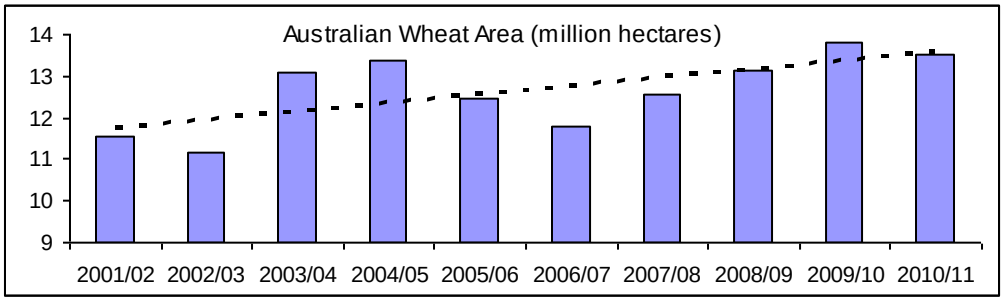
Post continues to follow with interest the steady recovery of the Australian rice industry. Of particular interest is the development of rice production in northern NSW and the Ord River region of far northern Western Australia. Areas which are not considered traditional rice producing areas.

Wheat

Total area planted to wheat for 2010/11 is forecast at 13.25 million hectares, up 250,000 hectares on Post's previous forecast but down over half a million hectares on the estimate in 2009/10. This figure remains slightly below the ten-year average established using ABARE data.

Poor prices at planting time remain the primary reason for lower planting in 2010/11 compared with the previous year. However, excellent timing of rainfall, which began relatively early in the 2010/11 planting program, combined with good follow up rainfall, provided little climatic constraint for wheat planting in most areas in terms of timing and moisture availability. Favorable planting conditions have allowed Post to increase the forecast planted area for 2010/11.

In the states of Western Australia and Queensland, planting conditions were more difficult with below average and poorly timed rainfall in some areas. In other states (Victoria and New South Wales) outbreaks of locusts in February and March nullified the benefit of early rains with early planted crops suffering decreased yield potential, or in the worst case scenario, having to be replanted. Post advises that, at a national level, the total area planted to winter cereal cops has not been impacted significantly by locust thus far, however, Post expects some carry-over locust burden for spring due to higher than normal pressure in autumn.



Source: ABARE Data

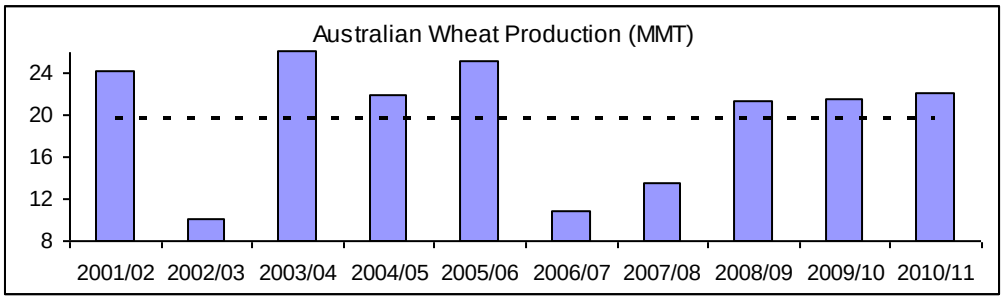
At this early stage, Post has assumed a 2010/11 yield at 1.75 MT per hectare, somewhat above the ten-year-average of 1.55 MT per hectare (which includes some record low yields). Excellent planting rains, particularly in south eastern Australia will likely see some high yielding crops, assuming average weather conditions for the remainder of the season. In other regions, such as parts of WA, yields will likely be more tenuous.

Wheat Production Calculator				
	Area (million hectares)			
Yield (MT)		13.00	13.25	13.50
	1.65	21.450	21.863	22.275
	1.75	22.750	**23.188**	23.625
	1.85	24.050	24.513	24.975

Source: Post Analysis

Total wheat production for 2010/11 is forecast at just under 23.2 MMT, up on the 22.5 MMT estimated for the previous year and up on the 22.0 MMT forecast in the previous report. Above-average planting conditions for the bulk of the sown area has seen the expected yield and area combine to increase forecast production by over one million metric tons. Despite this increase,

Post advises that upside potential remains and that further increases in yield cannot be ruled out, depending on future seasonal conditions.



Source: ABARE Data

A wheat crop of just less than 23.2 MMT would be considered above the ten-year-average of 19.72 MMT, which includes the significantly smaller crops produced during the long running and severe drought experienced over the last decade.

Exports

Total exports of Australian wheat for 2010/11 are forecast at 15.5 MMT. This represents a sharp increase over Post's previous forecast and a significant increase on the estimated figure for 2009/10. Recent improvements in the outlook for wheat exports, combined with a forecast increase in production are expected to see exports increase to their highest level since 2004/05.

Imports

Recent investigations by Post have revealed imports of wheat (and flour equivalent) remain at very low levels. Post has revised this number downwards sharply to 4,000 MT in consultation with local analysts.

Consumption

Revised "FSI consumption" numbers across the series better reflect those published by ABARE. The "feed and residual" series however is derived from FSI and export figures.

Stocks

Closing stocks for 2010/11 are forecast at around 5.1 MMT or just over 1 MMT higher than the estimate for the previous year. Inventories of wheat are expected to continue building steadily over the forecast period and beyond due to increasing storage capacity and a return to more normal production conditions, following years of prolonged and severe drought. Closing inventories will likely continue returning to levels more reflective of the long-term average.

Post has revised closing stocks for 2008/09 upwards to reflect published ABS data and also to maintain a similar production/export/stock ration as ABARE.

Industry sources suggest that, despite growing inventories of wheat, a healthy surplus of grain storage capacity remains in Australia (with new storage capacity currently under construction). If grain prices were to decline in the lead up to harvest, inventories would likely increase at the expense of forecast exports. Closing inventories are expected to continue to increase in 2010/11 beyond Post's expectations.

Policy

The Productivity Commission has been requested by the Australian Federal Government to assess the effectiveness of the arrangements in meeting the objectives of the *Wheat Export Marketing Act 2008*. It has also been requested to consider the operation of the Act and the Wheat Export Accreditation Scheme, including the role of the independent regulator Wheat Exports Australia. A copy of the Productivity Commission's is available on their website at: http://www.pc.gov.au/projects/inquiry/wheatexport.

The public release of the final report on Wheat Export Marketing Arrangements has been delayed by the recent announcement of a Federal Election. However, in its draft report, the Productivity Commission found that the transition to competition had progressed relatively smoothly but there was now scope to reduce regulation further.

Presiding Commissioner, Wendy Craik, observed: 'the export marketing arrangements have played an important role in facilitating a smooth transition to competition in the export of bulk wheat, particularly given that deregulation coincided with a pronounced commodity price cycle and the global financial crisis.'
To date, 29 exporters of wheat in bulk have been accredited, with none experiencing bankruptcy or having their accreditation revoked. In 2008-09, the first marketing year under the current arrangements, just over 12 million tonnes of wheat was exported to 41 countries — an increase in the number of destination countries compared with the previous four years under the 'single desk'.

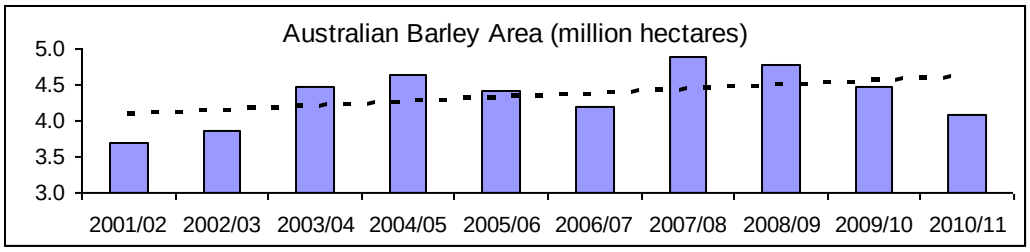
'Looking forward', Dr Craik said 'the ongoing benefits of accreditation and the access test are diminishing rapidly and the ongoing costs remain and are considerable. So, there is no case for continuing the accreditation in the short term, nor access arrangements in the longer term.'

The Commission is proposing that the Wheat Export Accreditation Scheme be abolished on 30 September 2011, along with Wheat Exports Australia and the Wheat Export Charge. It is also proposing that the existing access arrangements ('access test') for port terminal facilities should continue until 30 September 2014, after which regulated access would rely primarily on Part IIIA of the Trade Practices Act.
The Commission is also proposing that the wheat industry support the provision of monthly statistics on wheat stocks by state to facilitate the efficient operation of both the domestic and export markets, funded through a compulsory levy mechanism. Many industry sources are concerned that, in the event that industry is unable to agree to fund current statistics gathering activities, the monthly wheat supply and exports report could be discontinued.

Barley

Production

Total area planted to barley for 2010/11 is forecast at 4.2 million hectares, unchanged from Post's previous forecast. In the past, barley, being a shorter season crop, has benefited from the late breaking rains often experienced during drought. However, the 2010/11 crop has benefited in many areas from early rainfall and good follow-up rain allowing wheat planting programs to proceed unhindered. The area planted to barley has not been boosted by early rains as is the case with wheat.



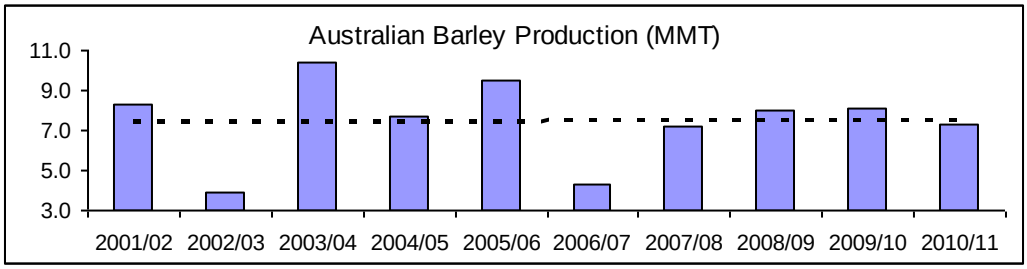
Source: ABARE Data

Post has assumed a yield for 2010/11 of 1.8 MT per hectare, above the long-term average of 1.71 MT per hectare. Excellent planting conditions combined with follow-up rainfall in most areas should see the 2010/11 barley crop record an above-average yield given average weather conditions for the remainder of the season.

Barley Production Calculator				
	Area (million hectares)			
Yield (MT)		**4.10**	**4.20**	**4.30**
	1.71	7.011	7.182	7.353
	1.81	7.421	**7.602**	7.783
	1.91	7.831	8.022	8.213

Source: Post Analysis

Barley production for 2010/11 is forecast at 7.6 MMT, unchanged from Post's previous report and well down on the 8.3 MMT estimated for 2009/10.



Source: ABARE Data

Exports

Barley exports in 2010/11 are forecast slightly lower at 3.6 MMT. This level of barley exports would be considered below-average.

Consumption

Consumption figures across the series have been revised to include ABARE's feed consumption figure. However, ABARE's domestic consumption figures were recently discontinued for the domestic consumption of feed. Figures have been used from the February crop report for the "feed consumption" series.

Stocks

Closing barley stocks for 2010/11 have been forecast to decrease to 2.28 MMT in line with lower production. Unfavorable shifts in export demand or currency pricing could however see the export forecast revised downwards and closing stocks forecast revised upwards in future reports.

Commercial Cultivation of GM Canola Approved in 3rd Australian State

Following successful commercial growing and segregation trials conducted in 2009, on January 25, 2010 the Western Australian Agriculture and Food Minister approved an exemption order under that State's *Genetically Modified Crops Free Areas Act 2003* to permit the cultivation of GM canola varieties approved by the Office of the Gene Technology Regulator.

Western Australia is Australia's biggest producer of canola and this announcement brings it into line with two other major grain-growing states, NSW & Victoria, who lifted their moratoria on growing GM canola in 2008. South Australia remains the only canola-producing state which does not allow the cultivation of GM varieties. There are media reports of farm groups and university experts calling for South Australia to lift the ban.
http://www.mediastatements.wa.gov.au/Pages/WACabinetMinistersSearch.aspx?ItemId=133050&minister=Redman&admin=Barnett

Canola Production Forecast to Jump in 2010-11

Industry sources report that Australia is likely to have a significantly larger canola crop in marketing year 2010/11 compared to 2009/10 with good potential to have the largest harvest in at least ten years. Timely precipitation, crop rotation needs, and relative crop price relationships account for the larger planted area.

Recently released information by the Australian Oilseeds Federation (AOF) (http://www.australianoilseeds.com/__data/assets/pdf_file/0004/6655/AOF_Crop_Report_May_2010.pdf) point to a sharply higher level of production, particularly in Western Australia and New South Wales.

Two cold fronts in late May brought timely rains that have raised optimism among canola growers in Western Australia where it had been dry and some of the crop had been "dry seeded." Western Australia generally accounts for 50 percent of total Australian canola production. New South Wales, the second largest producing state with roughly 15 percent of production, also benefitted from the same timely rains.
http://theland.farmonline.com.au/news/state/agribusiness-and-general/general/ready-set-sow-rain-lifts-spirits/1841055.aspx.

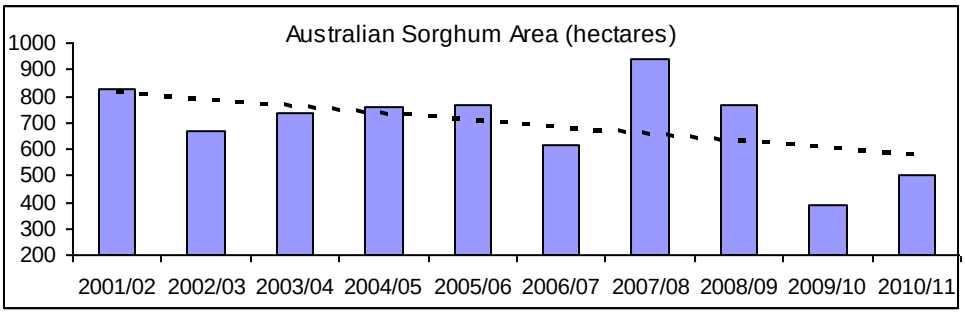
Australia initiates Biodiesel Dumping and Countervailing Duty investigation

On June 22, Australia's Customs and Border Protection Service launched concurrent dumping and countervailing duty investigations into U.S. exports of pure biodiesel, specifically, B99, and biodiesel blends above 20 percent, during the period from April 1, 2009 through March 31, 2010. The investigation findings should result in recommendations being made on or before November 24, 2010 and may result in anti-dumping and/or countervailing duties being levied against U.S. biodiesel. This is similar to the EU case from 2008. U.S. biodiesel exports to Australia have been infrequent and it is not a key market for U.S. suppliers. Post estimates put U.S. exports of biodiesel to Australia at less than one percent of total U.S. exports, making Australia a very small market for the U.S. by global standards.

Sorghum

Production

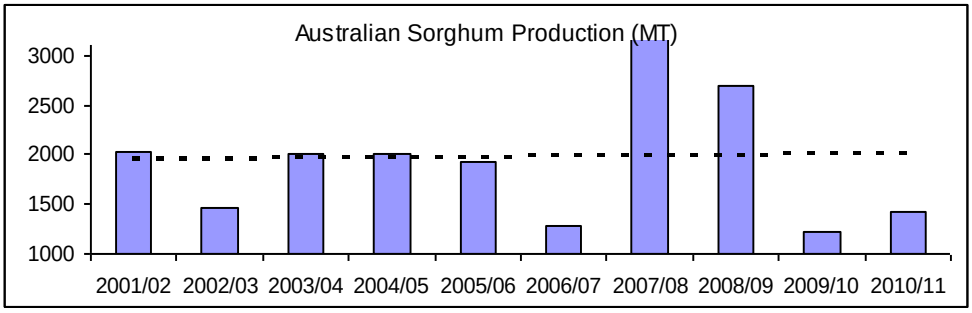
Sorghum planting for the 2011/12 summer crop season is forecast at 600,000 hectares, unchanged from the previous estimate but up on the estimate for 2010/11. Despite this forecast increase, a planted area of this size would be considered below average.



Source: ABARE Data

Increased competition from dryland cotton is expected to see total area planted to sorghum constrained. However, despite planting remaining some months away, improved seasonal conditions together with excellent soil moisture in key regions will likely see sorghum planted over a significant area. Given improved seasonal conditions at the time of writing this report, planting conditions in 2011/12 should be greatly improved from the previous year.

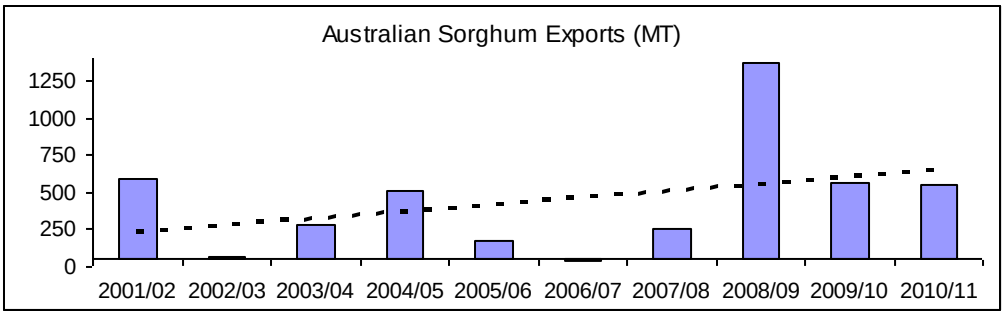
Total production in 2011/12 is forecast at 1.7 MMT, unchanged from our earlier forecast and up slightly on the previous year. ABARE has forecast this crop at 1.42 MMT giving more weight to increased competition from dry land cotton. However, continued improvement in soil moisture levels combined with some modest improvement in grain pricing is likely to see production surpass this figure despite remaining at below average levels.



Source: ABARE Data

Exports

Total exports are forecast at 0.7 MMT, unchanged from Post's previous report and up on the revised estimate for the previous year. Exports of this level would be considered above average and the largest since the record exports of 2008/09.

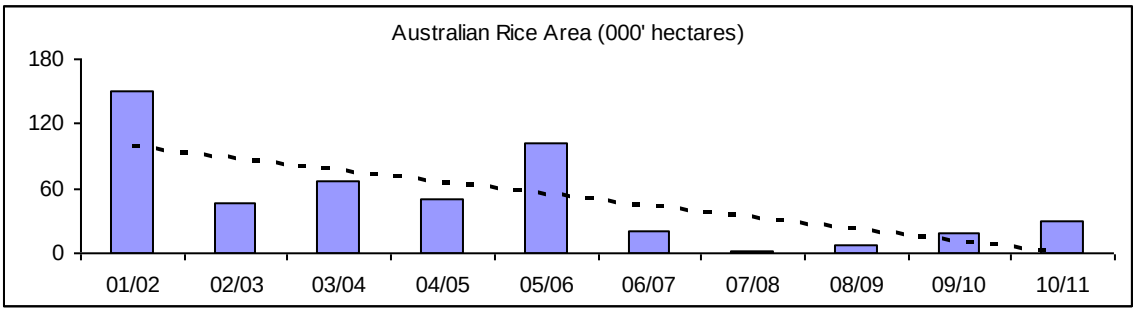


Source: ABARE Data

Rice

Production

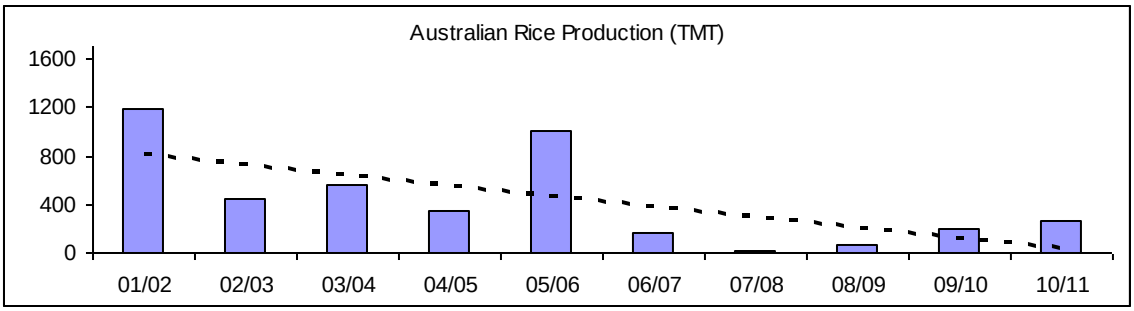
Increased availability of irrigation water is expected to see rice plantings increase to 35,000 hectares in 2011/12. This would be the largest rice planted area since 2005/06. Industry sources suggest that around 90 percent of these plantings will use "carry-over" water from previous years. However, Post has assumed around 10 percent of this forecast planted area to use water from increases in future allocations which have not yet been announced.



Source: ABARE Data

Total rice production in 2011/12 is forecast at 329 TMT, up on Post's previous forecast and up sharply on the revised 2010/11 estimate. This would represent the highest level of production since 2005/06. Despite this increase, this forecast remains below the ten-year-average of 424 TMT. Industry sources see excellent upward potential in forecast rice production with the upper limit believed to be closer to 500 TMT although this would require above-average rainfall and sharply increased water allocations.

Post has revised rice production for 2010/11 upwards to 206 TMT. A record high yield of 11.0 MT per hectare has pushed rice production beyond earlier estimates. This production estimate includes 1,400 MT of rice grown in the Ord River region in the far north of the state of Western Australia for the first time since the 1970's. Post has learned that plantings in this area will likely increase from the 250 hectares planted in 2010/11 up to around 1,500 hectares in 2011/12. There also has been some rice grown in northern NSW.



Source: ABARE Data

Trade

Exports for 2011/12 are forecast to increase sharply to 105 TMT, their highest level since 2006/07 and sharply higher than Post's previous report.

Imports are expected to decline in 2011/12 due to greatly improved production. Despite the return to more normal weather conditions and the expected long term improvement in rice production, Post does not expect rice imports to be completely displaced. Nonetheless, U.S. rice exports to Australia are forecast to decline in 2011/12.

Statistical Tables

PSD Table										
Wheat										
	2007	Revised		2008	Estimate		2009	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		10/2007	10/2007		10/2008	10/2008		10/2009	10/2009	MM/YYYY
Area Harvested	13,530	13,151	13,530	13,788	13,788	13,788	13,000	13,000	13,250	(1000 HA)
Beginning Stocks	3,651	3,651	3,651	3,588	3,166	3,738	4,588	3,666	4,212	(1000 MT)
Production	21,420	20,938	21,420	22,500	22,500	22,500	22,000	22,000	23,188	(1000 MT)
MY Imports	114	125	4	100	100	4	100	100	4	(1000 MT)
TY Imports	107	107	4	100	100	4	100	100	4	(1000 MT)
TY Imp. from U.S.	1	1	1	0	0	0	0	0	0	(1000 MT)
Total Supply	25,185	24,714	25,075	26,188	25,766	26,242	26,688	25,766	27,404	(1000 MT)
MY Exports	14,747	14,721	14,747	14,500	15,000	15,000	15,500	14,000	15,500	(1000 MT)
TY Exports	13,452	13,452	13,452	14,000	15,000	15,000	15,000	14,000	15,000	(1000 MT)
Feed Consumption	3,750	3,727	3,430	4,000	4,000	4,000	4,100	4,100	3,764	(1000 MT)
FSI Consumption	3,100	3,100	3,160	3,100	3,100	3,030	3,150	3,150	3,053	(1000 MT)
Total Consumption	6,850	6,827	6,590	7,100	7,100	7,030	7,250	7,250	6,817	(1000 MT)
Ending Stocks	3,588	3,166	3,738	4,588	3,666	4,212	3,938	4,516	5,087	(1000 MT)
Total Distribution	25,185	24,714	25,075	26,188	25,766	26,242	26,688	25,766	27,404	(1000 MT)
Yield	2.	2.	1.5831	2.	2.	1.6319	2.	2.	1.75	(MT/HA)

PSD Table

Barley

	2007	Revised		2008	Estimate		2009	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		11/2007	11/2007		11/2008	11/2008		11/2009	11/2009	MM/YYYY
Area Harvested	5,015	4,790	5,015	4,479	4,479	4,479	4,200	4,200	4,200	(1000 HA)
Beginning Stocks	1,662	1,662	1,662	2,425	2,518	2,425	2,825	2,918	2,425	(1000 MT)
Production	7,997	7,669	7,997	8,300	8,300	8,300	7,600	7,600	7,600	(1000 MT)
MY Imports	0	0	0	0	0	0	0	0	0	(1000 MT)
TY Imports	0	0	0	0	0	0	0	0	0	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Supply	9,659	9,331	9,659	10,725	10,818	10,725	10,425	10,518	10,025	(1000 MT)
MY Exports	3,234	3,234	3,234	3,400	3,800	3,800	3,600	3,900	3,600	(1000 MT)
TY Exports	3,278	3,278	3,278	3,400	3,800	3,400	3,600	4,000	4,000	(1000 MT)
Feed Consumption	3,000	2,579	2,100	3,400	3,000	2,153	3,400	3,025	2,196	(1000 MT)
FSI Consumption	1,000	1,000	1,900	1,100	1,100	2,347	1,150	1,125	1,954	(1000 MT)
Total Consumption	4,000	3,579	4,000	4,500	4,100	4,500	4,550	4,150	4,150	(1000 MT)
Ending Stocks	2,425	2,518	2,425	2,825	2,918	2,425	2,275	2,468	2,275	(1000 MT)
Total Distribution	9,659	9,331	9,659	10,725	10,818	10,725	10,425	10,518	10,025	(1000 MT)
Yield	2.	2.	1.5946	2.	2.	1.8531	2.	2.	1.8095	(MT/HA)

PSD Table

Sorghum

	2007	Revised		2008	Estimate		2009	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		03/2008	03/2008		03/2009	03/2009		03/2010	03/2010	MM/YYYY
Area Harvested	767	754	767	545	500	545	600	600	600	(1000 HA)
Beginning Stocks	791	791	791	676	657	678	371	252	613	(1000 MT)
Production	2,690	2,671	2,692	1,600	1,500	1,500	1,700	1,700	1,700	(1000 MT)
MY Imports	0	0	0	0	0	0	0	0	0	(1000 MT)
TY Imports	0	0	0	0	0	0	0	0	0	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Supply	3,481	3,462	3,483	2,276	2,157	2,178	2,071	1,952	2,313	(1000 MT)
MY Exports	1,000	1,200	1,000	800	900	560	700	700	700	(1000 MT)
TY Exports	1,360	1,360	1,360	750	1,100	750	700	700	700	(1000 MT)
Feed Consumption	1,800	1,600	1,800	1,100	1,000	1,000	1,100	1,000	1,100	(1000 MT)
FSI Consumption	5	5	5	5	5	5	5	5	5	(1000 MT)
Total Consumption	1,805	1,605	1,805	1,105	1,005	1,005	1,105	1,005	1,105	(1000 MT)
Ending Stocks	676	657	678	371	252	613	266	247	508	(1000 MT)
Total Distribution	3,481	3,462	3,483	2,276	2,157	2,178	2,071	1,952	2,313	(1000 MT)
Yield	4.	4.	3.5098	3.	3.	2.7523	3.	3.	2.8333	(MT/HA)

PSD Table

Rice, Milled

	2007	Revised		2008	Estimate		2009	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		03/2008	03/2008		03/2009	03/2009		03/2010	03/2010	MM/YYYY
Area Harvested	7	8	7	20	20	19	35	35	35	(1000 HA)
Beginning Stocks	52	52	52	26	26	26	36	30	44	(1000 MT)
Milled Production	44	45	44	139	132	147	214	214	235	(1000 MT)
Rough Production	62	63	62	194	185	206	299	299	329	(1000 MT)
Milling Rate (.9999)	7,150	7,150	7,150	7,150	7,150	7,150	7,150	7,150	7,150	(1000 MT)
MY Imports	215	250	215	225	226	225	200	200	200	(1000 MT)
TY Imports	216	200	216	225	225	225	200	200	200	(1000 MT)
TY Imp. from U.S.	0	25	15	0	20	20	0	18	18	(1000 MT)
Total Supply	311	347	311	390	384	398	450	444	479	(1000 MT)
MY Exports	15	20	15	40	40	40	65	65	105	(1000 MT)
TY Exports	17	25	17	40	40	40	65	65	105	(1000 MT)
Total Consumption	270	301	270	314	314	314	330	330	330	(1000 MT)
Ending Stocks	26	26	26	36	30	44	55	49	44	(1000 MT)
Total Distribution	311	347	311	390	384	398	450	444	479	(1000 MT)
Yield (Rough)	9.	8.	8.8571	10.	9.	10.8421	9.	9.	9.4	(MT/HA)

Recent Reports from FAS/Canberra

The reports listed below can all be downloaded from the FAS website at: http://www.fas.usda.gov/scriptsw/AttacheRep/default.asp.

Title of Report	Date
Biofuels Annual 2010	07/06/10
Ag DownUnder Issue 4 2010	06/25/10
Increased Access for Australian Fresh Fruit to China & Japan	06/23/10
Ag DownUnder Issue 3 2010	06/11/10
Canola Production Forecast to Jump in 2010-11	06/03/10
Ag DownUnder – Issue 2	05/28/10
Soybean Meal Imports Down – U.S. Share Up	05/21/10
Australia 2010 Vintage Wine Harvest Update	05/20/10
Australian Pulse Crop to Increase in 2010/11	05/17/10
Ag DownUnder – Issue 1	05/14/10
Dairy and Products Semi Annual	05/14/10
Beef Grading Agreement Opens Way for Increased Beef Exports to Chile	05/05/10
Sugar Annual 2010	04/15/10
Cotton and Products Annual	03/29/10
Grain and Feed Annual	03/16/10
Wine Annual 2010	03/01/10
Livestock and Products Semi-annual 2010	03/01/10
Government announces Ag Research Initiative to Increase Productivity & Cut Carbon Emissions by 50 percent	02/18/10
Australian Container exports rise	02/02/10