HARVEST ISSUE 2023

AGR

AUSTRALIAN GRAIN REVIEW

AN INDEPENDENT GRAIN MARKETING PUBLICATION FOR AUSTRALIAN GROWERS

REBOOTING TRADE FLOWS

How weather and markets are once again altering the movement of grain

Plus

Utilising Options / Global Wheat Dynamics

CGT Concession Traps / Cost of Carrying Grain

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Market Check

Brett's Welcome

Managing Change

In January 2010 I had a tragic swimming accident, whilst on holiday, which left me an incomplete quadriplegic and a life in a wheelchair with only limited use of my left hand.

This required a dramatic change in my family, personal and professional life. But with support from my family, friends and work colleagues I have been able to live an active and rewarding life.

'One thing that is constant is change'. Change in our lives, in technology and in our economic circumstances. We can't stop change, but we can prepare for it, and we can respond positively to its challenges. This statement is particularly true for the farming sector. If it's not the weather patterns, then it is technology or the markets!

In the past six years, weather conditions and markets have played havoc with the grain markets in Australia. Two years of drought (three if you're in NSW) followed by three of the biggest years in history, then a war between the No1 and No5 wheat exporters in the world!

The droughts required growers to batten down the hatches on spending. Storing grain after harvest was often unrewarding. In the wet years, huge production overwhelmed the ports, leaving our prices discounted to the world. Then came the Russian invasion of Ukraine and the colossal spike in global wheat prices. On Wednesday 18th May 2022, the Dec 2022 CBOT Wheat Swap reached A$667/t, while the ASX January 2023 APW wheat futures (i.e. the APW1 new crop price at the time) was A$497/t.

On that same day in May 2022, the Dec 2023 CBOT Wheat Swap was $586t and the ASX APW wheat futures for harvest 2023 were $491/t.

In my 27 years of Market Check, only in 1996 did we have high production and high prices. But now something had changed. There were massive prices on offer whilst the crop was booming. Why then, did I only see Market Check members participating in these levels in accordance with their normal marketing plans? Why then did I only see Market Check members selling Swaps instead of forward contracts in the last half of 2022? Why then has it only been Market Check members selling Swaps this year?

If a grower locked in some of their production in the last half of 2022 using Swaps at over $600/t their final return for APW, or better, would have been $550/t depending on the site delivered to. This was $100/t or more above using forward contracts and more than $180/t above the harvest price!

If a grower locked in some of their 2023 crop production using Swaps above $500/t these could have been converted into forward contracts in October at an equivalent of $580/t net return (cash price + Swap gain). Again, up to $100/t better than using forward contracts in the Autumn and Winter of 2023 and over $200/t better than the harvest price.

Outperformance of Hedging with A$/t Dec CBOT wheat during Jan-Aug pre-harvest and unwinding/selling during Nov-Dec versus Forward selling Jan-Aug pre-harvest (2023 assumes same market through Oct-Dec)

Why haven't most of Australian growers adapted to the massive opportunities provided by the pre-harvest marketplace in the past two years? At the same time why have grain growers been so quick to update their equipment to take on technology change? Why have grain growers in Eastern Australia been so enthusiastic to build on farm storage as a result of change in the size of the domestic market?

The answer to all these questions is the hurdle of knowledge. Knowledge can't be bought, it takes time and effort and once you have the knowledge you need advice to help employ it on the farm. Market Check is one of, if not Australia's largest grain marketing advisory business, and our members recognise that market changes occur all the time and highly value the importance of knowledge and information to develop a marketing plan.

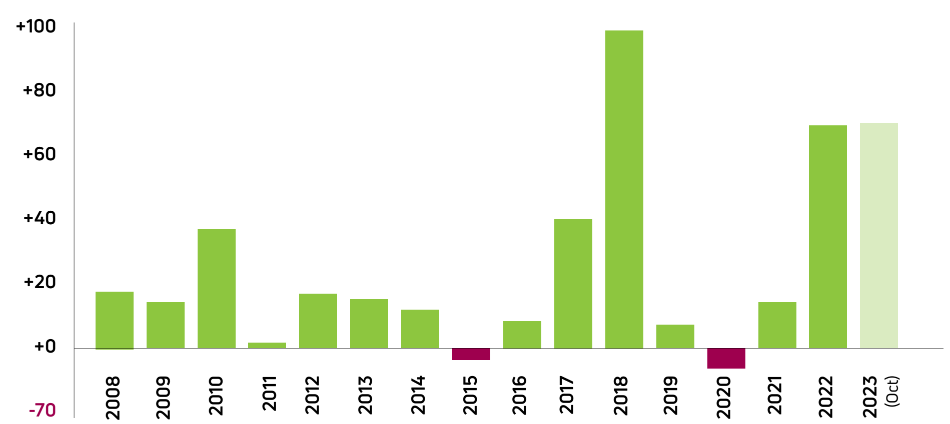
The market has now been deregulated for 15 years. It's time all growers recognised the market has changed and is constantly changing, and sought more education and information to develop their own grain marketing plan.

In 2024 Market Check will be releasing an online Grain Marketing Academy so all growers can empower themselves to do better in the marketplace.

Enjoy our 2023 Australian Grain Review.

Brett Stevenson, Founder & Managing Director, Market Check

PTA APW1 Jan/Aug hedge outperformance vs forward selling



Contributors

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Mike O'Dea is a Risk Management Consultant for StoneX based in Kansas City, he has a Bachelor of Science degree from Panhandle State in Agricultural Economics and is a former member of the Kansas City Board of Trade. Mike is involved in Commodity Risk Management and the physical trading of wheat, feed grains and soybeans. His customer base consists of cooperative and commercial grain companies, flour millers and grain processors from across the United States. In recent years, Mike has been introducing the StoneX philosophy of Risk Management in European and Asian markets. He has spent the past 37 years working for StoneX and its predecessors, INTLFCStone, FCStone and Farmers Commodities and has been in the business for 42 years.

STUART CLARKE

Managing Director and principal, Tasman Agri

Stuart Clarke is the Managing Director and principal of Tasman Agri. Stuart's experience spans 19 years within large corporate and private mid-tier grain businesses, trading across multiple commodities and geographies. Stuart's diverse experience and expertise covers operations and management of domestic trading, national accumulation, national Pool's and international trade responsibilities. Tasman Agri is a domestic orientated grain trading, accumulation and logistics business operating across all Australian grain regions and markets. Tasman Agri works closely with consumers and producers to increase value by expanding their market connectivity and providing tailored supply-chain solutions. Tasman Agri has robust governance and management capabilities, making it a valuable and dependable trading partner for grain consumers and producers alike.

RACHELLE NOWLAND

Managing Partner, Business Services, Findex

Rachelle Nowland is a highly experienced accounting and business advisor who specialises in assisting small to medium businesses with business management, taxation, financial analysis, and advice for farming businesses. She provides guidance on bank finance preparation, cloud-based data system integration, and access to government funding, serving as a trusted business partner and relationship manager for her clients within Findex's Agribusiness advisory team. Findex is a top integrated advisory firm in Australasia, who offer uniquely tailored solutions that evolve with your needs. Our personalised, hands-on approach empowers clients to reach their financial, professional, and life goals. With 100+ offices across Australia and New Zealand, our vast geographical footprint grants you direct access to expert advisers, responsiveness to global and local matters,competitive local solutions, and community support.

JUSTIN STEWART

Senior Commodity Advisor, Market Check

Justin hails from a mixed cropping and livestock farm, near Harden in NSW. Justin has 5 years experience in grain markets since his completion of a Bachelor of Economics majoring in Agriculture at the University of Sydney. As a Senior Commodity Advisor, Justin specialises in the implementation and execution of risk management strategies across Market Check's client base throughout the East Coast of Australia. As well as advising grower clients, he is heavily involved in the Grain Agency service and trading execution for Market Check's managed programs focusing on cereals, oilseeds, and pulse commodities.

AGR
Australian Grain Review

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Editor's Note

The white-knuckle ride for Australian grain production continues, as this coming harvest throws up a completely different set of challenges than past seasons, albeit nothing we haven't seen before! To contextualise the wild ride we've experienced, if we go back to the 2015-16 season, on a national basis Australia had enjoyed a relatively steady period of winter crop production for some years. As you can see in the chart, we routinely produced around 35MMT, with some variability (more than most countries!), but nothing we weren't able to take in our stride. Then the volatility really dialled up, with 2016-17 producing what was a record crop at the time, before we plunged into three much tougher years with most areas seeing a prolonged drought. When it felt like it was never going to rain again, the drought finally broke and we entered a three-year period of unprecedented production. This brings us to the present day, where it's clear the run of records is over, and a drier spell is ahead. For many in southern cropping regions, the coming harvest still has the potential to be average to above-average, however large swaths of the Australian cropping belt have been crippled by a lack of rainfall in 2023. If we look at the 10-year average production (wheat, barley, and canola), the coming crop is expected to be right around average, as we transition out of La Niña into whatever 2024 brings!

If we look globally, the past few years have offered us little safe haven, as the world comes to grips with a protracted war between Russia and Ukraine. After the outright panic in markets in winter last year, we've seen prices fall significantly, with the CBOT Dec-23 contract down A$130/t since the start of the year, even with the AUD weakening significantly. A historically tight exporter balance sheet has been no match for the relentless selling by Russian exporters and the speculative fund community.

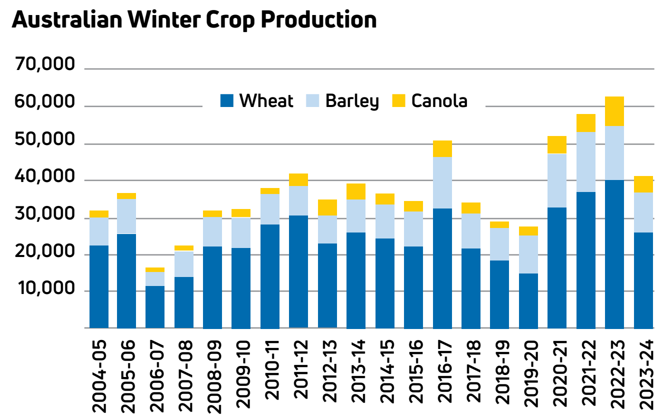
All of this has meant that growers have taken on challenge after challenge in recent times, not to mention the dramatic increase in input costs. Luckily for the most part, yields and prices have been strong, so while we're all a bit weary after a volatile few years, the financial health of the grower and exporter industry is strong. If we do a post-mortem on the last 5-10 years, one thing has rung true, a disciplined approach to grain marketing wins in the long run. Those who have balance in their grain marketing strategy, who spread their risk across the different strategies available have outperformed, capitalising on a very solid few years financially. Those that run from one strategy to another each year (i.e. selling all at harvest one year, then none at harvest the next year), continue to underperform. It's the job of advisory firms like Market Check to recommend which strategy is the one to lean heaviest into, while always adhering to sensible risk management principles.

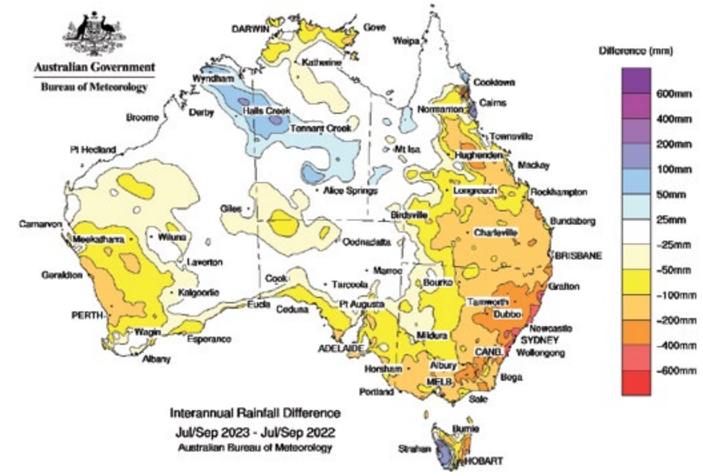
The 2023 Australian Grain Review has a heavy focus on wheat, it is after all the largest crop we produce by some margin. Only once in the last 35 years does the sum of all other winter crop production exceed the amount of wheat produced in any given season. We've called in some favours and stacked the deck with some outstanding market commentators, while our very own Market Check Team have contributed throughout. Of particular interest to all grain growers is Rachelle Nowland's article about CGT concession traps and the misconceptions around deferring income from grain sales. For those looking for a well-rounded, comprehensive review of the current wheat markets, articles from Dr Rory Deverell (Black Silo Consulting) and Mike O'Dea (StoneX) will be especially useful.

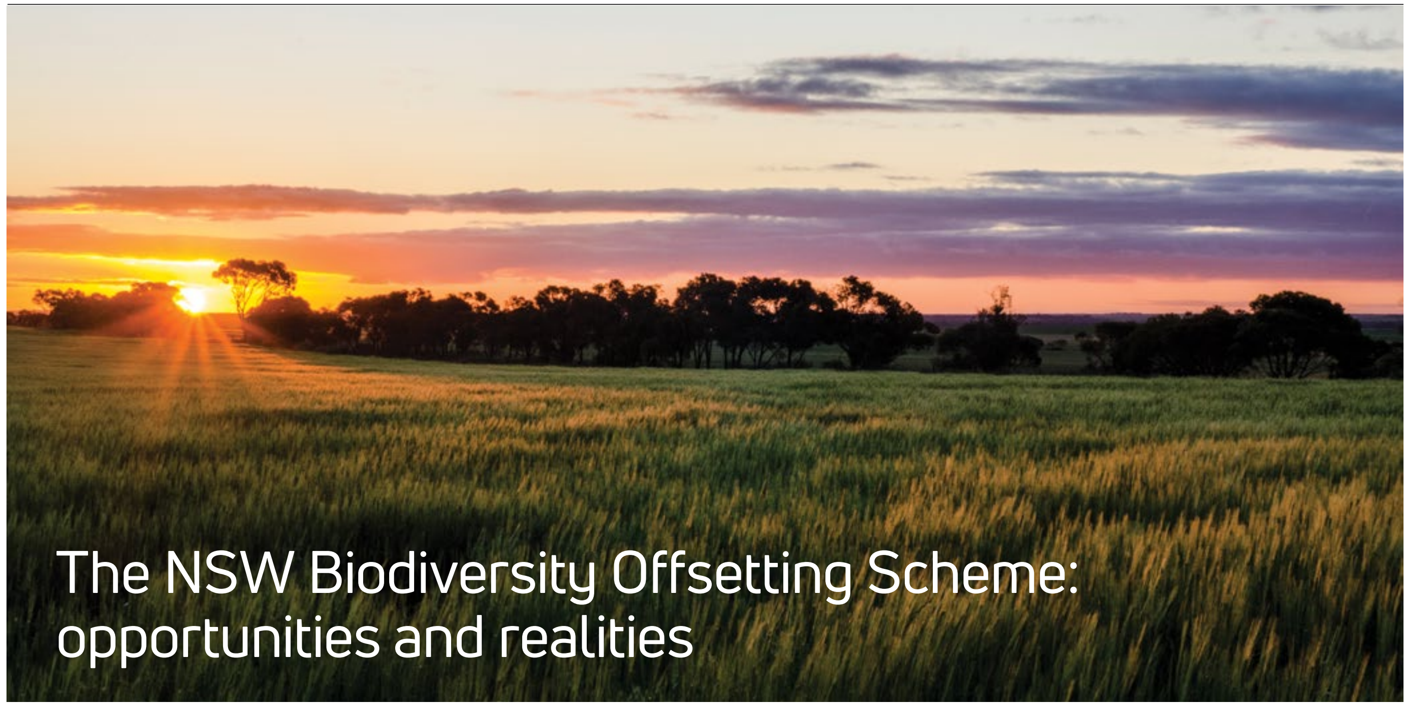
I encourage all growers heading into harvest to take the time to read this edition, as it will provide a comprehensive view of what the grain markets are doing and what will drive prices going forward.

A special thanks also must go to the Market Check team for putting this together, especially our Marketing Coordinator Anneka Graham, COO Tim Phelps and CFO Tom Basnett. We hope you enjoy reading!

Nick Crundall, CEO, Market Check



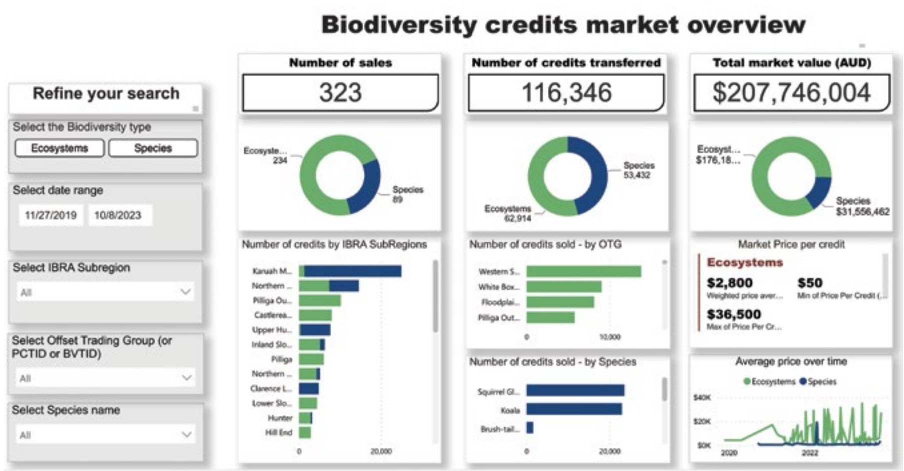




The NSW Biodiversity Offsetting Scheme: opportunities and realities

In NSW, the Biodiversity Offsetting Scheme (BOS) provides the framework for assessing impacts to biodiversity. It seeks to balance development with protection of our environment. Where impacts of land clearing for development are unavoidable, project proponents may be able to offset the impact to biodiversity by purchasing biodiversity credits from landholders who develop biodiversity stewardship sites on their landholdings.

As a compatible use for agricultural land in NSW, the BOS is an important mechanism for both protecting biodiversity and generating income for landholders embracing the opportunity to create a Biodiversity Stewardship Site on their land.



The Biodiversity Offset Credits Market

On 11 October 2023, the NSW Department of Planning and Environment published the current state of the biodiversity credit market and identified that over $207M in biodiversity credits had been traded under the current scheme. This value does not account for the more than $400M credits transacted under the old offsetting scheme and nor does it account for the many millions of dollars in credits contracted for transfer in the near future. As consultants in the nature supply market, Niche Environment and Heritage alone has over $40M in biodiversity credits owned by our landholder clients under contract or under negotiation for sale in the next 12 months.

To further put the economic value of the NSW BOS in perspective, Niche is currently delivering the biodiversity offset obligations for many projects with a combined market value exceeding $2B.

Potential for long-term benefits

Conservation and protection of Australia's unique biodiversity can and must co-exist with commercial and agricultural business goals.

The BOS can reward landholders for restoring and conserving biodiversity on their land. Many of our clients see a double benefit: a chance to create a conservation legacy while also generating revenue.

Establishing a Biodiversity Stewardship Site also allows landholders to diversify their income stream. Since sites are established in perpetuity, this can help shore up long-term income for the next generations.

Increasing biodiversity has also been shown to deliver benefits to agricultural systems, including improving soil quality and health, increasing pollinators, and building resilience to pests and diseases.

Importantly, establishing a Biodiversity Stewardship Site provides the opportunity to include on-farm landscape diversity and biodiversity source areas and corridors that are considered vital to sustainable agricultural practices.

Appreciating the realities

As a landholder contemplating establishing a Biodiversity Stewardship Site, it is important to understand some sites may not be suitable or financially viable. Further, even on a viable site it may take some time to generate revenue.

There will be costs in establishing the site and some land uses (intensive grazing for example) will be precluded from a Biodiversity Stewardship Site. The opportunity costs must be considered.

Demand for biodiversity offset credits under the BOS is continuing to increase as NSW supports the Australian energy transition program, however accessing that demand requires specialist support.

The New South Wales Government, through the Credit Supply Task Force, is working with the market, offering support to landholders to help establish offset sites and to purchase credits on behalf of developers who need them.

As leaders in environmental consulting, Niche develops biodiversity offsetting strategies for major project developers in NSW, which means that we are also at the forefront of assisting landholders to realise their returns on biodiversity offsetting opportunities under the NSW BOS.

A chance to invest – for purpose and for profit

We stand by our view that the BOS is an extremely important scheme. It offers a way to manage the tension between equally urgent needs: on the one hand, to support development required for energy transition and other nation building infrastructure and on the other, to protect biodiversity.

In our experience, landholders who establish stewardship sites can expect a strong financial return for their investment. We also know that most landholders are also motivated by the opportunity to protect and conserve the land and are extremely proud of their sites.

The NSW BOS puts a value on native biodiversity for the first time ever. It is a mechanism to both support conservation and reward landholders who embrace the challenge!

Dr Amanda Griffith, Manager for Natural Capital Supply, Niche Environment and Heritage

Matt Richardson, Founding Director and Biodiversity Offsetting Strategist, Niche Environment and Heritage

AGR News&Views

The rural property market in eastern Australia

Sam Triggs is the CEO of Inglis Rural Property, a marketing and transactions agency located in Sydney. The Rural Property division focuses primarily on broadacre grazing and cropping property sales in New South Wales and Victoria.

The rural property market in Eastern Australia has enjoyed strong growth across all sectors during the last 12-36 months, with exceptional capital growth rates between 30-50% over this period. An infrequent cyclical trifecta of strong commodity prices, particularly sheep and cattle, combined with consistently high rainfall years and good seasonal conditions coupled with low cost of funding, turbo-charged investment in rural land.

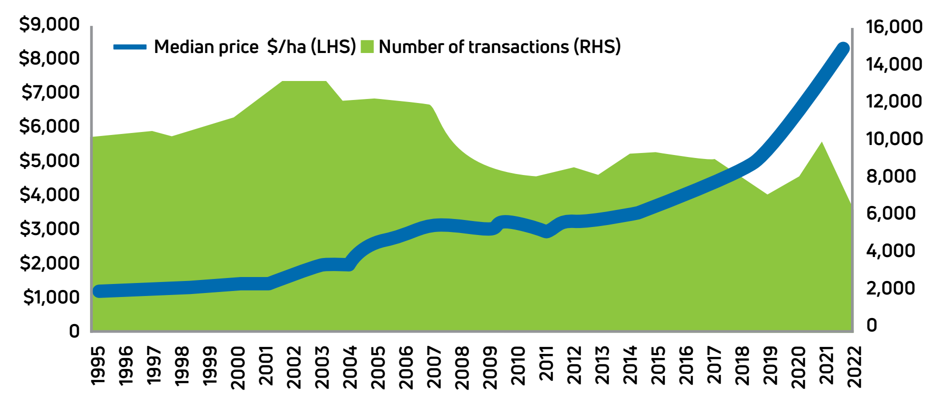
Family farming units capitalised on this attractive investment environment and expanded, along with further investment from offshore and Australian institutional investors. Of particular note has been investment from Canadian pension funds attracted to Australia's relatively stable economy, attractive Australian dollar and affordable land prices. Excellent seasonal conditions also limited the supply of available properties, further fuelling the price growth.

The outlook has changed in recent months with an oversupply of livestock or limitations in processing capacity and a resulting correction in livestock prices, along with the forecast for drier seasons and the increase in the official cash rate by the Reserve Bank of Australia now slowing demand to more normalised levels. Investment interest from corporate and institutional investors continues, less so from family farmers, with increased focus on natural capital, agri-carbon projects and renewable energy opportunities. We anticipate strong interest in 'defensive' rural assets including high quality farms, particularly assets with irrigation entitlements or higher rainfall zones as the market transitions/stabilises. Renewed focus on debt serviceability and net returns is at the forefront of purchasers' decisions. Other factors at play have been, as a result of COVID, larger international groups focusing on guaranteeing supply chains including buying operating farms to secure supply.

The chart included below highlights the condensed capital growth rates seen in the last 2-3 years against the long-term average capital growth rate.

Sam Triggs, CEO, Inglis Rural Property

Australian Historical Performance – Median Price $/ha 1995-2022



Source: Rural Bank

New indices indicate Australian climate risk with lead-time

Agrometeorology Australia (Agromet) has been issuing long-range climate and crop forecasts since 2017 that had their genesis in the Department of Agriculture and Food, Western Australia. Dr David Stephens developed these forecasting systems in a PhD, and a GRDC research project titled 'Developing better long-lead climate forecasts for Southern Australia". These forecasts are based on monitoring a suite of long-lead and now-time indices that relate to Australian rainfall.

First, in austral spring a long-lead rainfall prediction index is calculated to give a first indication of the following winter's rainfall. Finalised at the beginning of November, this index explains 40% of the variance of rainfall added and weighted across the Australian grain belt for wheat area (Fig. 1). Extreme seasons tend to be indicated 7 months before the crop season, however this index must be used in conjunction with what ENSO (El Nino-Southern Oscillation) transition is taking place. For example, in late 2021, a positive index indicated a drier year for 2022, but record Pacific trade winds meant that a third year La Niña and a wet year resulted (like another third year La Niña in 1975, circled in the graph). In spring 2022, this index went more positive (red arrow) indicating a drier 2023, and this has occurred as an El Niño developed. The drop in mean winter season rainfall can be seen since 2000 with the decline in the line of best fit i.e., blue line, open circles.

Figure 1. Long-range rainfall predictor determined on the 1st November versus average weighted Australian wheatbelt rainfall in the following May-October. Two lines of best fit are shown for two intervals 1970-1999 and 2000-2022. The Index value predicting 2023 rainfall is highlighted with a red arrow. El Niño years labelled in red, La Niña years labelled in blue.

Subsequently, several other indicators are monitored to confirm which ENSO transition is occurring. Closer to the winter crop season attention then turns to the three main drivers of rainfall related to key physical variables that influence rain. These include barometric pressure, moisture content of the air and temperature gradients. Developed in recent years, these three drivers are oriented in three directions:

1) **Northeast –** barometric pressure is driven by the southern oscillation "see-saw in pressure" between the Pacific and Australia, i.e., related to ENSO. Agromet tracks an Australian SOI centred further south which more strongly relates to southern Australian rainfall than the traditional SOI.
2) **Northwest –** moisture content in the air is influenced by the Indian Ocean Diploe (IOD).
3) **South-west –** cold air from Antarctica determines the strength of cold fronts pushing up from southwest. Agromet tracks an Antarctic index that drives the strength of frontal systems. This is much more relevant than the hemispheric based Southern Annular Mode (SAM) index which fluctuates enormously on a weekly basis.

The recent refinement in these background climate indicators has improved the forecasting system from when the service began. This has meant that the selection of analogue years has improved for both the winter and summer seasons. The overall combination of the three indicators above is a new Australian Climate Risk Index (ACRI). This basically sums up how risky the present environment is for agricultural decision making (Fig. 2). Average detrended Australian and Western Australian wheat yields are also shown as a comparison, though major frosts can affect yields in the west, e.g., 2016.

Figure 2. Agromet's Australian climate risk index versus average detrended wheat yields for Australia and Western Australia, from 2014 to 2023.

Monthly Climate Outlooks are provided as an annual subscription from early November through to the following October. Modelled soil moisture and shire wheat yield ranking maps are also included from the STIN modelling system. Frost risk assessments are provided for Western Australian clients.

Presently, we have an El Niño in combination with a positive Indian Ocean Dipole (IOD) index. The year following is normally a better year, however the late development of the El Nino with classic indictors means that the El Niño could go into a second year. A key component of the Long-range rain predictor helps determine which scenario we are in.

Dr David Stephens, Managing Director, Agrometeorology Australia. For more information visit www.agromet.com.au, or please contact Dr David Stephens on 0403001318.

Figure 1. Australian Wheatbelt rain v Rain Prediction Index

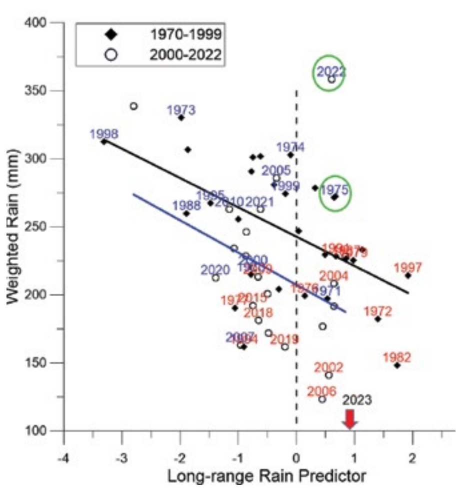
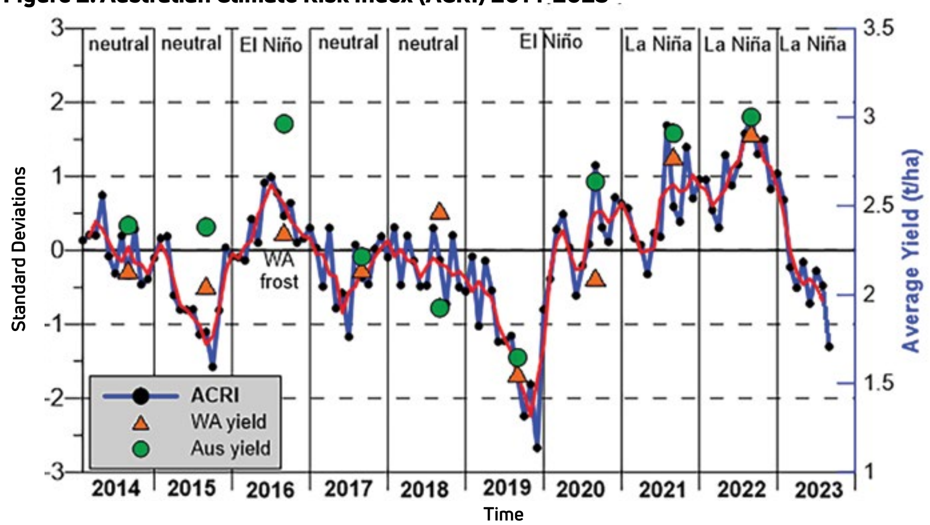


Figure 2. Australian Climate Risk Index (ACRI) 2014-2023



Feast to famine

East Coast drought: similarities and differences to 2019

Large areas of NSW are on the cusp of another drought as the state contends with El Niño driven weather patterns. Parts of the state are already drought declared with other parts seen as drought affected.

NSW grain farmers have lurched from drought to bumper seasons and floods and back to drought again over the past six seasons.

Droughts in 2018 and 2019 were described as one in 50-year occurrences with many farmers describing them as the worst they can remember. This was followed by three years of above-average rainfall, which resulted in record large winter crop yields across the state in 2020, 2021 and 2022.

Dry weather has returned and it's set to slash the NSW winter crop production once again.

Significantly below-average rainfall prevented many grain farmers in northern NSW from planting winter crops. Generally poor yields are expected in the crops that were seeded in the north as they succumb to the arid weather. Dry weather in September eroded yield potential across parts of southern NSW as well.

It's difficult but weather uncertainties and farming go hand in hand.

Sub Heading: What messages can we learn from these events and how may they influence grain markets in the coming months?

Massive grain supply variability over the past five seasons has pushed grain markets to extremes as well. To understand the domestic market variability, we need to look at grain price relativities against other regions across Australia in times of drought, and against our export competitors when local supplies become abundant.

Conversely, when Queensland and NSW wheat and grain supplies are large, the Brisbane and Newcastle wheat prices need to fall to a level where they can compete with WA into key wheat export markets in Southeast Asia and other destinations.

The function of the market in times of drought across eastern Australia when grain supplies are typically scarce across Qld and northern NSW is to slow or even stop grain exports. This is done by pushing up prices relative to global values where it becomes unattractive for overseas wheat importers to buy Australian grain. When there are insufficient grain supplies to cover the local demand, buyers are forced to lift prices to a level to pay for the additional freight and handling costs to draw supplies from other regions.

The first step in this process is drawing grain supplies north into Qld from NSW by road. At the extreme when local supplies are insufficient to cover domestic needs, Qld and northern NSW grain prices must rise to a level to draw in supplies from WA and SA. This happened in the 2018 and 2019 drought when more than 2MMT of wheat and barley was transported by ship from WA and SA into Brisbane. On such occasions, the Darling Downs grain prices may need to increase by $125 to $150/t over port prices in WA/SA to attract these supplies.

The process is already advanced. Northern markets have already rallied to stop exports from Brisbane and Newcastle. Queensland feedlots have been securing feed barley from central and southern NSW for some months as nearby supplies are exhausted and have recently resumed bulk shipments from WA and SA. These are expected to continue through much of 2024.

The combination of being Australia's domestic demand hotbed as well as one of the most variable grain production landscapes across the country is an inherently volatile combination for the northern East Coast grain markets.

Recent history offers valuable benchmarks to help understand what may happen in 2023 and 2024 as Qld and NSW enters another drought phase.

The return of El Niño weather conditions will result in a sharp decline in Qld and NSW grain output. Even so, grain output will remain significantly larger than 2018 and 2019. We expect the combined Qld and NSW wheat and barley production for 2023 could shrink to around 8.9MMT, around 10-15% below ABARES September forecast. This is significantly more than around 3.3MMT produced in both 2018 and 2019.

The other significant change has been the farmer aversion to carry livestock into another drought. Cattle and sheep prices have plunged since the Bureau of Meteorology started flagging a possible El Niño in early 2023 as farmers sold livestock rather than feed them through another drought. Cattle prices have slumped 60% from the highs in late 2022, while sheep prices have also tumbled.

It's impossible to accurately assess how much grain and hay was fed on farm in the 2018-19 drought but anecdotal evidence showed it was substantial. Most farmers have significantly reduced livestock numbers this time around in order to not repeat the same costly mistake.

No two seasons are ever the same, and markets are dynamic, so price responses vary. Even so, we can draw valuable parallels between the 2018-19 drought and the current situation.

Lloyd George, Ag Scientia

Cost of carry ramping up

The cost of carrying grain is increasing and needs to be front of mind as we enter the 2023/24 marketing year. As always, the direct costs and also the opportunity costs of carrying grain should be a consideration in the context of both negotiating terms on sales contracts and constructing harvest/post-harvest grain marketing strategies.

Inflationary pressure on storage & handling costs and rising interest rates means the cost of holding grain over time is increasing. While storage and handling costs vary across different locations, the interest cost will be consistent regardless of where the grain is stored (bulk handler, private storage facility or on farm). Interest costs are sometimes direct, e.g. a consumer borrowing money to fund a grain purchase. Or they can be indirect, for example a farmer who doesn't sell at harvest has an opportunity cost because if they had elected to sell, the cash could be utilised to retire debt or attract interest on deposit.

A grower carrying wheat in a bulk handler for 12 months will pay $24/t in storage costs (using $2/t monthly storage fees). With wheat worth around $400/t, and assuming debt of 6.5%, the opportunity cost of not selling at harvest is roughly $2.20/t per month, or $26/mt over 12 months. In this example, the combined costs of holding/carrying $400 wheat is $50/t for 12 months. Granted, if the grain is held on farm or in a different BHC (e.g. no storage costs for part of the year in some bulk handlers), then the storage component will be less, but the 'cost of carry' will nonetheless still be significant.

Buyers/consumers of grain will compensate sellers for carrying priced grain by paying them 'carry' on a sales contract. Instead of buying and paying for the grain in the spot market, and financing the position, they will instead either pay a premium for deferred delivery, or else buy the grain on a 'buyer's call' basis with delivery/payment to occur in a future month with a monthly carry premium applicable.

For example, a consumer might bid $400/t delivered at harvest, or $420 for July delivery/payment. Another buyer might negotiate buyers call terms and pay $405/t Jan plus $3 per month carry from February through June. When negotiating contract terms, sellers need to ensure that they are compensated for the costs associated with carrying the physical grain over time. Monthly carry of 2.00-2.50/t per month might have been sufficient in years gone past, but just doesn't cut it in the current environment of high grain prices, inflation in storage & handling costs and interest rates ramping up. Bids that are flat (e.g. January-March with no monthly carry added) are uncompetitive unless the contract price is higher and carry premium 'built into' the price. Make no mistake, the buyer will not call on a 'flat' contract until the last month possible.

In normal supply & demand environments, futures markets will build carry due to the costs of storing/carrying physical grain. That is, deferred contracts will trade at a premium to spot/nearby contracts. If they don't, then owners of physical grain are incentivised to sell in the spot market and replace in a deferred position. Hence markets will tend to build carry and will gravitate to "full carry" in comfortable supply scenarios. It's a misunderstanding that deferred values in futures markets are a function of perceived market direction. Carry in deferred values exists for the same reasons in both cash and futures markets, i.e. it is a function of the commercial cost of storing/financing grain. Carry will tend to increase in both as prices, storage and interest rates ramp higher.

The existence (or lack) of carry in futures markets can be utilised by both sellers and buyers in their accumulation and/or marketing and price risk management strategies. For example, carry markets provide sellers with hedging opportunities, in which higher priced deferred contracts can be sold, with the carry premium effectively offsetting the cost of carrying the hedged physical grain.

Flat or inverted markets create opportunities for buyers to accumulate deferred positions at below the financial the cost of carrying a physical grain position. Different futures markets exhibit different forward structures – from inverted markets to carry markets – depending on the underlying supply & demand balance in those markets. This creates an array of different risks and opportunities when constructing strategies, and/or deciding on the best markets and maturities to place hedges or positions.

At the time of writing, Dec-24 CBOT Wheat is trading at a A$52.50/mt premium to the Dec-23 contract. At a time when the cost of carrying physical grain in Australia is ramping up, so too is the cost of carry in US physical markets and hence the carry premium in CBOT wheat futures. All of these situations are driven by the same underlying factors.

Grain producers need to consider all of this as they construct their grain marketing/price risk management strategies and attack another marketing year here in Australia. Higher storage rates and interest rates mean that a simple 'hold and hope' strategy is more challenging, with the market needing to do more work to the upside to offset the cost of carrying unhedged grain post-harvest. Physical positions need to be managed post-harvest with this in mind. Furthermore, careful utilisation of domestic or offshore hedging in the strategy is an important consideration to help neutralise this issue.

Tom Basnett, CFO, Market Check

The northern pull is back - return of the boats

Three favourable cropping years separates today from the last time we transhipped grain into Brisbane from the southern grain producing states of Western Australia, South Australia and Victoria. However, after one of the driest winter cropping seasons on record, Queensland consumers and traders alike are preparing for the return of the boats.

At time of writing, five Handymax vessels of feed barley carrying approximately 30,000/t each have discharged in Brisbane over the last two months. They were all likely contracted prior to the lifting of Australian barley tariffs by the Chinese government on the 4th of August. If it wasn't for the announcement being unexpectedly delayed, the Queensland feed balance sheet would be in more desperate need of a supply solution than it is currently.

Since then, the strong demand from China has lifted prices by about A$50/t and discharging in Brisbane has returned to being a less attractive option for exporters. While some tonnes have made it up the highway from Southern NSW and Northern Victoria (mostly due to lower freight rates), solving QLD demand will continue to depend heavily on further transhipments in 2024 as local production is significantly lower than previous years.

The only good crops are early crops

Local barley production seems to have fared the worst of the cereals this cropping season. "The only good crops are early crops" has been a popular phrase around farmer's circles and even for those crops, the yield expectations will be near half the last two record seasons. There's also no sign of weakness in the demand profile. Cattle on feed numbers seem only to be increasing as pastoralists return to the destocking phase of the cycle, and some feedlots will preference barley over the warmer months.

Demand

Wheat demand is also looking robust in 2024. For feedlotters, a wheat premium of less than $10/t over barley is tight versus historical numbers which will result in it being the dominant grain in the feedlot ration, as it will be for other feed consumers given its higher energy-to-cost ratio. Local production as estimated in ABARES' September crop report is forecasted down 46%, ie a QLD crop of 1.4MMT, with many private estimates gravitating to a number closer to 1MMT. Without diving deep into the supply and demand balance sheets, this production on its own will not satisfy the demand we expect to see in 2024. It will need to be filled by several other factors, including the substantial carry out of old crop stocks in NSW and QLD, further new crop NSW transfers via road and potentially SA/WA transshipments.

All comes down to the numbers

A quick back of the envelope calculation at time of writing on transshipments suggests business is unlikely to transact at current values. The most recent business of Australian feed wheat into Asian markets was about US$295/t CFR or by our calculation the equivalent of A$540/t delivered into the Darling Downs market or A$60/t above today's market. At this time of the season and with a national crop that has been deteriorating, the order flow of the industry still has the appetite of an eager inelastic customer outweighing that of a concerned producer. Assuming a shift in that balance during or after harvest, exporters may need to seek out more price sensitive customers while also going toe-to-toe with cheaper Black Sea exports that today price in roughly A$40/t under the above calculations. This could bring a QLD transshipment voyage back into consideration, if not for Darling Downs feedlots, at least for the River City's metro demand.

Tim Murray, Trading Manager, CHS Broadbent

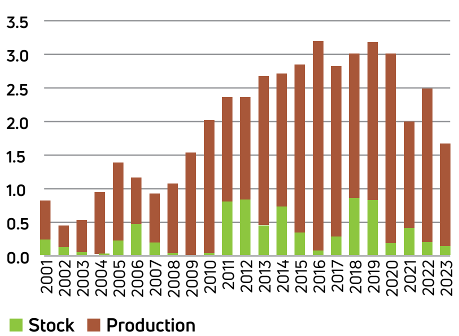
Global pulse report

The global lentil market is experiencing significant changes in supply and demand, impacting prices and trade dynamics. Here's an overview of the current situation:

Supply

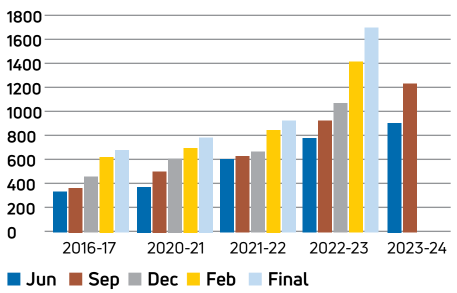
Canada: is one of the major global suppliers of lentils, producing both red and green varieties. However, extreme dryness in Canada has led to a reduction in lentil production. The latest data indicates that Canadian lentil stocks are at their lowest level in seven years, with only 147,000t in storage. This reduced supply has led to a decrease in exportable surplus for the upcoming marketing year.

Canadian Lentil Supplies (MMT)

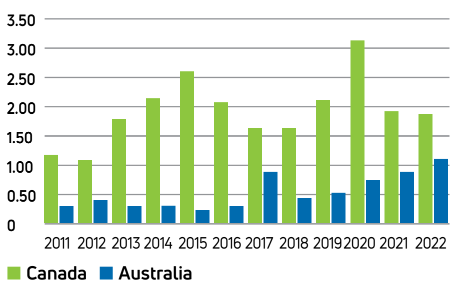


Australia: has seen consecutive years of substantial lentil crops. The recent crop update suggests another large domestic lentil crop, solidifying Australia's position in the world lentil trade. This year's production estimate has increased significantly, contributing to global supplies.

ABARES Production Estimates



Lentil Exports from Canada and Australia



Demand

India: Historically, India has been one of the largest importers of lentils. The country's demand for lentils has risen sharply, contributing to increased global consumption.

The domestic prices of food commodities in India, including pigeon peas (arhar/toor), are experiencing significant increases. The Indian government is actively taking measures to control food inflation and ensure an adequate supply of essential food items. Here are some key points regarding the situation:

1. Food Inflation: The government is concerned about rising food prices, as it can lead to increased financial burdens on consumers.

2. Pigeon Peas (Arhar/Toor): Pigeon peas are an essential food staple in India, particularly in regions where they are a dietary staple. Reduced acreage and poor rainfall during the Kharif season (monsoon season) have led to concerns about lower production of pigeon peas. As a result, the prices of pigeon peas have risen substantially.

3. Price Spread with Lentils: Pigeon peas and lentils are often considered substitutes in Indian cuisine. When the price of one of these commodities rises significantly, consumers may switch to the other. The price spread between pigeon peas and lentils has reached levels of INR 50 per kilogram (approximately $600 per metric ton). This significant price difference is driving increased demand for lentils as a substitute for pigeon peas.

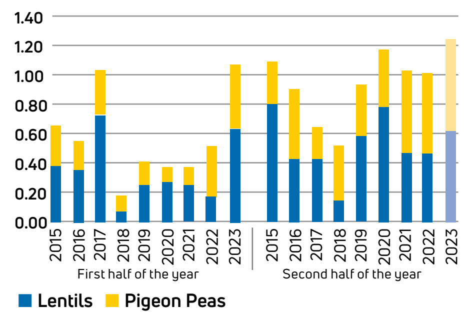
4. Government Measures: To address food inflation and ensure an adequate food supply, the government may take various steps. These measures can include increasing imports, releasing food stocks, implementing price controls, and encouraging domestic production.

5. Production Cuts: The mention of a "production cut" for Kharif-grown pigeon peas suggests that unfavourable weather conditions and reduced acreage may lead to a lower-than-expected harvest of pigeon peas. This could further exacerbate the supply-demand imbalance and put upward pressure on prices.

In the second half of 2023, there is an expectation that the combined import volume for pigeon peas and lentils into India will reach an all-time high of 1.2MMT.

Overall, the combination of supply constraints, increased demand within India, and the attractiveness of alternative sources like East Africa is expected to drive record-high imports of pigeon peas and lentils in the second half of 2023. The prices of these commodities will continue to be a critical factor influencing trade dynamics.

Indian Imports of Pigeon Peas and Lentils (MMT)



Other Importers:

Besides India, countries like Pakistan, Bangladesh, UAE, Turkey, Sri Lanka, and Egypt are significant importers of lentils. While their demand plays a role, India remains the primary driver of lentil imports.

Challenges and Unknowns

Iraqi Demand: The demand from Iraq remains uncertain, and its impact on global trade is uncertain.

Turkish Export Curbs: Export restrictions imposed by Turkey can affect the flow of lentils in the market.

Russian and Kazakh Exports: The volume of lentil exports from Russia and Kazakhstan can impact global supply dynamics.

Australian Weather: The Australian lentil supply outlook remains sensitive to weather conditions, which can influence future supplies.

In conclusion, reduced production in Canada and increased demand in India have tightened global lentil supplies. Other factors, including export policies, weather, and unknowns in specific markets, will continue to shape the lentil market's dynamics in the coming months.

Mal Parkhill, Commodity Trader, Inari Australia Pty Ltd

Global feed vs milling wheat

Lower production and lower quality are key themes facing the wheat market in 2023/24. Major exporter production is set to fall close to 6.6%, with big production cuts in Australia, Canada and Russia only partially offset by increases in the US, Argentina, and Ukraine. Meanwhile, we still have production risk ahead of us in the Southern Hemisphere, with wheat crops in Australia and South America currently experiencing adverse spring conditions ahead of harvest. Coinciding with this drop in production is a forecast drop in demand, but we still expect the major exporter stocks-to-use ratio to fall from 17.8% in 22/23 to 15.4% this year. Given we are only three months into the year there is still room for adjustments to this number, but demand to start the marketing year has been strong, with good export numbers for July and August.

Coinciding with the drop in global production has been a shift in the quality profile of supply amongst the major exporters. Not only have we seen cuts to high protein spring wheat production in North America, but we have also seen a higher percentage of low protein milling wheat or feed wheat produced in key origins. For example, the Northern EU is traditionally a 12.5% protein market, but this year has seen a big pick up in 11.5% protein availability due to seasonal conditions. Likewise in Ukraine, the split of milling and feed wheat have reversed this year, with a much higher percentage of feed wheat produced. One area to watch going forward is Brazil, with excess moisture leading into harvest potentially resulting in a big swing from milling to feed as well. The result of this has been a widening of quality spreads and this has been seen in both cash and futures markets. Going forward, if we see further downgrades in Southern Hemisphere production and/or quality then this will only exacerbate these recent supply trends.

Despite the forecast tightening of major exporter carryout and widening of quality spreads, demand for wheat has remained robust. This has, in part, been due to wheat's competitiveness with corn in the first half of the marketing year. Major exporter carryout in corn is set to strongly rebound this year, with big carryout stocks in the US. Notwithstanding these big corn stocks, wheat has remained competitively priced and picked up feed demand in key markets such as Asia. With wheat and corn close to price parity, consumers have looked to take advantage of the lower quality profile of the current wheat crop and maximize its usage in their blend. Looking forward to the first half of 2024, we can see a widening of the wheat-corn spread into destination markets as new crop South American corn starts to price competitively. However, this crop is only now entering the planting window, so we still have the whole production cycle to navigate before the crop is in the bin. This, combined with Southern Hemisphere wheat production risk, should keep a degree of risk premium in markets as we head into 2024. While the feed grains balance sheet looks well supplied on paper today, a lot can change over the coming months. Conversely, milling wheat supplies should continue to tighten and we will see a significant change in global trade flows due to the combined 27MMT drop in Russian and Australian wheat production.

Ben Gliddon, Senior Commodity Trader, Sierentz Global Merchants

Options… a grower's best friend

Tim Phelps discusses grower strategies around price risk management

Options remain a wildly under-utilised price risk management tool by Australian growers, despite the significant value they offer. While options can be implemented in all kinds of ways, there are two primary uses that we have advocated over the years:

Call options post-harvest (cash & call)

Most growers who want exposure to the wheat/canola market post-harvest generally achieve this by simply not selling it at harvest and carrying the stock until they're ready to turn it into cash. Not only does this incur storage and interest costs (please have a read of Tom Basnett's article on the high cost of carrying grain in this edition), but you remain fully exposed to the market falling while you're incurring those costs.

Let's say you carry wheat in a bulk handler for 6 months and the market falls $20 (a minor decline in the scheme of things). Using the numbers from Tom's article, you also incur around $25/t in carry costs during that time, so you're already $45/t behind someone who sold at harvest. The numbers are proportionately similar for canola (albeit more than wheat, given the higher price per tonne). This is a substantial hurdle even with just a minor market movement, let alone if the cash price were to fall dramatically more.

What if there was a way to mimic this position without the risk of prices falling? Instead of paying for the privilege of hoping the market rallies post-harvest, and risking that it actually falls, we can sell the grain at harvest (avoid storage), get the cash in the bank account (retire debt and save interest costs), and purchase a call option with that money instead (call options for this strategy typically cost ($20-30/t, depending on a few variables). The call option appreciates in value if the market rises (same as your physical grain would have), however if the market falls you simply throw the option away and be happy with the higher cash sale you achieved at harvest. This is the real benefit of the cash & call strategy vs holding the physical grain after harvest, your outcome is similar if the market rises but it substantially outperforms if the market falls.

Put options pre-harvest

Traditionally, when grain producers make marketing decisions pre-harvest, the weapon of choice has been to sell physical forward contracts. Our analysis shows that it does a disservice to limit yourself solely to this strategy, as it tends to be too limiting to your business in many respects compared to other alternatives. While forward sales do have their place at different times of the season, incorporating put options into your pre-harvest marketing plan has several benefits.

The easiest way to understand put options is to think of them as an insurance policy against falling prices. You pay an upfront premium to protect the prevailing market price, with no obligation to deliver at that price if you don't want to (i.e. if the market has risen, you can sell at a higher price). The fact that your maximum 'washout' cost is no more than the premium you paid upfront also provides valuable peace of mind, especially in seasons where the crop prospects are going backwards and the market is rallying.

We need to place more emphasis on looking ahead at risk versus reward, weighing up global market fundamentals against local production risks. More often than not, put options will have a valuable place in any marketing strategy as either a direct replacement for forward sales, or supplementing your sales/hedges. One limitation with forward selling or hedging is that it's hard to cover a meaningful amount of your production without exposing your business to unacceptable risk, especially early in the growing season. But since we have a known washout risk with put options, we can extend our cover to a much greater extent.

Implementing options in your marketing mix

All of this is not to say that you should do this for every tonne you produce, but the cash & call strategy is a very valid alternative for the tonnes you would otherwise have carried unsold after harvest. Most people appreciate the concept of taking the money which would otherwise have gone to storage & interest costs and using it to buy the call option – however the common reaction is to be disappointed in the strategy if the market falls and the options didn't make any money. This is the wrong way to look at it because often the alternative was to hold unpriced grain, incur the carry costs and then sell into a weaker market. The options did their job by limiting that loss.

Similarly, with put options pre-harvest, although forward selling may outperform a more conservative options strategy in some years, the margin of outperformance is only slim. However, in other years (particularly drought affected seasons), options outperform by such a margin that there's really no comparison. Taking 2018 as a prime example, for growers who forward sold early in the season, the best-case result was that you produced a crop but had an obligation to deliver against a much lower-priced contract. The worst-case result was that no crop was produced, plus you had to pay a washout of $100+ per tonne to get out of the physical contract. With put options, your washout was limited to the cost of the option premium and you were free to sell whatever grain you did produce at the much higher price. The comparison in tougher years is night and day.

With either of these strategies, you may look back in hindsight and think "I'd have been better off just selling physical, or doing nothing". But this is hindsight and it disregards the value that option provided at the time of execution, in allowing you the flexibility to avoid a much worse scenario while leaving you protected if the market went the other way.

It's important to understand the "basis" between your cash market and the market you're buying options in (i.e. your silo price vs ASX Wheat/CBOT Wheat etc). The cash & call strategy is particularly attractive in years when basis is strong (like this year), as you are selling your physical wheat for example at a strong premium vs global values and then replacing with call options in the relatively cheaper US Wheat futures markets, which may prove to have more scope for upside than our domestic market, which is already historically strong. As long as there is some correlation between your market and the options market (i.e. as long as you're not buying options in Nigerian Rubber), the options will generally do their job regardless of which direction the market moves.

Think about what the alternatives were at the time you bought the options. We often think the insurance we pay in all walks of life is a waste of money in hindsight when we don't need to claim on it, but we still do it just in case of emergency. The ideal scenario is that we don't need to claim on our insurance (or make money on our options) as this implies we have achieved a favourable outcome in the market. We don't pick and choose which years we might need the insurance and which years we don't as that is tempting fate, so why not incorporate options in your mix every year?

There are various ways of executing these strategies, please get in touch to learn more.

Tim Phelps, Chief Operating Officer, Market Check

How to save millions – CGT concession traps and considerations

An Accountant's view on Capital Gains Tax implications

When Malcolm Fraser uttered the line "life wasn't meant to be easy", he might well have been contemplating his tax return. While the significant appreciation in land values and generous tax write-offs for equipment in recent years have been favourable for equity levels and tax bills, there are some significant implications stemming from these bonuses that will soon affect many. Millions of dollars can be at risk without careful assessment and planning.

One of the key areas affected is the qualification for small business capital gains tax (CGT) concessions. These concessions provide for extremely generous reductions in the taxable values of capital gains on the sale of farm property for businesses that qualify. A recent example of well planned transactions resulted in a farming family reducing a CGT bill from over $3 million to just $21,000. Eligibility is complex and differs from one business structure to the next.

There are various reasons why these concessions might be sought, including:

- Sale of the farming assets and wind up of the business,
- Intergenerational transfers and succession planning,
- Rearrangement of landholdings between family members (e.g. separating the business activities of two brothers),
- Granting of easements or other rights to renewable energy companies,
- Property sale and purchase to consolidate holdings in one location,
- Transfer of property to an SMSF for retirement planning, or
- Downsizing or de-risking.

When land ownership changes, even within a family group, it triggers a capital gains tax event. The default scenario involves taxing the difference between the market value of the property at the time of the change and its value at the time of acquisition. However, if the current vendor acquired the land before September 19, 1985, the gain is tax-exempt. For properties acquired after this date but more than twelve months before the sale or transfer date, most landholders can benefit from a 50% capital gain discount. (Note: Company landholders receive no discount, while SMSF landholders receive a 33.33% discount.) These concessions are highly advantageous but navigating and applying them can be complex. What's available to one farming business may not be available to their neighbours.

"Millions of dollars can be at risk without careful assessment and planning."

After any applicable discounts, the remaining taxable gain is added onto the landholder's other taxable income for the year and taxed at their personal rate. For individual landholders, this rate can be as high as 47%, and often is.

The first critical hurdle is the initial eligibility assessment. Without passing this, none of the concessions are available. The landholder must qualify as a small business entity (or be connected to a small business entity). There are two tests for this, the net asset test and the turnover test, and the landholder must pass at least one.

The net asset test

The net asset test is where the landholder and its related entities must have net assets of less than $6 million. Given recent land appreciation and substantial plant and machinery investments, it's easy to exceed the $6 million net asset threshold and therefore fail this test. The government has shown no inclination to raise this threshold, which has only increased once in the last 20 years. This leaves many landholders relying on the second test, where the turnover of the landholder (or its related business) must be less than $2 million.

'The net asset test is where the landholder and its related entities must have net assets of less than $6 million.'

The turnover test

For many, the $2 million turnover test is the easiest to meet. However, it may require careful timing of land rearrangement or succession implementation to align with reduced income following events like natural disasters. Other strategies may exist to manage turnover below the threshold, including the use of specific sales tools.

The turnover test can be challenging to assess since turnover is defined as income according to ordinary concepts, which are not explicitly defined. One area that is unclear is the interplay of the recent instant asset write-off. Many farmers have taken advantage of the opportunity to lower their taxable income in the last three years using this write-off. As we return to more normal depreciation rules, several businesses will see the delayed impact of these generous concessions. Where an asset sale value exceeds the balance of the remaining written down value (now nil for many), the excess may be considered ordinary income of the business and counts towards the turnover test. If this causes your business to exceed the turnover threshold, it is critical that expert advice is sought, which may include an application to the ATO for a Private Binding Ruling.

Timing of Income

Most sizable farming businesses must report income on an accrual basis, as outlined in ATO Public Ruling TR 98/1. This method means recognising grain sales as income when the grain is sold, not when payment is received. For pooled grain, income is reportable when distributions are declared, not when paid. Be cautious of grain buyers offering to delay payments for tax purposes, as these are generally ineffective in delaying income recognition.

For businesses reporting on a cash basis, grain sales are considered income when payments are received. Again, be careful of grain buyers offering to hold payments until a new financial year. Once you're entitled to receive funds and have given instructions to delay payment, you're considered to have earned the income as it's under your control.

Several other factors need to be considered, including look-back mechanisms if there is a one-off breach of the threshold. Transactions should be planned well in advance and a detailed assessment of eligibility made before committing to a transaction. If the business is regularly exceeding the threshold, advance planning can identify future opportunities to trigger the desired changes or to delay transactions like machinery sales to fall under the threshold and qualify for the CGT concessions.

Other options to reduce turnover in critical years include planning to hold feed grain for fodder requirements for future drought, delaying some sales to hedge price movements, or using pooled products that declare and pay distributions later. It remains vitally important to consider the commercial risk and potential cost to the business of any sales decisions. Additionally, not every deferral or pooling product promoted by buyers will be effective in achieving the deferral they claim. Expert advice is critical, and the implication on your individual business needs to be carefully considered.

What you can do?

Navigating the various parts of the Income Tax Assessment Acts can be exceptionally complex, but the rewards for getting it right are substantial. Investing in advance planning and careful consideration of how concessions interact with grain marketing strategies and business decisions can yield significant benefits.

Findex have a team of agribusiness specialists who work with you and your specific circumstances, proactively handle complex tax planning, and help maximise CGT concession eligibility. To find out more about our specialist team, and to find your local advisor go to findex.com.au

Rachelle Nowland, Managing Partner, Business Services, Findex

Global wheat dynamics: delving into supply and demand

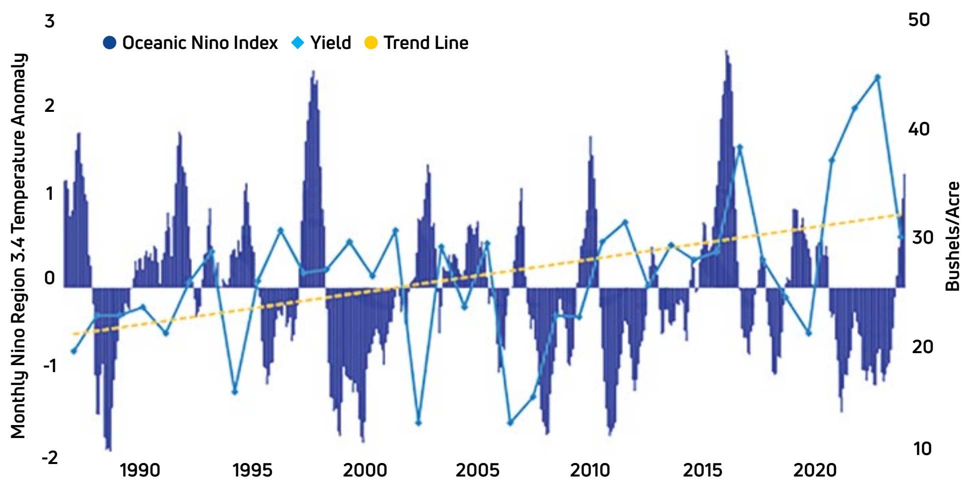
An international perspective on wheat production and exports

The recent USDA WASDE reports unveiled both anticipated and unexpected findings and a few things that the market will now have to think about. Notably, the global data and subsequent balance sheets confirmed the anticipated drop in global wheat production. However, a subtle shift in the Major Exporter carryout-to-use ratio has emerged. The pressing question is: "What implications does this have for the market presently as we transition into the second half of the marketing year?"

Russia's Dominant Role in Wheat Exports

Russia's aggressive wheat export program continues to cast a significant bearish shadow over both futures and cash markets. They've successfully exported 4-5MMT of wheat per month since July, primarily driven by their competitively priced FOB offerings. But September witnessed a strategic move by Russia, introducing a "minimum" price for exports. Despite this, Russian exporters continue to see substantial margins,

Oceanic Nino Index vs Australia Wheat Yield

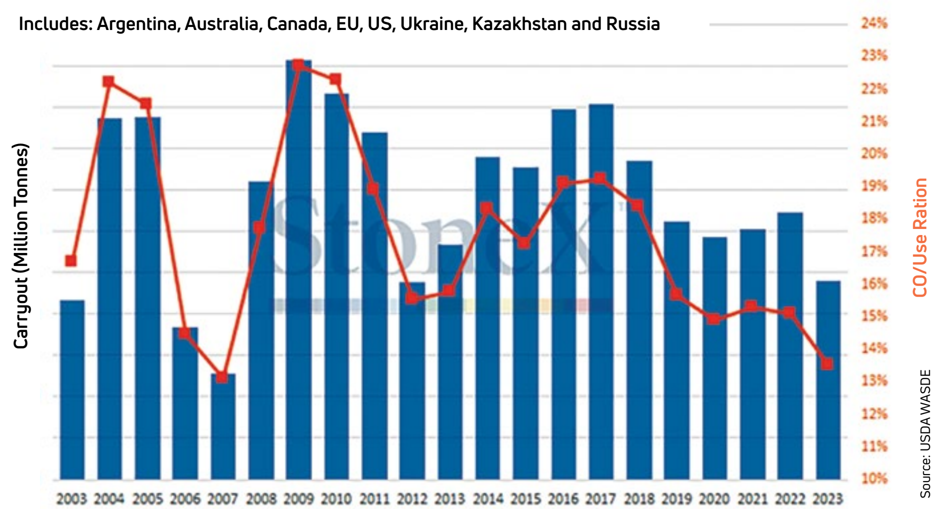


especially with the winter/spring wheat harvest's progression. While abundant yields often hint at a decline in protein and milling quality, the presence of old crop stocks ensures that blending satisfies both domestic and export specifications.

European Wheat Landscape: A Tale of Two Regions

The European Union (EU) and Ukraine each present unique challenges. French and the Balkan regions' production and quality were near average, Germany grappled with quality issues due to excessive rains, while

Major Wheat Exporters Carryout & CO/Use Ratio



the Baltic regions witnessed reduced yields from early-season droughts. These factors and cheaper Russian FOB offers have contributed to a 30% decline in EU wheat exports year-over-year. In stark contrast, Ukraine remains a robust wheat seller, even amidst the geopolitical tensions with Russia. The end of the UN brokered Black Sea Export Agreement saw Ukrainian exports limited to barge, rail and trucks but this has also shifted with the recent loadings of vessels at the port complex of Odesa. The escalating costs in production and shipping have seen prices to farmers decline and may challenge the sustainability of Ukrainian producers over time.

Deciphering Market Indicators

Cash markets remain the most reliable indicators of market sentiment. FOB (loaded at origin port) and CNF (delivered to destination port) values have showcased stability since July. Yet, looming concerns, such as potential production disruptions in Australia and El Niño, could shake up the wheat supply chain.

The Ukraine/Russia conflict continues to be a focal point of concern. Despite the market's headline fatigue, any significant escalation can induce sharp market fluctuations. Another critical metric is the major exporter carryout-to-use ratios, which are approaching the historical lows that were seen in 2007/08 (see graph). This dynamic might shift as we gain clarity on harvest outcomes in Australia and Argentina. Australia has seen back-to-back record crops through the La Nina weather pattern but the shift to El Niño and recent frosts and a generally hot and dry spring

'Can wheat prices rally without significant disruptions in the Black Sea or major supply challenges in the Southern Hemisphere?'

period will see yields decline for this marketing year, the graph on the Oceanic Nino Index vs Australian wheat yields highlights the years with an El Niño pattern and how yields can decline.
The overarching question remains: Can wheat prices rally without significant disruptions in the Black Sea or major supply challenges in the Southern Hemisphere?

Anticipating the Future

As the next planting season looms, farmers are faced with pivotal decisions. With higher costs and lower prices, strategic choices are imperative. In the US, projections lean towards consistent planting for Hard Red Wheat and White Wheat, but a reduction for Soft Red Wheat. Corn and soybean prices will inevitably influence spring wheat planting decisions. EU wheat plantings look to be about the same year-over-year, and while Russian farmers currently enjoy healthy margins, the upcoming crop year is riddled with uncertainties, especially with shifting government export policies and the volatility in the Ruble. The speculative commodity funds' persistent selling of the wheat futures markets have also been a major factor for the decline in futures prices, it will take a shift in trade sentiment to see that trend change and for the funds to cover their current short position. This is the one thing that traders are focused on and it can see a sharp rally in the market, but you have to give them a reason to turn back to the bullish side, remember markets are nothing but price and time, you run out of one before you run out of the other.

Mike O'Dea, Risk Management Consultant, Stone X Financial Pty Ltd

Transitioning weather and its effect on grain pricing

STU CLARKE
Managing Director, Tasman Agri

The evident change in weather patterns and the associated year-on-year production decline from the record 22/23 season will impact grain pricing dynamics for the season ahead. With different carry-over and production profiles across regions, we will see a more regionalised pricing structure at play. Each region's local supply and demand fundamentals will have a greater influence on pricing dynamics across the 23/24 season. This is in stark contrast to the previous three seasons where export market competitiveness and supply and demand fundamentals of infrastructure were the main drivers of price. There will be extra complexity to market pricing this season with interstate grain movements impacting price with northern east coast markets drawing grain from surplus regions to satisfy domestic demand either through bulk vessel, rail, or truck supply chains.

Broadly speaking, Australian grain should not need to price as aggressively into the export market and therefore as far afield as it has in the previous three years. Although, Australian markets still need to trade at levels where it is price competitive to win ample export demand to move the forecast exportable surplus. While the forecasted export surplus is reduced significantly from the past three export programs, there will still be a considerable export task for the market to undertake, with carryout from previous years helping supplement the lower 23/24 production. With a large Black Sea and European crop, Australia for the most part will not need to compete as strongly into the less discerning, generic wheat markets of the world. Having said that, with the volatile global geopolitical environment, reliability of supply will be of increased importance than just price alone, therefore origins such as Australia will be held in high regard. Australian price levels should generally gravitate towards destination demand where we have a competitive advantage either through geographic proximity, free trade agreement advantages or specific quality attributes valuable to certain markets.

On the interior grain markets, there will be intensified competition to accumulate grain with domestic consumptive demand, export supply chains and interstate demand all competing for the more limited supply. The last three large production seasons have resulted in increased export supply chain capacity coming online, and with a lower supply of grain this coming season in which to draw from, we should see fewer bottlenecks or mismatches between exportable surplus and supply chain capability. This should result in more normalised supply chain pricing dynamics, and in some regions see the market revert to negative export margins where exporters will ship grain below the cost of replacement purely to recover some fixed infrastructure costs.

At times throughout the 23/24 season, we will see periods of strong domestic demand and a lack of grower selling pushing markets above export parity to a degree where some export infrastructure will be turned off and parked. This contrasts with the last 3 export programs where free capacity was extremely scarce as each port zone typically had surplus grain well beyond supply chain capacity. This in turn weakened interior Australian prices relative to export parity, creating the incentive to increase supply chain capacity where possible.

For the season ahead, greater complexity of local market drivers overlayed with an uncertain geopolitical environment globally will likely result in increased price volatility. Navigating these changing market dynamics for the season ahead will be paramount for success.

Stu Clarke, Managing Director, Tasman Agri

More fertiliser heading down the tube in the year ahead

VICTOR PISTOIA,
Analyst - Farm Inputs from Rabobank

It is clear that the period of plentiful rainfall is over in Australia. And throughout the bush, we have a whole range of different crop and pasture conditions. There is still time for improvement, or even deterioration, of paddocks, but some elements are already consolidated and will set the tone for fertiliser demand in the coming season.

The bigger picture is positive – basically because fertiliser prices have come down massively since mid-2022 and because past seasons have been good in terms of farm business performance. So, there has been reasonable cash flow across the agricultural sector. Compared to the peak of 2022, the global references (prices) for nitrogen in the Middle East, phosphate from Morocco and Canadian potash have dropped 50%, 46% and 59% respectively. The Australian market has a delayed response to global fertiliser price changes, though this might reduce in the coming months.

The balance of head and tailwinds is favouring supply and the forecast is for almost steady fertiliser prices for the coming months.

The most important question

The most important question ahead of us is how close to average the crop yields will be. If yields are lower or crops fail, this can offset the benefit of the lower prices we are seeing for fertiliser.

Another headwind is the Australian dollar. Since January this year, the AUD has dropped from USD 0.68 to the USD 0.63-0.64 range, a five to seven per cent decline. In combination with the early September surge in petroleum prices, breaching the USD 88/barrel resistance mark, this is putting pressure on farm budgets already stressed by labour and interest rate rises.

Terminal gate diesel prices now range from A$2.00 to A$2.10 per litre, up 7.5% from early in the year. This is due to supply cuts from the bigger petroleum exporters but also because of refinery shutdowns. So, petroleum price hikes are not only directly pushing diesel prices higher, but furthermore reducing the capacity to process diesel.

And on the energy front, the forecast is grim for buyers. Rabobank forecasts that Brent oil should remain above USD 95/barrel during 2024, so bringing fertiliser products into Australia and moving them inland will cost more for the coming season.

Despite these headwinds, the forecast for fertiliser buyers is favourable for both prices and demand levels in Australia.

Demand

The bulk of local fertiliser demand occurs from late December to late April, so Australian importers should procure in advance of that period, whether supplies come from close producers, such as Malaysia, or more distant, such as the Middle East.

Depending on the type and origin of product, the lead time can be up to four months. So, the key question is: 'what is the global price forecast for fertiliser from November until February of next year?'.

For December 2023, in AUD terms, we are forecasting global prices of urea from the Middle East to be down 22% year-on-year (YOY), DAP from Morocco down 30% and potash from Canada down 38%.

Therefore, adding all the forecasts together – fertilisers, the Australian dollar and diesel – the cost to put nutrients into the soil might be slightly cheaper for Australian farmers.

Another way to look at it

Another way to look at how "costly" fertilisers are is to analyse their affordability. The affordability index indicates how many units – tonnes for example – of a farmer's output are necessary to buy the inputs.

An example is how many tonnes of APW1 a farmer needs to produce to cover the cost to buy one tonne of urea. Earlier in the year, urea had a range of A$1,200/t – A$1,300/t and APW1 was being traded near the A$400/t mark, thus, the urea affordability was 3.0. The same analysis for 2022 indicates an index of 3.8. And the forecast for the next season points to the 2.2 - 2.4 index range.

Why this forecast?

The reason for this forecast for next season is the expectation that the natural gas market will be much 'calmer' than the previous year.

The European fertiliser production "quagmire" experienced in recent years is under control, for now, with massive imports of natural gas coming from USA, Norway and Northern African suppliers. This means production costs, particularly for ammonia, should not be a problem for most fertiliser producers.

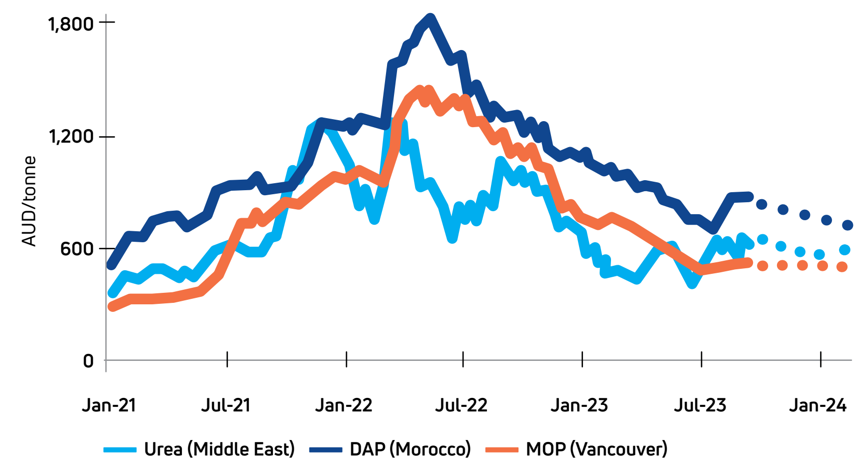
On the phosphate side, there is the expectation that Morocco – which has 40% of the global market share – will increase supply due to better price structure and profitability. From January to September of this year, phosphate's reference decreased by 21%, but by mid-July, it had dropped by 35%.

And for potash, it looks like there is a balance of supply and demand, or at least a temporary one. Since late June, the Canadian reference has been virtually steady.

Fertiliser demand is not only driven by price, but also by farmers' revenue expectations and soil nutrient requirements.

The grain and oilseeds sector currently has firm to good prices. For example, lentils are selling for close to A$950-A$1,000/t at time of writing. The sugarcane industry has record-high global prices and Australian dairy prices are holding up well compared to beef and lamb.

The balance of head and tailwinds will definitely put more fertiliser down the tube in the year ahead.



Source: Bloomberg, CRU, Rabobank

Figure 1. Global fertiliser reference prices.

As of late September, there are marginal gains ahead for farmers related to nitrogen and potash costs. And lower phosphate prices have the potential to bring some budget relief for farmers. Key consideration points are diesel prices and the Australian dollar.

Victor Pistoia, Analyst, Farm Inputs from Rabobank

Managing counterparty risk

JUSTIN STEWART
Senior Commodity Advisor - Market Check

Significant time, effort and capital has been invested in an effort to help growers (and traders) manage counterparty risk when selling their grain. This is because the grain industry has had a number of relatively high-profile collapses over the past decade. Tens of millions of dollars have evaporated from the wallets of growers who have been caught up in insolvencies, which can have devastating long-term financial consequences (not to mention the emotional impact!). As we enter another El Niño phase and production declines, price volatility increases and margins compress, the chance of another insolvency is elevated. However, there are simple and relatively cost-effective solutions available to dramatically decrease your chance of being exposed when the next buyer bites the proverbial dust.

Solutions

1. Do your research, many insolvencies are well telegraphed. Speaking to neighbours and grain marketing advisors about a buyer can help you avoid the ones who are on the edge or have a history of poor payment performance.

2. Don't risk losing 100% to gain an extra 1%. If a counterparty you don't know (or seems risky), bids you $5/t more than a counterparty you're comfortable with – why risk everything for such a small extra return. Farming is not blessed with lofty profit margins, but an extra $5/t is a little over 1% more on a $380/t commodity. It's just not worth the risk.

3. Insurance is simple and cost effective. Market Check have an insurance product that is both very cheap and effective in removing the risk of insolvency. For as little as $2.5/t, you can access counterparty insurance and just not worry about it – again, the cost is a very small fraction of the sale price.

4. The squeaky wheel gets the oil. If you do find yourself exposed to a counterparty that you are unsure about (or even if you are sure about them) – stay on top of payments and exposure. If they are late – bombard them daily for payment or let your advisor/broker know. Too many times when a buyer goes under, growers only then realise they have an outstanding payment from a couple of months ago that never got chased up.

Reducing payment terms, insisting on a 'max exposure clause' on the sales contract, prepayment, and Personal Property Securities Register (PPSR's) are other valuable levers that growers can lean on to drastically reduce their counterparty risk. Many growers who get stung are those who sell without questioning the buyer and don't manage their back office effectively.

As an advisory business, Market Check has an axe to grind on this topic, given we run such a large Agency business dealing with over 100 buyers on a regular basis. We provide growers who engage us with very valuable industry knowledge regarding buyers we are confident in, and those that may need to have additional safety measures implemented. We are also in tune with which buyers are late paying and any companies that are throwing off red flags – flags that a grower may not pick up from the farm. This is one of the key "non-price" benefits of outsourcing your grain selling.

The market has innovated in response to the counterparty issue, payment terms are narrowing over time as systems improve, which help turn delivery information around in record time. Insurance products are available at a very low price point, as is information on buyers for those who know who to ask. Having a vibrant grain market is imperative to the sustainable health of the industry, but inevitably we need to learn to deal with counterparty risk even though the rate of insolvencies is far worse in other industries than it is in grain. The tools have been developed to help growers reduce or even eliminate counterparty risk – how many more insolvencies do we need to have before those tools are more widely adopted?

Justin Stewart, Senior Commodity Advisor, Market Check

Don't be the jack of all trades, focus on mastering one

TOM BASNETT
CFO – Market Check

While our instinct tells us to work hard on our weaknesses, focusing on our strengths and outsourcing our weaknesses is the key to prosperity in business. Belarusian-American entrepreneur, Gary Vaynerchuk, who transformed his small family wine business into a multi-million dollar empire, dedicates much of his success to this mantra: "Focus on the things that you're good at and outsource your weaknesses. Stop blinding yourself. Start understanding who you are. A penguin cannot become a giraffe, so just be the best penguin you can be."

Self-awareness of our strengths and weaknesses is a crucial prerequisite for success in any field. As the saying goes: "Try to be a jack of all trades and you'll be a master of none."

Farmers are no exception and are generally across this concept, with a well-worn path of outsourcing of accounting, financial, legal and succession planning functions to name a few. Even in the domain of producers' expertise – i.e. production – professionals are still engaged to enhance agronomic and farm management smarts in the business. Livestock and wool producers engage agents to discover price and facilitate the sale process of their product, while real estate agents facilitate the same functions for farmland.

Grain producers are unique in that a large majority of businesses deal directly with buyers without using a broker or agent. Granted buyers actively engage with grain producers as well (it goes both ways), but curiously a big percentage of grain farmers entertain this relationship and willingly deal direct. Also, many farmers don't seek expert advice and support in constructing and executing marketing and price risk management strategies. Certainly, the number of farmers proactive in these regards is growing, but 15 years post-deregulation still sees a large percentage 'running their own race'.

From a grain marketing perspective, seeking good, independent advice is imperative for two reasons – from an opportunity point of view, that is, to maximise the value of grain produced, and also from a risk point of view. Good advice will ensure you avoid pitfalls and sidestep expensive mistakes.

Progressive farmers have put increased value in good, independent grain marketing advice and have taken their grain marketing returns to another level.

Many others though, have chosen to navigate markets on their own despite the lack of time and expertise to do so effectively. As such there remains an overuse of forward contracts pre-harvest despite consistent underperformance, a diminishing use of hedging despite outperforming in the majority of seasons, an underutilisation of options in general despite farming in one of the most volatile production regions in the world. On the cash front the majority of farmers believe that price discovery involves making a few phone calls and looking at a few emails/texts, and that the bids on buyers bid sheets are "the market".

There are many good news stories and many Australian farming businesses are realistic, recognising that they need to engage professional expertise in their grain marketing. Many are seeking good advice and are open-minded about different, lower-risk ways of approaching the market, focusing on tried and tested concepts like relative value and not flawed cash-focused strategies.

Margins in farming businesses can be tight and volatile, but the top farming enterprises are moving ahead. A big reason for their success is simply acknowledging weaknesses or gaps in their expertise. Instead of trying to be a 'jack-of-all-trades', farming businesses need to focus on their strengths in management and production and engage independent professionals to help with the marketing of their grain.

Tom Basnett CFO, Market Check

Don't forget demand!

It always pays to check the facts

DR. RORY DEVERELL
Company Director at Black Silo Commodity Consulting

In the movie "The Talented Mr. Ripley", there is a quote by a character playing the role of a private investigator that goes along the lines of "we are taught to check a fact, before it becomes…a fact" and never has such a way of thinking been so true in the wheat markets than it is today. There are many examples where facts may be in essence true but nonetheless distort one's perception of market realities. It is hard to believe there is much in the way of intent to deceive but readily available facts, especially on social media can prove to be deceptive. For example, it is well publicised that the Russian government wishes to maintain an image of minimum export prices to paint the picture that they are protecting their farmers from low prices. The visible fact here is when one analyses recent Egyptian GASC wheat tenders they will see Russian FOB offers have not been less than US$270/t. The hidden fact is that based on today's replacement values, if they were given the freedom to offer wheat at prices of their choosing, Russian traders would probably gladly sell some US$25/t below that price. Another hidden fact is that they do indeed regularly sell at prices US$25/t or more below this benchmark level in private trades.

Another example of a distorting fact relates to official EU export data. Official EU trade data puts EU exports down 27% on last year, this apparent fact paints an inaccurate picture of the truth. In reality, exports were up in July and more recently down around 10% for the season so far. The fact behind the fact is that EU data collection means their statistics lag reality by as much as 6 weeks. But even if we have now brought the statistical fact closer to the truth it still can distort our understanding of demand. Behind this loss in overall EU export demand is a Black Sea export program that is running at record levels out of the ports of Constanza, Varna and Burgas (CVB). Where demand is weakest and most painful is the Baltics, where despite a 20% or so reduction in yields this harvest, export basis/premiums are at multi-year lows, such is the lack of demand there. French exports too have had a seismic change as Algeria and Tunisia have opened the doors to Black Sea wheat and French traders now rely on China and Morocco for non-EU export demand.

Social media is one of the most dangerous sources of apparent facts, especially for farmers. It is well documented that social media algorithms are designed to polarise the information you receive based on what you like. And there is nothing more likeable to a farmer than bullish news. So, every engagement with content about droughts, and port problems in Ukraine etc gets magnified in your social media reality, to the point it is the only reality you are aware of. Any hope of getting a balanced view of the market will quickly disappear, leaving most farmers in a bubble of bullishness of their own unconscious making, and ultimately to their detriment when making grain marketing decisions.

The best we can do is recognise our biases and work extra hard to find some balance. Ukraine, Australia, Europe, Canada and Argentina have all had/have exceptional supply issues that do not need explaining here. Let's think for a moment and ask ourselves the question; if the supply problems are so far reaching and so intense in nature then why are wheat prices not multiples of what they are today? Why are wheat prices, in general trading around the long-term average (in dollar terms)? There can only be one answer, and that is an erosion of demand. The challenge is that it takes exceptional energy these days to try and find facts on demand to even get a starting place to balance out our algorithmically manipulated world view and understand where we are today.

So what do we know of demand today?

1) Government inflation targets: Governments around the world are actively and collectively trying to reduce demand through high and rising interest rates. High interest rates discourage consumption and storage of commodities. This is probably one of the single most bearish headwinds any commodity market can face. (see chart)

2) Eating habits: Meat consumption trends and eating habits are changing, one example here is that EU pig numbers have declined by 5-15% in the past 18 months across the bloc.

3) Household expenditure: Consumer discretionary spending is reduced, thanks in part to high interest rates but almost every aspect of life has got more expensive in the past 18 months due to the war, which is not positive for demand. We are in a period of continuously declining household finances, and this cannot be positive demand at the same time.

4) Demographics: The hungriest humans are aged between 15 and 35, Europe and China's demographic profiles are aging, and a larger share of the population are moving out of this hungry age profile. This needs to be balanced by a younger demographic in South America and India (see charts).

5) Public finances: Many MENA (Middle East and North Africa) destination markets are at or near bankruptcy; Iran, Libya and Egypt are recent examples where raising the capital for imports either at a public or private level has proven difficult due to various reasons such as sanctions, weak currencies, conflict, corruption or interest rates.

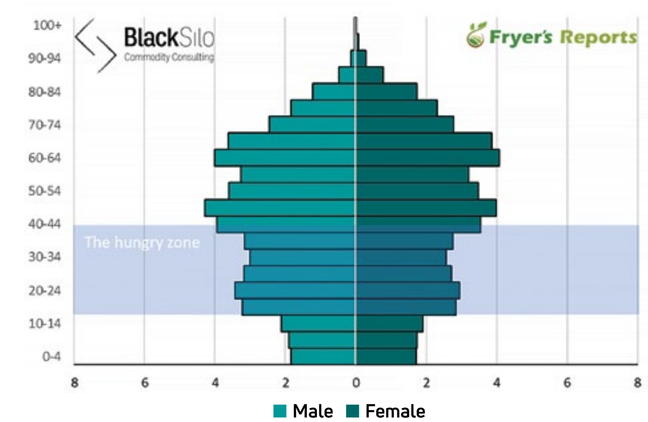
Key takeaways

This is not to paint a bearish picture at all, and the serious supply issues are worthy of close attention, just not all the attention all the time. There are three take away points here:

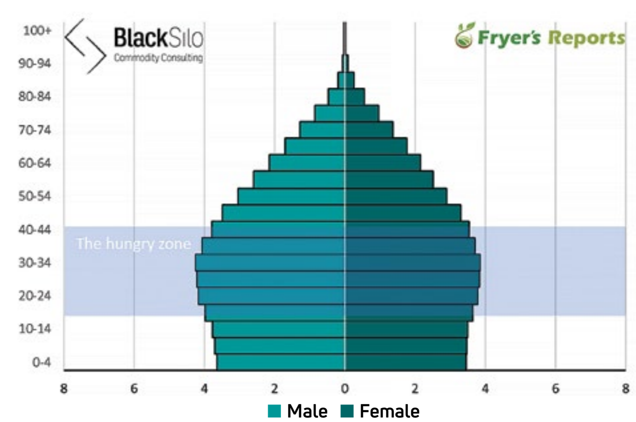
1) Do not trust even what seem like reliable sources of data
2) Your information bubble in social media can be your worst enemy, ask why it is you see only one side of the story most of the time
3) There are considerable supply issues in the world today, take time to also consider the many demand issues global grain markets also face.

Dr. Rory Deverell, Company Director, Black Silo Commodity Consulting

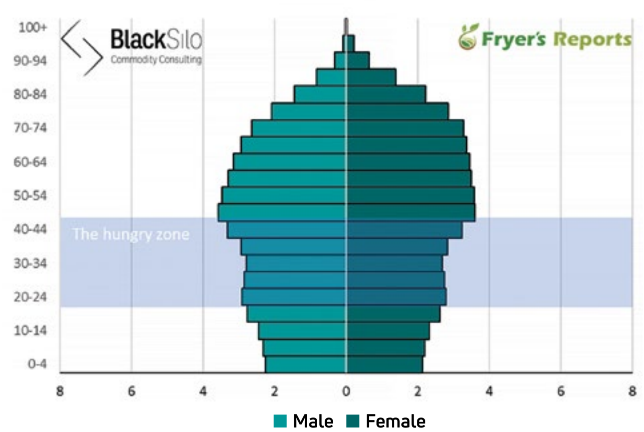
China population pyramid 2034



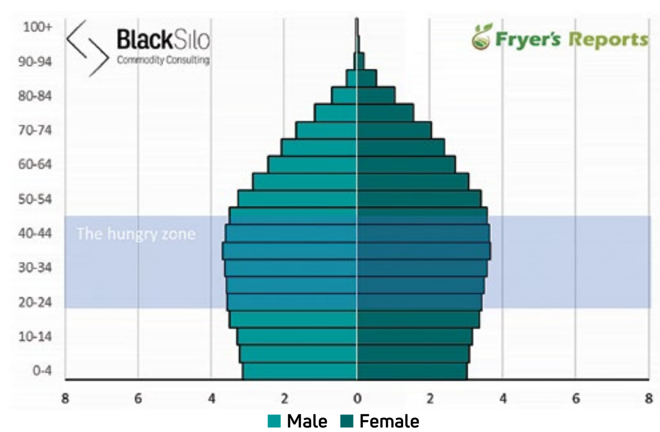
India population pyramid 2034



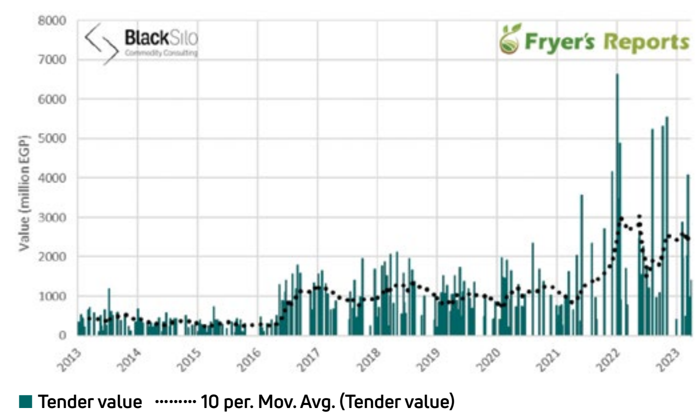
Europe population pyramid 2034



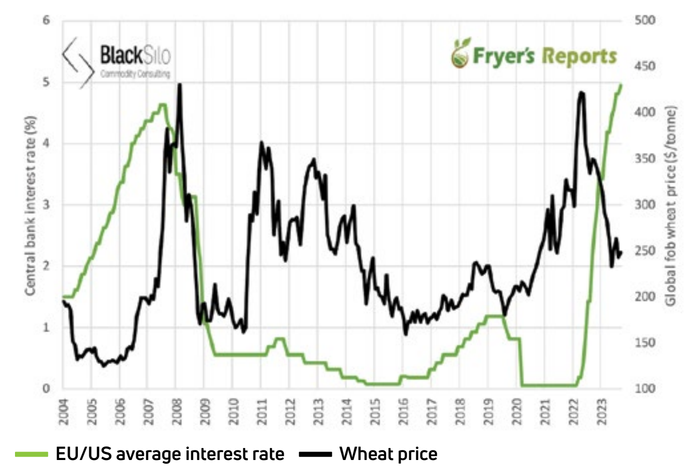
South America population pyramid 2034



Total value of GASC purchase by tender in EGP



Commodity prices versus interest rates



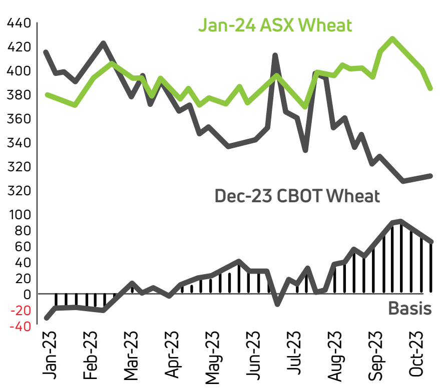
Wheat Outlook

A return to normal

Writing the wheat outlook for this edition of the AGR is particularly tough given we've had contributions from world renowned wheat analysts and some of Australia's top traders and don't want to cover the same ground. I won't go into too much detail about the global market as Mike O'Dea and Dr Rory Deverell have done this in great detail, but ill focus more on what wheat markets here in Australia are up to going into harvest.

Hidden drought premiums

Local silo prices have, for the most part, been pretty benign so far this year in southern zones, while spreads in the north have gradually strengthened vs the south. The Jan-24 ASX East Coast Milling Wheat contract is more or less a proxy for Victorian new crop prices at the moment, and up until Spring, the market chopped sideways for almost 7 months, and even after the taps turned off in the north, and spring rain was fleeting until early October in southern NSW/VIC, the market didn't stage a meaningful rally, and started falling in October. At the same time, the offshore market (represented by Dec-23 CBOT Wheat in the black line on the chart) was falling. While our prices were treading water/marginally stronger, offshore prices (cash markets and futures) were tumbling to multi-year lows. Therefore, the domestic market was responding to our deteriorating crop prospects by not falling with the rest of the world, and hence our relative value has strengthened considerably. While our prices have been chopping along, Australian wheat has gone from some of the world's cheapest wheat going into 2023, to among the most expensive going into 2024.

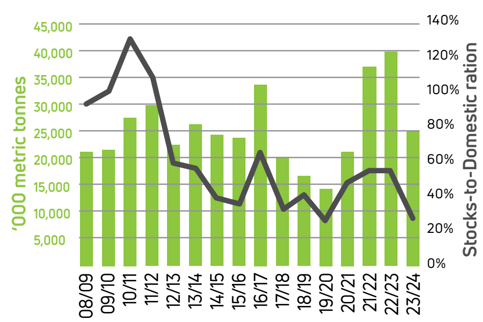


Mean Reversion

After several years of record wheat production, bottle necks in the supply chain and being the cheapest wheat globally, this coming year is a return to normal. The crop is expected to be around the same level as our 10-year average, we'll have excess supply chain infrastructure, some of which will collect dust, and our prices compared to the offshore market will be strong. Not all cropping zones will get a decent crop this year (if at all), but unfortunately in the country we farm in, that is the norm.

It was always a matter of when, not if, our run of record seasons would come to an end. Luckily, despite the taps turning off in winter and a tough spring, many growers will enjoy an average to above-average season. A solid moisture profile in 2023 has helped many crops get home this year, although it looks like they won't be as bullet proof in 2024.

Australian Wheat Production



Outlook

Prices have been weakening and there's no doubt that our relative value to the offshore market had become stretched in September. However, there will be strong demand for our wheat this year, especially from China and Southeast Asia. Our quality profile will be a big factor as well, with that early October rain hopefully helping us avoid a crop with high screenings. As Ben Gliddon wrote about in his article, the global milling wheat market is tight versus the feed side. With world prices at yearly lows (at time of writing), and strong demand for our premium wheat expected, any substantial harvest pressure is unlikely to persist for long before buyers' step in.

Lachlan Condon, Head of East Coast Advisory, Market Check

Barley Outlook

Another tumultuous 12 months is in the books for barley markets with both political and seasonal pressures pulling the strings in what has been a vastly different market to what we saw last year. The last six months in particular has seen a dramatic change in both export and domestic trade flows with China now back in the mix for Australian barley and interstate demand increasing from shortfalls in Queensland (QLD)/Northern NSW (NNSW) production – both of which will be studied by the trade for price direction going forward.

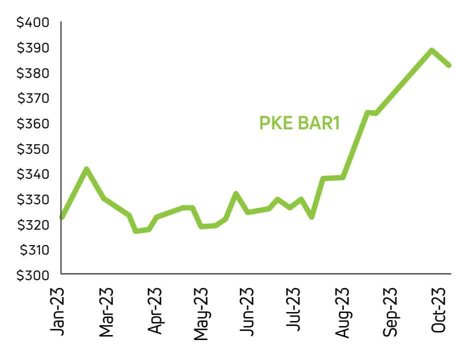
Domestic Production

The most recent ABARES forecasts has Australian barley production declining by 26% to 10.5MMT in 2023/24, approximately 6% below the 10-year average. The forecasted fall in production has naturally been driven by the turn in season in all producing states:

- QLD production down 23% to 0.31MMT
- NSW production down 26% to 1.68MMT
- Vic production down 22% to 2.25MMT
- SA production down 31% to 2.00MMT
- WA production down 25% to 4.2MMT

This material downturn in production will see forecasted stocks-to-use decline significantly to just under 15%, a significant tightening in stocks when compared to the more comfortable 28% we saw during 2022-23. This is despite the exporter community and strong domestic demand doing an impressive job clearing the decks following three successive outlier production years. All-in-all, the market has reacted very positively to this change in circumstances so far with barley across the country, particularly NSW/QLD, rallying aggressively in recent times – and these prices will continue to be supported from this tighter supply environment until we see evidence of a larger forecasted 24/25 production.

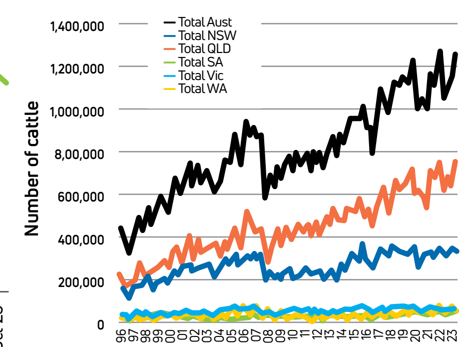
Port Kembla 2023/24 BAR1



Queensland

The shortfall in QLD/NNSW production this season has seen the re-emergence of QLD being a major import market for not only NSW as per usual, but also SA and WA via transshipments. We could see around 800kt-1MMT of barley enter QLD, with the market ratcheting higher in recent times to draw the tonnes needed to satisfy demand. With an estimated record 760,000 cattle-on-feed in QLD (65% of the national total), demand is unlikely to fall away. Markets at time of writing have BAR1 delivered Darling Downs bid $470 January, certainly making it the bellwether of the upcountry bids. Given this premium, NSW barley is pricing more or less as a freight spread versus the Darling Downs market. NSW and VIC delivered end users will battle against this pull from the north, especially with freight becoming cheaper and more available – particularly along western road train routes.

Cattle numbers on feed – historic



China and Export Demand Still Important

Despite the dominance of QLD/NSW domestic demand, the market is still inextricably linked to movements in global prices. WA and SA are forecast to export a combined 6MMT in 2023/24. As a result, the re-emergence of robust Chinese demand following the well-publicised removal of tariffs on Australia barley is still supportive of prices, regardless of location. It is expected that around 1MMT of barley has already been sold to China, with some cargoes already having unloaded at destination. This means domestic consumers are now competing with China for our barley. QLD needs to maintain a wide enough premium in prices vs SA/WA to incentivize transshipments, so if the export states rally, QLD has no choice but to follow. Demand globally for feed grains has remained strong, driven by China as the largest global consumer of coarse grains. China's corn and barley imports are forecast to remain high in 2023–24 due to strong feed demand. Global ending stocks will be tighter in 2024 forecasted to be ~17MMT – and when combined with robust Chinese demand, will be supportive of global and Australian export prices.

There are plenty of green shoots in the barley market going forward, however it isn't a market without risk, especially after such a phenomenal rally in the past couple of months. Growers without any barley sales on might find themselves flying a little too close to the sun.

Justin Stewart, Senior Commodity Advisor, Market Check

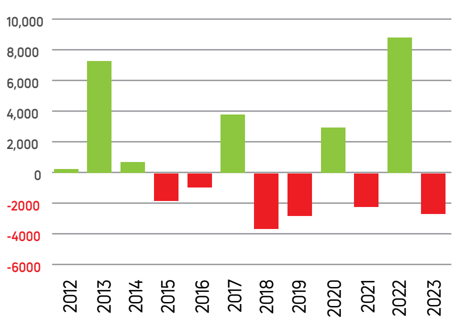
Canola Outlook

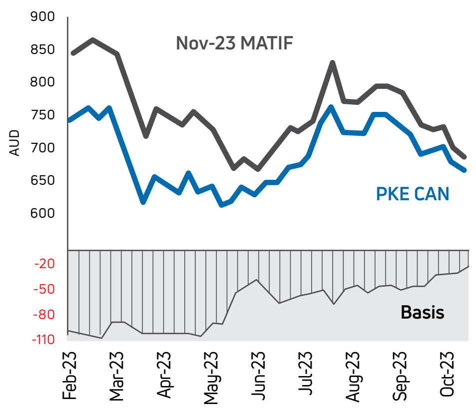
What goes up, must come down

After a historic rally in offshore canola markets in 2022, where prices in the European MATIF Canola futures traded well over A$1,250/t, the markets have come back to reality. At time of writing, MATIF Nov-23 is trading closer to A$685/t, implying an almost 50% downdraft in offshore canola markets. There are plenty of culprits to point the finger at for why the markets have fallen out of bed, but really the market did what the market is designed to do; rally to incentivise growers to produce more canola, and that's what happened.

As you can see from the chart, production out of Canada, Australia, Ukraine, and Europe was materially higher in response to the attractive pricing last year, which was a fundamental reason we've seen prices cool off in 2023. However, in 2023/24 we've seen production fall, led by declines in both Australia and Canada. Canada's canola market has been particularly volatile, especially for a net exporter. Prices are (at time of writing) trading a premium of A$125/t over the European MATIF market. This is historically a very large premium, especially as Canada is the world's largest exporter, and Europe is a very large importer. On the European front, they are busy chewing through their recently harvested crop and buyers are currently comfortable due to the fresh supplies in the pipeline.

Major Exporter (Plus EU) Production Changes





Domestic

Canola production in Australia has been on a historic run, with back-to-back-to-back record crops, topping out at over 8MMT in 2022-23. This coming harvest will see production tumble, estimated around 4.5-5MMT which is back to more historical levels. A crop of this size will still leave us with a decent exportable surplus, meaning our fortunes will again be pegged to the performance of the offshore market (especially MATIF).

Our market has been softening through late winter/spring, despite growers watching their crop potential deteriorate, and scratching their heads as to why the market isn't responding. However, the market has been responding by reflecting the worsening production prospects by strengthening our relative value to the offshore market. In fact, at time of writing, 2023/24 PKE CAN1 vs MATIF Nov-23 basis has rallied $80/t since April in response to the toughening conditions domestically.

Outlook

Predicting prices is rarely a fruitful exercise, however in the immediate term, harvest pressure is the biggest risk to Australian markets. Given the improvement in our basis recently, we could see our prices continue to slide, even if the offshore market doesn't. Likewise, any rally in the offshore market during our harvest window is going to be eagerly sold into by growers and hence domestic markets are unlikely to rally dollar-for-dollar. It is important not to base your canola strategy on holding out for bygone prices, as many did when not selling last harvest and then watched the wheels fall off. That being said, the hard work in canola pricing looks to be done, and there are plenty of valid arguments that prices are poised to see some strength as we head into next year. When the world's biggest exporter is coming off a drought and nearly pricing to import, and the third biggest exporter is fighting for its sovereignty amidst a tight global balance sheet, it generally pays not to get too pessimistic on Australian prices going forward.

Andrew Retallick, Senior Commodity Advisor, Market Check

Pulse Outlook

The 23/24 season is shaping up to be an interesting one for Australian lentils. With a combination of smaller planted area and poor yields in Canada, production concerns from India and recent political tension between Canada and India, Australia is poised for another year of strong demand. Pre harvest, bids for lentils climbed above $1000/t across VIC/SA. As often with high prices, harvest pressure is a risk but following this, the market looks likely to recover for the typical post-harvest lentil marketing window. However, it is important to note that the Indian lentil crop is not yet in the ground and there are a few factors that may work against us. Assuming that Canada does not magically find another 500kt of lentils, we are likely to be the main supplier for India. Recently, the Indian government has raised the minimum support price for lentils by 7% to encourage more planting, and the late monsoon rainfall has been favorable which could lead to a better lentil crop than initially expected. At the same time, we need to be mindful that high world prices can lead to demand restriction (something we saw with Faba Beans into Egypt). While this has yet to happen, other destinations such as Bangladesh and Sri Lanka may not have the capacity to handle the high prices from Australia, naturally limiting their demand or pushing them to other less premium origins such as Kazakhstan. The bottom line is that while the market is healthy and well supported, the situation can change quickly in the pulse world.

Faba Beans

Faba Beans are not likely to be quite as exiting this season, with our main export partner Egypt (who accounts for around 80% of all Australian Faba bean exports) still in the economic doldrums. Securing foreign currency will remain an issue for them, however the market is at least accustomed to this and the government has mandated pulses as an essential import. This way, the Egyptian importers are able to secure currency to pay for product. However, it is likely that this season's market will be a little stronger due to the smaller Australian crop. ABARES has pegged the 23/24 Australian faba bean crop at 447kt, a reduction of 30% from last year. Faba bean production has been falling since 20/21, with 23/24 faba bean production expected to be the lowest since 19/20. Recently, domestic markets have rallied in VIC and SA. Looking forward, the bean market will be heavily driven by our final production figure. Retail prices are on the rise again in Egypt, providing support for global prices, however the risk of demand limitation has also risen. Domestic markets will be important again this year and with a tighter year on the cards they may need to be more competitive to keep adequate supply onshore.

Chickpeas

Chickpea markets took a battering last year due to poor quality effectively keeping us out of our biggest market, Bangladesh. An unfortunate side effect is that India took up much of this business. India is a strong competitor of ours and has not engaged strongly with the Australian chickpea market since tariffs were implemented back in 2017. Luckily, the quality issues may not be as present this year and India's export program may be smaller due to leaner production. If the Indian market cannot supply stock to Bangladesh due to a disappointing crop, then the likelihood of us regaining our market share into this important market increases, assuming our quality is sound.

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