CloudBreak Advisory

Grain Outlook

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US Headers are Rolling – 25% Complete!

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Wheat futures have seen a brief rally in the last week finishing on a 7 month high. The rally was sparked by fears for rain damaged crops in Europe and short coverings from funds. A bearish USDA report subdued fears and markets promptly fell in the following days. However, many CloudBreak growers took advantage of the futures rally which saw domestic prices for new and old crop reach an 8 month high.

Northern Hemisphere harvest is now underway with US harvest at 25% vs 17% this time last year for winter wheat. Despite the acceleration harvest is still 3% below the 5-year average at 28%. Ongoing warmth and dryness through the winter wheat belt is likely to push harvest to 35-40% completed by the end of next week. Winter wheat is still pegged at 61% good to excellent, downgraded 1% from last week but well above last year at 43%. Moisture remains adequate through the US Plains which will only bolster crops in harvest. The USDA also suggests there is a strong potential for US spring wheat to be above trend yield with ample moisture in Northern US through to Eastern Alberta.

USDA WASDE report published Friday has world ending stocks up by 0.5MT to 257.8MT, extending an already record large world ending stocks. US wheat production is forecast up by 79 M bushels thanks to improved conditions for hard red winter crops expected to be record yields. Despite heavy rainfalls and widespread flooding through France, production is unchanged as abundant moisture in low lying areas was offset by improved yields in other areas. French wheat conditions prior to flooding were near ideal and forecast dryness in the latter part of the grain filling stage will mitigate any further losses. Despite the rainfall through much of Europe WASDE has European production up by 1MT.

ABARES released the latest crop report Wednesday, outlining most wheat growing regions across Australia have started favourably. Winter wheat crops are expected to rise by 1% to 22.3 million hectares with South Australia wheat hectares expected to increase by 1.6%. Barley is anticipated to decrease by 1% to 4.1 million hectares. Canola and Chickpea's are both estimated to rise by 4% and 8% respectively. Total wheat production is likely to top 24.5MT revised up by 880,000T since march and is expected to be the biggest harvest since 2012, up 7% from last year.

Weather across the US is trending drier through June to early July according to the Global Forecasting System (GFS). Despite fears for dryness through the Corn Belt in the last few weeks, recent models suggest widespread rainfalls in the next fortnight. Forecast for South Australia remains positive with moderate rainfall expected in the next 14 days. Widespread soaking rainfall as appears mostly absent through Europe and the Black Sea, providing ideal conditions for harvest.

Corn/Wheat futures spread has tightened considerably in the last year (as shown below), demonstrating the surplus of wheat. It appears wheat is destined to compete with corn as a feed grain, with current wheat FOB offers from the black sea at $176/MT the cheapest feed grain in the world. Historically wheat/corn spread has sat above 90c/Bu as feed lots in the US look to cover freight between the Midwest Corn belt and the Plains states where the bulk of wheat is grown. Once Northern Hemisphere harvest is in full swing a glutton of wheat will flood world markets putting more pressure on feed grains and will likely continue to test the spread between corn and wheat markets.

Recent short coverings in wheat futures by funds have supported local prices in the last week sparked by weather concerns for European crop conditions (too wet). Short coverings are not uncommon after major disruptions to the market including weather events. Managed funds look for technical and fundamental changes to the market and try to make a quick dollar as markets react to signals. Managed funds were largely responsible for the recent short coverings as they quickly liquidated some of their short position with concerns for damaged European crops after flooding rain in France and parts of Germany.

Outlook for wheat remains neutral-bearish with favourable Northern Hemisphere harvesting conditions and near ideal start in most of the wheat growing regions in Australia. Supplies will continue to put downward pressure on prices with world ending stocks tipped to rise to 257.8MT. Provided no weather threats we expect prices to continue to grind lower once the Northern Hemisphere harvest is in full swing. Growers should look to clear remaining tonnes in the next few weeks and consider forward selling between 10-15% before futures break through previous levels of support.

Barley In Focus?

Barley in focus

Barley has rallied 18% in the last 2 months after hitting a low of $175/MT in Adelaide Zone. A general surge in demand for feed grains couple with a weaker currency has fuelled demand for feed barley. Extra demand into China, had buyers chasing feed barley to fill extra shipments. New crop prices have also rallied with the devaluation in currency and a general lift in demand for feed grain globally. Acres are also predicted to fall nationally (Aust) for the coming season marginally.

Global Feed Grain Demand

There has been a significant lift in global feed grain demand with US corn exports surpassing expectations. Corn markets have seen volatility in the last few weeks with dry weather concerns through the US Corn Belt. The outlook for the US Corn Belt has improved with widespread rainfall predicted and the impact on corn yields during pollination is likely to be minimal. The change in weather was reflected in the USDA crop condition report with corn remaining unchanged at 75% good to excellent. Any reduction in corn yield will have an effect on corn cash and futures prices as supply becomes restricted. However, the reduced yield will likely have a minimal effect on prices as wheat and corn production is expected to exceed consumption by 23 MT this season.

In CloudBreak's latest Shipping Stem report there was small renewed export demand out of South Australian Ports into China. Three extra vessels of barley had buyers tripping over one another to get enough tonnes to fill the hulls. Some wheat shipments had also been converted from wheat to barley, with Glencore Grain the biggest contributor adding 95kMT of barley. The bulk of shipments are scheduled for June and July, after which barley shipments are scarce across South Australia.

Since the three vessels were completed demand for feed barley has significantly tapered off with China expected to become a net exporter of corn for feed in the coming season. Cash prices for wheat are below cash prices for corn in the US and Europe, demonstrating wheat is already competing with corn as feed grain. European corn imports have also declined from 12MT to 5MT with cheaper feed wheat on offer. The shift for a higher demand for feed barley has supported prices locally, however with the excess of feed wheat and corn supplies globally prices are expected to come under more pressure in the coming harvest.

Currency correlation

The bulk of South Australia's barley produced is destined for feed either domestically or internationally into the Middle East and Japan. Historically barley prices have correlated at times closely with corn futures markets traded on the Chicago Mercentile Exchange (CME). However, in recent months the correlation has become much weaker, correlating much closer with currency (USD/AUD).

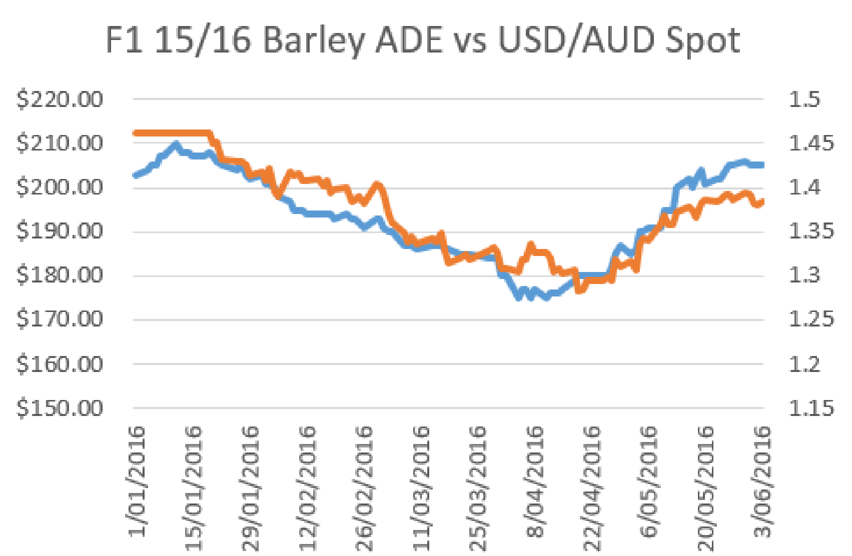
Below is a chart of F1 Barley in Port Adelaide zone vs USD/AUD which correlates strongly from the beginning of the year, particularly from April-May onwards. There has been much talk about extra shipping demand into China from South Australia, but the effect of three extra vessels added to the shipping stem had a much lesser effect than the devaluation of the currency. In May the Reserve Bank of Australia cut interest rates by 0.25%, which saw a devaluation of the AUD currency (or an improvement to the USD/AUD spot rate). The devaluation provided support for barley prices along making Australian feed barley more attractive to the export market.

Reduction in acres

ABARES released their first crop plantings report for the 16/17 season outlining barley plantings have decreased by 1% nationally to 4.1 million hectares. South Australian barley acres are expected to fall 1% in line with national expectations to 800,000 hectares. Yield forecasts for south Australia are expected to hit 2.125T/H, largely unchanged from last year despite the predicted above average rainfalls. CloudBreak estimates have South Australian Barley hectares down more significantly, with a shift toward lentils, chickpeas and canola.

Outlook

We are already seeing on international markets corn and wheat competing for feed grain markets and the same trend is likely to occur in Australia. The glut of feed grains globally will lessen demand for barley export from South Australia. If te change in weather (milder and wetter) in the US corn belt is maintained this could mean corn futures prices test the 420c/Bu levels and buck the upward trend noticed since march. Once the trend has started to dissolve, growers should look to make forward sales for the coming season.



ABARE Crop Report

Table 10 winter crop forecasts, South Australia, 2016–17

Crop	Area '000 ha	Yield t/ha	Production kt	Area change %	Prod. change %
Wheat	1 985	2.20	4 367	–1	0
Barley	800	2.33	1 860	–1	–1
Canola	230	1.33	306	2	3

The start to the 2016–17 winter crop season has been generally favourable, especially in Western Australia, which had above average rainfall in most parts of the cropping region during autumn. While rainfall was more variable in the eastern states during early autumn, and generally lower than average during April, most cropping regions in south eastern Australia had above average rainfall in May. This rainfall improved planting conditions in much of New South Wales, Victoria and South Australia. Rainfall in May was average to below average in cropping regions in northern New South Wales and Queensland, but there was widespread above average rainfall in early June in these regions.

According to the latest three-month rainfall outlook (June to August 2016) issued by the Bureau of Meteorology on 26 May 2016, winter rainfall is likely to be above average in most cropping regions.

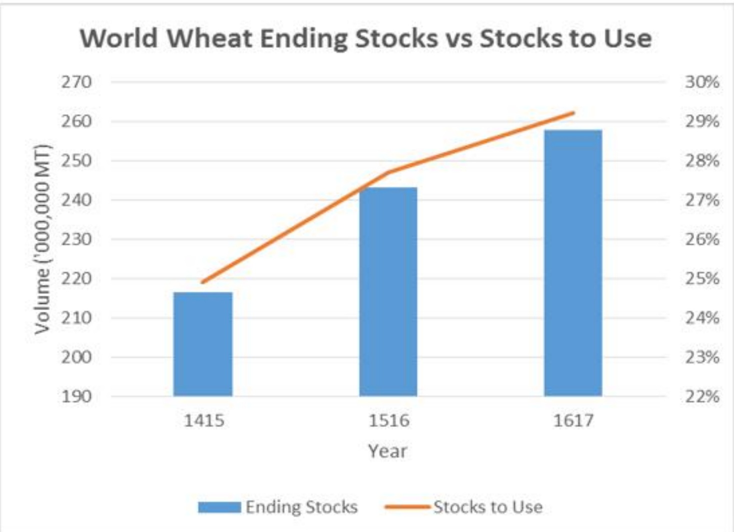
The total area planted to **winter crops in Australia** is forecast to increase by around 1 per cent in 2016–17 to 22.3 million hectares. The area planted to wheat and barley is forecast to decrease but this is expected to be more than offset by a forecast increase in the area planted to canola, oats and pulses. The area planted to canola is forecast to rise in all major producing states, largely reflecting favourable expected returns compared with wheat and barley. Sowing conditions for canola were particularly favourable in Western Australia. The area planted to oats and pulses is forecast to rise in all states.

For the major winter crops, the area planted to **wheat** is forecast to decline by 1 per cent in 2016–17 to 12.7 million hectares, and the area planted to **barley** is forecast to decrease by around 1 per cent to 4.1 million hectares. In contrast, the area planted to **canola** is expected to rise by 4 per cent to 2.5 million hectares. Among other crops, the area planted to **oats** is forecast to rise by 9 per cent to 909 000 hectares, and the area planted to **chickpeas** is forecast to rise by 8 per cent to 717 000 hectares.

Total **winter crop** production is forecast to rise by 7 per cent in 2016–17 to 42.3 million tonnes, which largely reflects an assumed increase in average crop yields. For the major crops, **wheat** production is forecast to increase by 5 per cent to 25.4 million tonnes, **barley** production is forecast to increase by 5 per cent to 9.0 million tonnes and **canola** production is forecast to rise by 10 per cent to 3.2 million tonnes. Among other crops, production of **oats** is forecast to rise by 19 per cent to 1.6 million tonnes and **chickpea** production is forecast to rise by 8 per cent to 1.1 million tonnes.

USDA WASDE Wrap

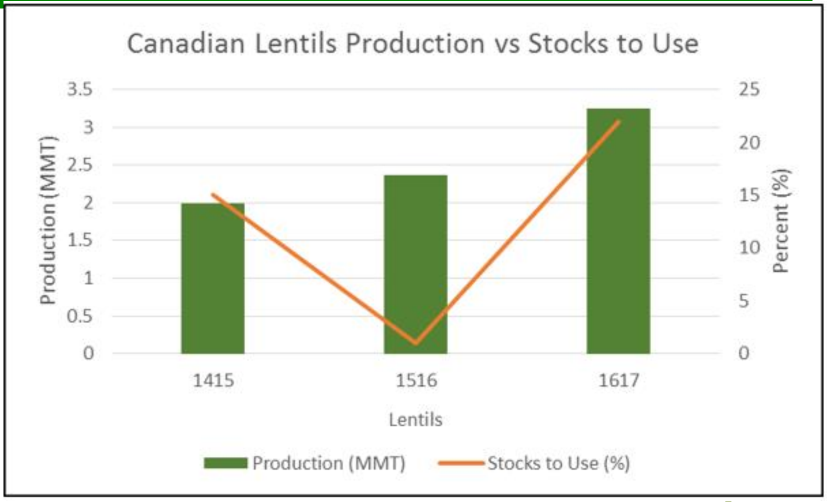
Wheat - The USDA continue to remind us about the abundant world wheat supplies. In their latest World Supply and Demand report wheat stocks were once again raised due to both increased beginning stocks and larger winter wheat production. World Ending Stocks are now forecast at a record of almost 258MMT which is up 0.5MMT from the previous report and 15MMT higher than last year. US production was raised by over 2MMT thanks to excellent growing conditions throughout the spring months with the winter wheat yield forecast to be a record high. US Ending stocks have also been raised to 28MMT (Up 2MMT on last year), which is the highest level in 29 years and leaves the country with a stocks to use of close to 50%. Production was also raised by 1MMT for both Europe and the Black Sea. The EU gains were due to favourable conditions across Spain while Black Sea increase were attributed to increased Russian spring wheat area.



Corn – World corn saw a decline in ending stocks, down 2MMT on May's report, due to revised beginning stocks for the US. The change came after the US experienced greater than increased export competitiveness during the first half of 2016. As of last week, US corn exports were 1MMT higher than this time last year and 20% higher than the 5 year average. Reduced 1516 corn production in Brazil (Revised 3MMT after a dry finish to their season) and harvest delays in Argentina have improved the relative competitiveness of US corn.

Soybeans – The USDA's take on Soybeans was slightly bullish as they decreased beginning stocks, increased exports and lowered ending stocks. Beginning stocks were reduced after the dry finish in Brazil for their 1516 season resulted in their production being reduced by 2MMT (As per the latest crop condition report from the Brazilian Government). The reduced Brazilian supply has resulted in increased 1516 US exports pushing US 1617 beginning down by 1MMT and US 1617 Ending stocks also down 1MMT. This leaves the US with a stocks to use ratio of 6.5% down 3.5% on last year. With such a tight stocks, a serious weather threat through July/August could result in a significant oilseed rally.

Will 2016 Bring a Monsoon of Pulses?



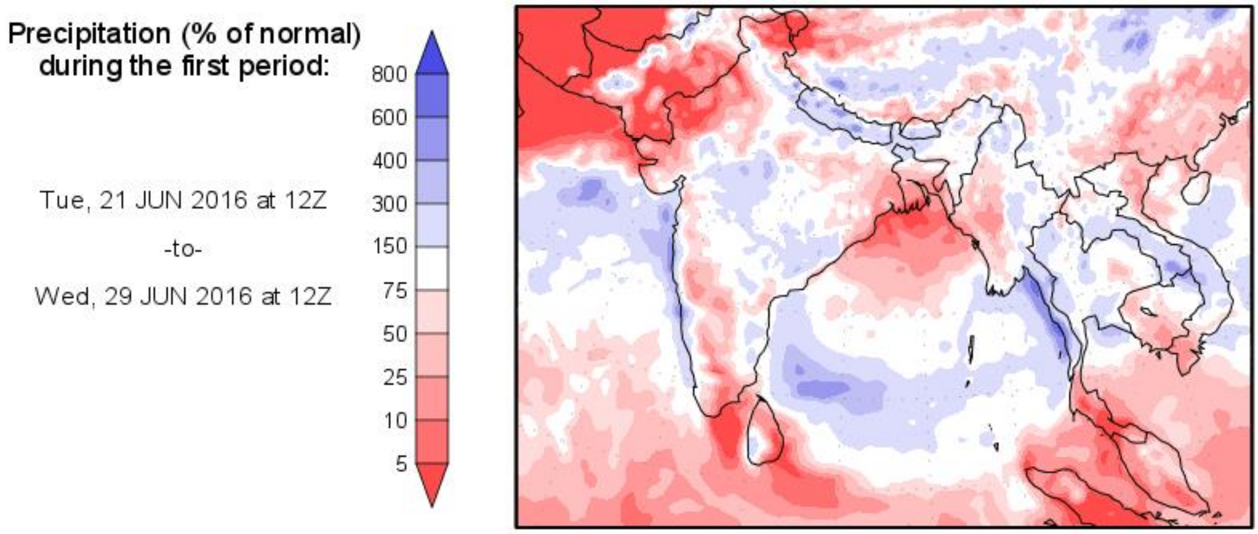
Will 2016 bring a Monsoon of Pulses?

With large increases in production expected for both Canada and Australia, strong demand out of the Sub Continent will be needed for prices to find any type of strength. India, the world's biggest pulse importer and consumer,

Indian Production – Being the world's largest importer and consumer its no surprise that the market's focus is on India and how it's monsoon season (June-September) will progress after 2 years of drought. Precipitation during this period is important for both the Kharif and Rabi seasons. For the Kharif season (Planting June/July, Harvest September/October), favourable rainfall during this period would likely push total production closer to 7MMT, up 1.5MMT from last year. Also, an extended monsoon will not only replenish all water bodies but leave sufficient subsoil moisture for the highly important Rabi season (Planting November/December, Harvest March/April) when most of the countries pulses are produced.

Current Monsoon Situation – This year, the onset of the monsoon was seven days later than normal (Usually starts June 1). Since conditions are not favourable for speedy progress of the monsoon, north and central India will witness a delay in its arrival. This means that the largest pulse producing regions in the Central and North Western regions are yet to receive adequate rainfall (some regions are 25% below average rainfall for this period) to permit the commencement of seeding for the Kharif season. However, once rainfall increases we will expect growers to increase planted pulse acres after last year's high domestic prices. The Indian meteorological department continue to forecast above average monsoon rains for 2016 (6% higher than the long term average). We will continue to monitor the rainfall in this region as any shortfall in moisture could result in support for local pulse prices.

Record Canadian Crop – As per the latest Crop report from the Canadian Department of Agriculture, the pulse crop seeded area will be significantly higher for season 2016/17. Total pulse area seeded will increase to 4.2 MHA compared with 3.5MHa last year with production forecast to be a whopping 8MMT (1.7MMT greater than 1516). Field peas seeded are forecast to be a record 1.7MHa (Up 16% from last year) with production up 15% at 1.7MMT. Lentils production is predicted to reach 3.2MMT (37% larger than 1516) with Stocks to use for lentils to increase to 22% compared with 1% last year. These increases have already placed new crop lentils and peas prices under pressure, with further downside a possibility if favourable weather continues through the Canadian Prairies.



Australian

Snapshot – Last year's high pulse prices has also enticed growers locally to either increase their planted acres on pulses or add them for the first time to their cropping program. The Australian Department of Agriculture is forecasting an increase in overall Australian pulse production of almost 20%. Specifically, the Department is forecasting an increased production of almost 30% in lentils, 50% in faba beans, 47% in field peas, and 8% in chickpeas. Our CloudBreak cropping surveys indicate that this figure could be even greater than official estimates, particularly with lentils where our forecasts show increased production of greater than 50%.

Outlook – The increased world production prospects has placed pulse prices under pressure during the first half of this year with lentils falling almost $200/MT del Adelaide since early January. Most CloudBreak members are already 20-30% sold at levels around $1000/MT. If weather continues to be favourable across Canada, India and Australia we could see further downside in pulse prices. We will be monitoring crop conditions closely, if good conditions persist growers may need to think about making additional forward sales.

Recommendations

Wheat follows corn lower—Monitor Total Hedge 10% -20%

Current—We have had two wheat recommendation on wheat (Jan and early June) which will bring total hedge levels to 10-20% sold forward. In this difficult market we have been targeting 1617 prices over $270. June we saw wheat stage a rally on weather issues in the US coupled with some $Aud weakness. With the forecast turning better for US row crops it looks like wheat prices have topped out and we wouldn't be surprised to see wheat test recent lows if weather stays mild.

Previous Week -Wheat markets continue to be volatile ahead of the Northern Hemisphere harvest. Prices have rallied to the top of the current trading range as the other ags (mainly soybeans) and funds short covering continue to prop up the market.

Domestic prices have also benefited from the recent bounce with 1617 APW MG in Port Adelaide reaching $270/MT again on Friday. Basis has also remained relatively weak, plus 13.3c/bu which would probably favour a $ASwap when an opportunity presents.

Conditions remain favourable both in the Southern and Northern Hemisphere and it looks like another strong production year for global wheat. Supplies will therefore continue to be burdensome resulting in a forecast record 257MMT in ending stocks. If wheat fails to break through current resistance, I would consider starting the hedge program—stay posted!

Canola Uptrend Breaks Down —10-20% Sold

Current— Last week we recommended to sell an additional 5-10% of 1617 canola. Matif Rapeseed futures uptrend has broken down and this has been reinforced by weakness across the whole oilseed complex (mainly soybeans). Recent weakness has been attributed to kinder weather across the US Midwest.

Previous Week -The soybean market continues to rally higher breaking through major resistance of 1100c/bu on Thursday night (Prices have not been at these levels since pre August 2014). Funds continue to buy the market up as the US continues to have strong exports into China. Usually, this time of the year South America tend to dominate exports but the window has opened for the US this year with Argentina's soybean harvest being delayed (79% complete compared with 93% last year).

We should be wary of the fact that traders are holding a near record large long position and that weather continues to remain favourable through the US, with the potential for farmers there to increase planted acres. Once US planted acres are known and the market gains some comfort regarding yields (assuming average season) we expect seasonal weakness into Oct/ Nov (assuming no major production issues develop).

Matif futures have followed suit (Australian canola follows this contract most closely), rallying over €40 since early March. Once we see a break in this current trend we will recommend another hedge tranche.

Barley boosted by weaker AUD but still caught in a low decile—Stand Aside–5-10% Hedged

Current— New crop Barley prices are not great trading around $210/T. Prices recently maxed out around $218/T. Corn prices have decidedly broken its recent uptrend with better weather forecast. There is a glut of feed grains around the globe and wheat is being priced as feed. It is a bitter pill to swallow but we recommend you get some sales on the book (5-10%) around the $210/215/T mark. As this price is sitting at a low decile, I would not blame growers if they decided to wait and see if any production issues develop for Northern Hemi row crops, however it will need to be a significant event as there is a huge buffer of supplies to absorb any losses.

Previous Week — New crop prices have seen some strength of late, rising to $215/T thanks to support from the Aussie dollar. The AUD fell over 5UScents after the RBA unexpectedly reduced interest rates. However, better than expected GDP growth figures have halted this fall with support being found at 72UScents.

With prices still at a historically low decile, I suggest we stand aside and see if we get some sort of production issue develop in Nth Hemi row crops (potentially La Nino induced heat & dryness).

As mentioned previously, stay realistic on new crop barley prices, China's huge stocks/ low demand are not going to be fixed in one season.

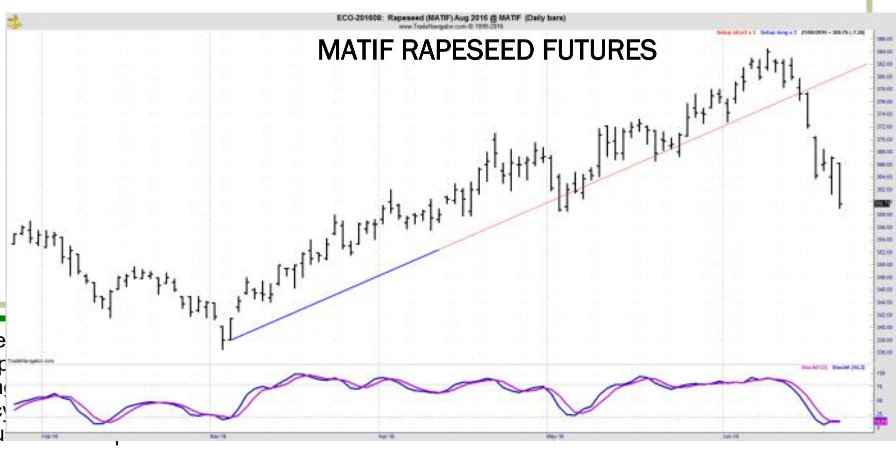
Lentils facing pressure from favourable Indian monsoon forecasts—25-30% Hedged

Current — Production / weather looks strong in Canada, India and Aust. We feel there is going to be a huge production response for lentils this season. For those growers that are undersold please call to discuss getting sales on the books. Current Nipt lentils are around $875/T.

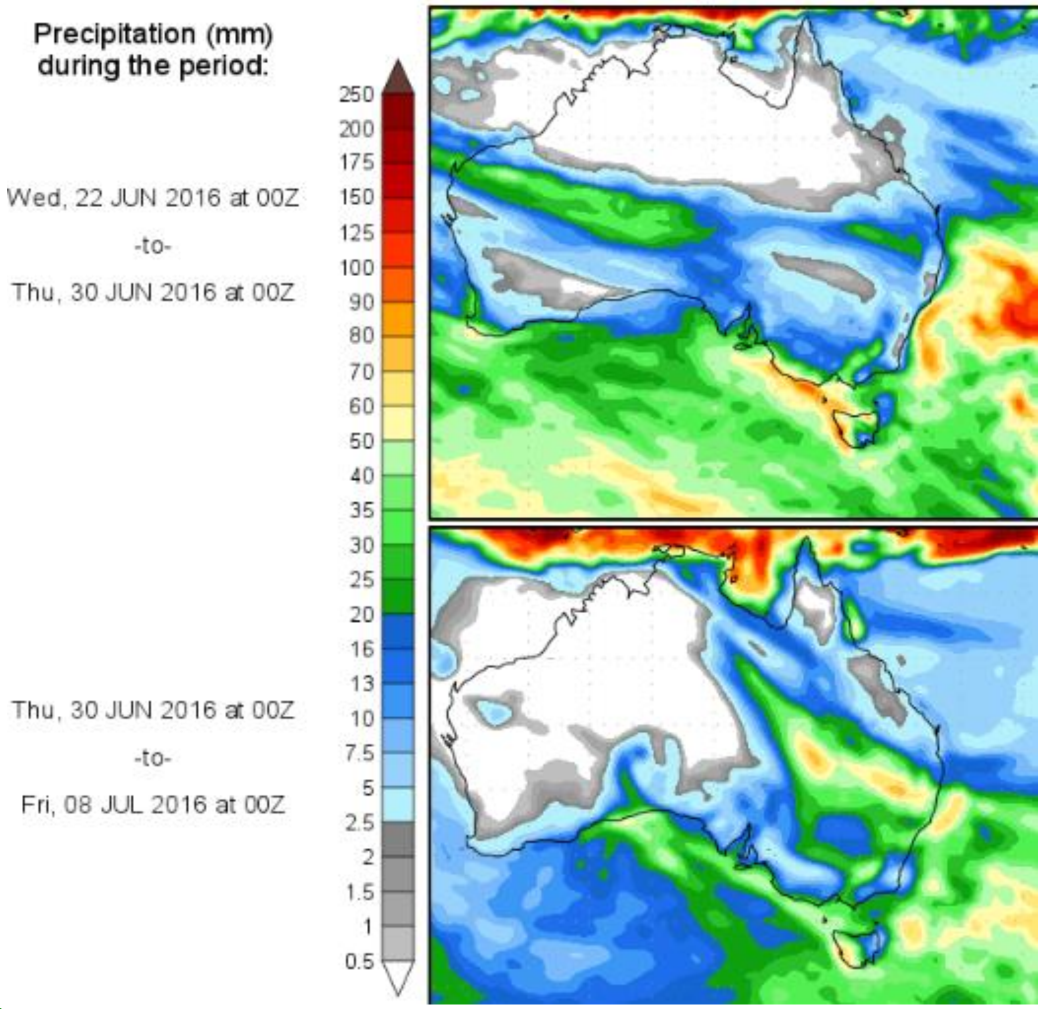
Previous week—As we have indicated aggressively over the last couple of months there is going to be a large global supply response to high lentils prices. Canada acres are forecast to be 30% higher and production 40% higher assuming trend yields. Similarly in Aust we are anticipating a 25% increase in acres and production could be up over 30% if we get a reasonable spring.

Also, a number of forecasts have India's monsoon period (June – September) at above the normal long term average. This has put further pressure on prices, currently trading at sub $900/MT.

With growers already 30% hedged at levels around $1000/MT, this week recommend to stand aside while we monitor the progress of the Indian and Canadian crops.



Precip Outlook



This Newsletter was brought to you by;

Cloud Break Advisory Pty Ltd

2/4 Church Hill Rd
Echunga SA 5153
PO Box 538
Echunga SA 5153
Mob: 0488 228863
Ph: 08 8388 8084
E-mail: edscamps@cloudbreak.com.au
AFSL # 337984

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