USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network
Template Version 2.09

Required Report - public distribution

Date: 10/20/2006

GAIN Report Number: AS6066

Australia

Grain and Feed

Quarterly Update

2006

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Report Highlights:
Australia is now firmly in the grip of widespread drought. Production and exports of winter cereal grains (wheat and barley) for 2006/07 have been sharply reduced. The forecast for 2007/08 early season summer crop (sorghum and rice), which would typically be planted from now through to November, has also been trimmed significantly.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Quarterly Report
Canberra [AS1]
[AS]

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SECTION ONE: SITUATION AND OUTLOOK

Summary

Australia is now firmly in the grip of widespread drought. Production and exports of winter cereal grains (wheat and barley) for 2006/07 have been sharply reduced. The forecast for 2007/08 early season summer crop (sorghum and rice), which would typically be planted from now through to November, has also been trimmed significantly. Post forecasts assume average weather conditions from November onwards. Under this scenario, late season summer crops (sorghum), would likely suffer the least effect from drought conditions.

The 2006/07 Australian winter cereal harvest has yet to begin in earnest. Drought conditions have caused significant abandonment, with many crops either cut for hay or grazed by sheep. Planting for the 2007/08 dryland summer crop (sorghum) has yet to begin in earnest and will likely require a significant rainfall event to do so. Irrigated summer crops (sorghum and rice) will likely be sown on time.

Weather Conditions

Since Post's last report, (Report #AS6047) conditions have deteriorated from drier than average to full-blown drought. Critical spring rains, which are required to finish winter cereal crops and provide soil moisture for planting summer crops, have not eventuated. Furthermore, various parts of Australia have experienced above average temperatures dramatically shortened spring conditions. The opportunity for effective spring rainfall has now passed.

The month of September, which is a critical month for Australian grain production, experienced below average rainfall and above average temperatures for South Australia, Victoria and New South Wales according to the Australian Bureau of Meteorology. These conditions have followed historically low rainfall periods beginning with the driest June on record. Bureau of Meteorology reports describe the period from June to September as suffering "severe rainfall deficiencies" (lowest five percent of historical records).

Post has assumed average weather conditions from November onwards. However, even if this occurs (and average rainfall is received), it is unlikely to provide the relief necessary to achieve a return to normal production conditions. The moisture deficit created by drought conditions from June through to October will likely constrain Australia grain production over the next 12 months.

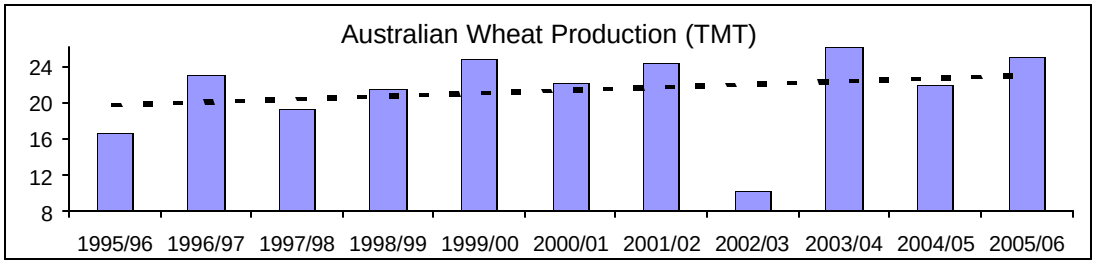
Wheat

Production

Australian wheat production for 2006/07 has been slashed to 12.25 MMT, the smallest wheat crop since the 2002/03 harvest. Extremely poor finishing conditions have essentially prevented crops from reaching previously forecast yields. A reduction in area harvested has also contributed to sharply lower production. In the worst affected areas, crops have simply died prior to the grain fill stage of their growth cycle.

The poor 2006/07 harvest follows extremely difficult planting conditions, which resulted in delayed planting. These difficult planting conditions saw the Australian wheat crop "running late" by around two weeks and left it susceptible to the dry spring conditions that followed.

Industry sources have reported that some areas were able to sow crops earlier and in these cases yields have been much better. However, early sown winter cereal crops remain in the minority as far as total area harvested is concerned.



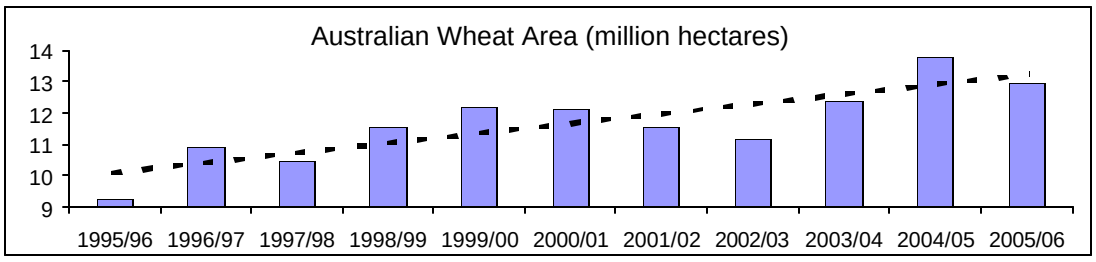
Source: ABARE data (July-June)

Area

Area harvested in 2006/07 is forecast at 10.9 million hectares, down significantly from the previous forecast. Poor yield potential and poor availability of pasture and fodder, particularly in mixed farming areas, has seen failing wheat crops grazed by sheep. In the worst affected areas, some wheat crops have simply died before producing any grain.

A harvested area of 10.9 million hectares for 2006/07 would be considered the lowest area for wheat since 1997/98 when poor conditions combined with lower prices to constrain both planted and harvested area.

Investigations conducted by Post have suggested that original crop plantings may have exceeded the 12.4 million hectares originally forecast by ABARE. A higher planted area in June would allow for a higher proportion of abandonment, as reported by media and industry sources. However, this is not likely to be verified until the release of ABS data in 2007.

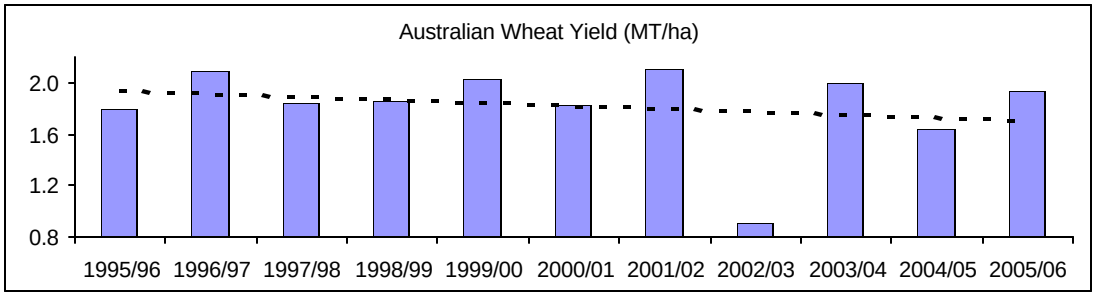


Source: ABARE data (July-June)

Yield

The 2006/07 forecast assumes a yield of 1.12 MT per hectare, down sharply on last year's yield of 1.94 MT per hectare. If achieved this yield would represent the lowest yield since the 2002/03 when a yield of 0.91 MT per hectare was recorded. Conditions in 2006/07 are considered to be similar depending on location.

It is important to note that Post's assumed yield refers to actual area harvested as opposed to area planted and does not account for abandoned crop. If area planted were used to calculate average yield, it would be much lower.

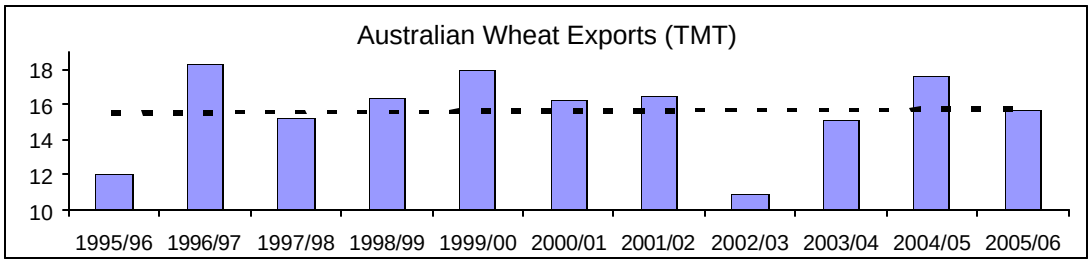


Source: ABARE data (July-June)

Exports

Total 2006/07 marketing year (MY) exports are forecast at 11.5 MMT, down significantly on the previous forecast and on the revised estimate for the previous year. Lower production levels, combined with increased domestic consumption are likely to see both exports and stocks fall sharply.

Recent media reports have stated that Australian exports of wheat are likely to occur from west coast ports only. Sharply higher domestic feed grain prices on the east coast, due to greater population and more intensive livestock systems, is likely to see all east coast grain consumed domestically rather than exported. Cattle on feed are currently at record levels.



Source: ABARE data (July-June)

Marketing

AWB Ltd share price under pressure

AWB Limited, the monopoly exporter of Australian bulk wheat, recently suffered another sharp fall in share price. Prior to the commencement of Cole inquiry hearings in February 2006, media sources reported the AWB Ltd share price at just under A$6.50 per share. However, nine months after the commencement of the inquiry, AWB Ltd share prices have fallen to just under A$2.50 per share. The Prime Minister has said no decision on potential

changes to AWB's role in wheat exporting will be made until the conclusion of the Cole Inquiry on November 24.

To add to AWB Ltd's existing problems, the drought affected 2006/07 harvest will likely see the returns from marketing the Australian wheat crop fall dramatically. Furthermore, recent media reports have suggested that the onset of drought may see the exporter fall short of its grain exporting commitments. AWB has received criticism for taking a price position prior to the escalation of grain prices. This has received the attention of growers who have seen the escalation of grain prices in the month of October.

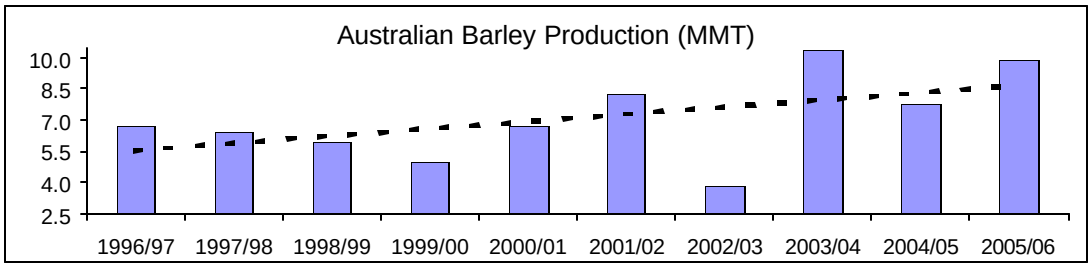
A sharp increase in domestic stock feed demand has seen domestic grain prices rise faster than export prices. This rapid change in market conditions has prompted industry commentators to suggest that the monopoly exporter is not offering growers the most competitive price. In reality however, it is unlikely that a spike in grain prices at this time could have been foreseen at the outset of the season.

Barley

Production

Australian barley production in 2006/07 is forecast at 4.15 MMT, down significantly from the previous forecast by Post. Despite this reduction, barley production is believed to have resisted drought conditions better than wheat production. The later start and the abrupt end to the winter cereal production season have not constrained barley, which is a shorter season crop, to the extent that it has constrained wheat.

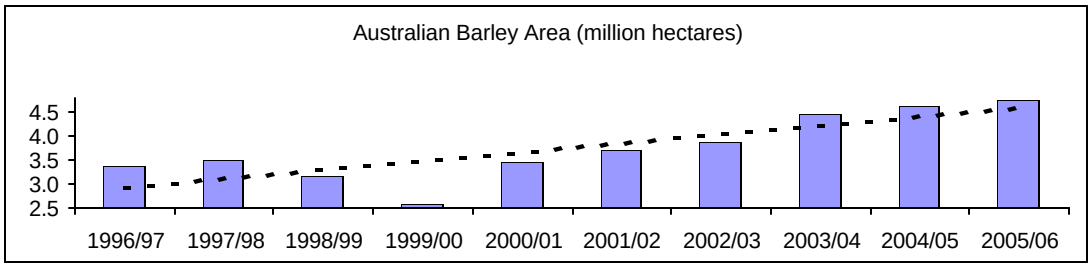
At time of writing this report, it remains difficult to determine the level of abandonment in Australian barley crops. Higher rates of abandonment than currently forecast would likely lead to a further downward revision of Australia barley production.



Source: ABARE data (July-June)

Area

Total area harvested for barley in 2006/07 is forecast at 3.6 million hectares, down significantly on the previous forecast. Significant areas planted to barley have been grazed by sheep, baled for hay, or simply died prior to the grain fill stage of production. A higher rate of abandonment than currently anticipated would see the area harvested fall.

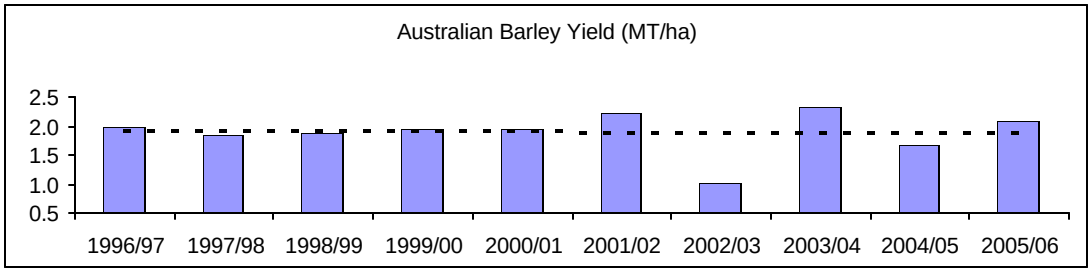


Source: ABARE data (July-June)

Yield

Post has assumed a yield of 1.15 MT per hectare in 2006/07, slightly higher than the assumed average yield for wheat. Post has not included abandoned crop in the calculation for average yield, which if included, would further lower average yield.

According to historical data, a yield of 1.15 MT per hectare would represent the lowest barley yield since 2002/03. The ten-year average for barley production remains at 1.94 MT per hectare.

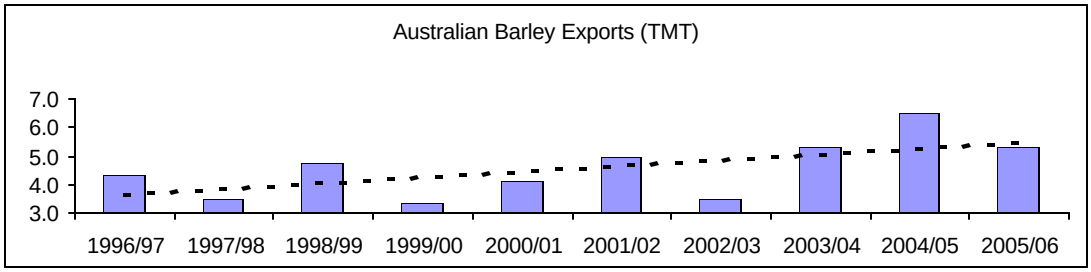


Source: ABARE data (July-June)

Exports

Australian barley exports in 2006/07 are forecast at 2.65 MMT, down significantly from the previous forecast and from last year's level. Decreased production and increased domestic consumption, particularly stock feed consumption, is expected to see the availability of barley suitable for export decline significantly in 2006/07.

Historic data shows that 2006/07 barley exports of 2.65 MMT would be the lowest level since the drought of 1994/95. Post believes that high pressure from intensive livestock industries will likely see a diversion away from exports to domestic livestock wherever market forces allow.



Source: ABARE data (July-June)

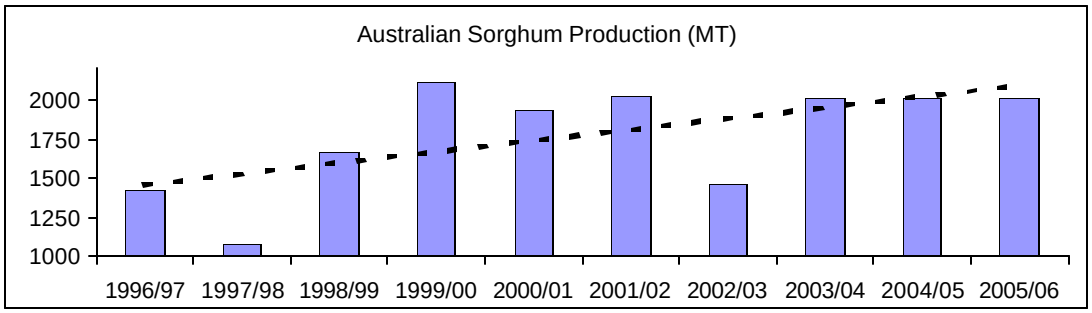
Sorghum

Production

Australian sorghum production in 2007/08 is forecast at 1.6 MMT, down significantly from the previous forecast and from the estimate for the previous year. Below average rainfall and extremely low levels of soil moisture will likely see sorghum production fall well below previous forecasts. Post has assumed average rainfall from now until the end of the 2007/08 season.

On the positive side, dramatic reduction in winter cereal production (wheat and barley) is likely to see stock feed prices remain high until the 2007/08 summer crop harvest. This, combined with the tendency for producers in small irrigation areas to switch to sorghum from cotton and maize during acute irrigation water shortages, will likely constrain reductions in sorghum production.

Sorghum can be planted at varying times in summer. Early sorghum planting usually takes place in October and November while late sorghum plantings occur from January to as late as mid February. Sorghum planting has historically been responsive to rainfall events, and an above average rainfall event before the end of November could see Post's forecast revised upwards.

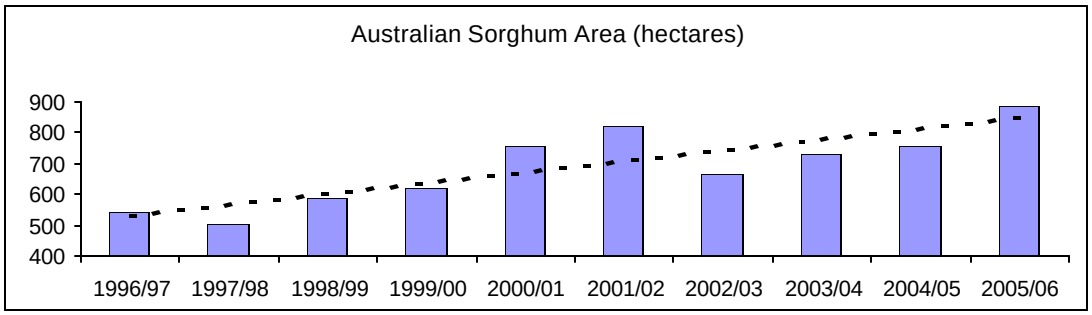


Source: ABARE data (July-June)

Area

Area planted to sorghum in 2007/08 is forecast at 710,000 hectares, down from the 889,000 hectares estimated for the previous year. Post has assumed a return to more normal levels of rainfall. A continuation of drought conditions would likely see this forecast area revised downwards.

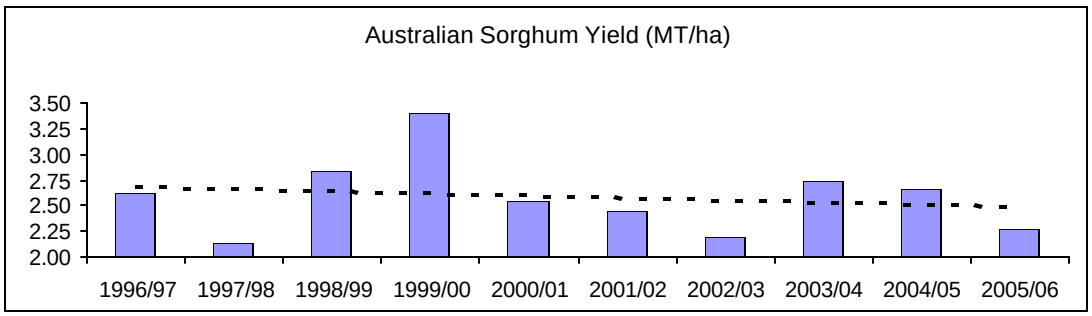
According to historical data, 710,000 hectares of harvested area would represent the lowest level since the 667,000 hectares of the 2002/03 drought.



Source: ABARE data (July-June)

Yield

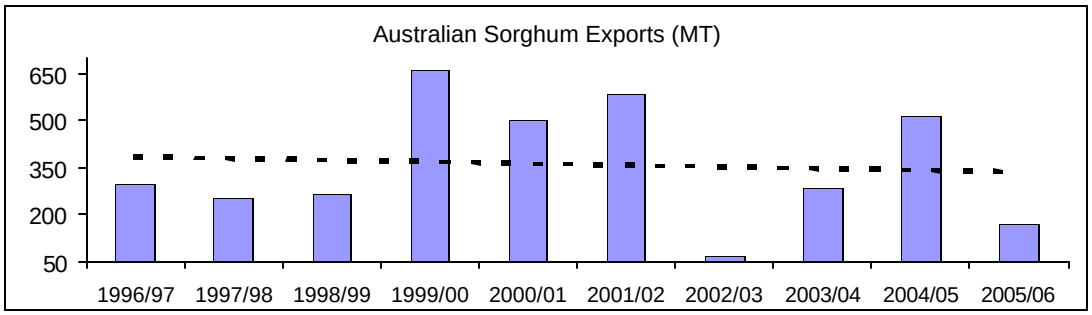
The 2007/08 forecast assumes a yield of 2.25 MT per hectare. A continuation of drought conditions would likely see this figure revised downwards. It is important to note that while the overwhelming majority of area planted to sorghum is dryland, a smaller but significant area of sorghum is grown under irrigation. As sorghum area falls, the area grown under irrigation proportionally increases and slightly constrains reductions in average yield.



Source: ABARE data (July-June)

Exports

Sorghum exports for 2007/08 are forecast at 100,000 MT. According to ABARE's historical data this would represent the lowest export level since 2002/03. Post anticipates that sorghum exports will fall sharply as a higher proportion of sorghum is consumed domestically as stock feed.



Source: ABARE data (July-June)

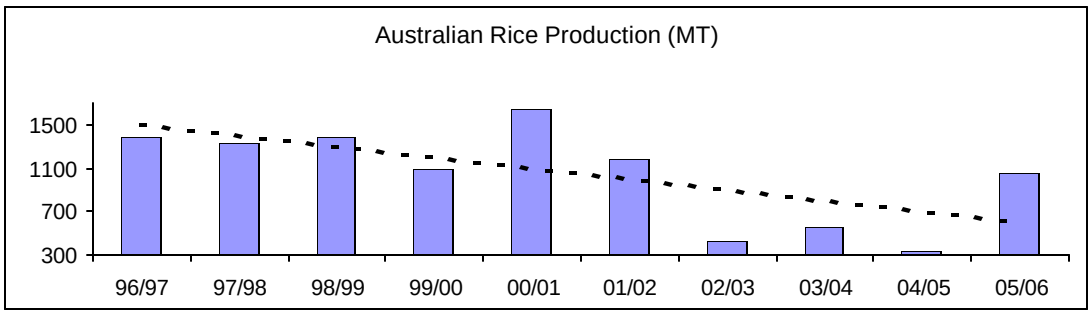
Rice

Production

Total rice production in 2007/08 is forecast to fall to 301 TMT (rough), down on the previous estimate and down sharply on the estimate of 1,048 TMT for the previous year. Post has assumed average rainfall from time of writing this report to the 2007/08 rice harvest. Should average rainfall not be received, this forecast would likely be revised downward.

Prolonged drought conditions, both in rice growing regions and in adjacent catchments, has constrained the replenishment of irrigation water reserves. A dramatic fall in the availability of irrigation water is likely to constrain rice production in 2007/08.

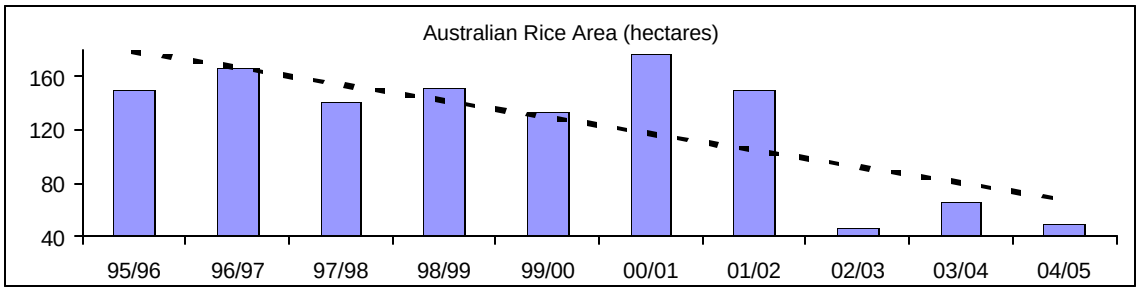
According to ABARE's historical data, the 2007/08 forecast of 301 TMT is the lowest level of production for over a decade.



Source: ABARE data (July-June)

Area

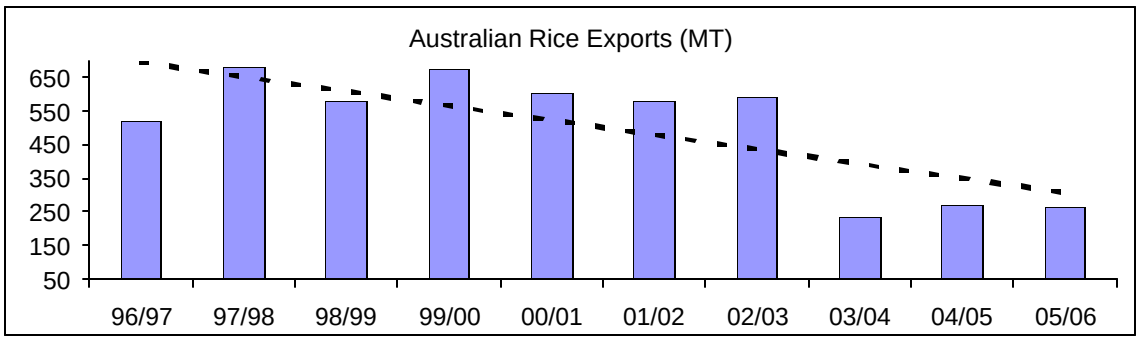
Total area for rice in 2007/08 is forecast at 38,000 hectares, down dramatically on the 105,000 hectares estimated for the previous year. A reduced availability of irrigation water is likely to constrain area to the lowest level in over a decade. Industry sources suggest that high stock feed prices will likely see minor amounts of area normally dedicated to rice production switched to other crops, which require less water.



Source: ABARE data (July-June)

Exports

Exports of rice for 2007/08 are forecast at 150 TMT, unchanged from the previous estimate. Post expects stocks will likely supplement production shortfalls. Post has adjusted stocks downwards to maintain exports at previously forecast levels.



Source: ABARE data (July-June)

SECTION TWO: STATISTICAL TABLES

PSD Table Wheat										
	2004	Revised		2005	Estimate		2006	Forecast		*UOM*
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		10/2004	10/2004		10/2005	10/2005		10/2006	10/2006	*MM/YYYY*
Area Harvested	13768	13400	13768	12600	12980	12600	11500	12382	10900	*(1000 HA)*
Beginning Stocks	5360	5218	5360	7093	6402	6393	9268	8049	9648	*(1000 MT)*
Production	22600	21900	21900	24500	25090	24500	11000	20900	12250	*(1000 MT)*
MY Imports	75	79	75	75	80	75	75	81	75	*(1000 MT)*
TY Imports	76	78	76	81	79	81	75	80	75	*(1000 MT)*
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0	*(1000 MT)*
Total Supply	28035	27197	27335	31668	31572	30968	20343	29030	21973	*(1000 MT)*
MY Exports	14742	14395	14742	16000	16715	14920	11500	15430	11500	*(1000 MT)*
TY Exports	15826	15440	15826	15213	16500	14900	13000	15500	13000	*(1000 MT)*
Feed Consumption	3500	2338	3500	3700	2548	3700	3700	2625	4400	*(1000 MT)*
FSI Consumption	2700	4062	2700	2700	4260	2700	2700	4075	2700	*(1000 MT)*
Total Consumption	6200	6400	6200	6400	6808	6400	6400	6700	7100	*(1000 MT)*
Ending Stocks	7093	6402	6393	9268	8049	9648	2443	6900	3373	*(1000 MT)*
Total Distribution	28035	27197	27335	31668	31572	30968	20343	29030	21973	*(1000 MT)*
Yield	1.641488	1.634328	1.590645	1.944444	1.932974	1.944444	0.956522	1.687934	1.123853	*(MT/HA)*

PSD Table
Barley

	2004	Revised		2005	Estimate		2006	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		11/2004	11/2004		11/2005	11/2005		11/2006	11/2006	MM/YYYY
Area Harvested	4617	4617	4617	4739	4739	4739	4400	4341	3600	(1000 HA)
Beginning Stocks	1887	1847	1887	2134	1794	2134	3103	2861	3103	(1000 MT)
Production	7708	7708	7708	9869	9869	9869	4500	8250	4150	(1000 MT)
MY Imports	0	0	0	0	0	0	0	0	0	(1000 MT)
TY Imports	0	0	0	0	0	0	0	0	0	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Supply	9595	9555	9595	12003	11663	12003	7603	11111	7253	(1000 MT)
MY Exports	4261	4261	4261	5500	5202	5500	3000	5523	2650	(1000 MT)
TY Exports	4481	4200	4481	5500	5900	5500	3000	5600	2900	(1000 MT)
Feed Consumption	2300	2300	2300	2500	2450	2500	2600	2600	2900	(1000 MT)
FSI Consumption	900	1200	900	900	1150	900	900	1100	900	(1000 MT)
Total Consumption	3200	3500	3200	3400	3600	3400	3500	3700	3800	(1000 MT)
Ending Stocks	2134	1794	2134	3103	2861	3103	1103	1888	803	(1000 MT)
Total Distribution	9595	9555	9595	12003	11663	12003	7603	11111	7253	(1000 MT)
Yield	1.669482	1.669482	1.669482	2.082507	2.082507	2.082507	1.022727	1.900484	1.152778	(MT/HA)

PSD Table
Sorghum

	2004	Revised		2005	Estimate		2006	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		03/2005	03/2005		03/2006	03/2006		03/2007	03/2007	MM/YYYY
Area Harvested	803	803	803	889	889	889	800	773	710	(1000 HA)
Beginning Stocks	63	150	63	130	477	130	144	531	144	(1000 MT)
Production	2177	2184	2177	2019	2308	2019	2100	1988	1600	(1000 MT)
MY Imports	0	0	0	0	0	0	0	0	0	(1000 MT)
TY Imports	0	0	0	0	0	0	0	0	0	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Supply	2240	2334	2240	2149	2785	2149	2244	2519	1744	(1000 MT)
MY Exports	205	262	205	300	299	300	250	275	100	(1000 MT)
TY Exports	370	262	370	200	299	200	250	275	100	(1000 MT)
Feed Consumption	1900	1591	1900	1700	1950	1700	1850	1850	1550	(1000 MT)
FSI Consumption	5	4	5	5	5	5	5	5	5	(1000 MT)
Total Consumption	1905	1595	1905	1705	1955	1705	1855	1855	1555	(1000 MT)
Ending Stocks	130	477	130	144	531	144	139	389	89	(1000 MT)
Total Distribution	2240	2334	2240	2149	2785	2149	2244	2519	1744	(1000 MT)
Yield	2.711083	2.719801	2.711083	2.271091	2.596175	2.271091	2.625	2.571798	2.253521	(MT/HA)

PSD Table
Rice, Milled

	2004	Revised		2005	Estimate		2006	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		03/2005	03/2005		03/2006	03/2006		03/2007	03/2007	MM/YYYY
Area Harvested	48	50	48	105	60	105	45	0	38	(1000 HA)
Beginning Stocks	550	295	550	412	162	412	511	85	511	(1000 MT)
Milled Production	231	308	231	749	368	749	286	0	215	(1000 MT)
Rough Production	323	431	323	1048	515	1048	400	0	301	(1000 MT)
Milling Rate (.9999)	7150	7150	7150	7150	7150	7150	7150	0	7150	(1000 MT)
MY Imports	106	95	106	75	110	75	75	0	75	(1000 MT)
TY Imports	106	90	106	75	105	75	75	0	75	(1000 MT)
TY Imp. from U.S.	4	0	4	0	0	0	0	0	0	(1000 MT)
Total Supply	887	698	887	1236	640	1236	872	85	801	(1000 MT)
MY Exports	80	156	80	325	175	325	150	0	150	(1000 MT)
TY Exports	52	175	52	350	170	350	150	0	150	(1000 MT)
Total Consumption	395	380	395	400	380	400	405	0	400	(1000 MT)
Ending Stocks	412	162	412	511	85	511	317	0	251	(1000 MT)
Total Distribution	887	698	887	1236	640	1236	872	0	801	(1000 MT)
Yield (Rough)	6.729167	8.62	6.729167	9.980952	8.583333	9.980952	8.888889	0	7.921053	(MT/HA)