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Australia

Grain and Feed

February Grain Lockup

2008

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Report Highlights:
Sorghum production for 2008/09 is forecast at a record 2.25 MMT, the result of recent widespread rain. Rice production for 2008/09 is forecast at 15 TMT, the lowest level of production ever reported by ABARE due to depleted irrigation water supplies. Post estimates wheat production for 2007/08 at an historically low 13 MMT and anticipates poor export performance in 2007/08, with the exception of deregulated containerized shipments.

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

SECTION ONE: SITUATION AND OUTLOOK

General

The Australian continent has received widespread rain since November 2007, bringing welcome relief to major cropping areas around Australia. Although the rain arrived too late to save winter cereal crops, the sheer volume received has done much to lift the spirits of drought-affected farmers, some of whom have been in drought since 2002. As an example of the magnitude of the rain, some cropping areas in eastern Australia received more rainfall in December 2007, than for the six months previous, or the entire winter cropping season.

At time of writing this report, the 2007/08 winter cereal harvest has been completed with the last of the wheat and barley crops harvested in December 2007. The 2008/09 rice crop is planted and well-established while the early sorghum crop is also planted and well-established. Late sorghum planting is almost complete. Sowing of the 2008/09 winter cereal crop (wheat and barley) will not likely commence until April 2008; in recent years, the bulk of winter cereal crop sowing has occurred in the month of June.

Widespread rainfall has benefitted the Australian sorghum crop, a broad acre crop predominantly grown under dry land conditions. A much smaller area of sorghum is grown under irrigation. As a result of the recent rainfall, forecast area planted to sorghum increased significantly and production is forecast to reach record levels in 2008/09. Sorghum has a large planting window (October to February) and is well- positioned to take advantage of late rain and so is often planted in an opportunistic fashion. Rice however, is grown only under irrigation and has a much shorter planting window and, as a result, was not well-placed to increase planted area with December rainfall. Rice imports are projected to surpass exports for the first time ever in 2008/09.

The Australian 2007/08 winter cereal harvest began as rain was beginning to fall, so for the most part was unable to take advantage of this rainfall event. Post expects some weather-damaged grain as a result of rainfall late in the season.

At time of writing this report, grain prices have eased somewhat, having reached record levels prior to the 2007/08 harvest. However, current prices remain historically high and this has caused significant rationalization within intensive feeding industries. The dairy, pork and poultry industries have had production constrained by a lack of feed grain and associated high prices. The Australian lot feeding cattle industry has suffered a sharp contraction in total numbers on feed; with current levels estimated at 584,472 for December 2007 compared with a high of 940,000 in June 2006.

High prices, strong domestic demand and low production have provided much pressure for Australia to import grain and grain products. Australian import regulations require all grain to be denatured prior to inland transportation which greatly reduces the viability of grain importation. Industry sources suggest that potential feed stock imports include corn, corn gluten feed and dried distillers grain.

Post has revised production numbers for previous crops upwards in line with recently published Australian Bureau of Statistics (ABS) data.

Sorghum: Sorghum production for 2008/09 is forecast at a record 2.25 MMT. Record high feed prices in the lead up to planting have guaranteed an historically high production number and heavy rainfall in key growing areas has resulted in increases in both area and yield since Post's last report. Post also notes the comparatively poorer outlook for cotton which often competes for resources (both dry land and irrigated). Poor water allocations and

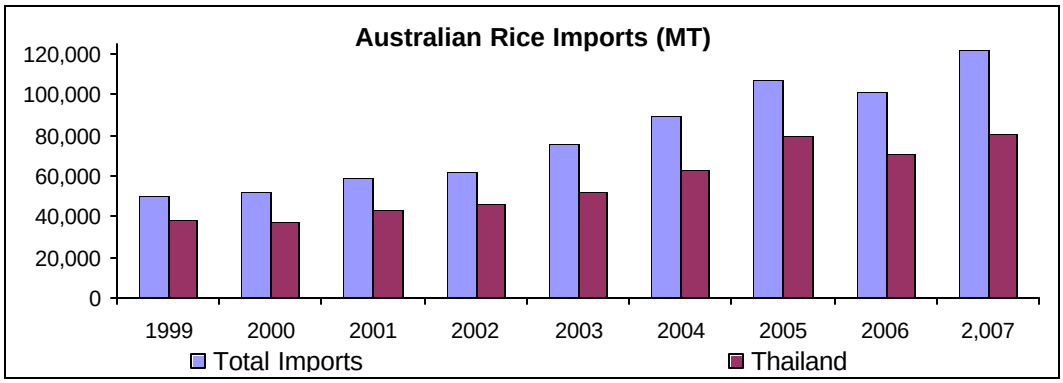
comparatively poorer returns have seen a shift away from cotton toward grain crops such as sorghum.

Perhaps the only downward pressure on sorghum production is the prospect of rain continuing through harvest. Damage to grain, as well as the general logistical disruption, could provide significant difficulties for sorghum production over the next few months.

The bulk of the increase in production is likely to be consumed domestically with exports remaining historically low at about 200,000 MT in 2008/09. Industry sources suggest that exports of Australian new crop grain sorghum are about to begin.

Post has revised production for 2007/08 upward significantly to 1.37 MMT in line with official ABS data.

Rice: Australian rice production for 2008/09 is forecast at 15 TMT, the lowest level of production ever reported by ABARE, and down from the previous year level 161 TMT and 1,002 TMT of 2006/07. The severe and long running drought, which began in 2002, has systematically depleted irrigation water supplies for growing crops such as rice. Record low production combined with steady domestic consumption is expected to see imports rise above exports in 2008/09 for the first time according to published historic data. Imports have grown steadily in recent years; Thailand is the principle supplier.



Source: *World Trade Atlas data*

Wheat: The Australian wheat harvest is usually completed in December, although late rainfall delayed harvest in some areas. Post estimates wheat production for 2007/08 at an historically low 13 MMT. Very poor growing conditions were experienced due to the long-running and severe drought.

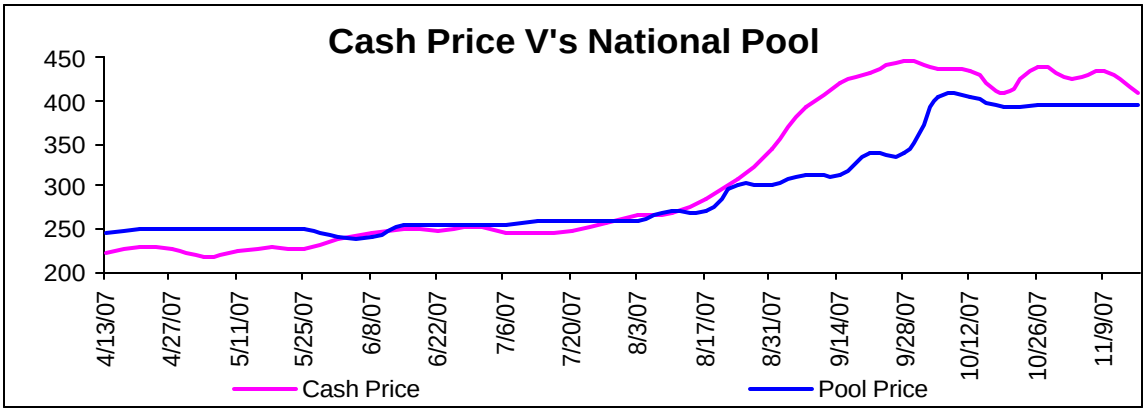
The 2007/08 wheat harvest represents the second consecutive poor harvest and has placed downward pressure on both exports and domestic consumption. Export statistics for 2007/08 have not yet been made available, however post anticipates poorer export performance for 2007/08, perhaps with the exception of containerized exports have been deregulated and according to industry sources, are set to expand from current low levels.

Wheat production for 2006/07 has been revised upwards to 10.64 MMT in line with recently released official ABS data.

Barley: Production of barley for 2007/08 is forecast at 5.8 MMT, almost 1.0 MMT below the 10 year average. The shorter season barley crop performed relatively well, given the harshness of the conditions experienced for 2007/08. Exports and stocks are also at historically low levels.

Post has revised barley production for 2006/07 upwards in line recently released official ABS data.

Grain pricing and market restructure: Prices for grain in Australia, most notably wheat, reached record levels prior to the 2007/08 winter cereal harvest. Record feedlot capacity and high export demand for meat and dairy products combined with shortages of feed grain and fodder in general, drove sharp increases in domestic grain prices. The sharpness of this rise resulted in the cash price for wheat rising above the national pool price.



Source: *Profarmer*

The effect of higher cash prices for wheat in Australia is not to be understated. Growers have been given a financial incentive to sell wheat outside the more traditional national pool, circumstances that favored domestic trade, and the deregulated containerized export trade. A recent Roy Morgan survey shows that about 75% of Australian wheat growers will not sell to the national AWB pool this year. A study commissioned by the Grains Policy Institute indicates that AWB's role in marketing the '07 crop has been diminished as farmers take advantage of strong cash prices rather than using the AWB national pool. Over 50% of respondents said they would sell some or all of their wheat for cash at the silo, with this figure rising to 65% in South Australia. Only 25% of respondents said they would deliver some wheat to the national pool (in Western Australia, which does not have access to the same domestic markets as the east coast, this figure rose to over 50%). Other results indicate that the debate over single desk marketing is not a priority for wheat farmers compared with drought/rain, grain prices and profitability and general marketing; only 11% of farmers surveyed listed as one of their top three most important issues. Two thirds of farmers were aware that AWB had announced that this year will be the final year of the AWB national pool, and about one quarter of respondents said that this would have a major impact on their marketing decisions, compared with 37% who said this would have some impact and 32% who said it would have no impact at all. The entire study is available at Wheat08.com.

New Government Has Announced Changes to Wheat Marketing

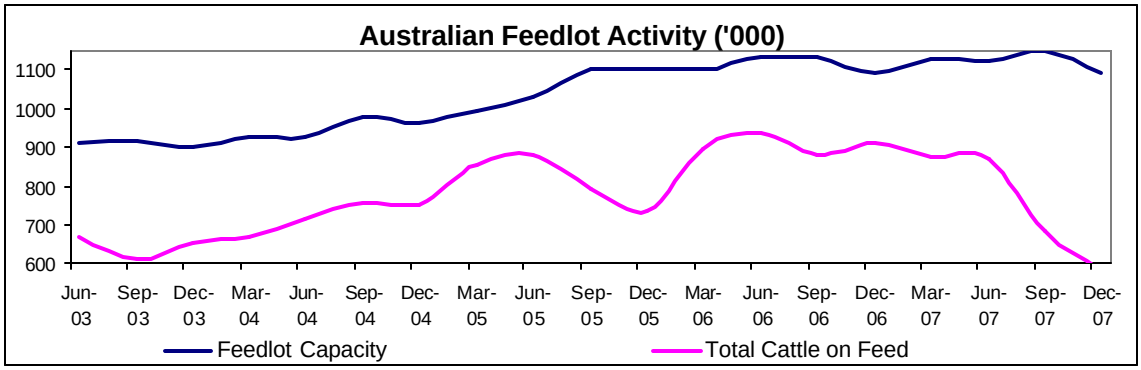
On October 10, 2007, the Labor government announced prior to its November 24 election win, that, if elected, it would introduce significant changes to current wheat export marketing arrangements. Labor proposed a new model for exporting wheat which retains a single desk with multiple accredited exporters. Under the Labor plan the single desk would be managed by a new export regulator, Wheat Exports Australia, which would replace the recently created Export Wheat Commission. A new export accreditation scheme would be developed and administered by Wheat Exports Australia. Wheat Exports Australia would control bulk wheat

exports by accrediting exporters. Growers would be able to directly participate in bulk exports through accredited Grower Cooperatives and/or Alliances. AWB International's veto power would not be reinstated and the 'general exemption' from control of the Export Wheat Commission currently held by AWB International would also be removed. The implementation of these changes and the transition of industry development functions would be informed by expert industry advice provided directly to the Minister; and these arrangements would be independently evaluated by 2010. For these changes to occur, legislation will need to be passed in Parliament (the next session of Parliament is in February).

Pork Safeguard: In October 2007, GOA announced a 'safeguards inquiry' into the impact of imports of pig meat on the Australian pork industry. While the final report is not due until the end of March 2008, the Productivity Commission released a provisional report in December 2007 (GAIN report AS 7076) which found that *"there is not clear evidence that increased imports have caused or are threatening to cause serious injury to the domestic industry. The principal cause of serious injury to the domestic industry would appear to be higher domestic feed prices".* The determination against provisional action does not rule out a recommendation for safeguard measures in the final report, to be completed by the end of March 2008.

Imports of Grain: Grain shortages caused by Australia's severe and prolonged drought (which began in 2002/03), have resulted in a shift in the way intensive livestock producers view the importation of grain. Biosecurity Australia's quarantine requirements on grain have been revisited over the last 2 years as intensive feeders face critical grain supply shortages. Industry sources suggest imported US corn would likely be processed onshore for stock feed. Imports of US corn gluten or dried distillers grain also cannot be ruled out at this stage.

Cattle on Feed: High export demand for livestock products and poor pasture conditions, due to severe drought; have seen domestic livestock industries increase their demand for feed grain. However, grain shortages have seen feedlot numbers plummet in recent times. Continued grain shortages and significant over capacity will likely see pressure for feed grain imports continue well into the foreseeable future.



STATISTICAL TABLES

PSD Table
Sorghum

	2005	Revised		2006	Estimate		2007	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		03/2006	03/2006		03/2007	03/2007		03/2008	03/2008	MM/YYYY
Area Harvested	766	889	766	500	427	637	800	739	850	(1000 HA)
Beginning Stocks	114	130	114	23	144	23	18	39	135	(1000 MT)
Production	1929	2019	1929	1000	1150	1367	2100	1900	2250	(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	2043	2149	2043	1023	1294	1390	2118	1939	2385	(1000 MT)
MY Exports	125	125	125	50	50	50	150	250	200	(1000 MT)
TY Exports	190	173	190	30	75	30	50	150	150	(1000 MT)
Feed Consumption	1890	1875	1890	950	1200	1200	1950	1500	2100	(1000 MT)
FSI Consumption	5	5	5	5	5	5	5	5	5	(1000 MT)
Total Consumption	1895	1880	1895	955	1205	1205	1955	1505	2105	(1000 MT)
Ending Stocks	23	144	23	18	39	135	13	184	80	(1000 MT)
Total Distribution	2043	2149	2043	1023	1294	1390	2118	1939	2385	(1000 MT)
Yield	2.518277	2.271091	2.518277	2	2.693208	2.145997	2.625	2.571042	2.647059	(MT/HA)

PSD Table
Rice, Milled

	2005	Revised		2006	Estimate		2007	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		03/2006	03/2006		03/2007	03/2007		03/2008	03/2008	MM/YYYY
Area Harvested	102	105	102	16	12	21	2	55	2	(1000 HA)
Beginning Stocks	466	412	466	550	511	557	189	187	182	(1000 MT)
Milled Production	716	749	716	119	76	119	15	332	15	(1000 MT)
Rough Production	1001	1048	1002	166	106	161	21	464	15	(1000 MT)
Milling Rate (.9999)	7150	7150	7150	7150	7150	7150	7150	7150	7150	(1000 MT)
MY Imports	94	102	105	120	125	125	275	125	175	(1000 MT)
TY Imports	119	102	119	120	125	125	275	125	275	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Supply	1276	1263	1287	789	712	801	479	644	372	(1000 MT)
MY Exports	326	325	330	200	125	244	20	175	20	(1000 MT)
TY Exports	317	317	317	200	150	244	40	150	40	(1000 MT)
Total Consumption	400	400	400	400	400	375	400	400	325	(1000 MT)
Ending Stocks	550	511	557	189	187	182	59	69	27	(1000 MT)
Total Distribution	1276	1236	1287	789	712	801	479	644	372	(1000 MT)
Yield (Rough)	9.813725	9.980952	9.823529	10.375	8.833333	7.666667	10.5	8.436364	7.5	(MT/HA)

PSD Table
Wheat

	2005	Revised		2006	Estimate		2007	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		10/2005	10/2005		10/2006	10/2006		10/2007	10/2007	MM/YYYY
Area Harvested	12456	12543	12456	11200	11200	11624	12200	12000	12200	(1000 HA)
Beginning Stocks	6782	6698	6782	9618	9728	9618	3483	3713	4224	(1000 MT)
Production	25173	25367	25173	9900	9900	10641	13000	16250	13000	(1000 MT)
MY Imports	75	75	75	93	85	93	75	75	75	(1000 MT)
TY Imports	81	81	81	94	85	94	75	75	75	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Supply	32030	32140	32030	19611	19713	20352	16558	20038	17299	(1000 MT)
MY Exports	16012	16012	16012	8728	8500	8728	8000	11250	8000	(1000 MT)
TY Exports	15213	15213	15213	11241	11244	11241	8000	9500	8000	(1000 MT)
Feed Consumption	3700	3700	3700	4700	4800	4700	3400	4100	3400	(1000 MT)
FSI Consumption	2700	2700	2700	2700	2700	2700	2700	2700	2700	(1000 MT)
Total Consumption	6400	6400	6400	7400	7500	7400	6100	6800	6100	(1000 MT)
Ending Stocks	9618	9728	9618	3483	3713	4224	2458	1988	3199	(1000 MT)
Total Distribution	32030	32140	32030	19611	19713	20352	16558	20038	17299	(1000 MT)
Yield	2.020954	2.022403	2.020954	0.883929	0.883929	0.915434	1.065574	1.354167	1.065574	(MT/HA)

PSD Table
Barley

	2005	Revised		2006	Estimate		2007	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		11/2005	11/2005		11/2006	11/2006		11/2007	11/2007	MM/YYYY
Area Harvested	4406	4447	4406	4000	4000	4098	4400	4000	4400	(1000 HA)
Beginning Stocks	1916	1916	1916	3042	2762	2682	1192	882	1208	(1000 MT)
Production	9843	9563	9483	3800	3800	4176	5800	6400	5800	(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	11759	11479	11399	6842	6562	6858	6992	7282	7008	(1000 MT)
MY Exports	5267	5267	5267	1900	2000	1900	2300	2870	2300	(1000 MT)
TY Exports	5231	5231	5231	1927	2000	1927	2300	2200	2300	(1000 MT)
Feed Consumption	2500	2500	2500	2850	2780	2850	2600	2600	2600	(1000 MT)
FSI Consumption	950	950	950	900	900	900	950	950	950	(1000 MT)
Total Consumption	3450	3450	3450	3750	3680	3750	3550	3550	3550	(1000 MT)
Ending Stocks	3042	2762	2682	1192	882	1208	1142	862	1158	(1000 MT)
Total Distribution	11759	11479	11399	6842	6562	6858	6992	7282	7008	(1000 MT)
Yield	2.233999	2.150438	2.152292	0.95	0.95	1.019034	1.318182	1.6	1.318182	(MT/HA)