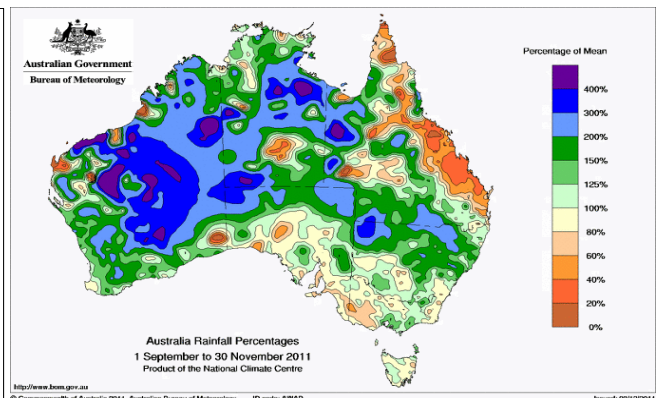
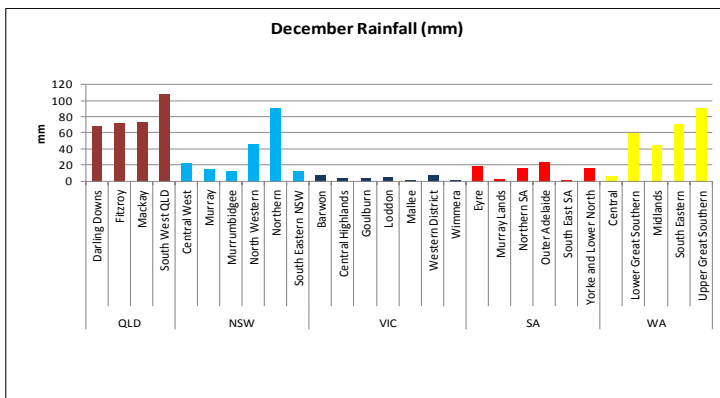


MONTHLY MARKET REPORT

WEATHER

Rainfall has mainly been confined to Queensland and northern NSW in the east of the country, while over in the west recent storms have brought heavy falls to much of the state. The south east of the country has generally escaped most of the rain and has allowed harvest to progress relatively uninterrupted. However that may change this weekend with a front pushing down through central Australia west expected to bring widespread rain to Victoria, SA and southern NSW. The 3 month outlook from the BOM is again predicting above average rainfall for NE NSW and SW QLD, and most of WA, while much of SA and VIC are only showing a 40% chance of above average rain. La Nina conditions have strengthened in November with the latest SOI measure increasing to +15, with anything above +8 considered to be a La Nina event. The prediction is the La Nina pattern will peak during the next month and then last until the end of summer. However, despite the prospect of above average rain for parts of Australia, the indicators are still not close to those experienced this time last year.



WHEAT

While the Australian wheat harvest has been progressing across the country, growers have watched as prices have continued to soften on the back of the European debt crisis and a bearish USDA report. The European summit held last week was supposed to deliver a concrete plan to help counter the seemingly deepening crisis, and although 26 of the 27 member nations did agree on austerity measures, doubts soon emerged as to the likely effectiveness of it. This continues to hang over all global markets and the resulting risk-off approach that traders are implementing has resulted in record short positions held in the wheat market. To add to the negative tone, the USDA released a bearish wheat report this week in which global supplies are expected to grow to levels not seen for some time after changes were made to production estimates in a number of countries. One of those is Australia and the 28+mmt revision follows the latest ABARE report in which they produced a similar figure last week. The USDA also increased Canadian production by 1.1mmt to 25.3mmt, while Argentina's production was also surprisingly raised to 14.5mmt, up 1.5mmt from previous estimates. Global stocks therefore rose a whopping 5.9mmt as conditions around the globe remain sound. With an abundant of grain carried over from last season and the current harvest adding to supplies, Australia is pricing at good levels into the global marketplace. Feed wheat in particular is extremely cheap and demand from the Asian consumers has been strong. With the rain lowering the quality of the harvest in parts of eastern Australia we can expect Australian prices to continue to remain attractive.

As we have mentioned before, the grain market is very dynamic and it doesn't take long for the situation to change. We saw it occur last season following the Russian drought and on a number of occasions in the years prior to that. There are some small issues that are surfacing, such as dry weather in the Ukraine, however the real northern hemisphere weather season is still to come. Corn stocks in the US remain at historically tight levels and the recent price falls have prompted some to question whether demand has picked up particularly local consumers in the US. Margins continue to be strong in the livestock sector so demand is there, however the uncertainty in Europe that is engulfing the world financial sector is resulting in consumers taking a hand-to-mouth approach. If some clarity and confidence can be found in Europe then expect to see buyers extend their coverage, particularly given current low price levels. That is the big 'if' though, and for the time being we can expect to be dictated to by the daily events and whether a more positive outlook can be achieved.

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BARLEY

The barley market is unable to escape the clutches of the financial situation and therefore has tracked lower like all commodities in the past few weeks. In particular the malt/feed spread has really narrowed to the point where malt in some parts is only around a \$5 premium to feed. It indicates that demand for malt is basically non-existent at the moment while feed is still generating strong global demand. There doesn't seem to be a huge amount of malt barley around the globe at the moment but once again the brewers will likely take a short-term approach to secure supply given the financial conditions. Feed is raising a few eyebrows though as the latest ABS data shows exports for October reached over 700,000mt, which is the largest monthly program in a number of years. Australia has been the cheapest supply of feed barley for some time now and this kind of information shows firstly that demand is present, and secondly we are well placed to secure it. Therefore there will be pricing opportunities for growers in this soft market. Buyers will need to secure supply to fill vessels so keep an eye on potential price changes moving forward.

SORGHUM

The USDA delivered a neutral outlook for corn, however the growing global wheat supplies combined with the European crisis has pushed corn prices lower. Price have managed to remain above the \$5.80/bu barrier up until last night when it closed below these levels, leading to the possibility that further liquidation could occur. However US stocks remain at historically tight levels and any production issues that may occur next season could quickly lead to changes in pricing levels. For now though there is not a lot of immediate support to help prices improve as export demand has been very slow in the US and global corn consumers are managing to find cheaper supplies in the Black Sea or switch to other cheaper feed grains. The USDA made some other changes to production estimates and adopted the Chinese government figure of 191.75mmt, therefore boosting stocks by over 5mmt, while also boosting EU production by 1mmt. While some reports are suggesting the Chinese may look to bolster stocks given the fall in recent prices, this adjustment by the USDA confirms that supply in China shouldn't be an immediate concern. In the short term we can expect markets to be dictated to by the potential GFC2, at least until the US stocks report in January which may provide the market some fresh information.

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