

# DOLBEL CONSULTING PTY LTD



## Sorghum Update

February 16<sup>th</sup> 2010

Well I'm back to have another stab at the S&Ds and to see if I can possibly shed some light on the reason why sorghum has traded at parity to wheat in the Newcastle port zone for most of January and February.

Region / Catchment	Production	Demand	Excess
CQ	102,522	93,500	9,022
SQ	745,046	517,000	228,046
MRE	205,968	203,720	2,248
LPP	261,454	356,400	-94,946
EXPTS	0	160,000	-160,000
Total	1,314,990	1,330,620	-15,630

A quick look at the table shows that sorghum is likely to get tight in the Newcastle port zone over the next twelve months. Obviously this will be influenced by the use of feed wheat over sorghum. Consumers who have the luxury of switching to wheat have indicated that as long as sorghum is at parity or at least a \$15.00 discount to wheat they will continue to buy wheat.

So the next question is how much longer will wheat be available. Looking at system deliveries, and I may be out a little here but just under 50% of deliveries were under H2 or DR1 grades this year. Now assuming that DR1 will not move into the feed market we see consumption only needs to be around 12,000 tonnes a month to take Liverpool Plains production out of the equation. An important equation here is the cost to execute system wheat.

So sorghum values may eventually be determined by what it costs to move it from the Downs. Ex farm Dalby is bid at \$180. Maybe it's cheaper to execute system stock, if there is any? Goondiwindi stock would make it to Newcastle for around \$240 - \$250 delivered.

The dark horse is global values, remember after August we tend to see convergence to new crop values, and at the moment these trends are lower.

Australian Sorghum Supply / Demand Table				
	2006/07	2007/08	2008/09	2009/10
Opening Stocks	0.00	-0.20	0.30	0.30
Production	1.80	2.50	1.85	1.31
Imports	0.00	0.00	0.00	0.00
<b>Availability</b>	<b>1.80</b>	<b>2.30</b>	<b>2.15</b>	<b>1.61</b>
Domestic Usage	2.00	1.50	1.45	1.33
Exports	0.00	0.50	0.40	0.16
<b>Total Use</b>	<b>2.00</b>	<b>2.00</b>	<b>1.85</b>	<b>1.49</b>
Stocks to Use Ratio	-10.08%	14.92%	16.13%	8.28%
Ending Stocks	-0.20	0.30	0.30	0.12

My March > July price range, if wheat prices remains flat is \$175 - \$210 ex farm Liverpool Plains. The lower is more likely around harvest or for prompt spots, the higher is more likely as wheat stocks dwindle.

Current Bids

Wheat Ex Farm Liverpool Plains = \$187

Sorghum Ex Farm Liverpool Plains = \$180

This table shows what it would cost to execute grain delivered to Graincorp Spring Ridge and road freight it to Newcastle. As you could guess major consumers may have freight deals with rail or road companies that can do this freight at less than \$32 / tonne, making this table even more important as a reference when determining a reasonable sorghum price.

Wheat Bid Comparisons

Grade	Bid Spring Ridge	Cost To Execute	Ex Farm Equivalent or FOT	Delivered Newcastle Equivalent	Current Bid Delivered Newcastle	Difference
APH2	\$201	\$13	\$213	\$245	\$218	\$27
H2	\$191	\$13	\$203	\$235	\$218	\$17
AUH2	\$188	\$13	\$200	\$232	\$218	\$14
APW1	\$187	\$13	\$199	\$231	\$218	\$13
<b>ASW1</b>	<b>\$181</b>	<b>\$13</b>	<b>\$193</b>	<b>\$225</b>	<b>\$218</b>	<b>\$7</b>
<b>AGP1</b>	<b>\$175</b>	<b>\$13</b>	<b>\$187</b>	<b>\$219</b>	<b>\$218</b>	<b>\$1</b>
<b>DR1</b>	<b>\$179</b>	<b>\$14</b>	<b>\$193</b>	<b>\$225</b>	<b>\$218</b>	<b>\$7</b>
<b>DR2</b>	<b>\$174</b>	<b>\$14</b>	<b>\$188</b>	<b>\$220</b>	<b>\$218</b>	<b>\$2</b>
<b>DR3</b>	<b>\$172</b>	<b>\$14</b>	<b>\$186</b>	<b>\$218</b>	<b>\$218</b>	<b>\$0</b>

*Bids have been rounded to whole dollars to make it easier to read.*

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