

# DOLBEL CONSULTING PTY LTD



## Commodity Outlook.

11<sup>th</sup> August 2010

All eyes have been firmly focused on drought ravaged Russia and the impact last week's export bans will have on world wheat stocks.

In the last few days Australian farmers, the farmers most likely to benefit from Russia's misfortune, have seen a high of \$335/t last week to a more sedate but still a huge price compared to values of only a month and a half ago, of \$285/t yesterday, basis track Newcastle.

You don't need to be a rocket scientist to figure out what every farmer's first question is. Unfortunately the answer is not available as no one knows what prices will be in next week let alone in December but that doesn't stop us analytical types from having a stab at it.

Russian production estimates are somewhat irrelevant now they have officially announced they will be banning all export from the 15<sup>th</sup>, what needs to be determined is the impact that announcement will have on the ending stocks of the nation's most likely to fill the void that Russian export bans have left.

Argentina has announced an increase in area from 3.5mha to 4 – 4.5mha to take advantage of higher prices. The EU, Canada and USA all had burdensome carryover stocks, although the Canadian stocks situation was probably likely to be fixed by their own problems, the US and EU stocks really did need to see this. When you break it all down we do see the stocks to use ratio settle around 25%.

Season	SU%	Production	Consumption	End Stocks	NTL Pool ASW
2000/01	34.2%	581.5	583.9	199.60	\$158
2001/02	34.9%	581.1	578.7	202.00	\$222
2002/03	27.8%	566.9	601.6	167.29	\$187
2003/04	22.5%	554.6	588.5	132.30	\$186
2004/05	24.7%	626.6	608.8	150.18	\$155
2005 / 06	23.4%	618.5	623.0	145.64	\$159
2006 / 07	21.0%	596.3	613.0	128.94	\$212
2007 / 08	20.3%	610.9	615.0	124.81	\$397
2008 / 09	25.7%	683.1	642.5	165.44	\$298
2009 / 10	29.7%	680.0	652.0	193.44	\$197
2010 / 11	25.3%	640.0	665.0	168.44	

Higher wheat prices are likely to curtail consumption but the main outcome should be a draw down on the major exporters ending stocks. Another side effect of higher prices is an increase in production for the follow year, so do we sell 2010 or 2011 wheat, many believe both.

Looking at global ending stocks, stocks to use ratios and to a lesser degree currency one can begin to determine what a viable or justifiable price may be.

Over the years the average export basis has been around 55c/bu FOB over the final CBOT December settlement price. If you were to apply that basis to today's CBOT Dec price you come up with a port Newcastle equivalent of roughly \$283 / tonne, very close to the current cash price. So if you think current futures values are sustainable than this is a fair value.

If you look at futures values for years with similar ending stocks it is easy to ascertain that current CBOT levels are unlikely, not impossible, but very unlikely to be the closing value of CBOT Dec in 2010. Using a model that helps predict these values it is more likely that Dec 10 will close in a range between 620 and 580c/bu.

Applying traditional basis and using a five cent currency range would see a range of.

Best 620c/bu + 55c/bu @ 86c = Roughly \$256 / tonne Track Newcastle.

Worst 580c/bu + 55c/bu @ 92c = Roughly \$222 / tonne Track Newcastle.

That gives us a midway point of about \$239 / tonne track Newcastle.

I must mention here that these numbers are calculated off an ASW base price so a premium for higher grades needs to be applied, APW you would normally see around \$10/tonne over ASW values.

It is important to note that the shortages created by Russia will apply mainly to milling wheat so we are likely to see a greater impact on higher grades, we can see evidence of this is the rate of decline of KCBT and MGEX versus the rate of decline of CBOT wheat futures.

Expect new crop wheat bids to remain around \$285 track Newcastle today as volatility subsides and domestic traders look to strengthen basis levels.

Regards

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