

# DOLBEL CONSULTING PTY LTD



## Wheat, An Independent Outlook or WAG.

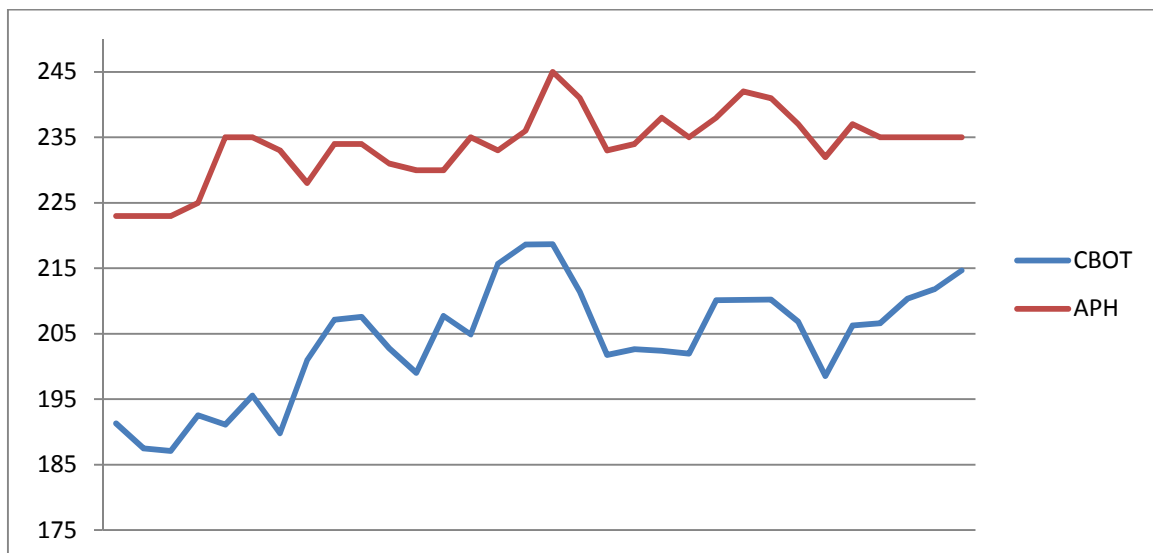
16<sup>th</sup> Nov 2009-11-16

OK, I'll be honest with you from the outset, this year hasn't been the easiest year to predict what might happen next. If we were to line the analyst up and shoot the ones that hadn't foreseen the events of the last 6 – 9 months we would probably be left with less than enough players for a good game of cricket.

Well the chance of me getting shot for having a stab at it are remote and if someone was to sue me for having a stab at it they probably won't get much anyway, so here is my spin, sorry market outlook for the wheat market in the short term.

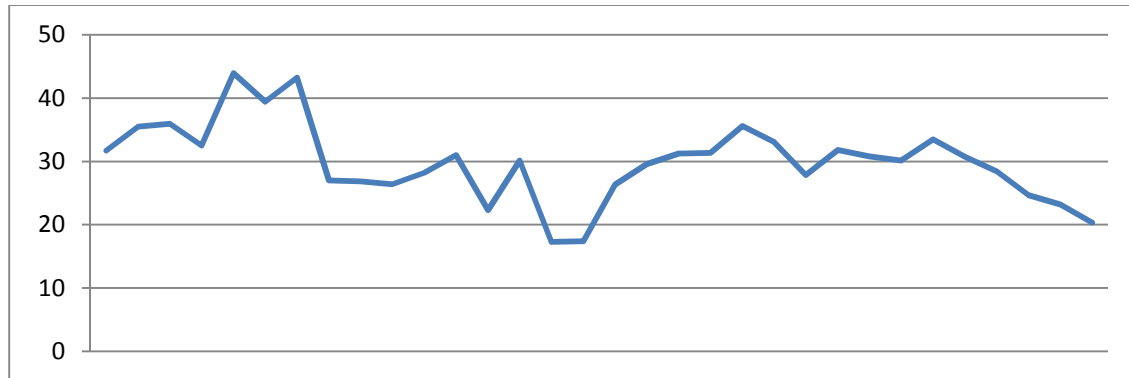
As broken from reality as Chicago wheat futures appear to be it still attracts a lot of physical hedging because it offers the liquidity to clear a position at will. We simply can't not take movements in CBOT wheat into account even if it is obvious that there is no fundamental reason for the move.

This is a simple chart that shows CBOT Dec 09 futures converted to Aussie dollars per tonne at the days exchange rate, as you can see the spikes and troughs are relatively similar from October 1<sup>st</sup>, so we would need to assume that we will continue to have a similar pattern going forward.



What is worth looking at is the flatness in the APH line at present Vs the spike in the CBOT line. This should indicate a sharp drop in the Aussie basis, or the premium our local market is willing to pay over CBOT futures.

Below is the basis chart and it confirms the sharp drop, this is potentially telling me a couple of things, the first is that the local market has got a pretty good supply of APH wheat at present and no longer needs to persist in bidding strongly for it, to confirm this assumption we would need to determine how much APH wheat has actually been sold by the producer, now according to my phone's o' metre I would have to assume that most farmers are holding off pricing wheat in favour of pricing chickpeas and canola but the consumer / trader knows it is there to sell, in order to see higher basis we would need to see consumer or trade demand increase through either the farmer starving the market and squeezing the trade who have contracts to transfer in December or for there to be a sudden increase in export demand.



Personally I can't see a huge increase in demand or farmers being able to go without harvest funds in order to starve anyone but themselves. So it would be reasonable to assume that grower selling will take place between now and the end of December.

The million dollar question is what will prices do between now and then. Well we can see basis has the ability to move higher by up to say \$20/tonne, but what about futures, well global S&Ds haven't changed a lot, if anything world stocks have continued to grow so looking at historical figures I keep coming back to 480c/bu for CBOT wheat. At present CBOT is 539c after putting on 19c/bu last week on the back of no fundamental news at all. So if the funds decide to sell CBOT wheat and sell it down to 480c that is a potential futures loss of 59c/bu or about \$23/t, so realistically if growers were to refrain from selling and the futures market converged with reality, god forbid, we could see basis increases countering futures losses and the cash price remain relatively unchanged, is that what that flat line at the end of the first chart is actually representing, maybe. My APH range is \$245 - \$210 track Newcastle in the short term, 30 - 60 days.

At present lower grades are the winner as feed grain consumers compete with the higher grade markets to acquire stock, these homes are limited so if you like the current prices (\$225 delivered Newcastle) and think you may want to move some stock in the first quarter of next year it might be wiser to price up some sales now than leave it until the last moment and find the slot you wanted has closed. Prices from some delivered homes for lower grades have already softened.

Regards  
 Stuart Dolbel  
 0428 427627