

Wheat Outlook

JULY 2021

Independent Brokers. Smart Advice.

DELTA GRAIN OUTLOOK – Monthly Analysis and Strategy

Introduction:

The Australian winter crop is in tremendous shape across the most of Australia, some pockets have subsoil moisture lower than average, it would be fair to say we are in the box seat for another record harvest. Much relies on a kind September/October to allow maximum grain fill but the weekly rainfalls across the country have given the crop every chance thus far to produce a bumper crop.

The standout states with great conditions are Western Australia and New South Wales, and apart from Victoria and South Australia we have seen significant improvements over the month. Even Central Queensland has picked up some rain in pockets. There are still some tough pockets, but these will be far outweighed by the generally wet winter across the continent.

For all the worries about big crops and high prices, values have remained strong for the first half of the calendar year. Domestic basis on the East Coast has been a constant battle as logistics constraints hold back prices, but in the main growers have received above average returns for the 2020 winter crop.

It is difficult to speak about prices without mentioning canola, clearly the great short in world commodity markets as a disastrous drought sweeps through the western third of the United States and up through the Canadian Prairies. Record high prices can be difficult to sell, but small sales into a rising market at these numbers is warranted.

Looking to the second half of 2021, we see some downside risks to cereal crop values, but less risk than many analysts are predicting because there are enough production difficulties globally to hold values at above average prices.

The biggest single issue we have in Australia is the size of the crop, especially as it comes hot on the heels of a record breaker. Exporters still have capital tied up in old crop export programs, road and ocean freight have increased 20+ percent, and many GrainCorp sites will still be 30% full of old crop tonnes at harvest creating a potential bottleneck at the silo. Big crops are a great outcome, but it means that harvest pressure is likely to be the worst we have seen in years, so some forward sales for cashflow will be more important than ever. You need to be prepared to hold grain through the harvest period and into 2022, or sell EARLY.

Wheat Outlook

INTERNATIONAL

- WHEAT The outlook for 2021/22 U.S. wheat this month is for reduced supplies, lower domestic use and exports, and decreased ending stocks.
- All wheat production is lowered 4.13 Million metric tonnes (Mmt) to 47.5Mmt. The all-wheat yield is 1.25 tonnes per acre, down 10% from last month.
- The production forecasts for durum and other spring wheat indicated a significant decline compared to last year for these two classes due to the severe drought conditions affecting the Northern Plains.
- **Projected exports are lowered to 23.8Mmt, which would be the smallest U.S. wheat exports since the 2015/16 marketing year.**
- **Projected 2021/22 U.S. ending stocks are reduced 2.85Mmt to 18.1Mmt and are the lowest since 2013/14.**

- The Global wheat outlook for 2021/22 is for reduced supplies, increased trade, and lower ending stocks.
- **Global production is lowered 2.0 million tons to 792.4 million but still remains at a record.**
- Australia's production is raised 1.5 million tons to 28.5 million, based on continued widespread precipitation benefiting emergence and crop establishment.
- Russia's production is lowered 1.0 million tons to 85.0 million. Spring wheat is also lowered 0.5 million tons to 21.0 million on reduced yields with hot and dry conditions affecting the spring wheat region of Central Russia.
- Kazakhstan is lowered 1.0 million tons to 13.0 million on similar unfavourable conditions.
- The EU and United Kingdom are increased a combined 1.4 million tons to 138.2 and 14.8 million, respectively on continued favourable conditions across Northern and Central Europe.
- Projected 2021/22 world consumption is near unchanged at 790.9
- Projected 2021/22 global trade is raised 0.8 million tons to a record 204.0 million, on increased exports by the EU, Ukraine, and Australia offsetting reductions in Canada, Kazakhstan, and the United States.
- Projected 2021/22 world ending stocks are lowered 5.1 million tons to 291.7 million but remain above last year.
- Source: USDA WASDE Report

There are two important messages to be drawn from the July World Supply and Demand Estimate.

It highlights that the US is not the supplier of last resort that it has been for many years, with annual exports roughly equal to Australia's contribution at 23.8Mmt. Further, an estimated carryout at 18Mmt is the lowest since 2013/14, whilst ample for domestic use and plenty in reserve, it does create some room for higher prices should the 2022 growing season not revert to normal conditions. It is the smallest spring wheat crop in 33 years and the smallest durum crop in 60 years.

Russia has fast become the world's number one exporter of wheat, and this position will certainly not be challenged in the foreseeable future with an estimate of 85 Mmt of wheat this season.

The second major point we would like to highlight is that the world's average quality of wheat will this year be low in protein, with the US high protein crops decimated by drought, and both the U.S. winter red wheat and much of Russia's winter wheat crop (making up 75% of their wheat crop) is expected to be low protein.

As the Global wheat scenario is quite positive for high protein wheat, it underscores our strategy of leaving multigrade spreads FLOATING at this time. We see H2 at \$3 and APH2 at \$6 over APW as being significantly undervalued based on current information. The prospect of a wet Australian Spring would only exacerbate this situation.

We would like to reiterate, World Production at 792.4 million tons is closely aligned with World Consumption at 791.1 Million tons. These are estimates, but it goes to show how finely tuned the world's production is to its needs and while there are ample carryover stocks at 37.6% of use for now, the world is heavily reliant on the former Soviet Union to keep planting more area to cover the needs of our growing world population. Further, any major production hiccup will be exacerbated if China continues to build their stocks via importing, already carrying an estimated 48% of world wheat stocks.

WHEAT Chicago SRW Futures DEC2021 - Weekly chart

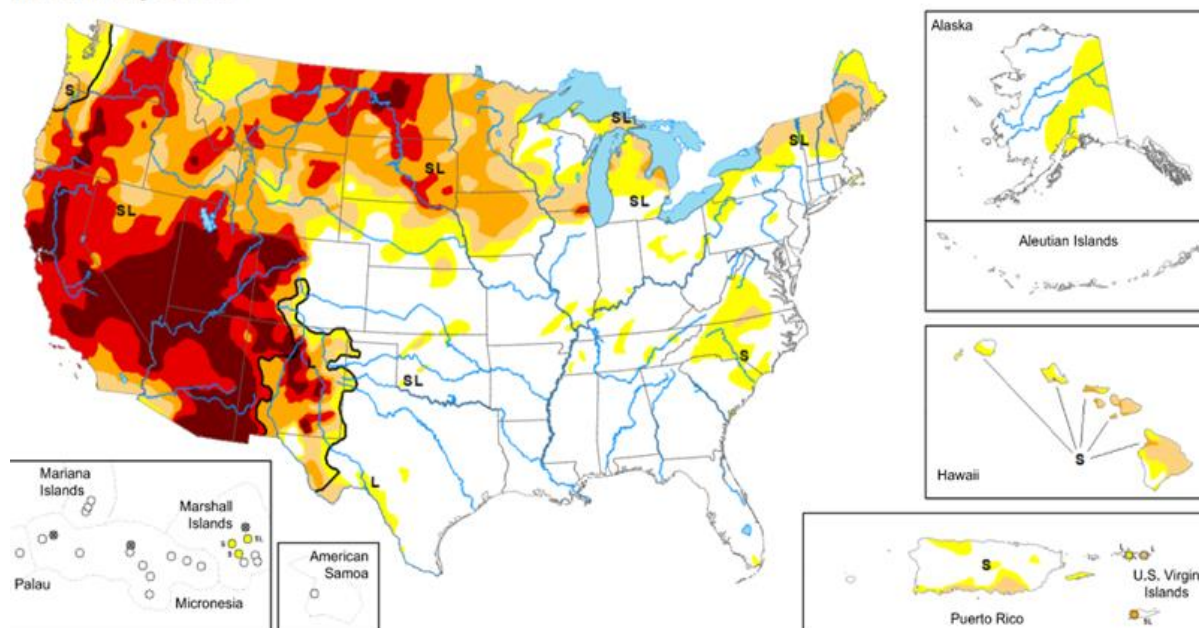


The May/ June selloff has been quite severe but as the Northern Hemisphere ramps up their harvest, we may not see cyclical lows until August. For now, the bounce we saw last night is likely to extend as the market digests the reduction in US stocks and exports.

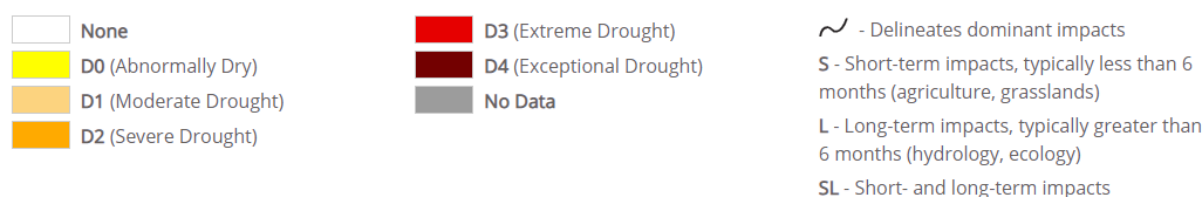
US: Dryness persists across the High Plains of the US, further deteriorating east through Iowa, Wisconsin and Michigan, as can be seen in the latest update of the US Drought Monitor below. Elsewhere is wet which will deteriorate the quality of their Winter wheat crop currently being harvested.

Map released: July 8, 2021

Data valid: July 6, 2021



Intensity and Impacts



DOMESTIC OUTLOOK

Australian Wheat Balance Sheet estimate								
Crop Year	Carry-In	Production	Imports	Dom Feed	Dom Food Use	Total Dom	Exports	Ending stocks
2016/17	3.95	30.36	0.1	4.10	3.30	7.50	21.00	5.81
2017/18	5.81	20.49	0.1	6.00	3.30	9.20	12.85	4.25
2018/19	4.25	17.30	0.6	7.00	3.30	10.50	8.00	2.65
2019/20	2.65	15.20	0.5	4.50	3.30	8.00	8.00	2.35
2020/21	2.25	32.90	0	3.00	3.30	6.30	23.00	5.85
2021/22 est	5.35	29.50	0	3.00	3.30	6.30	23.00	5.55

We have made some changes to the 2021/22 balance sheet based on the latest ABARE crop estimate, as well as improvements in the Western Australian crop forecast. We are excited about the potential for the NSW and WA crops in particular, with timely planting on excellent moisture and follow up rain to allow for a superb establishment. The Victorian crop is now fully emerged and while still needing additional moisture to fully establish, is much improved from a month ago.

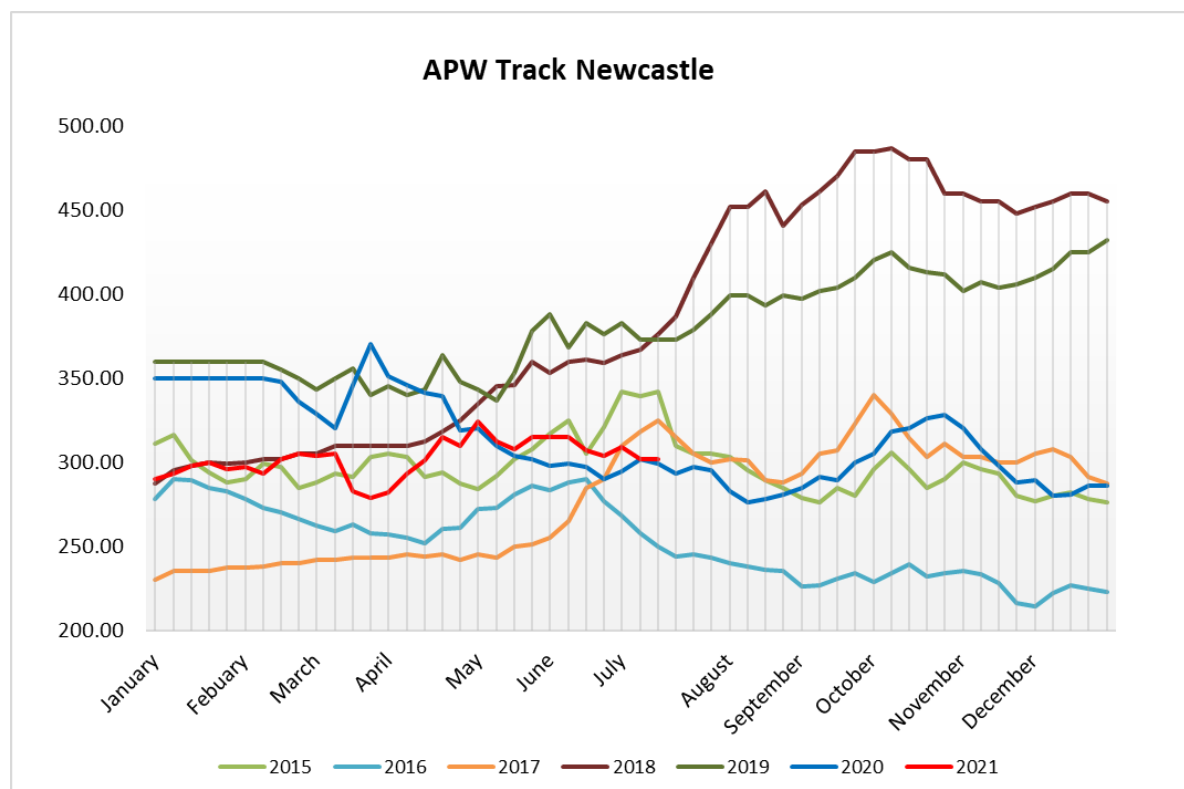
AUSTRALIAN Dollar – Weekly chart



Fortunately, the Australian Dollar has had a relatively benign year to date, though recently coming under some selling pressure on US Dollar strength resulting from a selloff in equity markets. The RBA continue to talk down the prospect of rising interest rates which is also keeping a lid on the Australian Dollar.

From last month, the same applies today :-

“The point we would like to reinforce here is that despite strong numbers for a non-drought year, growers have been reluctant to sell new crop wheat in any significant volume. It is our view that despite the relatively low basis, we should be making a start to our new crop sales campaign, selling 20% of a minimum crop estimate, whilst hoping that prices improve between now and harvest. We believe there is significant price risk once the Russian crop comes online in late July and August, especially when combined with large back-to-back Australian crops. This is even more of an imperative in the Central West and Riverina of NSW where there remains a large volume of unsold wheat and barley, which threatens to limit the capacity of bulk handlers to take in new crop tonnes.”



New crop APW multigrades have been remarkably steady for the first half of this year, showing very little volatility relative to the past several years, trading between 300 and 320 Port equivalent for most of that time. It is the combination of a large crop subduing rallies, with a relatively strong international market which has saved us from going lower.

Price Analysis Table – Wheat Del Newc					
	Current Month	Last Month	Futures CBOT	Currency	Basis
	2021/22 APW1- Multi		Dec-21	DEC-21 AUD/USD	(\$AUD/t)
High	\$315	\$315	697.25	0.7752	-\$4
Low	\$298	\$304	624.00	0.7429	-\$28
Current	\$304	\$314	663.00	0.743	-\$14

Price Analysis Table – Wheat Del PKE					
	Current Month	Last Month	Futures CBOT	Currency	Basis
	2021/22 APW1		Dec-21	Dec-21 AUD/USD	(\$AUD/t)
High	\$309	\$315	697.25	0.7752	-\$8
Low	\$294	\$305	624.00	0.7429	-\$31
Current	\$300	\$309	663.00	0.748	-\$17

Wheat Strategy

Current Crop: Old crop stocks have seen some improvement in values over the past month and many growers have taken the opportunity to lighten up their remaining stocks at what have been close to season highs. Old crop basis is improving, especially for high protein and we see this as an opportunity to sell another tranche of wheat, if not the remainder, to focus on new crop sales.

2021/22 crop year: Growers have been unusually reluctant to make new crop sales so far this season. Basis remains disappointingly low, but buyers are still exporting at record rates so cashflow continues to be constrained and is likely to remain so through July and August.

Prices have fallen to an average \$260 site for APW but remains above the average for a non-drought year, and if we sail into harvest with 30+ Million tonne crop then buyers could retreat further. Sell to 20% of new crop minimum crop estimate at current levels.

Canola Outlook

INTERNATIONAL

- OILSEEDS: U.S. oilseed production for 2021/22 is projected at 130.5 million tons
- Soybean production is projected at 4.4 billion bushels, unchanged from last month.
- The U.S. soybean yield forecast is unchanged at 50.8 bushels per acre.
- The 2021/22 global oilseed supply and demand forecasts include higher production, exports, crush, and ending stocks compared to last month.
- Global oilseed production is raised 2.5 million tons to 635.4 million, with higher sunflower seed, rapeseed, cottonseed, and peanuts partly offset by lower soybean output.
- Russian sunflower seed production is increased 2.0 million tons to 16.5 million, mainly on higher area shown in government planting progress reports.
- Australian rapeseed production is raised on beneficial early-season rainfall and higher area.
- Canadian canola production is lowered as early-season drought conditions impact yields and offset an increase to area.
- Canada's soybean production is also lowered based on lower area.
- The 2021/22 global soybean ending stocks are increased 1.9 million tons to 94.5 million as higher stocks for Brazil and Argentina are partly offset by lower Chinese stocks.
- Exports for Brazil and Argentina for 2020/21 are reduced as high prices lead to lower shipments to China.
- China's imports are reduced 2 million tons to 98 million and 1 million tons to 102 million for 2020/21 and 2021/22, respectively.
- Source: USDA WASDE Report

Global oilseed markets

Once again the USDA continues to downplay the extreme short in the world Canola balance sheet that is so evident by the extraordinary prices which continue to soar. This week the Canadian Futures Exchange (ICE) increased their daily movement limits from \$30 Canadian Dollars to \$60 Canadian giving rise to even greater volatility on increased volumes.

The dryness in the Canadian Prairies continues with July being their warmest month of the year, and as we saw in our drought in 2019, hot finishes can be extremely harsh on not just yields but oil levels. The smaller crop just compounds Canada's problems after record sales year to China, leaving carryover stocks wafer thin. With this as the backdrop to the world's largest Canola exporter, it is difficult to see anything but high prices for the remainder of the year, though whether the prices are close to the current values is anyone's guess. It is a classic weather market and will likely ride the wave of forecasts from now until the crop is in the bin.

The French and German canola crops are better than average but remembering that they are coming from a very low carryover themselves after three very small harvests. There will undoubtedly be a solid exportable surplus but again, the market will be wary until the size and quality of the crop is known.

The US soybean balance sheet is not dissimilar to Canadian canola in that a near record export year has left carryover stocks historically tight and the US crop is good but not great, with the western side of the mid-west too dry, and the eastern side too wet in some areas.

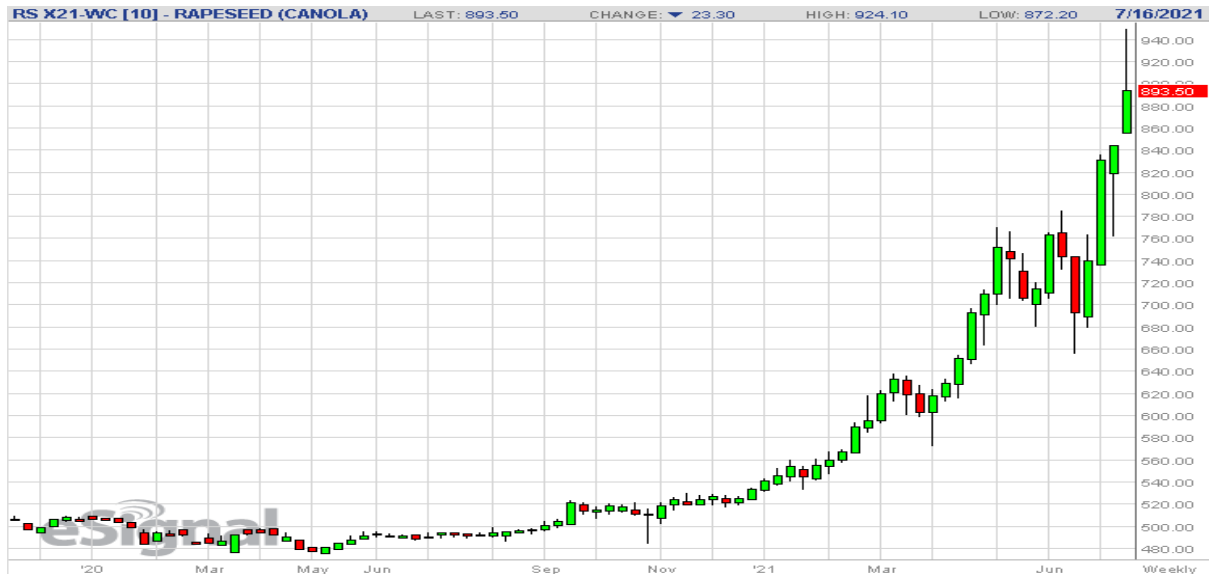
China reported its soybean imports for the 2020/21 marketing year should be approximately 100.4 million tonnes. For the upcoming marketing year, China predicted imports to increase to 102 million tonnes. Also, China reported its June soybean imports were 10.72 million tonnes. That is up 11.6 per cent from May's intake. The increases are said to be linked to China rebuilding its hog industry after being devastated by African Swine Fever.

MATIF French Rapeseed Futures NOV21 Weekly data



Huge volatility can be seen in the Matif canola chart above which is potentially running out of steam after pushing to new highs this week and really struggling to hold the gains. One can never be sure but it might be a top.

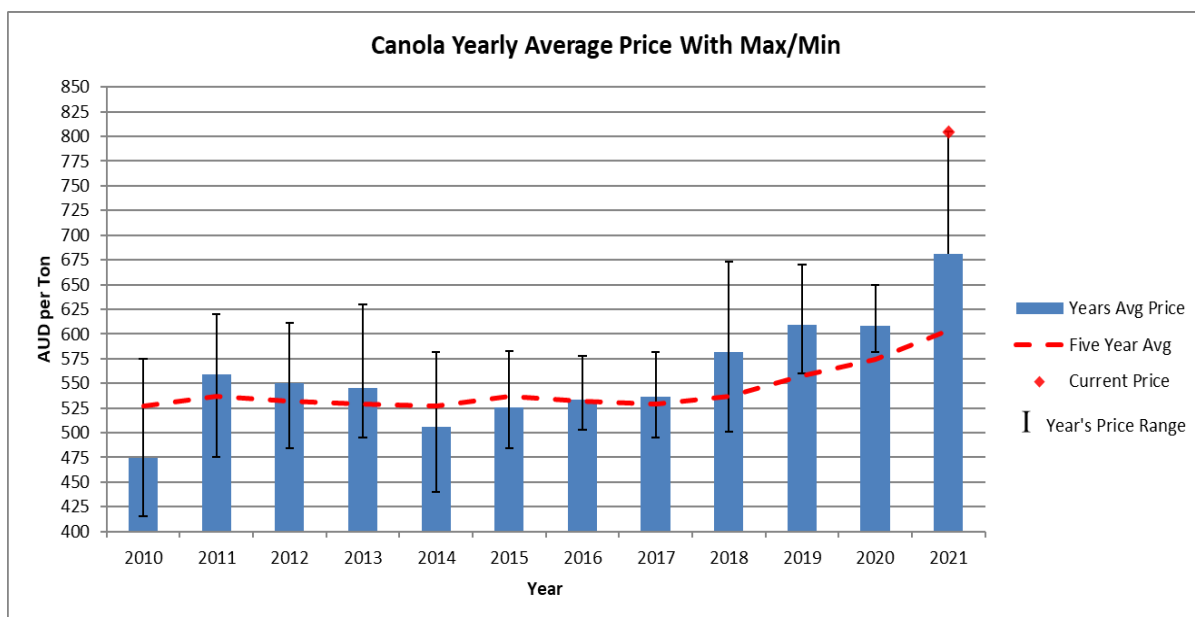
ICE CANADIAN Rapeseed futures Nov 21 Weekly data



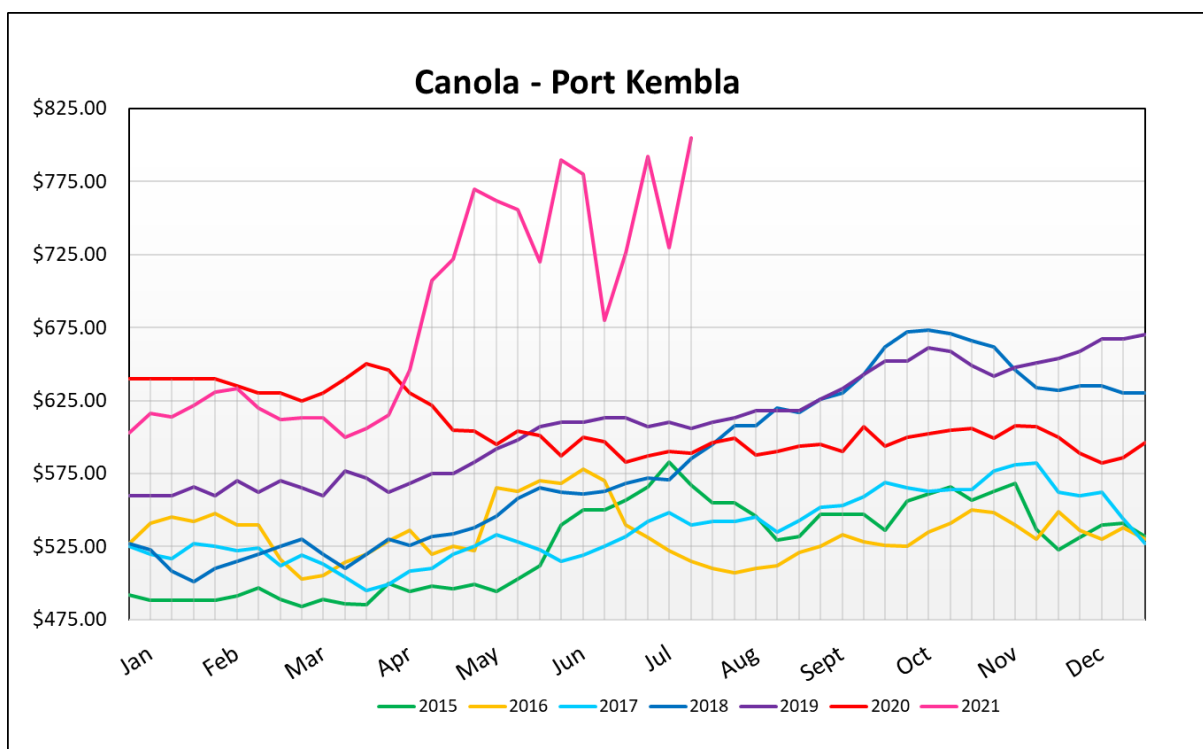
Seldom does a market blast through historically high values like the current Canadian rapeseed chart has above. At some point it will reach exhaustion, where buyers substitute canola oil with alternatives which are less expensive. High prices are designed to ration demand, and while the rationing can take longer to organise and rationalise in the mind of the end user, they eventually are forced to make a change. Prices will eventually reach a peak.

DOMESTIC OUTLOOK

New crop canola has been extraordinarily volatile, riding the fortunes of the European and particularly the fortunes of the Canadian canola crop. The chart below highlights just how radical the prices have been and the latest rally is proving much harder to follow as the local buyers are not passing on the latest rally, discounting basis by as much as \$50/tonne from where they were just a fortnight ago. That is, we have been trading at \$50/tonne under Canadian values until late June, but are now \$180/t under Canadian values. However, we are continuing to trade on a steady discount of -\$50/tonne to French canola values.



The graph above makes it crystal clear how the current prices are far above the average.



Price Analysis Table – Canola Del PKE					
	Current Month	Last Month	MATIF Futures	Currency	Basis
	2021/22 Canola		Nov-21	DEC 21 AUD/EUR	(\$AUD/t)
High	\$805	\$790	543.00	0.6368	-\$43
Low	\$680	\$745	471.00	0.6273	-\$87
Current	\$805	\$780	534.74	0.632	-\$54

Canola Strategy

New crop canola is at record highs and represents great selling for those with confidence in production. Very high prices always carry more risk because of increased volatility so some caution is required, as well as the potential for costly washouts should the price continue to rally beyond these values. However, as the local crop is large and spread across four states, we think it is reasonable to capture some of these prices.

Sell to 30% of your minimum crop estimate, subject to production concerns.

Barley Outlook

INTERNATIONAL

- This month's 2021/22 U.S. corn outlook is for larger supplies, greater feed and residual use, increased exports, and higher ending stocks.
- Corn production for 2021/22 is forecast 4.5Mmt higher based on greater planted and harvested area from the June 30 Acreage report.
- The national average corn yield is unchanged at 179.5 bushels per acre.
- Much of the crop the critical pollination period will be during second half July and USDA will provide its first survey-based corn yield forecast of the season in the August 12 Crop Production report.
- **Corn exports are raised 1.27Mmt, with sharply lower exports expected for Brazil.**
- The season-average farm price received by producers is lowered 10 cents to \$5.60 per bushel.
- This month's 2021/22 foreign coarse grain outlook is for lower production and use, larger trade, and smaller stocks relative to last month.
- Foreign corn production is higher, with a projected increase for Russia based on higher indicated area.
- **Barley production is raised for Australia but lowered for Canada, the EU, Russia, Kazakhstan, and India.**
- For 2020/21, foreign corn production is lowered, with reductions for Brazil and Paraguay more than offsetting an increase for Argentina.
- Major global trade changes for 2021/22 include larger corn exports for the United States and Russia with a reduction for Mexico.
- For 2020/21, corn exports are raised for Argentina but lowered for Brazil for the local marketing year beginning March 2021.
- Foreign corn ending stocks for 2021/22 are virtually unchanged from last month.
Source: USDA WASDE Report

Steady ahead on US corn numbers, with an increase in the estimate of US corn exports by 1.27 Million metric tonnes as Brazil's corn crop is really struggling in dry conditions. Not so for the US crop though.

The old adage that "rain means grain" could not be more apt in describing the US corn market over the past two weeks. The market has been trading US weather above all other factors and the market is very reactive to changes in forecasts and weather events. The forecast for more rain and cooler temps for the second half of July is significant with the US corn crop entering the critical pollination

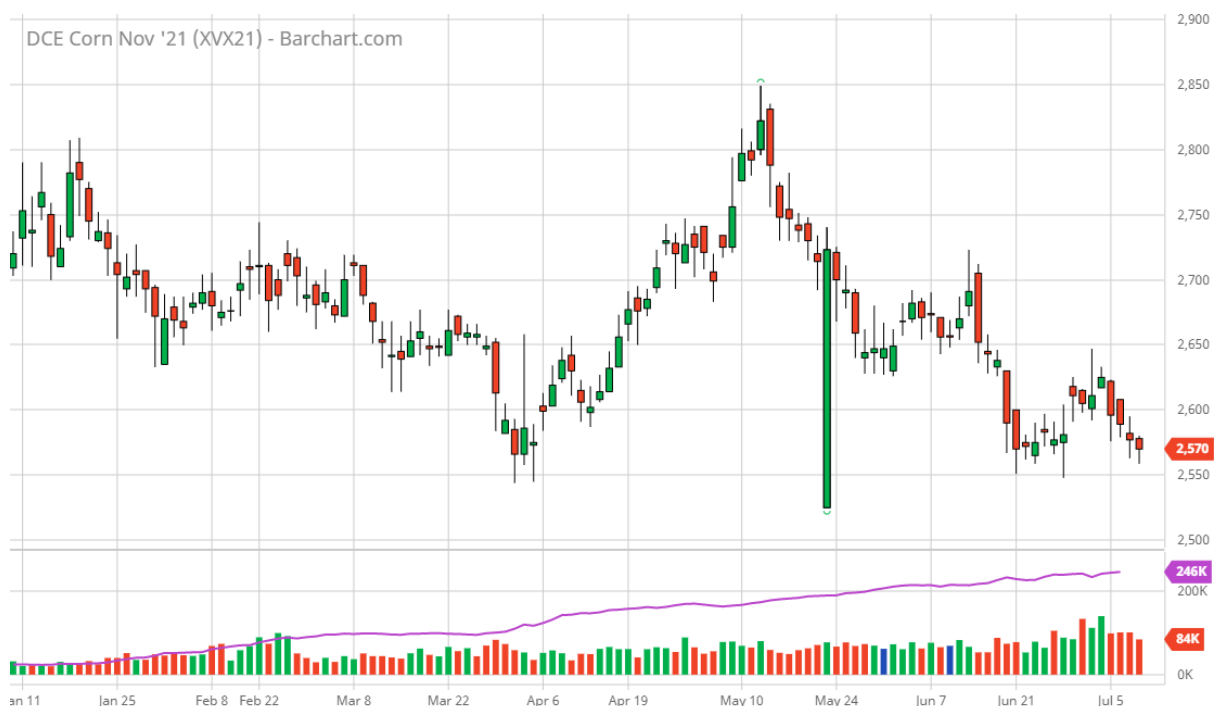
stage. US corn futures have been aggressively sold off by the funds as conditions have improved. However, as the focus turns to the ailing Brazilian crop, US corn prices are starting to rebound.

US Chicago Corn Futures



Values have gapped lower in early July as we can see from the chart above, with high volatility through most of the Northern Hemisphere growing season. The market is seeing these huge swings because given the current demand from China, the US can ill afford to go under trendline yield. Carry in stocks are at historical lows and the expectation that exports will continue at a rapid pace next year is very strong. Each of the corrections have coincided with a rain event over the western corn belt.

Dalian (Chinese) Corn futures sell off.



While the US market has been very volatile the Chinese market has been trended down towards its seasonal lows over the past month. The combination of massive imports and the focus on new crop domestic production has precipitated the moves. The CCP has aggressively promoted corn ahead of both barley and sorghum and this should increase domestic production from 260 MMt to 270+ MMt.

The substitution of wheat and rice into the Chinese feed market is also still on-going and this is adding to lower corn values. Chinese barley imports remain high, and they should continue to see Ukrainian and Argentinian barley imported into China ahead of Australian, even though we are cheaper than both origins at present.

DOMESTIC

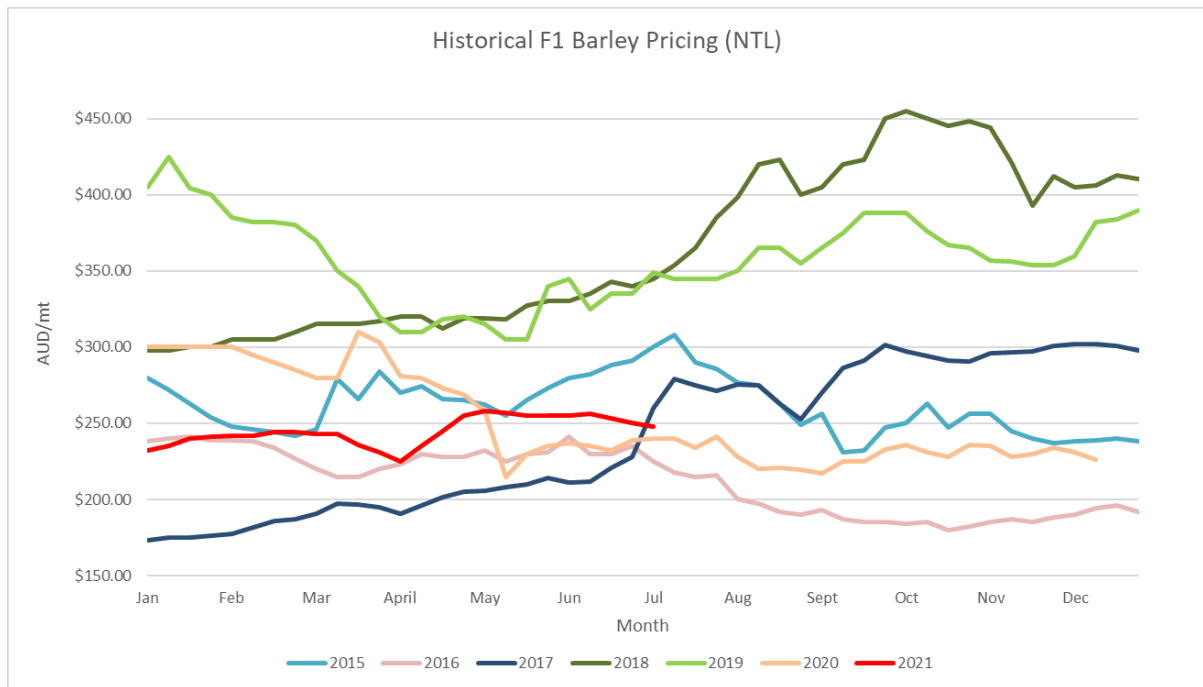
The domestic barley market has seen a distinct divergence between old and new crops. Old crop barley remaining firm while new crop barley has succumbed somewhat to both lower international values and a ripping start to the season in most areas.

Old crop barley has seen values lift with delivered Darling Downs feedlot buyers having to pay well over \$300.00/mt delivered to get product. The wet weather in Northern/Central NSW has also been a factor in keeping prices high with access to on-farm storage limited. This has created a few execution shorts in the market and those growers that can load, as well as those with system stocks have benefited from better prices. The end of the financial year also has a role in keeping grower tonnages off the market with tax implications.

Grower offers on old crop have increased in the new financial year and this has softened values a little. As we push into the back end of the old crop marketing year, the risk with holding barley is that end users cover their needs and can then coast until the new crop arrives. In a big year such as the one we just had, there is little doubt that we will have a sizable volume of barley carried into harvest. This will continue to put downward pressure on prices.

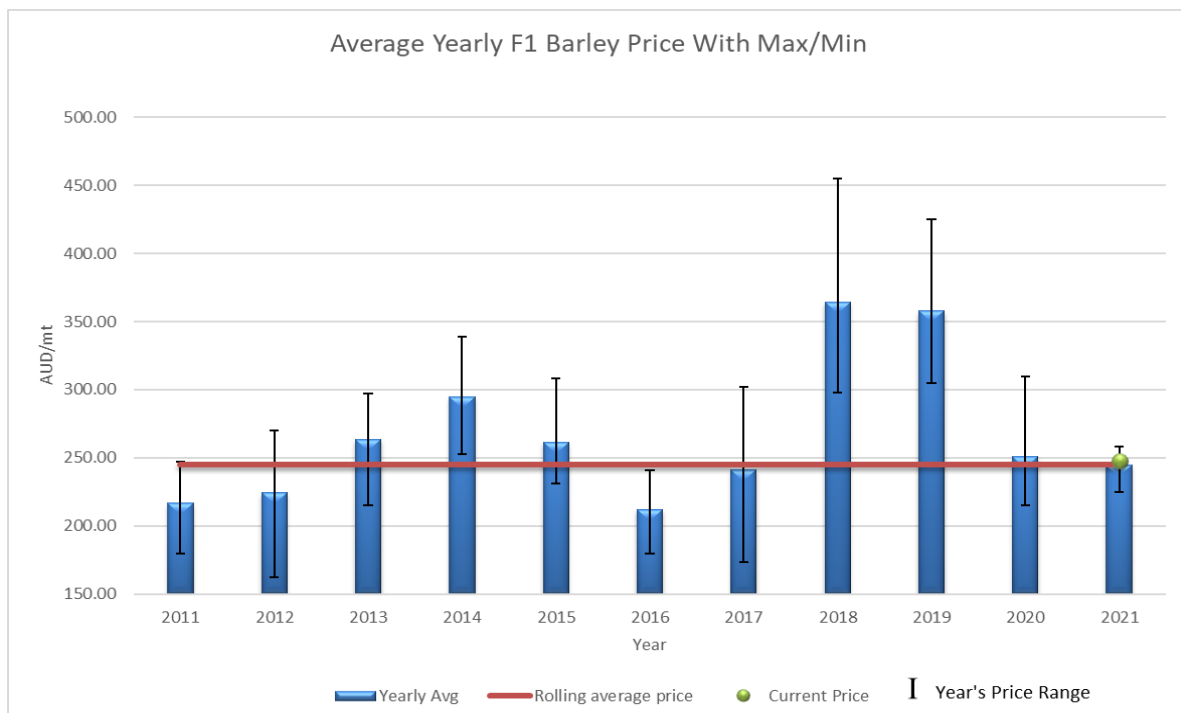
Crop	Barley	
	Area	Production
	'000 ha	kt
2010-11	3,681	7,995
2011-12	3,718	8,221
2012-13	3,644	7,471
2013-14	3,814	9,174
2014-15	4,078	8,646
2015-16	4,108	8,992
2016-17	4,834	13,506
2017-18	4,124	9,254
2018-19	4,437	8,819
2019-20	4,050	9,001
2020-21 s	4,422	13,093
2021-22 f	4,245	10,366
f ABARES forecast. s ABARES estimate.		

The latest ABARE prediction is for lower barley production compared to last year due to a decrease in the planted area. We think this forecast may be under-estimated, as growers are saying that while hectares may be down, the current seasonal conditions will drive yield increases across most of the East Coast cropping belt. The 10.36 MMt forecast for 21/22 season is on the low side of our expectations.



As we can see above, Track Newcastle values for new crop barley are now trending lower. While we have not seen a selloff, values are about \$12.00/mt below the highs set back in May. Looking at the trendline years when we have had a good start to the year with big crops such as in 2016 and 2020, the likelihood of values lifting above \$250 Track Newcastle are limited, especially if the crop continues to flourish as it has been doing to date.

While we acknowledge that we have done a great job as an industry to export as much of the 2020 barley crop as we have, the likelihood of another 11, 12 or 13 million mt crop is going to put a huge strain on resources of both end-users and exporters. This will have a large effect on values moving forward with the need to further discount barley in order to encourage export demand and feed consumption.



Price Analysis Table – Barley					
	Current	Month			Last Month
2021/22 BAR1					
	Brisbane	Newcastle	Port Kembla	Victoria	Port Range
High	\$258	\$282	\$260	\$258	282-256
Low	\$243	\$261	\$243	\$243	279-251
Current	\$244	\$261	\$243	\$243	

Barley Strategy

OLD CROP: Demand all but evaporated in Southern NSW this week, with many end users having coverage through August. If you need to sell prior to harvest, set some targets so we can work them.

NEW CROP: Prices remain just above the long-term average but have been creeping lower for the past few weeks. We suggest making a start to forward sales now if you have not already done so, subject to production risk. Ex-farm and delivered markets for Jan/Feb are the best way to pick up a premium, especially in the north. The current prices remain above last year's harvest values at this stage.

Sorghum Outlook

INTERNATIONAL

The USDA dropped area planted and harvested by 400,000 acres but left yields near unchanged as rain during grain fill was seen to significantly improve final yields. The ending stocks estimate, while 76,000 tonnes lower than the June estimate, are seen at 431,800 tonnes which is still 35% lower than the 2019/20 carryover.

SORGHUM	2019/20	2020/21 Est.	2021/22 Proj.	2021/22 Proj.
			Jun	Jul
	Million Bushels			
Area Planted (mil. acres)	5.3	5.9	6.9 *	6.5 *
Area Harvested (mil. acres)	4.7	5.1	6.2 *	5.8 *
Yield (bushels/acre)	73	73.2	68.9 *	69.0 *
Beginning Stocks	64	30	18	13
Production	341	373	427	399
Imports	0	0	0	0
Supply, Total	405	403	445	412
Feed and Residual	97	75	65	65
Food, Seed & Industrial	75	10	10	10
Total Domestic	172	85	75	75
Exports	203	305	350	320
Use, Total	375	390	425	395
Ending Stocks	30	13	20	17
Avg. Farm Price (\$/bu) 2/	3.34	5.15	6.1	6

US Free on Board (FOB) prices at Texas ports are \$20.00/mt lower than last month with export business to China slowing down as they approach the end of the marketing year. Our prices have also declined by about \$15.00/mt Aussie and with the exchange rate we are still around \$110.00/mt cheaper than US in the nearby months.

	US FOB Texas	Aussie dollar	Brisbane Track May/Jun	FOB Cost	Aussie Dollar Value	Basis
Month	Price					
July	\$369.96	0.7497	\$305.00	\$40.00	258.6465	-\$111.31
August	\$366.81	0.74985	\$305.00	\$40.00	258.6465	-\$108.16
Sept	\$347.13	0.74945	\$305.00	\$40.00	258.6465	-\$88.48

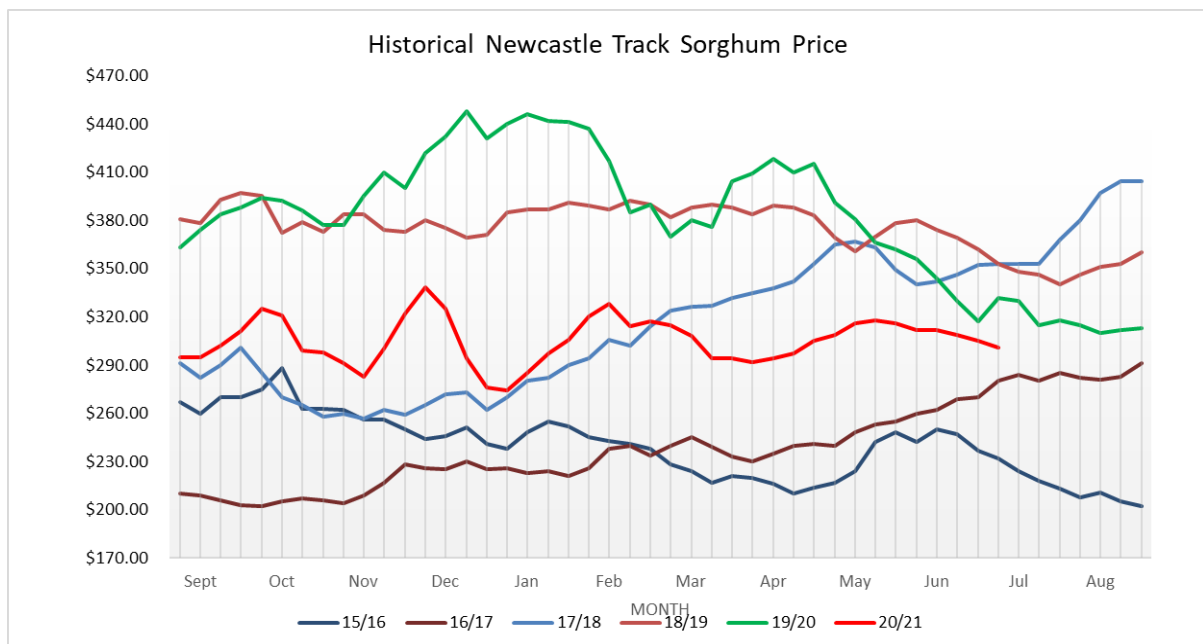
New crop US sorghum for export in September has not changed significantly from last month but with the lower price here and the lower dollar we are about \$10.00/mt cheaper. Ocean freight rates and container hire have increased significantly over the past four weeks and this is taking the shine off margins. However, Aussie sorghum is still the cheapest in the world at present.

DOMESTIC

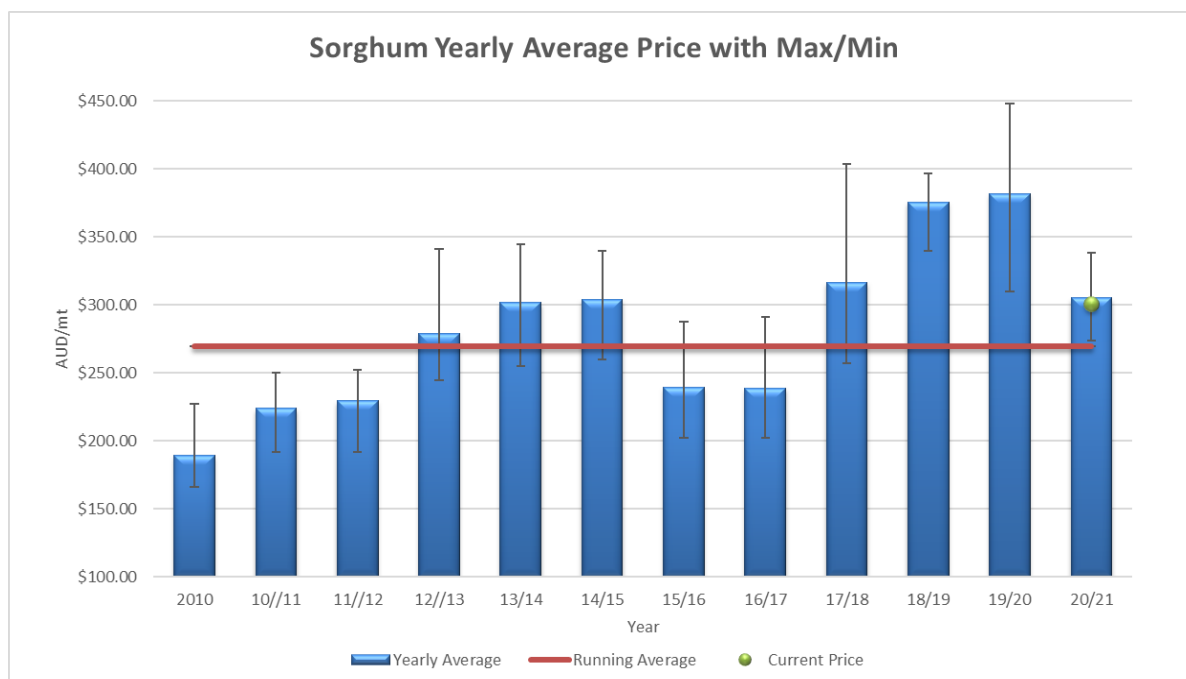
The sorghum market is lacking liquidity at present with values drifting lower over the past month. This has left both growers and buyers on the sidelines waiting for the opportunity to move sorghum into the export market at better numbers. Containers continue to be the main game for sorghum to exit the country and this has been a very stop/start affair as road freight, accessing boxes, and quality issues hamper the flow of grain.

Harvest is all but finished in NSW with bits and pieces left that have been affected by the wet weather. Central Queensland harvest is about 80% complete but it has also been hampered by wet weather over the past two weeks.

Demand has softened with export markets flat to lower. Buyers are still happy to accumulate sorghum but with most of the bulk shipments pencilled in for Aug/Sept the demand for prompt Track sorghum is not very high. In saying that, the prices have not corrected significantly but only drifted lower. This is a reflection on the relatively cheap nature of Aussie sorghum compared to US numbers. Asian buyers still see Australian sorghum as cheap but access to boxes and bulk vessels continue to hamper the flow into these destinations. Exporters are reluctant to pay for grain now, and instead happy to let the grower store.



While prices have dipped the potential is still there to see sorghum lift if we get some good competition in the market. There are several buyers who are looking to export sorghum but are waiting for the right Chinese buyers and the ability to move sorghum through our ports. Given we are \$80-\$100.00/mt under US values this will remain a good proposition for the next month or two.



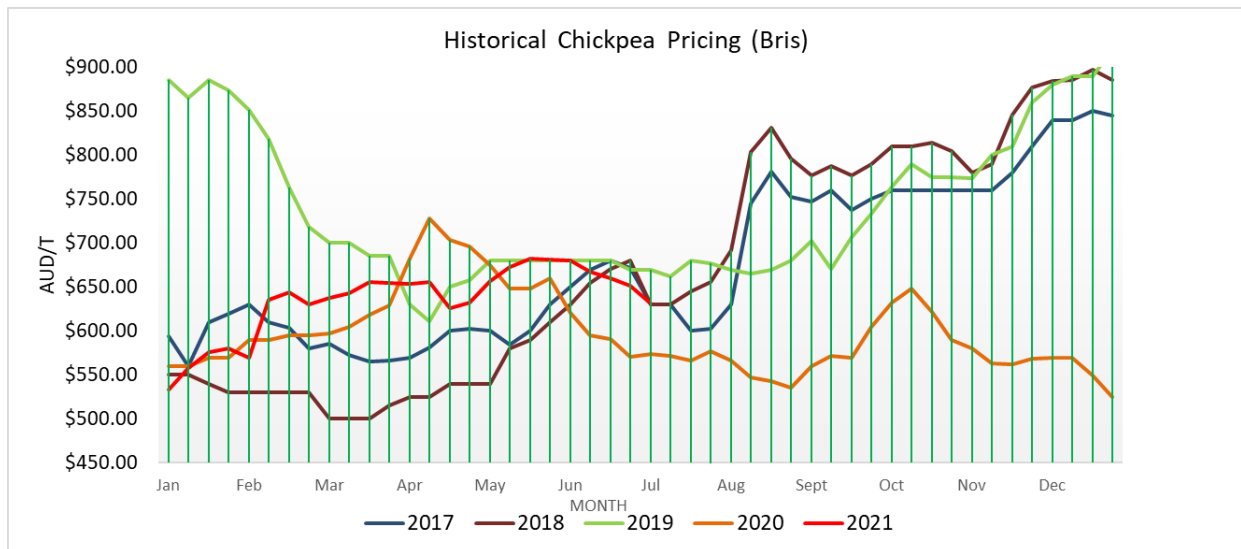
Sorghum Strategy

Prices remain above average and are well worth a look given the historical value sorghum has been in non-drought years. We have not changed our strategy since the start of the year with continued sales the best way to market sorghum at present. For those growers who have marketed a good portion of their crop there is a case to hold until we see bulk vessels loading again. This should be weighed up against the risk that China poses as a counterparty in the market.

Chickpea Outlook

Chickpeas have struggled over the past month with both old and new crop demand evaporating. Seasonally it is traditionally quiet in the pulse market. The combination of a decent plant and our major export markets chewing through their own domestic stocks has made it extremely difficult to sell peas offshore. Lack of port access, increases in shipping costs, road logistics, and lack of shipping slots and boxes all add to the lack of demand.

As we can see from the chart below, chickpea prices in the Brisbane zone generally soften over winter before picking up heading into the CQ harvest in September/October. This year we are coming off a decent production number in 2020 and we are carrying peas into the new financial year. The new crop production estimate of 700,000mt is also a concern given the level of demand.



Rain has been forthcoming over much of the Northern NSW cropping belt, while it is not necessarily beneficial on the chickpeas with some Ha abandoned and the potential for disease, overall, the setup is there for bigger than expected yields. As with the cereals most are likening this year to 2016 in terms of crop potential.

We have been saying that exports have been running at a good pace over the early part of the year for old crop peas and this has continued over M/A/M with over 200,000mt of chickpeas shipped over this period. Pakistan remains the biggest customer while Nepal and UAE were the next largest purchasers in April/May. Bangladesh has slowed their imports as they chew through their own stock. June exports will be interesting given the lower price environment maybe reflecting a drop off in export demand.

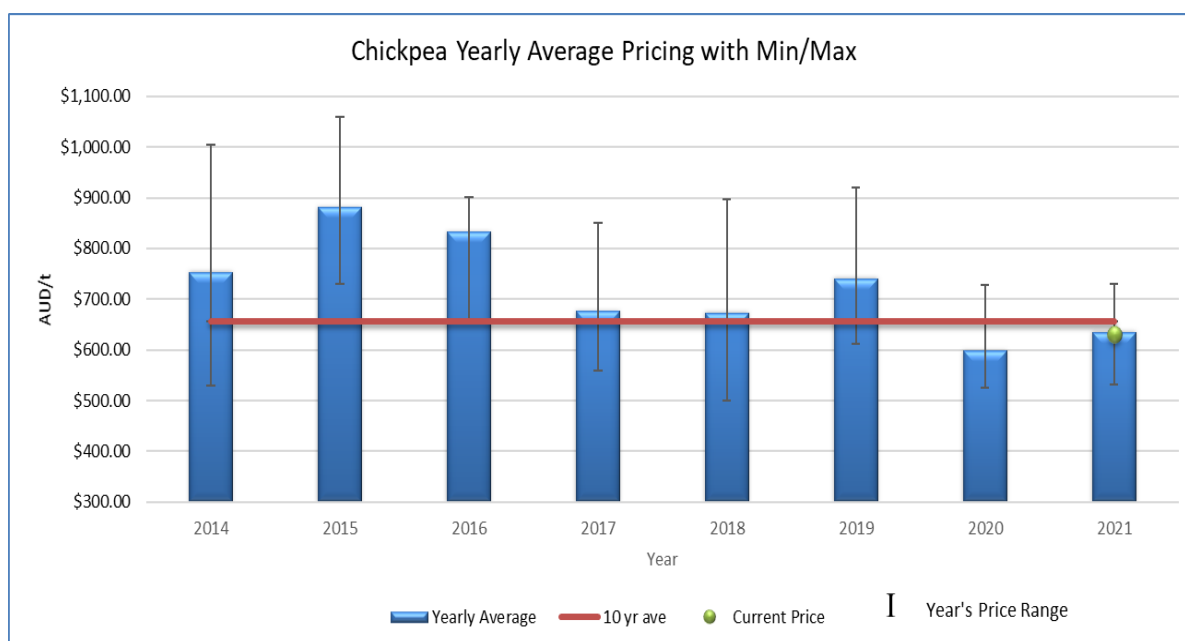
New crop prices have fallen around \$50.00/mt since the last report although there has been very little liquidity in the market. The market generally goes into coma over winter with crop prospects looking good and our major export homes digesting their own crops. The problem with executing exports is also affecting new crop commitments. Traders are reluctant to bid up on chickpeas when they have very little confidence in executing over harvest. Shipping rates are at record prices and the number of food grade containers entering the Australian market is at an all-time low.

Chickpea futures in India have now found new lows as the country recovers from the massive Covid outbreak at the start of the year. A huge vaccination rollout has freed up the logistical problems faced by the country transporting peas to the major cities. Supplies are said to be in good order and with the start of the Monsoon underway the prospects for a good plant in September is more likely. Alternative pulses are also looking good with the Kharif crop currently being harvested.

Politically the Indian Government is coming under pressure to regulate retail prices of some food staples including chickpeas. This would add another layer of market distortion to the pulse market and does not bode well for a return to importing Australian chickpeas.



Indian chickpea futures are under some pressure as one can see by the chart above, but the underlying value remains relatively strong, ie July futures are trading at 4828 Rupees = \$850 AUD/tonne in India, which works back to DCT East Coast Ports at \$700 AUD/tonne and \$640 up country packer.



Chickpea Strategy

New crop values have now slipped below the long-term average for the first time since April. Both old and new crop do not present a selling opportunity and as we have seen in the past growers are generally happy to sit on chickpeas for extended periods until the market fires back up. If prices jump back up to \$600.00/mt on farm equivalent, then forward sales may be well worth looking at for a small percentage.

Cotton Outlook

- COTTON: The U.S. 2021/22 cotton projections show higher production, exports, and ending stocks compared with last month.
- While the June 30 Acreage report shows 300,000 fewer planted acres for U.S. cotton than NASS's previous survey, a rainfall-driven reduction in projected Texas abandonment means U.S. harvested area is projected 9 percent higher.
- While 2021/22 production is 800,000 bales higher, consumption is unchanged, and exports and ending stocks are each projected 400,000 bales higher.
- The upland cotton farm price for 2021/22 is unchanged, at 75 cents per pound, while the 2020/21 price is reduced one half cent to 66.5 cents per pound.
- World 2021/22 ending stocks of cotton are projected 1.6 million bales lower than in June as largely offsetting changes in production and consumption do little to offset lower estimated beginning stocks.
- Beginning stocks are 1.5 million bales lower, largely due to reduced 2020/21 Brazilian and Indian production and higher Indian consumption.
- World production in 2021/22 is projected about 500,000 bales higher this month as a larger U.S. crop more than offsets a 300,000-bale decline for Pakistan.
- Consumption is slightly more than 600,000 bales higher largely due to an increase for India.
- World trade is projected 670,000 bales lower, with China's imports 1 million lower and Brazil's exports 1.1 million bales lower.
- *Source: USDA*

US COTTON futures DEC 2021 Weekly chart



A classic 'rising wedge' pattern signals a potential top in the December futures contract above, with the market breaking to new highs following the USDA World Supply and Demand Estimate this week.

Cotton Comments

As is the case with corn and soybeans, the drought in Brazil is upsetting the balance of exportable cotton and when short supply is coupled with increasing Chinese demand, higher prices are the result. The world stocks are estimated to fall from a massive 97.92 million bales in 2020 to 91.57 million bales this year and a nearly unchanged 89.3 Million bales next year. The bottom line is that there is plenty of cotton in the world, but high quality cotton is still in strong demand. Both India and China are driving cotton demand, recovering after the 2020 Covid-induced collapse in mill demand.

China continues to buy large volumes of high quality lint which is great news for the Australian Cotton Industry which finally has some solid dam levels in the catchments. At the time of writing, Copeton is at 56%, Pindari as 80%, Keepit 85%, Burrendong 66%, Burrenjack 95%. With rain continuing to fall, these levels are still rising. It is a remarkable turnaround from just three months ago and secures water for irrigators for at least two seasons.

2021 crop is bid \$605, with next year's 2022 crop bid \$580 per bale ex gin, while the 2023 season is bid \$531/bale (due to the May23 futures discounted 11c/lb or 12% on May2022 futures). We have some tailwinds with rising international values and a relatively soft Australian Dollar at 74.8 US cents, so it would be wise to consider some forward sales at these values for next year.

Cotton seed is trading at \$340/tonne ex Moree gin for this season while the 2022 crop year is bid just \$260/tonne. This price is consistent with a non-drought year combined with large expected production and diminished export demand with China still out of the picture. Even if China were to re-enter the market for cottonseed, the scarcity of containers in Eastern Australia is already a real issue for exporters and would certainly be an impediment to moving big volumes.

Summary

We are all very fortunate to have both a high international grain price environment combined with a magnificent start to the 2021 Winter crop season. It is very wet across New South Wales and Southern Queensland and for all the areas that are not too wet, there are many hectares which have a record yield potential.

As we highlighted last month, most canola growers have made a start to their sales campaign, yet there are still some growers who have been slow to start selling any of their cereals. This may leave forced sellers seeking cashflow exposed to heavily discounted values at harvest.

The past month has seen selling opportunities which we have highlighted and many of you took advantage of them which is great. This current lift in international prices may well give us another opportunity so it is very important that you regularly review your minimum crop estimates, compare with your forward sales thus far, and then determine whether those sales are sufficient under the circumstance.

We again highlight the risk of a less-than-empty bulk handling system, a potentially record-breaking harvest, and global buyers who are unwilling and/or unable to buy the whole crop at harvest, to keep squarely at the forefront of your marketing decisions this year.

Please do not hesitate to call us to discuss your sales strategy in more detail.

With best regards,
Mick and the Delta Grain Team

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