DELTA GRAIN MARKETING

OUTLOOK

FEBRUARY

Independent Brokers. Smart Advice.

DELTA GRAIN OUTLOOK – *Monthly Analysis and Strategy*

Introduction:

The Australian wheat market has largely been behaving much as we thought it would in that basis collapsed under the harvest pressure of a record NSW crop. However, the post-harvest rally has been turbo charged by a strengthening world wheat price and we are really yet to see any material improvement in the domestic basis, despite rampaging export demand. This augurs well for current crop wheat values as we get into the middle of the marketing year because even if the international price starts to fade in the coming months, a domestic basis lift will help cushion that fall.

China continues to drive world grain and oilseed markets with record demand for U.S. corn and soybeans in particular, but also very strong demand for Ukrainian barley and US sorghum, as well as soy oil and canola oil. The effect that Chinese demand can have on world markets cannot be overstated. They hold an estimated 51% of world wheat stocks and yet are the largest importer ie they are not and are unlikely to ever be, sellers. Over the past 30 years there have been periods of demand for food and feed which have reset the pricing of commodities and we see this current situation as very likely being one of those periods. We are keeping a close eye on the US drought monitor to see how far west the dryness creeps as we approach the Northern Spring. https://droughtmonitor.unl.edu/

Growers should feel a sense of confidence in the value of their products, but remember too that you are never "short" the market for very long as a grower. If you sold the 2020 crop a little too quickly, with the benefit of hindsight, remember that the new crop values are at similar values or better already. Once again, we need to be focused on our forward sales strategy, but ever mindful of the production risks attached to those sales.

In this report we will discuss both current and new crop pricing and try to establish a framework for taking advantage of current values, while leaving room for ongoing strength but mindful that all rallies eventually come to an end. We just think it is likely that we are not at the end yet.

Wheat Outlook

INTERNATIONAL

- The supply and demand outlook for 2020/21 U.S. wheat is largely unchanged this month.
- Hard Red Spring (HRS) and White exports are raised on stronger than expected sales and shipments, particularly to China.
- Durum and HRS food use are raised while Hard Red Winter and Soft Red Winter are lowered. *Food grade wheat is selling much fast than feed grade red wheats.*
- The 2020/21 global wheat outlook is for greater supplies, increased consumption, higher exports, and reduced stocks.
- Supplies are raised 0.8 million tons to 1,073.5 million.
- Global production is increased to a record 773.4 million tons as higher production in Kazakhstan more than offsets reduced production in Pakistan and Argentina.
- World 2020/21 consumption is increased 9.8 million tons to 769.3 million, mostly on higher use for China and increased use for India.

- China's 2020/21 feed and food use is raised to a record 30.0 million tons, surpassing the previous 2012/13 record of 26.0 million.
- China's domestic corn prices continue to be at a premium to wheat, encouraging greater wheat feed use. Additionally, increased auction volumes of old-crop stocks in China have expanded the availability of feed-quality wheat.
- India's FSI is raised 3.5 million tons to a record 96.5 million as government stocks data indicate greater disappearance than previously estimated. This is likely the result of the inclusion of wheat products in India's government food assistance programs to address economic disruptions caused by COVID-19.
- Projected 2020/21 global trade is raised 1.1 million tons to 194.8 million tons as higher exports for the EU-27+UK and Kazakhstan more than offset lower exports for Argentina.
- EU-27+UK exports are raised on a strong export pace and improved price competitiveness with Russia.
- The largest import change this month is for China, where imports are raised to 10.0 million tons on a continued robust pace.
- Projected 2020/21 world ending stocks are lowered 9.0 million tons to 304.2 million with most of the reductions due to increased consumption for China and India.
- However, global stocks remain record high with China and India holding 51 and 9 percent of the total, respectively.
- *Source: USDA February WASDE Report*

WHEAT Chicago SRW Futures Mar2021 - Weekly chart

Note that on the chart above, US wheat has been in a consolidation for the past month, gyrating between the highs and lows of the range. We think it is waiting for the Northern Spring to give more information. The Northern crop is vulnerable to a dry Spring as it was planted into sub-optimum moisture, and the big buying by China would put additional upward pricing pressure on the market if there are any significant production hiccups.

AUSTRALIAN Dollar – Weekly chart - the rising Aussie Dollar

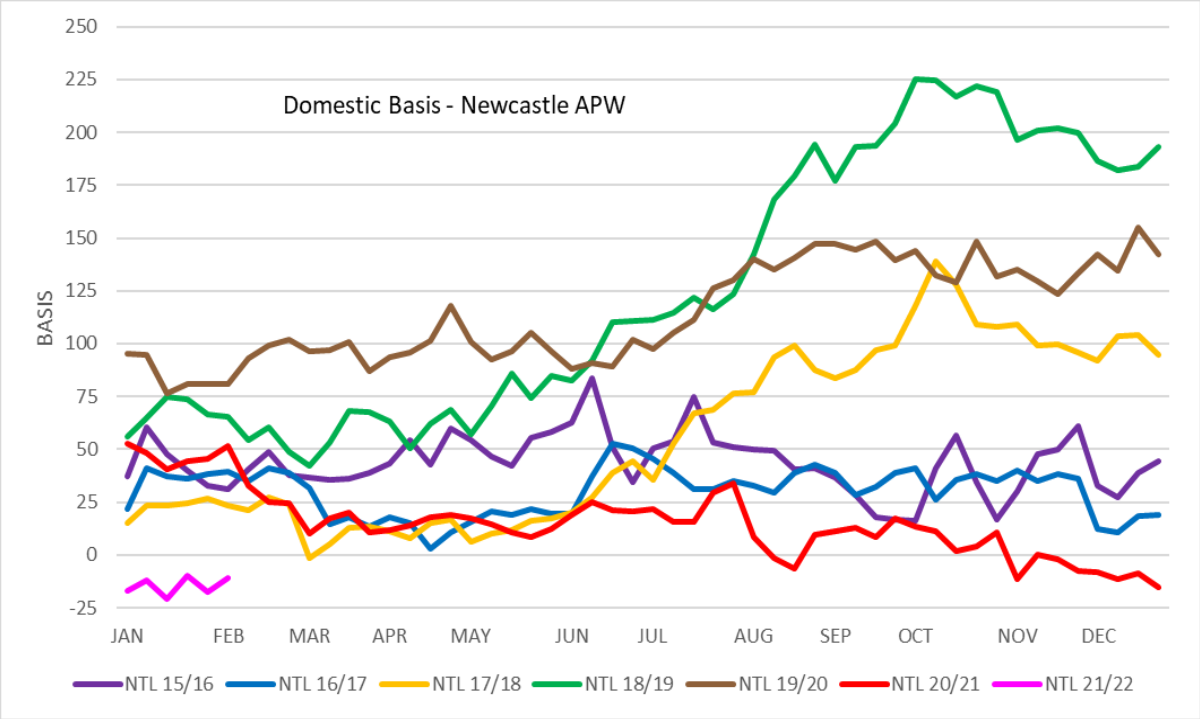
The most profitable times in grain markets for Australian farmers have often been associated with a weak US dollar. World grain is traded and hedged in US Dollar terms, so a weak US is a benefit for importing countries, because their local currencies go futher for each dollar spent. A weak US dollar has the effect of lifting global demand which is what we are seeing at the moment with China buying vast amounts of US grains and oilseeds. China are the second largest holders of US dollars outside the USA, behind Japan.

DOMESTIC

The domestic wheat price has been remarkably stable over the past 4 weeks at or near post-harvest highs, but marked with some demand spikes driving short term peaks over that period. Track values for APW range between $295 in Melbourne to $310 in the Brisbane zone which is very flat on a historical basis. Ex farm and delivered homes represent much better value than in-store prices, with on farm storages once again proving their worth.

Protein spreads have improved from their very cheap harvest levels, where APH2 was bid just a few dollars over ASW. We expect protein spreads to stay relatively subdued just because the quality of the NSW crop was so high, with what was surely an H2 average, whilst demand is coming from a South East Asia seeking, in many cases, just an AGP1 minimum quality. It is not a very high bar to jump.

Focussing on remaining stocks, whether in-store or in the system, we think it is best to continue with the scale-in selling in tranches as the market moves higher. Unfortunately grain markets can get very volatile on a change in trend, making it extremely difficult to sell at good levels once the trend turns negative. Set levels every $10 or $15/t. If the market continues to go higher, you will have the new crop to start selling before we know it!



Basis has remained very cheap, which is understandable given the strength in the underlying US futures. As US futures fall, it is reasonable to assume that basis will improve because export demand is strong, and exporters will need to keep filling vessels and will buy more wheat to do it. Price here will fall more slowly than US futures in these circumstances.

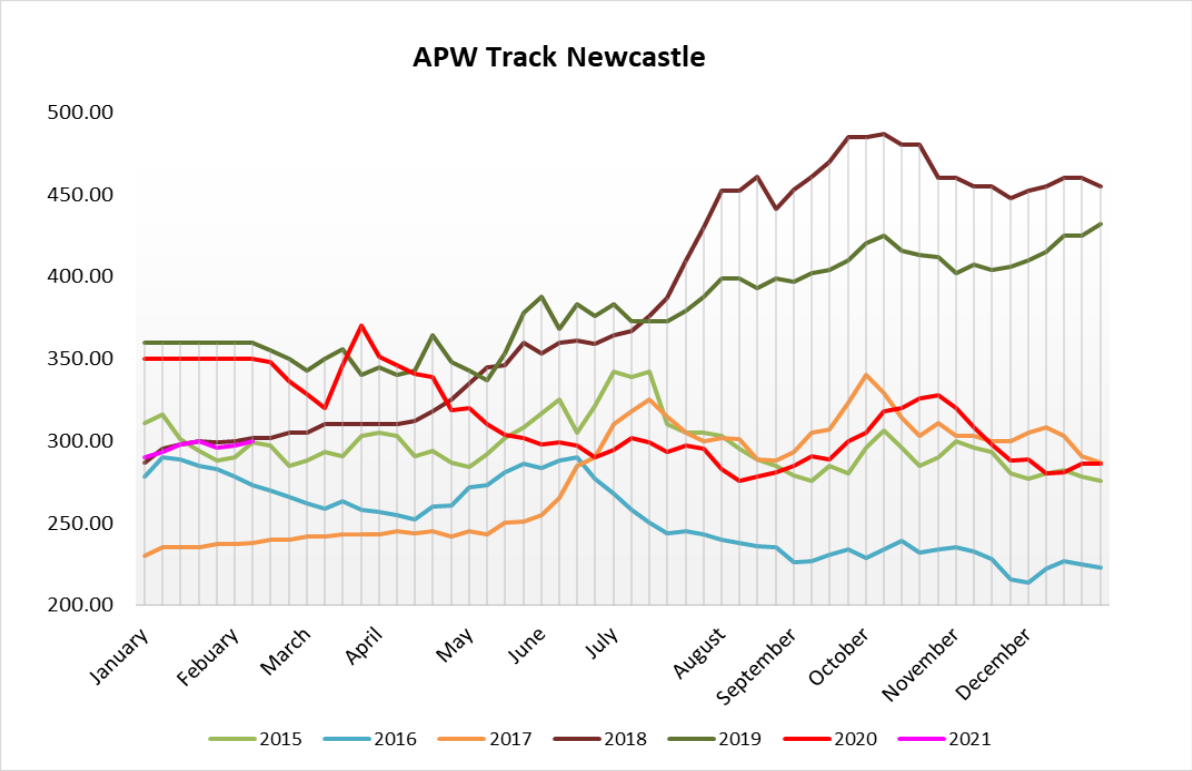
Australian Wheat Balance Sheet estimate

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 est	2.65	15.10	0.5	4.50	3.30	8.00	8.00	2.25
2020/21 est	2.25	31.70	0	3.00	3.30	6.30	23.00	4.65

The balance sheet above highlights the record Australian wheat crop and with it, the estimated record Australian export target of 23 Million metric tonnes. Certainly, the current pace of exports is impressive and the shipping slots are fully booked right through to May, meaning exporters are very comfortable that demand will more than keep pace with their current shipping program.

Price Analysis Table – Wheat Del PKE

	Current Month	Last Month	Futures CBOT	Currency	Basis
	2020/21 APW1		Dec-20	DEC-20 AUD/USD	($AUD/t)
High	$296	$292	665	0.7779	-$8
Low	$270	$276	596	0.7541	-$24
Current	$291	$288	659	0.774	-$22



Wheat Strategy

Current Crop: The current prices are "undervalued" relative to the sales being achieved by exporters, but this needs to be weighed against some record yields at historically reasonable levels, together with cashflow imperatives.

Scale-in selling into higher values is once again the order of the day for remaining harvests stocks. While there is short term volatility in the markets, particularly this week following the USDA's report, we see Northern Hemisphere weather risk as being the key feature over the next 3 months. The market is also underpinned by Chinese demand, but the ride could be bumpy. If you don't have the stomach for volatility, perhaps take the $35/tonne we have gained since harvest and focus on new crop sales which are already $310 to $320 APW Port equivalent.

2021/22 crop year: Prices have kicked nicely over the past month in response to rising US futures into 2021. Bids are at $305 Track APW, about $15 over the medium-term average. Set a target at $320-325 Track for the first tranche of new crop sales if soil moisture allows.

Canola Outlook

INTERNATIONAL

- OILSEEDS: This month's 2020/21 U.S. soybean outlook is for increased exports and lower ending stocks.
- U.S. Soybean exports are projected at 2.25 billion bushels (61.23Mmt), up 20 million from last month reflecting record marketing-year exports through January and a slow start to Brazil's export season resulting from harvest delays.
- With crush unchanged, soybean ending stocks are reduced 20 million bushels to 120 million.
- **If realized, soybean ending stocks would be down 77 percent from 2019/20, and the lowest since 2013/14.**
- The soybean oil price forecast is raised 1.5 cents to 40.0 cents per pound.
- Global 2020/21 soybean supply and demand forecasts include higher exports and lower ending stocks.
- Global exports are raised 0.6 million tons to 169.7 million on higher exports from the United States and Russia.
- Higher imports for Argentina are partially offset by reductions for the EU-27+UK, Canada, and Bangladesh.
- Global soybean stocks are reduced 1.0 million tons to 83.4 million as lower stocks in the United States and Brazil more than offset higher stocks in Argentina.
- Stocks to use estimated at 22.5%

Once again, the USDA numbers were bullish soybeans and the oil complex in general. Record U.S. to China exports of soybeans are translating into record prices for soy oil driving the edible oil complex higher. While the recent rally may have run its course for the time being, there are plenty of supply constraints yet to play out as the Northern Hemisphere crop comes out of dormancy.

Production concerns abound in the Northern Hemisphere, and while Germany and Poland are expected to see an expansion in area, such expansion will not be sufficient to offset the declines anticipated for France, south-east Europe and the UK. The IGC expects a sharp decrease of 16.4% to 0.9 million hectares for Ukraine as a result of excessively dry conditions at the time of sowing.

Global stocks remain relatively low after a series of poor European crops (2020 was the smallest European rapeseed crop in 14 years) and the subsequent drawdowns in stocks from Canada, which has been filling in the supply gaps. From a supply standpoint, Canada's Financial Post reported recently that China's buying binge of canola oilseed was such that Canada expects a carryout stock of just 1.2 million tonnes, the lowest level since 2013, creating the highest prices since 2008.

MATIF French Rapeseed Futures Feb21 Weekly data

Canadian canola futures are mirroring the European numbers with new contract highs set in the past week.

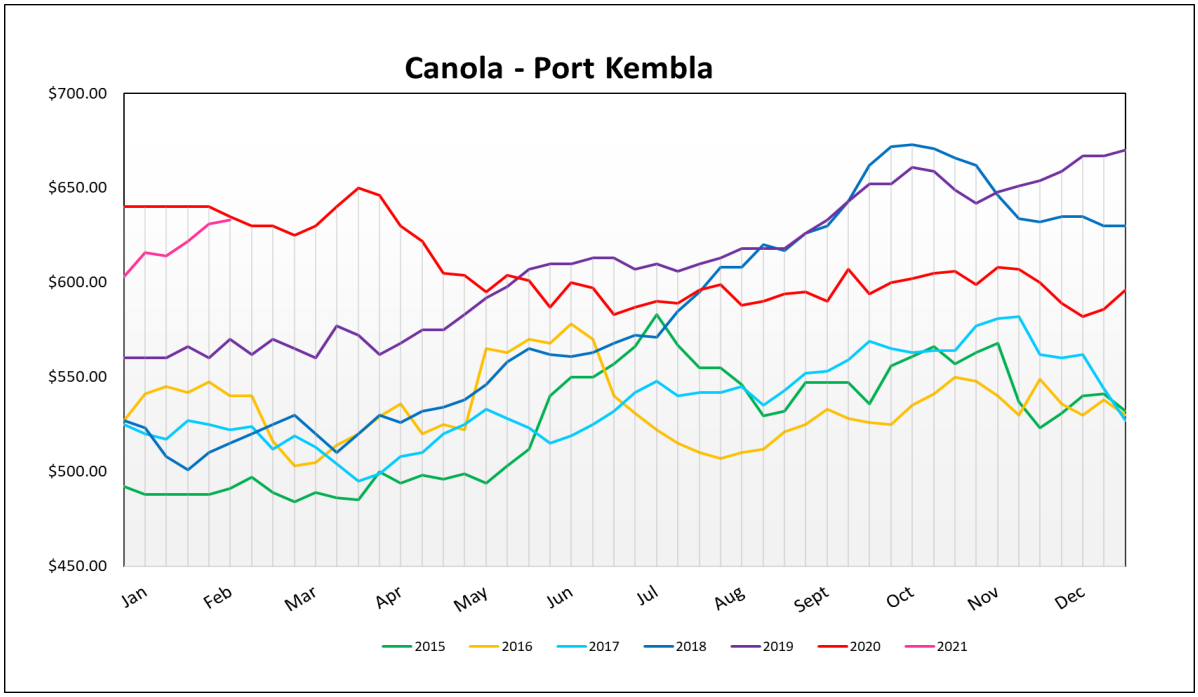
DOMESTIC

Price Analysis Table – Canola Del PKE

	Current Month	Last Month	MATIF Futures	Currency	Basis
	2020/21 Canola		Feb-21	FEB 21 AUD/EUR	($AUD/t)
High	$622	$597	442.00	0.644	-$59
Low	$576	$583	406.50	0.6182	-$82
Current	$622	$592	442.00	0.6355	-$74

Australia's big 2020 crop is mostly sold already, with remaining grower tonnes likely to holding out for higher prices. Domestic basis is at record lows, at $85/t under French Rapeseed futures, so our market looks well insulated against a futures selloff.

There will undoubtably be an increase in area for Australian canola after such a big cereal year in 2020, but the world market looks like it should have the capacity to take all of our crop at better than average prices, if the USDA estimates are close to reality.



Canola Strategy

With most of the current crop already sold for cash at harvest or into the January rally, mostly only large producers are still holding some crop through this current rally. We suggest setting call levels or orders to sell into strength from here on.

As our focus is turning to the new crop, we are buoyed by recent rain through the Central West and the South West Slopes and Plains which is giving an excellent start to grazing canola crops which will be planted shortly. Oilseed only crops will wait until April May, but the recent rains give confidence to many would-be canola growers.

2021/22 New crop values are currently bid $590-600 Port equivalent. It is probably premature to sell prior to planting but we will be watching it very closely from now on for opportunities above $600 Port.

Barley Outlook

INTERNATIONAL

- COARSE GRAINS: This month's 2020/21 U.S. corn outlook is for higher exports and lower ending stocks.
- Exports are raised 50 million bushels, reflecting historically large corn purchases by China. With no other use changes, U.S. corn ending stocks are lowered 50 million bushels from last month.
- The season-average corn price received by producers is raised 10 cents to $4.30 per bushel.
- Global coarse grain production for 2020/21 is projected marginally higher to 1,438.9 million tons.
- This month's foreign coarse grain outlook is for higher production, lower consumption, and greater ending stocks relative to last month.
- For Brazil, the corn production forecast is unchanged as greater area is offset by a reduction in yield. Slow second-crop planting progress in the Centre-West dampens yield prospects but very favourable prices boost area expectations.
- Major global trade changes for 2020/21 include higher projected corn exports for the United States, India, and South Africa.
- Corn imports for 2020/21 are increased for China, with partly offsetting reductions for the EU-27+UK, South Korea, Japan, India, Saudi Arabia, and Turkey.
- China's barley and sorghum imports are also higher this month, bringing total coarse grain imports to 40.3 million tons.
- Global corn ending stocks, at 286.5 million tons, are up 2.7 million from last month.

It has been an interesting build up to this month's report in the US. Corn exports to China have seen some of the highest weekly sales in history and US ports have been running at full capacity trying to shift the volume. Most pundits believed that the USDA would reflect these record sales in this month's report, especially given the fact that they lowered exports by 2.5 MMT last month.

Unfortunately, as with all USDA reports, the numbers do not necessarily reflect what is happening in the commercial world and again this was the case. Given the reported sales over the last month, the trade was expecting somewhere between 5 to 7.5 MMT extra to be added to the bottom line in the February report. The number published came in at 1.27MMT above last months report. Very underwhelming but not without precedent. The reason given was the slow pace of physical exports out of US ports and the real potential of Chinese buyers defaulting on contracts. The USDA believe that even though on paper the Chinese have bought 20 MMT of corn, the chances of them taking all 20 MMT are slim.

Corn	2018/19	2019/20 Est	2020/21 Proj	2020/21 Proj
39.36			Jan	Feb
				Metric tonne
Area Planted (mil. acres)	88.9	89.7	90.8	90.8
Area Harvested (mil.acres)	81.3	81.3	82.5	82.5
Yield (bushels/acre)	176.4	167.4	172	172
Beginning Stocks	54.370	56.428	48.755	48.755
Production	364.329	346.037	360.315	360.315
Imports	0.711	1.067	0.635	0.635
Supply Total	419.436	403.532	409.731	409.731
Feed & Residual	137.932	149.975	143.547	143.547
Food, Seed & Industrial	172.586	159.604	161.966	161.966
Ethanol & by-products	136.636	123.272	125.762	125.762
Domestic Demand Total	310.518	309.578	305.513	305.513
Exports	52.464	45.173	64.787	66.057
Use, Total	363.008	354.751	370.300	371.570
Ending Stocks	56.428	48.755	39.431	38.161
Avg.Farm Price ($/bu)	$3.61	$3.60	$4.20	$4.30

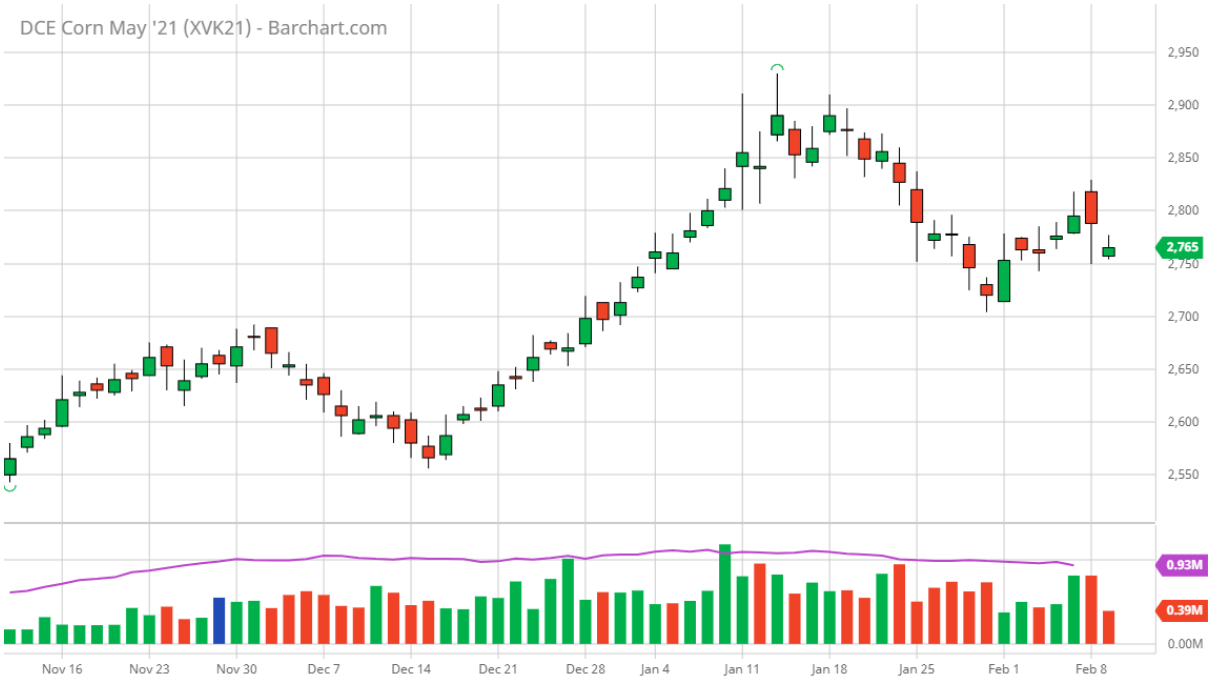
The US currently need to ship 1.5MMT of corn each week to meet the current sales target. The competition for port access in the US between soybeans, corn and sorghum is huge at present. The main reason the corn has not been hitting the weekly target is the competing soybean export program to China, but it is set to finish up by the end of February. This could free up capacity so the exporters are optimistic that the export targets will be met.

The World feed grain production was slightly increased, and consumption decreased as well in the report which is counter the sentiment that the commercial world is feeling. Given the bearish news the corn futures did not capitulate, and this may be a sign that the market does not believe the USDA numbers or arguments at this point.

US Chicago Corn Futures MAR21 – Weekly data

US futures have continued on their merry way for most of the last 4 weeks with a big kick after the 2nd biggest export weekly sales in history on the week starting 25th Jan when they sold over 5 MMT. Since then, the market has struggled to push higher but we did hit new highs just before the release of the report. We expect the market to stay bullish despite the bearish tone of the WASDE.

Dalian (Chinese) Corn futures pull back from the highs.

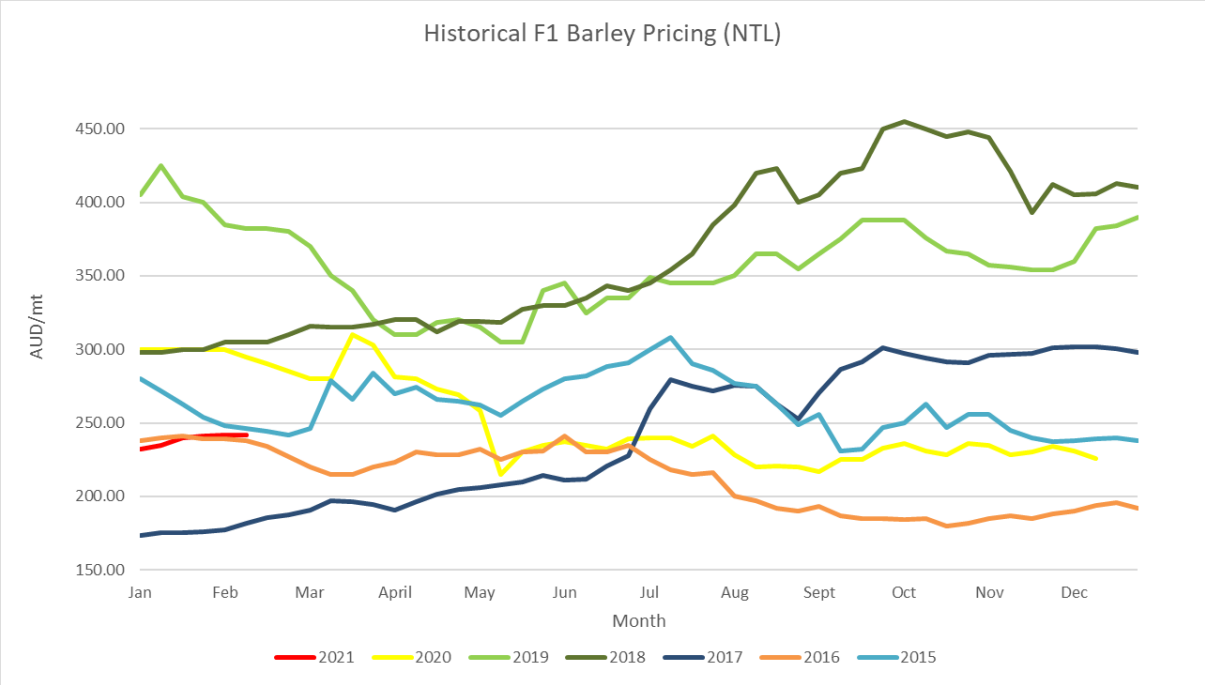


Certainly, it would appear that the near record pace of Chinese corn imports is having a softening effect on the market in China. Future values have pulled back as stocks are rising with the number of boats full of US corn increasing in late January. Although it should be mentioned that domestic corn prices are still at the highs within the Chinese consumptive market. Watch this space.

DOMESTIC

The barley market has continued to lift over the last 4 weeks. The Northern Port Zones have slightly improved while the Southern Port Zones have seen the biggest jump in value. Brisbane/ Darling Downs market still a big premium over Newcastle/Liverpool Plains and this gap has widened over the last 4 weeks. The southern markets have been playing catch-up but this is a reflection on their later finish and more aggressive harvest sales made by Growers covering consumptive demand longer.

Grower sales in the north have been steady over the past 4 weeks as prices have lifted. The best demand/bids were late January as the trade returned from the Christmas break. As with the wheat market we saw $20-$25.00/mt better ex-farm than at the harvest lows. Consumers who had little cover for Feb/Mar were aggressive buyers. Feedlots and Poultry demand the main driver of prices. Cattle prices have remained strong into Feb and this may soften demand out on the spread for barley into the feeder market. This is all ready having some effect on barley demand for April/May.

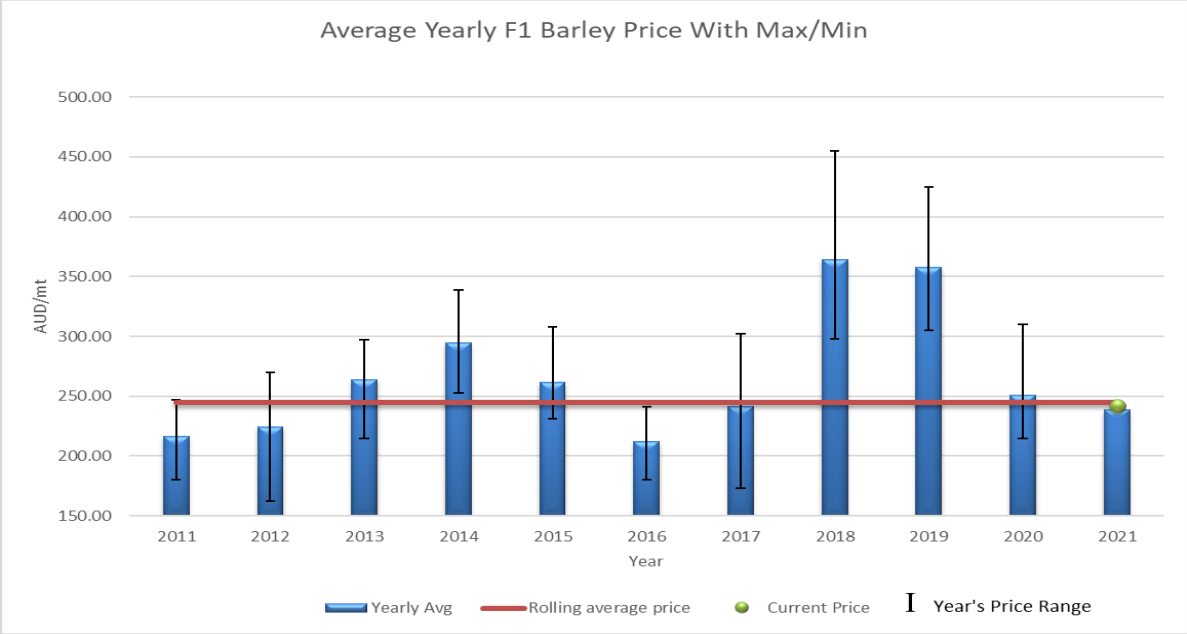


The Track market has been less responsive given that most of the demand is into domestic delivered homes on the east coast. Export demand out of the Western and South Australia was again the beneficiary of the latest tender from Saudi Arabia in late Jan with Aussie barley winning all but 60,000mt of the 660,000mt bought. The sale boosted the export numbers significantly to well over 2 million mt into the Middle East for this crop year.

Price Analysis Table – Barley

	Current Month				Last Month
	2020/21 BAR1				
	Brisbane	Newcastle	Port Kembla	Victoria	Port Range
High	$272	$243	$243	$242	272-242
Low	$265	$236	$224	$221	265-221
Current	$270	$242	$239	$237	

While prices have lifted since the last report, they are still sitting just below the long-term average. So while Growers were happy to take some value off the table over the past few weeks the market is still not at levels that warrant clearing the majority of barley still held in storage.



Barley Strategy

Prices are better but still have potential to rally further. The world feed complex is humming, and we are still a month or 2 away from the tradition strong Autumn demand for barley as feed demand picks up over Winter. We think it is a hold at present.

Sorghum Outlook

INTERNATIONAL

The USDA took a more pragmatic approach to sorghum reporting this month. Domestic use was reduced by 5 million bushels (136,000mt) while exports were raised by the same amount to balance the books. Nice and neat but as with the corn numbers, it does not reflect the trade experience over the past few weeks. US sorghum total exports are up 137% from last year and unshipped sales are in the vicinity of 2.3 MMT. As with the corn market the USDA is not expecting all these sales to be shipped either by default or lack of port capacity. Hence, they are reluctant to put all the sales on the ledger for now.

SORGHUM	2018/19	2019/20 Est	2020/21 Proj	2020/21 Proj
			Jan	Feb
	Million Bushels			
Area Planted (mil. acres)	5.7	5.3	5.9	5.9
Area Harvested (mil.acres)	5.1	4.7	5.1	5.1
Yield (bushels/acre)	72.1	73	73.2	73.2
Beginning Stocks	35	64	30	30
Production	365	341	373	373
Imports	0	0	0	0
Supply Total	**400**	**405**	403	403
Feed & Residual	138	97	70	70
Food, Seed & Industrial	106	75	15	10
Domestic Demand Total	**244**	**171**	85	80
Exports	93	204	290	295
Use, Total	**336**	**375**	375	375
Ending Stocks	64	30	28	28
Avg.Farm Price ($/bu)	$3.26	$3.34	$4.70	$4.80

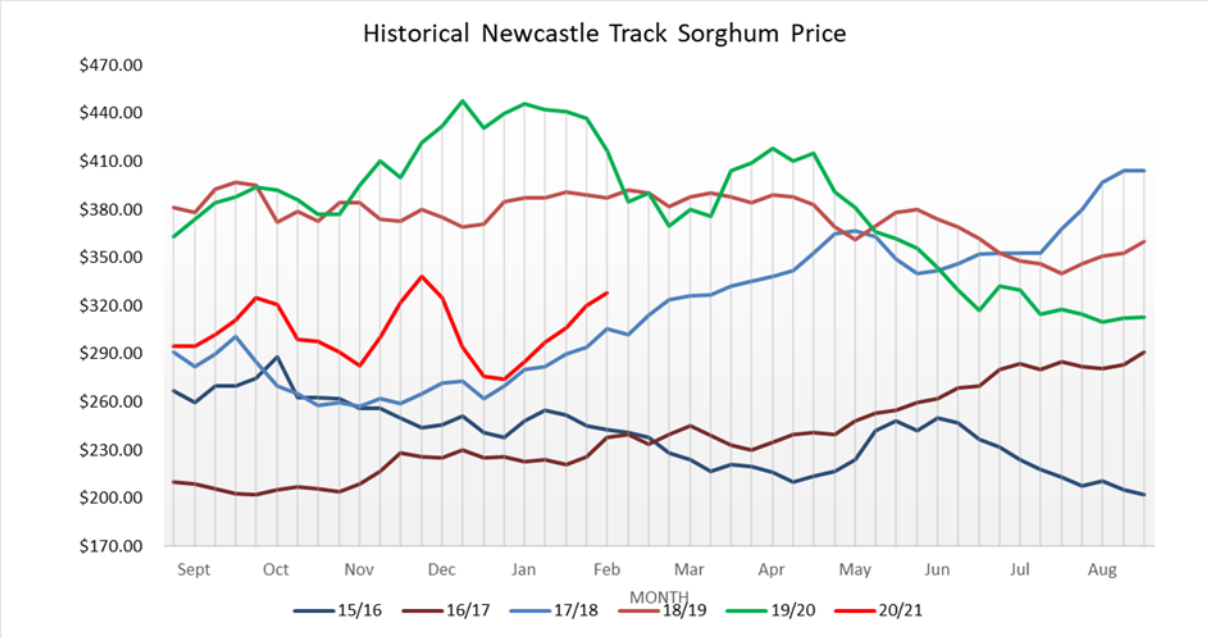
The dollar per bushel price was lifted 10 cents to $4.80 US which while high is still well under what is trading in the real world. We calculated the Port price to be over $8.00 US per bushel free on board.

	US FOB Texas	Aussie dollar	Brisbane Track M/A	FOB Cost	Aussie Dollar Value	Basis
Month	Price					
Feb-21	$342.50	0.77185	$350.00	$40.00	301.0215	-$41.48
Mar-21	$340.53	0.77395	$350.00	$40.00	301.0215	-$39.51
Apr-21	$339.55	0.77395	$350.00	$40.00	301.0215	-$38.53

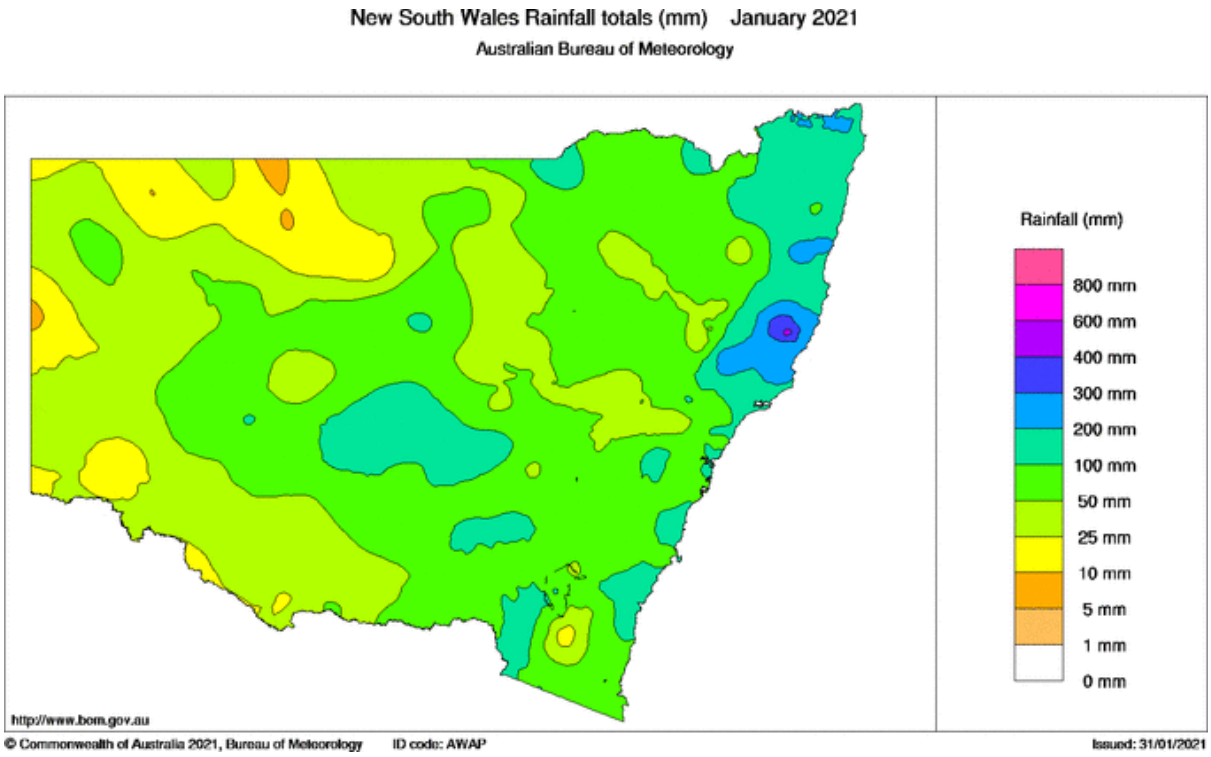
US sorghum prices have increased by around the $30.00/mt US mark since the last report while if we look at Brisbane as the main export port for sorghum out of Oz, values have kicked 15% over the same period. Basis has slipped a touch, but we are still $40.00/mt under US values and if we add our freight advantage, we are still highly competitive into Asia.

DOMESTIC

With a big increase in demand for sorghum into China & Japan values have rallied significantly since the last report. Exports are still the main game barring a few domestic homes who like to use sorghum in the ration and can carry the extra cost through their system to the consumer.

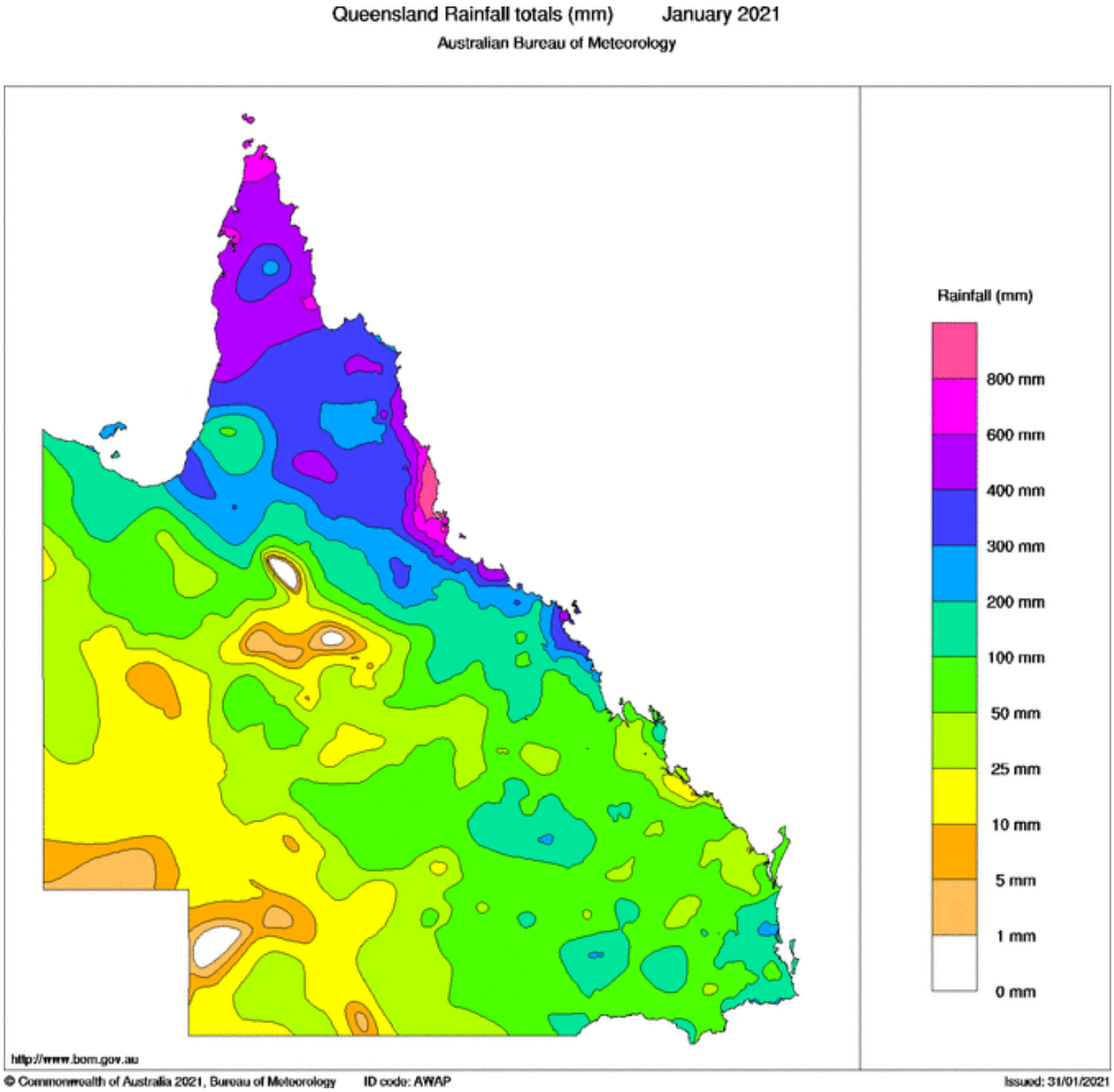


Prices are now pushing back up towards the highs we saw in Nov/Dec when the hot weather was having a negative affect on crop conditions. This time though we are looking at an increasing supply scenario as crops are improving over most of the planted area. Taking out the last 3 years of drought we are seeing record prices for sorghum for this time of the year.

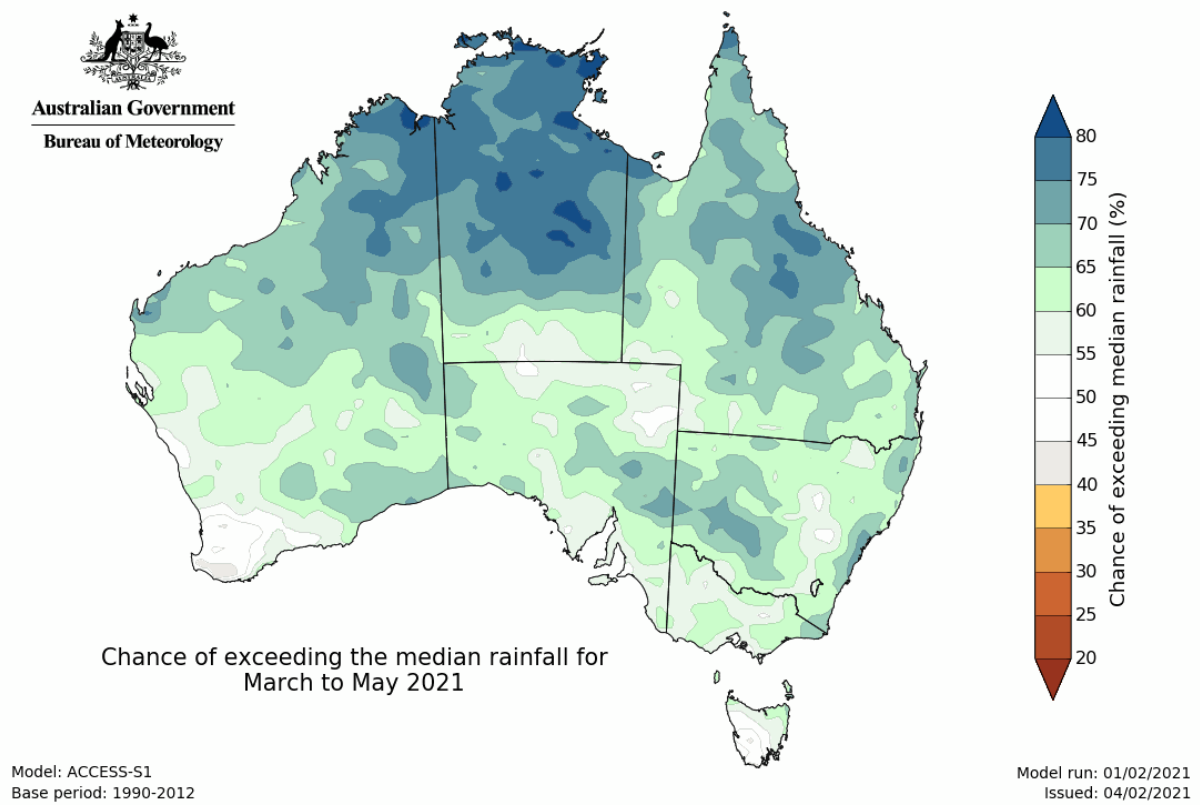


January rainfall in NSW was at the low end of the forecast but fortunately a lot of the sorghum managed to get under some Summer storms. The Liverpool Plains was the beneficiary of some good falls and some of the crops are looking to be better than average across a wide area. The potential extra yield has not dented the increase in price and this is a good reflection of the inelastic nature of the Asia export market.

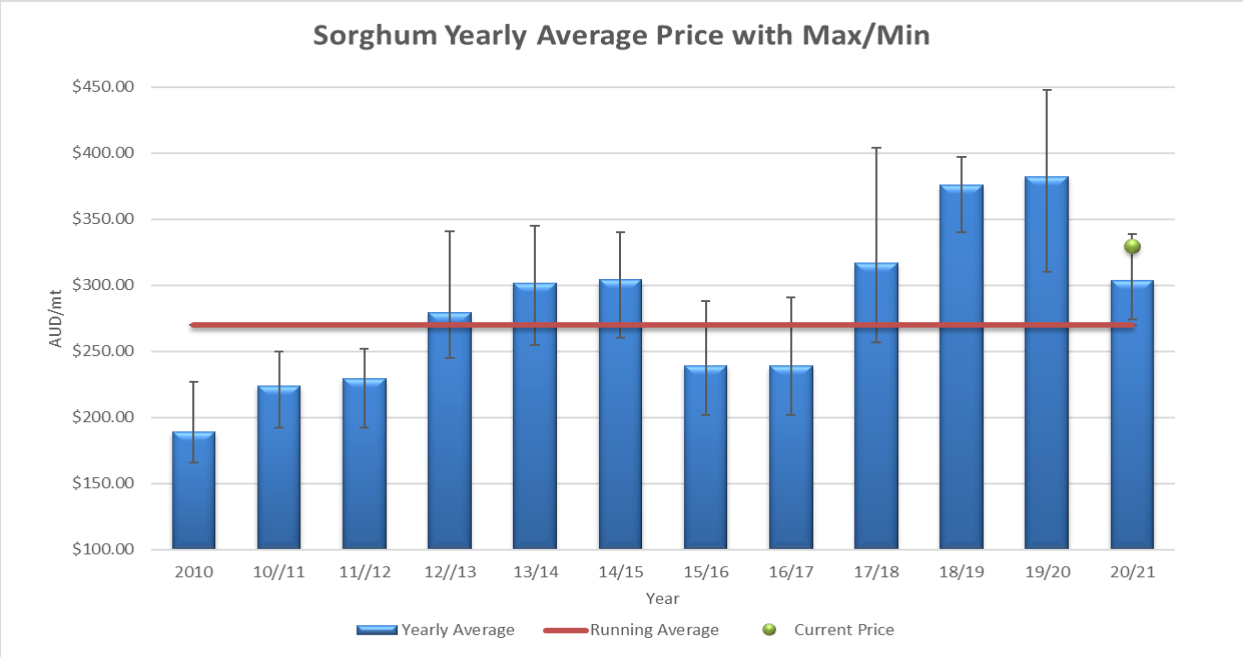
The Queensland Sorghum crop has welcomed some rain over the past month but again it has been less than ideal conditions in many areas particularly in Central Queensland. The Northern tip of the sorghum growing area has seen good rain and a full plant go in. The remainder of the Central Highland s has had “patchy” falls which have not been enough to see 100% of intentions seeded.



The window in the North is still slightly ajar for sorghum but many Growers will now carry fallow Ha over for Winter Crop. The 3-month outlook for rain has lowered slightly the chance of above average rain for the Summer cropping belt but overall, it still looks encouraging especially in CQ.



The prospect for rain during harvest in Northern NSW is also possible and given that the market is export focussed there is as always, the risk of quality issues if it gets to wet. Delays in getting sorghum off and meeting container deadlines also needs to be considered by Growers when making sales.



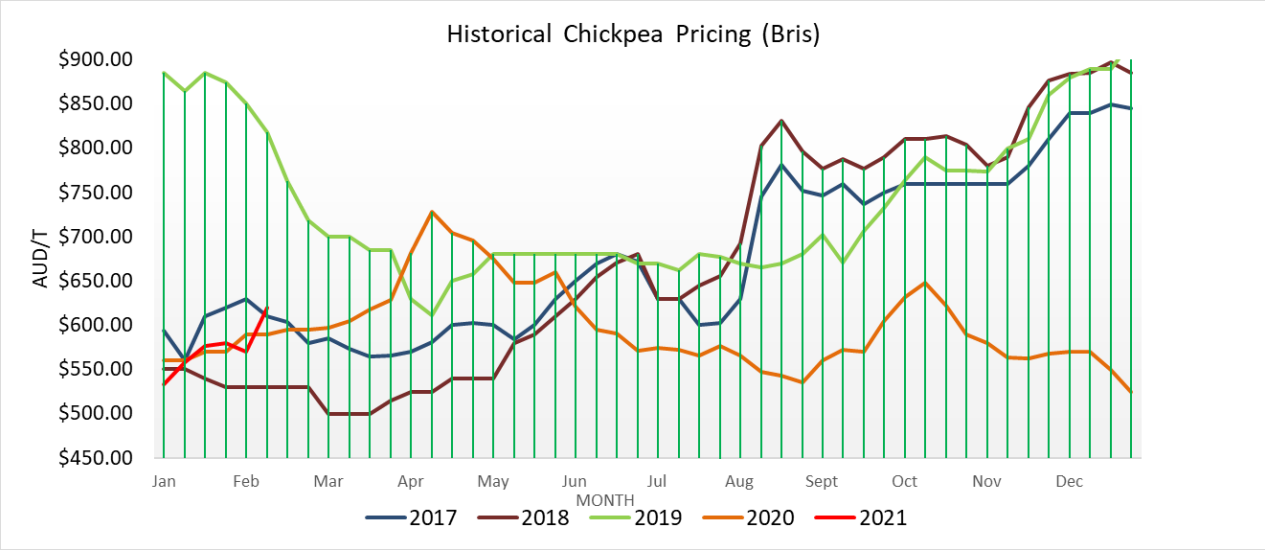
Sorghum Strategy

Sorghum continues the fantastic pricing run we have seen over the past 4 years. Prices remain well above average and are again approaching the highs. The strategy of holding off on sales until you are on the cusp of harvest has worked well for Growers with early crops.

For Growers with later crops in Central Queensland and on the Liverpool Plains prices have now hit levels that warrant forward sales if production is looking good. Please give us a call to price as offers above the bid are being well received.

Chickpea Outlook

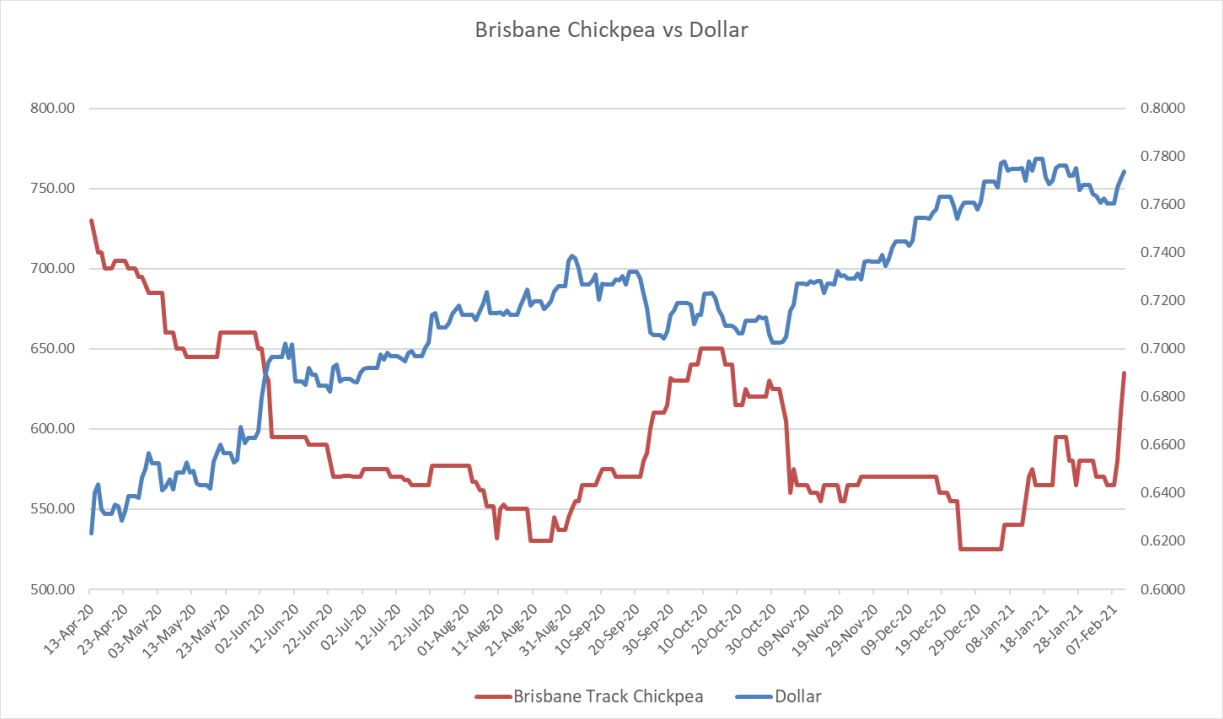
Chickpeas have rocketed up over the last week with demand from Pakistan the main driver of value. Talk of failed crops and a lack of carry out stocks in the Asian powerhouse has driven values back to levels we have not seen last October. The market had been drifting along following the currency but a big lick of Pakistani business booked over the weekend of the 6th/7th Feb fired the container market to new levels. All delivery points are being well bid and there appears to be some length in the demand with parcels being booked as far out as July.



Looking at the global export scenario, December shipments of Australian Chickpeas was significantly higher than November. ABS data shows around 120,000mt exported in December up 82% month on month. The balance sheet remains loose at this stage but if we move 100,000mt a month for the next few months, supply could definitely tighten up.

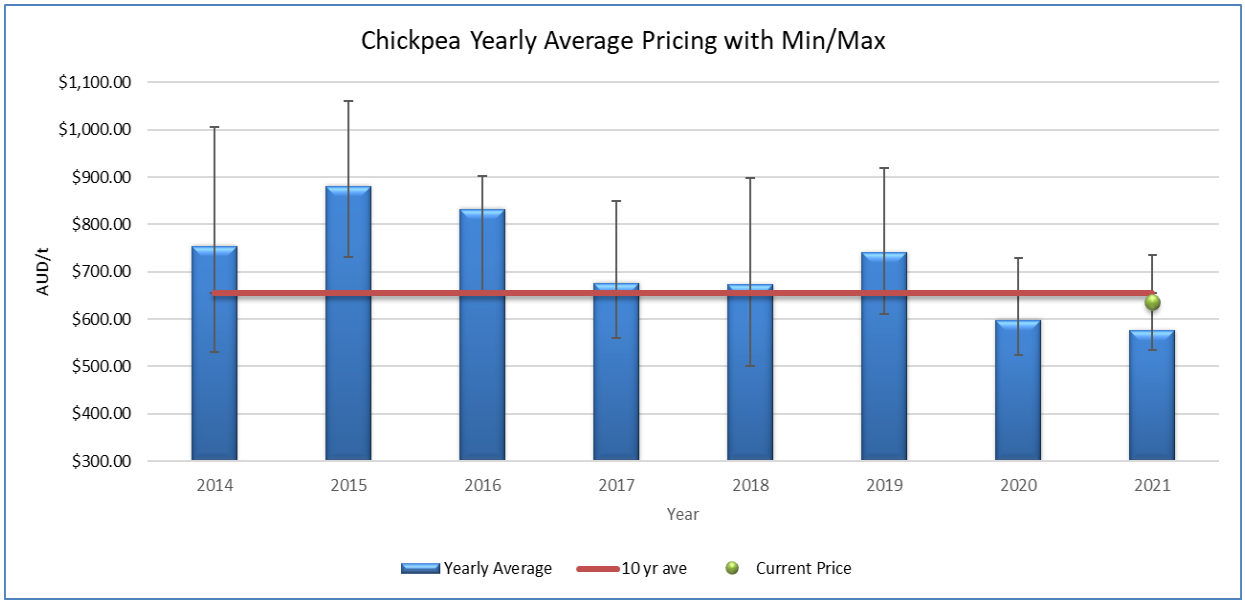
The Rabi harvest kicks off in March in both Pakistan and India so it will be interesting to see if the demand follows through over the next 6-week period. If things are as bad as what is hinted in Pakistan, then they should continue to buy through until the middle of the year.

We are already seeing a hint of this with exporters happy to bid all the way out to July at this point, reflecting the length in Pakistani demand. It is starting to feel like a combination of weather and lack of supply may push the market further over the next few weeks and months. Of course, we are talking about pulses and the Pakistani's can be a difficult counterparty to deal with at times, so caution should be exercised.



Chickpeas have now well and truly broken away from tracking the inverse of the currency, with the latest spike in demand coming at a time when the dollar is appreciating. As was the case in Sept/Oct when demand was also high leading into the new season crop. This reflects an inelastic demand scenario where buyers are happy to pay more regardless of the extra cost to secure supply. The demand for off grade chickpeas is also an indication that there may be some issues in Pakistan with exporters not blinking at poor quality peas at the present time.

Since last report the Indian market has been reasonably stable but it has started to improve slightly over the last 2 weeks. A dryer finish in the sub-continent is not expected to adversely effect the rabi crop unlike what is happening in Pakistan.



Prices have moved up over the last couple of weeks and now sit just below the long-term average.

Chickpea Strategy

The market has now lifted considerably and presents a good opportunity to make some sales. Growers have been sitting out of the market but with any rally in pulses it is well advised to sell into any positive moves. We recommend selling a a good percentage as the market moves.

Cotton Outlook

- The 2020/21 U.S. cotton supply and demand forecasts show slightly higher exports and lower ending stocks relative to last month.
- Production and domestic mill use are unchanged.
- The export forecast is raised 250,000 bales to 15.5 million based on a strong pace of shipments to date.
- Ending stocks are now estimated at 4.3 million bales, equivalent to 24 percent of total use.
- The upland cotton marketing year average price received by producers is projected at 68 cents per pound, unchanged from January.
- The 2020/21 world cotton forecasts include higher production, consumption, and imports, led by changes in China.
- World production is projected 1.3 million bales higher this month, with China's forecast raised by 1.5 million bales as the daily rates of both ginning and inspections in Xinjiang continue to show unusual late-season strength, with government classing data now indicates yields could be about 10 percent higher, while lower in Eastern China.
- India's production estimate is reduced 500,000 bales on increasing evidence of pest infestation, while Pakistan is 200,000 bales higher
- World consumption is projected 1.5 million bales higher this month, with China's forecast 1.0 million bales higher reflecting growing domestic textile demand and exports.
- World trade is projected 350,000 bales higher than last month, with imports 500,000 bales higher for China.

- World ending stocks are almost 600,000 bales lower this month, at 95.7 million bales against 117 million bales used, *or an incredible 82% stocks to use. 20% stocks to use would normally be considered comfortable. 60% of this carryover is held outside China.*
- 3.2 million bales lower than in 2019/20.
- *Source: USDA*

US futures May2021 Weekly chart

Cotton Comments

World Cotton values continue to trend higher, driven by a falling US dollar and a gradual improvement in international demand. However, when one considers the extremely high stocks to use, it is becoming increasingly difficult to rationalise these high prices.

The lint price is currently $570/bale ex gin for 2021 which represents a basis of ZERO, which is unusual given the very small crop and our relative quality. It is clearly a function of the very high US futures price which is making the trade nervous about being too long at these levels.

$560/bale for 2022 crop also represents a basis of 300 ON which is historically about average.

New crop cottonseed has lifted to $350/t ex-gin Nth NSW and $390 delivered Darling Downs which appears on the low side, but demand is very light as present.

Summary

The current international soft commodity market is fascinating to watch. The big question which has the market participants grappling for answers is whether the 11.5Mmt of US corn which China has agreed to buy has any hope of being shipped, and further, whether China will continue buying at what has been a record pace. Looking at the size of the task, its looks easily reachable when one considers the US shipped 1.4Mmt of corn in just a week recently.

The USDA has been reluctant to include the full extent of China purchases, but we think it's a miscalculation and will likely lead to price shocks as we approach the northern spring and growers consider which crops to grow. New crop corn is at a 100c/b discount to spot, which does not give growers the right signal about what to grow. Fertilizer prices are at decade highs and corn requires very high rates, making it more expensive than usual. There is a lot to play out between now and our winter crop planting window.

Locally, it has been a wonderful season across most of Victoria and NSW, but the border region and much of the QLD cropping belt remains very patchy and still 100mm away from being comfortable ahead of the coming winter crop. The setup is similar to last year and we are starting to think we may actually see back-to-back crops for the first time in a very long time for Northern and Central NSW in particular and there are some beautiful sorghum crops to come off over the next few months. Prices are well above average for all but barley, so we are starting to look for forward selling opportunities as they arise.

There is still a great deal of the 2020 crop left to market and we will continue to work very hard to find and highlight the best opportunities to clear it. Please don't hesitate to ask if you'd like to set some target prices or call levels for us to watch and manage.

Looking forward to rain this weekend in the northern NSW and QLD, we hope it keeps coming.

As always, please do not hesitate to call us to discuss any ideas or questions you may have.

With best regards,

Mick and the Delta Grain Team.

CONTACTS:

Delta Grain Armidale Office
Suite 7, 165 Beardy Street
Armidale NSW 2350
Phone: 02 6772 0000
Fax: 02 6772 0044

General Manager & Grain Marketer NNSW, CWEST & SQLD
Mick Parry
Licenced Financial Services Officer
Lic. No: 301796
Mobile: 0414 347 330
mparry@deltaag.com.au

Grain Marketer – NNSW, Liverpool Plains, Central QLD
Tom Vanzella
Mobile: 0429 022 726
tvanzella@deltaag.com.au

Grain Marketer – SNSW Region (Harden)
Graham Martin-Dye & Mick Parry
(Meg Simmons, maternity leave)
Mick Mobile: 044 347 330
mparry@deltaag.com.au

Grain Marketer – Riverina
Caitlin Bowman
(based in Dubbo)
Mobile: 0417 797 972
cbowman@deltaag.com.au

Delta Grain Administration
Libby Parry
02 6772 0000
lparry@deltaag.com.au

DELTA
GRAIN MARKETING