



March 2008

# Market Strategy

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## Of special note:

Futures have gone off into their own world, according to some traders. Wheat prices may fall if there is fair weather and a better wheat crop.

CBOT corn futures are also inflated above US farm prices and with a big sorghum crop prices are likely to go down once buyers are satisfied and the reality of a lot of sorghum sitting around without a home sets in.

## February Highlights:

Futures - another world	1
Futures and basis	1
Sorghum prices	2
Wheat outlook	2
Cotton prices	2
Oilseed, chickpea	2
USDA supply/demand	2

Use this newsletter with care!

This newsletter sets out to discuss marketing strategies from a long-term perspective. It presents general information to help farmers make decisions, but no responsibility will be accepted by Horizon Rural Management for outcomes arising from the decisions made using the information. Growers should update market information and discuss their decisions with their marketing advisers.

## Futures markets off in their own world

U.S. wheat futures have continued to boom with wheat as high as \$12.60 in recent days. Remember it was only \$3/bu a bit over a year ago! The movement of hedge funds out of stockmarkets into commodities seems more important than the fundamentals.

The world wheat crop is still looking good, with above average snowfalls in some areas like Canada setting up good moisture for the spring wheat crop. The final world supply will depend upon whether yields in Eastern Europe and Australia can rebound from drought.

In its most recent report the USDA again lowered global ending stocks which helped to keep the market going.

CBOT corn futures are also at record highs of \$5.70 a bushell. Projections by the USDA were unchanged and the big difference between the market and what US farmers are getting paid indicates the market is largely driven by speculation.

This year will see a large battle for acres between spring wheat, corn and soybeans. Ethanol is likely to consume 100 mil. t. net after byproduct by the end of 2008. Big increases in crop area in Brazil and Argentina are starting to show with large quantities of soybeans expected to be harvested soon.

## Sorghum crop in record territory

Rain which helped the late sorghum crop is likely to push the total production in Australia over 3.3 million tonnes. It is in southern Queensland, we will have the big glut with around 2 mil. tonnes of supply and only 1 mil. t. of local demand.

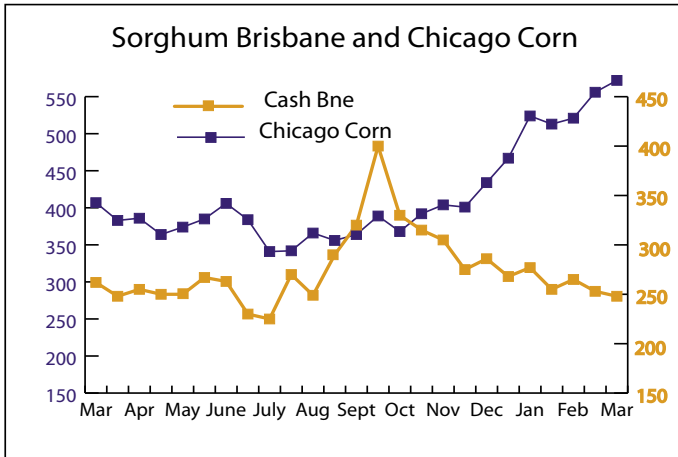
Wheat has been the major feed grain in east coast Australia and with prices over \$400, there is a big incentive to swap over to sorghum, even as far away as Adelaide. Most of the sorghum in NSW (almost 1 mil.t.) will move south.

Some sorghum is likely to go to Japan to fill a gap in their supply in July-August before USA sorghum is available in September. If the CQ crop continues to do well much of this will be exported from Gladstone.

Feedlot demand is down to a little over half of that last year, and many pig farmers have been reducing sow numbers. This is probably happening in other parts of the world including Japan!

Prices have held up well, partly because farmers have been reluctant sellers and buyers are only just becoming aware of the huge size of the crop. History suggests that with a big crop surplus the price is likely to go down \$20-30/tonne.

	Sorghum	Wheat	Cotton		Sorghum	Wheat	Cotton
			2008		export	export	Basis
<b>Pricing</b>	\$/t Bne	\$/t Bne	\$/bale	<b>Futures c/bu</b>	572 May 08	12.2 May	77 May
<b>March</b>	248	500	405	<b>Basis c/bu</b>	29*	40*	-2 c/lb
<b>February</b>	258	480	417	<b>Bushells/t</b>	39.37	36.74	500 lb
<b>January</b>	277	420	430	<b>US \$/t or (b)</b>	236	463	376
<b>Futures</b>	<b>May Corn</b>	<b>May</b>	<b>May</b>	<b>\$A value</b>	0.93	0.93	0.93
<b>March</b>	<b>572 c/bu</b>	<b>1223 c/bu</b>	<b>77 c/lb</b>	<b>Port Price</b>	254	500	405
<b>February</b>	<b>521 c/bu</b>	<b>1110 c/bu</b>	<b>70 c/lb</b>	<b>Downs Price</b>	226	472	
<b>January</b>	<b>524 c/bu</b>	<b>934 c/bu</b>	<b>73 c/lb</b>	<b>Basis* (CBOT and Brisbane track - USc/bu)</b>			



### Sorghum crop has a big surplus

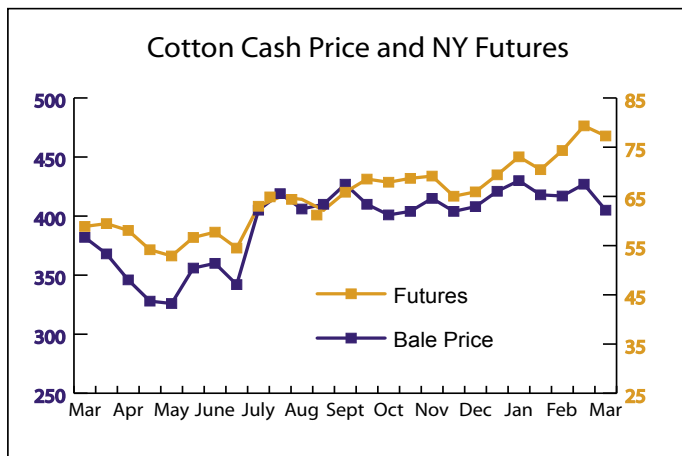
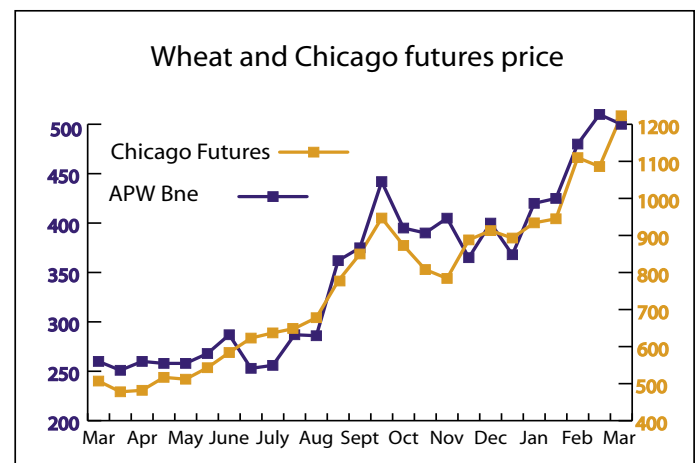
NSW sorghum will head south, while a glut of sorghum hangs over southern Queensland where there is a crop of 2 million tonnes (440,000 ha at 4.6 t/ha). There will be some export of sorghum to southern states and Japan, but this will come to a halt if wheat prices drop to within \$160/tonne of the sorghum price.

It may be a good time to sell some more sorghum rather than wait and see a lot of sorghum is sitting around later in the year without a home.

### Wheat prices are still creating records

The world wheat crop for 2008 is still forecast to be a big one with an extra 8 million ha of wheat to be planted and good snow falls in many areas. Dry weather in some parts of the USA and India are of concern.

Chicago futures prices have reached record highs again in recent times - over \$12.50/bu with reports of the futures market fueling itself. This suggests a rebound to earth in the near future - and if the wheat crop is any good it may fall to between \$7 and \$8/bu which would mean prices in Australia of \$290-330/t.



### Cotton prices up strongly

Cotton prices have increased from 64 c/lb, in December to 77c/lb in February. The cash price is only \$405/bale for the current crop, indicating a negative basis, and suggesting the local cotton firms think the futures market is not in the real world.

However, there are some good opportunities to lock in prices for cotton above \$500/bale in 2009 and beyond.

If the La Nina weather event continues and there is reduced rainfall in southern USA and India, then the firming in the price may remain in place later this year.

World Supply and ending stocks							Price Trends: Miscellaneous Crops			
WORLD	Wheat		Cotton		Coarse Grains		New Crop	Jan	Feb	Mar
	03/04	Mar 08	03/04	Mar 08	03/04	Mar 08				
Production	620	605	116	119	995	1056	Soybean \$/t Toowoomba	600 (edible)	n/a (edible)	650 (edible)
Consumption	607	620	104	124	969	1063	Sunflower - Mono \$/t Narrabri - Mar 08	n/a	877	852
Ending Stocks	145	110	47	59	158	128	Mung bean Cooking - \$/t Dalby	750	800	800
USA	Wheat		Cotton		Coarse Grains		Canola \$/t Pt Kembla	Chickpea Bne	Corn \$/t Downs	Barley \$/t Tba
	03/04	Mar 08	03/04	Mar 08	03/04	Mar 08				
Production	59	56	23	19	319	351		690	723	755
Consumption	32	31	6.2	5	242	280		570	560	670
Ending Stocks	16	6.58	7.7	9	55	39		n/a	n/a	363
*Check www.usda.gov/oce/waob/wasde for the latest								343	300	302