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SQP

WEEKLY MARKET REPORT

WEATHER

There were just a few showers this week tending heavier in the south of the state where water logging is causing some concerns. The radar is remaining quite clear through to Sunday when a front will move through the southern parts of the state again.

TOWN	WEEKLY	July	2011
Winchelsea	10.2mm	31.4mm	400.4mm
Westmere	4mm	20mm	373.6mm
Horsham	4.6mm	25.2mm	356.2mm
Ouyen	4mm	14.6mm	328.7mm
Swan Hill	2mm	12.8mm	276.2mm

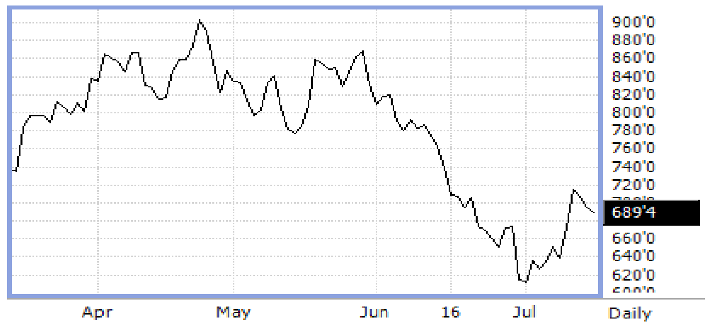
LOCAL

Light falls over the past week(1-5mm in the Mallee 5-10mm in the Wimmera) have benefitted most Victorian grain growing regions however, more is required in the bulk of the state. We are seeing a lot of variation in crops ranging from full canopy cover to mid tillering. Late sown crops have been slow out of the ground, particularly in the Western District due to water logging and low soil temperatures. Growers keeping busy spraying broadleaf weeds and ryegrass, also top dressing in anticipation of decent rainfall. We have seen Grain Markets recover slightly over the past week following the volatility that has prevailed for the past 3-4 weeks, although grower engagement at these new lower levels has been minimal.

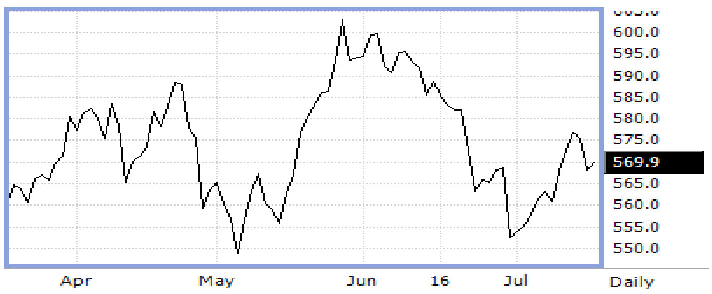
GLOBAL

Following on from the supportive monthly USDA report last week the weather in the US has also helped push the corn and soybean markets in particular higher. With stocks already critically tight there is great pressure on production this year and the extreme heat experienced recently is likely to have some negative impact on yields. The forecast has tempered in recent days however the USDA did release updated crop conditions in which both the quality of both corn and soybean crops were downgraded. Wheat is finding some pressure from other areas and in particular from the return of Russia to the global trade market with consumers beginning to have more confidence purchasing their wheat from the Black Sea. Prices are some $30-50/t below those of the US and may impact on the amount of exports and ultimately stocks from the US. Canola prices have also fluctuated in recent sessions as initial concerns over the state of the crop in the west of Canada were alleviated which lead to profit taking by traders. The weather will continue to be the big story as we move through critical growing stages in the US.

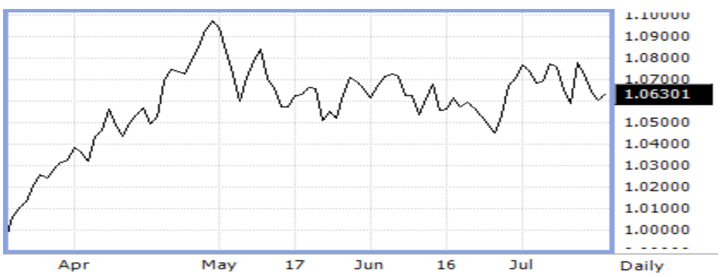
SEP '11 CBOT WHEAT



NOV '11 WCE CANOLA



AUD/USD



CONTRACT	LAST	DAILY	WEEKLY	MONTHLY	YEARLY
CBOT Sep 11 Wheat	USc 689.50	-5.25	-3.5%	-2.6%	4.7%
CBOT Sep 11 Corn	USc 696.25	-5.00	1.4%	1.3%	65.9%
CBOT Sep 11 Beans	USc 1,382.25	-0.75	0.5%	3.7%	41.2%
ICE Nov 11 Canola	AUD 569.90	1.70	-0.5%	-2.3%	36.6%
ASX Sep 11 Wheat	AUD 243.50	3.50	0.4%	-3.5%	-15.7%
ASX Sep 11 Barley	AUD 212.80	7.30	4.8%	-3.7%	-16.7%
ASX Sep 11 Canola	AUD 535.00	0.00	0.0%	0.0%	10.1%
AUD/USD spot rate	1.0634	0.00	-1.3%	0.2%	22.4%
AUD/CAD spot rate	1.0189	0.00	-1.2%	-2.0%	11.2%
ASX/CBOT Wheat basis	AUD 3.54	-6.29	7.21	-0.81	-7.07
ASX/ICE Canola basis	-AUD 27.56	-0.36	-3.29	3.03	-58.28

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FOCUS

Following on from the monthly USDA report released last week, in which estimated corn stocks in particular were well below market expectations, the weather in the US is now creating headlines as extreme heat is placing pressure on corn yields through key growing areas of the Midwest. With US corn stocks expected to reach a 15 year low at the end of August, and dwindle further again next year, there is a heavy reliance on the corn crop this season to meet the projected demand and replenish supplies. However there have already been issues with delays in plantings and now, with the corn crop in the critical pollination period, the hot and dry weather is beginning to take its toll on the yield prospects of the corn crop as well.

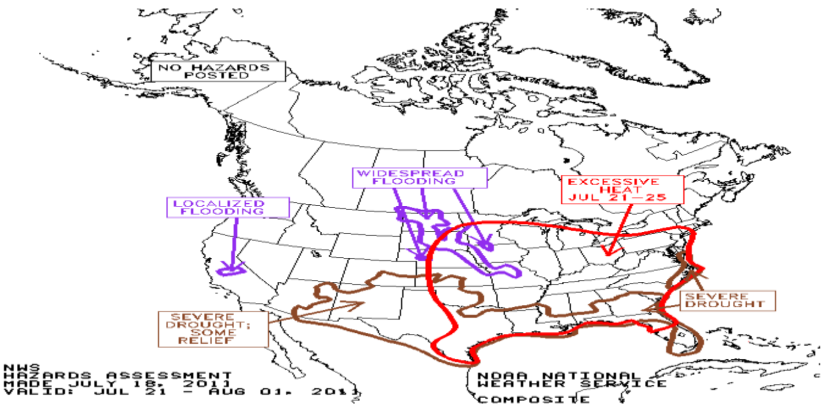
We have seen in the past that hot weather during the pollination period has the potential to reduce yields significantly. In 2002 heat stress during the same period resulted in yields 12% below trends, while in 1995 it was a similar story and yields subsequently came in 18% below trends. We are already seeing signs that the heat is having an impact as according to weekly crop condition figures released overnight by the USDA the corn crop is now rated at 66% good-excellent, down 3% from this time last week. It is also having an impact on the soybean crop which was also downgraded 2% to 64% good-excellent.

This scenario has been the major concern ever since the USDA 'found' 370mbu of corn back in their quarterly stocks report in June. The subsequent sharp fall in prices allowed consumers to purchase further supplies despite reports coming out of the US suggesting that stocks were already very tight. The subsequent monthly USDA report last week highlighted the stimulation in demand that resulted from the fall in prices and also raised serious concerns over the accuracy of the quarterly report by only adjusting the 10/11 feed figure by 150mbu instead of the full 370mbu. The result is that any production issues the US experiences in the upcoming months could potentially have huge ramifications on stocks and ultimately prices.

The forecast has eased slightly in the near future for the Midwest, however some damage is likely to have occurred already to the corn crop and further heat stress in the next few days is still a possibility. Traders are watching the weather forecasts very closely at the moment for any indication of further heat stress and we can therefore expect the markets to remain volatile. The oilseed sector should also pick up some of this volatility as the US soybean crop comes into its key development stage in the coming weeks.

The volatility in the corn market should also have some impact on local feed grain prices, although the congestion in the ports in the east of the country is still keeping prices below those around the globe and is a source of frustration for growers. If this can clear then growers holding old season grain may take advantage of future volatility stemming from the corn market.

US WEATHER FORECAST



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