DELTA

GRAIN MARKETING

OUTLOOK

JUNE 2022

Independent Brokers. Smart Advice.

DELTA GRAIN OUTLOOK – *Monthly Analysis and Strategy*

Introduction

Over the past month we have a seen a change in market sentiment in world grain markets. While a capitulation in the U.S. stock market explains some of the jitters from the investment community in taking profits on some of their winning ag trades, some markets are behaving like they are tired of going up. There's only so much bad news a market can absorb, and conditions have started to improve with the U.S., Canada and Europe certainly receiving some handy falls of rain over the past month which has eased some pressure on yield forecasts. Oilseed markets are also looking toppy, with canola prices slipping in both Canada and France.

Expectations for the Australian wheat crop have eased about 10% to 30Mmt as rain across NSW and Southern QLD has been sufficient to reduce the planted area for the winter crop. Canola areas have been reduced as rain waterlogged some crops and a replant was made impossible due to wet weather. Fortunately, the rain looks to have finally cleared for a couple of weeks at least, so growers will be doing all they can to get back on the country to finish their cereals.

We have seen chickpea area cut back on both low demand for old crop, and also the spectre of a wet winter not being conducive to a healthy chickpea crop. This area will likely be replaced by more wheat and barley, or fallowed through to sorghum and cotton in the summer.

Three weeks of dry weather would go long way to help recover winter crop planting. Time will tell.

Wheat Outlook

INTERNATIONAL

- The global wheat outlook for 2022/23 is for lower supplies, reduced consumption, fractionally lower trade, and slightly lower ending stocks.
- Supplies are decreased by 1.7 million tons to 1,052.8 million as lower India production more than offsets an increase for Russia.
- India's production is lowered 2.5 million tons to 106.0 million as extreme temperatures in March and April reduced yields during grain fill.
- Russia's production is raised 1.0 million tons to 81.0 million with all of the increase in winter wheat on generally favourable weather conditions to date.
- India's exports are reduced 2.0 million tons to 6.5 million as the government intends to restrict exports to some destinations to ensure sufficient domestic supplies.
- **Russia's exports are raised 1.0 million tons to 40.0 million, which would be the second largest on record.**
- Russia's supplies are projected higher for 2022/23 and its export prices are more competitive than most other exporters.
- Projected 2022/23 world ending stocks are lowered 0.2 million tons to 266.9 million, a six-year low.
  Source: USDA WASDE Report

WHEAT Chicago SRW Futures **DEC2022** - Weekly chart

The US winter wheat crop is now more than 80% headed and so while recent rains were helpful, they were far too late to turn the crop around. The Spring wheat crop will gain significant yield advantage though, while Russian crop conditions are very good and Western European crops are improving.

India has not recovered from the heat blast in April May, with a smaller crop forcing the government to cut wheat exports.

We will continue to focus on all these developments as they effect final yields by July - September.

DOMESTIC

Old crop wheat values are fantastic if you can deliver the product direct to port by truck, but values in the system remain heavily discounted because of train line disruptions, especially for the Port Kembla line. The Brisbane/Northern NSW Zone is suffering to a lesser extent, but the inland rail development has closed the line between Narrabri and North Star, and trains are in short supply. As mentioned in our introduction, the logistics issues are very real and upcountry prices are discounted heavily as a result.

There is a dilemma in the new crop pricing which we are yet to fully solve. As we have highlighted, the world price of wheat has achieved extreme highs in recent weeks, and the Dec22 and Dec23 swaps are still in the mid AUD$550's/tonne level. The problem is that domestic basis is just too low to accept in our opinion.

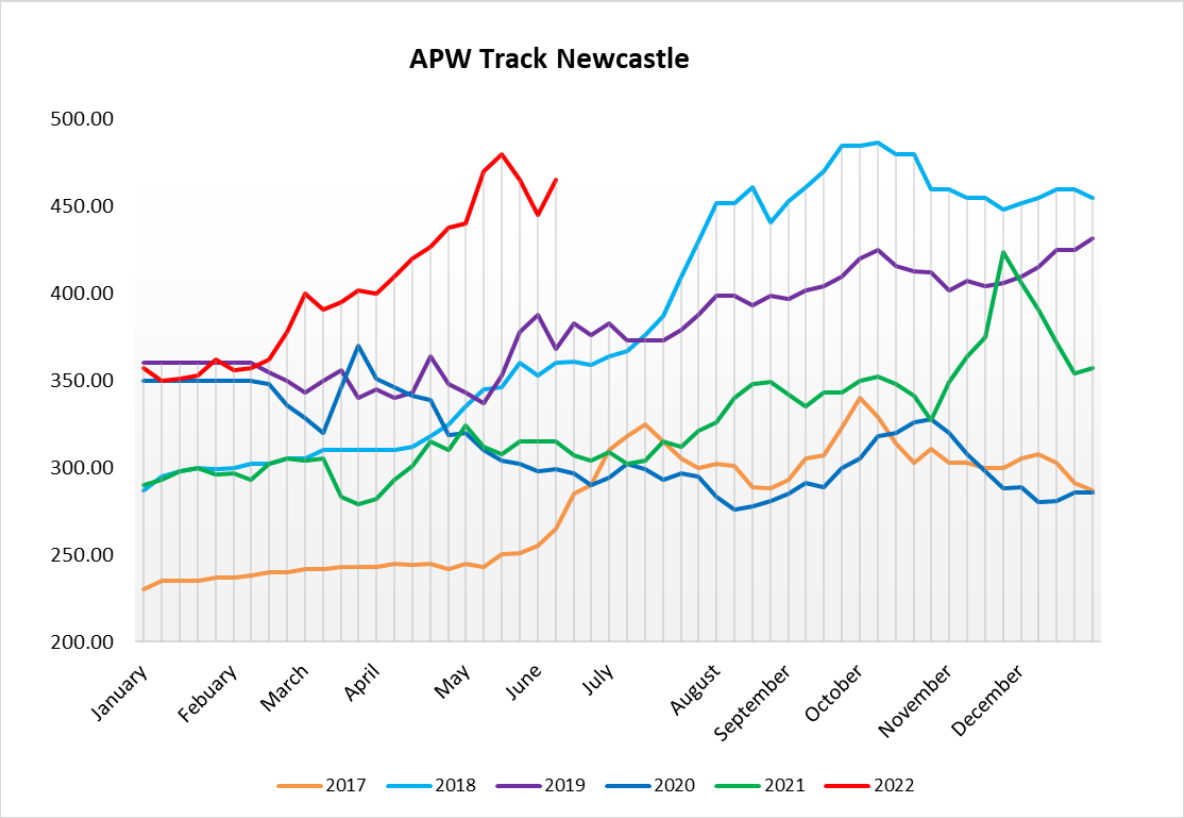
Firstly, flood risk is heightened, and large areas are too wet to plant. (ie the forecast record crop is not assured)

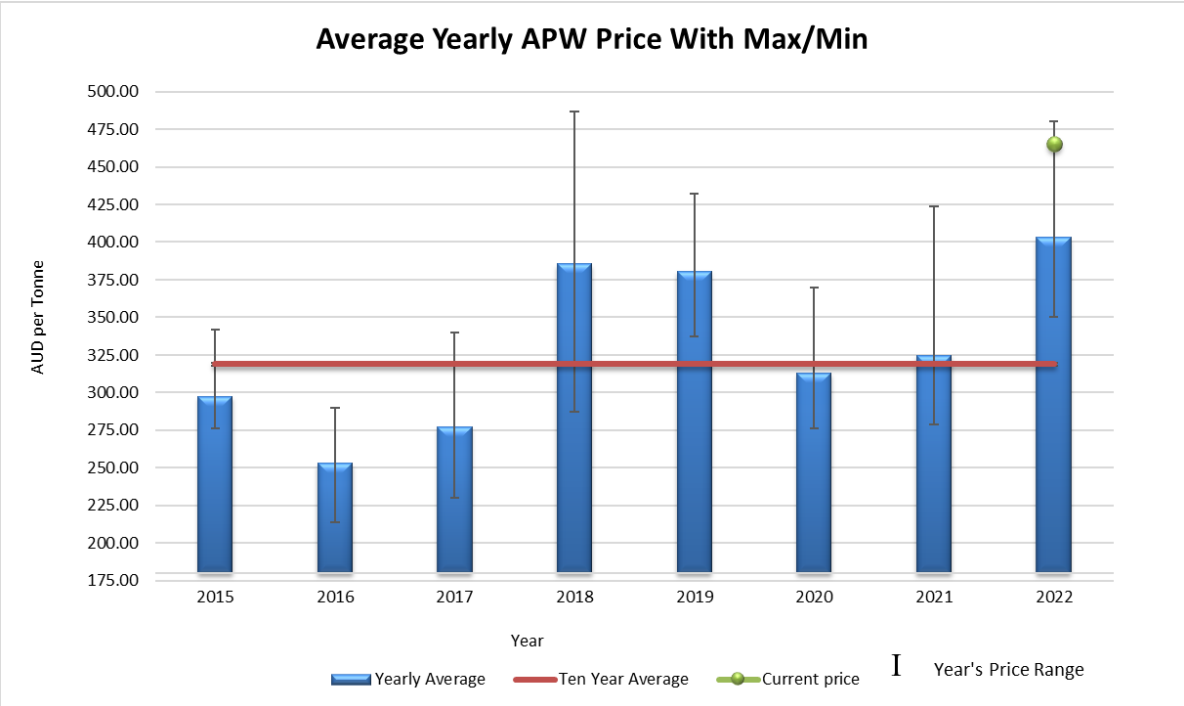
Secondly, the spreads to SFW1 and the lower feed grades, on the Multigrades, are at even more outrageous discounts of -$120 to -$140/tonne from APW.

Lastly, the carryover stocks as estimated by the USDA are tight enough to warrant above average basis if the national crop does not meet the 30Mmt level that is currently forecast.

Therefore, for price action on the world stage says sell, but the current bids locally look $100/t too cheap.

One final potential problem is that if you have a raft of forward sales on multigrades and you are unable to deliver, you can bet that the buyers will suddenly move their bids closer to the world price, meaning a substantial washout risk.

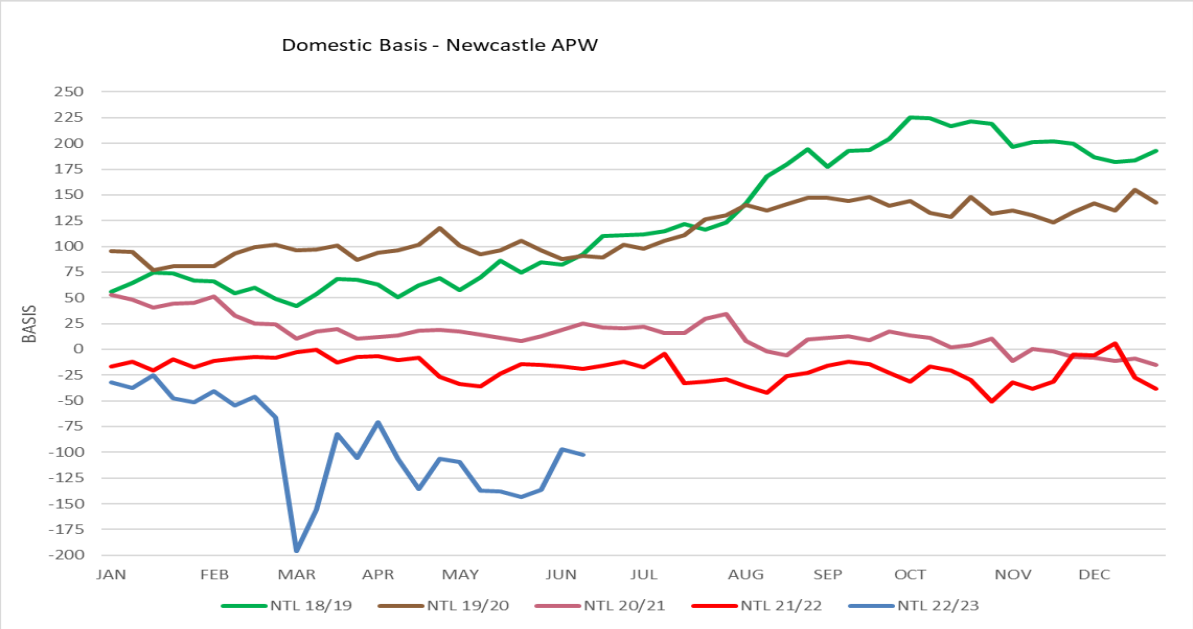




Australian Wheat Balance Sheet estimate

Crop Year	Carry-In	Production	Imports	Dom Feed	Dom Food Use	Total Dom	Exports	Ending stocks
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	3.10	8.00	8.00	2.35
2020/21	2.25	33.37	0	5.17	3.50	8.40	23.70	3.52
2021/22 est	3.50	36.50	0	5.50	3.50	8.25	25.00	6.75
2022/23 est	6.75	29.50	0	5.50	3.70	8.00	24.00	4.25

No change to our Australian Balance sheet estimates this month, but the USDA predict a 4.85MMt carryover at October 2022 dwindling to a 3.48MMt carryout by October 2023. That number is similar to a post-drought figure. There is room for our balance sheet to tighten further on lower production and with basis so very low, exports should remain at record highs.



2022 Basis remains extraordinarily low, as the chart above clearly demonstrates.

Wheat Strategy

CENTRAL QLD

CQ growers need to get a crop in the ground before considering any kind of forward sales and even then, the difference between local and international values still looks too wide and does not represent the risks the Australian crop faces between now and harvest. We advise caution on forward sales using multigrades at this time.

SQLD/NSW

OLD CROP:

As we have discussed in our wheat commentary, the structure of the market is extremely supportive of old and new crop values, but everything has its price, and we think it is time to sell another tranche.

NEW CROP: Prices have held around $450-465 Track equivalent at East Coast ports, while the December 2022 swap value is at AUD$573/tonne, representing a negative basis of -$108/tonne.

Right now the market doesn't think the World's supply constraint will be solved until after March of 2024 based on forward futures prices. This estimate seems way too pessimistic, surely these epically high prices will cure the shortage of grain way before then? Further, the absurdly large discount to SFW1 quoted by Graincorp in their Fixed Spread Multigrade at -$140/t from APW represents a high risk for growers, especially if a washout were required at harvest.

Sell up to 15% of a minimum crop estimate if not subject to flood risk, otherwise sit out of the market for now.

Canola Outlook

INTERNATIONAL

- Global oilseed production for 2022/23 is lowered 0.3 million tons to 646.8 million as lower sunflower seed is partly offset by higher rapeseed and soybean output.
- Sunflower seed production is lowered and soybean production is raised for Ukraine based on planting progress reports.
- Rapeseed production is raised for Australia on higher harvested area.
- Global 2022/23 soybean ending stocks are raised 0.9 million tons to 100.5 million, driven mainly by higher beginning stocks for Argentina and Brazil.
- Argentina's 2021/22 soybean production is raised 1.4 million tons to 43.4 million on better-than-expected reported yields.
- Brazil's 2021/22 soybean production is raised 1.0 million tons to 126.0 million on higher area reported for Mato Grosso.

MATIF French Rapeseed Futures FEBRUARY 23 Weekly data

The USDA data suggests global canola/rapeseed production is set to exceed consumption for the first time in four years in 2022-23.

Current forecasts show China increasing output by 700,000 tonnes year-over-year, the European Union increasing by 985,000 mt year-over-year, and the other producers category is forecast to increase production by 328,000 mt. At the centre of the radar is the forecast for Canada, where production is forecast to increase by 7.4 Mmt from 2021-22 to 2022-23, representing 78.6% of the global increase in production. This estimate seems incredibly optimistic!

Given the challenges faced in spring planting across the Canadian Prairies, market watchers are best advised to be ready for downgrades to the current estimates. A struggle to seed crops in eastern Saskatchewan and Manitoba will result in a reduction in overall acres seeded, with Statistics Canada due to release updated acreage estimates on July 5.

In addition to spring seeding weather challenges, a move to switch from longer-season crops to crops such as canola have led to shortages of seed in some areas, while many acres have been seeded in far-below optimal conditions. The crop is late overall, and one example is seen in the Alberta Crop Report where an estimated 30% of all Peace Region crops have emerged, well-below the five-year average of 68% for this week.

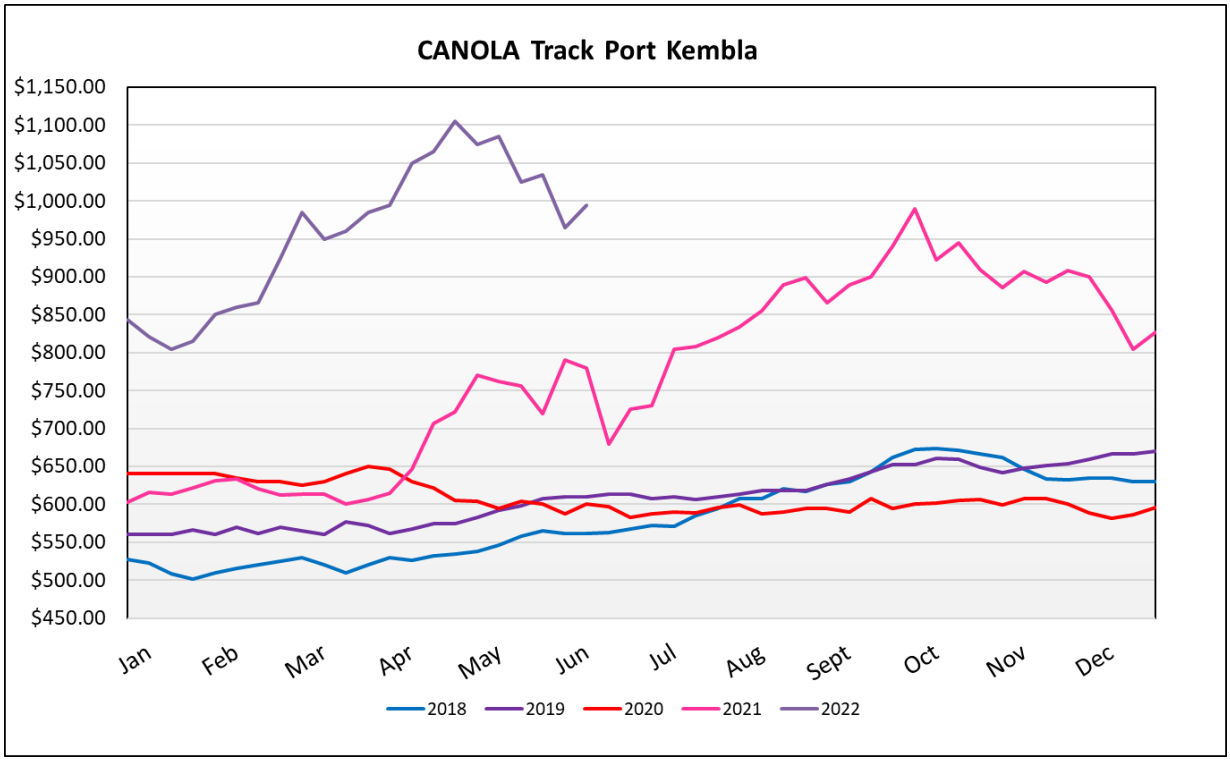
Australian production & exports –Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) estimate production and exports for 2022/23 at 4.9Mt and 4.0Mt, down 22% and 17% respectively on 2021/22. The reduction reflects challenges in planting the crop in NSW.
All this information above means that these key areas of the globe are currently estimated to produce 44Mmt of rapeseed for the 2022/23, up 13% year-on-year. This will be the highest amount of rapeseed produced (by these countries) since 2018.

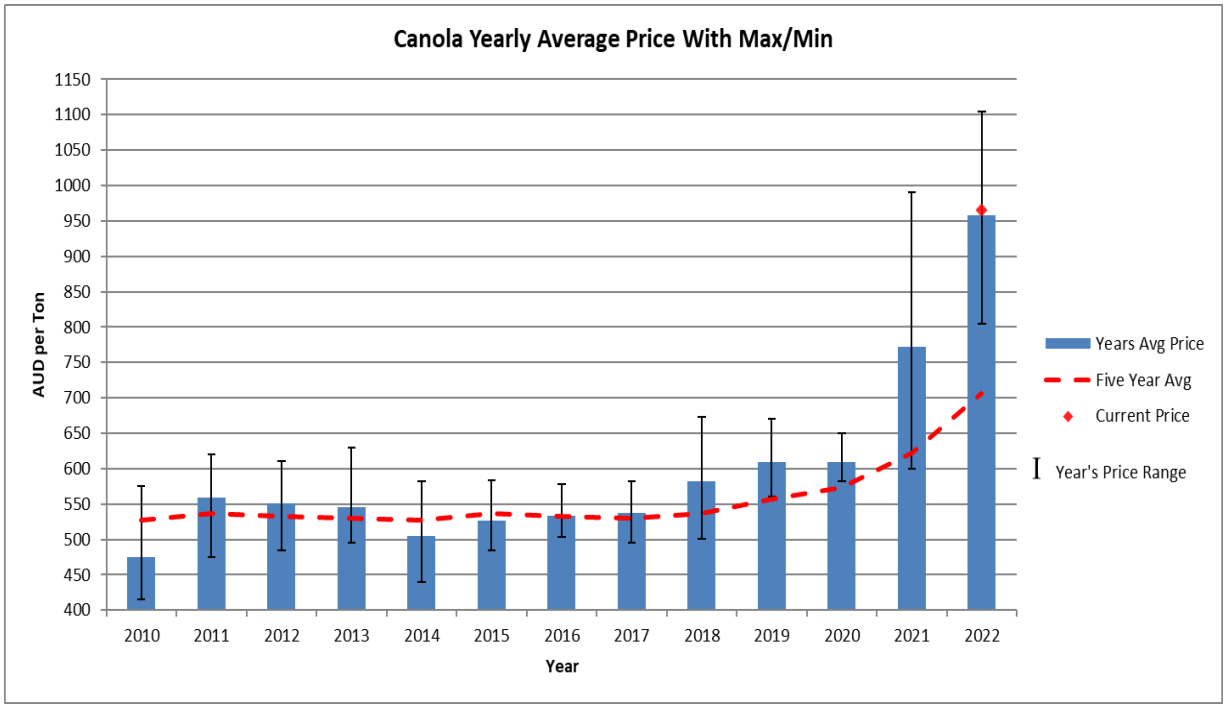
This increase in production does not necessarily mean prices are going to fall significantly, but we need to be on notice that prices could come under pressure by midyear if the Northern Hemisphere crops are still on track to resume average yields.
Data sourced from the USDA and AHDB UK and ABARE and The Progressive Farmer.

DOMESTIC

With old crop sales close to complete across the Delta network, our focus is now on the season ahead. New crop is bid $995 Track equivalent at the time of writing against February 23 futures in MATIF at $1168/t, which represents a negative basis of some -$172 or -15%.
Basis is low but is partly justified by the export uncertainty as we outlined in our wheat comments. Logistics issues plague the industry at the moment, and it is difficult to see the situation improving even in the medium term. However, the canola planting window has now closed for all but the most adventurous growers, and there were many hectares that were too wet to plant. This will be supportive of new crop pricing to some extent.

Current new crop values represent a huge opportunity for canola growers, and so it will be a struggle between the production risk and the price risk to get the marketing program mix right this season. We are starting to think that there is not much more bullish news left to draw upon, though there are enough production issues in France and Canada to keep the market on its toes until mid-July.





Canola Strategy

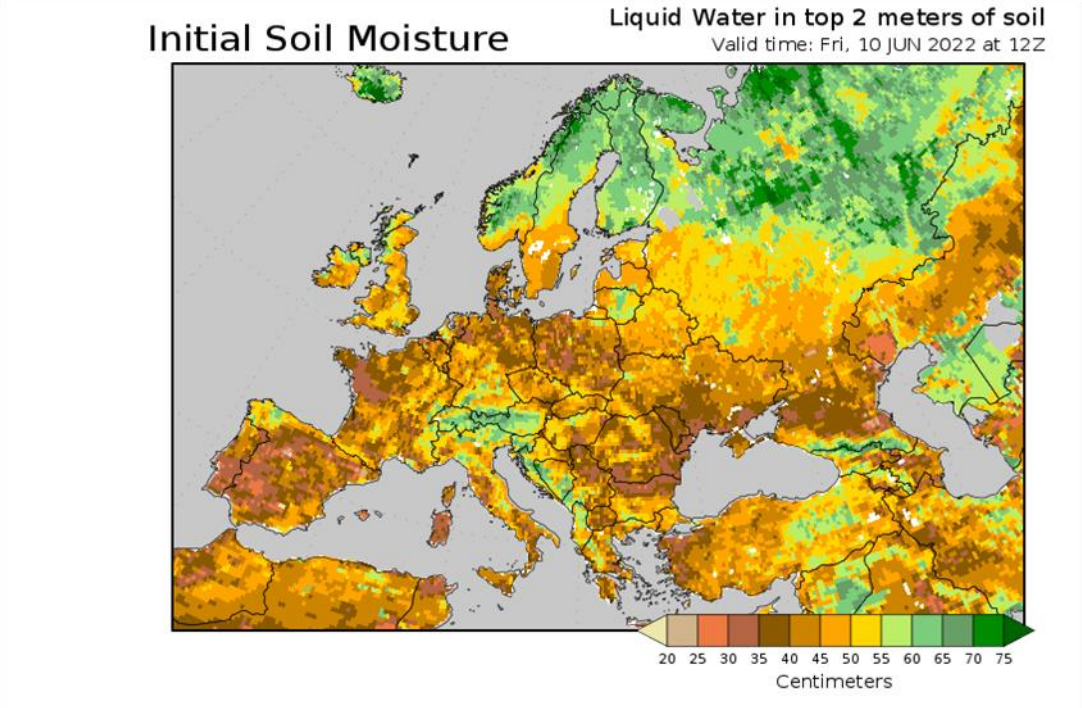
NEW CROP: We favour making forward sales up to 20% of the minimum crop estimate for those with crops established and minimal flood risk.

Barley Outlook

INTERNATIONAL

US corn numbers were relatively unchanged with forecast production the same as last month at 367 MMT off a 177bu/ac yield. Carry in was increased 1.1 MMT for a total supply of 405.7 MMT. A couple of small increase in usage leading to a projected ending stocks around the 35.5 MMT, a 2 MMT decline from last year.

On the international front, the outlook is for larger production of course grain (barley & corn), lower trade, and marginally higher ending stocks relative to last month. Corn production is raised for Ukraine, reflecting higher area based on data reported by the government.



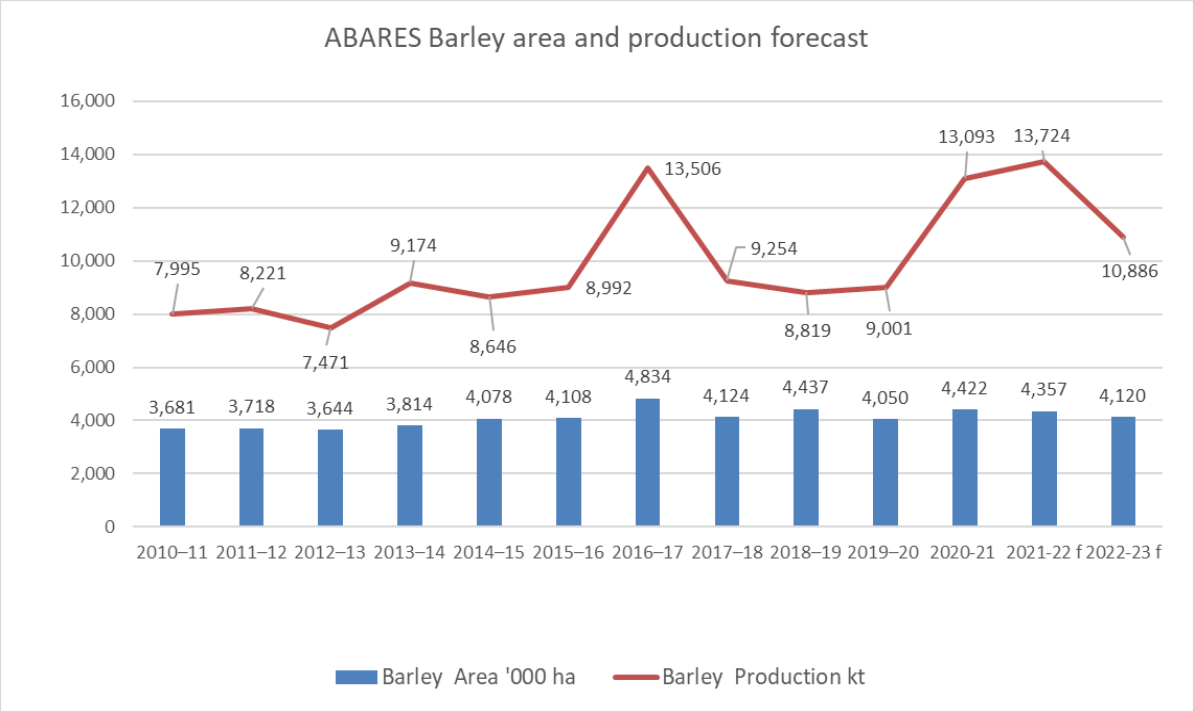
Barley production is lowered for the EU, mostly on forecast declines for Spain and France where we have seen the worst of the dry weather. As we can see in the Map above, soil moisture is still deteriorating in Western Europe and while harvest will be starting in the next few weeks, we think production will be lower than the current forecast. France have called their barley crop 64% good/excellent. Production for Australia and Ukraine is reduced based on declines in area.

Major global trade changes for 2022/23 include larger corn imports for the EU, but reductions for Morocco, Jordan, and Peru. Barley exports are lowered for Australia, the EU, and Ukraine. Foreign corn ending stocks are raised relative to last month, mostly on increases for Ukraine and Russia. Global corn ending stocks, at 310.5 million tons, are up 5.3 million from last month.

US corn has rallied over the past week with some of the weather forecasts showing a return of the hot dry weather as La Nina persists over summer. The market will be hanging on each forecast, and it feels like the lows are in for now.

DOMESTIC

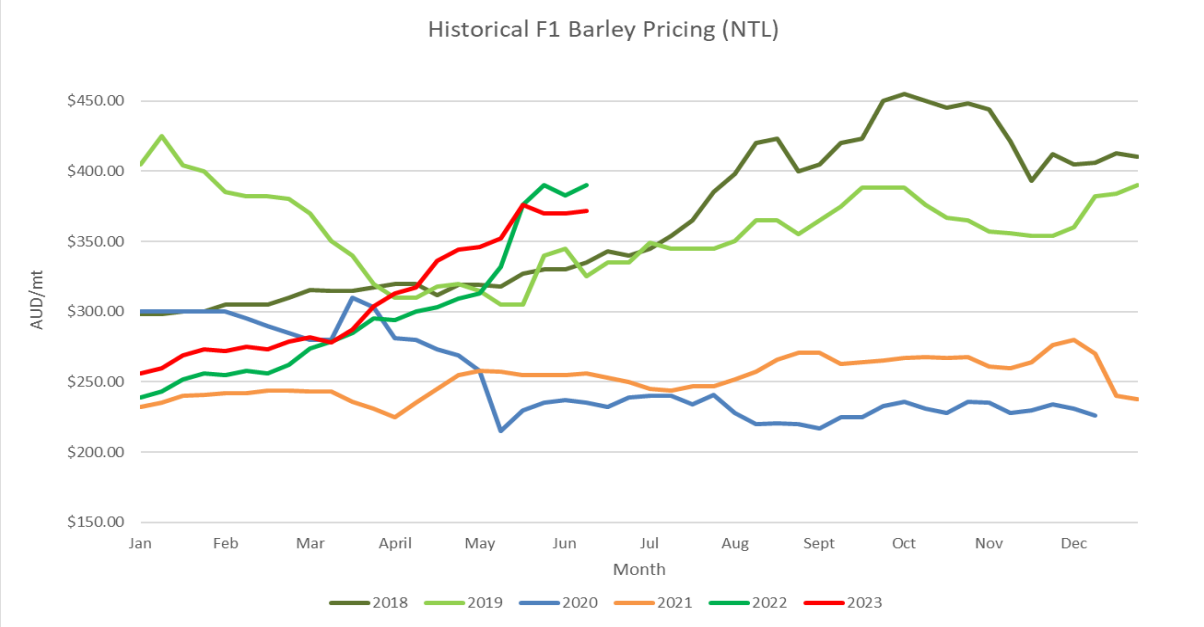
The June quarter ABARES crop forecast has pegged barley planting at 4.12 million hectares for season 22/23 and production at 10.8 mln mt. This would be the 4th largest barley crop in history and reflects the fantastic moisture profile across most of the country. This, combined with historically high prices, big export demand and inflationary pressure on economy has made barley an attractive option for growers.



With another big production year looming, we will again be looking to export the majority of the barley we grow. So far this year we have not exceeded the sales we made in 20/21 and this means we are more than likely to have a significant carry-in going into the 22/23 harvest.

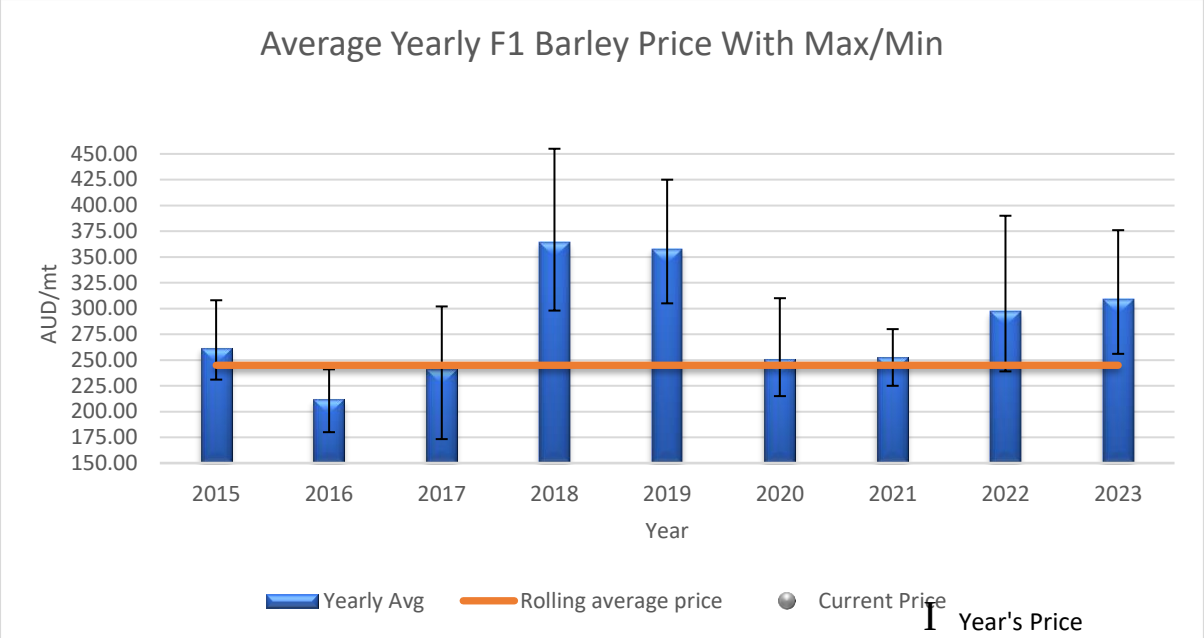
Despite this, the broader market strength and the uncertainty that remains especially in Europe has nullified the loose supply scenario we are facing here in Australia. Price remains just off the highs for the year in new crop and are still hitting new highs in the old crop market.

Old crop demand continues to ramp up and the spread between SFW1 and Bar1 has narrowed significantly. Barley delivered onto the Darling Downs is now sitting around $10.00/mt under wheat. We have been saying for some time that the feed market is keen to own Bar1 as the quality and nutritional value is in many cases superior to weather damaged wheat.



The continued wet weather has also significantly delayed planting. This was mentioned in the ABARES report, but the numbers still seem to reflect the planting intentions before the surveys were done. We expect the area will be less and final production to be under 10MMT given the anecdotal evidence we have gotton from our growers.

Late planted barley (Jun/Jul) is still an option and has been mentioned by growers over the past 2 weeks, but given the price spread to wheat we do not think it will make up for the lost Ha moving forward.



Both old and new crop prices are on or near the highs reflecting the uncertainty around barley supply at present.

Barley Strategy

NNSW & DELIVERED DOWNS

CURRENT CROP: Prices remain at or near the top and we are quite comfortable in making sales at these levels. Loading trucks ex-farm remains challenging and we have seen significant premiums for ex-farm barley over the past few weeks. Prices are still in the mid to high $400's delivered Downs. System stock also well worth offering above the published bids.

NEW CROP: Waterlogged fields and sorry looking stands are par for the course on the east coast. Prices are solid but are still relatively cheap compared to new crop wheat. Would argue that forward sales at this point are not warranted.

LIVERPOOL PLAINS & CENTRAL WEST

Old crop ex-farm bids have it $400.00/mt on the Plans this week and we see this a good price to sell if you have some tonnages left.

NEW CROP: Waterlogged fields and sorry looking stands are par for the course on the east coast. Prices are solid but are still relatively cheap compared to new crop wheat. Would argue that forward sales at this point are not warranted.

SNSW & RIVERINA

Southern old crop bids remain firm with Melbourne Bar1 bid/offers $455/$465. While the Goulburn Valley is well sort around the $430 mark. We recommend selling into the strength at anywhere above $400 farm.

New crop prices are historically high and for many in the southern NSW where waterlogging is not an issue the opportunity to sell forward is certainly worth looking at 5%-10% on an average yield at this stage.

Sorghum Outlook

INTERNATIONAL

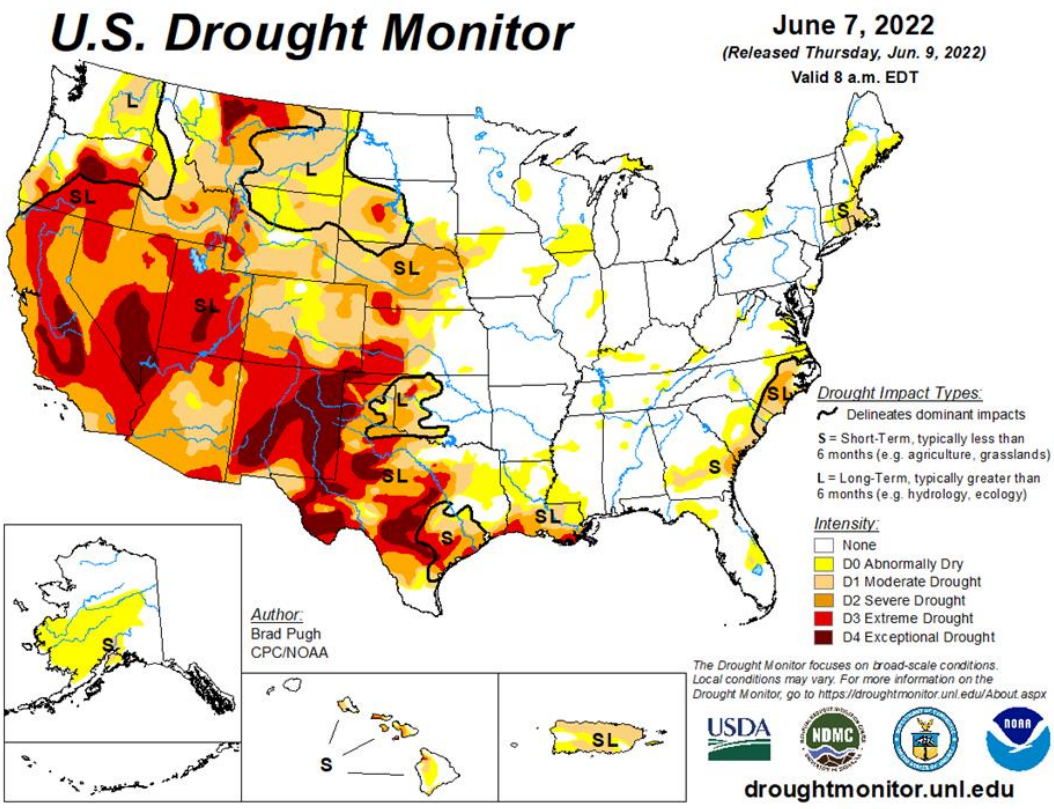
Zero changes in the USDA sorghum numbers. Supply pegged at 11.2 MMT total use at 10.5 MMT leaving a carryout of 650,000mt. Not a big buffer against any production hick up and as we will explain below there are some head winds in the US sorghum states.

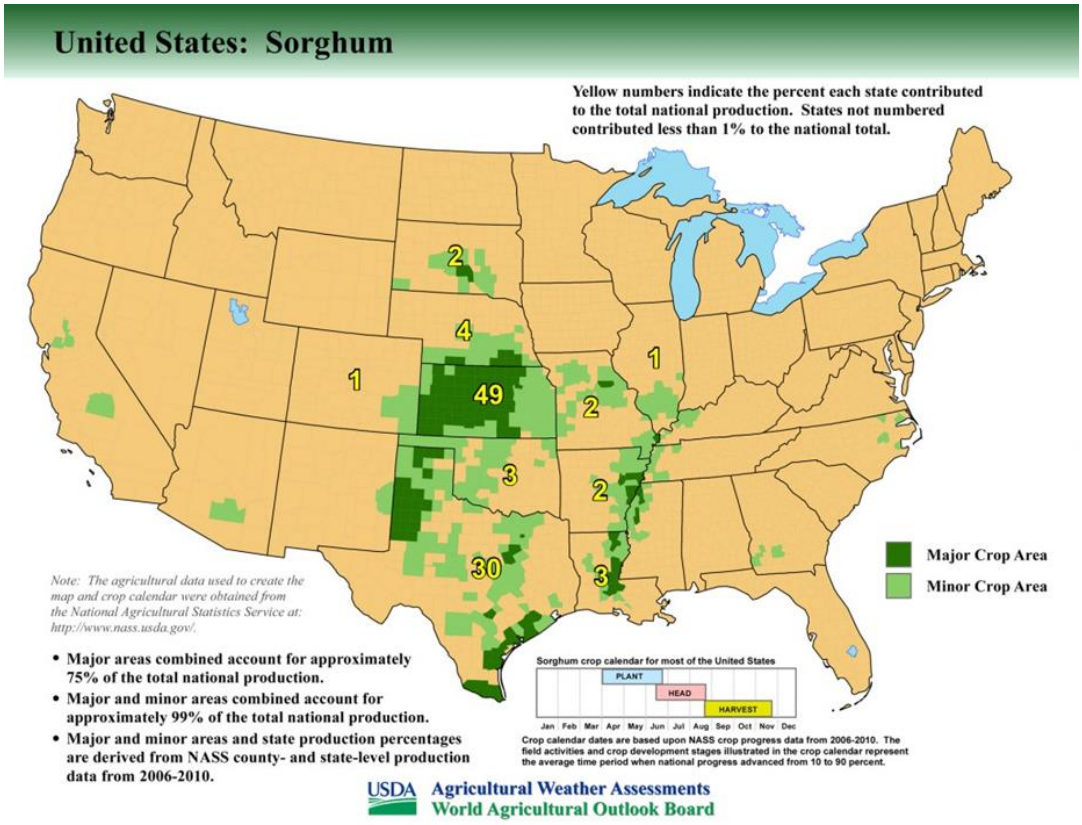
	US FOB Texas	Aussie dollar	Brisbane Track Mar/April	FOB Cost	Aussie Dollar Value	Basis
Month	Price					
July	$386.99	0.7121	$378.00	$65.00	315.4603	-$71.53
August	$381.57	0.7124	$378.00	$65.00	315.4603	-$66.11
Sept	$370.75	0.7122	$378.00	$65.00	315.4603	-$55.29

US sorghum prices have softened substantially over the past month. The sorghum plant is under way and despite the very dry start to the season, recent rain has helped get the crop up over the past few weeks. The latest crop progress report out of the US has sorghum 56% planted vs 55% for average for the last five years. Values have also fallen due to the competitiveness of US sorghum versus Argentinian and Aussie offerings.

US prices have now been discounted enough that given the rise in our freight and fobbing cost we are less competitive against our major competitors into Asia. This is important and may signal that sorghum prices may struggle to push up significantly higher from current levels.

Conditions in the US are still very dry and as we can see from the latest US drought monitor Western Kansas, Oklahoma and Texas are still experiencing severe drought in patches and this will have a big effect on sorghum yields if it persists through the growing season.



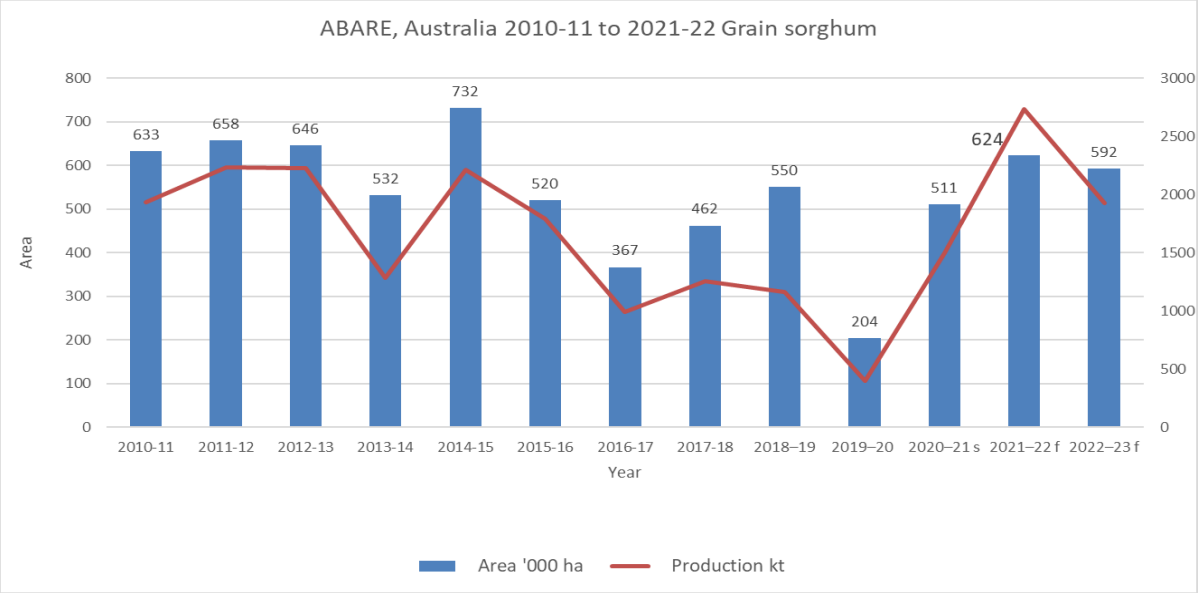


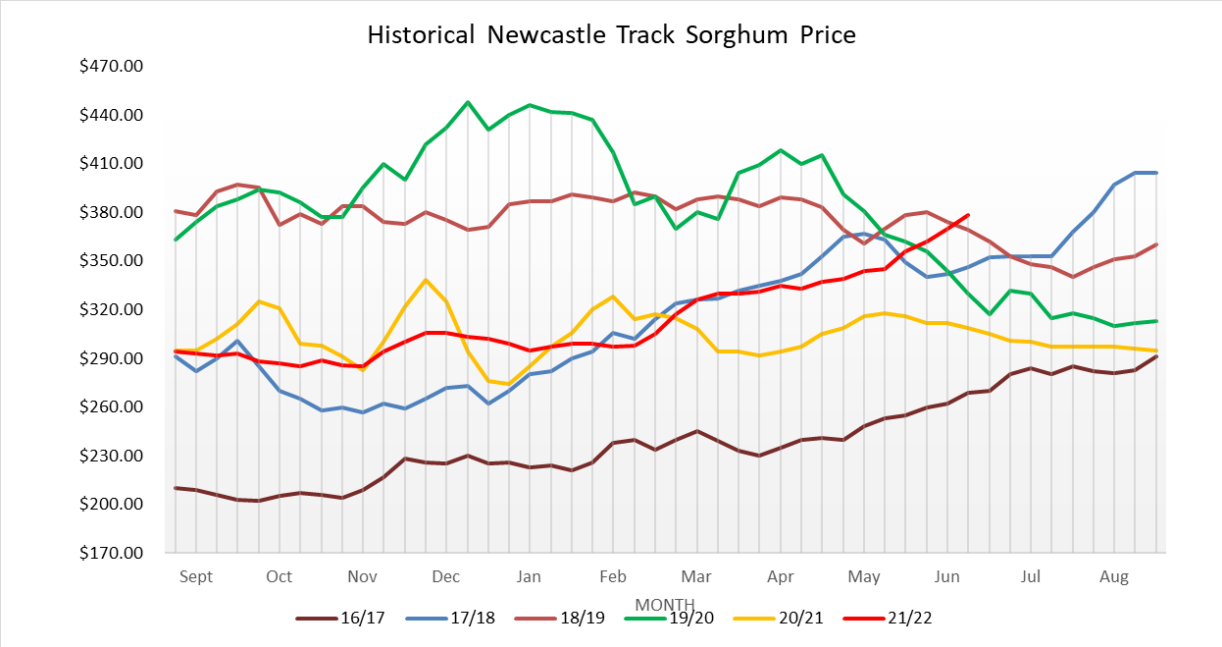
DOMESTIC

The June ABARES report has kept the 21/22 sorghum crop at the same levels as last month with production at 2.7MMT still a record by some margin. This may be a little high now given that the wet and cold conditions have persisted over Central Queenland and the Liverpool Plains for the last 6 weeks. The bulk of these areas are still to be harvested and we are already seeing yield and quality declines across these areas.That being said, we are still potentailly looking at a 2 MMT crop this year.

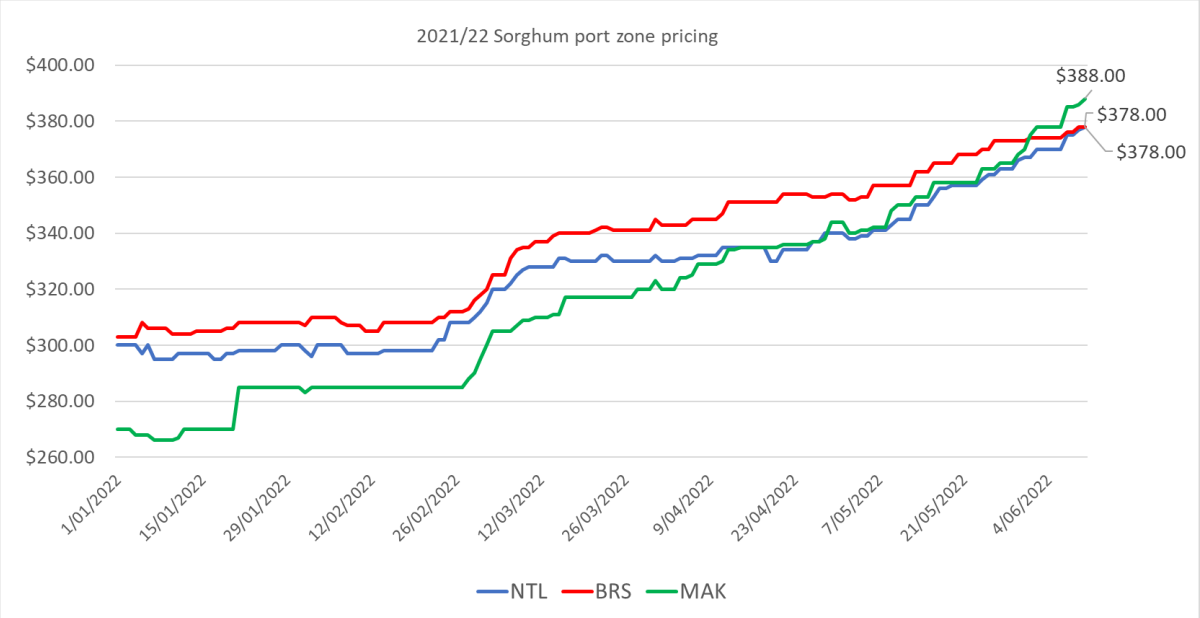
ABARES has also publised the first Summer crop forecast projections for the 22/23 crop year. The initial numbers show a planted area just under 600,000 Ha and a potential crop volume of just under 2.0 MMT. This would be the 3rd highest total in history if it comes to fruition. Given we may see some Ha that are not able to planted to winter cearels due to water logging switched to summer crop, the potential for this number to increase is ceratinly there.

As far as pricing goes it has been a one-way street since the start of the year. Values have steadily risen and as the wet weather has severely delayed harvest and reduced the amount of sor1 for sale. Momentum has certainly picked up over the past 2 weeks as export slots open for July shipment in both CQ and Newcastle. China remains the biggest market at present with 95% of sorghum exports going to the China.





Central Queensland has seen the best increases over the past week with quality issues compounding a severely slow harvest pace due to high moisture. Competition between exporters has given growers who have sorghum off plenty of fire power when negotiating prices. This has led to new highs over consecutive days.



Central Queensland sorghum is now the most expensive on the east coast.

Sorghum Strategy

CENTRAL QUEENSLAND

The weather has cleared but remains cool and moisture is stubbornly staying above 13.5% but we expect harvest to get going in earnest over the next 2 weeks. Prices are at the top of the range, and we recommend selling into the market as harvested. Offers over the bids are well worth pursuing.

Downgraded sorghum is providing its own problems and we are just starting to see feeders look at buying some small parcels to try in the ration. Discounts are huge at this point but may be the only way we can get the Sorx moved.

NNSW

Liverpool Plains and Northern NSW harvest is also just getting back up to speed. Frosts have been welcome and there are some good homes for high moisture Sor2 into boxes at present. Ex-farm bids are also strong, and we see this continuing into the back end of June. Sales are warranted given the price and high demand for off spec grain.

Chickpea Outlook

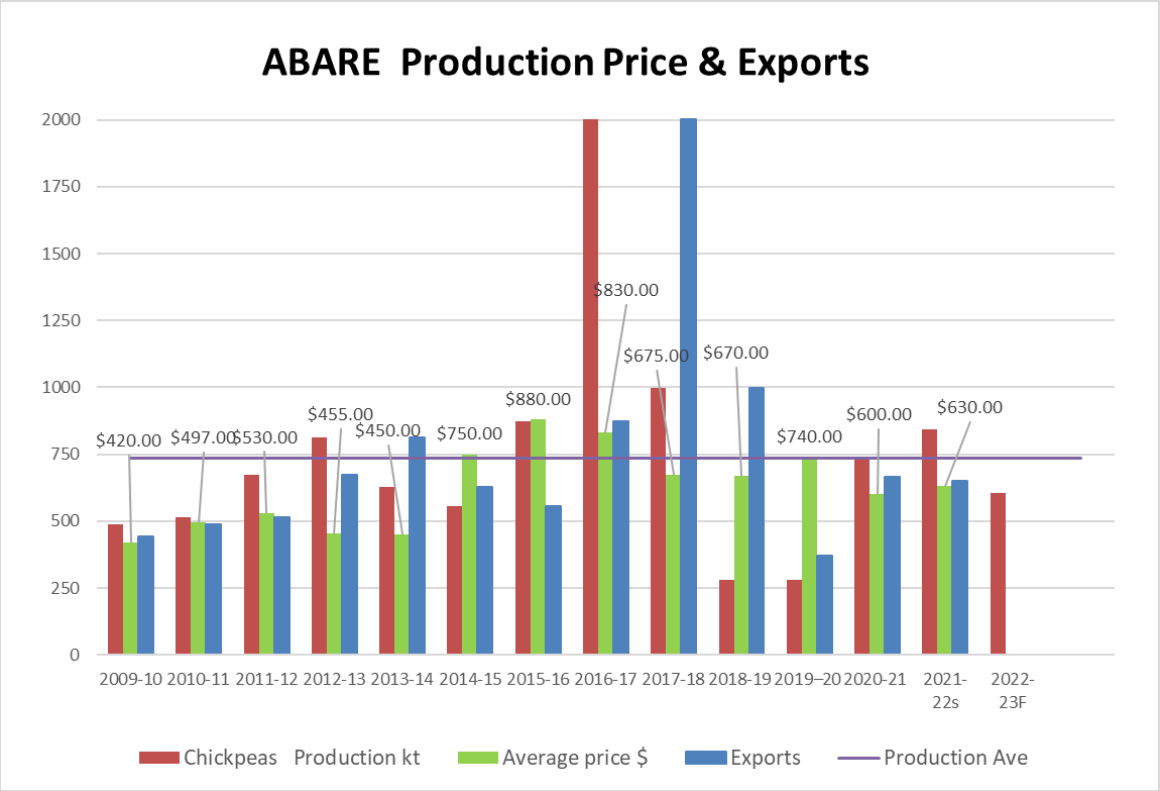
INTERNATIONAL:

The monsoon is late arriving in India but there is no talk of crop issues at this point. No change to the tariff situation and we do not see this changing this year.

Bangladeshi shipments were big in April as boats finally left CQ ports. Over 100,000mt of chickpeas have now been shipped to Bangladesh Feb-April this year. The majority of these have come out of Queensland especially CQ where quality has been all Chk1. Exports to Bangladesh will slow down now as elevation capacity is very tight east coast.

Pakistan remains a buyer of boxed chickpeas with a less than ideal growing season there, while an issue, is still not translating to massive sales. Only 24,000mt of chickpeas were shipped to Pakistan from Feb to April. Political rumblings in Pakistan and a looming election in India are not conducive to Aussie chickpea demand moving forward.

DOMESTIC:

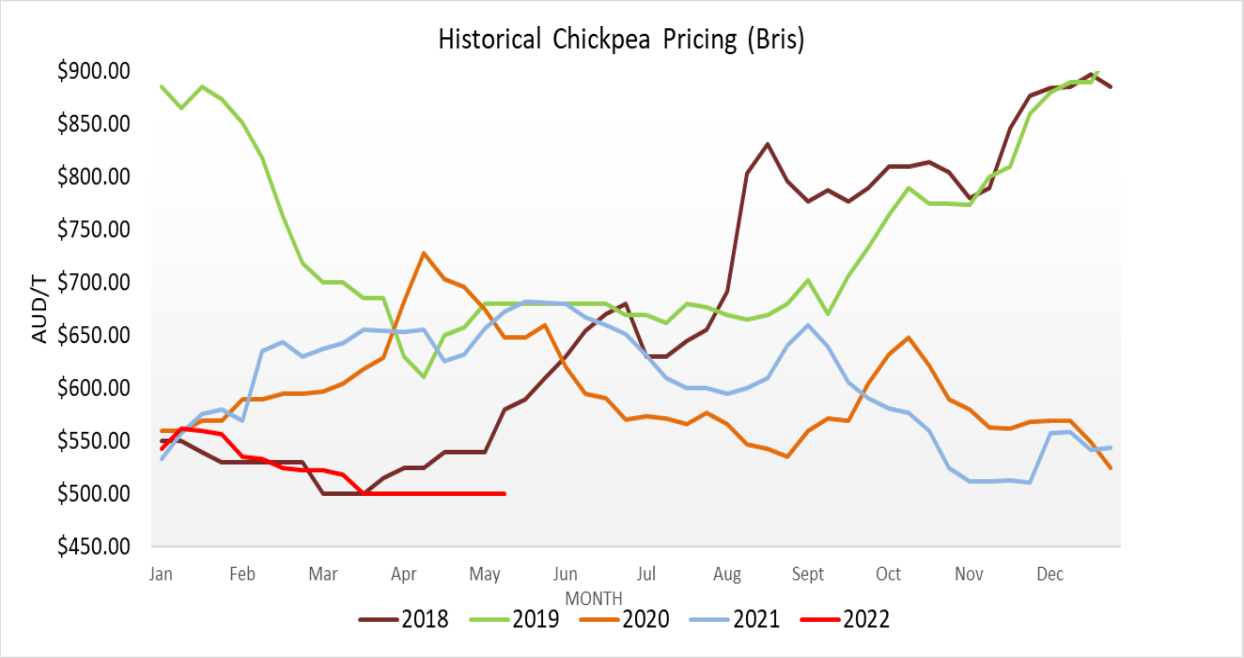


The latest ABARES forecast for the 22-23 chickpea crop is for lower area and lower production compared to last year. Forecast planted area is 443,000 Ha, the lowest in a non-drought year since 2014/15 and production is forecast at 606,000mt. Low prices and a preference for cereals are seen as the reason for the small plant at this stage. Low demand and the absence of Indian buying also important factors in growers thinking this year.

Old Crop:

Delivered container homes remain the only market at present with small box runs a feature. Narrabri packers have been active for both Chickpea 1/2 & M over the past month. Chickpea 1 market currently around the $440 delivered last week but once again the volume required is minimal and we have plenty of growers looking to shift peas off farm before new crop. CKPM with 2% mould is seeing some demand for the right parcels with delivered Narrabri packing around the $380.00/mt mark.

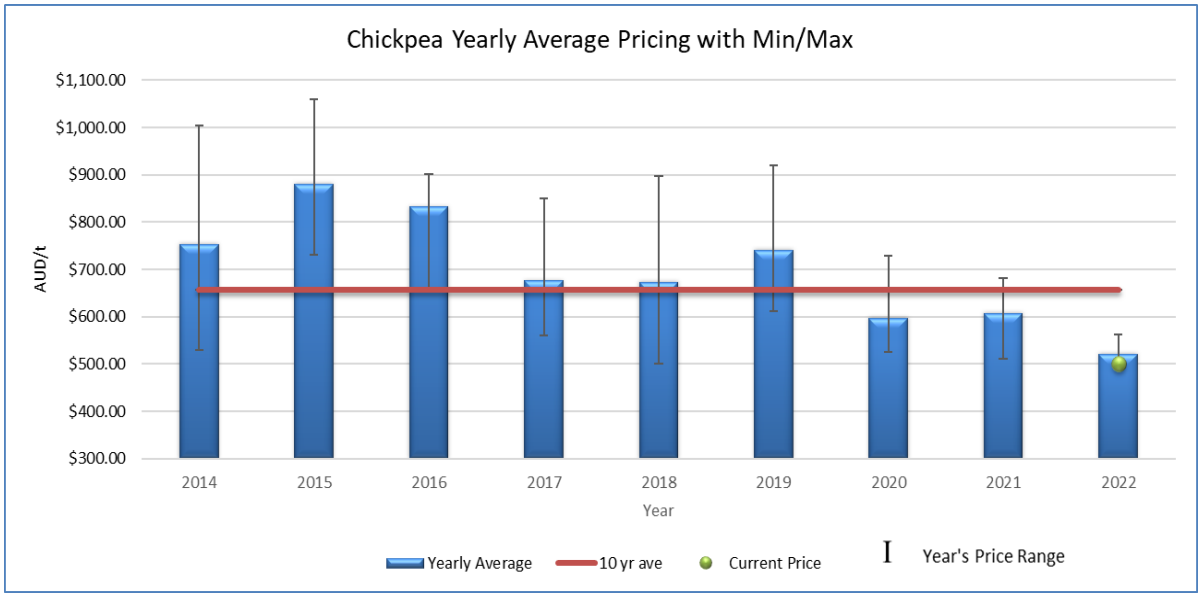
We are still seeing some feed demand into the poultry market on the Liverpool Plains. Prices are still in the low $300's delivered. Growers are still weighing up grading peas to make export grades. Grading prices with tonnage losses are currently around the $40.00/mt mark, making it a tough decision for many given the low values we are seeing at present.



The new crop market is still effectively non-existent with only intermittent bids at very low levels. Brisbane track numbers are in the low $400's and are more than likely not reflective of actual values. Exporters are reluctant to price new crop as the same constraints on the old crop apply to the new.

Central Queensland will see a decent chickpea plant this year as Growers look to take the best start in 4 years and run with it. As we have seen in previous years the demand for early peas in CQ is generally strong. Doubly so this year with elevation capacity available.

In southern Qld and northern NSW, it is less clear with the huge carryover stocks making it very difficult to talk up chickpeas for this coming season. Growers are leaning towards wheat over peas, and we think this will see a big decline in planted Ha this winter.



Chickpea Strategy

CENTRAL QUEENSLAND

Zero demand for old crop at present. Peas stranded in the system will be regraded to chickpea feed by Graincorp in September, so we are seeing some growers attempting to get them out and back into farm storage.

No current new season prices so the decision on new crop sales is currently not there.

NNSW & CENTRAL WEST

Growers are keen to sell old crop peas and we suggest that this strategy be adopted where possible. Prices are not great, but we all understand the environment we are in at present. Suggest aggressively selling volume when you can to shift product.

No current new season prices so the decision on new crop sales is currently not there.

Cotton Outlook

- The 2022/23 U.S. cotton supply and demand projections are unchanged from last month, with the exception of a 5-cent increase in the season-average upland farm price to 95 cents per pound.
- A sharply higher percentage of U.S. upland area has been forward contracted for 2022/23 as of May 31, and futures prices for the post-harvest months remain strong.
- There are no changes to the 2021/22 U.S. balance sheet, and the projected farm price remains 92 cents.
- The 2022/23 world cotton balance sheet includes slightly higher production and slightly lower consumption projections compared with the previous month, and ending stocks are virtually unchanged.
- Production is 200,000 bales higher due to a 100,000-bale increase for Egypt
- Global consumption is 450,000 bales lower, with the largest declines in Mexico, Bangladesh, and Vietnam.
- A 1.0- million-bale drop in India's crop accounts for most of the production change, with lower yield expectations in Brazil accounting for the remainder.
- Consumption is projected 500,000 bales lower in both China and India, with smaller declines for Mexico and Vietnam.
- C**otton prices are currently the highest since 2011 and the highest ever relative to polyester**.
  Source: USDA

Texas has received worthwhile rain in late May which was just in time for planting. While the 14 day forecast has limited follow up rains predicted, the Mississippi Delta looks set to have consistent activity for the next couple of weeks. India's heatwave looks to have abated with very good general rain predicted over the coming fortnight.
Despite record prices for cotton, the USDA's world production and carryover stocks are virtually unchanged year on year from 2021-22 to 2022/23. The US crop remains vulnerable.

A falling Australian dollar continues to support and last week's rally gave a boost to local bids, but the improving conditions across India and the US might start to erode values.

US COTTON futures DEC 22 Weekly chart

A weekly chart of world cotton shows the astounding price action from June2020.

Cotton Strategy

Local prices made a high around on the 17th May at $1030/bale ex gin for bales ginned by July31 before retreating very swiftly to $925 by the end of the month. Values dipped under $900 briefly last week before rallying sharply last Friday.

We think it is likely that the season highs have been made in mid-May, unless the Texas crop comes under renewed pressure during the summer. We know soil moisture is very low, as are artesian water levels, so it is certainly possible, but we wouldn't be holding old crop stock in the hope of a "what if" scenario at what are very near record highs.

2023 crop bid at $760/bale, (trading to a season high$ 820/bale in mid-May) also looks like a great sell for irrigators.

The commodity boom is in full swing, but we should not take these values for granted. It always looks bullish at the top, so making conservative sales into these big values makes some sense as an irrigator with on farm and public storages full to the brim.

Summary

If we were in the business of predicting the future, ignoring the production risks and left field events which could derail the world's ability to export crops, we would be inclined to call a top in most major agricultural products. We understand the risks of egg on face etc, but it is getting harder to find real data supporting a worsening of the global grain balance sheet, and as the Ukraine Russia conflict goes on, its clear that the Western World has no intention of slowing the export of Russian wheat.
While the war has been going on since March, they have moving close to 2.5Mmt of wheat per month, and that figure will likely increase post the Northern Harvest in July/August.

The biggest risks to growers here in NSW and Queensland are flooding through Winter and Spring, as major storages are all so full there are very few flood mitigation measures to draw upon, and there is still risk for young crops from waterlogging or indeed fewer hectares planted than our estimates predict.

There are still some five months until harvest begins locally, but the crop that makes it out of the ground in good order should have every chance of a good performance given it has abundant moisture. We will still need a decent September to finish, but the setup is solid.

When it comes to forward sales, prices are at historically strong numbers so it is sensible to cover some of the high costs at production at these levels, but remaining mindful not to go too hard too early.

It will be essential to review your marketing program more regularly than normal and to refresh your knowledge of prices and yield outlooks against your sales, or lack of sales.

With best wishes for planting,
Mick and the Delta Grain Team

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