DELTA

GRAIN MARKETING

OUTLOOK

MAY 2022

Independent Brokers. Smart Advice.

DELTA GRAIN OUTLOOK – *Monthly Analysis and Strategy*

Introduction

These are unprecedented times for Australian grain growers. While rain is delaying summer crop harvest, winter crop planting and logistics channels which are driving the record export program, all these issues are unlikely to prevent growers from record returns this year and next. The stress of course in in getting the crop in and out of the ground with plenty of time pressure amidst what seem like never-ending bouts of wet weather.

We would venture to say this crop year looks even better than the last with Central Queensland and Victoria in much better condition than they were in 2021.

The main issues continue to be based on logistics, how and where to store it, how and when we can move it, and where on earth are we going to store the huge volumes if we manage a third record crop in 2022?

Graincorp and the major exporters are trying to move it as quickly as they can, with record margins driving them to do so, but as we have explained this year, flooding in the Brisbane Port, rising demand for coal exports in Newcastle and rail damage across the Blue Mountains and Southern Highlands in the South have all slowed rail movements and shifted the market to an unhealthy reliance on road freight. There are not enough trucks or drivers to meet demand, as the average freight rates testify, rising from 10c/km/tonne in 2019 to 17 - 20c/km/tonne being quoted now.

This will surely be the pattern for the reminder of this year and probably next year too. For those with the capacity to warrant it, proper preparation of grain storage pads are a must for the coming harvest. We see no other solution to efficiently store the volumes required, especially in Central and South West of NSW where there will surely be grain remaining at the bulk handler prior to harvest.

Ports at capacity, a lack of trains and trucks, mixed with rain delays all point to ongoing risks for all parties along the supply chain and the inevitable pricing of that risk via discounted prices from Farm to Vessel, right through to the offshore end user. Basis looks destined to remain cheap, but then that low basis guarantees strong demand for the medium term.

Wheat Outlook

INTERNATIONAL

- The global wheat outlook for 2022/23 is for lower supplies and consumption, increased trade, and lower ending stocks.
- Global production is forecast at 774.8 million tons, 4.5 million lower than in 2021/22.
- Reduced production in Ukraine, Australia, and Morocco is only partly offset by increases in Canada and Russia.
- Production in Ukraine is forecast at 21.5 million tons in 2022/23, 11.5 million lower than 2021/22 due to the ongoing war.
- Canada's production is forecast to rebound to 33.0 million tons in 2022/23, up significantly from last year's drought-affected crop.

- Projected 2022/23 global trade is a record 204.9 million tons, up 5.0 million from last year.
- Imports are projected to rise on increased exportable supplies from Russia and Canada more than offsetting reductions for Ukraine and Australia.
- Russia is projected as the leading 2022/23 wheat exporter at 39.0 million tons, followed by the European Union, Australia, Canada, and the United States.
- Ukraine's 2022/23 export forecast is 10.0 million tons, down sharply from last year on reduced production and significant logistical constraints for exports.
- India is expected to remain a significant wheat exporter in 2022/23 *(this has just changed to an insignificant exporter!)*
- Projected 2022/23 world ending stocks are reduced 5 percent to 267.0 million tons and would be the lowest level in six years.
  Source: USDA WASDE Report

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

The world wheat market has been pushed to new contract and multi-year highs on the poor condition of the US Winter and Spring wheat crops. The ongoing drought across the Western US and High Plains has receded west but extended to the South, with Texas deteriorating significantly month on month.

The USDA reports the highest yielding wheat crop in the US is estimated to be Idaho, meaning the top 4 wheat producing states have all dropped below Idaho, historically number five on the top10list of producers. As we have detailed in previous reports, the world wheat balance sheet was in trouble long before the Ukraine conflict, which in some ways is the straw which broke the camels back in terms of supply shocks. Now we have India and France experiencing hot dry conditions in late Spring, and a poor planting in China, on top of the Ukraine's production curtailed and export potential all but halted.

Overnight India has announced they will cease all wheat exports effective immediately, which further diminishes the supply of wheat into importers hands. This will make next months USDA report evry interesting indeed.

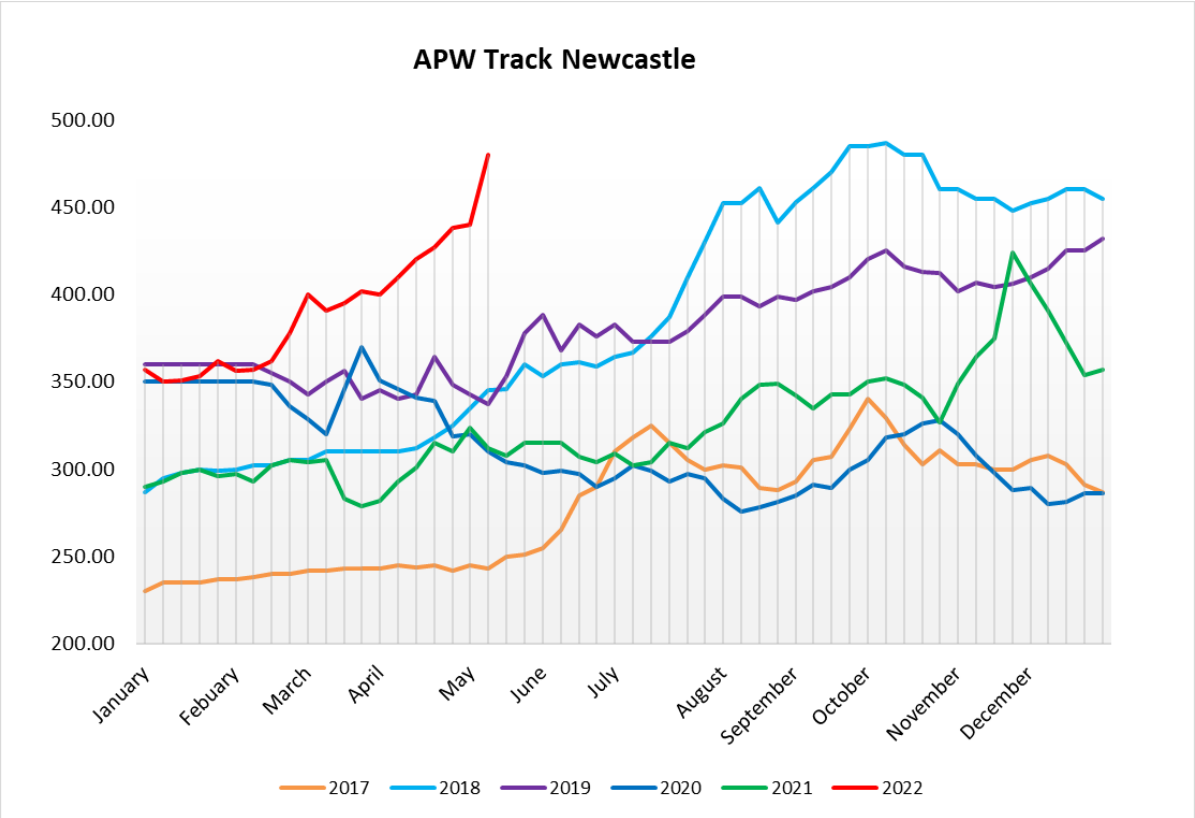
We will continue to focus on all these developments as they effect final yields by August/September.

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 are costing growers plenty.

The situation highlights how much value on-farm storage and road transport can create for growers, and how woefully under resourced we are for decent and reliable rail infrastructure. The Inland Rail does have the potential to change how we move grain West to East, because moving it North to South largest avoids the Great Dividing Range. Unfortunately, it is still years away from completion, with current timeline 2025 from North Star to Melbourne. Brisbane to North Star still has corridors to be established and land to be bought. In the short term, we need more trains!

Old crop values have improved substantially from last month, with buyers looking for more export product just as international prices surge and the Australian dollar is falling on a collapsing US stockmarket. (stockmarket down = US Dollar up).



Prices continue to surge on India pulling out of their export commitment, was in the Ukraine and a dryness in North America and France/Spain.

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

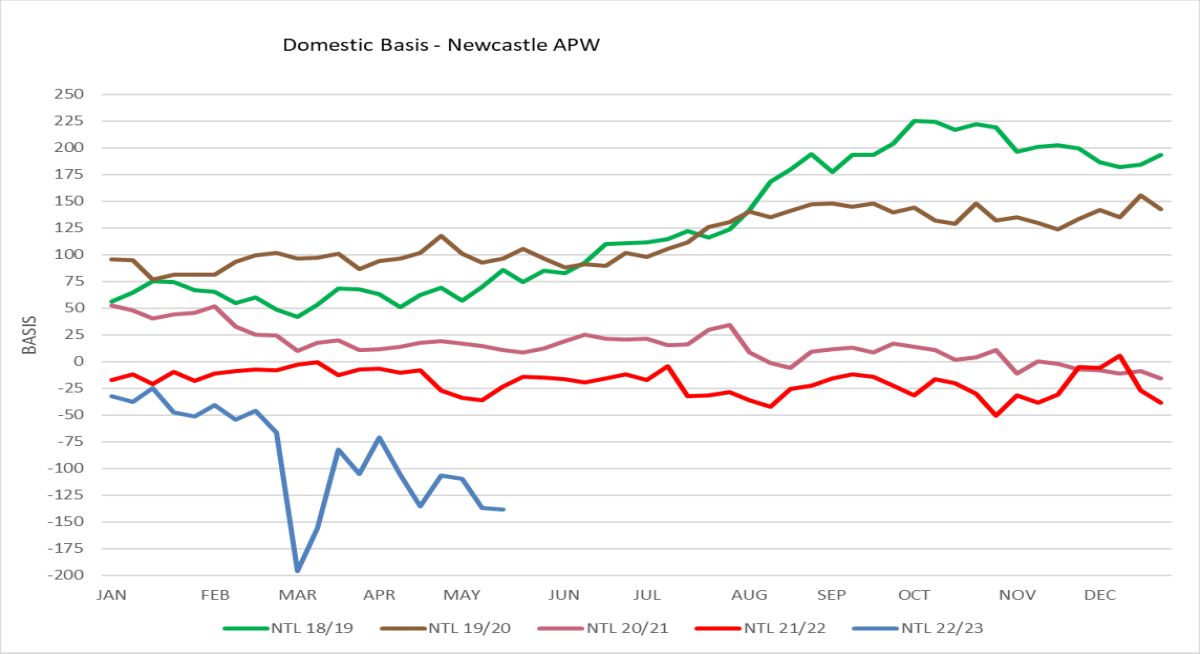
We have started to make a few adjustments to the Australian Wheat balance sheet above as we gather more information through this marketing year. The pace of exports is very high but as we have seen over the past couple of months in particular, the heavy rains are really hampering the potential export tonnes leaving Port Kembla Newcastle and Brisbane Ports. Therefore, we have pulled back the export total by a million tonnes and eased the total usage of wheat as a feed grain as barley has come back into contention and sorghum is now cheaper than both off those.
This leaves a larger carryover of wheat stocks in Australia, but it also allows for a full export program in 2022/23, meaning basis remains cheap and export logistics remain in full swing until the end of next year at a minimum.
These numbers matter because they give us early signals about whether we will get squeezed at the back end of the marketing year. It does not look like we will. However, the current push on old crop values is purely a function of the market needing to but more grain to export just as the fall in the Australian dollar and more lifts in world prices ensure that exporters maintain record margins. All this continues to encourage record export volumes.

FEED WHEAT - OLD CROP: Holding feed grade wheat (SFW1, AGP1 etc) has worked brilliantly this season because exporters have been able to sell into South East Asia at much smaller discounts than the feed grade discounts implied at harvest. We figured as much at the time, but it is always difficult to sell the good grades and hold the lesser ones. System stock has lifted $80 to $100 per tonne while Delivered Port bids are now $400 delivered by truck.

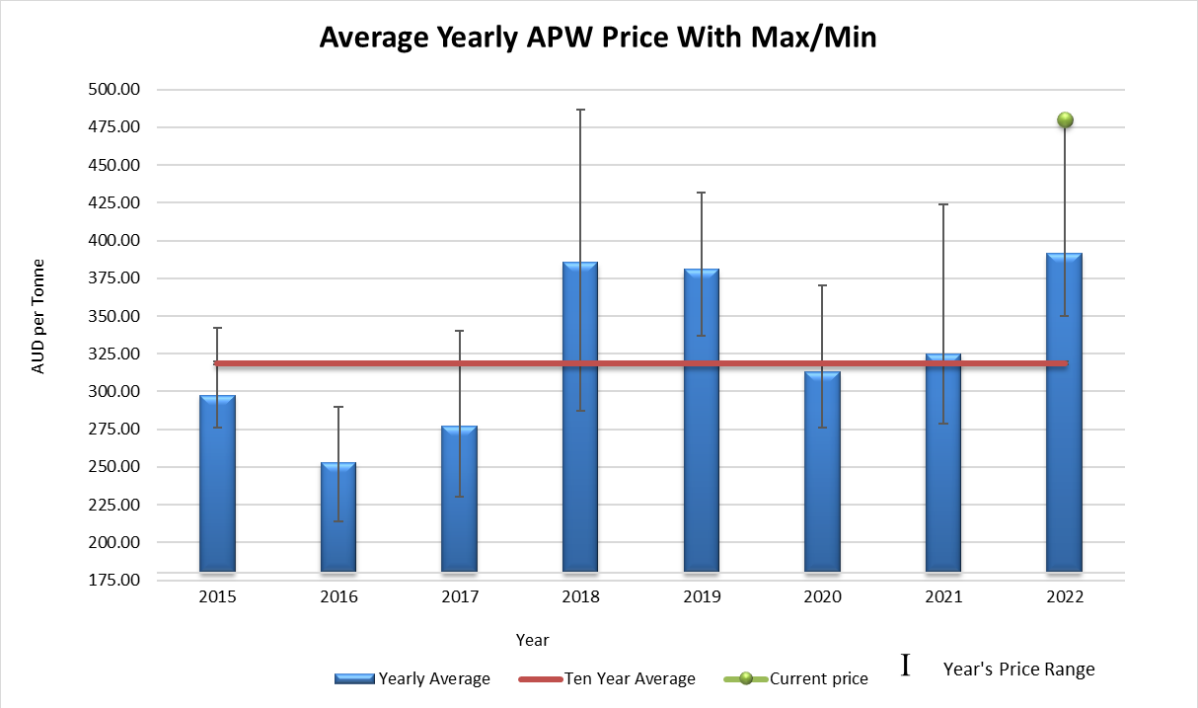
As we have discussed in our wheat commentary, the structure of the market is extremely supportive of old and new crop values, but everything has its price, and we think it is time to sell another tranche.

NEW CROP: Prices have lifted $55/t since just last month to $470 Track equivalent at East Coast ports, while the December 2022 swap value has lifted to an incredible AUD$637/tonne, representing a negative basis of -$167/tonne.

Right now the market doesn't think the 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, but we just do not see a selloff coming in the short term. 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.



Domestic basis continues to trawl historic lows. The risk to growers in selling these levels is substantial if forced to washout a contract at harvest. Flood risk is clearly the number one risk this season.



APW is trading at drought-like prices, but for once it is not our drought which is causing the shortage!

Wheat Strategy

CENTRAL QLD
CQ growers need to get a crop in the ground before considering any kind of forward sales and even then, world prices need to show us a sign they've had enough rallying, which at this point is not the case.

SQLD/NSW
OLD CROP: Hold off on further sales in the short term

NEW CROP: We advise sitting on the sidelines until the crop is in and out of the ground. Production risk at this point in the season far outweighs price risk especially flood risk which is high in such a wet season and with dam storages at or near capacity. However, as we fast approach the magic $500 Port level across NSW, we acknowledge that selling 15% of your minimum crop estimate is not unreasonable, especially if you are not prone to flooding.

Canola Outlook

INTERNATIONAL

- Global oilseed production for 2022/23 is projected at 647.1 million tons, rising 50.3 million from last marketing year when droughts impacted South American soybean production and the Canadian canola crop.
- Global soybean production is forecast up 45.3 million tons to 394.7 million, with Brazil accounting for over half of the increase, up 24 million tons to a record 149 million.
- Argentina's soybean crop is expected to reach 51 million tons and Paraguay 10 million.
- Partly offsetting higher global soybean and canola production is lower oilseed production for Ukraine.
- Global protein meal consumption is expected to grow 3 percent in 2022/23, recovering from slow growth in the past two marketing years.
- Nearly half of the gains are in China where soybean crush is forecast to increase 6 million tons from 2021/22 to 95 million.
- Exportable supplies of oilseed meals and oils are expected to recover, with higher 2022/23 crush for Canada and South America, which offset declines in sunflower products out of Ukraine.
- Further, palm oil exports are expected to increase for Indonesia after slower-than-normal shipments and export restrictions in the prior marketing year

The chart of the MATIF rapeseed futures for February 2023 (see next page) tells the story of a market which sees very strong global demand and a short supply problem which is many months from any meaningful relief. The Northern Hemisphere crop is planting, as is Australia, though wet whether has hampered what would otherwise be a great start.

MATIF French Rapeseed Futures FEBRUARY 23 Weekly data

Canola prices internationally and domestically have continued to rise since planting time 2021. Although rapeseed's trading relationship with other oilseeds has been increasingly disconnected this season, it's position as the top priced oilseed has been further supported by price increases in other parts of the complex.

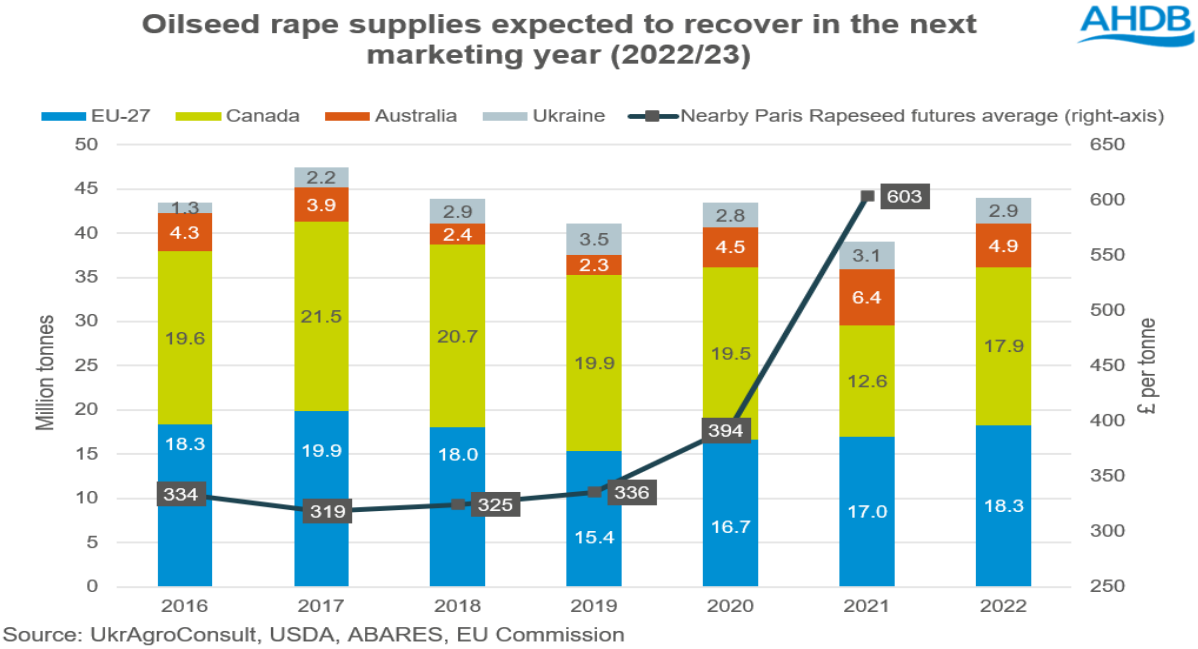
In 2021/22, rapeseed prices were supported by tight global supply, in part driven by the reduced, drought hit Canadian canola (rapeseed) crop, which was down 35% on the year, at 12.6Mt. The Ukraine war has meant canola oil demand, as a substitute for sunflower oil, has soared. Old crop MATIF canola futures expired recently at the equivalent of $1583/tonne, and the November 2023 contract is at AUD$1285. Our new crop bid at $1075 Track equivalent, although discounted, is just $25/t from all time highs.

So far, planting intentions show the globe is set to be better supplied for rapeseed next year, but this is on paper and weather can significantly alter the outcome.

EU-27 production and imports – production in Europe is set to increase next year. Preliminary estimates peg the crop at 18.3Mt, up 8% on last year.

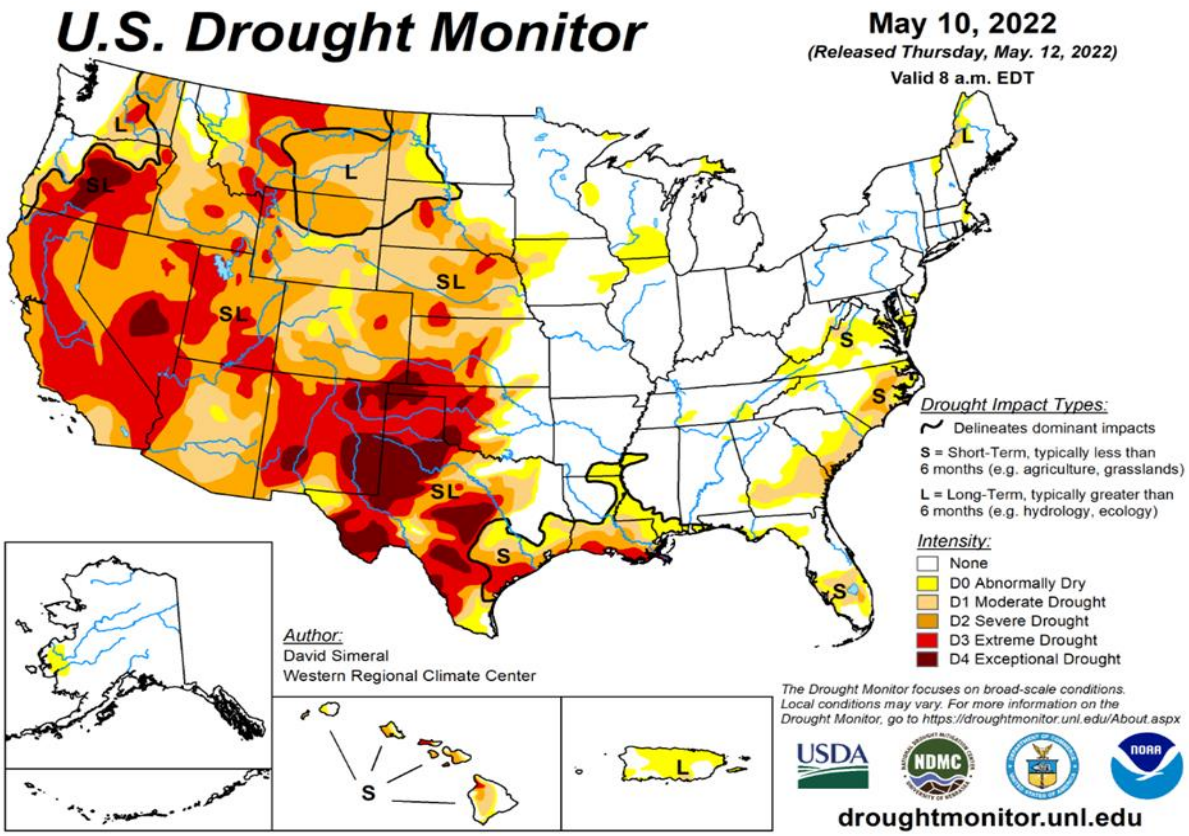
Canadian production – after last year's drought-riddled crop, StatsCan estimate seeded area at 8.5Mha for 2022/23, down 7% year-on-year. However, if 5-year-average yields are taken, this Canadian crop could recover to around 17.9Mt for 2022/23.
Ukraine production and exports – UkrAgroConsult predict Ukrainian production at 2.9Mt, down 6% from last year and exports at 2.7Mt, down 1% from last year, but who really knows how much will make it to export.

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.



All this information above means that these key areas of the globe are currently estimated to produce 44.0Mt 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.



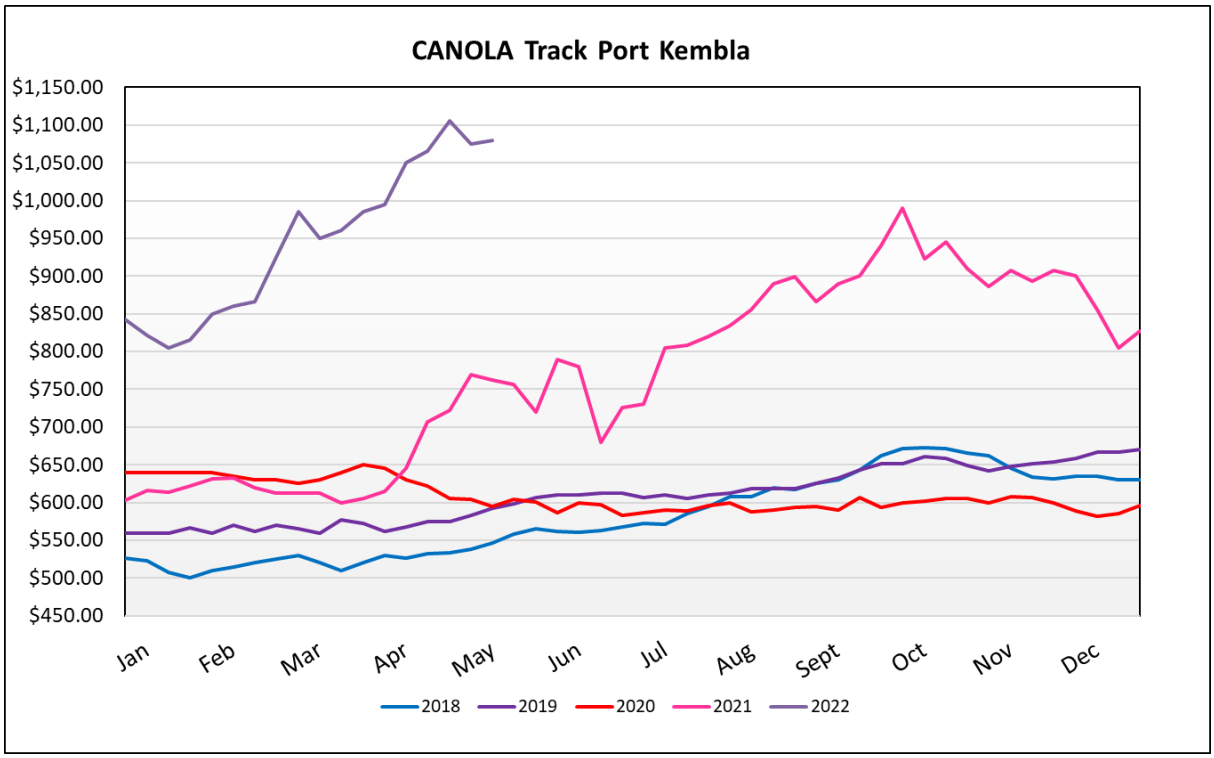
DOMESTIC

With old crop sales close to complete across the Delta network, our focus is now on the season ahead. New crop is bid $1080 Track or so at the time of writing against February 23 futures in MATIF at $1255/t, which represents a negative basis of some -$185 or -16%.
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.

The drier outlook for the next fortnight will hopefully allow the new crop intended area to be planted in the optimum window for top yields.

While the pattern of higher highs is compelling, it can also lead us to become complacent about the risks and rewards. These 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, except perhaps a problem with the French canola crop, or another very wet winter here like we saw in 2021.

We will be watching closely for any break in the price action, but some forward sales seem warranted once your crop is established.



Canola Strategy

NEW CROP: New crop values are $1040 to $1080 Port, and with the planting window upon us, it is difficult to overlook these prices as a selling opportunity. The less risky option would be to get the crop in and out of the ground before making a move. Sell 15% of your minimum crop estimate once the crop is established.

Barley Outlook

INTERNATIONAL

The USDA WASDE report now including projections for the 22/23 US corn crop and world coarse grain production numbers.

The US corn projections were deemed slightly bullish with the biggest surprise a lower-than-expected yield number for the 22/23 crop of 177 bu/ac.

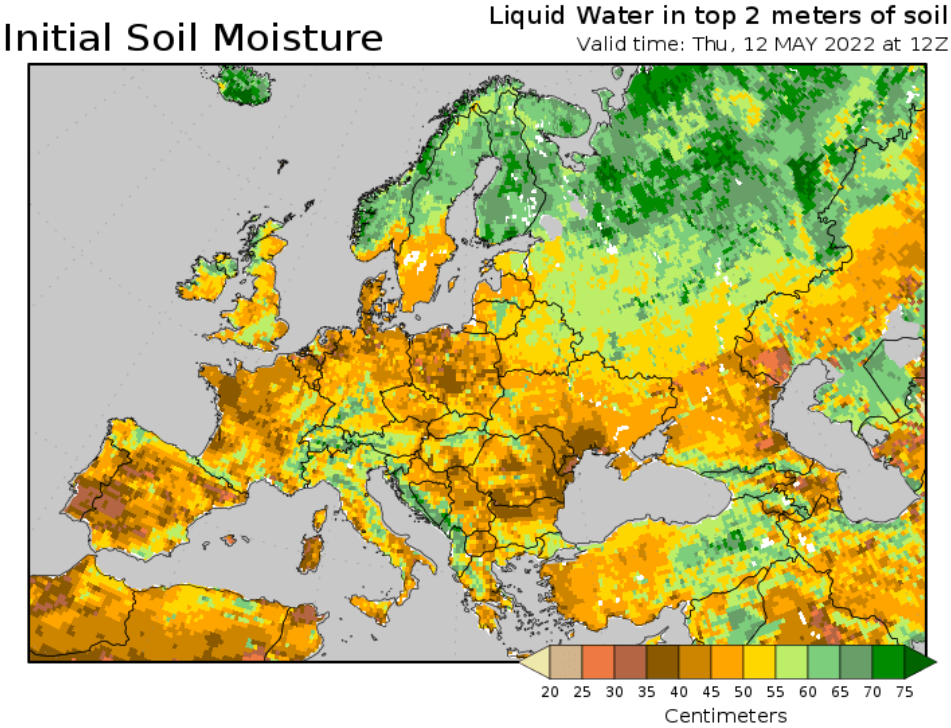
Trend line yield has been rising over the past 2 decades and the trade were expecting a reasonably high number above 180 bu/acre. The very slow pace of planting in the eastern corn belt (22% vs 50% ave) due to wet weather the main culprit. The knock-on effect is potential yield penalties hence the lower number. For comparison the US grew 384 MMT of corn last year vs forecast of 367 MMT for the 22/23 year.

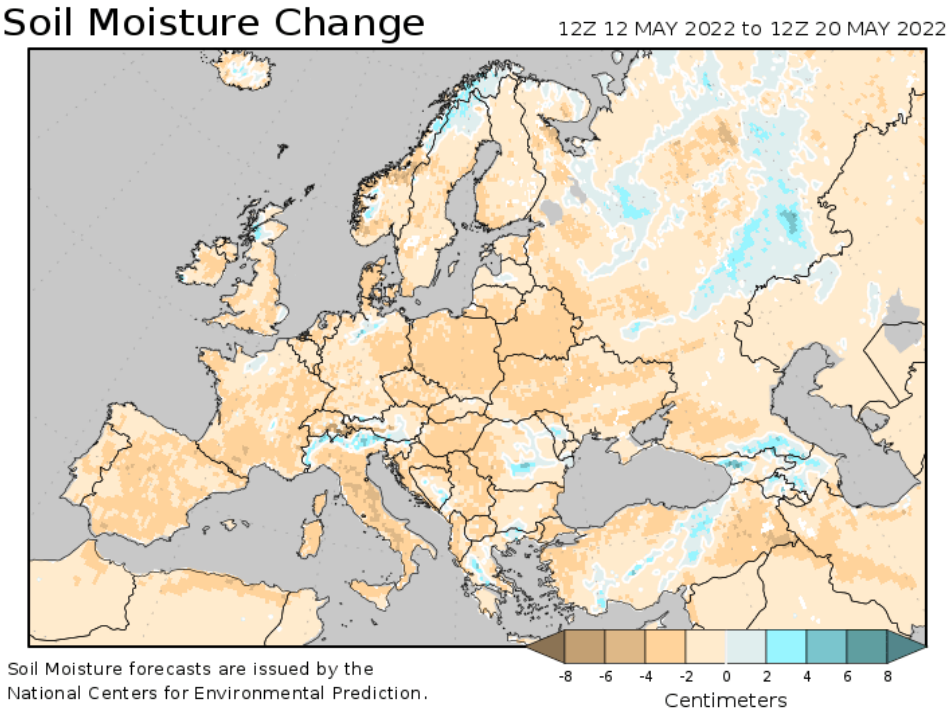
World corn imports are projected to fall 2.3 %, with the largest year-on-year declines being China.

Global corn ending stocks are down 1.4 % to 305.1 million tons, mostly reflecting expected declines for China and the United States that are partially offset by increases for Brazil and Ukraine.

For China, total coarse grain imports for 2022/23 are forecast at 37.9 million tons, down 5.0 million from a year ago and below the record 50.5 million reached during 2020/21. Corn imports are expected to decline 5.0 million tons to 18.0 million with a decline in imports from Ukraine. Barley imports are projected at 10.0 million tons and sorghum at 9.5 million both lower than previous years.

Steep declines in US corn futures at the start of the month as reduced demand and the start of sowing in the US put weight on December futures. The run up in wheat prices and the slow pace of sowing over the last 2 weeks has brought the market back the highs. With world supply rising due to corn "trapped" in the Ukraine and sowing weather improving in the US we think that corn is less likely to sustain the rally moving forward.

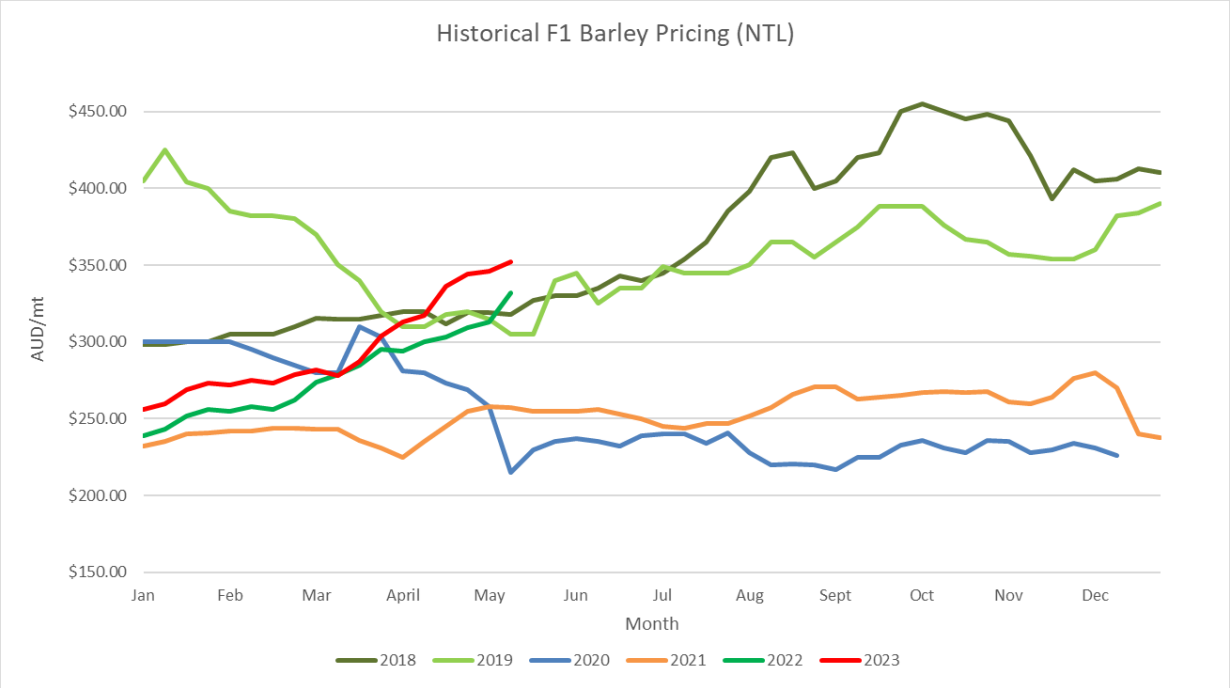




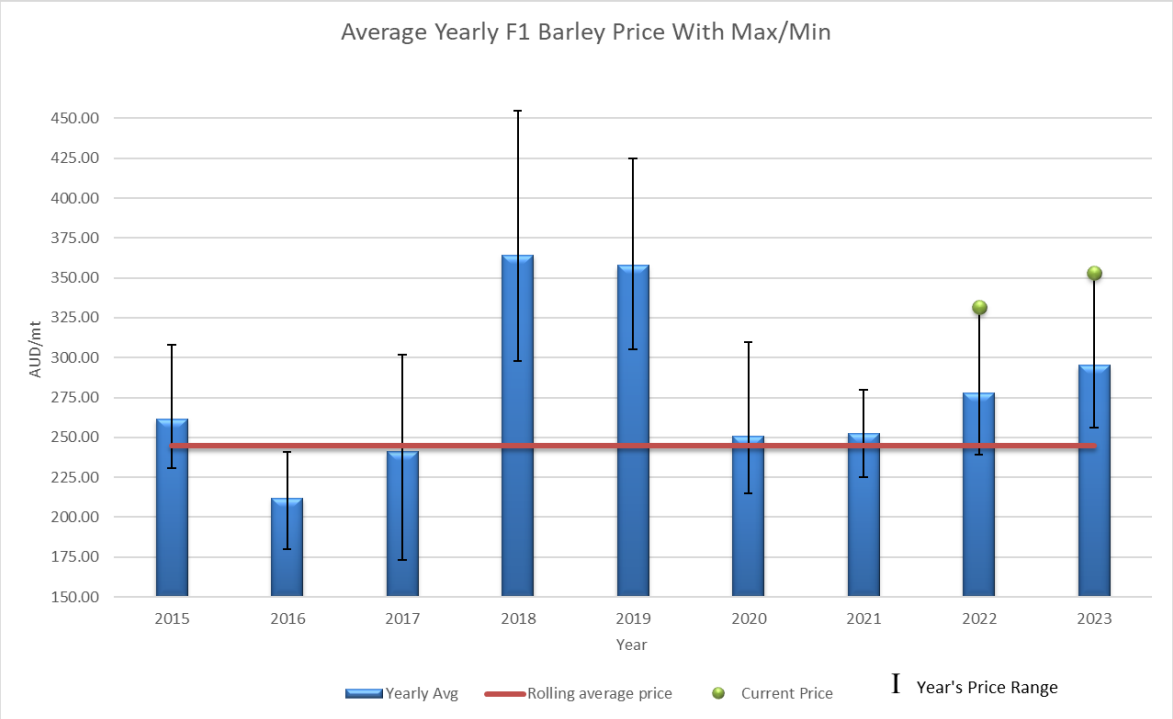
The European barley & corn crop has come under significant moisture stress over the past month with dry conditions persisting over much of the France and Germany. This is becoming a bigger factor in the market with no or limited access to Ukrainian feed grains, the EU and northern Africa will rely further on central Europe to cover the supply shortfall. This remains bullish Aussie barley exports given our current price advantage.

DOMESTIC

The domestic barley market has continued to push higher with prices now moving into rarefied air for this time of the year under non-drought conditions. While the gains have been fairly orderly for the last half of April, the past week has seen a surge in values, especially in the old crop market.



Wet weather has exacerbated supply squeezes into the Southeast Qld feed market as well as the Southern NSW and Victorian export homes. Barley seasonally rallies into late Autumn as feed consumers look to cover their requirements for winter. Rising prices in SFW1 wheat, driven by export demand, has left domestic consumers with little choice other than barley or sorghum, with prices of both rising accordingly.



New crop barley prices have also risen but in a more orderly fashion. Although the last 2 weeks of rain and the inability of Central West NSW growers to access paddocks to sow is now being felt in the marketplace. This has tipped into Southern NSW as well and the likelihood of a lower than expected barley plant is sending a solid buy signal to the market.

As we can see (in charts on the previous page) new crop values are at season highs. If wheat continues to rally, there is no reason why barley cannot push up towards the $400 Track level.

Barley Strategy

NNSW & DELIVERED DOWNS

CURRENT CROP: Prices are well over $400 delivered downs for old crop barley at present. Lack of freight, ex-farm tonnes and a kick in the wheat and sorghum markets is all combining to push values higher. If you own old crop barley and are not under cash flow constraints, we suggest you wait for a stronger sell signal.

NEW CROP: Prices are well above the long-term average and keep finding new tops as we advance through the sowing window. We were sellers last month of a small % but given the moves and prospects for further demand, we think we will wait for better opportunities.

LIVERPOOL PLAINS & CENTRAL WEST

Old crop demand is drawing from North and South of Central NSW and prices are being swept higher as a result. It is too wet to load, and this can only keep the pressure on the trade and consumers to source more volume and lift prices. As with the north hold for now.

The wet weather is causing the most concern in the Central west where the planting window is slightly narrower for barley than in the east. This, and the market in general should be enough reason not to make sales at present.

SNSW & RIVERINA

Southern old crop bids remain firm with Melbourne Bar1 bid/offers $415/$425. Same principles apply with a holding strategy hopefully pushing prices higher this month.

Conditions remain ideal for southern barley, and this has allowed Growers to get a full barley plant in and up. Strategy remains a hold with good prices allowing growers to see good establishment before selling forward.

Sorghum Outlook

INTERNATIONAL

US sorghum production lowered to 10 MMT from last years 12MMT by the USDA. Interestingly yield was kept at 69 bu/ac which is the same as last year. To account for the lower production area planted was reduced by about 1 million acres. We would be very surprised if the USDA does not revise yield lower next month, given the extreme drought that has gripped the sorghum States in the US.

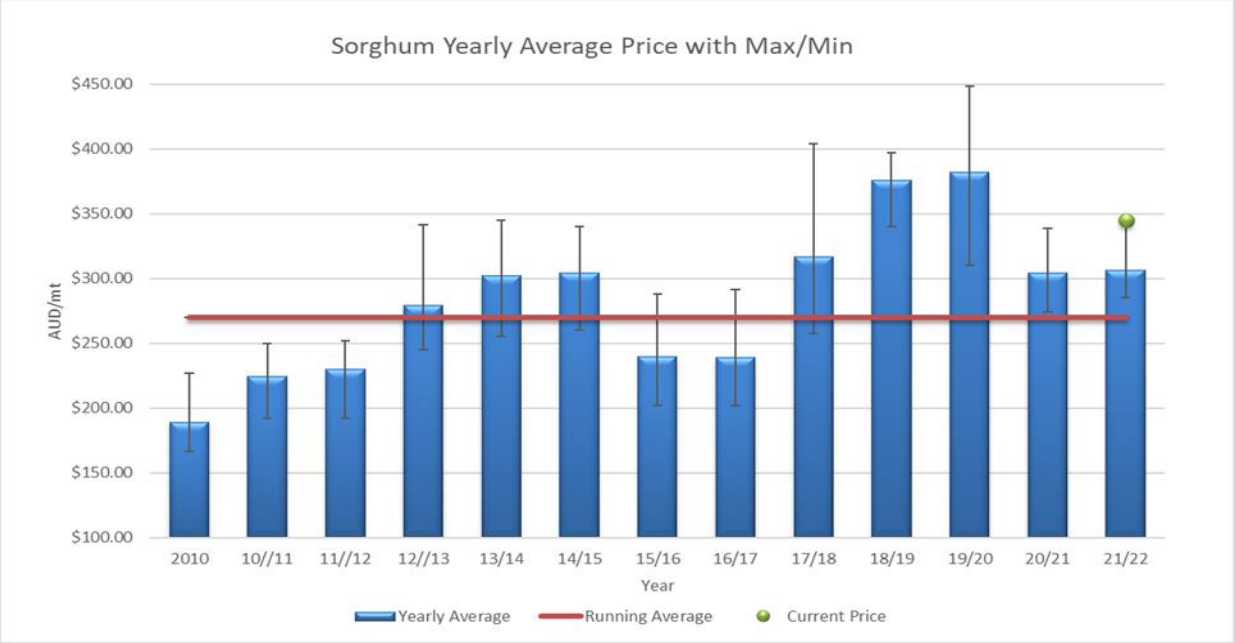
The US also reduced exports with increased competition from Argentina and Australia as well as lack of sorghum elevation capacity at the gulf ports. Ending stocks reduced by 250,000mt if the forecast production comes to fruition. The US may be left with just 600,000mt of sorghum to play with by the end of the season in 20223. This is historically low.

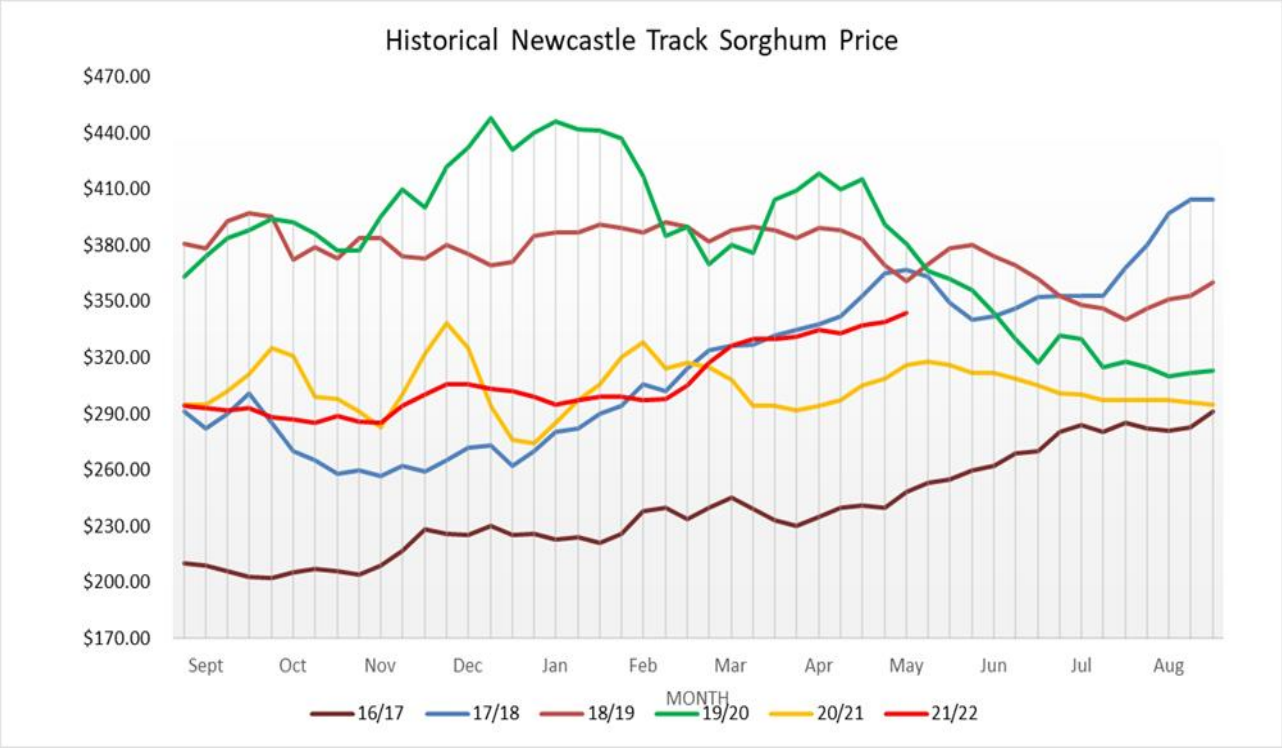
	US FOB Texas	Aussie dollar	Brisbane Track Mar/April	FOB Cost	Aussie Dollar Value	Basis
Month	Price					
June	$390.33	0.6873	$357.00	$40.00	272.8581	-$117.47
July	$390.33	0.686	$357.00	$40.00	272.8581	-$117.47
August	$393.19	0.684	$357.00	$40.00	272.8581	-$120.33

US sorghum prices have increase by about $20 US over the past month. Values have been kept in check by the US losing market share which has seen demand dwindle moving into the new crop period. New crop sorghum will be harvested in September, and we expect values to lift given the poor crop conditions we are seeing. Australian sorghum is still over $100.00/mt cheaper than US but it dearer than South American sorghum into Asia.

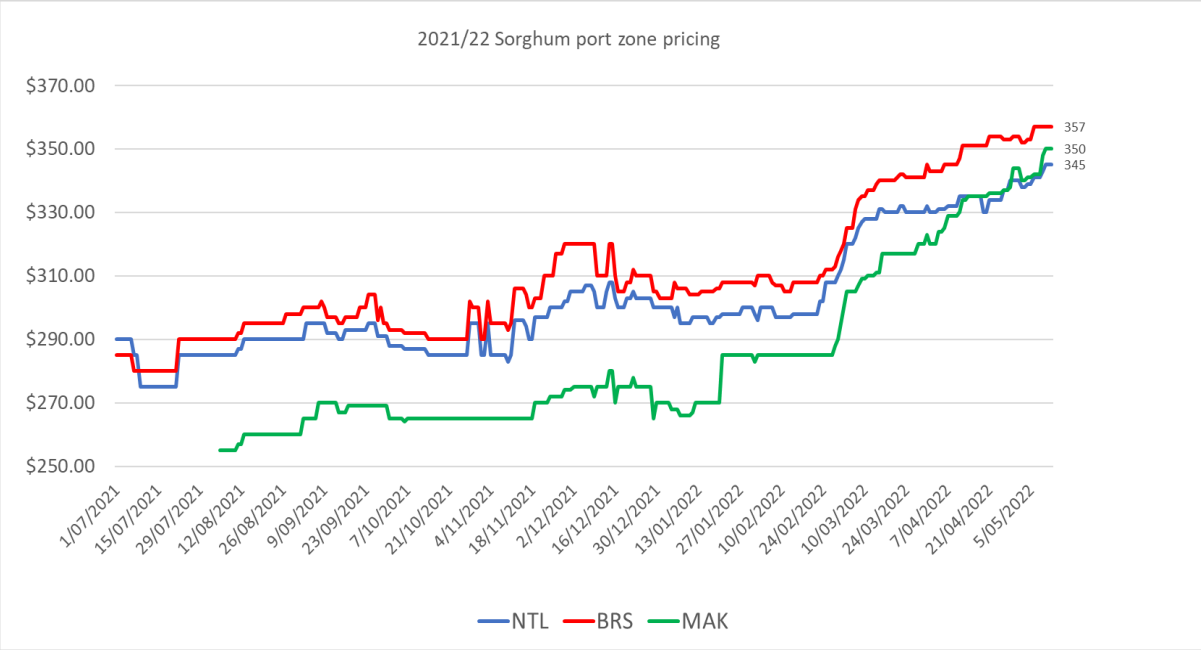
DOMESTIC

Sorghum prices have continued a steady uptrend over the past month. There has been a distinct lack of volatility in comparison to wheat and barley. Harvest is continuing at a snail's pace with the extended La Nina continuing its wetter influence over the east coast. A big percentage of CQ and Liverpool Plains have received a huge amount of rain over the past fortnight. While the rain has been welcoming in CQ in regards the winter plant, the timing has been less than welcome give the bulk of the sorghum was on the cusp of harvest.





This uncertainty and on-going strong export demand has seen values tick up almost daily for the past 2 weeks. The kick in the wheat market has also added strength to the feed complex and sorghum is also being eyed off by feed consumers in the north. All this is creating more demand and better values.



With wet weather also comes the issues around quality and the market is definitely expecting some downgrades after this week. Fortunately, it appears the export market and certainly the domestic feed market is keen to own Sor2 at present and shifting some off spec grain should be ok.

Sorghum Strategy

CENTRAL QUEENSLAND

Remains a waiting game while the weather is wet. For those growers with Sorghum1 in the system or on farm, we suggest a hold until harvest kicks in again. Most growers still have sorghum in the paddock and fingers crossed that quality and yield hold up. Sales once harvested is the way forward.

NNSW

Same issues as Qld with the wet weather blocking harvest. Prices have not jumped as quickly as other zones, but we are starting to see some execution shorts into Packer at $350 delivered. The market is showing a strong buy signal so sales should be cautious in the short term with higher prices likely.

Chickpea Outlook

INTERNATIONAL:

No change in the outlook for old crop chickpeas with low demand a feature as well as a lack of bulk capacity on the east coast. Wheat & Sorghum exports remain the focus of the trade at present. There has been no further progress made with India who have been our largest market for peas up until 2018 when they placed a prohibitive tariff on desi chickpeas entering the country. The final trade agreement with Indian will not be published until early 2023 and this may provide a glimmer of hope in regards better access to their market, but we will not be holding our breath.

Bangladeshi demand is non-existent at present as they mainly buy bulk vessels over the harvest period. This has left Pakistan as the only buyer of chickpeas and even this demand is neither consistent nor huge volumes. Political instability in Pakistan is also a concern for the trade as counterparty risk is magnified in times of upheaval.

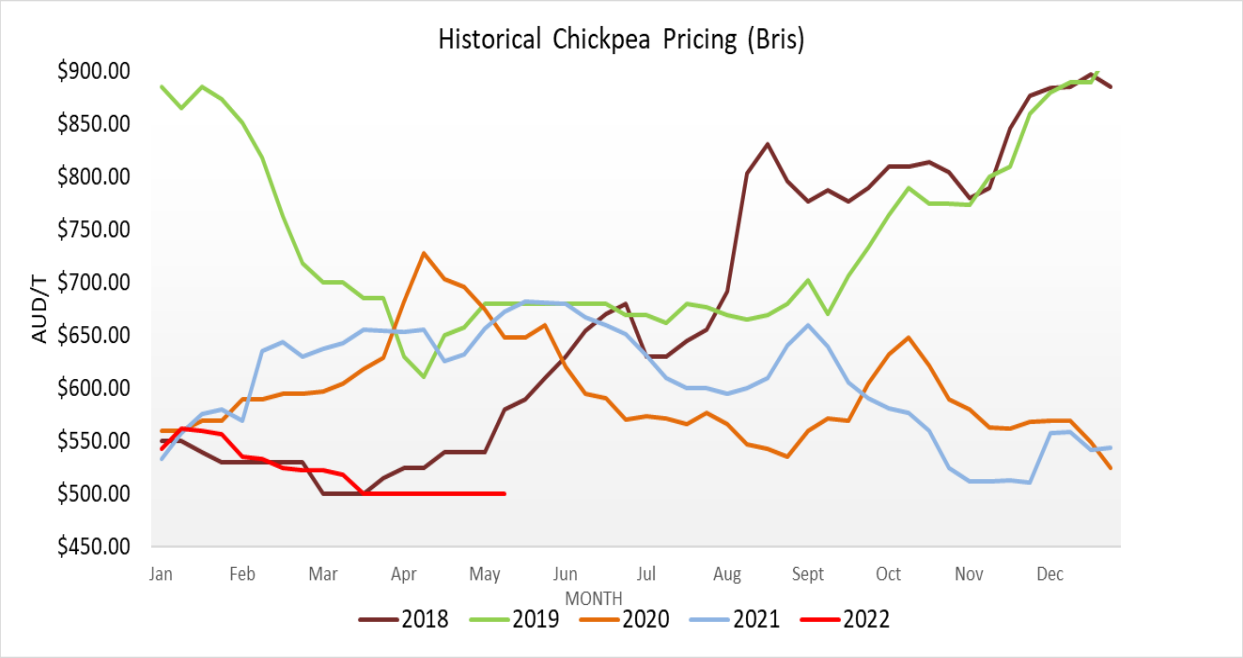
The only bullish demand factor we see internationally currently is the hot/dry weather over much of the sub-continent which could damage the rabi crop sufficiently that stocks are lower year on year and imports may have to be looked at. Fingers crossed.

DOMESTIC:

Old crop values continue to flatline with zero interest in Brisbane/Newcastle system stock. Central Queensland old crop chickpeas were bid in the Gladstone zone up until the end of April, but the boat has now sailed, and the market has returned to POA status, which is code for no demand.

Delivered packer bids have been showing some life especially in Narrabri for Chickpea 1 over the past month. Market topped out at $480 delivered last week but once again the volume required was minimal and was covered relatively quickly. CKPM with 2% mold as seeing some demand for the right parcels with delivered Central West packing around the $365.00/mt mark.

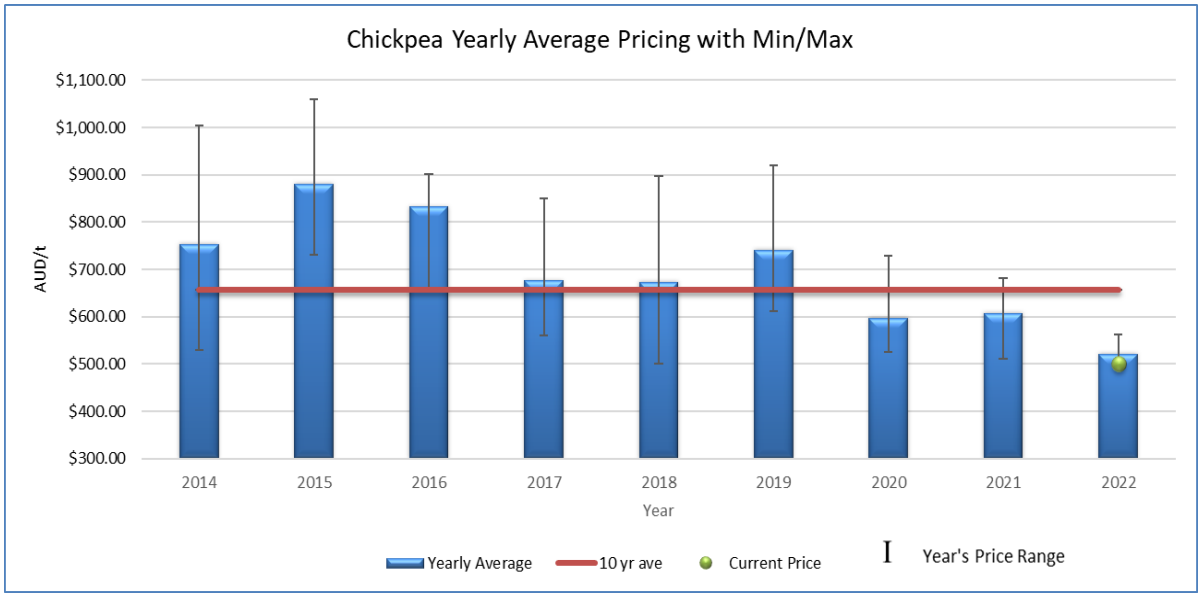
Feed demand is still concentrated within the pig and poultry markets but unfortunately consumers are well covered as far out as August and there is very little prompt demand. ABARES final total chickpea number for 2021 has come in at just over 1,000,000 MT and with current exports we will be very hard pressed to shift the crop. Especially as quality is very poor.



The new crop market is currently very difficult to get any information re value. Exporters are reluctant to price new crop as the same constraints on the old crop apply to the new. We did see some new crop pricing in CQ about a month ago but recently there has been a lack of bids across all port zones.

We have been having a lot of discussion with Grower in CQ over the past week as the rain has fallen about the mix of wheat/chickpeas going forward this year. We think that there is some potential for good returns in CQ as the last price indicated for export peas in Sept/Oct 22 was around the $620 delivered Port. If these prices are a good indication of where the market may be then chickpeas will be well worth putting in.

Elsewhere it is less clear and the carryover stocks will make it very difficult to talk up chickpeas for this coming season in Northern NSW. 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

Old crop demand has dried up since the last report and the market is treading water waiting for more demand to pop up. CQ chickpeas are good quality, and this may be beneficial to exports wanting quality product in the next few months. No bids at present.

Conditions have turned around quickly over the past 2 weeks, and we see most of the winter crop in CQ going in on time. As we have stated chickpeas should not be discounted out of the rotation with the opportunity for early good quality peas to find a market still a possibility. Most growers will plant some peas but the 50/50 Ha will go to wheat. No bids at present

NNSW & CENTRAL WEST

The spike in prices into Narrabri over the past few weeks presented the opportunity for many growers who had No1's to offload some parcels. Unfortunately, the depth of demand was shallow and the market has now retreated to around the $450 mark for No1. We would sell peas into any spike or rally from here given the volume of chickpeas that are unsold. ChkM sales also warranted if your peas are able to make the quality specification for the packers.

Cotton Outlook

- The U.S. cotton projections for 2022/23 include a smaller crop as abandonment is projected to more than double.
- Production is forecast at 16.5 million bales, but harvested area is expected to fall 1.1 million acres to 9.1 million as limited precipitation in the Southwest suggests more abandonment compared with 2021/22's below-average level.
- US production is forecast about 1 million bales lower.
- At 2.9 million bales, 2022/23 U.S. ending stocks are projected 500,000 bales lower than the year before, and equivalent to 17 percent of total use.

- Global supplies in 2022/23 are projected lower year-on-year
- Increased area is expected to drive production higher, with a 2-million-bale increase expected in India's crop, 500,000-bale gains expected in China and Turkey
- World consumption in 2022/23 is projected to fall 1 million bales from the year before to 122 million bales, **with cotton prices currently the highest since 2011 and the highest ever relative to polyester**.
- World ending stocks are expected to fall 1 percent from the year before, to 82.8 million bales.
- World trade is expected to rise 2 million bales as China's imports partly rebound.
- India's crop is reduced 1 million bales, accounting for much of the 1.8- million-bale global decrease.
- Projected world consumption is down 1.1 million bales from April as China's forecast is reduced 500,000 bales and historical revisions to Uzbekistan's balance sheet reduced estimated consumption there 500,000 bales.
- Ending stocks are slightly lower as well, down 270,000 bales to 83.6 million.
- *: USDA*

Having spent the past 35 years watching interest rate, currency and commodity markets, it is not a surprise when prices lead fundamental news. Even in a world where news is relayed across the globe in bits of seconds, charting the price can tell us so much more than reading the commentary. You may recall our commentary a year or so ago citing the USDA's forecast for ample cotton production and carryover stocks, seemingly at odds with what we could see happening in the price, which was jumping higher. Cut to today, and the USDA still sees enough carryover to make ends meet while the price tells us that we are in the midst of a supply shock which cannot see an end.

Weather conditions in Texas have gone from bad to terrible over the past month, which is highlighted on the US Drought Monitor shown in the Canola commentary of this report. Abandonment of area has doubled, and the US grower has declared they put in an extra million acres, only to abandon it…says more about grower support payments than it does about potential yields? The global cotton situation looks unlikely to recover until California and Texas weather return to a more normal pattern and there is no chance of happening this northern Summer.

Locally, crops have had an amazing summer with picking now underway in Southern QLD and Northern and Central NSW. Dryland crop yields have posted record numbers in many areas. Irrigated crops are later to pick and have been caught with the wet weather, many have not struck a blow which is stressful and costly. Fortunately, yields are huge and demand is strong enough to take downgraded lint but nobody wants that outcome. Its going to be a difficult few weeks ahead judging by the forecast. Prices taken another huge jump over the past month, as it has in wheat and canola, the combination of rising world prices and a plummeting Australia dollar a heady mix driving AUD values.

US COTTON futures DEC 22 Weekly chart

A weekly chart of world cotton shows the astounding price action from June2020. Markets don't go up forever, but we have been outplayed and outlasted this time around!

Cotton Strategy

Yet another surge in values with old crop at $963/bale depending on the month of ginning, and no doubt some keen to sell $1000 bales.

2023 crop bid at $796/bale, (trading $820 last week) while 2024 is already bid $600/bale.

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

This is what it feels like to be in a period of Peak Agriculture. After the drought years, it is a welcome tonic.

While we rejoice in the high prices of old and new crop Summer and Winter crops, we have tried to give a very real assessment of the global situation that is driving these prices to record levels and temper that with the risks of our local situation.

In short, our argument goes like this…
High prices are fantastic for crops that are harvested and safely stored. Nobody goes broker selling record levels.
However, High prices can always go higher than we might expect. In 2007, Hard Red Winter wheat traded above $20/bushel. Today it is at 1380/bushel. So international wheat can go substantially higher.

If we sell 1000t of fixed grade Multigrade today, the sale will be made at $480 Track Bris/NCL/PK/Melb for APW which is $155/tonne under the world price of wheat. Assume for a second that you cannot deliver the 1000 tonnes at harvest because you've been flooded out, and neither can 100 other growers. The washout will be ugly.
Now consider that you have only SFW1. Graincorps fixed spread on SFW1 is -$140/t from APW, meaning their bid is $295/tonne under the world price of wheat!!

The reason why we do all the analysis is to highlight risks and opportunities, and we can say with absolute certainty that the only person taking a risk when selling at the current APW multigrade would be the grower. That is no to say that the price cannot fall, of course it can, but the weight of evidence strongly suggests that there is no rush in selling new crop today. The risk/return is firmly in the buyer's favour.

If we focus on the positives and take advantage of some of these numbers to realise profits for the business from old crop, and cover some of the high costs of inputs by making a start to new crop sales when production risk is in hand, then the outlook for the Australian winter crop is absolutely enormous, if not unprecedented.

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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