DELTA

GRAIN MARKETING

OUTLOOK

AUGUST 2022

Independent Brokers. Smart Advice.

DELTA GRAIN OUTLOOK – *Monthly Analysis and Strategy*

Introduction

While the volatility in world commodity markets has settled down over the past 5 weeks, the potential for the markets to reignite the wild moves remains ever-present.

Russia's attacks on Ukraine continue and while there has been some headway made diplomatically, allowing vessels to start clearing grains and oilseeds from Ukraine, the reality shows that the wheat export program is mostly window-dressing. That is, most vessels are carrying higher value oilseeds like canola and sunflower, or higher margin grain like corn to European markets.

Consequently, the volume shipped out of Ukraine will likely be just a small percentage of the total old crop left in storages across the country (ie 5mmt by year end versus an estimated 40Mmt of old crop wheat available), not to mention the new crop soon to be harvested. Either way, if it cannot be exported, it cannot be counted in available stocks for global consumption until genuine volume starts to move.

Meanwhile, China's rhetoric about Taiwan has escalated quickly since the Ukraine conflict. China's ruling party may have been emboldened by Russia's move, but it is clear that after the success in resuming Hong Kong, Taiwan is next. From a grain marketing perspective, this has the potential to seriously hamper global trade. China are the biggest buyers of Soybeans and Corn, but they are obviously massive buyers of all commodities. Disrupting that trade would pose a massive threat to global markets and economies, and in the short-term cause huge volatility for prices, not just up but also down.

Most grain and oilseed markets have stabilized over the past month. The huge selloff from mid-May has stalled, and the markets look like they are waiting for more information. In the meantime, the US has received some good general rain through the row-cropping areas, but a hot blast is currently causing them to take pause. It could be a very tricky finish for their Summer cropping season, and has the potential to give our markets a nice boost heading into our Spring. We think it is important to have some coverage on prices here, at about $100/t above the 10 year average.

Barley also represents good selling, canola is very tricky. What do you do when a market is trading hundreds of dollars under its export value? We think you wait, but let's have a closer look and we will come to a conclusion at the end.

Wheat Outlook

INTERNATIONAL

- The outlook for 2022/23 U.S. wheat this month is for increased supplies, higher domestic use and exports, and reduced stocks.
- Supplies are raised on higher production with all wheat production forecast at 1,783 million bushels, up 2 million from last month. Reductions in winter wheat and Durum are more than offset by an increase in Other Spring Wheat.
- The all wheat yield is 47.5 bushels per acre, up 0.2 bushels from last month.
- Wheat exports for 2022/23 are increased 25 million bushels to 825 million with most of the upward adjustment for Soft Red Winter and White, based on competitive export prices.

- The global wheat outlook for 2022/23 is for higher supplies, greater consumption, increased trade, and fractionally lower stocks.
- Supplies are raised by 4.2 million tons to 1,055.9 million as higher production more than offsets reduced beginning stocks.
- Production is increased to a record 779.6 million tons, primarily on higher production for Russia, Australia, and China. Russia's production is raised 6.5 million tons to a record 88.0 million on both higher harvested area and yield.
- Australia's production is raised 3.0 million tons to 33.0 million as increasingly favorable weather conditions indicate higher yield prospects.
- China's production is increased 3.0 million tons to 138.0 million tons on the National Bureau of Statistics summer grain report, primarily on higher harvested area.
- EU production is reduced 2.0 million tons to 132.1 million, mostly on reductions for Hungary, Spain, and Romania.
- Projected 2022/23 world consumption is raised 4.4 million tons to 788.6 million, led by higher feed and residual use for Russia and Australia.
- Projected 2022/23 global trade is raised 3.2 million tons to 208.6 million on higher exports by Russia, Australia, Ukraine, Canada, and the United States more than offsetting lower exports from the EU and Argentina.
- Projected 2022/23 world ending stocks are reduced fractionally to 267.3 million tons and remain at the lowest level in six years.
  Source: USDA WASDE Report

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

The weekly chart highlights 4 weeks of sideways following the big falls from mid-May to mid-June.

DOMESTIC

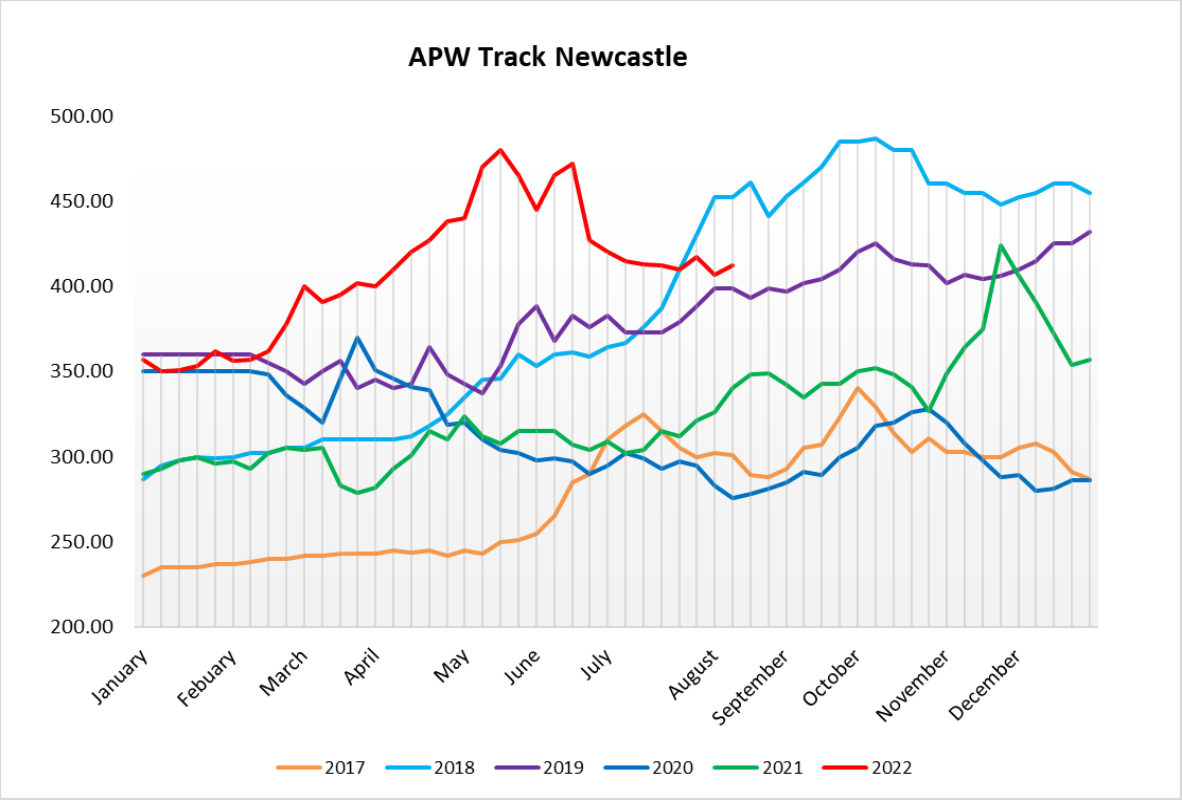
The world's grain markets have not seen volatility like this since 2007/08, which was the last influential La Nina event to hit North America. It has been a confluence of circumstances that forced cereals and oilseeds to record highs, with a global drawdown in ending stocks, drought in North America, global

cyclical strength for commodities and raw materials, logistics bottlenecks caused by a huge surge in demand following Covid lockdowns and finally the Ukraine conflict.

It is easy to see why markets took all these factors into account but less obvious why the US wheat market has retreated as rapidly as it has, down more than 45% from its mid-May highs, at the time of writing. Fortunately, the extremely negative basis protected our local values from falling anywhere near as far, but the record low basis also precluded us from taking advantage of the massive global values to a large extent. The US futures high of AUD$665 greatly overshadowed our own peak at $480 Track.

Now we must consider what to do from here. It is unclear how this crop year will play out. Flood risk is huge for those on floodplains, with storages full and soil moisture already at capacity. For those on well drained country, the outright risk is less but the washout risk is the same. If you cannot produce the quality you have forward sold, it is unlikely your neighbour will either, or even your district.

The spread to feed wheat offered on Multigrade contracts is unnaturally wide, eg Graincorp has SFW1 at less $140/t from APW. Yet the APW to SFW1 spread on old crop is barely $40. There is so little risk for the buyer and all the risk remains with the grower under these circumstances. Floating spreads look more attractive, but we need to lock them in well before the harvest weather is known or expected. For those in a region where there are strong SFW1 bids, consider some of those as part of your pre-harvest sales strategy. Delivered Downs is at or near $400/t for SFW1, as an example.

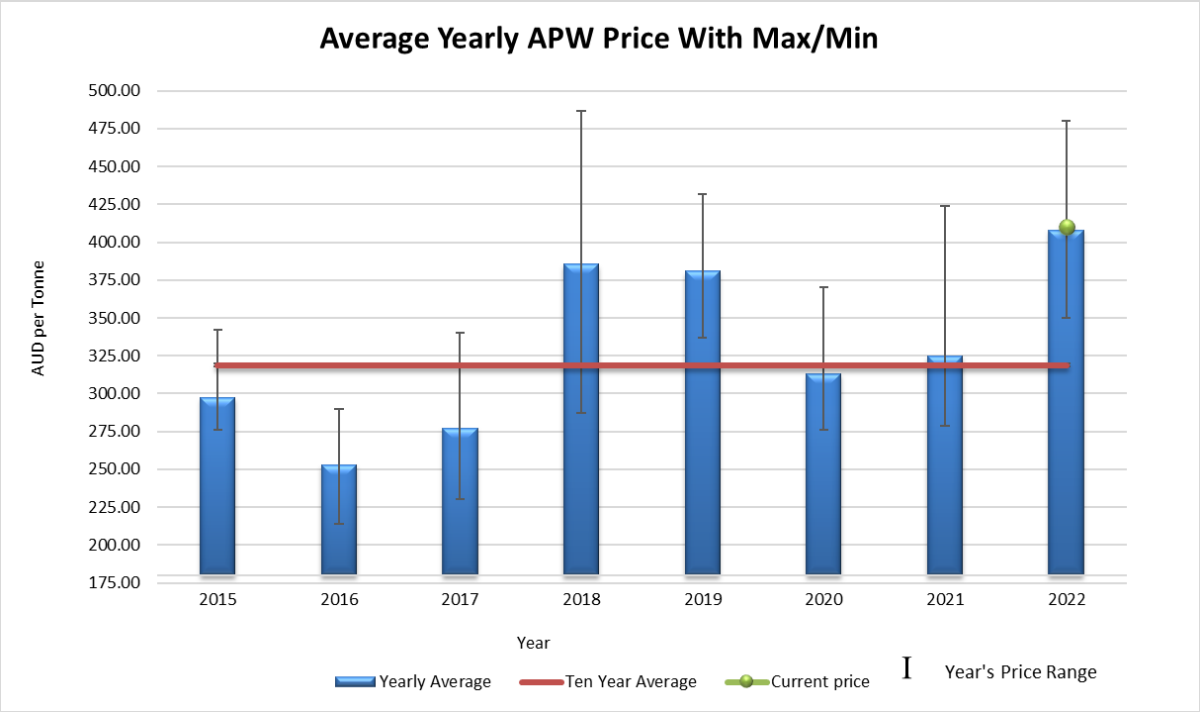


Australian Wheat Balance Sheet estimate

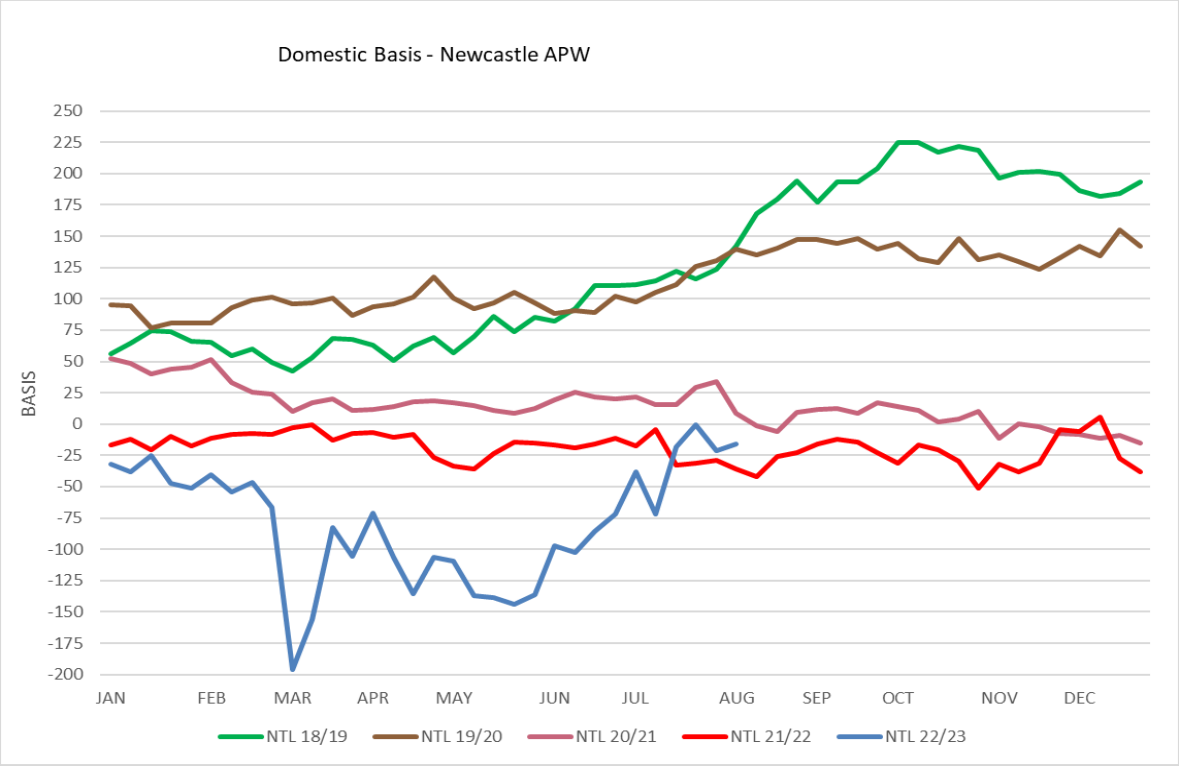
Crop Year	Carry-In	Production	Imports	Dom Feed	Dom Food Use	Total Dom	Exports	Ending stocks
2018/19	4.25	17.30	0.6	7.00	3.30	10.50	8.00	2.65
2019/20	2.65	15.20	0.5	4.50	3.10	8.00	8.00	2.35
2020/21	2.25	33.37	0	5.17	3.50	8.40	23.70	3.52
2021/22 est	3.50	36.50	0	5.50	3.50	8.25	27.20	4.55
2022/23 est	4.55	30.50	0	5.50	3.70	8.00	23.50	3.55

We have made a few changes to the Australian wheat balance sheet following some fact checking with exporters. The eight mobile loaders which have been operating at Australian ports have added some 3.5Mmt of export capacity over the past 18 months, which has made an impact to the amount of wheat, barley, sorghum and canola moved offshore in balk cargoes. We have therefore increased the export figure and reduced the carryin stocks for 22/23 crop year, which only increase the chance of an improvement in domestic basis going forward. The smaller the carryover, the greater the chance we slip into a shortage of supply on a downturn in production.

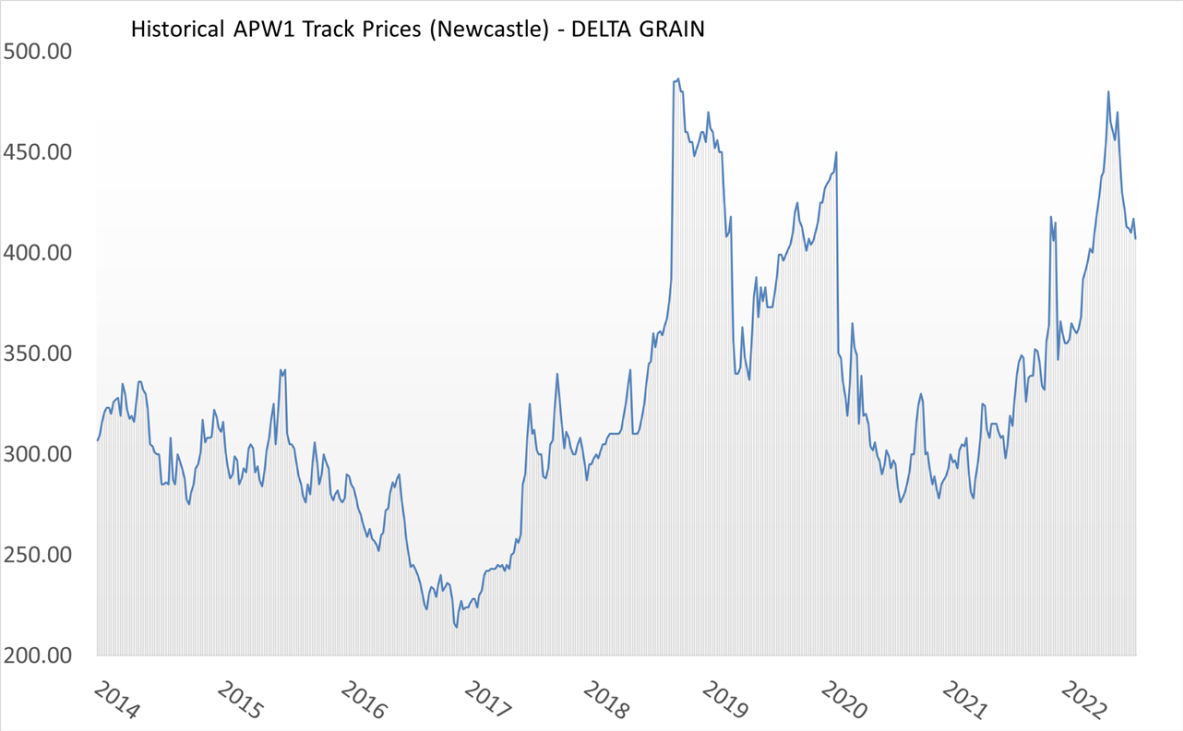
We also have increased our production estimate by 1 million tonnes on an extended planting window, while ongoing rain improves the prospects of established crops, and good conditions.
Our estimate is still below the consensus by a million tonnes or more because we know there were a lot of hectares unsown and waterlogging has been widespread on floodplains in NSW in particular.



2022 Basis has continued to push back toward parity having traded at $ZERO (APW Newcastle under the Chicago wheat swap) for the first time since January. A big improvement from -$200!



Note on the chart below just how high $410 Track is compared to the longer term average of about $325/t APW. These are absolutely great numbers and well worth selling, but just be aware of the discounts for poor quality.



Wheat Strategy

CENTRAL QLD
CQ growers now have planting complete with good moisture and crops in good order. Its time to make a start to forward sales with prices still close to $100 over the long term average. As per our commentary, beware of very poor feed wheat spreads on the Multigrade contracts.

SQLD/NSW

NEW CROP: Prices have come off, but Basis has come roaring in and now that the crop is established, it is worth making a start to sales.
Be very wary of fixed price contracts, and call our team for advice on the best buyers.
Sell up to 20% of a minimum crop estimate by early September if not subject to flood risk, otherwise sit out of the market for now.

Canola Outlook

INTERNATIONAL

- The 2022/23 global oilseed supply and use forecasts include higher production, crush, exports, and ending stocks compared to last month.
- Global oilseed production is raised 2.9 million tons to 646.0 million with higher forecasts for soybeans, rapeseed, and sunflower seed partly offset with lower cottonseed production in the United States.
- In addition to higher production for the United States, soybean production for China is increased on higher area cited in recent provincial reports.
- Australia's canola crop is raised 0.7 million tons to 6.1 million on higher yields resulting from favorable weather conditions.
- Russia's rapeseed crop is forecasted at a record 3.9 million tons, up 1.1 million from the previous forecast on sharply higher area. Russia's sunflowerseed production is raised 1.5 million tons to 17 million, also on higher reported area.
- Sunflowerseed production is reduced for the EU and South Africa. Lower EU production reflects hot, dry conditions in July.
  Source: USDA WASDE Report

MATIF French Rapeseed Futures FEBRUARY 23 Weekly data

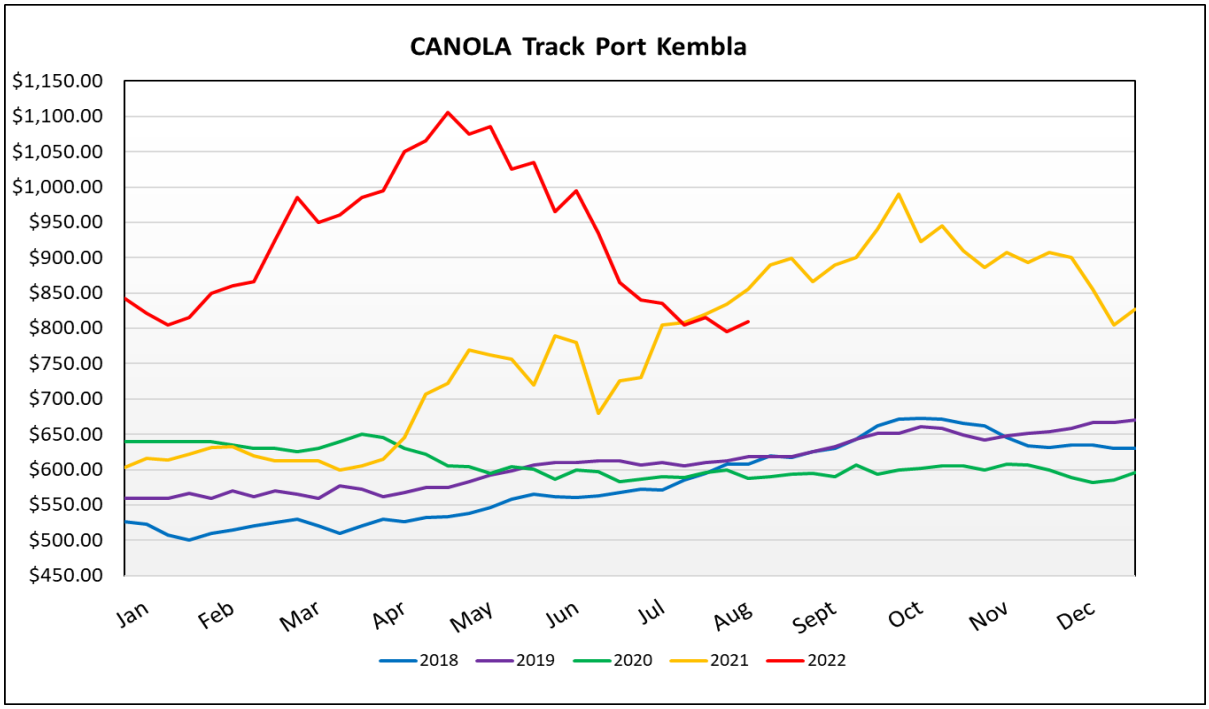
The USDA data suggests global canola/rapeseed production is set to exceed consumption for the first time in four years in 2022-23.

UK Production for the Winter canola crop is yielding 3 to 3.5t/ha which is close to average.

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.

DOMESTIC

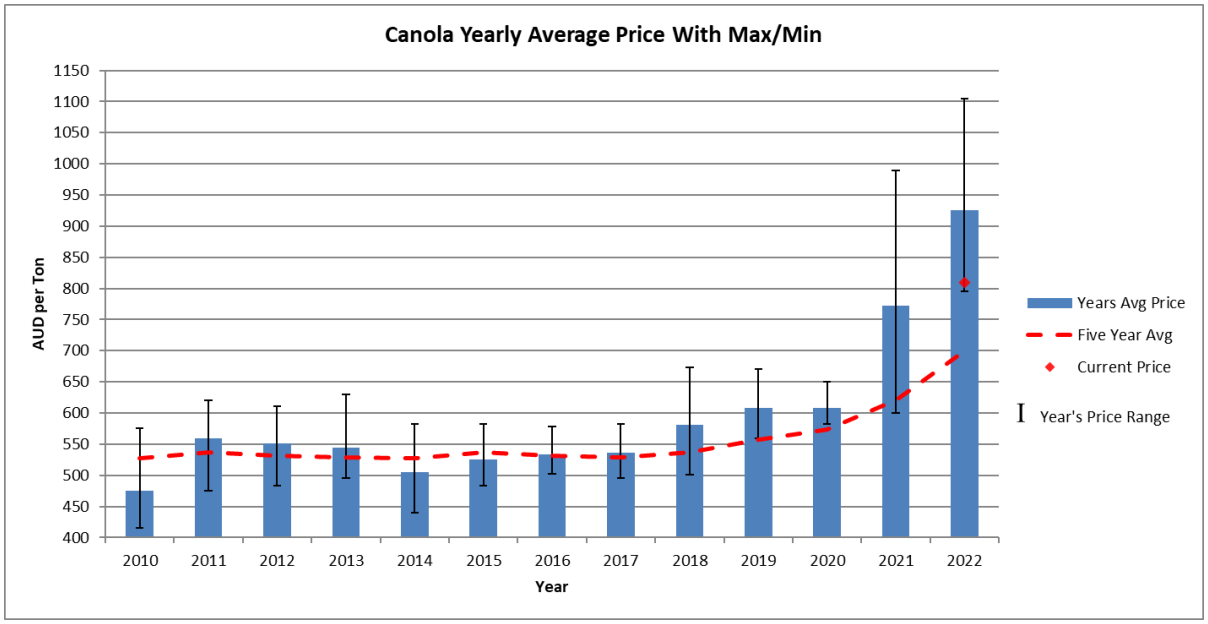
Locally, it is just too early to predict where the world or the Australian crops will finish by December. The SNSW crop will be way back on last year, but the WA, SA and Victorian crops are still in the running for a big year, with planting on time and conditions to date very supportive of high yields. With a bit of luck, NSW can outperform with great moisture for the crop in the ground, and if the European crop continues to deteriorate, we could once again see a surge in pricing in the final quarter of 2022.



The 2021 calendar year closed with canola at $827 Track Port Kembla, following the October highs near 1000/t. This year's highs were made back in May and we are pleased to say that a lot of growers made some modest forward sales above $900 site. As is the case with wheat, the current value would be a huge result in any year before 2021!

Having said that, we think $810 Track Port Kembla looks very cheap from a global markets perspective. At the time of writing, $810 Track Port Kembla is $417/tonne under Canadian Rapeseed values, and $160/t under French rapeseed.

If and when ocean freight normalises, we expect Australian canola to trade an average $40 over Canadian futures and -$40 under MATIF. Such is the cost of execution and what must be huge margins for those willing to commit to getting canola to its final destination.



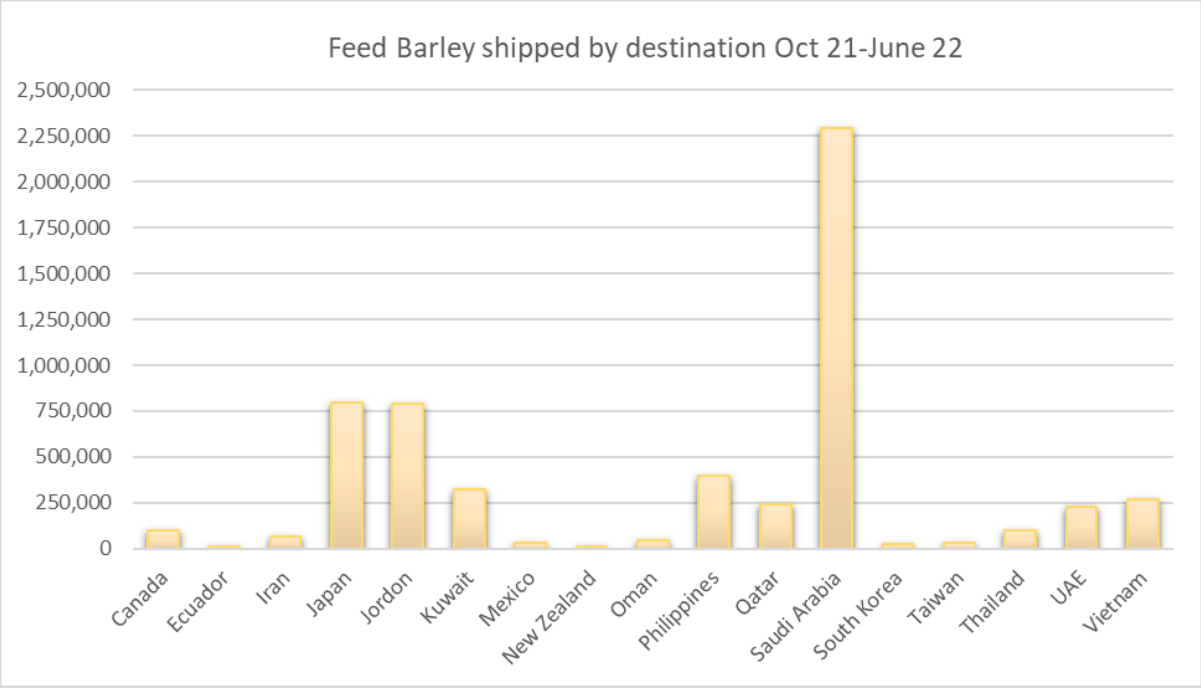
Canola Strategy

NEW CROP: We see the heavy discounts from both Canada and France rapeseed values as a chance to pause on sales right now. We would look to re-engage on a bounce toward $850 Track equivalent. We do however reserve our right to change our mind should the international values come under further pressure in the weeks ahead.

Barley Outlook

INTERNATIONAL

Barley exports out of Australia are still heavily focused on the Middle East with Saudi Arabia accounting for around 40% of the total MT shipped since the start of the 21/22 season in October. Jordon, Kuwait & the UAE also in the top 5 destinations while Japan remains the best demand into Asia.



It should be noted, that at the current rate of exports, we will not match last year's record 8.3MMT shipped with most pundits pegging the number to be around the 7.5 MMT mark. Unfortunately, despite the on-going supply problems in the Black Sea our logistical problems have stymied any improvement in barley exports this year.

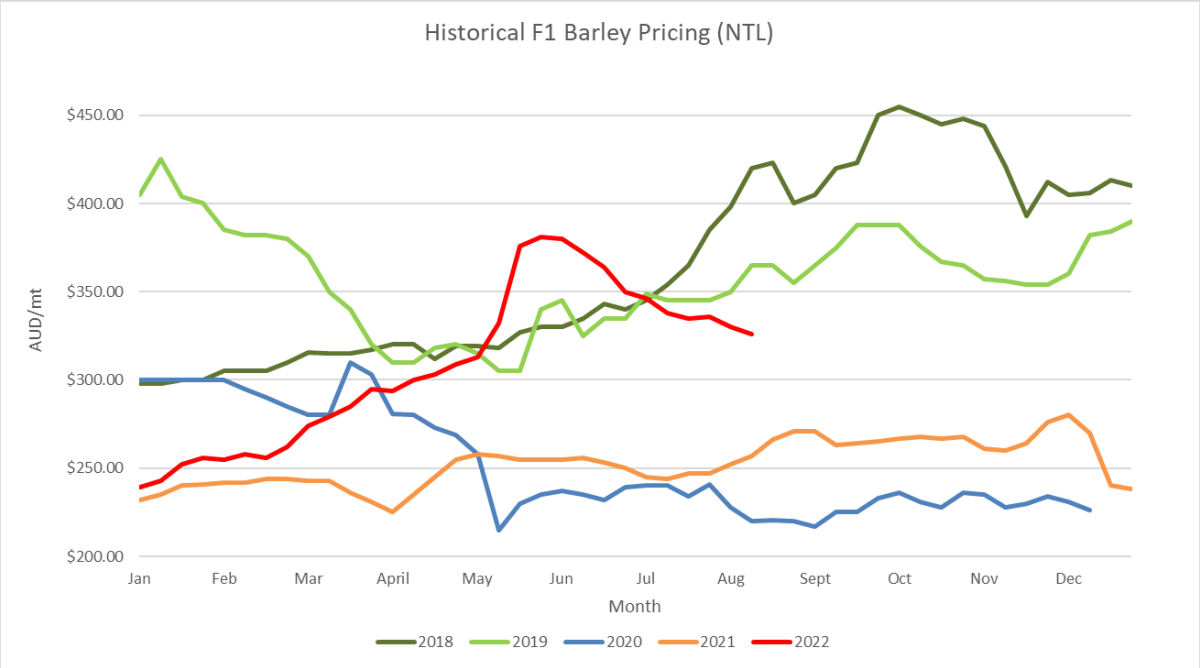
Currently new season French barley is competing strongly into the Middle East as is US corn, which is a viable feed option into Saudi Arabia given around a $40.00/mt US discount to Australian Barley. On the positive side, the on-going drought in the EU should mean that they will have to be net importers of feed grain over the coming year so we think demand will remain high for both feed and malt barley out of Australian which should support prices.

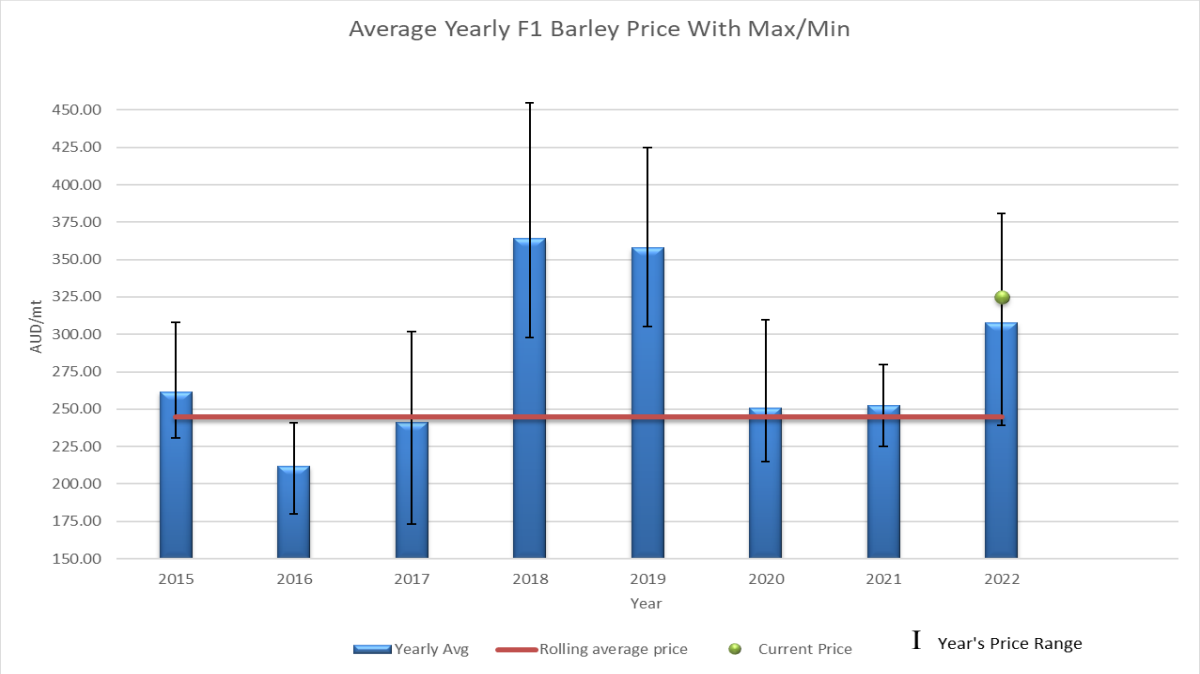
DOMESTIC

The reduction in export demand and continued wet conditions have seen new crop barley prices continue to trend lower over the past month. While there are some areas where barley was not planted due to water logging, particularly southern central west and southwest NSW, overall, the bulk of NSW has been seeded. Late planted barley has also been a new phenomenon over the past couple months with Growers opting for barley over wheat due to less risk around quality downgrades in the feed market.

New crop delivered markets are still showing good values despite the drop off in price. The Southern Qld feedlot sector is keen to use barley again this year given the quality and relatively cheapness compared to wheat. Wheat again looks like an export play and the feeder does not want to compete with the exporter particularly if the quality is ASW or better. Delivered Downs for Jan on is still bid around $385.00/mt while the Liverpool Plains market is around the $350 mark.

Southern markets also in the low to mid $300's delivered for Bar1 Jan on. Given the demand for exports would appear once again to be strong next year the Southern NSW and Victorian markets should remain competitive between exporters and feeders.





Track bids have also continued to trend lower over the past month but remain historically high for this time of year. Prices are well above the long-term average and still represent good value for those Growers without on farm storage.

Barley Strategy

NNSW & DELIVERED DOWNS

While values have fallen below $400 delivered Downs for barley, we still think they are at good enough levels to make sales. 10-15% of an average yield for those growers who can store on farm is a reasonable target.

Track prices are solid but probably not fully priced compared to the delivered market. They have pulled back on a softer international feed complex. Would like to see a bounce before committing to much here but first sales if the crops look good around $300+depot is still well worth pursuing.

LIVERPOOL PLAINS & CENTRAL WEST

Delivered bid for new crop on the Plains is sitting around the $330 mark which is undervalued compared to the SE QLD market. Offers around the $350 delivered market would be well worth a try at present.

Track prices are solid but probably not fully priced compared to the delivered market. They have pulled back on a softer international feed complex. Would like to see a bounce before committing to much here but first sales if the crops look good around $300+depot is still well worth pursuing.

SNSW & RIVERINA

New crop prices are lower than last month but still represent good value in our eyes. Delivered Melbourne bid $380 for Jan/Feb while Southern NSW feedlots are bid $325 Jan/Feb and $315 for harvest. This continues to be a selling opportunity if you have freight. Otherwise, the Track market seems a little cheap and we are still chasing bids closer to $300 depot.

Sorghum Outlook

INTERNATIONAL

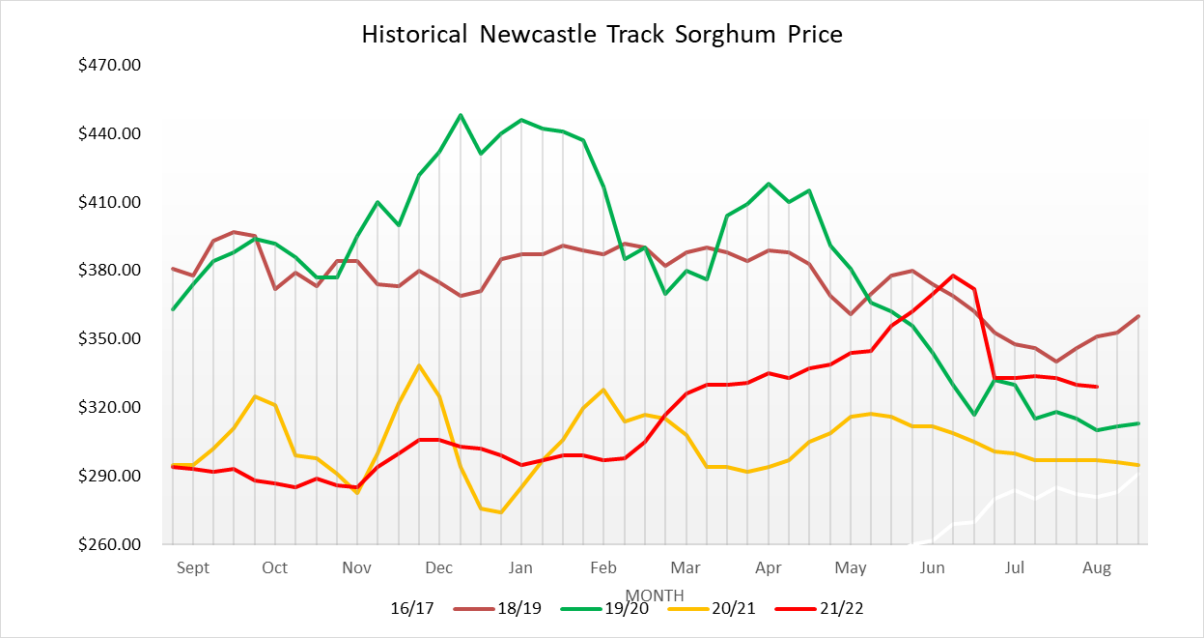
The US sorghum crop has continued to decline as the southern half of the country remains in severe drought. Sorghum good/excellent ratings are currently sitting around 28% which is historically low. Harvest will be underway in next few weeks and the real extent of the drought will be known over the next few months.

	US FOB Texas	Aussie dollar	Brisbane Track Sept-Nov	FOB Cost	Aussie Dollar Value	Basis
Month	Price					
Sept	$302.05	0.7076	$323.00	$65.00	274.5488	-$27.50
Oct	$301.66	0.7093	$323.00	$65.00	274.5488	-$27.11
Nov	$301.66	0.7094	$323.00	$65.00	274.5488	-$27.11

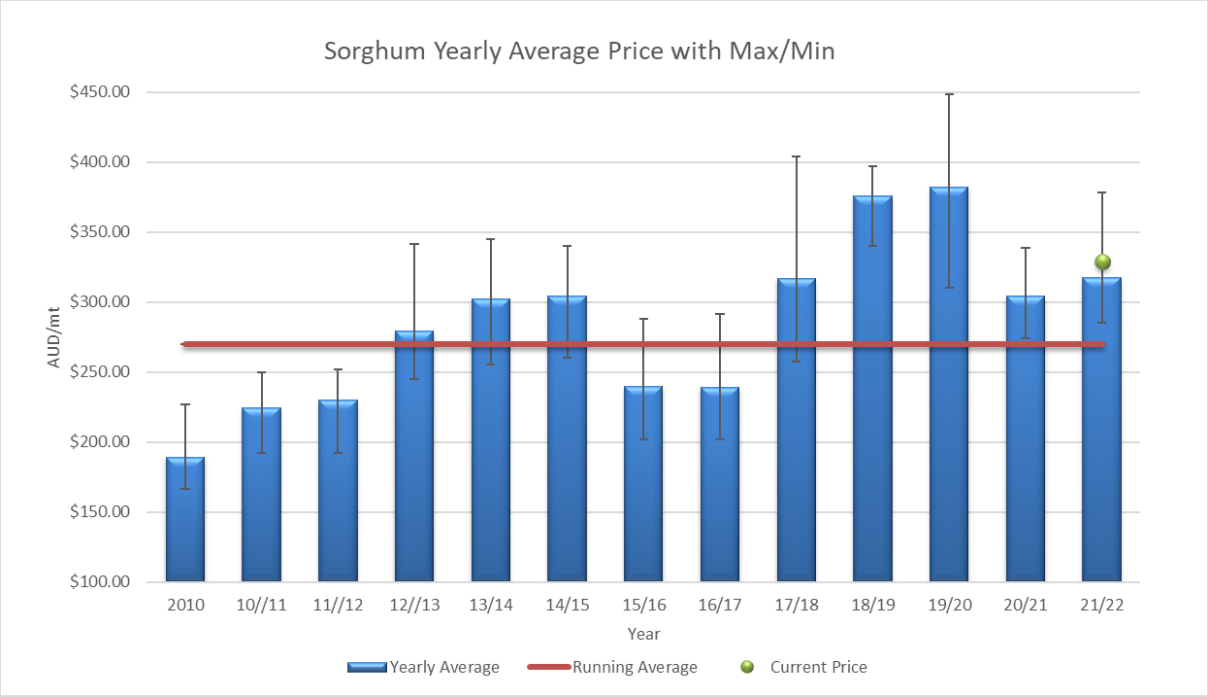
Despite the threat of lower production FOB offers out of Texas have continued to decline rapidly over the past month. The US usually export around 8 mln mt of sorghum a year and while production may be lower sales and shipments will be made over the next 3 month. Basis vs US sorghum has now shrunk significantly making it harder for Australian sorghum to compete into China.

DOMESTIC

Domestic sorghum prices have trended flat to lower over the last 4 weeks as the competition for export tonnes has waned, leaving a few domestic feed buyers and by default limited buyers in the system. Prices have been swinging around the $330 mark in all port zones. Mackay/Gladstone & Newcastle are still trading track volume, but Brisbane is now solely a delivered market.



Domestic consumers are still looking for delivered bids but only at levels around the $350 delivered into Newcastle and $380 Brisbane. The poultry demand will be on-going but is not yet fully sorghum centric with wheat still the main ration. Seasonally sorghum falls away this time of year as the Northern Hemisphere harvest is about to kick off and exports shift to new crop wheat from the trade.



Another factor contributing to lower prices is the lack of good quality sorghum due to the wet harvest making it less attractive to Chinese buyers compared to South American sorghum from Argentina. Prices are still above the long term average and just above the average for the year which is a good " sell " indicator.

Sorghum Strategy

CENTRAL QUEENSLAND

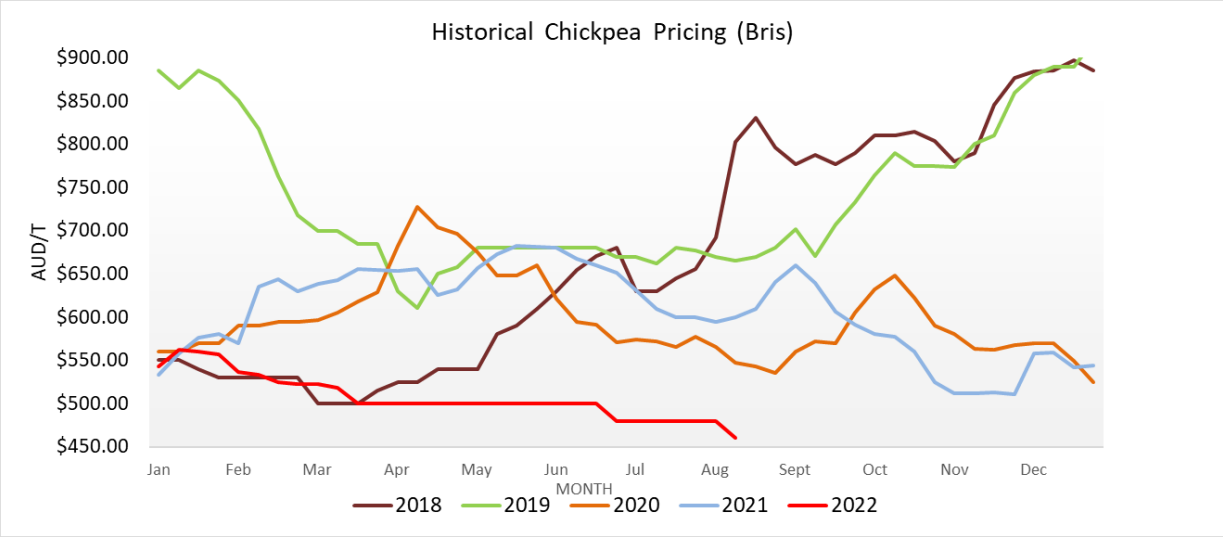
Harvest is still tidying up in the north of CQ and unfortunately this is adding more supply against lower demand. Quality is also an issue with Sor2 still being harvested and there is now a lack of blending opportunity for exporters. We suggest that sales should be made on any remaining tonnages as demand will disappear in the next few weeks as the last boat sails in September out of Mackay.

NNSW

Harvest is all done on the Liverpool Plains and yields have been generally very good. As with Queensland, export demand would appear to be well and truly covered which is leading to a lack of competition for grower tonnes. Suggest keep selling as a lift in prices may be some way off and may not eventuate at all.

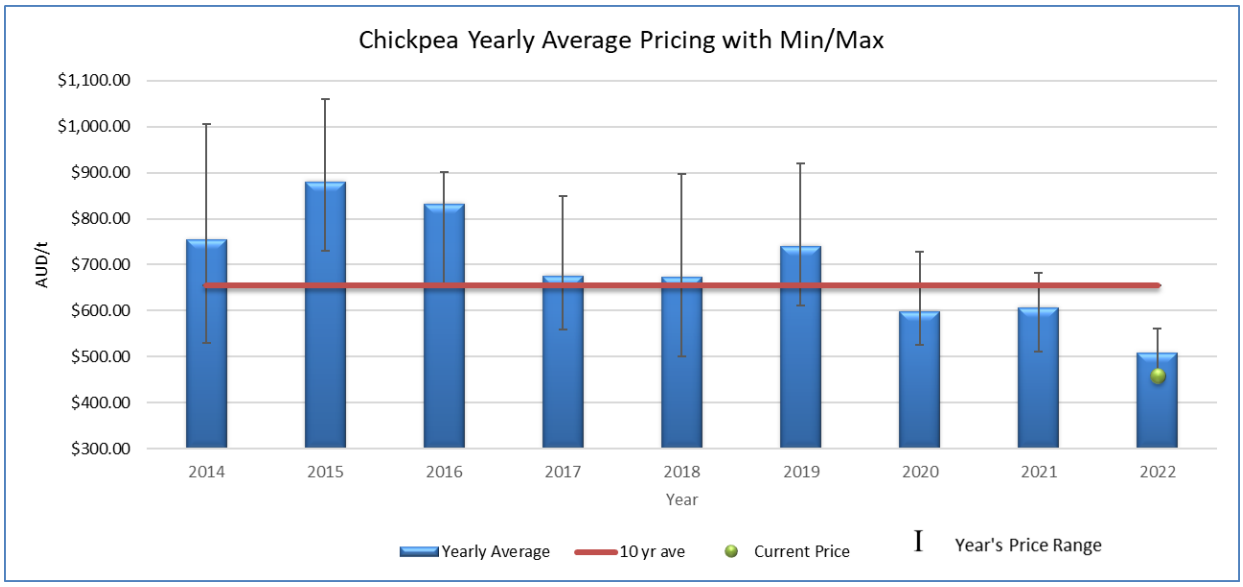
Chickpea Outlook

Fortunately, the new crop chickpeas market has started to frame up over the past few weeks so we can get some idea where the exporters are seeing new season demand. As predicted Central Queensland is the main focus for bulk vessels in Bangladesh at this point. Track prices have started around the $550 mark for both Mackay and Gladstone. Delivered port bids also showing some decent values above $600.00/mt



Unfortunately, elsewhere the market is still suffering from a lack of demand with limited bulk options available forcing the exporters to continue to price up delivered container packer. As we can see above this is translating to full execution out of the system into the container market. Delivered Downs new crop bid around the $475.00/mt which prices out at around $460 track Brisbane almost $90.00/mt under the CQ bulk business.

Old crop chickpeas are also weighing on new crop bids with a mountain of chickpeas still to be marketed from the 21 season. Again, these will have to fit through the container pipeline which is significantly smaller than the bulk channels. Quality also still a big issue with 2021 chickpeas.



As we can see the current bids for chickpeas in the Brisbane zone are well below the long-term average and reflect the dilemma for chickpeas going forward. The Central Queensland market is significantly higher and is the only zone currently worth looking at sales.

Chickpea Strategy

CENTRAL QUEENSLAND

New crop prices are framed up and look like a "gala" compared to southern markets. There at least 4 exporters bidding both track and delivered for new crop in Mackay and Gladstone. The currently a total of 60,000mt of stem booked in CQ for peas for the next 8 months. Track prices are solid and should be looked upon favourably when compared to the southern market. Given the wet season caution should be applied. Sell 5-10% forward only if production risk is accounted for.

NNSW & CENTRAL WEST

New crop prices are sub $500 delivered packer and unfortunately look likely to remain there for the foreseeable future. We suggest holding off for now as the wet season looks likely to continue.

Cotton Outlook

- In this month's 2022/23 U.S. cotton projections, beginning stocks are slightly larger, and a nearly 3-million-bale decrease in production results in lower exports, mill use, and ending stocks.
- Beginning stocks are larger as estimated exports for 2021/22 are reduced 100,000 bales based on final Export Sales data and Census Bureau data through June.
- **NASS's first survey based estimate of production for 2022/23 is 12.6 million bales—the lowest since 2009/10**—with the crop reduced by projected historically high abandonment in the Southwest.
- Exports are projected 2 million bales lower than in July and mill use is 200,000 lower. Ending stocks are 600,000 bales lower, equating to 12.6 percent of expected use, 8 percentage points lower than in 2021/22, and the lowest stock/use ratio since 1924/25.
- Global 2022/23 production is forecast 3.1 million bales lower this month, and consumption is 800,000 bales lower, resulting in a decrease in projected ending stocks of 1.5 million bales.
- In addition to the U.S. crop change, world production is reduced an additional 100,000 bales as extreme heat in Uzbekistan reduced yield prospects there.
- World trade is 1.8 million bales lower this month, with reductions in U.S. exports and imports by China as the largest changes. Projected imports are also lower this month for India, Pakistan, Vietnam, Turkey, and Bangladesh.
- Consumption in 2022/23 is projected lower than a month ago in the United States, Pakistan, Vietnam, Turkey, and Bangladesh
  Source: USDA

The Cotton market continues to lead the way in the volatility stakes for agricultural commodities, with old and new crop prices putting in a formidable bounce off last month's lows. From the May highs Cotton fell a massive 40%, and has now rallied to make up half of that loss in just one month! It is hard to fathom how the market could swing so wildly and is surely due to undue influence from speculators. There is no way consumers or producers want that sort of price instability.

US crop conditions have not helped, steadily deteriorating in recent weeks . The latest USDA crop condition report showed that 34% of the US crop is rated poor/very poor, while 35% is rated fair and 31% is rated good/excellent. Also, cotton crops in India are under threat of pink bollworm pest, which

attacked sooner than expected this year in Punjab and Haryana, in part due to low rainfall in the early part of the sowing season.

Despite the US crop deteriorating at a rapid rate, nothing compares to the fear amongst the trade on expectations of falling consumption from the world's major millers. China has cut their import demand and cite a huge fall in the export demand of milled thread, while traders are concerned that the cotton is a luxury item which has a high exposure to a downturn in the economy. It is too early to say whether the speculation on a large fall is warranted, but certainly the huge prices we saw in April appear long gone.

The Australian dollar has risen above 71 cents for the fist time since early June, but it remains historically weak and continues to support local bids to some extent, while a strong local basis looks certain to continue based our high-quality output.

US COTTON futures MAY 2023 Weekly chart

Cotton Strategy

A 50% retracement of the downtrend is too good to ignore. This looks like a selling opportunity to us. Whether its old or new crop, sell some here.

Summary

It can be hard to keep up with the changes in values for commodities across the globe, as for analysts like ourselves, it is impossible to reconcile the market fundamentals with the wild swings in price.

What we have tried to do in this report is to highlight that despite the recent falls, values for wheat, barley, canola and cotton are all well above the top 20% of prices, and all would generate great farm returns if average yields are realized by harvest.

We also believe that the Northern Hemisphere crops are likely to disappoint rather than surprise, so the chance of international values lifting between now and harvest are good. The is still some time before that crop is known, but it is only a couple of months away now so there is limited time for its crop condition to swing back to positive.

Locally our own crops are more likely too wet than too dry, but for all the unsown and waterlogged country, there is a higher percentage which is in the box seat for big yields. We will however need a soft October to really achieve the potential, and some more sunshine that we have had since planting!

For any specific pricing and advice, please do not hesitate to call our team.

With best wishes,
Mick and the Delta Grain Team

CONTACTS:

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

General Manager & Grain Marketer - NNSW, CWEST & SNSW
Mick Parry
Licenced Financial Services Officer
AFSL. 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 Marketers – SNSW Region
Graham Martin-Dye & Meg Simmons
(based at Delta Ag Harden)
Graham Mobile: 0412 220 302
gmartindye@deltaag.com.au

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

DELTA
GRAIN MARKETING