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Australia

Grain and Feed

Grains Update - March Lockup 2003

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Report Highlights:

Australia's drought-reduced 2002/03 wheat crop is now estimated at 10 MMT, down from last season's record harvest. High demand for feed grain has diverted greater quantities of wheat into feed channels. Wheat exports in 2002/03 are expected to be down sharply from 2001/02. Recent rains have put a dent in the drought that has sharply reduced Australia's summer crop area and production outlook. Output of all the principal summer crops - cotton, rice & sorghum - is expected to be sharply below year-earlier levels. Cotton, rice and sorghum export volumes will also be sharply lower. Australia is importing feed grains, the first time this has happened since 1994/95. In February 2003, ABARE revised Australia's 2002/03 wheat crop downward to 9.4 MMT, about 6 percent lower than their previous projection and 62 percent below last year's revised record production of 24.854 MMT

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report

WHEAT HARVEST FOR 2002/03 REVISED DOWNWARD; REVISIONS ALSO MADE IN 2001/02 AREA AND YIELD

Australia's wheat production in 2002/03 is estimated at 10.0 MMT, down 0.5 MMT, or 60 percent, from post's previous projection (see AS2041, dated 12/02/02). This represents the smallest Australian wheat crop since 1994/95, when production totaled about 9.0 MMT. (See ABARE's revised 2002/03 wheat crop estimate at the end of this report.)

Post maintains Australia's 2002/03 barley crop at 3.5 MMT, down about 4 MMT from year-earlier levels.

Post has also revised wheat area, yield and production estimates for 2001/02. Wheat area for 2001/02 is now estimated at 11.597 million hectares, down about one million hectares from the 12.526 million reported previously. Wheat production in 2001/02 is revised upward to a record 24.854 MMT, more than a million metric tons higher than our previous estimate of 23.760 MMT and now surpassing the previous record wheat crop of 23.765 MMT harvested in 2000/01. These significant area and production changes for 2001/02 were precipitated by new estimates recently released by ABARE. (See ABARE section later in report.)

OUTLOOK FOR CURRENT SUMMER CROPS

There have been continued breaks in the extended dry weather pattern in major summer cropping areas of northern New South Wales and southern Queensland in February. Significant regional rainfall amounts in February, particularly across southern Queensland, have benefitted irrigated and dryland sorghum and cotton in these areas. The long-standing drought has sharply reduced irrigated crop area in this region, and shortages of irrigation water have caused producers to cut back on water applications in some areas. Some producers have abandoned fields or have eliminated rows from their fields. For those with adequate irrigation water, growing conditions have been excellent and above average yields are expected, albeit on a significantly lower area base. Recent rains have also benefitted maturing dryland crops and will facilitate some late sorghum planting. Feed grain shortages and high prices have also provided an economic incentive to continue planting sorghum. Late planted sorghum will be susceptible to early frosts and is often characterized by low yields.

The 2002/03 sorghum harvest is expected to total 1.0 MMT, unchanged from our previous projection (AS2041, 12/02/02), but 45 percent lower than the year-earlier level. This projected production level is contingent on a return to more normal precipitation and some output from late-season plantings. Grain traders expect a range of 900,000 MT and 1.2 MMT for sorghum. Traders highlight that many producers forward contracted sorghum, but were unable to plant or now face sharply reduced yields or a completely lost crop. For these farmers, there is added incentive to (re)plant a late season crop.

The 2002/03 cotton crop is expected to total 300,000 MT, also unchanged from the previous projection (AS2041), but 57 percent below last year's 693,000 MT. Cotton area is now projected at 192,000 hectares, down from our last projection and significantly below last season. However, yields this season are now expected to be higher than previously projected and close to a longer-term average. In part, cotton yields in 2002/03 have been boosted by only minimal dryland cotton plantings, which are normally characterized by low yields. Cotton trade sources have been moving the projections for the 2002/03 cotton crop upward, with some sources now placing the crop as high as 320,000 MT.

The 2003 rice crop is expected to total 400,000 MT (rough basis), down 50,000 MT from the previous projection (AS2041), and down 69 percent from last year's 1.274 MMT crop. The decline in 2003 rice output from the previous projection is attributed to a slightly lower yield projection. Rice area in 2003 is estimated to be 69 percent below 2002, due mostly to shortages of irrigation water that led to sharply reduced rice sowings.

DROUGHT LIFTS FEED DEMAND; FEED GRAIN IMPORTS LIKELY TO CONTINUE

Australia's severe drought has dried up pastures and sharply reduced winter and summer crop output, which has led to domestic shortages and higher prices of feed grain. Given domestic feed grain prices, competitively priced feed grain imports are currently being made to make up for the shortfall. A total of 48,000 MT of U.S. corn has already arrived in country and 50,000 MT of UK feed wheat is also in the process of being imported. AQIS has issued import permits for additional quantities of feed grain, including sorghum from the United States and wheat from the UK.

Wheat for feed use in 2002/03 is projected at 4.85 MMT, 80 percent higher than in 2001/02. This high usage of wheat for feed is attributed to poor pasture conditions, record closing stocks of wheat for the previous year (which included a high percentage of feed grade wheat), and a record number of cattle on feed. Strong feed demand also resulted in a higher than normal quantity of wheat from the 2002/03 harvest diverted directly into feed channels.

With the poor 2002/03 winter crop and an expected sharply lower domestic sorghum crop, pressure to import feed grain is expected to linger until the 2003/04 winter crop is harvested at the end of CY 2003 into the first part of CY 2004. Thus, a significant quantity of grain for feed is expected to be imported through to the end of CY 2003. Feed grain import demand will lessen as the domestic sorghum crop is harvested and enters domestic feed channels, but should again rise leading into the 2003/04 winter crop harvest.

Total imports of grain for feed in CY 2003 are expected to total about 500,000 MT. This would be similar to the quantity imported in 1994/95, when a widespread drought cut domestic grain supplies. To date, about 50,000 MT of U.S. corn and 100,000 MT of UK wheat have been

imported; additional quantities of UK wheat are expected over the next several months. Some of the future UK wheat imports may actually be for flour milling. Total MY 2002/03 (Oct-Sep) wheat imports are projected at 350,000 MT.

The actual mix of grain imports will depend on the relative pricing of domestically supplied feed grains (or alternatives) and pricing of imports. According to the trade, UK feed wheat is currently more attractively priced than corn or sorghum out of the United States. The quarantine measures needed to import grain, and the cost associated with meeting them, also must be factored into the equation on the attractiveness of imports and where to source them.

DROUGHT HAS SHARPLY REDUCED EXPECTED EXPORTS OF WINTER AND SUMMER CROPS

Australia's MY 2002/03 (Oct-Sept) wheat exports are forecast at 7.9 MMT, down sharply from the 16.075 MMT exported in 2001/02. Large beginning stocks and the sharp expected decline in stocks in 2002/03 have partially propped up wheat exports.

Substantially lower output of rice, sorghum and cotton will sharply reduce exports of these commodities. Australia's cotton exports in MY 2002/03 (Aug-July) are expected to total 400,000 MT, down from the 750,000 MT exported in 2001/02. To accomplish this export level, 2002/03 cotton ending stocks are expected to fall 27 percent. Milled rice exports in MY 2003/04 (Mar-Feb) are expected to fall to 301,000 MT, versus the 558,000 MT estimated for 2002/03. Rice ending stocks for 2002/03 (end February 2004) are expected to contract by two-thirds to accommodate this export forecast. Sorghum exports in 2003/04 (Mar-Feb) are expected to fall to only 60,000 MT, down from 426,000 MT estimated for 2002/03.

ABARE'S FEBRUARY 2003 CROP REPORT

The Australian Bureau of Agricultural Research and Economics (ABARE) released their Crop Report on February 18, 2003, providing area, yield and production updates (as of February 12) for the completed 2002/03 winter crop harvest and the current 2003 summer crop season. The February Crop Report also included some revisions in estimates for the previous year. ABARE's last Crop Report was released on December 2, 2002. ABARE is expected to publish its first projections for the upcoming winter and summer crop seasons on March 4, 2003.

ABARE now estimates Australia's 2002/03 wheat crop at 9,385 TMT, six percent below their December figure of 9,980 TMT. Wheat area was left unchanged at 11,031 thousand hectares. ABARE also made some fairly significant changes to the 2001/02 wheat crop – area was cut from 12,526 thousand hectares to 11,597 thousand; and production was raised from 23,960 TMT to 24,854 TMT. This makes the 2001/02 wheat crop a record. Apparently, ABARE's adjustments to the 2001/02 wheat crop were based on recent revisions by Australia's Bureau of Statistics (ABS).

ABARE estimates the 2002/03 barley crop at 3,268 TMT, 10 TMT below their December 2002 projection. Barley area for 2002/03 was left unchanged at 3,092 thousand hectares. ABARE estimates barley production in 2001/02 at 8,423 TMT.

ABARE's February Crop Report also revised current summer crop projections for cotton, rice and sorghum from their last projection which were contained in the December 2002 Crop Report. ABARE projects cotton production in 2002/03 (harvested beginning in March 2003) at 262,000 MT, up from the December 2002 forecast of 238,000 MT. Cotton area for 2002/03 was dropped from the 224,000 hectares in December to 192,000 hectares in the February 2003 Crop Report. Cotton yields were revised upward from 1.06 MT/ha to 1.36 MT/ha.

Rice production for 2003/04 (harvested March 2003) is forecast at 370,000 MT (rough basis), down 10,000 MT from the December 2002 projection. Area was left unchanged at 46,000 hectares.

Sorghum production in 2003/04 is projected at 755,000 MT, down from the December 2002 forecast of 855,000 MT. Sorghum area was left unchanged at 483,000 hectares. ABARE is looking for NSW to produce a sorghum crop of 200,000 MT and Queensland 550,000 MT in 2003/04.

In their February 2003 Crop Report, ABARE notes that: "there have been some very good falls of rain in parts of Queensland in the first half of February, particularly in the Central Highlands regions. As many growers had not been able to sow crops in this region in late 2002 because of inadequate rainfall, some growers are considering sowing very late crops in order to receive some cash flow by mid-2003."