USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network
Template Version 2.09

Scheduled Report - Public distribution

Date: 9/28/2007

GAIN Report Number: AS7055

Australia

Grain and Feed

October Lock Up Report

2007

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Report Highlights:
Time has all but run out for the Australian winter cereal crop to recover from continued dry conditions. Heavy rainfall, if received now, would do little to lift production. Forecast wheat production for 2007/08 has been slashed to 16.25 MMT, 4.85 MMT down on Post's previous forecast. Forecast barley production for 2007/08 has also been revised downward to 6.4 MMT, down 1.6 MMT on Post's previous forecast. Low stocks, low production and solid domestic demand are combining to make an extremely difficult outlook for exports in 2007/08.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Canberra [AS1]
[AS]

SECTION ONE: SITUATION AND OUTLOOK

General

At the time of writing this report, time has all but run out for the Australian winter cereal crop to recover from continued dry conditions. Despite good rainfall in June and July, the months of August and September proved to be very dry months. Expectations of average to above average yields have dissipated quickly as the window of opportunity for drought-breaking rains has now closed on the Australia winter cereal crop.

Harvest has already commenced in some areas, however Post expects the winter cereal harvest to begin in earnest in October. Heavy rainfall, if received now, would do little to lift production.

Post expects that the conditions experienced since the last report have slashed 4.85 MMT off the wheat crop and about 1.6 MMT off the barley crop. Reduced production forecasts are expected to see lower exports than previously reported.

Perhaps most importantly, poor crops in 2006/07 provided greatly reduced carryover stocks for CY 2007/08. Low stocks, low production and solid domestic demand are combining to make an extremely difficult outlook for exports in 2007/08

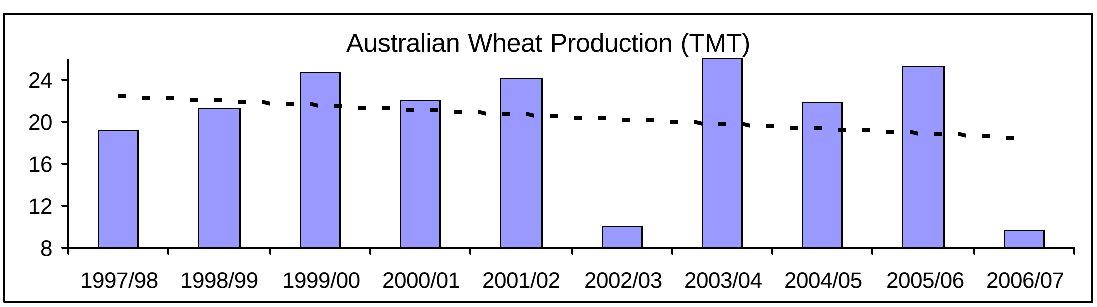
Wheat

Production

Forecast wheat production 2007/08 has been slashed to 16.25 MMT, 4.85 MMT down from Post's previous forecast. Spring conditions proved to be dry, sharply reducing yield and somewhat reducing planted area.

Further rainfall, if received, would do little to improve the prospects for this crop. Furthermore, the onset of hotter than average conditions and/or unusually high winds could see the production forecast slip further. Final crop production could range from 15 MMT to 17 MMT depending on climatic conditions up to and during harvest.

Production forecasts for wheat, if achieved, would represent levels well below the 10 year average of 20.52 MMT established using ABARE's historical data. This below average crop, follows the severely drought affected 2006/07 crop, which greatly reduced carry over stocks for the 2007/08 crop. Australia now faces an acute grain shortage.



Source: ABARE data (July-June)

Forecast harvested area has also been revised downward from the previous estimate to 12.0 million hectares. Post advises that this figure is highly speculative, although anecdotal evidence suggests significant crop area has been abandoned, used for hay, or grazed for pasture. Furthermore, forecast yield has also been revised downwards.

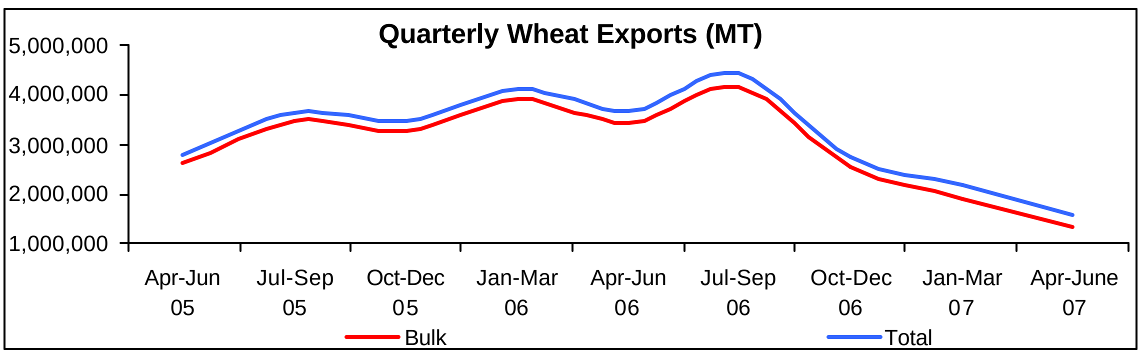
Industry sources suggest that despite the severity of current drought conditions, production levels for 2007/08 will almost certainly exceed the previous year. Some areas are performing relatively well and are expected to maintain forecast levels, almost regardless of conditions experienced in the lead-up to harvest. Industry sources remained hopeful of a good harvest in Western Australia's southern wheat belt.

Exports

Forecast wheat exports for 2007/08 have been revised downward significantly to 9.5 MMT, due to a greatly reduced production forecast. This level, if achieved, would be more than 15 percent below the previous year's exports. Low opening stocks for 2007/08, due to reduced 2006/07 production, have also greatly diminished export opportunities for 2007/08.

Estimated wheat exports for 2006/07 have also been revised downward significantly to 8.5 MMT. Quarterly export data for the first three quarters of 2007/08 (October to June) indicate a rapid decline in wheat shipments. Despite the possible variation in fourth quarter results, Post does not anticipate a major revision of the 2006/07 estimate in the future.

Post anticipates limited wheat exports in 2007/08. High cash prices for wheat, currently above export pool prices, are currently limiting the potential for deliveries to the national export pool. Domestic demand, driven by local intensive livestock producers and ethanol manufacturers, and a lack of import opportunities (due to quarantine restrictions) are placing significant downward pressure on exports for the foreseeable future.



Source: World Trade Atlas

Post notes with interest the relative stability of containerized wheat exports over the period from April 2005 and June 2007. Despite bulk wheat exports falling significantly, containerized wheat exports have remained firm, reaching their highest point at the end of this period.

Consumption

Post has forecast consumption of wheat in 2007/08 at 6.8 MMT, down from the estimate for the previous year. Despite this fall, consumption is forecast to decline at about half the rate of the decline in production, and this is likely to place significant downward pressure on exports. Post notes with interest that should the 2007/08 export campaign prove more difficult than currently anticipated, consumption could hold firmer against exports, particularly in terms of intensive livestock demand.

Imports

Australian quarantine regulations currently only allow the importation of whole grain under extremely stringent conditions. These conditions greatly limit the cope of imported grain in Australia, making it unviable to use in most intensive animal feeding operations. Previous attempts to import whole grain have proved costly.

The importation of Dried Distillers Grain (DDG), a by-product of the ethanol manufacturing process, would be permitted as a stock feed subject to AQIS approval. To date, US DDG has not yet been imported into Australia, however Post will continue to monitor this situation with interest.

Policy

On June 21, 2007 Parliament passed the Wheat Marketing Amendment Bill implementing the changes to Australia's wheat marketing that were announced by Prime Minister Howard in May 2007. AWB International (AWB (I)) will manage and export the 2007/08 wheat crop. Growers have until March 1, 2008 to establish a new entity to manage the single desk. If growers are unable to meet this deadline, the Government of Australia will propose other wheat marketing arrangements that could include deregulation.

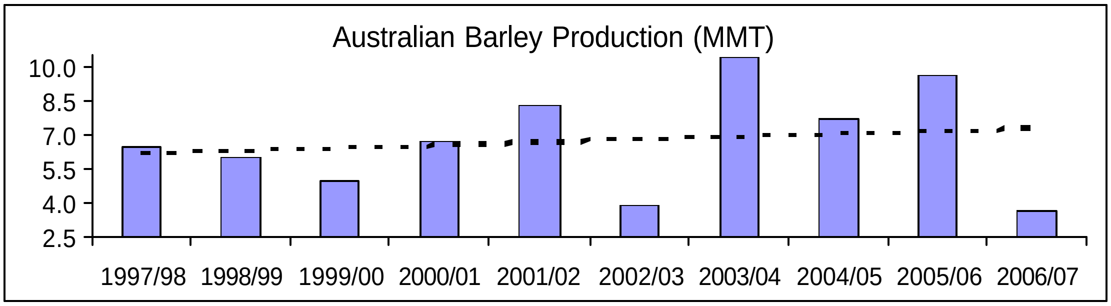
The Agriculture Minister's veto over bulk exports has been extended until June 30, 2008. Wheat Export Authority (WEA) consent for exports of bagged and containerized wheat is no longer be required. The Wheat Export Authority has been replaced by the Export Wheat Commission, which has expanded powers.

Barley

Production

Forecast barley production for 2007/08 has also been revised downward to 6.4 MMT, down 1.6 MMT from Post's previous forecast. Despite this reduction, barley production has fallen proportionately less than wheat production. Barley, a shorter season crop, will likely better withstand dry spring conditions than wheat and hence has a higher assumed yield. Unusually hot and/or windy conditions prior to harvest could potentially see forecast production for 2007/08 fall even further.

Posts estimate for 2006/07 barley production remains unchanged at 3.8 MMT. According to ABARE's historic data, this would be considered the lowest crop in over a decade. Perhaps most importantly, the poor performance of this crop has reduced carry-over stocks for 2007/08, which has further exacerbated the current grain supply outlook for Australia.

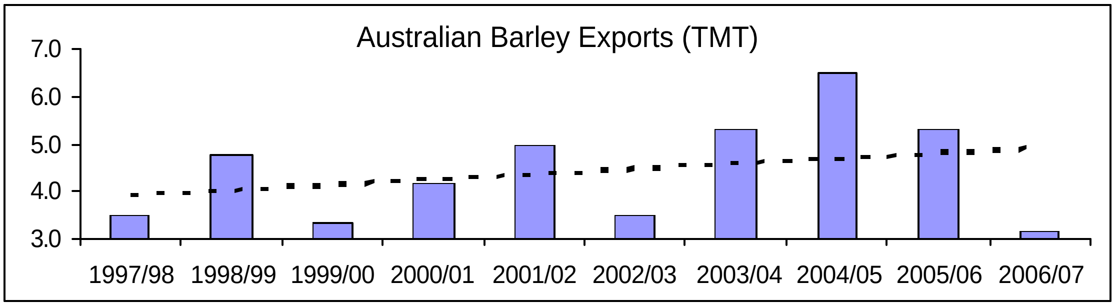


Source: ABARE data (July-June)

Exports

Post forecasts exports of barley for 2007/08 at 2.2 MMT, down from the previous forecast due to lower production. Post advises that for the purpose of this report, barley exports do not include malt, in grain equivalent.

Competition from intensive animal feeders is likely to also place downward pressure on barley exports. Weather conditions at harvest can also have a profound influence on barley exports. Post has assumed average weather conditions; however rainfall at harvest could see crop quality diminish and subsequently the proportion of the total crop suitable for exports also diminish.



Source: ABARE data (July-June)

Consumption

Consumption of barley in 2007/08 is forecast to increase slightly to 3.6 MMT, in contrast to the forecast decline in domestic wheat consumption. Traditionally, barley has been more susceptible to competition from domestic intensive livestock feeders. Current domestic feed grain prices, for the east cost of Australia, remain highly competitive and Post expects to see consumption increase slightly at the expense of exports.

SECTION TWO: STATISTICAL TABLES

PSD Table
Wheat

	2005	Revised		2006	Estimate		2007	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		10/2005	10/2005		10/2006	10/2006		10/2007	10/2007	MM/YYY
Area Harvested	12543	12980	12543	11200	11138	11200	13000	13000	12000	(1000 HA)
Beginning Stocks	6698	7093	6698	9728	10127	9728	3213	868	3713	(1000 MT)
Production	25367	25000	25367	9900	10500	9900	21000	22100	16250	(1000 MT)
MY Imports	75	87	75	85	91	85	75	87	75	(1000 MT)
TY Imports	81	85	81	85	59	85	75	85	75	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Supply	32140	32180	32140	19713	20718	19713	24288	23055	20038	(1000 MT)
MY Exports	16012	15653	16012	9000	13150	8500	14000	12800	11250	(1000 MT)
TY Exports	15213	15213	15213	11244	13873	11244	13000	12100	9500	(1000 MT)
Feed Consumption	3700	3700	3700	4800	4000	4800	4000	3900	4100	(1000 MT)
FSI Consumption	2700	2700	2700	2700	2700	2700	2700	2800	2700	(1000 MT)
Total Consumption	6400	6400	6400	7500	6700	7500	6700	6700	6800	(1000 MT)
Ending Stocks	9728	10127	9728	3213	868	3713	3588	3555	1988	(1000 MT)
Total Distribution	32140	32180	32140	19713	20718	19713	24288	23055	20038	(1000 MT)
Yield	2.022403	1.92604	2.022403	0.883929	0.942719	0.883929	1.615385	1.7	1.354167	(MT/HA

PSD Table
Barley

	2005	Revised		2006	Estimate		2007	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		11/2005	11/2005		11/2006	11/2006		11/2007	11/2007	MM/YYYY
Area Harvested	4447	4739	4447	4000	3990	4000	4500	4668	4000	(1000 HA)
Beginning Stocks	1916	1884	1916	2762	2788	2762	912	882	882	(1000 MT)
Production	9563	9869	9563	3800	3722	3800	8000	8355	6400	(1000 MT)
MY Imports	0	0	0	0	0	0	0	0	0	(1000 MT)
TY Imports	0	0	0	0	0	0	0	0	0	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Supply	11479	11753	11479	6562	6510	6562	8912	9237	7282	(1000 MT)
MY Exports	5267	5315	5267	2000	1928	2000	4500	4600	2870	(1000 MT)
TY Exports	5231	5231	5231	2000	2300	2000	4500	4000	2200	(1000 MT)
Feed Consumption	2500	2700	2500	2750	2800	2780	2600	2700	2600	(1000 MT)
FSI Consumption	950	950	950	900	900	900	950	900	950	(1000 MT)
Total Consumption	3450	3650	3450	3650	3700	3680	3550	3600	3550	(1000 MT)
Ending Stocks	2762	2788	2762	912	882	882	862	1037	862	(1000 MT)
Total Distribution	11479	11753	11479	6562	6510	6562	8912	9237	7282	(1000 MT)
Yield	2.150438	2.082507	2.150438	0.95	0.932832	0.95	1.777778	1.789846	1.6	(MT/HA)