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Report Highlights:
Australian winter crops benefitted from very favorable seasonal conditions, which boosted both production and yields. Post forecasts 2016/17 wheat production to reach 33 million MT, matching USDA's official estimate, while the outlook for barley production is for a slight upgrade to 11 million MT due to improved production and yields in most growing regions. Lower international demand and prices for sorghum have contributed to a switch to other crops, including cotton and legumes. Post forecasts 2016/17 sorghum production at 1.5 million MT. The rice crop is expected to recover from 2015/16 due to abundant and lower cost water. Post forecasts rice production at 850,000 MT for 2016/17.

EXECUTIVE SUMMARY

The outlook for Australian winter crops in 2016/17 has improved significantly due to a turnaround in seasonal conditions over the year. Both rainfall and temperature forecasts are expected to support almost record production of wheat and barley. Soil moisture in virtually all wheat and barley cropping areas has markedly improved on the relatively dry conditions which prevailed last year. These better seasonal conditions are also positive for Australian summer crops, with a slight decline in production forecast for sorghum while rice is expected to rebound strongly from water-based constraints in the previous year.

Production of wheat and barley in Australia in 2016/17 is forecast to reach 33 million MT and 11 million MT respectively. The forecast for wheat matches the official USDA forecast, while the barley forecast represents a slight increase from the official forecast due to better than expected yields. For 2016/17, the sorghum harvest is expected to decline significantly to 1.5 million MT due to lower export demand and a switch to more profitable crops such as cotton. In 2016/17, the rice crop is forecast to recover significantly to 850,000 MT in response to improved water availability and better seasonal conditions. However, this is slightly below the official forecast because of the late start to the season and likely decline in yields.

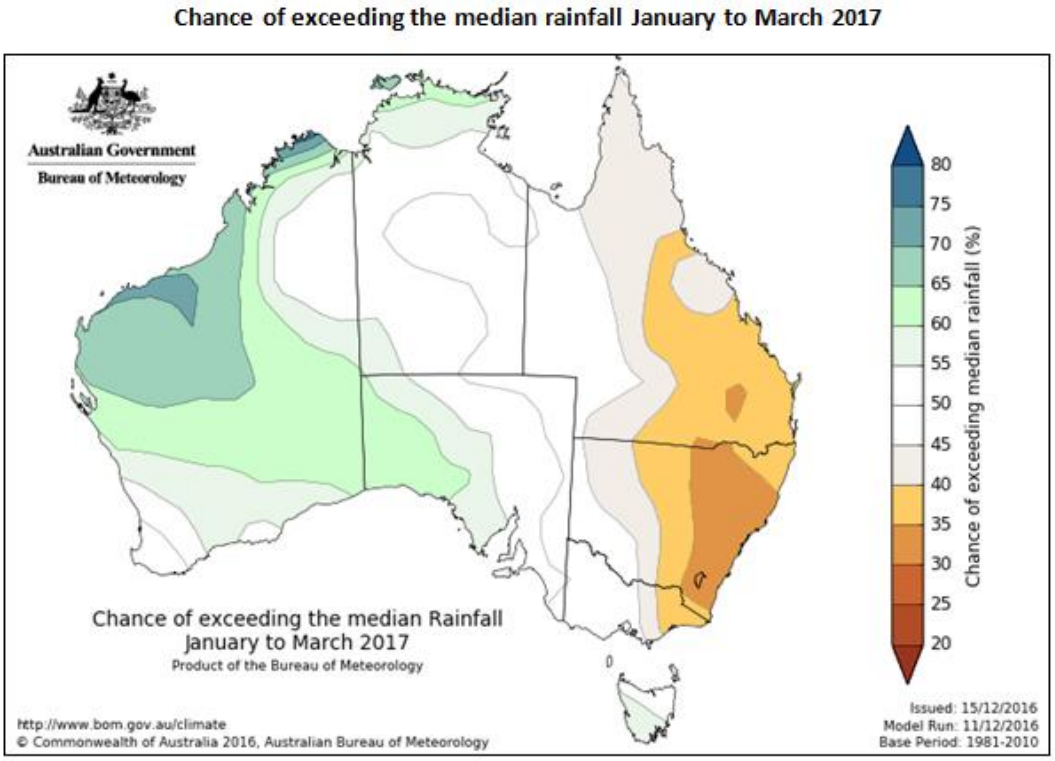
The lower Australian dollar and improved production and grain quality means Australian winter crops will be more competitive against US exports in international markets. Australian wheat exports are expected to reach 24.5 million MT in 2016/17, and it appears that competitiveness has improved in a number of markets such as Saudi Arabia, Indonesia and India. Australian exports of barley in 2016/17 are expected to reach 7.4 million MT due to the increased domestic harvest and an increase in the malting barley share of the total crop. Prospects for sorghum exports are less positive because of lower demand from China and a decline in the planted area for the crop due to competition from cotton. Rice exports are forecast to reach 350,000 MT in 2016/17 despite difficulties in a number of international markets.

Despite lower prices for winter crops, the return per hectare for Australian growers has risen in 2016/17 because of the very high yields achieved across most growing regions. The large crop has meant storage capacity on farm and at elevators is being rapidly absorbed. Temporary storage solutions have been used for some receivals and an increasing amount of grain is being stored on farm. Overall, grain growers are expected to store a record amount of harvested grain on their farms over 2016/17 due to the large harvest and comparatively low prices for wheat and barley – especially for feed barley and feed wheat. The poultry, pig and cattle industries have benefitted from lower stockfeed prices and greater availability of pasture following the favorable seasonal conditions in the second half of 2016.

SEASONAL CONDITIONS

From September 2016, favorable seasonal conditions prevailed across most cropping regions in Australia, increasing the production potential of winter crops. Rainfall during spring was well above average in cropping regions in eastern Australia, and soil moisture was abundant during the key stages of grain development. In addition, mild temperatures over late spring extended the growing period for crops such as wheat and barley in many regions, leading to higher than expected yields.

However, seasonal conditions inhibited grain development in some regions. In New South Wales (NSW), flooding and waterlogging impeded grain development and reduced yields in some regions. In Western Australia, severe frosts in September and early October reduced output and yields in central regions, although by less than earlier forecast. Grain development in the state was supported by timely rain to the end of the year. In addition, the wet and cold conditions through winter and spring significantly reduced plague locust numbers and hatchings.



Source: Australian Bureau of Meteorology (December, 2016).

The Bureau of Meteorology has forecast that January to March 2017 will be drier than average in eastern Australia and wetter than average in parts of Western Australia and South Australia. For the remainder of the country, the chances of a wetter or drier three months are roughly equal. The current outlook reflects a negative Southern Annular Mode and warmer waters to the northwest of Australia. A continued hot summer could reduce the good soil moisture conditions prevailing for northern dryland summer crops and for sowing of 2017/18 winter crops.

WHEAT

Production

Australian wheat production for 2016/17 is forecast by Post to reach a record 33 million MT, in line with the official forecast. Average yields of wheat have increased from an average of 2 to 2.5 MT per hectare, pushing up overall production. Favorable spring weather across all major Australian grain belts provided almost perfect conditions for grain growth, higher yields and harvesting in many regions. In NSW, the area harvested increased by five percent and the wheat harvest was up 40 percent to over 10 million MT in 2016/17, with average yields reaching a record 3 MT per hectare. The Victorian wheat harvest doubled to 4.6 million MT due to slightly larger area harvested and record yields of 3 MT per hectare.

The South Australian wheat harvest for 2016/17 is expected to increase by over 40 percent to over 6 million MT due to high yields and a slightly larger harvest area. The total wheat harvest across the eastern States is expected to be 7 million MT greater than in the previous year. In Western Australia, the wheat harvest is likely to exceed 10 million MT, due to a ten percent increase in yields and despite a slight reduction in harvested area.

Wheat is the major winter crop in Australia, with sowing starting between April and July. Harvesting starts in central Queensland during August and progresses down the east coast to Victoria, finishing during January. On the west coast, the wheat harvest starts during October and is completed during January. The main producing states are Western Australia, NSW, South Australia, Victoria and Queensland. Western Australia usually accounts for over 40 percent of exports, while a greater proportion of the eastern coast wheat crop goes to domestic consumption.

Consumption

Wheat is Australia's major winter crop and is used mainly in the production of breads, noodles and pastas, while lower grades of wheat are used as stockfeed. Major types of wheat include Prime Hard, Hard, Premium White, Standard, Soft and Durum, based on protein, grain size and moisture content. Wheat consumption in Australia has been stable in recent years, and Post expects this trend to continue. Around 70 kg of flour are consumed in Australia per capita, and the domestic market is mature.

Stocks

In recent years, Australia has seen greater on-farm storage as farmers seek to maintain flexibility in supplying markets. No industry estimates are available for wheat storage, but overall on-farm grain storage is likely to have increased to 7 million MT in recent years. Total storage capacity including off-farm commercial silos may exceed 15 million MT. Due to comparatively low wheat prices, a significant share of lower grade wheat could be kept on farm from the 2016/17 harvest. There has been a significant rise in investment in on-farm storage facilities due to improved tax provisions for this type of infrastructure.

Trade

Post forecasts that Australian wheat exports in 2016/17 will reach 24.5 million MT, in line with the official forecast. This reflects the strong lift in overall Australian wheat production due to favorable seasonal conditions and higher yields. Australia's market share in key Asian wheat export markets, including Indonesia, is likely to increase in 2016/17 as its wheat appears more competitive with grain from Ukraine and other Black Sea exporting countries. Over 1 million MT of wheat has been sold to India since mid-2016, with prospects for further sales.

Australian wheat exports to the Saudi Arabian market appear more competitive and a contract was recently announced for 715,000 MT of hard wheat due between February and April.

Overall, exports to Asian and Middle East markets are expected to increase in 2016/17, reflecting greater Australian competitiveness due to the lower dollar and higher production. New port facilities built over the past five years have improved the capacity for Australian wheat exports, with an additional 4 million MT of bulk wheat export capacity added. A significant share of Australian wheat is exported in bulk cargoes, especially from Western Australia.

Table 1: Production, Supply and Demand Estimates: Wheat ('000 HA and '000 MT)

Wheat	**2014/2015**		**2015/2016**		**2016/2017**	
Market Begin Year	**Oct 2014**		**Oct 2015**		**Oct 2016**	
Australia	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Area Harvested	12,384	12,384	12,800	12,800	13,000	13,000
Beginning Stocks	4,558	4,558	4,670	4,670	5,971	5,971
Production	23,743	23,743	24,500	24,500	33,000	33,000
MY Imports	159	159	150	150	150	150
TY Imports	162	162	154	154	150	150
TY Imp. from U.S.	3	3	2	2	0	0
Total Supply	28,460	28,460	29,320	29,320	39,121	39,121
MY Exports	16,590	16,590	16,124	16,124	24,500	24,500
TY Exports	16,575	16,575	15,782	15,782	23,500	23,500
Feed and Residual	3,800	3,800	3,800	3,800	4,500	4,500
FSI Consumption	3,400	3,400	3,425	3,425	3,460	3,460
Total Consumption	7,200	7,200	7,225	7,225	7,960	7,960
Ending Stocks	4,670	4,670	5,971	5,971	6,661	6,661
Total Distribution	28,460	28,460	29,320	29,320	39,121	39,121
(1000 HA) ,(1000 MT)						

Note: 'New Post' data reflect author's assessments and are not official data.

BARLEY

Production

Post estimates that Australia's barley crop for 2016/17 will reach a record 11 million MT, slightly above the official forecast, due to increased yields in most regions following favorable rainfall and seasonal conditions. Yields are expected to reach 2.6 to 2.9 MT per hectare in Victoria, NSW and South Australia. In Western Australia, barley production is likely to reach 3.6 million MT, up over ten percent on the previous year. Better seasonal conditions have contributed to higher grain quality, with an increased share of the harvest likely to be classified as malt grade barley. In Western Australia, frost affected some crops in the Albany zone and lowered the proportion of malt barley achieved.

Barley is usually sown during May and harvested from November. The crop grows through the winter months in Australia, typically in rotation with wheat, canola, oats and pulses. Western Australia is the major barley producing state with over one third of the harvested area and output. NSW, South Australia and Victoria each account for around one fifth of barley production. One third of barley is usually used in Australia for food and beer production, animal feed and seed. The remainder is exported with around half used as feed barley, one third as malting barley and the rest as malt for the manufacture of beer or spirits.

Consumption

The Australian barley industry produces grain for standard and craft beer and distilled spirits production, as well as feed grain for domestic and overseas livestock industries. Demand for malt barley is increasing while prices for feed barley have weakened due to improved pasture growth across Australia and high winter crop production. Around 30 to 40 percent of barley grown in Australia usually achieves malting grade, with the remainder consumed as food and feed barley. Malting barley is used primarily to produce alcohol (beer and distilled spirits such as Shochu, a Japanese distilled spirit) and food including confectionary, snack foods, breakfast cereals, miso and barley tea.

Trade

Barley exports are forecast at 7.4 million MT in 2016/17 due to higher local production and high grain quality. This is in line with official USDA forecasts. Exports of malting barley could rise by one third to 2 million MT. Demand for malting grade barley is expected to be stronger over the year because of lower supplies from some other countries. The competitiveness of Australian feed barley exports into China has increased with the weaker Australian dollar. However, suppliers face logistical challenges and more stringent import protocols relating to pests and weed seeds. Australian exporters may be more competitive in markets in the Middle East. Saudi Arabia recently finalized a purchase contract for almost one million MT of feed barley from Australia from the 2016/17 season.

Australia is normally one of the world's largest exporters of barley, accounting for around 30 percent of the malting barley trade and about 20 percent of the global feed barley trade. Australian exports of barley to China increased from 1.4 million MT in 2010 to 3.6 million MT in 2015, with China becoming the largest single market. Demand for feed barley from China is difficult to predict for 2016/17 as livestock producers in that country switch to domestic corn for feed use. Chinese demand for malting grade barley is expected to be stable.

Development of Barley Varieties

The Australian barley industry supports research into a range of grain varieties to improve quality and endurance. The aim is to develop a barley variety which is high yielding, resistant to disease and is able to make malting grade in good seasonal conditions. The Compass variety has reportedly produced yields ten percent higher than the Commander variety and is more suitable for shorter seasons. Varieties such as Bass, Baudin, Flinders, Granger, La Trobe and Scope have been designed to meet the different needs of overseas markets. The Hindmarsh variety of barley has been the dominant variety in Western Australia and is supplied into the Chinese market for general grade brewing barley and used in Japan in the manufacture of Shochu. However, the Hindmarsh variety could be phased out from the 2017/18 season and replaced with other varieties such as La Trobe.

Table 2: Production, Supply and Demand Estimates: Barley ('000 HA and '000 MT)

Barley	**2014/2015**		**2015/2016**		**2016/2017**	
Market Begin Year	**Nov 2014**		**Nov 2015**		**Nov 2016**	
Australia	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Area Harvested	4,078	4,078	4,105	4,105	4,000	4,000
Beginning Stocks	693	693	1,120	1,120	1,013	1,013
Production	8,646	8,646	8,593	8,593	10,600	11,000
MY Imports	0	0	0	0	0	0
TY Imports	0	0	0	0	0	0
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	9,339	9,339	9,713	9,713	11,613	12,013
MY Exports	5,219	5,219	5,400	5,400	7,000	7,400
TY Exports	5,266	5,266	5,400	5,400	7,000	7,400
Feed and Residual	1,700	1,700	2,000	2,000	1,800	1,800
FSI Consumption	1,300	1,300	1,300	1,300	1,300	1,300
Total Consumption	3,000	3,000	3,300	3,300	3,100	3,100
Ending Stocks	1,120	1,120	1,013	1,013	1,513	1,513
Total Distribution	9,339	9,339	9,713	9,713	11,613	12,013
(1000 HA) ,(1000 MT)						

Note: 'New Post' data reflect author's assessments and are not official data.

SORGHUM

Production

Post forecasts Australian sorghum production to decline by around 25 percent in 2016/17 to 1.5 million MT, in line with the official forecast. The area harvested for sorghum is expected to fall significantly due to lower international demand and the expansion of dryland cotton in Queensland in response to higher prices. There has been a significant increase in supply of irrigation water available to cotton growers, while the forecast for a hotter and drier summer could curb sorghum plantings in the latter half of the planting window. However, use of no-till and minimum-till fallow farming in Queensland has extended the planting window for planting sorghum up to two months later after good rain.

Australia normally produces around two to three percent of global sorghum production and accounts for five percent of global exports. Sorghum is a summer crop mainly used for livestock feed. Around seventy percent of the Australian crop is grown in Queensland, and the remainder in northern NSW. Sorghum is typically grown as a rotation crop as it is relatively drought tolerant and can tolerate more acid soils. Planting times for sorghum are from September to January.

Consumption

Post forecasts domestic consumption of sorghum in 2016/17 to be stable at 1.1 million MT. Sorghum has traditionally been used domestically for feed grain for the beef, dairy, pig and poultry industries and is the main summer grain crop in most regions of Queensland. Sorghum is classified as either grain sorghum or forage sorghum according to the tannin content.

Trade

Post forecasts that sorghum exports will fall to 400,000 MT in 2016/17 due to lower production and declining international demand, in line with the official forecast. Demand for sorghum from China, the dominant export market in recent years, is difficult to predict for 2016/17 as livestock producers in that country switch to domestic corn for feed use. Sorghum is supplied into the Chinese alcohol manufacturing market, as well as the feed grain market.

Table 3: Production, Supply and Demand Estimates: Sorghum ('000 HA and '000 MT)

Sorghum	2014/2015		2015/2016		2016/2017	
Market Begin Year	Mar 2015		Mar 2016		Mar 2017	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	732	732	681	681	500	500
Beginning Stocks	172	172	246	246	178	178
Production	2,209	2,209	2,037	2,037	1,500	1,500
MY Imports	0	0	0	0	0	0
TY Imports	0	0	0	0	0	0
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	2,381	2,381	2,283	2,283	1,678	1,678
MY Exports	1,630	1,630	1,000	1,000	400	400
TY Exports	1,700	1,700	1,000	1,000	400	400
Feed and Residual	500	500	1,100	1,100	1,100	1,100
FSI Consumption	5	5	5	5	5	5
Total Consumption	505	505	1,105	1,105	1,105	1,105
Ending Stocks	246	246	178	178	173	173
Total Distribution	2,381	2,381	2,283	2,283	1,678	1,678
(1000 HA) ,(1000 MT)						

Note: 'New Post' data reflect author's assessments and are not official data.

RICE

Production

Post forecasts production of rice in 2016/17 at 850,000 MT, slightly below the official estimate. This is due to the late start to the season and a likely fall in yield. Rice planting was delayed because of flooding and difficulties in harvesting the winter wheat crop. The area harvested is expected by Post to be 85,000 hectares in 2016/17, just below the official forecast. Compared to 2015/16, Australian rice growers have benefitted from a significant increase in the supply of irrigation water at a lower cost.

Currently, the water supply for the NSW rice crop is abundant as most major supply dams (such as the Hume, Burrinjuck, Blowering, Lake Victoria and Dartmouth dams) are nearly at full capacity. As a result, general security water allocations are 100 per cent in the Murray and Murrumbidgee Valleys. In addition, water trade prices have fallen by A$110 a megaliter to half the cost which prevailed in 2015/16. These changes have made rice more competitive with alternative crops such as nuts and cotton.

The Australian rice industry has experienced continual variations in production because of water constraints and changing seasonal conditions. While the industry has capacity to produce over 1 million MT of rice, this level of production has not been approached in recent years due to higher water prices and unreliable rainfall. For the 2015/16 season, general security water allocations in the Murray Valley had been only one fifth of entitlements at the time of the September planting window and water prices were high. This development discouraged many farmers from planting rice, with some deciding to sell their water entitlements instead of planting rice for the 2015/16 season.

The rice industry is mainly based in NSW but hopes to expand into the more water abundant regions in Queensland and northern Australia. Initial rice crops in Queensland have been developed mainly as a summer crop for sugar farmers. The Australian government recently provided A$4 million in funding to support research into the viability of a northern Australian rice industry because of the long-term problems with water availability and cost in southern Australia.

Policy

In late 2016, the sole distributor of Australian rice, SunRice, received an extension of its single desk export marketing arrangements. Under this arrangement, the rice company has vesting powers over the state's export crop. SunRice runs the rice export single desk on behalf of the NSW Rice Marketing Board which has just been granted a continuation of sole and exclusive export licence (SEEL) arrangements. The NSW government approved retention of the monopoly export marketing arrangements until 2022. There is no national arrangement in relation to export marketing of rice.

Trade

Post forecasts that rice exports will be 350,000 MT in 2016/17 and imports of 155,000 MT are expected, in line with the official forecasts. Australia is a significant supplier of Japonica rice into the Middle East market, with a one third share of imports. Australia exported over 120,000 MT to Middle East markets in 2015/16 and is expected to maintain this market position in 2016/17. Rice from California is the main competitor for Australian Japonica rice in the Middle East. SunRice remains concerned about its majority-owned Papua New Guinea joint venture, Trukai, which could lose access to the PNG market, which can account for around one third of the Australian rice exports.

Consumption

Post expects that consumption of rice in Australia in 2016/17 will continue to be stable at 360,000 MT, as the population is growing slowly while demand for rice products is relatively mature.

Table 4: Production, Supply and Demand Estimates: Rice ('000 HA and '000 MT)

Rice, Milled	2014/2015		2015/2016		2016/2017	
Market Begin Year	Mar 2015		Mar 2016		Mar 2017	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	70	70	23	23	90	85
Beginning Stocks	241	241	223	223	73	73
Milled Production	497	497	180	180	662	612
Rough Production	690	690	250	250	919	850
Milling Rate (.9999)	7200	7200	7200	7200	7200	7200
MY Imports	155	155	170	170	155	155
TY Imports	151	151	170	170	155	155
TY Imp. from U.S.	11	11	0	0	0	0
Total Supply	893	893	573	573	890	840
MY Exports	308	308	150	150	350	350
TY Exports	323	323	150	150	250	250
Consumption and Residual	362	362	350	350	360	360
Ending Stocks	223	223	73	73	180	130
Total Distribution	893	893	573	573	890	840
(1000 HA) ,(1000 MT)						

Note: 'New Post' data reflect author's assessments and are not official data.