East Coast supply & demand

ADVISORY & COMPLIANCE WORKSHOP

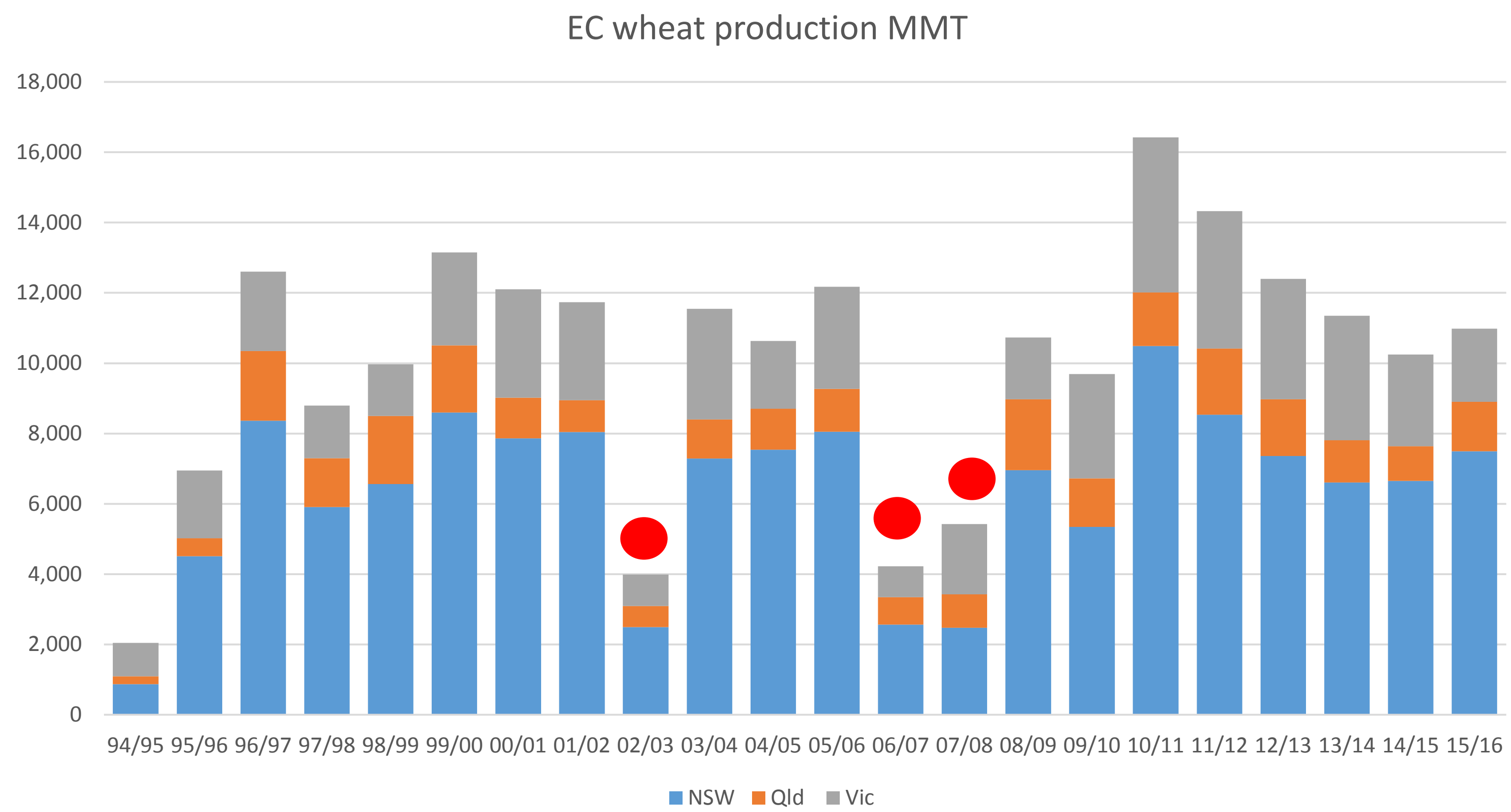
Melbourne 25 July 2016

Australian focused grain information and analysis for better marketing decisions

The east coast dilemma

- East coast Australia accounts for 45 to 50% of Australia’s grain output but exports have fallen sharply, particularly bulk exports.
- Its not a production problem
  - east coast wheat/barley/sorghum and canola production has ranged from 17 MMT to 24 MMT over the last 7 years
- It’s not a capacity problem
  - 9 bulk terminals (3 new terminals in last 5 years) plus 2 in CQ for a combined annual export capacity of more than 7 MMT bulk plus of container capacity.

Average east coast wheat production averaging 11-12 MMT in recent years



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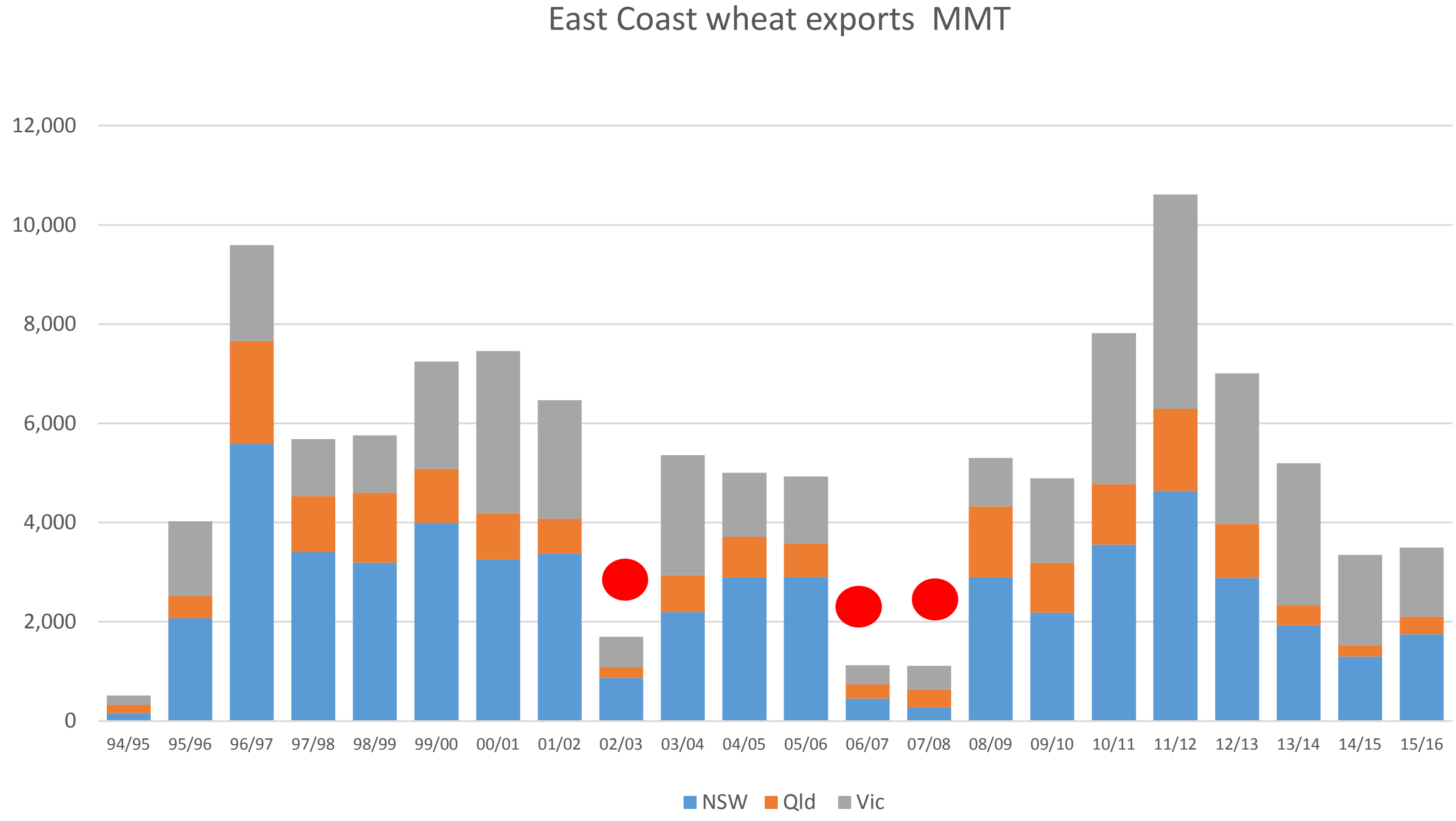
However exports fallen away sharply in last couple of years…



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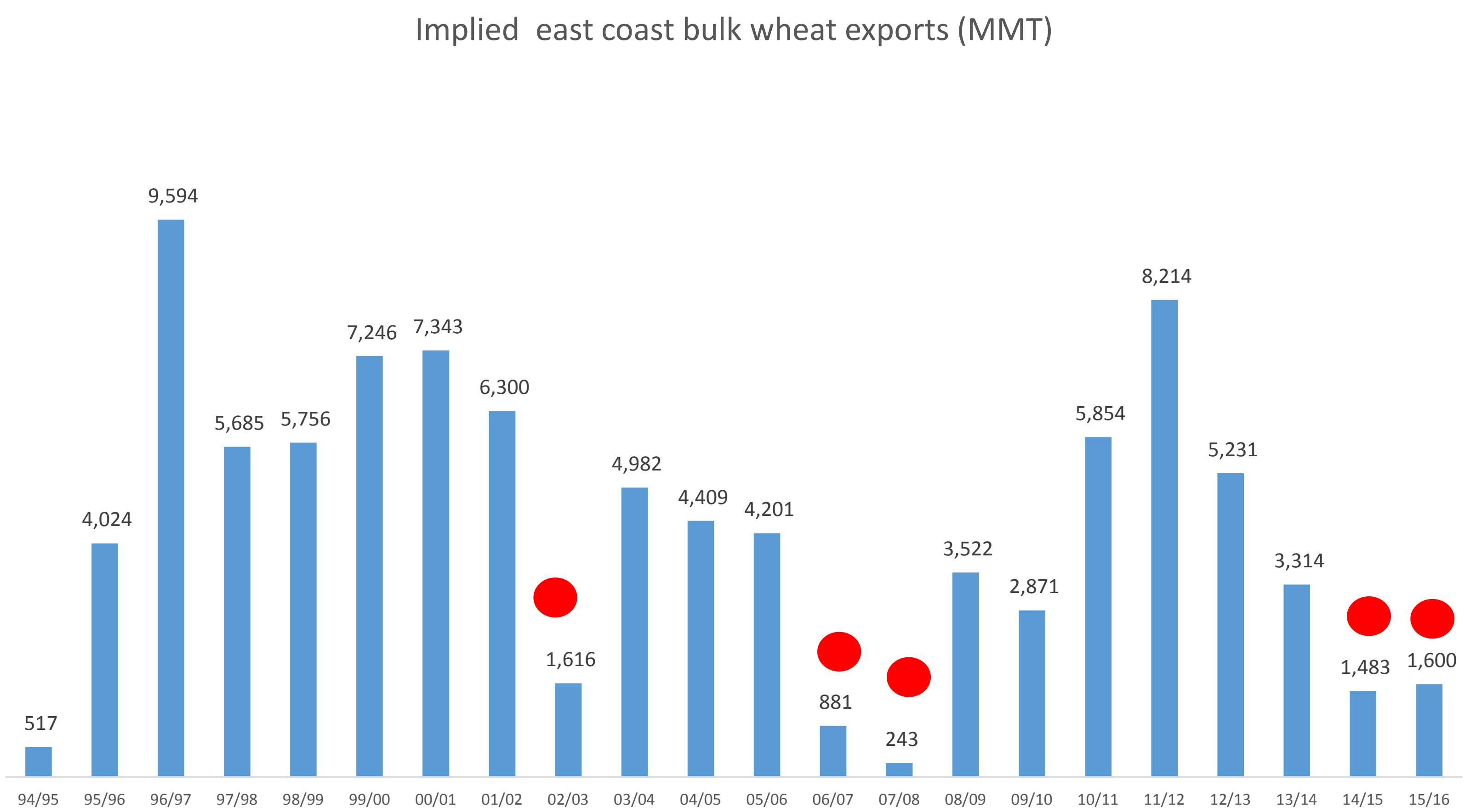
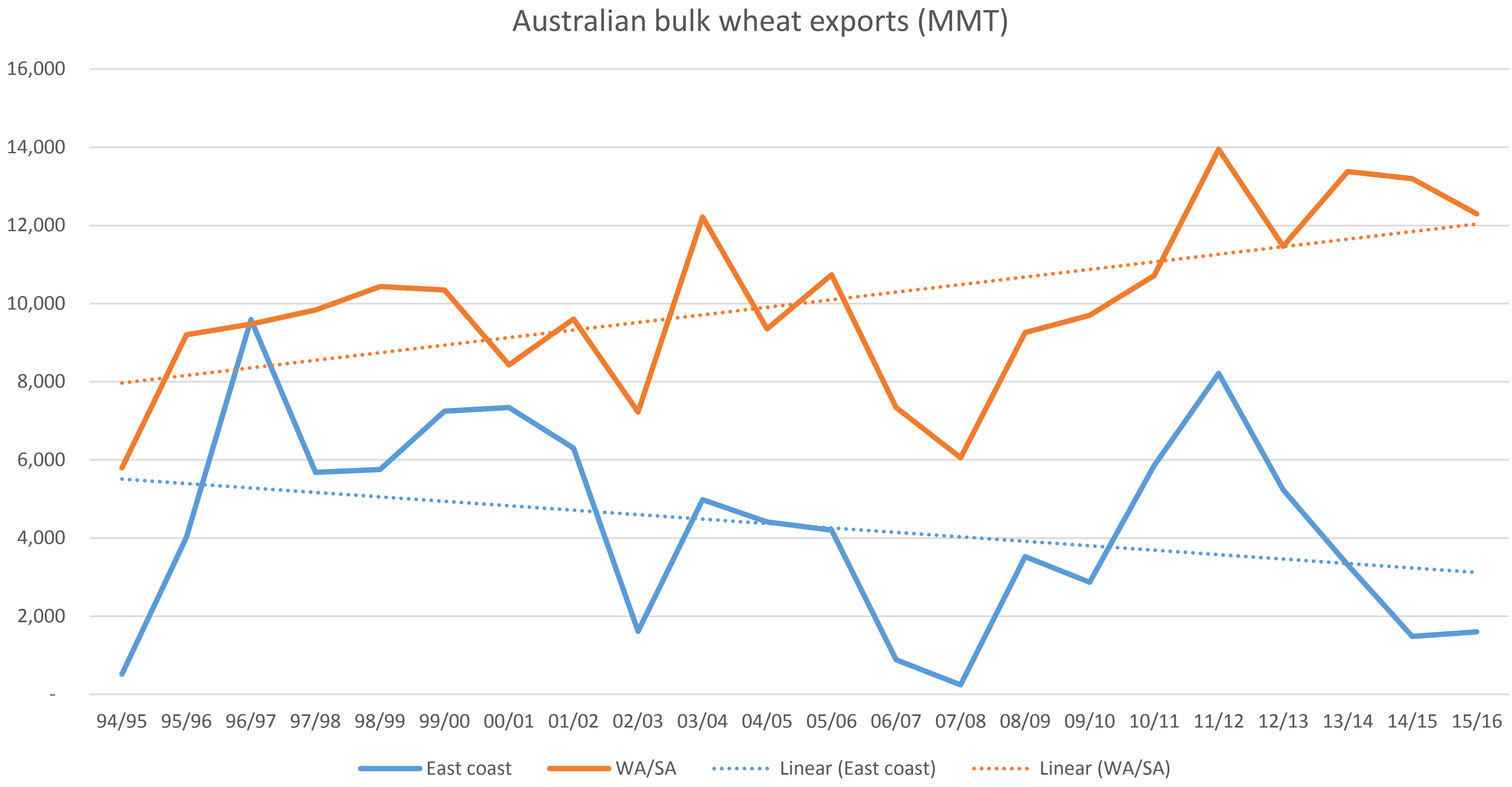
Bulk wheat export decline even worse



WA/SA bulk exports growing while EC shrinks



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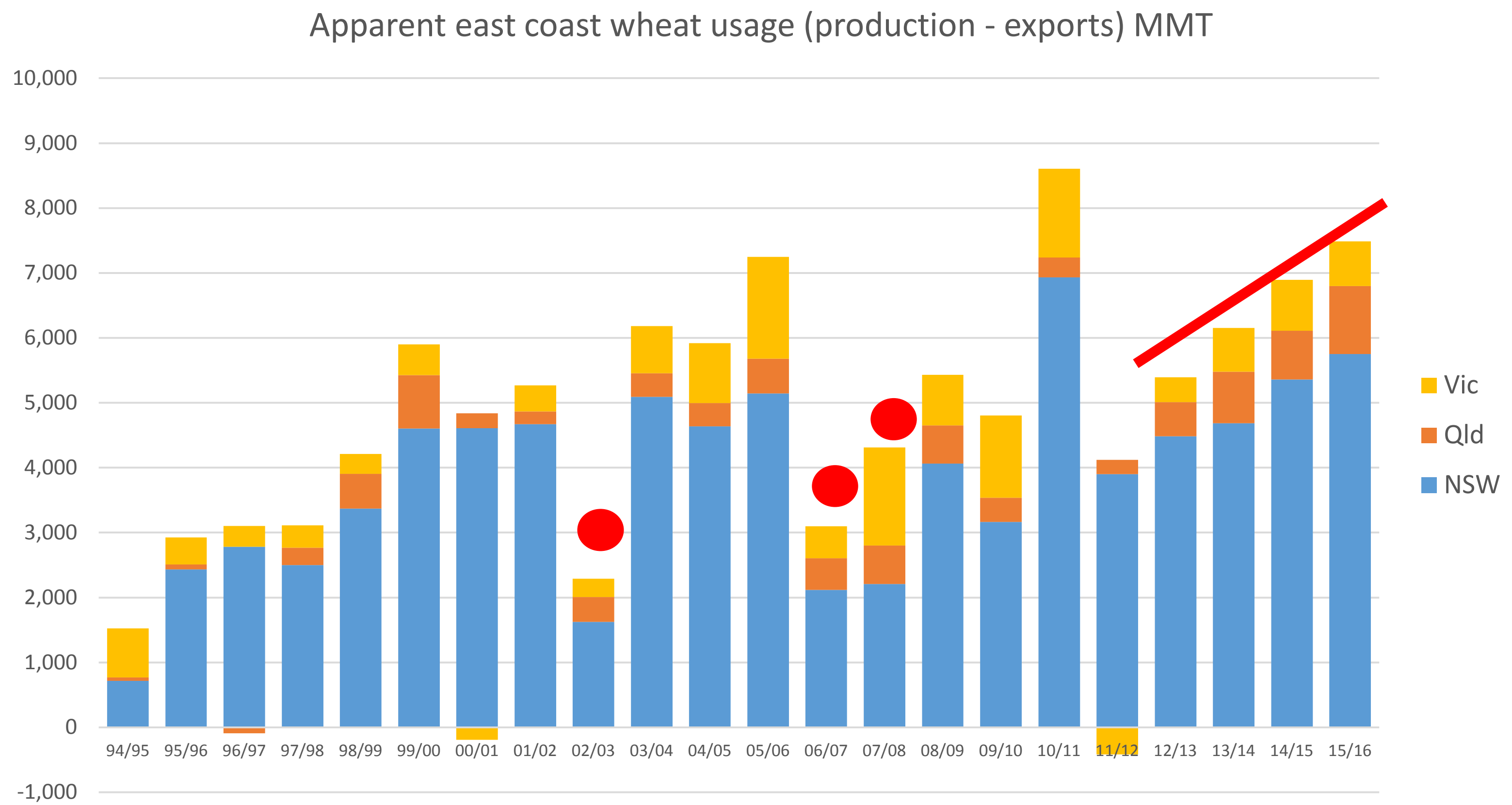
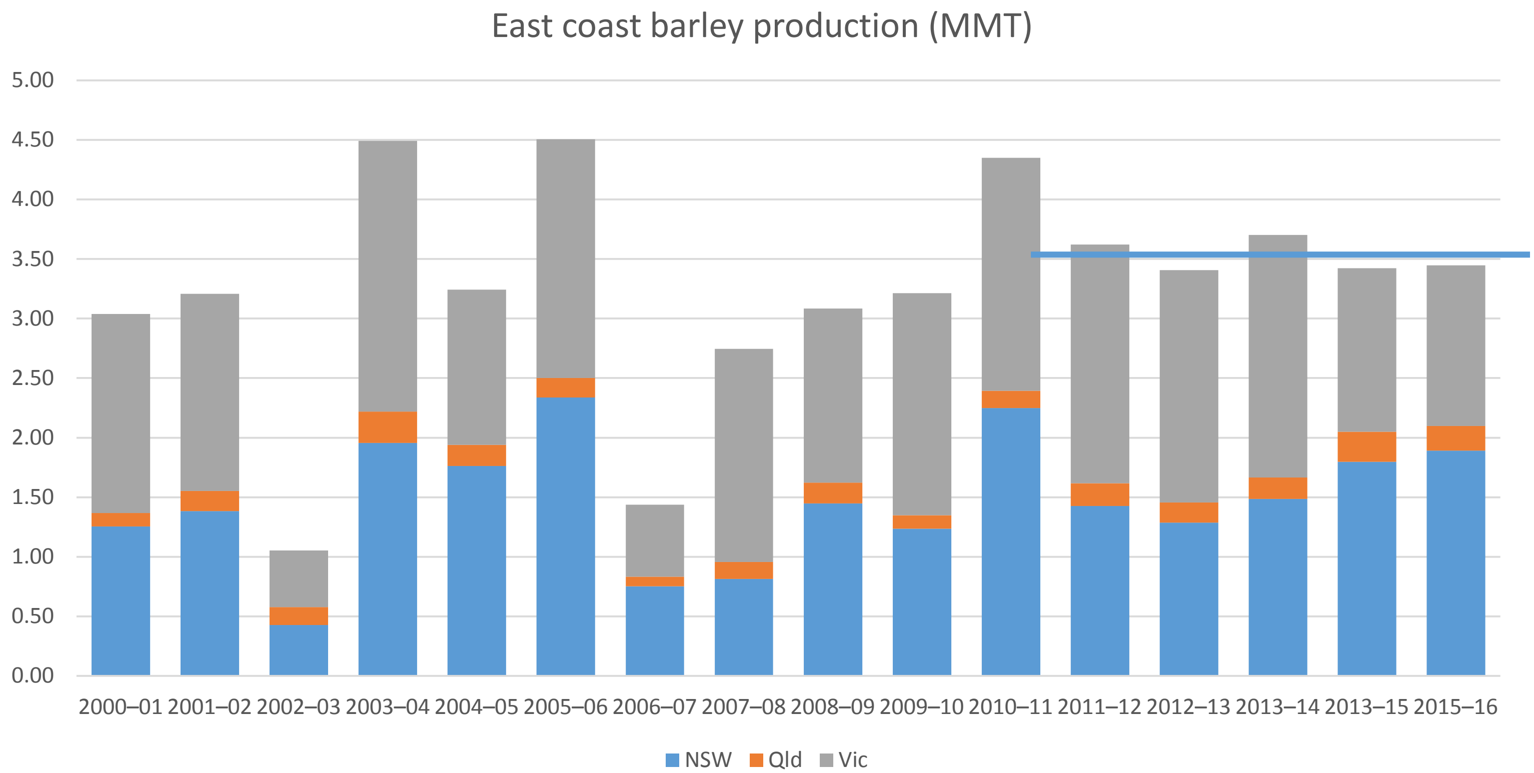
Apparent east coast demand increasing???



East coast barley production also solid but exports are relatively small…



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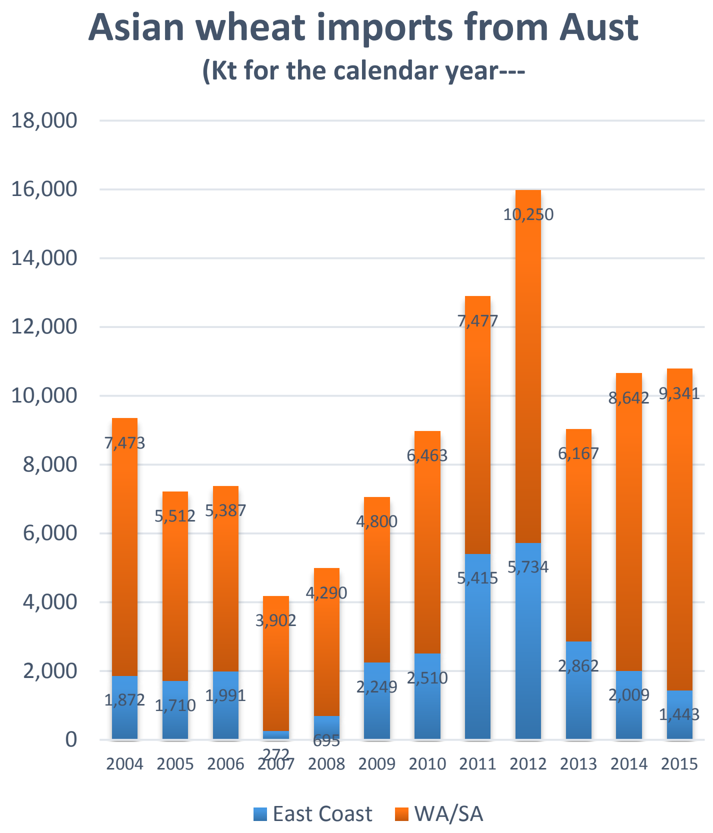
What’s driving the sharp decline in EC exports?

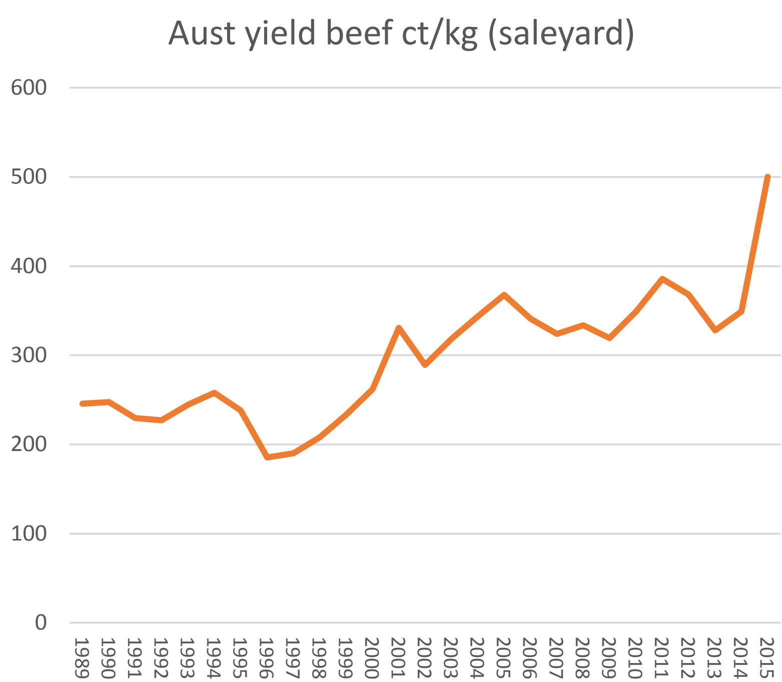
- Likely to be a range of factors….
- High costs are a big issue. It’s costing many growers $80-100 mt to get grain from farm to FOB .
- Costs are changing market behaviour – farmers feeding more livestock on farm…particularly with low grain prices
- Farmers happy to store and carry for longer – high price chickpeas has helped

Its also changing importer behaviour

- Difficult for exports to offer a consistent export accumulation from the east coast.
- Key markets as switching away from east coast for WA/SA, and maybe even other origins if Australia becomes too expensive.
  - Asian markets, which account for ~65% of Aust wheat exports, buying little bulk wheat from the east coast in recent years.
- Limited bulk wheat that has been exported from the east coast in recent years going to opportunistic markets.



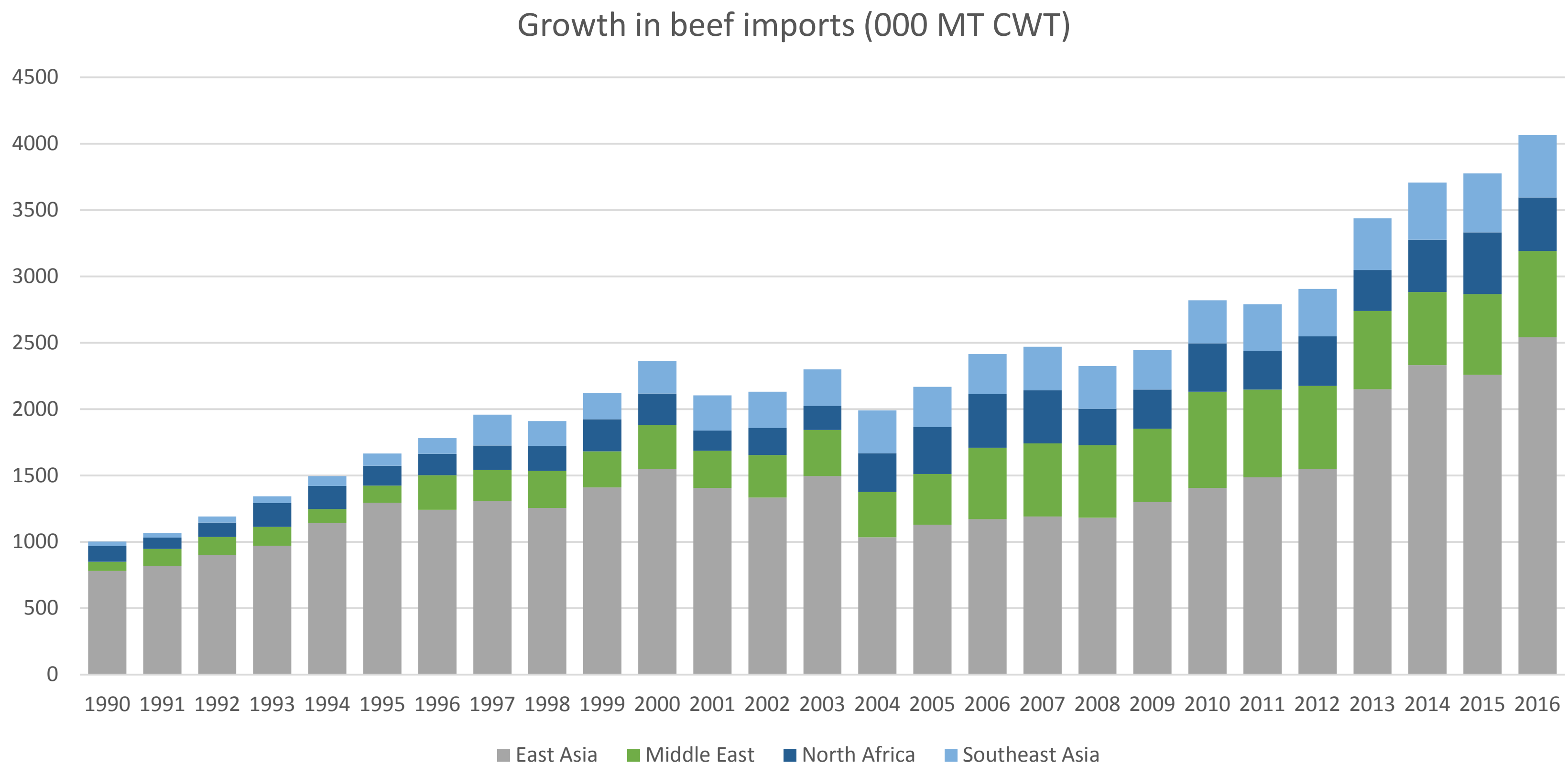
Strong incentive for the farmer to feed grain with high livestock / low grain prices



High livestock prices here to stay?

- Has the rally been domestically or export driven
- Droughts have pushed livestock onto the market resulting in record meat exports
- But prices have been record high despite drought
- Export demand is supporting livestock prices

Strong incentive for the farmer to feed grain with strong export demand, high livestock & low grain prices



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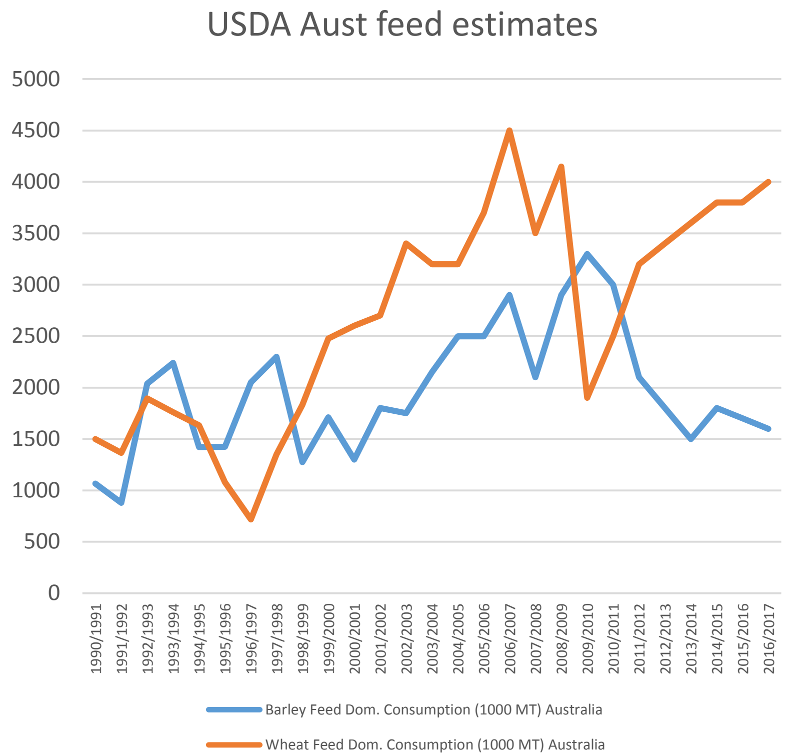
Most forecasts are not reflecting rising demand?

- Rapidly increasing farmer stocks?
- Increasing domestic usage?
- Are we underestimating domestic disappearance?
    - Likely that wheat & barley feeding is being significantly underestimated
    - Difficult to accurately assess…limited measures and more and more grain disappearing on farm



Impacts / industry implications

- **Farmers**
  - the quick adaptor reacting to changing price signals
  - More farm storage offers greater flexibility and leverage
  - The winner out of additional export elevation capacity
- **Bulk handlers**
  - Less grain being delivered into central storages - advantage of knowing stocks eroding
  - Downward pressure on margins
  - Barley only gets delivered into BHC is big production season
  - More pressure to rationalise system to lower costs… eg CBH
- **Trader / exporter**
  - Getting more difficult to quantify production and demand
  - Information deficit to accurately determine farm feeding
- **Government**
  - Architect of what data is available –systematic information deficiency currently
    - Protect market equity between supply chain participants
    - Adequate information for investment / opportunity within supply chain
  - Deregulated bulk exports and proposes user pay information release for grain stocks
  - State barley exports not published…no stocks / no state exports
  - Will only realise importance core stocks transparency when its too late