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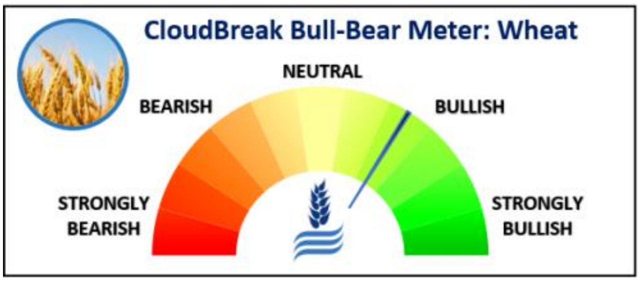
# The Black Sea Sink Hole




Spot US wheat futures reached all-time record highs earlier this week, closing at 1425.25USc/bu (circa $710AUD/mt), 75USc/bu higher than the previous record of 1349.5USc/bu set back in February 2008. After 5-days of limit up gains, front month SRW US wheat futures have come off the boil and subsequently come back strongly over the last few days amid extreme volatility. Russia's President Putin signed a decree to ban exports of specific raw materials until the end of 2022, and the market had been eagerly waiting to find out what was included. However, Russia announced it wouldn't put an outright ban on wheat exports and instead chose to suspend wheat, barley, and corn exports to specific countries in the Eurasian Economic Union (EEU). The market had initially priced in a complete absence of Ukrainian and Russian wheat exports. Whilst, Ukraine exports have ground to a halt, Russia's recent announcement has led to further profit taking in the wider marker. That said, the market continues to evaluate the ongoing Russia-Ukraine conflict and the impact this will have on Black Sea exports over the coming months. Ukraine wheat exports (which were expected to be 5-5.5MMT over the next 4 months) have essentially ceased due to port closures, risk of missiles or sea mines and consequently expensive insurance premiums (and risk to life) for inbound vessels. Russian exports may not be currently affected by port closures, although the logistical issues and risks amidst an ongoing war in the Black Sea region still remains. Furthermore, with the EU, UK and US laying on sanctions, the question of whether Russian wheat will be included in the future (despite tight global stocks) is still unknown, yet remains a remote possibility.

The **Ukraine winter wheat crop** was planted in August/September 2021 and throughout dormancy, rainfall has been sufficient. Now that the crop is nearing the end of dormancy, tillering is expected to resume in late March. Pre-war crop estimates placed production at a large 30MMT, 3MMT lower than the record 33MMT crop in 21/22. However, now that Ukraine has been invaded by Russia, the question of whether yield defining fertiliser applications will be applied and to what degree the country will likely be affected is now paramount. Therefore, we've put together four scenarios below that discuss the potential yield losses depending on the severity and duration of the invasion.

The first scenario is based on the situation in Ukraine as of the 3rd of March in the early stages of the invasion. If disruptions of this level continue, analysts expect 50% of Ukraine wheat could be at risk of losing 30% of yields. The second scenario is based on the assumption that Russian induced disruption continues in strategically important areas and estimates 55% of wheat could be at risk of a 30% reduction in yields. The third scenario assumes disruption across all of eastern Ukraine and estimates 75% of wheat could be at risk of the same 30% reduction in yields. The fourth and worst scenario assumes total disruption across all of Ukraine, meaning 100% of Ukraine wheat would be at risk of seeing a 30% reduction in yields. With that said, if any of the scenarios above play out, (scenario two and three being the most likely) we can expect to see total production in Ukraine for the 22/23 season reduced by 15-30% (which could be a 4.5-9MMT production loss). This means trouble for global supplies, which were already needing increased production from exporting countries to loosen the tight global balance sheet. Of course, this is based on the assumption growers will be able to harvest and export the crop when the time comes. In itself this remains in question.

| | Based on estimated 22/23 crop sze of 30MMT 22/23 | | | |
|---|---|---|---|---|
| | Scenario 1 | Scenario 2 | Scenario 3 | Scenario 4 |
| **Area Affected (%)** | 50% | 55% | 75% | 100% |
| **Yield loss (%)** | 30% | 30% | 30% | 30% |
| **Total Production loss (%)** | 15.00% | 16.50% | 22.50% | 30.00% |
| **Total Production loss (MMT)** | 4.5 | 4.95 | 6.75 | 9 |

If, ultimately Russia's war ends in taking control over Ukraine, the next question would be: will they allow exports of grain from Ukraine? – it was already hypothesised by the market that potentially the currently imposed Russian wheat export tax and quota by extension would also be applied to Ukraine if Russia were to take over Ukraine. Therefore, we can assume that exports would be allowed out of Ukraine under Russia control. However, we can also assume that any export bans or sanctions that affect Russian wheat, would also be passed on to Ukraine whilst under the control of Russia.

If the war is prolonged over the next few months, will Ukraine be able to plant spring crops? – Spring barley in Ukraine is planted between early March to mid-April, with the southern regions usually being planted first, followed by

# Wheat—Continued

south-east regions. Corn is planted between mid-April to mid-May (most of which is located in central/ northern Ukraine). As such, if the war drags on into May, both spring barley and corn for the 22/23 season could very well not make it into the ground. This is a serious dilemma as Ukraine accounts for approx. 16% of the worlds corn exports and 18% of the world's barley exports. With the major exporter balance sheet already very tight, any disruption of Ukraine corn and barley planting this year would have significant consequences for 22/23 season supplies moving forward.

At an international level, with the current concerns over limited Black Sea wheat exports, will other countries start to hoard grain or also restrict exports to create strategic reserves? – With stocks as tight as they are, additional countries may look at limiting exports to maintain domestic supplies. Last week there were some large export sales reported from Europe due to soaring prices. Following this, in a surprising step, Hungary announced that it was banning all grain exports to protect domestic supplies. This could be a sign that others will follow suit as wholesale and retails food prices are already at extremes following the global pandemic. High global prices generally ration demand, however, if nations start to subsidise food purchases, we won't see the rationing needed to prevent stocks from tightening further.

As such, with Ukraine, Russia and now potentially some other countries restricting exports, who will be able fill the gap? The USDA seems to think one of those is Australia, which isn't unusual as we've just come off a record production year (ABARES now pegs the crop at 36.3MMT). In the March WASDE the USDA has increased Australian exports for the 21-22 season from 25.5MMT to 27.5MMT (this would be a record amount if realised). The second candidate is India, as they have ample stocks on hand and are expected to have slightly higher production for the 21/22 season. The USDA increased Indian exports in the March WASDE from 7MMT to 8.5MMT. Whether Australia and India will be able meet the USDA's forecast is questionable, as these levels would both be setting new records. The third contender would be the US, although the USDA doesn't seem to think so, as they again decreased US exports for the 21/22 season by a marginal 0.28MMT. The US does have ample stock on hand, however, as dryness hampers their winter wheat conditions, getting stock out of grower hands may be difficult. It's quite likely the USDA is being overly conservative on their expected US exports and simultaneously underestimating the restriction on exports out of the Black Sea; a reduction of a mere 7MMT vs. a likely black hole of 12-16MMT). The reason being:

- Ukraine exports have ground to a halt, and nothing is leaving Ukrainian ports (whereas the USDA expect 2MMT to depart).
- The USDA is expecting Russia to export an additional 8MMT between now and July, which is likely impossible considering Russia has been expelled from the global economy and the majority of vessels will not be able to sail due to a lack of insurance into a war zone.

**US weather**—Lingering US winter wheat drought conditions continues to be a concern as the crops start to move out of dormancy. The latest crop conditions from the US show that Kansas and Texas Good/Excellent conditions have deteriorated further since February, whilst conditions in Oklahoma have stabilised. The forecast across the US remains dry, which is concerning as the crop comes of dormancy. Current expectations are for US HRW wheat stocks to tighten further unless we see a significant rebound in US rainfall during their spring. The market isn't paying too much attention to this at the moment, with Russia-Ukraine news remaining center stage, however this will likely add to volatility over the coming months if weather remains dry in the US plains.

**Aussie wheat & Basis**—SA wheat prices for the 21/22 season have returned to levels that were seen during early harvest when shipping shorts were driving prices and basis strongly higher. This time around, whilst US wheat futures rallied strongly amid current Russia-Ukraine conflict, SA prices have not been keeping pace. As such, basis has weakened to historically weak levels (circa minus 400USc/bu) earlier this week. With US futures recently correcting, we have seen basis strengthen somewhat, however, basis is still languishing at near historically low levels.

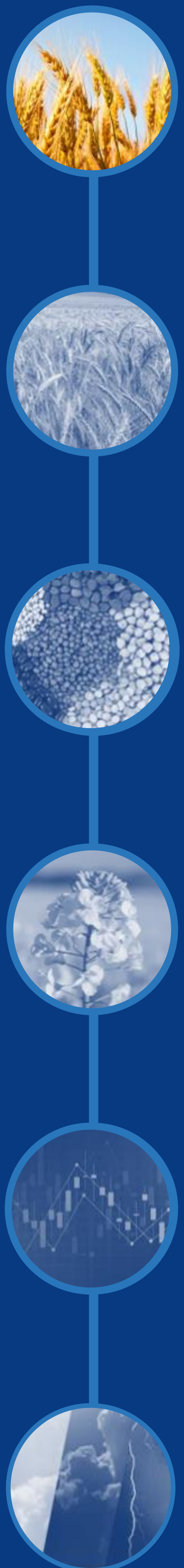
As local cash prices are trading at a very large discount vs. Northern Hemisphere prices, will we start to see Aussie basis strengthen in the foreseeable future and what would cause it to firm?

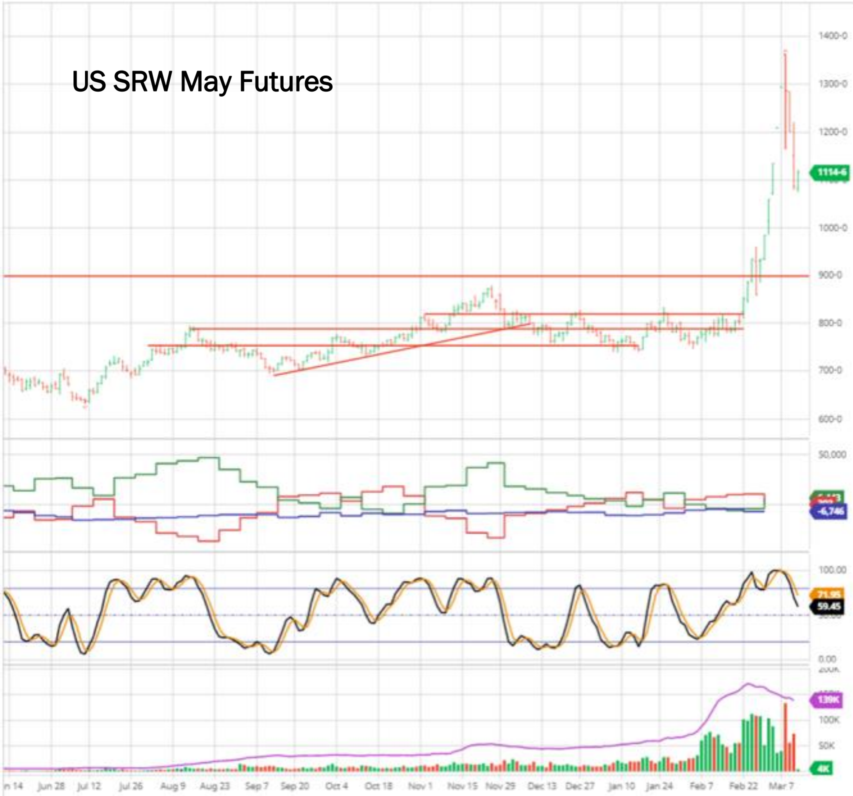
**US futures weakness** – if US futures continue to re-trace gains, we can expect to see basis strengthen as a result. However, our base price will also likely suffer.

If buyers get more anxious for coverage, we could see basis start to firm. Currently exporters seem to be fairly well covered for short-term commitments, although with tightening liquidity we could see basis gain some ground. We expect that Australia will play its part in filling the hole in the global balance sheet. As such, shipping slots in the second half of this year are likely to start filling up. With the associated buying pressure and lower grower liquidity, we expect basis to come more in line with more 'normal' basis levels.

How should growers deal with old crop? Current prices are still historically high. That said, the market is showing signs of extreme volatility and if the Russia-Ukraine situation doesn't improve we are likely to see further strength in prices moving forward. Presently, after multiple limit up move on futures, the market in correcting after very aggressive moves on futures. For growers who are more risk seeking, there could be gains for those looking market their grain over the next 6-weeks.

# Wheat—Continued






Russian exports are expected to continue, although be it at a significantly reduced level as the logistical risk amidst an ongoing war in the Black Sea region still remains. The market had been anticipating the release of Russia's outlined commodities in their export ban, with the potential for Russia to outright ban wheat until December 2022. However, this didn't occur and instead Russia announced they would suspend exports of wheat to some key countries in the Eurasian Economic Union (EEU) until August 31st.

Aussie wheat is likely to play an important part in filling the hole left by Russia and Ukraine over the coming months. Currently, we're hearing that imports into SE Asia (our main destination) are fairly well covered in the short-term, and therefore, despite the strong rally into global futures, local prices haven't rallied to the same degree. Basis for 21-22 reached record low levels of circa minus 400USc/bu earlier this week. With the recent correction in US futures we have seen basis strengthen marginally, although remains at extremely weak levels. An important question now is whether we will see a firming of our basis moving forward. CloudBreak suspects that if the Russia-Ukraine conflict continues, as grower liquidity starts to tighten and we move further into our shipping stem, we will likely see a more reasonable basis over the next 6-weeks.

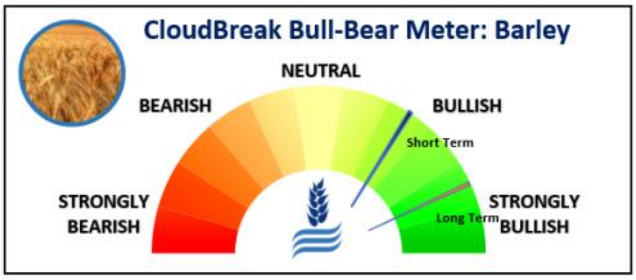
For new crop, basis also remains very weak (circa minus 200Usc/bu) although not as weak as 21/22 season due to the inverse forward curve. As mentioned, the US is currently experiencing localised drought conditions, which could support their prices if it continues into their spring (which could lead to a sustained weak Aussie basis). Current forward cash prices are still very attractive and CloudBreak wouldn't discourage making further sales at these levels. Please keep in mind the market remains extremely volatile and if the Russia-Ukraine conflict continues, a cascade of issues could further support demand for Aussie wheat spanning into the 22-23 season.

**Outlook**—The Russia-Ukraine conflict is creating historically higher volatility and prices as the market struggles to estimate the amount of wheat exports that will likely leave the Black Sea over the next 4-months. Ukraine exports have essentially ground to a halt amid port closures, and incoming ships not willing to venture into the war zone. If the invasion continues, the world could be losing 12-16MMT of wheat from the Black Sea between now and July 2022. The next dilemma is whether the new crop Ukraine winter wheat crop will receive essential fertiliser inputs, as currently the market estimates that total Ukraine production for the 22-23 season could be reduced by 15-30% if the war continues and fertilizers aren't able to be applied. This is assuming the crop can actually be harvested and exported, which is currently still up in the air. Outside support may also be garnered from corn and barley, as Ukraine spring barley and corn crops may not even make it in the ground, as the ideal planting window for these commodities is March-May.

For growers that are risk-averse and still have 21-22 season remaining, current prices are trading at historically high decline prices and CloudBreak wouldn't discourage further sales. Alternatively, for growers more risk seeking and looking to see how this conflict plays out, with the extension of time, there may be benefits to see if our basis normalise overt the next month or so. Please keep in mind, the market conditions are very fluid (flung around by peace talks, further sanctions, restriction on exports and drought conditions in the US/South America) and as a result volatility is expected to continue at extreme levels.

For growers looking at new crop, we continue to monitor this market closely, as this is a very rare opportunity to receive exceptional prices. As such, we look to extend sales by 10-15%, aiming to be 15-25% sold over the next month. Please bear in mind, basis is weak, although that's understandable with elevated wheat futures and a brewing US drought. For those growers that are Advisory and want to discuss keeping basis floating, please contact your advisor to discuss appropriate strategies. CloudBreak aims to release an Advisory outlook earlier next week.

# Australian Barley to Plug the Gap



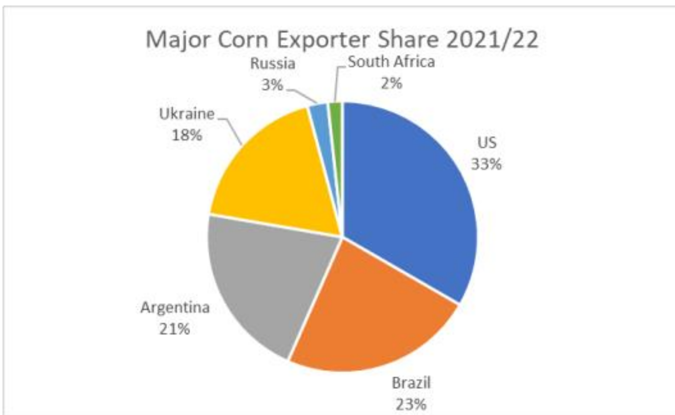

- Exponential Upwards Trend in US Futures
- The Impacts of the Russo-Ukrainian war
- South American Harvest Underway
- EU Feed Supply Shock
- Disruptions Into New Season

**US Corn** – Futures had been in an exponential upward trend due to the onset of the Russo-Ukrainian war, rallying 15% in two weeks and briefly breaking though 780USc/bu. US futures have eased slightly, currently sitting at 740.25USc/bu following a number of other commodities lower, such as crude oil and natural gas. The loss of Ukrainian corn exports will push demand towards the US, as it comes at a time when Brazilian exports have fallen to zero as they ration their summer corn until the second (Safrinha) crop is harvested in June/July. It appears that a major hole in the world's corn balance sheet is opening up and will only get worse the longer the war drags on, further delaying planting and exports in Ukraine. US exports were weaker last week, down 53% WoW, however they were still in line with the required sales to meet the USDA's forecast.

**The Russo-Ukrainian War** – The conflict has been the headline that has dominated world agriculture markets these past two weeks. While wheat may be garnering the largest share of attention, Ukraine is also one of the world's largest exporters of corn. Ukraine's share of the world corn trade has been steadily trending higher over the past decade. Making up around 18% of the world's market share. Of current stocks, 43% of Ukraine's expected corn exports will now go unshipped. The longer this war drags on, the longer the disruption to exports, and the larger the hole in the worlds balance sheet grows. This war comes at time when the world is relying on exports from Ukraine and the US. To offset Brazilian exports falling to zero (at this time of year), as they ration their summer corn until they begin to harvest their second (Safrinha) corn crop. This could result in the US being the primary exporter of corn until June/July, further tightening US ending stocks. Ukraine and Russia also account for approximately 30% of global barley exports. Black Sea barley forms the backbone of Middle East and Mediterranean consumption, so it is possible we'll see Australia's market share in the Middle East expand. Since China closed its doors on Australian barley, Ukraine has been their primary source. If this conflict continues, and exports out the Black Sea remain restricted, China may be back to buying Australian barley, unless they decide to keep one foot in the door with Russia.

Spring planting of barley and corn in Ukraine is fast approaching, typically beginning in the middle of March and finishing around May. As the war drags on, it is well within reason to expect that planting will be interrupted, especially in the east. Ukraine's spring planting accounts for over 50% of their total barley production. It is important to note that the Ukrainian government has granted an exemption from military service for key farm workers which could lessen the disruption. Nevertheless, Ukrainian farmers in the east (near the Russian border) will have a difficult time planting crops this spring. Some may even question whether or not it is worth planting at all as it is unclear if they will actually be able to harvest and market their crops. Even for those who do have a successful planting, access to fertiliser, pesticide and herbicide a challenge unto itself as supply chains breakdown. If this occurs, we could see some of the most productive farmland in the world suffer from severely diminished yields. This will result in disruptions further down the line, even if the war ends in time for Ukraine's crop to be exported. The question is, what possible scenario will we see with this war? We can construct four possible scenarios to analyse potential disruption to crop production. The first is if the conflict as it stands now, grinds to a stalemate. The second, Russia disrupts operations in all border oblasts. Third, Russia disrupts the eastern half of Ukraine and finally the worst case scenario, Russia disrupts the entirety of Ukraine. Currently there is military activity in 10 oblasts which account for 44% of Ukrainian barley, 27% of this is planted in spring and is at risk of not being planted. For the winter crop the largest risk is fertiliser not being applied which is difficult to quantify. The below table summarises how much could be lost out of winter barley if we assume a 30% yield loss in disrupted areas, it does not factor in spring which may not even be planted.

**South American Corn** – The forecast for South America shows some heavy rainfall over northern Argentina and southern Brazil. The importance of South American weather is beginning to diminish as the first planting of corn is already being harvested. The primary impact will be on the



# Barley—Continued

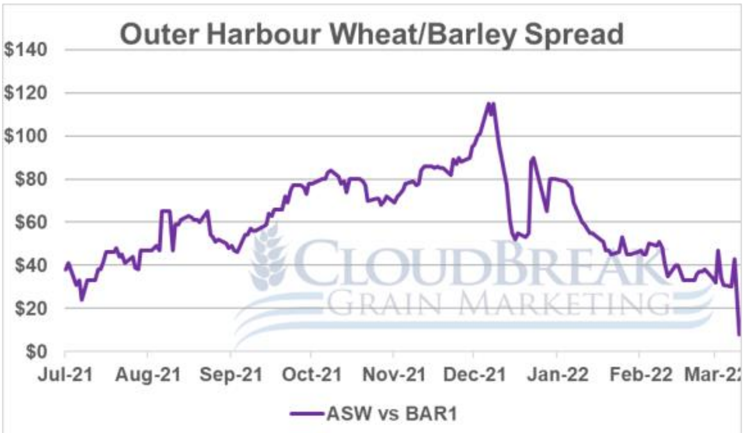
second Brazilian corn crop (Safrinha) which is currently 74.8% planted. The forecast rainfall event should replenish soil moisture which should benefit the yield potential of Brazil's second crop. However, any bump in the second crop may end up being used to offset losses from the first. In previous years when Brazil has had cuts to its first crop, exports are lowered as Safrinha supplies are used to plug the gap. Moving forward, weather analysis for South America will focus primarily on central Brazil and on the State of Mato Grosso in particular, which is responsible for 43% of the second corn crop. In Argentina the forecast rain is likely too late to affect the second planting of corn which is currently 80% pollinated. Conditions in Argentina have been very poor, with just 21% of corn rated Good/Excellent. The early harvest has seen below typical yields and with the second planting being exposed to such dry conditions, expectations are well below average. The March WASDE update cut 1MMT out of Argentine production, bringing the forecast down to 53MMT. The USDA is currently expecting production to come in at 167MMT, down from the initial forecast which pegged production at 171MMT. Private analysts except south American production to be far lower than the USDA's estimates as the USDA is reluctant to touch their forecasts until they see further Argentine yield data and South American weather in April.

| | Based on estimated 22/23 winter barley crop size of 4.25MMT | | | |
|---|---|---|---|---|
| | Scenario 1 | Scenario 2 | Scenario 3 | Scenario 4 |
| Area Affected (%) | 42% | 62% | 81% | 100% |
| Yield Loss (%) | 30% | 30% | 30% | 30% |
| Total Production Loss (%) | 12.60% | 18.60% | 24.30% | 30.00% |
| Total Production Loss (MMT) | 0.54 | 0.80 | 1.04 | 1.28 |

**EU Feed Grain Supply** - The EU has become one the world's largest importers of corn, relying heavily on Ukrainian origin. Due to strict controls on GMO crops, the EU does not import corn from the US. The European feed market is likely the most exposed market to Ukraine's exports becoming inaccessible in the short term. Due to exports out of Ukraine grinding to a halt, Matif corn futures have risen over €100/MT in two weeks, a near 40% rally. If the EU remains firm on its stance on GMO crops the only real solution is to ration demand until Brazil harvests their second corn crop. The USDA expects the EU to import 15MMT for the season; as of March imports sit at 11MMTs. Even assuming the timely arrival of Brazilian corn later in the year, the USDA are forecasting EU ending stocks to come in at 7.8MMT which represents only a months' worth of consumption. Another possible scenario is the EU reducing their exports of other grains such as wheat and barley in order to cover domestic feed consumption until the Brazilian harvest. If 2223 corn production in Ukraine is disrupted by the conflict this shortage in Europe will be challenging to satisfy.

**Outlook** – Local Barley prices have rallied significantly and are currently sitting around the $386/MT level on an outer harbour basis. Additionally, we have seen basis between barley and corn firm from circa -40.00USc/bu to -3.88USc/bu. Australia has increasingly become the destination to cover shortages in the northern hemisphere as Australian barely is still quite cheap on the world stage. However, barley stocks in Australia are beginning to tighten and grower liquidity is drying up. We have also seen the spread between wheat and barley rapidly improve as wheat prices fall away whilst barley strengthens. Delivered markets have been slow to react to the sudden jump in prices in the system making delivered barley a less attractive option for the time being.

As the market remains extremely volatile due to the Russo-Ukrainian War, 2122 season barley prices have rallied to near decile 10 levels, prices only normally seen during severe drought. Cloudbreak recommends advancing sales to 85-90% to take advantage of the high prices. With many uncertainties in the market, volatility is likely to continue for the foreseeable future. Therefore, making sales in increments over the next 1-2 weeks, to target a high weighted average price is recommended. Prices for the 2223 season are also reaching near decile 9 levels as buyers begin to consider the potential disruption to new season barley and corn in Ukraine. Over the next 2-4 weeks we recommend tracking the market to find opportunities to make initial sales of up to 5% of conservative production estimates ahead of the northern hemisphere harvest. Basis for new season is still weak, currently sitting at -81.64USc/bu, as the war progresses, we will see how the spring planting in Ukraine turns out. If it looks like Ukraine will have issues going into the 2223 season, basis for Australian barley should firm as demand will be shifted towards Australia.



# Commodity Boom 2.0

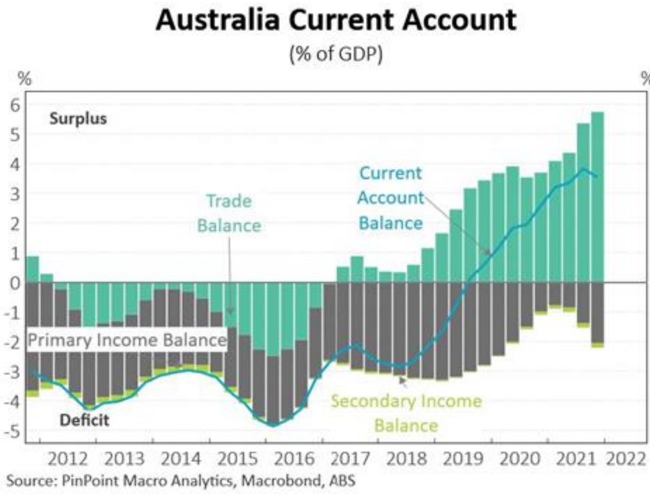
The AUD has continued its upwards trend throughout the first week of March. The Aussie opened the month at 72.5 US/c and recently tested the key resistance level of 74 US/c. The move can be attributed to a surge in commodity prices due to conflict in the Black Sea. Australia's largest commodity exports such as iron ore, coal, and natural gas, are also some of Russia's largest exports. Supply decreases of these commodities has resulted in significant price rises. The 3 largest Aussie commodity exports iron ore, coal & gas have seen price rises of 7%, 53% and 15% respectively in the first few days of trade in the month of March. Significant price rises such as these tend to result in the appreciation of the exporting nation's currency.

Figure 1 shows the Commodity Research Bureau (CRB) Index. The index acts as a representative indicator of global commodity prices. The aim of the index is to measure the aggregated price direction of various commodity sectors and is designed to isolate and reveal the directional movement of prices in overall commodity markets. It is evident that commodity prices are continuing to rally on the back of fears of supply issues out of Russia.

Additionally, Figure 2 indicates the Current Account (a measure of net trade of goods and services of a nation) continues to climb reaching an impressive 3.6% of GDP, with estimates showing another current account surplus for Q1. The current account has a direct correlation with the AUD as an increase in the current account balance results in an appreciation of the AUD due to enhanced demand for Aussie products.

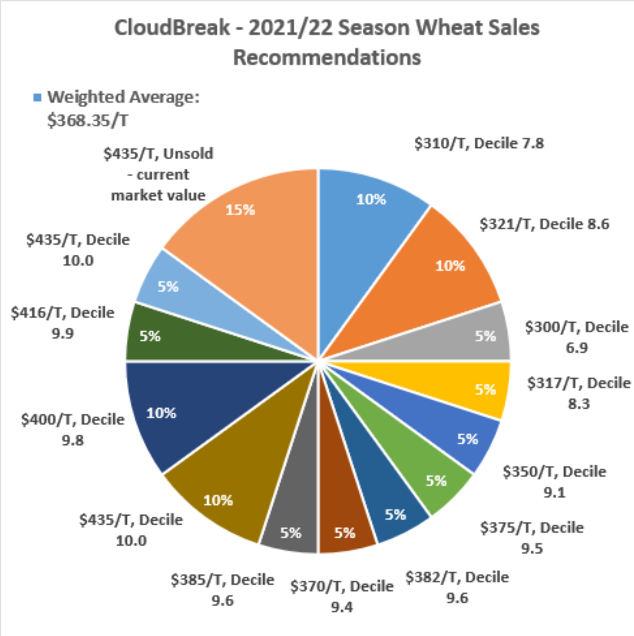
Although commodity prices are booming, the AUD's growth has been restrained due to two key factors: the interest rate differential and risk sentiment. As discussed in the previous outlook, the US Federal Reserve are much more hawkish when it comes to interest rates than their Australian counterpart. Jerome Powell, the Federal Reserve Chairman is open about multiple rate hikes throughout 2022, whereas Phillip Lowe, the RBA Governor has been more reserved when it comes to rate hikes in Australia. However, further inflationary pressures due to the crisis in the Black Sea could lead to the RBA raising rates earlier than expected if inflation were to increase significantly.

The conflict occurring in the Black Sea between Russia and Ukraine is also putting pressure on the Aussie dollar. Historically, the USD is a safe haven currency, therefore as risk sentiment increases the demand for the USD tends to increase resulting in deprecation of the AUD. However, on the 24th of February, the onset of the Russo-Ukrainian war the Aussie dollar fell 0.70c it soon recovered to test the 0.74 US/c resistance level, outlining that risk sentiment isn't a driving factor in the price of the AUD.

# Recommendations

2122 Wheat—Monitor & Sell, Total 80-85% Sold




**Current —** The Russia-Ukraine conflict is creating historically higher volatility and prices as the market struggles to estimate the amount of wheat exports that will likely leave the Black Sea over the next 4-months. Ukraine exports have essentially ground to a halt amid port closures, and incoming ships not willing to venture into the war zone. If the invasion continues, the world could be losing 12-16MMT of wheat from the Black Sea between now and July 2022. The next dilemma is whether the new crop Ukraine winter wheat crop will receive essential fertiliser inputs, as currently the market estimates that total Ukraine production for the 22-23 season could be reduced by 15-30% if the war continues and fertilizers aren't able to be applied. This is assuming the crop can actually be harvested and exported, which is currently still up in the air. Outside support may also be garnered from corn and barley, as Ukraine spring barley and corn crops may not even make it in the ground, as the ideal planting window for these commodities is March-May.

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For growers looking at new crop, we continue to monitor this market closely, as this is a very rare opportunity to receive exceptional prices. As such, we look to extend sales by 10-15%, aiming to be 15-25% sold over the next month. Please bear in mind, basis is weak, although that's understandable with elevated wheat futures and a brewing US drought. For those growers that are Advisory and want to discuss keeping basis floating, please contact your advisor to discuss appropriate strategies. CloudBreak aims to release an Advisory outlook earlier next week.

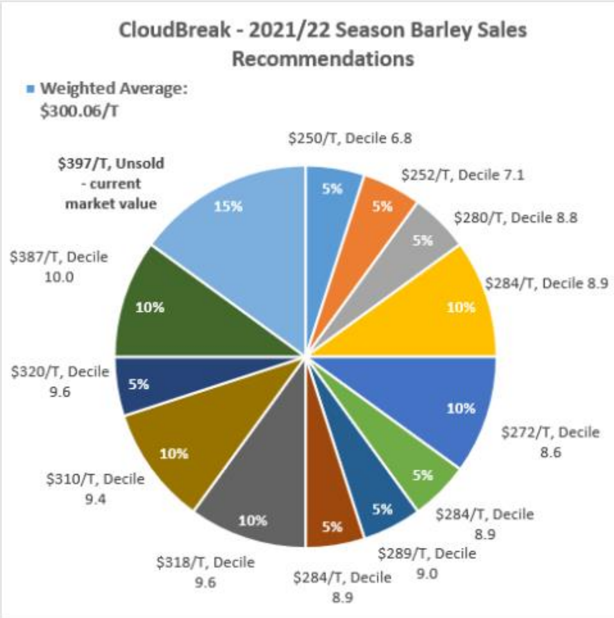
**Previous —** CloudBreak has been waiting and watching for an opportunity such as the one that is currently being presented. Russia-Ukraine tensions have really heated up amid Russia declaring two southeast Ukraine states as independent and sending in troops to "keep the peace". As such, US futures rallied strongly, up 48USc/bu in one session, with the market concerned that further conflict would hamper exports out of the Black Sea. It expected that approx. 16MMT of wheat is to be exported out of the Black Sea from March-June, with 5-5.5MMT expected to come from Ukraine. Amid tight global stocks, disruptions of this wheat out of the Black Sea would create holes in the global balance sheet that would need to be filled from alternative destinations (e.g. Australia, US, EU or Argentina). In the background, US wheat crop conditions across major winter wheat regions of the US (Nebraska, Kansas, Oklahoma and Texas) continue to struggle amid prolonged dryness. The current dryness has also led to limited snow cover, which has created the opportunity for winter kill over the next few days across Nebraska, Kansas and Oklahoma, as temps of negative 16 to negative 25 degrees are expected.

Whilst the market is playing particular attention to very elevated Russia-Ukraine tensions, in the background we have continued US dryness coupled with the potential for a winter kill event across the US Plains. CloudBreak recommends staying vigilant amid the current volatility. We look to monitor the market closely with the aim of selling into

# Recommendations—Continued

the current rally. Ultimately CloudBreak seeks to advance sales by 10-15% over the next 1-2 weeks, with the intension of tidying up 21/22 season wheat sales over the next 2-3 weeks. For growers that looking at hedging 22/23 season, the current rally will also be a good opportunity to get thing started. Please keep in mind that 21/22 wheat is the priority, as this is where more of the risk is held. However, for growers comfortable with 21/22 season sales, CloudBreak recommends forward selling 5-10% of conservative production for the 22/23 season, leaving room for further sales if the market continues to trend higher over the next 2-3 weeks.

2122 Barley – Hold, Total 70-75% Sold



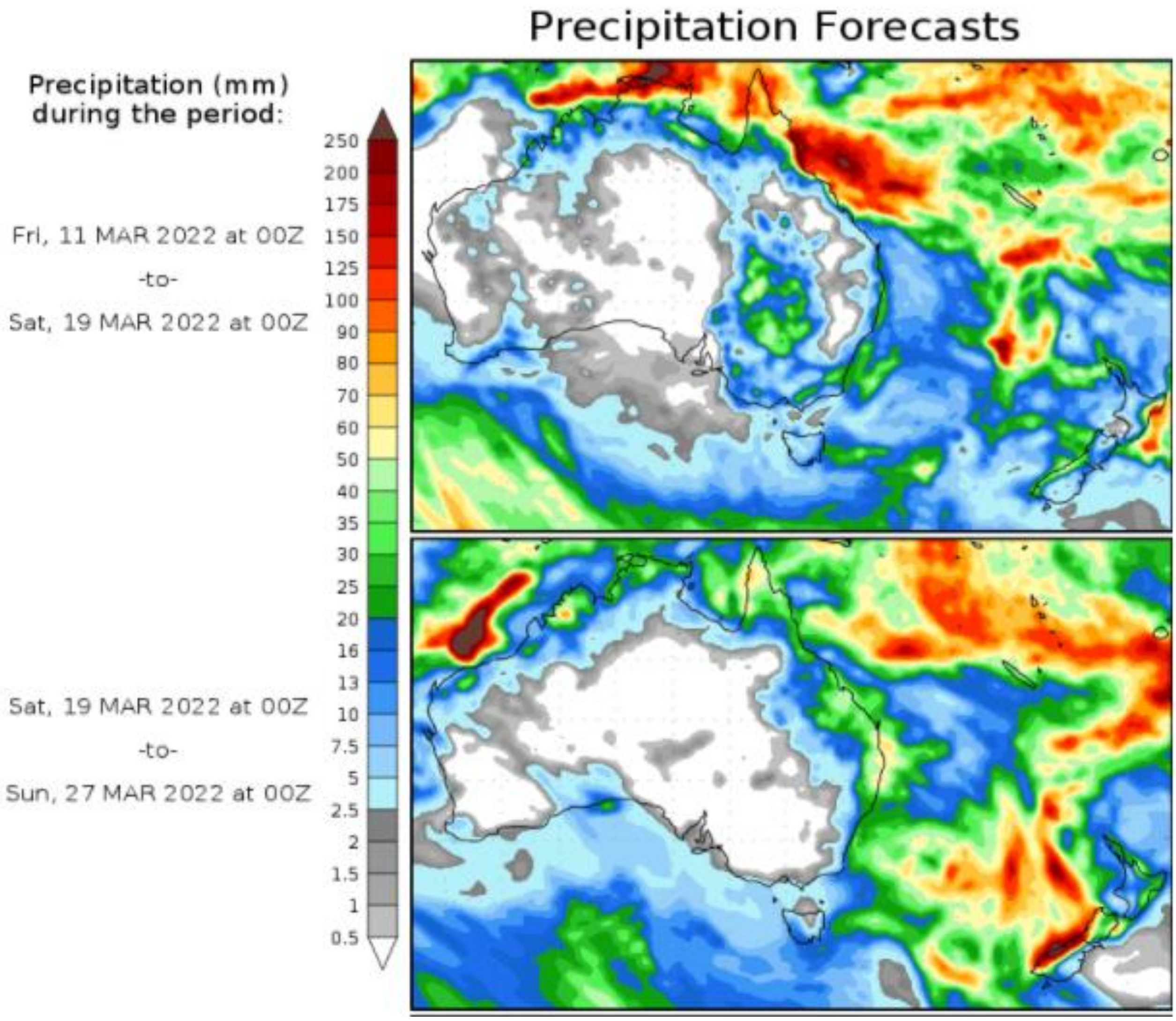

**Current —** Local Barley prices have rallied significantly and are currently sitting around the $386/MT level on an outer harbour basis. Additionally, we have seen basis between barley and corn firm from circa -40.00USc/bu to -3.88USc/bu. Australia has increasingly become the destination to cover shortages in the northern hemisphere as Australian barely is still quite cheap on the world stage. However, barley stocks in Australia are beginning to tighten and grower liquidity is drying up. We have also seen the spread between wheat and barley rapidly improve as wheat prices fall away whilst barley strengthens. Delivered markets have been slow to react to the sudden jump in prices in the system making delivered barley a less attractive option for the time being.

As the market remains extremely volatile due to the Russo-Ukrainian War, 2122 season barley prices have rallied to near decile 10 levels, prices only normally seen during severe drought. Cloudbreak recommends advancing sales to 85-90% to take advantage of the high prices. With many uncertainties in the market, volatility is likely to continue for the foreseeable future. Therefore, making sales in increments over the next 1-2 weeks, to target a high weighted average price is recommended. Prices for the 2223 season are also reaching near decile 9 levels as buyers begin to consider the potential disruption to new season barley and corn in Ukraine. Over the next 2-4 weeks we recommend tracking the market to find opportunities to make initial sales of up to 5% of conservative production estimates ahead of the northern hemisphere harvest. Basis for new season is still weak, currently sitting at -81.64USc/bu, as the war progresses, we will see how the spring planting in Ukraine turns out. If it looks like Ukraine will have issues going into the 2223 season, basis for Australian barley should firm as demand will be shifted towards Australia.

**Previous —** Barley prices in SA have remained well supported and have been slowly ticking up, currently sitting at the $328/MT on an Outer Harbour basis. Multiple buyers have been keen to acquire barley which is keeping prices at a competitive level. On a delivered basis, barley is only tracking approximately $10 above prices in the system. This has been caused by the abundance of SFW1 taking a decent chunk of the domestic feed market away from barley. With that said, growers who are far from the port, may find delivered options more desirable.

With current cash prices at a decile 9.7 level now is a perfect time to catch up on sales to our recommended 70-75%. Furthermore, with prices at such a high decile no one would blink twice at anyone looking to advance sales further. A risk to keep in mind is a rally in the AUD, the Aussie has been in a medium-term upwards trend and is currently sitting around the $0.72. While the outlook for the AUD will be capped by relative interest rates between Australia and the US, a rally to $0.73 isn't unreasonable if Australia sees some consistently strong macro-economic data. If the weather in South America improves, we would see corn futures lose some of their recent gains, however much of the damage to the early plantings has already been done. For the more bullish minded individuals, February and March are critical months for the later planted Argentine corn and if conditions are dry, further reductions to production estimates are likely. Moreover, with things heating up in eastern Europe, disruptions to exports out of the Black Sea would propel feed markets upwards.

# 14-Day Precipitation Forecast

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