Wheat Outlook

30th September 2022

Wheat Plays Tug Of War

- Market torn in multiple directions
- War heating up - Russia set to annex 4 Ukraine states
- Major Exporter Stocks-to-use outside Russia & Ukraine remain record tight
- Potentially record Aussie crop brewing
- Looking to advance sales ahead of harvest

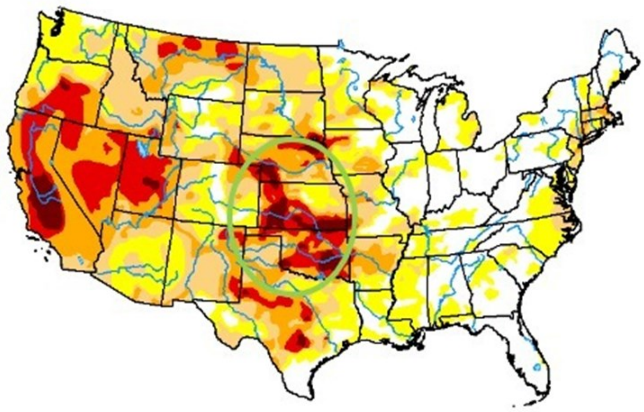
Outlook

CloudBreak would like to point out that this market is currently extremely difficult to forecast, as it wrestles with multiple variables dragging it in different directions. We've got record tight major exporter stocks outside Russia & Ukraine, whilst Russia and Ukraine are in all-out war, record large production from Russia – yet relatively slow exports, global recession concerns, a rallying USD and also a potential for La Nina induced production cuts to Argentina 22/23 and ongoing drought amid seeding for the US 23/24 winter wheat season.

As we approach harvest, growers will need to have a balance between taking advantage of current high decile prices (supported by a low AUD, shipping slots allocation and strength on futures) to protect against strong harvest selling vs. how much to hold to take advantage of potential upside driven by tight stocks, ongoing war, and La Nina dryness risk. The local market outlook is torn between potential further upside vs. a monster wheat crop. CloudBreak currently recommends at least 35-45% heading into harvest. At the moment we are monitoring the short-term upward trend with the intension of increasing sales ahead of harvest pressure. CloudBreak feels October will be key to get more sales on the board ahead of harvest pressure. Whether to be hold off on sales or sell now at a very high decline number will ultimately depend on your own assessment of how risk averse you are or how risk seeking. For growers that are undersold, CloudBreak would encourage chipping away at current very high decile numbers to reduce downside risk. Remembering though to keep some bullets in the chamber in case Putin sends the market into the spiral or shipping shorts do occur. There's always risks though and holding too long will allow harvest selling pressure to become the dominating price dictator.

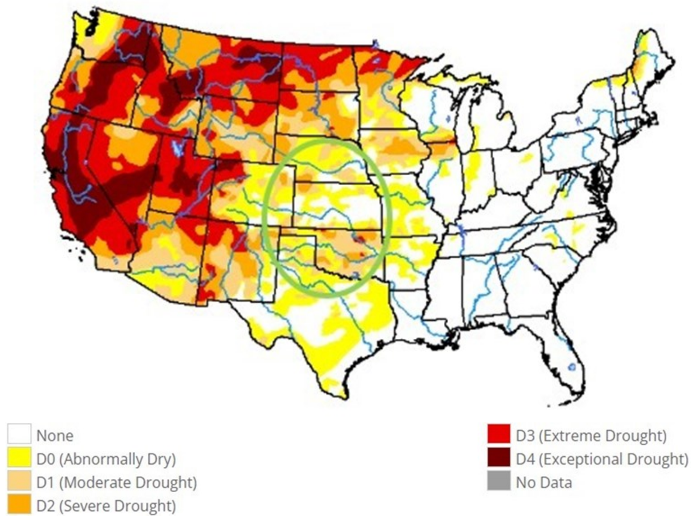
Keep in mind that in a big year, seasonally we typically see cash prices locally trend lower into harvest amid strong harvest selling expectations. At current prices (coupled with a big crop), CloudBreak expects harvest pressure to be strong again this year when headers start rolling.

September 27th, 2022



US Drought Monitor

September 28th, 2021



For growers targeting post-harvest sales, beware that prices can be very sloppy over Jan-March (especially in a big year) as buyers generally have most of their short-term commitments shipping covered. As such, we might not see prices recover until later in the year (this will depend on potential shipping capacity constraints which could be an issue amid this big production year).

Please note, if you're going to hold grain in warehouse for sale post-harvest, smaller bulk handlers can have less competition relative to major bulk handlers, and as such carries a higher risk that you won't achieve fair value.

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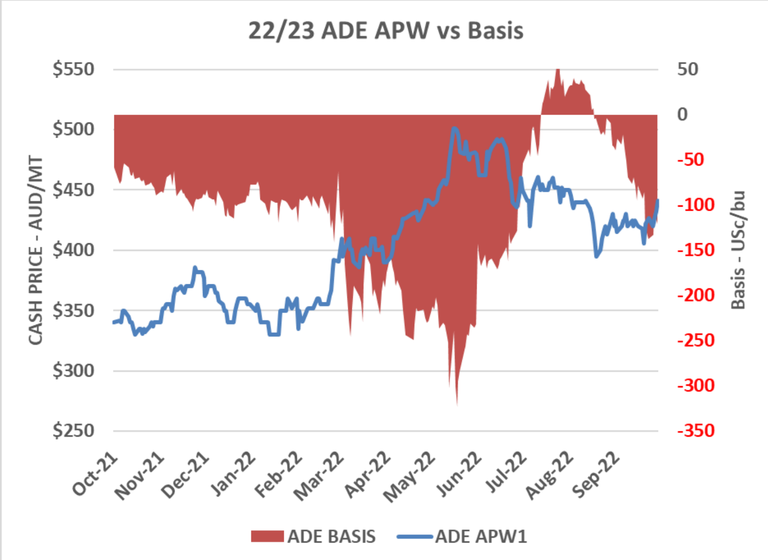
Dec'22 US SRW wheat futures remain in a short-term upward trend, since bouncing off seasonal lows in mid-August. Rising concerns over conflict between Russia and Ukraine, relatively slow Black Sea exports and lingering drought over US winter wheat seeding has wheat futures testing 3-month highs. We note, slow global economic growth has been keeping a lid on rallies, as the market factors in the potential negative impact this will have on commodity demand. US wheat futures have seen increased volatility, as it is already expensive relative to alternative origins, and additionally, the USD continues to test fresh 20-year highs, which is pressuring the buying power of importing countries.

Update on the war - Ukraine has launched counter offensives in the East, whilst Russia has rushed to hold referendums in the controlled regions of the Donbas. So far, Russian officials have declared that the majority of voters have elected to join Russia, leaving Putin poised to announce the annexation of the four territories as early as today. However, to Ukraine and the rest of the world, these sham referendums are illegitimate, with many votes reported to be cast due to intimidation rather than via free will. The market is concerned, as under Russia's rules of engagement, Russia can use nuclear weapons to defend their country, and this would extend to annexed regions of Ukraine – which Russia has already threatened. In the current atmosphere, a renewal of the Ukraine export corridor in November is looking increasingly unlikely.

Whilst Russia-Ukraine war risk is being added to the market at the moment, we can't forget about the potentially record large Russian wheat crop, which is now being estimated at 95-100MMT. Global importers are wary of buying too much Russian wheat due high freight costs and the risk of force majeure, as such Russian exports have been slow relative to last year. At the current pace, it is very unlikely Russia will reach the USDA's target of 42MMT (currently only 8.5MMT exported for July-Sep, vs. circa 11.8MMT last year). We note, slow Russian exports is pushing more demand to alternate origins, however, there will likely to be a significant amount of Russian carry over stock, which will weigh over the market into next year.



Locally, Australia could be in for another record production year amid consistent rainfall over the last two months. Whilst our local crop has been growing, domestic prices have struggled to push higher along with futures, as such, basis has weakened from positive 40USc/bu in August to negative 100-120USc/bu currently. The shipping stem is now fully allocated, with long-term slots having been allocated in mid-September and the remainder of short-term slots now filled. In anticipation of such a big year, buyers have gone hard! With nearly all port zones fully booked. This has been helping to support prices and basis over the last week. However, in such a big year, it's important not to forget about the seasonal trends. Generally, in big years prices tend to slide into harvest as grower selling is typically more intense and buyers don't have to try very hard to accumulate tonnes. With global markets trying to push higher, coupled with a fully allocated shipping stem and a very low AUD, we are currently seeing local prices support. However, if global prices turn around and the AUD makes a rebound, we expect local prices to come under pressure rather quickly.

Export capacity was a real problem in WA, VIC and NSW last year amid record production. With another potentially record crop brewing and large carry-in from 21/22, CloudBreak expects this to be an issue again this year. SA does have the highest total shipping capacity relative to production out of all the states. However, as buyers target exports over the Jan-June window

22/23 season **SA export capacity**	**EP**	**YP**	**Ade**	**Total**
Grain Production (MMT)	3.53	1.98	4.61	10.12
Shipping Capacity (MMT)	5.28	2.26	5.14	12.68
Excess/Deficit Full Season (MMT)	1.75	0.28	0.53	2.56
Dec-June Shipping Capacity (MMT)	2.64	1.13	2.57	6.34
Excess/Deficit 6 Months (MMT)	-0.89	-0.85	-2.04	-3.78

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(ahead of NH new crop coming off) in a big year, shipping capacity can become an issue. This year we could be looking at 10MMT+ of grain in SA, and whilst 1MMT could be consumed domestically, a significant portion of this is going to make it to port. Assuming we do have production of this size, Ade, YP and EP ports would struggle to keep up in the Jan-June window if exporters were looking to front end their program ahead of Northern Hemisphere harvest pressure. With this in mind, getting ahead of the curve in terms of sales could be beneficial to avoid potential shipping capacity constrains post-harvest. We can see the effects of shipping capacity constraints in WA, which is currently priced circa $85/mt cheaper than SA on a port basis. Growers looking to market wheat post-harvest will have to keep this in mind, as buyers will start to price in cost of carry and limited shipping capacity if they fill up.

Grade spreads in a normal year typically tent to revert towards APW1 as we get into harvest. Currently, spreads for H1/H2 are around +15 and +8, whilst ASW1 is -30/35 and AGP1/SFW1 are around -45 and -70 respectively. This indicates that SA buyers are factoring in a crop with less high protein wheat and more ASW1/feed grades. When we look across the border, VIC AGP1/SFW1 grade spreads have already blown blow out to -100 or more. This is a concern, as in the event of a wet harvest, there could be more feed quality wheat coming across the border from Vic into SA; which would saturate our market and drag our spreads lower. Last year we saw large volumes of east coast feed quality wheat make its way into SA due to east coast shipping capacity constraints, which put a cap on our SA feed market. The current ENSO outlook and negative IOD outlook is increasing chance of a wet harvest and as such more feed wheat. CloudBreak currently recommends having a balance between fixed and floating spreads to allow contract arbitrage, although weighting more contracts to fixed spreads (i.e., a 60-40 split between fixed and floating). CloudBreak would also recommend growers around the mid-north SA zone with on-farm storage to look at del. SFW1 @ circa $400/mt for post-harvest delivery into the feed mills to hedge against a potentially wet harvest.