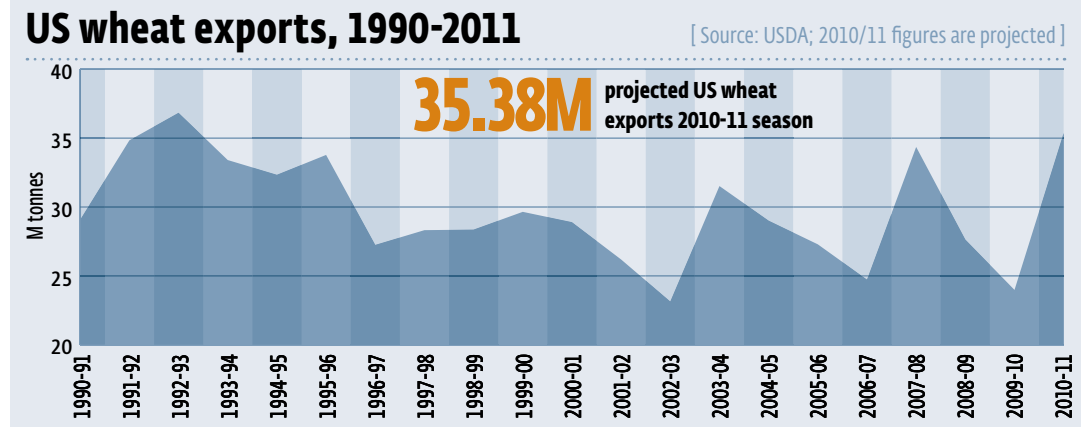


US wheat exports enjoy a super season

Upside from Oz floods is the latest boost to America's wheat farmers

The US and Canada are in prime position to replace high-protein wheat cargoes lost in the wake of Australia's disastrous floods. For America, it could be the icing on the cake for an already phenomenal shipping season.

Last week, the US Department of Agriculture (USDA) bumped up projected US wheat exports for the 2010-11 marketing period by 1.36M tonnes versus its December estimate, to 35.38M tonnes. "Major shifts among exporters are



projected as importers focus on US supplies to meet their milling demands," affirmed USDA.

A key driver of USDA's more buoyant view of American volumes was the flood in

Australia, which now faces "quality problems that limit export opportunities".

Australia's agricultural exports stymied by rains

Even before the recent floods, Australian agricultural exports had suffered some significant setbacks

For the second time in a year, weather-related calamities are disrupting the shipment of wheat – one of the more important minor bulk commodities and a major driver of spot demand for vessels up to Panamax size.

Last summer the Russian drought realigned the trade; now the severe flooding in Queensland (and elsewhere in Australia) may cause export delays or additional trading shifts, as a portion of this year's grain cannot be harvested.

Shifts in worldwide wheat export parcels resulting from the weather may linger into the following harvest season as flood

conditions (Australia) and drought (Russia) have prevented planting of next year's crops.

Set to suffer

At the height of the floods, Queensland's major export elevator in flood-ravaged Port of Brisbane was shut down and rail lines connecting to the west and southwest of the city were cut off. Further, wheat from Gladstone (better known for coal exports) is also set to suffer, depending on the timing of repairs to the flooded rail and road gathering networks.

Although Queensland's share of wheat exports is small, the record-setting La Niña rains have also affected other growing regions such as Victoria and New South Wales.

Paradoxically, worldwide available wheat supplies actually rose slightly in 2010, keeping a lid on price pressures for most of

the year (in contrast to corn and soyabean prices).

Prior to the severe flooding in Australia, the International Grains Council (IGC) had forecast total wheat trade of 1.22M tonnes for the 2010-11 marketing year. The IGC estimated Australian exports would reach around 1.5M tonnes. Before the severity of the rains was fully appreciated, the Australian Bureau of Agricultural and Resource Economics (ABARE) estimated Australia's overall 2010-11 wheat production at 26.8M tonnes.

1.5M tonnes as quality problems limit export opportunities" for the 2010/2011 marketing year (October-September), a decrease from 1.5M tonnes to 1.3.5M tonnes.

A spokesman for GrainCorp Operations, which operates export elevators in Eastern Australia, told *Fairplay* that, as a result of the flooding: "about 100,000 tonnes will be delayed. This equates to about 1% of the monthly international wheat trade and about 1% or less of the total wheat exports likely to be

13.5M tonnes

anticipated wheat exports from Australia in the 2010/2011 marketing year

The much-watched World Agricultural Supply and Demand Estimate (from the USDA) said: "Australian exports are reduced

shipped from Australia this year." This is a comparatively small amount, yet the rains have had an impact on quality which may yet

“We don’t know what the numbers are going to be, but it appears that there is definitely going to be a need for a supplier like the US to meet some of the demand that may not be able to come on from Australia,” asserted Steve Mercer of US Wheat Associates.

“It’s natural to assume that if Australia cannot meet the demand in Indonesia, for example, that the wheat is probably going to come out of the US or Canada,” Mercer told *Fairplay*.

No ‘big impact’

He explained that Australian white wheat competes with America’s soft white wheat as well as US hard white wheat. However, Mercer and others pointed out that Australia does

boast significant export capacity in non-flooded regions, a counter-argument to the ‘US upside’ theory.

“The floods in Australia are not having and will not have a big impact on Australian wheat exports because most of its wheat is grown and shipped from other parts of the country,” argued Jay O’Neil, senior agricultural economist at Kansas State University and head of O’Neil Commodity Consulting.

Nor does O’Neil believe agribulk will face freight rates pressure due to flood fallout on coal logistics. He noted that in previous years, such “tying up” of vessel capacity in coal-loading logjams would have boosted freight rates for US agribulk shippers. But he believes that in 2011, newbuildings are

providing the counterbalance.

“We simply have too many vessels chasing too little freight,” O’Neil told *Fairplay*. Whether or not Australia’s floods provide a material boost to US wheat shipments, the 2010-11 marketing season is virtually assured to be a banner year for American agribulk.

Wheat shipments during the current season (which ends 31 May) are now projected to be the highest since 1992-93, when 36.84M tonnes of US exports were booked. Meanwhile, this season’s expected 47.5% spike versus 2009-10 is by far the steepest year-on-year US wheat-export rise of the past two decades.

All of this good news comes in spite of a major hitch in the wheat supply chain: the three-month

closure of portions of the Columbia-Snake Rivers system for lock repairs that began on 10 December. This river system feeds Pacific Northwest terminals, which represent the second most important export conduit for US wheat after the Mississippi.

Mercer reported that several buyers of US wheat, such as the Philippines, brought purchases forward to deal with the outage, spurring a pre-December boost in exports. While the lock closure does not halt transport for affected crop regions, it does increase costs.

Asked whether the river outage could jeopardise America’s ability to respond to opportunities created by Australian flooding, Mercer responded that “it doesn’t help, but if somebody’s in a bind, they’re going to pay for it. ■

send buyers elsewhere for premium-grade grain.

Queensland “is usually a big producer of high-protein wheat which is in short supply globally because of weather setbacks in other key quality wheat-producing countries, including Canada and Germany,” reported Reuters.

Who benefits?

Importers of Australian wheat, especially Japan and Indonesia (the two biggest Asian customers) may need to look elsewhere for high-protein cargoes.

Those set to gain from any switching include other major exporters – the US (with the highest stockpile in 20 years) and Argentina are among the principal expected beneficiaries.

Argentina “issues wheat export licences on an *ad hoc* basis reflecting its own calculations of the country’s export surplus,” said the USDA report. So far they say 5M tonnes have been issued licences, with another 1.5M due

by the end of this month. The high quality adds to its export prospects, says the USDA – and this would enable Argentina to sell into the Mediterranean and Africa.

Sugar, another Queensland crop, has seen exports reduced by 25% as earlier flooding reduced the sugar content. Production and export estimates have been slashed, and considerable uncertainty about planting next year’s crop in flooded fields.

In a December 2010 quarterly review, ABARE lowered its forecast of current year production from 4.5M tonnes to 3.6M tonnes.

Its latest projection puts Australian sugar exports, nearly all sold through export co-operative Queensland Sugar, at 2.4M tonnes.

ABARE estimates the worldwide export trades at 50.7M tonnes. Australian producers were set to fill sales commitments from the Philippines and even Thailand. ■

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