

20 DECEMBER 2011

## 2011 GRAIN HARVEST UPDATE

*“While industry sources are suggesting a bumper harvest, growers and other players in the industry are not so confident. Late rainfall and weak grain prices are driving uncertainty in the market.”*

### GLOBAL MARKET: WEAKER PRICES

- The 2011 global wheat harvest is expected to increase 5% to 685 million tonnes in 2011, with the Northern Hemisphere harvests complete yields have been higher than forecast. Yields have been particularly strong in the Black Sea exporting countries with production up 43%. Increased production has led to a world wheat glut with resulting downward pressure on prices.
- International grain prices have declined significantly since August 2011, with sharp falls for the Chicago Board of Trade and the Australian Securities Exchange wheat markets. Prices on average are expected to be US\$22 a tonne lower for high protein wheat and US\$40 a tonne lower for lower protein wheat.
- The international grain market’s attention is now focused firmly on the Australian harvest which will be the next crop to enter the global export market.

### AUSTRALIA: PRODUCTION EXPECTATIONS

The Australian Bureau of Agricultural and Resource Economics and Sciences (“ABARES”) December quarter report estimated the 2011/12 crop harvest as follows:

Australian Grain Harvest Output 2007 - 2012							
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	% change on 2010
<i>Winter Crops</i>	kt	kt	kt	kt	kt	kt	
Barley	4,257	7,160	7,997	7,865	8,145	8,491	4.25%
Canola	573	1,214	1,844	1,920	2,382	2,495	4.74%
Chickpeas	229	313	443	487	379	394	3.96%
Field Peas	140	268	238	356	434	301	-30.65%
Lupins	470	662	708	823	841	712	-15.34%
Oats	748	1,502	1,160	1,162	1,142	1,654	44.83%
Triticale	199	450	363	545	685	580	-15.33%
Wheat	10,822	13,569	21,420	21,834	27,891	28,286	1.42%
<i>Summer Crops</i>							
Cottonseed	388	188	466	547	1,269	1,617	27.42%
Maize	239	387	376	328	351	298	-15.10%
Rice	163	18	61	197	726	915	26.03%
Grain Sorghum	1,283	3,790	2,692	1,508	2,068	2,415	16.78%
Soybeans	34	35	80	60	47	39	-17.02%
Sunflower Seed	21	73	55	41	44	33	-25.00%
Other Oilseeds	34	56	34	41	40	38	-5.00%
<b>Total</b>	<b>19,600</b>	<b>29,685</b>	<b>37,937</b>	<b>37,714</b>	<b>46,444</b>	<b>48,268</b>	<b>3.93%</b>

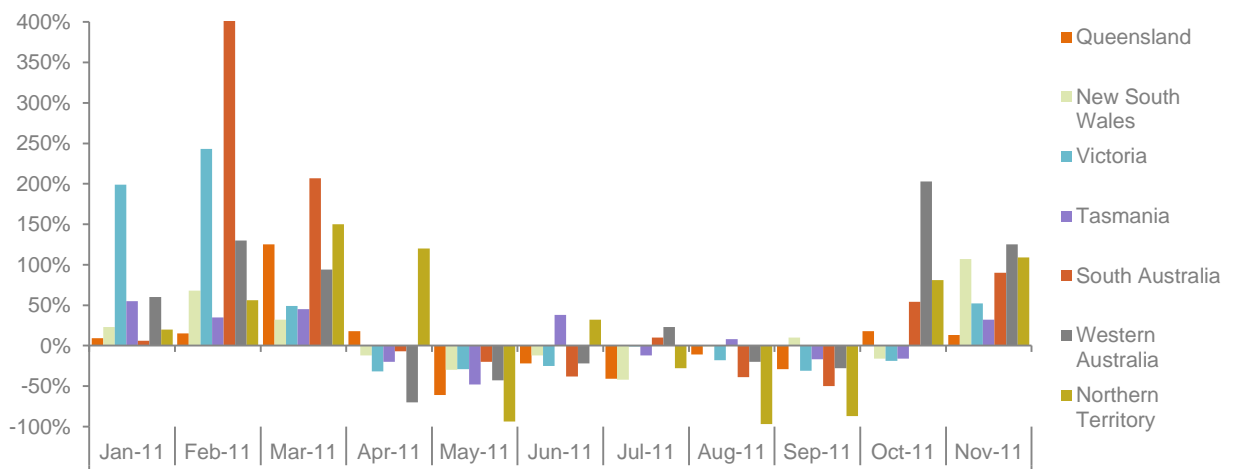
Source: ABARES

- Wheat production is expected to be the highest on record at 28.3 million tonnes. The increase is predominately due to the improved growing conditions in Western Australia where production is expected to double to around 10 million tonnes.
- Barley harvest is forecast to increase 4.25% over the volume recorded in 2010/2011, which will be 19.84% above the 5 year average.
- Canola crops is forecast to be 4.75% higher than 2010/11 and 57.21% ahead of the five year average

### CLIMATIC CONDITIONS

Grain farmers are heavily reliant on weather conditions throughout the season and into harvest. This year has experienced below average rainfall during planting season, while conversely above average rainfalls have been recorded leading into and during harvest which is starting to impact quality:

Monthly Average Rainfall Movements: January - November 2011

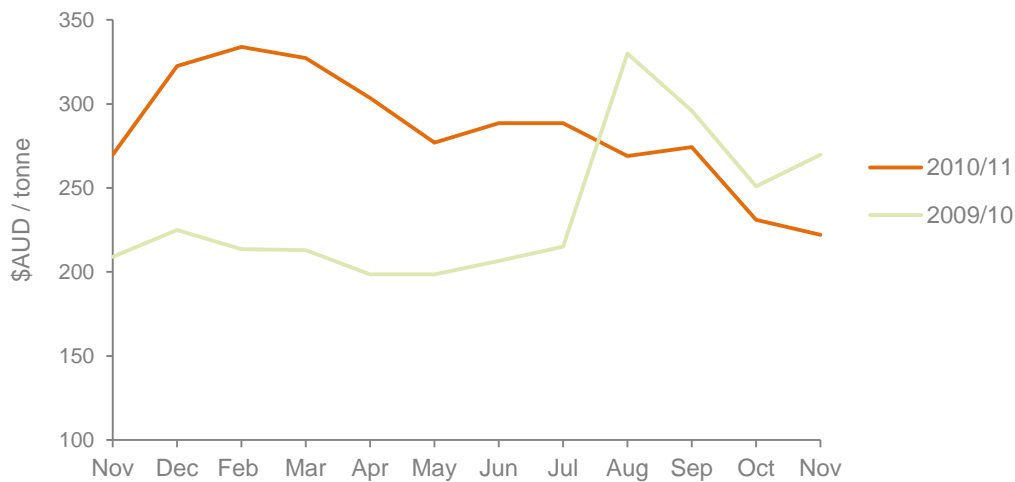


Source: Australian Bureau of Meteorology

### MARKET PRICING

Early seasonal pricing was well above 2010 levels, however prices have steadily declined from February 2011 onwards with steep declines being recorded in October and November 2011, as evidenced in the graph below:

### ASX Wheat Nearby Contract Prices: 2010 vs 2011



Source: Rabobank

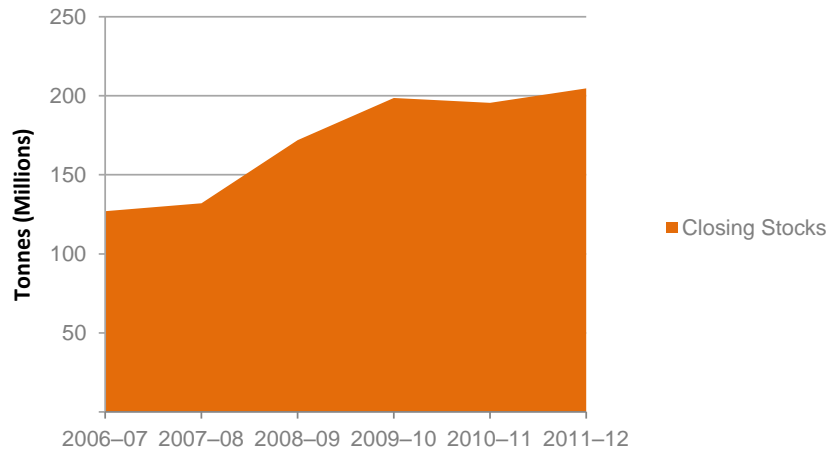
Prices being achieved for good quality wheat are actually lower than what growers were receiving for feed-quality wheat from the 2010 harvest.

While some growers manage to negate the impact of price fluctuations through the use of forward price swaps or fixed price contracts, it is expected that all growers will have some unsold tonnage that needs to be moved at some stage.

It is unlikely that pricing will improve for most varieties in the short term, as brokers continue to hold residual 2010 harvest stock and will only have a need for varieties which have sold out and can be moved quickly. Many growers may opt to hold stock well into the New Year waiting for prices to improve. For growers feeling the effect of cash constraints, this may not be an option.

The higher than average harvest yield will outstrip demand in 2011-12 and will see Australian wheat stocks rise by approximately 6%. Globally, a fall in export levels from the European Union and strong harvests in Kazakhstan and Russia in addition to Australia will see 2011-12 wheat storage levels increase by approximately 5% to 205 million tonnes. Storage levels of this volume have not been seen in a number of years and represent 24% growth on the five year average:

Global Wheat Storage Levels: 2006 - 2012

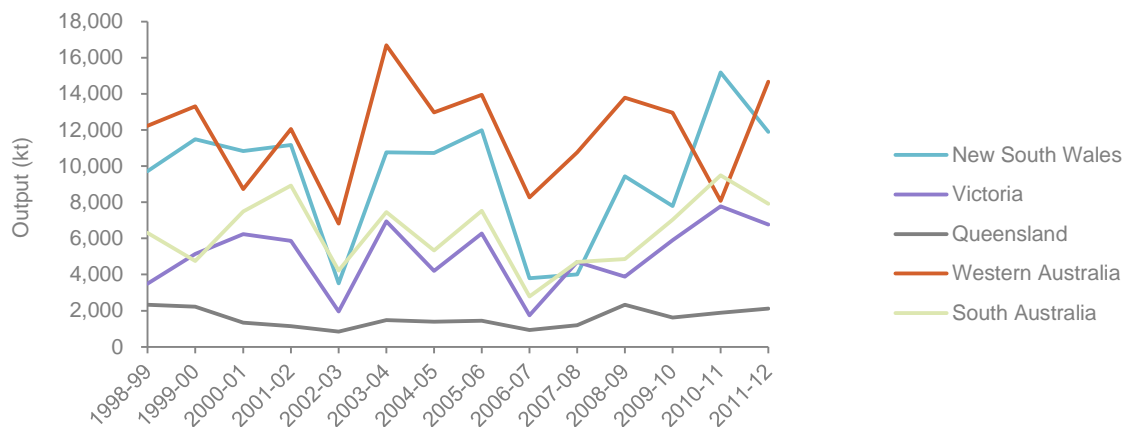


Source: ABARES

### STATE CONDITIONS

Yearly harvest outcomes can vary state to state on the basis of variability in climatic conditions, varieties grown and other factors. This is particularly evident this season as Western Australia is expecting a bumper harvest while the Eastern States harvest is expected to be 21% down on last year.

State Winter Crop Production: 1998 - 2012



Source: ABARES

A summary of the harvest outlook for each state is summarised below:

### **New South Wales**

Total winter crop production in New South Wales is estimated to fall by 22% to 11.9 million tonnes in 2011-12.

The favourable impact of spring rainfall in late September and early October on crop yields has been offset by poor seasonal conditions in central and northern New South Wales.

Rainfall over recent weeks has caused an interruption to harvest and has affected crop quality in some flood affected areas. As at the beginning of December, it was estimated that harvesting was 70% complete.

### **Queensland**

Queensland appears set to enjoy a favourable harvest, with well-timed spring rainfall improving crop yields across the state.

Harvesting in central Queensland is complete, however harvest in the south-east was interrupted by wet conditions during November.

Quality of crops is a potential issue, with low protein levels recorded in the central districts.

Winter crop totals in Queensland are forecast to reach 2.1 million tonnes, an increase of 12% on 2010-11.

### **Victoria**

Harvesting has commenced in Victoria and crop yields appear promising. Rainfalls have increased to be in line with average following below average rainfall through September.

Mice populations (which have an adverse affect on crop yields) have fallen throughout winter and spring, with no reports of significant damage to crops.

Total production from winter crops in Victoria is expected to fall by 13% to 6.8 million tonnes in 2011-12.

### **South Australia**

South Australian crop yields are expected to fall by 17% to 7.9 million tonnes in 2011-12. Despite this, crop yields remain above the previous five year average due to mostly favourable seasonal conditions this year.

While harvest commenced early, beginning in late September, it has been delayed due to heavy rainfall in late November. This is not expected to have a significant impact on crop quality.

Growers in some regions have encountered pest problems in some areas, with both snails and mice prevalent in certain districts. The effect these may have on yields is unknown.

### Western Australia

Amazingly, winter crop production in Western Australia is set to double to approximately 10 million tonnes. This is in part due to favourable growing conditions for wheat, barley and canola, and increased plantings for wheat.

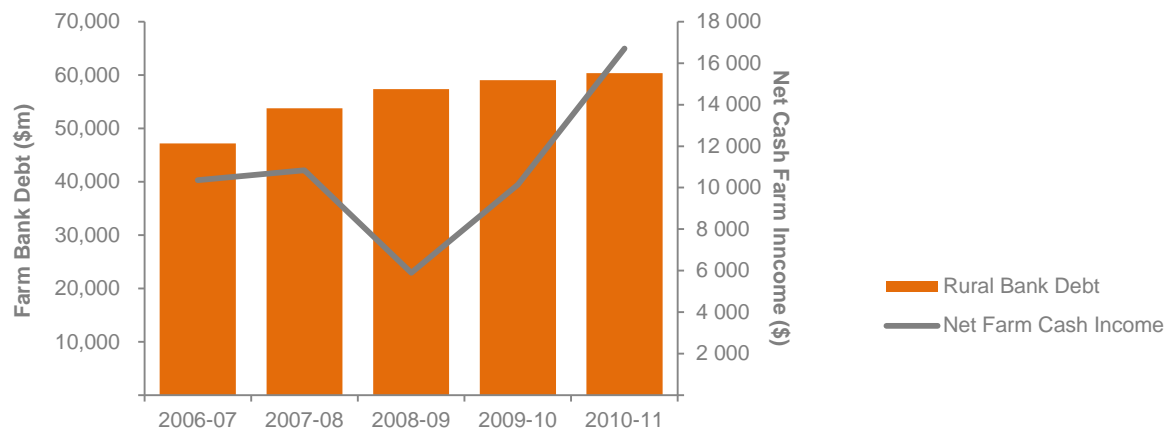
Spring rainfall was recorded as above average, with heavy rainfall occurring in some areas. These rainfalls have affected crop quality for some mature crops in certain districts.

It is estimated that approximately 70% of the harvest is now complete. However, recent heavy rains have delayed the remaining harvest and there are now serious concerns regarding quality for the balance of the harvest.

### FARM INCOME TO DEBT

Australian farm debt has continued to increase over the past five years, due to poor seasonal conditions. 2010 and 2011 saw an improvement in seasonal conditions and resultant farm income, however farm debt continued to rise.

Farm Debt vs Cash Income: 2006 - 2011



Source: ABARES

ABARES is forecasting a slight decrease in farm incomes in FY2011 to \$114,000 per farm down from \$118,300 per farm in FY2011.

Given recent rains impacting crops and the falling world wheat price this income forecast may need to be revised down. Should income fall dramatically the ability to reduce bank debt may be impacted.

## TAYLOR WOODINGS RECENT EXPERIENCE

Taylor Woodings has recently been involved in the following matters:

### **Large WA Grain Farmer**

Taylor Woodings was engaged to prepare a business review in respect of the financial position and likely harvest outcome on behalf of a major financier. The review included the development of an exit strategy for the financier, recommendation regarding priority arrangements between different lenders, working with the farmer and his advisors to develop future harvest cashflows based on different crop outcomes along with debt reduction strategies.

### **Wheat, Canola and Lupins Farm, Geraldton WA**

Taylor Woodings was engaged to prepare a business review of a farming group's financial position, cashflow and to identify the alternatives available to the bank.

The Group was in default of its loan facilities, and was in breach of its hire purchase facilities. The Bank debt was fully secured, however the Group was suffering an endemic shortage of working capital and was unable to meet either the principal or interest on its finance commitments to the Bank, other financiers or the outlays for the cropping program.

Taylor Woodings undertook a review of the Group's financial position and underlying cashflow forecast. We worked closely with the Group to obtain and review the relevant financial information. The review provided the bank with a clear picture of the Group's financial position and the options available to the bank.

## HOW TAYLOR WOODINGS CAN HELP

Taylor Woodings has extensive experience in Agriculture having provided financial and strategic advice to both farm operators and financiers. Through this experience and close ties with a range of industry experts including Farm Management Consultants we are well placed to assist growers and financiers.

We understand the economic and social impacts of financial distress on farming communities and appreciate the family nature of farming businesses.

Taylor Woodings has significant experience in reviewing the financial position of grain growers which are experiencing financial difficulties and assessing options available to ensure the optimum outcome to the extent possible for key stakeholders.

With the current harvest drawing to a close we can assist clients with the following:

- Advice and recommendation regarding crop realisation strategies;
- Profit and loss and cashflow forecasting for 2012;
- Strategic review and business planning;
- Crop conversion and cashflow strategies;

- Debt management advice; and
- Assistance with stakeholder negotiations.

**More Information**

If you would like further information, please contact our Agriculture Team Leader, Andrew Schwarz, or one of our team members.

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