

* * MEDIA RELEASE * *

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No Right or Wrong Answers... It Depends

How will deregulation change the shape of the Australian wheat market? According to ProFarmer Managing Director Richard Koch, “the most common answer to some of our questions is... it depends.”

Under the regulated market, the market was largely unsold leading up to harvest (at least on basis); prices generally peaked in the early days of harvest as domestic shorts were covered; and prices then subsided until autumn market nerves prompted some more domestic market buying.

The lack of transparency about how AWB operated in the background means that the broader market doesn't have a great understanding of how Aussie wheat is priced internationally. “We are not sure how much physical wheat the AWB used to sell forward to international buyers, but with deregulation, we think international buyers will increase forward purchases”, comments Mr Koch.

With uncertainty about how the deregulated market will behave at harvest and relatively attractive forward prices, the Australian grower will be inclined to sell at least a portion of their crop. Increased competition should see forward prices above where they would have been in a regulated market. But basis and prices will ease as production risks ease into harvest and as the proportion of the Australian crop sold increases.

“Of course, much will also depend on the shape of the international market,” explains Mr Koch, adding that “a large northern hemisphere crop will likely mean that the market moves into carry favouring storing or pooling, while a short crop would see a market inverse and create deeper cash selling opportunities.”

Pool or store?

“If you store, you will be competing against unsold grain in pools, so your price prospects could well boil down to the performance of the pool managers,” explains Mr Koch. So, how will the management of pools change post-deregulation?

With deregulation, current pool managers won't likely adopt an aggressive approach, making their pools smaller and very dynamic, with a more defined risk profile. “For example,” says Mr Koch, “last year AgraCorp offered growers either the hedged harvest pool or the un-hedged pool.”

Those storing grain will be betting on being able to fill market shorts of specific grains and will have to be on the ball to beat pools to any lucrative shorts. The deregulated market will certainly ask a lot of questions: What price would you be willing to sell for pre-harvest and how much? What would you accept at harvest and for how much? What would make you consider a pool? Is it price? Or are you just spreading risk? What pool risk profile are you looking for and on what proportion of your grain? If you are storing, what is your strategy?

According to Mr Koch, “storing on the east coast has paid recently, but this has been a function of poor crops and high domestic demand. East coast market dynamics may change considerably this year, forcing a rethink of strategy.”

Ph: (08) 6389 0722 / 1300 302 143 (outside Perth metro area)
Email: profarmer@profarmer.com.au

Background Information:

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