




Pool Talk



With Paul Smith
Structured Commodities Products Manager

**POOL CALCULATOR**

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South Australia 2017–18 Wheat Pool

MARKET COMMENTS

Economic conditions in December continued to exhibit weakness globally.

The G20, held in the economic powerhouse that is Argentina, started the month in reasonable form with announcements that China and the US would hold off on increasing tariffs in an aim to improve relations and trade practises. This sentiment was faded with the realization that these announcements lacked any clear details. In short, the US will wait until the 2nd March (90 days) to implement increases to current tariffs, unless China demonstrates a commitment to better trade practises.

In the UK, Brexit negotiations took a turn for the worse, with Prime Minister Theresa May only narrowly surviving a vote of no confidence after failing to table her plan for Brexit in Parliament. ECB's Draghi sees downside risks as Europe's 2.6 trillion starts to unwind.

Domestically, data mirrored the global back drop with GDP (0.3% vs 0.6% exp), building approvals (down 13.4% YoY) and trade balance all missing market expectations.

AUDUSD to date has traded 0.7394 - 0.7173 range and looks like it may end the year at 4 year lows.

CBOT wheat futures continued to hover around the bottom of the long term range in November.

Russian talks continue with more meetings scheduled in December to restrict exports ,which is providing some support to Russian values.

With the firming BlackSea/Russian price, US export seems to be improving as Russian head into the backend of their export program.

Argentina's harvest has just started with some concerns around quality not being as good as expected.

Domestically, the late start to Western Australian wheat harvest hAS picked up pace with close to 80% complete. Prices remains well supported however quality seems lower than expected, particularly in the Kwinana zone.

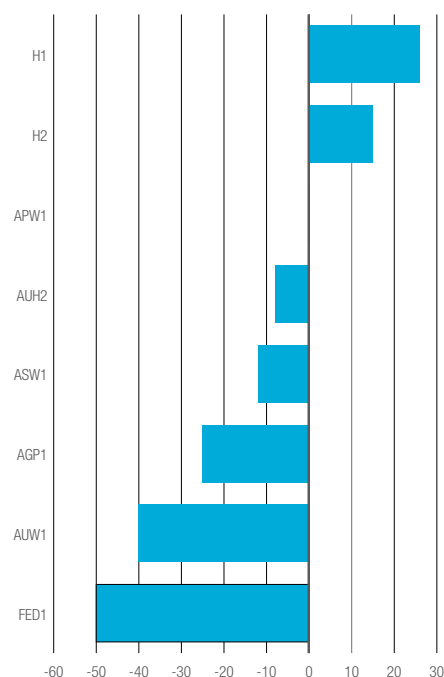
Buyers continue to contemplate high Australian values and are minimising use and replacing with other origins such as US and Canadian wheat.

SNAPSHOT

POOL FINALISED:
26 SEPTEMBER 2018

FINAL TRACK EPR (APW1)	\$275.30
CHANGE FROM PREVIOUS	\$18.30
OPENING TRACK EPR (OCT-17)	\$232.00

GRADE SPREAD



POOL CALCULATOR



CURRENT EPR AND HEDGING STRATEGY

The Wheat Harvest Pool was finalised and paid in September, with a final equity of \$275.30 Track (ADE) for APW1. This was an increase of \$18.30 over the most recent published pool return.

The final pool return is a pleasing result for participants, outperforming the average of prices available at harvest by around \$38/mt, and outperforming the average of prices available throughout the pool marketing window by around \$10/mt.

The pool was able to take advantage of market volatility throughout the season, notably by hedging into the significant shift higher in CBOT early in the season, then unwinding this position as the market corrected lower. The pool also benefited from holding more length than usual into the back end of the year, allowing it to capitalise on the late season rally in prices.

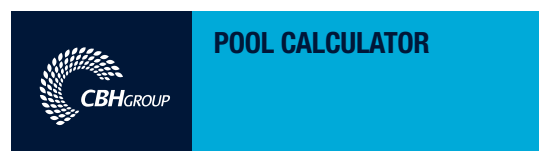
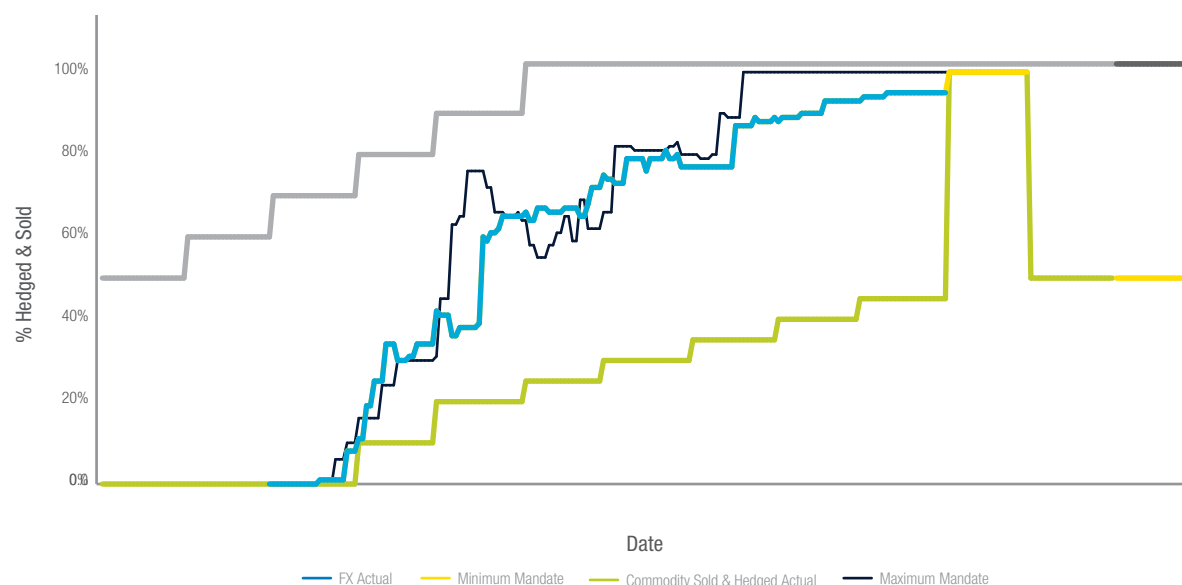
The currency strategy was also supportive to equity as the currency tended lower over the course of the season, and the pool ran an underhedged position on several occasions throughout the season allowing it to capitalise on favourable moves.

We are pleased to have delivered another strong result for the Wheat Harvest Pool, particularly in a year with a significant late-season rally which is often hardest for a pool to capture in a meaningful way.

This final result will have significantly outperformed any results achieved by forward contracting grain into the cash market pre-harvest or selling at harvest, demonstrating the benefit that pools can add to a diversified marketing program.

We would like to thank participants of the 2017/18 Wheat Harvest Pool for their patronage of this product, and are pleased to have delivered such a strong result again this year.

HEDGING GRAPH





South Australia 2017–18 Barley Pool



MARKET COMMENTS

Economic conditions in December continued to exhibit weakness globally.

The G20, held in the economic powerhouse that is Argentina, started the month in reasonable form with announcements that China and the US would hold off on increasing tariffs in an aim to improve relations and trade practises. This sentiment was faded with the realization that these announcements lacked any clear details. In short, the US will wait until the 2nd March (90 days) to implement increases to current tariffs, unless China demonstrates a commitment to better trade practises.

In the UK, Brexit negotiations took a turn for the worse, with Prime Minister Theresa May only narrowly surviving a vote of no confidence after failing to table her plan for Brexit in Parliament. ECB's Draghi sees downside risks as Europe's 2.6 trillion starts to unwind.

Domestically, data mirrored the global back drop with GDP (0.3% vs 0.6% exp), building approvals (down 13.4% YoY) and trade balance all missing market expectations.

AUDUSD to date has traded 0.7394 - 0.7173 range and looks like it may end the year at 4 year lows.

The Australian Barley market has had to adjust to the launch of a Chinese anti-dumping investigation.

Prices fell quickly upon the announcement and later corrected themselves as interest and demand surfaced from alternative destinations to China.

Western Australian pricing has been the big driver of values nationally, and markets on the east coast were impacted by the change in Western Australia.

Whilst the east coast remains domestically focused, a fall in WA that doesn't coincide with a change in Victoria could mean it is the cheapest Barley into more domestic feed users other than on the Downs, which WA has been pricing into for some time.

The next Saudi tender should come in early January and has the potential to be a watershed tender as we search for demand.

East coast sorghum had good rain through mid-December and there is still potential for more hectares to go in before the end of the year.

World values are strengthening with offers difficult to find from the northern hemisphere, and also Argentina, despite harvest beginning there.

SNAPSHOT

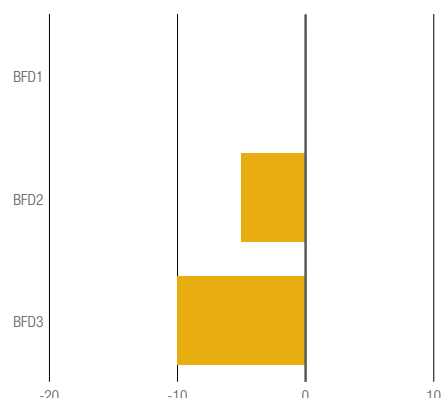
POOL FINALISED:
26 SEPTEMBER 2018

FINAL TRACK EPR (BFD1) \$240.16

CHANGE FROM PREVIOUS \$10.16

OPENING TRACK EPR (OCT-17) \$202.00

GRADE SPREAD (BFD1)



POOL CALCULATOR



CURRENT EPR AND HEDGING STRATEGIES

The Barley Harvest Pool was finalised and paid in September, with a final equity of \$240.16 Track (ADE) for F1. This was an increase of \$10.16 over the most recent published pool return.

This result is a reasonable outcome for participants, as it represents an increase of \$16 per tonne over the average of cash prices available at harvest.

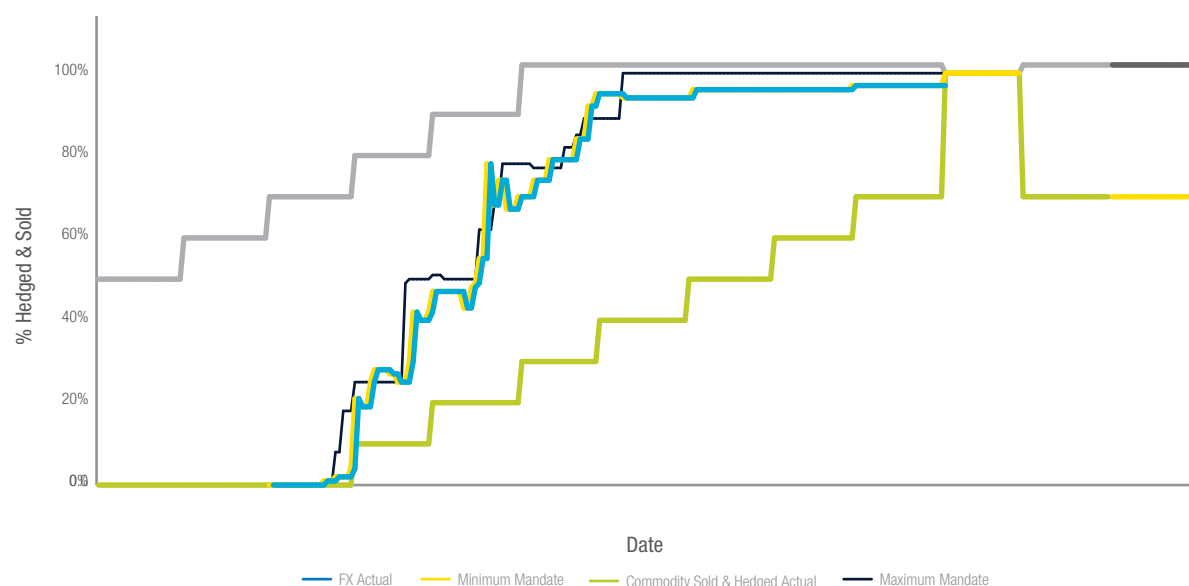
However, given the sharp rally in prices from July which saw price increases up to \$80 per tonne above prices available through the Feb - May period, the pool return was not able to outperform the average of prices over the entire marketing window.

The main challenge this season was that seasonal conditions led to growers committing less tonnes to the pool. Accordingly, the marketing programme was shorter than normal, as we targeted premium export sales which were executed earlier in the season. Hence the pool mostly missed out on the rally in prices as East Coast production concerns fueled the market.

Typically a sharp rally very late in the marketing window is hardest for a pool to benefit from - as the pool has to commit tonnes to sales prior to finalising, and holding onto tonnes incurs significant carry costs. With the benefit of hindsight such a strategy would have paid off this season, however with the smaller tonnages in the pool the decision was made to capture the early premiums on offer.

We would like to thank participants of the 2017/18 Barley Harvest Pool for their patronage of this product, and whilst we were not able to outperform the overall average of prices, we are pleased to have delivered a final return significantly in excess of harvest prices. This reinforces the benefit of a diversified marketing plan to include products other than simply forward contracting and selling for cash at harvest.

HEDGING GRAPH



POOL CALCULATOR

MORE INFORMATION

For further information on any of our pools or structured commodity products, please contact your Regional Manager or the Grower Service Centre on **1800 107 759**.

Grower Service Centre 1800 107 759

E CBHmarketingEA@cbh.com.au

cbh.com.au

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