

Commodity, client and region specific strategy

Timely marketing advice

Market Check Harvest Strategy Summary 2016-17 Wheat & Barley



November 2016

This is a summary of our wheat & barley strategy guidance. We encourage you to read the full report for background information and understanding of why we are making the following recommendations.

Strategy Guidance

Servicing cash flow - what do we sell and Hedge at harvest?

- Targeting 15-25% of total wheat & barley sold by end-Jan.
- We recommend hedging 50-60% of wheat and barley using the wide carries in the US futures.
- Look to sell low hanging fruit showing the best value (beyond canola/chickpeas/lentils, malt).
- Protein spreads - H2 \$20-30 over APW1; APH2 \$50 over APW1 minimum target levels.
- General guidance is to average our harvest selling throughout Nov/Dec/Jan as opportunities present.
- It is important to keep in mind that there are ways to generate harvest cash flow without having for cash.

Recommendations based on client's situation and market environment

How much do we hold hedged/unprotected post-harvest?

- By the end of Jan, we want to be in a position where no more than 25% of wheat + barley production to the market, taking opportunities as they arise to chip away at hedges/sales.
- This year, depending on grades produced, there may be only 10-20% of total tonnage which is a concerning sell at harvest (compared to a higher percentage last year). The carry in the futures market gives us a fantastic opportunity to protect a good chunk of unsold tonnes from the effects of carry cost erosion. In fact, the carry in the futures (\$40 over 12 months) creates an arbitrage opportunity because it's greater than our carry cost.
- Dec-17 CBOT Wheat is the preferred hedging instrument at present. Growers holding grain in domestic "value spots" may be able to hold a larger percentage hedged due to domestic demand being likely to keep local values relatively buoyant (this is if bids aren't currently paying you according to relative "value") - speak to your advisor if you are unsure whether you fit into these categories.

How much do we hold hedged/unprotected post-harvest?

- For many, higher yields are offsetting the lower prices from a gross margin perspective.
- Holding a high proportion unhedged given the fundamental outlook opens the door for carry costs to take you from a profitable position to an unprofitable one (or bad to worse) even if flat price doesn't fall further.
- Don't hesitate to pull the trigger on sales/hedges when opportunities present.

Harvest Summary 2016/17

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Commodity	BHC/Location	Expected/Harvested Tonnes	Total Sold/Cashed		Tonnes Pooled/Swapped		Unsold Tonnes/Held	
			Tonnes	%	Tonnes	%	Tonnes	%
APH2	Condobolin GNC	1,275.55	1,275.50	38%	-	0%	-	0%
APW1	Condobolin GNC	980.78	-	0%	980.78	29%	-	0%
ASW1	Condobolin GNC	652.35	-	0%	652.35	19%	-	0%
AGP1	Ex-farm Condobolin	460.75	-	0%	-	0%	-	0%
Total			1,275.50	38%	1,633.13	48%	460.75	44%

Grain portfolio position management