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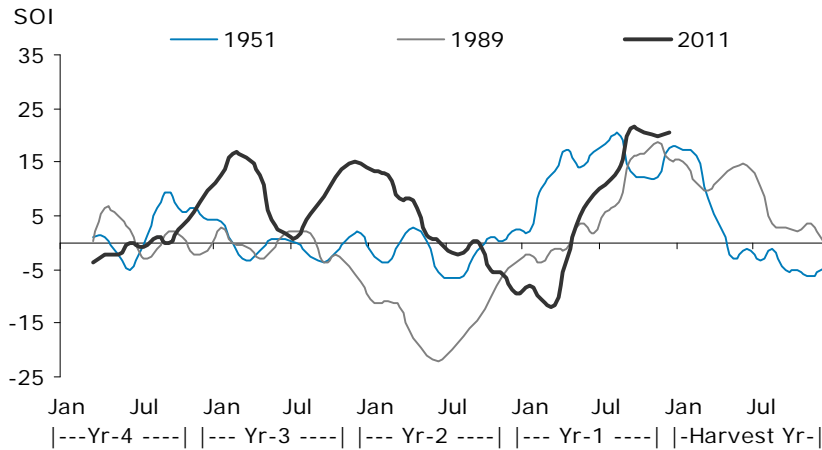
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TO THE POINT: MACRO WEATHER FAVOURS PROBLEM IN KANSAS

FIG. 1: SOI PRECEDING 1951, 1989 AND 2011 US HRW HARVESTS



Source: BOM.

Drought Probability. The 2011 Kansas wheat crop faces an increased probability of a major drought. Our analysis indicates that Kansas wheat yields and abandonment over the last 100 years are statistically significant with certain Pacific and Atlantic Ocean weather patterns.

SOI & Kansas. The December 2010 SOI reading was particularly strong, taking the aggregate SOI for November and December 2010 to 44. This is the second highest on record against the 16 worst ranked Kansas wheat production years and well above the average (Fig 2). A strongly positive SOI has skewed the odds that Kansas and US Hard Red Winter (HRW) production will be significantly lower YoY - even with the big increase in HRW plantings that is expected in this week's USDA wheat planting first estimate.

IN FOCUS: LA NINA & KANSAS WHEAT PRODUCTION

Further to our Ag Insight Note last week on Kansas as the next flashpoint for the global wheat market:

The 2011 Kansas wheat crop faces an increased probability of a major drought. Our analysis indicates that Kansas wheat yields and abandonment over the last 100 years are statistically significant with certain Pacific and Atlantic Ocean weather patterns.

For the Pacific Ocean, the Southern Oscillation Index (SOI) has been as good a predictor as any for Kansas wheat production. In about two thirds of cases over the last 100 years, the worst ranked Kansas wheat production years have been preceded by a 'La Nina' or strongly positive SOI in November and December (Fig 2). Conversely, for the best ranked or above trend Kansas wheat production years, an 'El Nino' or strongly negative SOI has been present at least 50% of the time.

The December 2010 SOI reading was particularly strong, taking the aggregate SOI for November and December 2010 to 44. This is the second highest on record against the 16 worst ranked Kansas wheat production years and well above the average (Fig 2). A strongly positive SOI has skewed the odds that Kansas and US Hard Red Winter (HRW) production will be significantly lower YoY for 2011 - even with the big increase in HRW plantings that is expected in this week's USDA winter wheat planting first estimate.

Further, our analysis indicates that a drought or a major fall in HRW production is not correlated with a fall in US Soft Red Winter (SRW) production. That is, while Kansas wheat production (HRW) is statistically significant against the SOI, Illinois (SRW) wheat production is not. Increasingly a scenario could well unfold where stocks of the two different wheat classes move in opposite directions for the 2011-12 season.

FIG. 2: KANSAS WHEAT PRODUCTION AND SOI

Worst Production Years			Best Production Years		
Rank	Harvest Year	Southern Oscillation Index	Rank	Harvest Year	Southern Oscillation Index
1	1917	25	1	1958	-15
2	1933	-2	2	1914	-19
3	1989	32	3	1942	-18
4	1949	-1	4	1941	-36
5	1935	11	5	1952	-6
6	1911	36	6	1940	-17
7	1934	15	7	1924	-11
8	1951	36	8	1969	-1
9	1932	0	9	1997	7
10	1963	6	10	1937	-13
11	1910	14	11	1931	1
12	1923	20	12	1970	4
13	2002	-2	13	1939	16
14	1925	17	14	1938	5
15	1996	-4	15	1998	-24
16	1974	49	16	1990	-7
Average		16	Average		-9
2011		44	2011		44

Source: ANZ.
SOI = aggregate for November and December the year prior.

CASH PRICES

GRAINS	Spot	1 Wk	1 Mth	3 Mth	6 Mth	12 Mth
	% Change					
WHEAT						
US SRW #2 (USD/bu)	8.37	(2.1)	(1.6)	20.9	44.3	45.4
US HRW #2 (USD/bu)	8.51	0.1	1.9	20.0	75.3	48.1
US DNS (USD/bu)	10.24	7.9	7.9	23.8	54.3	46.2
Black Sea Feed (USD/t)	240	0.0	2.1	62.2	50.9	70.8
Black Sea Milling (USD/t)	302	72.6	72.6	72.6	105.4	91.8
EU Soft (Rouen EUR/t)	237	0.9	12.3	3.3	88.8	91.9
EU Hard (Rouen EUR/t)	240	(0.8)	(4.0)	13.9	55.2	69.5
CORN						
US No. 2 Yellow (USD/bu)	6.29	(4.3)	3.1	14.2	49.7	38.9
EU Maize (EUR/t)	222	5.7	11.0	13.9	55.2	69.5
Black Sea Maize (USD/t)	251	0.2	(1.8)	13.9	37.6	32.9
Argentine Corn (USD/t)	256	(3.0)	4.0	53.5	53.5	39.3
Brazilian Corn (BRL/60kg bag)	24	0.8	(1.1)	8.7	44.0	33.6
BARLEY						
Canadian Feed (CAD/t)	158
Black Sea Feed (USD/t)	255	0.0	6.3	99.2	40.5	92.5
EU Feed (EUR/t)	190	0.0	61.0	102.1	107.7	63.8
EU Spring Malt (EUR/t)	243	0.6	13.9	10.2	110.9	128.8
OILSEEDS						
	Spot	1 Wk	1 Mth	3 Mth	6 Mth	12 Mth
	% Change					
SOYBEANS						
US Gulf (USD/bu)	14.23	(1.2)	4.1	26.2	35.1	30.9
Argentine Soybeans (USD/t)	528	(1.1)	4.2	42.3	42.3	32.5
Brazilian Soybeans (BRL/60kg bag)	49	(1.2)	2.3	14.3	31.0	20.5
CANOLA						
Canada (CAD/t)	488	9.0	8.6	30.1	34.3	25.4
PALM OIL						
Malaysia (MYR/t)	3869.5	3.0	7.5	41.8	62.3	47.1
Indonesia (IDR/kg)	9400	(6.2)	4.0	15.2	32.0	29.0

SOFTS	Spot	1 Wk	1 Mth	3 Mth	6 Mth	12 Mth
	% Change					
SUGAR						
GSCE #11 Global Price (US c/lb)	35.6	(1.6)	5.3	5.6	57.1	23.8
Brazil (USD/50kg bag)	45.2	(1.4)	(0.1)	8.6	98.2	13.4
India (GUR Delhi)	2,575	(4.6)	6.2	(10.4)	(12.0)	(18.3)
Coffee						
NY Cash Arabica (US c/lb)	260	0.1	11.8	26.7	30.6	67.8
NY Cash Robusta (US c/lb)	103	1.7	6.8	19.1	18.8	35.6
Brazilian Arabica (BRL/60kg bag)	418	1.3	14.2	36.8	39.9	51.9
Vietnam Robusta (USD/t)	1,866	(1.5)	6.0	20.6	20.4	42.3
COCOA						
ICO Cash Price (USD/t)	2,922	(7.4)	(3.5)	4.2	(15.0)	(23.9)
Vietnam (VND/kg)	51,500	(2.5)	(1.9)	5.3	(11.5)	(9.3)
Malaysia (MYR/t)	7,500	(1.7)	6.0	13.6	41.1	65.4
COTTON						
Cotlook A Index (US c/lb)	170	0.6	(3.6)	48.9	0.6	116.7
US Average (US c/lb)	134	(1.4)	(0.5)	35.2	(1.4)	100.3
India (Index)	4,395	(1.7)	16.5	13.6	(1.7)	65.4

FUTURES PRICES

	Cont.	Spot	% Change	High	Low	Volume
CBOT (US c/bu)						
Wheat	MAR 11	774	(1.9)	794	772	41,273
Corn	MAR 11	595	(1.2)	605	595	145,428
Soybeans	MAR 11	1,365	(0.9)	1,383	1,360	84,300
Soybean Oil (US c/lb)	MAR 11	57	(1.0)	58	57	41,320
Soybean Meal (USD/t)	MAR 11	363	(1.7)	369	362	25,474
KCBOT (US c/bu)						
HRW	MAR 11	846	(1.4)	864	845	10,642
MGE (US c/bu)						
HRS	MAR 11	871	(1.5)	889	869	3,405
ICE Winnipeg (CAD/t)						
Canola	MAR 11	586	(0)	588	582	7,128
EURONEXT Paris (EUR/t)						
Wheat	JAN 11	256	(0.7)	257.5	255.0	1,487
Corn	MAR 11	231	(0.9)	232	231	423
Rapeseed	FEB 11	507	(0.1)	508	505	2,318
EURONEXT Liffe (£/t)						
Wheat	JAN 11	196	(0.6)
ICE NY (US c/lb)						
Sugar #11	MAR 11	32	4.3	32	30	71,762
Coffee	MAR 11	231	(1.0)	236	230	12,242
Cocoa (USD/t)	MAR 11	2,850	0.7	2,888	2,821	6,931
Cotton	MAR 11	141	(0.4)	143	140	11,385
EURONEXT Liffe (USD/t)						
Sugar	MAR 11	765	2.3	781	731	4,525
Coffee	MAR 11	2,023	(0.3)	2,034	2,009	7,964
Cocoa (£/t)	MAR 11	1,928	0.2	1,948	1,922	3,939
MDEX (MYR/t)						
Crude Palm Oil	MAR 11	3,763	(2.6)	3,847	3,759	18,466
ASX (AUD/t)						
Wheat (NSW)	JAN 11	328	(0.9)	328	323	753
Wheat (WA)	JAN 12	313	0.0	0	0	0

OTHER MARKETS

CURRENCIES	Spot	1 Day	1 Mth	3 mth	6 Mth	12 Mth
	% Change					
					High	Low
USD Index	81.13	0.3	1.6	4.8	88.71	75.63
AUD	1.00	(0.0)	1.1	1.1	1.03	0.81
CAD	0.99	0.4	1.8	2.2	1.09	0.99
GBP	1.55	0.3	(1.6)	(2.3)	1.65	1.42
BRL	1.68	0.2	(0.1)	(0.2)	1.92	1.64
EUR	1.29	(1.0)	(2.8)	(7.2)	1.46	1.19
MYR	3.07	(0.0)	2.1	0.7	3.45	3.06
JPY	83.15	0.1	0.6	(1.4)	94.99	80.22
KEY INDICES						
	Spot	1 Day	1 Mth	3 mth	6 Mth	12 Mth
	% Change					
					High	Low
CRB Commodity Index	324	(0.3)	2.9	9.8	335	247
S&P GSCI Agri Index	799	(0.4)	5.0	21.1	836	473
S&P 500	1,272	(0.2)	2.5	9.1	1,278	1,011
S&P/ASX 200	4,705	(0.4)	(0.9)	0.5	5,025	4,176
VIX	17	(1.5)	(2.7)	(17.2)	48	15
Baltic Freight Rate	1,519	-2	(30.1)	(42.9)	4,209	1,519

Source: Bloomberg.

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