



Disclaimer:

The aim of these notes is to provide a better understanding for Farmers of the processes involved in setting grain values with Australian Agricultural Contracts Limited and AACL Wholesale Pty Ltd (AACL). The information, calculations and projections contained in these notes are indicative only and do not constitute the provision of advice by AACL. Whilst AACL believes the information contained in these notes has a reasonable basis for being provided, neither AACL nor any of its directors, employees or agents accept any liability for any action taken by any person in reliance upon the whole or any part of this document, nor for any errors or omissions contained in it.

AACL PROJECT PRICE MANAGEMENT

What is AACL trying to achieve from its Grain marketing?

The aim of AACL's Grain Marketing is to protect farmer and investor returns, to the degree that AACL can do so, by managing the price. This means AACL is looking to both protect and maximise farmer bonuses. If the farmer bonus is maximised then so is the investor return and all other things being equal, AACL will earn more through its pool management fee.

However, if yields fall away and prices don't move up to compensate, then the value of grain will be less than Target Value. Under this scenario, the grain pricing in itself won't be able to deliver the farmer a bonus.

Measuring AACL's Grain Marketing performance

There are two unique challenges that AACL deals with when marketing the grain:

1. Managing an unknown tonnage - Other Pool Managers contract known tonnage.
2. AACL is compelled to protect price as soon as non-recourse seeding payments are made. Most other Pool operators start their price management at harvest; their main aim is to be similar to the rest, even if that means the market falls \$100/tonne. AACL cannot sit back and do this, as it would not be in the interests of its farmers and investors.

So, in comparing against other pricing outcomes, how should AACL's Grain Marketing be compared?

1. *Compare against other Pools?*

It is natural that farmers will compare the AACL price against Pool operators in the industry. In doing that on a reasonable basis, farmers ought to consider whether the Pool operator contracted known tonnage from farmers, and whether it was compelled or not to manage price proactively before harvest. For example, if it is a "Harvest Pool" (price management predominantly starting at harvest) then its price estimate at harvest will tend to be similar to harvest prices. In a year where prices have rallied, Harvest Pools ought to out-perform those that have taken positions prior to harvest – as AACL is compelled to do. The opposite also applies.

2. *Compare against the best cash price of the year?*

This is simply unreasonable. No grain marketer will ever represent they can achieve the best cash price of the year, because they know it is nearly impossible to deliver the best price every year.

3. *Comparing against prices at harvest?*

This is similar to the comparison with Harvest Pools. In a year where the price falls, any manager that makes sales or hedges before harvest ought to out-perform the spot price at harvest. Conversely, in a year where the market rallies, any forward sales and hedges taken prior to

harvest will be at lower levels than where prices will be at harvest. In that situation, the Pool will tend to underperform spot prices at harvest.

4. *Localised premiums?*

AACL, under the structure of the 2009 Grain Co-Production offer, is not likely to outperform localised up-country price premiums, particularly those that require stock management outside the bulk handler system.

MARKET OUTLOOK

Wheat

The USDA World Agricultural Supply and Demand Estimates (WASDE) report was released Wednesday 12 August, 2009. In this report global wheat supplies for 2009/10 are projected 5.0 metric million tonnes (mmt) higher than the previous July estimates. This increase in supply is made up of 2 components:

1. 2009/10 beginning stocks, being ending stock from last year were raised 2.15 mmt.
2. 2009/10 estimated world wheat production was raised by 2.8 mmt from previous estimates.

Of the major producers:

- US wheat production is forecast 71 million bushels (1.9 mmt) higher with increases in all classes of wheat except soft red winter.
- India production is raised 3.0 mmt to a record 80.6 mmt based on the latest revision to the official government estimate.
- EU-27 production is raised 1.6 mmt mostly on higher reported yields for Germany, but also on better than expected yields for France.
- China production is raised 1.0 mmt reflecting the first official indications for the harvested summer crops.
- Ukraine production is raised 1.0 mmt on higher winter wheat area and harvest reports.
- Production forecasts for 2009/10 are lowered for several major wheat exporting countries:
 - Production for Russia is lowered 4.5 mmt as dryness and extended heat during July sharply reduced yields in the southern and Volga Districts. The dry finish has been good for the quality of grain, which has been an issue for wheat from this area in the past.
 - Kazakhstan production is lowered 0.5 mmt as western growing areas suffered under weather conditions similar to those in Russia.
 - Argentina production and export is lowered 1.0 mmt as continued dryness in the central and western growing areas limited plantings.
 - Production is also lowered 1.0 mmt for Canada as July rains came too late in some areas of Alberta and Saskatchewan and crop development remains delayed raising the potential for late season frost damage.
- Australian production estimate unchanged at 23mmt.

With the changes to estimated production there were changes to forecast exports:

- US Exports are projected 700,000 tonnes higher with reduced production prospects in Canada and Argentina, which are major competitors in the western hemisphere wheat market.

- Exports are lowered 1.8 mmt for India down from the 2.0 mmt estimate last month reflecting a 4.4 mmt increase in India's estimated food use
- Exports are raised 2.0 mmt each for EU-27 and Ukraine.
- Exports are lowered 2.0 mmt for Russia as you would expect given a 4.5 mmt decrease in production.
- The lowering of predicted exports for Argentina and Kazakhstan mirrored the decrease in the production estimates for both these countries at 1.0 mmt and 0.5 mmt respectively

Interestingly, whilst Canadian production estimates went from 23.50 mmt to 22.5 mmt, exports were unchanged at 17 mmt. The decrease in production was indicated in estimated feed usage that was dropped however from 3.4 mmt to 2.5 mmt.

Summary

Whilst estimated global demand was raised 2.7 mmt by the USDA from previous months this is well below the 5.0 mmt projected increase in supply. This excess of supply over demand is seen directly in the increase in ending stocks. Global wheat stocks are building and according to the USDA, at a faster rate than was thought a month ago.

World Wheat Supply & Demand (USDA) in MMT							
		Supply		Demand		Stocks	
		Beginning Stocks	Production	Feed	Total	Ending Stocks	To Use Ratio
2007/08	Actual	126.98	610.93	96.2	616.17	121.2	19.67%
2008/09	Estimate	121.81	682.4	113.11	634.71	169.5	26.71%
2009/10	June projection	168.4	656.06	111.37	641.81	182.65	28.46%
	July projection	167.35	656.48	110.94	642.56	181.28	28.21%
	Aug projection	169.5	659.29	109.23	645.23	183.56	28.45%

What does this mean for price?

Nothing has changed from last month the bearish fundamentals remain. We have ample supplies of old crop and no significant production issues with the new crop, the end user has little incentive to aggressively buy.

Last month we also talked the possibility of production issues with current southern hemisphere crops of Australia and Argentina, as well as the northern hemisphere spring crops of Canada and the US likely to support the market.

Whilst we have seen the production issues in Argentina and Canada, this has not been enough to outweigh the large winter wheat crop currently hitting the market and burdensome carry in from last year.

Market view: *Neutral to Bearish*

Barley

Malt Barley

European malting barley crop continues to ripen well and provide excellent yields and quality (protein, weight and screenings).

Australian is expected to have an exportable surplus of approx 1.8 mmt this season. The weather outlook in Eastern Australia is poor for the next 10-20 days; this could strengthen values in the short term.

The Chinese domestic crop will total 1.8 mmt this year versus domestic consumption requirements of 3.9 mmt. As such, it is reasonably safe to assume imports will be close to 2 mmt during the crop year 2009/10 (approx 1.2 mmt in 2008/09 crop year).

Whilst the Chinese are currently not buying we can take a line off French malting barley FOB values which are currently pegged at around US\$177 mmt.

Australia currently enjoys an approximate US\$30 mmt freight advantage into China, hence an equivalent Australian FOB value could be close to US\$207 (AUD\$246 mmt FOB).

It is difficult to get a solid outlook on price until China steps into the market. However, with ample supplies worldwide it is hard to see prices rallying significantly from here.

Market view: *Neutral to Bearish*

Feed Barley

Corn is the most important of the feed grains. US Corn production for 2009/10 is projected at 324.14 mmt, 12.0 mmt up from previous production estimates. This is on the back of higher forecast yields, due to good growing conditions.

China is calling their 2009 corn production at record highs.

The feed barley market is specifically aligned to the Saudi market. Importers there are currently not interested in providing bids for new crop Australian feed barley.

Ukraine and Russia remain the price leaders, offering US \$135 – 145 FOB large port, well below EU barely and also having a freight advantage to the major middle east destinations.

In making a comparison back to an Australian equivalent, current grower bids are approx AUD\$20 mmt premium above these indicative export values.

Given decreased regional demand and strong production from the EU, Black Sea and potentially Australia, the prospects of significant rallies seem remote.

Market view: *Bearish*

Canola

The current USDA estimate of global oilseed production for 2009/10 is 422.6 mmt, down 0.9 mmt from last month but still a record high.

Soybean production for China is reduced 0.2 mmt to 15.4 mmt to lower yield resulting from excessive moisture in the northeast.

EU-27 rapeseed production is projected at a record 19.5 mmt, up 1.2 mmt due to better than expected yields reported during harvest, especially in Germany and Poland.

US soybean production was decreased by 1.7 mmt from the July estimate. This is on the back of extremely tight carry out from the 2008/09 season. August is a crucial period for soybean development.

The Canadian rapeseed acreage is down from previous years, with lower than average temperatures delaying crop development and exposing the rapeseed to frost risk.

Current production estimates are around 9.45 mmt are well below last year's production of 12.6 mmt.

South American soybean supplies diminished and there is a heavy reliance on US soybean supplies to fill the purchased that China continue make.

Indicative Ukraine offers are US\$20 mmt cheaper than Canadian and Australian into China.

Summary

Given the tight carry-out situation from last year we are reliant on a good oilseed crop this year. Current estimated production has world oilseed stocks building 14% or 7.6 mmt year on year.

However, there is still a long way to go before the 2009/10 oilseed crop is assured. With respect to the price direction of Australian canola, the two most important are the US soybeans and the Canadian rapeseed crops.

Whilst production of these crops remain unknown this is likely to support the oilseed market. So far so good though and the further we progress without any issues the more oilseed prices are expected to come under pressure.

Market view: *Neutral*

UPDATED ESTIMATE OF THE 2009/10 PROJECT PRICE FOR WHEAT IN GCP

Based on the AACL Grain Marketing view of the market and estimates of the Grain Co-Production 2009/10 crop size (remembering that this is an area based “Pool”), the current Project Estimated Prices for wheat using reference grade APW2 (WA) or APW1 (all other states) are as follows:

Gero	Kwin	Alb	Esp	Thev	Pt Linc	Wall	Pt Giles	Pt Adel	P'land	Geel	Melb	Pt Kemb	Newc
288	290	287	286	287	293	296	291	296	297	298	298	295	294
to	to	to	to	to	to	to	to	to	to	to	to	to	to
298	300	297	296	297	303	306	301	306	307	308	308	305	304

UPDATED ESTIMATE OF THE 2009/10 PROJECT PRICE FOR BARLEY IN GCP

Based on the AACL Grain Marketing view of the market and estimates of the Grain Co-Production 2009/10 crop size (remembering that this is an area based “Pool”), the current Project Estimated Prices for Feed Barley using reference grade BFED1 are as follows:

Gero	Kwin	Alb	Esp	Thev	Pt Linc	Wall	Port Giles	Pt Adel	P'land	Geel	Melb	Pt Kemb	Newc
190	195	193	191	200	203	203	205	205	215	220	220	220	225
to	to	to	to	to	to	to	to	to	to	to	to	to	to
200	205	203	201	210	213	213	215	215	225	230	230	230	235

Current spread to Malt1 Baudin, Buloke, Flagship and Gairdner estimated at \$60/t over the feed estimate. Malt1 Hamelin, Schooner, Sloop and Stirling estimated at \$50/t over the feed estimate, Vlamingh estimated at \$40/t over the feed estimate.

UPDATED ESTIMATE OF THE 2009/10 PROJECT PRICE FOR CANOLA IN GCP

Based on the AACL Grain Marketing view of the market and estimates of the Grain Co-Production 2009/10 crop size (remembering that this is an area based “Pool”), the current Project Estimated Prices for Canola are as follows:

Gero	Kwin	Alb	Esp
510	520	520	515
to	to	to	to
520	530	530	525