



Disclaimer:

The aim of this paper is to provide a better understanding for Farmers of the processes involved in setting grain values with AACL. This information is not to be seen as advice to Farmers as to how they should price their grain. Whilst reasonable endeavours have been made to ensure the information is correct, there is no guarantee that this it is accurate or complete.

The grain valuation process directly impacts on the magnitude of AACL Farmer Bonuses - where achieved - and will also impact on the timing of these payments.

1. Market Outlook

2008/09

Wheat - neutral

- Bearish US Department of Agriculture (USDA) report on Monday 12 January put a dampener on the recent US futures gains, as have poor export sales out of the US.
- Remaining shorts in domestic market are (so far) holding prices for some grades above nominal export parity.
- Cash prices, basis APW2 Kwinana, appear set for a range of \$285 - \$320 in the near term.

Barley - bearish, still

- Domestic feed values still above export parity - values quoted in Number 2 Pools are closer to current export values.
- Domestic malt market appears comfortably covered; whilst prices have retreated sharply it's difficult to see a bounce taking prices anywhere near previous cash levels circa \$290.

2009/10

Firstly some qualifications:

1. At this stage – it's too early, there are too many things to unfold that we can't predict to be able to provide **specific** guidance.
2. The range of possible price outcomes continues to be historically wide. Over the last 2 to 3 years we have seen price ranges over \$100/t from top to bottom. Market volatility remains and so does the potential for large moves either way.

That said ...

- Whilst wheat consumption is relatively unaffected by global economic conditions, it is notable that wheat has been propped up by corn values over the last 1 to 2 years and that corn and fuel values have been strongly correlated. Point is, weak oil values won't help corn (and wheat).
 - Falling ethanol consumption has led to increased corn stocks – [click here to view](#) the USDA's report from Monday 12 January, 2009.
 - That update was initially very bearish for grain and oilseed markets - many felt that larger than expected carry-in stocks of US corn and soybeans silenced the fight for acres story for 2009.
 - But later this week, concerns about drought affecting South American soybeans have swung oilseed prices up again (and corn traders are confused)
 - **So the point is, whilst global wheat stocks are NOT tight, grain and oilseeds as a whole are reasonably tight, such that poor production in 1-2 key countries will be very supportive for grain value in 2009.**
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2. AACL Managed Pool Nominated Estimated Pool Returns (NEPR)

The values below are the NEPR numbers for farmers that have wheat in the AACL Managed Pools. They provide the basis for calculating what funds are available at harvest for the purposes of Farmer Bonuses, if applicable. They are also the current Estimated Pool Returns (EPR's) for these Pools.

The AACL 2008/09 Pools consist of sales in cash terms. These sales have been arbitrarily grossed up for FOB costs at which point a management fee of 2.5% is calculated. The FOB estimates have been grossed up further for Finance and Underwriting. This enables Farmers to more accurately compare both the AACL headline FOB "equivalent" as well as Estimated Silo Returns to the estimated returns from other Pools.

Wheat

Supply Chain	Port Zone – APW1/2 Estimates								
	Ger	Kwin	Alb	Esp	Pt Linc	Pt Adel	Geel	Pt Kemb	Newc
Pool #1 FOB "equivalent" <i>net of management fee</i>	327	330	323	322	323	329	337	326	323
Pool #2 FOB "equivalent" <i>net of management fee</i>	321	324	317	315	317	322	331	319	317
Less FOB	21.0	21.0	21.0	21.0	39.0	43.0	42.0	38.0	39.0
Less Finance & Underwriting	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50
equals	Free In Store price				Delivered Port Price				
Less GRC levy	1.015% net farm gate (deducted from FIS price)				1.015% net farm gate (deducted from Silo price)				
Less Delivery Charges	11.65*				Not Applicable				
Less Freight rates	CBH Destination rates				NACMA**				
Less Skeleton Weed	0.30				Not Applicable				
Equals	Estimated Silo Return								

* CBH Tier 1 rate

** May change with AWB now applying its own freight rates

Grade	AP H2	H1	H2	ASW 1	AGP 1	FED 1	AUW 1	AUH 2	AUH 3	SFT 1	PW T	PNV 1	ANW 1	ANW 2	HPS 1	AH 9
Spread to APW 1/2	17	14	8	-20	-30	-90	-40	-5	-10	7	0	-7	-7	-25	-30	-85