



Grower Conference Call Friday, 18 April 2008

Disclaimer: AACL Ltd and Broadacre Grain Marketing are not licensed financial advisers.

This information is not to be seen as advice to growers as to how they should price their grain.

The information herein is simply our thoughts about the wheat market.

The opinions expressed reflect our judgment at this date, and are subject to change without notice. There is no guarantee that this information is accurate or complete.

Key Topics discussed

1. Our thoughts on the wheat market
2. BGM benchmark pricing

1. Our thoughts on the wheat market

Summary:

Short term

- Based on some technical (chart) signals, we wouldn't be surprised to see at least a small bounce in wheat values in the very near term (1-2 weeks).

Medium term

- **Looking out to where wheat values might end the year, and barring major production problems, the fundamentals for wheat are bearish. However, we question how much relative downside there is.**
- That is, we think it will be difficult for CBOT Dec-08 Corn to trade much below 600 US c/bu, This is based on the belief that US corn values need to remain high to ration usage this year, and then send a strong signal to the US farmer to swing huge acres from soybeans into corn heading into the 2009/10 season.
- Under historic price relationships, SRW tended to displace corn in the US feed market once wheat was within 60 to 70 US c/bu of corn. In some parts of the US – see the comment under corn – wheat is already becoming competitive with corn for animal feeding ... and this is happening with Dec-08 wheat futures around 330 US c/bu higher than Dec-08 corn futures.
- Extrapolating: if we hold to a downside Dec-08 corn futures level of 600 US c/bu, then the downside view for wheat would be around 700 US c/bu. That would be around US 260 c/bu below today's prices. Whilst a drop of that magnitude would equate to around A\$100/t in nominal terms, we'd expect basis levels to firm – they're currently around -100 US c/bu against CBOT Dec-08 wheat futures. As such, if we think the worst-case scenario in wheat futures is 700 US c/bu, then that might translate to our cash values falling \$50 to \$75/t.

CBOT Dec-08 Wheat



CBOT Wheat Technically

- Weak signal that we may see a bounce – Dec-08 to 1025? – but the failure to close higher last night casts some doubt on that view
- Weekly Dec-08 close under 920 bearish; weekly close above 1033 bullish.

Wheat Fundamentals - (Various sources including; AWB, Advance Trading and World Commodity Analysis)

- **Brazilian** millers looking for government approval on an additional 3 MMT of nontariff wheat imports. This strongly indicates the Brazilian millers don't hold much hope of getting more wheat from Argentina. For reference, 3 million tonnes of wheat is about 6 months of Brazilian wheat imports.
- **Canada** - well above normal moisture forecast for the next 5 days in most of the Prairies which will be very timely if the forecast proves accurate.
- **EU** - crop conditions remain generally good, with Spain getting good moisture.
- **Russia and Ukraine** - reports indicate that both are considering having export taxes or quotas for new crop wheat – even though crops look normal / good. Governments are increasingly concerned about the high price of food for their citizens.
- **India** – the state of West Bengal called for a tender of 180,000t of wheat, rather than waiting for the Government of India to tender for wheat in 2008. India is very short on rice stocks, and has low wheat stocks.
- **US** - rainfall the past few days is likely to increase HRW wheat condition ratings early next week when the USDA updates their weekly condition report.
- **US** - new crop SRW wheat values are approaching the value of corn in the Southeastern US to be fed to the poultry and pig producers in that region.

CBOT Dec-08 Corn



CBOT Corn Technically

- Showing little sign that it has topped; in fact appears set for new highs.
- This is consistent with the fundamentals.

Corn Fundamentals

- Corn now the leader – market needs to ration corn usage this year and send a signal for a large rebound in production next year to meet mandated ethanol production. We see relatively little downside in Corn below 600 for Dec-08 unless or until the 0809 crop looks assured and large.
- Moisture in the Corn belt remains excessive with slower than normal seeding progress reported this past week. The 6-10 day forecast calls for above normal rainfall. The corn market will become anxious if this pattern persists into late April.

2. BGM Benchmark Pricing

The way in which wheat and barley produced from Grain Co-Production in 2008/09 will be valued is different from what applied in 2007.

- There will not be one pool result for all farmers and investors as was the case in 2007.
- In 2008, farmers need to choose an accredited Benchmark Price such as a managed pool and/or a cash price to value the grain they are growing for investors.
- There will be no pricing actions taken on behalf of farmers unless they have placed instructions to do so, or if the deadline for benchmarking has been reached and there are tonnes that remain un-priced.
- Broadacre Grain Marketing has been appointed to manage this new process from 2008-09 going forward.

The Benchmark Pricing Rules can be downloaded from our website. Go to: www.aacl.com.au or call head office on (08) 9217 3777 to arrange a copy.