



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 (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.

MARKET OUTLOOK

Wheat

When we look at the major wheat exporting countries in isolation, production can be broken down to 3 major growing seasons and areas. The first and most important is the northern hemisphere winter wheat crop. The main winter wheat producers are USA, the EU and former Soviet Union countries, notably Russia and Ukraine.

Another important wheat crop is the northern hemisphere spring crop, with Canada and USA being the major players.

Finally, the winter wheat crops in the southern hemisphere countries of Australia and Argentina are looked at closely, with developments there contributing to international values.

So at this point of calendar, the wheat market is in an uncertain period of time. The winter wheat crop harvest has started and the seeding of the northern hemisphere spring and southern hemisphere wheat crops are nearing completion.

Predominantly the market is focused on exactly what tonnage will come from the current northern hemisphere winter wheat. For this reason the World Agricultural Supply and Demand Estimates issued by the USDA (United States Department of Agriculture) on June 10 have been closely looked at.

| WORLD WHEAT SUPPLY & DEMAND (USDA) IN MMT | | | | | | |
|---|------------------------|---------------------|---------------|---------------|------------------|------------------------|
| | | Beginning Stocks | Supply | Demand | Ending Stocks | Stocks To Use Ratio |
| 2007/08 | Actual | 126.98 | 609.7 | 616.71 | 119.97 | 19.45% |
| 2008/09 | Estimate | 119.97 | 682.18 | 633.75 | 168.4 | 26.57% |
| 2009/10 | May projection | 167.05 | 657.62 | 642.77 | 181.9 | 28.30% |
| | June projection | 168.4 | 656.06 | 641.81 | 182.65 | 28.46% |

Global wheat supplies for 2009/10 are projected lower this month as reduced production more than offsets higher beginning stocks. Beginning stocks are raised 1.3 million tonnes, mostly reflecting lower expected 2008/09 domestic consumption for Russia.

World wheat production for 2009/10 is lowered 1.6 million tonnes with reductions for EU-27, Canada, Ukraine and US only partly offset by increases for Russia, China, Afghanistan, Azerbaijan, Morocco, Syria and Tunisia.

EU-27 production is lowered 2.3 million tonnes mostly reflecting lower expected yields in Hungary, Romania and Spain where continued dryness has reduced crop prospects. Increases for France and Denmark are partly offsetting.

Production for Canada is lowered 1.0 million tonnes on dryness in Alberta and western Saskatchewan and on unseasonably cool temperatures (which have delayed spring wheat seeding and development) across the prairie provinces.

Ukraine production is reduced 1.0 million tonnes on persistent April and May dryness in the country's central growing areas. Russia production is raised 1.0 million tonnes on higher area and improved prospects for spring wheat yields with abundant early season moisture in the northern and eastern growing areas. Production for China is raised 0.5 million tonnes on higher area. Production increases for North Africa and Syria reflect higher expected yields.

US wheat supplies for 2009/10 are lowered this month reflecting a 10 million bushel reduction in forecast winter wheat production, however feed and residual use is lowered 20 million bushels. The net effect is ending stocks projected 10 million bushels higher has reduced use more than offsets the decrease in production.

Global wheat imports, exports and consumption for 2009/10 are all projected lower this month. Imports are lowered for Afghanistan, Azerbaijan, and Bangladesh. Exports are lowered for Ukraine, with increases for Russia and Turkey partly offsetting.

Global consumption is projected 1.0 million tonnes lower, with reduced wheat feeding in Ukraine and the United States and lower food use in Russia more than offsetting higher feeding. Global ending stocks are projected at 182.6 million tonnes, up 0.7 million tonnes from last month.

ABARE Production Estimates (released 16 June 2009) have estimated the area sown to winter crops in Australia to be 21.9 million hectares in 2009/10, an increase of 1 percent from the previous season.

Assuming average yields, winter crop production is forecast to be around 34.8 million tonnes in 2009/10, around 1.6 million tonnes more than the previous season's harvest.

The area planted to wheat in 2009/10 is forecast to remain above 13 million hectares for the second consecutive year. Total wheat production is forecast to be around 22 million tonnes in 2009/10 compared to 21.4 million tonnes harvested in 2008/09.

USDA estimates for Australian wheat production are as follows:

| AUSTRALIAN WHEAT SUPPLY & DEMAND (USDA) IN MMT | | | | | | |
|---|-----------------|-------------------------|---------------|---------------|----------------------|----------------------------|
| | | Beginning Stocks | Supply | Demand | Ending Stocks | Stocks To Use Ratio |
| 2007/08 | Actual | 4.43 | 13.95 | 13.69 | 4.69 | 34.26% |
| 2008/09 | Estimate | 4.69 | 21.58 | 20.81 | 5.46 | 26.24% |
| 2009/10 | May projection | 5.46 | 23.08 | 22.55 | 5.99 | 26.56% |
| | June projection | 5.46 | 23.08 | 22.55 | 5.99 | 26.56% |

Interesting that the USDA has Aussie wheat production 1 MMT above ABARE's estimate.

The key point in all of that is that as estimated by the USDA and supported by IGC estimates, ending stocks for wheat are expected to increase and this is weighing on the markets attempts to trade higher.

In the short term, Egypt is tendering for 30,000 to 60,000mt of optional origin wheat with shipment July 11 to 20.

In general though, demand has been slow, as end users wait on the sidelines for new crop supplies to arrive. Seasonal weakness and ample supplies on the US and world market gives end users little incentive to aggressively extend coverage ahead of harvest, so expect little upside price movements.

There is additional downside potential, but narrowing of the price spread to corn is likely to increase talk of wheat beginning to factor into feed rations.

Fundamentals indicate a negative outlook for prices in the short term (good production and slow demand) but longer term price direction will depend on the 2009/10 balance sheet.

Wheat - Neutral to bearish.

Canola

The USDA estimates are for ending stocks to build this coming marketing year.

| WORLD OILSEEDS SUPPLY & DEMAND (USDA) IN MMT | | | | | | |
|---|------------------------|-----------------------------|---------------|---------------|--------------------------|--------------------------------|
| | | Beginning Stocks | Supply | Demand | Ending Stocks | Stocks To Use Ratio |
| 2007/08 | Actual | 73.51 | 391.64 | 338.26 | 62.27 | 18.41% |
| 2008/09 | Estimate | 62.27 | 394.35 | 337.42 | 55.03 | 16.31% |
| 2009/10 | May projection | 55.42 | 422.12 | 349.2 | 62.69 | 17.95% |
| | June projection | 55.03 | 421.41 | 349.11 | 61.95 | 17.75% |

The oilseed market is primarily driven by the soybean market with the biggest producers and traders of soybeans being the US and also South American countries - Brazil and Argentina. Soybeans are a spring crop in the US, with planting almost completed. Soybeans compete for acres with corn and spring wheat. In the past couple of seasons soybean production has been lower due a swing to corn and lower yields. Demand for soybeans has been strong with China leading the way. South American production was affected by dry conditions.

As indicated in the chart below the estimate for the end of the 2008/09 marketing year is extremely tight.

| US SOYBEANS SUPPLY & DEMAND (USDA) IN MILLION BUSHELS | | | | | | |
|--|------------------------|-----------------------------|---------------|---------------|--------------------------|--------------------------------|
| | | Beginning Stocks | Supply | Demand | Ending Stocks | Stocks To Use Ratio |
| 2007/08 | Actual | 574 | 3261 | 3056 | 205 | 6.71% |
| 2008/09 | Estimate | 205 | 3176 | 3066 | 110 | 3.59% |
| 2009/10 | May projection | 130 | 3337 | 3107 | 230 | 7.40% |
| | June projection | 110 | 3317 | 3107 | 210 | 6.76% |

Canola seeding progress is finishing up in Canada. Freezing weather last week and ongoing dryness in the Canadian prairies pushed the CWB to estimate the canola crop at 10.2 MMT, down from 12.6 MMT last year. Some farmers will try to reseed the severely damaged canola but yields will be sharply reduced for plants sown in mid June.

ABARE estimate the area planted to canola is forecast to increase in 2009/10. Yields are expected to decline from last season, particularly in Western Australia, production is forecast to decline by around 9 per cent in 2009/10 to 1.7 million tonnes.

In the short term:

- Soybeans rallied under the leadership of new crop contracts.
- News that China may have purchased 8 cargoes of South American soybeans probably provided most support as this would deplete their supplies quicker, meaning the possibility of larger US usage in the new crop season.
- Brazilian farmers have reportedly slowed their selling pace with the recent price decline. However, the window of opportunity for Brazilian selling before the US new crop harvest begins is closing fast.
- Canadian canola futures have adjusted downwards as a result of the Chinese canola cancellations but the dry weather is keeping cash basis levels elevated.

Given the tight situation of US soybeans, the market has rallied to 'buy acres'. The market is back from the highs as the participants question whether or not enough acres have been bought.

Given the tight situation and long way to go before the 2009/10 crop is known would expect the oilseed market to be supported.

Canola - Neutral to Bullish.

Barley

Barley is thrown into the coarse grain basket. USDA estimates the world supply of coarse grains to decrease.

| WORLD COARSE GRAINS SUPPLY & DEMAND (USDA) IN MMT | | | | | | |
|--|----------------------------|-----------------------------|---------------|----------------|--------------------------|--------------------------------|
| | | Beginning Stocks | Supply | Demand | Ending Stocks | Stocks To Use Ratio |
| 2007/08 | Actual | 139.16 | 1077.15 | 1056.2 | 160.11 | 15.16% |
| 2008/09 | Estimate | 160.11 | 1097.81 | 1075.45 | 182.47 | 16.97% |
| 2009/10 | May projection | 183.51 | 1081.59 | 1093.14 | 171.96 | 15.73% |
| | June projection | 182.47 | 1074.5 | 1091.29 | 165.68 | 15.18% |

Global coarse grain supplies for 2009/10 are projected 8.1 million tonnes lower this month, with lower US corn production accounting for nearly half the reduction. Global coarse grain beginning stocks are lowered 1.0 million tonnes with a 0.5 million tonne reduction for 2008/09 Brazil corn production and reduced corn carrying for Russia and Ukraine due to higher 2008/09 exports. Global corn production is lowered 3.7 million tonnes with the 3.9 million tonne reduction for the US only partly offset by a 1.0 million tonne increase for Ukraine on higher reported area. Corn production is also lowered 0.4 million tonnes for EU-27 and 0.3 million tonnes for Croatia.

World barley production is lowered 3.4 million tonnes, mostly reflecting a 3.2 million tonne reduction for EU-27. Barley production is also lowered 0.7 million tonnes for Canada and 0.3 million tonnes for Argentina, with mostly offsetting increases of 0.5 million tonnes and 0.3 million tonnes respectively for Russia and Morocco.

World coarse grain imports and exports are projected higher on 0.4 million tonne increases for both corn imports and exports.

Feed grain values have been supported by tight expected carry out of corn in the US.

| US CORN SUPPLY & DEMAND (USDA) IN MILLION BUSHEL | | | | | | |
|---|------------------------|-----------------------------|---------------|---------------|--------------------------|--------------------------------|
| | | Beginning Stocks | Supply | Demand | Ending Stocks | Stocks To Use Ratio |
| 2007/08 | Actual | 1304 | 14362 | 12737 | 1624 | 12.75% |
| 2008/09 | Estimate | 1624 | 13740 | 12140 | 1600 | 13.18% |
| 2009/10 | May projection | 1600 | 13705 | 12560 | 1145 | 9.12% |
| | June projection | 1600 | 13550 | 12460 | 1090 | 8.75% |

ABARE estimate the area sown to barley in Australia to decline by around 1 per cent, but production is forecast to increase by 13 per cent to 7.7 million tonnes in 2009/10.

Recent Market developments:

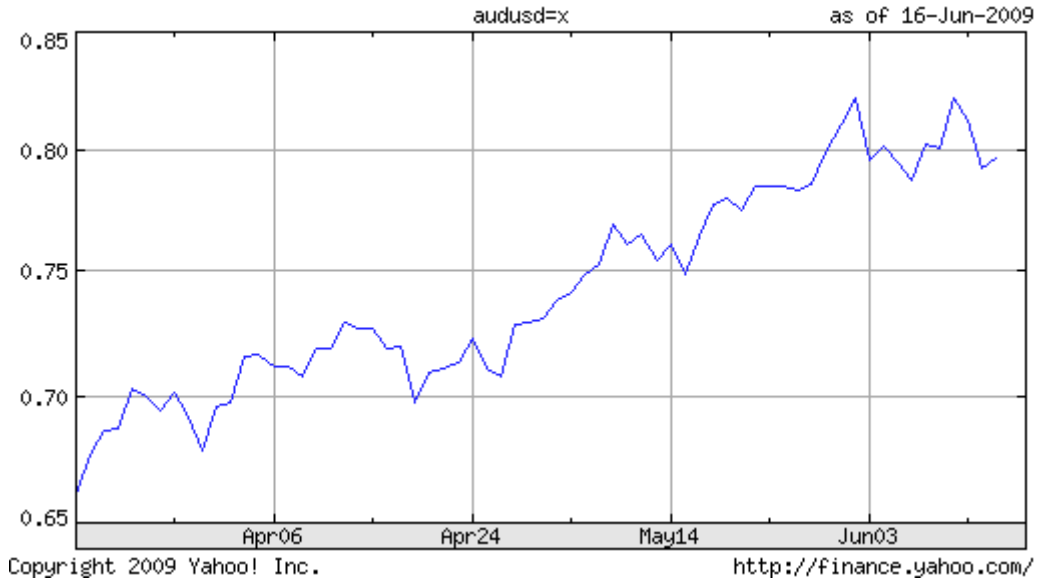
- French malt prices are around €10/tonne lower than European prices after further buying interest pushed European prices to higher levels.
- Harvest of the European winter barley is expected to begin towards the end of this month. The prospects are for good yields and high quality.
- Feed values remain stable.

Barley Feed – Supported by the tight corn market – Neutral.

Barley Malt – much like the wheat market, users wait on the sidelines for new crop supplies to arrive – Neutral to Bearish.

Foreign exchange

3 Month Chart of AUD USD



| | |
|-------------|-------------------|
| Last Trade: | 0.7965 USD |
| Trade Time: | 4:36PM AEST |
| Bid: | 0.7965 |
| Ask: | 0.7966 |

For every 1 cent movement in the AUDUSD exchange rate translates to a \$AUD 4/t change in the cash price (assuming futures and basis remain unchanged).

AACL PROJECT PRICE MANAGEMENT CHARTER

The stated aim of the AACL Project Price Management is simple, "To the degree that we can do by managing price - achieve a bonus for the farmer and a base level of return for investors."

The goals for the farmers and the investors and AACL are one and the same - to maximise the value of all the grain produced from the AACL contracted areas.

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:

| Ger | Kwin | Alb | Esp | Thev | Pt Linc | Wall | Pt Giles | Pt Adel | P'land | Geel Melb | Pt Kemb | Newc |
|-----|------|-----|-----|------|---------|------|----------|---------|--------|-----------|---------|------|
| 329 | 330 | 327 | 336 | 328 | 334 | 335 | 339 | 335 | 328 | 335 | 330 | 328 |
| to | to | to | to | to | to | to | to | to | to | to | to | to |
| 339 | 340 | 337 | 346 | 338 | 344 | 345 | 349 | 345 | 338 | 345 | 340 | 338 |

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 barley using reference grade BFED1 (WA) or F1 (all other states) are as follows:

| Ger | Kwin | Alb | Esp | Thev | Pt Linc | Wall | Pt Giles | Pt Adel | P'land | Geel Melb | Pt Kemb | Newc |
|------------|-------------|------------|------------|-------------|----------------|-------------|-----------------|----------------|---------------|------------------|----------------|-------------|
| 225 | 230 | 230 | 227 | 210 | 230 | 235 | 239 | 235 | 256 | 260 | 230 | 238 |
| to | to | to | to | to | to | to | to | to | to | to | to | to |
| 235 | 240 | 240 | 237 | 220 | 240 | 245 | 249 | 245 | 266 | 270 | 240 | 248 |

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:

| Ger | Kwin | Alb | Esp |
|------------|-------------|------------|------------|
| 553 | 558 | 558 | 553 |
| to | to | to | to |
| 563 | 568 | 568 | 563 |