



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.

1. Market Outlook

The biggest story world wide at the moment is 'Swine Flu' and the grain market has not been immune from this. While there was no significant fundamental change upon the breaking of the 'Swine Flu' storey, the grain market was driven lower. The trade had been attempting to impute ideas of reduced pork or meat consumption with subsequent reduced world feed demand. While the impact of 'Swine Flu' is far from known, the market took the path of least resistance, being down.

'Swine Flu' actually has little to do with pigs and is not transmitted through eating pork! It is transmitted from person to person and its only connection to pork is that it potentially originated from a pig. When multiple flu viruses live in an animal, such as a pig, they can swap genes to create a new strain of flu virus, as in the case of the current flu outbreak. Human-to-human transmission of swine influenza is very rare. This is a key concern with the current outbreak as pig contact could not be identified for many ill people.

As the full effect of Swine flu becomes known, the market will return to the fundamentals of supply and demand.

Wheat

The focus is currently on the northern hemisphere winter wheat crop with harvest due to begin in the coming weeks. Overall most industry analysts estimates are for average to above average production in the major winter wheat producing areas of the USA and EU. The only exception to this is the reported dryness in the Black Sea region that includes former Soviet Union countries such as Russia, Ukraine and Kazakhstan. Ukrainian soil moisture levels have been reported as the lowest in 7 years, and back at the levels of 2007. In that year the total grain crop was just 29 MMT against around 53 MMT in 2008.

On the back of record world wheat production in the 2008/09 marketing year, there are currently plentiful stocks of wheat on offer for the end user. With plentiful stocks and the prospect of an average new season crop, the wheat market is relatively quiet with the end user buying on a 'hand to mouth' basis. Apart from the dryness in eastern Europe, another bullish story for the wheat market comes from the US spring wheat. US spring wheat planting is significantly behind average, with the % planted figures from USDA as follows:

US SPRING WHEAT % PLANTED

This week - 15
Last week - 6
Last year - 32
5 year ave - 36

US spring wheat planting has been affected by wet weather. The low US spring wheat % planted also reflects some displacement of spring wheat to soybeans (see commentary on Oilseeds below).

The weather conditions in Australia are also being watched with continued dryness likely to support the market.

AACL's short term outlook is neutral to bearish.

Barley

Very similar to the wheat market in many ways, that is:

- Adequate stocks of old seasons Barley
- Positive outlook for new season crop
- Physical market is very quiet with the end user buying on a 'hand to mouth' basis
- No physical trade on new season crop at all.

Like wheat, our short term view on the Barley market is neutral to bearish.

Oilseeds

The oilseed market is primarily driven by the soybean market, with the biggest producers and traders of soybeans being the US and South American countries such as Brazil and Argentina. Soybeans are a spring crop in the US, with planting currently underway. Soybeans compete for acres with corn and spring wheat. In the past couple of seasons, soybean production has been lower due to a swing to corn and lower yields.

Demand for soybeans has been strong with China leading the way. The USDA currently forecast that China will import approximately 38 MMT of soybean when the 2008/09 marketing year is completed, with the lions share to come from the US with 18.25 MMT.

In Brazil and Argentina the soybean harvest is almost complete. The Brazilian crop has been coming off as expected and should be close to the USDA estimate of 57 MMT. The Argentine crop has deteriorated from early estimates and is expected to be well below the 46 MMT produced last year. The USDA estimated the Argentine soybean crop at 43 MMT in March, that was decreased to 39 MMT in April and there are some observers now calling the crop as low as 35 MMT.

With demand holding stocks of soybeans in the US are very tight. The market has responded with pricing of soybeans increasing and in turn sending the message to the US farmer, who can grow a spring crop, to put it into soybeans. Other oilseed crops such as canola have followed suit.

AACL's short term view on all oilseeds is bullish.

Foreign Exchange

3 Month Chart of AUDUSD



Last Trade:

0.7263 USD

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).

2. Final 2008/09 Pool Equities

As promised, the 2008/09 Managed pools have been finalised with all payments made, on time, to applicable farmers on the 30th of April. In doing so, we believe that we have delivered a respectable result in a challenging environment. Some of those challenges include:

1. First year of wheat export deregulation.
2. Extremely challenging harvest in timing and quality.
3. Implementation of Grain Express in WA and the difficulties in the supply chain of getting stock to port.
4. A new grain marketing team at AACL in February last year.
5. Pools that were only opened in September of last year.

Wheat

The finalisation of the AACL's 2008/09 Managed Pool saw equities for the Wheat Pools decreased by \$5.80/t across the board. For reference, in the Number 1 Pool APW2 delivered Kwinana port zone dropped to \$324.20/t FOB, Port Adelaide at \$323.20/t, Geelong \$331.20/t and Port Kembla at \$321.20/t. In the final payout there have been some changes to the spreads for the following grades, ANW1 spread changed from -7 to -8, FED1 changed from -90 to -95 and AH9 from -85 to -90.

Barley

AACL's Final Pool Equity for the 2008/09 Barley Pools is \$10/t below the previous estimates. For reference, in the Number 1 Pool, final FOB value for Malt 1 (Baudin, Hamelin and Gairdner) delivered Kwinana port zone is \$270/t, Feed 1 is \$218.50/t FOB.

Reasons for the drop in the pools

Quality Profile

The AACL pool models were based on certain assumptions on the quality profile to be received. Obviously any differences between the assumed quality profile and actual receipts will affect the value of a pool.

Actual deliveries were vastly different to what we had built into our pool models. On the wheat pool, the quality was far worse than expected, primarily due to the wet weather over harvest and the effect of frost was greater than initially anticipated. Contrary to what you would expect from such a wet harvest, the quality profile for barley saw an abnormally high proportion of malt to feed, even higher than what would be expected in a 'normal year'.

The Pool Finalisation process

Our wheat pool estimates have not been adjusted since January. For barley we have not adjusted our pool estimates since February.

The first step in determining the final pool equities requires that the total funds from the actual sales of the pool grain are reconciled. To complete this process, all pool grain must be delivered and sold. AACL was still receiving deliveries into these pools well into March for both wheat and barley. With deliveries, and hence sales on behalf of the pool in March, AACL have only just received payment and paperwork for these sales in April. For this reason, AACL was unable to provide a definitive pool update any sooner.

On the barley pool, over 10% of the total tonnage was delivered late and not able to be allocated against existing contracts where delivery dates had expired. With this tonnage then having to be priced in the spot market, prices achieved were \$80 below the initial contracts that were struck. An \$80/t drop on 10% of the pool tonnage equates to an \$8/t drop on the entire pool.

Some context

The table below is a comparison of the estimates for various wheat pools as at the 14th of January this year and their current estimates:

Pool Provider and Name of Pool	FOB APW2 Estimate 14 Jan 2009	Current FOB APW2 Estimate	Change
AWB – Harvest Pool	339	327	Down 12
Agracorp – Harvest Pool	330	325	Down 5
Agracorp – Benchmark Pool	328	320	Down 8

The table below is a comparison of the estimates for various malt barley pools as at February this year and their current estimates:

Pool Provider and Name of Pool	FOB Malt 1 Estimate Feb 2009	Current FOB Malt 1 Estimate	Change
Grain Pool – # 1 Pool	285	260	Down 25
Emerald – # 1 Pool	310	305	Down 5
Emerald – # 2 Pool	280	265	Down 15

The table below is a comparison of the estimates for various feed barley pools as at February this year and their current estimates:

Pool Provider and Name of Pool	FOB Malt 1 Estimate Feb 2009	Current FOB Malt 1 Estimate	Change
Grain Pool – # 1 Pool	185	185	No change
Emerald – # 1 Pool	230	230	No change
Emerald – # 2 Pool	215	215	No change

Pool true value

At the outset of these 2008/09 Pools, AACL put a clear rider on Pool expectations – taken directly from the Pool Flyer: “AACL does not claim that the Hectare Based Pool will outperform other managed pools in any given season because it is not realistic or possible to do so each year”.

That said, there are two areas that farmers and consultants should consider when comparing the AACL Pool returns to other Managed Pools:

1. Simply comparing two Pools on a headline Pool FOB value is misleading.
2. Total supply chain costs, including finance and underwriting, are generally under-estimated.

On the first point, any comparison on Pools should put a value on the timing of the net payments received. The AACL Pools made 80% of net equity available at harvest and will be finalised by the end of April. This has meant that the AACL Pools have paid out **more** at harvest than any other Pools, and will have total net equity paid out **faster** than any other Pools.

On the issue of supply chain costs, and by that we refer to all the costs that ought to be applied to convert a gross FOB payment back to a net cash payment, AACL provides a load by load statement detailing all applicable costs. When farmers participate in other Pools, they generally don't see all the costs presented in one statement, since some of the costs (receival fee and freight in WA) are billed to the grower by a different party – being CBH. As such, any calculation of Pool net values should take account of all the deductions, including finance and underwriting.

3. AACL 2008/09 POOL FINALISATION

Wheat - AACL Managed Pool

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.

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>	321.20	324.20	317.20	316.20	317.20	323.20	331.20	320.20	317.20
Pool #2 FOB “equivalent” <i>net of management fee</i>	315.20	318.20	311.20	309.20	n/a	n/a	n/a	n/a	n/a
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	1.02% net farm gate (deducted from FIS 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

Grade	APH2	H1	H2	ASW1	AGP1	FED1	AUW1	AUH2	AUH3	SFT1	PWT	PNV1	ANW1	ANW2	HPS1	AH9
Spread to APW1/2	17	14	8	-20	-30	-95	-40	-5	-10	7	0	-7	-8	-25	-30	-90

Barley – AACL Managed Pool

The values below are the final numbers for farmers that have **Barley** in the AACL Managed 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. 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.

	Variety	Grade	Port Zone			
			Ger	Kwin	Alb	Esp
Pool #1 FOB “equivalent”	Baudin Hamelin Gairdner	Malt 1	255	270	265	260
		Malt 2	225	220	220	220
	Stirling	Malt 1	240	255	250	245
		Malt 2	210	220	215	210
	Vlamingh	Malt 1	240	240	240	240
		Malt 2	210	220	215	210
	N.A.	Feed 1	203.50	218.50	213.50	208.50
		Feed 2	188.50	203.50	198.50	193.50
		Feed 3	178.50	193.50	188.50	183.50
	Pool #2 FOB “equivalent”	Baudin Hamelin Gairdner	Malt 1		225	220
Malt 2				211	211	
Stirling		Malt 1		210	204	
		Malt 2		210	204	
Vlamingh		Malt 1		210	204	
		Malt 2		210	204	
N.A.		Feed 1		209	204	199
		Feed 2		194	189	184
		Feed 3		184	179	174
Less FOB, S/H			21	21	21	21
Less Finance						
Malt grades			4.00	4.00	4.00	4.00
Feed grades			2.50	2.50	2.50	2.50
Equals			Free In Store Price			
Less Delivery Charges			12.85*	12.85*	12.85*	12.85*
Less Freight			CBH Destination rates			
Less Skeleton Weed			0.30			
Less GRC levy			1.02% net farm gate			
Equals			Estimated Silo Return			