



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

The 2009/10 northern hemisphere winter wheat crop harvest is nearing completion in the USA and well under way in the EU and FSU (Former Soviet Union) countries, notably Russia and Ukraine.

Supply

The USDA (United States Department of Agriculture) WASDE (World Agricultural Supply and Demand Estimates) report was released on July 10 and has no big surprises. The USDA found increased wheat production from their previous estimates in the US. Current crops are coming off well. Overall US production is expected to be 10.54 MMT (Metric Million Tonnes) less than last year.

The projected production of the major wheat exporters is mixed:

- The EU 27 expects to have the largest decline in wheat production from last year down 16.99 MMT to 135.64 MMT.
- Production issues are being seen in south east European countries such as Romania.
- Ukraine and Russia expect to have 7.4 and 3.7 MMT less than last year respectively.
- Kazakhstan is expecting an extra 2 MMT.
- Australian production number was left unchanged from last month's USDA estimate at 23.08 MMT.
- This is up 1.5 MMT from last year's estimate of 21.5 MMT last year.

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	June projection	5.46	23.08	22.55	5.99	26.56%
	July projection	5.46	23.08	22.55	5.99	26.56%

Production for Argentina is lowered 1.5 MMT, reflecting continued dryness in central growing areas and reduced prospects for seeded area. Recent rains in the south eastern growing areas are expected to boost plantings, partly offsetting area losses farther north. These plantings are now late.

Production for Canada is also reduced 1.5 MMT, as extended dry cool conditions in western growing areas delayed germination and crop establishment, reducing both area and yield prospects.

India could be a prospective exporter this year. India expected to produce 77.5 MMT of wheat this year and has a very large domestic demand. We have seen India as a net importer in recent years with importation in 2007/08 of 2 MMT of wheat and importation of up to 5 MMT as recently as few years ago.

Due to favourable monsoonal conditions and a significant carry in of stock from the previous year, USDA estimates show India could export up to 2 MMT of wheat.

India has a procurement program that ensures that there is food for the poor, however this program distorts the domestic prices and their internal prices are too high. For these exports to be undertaken would require government subsidisation. There is no indication that this will be undertaken at the moment. If that wheat does come out, it will impact on Asian demand.

Demand

The most important wheat crop is the Northern Hemisphere winter wheat crop, which is currently being harvested. The harvest, combined with good crops, contributes to slow demand at this time. The seasonality of the wheat market shows a fall in price at this time of year.

In the latest WASDE, USDA increased US exports. It is difficult to see that happening at the moment as there seems to be too many competing sources of wheat in the world. The biggest problem facing US wheat exports, is the export evolution of Russian and Ukrainian wheat exports.

Last year Russian plus Ukrainian wheat exports were for the first time larger than US Exports – not because of quality, but because of price. This problem is not going away.

In fact our outlook for 2009/10 has Russian and Ukrainian wheat stocks remaining at high levels, simply because they cannot (yet) find enough importers for all their wheat supplies.

Overall demand is pretty quiet, as you would expect with harvest nearing completion.

Summary

WORLD WHEAT SUPPLY & DEMAND (USDA) IN MMT									
		Supply			Demand				
		Beginning Stocks	Production	Imports	Feed	Total	Exports	Ending Stocks	Stocks To Use Ratio
2007/08	Actual	126.98	610.93	113.65	96.2	616.17	117.51	121.2	19.67%
2008/09	Estimate	121.2	682.32	133.54	114.1	636.17	136.17	167.35	26.31%
2009/10	June projection	168.4	656.06	118	111.37	641.81	123.22	182.65	28.46%
	July projection	167.35	656.48	118.8	110.94	642.56	124	181.28	28.21%

Last year was the highest ever world wheat production at 682 MMT. Significantly increasing carry out from the very tight levels at the end of the previous 2007/08 season.

In total the 2009/10 wheat crop is estimated to be 26 MMT less or 3.79% lower at 656.48 MMT.

Total usage is estimated to be up about 1%.

Production is down, total usage is up – empirically this would be supportive of price. Why this is not the case:

- Last year was the highest ever world wheat production. More important carry out significantly increased in 2008/09 from the very tight levels at the end of the previous 2007/08 season.
- From 2007/08 to 2008/09 saw a 40% increase in ending stocks. These ending stocks become beginning stocks for this year.
- Even though production is down this year, if all wheat crops come off as expected this will be the second largest ever produced.
- Trade is expected to fall by 12.35 MMT by the USDA from 136.35 MMT to 124 MMT. Other market analysts, such as World Commodity Analysis Corporation, have estimated exports to fall 13 MMT.

Even with the decreased production, due to the large carry in and decreased trade, ending stocks and stocks to use, are both expected to increase this year.

With ample supplies of old crop and no significant production issues with the new crop, the end user has little incentive to aggressively buy and the market has come under pressure.

In assessing the supply and demand estimates above, we must put some context around this. The key in regards to the supply estimates is that they include the current southern hemisphere crops of Australia and Argentina, as well as the northern hemisphere spring crops of Canada and the US. All of these crops are in the ground and progressing well at this stage but are a long way from being made.

Any production issues with these crops are likely to support the market.

Market view: *Neutral to Bearish*

Oilseeds

At the previous teleconference we discussed the worldwide tight oilseed stock situation, due to decreased production in the previous marketing year of 2008/09, mainly on the back of a poor Argentine and Brazil soybean harvest. On top of poor South American crop, US soybeans ending stocks estimated at 110 MMT for 2008/09 equated to an **extremely** tight stocks to use ratio of 3.59%.

Supply

The previous teleconference in mid June corresponded with the seeding of the US spring crops. At this point in time, the soybean market had rallied significantly to 'buy acres' from the other spring crops of corn and spring wheat.

The sown area and harvested area, estimated in the June 30 acreage report, indicated that the market had done its job in buying acres with a 1.5 million acre increase, in both of these figures above the June projection.

The July 10 USDA WASDE report estimated US oilseed ending stocks for 2009/10 at 8 MMT, up 1.1 million from last month with the higher soybean acres accounting for most of the increase.

The current soybean crop is progressing very well. Yield is projected by the USDA at 42.6 bushels per acre with some indicating this may be conservative with the perfect growing conditions being experienced.

China is very important in the world oilseed market as the largest importer of soybeans. The market is watching China soybean crop prospects due to be harvested in early September, as this will determine the import requirement for the coming year. Current USDA estimates have Chinese production of soybeans at 15.60 MMT and imports of 38.10 MMT.

World oilseeds production is expected to increase by 7.6% this coming year, largely driven by an increase of 4 million hectares planted to soybeans in Argentina this year for the 2009/10 crop.

The Canadian canola acreage is down from previous years, with lower than average temperatures delaying crop development and exposing the spring crops and canola to seasonal risk. Current production estimates are around 9.45 MMT are well below last year's production of 12.6 MMT.

Rapeseed harvesting has commenced in some parts of the EU which is confirming favourable yields in Germany, France and the UK. Reports indicated Germany is comfortably yielding in the 4.5 - 5.0 tonnes per hectare range. In addition, EU rapeseed oil yields are considerably favourable yielding 44% - 46% oil content.

Demand

Demand from China is currently difficult to determine however, they are willing to buy large amounts for around US\$15 less than the market. Demand levels for oilseeds are forecasted to increase for the 2009/10 season, however global supply is also forecast to increase. The stocks to use ratio indicated by the USDA is estimated to increase marginally from the tight levels in 2008/09, which is resulting in some resistance in the market.

Summary

Given the tight stock situation and the long way to go before the 2009/10 crop is known, any production issues with soybeans particularly, are likely to support the oilseed market (so far so good though).

Market view: *Neutral*

Feed Barley

Consumption for feed grains is expected to decrease as global animal numbers are down.

Supply

Corn is the most important of the feed grains. The current corn crop is looking good.

There are some big barley crops being harvested in the Black Sea region. Acres planted to barley in Ukraine for the 2009 crop are at 5.125 million, up from 4.218 million acres in 2008 and yield is good so far.

Poor planting conditions in the US led barley growers in the key production states to plant less acres than last year. The last crop condition update indicated the barley crop is doing well, which means yields could possibly make up for the reduced plantings.

EU barley crops are also favourable.

Demand

On the demand side, good growing conditions in North African/Middle East have the traditional importing countries of Syria and Iran out of the market.

Obviously the feed market is aligned to the Saudi bid which is currently floundering around the US \$160/mt CIF mark. In making a comparison back to an Australian equivalent would be \$140/mt FIS Kwinana, which is well below the current marked bid of around \$180/tonne FIS.

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

Market view: *Bearish*

Malt Barley

The malt barley market is much like the wheat market, ample old crop supplies and users waiting on the sidelines for new crop supplies to arrive.

Market view: *Bearish*

Supply

Initial harvest reports indicate that the French malt barley crop are of both good quality and yield.

There are positive reports from Australia, but actual production and quality issues will remain in doubt for some time and history has demonstrated that the situation can change very quickly.

It is assumed that Canada will not have any malt surplus available for offshore markets in the coming year.

Demand

Malt imports by Asian countries are expected to decline about 2% in 09/10 to 1.48 MMT.

Overall demand is pretty quiet as you would expect with harvest well under way.

Summary

There are still certain risks connected to 2009 crop. The major risk is the weather and although recent rain and thunderstorms have not caused a significant amount of damage, unsettled conditions are

forecast and if these continue into the period when the crops reach maturity, lodging and pre-germination could become problematic.

On the other side, it can be argued that if say 20% of the malting barley crop in the main producing areas was lost, it would not necessarily have any significant impact.

Therefore, there is a combination of possibilities that could drive the market, but for the time being the bearish factors override the bullish issues which are more speculative whereas the bearish features are rather more factual.

Market view: *Neutral to Bearish*

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, which is 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
303	305	301	301	302	308	309	309	309	302	308	303	302
to	to	to	to	to	to	to	to	to	to	to	to	to
313	315	311	311	312	318	319	319	319	312	318	313	312

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 are as follows:

Ger	Kwin	Alb	Esp	Thev	Pt Linc	Wall	Pt Giles	Pt Adel	P'land	Geel Melb	Pt Kemb	Newc
168	170	170	165	152	171	177	181	180	198	203	197	203
to	to	to	to	to	to	to	to	to	to	to	to	to
178	180	170	175	162	181	187	191	190	208	213	207	213

Current spread to malt is estimated at \$60/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:

Ger	Kwin	Alb	Esp
505	510	510	505
to	to	to	to
515	520	520	515