



**Grower Conference Call  
Friday 16<sup>th</sup> May, 2008**

**Disclaimer: AACL Ltd and Broadacre Grain Marketing are not licensed to provide financial product advice on derivatives and foreign exchange contracts.**

**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**

- Bearish.
- Technically the trend remains down; the drop Wednesday night confirmed that trend remains in place and now suggests possible downside of approximately 60 US c/bu (~ A\$24/t) before the next key chart "support" levels kick in. Please see the charts bottom of page 2.
- The seasonality of wheat prices tends to see weakness into June/July, in line with the northern hemisphere winter crop coming to market. So, there is a consistent bearish message between the charts and the seasonality of wheat values.
- Sentiment has changed, for now at least, in relation to corn supply such that some of the bullish view for that commodity has waned. That in turn has reduced the support for wheat values.

##### **Medium term**

- **Last month we said: "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".**
- What would we add to that? In short, the thinking of BGM today is fairly similar to last month. We still think that on balance that the fundamentals for wheat remain bearish. The main addition to last month's view is that the downside may be slightly worse than what we thought a month ago.
- However, given that:-
  1. US wheat futures have fallen about 140 US c/bu over the month,
  2. the extent of the Aussie dollar rally and the fact that it so far has failed to conclusively break above US 95 cents, and
  3. that wheat 0809 cash values today are generally \$290 to \$320/t delivered port around the country, and
  4. that if the mandate for bio-fuels remains in place when northern hemisphere farmers make seeding decisions later this year for their 2008/09 crops, then wheat will be the crop that is most likely to lose area to corn and soybeans ....

... **THEN** it's difficult to see a whole lot more downside to wheat values; specifically it's difficult to see values retreating to 2006/07 values. The main thing that would blow that view out of the water would be an absolute burster of a crop in Australia, as well as similarly good crops in Argentina, India and Pakistan.

## KEY SWING FACTORS

### 1. Southern hemisphere wheat conditions – “Australia is in play!”

A key point from the USDA report last Friday was that wheat stocks are predicted at this early stage to increase. That was based on a sizeable year-on-year production increase of nearly 50 million metric tonnes or 8%.

We're running out of time for production issues to drive wheat prices significantly north. With winter wheat crops in the northern hemisphere generally in good shape relative to last year and within 1-2 months of being made, the attention is increasingly turning to the southern hemisphere crops. Hence our call: “Australia is in play”. For reference, the USDA has come out with a figure of 24 mmt for our crop. The next 2 to 4 weeks ought to help us firm up the potential crop size, and based on the various weather models the jury is still out.

That is, for the next week the outlook for the eastern states looks promising but WA doesn't until mid next week. Looking 7 to 14 days out – where there is relatively less confidence in forecasting – the models are quite mixed. See page 3 for one model's prediction for the next 15 days.

One ironic thought that BGM is starting to wonder about is whether in fact we really do want wheat prices to head north?!? ***It's still too early to actually make the call***, but we are now approaching the point in time where one of the main **remaining** factors that would drive prices higher would be a problem with our crop!

### 2. Size of the US corn crop – is it currently over stated by the USDA?

The comment around the downside being probably worse than a month ago reflects that we didn't see a lot of downside in Chicago Dec-08 wheat futures below 700 US c/bu. That was derived from a view that it was difficult to see Dec-08 corn futures trading below 600 US c/bu. Today, with Dec-08 corn around 620 US c/bu and looking a little soft, that view is under threat. However, as detailed below, we're wary of taking on face value the recent USDA yield estimate on US 08/09 corn.

For reference, the USDA has built a “trend line” that they use to predict yield over the years. The trend line is fitted to allow for the historical increase in yields resulting through better agronomic practices. The USDA then takes into account time of planting to determine whether it believes it's reasonable in their May estimate to run with the trend line “prediction” for yield for that particular year.

So, last Friday the USDA forecast the US corn yield for 2008 of 153.9 bushels per acre, which was 1 bu/a below the 154.9 bu/a predicted from the trend line, due to slower than normal seedings. In comparison, last year in May they forecast the corn yield at 150.3 bu/a, down 2.5 bu/a from their trend yield of 152.8 bu/a because of slower than normal seedings. Yet in 2008 the US corn seeding pace is currently 26% slower than normal (20% slower than at the same time in 2007).

So, 2008 is slower than 2007, and much slower than normal in the KEY producing states. As such, a number of US analysts that we subscribe to are suggesting the USDA may be overstating likely US corn production, and likely overstating the US consumption of corn, and US 2008/09 carryout.

CBOT Dec-08 Wheat Futures



CBOT Dec-08 Corn Futures



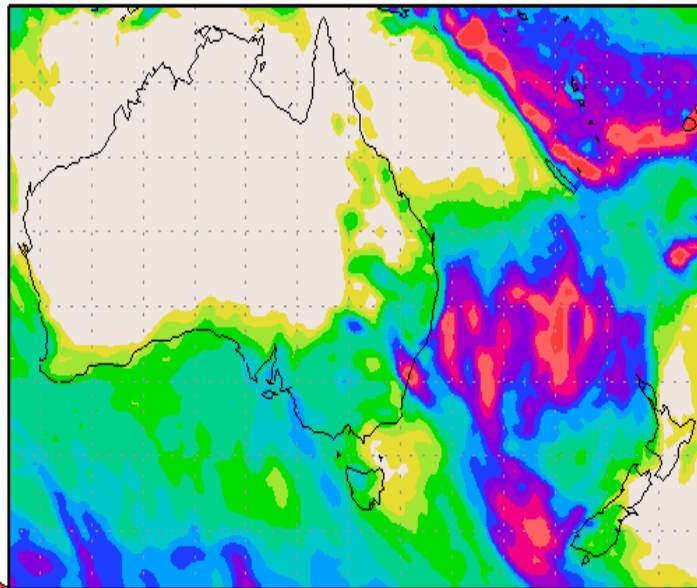
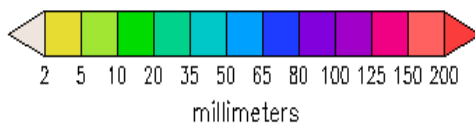
# Precipitation Forecast

Precipitation (mm)  
during the period:

Thu, 15 MAY 2008 at 00Z

-to-

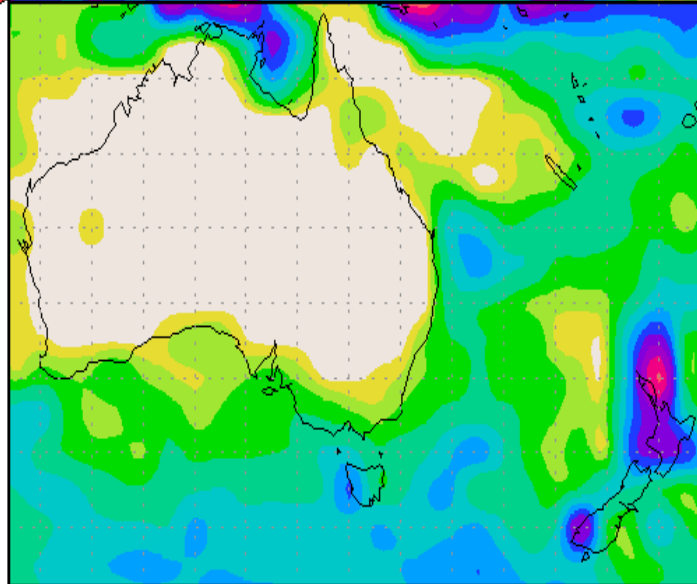
Thu, 22 MAY 2008 at 12Z



Fri, 23 MAY 2008 at 00Z

-to-

Sat, 31 MAY 2008 at 00Z

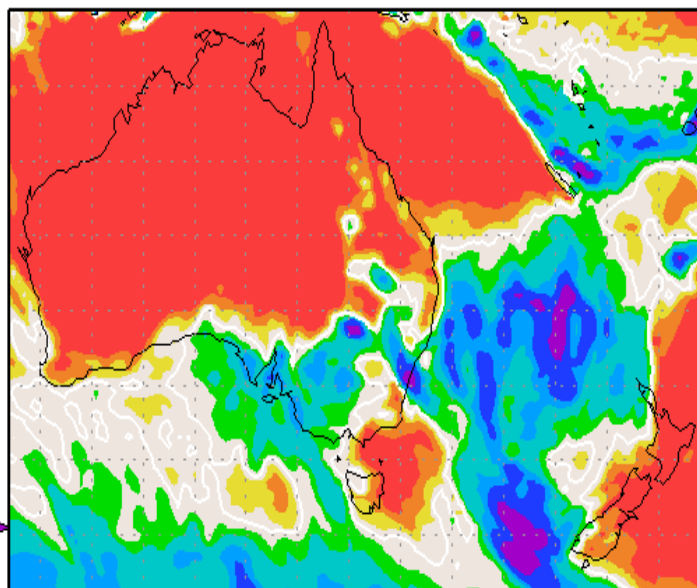
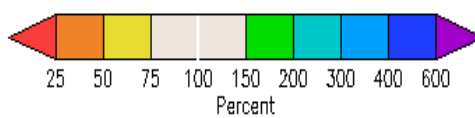


Precipitation (percent of normal)  
during the first 7.5-day period:

Thu, 15 MAY 2008 at 00Z

-to-

Thu, 22 MAY 2008 at 12Z



Precipitation forecasts from the National Centers for Environmental Prediction.  
Normal rainfall derived from Xie-Arkin (CMAP) Monthly Climatology for 1979-2003.  
Forecast Initialization Time: 00Z15MAY2008

## HOUSE-KEEPING

### 1. BGM benchmark pricing

**We'd just like to remind farmers that there is some paper work that needs to be done before you can start putting values on your GCP grain.**

**To recap, 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](http://www.aacl.com.au) or call Shaun Marwick on (08) 9217 3763 to arrange a copy.

### 2. "Ex-farm" benchmarking acquirers

We're currently working through the process whereby farmers may seek to sell to an acquirer that will result in one of the following 2 things happening:-

- a. The grain does not pass through the respective bulk handlers, and/or
- b. The grain may be stored on farm for some period of time beyond harvest.

In short, we're generally referring to "up country domestic consumers who will sometimes bid at significantly higher prices levels than other acquirers.

BGM recognizes the price attractiveness of being able to accommodate such sales – it's in the interests of farmers and investors to get as high a price as possible. What needs to be addressed

### 3. Update on BGM Managed Pools

At this point in time, it's unlikely that BGM will offer managed pools in its own right prior to early July.

We are currently working on some solutions for those farmers that are attracted to a product which leaves the grain valuing process completely up to the discretion of BGM. That work involves seeking the relevant Financial Services licenses, developing IT and other systems, appointing relevant staff and getting the finance to manage the necessary derivative positions that BGM would need to take.

Beyond that type of product, if there are enough farmers that wish to have more of the "managed pool" type products that have recently been in the market place, then BGM is reasonably confident that it could co-ordinate the development of such products prior to July.