



## GROWER CONFERENCE CALL Friday 13th June, 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 grain prices
2. BGM benchmark pricing

#### 1. Our thoughts on the wheat market

##### SUMMARY:

##### Short term and Medium term

- It's not about wheat, it's all about US corn and soybeans.
- What the market was worried about happening is NOW happening. The US corn and soybean crops are heading backwards.
- If those crops remains in trouble then it's likely that:-
  - (A) we may have seen at least the seasonal lows for wheat, barley and oilseed prices, and
  - (B) the outlook for 2009 grain prices appears rosy. The main rider on that view is that government mandates for bio-fuel remain and that oil prices remain high.
- The seasonality of wheat prices tends to see weakness into June/July, in line with the northern hemisphere winter crop coming to market. The fact that US wheat futures are now rallying counter to the normal seasonal pattern indicates a higher than normal probability that wheat prices will rally into the second half of the year.

## IN DETAIL

### The wheat fundamentals, looked at in isolation, are bearish!

.... straight from the USDA monthly report detailing their expectations for Supply and Demand:

- Global wheat stocks to increase 17 million tonnes; being 15%
- US wheat stocks to increase 6 million tonnes, nearly double!
- Although the Australian estimate of 24.00 million tonnes appears a tad high at this point

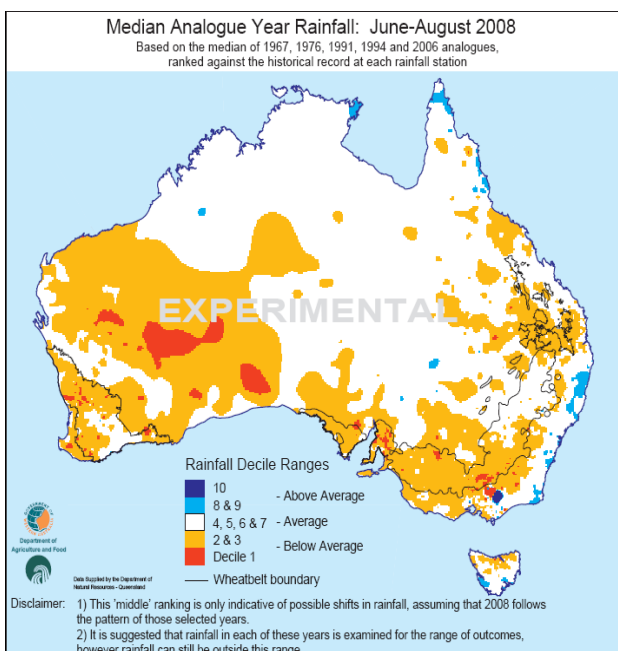
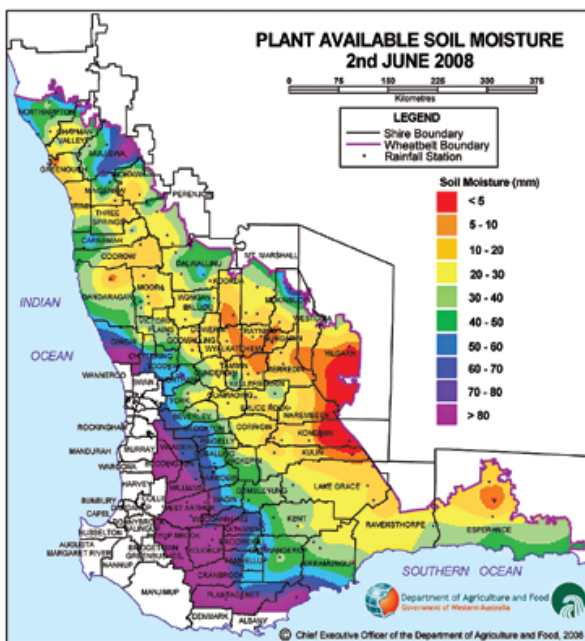
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World Wheat Supply and Use 1/ (Cont'd.)  
(Million Metric Tons)

Region	Supply				Use		Ending stocks
	Beginning stocks	Production	Imports	Feed	Total	Exports	
2008/09 (Projected)							
World 3/	May	110.02	656.01	114.59	113.11	642.04	123.99
	June	115.14	662.90	115.49	115.79	645.98	132.06
United States	May	6.52	65.10	2.72	6.26	34.67	13.13
	June	6.93	66.18	2.72	6.94	35.35	13.26
Total foreign	May	103.50	590.91	111.86	106.85	607.37	110.86
	June	108.21	596.72	112.77	108.85	610.63	118.80
Major exporters 4/	May	20.21	204.00	5.38	69.08	148.38	24.71
	June	20.73	203.00	5.38	69.08	148.38	24.73
Argentina	May	0.38	15.00	0.01	0.08	5.48	0.41
	June	0.88	14.50	0.01	0.08	5.48	0.41
Australia	May	3.70	24.00	0.08	3.50	6.20	6.57
	June	4.20	24.00	0.08	3.50	6.20	7.07
Canada	May	4.17	25.00	0.30	2.50	7.70	4.77
	June	4.20	24.50	0.30	2.50	7.70	4.80
EU-27 5/	May	11.95	140.00	5.00	63.00	129.00	15.00
	June	11.45	140.00	5.00	63.00	129.00	12.45

... the USDA estimate for Australia looks a tad high at 24.00 million tonnes

Significant parts of WA in particular with relatively low soil moisture levels, and a negative rainfall outlook for June to August ... not the foundation for an average yield scenario.



... but for now it's all about corn (and soybeans to a lesser degree)

Big swing in 2008 in the US away from corn to soybeans (million acres planted):

	2007/08	2008/09	Change
Corn	93.6	86.0	Down 7.6
Soybeans	63.6	73.8	Up 11.2

The corn crop (and now soybeans) was planted late, and is wet ... so the market is concerned about reduced production levels

**Soybeans: Percent Planted, Selected States<sup>1</sup>**

State	Week Ending			2003-2007 Avg.
	Jun 8, 2008	Jun 1, 2008	Jun 8, 2007	
	Percent	Percent	Percent	Percent
AR	69	53	90	82
IL	66	57	96	92
IN	73	61	98	89
IA	86	82	97	97
KS	61	53	71	78
KY	58	38	85	69
LA	93	85	94	85
MI	93	90	93	85
MN	95	90	99	96
MS	96	92	100	98
MO	45	36	77	82
NE	82	73	94	96
NC	53	46	60	57
ND	100	96	92	92
OH	86	78	100	89
SD	79	69	85	87
TN	64	47	83	74
WI	90	77	98	88
18 Sts	77	69	92	89

<sup>1</sup> These 18 States planted 95% of last year's soybean acreage.

**Soybeans: Percent Emerged, Selected States<sup>1</sup>**

State	Week Ending			2003-2007 Avg.
	Jun 8, 2008	Jun 1, 2008	Jun 8, 2007	
	Percent	Percent	Percent	Percent
AR	52	39	75	70
IL	45	20	93	82
IN	51	28	90	77
IA	63	37	87	84
KS	48	33	47	60
KY	36	18	73	55
LA	85	79	89	78
MI	82	46	80	65
MN	71	33	93	77
MS	92	86	97	95
MO	30	18	59	65
NE	59	37	73	79
NC	38	24	47	43
ND	81	50	73	68
OH	58	30	93	78
SD	35	15	58	58
TN	46	29	70	57
WI	57	25	86	65
18 Sts	56	32	80	74

<sup>1</sup> These 18 States planted 95% of last year's soybean acreage.

**Corn: Percent Emerged, Selected States<sup>1</sup>**

State	Week Ending			2003-2007 Avg.
	Jun 8, 2008	Jun 1, 2008	Jun 8, 2007	
	Percent	Percent	Percent	Percent
CO	88	71	86	92
IL	88	76	100	98
IN	83	69	99	93
IA	89	77	98	98
KS	95	86	98	98
KY	93	84	98	95
MI	96	80	94	85
MN	94	72	99	97
MO	76	64	95	97
NE	95	82	98	98
NC	100	100	100	98
ND	91	74	97	93
OH	92	57	99	95
PA	74	52	84	77
SD	77	57	94	92
TN	98	95	100	100
TX	99	96	99	98
WI	84	57	97	85
18 Sts	89	74	98	95

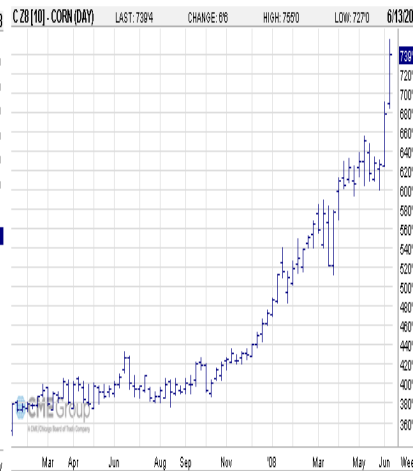
<sup>1</sup> These 18 States planted 91% of last year's corn acreage.

... the charts agree; all US grains are now moving upwards ...

CBOT Dec-08 Wheat



CBOT Dec-08 Corn



CBOT Nov-08 Soybeans



## **BUT DON'T RELY ON IT LASTING FOREVER!!**

At some point governments will be forced to do something. Consider:-

- There is a concern that current usage of corn rates could see the US run out this year ... soybeans could also run down to critically tight levels
- The US government will be under pressure to either remove the ethanol mandate (upset motorists, farmers, ethanol plant investors), or open up more conservation land (upset the conservationists) or both.

For now, it will be up to the market to manage things, by holding prices high enough such that demand is reduced. Whilst that happens, wheat prices will tend to be dragged up by any further gains in corn and soybean values.

But at some point the US government will need to move to reduce demand and/or increase supply.

## 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.

### 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 September.

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.