

## **Report to Macro Funds Ltd – 24<sup>th</sup> October 2006**

### **Project Updates for;**

### **2005 Grain Co-Production Project (2006 Season) 2006 Grain Co-Production Project (2006 Season)**

This report has been prepared by AACL as Project Manager of the 2005 & 2006 Grain Co-Production Projects.

### **Crop Conditions**

#### **WA Wheat-belt**

The WA wheat-belt has continued to experience below average rainfall through the months of August and September. As such, the majority of the WA wheat-belt has received below average rainfall for the period May to September 2006. Some areas, particularly the Northern wheat-belt, have received their lowest rainfall on record for this period.

The importance of late winter and spring rainfall was highlighted in the July report. Some parts of the state, particularly the northern and eastern regions, received good rains in early September (up to 30mm in places) which increased the prospects of crops in these areas. Much of the rest of the wheat-belt received below average rainfall.

Day and night time temperatures have also been one to two degrees warmer than average during September. There were also days of higher temperature (high 20's to 30°C) during the middle and the end of September and in October.

In general, the warmer and drier conditions experienced have not been favourable for crops which were average or above average at the July report, but the rain in early September did help the prospects of below average crops.

Leaf diseases such as stripe rust and stem rust were detected in some crops. These crops have been treated for these diseases where the severity of the disease warranted treatment in line with industry practice and as a result the yield impact is expected to be minimal.

Locusts have begun to hatch in number across high risk areas of the state. A targeted control campaign has been implemented by the Department of Agriculture and Food and affected farmers. It is anticipated that the combination of strategic locust control and a rapidly maturing wheat crop will see minimal damage to the Project crops.

The expected yields across all shires in WA are represented in Figure 1 (page 2). The same figure was presented in the July report (Figure 2) and the decline in the seasonal conditions is evident in comparison.

#### **Remaining Seasonal Outlook for WA**

Outlooks for spring rain are still projecting average or drier conditions. The wheat harvest is approximately 4 weeks from beginning in earnest and Project crops are rapidly approaching maturity. Any rainfall received over the next few weeks is likely to have minimal impact on grain yield and grain quality.

Figure 1: Percentile Rankings on Predicted Wheat Yields at 2<sup>nd</sup> October 2006

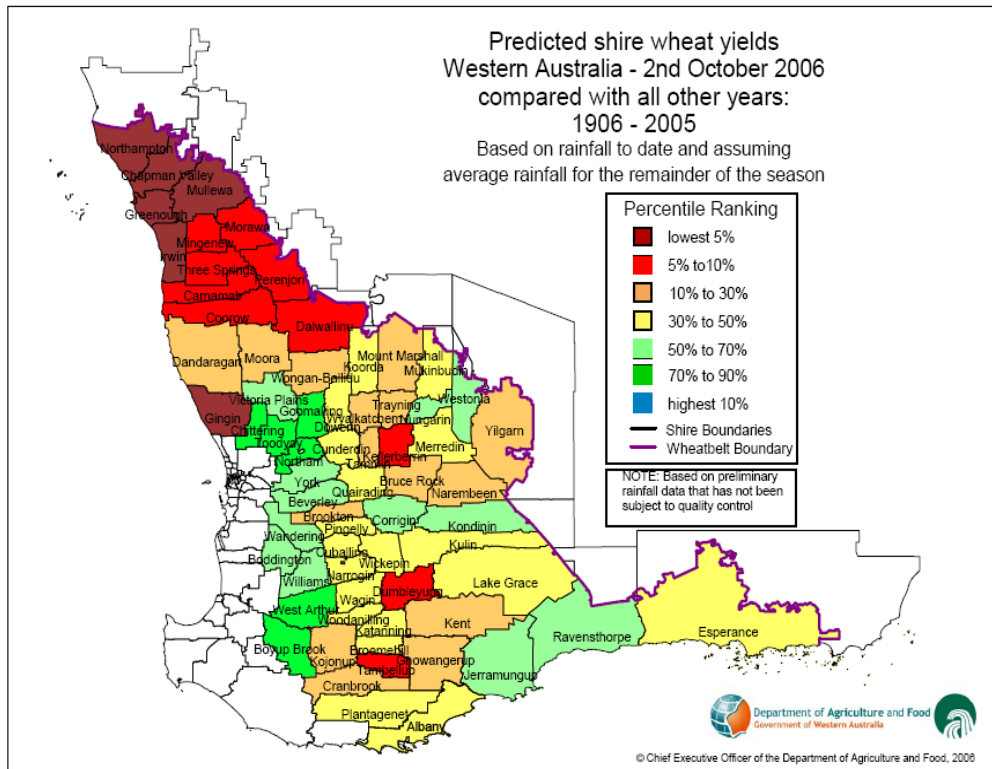
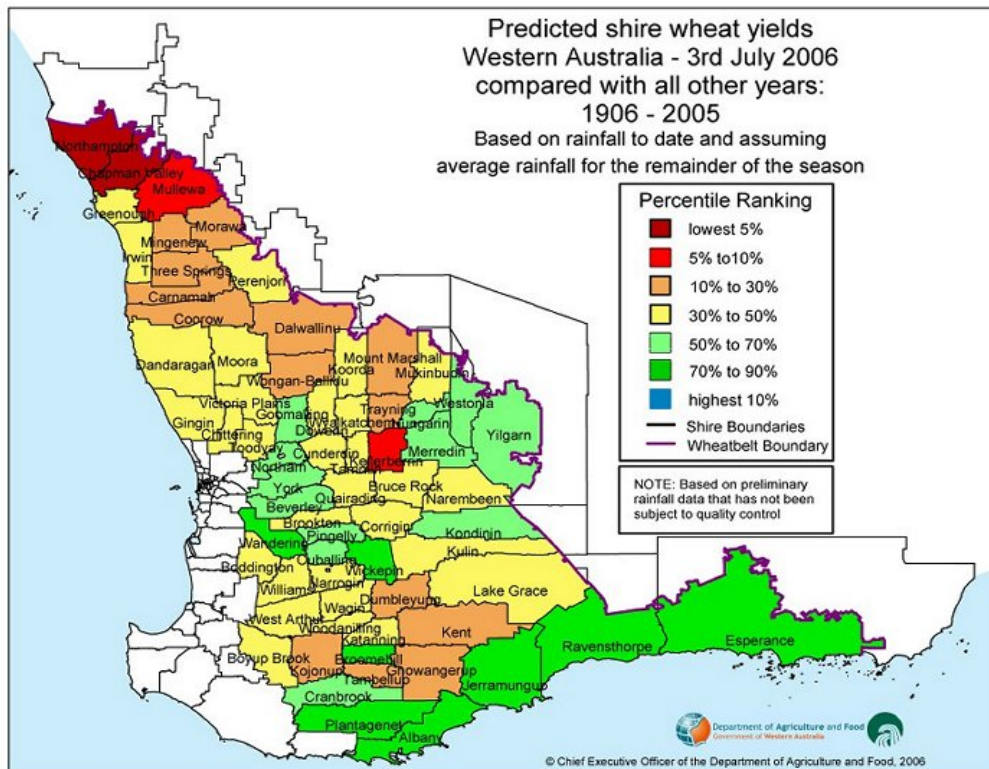


Figure 2: Percentile Rankings on Predicted Wheat Yields at 3<sup>rd</sup> July 2006



Source: Dept of Agriculture and Food, WA

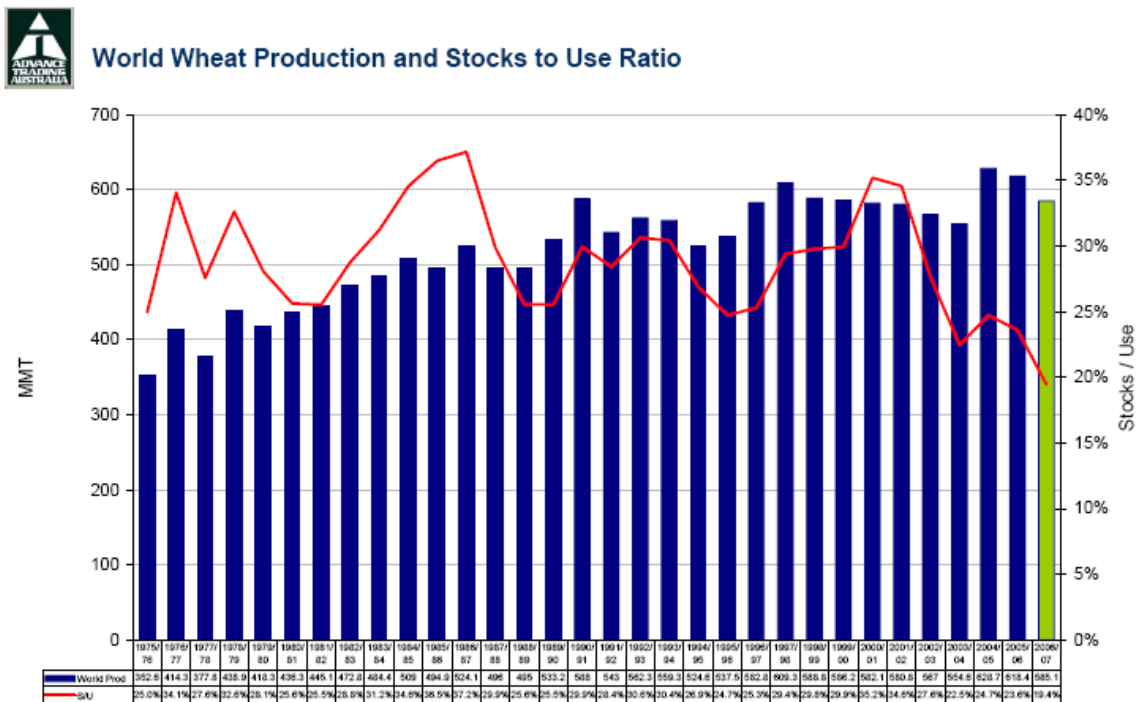
Eastern States of Australia

Drought conditions in the eastern states have worsened and the likelihood of grain imports from Western Australia and other parts of the world to satisfy domestic demand has increased.

World

Poor crops around the world this year have resulted in the lowest world stocks in two decades. In Figure 3 (below) the vertical bars represent world production and the red line represents the % of stocks to use which is at an all time low.

Figure 3



Source: Advance Trading Australia

Wheat Prices

Outlook

International grain prices have soared to 10 year highs on the back of lower world wheat production estimates and available stocks. Australia is a major trader of wheat internationally and the poor season has further caused international markets to climb.

The AWB National Pool estimate for APW wheat is now \$245/t FOB compared to the estimate in the July report of \$223/t FOB and the Project target of \$200/t FOB.

Information regarding the AWB pool is available from [www.awb.com.au](http://www.awb.com.au).

## **Impact on the 2005 & 2006 Project**

AACL arranges 4 paddock inspections by expert agricultural consultants for each contracted crop throughout the course of the year. The first 3 inspections have been completed and the final inspection of each crop is due to occur in the next two to three weeks just prior to or during harvest.

Yield estimates for the 2006 season are based on these reports and AACL's own assessments of current and expected crop conditions.

The deliveries of wheat in the Project for the 2006 season are currently estimated to be 65% of the expected tonnes at the start of the season.

Whilst 2006 is shaping up as the worse season on record in both Western Australia and the rest of Australia, this reduction in expected tonnes compares relatively favorably to the rest of the WA wheat-belt which is expecting to deliver approximately 50% of the normal level of wheat production.

This highlights the advantage of the Projects farmer and land selection and of the pooling of the Project crops from across the state.

Despite the low production estimates, higher wheat prices domestically and internationally are expected to buffer the overall Project return in 2006.

Based on the current expected yields and using an average wheat price of \$245/t FOB the Project Pool would be achieving an attractive return for investors.

Please note that this is an estimate only and more than likely the actual yield and price results will differ to the estimate.

Please see page 5 of this report for some photographs of Project crops.

AACL's next Project update will be in approximately 6 weeks time.

Yours sincerely

**Simon Foley**  
**Grain Production Manager**

The pictures below are taken from crops across both the 2005 and 2006 Projects:

**Project wheat in the Northern Wheat-belt (September 2006)**



**Project wheat in the Central Wheat-belt (September 2006)**



**Project wheat in the Southern Wheat-belt (September 2006)**

