

29 September 2009

## 2009 GRAIN CO-PRODUCTION PROJECT– SEPTEMBER 2009

This report has been prepared by AACL as the Project Manager of the 2007, 2008 and 2009 Grain Co-Production Projects. In summary:

- Forecast production looks promising
- However, falling prices will likely impact returns.

### SEASONAL OUTLOOK

#### Western Australia

Conditions in WA are currently still on track to achieve average overall yields, however dry conditions in the Esperance port zone will likely reduce expected production in this region of WA.

Northern, central and eastern regions of WA are experiencing a good season following rains this week, however higher daytime temperatures through the northern regions could offset some of the benefits of the rain.

#### South Australia

Conditions in South Australia are generally good but rainfall to date for much of SA is below average for September. Concern still remains over the Spring rainfall outlook (*Sept to Nov*) and whether lower rainfall will enable crops to achieve an expected better than average yield result.

#### Victoria

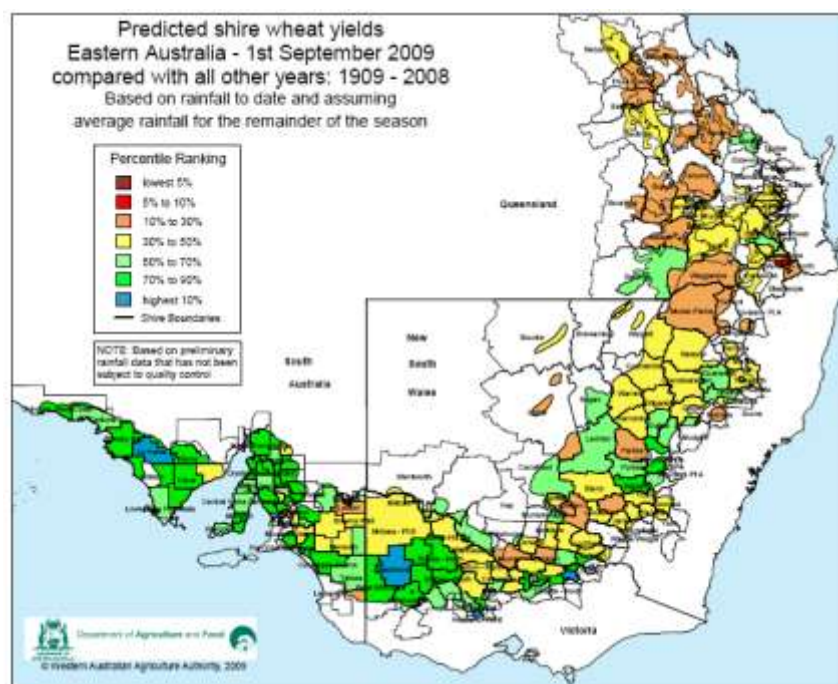
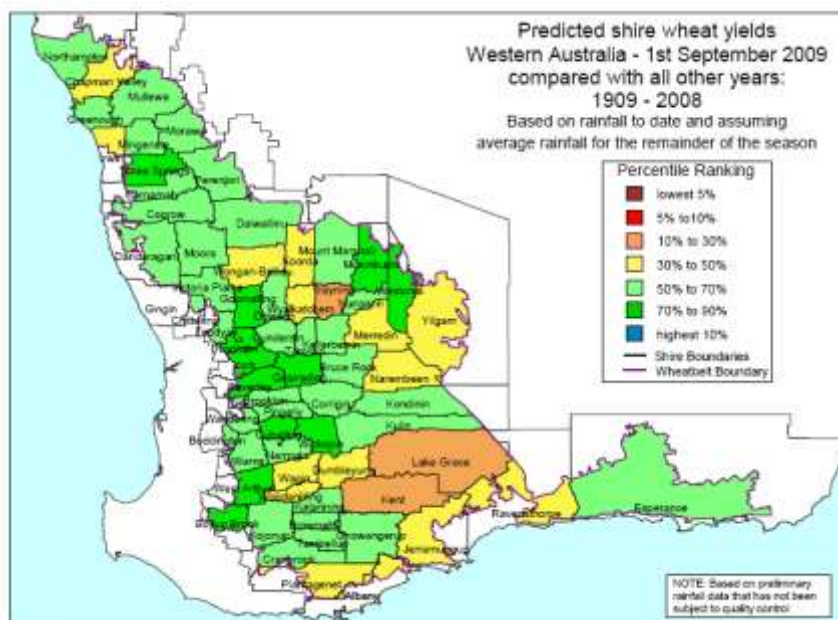
Conditions are generally good through western Victoria, however northern central regions have been experiencing warm dry conditions and this is expected to have an impact on yield.

#### New South Wales

A dry July and August for most of NSW (particularly in southern and south western areas) is now impacting on yield prospects. The Bureau of Meteorology Spring outlook is trending towards drier than average conditions in September to November for south eastern Australia.

Region	Rainfall to Date (Growing Season)	Rainfall Outlook (3 months) <i>Source: BOM</i>	Risk Factors	Yield Outlook (dependent on risk factors)
WA Northern	Average to above average	60 - 65% chance of average	Warm, dry spring	Average to above average
WA Central Eastern Southern	Average	60- 65% chance of average	Warm, dry spring, frost	Average
WA South Coast	Average to below average	60 - 65% chance of average	Warm, dry spring, frost, crop disease	Average to slightly below average
SA Eyre Peninsula	July rainfall taken across the whole SA agricultural area was the wettest July since 1996, and was 26% above average.	30 – 35% chance of average	Warm, dry spring, frost	Average to above average
SA Mid North Yorke Peninsula Lower North	July rainfall taken across the whole SA agricultural area was the wettest July since 1996, and was 26% above average.	30 - 35% chance of average	Warm, dry spring	Average to above average
VIC Wimmera Mallee Southern Central North North East	Average to below average	30 - 35% chance of average	Warm, dry spring	Average to below average

Region	Rainfall to Date (Growing Season)	Rainfall Outlook (3 months) <i>Source: BOM</i>	Risk Factors	Yield Outlook (dependent on risk factors)
NSW Northern	Below average	40 - 45% chance of average	Conditions still wet but rainfall required over next two weeks, crop disease pressure	Average
NSW Central Southern Riverina	Below average	30 - 35% chance of average	Conditions still wet but rainfall required over next two weeks, crop disease pressure	Average to below average



Please note: Below is an explanation for the percentile ranking in the maps above:

- 50% to 70%    The current predicted wheat yield (for that particular shire as at 1 September 2009), is in the highest 50 to 70% of predicted wheat yields over the last 100 years.
- 10% to 30%    The current predicted wheat yield (for that particular shire as at 1 September 2009), is in the lowest 10 to 30% of predicted wheat yields over the last 100 years.

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## PRICING

### *Wheat*

Wheat prices have fallen substantially from an estimated \$330/t Free on Board (FOB) price at the time of contracting farmers to an estimated \$250/t FOB currently. The contributing factors include a falling international futures price for wheat and a rising Australian dollar.

The wheat market fundamentals continue to be bearish largely due to ample global wheat supplies on the back of two of the largest ever northern hemisphere winter wheat crops. As stated above, domestic production prospects are positive with the exception of some areas of NSW. With ample supplies of old crop (2008 season) and no significant production issues with the new crop (2009 season), there is currently little incentive for grain acquirers to aggressively buy wheat and thus push prices up.

While the current indicative FOB price of wheat in the AACL Project Pool ("Project Pool") is approximately \$275/tonne, the price is expected to be in the range of \$255/t to \$295/t at the finalisation of the Pool.

### *Barley*

*Malt barley* supply worldwide is plentiful due mostly to the excellent yield and quality of the European crop. Australian production is looking positive with an exportable surplus of approximately 2 mmt expected this season. The malt barley market is similar to the wheat market. With ample existing supplies and solid production prospects there is currently little incentive for acquirers to aggressively buy.

The vast majority of demand for *feed barley* comes from the Middle East and as domestic production has generally been favourable this season, their import demand has decreased.

In Australia, decreased regional demand and strong production potential means the prospect of significant price rallies seem remote. However the recent appreciation in the Euro has benefitted Australian barley pricing prospects as this appreciation has made European barley less competitive into Asian markets where Australia has a freight advantage.

The current indicative FOB price for malt barley is \$230/t and \$180/t for feed barley. All barley contracts were priced on feed barley values that were approximately \$215 FOB at the time of contracting farmers. The indicative FOB range for the Project Pool is \$210/t to \$250/t for malt barley and \$160/t to \$200/t for feed barley.

### *Canola*

Given the acute tight oilseed supply situation from last year, a good oilseed crop is expected this year. The current USDA (United States Department of Agriculture) estimate of world oilseed production is a record high 422.8 mmt with ending stocks building 16% or 8.4 mmt year on year.

The current indicative FOB price of canola is approximately \$485/t versus \$570/t at the time of contracting farmers. Current FOB estimate for the Project Pool is \$500/t, with the price expected to be in the range of \$480/t to \$520/t FOB at the finalisation of the Project Pool.

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## Media – Wheat production and pricing

In recent weeks, several newspaper articles have highlighted the potential success for this year's national wheat crop. As discussed above, production prospects are generally positive across much of the grain-belt, however the rising Australian dollar and ample world stocks are having an impact on price, which in turn will have an impact of the Project returns.

Some news articles are focussing on the positive production aspect only while neglecting the issue of price. For your reference, some examples have been provided to show the variation. The Financial Review article provides a very positive view of yield and production whereas the articles from The West Australian provide a reflection of the impact on price on the season. It is important to note that investor returns are a function of both production and price. Consequently it is difficult to forecast likely returns until the grain has been harvested and all grain has been sold.

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For further information in regards to this report please contact your Financial Adviser or me on (08) 9217 3100 or [Robert.melville@aacl.com.au](mailto:Robert.melville@aacl.com.au).

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Melville', written in a cursive style.

**ROBERT MELVILLE**  
**Director - Capital Raising**