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AUSTRALIA

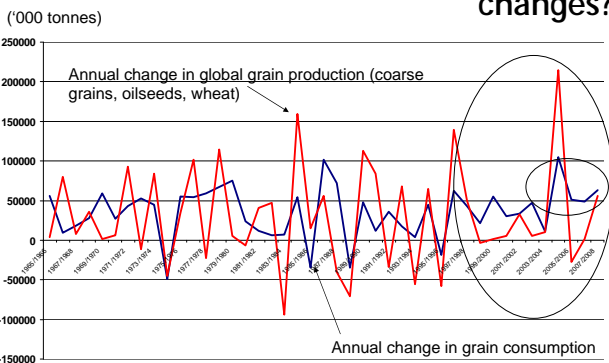
Are the days of cheap grain over?

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- Richard Koch, MD ProFarmer Australia
 - From Collarenebri, 150kms west of Moree in North-West NSW
 - Agricultural Economics University of New England (Hons)
 - 1994-99 Economist, AMLC
 - 1999-04 Agribusiness Analyst & Corporate Strategy, BankWest
 - July '04 Purchased ProFarmer
 - Diploma in Applied Finance (SIA), MBA (UWA)

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Are we witnessing fundamental changes?



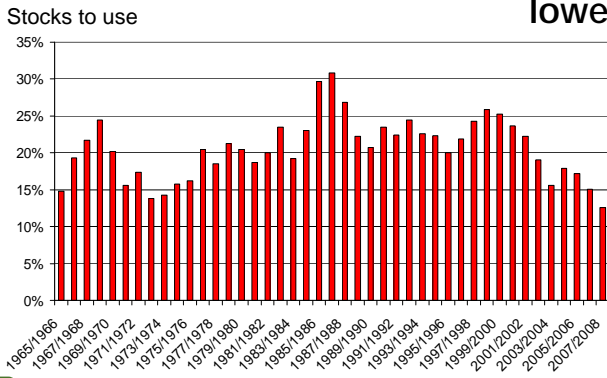
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Key Messages

- Only one year since 1998/99 have we produced more than we have consumed
- But supply has been relatively steady over the past decade
- Consumption has increased every yr since 1995/96
- Since 2004/05 annual change in consumption has been >50mmt
- Consumption has been rising strongly despite high prices

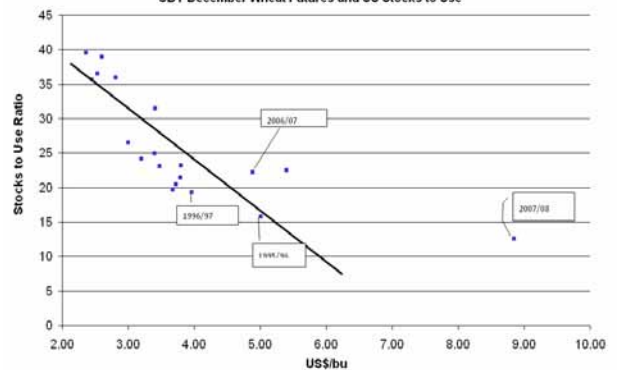
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All grain stocks have never been lower



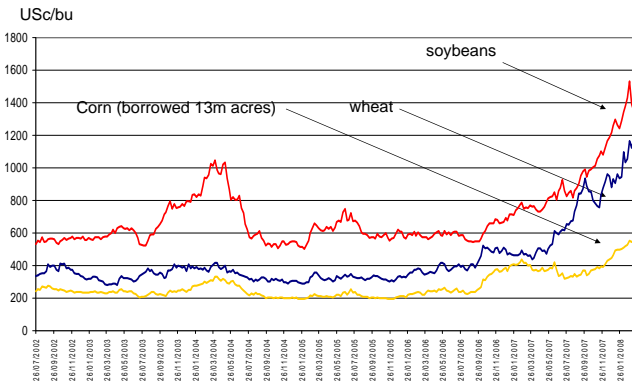
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CBT December Wheat Futures and US Stocks to Use



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Prices make all time highs in tandem



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Supply - Significant fundamental changes occurring

- Supply curve has shifted (in the future we will supply less for every price level)
 - Input costs (oil, fertiliser, chemicals) have exploded
 - The cost of land has increased (environmental concerns will limit new land clearing)
 - There are capacity constraints right along the supply chain and we need to pay more to attract resources
 - Subsidies have encouraged overproduction
 - There has been underinvestment in Ag and productivity gains have tapered

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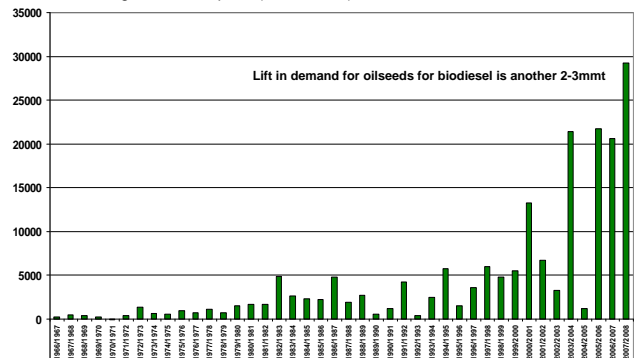
Demand - Significant fundamental changes occurring

- Demand curve has shifted (demand is higher for every price level)
 - Bio-fuels have created a new level of demand for grains (360 degree change in impact of Gov't policies)
 - Emerging economies such as China and India are less price sensitive as net wealth increases
 - Weak \$US has made US exports more affordable
 - Huge interest in ag commodities by the investment sector
 - High crude prices means greater demand for biodiesel

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China oilseeds and US corn for ethanol

Annual change in consumption ('000 tonnes)



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\$US weakness driving demand for commodities



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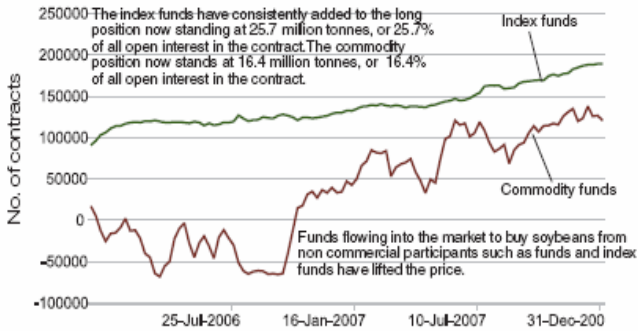
Crude driving demand for soybeans



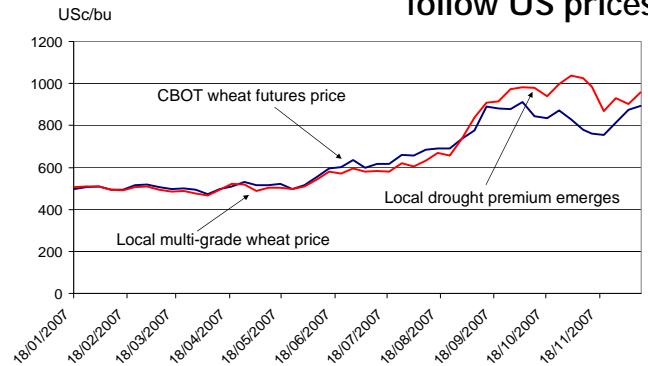
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Investors inflate grain markets (own 40% of long soybean positions)

INVESTMENT AND SPECULATIVE FLOW INTO CBT SOYBEANS



Australian prices will generally follow US prices



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Internationally - What do we expect in 2008

- No quick fix to turn around declining S:U ratios across whole grains complex
- Demand for grains to remain relatively strong (food & bio-fuel)
 - Bio-fuel opposition growing but ongoing support expected medium term
- Larger wheat (+5%/oilseeds (+18%) plantings at expense of corn (-11%) (problem for corn?)
- Grain prices to carry significant risk premium well into nth hemisphere spring
- Talk of La Nina (dry across US mid-west) to keep markets on edge and dry in spring cropping areas in north America

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Internationally - What do we expect in 2008

- As US falls into recession crude oil prices ease and \$US starts to recover by mid-year to take heat out of soybean prices, allowing other grains to relax
- Fall in feeding demand for corn may signal medium-term top in prices (March placements 2nd lowest since 1996 & US pork herd in liquidation)

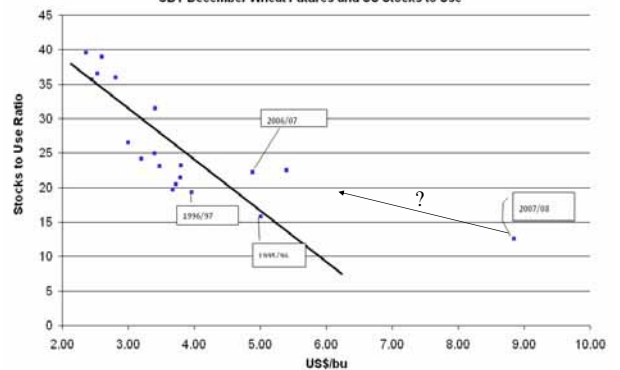
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Wheat

- Larger global crop >646mmt vs 604mmt last year, will add about 20mmt or 20% to stocks
- Export competition will intensify (larger crops in Canada +16%, Black Sea, EU +5%, US +5%, Aust +10%?)
- Demand not growing strongly
- Big wheat premium over corn will ease
- Some crop concerns but not too bad
- Price impact will be softened by stock rebuilding
- Expect a range of 700-800USc/bu for wheat with 'normal conditions'

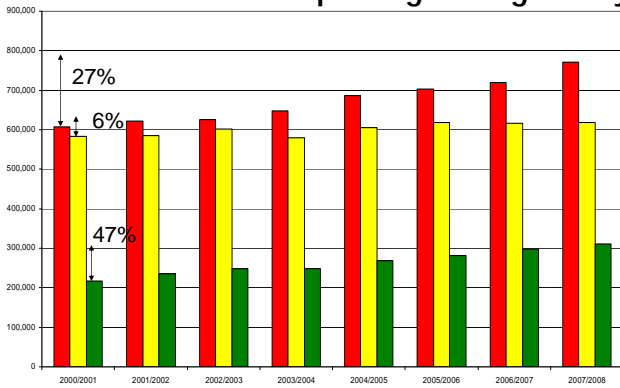
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CBT December Wheat Futures and US Stocks to Use



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Wheat consumption growing slowly



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U.S. Drought Monitor

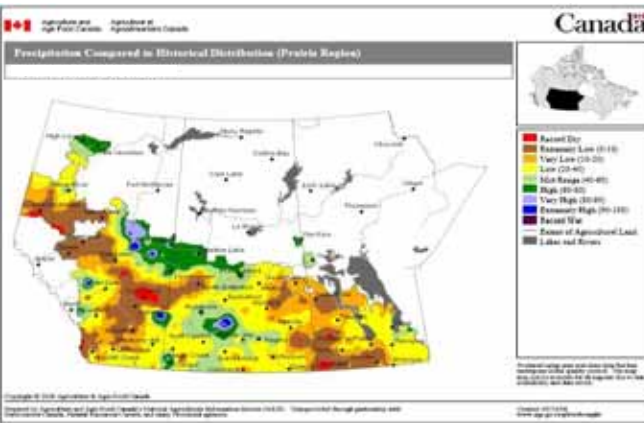


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U.S. Seasonal Drought Outlook



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Wheat - What do we expect in 2008?

- With good northern hemisphere & local conditions
 - 700-800USc/bu wheat prices (corn at \$6/bu), SA/US 0.8-0.95
 - Even basis
 - AS290-\$300/t (forward price currently AS320-340/t)
 - Other cereals will take lead from wheat (barley \$260/t, +\$40/t premium for malt, \$230/t oats)
 - Impact of deregulation (positive for export states)
 - East coast logistics may have a greater impact than deregulation on east coast

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Canola

- Larger US soybean plant (+18%) to offset impact of lower plantings elsewhere, but not address tight stocks
- Easing in crude oil prices (back under US\$80/bbl as US slips into recession) to cool biodiesel demand and calm spec investment (soy oil stocks building in US)
- Strong demand (India, China and Brazil - poultry consumption increasing at 5% p.a.) to keep prices well above historical levels. Chinese Q1 '08 soybean imports up 37%.
- Canola
 - 1200-1500USc/bu soybeans (US\$440-550/t)
 - Canola @30% premium (US\$570-715/t)
 - @SA=90USc
 - AS630/t (currently AS720-740/t)

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Barley

- Larger crops in Europe (+8% in EU and +5% in Black Sea) and normal yields will bring prices back from current levels (Ukraine expects >30% lift in prod)
- Attractive prices for other crops will limit production response (+2% plantings globally)
- Lower plantings in Australia (-10%?)/Canada (-14%)
- Barley prices will ease but not to same extent as wheat, will fall back to a normal feed spread -\$20/t, \$260-280/t, malt premium +\$40/t

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\$A

- Looking for the \$A to ease by year's end as \$US recovers (will start to recover prior to recovery in US)
- Aus/US interest rate differential close to peak
- US election later in the year (can't get worse)
- Smart money poised to pick up cheap US assets when bloodbath ends
- Australian companies have difficulty refinancing given credit crunch, currency risk and perceived risk
- As US slips into further into recession, and credit crunch plays out, global growth will slow, Asia will be disproportionately affected as will \$A (slowdown in China after Olympics?)

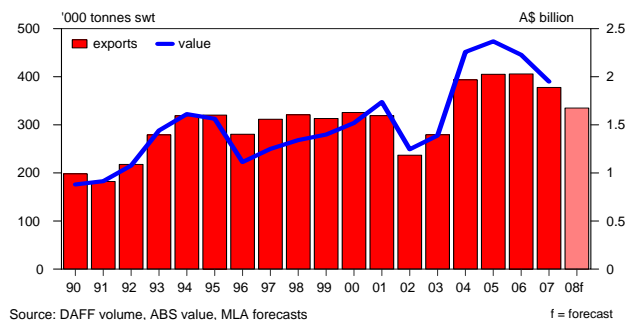
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Cattle

- Globally, livestock industries will be the major casualty of higher grain prices
- Over-time beef prices may need to adjust to higher levels and output may need to contract
- US re-entry into north Asia to pressure Australia
- High \$A
- Competition from liquidation of US pork herd (+10%)
- Feeding margins? Lower grain prices have been countered by falling beef returns from Japan (despite low shipments and tight supplies of Australian beef)
- Risk that US cattle sector starts to liquidate in response to impact on cattle prices of high corn prices?

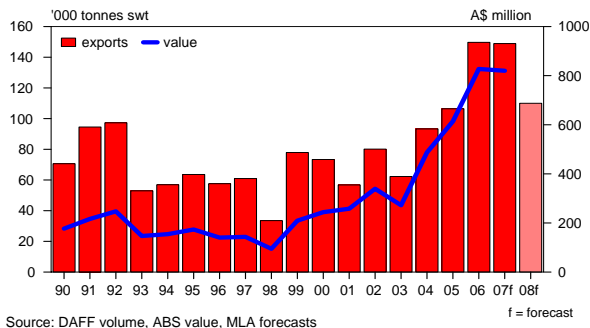
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Australian exports to Japan to fall 11%



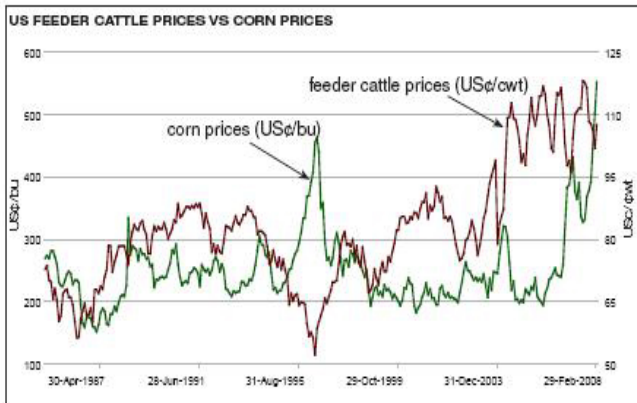
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Exports to Korea to fall 26%



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Sheep & wool

- Prices will rise, but only due to industry contraction
- Through the period of temporary supply increase as livestock producers gear up for cropping
- Industries are in a dangerous cycle

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Winners and losers

WINNERS

- Grain and mixed farming operations
- Landholders
- Grain handlers/marketers
- Services to these sectors

LOSERS

- Feedlots/Beef/Pork operations
- Sheep/wool operations
- Food companies

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Deregulation...what to expect

- Gov't is hell-bent on pushing legislation through
- There will be some adjustment pains
- More players, more products, more options, better prices
- Greater volatility, more management, greater reward for risk

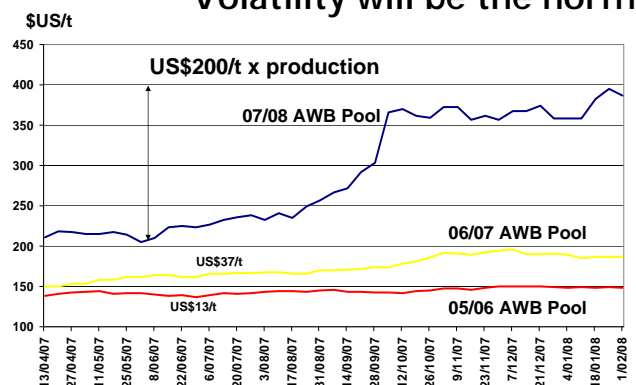
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The new environment....

- Greater general price volatility (environment, AWB/CWB)
- Widening in spreads between grades (pools no longer engaging in price averaging and smoothing ie. Noodle prices).
- More dynamic grade spreads
- Greater rewards for production risk ie. 07/08 barley market
- Shift towards forward selling, cash at harvest, smaller more dynamic and defined pools. National pools (no, regional)
- May need a strategy!!!

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Volatility will be the norm



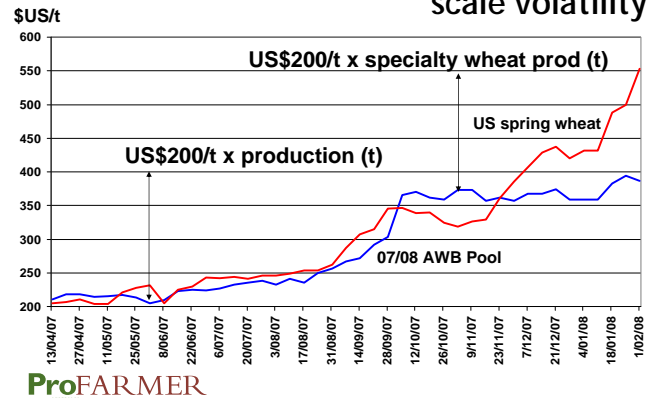
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Summary ~ Good, the bad and the Good

- Good
 - Grain prices will ease in 2008
- Bad
 - Feeder cattle prices seem to be driven by grass-fed sector
 - Grain prices are likely to rise beyond 2008 if support of bio-fuels continues
 - Market conditions in north Asia will continue to toughen (SA impact replaced by loss of market share in north Asia)
- Good
 - WA diversifying into South Asia
 - SA likely to fall by year's end

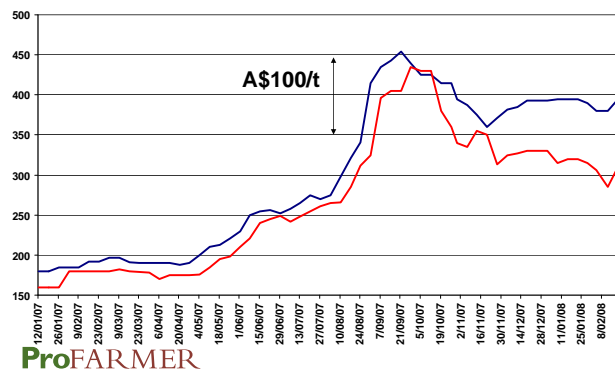
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Specialty grades to exhibit off the scale volatility



Large rewards for taking on production risk

\$A/t, Feed/Malt Barley 2007/08



Want to know more about ProFarmer?

- Go to www.profarmer.com.au and sign up no obligation free trial
- Call the office free call 1300 302 143

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Why ProFarmer?

- Huge volatility here to stay
- Access to market information improves negotiating strength and helps you make better decisions, puts you on a level playing field
- Only provider with international and national network
- Cover all major broad-acre commodities
- Too much information...keep ProFarmer & throw away the rest
- Read by over 5,000 weekly, corporate subs with all the major grain traders and banks

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