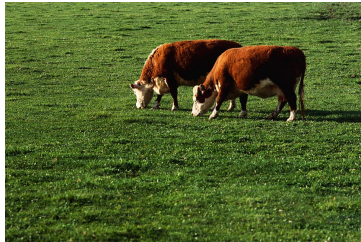


**AUSTRALIAN ASSOCIATION OF
AGRICULTURAL CONSULTANTS**
WESTERN AUSTRALIA INCORPORATED

OUTLOOK NOVEMBER 2008



AUSTRALIAN ASSOCIATION OF AGRICULTURAL CONSULTANTS

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AAAC OUTLOOK DAY

HYATT REGENCY

Friday 28th November 2008

9.45 – 10.00 am	Morning Tea – Registration
10.10 – 10.12 am	Welcome – David Williams, President AAAC
10.12 – 10.20 am	Opening – Honourable Terry Redman MLA, Minister for Agriculture & Food
10.20 – 11.00 am	Economic Outlook – Saul Eslake, ANZ Senior Economist
11.00 – 11.40 am	Biofuels & Food Security – Philip Glyde, Director ABARE
11.40 – 11.55 am	Fertiliser Outlook – Peter McEwen, CEO Summit Fertilizer
11.55 – 12.25 pm	Chemical Outlook – Roy Morgan, General Manager Conquest Chemicals
12.25 – 1.25 pm	Lunch
1.25 – 1.40 pm	Wheat Outlook – Ole Houe, Graincorp
1.40 - 1.55 pm	Beef Outlook – Van Dutton, WR Carpenter Agriculture
1.55 – 2.20 pm	Coarse Grains and Oilseeds Outlook –Chris Brooks, Managing Director Glencore Grain
2.20 – 2.50 pm	Deregulated markets – what to expect opportunities and threats - Richard Koch, Profarmer Australia
2.50 – 3.50 pm	AAAC Review of profit outlook by region Low, Medium, High Rain. Business risks, management issues <i>Shane Sander – Agvise Management Consultants</i> <i>David Ward – Farmanco Management Consultants</i> <i>James Hall – JRL Hall & Co.</i> <i>Chair – Andrew Ritchie</i>
3.50 – 4.00 pm	Wrap up followed by Drinks and Fellowship

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Foreword – AAAC Outlook 2008

Welcome to the AAAC Outlook Conference for 2008. Seasonal conditions across the state have generally been much improved, and prospects in most sectors of agriculture are very sound. The conference has attempted to provide an outlook for some of the key agricultural commodities and inputs in 2009, along with some overall perspective on the industry and economy in general.

Extreme volatility is the key issue facing all sectors of agriculture with commodity prices falling strongly along with many of the other investment markets around the world. The falls in many commodities has corresponded with a substantial fall in the Australian dollar, which has cushioned the drop in commodity values to a certain extent. Input costs have also been on an extremely volatile ride both up and down again during the last 12 months.

One of the most exciting aspects about agriculture is the strong medium and long term fundamentals associated with food production. Less arable land and an ever increasing world population will continue to underpin agriculture in Western Australia. The close proximity of Western Australia to the fastest growing economies in the South East Asian region will continue to provide opportunities for growers of all food products.

The new Liberal and National government in Western Australia will see some changes to agricultural policies during the next 4 years. Issues currently on the agenda include genetically modified crops, Grain Licencing Authority and regulation of barley, canola and lupin exports from WA. These and many other issues will continue to dominate debate in agricultural circles for the coming 12 months.

Thank you to all who have agreed to present today and those who have been involved in putting the day together. We present a diverse range of topics including economic outlook, farm business outlook, impact of deregulation, cost of the main inputs as well as an outlook for each of the key commodities. The final presentation for the day involves a panel of AAAC members that will summarise the key business outcomes for the low, medium and high rainfall regions of the state.

On behalf of AAAC we would like to wish you a very successful 2009.

David Williams
President
AAAC (WA) Inc

Outlook for the farm sector

Presentation by Phillip Glyde, Executive Director, ABARE
Australian Association of Agricultural Consultants (Perth)
Friday 28 November 2008

Outlook for the farm sector

- The overall value of farm exports is projected to rise from \$27.5 billion in 2007-08 to around \$30 billion in 2008-09, although farm prices are expected to ease from the recent highs.
- Production of crops and livestock are forecast to increase in 2008-09, as seasonal conditions improve from the previous year.
- The recent sharp depreciation of the Australian dollar is expected to provide support for Australian commodity exports.
- In terms of the implications of the financial crisis on individual commodities, consumer demand for meat in the OECD economies is relatively inelastic to change in incomes. The impact on world demand for grains is likely to be less significant.
- Despite the recent turmoil in global financial markets, longer term demand for agricultural commodities will be supported by continued robust economic growth in the emerging economies, particularly the projected increase in the middle income population.
- Specifically, significant income growth in China and India is expected to lead to higher commodity demand in the foreseeable future.

Longer run issues that will affect the farm sector

- Supply related shocks have contributed to the recent rise in agricultural commodity prices, including lower crop production in recent years (due to adverse seasonal conditions) and the associated decline in global stocks, particularly for grains.
- Demand factors include increased demand for food commodities as a result of rising incomes in the emerging economies and government supported biofuels production.
- As global biofuel production increases, and in the absence of commercially viable 'second generation' feedstocks, the industry's demand for agricultural feedstocks

will increase, leading to diversion of more grains, soybeans, sugar and vegetable oil away from food and feed for humans and animals.

- Climate change and climate change policies are key challenges for the farm sector in the medium to longer term.
- Climate change impacts are likely to vary across regions, with broad-based regional economies likely to be less impacted by climate change than those with significant dependence on a particular industry. Regions in south western Australia appear to be particularly at risk –compared to the northern Australian counterparts.

WORLD FERTILIZER OUTLOOK

Peter McEwen, Summit Fertilizers

Overview

The fundamentals for agriculture remain very favourable with grain stocks to usage ratios remaining at very low levels despite two near record international harvests.

The pendulum for grains is delicately balanced, but the upside for grain prices is high.

Fertilizer is very closely related to grain and during the past two years for commodity fertilizer we have seen dramatic changes in international pricing.

For example, DAP rose from USD230pmt FOB US Gulf in November 2006 to USD430pmt in November 2007 to USD1230pmt in February 2008 to USD565pmt in November 2008. These dramatic changes were not forecast.

What will the price be in March 2009? Clearly no-one really knows.

In recent times a substantial fall in most fertilizer product prices has occurred. Urea (ME Gulf) dropped to US\$250 from its peak of \$895 which was experienced just three months ago. □ Sulphur (CFR China) is now traded at \$50 and Ammonia (FOB Yuzhny) is now \$240, both of which were above \$800 in August. Only potash has yet to show any sign of price erosion, and Japanese contract buyers recently agreed to a price increase of \$200 for the 1st half of 2009.

The AU:US\$ exchange rate has buffered some of these rises and falls for Australian importers as can be seen in the following graph:



AAAC Outlook Conference – Friday, November 28th, 2009

AgroChemical Outlook – Roy Morgan, Conquest Agrochemicals Pty Ltd.

1. Australian AgChem Market

- Size
- Participants
- Segmentation
 - i. Generics
 - ii. Proprietary technology
 - iii. GMO's

2. Regulatory Environment – Short to mid term

- Structure and Efficiency
- AgQA – Quality Assurance
- Data Protection (DP)
- Existing Chemical Review Program (ECRP)
 - i. Legislative powers
 - ii. Current reviews
 - iii. Potential reviews
- Lobby Groups – CropLife, Greens

- Better Farm IQ (Grain QA)

3. Supply – Short term

- Rationalisation & reorganisation
 - Domestic
 - Global
 - Formulation & manufacturing capability/capacity
- Credit Crisis
 - Currency values and fluctuations
 - Raw materials
 - Logistics
 - Export Incentives – China
 - Access to credit
 - Opportunities

Product Specific examples such as glyphosate, trifluralin, phenoxies, triazines, other - For the above issues.

Setting the scene for a global rebound in grain prices.

Presented by Ole Houe, Graincorp

Like most cyclical commodities grain tends to “overshoot” its mark, both on the downside as well as on the upside. We have currently reached a price level where it looks like we have overshot prices to the downside. What compounds the situation is that we come straight from a situation where the market severely overshot to the upside. This makes the current prices (mid November 2008) even less palatable.

Despite the severe global financial downturn the basic medium to long term forecasts for demand still hold true. We still have a growing global population and even more importantly we continue to see a shift from grain based foods to protein based foods in some of the more populous countries in the world. Whilst the financial situation may reduce demand in the short term it will not be able to stop growth in grain demand for long.

However for the next 12-18 months we see the support to prices to come more from the supply side than the demand side. We are seeing prices reaching a level where growers will seriously consider reducing total production or switching to alternative crops where possible. This phenomenon is not only visible in Australia. We get the same messages from EU, USA and even the typical “low cost producers” such as Ukraine and Russia. The drop in input cost such as fuel, fertilizer and chemicals is not enough by far to sustain production levels such as what we have seen this year.

With global stocks still predicted to be only around 120 million mt (which is already at a 23 year low) we can ill afford to see this reduced much further. A drop of even 10% in global production (not matched by a similar reduction in consumption) will shave 60 million mt of global stocks, bringing it down to half of what it is today!

However despite all these bullish sentiments there is certainly scope for prices to fall even further in the near term. There is ample wheat in the world for now. Furthermore most of the typical “long holders” have got reduced credit limits which means that they will mainly buy for the short term.

For the Australian prices we believe that the two key drivers of prices will be harvest pressure (or even post harvest pressure) and currency. Most of the grain produced in Australia today is still in warehouse and this has driven prices up in all states. How much the growers need to sell during or just after harvest will determine short term prices. The currency is the biggest other single factor. At the moment we see swings of 4c per day and with the value of 1c being about A\$5/mt of grain values it is easy to see how big a factor currency is. There are so many extraneous factors impacting on currency that we believe it is impossible to have a well founded view on the currency at the present moment.

In summary we will see strong support of grain prices but it is unclear whether this support will be shown in the next 3, 6, 12 or 18 months.

Outlook for Beef Markets in 2009.

Presentation by Van Dutton, WR Carpenter Agriculture

The presentation will start by looking at historic data of Australian beef exports to different countries. This will give a picture of the recent trends in the destinations for Australian beef.

Next the presentation will indicate the opportunities for the Australian beef trade in 2009 by briefly assessing factors that drive demand for beef in each market. These factors are:

- Political Situation**
- Economic Situation**
- Domestic Production**
- Market Access**
- Consumer Trends**
- Competitor Developments**
- Specific Opportunities**

The presentation will take into consideration all the above factors with reference to the current economic situation in the world.

The deepening financial crisis in the US and around the world will continue to weigh on business sentiments in Australia and its exporting markets. The IMF latest forecast cuts the global growth by $\frac{3}{4}$ of percentage point to 2.9 percent for 2009. In Australia RBA also slashed the country economic growth for 2009. Such a financial environment plus the re-entry of US beef (competition) in international beef markets

can make the outlook for Australian beef in 2009 daunting especially in its traditional markets of Japan and Korea.

However, there will be bright spots for Australian beef in 2009. The bright spots lie in Asian countries whose economies are still forecast to grow at 5% on average in 2009 (IMF, November, 2008). This will represent a compelling need for Australian beef producers to shift their market focus from traditional beef markets to new ones with better growth potential in Asia. In addition, if the current 'deleveraging' process continues, the weakness of the Australian dollar will strengthen the competitiveness of Australian beef relatively to its rivals.

Another bright spot is in the domestic demand for beef. Australia has a relatively high consumption level of beef per capita. Even with the slowdown in the economy in 2009, it is expected that domestic market is an important market for Australia beef in 2009.

The presentation also looks at the supply of beef in rival countries with Australia to draw the conclusion that there will be some tightness in the supply of beef globally in 2009. The supply tightness will offset some downward pressures on prices due to weaker demand in some beef markets.

In conclusion, 2009 will represent challenges and opportunities for beef producers in Australia. The challenges will be lower demand in some markets due to the global economic slowdown. However, these challenges will create a compelling need for beef producers to become more proactive, more innovative in their market development and marketing tactics, which will make them better enterprises when the dust of the financial crisis settles down.

Deregulated markets – What to expect, opportunities and threats

Presentation to the AAAC, Richard Koch, Managing Director ProFarmer Australia

It is almost impossible to disaggregate changes in the market environment as a result of deregulation from other general changes. Some of the major changes that we have witnessed over the past 1-2 yrs include:

- Grain stocks falling to 'critically' low levels
- Supply chain capacity issues (freight, inputs, labour)
- Shift in grain trade balance of power towards 'less reliable exporters'
- Climate variability

More recently tightening access to finance and heightened counter-party risk has also acted to change the way the market operates and how our clients do business.

The manifestation of these influences is enormous general price volatility. In 2005/06 the range of pool estimates was US\$13/t. In 2006/07 the range was US\$37/t and in 2007/08 the range was US\$200/t. Already in 2008/09 we have seen prices move from near A\$460/t to below A\$300/t. With the enormous increase in volatility the industry has entered a new risk/reward paradigm. Volatility can be a threat or an opportunity, depending on how it is dealt with. How is each sector of the industry dealing with this?

On top of this and more directly related to deregulation the market is also changes shape. Markets are now reflecting the true value of grain produced. We are seeing widening and more dynamic grade spreads as pools no longer engage in price averaging and smoothing. If your wheat is downgraded to feed you will cop a heavy discount – reflective of the international milling vs feed wheat spread. On the flip side,

WA wheat for the first time ever maybe is consistently trading above east coast, reflecting the proximity of WA to key Asian export markets, cheaper freight costs and less complicated logistics.

Other obvious changes are that there are more players, more products and increased product sophistication. Key questions are; how do we gauge counterparty risk and product and management performance. It is not as simple as it once was!

For our clients the upshot of this is that more information and more planning is required. How as an industry do we facilitate this?

NOTES