

The Soft Commodities Boom - Implications for the Grains Industry

Panel session

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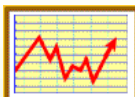
July 29, 2008





The Soft Commodities Boom

- Global soft commodity price rise
- Market volatility
- Market structure
- Scenarios based on a cash market
- WA's need for increased liquidity in trade

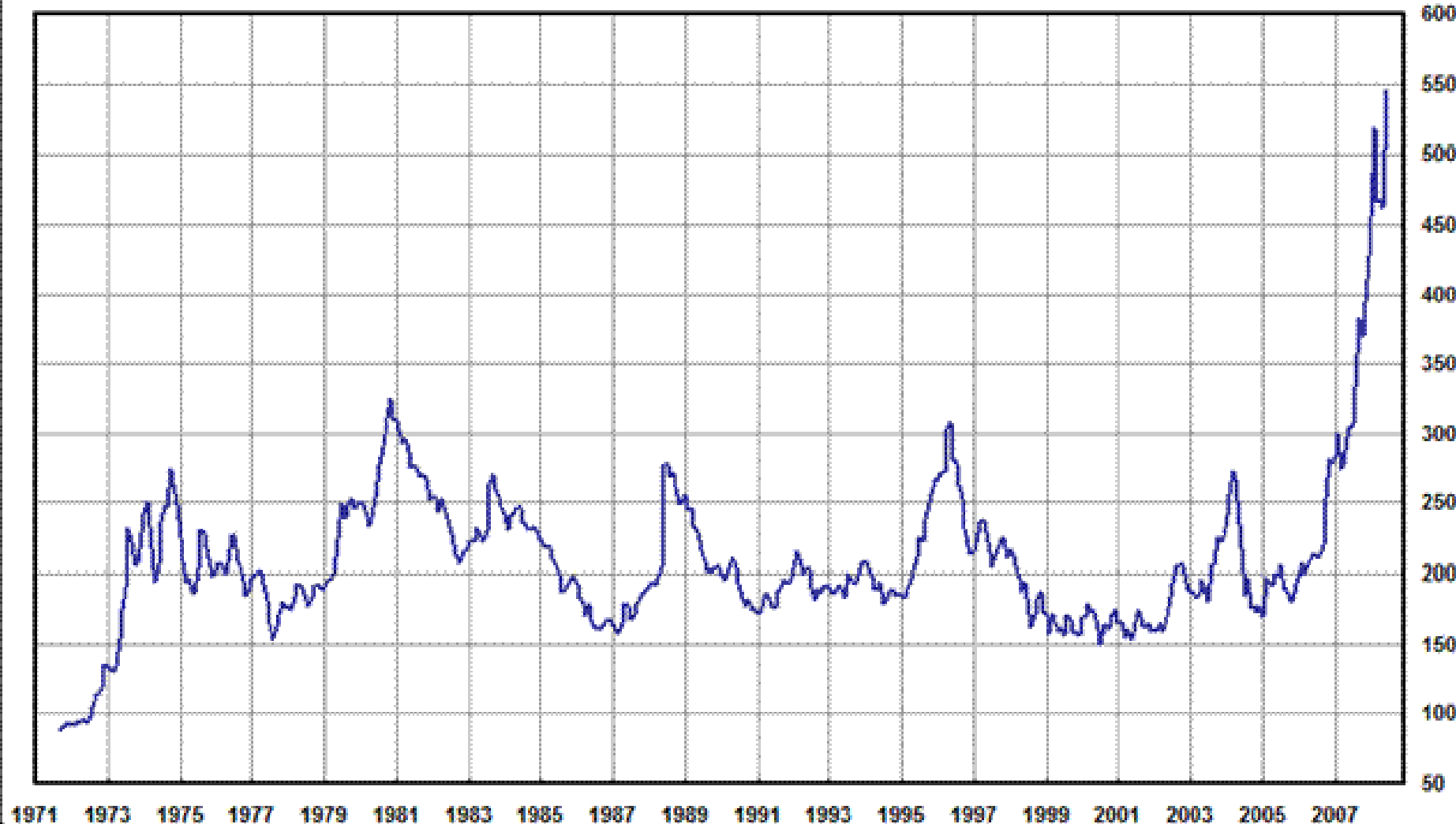


Reuters-CRB Grains and Oilseeds Sub-Index (1967=100)

(monthly close) September 1971 - June 13, 2008

© Reuters

Index Value



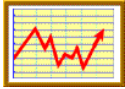
The Soft Commodities Boom

- Global soft commodity price rise
 - CRB grains index rapid increase
- Drivers for this increase
 - A significant increase in the bio-fuels industry
 - Global production has been affected by droughts
 - Developing nations increased meat consumption
 - Lack of investment and returns in Agriculture



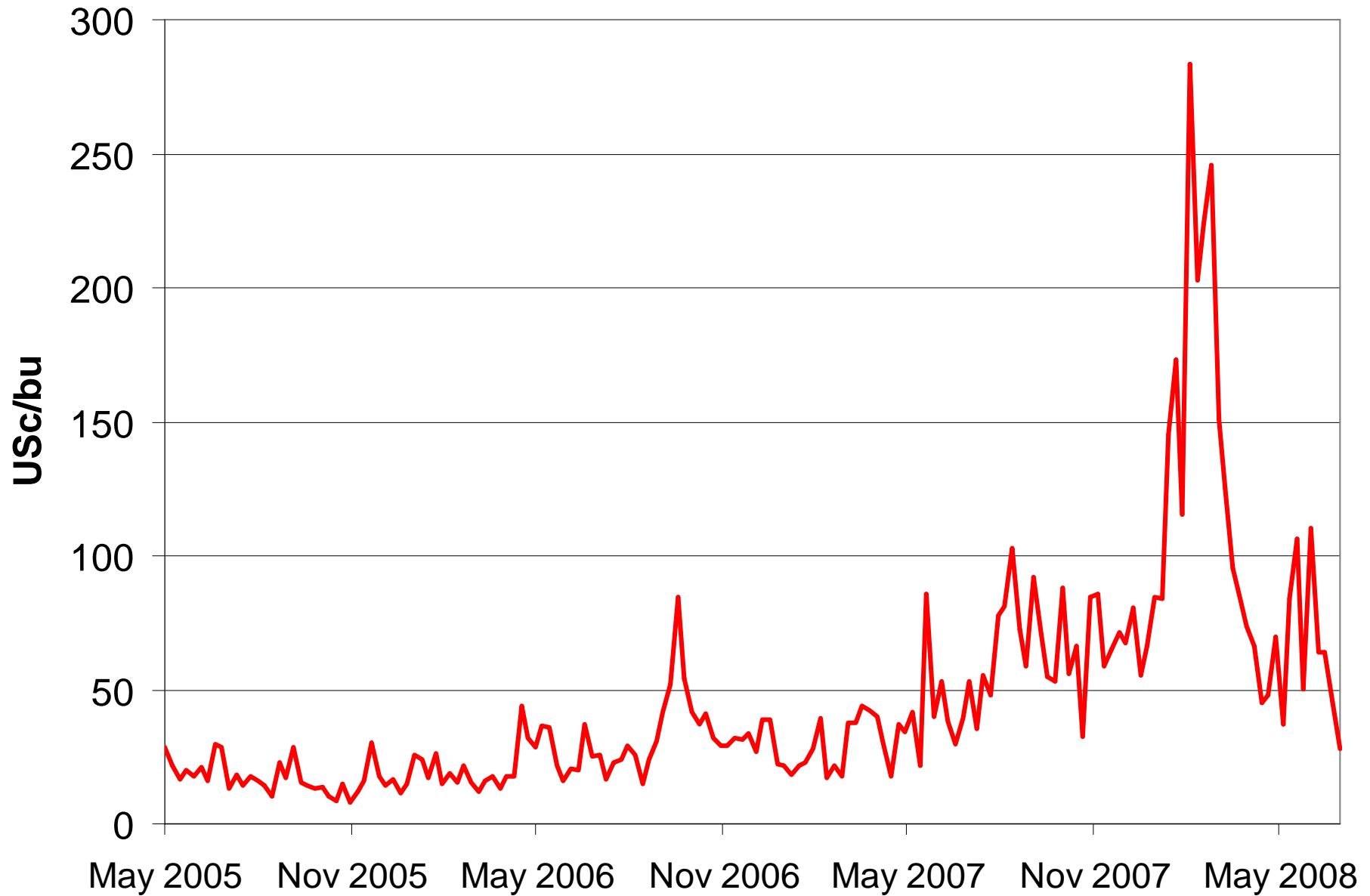
The Soft Commodities Boom

- Volatility
 - Global stocks drawdown
 - Funds involvement in soft commodities
 - CFTC change in daily trading limits
 - \$13 billion in 2003 to \$260 billion in 2008
 - Financial speculators now control two-thirds of the commodity market

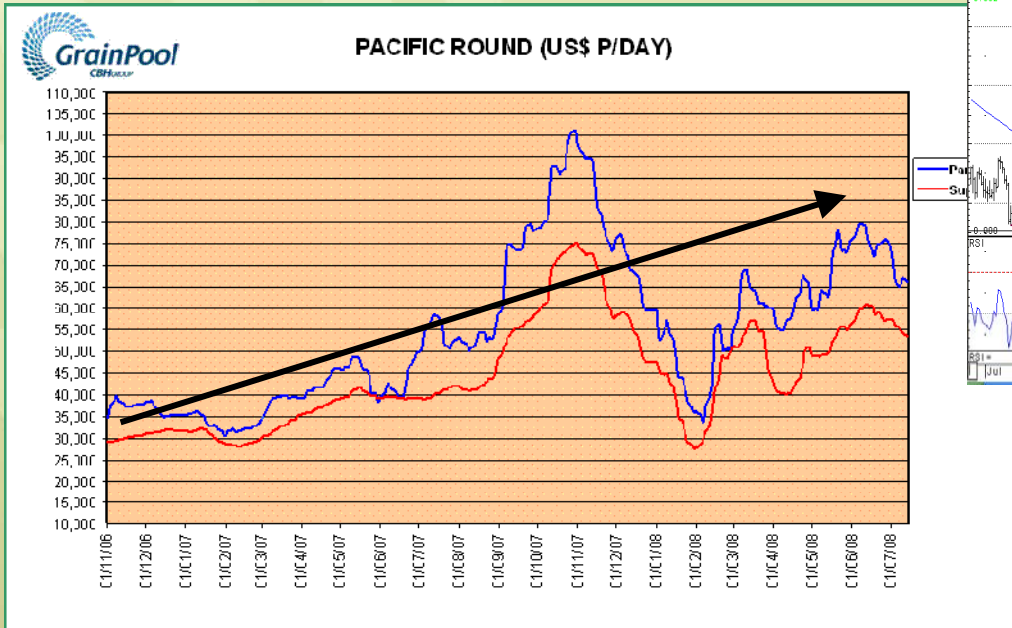
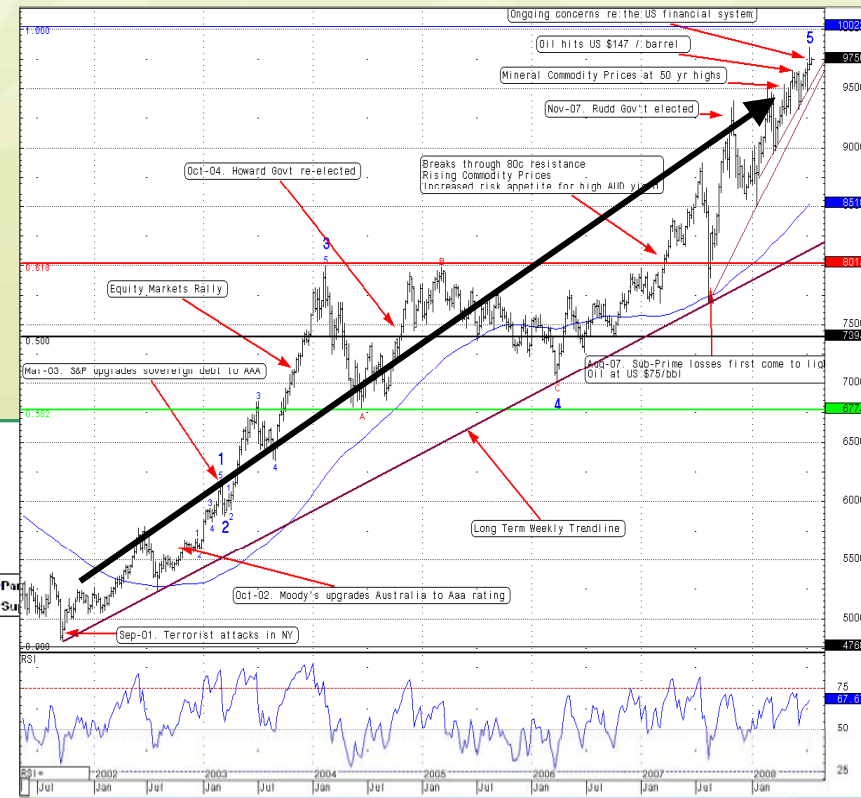
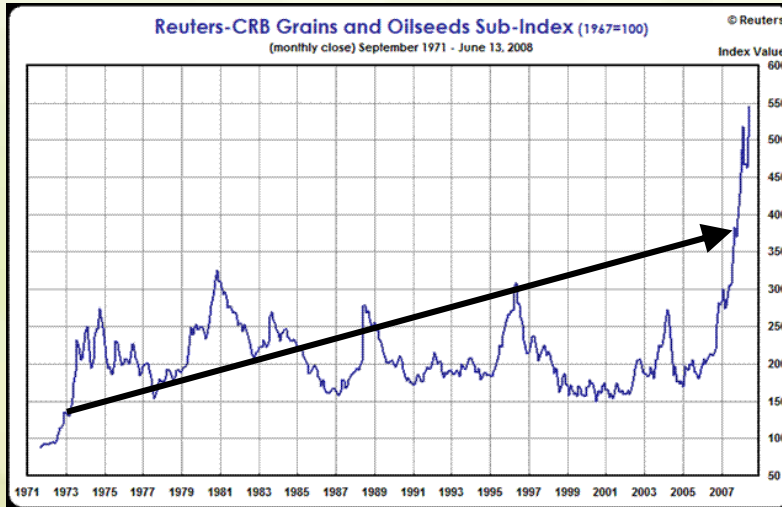


CBOT Wheat futures - INTRADAY VOLATILITY

Source: Reuters



The Soft Commodities Boom





Market structure and funding

- Market structure
 - Majority of Australian grain is harvest marketed
 - Different to North American grower trade
 - Pools versus Cash
 - Is CASH king? Definitely with historically high values
 - Pooling will still be a well utilised option
 - Increased marketing options in deregulated market



Market structure and funding

- Funding for the crop
 - US sub prime credit collapse in the last 12 months
 - Debt funding no longer readily available
 - How much is required?
- Lacking of funding risk
- Trading risk for cash purchases

Basic Trading Scenario

- Board of Directors meeting
- Recommendation to buy \$2 billion in soft commodities
 - all bought at a spot cash value to be paid in full within 15 days;
 - with an aim to hedge all wheat and canola purchases in a market where volatility has significantly increased;
 - to purchase barley where there is no reliable way to hedge the price risk apart from making physical sales;
 - and all of this with fluctuating freight rates and an appreciating Australian dollar.



Liquidity in Trade

- Pooling – sharing risk with potential for upside
- Track trade will assist in providing exporters liquidity
- Volume will increase significantly
- Counter-party risk for all players has increased due to recent companies placed into receivership



Thank you