

Protection Plus Wheat

April 2011

Pool Talk

Market view and strategy

Since the previous *Pool Talk* the international wheat market has dived lower despite relatively unchanged grain fundamentals, with global economic uncertainty making the market extremely volatile.

Unfortunately this has been amplified for Australian growers by the strength of the AUD.

While the US Hard Red Winter (HRW) crop, a major driver of Australian APW wheat prices, remains in poor condition it's price has wilted. At the same time corn prices have managed to rise significantly posing fresh issues for the wheat crop.

With the poor condition of the crop and dropping prices, the incentive to plant over the top of it with higher-priced and potentially better-yielding corn is climbing. US hard wheat faces a tough fight and, given how tight it's stocks are already, it makes it hard for us to have a bearish view on wheat prices in the short to medium term.

Despite our view, the market has managed to drop significantly. With uncertainty surrounding the Middle East and Japan, the market retraced 28 percent between 9 February and 16 March.

This was followed by a 21% recovery as dryness in the HRW belt and the realisation of the acutely tight corn stocks in the US triggered buying activity.

Unfortunately since then the market has declined again.

In these conditions, the pool's high-hedge percentage has been of great value. Coming out of the Western Australian harvest, marketers will start to place physical sales on for their pools.

Unfortunately, post-WA harvest is when the market took its biggest dive. The benefit of the Protection Plus is that it was largely hedged at the numbers seen over harvest so it has been able to absorb the decline and hold in fact has increased in its EPR by a further \$10/mt.

Over the past two months the management team behind the pools (Tony Smith, Rob Kelly, Ben Gliddon, Aiden Blechynden and Paul Smith) decided to take advantage of the decline in international wheat prices and remove the upside limits on the Protection Plus pool.

It is now structured with around 30% futures and physical sales and the remaining hedge is a straight put option.

While the Protection Plus will not be the best 2010-11 pool return, for a product that has been in effect fully hedged since May 2010 (when cash prices were \$265/mt FOB equivalent) the return is shaping up to be an excellent result.

Foreign Exchange view and strategy

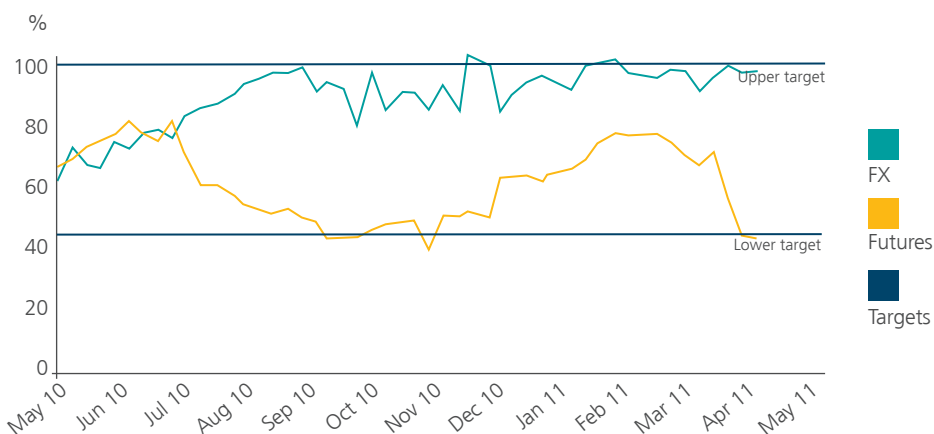
The AUD has been performing strongly despite global risk aversion events. This has not been helped by the US lagging the other major economies in their rate hike cycle.

Our view is that the AUD will continue higher in the short term and then weaken in the long term, most likely when the US rate hike cycle begins.

The Protection Plus has remained at the upper limits of its mandate, insulating it from the strengthening AUD.

Hedging strategy

Foreign Exchange and Commodity Cover



For further information on the Protection Plus Pool, contact your local CBH Grain Business Relationship Manager, CBH Grower Service Centre on 1800 199 083 or Plum Grove on 1300 411 155.

This Pool Talk is compiled by CBH Grain Pty Ltd ABN 39 089 394 883 (AFS No. 269743) and may contain general advice which was prepared without taking account of your objectives, financial situation or needs. You should, before acting on the advice, consider the appropriateness of the advice having regard to your objectives, financial situation and needs.

Snapshot

PROJECTED POOL FINALISATION DATE:

25 November 2011

| | |
|-----------------------|--------|
| EPR AT POOL INCEPTION | \$250 |
| CURRENT EPR | \$350 |
| CHANGE | +\$100 |

Budget Guide

Based on APW2

ADVANCE

02/12/2011

\$35.00 / t

08/07/2011

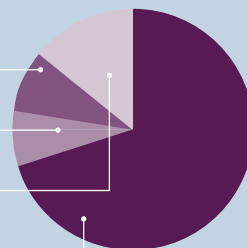
\$26.00 / t

11/03/2011 (top up)

\$82.75 / t

Harvest

\$206.25 / t



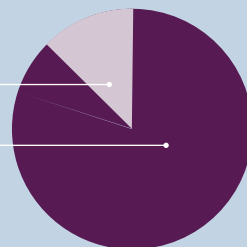
DEFERRED

02/12/2011

\$35.00 / t

01/07/2011

\$315.00 / t



DISTRIBUTION

02/12/2011

\$35.00 / t

08/04/2011

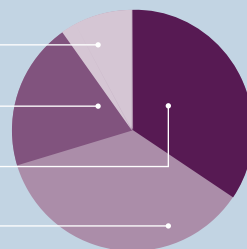
\$71.40 / t

08/07/2011

\$121.10 / t

07/10/2011

\$122.50 / t



CBH Grain will make best endeavours to achieve payments by the dates indicated above, however dates and top up payments are not guaranteed. Budget Guide should be used as an indicator only. Growers should refer to the CBH Grain Budget Guide at www.cbh.com.au for more details.



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