



Farmanco Facts

Agribusiness Edition



FARMANCO

December 2009

EDITORIAL

Carly Veitch



Welcome to the annual Agribusiness edition of Farmanco Facts. The Agribusiness edition contains a selection of articles from our monthly client newsletter, as well as Farmanco budgeting information for 2010.

As they say, no two seasons are the same in the farming game. For many clients their 2009 budgets looked reasonably optimistic, with high grain prices, and fertiliser prices, whilst still historically high, having come back off their peak. Well, what a difference a year makes.

The season began with reasonably widespread rains on May 21. The late break meant many crops went in without a good knockdown. The wet July then meant many growers couldn't get back onto the paddocks to spray. As a result, we have seen one of the worst years for weeds in recent memory. In northern areas, the carryover impact of the bumper 2008 crop was evident, with many wheat-on-wheat crops lacking in nitrogen and suffering from leaf disease.

October rainfall failed to materialise in most parts, with a couple of very hot days in late October effectively finishing the season for most.

This was then followed up by rainfall events in November, just as the majority of the hay crop was on the ground. As a result, crop yields for much of the state have been below what was expected, and grain quality issues have been rampant. Canola yields have been particularly disappointing. Quality issues have meant reduced proportions of barley crops making malt grade. Reports on the wheat so far have been more positive, though reduced yields and some quality concerns are still evident. Tim Tresize has provided a review of 2009 from an agronomist's perspective, we hope you find his thoughts interesting.

On the marketing side, it has really been a similar story. In the first week of June, when most clients were focused on getting the crop in the ground, 2009 wheat could be sold for \$330/t FIS, and canola at \$575/t FIS. The effect of a relatively good production year worldwide, over the second highest cropped area on record, combined with the appreciation of the Australian dollar, has seen grain prices drop by 25-30% since then. Clients are now experiencing the opposite of the effect of 2007, where crop were put in with the inputs purchased before everything shot up, then sold at the peak of grain prices. Those clients who were well organised with a grain marketing plan have

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achieved the best out of this situation. Mae Connelly's article from our November edition looks at grain marketing strategies for the 2009/10 harvest.

One positive outcome has been the increase in sheep sale prices for producers. Many growers have been exiting the industry after successive years of losses in their sheep enterprise. However, despite what you may have read in the media, the increase in prices will not necessarily translate into big profits. The Farmanco Profit Series showed an average budgeted cost of \$76 per head for each sheep produced, and \$6.78 per kilo of wool produced for 2009. The reality is that for most growers, particularly those in the low and medium rainfall zone, the outcome is most likely to be a break-even situation, or only minor profits in their sheep enterprise. The profit outlook



for sheep enterprises was explored in my article from the November edition of FARMANCO Facts. The end result is that the 2009 season is likely to be one that many growers would prefer to forget. It is likely that profit margins will be slim, with many having made a loss. For those who have had a poor production year, this loss may be significant.

The 2009 year has also seen some changes for FARMANCO. FARMANCO now have 25 agricultural consultants, agronomists, grain marketing specialists and corporate agriculture advisers on board.

The corporate farming sector is becoming a significant player in WA farming. In response, Gordon Verrall and Ken Severson are now moving out of their previous roles as management consultants to family farming clients, to head up FARMANCO Corporate Agriculture. Ken will, however, continue to give advice in the area of Farm Succession Planning. Cale Beard, a recent Muresk graduate, will be working with them.

It is intended that FARMANCO will pursue corporate investment in Western Australian agriculture and ensure that this investment is done on the basis of solid due-diligence and with the investor fully aware of the risks and returns that an agricultural investment presents. Where investors do not wish to farm the land they own, FARMANCO clients will be able to benefit from accessing long term lease land (10 years) at a predetermined lease value. This of course allows clients to significantly increase business scale with a secure tenancy basis, but without the need to tie up large sums of capital in land ownership.

Greg Easton is a new addition to the consulting team, joining us from Bankwest. He will be based in the Mundaring office, servicing clients in the northern and central wheatbelt. Tywen Dawe, another recent Muresk graduate, will be assisting David Ward during this review season.

The agronomy team has had three new additions. David Stead joined us in February 2009, based out of the York office. He currently works with clients throughout central wheatbelt. David Cameron and Brent Pritchard both come to us from Elders. David is based in Moora, working with clients in the Midlands and Northern wheatbelt areas. Brent is based in Albany, and will be servicing clients in the Lower Great Southern and Southern Coastal areas.

Ryan Duane has joined the grain marketing team, after previously working for the AWB. Ryan will look after clients throughout WA, though will have a focus on the central and southern grain growing areas.

Farmanco budgeting information is provided at the end of this edition. It is always a difficult task to estimate future commodity prices, particularly in this era of extreme price volatility. The figures provided are our current best estimate of where we see prices for 2010. As always, we hope you find them useful as we look towards the next production year.

If you have any clients who you feel would benefit from any of FARMANCO's services, please do not hesitate to contact us. All at FARMANCO wish you and your families a Merry Christmas, and all the best for the New Year.

PROFIT SERIES 2008/2009 (SEPTEMBER)

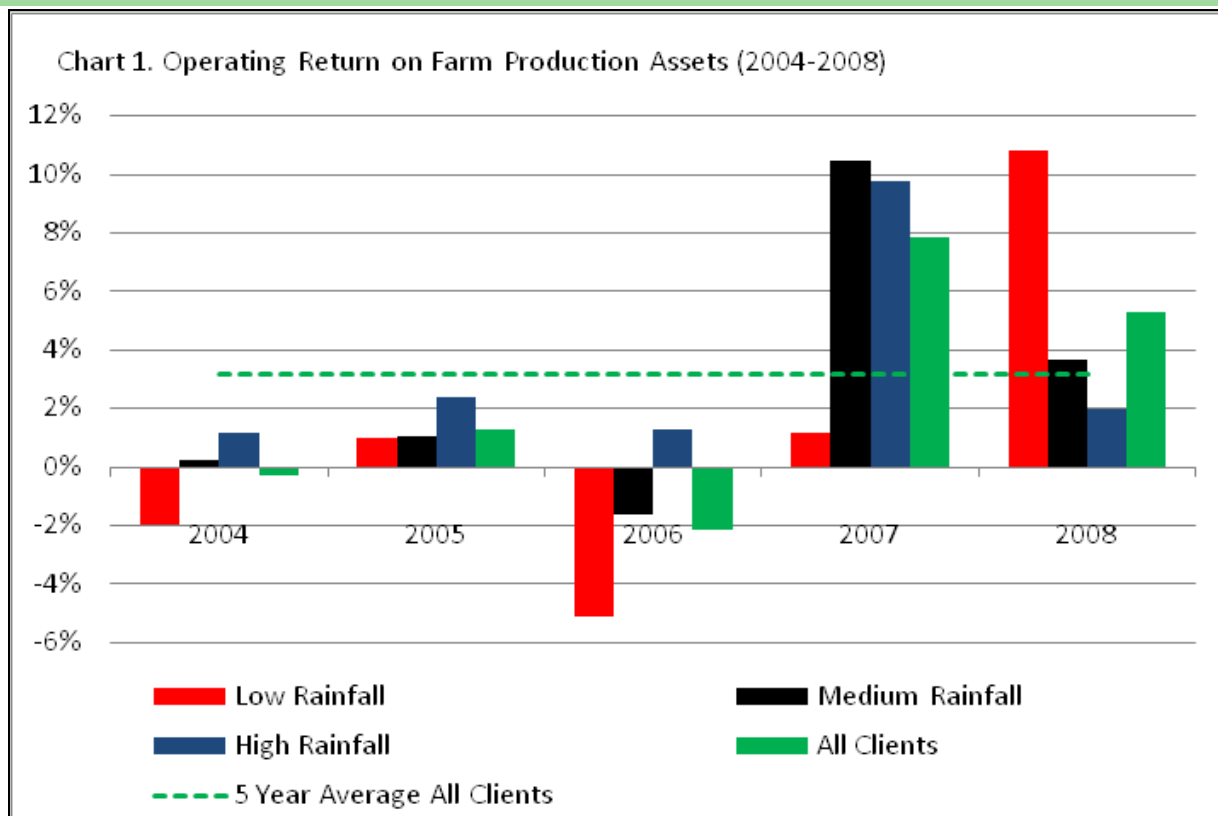
David McCarthy, reviewed by Eric Nankivell

SUMMARY

- Return on assets has averaged 5.28% across all clients in 2008; the second highest in the last five years.
- The low rainfall zone had a large recovery from the disastrous 2006 and 2007 seasons, with wheat yield approaching 1.67t/ha. This was very close to the medium rainfall zone of 1.85t/ha.
- Improved yields saw the low rainfall zone

achieve a return on asset of 10.84%, the first major profit year since 2003.

- Crop costs have continued to climb, reaching \$341/ha for the cropping program in 2009. However, forecasts are for gross margins to be maintained in-excess of \$200/ha, in line with long-term trends.
- Sheep gross margins continue to be placed under pressure from high variable costs and low wool prices. However, current sheep sale prices could alleviate this outcome



above the current forecast for the budget in 2009.

The 2008-09 edition of the Farmanco Profit Series will be in the mail by early September. We have taken the time to look at the macro trends across our client base to assess performance in 2008, along with looking at forecasts into the coming year.

RETURN ON ASSET

The Return on Farm Production Asset shown in [Chart 1](#) highlights the very difficult period that the low rainfall zone has experienced since 2004. This was thankfully reversed in 2008, due to wheat yields rising to 1.67t/ha combining with low cost of production, to see the low rainfall zone achieve a return on asset of 10.84%. This is the first major profit year since 2003 and is certainly reward for those businesses that have traded through this very difficult period when they have been under significant financial and emotional strain.

For the medium rainfall zone the 2008 season was largely a disappointment, particularly in southern areas where frost affect reduced crop yields considerably, resulting in a return on asset of 3.67%. This was also the case in the high rainfall zone, which achieved a return on asset of 1.97% and was again affected by lower crop yields with water logging being an issue in some areas, along

with frost affect and the dry period through August and September.

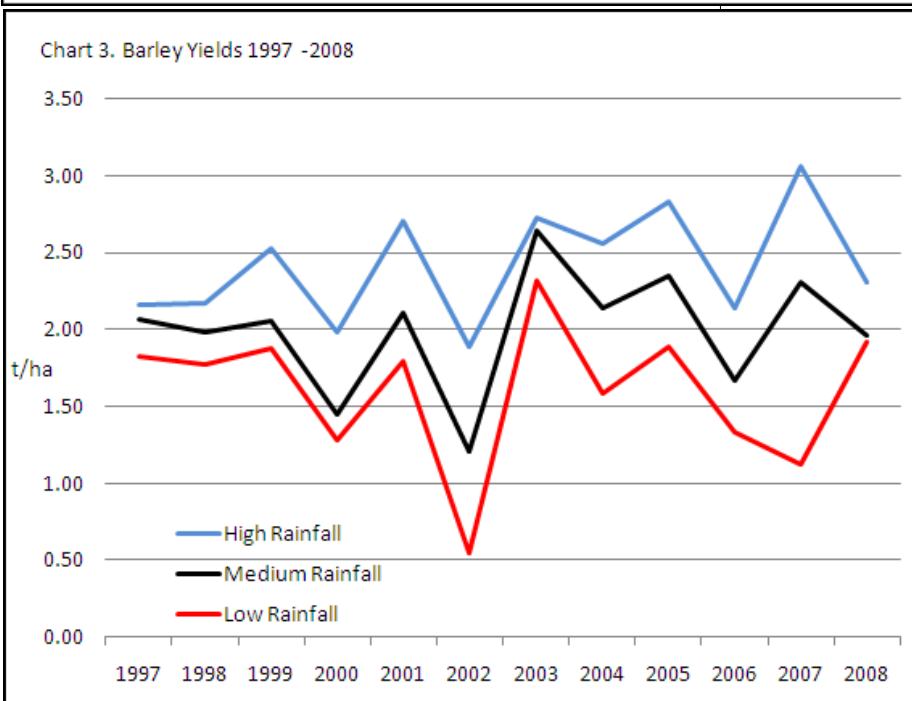
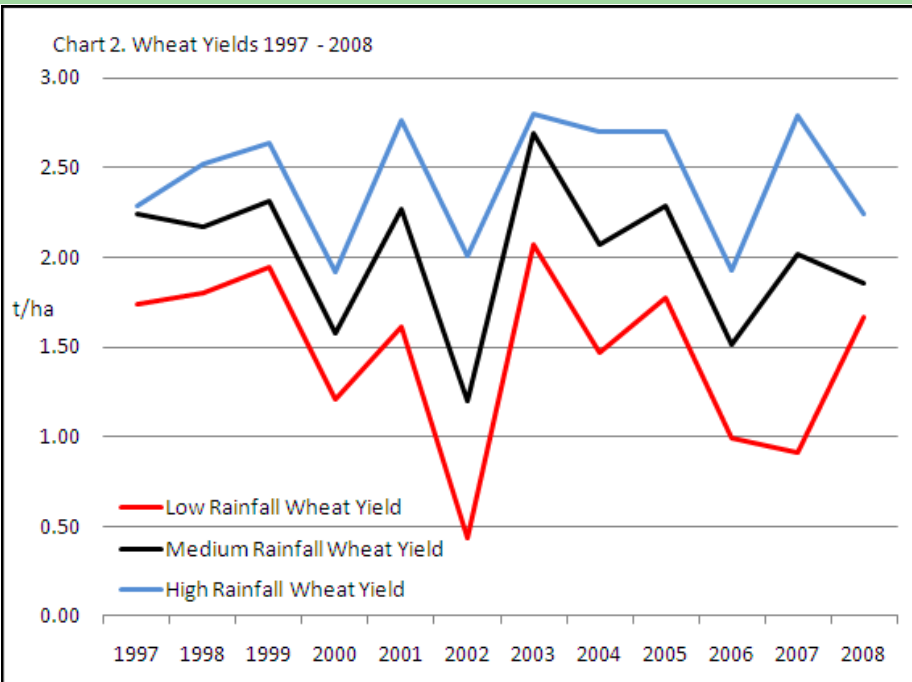
The 2008 season was a large turnaround on the exceptional performance in 2007 through the medium and high rainfall zones. For many businesses this resulted in a breakeven cashflow position, which is tightening the cash flow moving into the 2009 season. Budgets prepared at the beginning of the 2009 year indicated a return on asset forecast of 2.55% across the client base, which for many businesses will only be marginally enough to cover finance costs.

In general, we will need to see above budget yields for many clients to see significant cash surpluses generated in 2009.

CROP YIELDS

The Wheat Yield Chart from 1997-2008 ([Chart 2](#)) is shown overleaf and highlights the significant improvement in performance of the low rainfall zone, after two seasons of below 1.00t/ha.

For the medium rainfall zone the up-down pattern of the last 12 years has continued, with frost affect impacting on crop yields with wheat falling to 1.85t/ha and 1.96t/ha for barley. Wheat yields across this zone have seen no major improvements for the last 10 years, with environmental impacts



determining the majority of yield rather than improvements in agronomy packages or varieties.

This is not the case for barley. Barley yield (Chart 3) has an upward trend pattern, which we believe is largely due to improvements in varieties in recent years, but also the adoption of significant fungicide usage on these better yielding varieties. In the low rainfall zone barley yields approached 1.92t/ha, which was an impressive result and nearly matched the medium rainfall zone average of 1.96t/ha.

ENTERPRISE ANALYSIS

The following series of three charts shows the enterprise analysis in profit per hectare for each rainfall zone over the last six years, and highlights which crop types or grazing system has generated the bulk of the return.

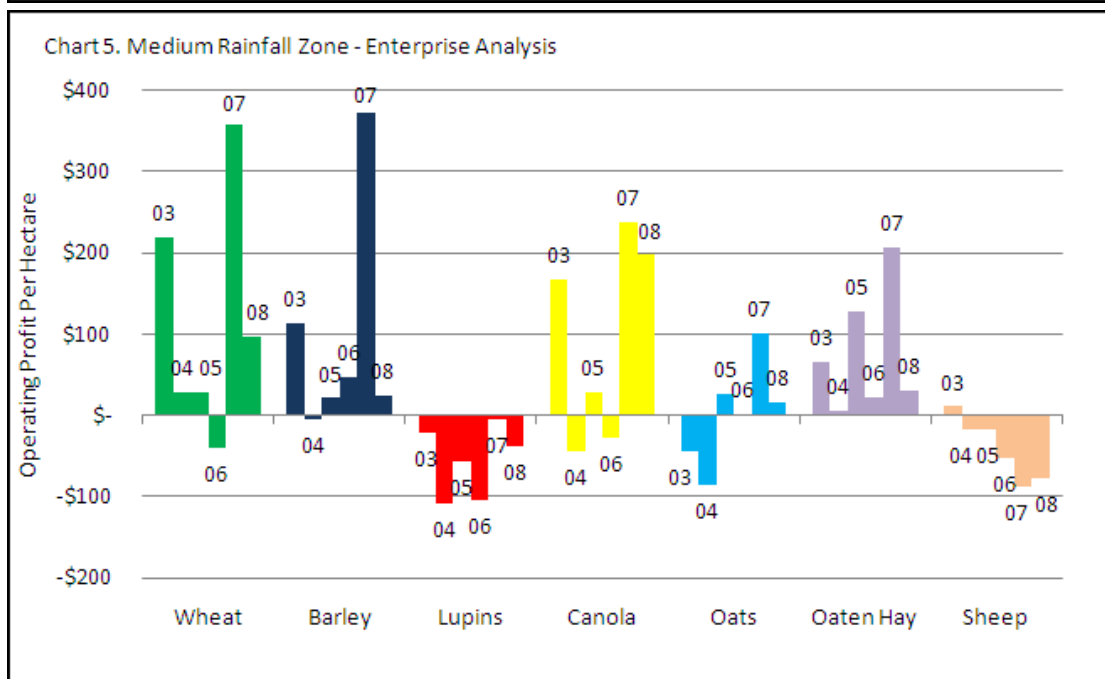
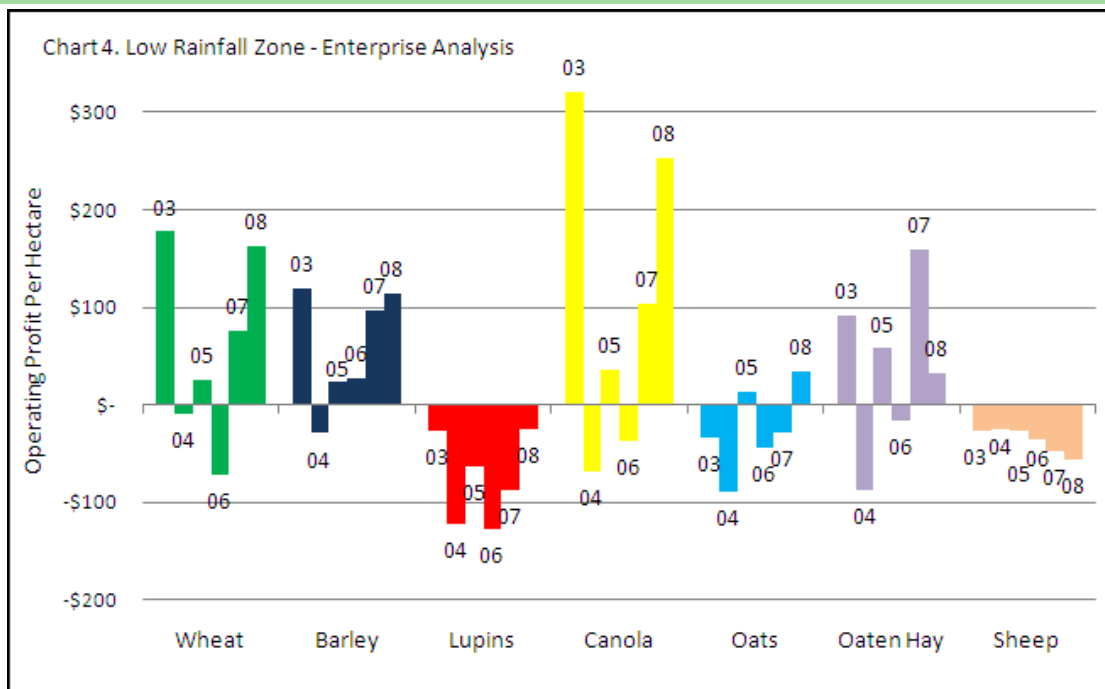
The Low Rainfall Zone (Chart 4) wheat performance has increased considerably after the very poor 2004-05-06 seasons. While 2007 shows an operating profit in wheat in this zone, it must be remembered that this was on a significantly reduced area due to drought affect in some locations. Canola has also been a good performer in this zone in 2008, producing a profit in-excess of \$200/ha mostly due to the better season, but also very solid pricing achieved for canola.

The lupin crops have had an improvement in performance moving to a breakeven position, again driven by better yields in 2008. If they could consistently achieve these sorts of returns they would certainly have a better fit in most rotations.

The grazing enterprise has continued to suffer from high feed costs and high variable costs and livestock has

continued to generate operating losses over this six year period.

In the medium rainfall zone (Chart 5) the turnaround from the 2007 season was considerable, with both wheat and barley profits falling considerably. Wheat still performed well, around \$100/ha operating profit. However, barley was badly affected by both frost damage and falling prices and achieved just \$24/ha profit. Canola was the stand out in this zone, also achieving \$199/ha profit and again the grazing livestock with sheep struggled, producing an operating loss on average of \$78/ha.



In the high rainfall zone (Chart 6) canola was again the best performer achieving \$223/ha on average, followed by wheat at \$96/ha. Oaten hay is a big part of the rotation in this zone, but has seen the poorest result in the last six years down to \$100/ha, with a large percentage of the crop downgraded due to weather damage during hay making.

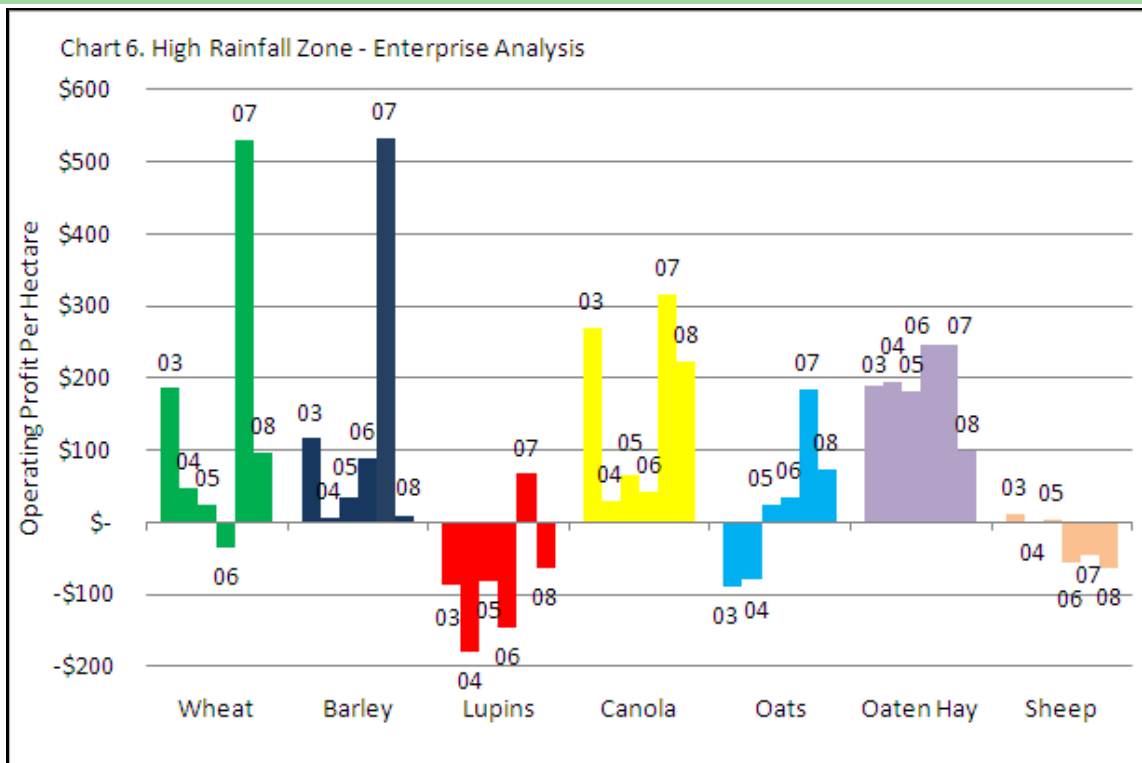
Sheep performance has continued to slide falling to a \$64/ha loss, which contributes largely to the change in land use through this zone from grazing livestock to cropping.

Across all zones, the relative profitability of canola

may well see increased area of this crop. While it has not performed as well in the best years, it has consistently produced a better average margin in most zones and with less variability. This seems in contrast to how we traditionally perceive canola as a higher risk crop. We would have to wonder looking forward whether the pricing of canola, or wheat, is likely to be more volatile?

CROP COSTS

Chart 7 shows the cropping variable costs and income over the last 12 years and looks forward into the budget for 2009. What is apparent is the large increase in cropping costs that has occurred from early 2008 onwards. This is affecting the



2009 crop, which is moving to \$341/ha of variable costs; the highest on record.

While we have seen some major variations in income over this time frame, the trend line for crop income has been rising at a faster rate than the cost structure, which is allowing the gross margin from cropping to continue to increase, widening out from \$100/ha in 1997 to a forecast \$200/ha in budgets for 2009. There is some relief on the horizon for the inputs for the cropping program, with fertiliser prices falling back to similar levels to 2007. This will hopefully allow the cost structure to be contained in coming years and allow the gross margin to be maintained.

It should be noted that the rising costs are the continuation of a long-term trend. We cannot rely on price alone to keep rising at the same rate. We need to continually look for ways to increase income at a lower cost through farming scale and the use of technology. We have been successful with this in the past. While it is always uncertain where the next improvement will come from, we should look to adopt quickly those technologies that are already proven as well as looking for new ways to improve.

SHEEP PERFORMANCE

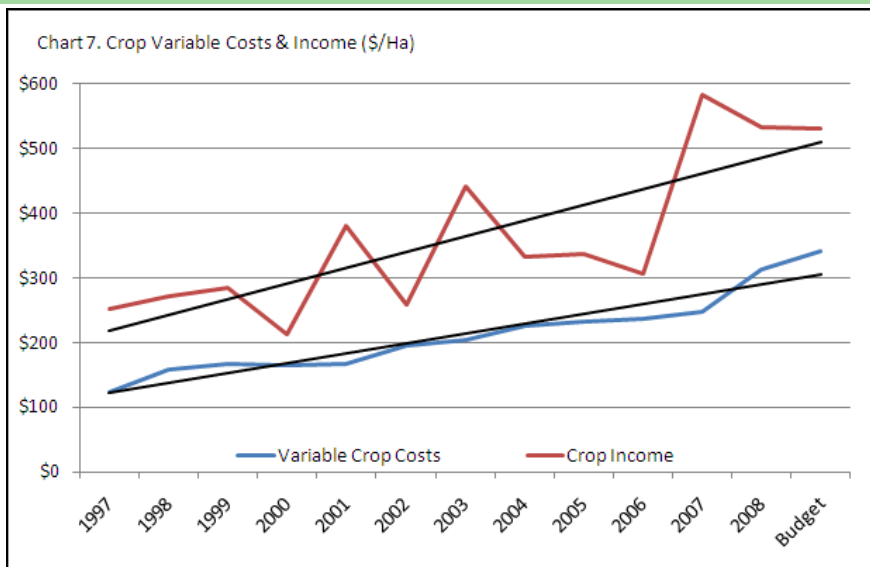
Profits for the sheep enterprise have been

particularly poor in recent years and this is seeing a shift in land use. Chart 8 (next page) shows winter sheep numbers from 2007 and average flock size for our client base over the previous five years and the forecast for the 2009 budget.

What this highlights is that our client base topped out with a flock of 880,000 head in 2007, which fell by 90,000 head through 2008. The budget forecasts a fall of a further 110,000 head into the winter of 2009. This represents a fall in the flock of 23% over the two year period, which has been driven by a reduction in the flock size of the clients that run a sheep enterprise, but also a move for more businesses to run a 100% crop operation with no grazing animals in the system.

Chart 9 (next page) shows sheep variable costs and income over the last five years. This has been developed to highlight that rising costs have not only been a feature of the crop enterprise, but have been a feature for the livestock also although clearly not to the same extent.

Sheep variable costs bottomed out during 2005 when grain prices were low and we had above-average seasonal conditions. Since then we have seen a 46% rise in costs on a per DSE basis to the 2009 budget. Unfortunately this has not been covered by increased income levels. Therefore gross margin has suffered in recent

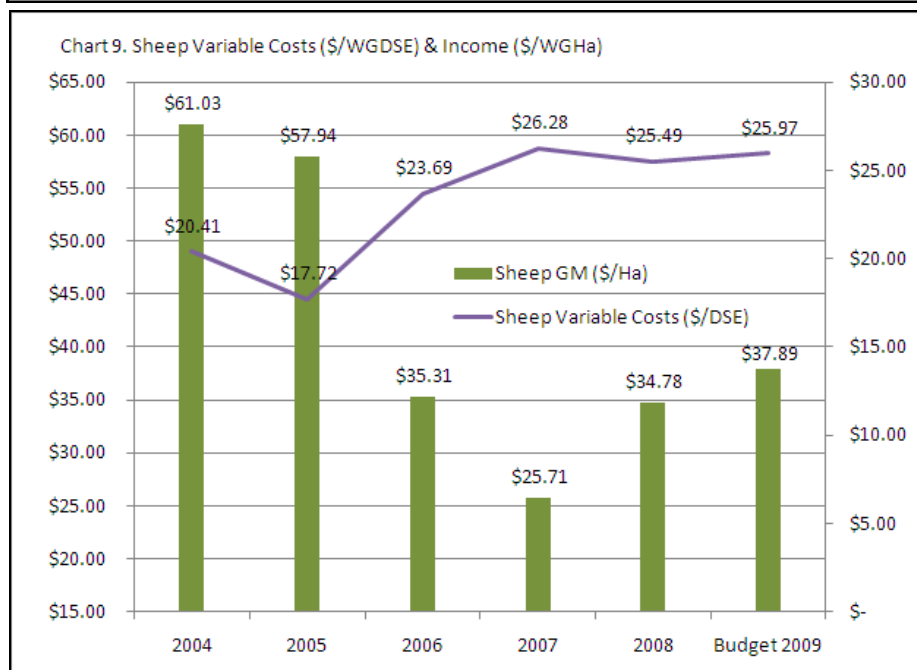
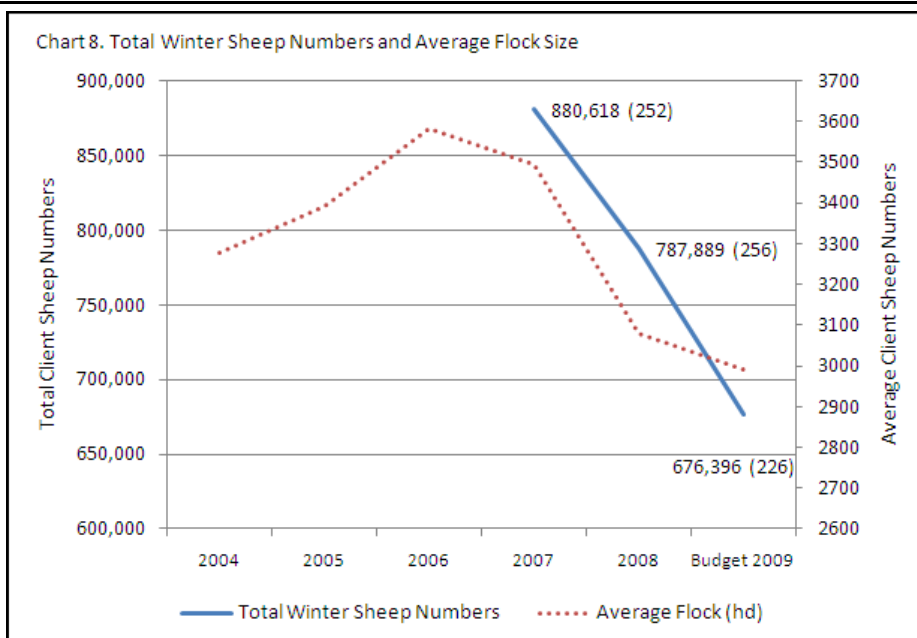


cover the fixed operating costs of the land area that the livestock occupy.

Moving forward the recent rises in sale price will have an impact on the gross margin levels for sheep and we would expect the performance for 2009 to be well above this forecast level. During discussions with clients with sheep enterprises we are updating our rotational model to look at how the lift in sheep sale price will impact on the performance on the sheep enterprise, and to what degree this will alleviate the losses that the enterprise has been

years. The gross margin figure for the 2009 budget was \$37.89/ha, which is insufficient to

generating.



The improvement in the sheep enterprise profitability with recent prices will be significant for some growers. Those dedicated long-term growers with good production levels, good lambing percentage and a focus on meat more particularly, will benefit.

However, for many growers with a relatively small enterprise and without a strong productive focus on this enterprise will only see a minor improvement. The trend towards increased cropping is not expected to halt quite yet.

However, the improved sheep prices will likely see a continued specialisation of growers into either cropping or livestock pursuits.

Some mixed enterprises will remain, particularly where soil type is unsuited to successful legume crops, or where non-arable areas are not croppable, or where the owner's risk profile or preference favours retention of sheep in the system.

Continued monitoring of enterprise performance is important for businesses to continue to make good decisions, as we move forward.

GRAIN MARKETING STRATEGY IDEAS FOR THE 2009/10 HARVEST (NOVEMBER)

Mae Connolly, reviewed by Ryan Duane

SUMMARY

- ◇ It is still important to have a grain marketing strategy for this harvest, even with the low prices on offer.
- ◇ Your strategy should be based on your market view; knowing the products available that fit your market view; and ensuring that those products fit your risk profile.
- ◇ Once you have a plan, it is important to stick to it.

With the 2009/10 harvest commencing in the northern wheatbelt, we thought it would be a good time to review our grain marketing strategy suggestions for this season. Although grain prices are a depressing subject at the moment, it is still as crucial as ever to go into harvest with a strategy in mind to try to make the most out of your crop. Rushed decisions made without prior planning in the heat of harvest often lead to mistakes. Some simple planning before harvest can help ensure you are making better decisions with your grain during the busy harvest period.

CREATING A GRAIN MARKETING STRATEGY

There are five steps we think you should follow when creating your grain marketing strategy for this harvest:

- ◇ What is my market view?
- ◇ Products and tools available that suit my market view.
- ◇ Check that those products fit my risk profile.
- ◇ Create a plan.
- ◇ Stick to plan!

MARKET VIEW

Thinking about your view of the market is as simple as deciding whether you are a bull (prices are more likely to increase) or a bear (prices are more likely to decrease) or are prices going to stay the same.

Our view on the market is that due to large global carry-over stocks after an almost perfect crop year around the world in 2009, the only reason prices will go up in the first half of 2010 is if there is a major production issue somewhere. Area planted around the world (outside of the US) may decrease in response to lower prices, and we will start to get an indication of this by early next year. The US is still likely to plant another big crop in 2010 as prices in USD are still reasonably attractive. Even with a drop in area outside the US, we still think a production issue is required to push prices up significantly as the market is very comfortable with the stocks available.

The other reason that prices may increase in 2010 is if the AUD/USD drops from current high levels. The rapidly increasing AUD/USD has been the biggest influence on AUD prices over the last few months. The rally in the AUD has been due to our higher interest rates, relative to all other developed nations, improving global economic sentiment and appreciating commodity prices. Therefore the only things likely to push the AUD lower are either our economy stalling, the rest of the world catching up to us or a shock to the global recovery denting economic sentiment.

On balance, we think there is a good chance that prices for most grains should have short-term rallies at some stage in the first half of 2010. However, we wouldn't advise having your whole crop riding on this. As discussed above – there is not much science behind our hope of price improvement. All we are basing our theory on is the possibility of production failure occurring somewhere around the world by the middle of 2010. If a major production issue does not occur, then prices are unlikely to do much in 2010.

PRODUCTS AND TOOLS AVAILABLE

Your next step should be to ensure you are aware of all the products and tools that are available for you to use this harvest. Then you need to decide which ones fit with your market view.

If you are a bear the only option available to you is selling for cash. Cash is the only product that protects 100% against downside.

If you are a bull, you have more options available that allow you access to upside if prices rally later on. While all of these options give you access to upside in prices, they can mean that you are exposed to downside. You are taking on the risk that prices go down in order to participate in a rally if prices do go up later. The options available to bulls are:

Pools

Pools spread sales over time to give you an average price over the life of the pool, while offering you cashflow at harvest. If prices go up over the life of the pool, your pool price should go up. If prices go down over the life of the pool, your pool price will go down. It is important to use more than one pool, as pool performance varies greatly.

Warehousing

Warehousing with CBH is free this year. However, there is still the cost of delaying your payments as well as the risk that prices go down (or just do not go up). Some banks offer finance against warehoused grain, which may be useful if you require cashflow at harvest. You must have an exit plan for all grain you leave in warehousing.

Open cash contracts

Glencore and Cargill are offering “open cash contracts” this year. With these contracts, you commit the grain over harvest and receive an advance (up to 65%) for it then. However, you do not have to lock in the final price until July/August 2010. When you lock in the final price, you are then “topped up” from whatever your advance was at harvest to whatever price you finally lock in at. You are again risking that prices go down rather than up, and you are also risking that the company you take the contract with is not competitive when prices do rally. As with warehousing, you must have an exit plan for any grain you use these contracts for.

Derivatives

There are numerous strategies you could create that allow upside using options on either CBOT or ASX. The catch is that options come at a cost, and you need to be comfortable that the cost you are paying for your options is worthy of the potential payoff.

You also need to understand the **storage and handling system** that you will be using. For example, you need to know the true cost of on-farm storage, if you are using that system. If you are delivering to CBH, you need to be aware of the changes they have made to their cost structure this year. Warehousing is now free for growers until October 2010, and while traders will pay the cost on your behalf it is now a fixed rate that does not change with the amount of time grain is left in storage. CBH has made other changes that will affect your cashflow at harvest – freight bills won't arrive until February and you can pay that bill in instalments. Also, the Receival fee has been reduced by \$1.65/t and it will now be direct billed a month after delivery no matter who you sell to.

RISK PROFILE

The third step in creating your grain marketing strategy is to ensure that the products and tools you have chosen fit your risk profile. That is, you need to be comfortable with each option that you choose to use. If derivatives are too complicated and risky for you then don't use them. If you think you may not be able to stick to your exit plan for warehoused grain, then consider pooling those tonnes instead and trust the pool manager to take

the emotion out of it and make the selling decisions for you.

CREATING A PLAN – OUR SUGGESTIONS

Once you have all the information you need, it is now time to actually create your grain marketing plan. Everyone will have a different plan, but here are some ideas that we think may be useful in many people's plans. First of all, there are some common mistakes that people make with their grain marketing that you need to avoid in your strategy

Reluctance to sell over time

Harvest is usually when prices are at their lowest. You need to be pricing your grain over time, either forward marketing before harvest or warehousing and selling after harvest (or both), as well as selling grain at harvest. Selling over time can be achieved by using pools that sell over time, or by selling parcels for cash over time yourself. Historically the April/May period of each year gives us some of the best selling opportunities.

Lack of an exit strategy for unpriced grain

Holding unpriced grain after harvest is only half of a strategy. Your exit strategy is the other half. This exit plan needs to cover when you will sell if prices increase, but also what you will do if prices fall or do not move (Plan A, Plan B and Plan C!). For example, you may plan to sell when wheat gets to \$250 FIS, but what happens if it never hits your target? Some ideas for your exit plan are listed below, but the most important thing is just sticking to your plan:

- ◇ Time based - Sell 20% for 5 months, must sell 20% by last day of each month.
- ◇ Price based - Sell x% when price rises \$x, then x% when price rises another \$x. You need a "Plan B" if prices don't hit your target - for example an "end date" when you will sell no matter what.
- ◇ Sell when prices hit breakeven again (need Plan B again).

Holding Grain in Storage too long

Be aware and have an understanding of carry (storing over time) charges.

Full carry per month = (price x interest rate) / 12 + monthly storage rate (this rate is zero with CBH this year). So your carry cost this year equals only your interest (or cost of waiting for payment) cost.

Current carry at \$200 x 7% / 12 = \$1/mt/month

- ◇ A "carry market" is when deferred prices trade at a premium to nearby prices. This is common when grain is in large supply. This is a signal that storing grain for post-harvest sales may fit into your marketing plan as the market is indicating that prices MAY rise later. We are currently in a carry market.
- ◇ An "inverse market" is when nearby prices trade at a premium to deferred prices, and this usually occurs when grain supplies are scarce. If prices are in inverse you should sell now rather than warehouse and sell later. The market is indicating that prices are likely to fall rather than rise.
- ◇ Work out how much it will cost you to store your grain (currently around \$1/mt per month) and build this into your plan. For example, if you plan to sell everything in May understand this will cost you \$5 to \$6/t in carry costs.

Our strategy aims to avoid the mistakes listed above, while pricing much (but not all) of your grain into next year when *hopefully* prices improve. Our strategy also involves accessing the cashflow you require at harvest. Cash prices won't be great at harvest, but some cash sales are needed to protect against downside (as prices may get worse next year rather than better).

We suggest using a mix of four tools if you agree with our slightly bullish market view – pools, warehousing (perhaps with bank finance if required), open cash contracts and some cash sales to protect against downside (perhaps in conjunction with call options to access upside).

The market for each grain is slightly different and therefore needs a slight different plan:

Wheat

Before (using access contracts) or during harvest place 50% to 60% into two to three pools (to spread pool performance risk). For the remaining

40% to 50% use cash, but spread the sales over time. Some cash sales are a good idea at \$220 FIS as this is probably going to be the top of the market in the short-term. If prices for cash during harvest are lower than \$220 FIS and you need cashflow, look to place some in open cash contracts. Look to price any remaining wheat (or finalise open cash contracts) by the end of the northern hemisphere weather market (May/June 2010). Don't worry if the price goes up after June as all the wheat you have in pools will take advantage of that, and you could start forward sales for 2010/11 crops. Make sure you allocate loads to your different contracts/pools/cash sales/storage based on quality (we have software that can do this perfectly for you).

Canola

We think that it's a good idea to have the majority of canola priced by April 2010 as that is when the South American soybean harvest will start to hit the markets. Don't leave all your sales to the last day of March 2010 to price. Instead, sell parcels over time leading up to this deadline instead.

For example:

Deadline = end March 2010.

Start time = November 2010.

Equals five month selling program, therefore sell 20% of your canola each month.

Do sell some canola for cash before/during harvest on any rallies that do occur. Any price over \$420 FIS is probably a good sales opportunity. We would like to see canola sold for cash (spread over time) rather than pooled, but you may need to pool some tonnes if cash prices fall during harvest and you need cashflow. Again, for pooled tonnes you need to use more than one pool to spread risk. Finally, make sure you allocate each load to your different contracts/pools/cash sales/storage based on quality (oil).

Barley

It seems that most users of malt make sure they have what they need by the end of harvest, so it is probably a good idea to have your malt sold (cash

or pool) by the end of harvest. Malt is the only type of grain that we are generally not confident with hanging on to. Up to 50% to 60% of your barley could be pooled, making sure you use at least two pools. Any barley you don't pool should be sold for cash between now and the end of harvest. Feed at \$150 FIS and/or malt at \$180 FIS is probably worth taking cash coverage on. Open cash contracts may be used for some feed barley if prices fall during harvest and you need cashflow, but don't want to pool that grain. Storing some feed barley and selling into the northern hemisphere weather market is a good idea for a proportion of your crop. Again, make sure you allocate each load to each of your options based on quality (grade spreads).

STICKING TO THE PLAN

The last step is ensuring you stick to your plan and do not let emotions take over. For example, when prices rally to your target – sell at that time rather than changing your plan to doing nothing and hoping that prices go up further.

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AGRONOMIC ENVIRONMENT 2009

Tim Trezise, reviewed by Carly Veitch

The weather was not particularly kind to many grain growers in 2009. With the exception of the northern wheatbelt, most of the state experienced poor rainfall. A significant break to the season did not occur until late May, and important finishing rains were not received in many areas. Yield recordings to date reflect this rainfall pattern.

As we speak the state's grain growers are well into harvesting their cropping programs for 2009. The northern grain growing region appears to have had a pretty reasonable year in terms of production; however, the central and southern areas of the state have not been so lucky. The two main talking points from the harvest so far are the fact that crops are not yielding as well as they look and that grain quality is generally poor, with high screenings and low protein grain being experienced state-wide.

CROP NUTRITION

From an agronomist point of view it has been a pretty difficult year. The year started out with very high fertiliser prices, which called for much scrutiny and soil testing in order to advise where best to spend the fertiliser dollars. Many growers opted to reduce fertiliser rates to make budgets work. This can potentially be linked to some of the poor quality grain being delivered this harvest. Lime was also a talking point at the start of this season. Many producers substituted lime for pasture fertiliser, which in the long-term was a pretty good move. The fact is, acid soils cost our state a considerable amount of production each year and this problem will not go away without continual attention. Through the planning process of 2009 a lot of lime was removed from cropping programs to make the budget work. Hopefully with the reduction in fertiliser prices for the 2010 season, tactical liming programs can be reintroduced and fertiliser rates can once more be matched to production, rather than relying too heavily on the "fertiliser bank" in the soil.

WEED CONTROL

The late break to the season made weed control difficult. Many of the larger growers were committed to start dry sowing in order to get crops in the ground in a reasonable sowing window.

Failure to do so would see the tail end of their programs sown outside an expectable timeframe to achieve adequate yields, given the risk of cropping and the associated high input costs. Dry sowing, and even sowing after marginal rainfall events, limits the effectiveness of knockdowns and as a result you experience weedy crops. In the past there has been enough effective chemistry to use a selective herbicide to take weeds out of crops. However, in many cases we no longer have this luxury. Herbicide resistance is huge in Western Australia. This has been highlighted in the 2009 growing season. The main weeds that herbicides are struggling to control in crop are ryegrass and radish.

HERBICIDE RESISTANCE

Over the past decade, most producers have moved to more intensive cropping systems. Given herbicide is the major weed management tool, the result is that resistance has been on the increase.

Through this same period we have had a pretty good handle on ryegrass, but radish has now become much more difficult to deal with – primarily because it was 'easy' to kill with Esters and SUs.

Data from WAHRI ([Chart 1](#)) highlights the increasing levels of resistance to almost all of the 'normal' products of choice. In 2008, there were 15 tests completed for suspected Logran resistance with 10 of these showing medium to high levels and two a low level. Only three samples were still susceptible. The data on Glean is from 2007, but in that year there were 14 tests and only two were susceptible.

Larger canola areas are likely to be increasing the number of resistance tests being completed on Atrazine. What is a little pleasing here is that we probably have a few shots left with this product. We should not become complacent with this, because from 2006 to 2007 resistance did move from low to medium in some populations.

The 2,4-D results highlight a product with significant concerns, because it is extremely difficult to rotate herbicide groups without phenoxy being used. In 2007, there were 17 tests

completed with 11 of these moderately to highly resistant and two with low resistance - only four samples were susceptible. In 2008, 12 tests were completed with eight of these showing medium to high resistance and four susceptible.

Brodal (Diflufenican) is another one that is under a great deal of pressure. We have used it on lupins on its own and in mixtures with Lexone and when we've dropped out the lupins we've mixed it with MCPA LVE (or used Tigrex) in the cereals. In a general sense we are still getting reasonable results with this, but you can see that this product will not be far away from its use by date. In 2007, there were 23 tests and less than 50% (10 tests) were susceptible. In 2008, 15 tests indicated that only 27% (four tests) were susceptible.

The reality is that Eclipse, MCPA LVE, Bromicide and Ally are all headed the same way, with more plants resistant than those that are susceptible. Generally Bromicide would not be used stand alone and for the moment it remains extremely useful in mixes. The data clearly shows that groups B, F and I are under pressure.

So what do we do about herbicide resistance? Basically growers need to have a fundamental change in their attitudes in relation to weed control. Many are already making these changes. However, many still have much more work to do. The fact is, effective weed control options in crop are deteriorating at a rapid rate, so more energy

needs to be expended in controlling weeds at either end of the growing season. This means better knockdown strategies at the start of the season and better seed collection and seed set control practices at the tail of the season. Chart 2 highlights some different control measures and their likely effectiveness on ryegrass and wild radish. Integrated Weed Management (IWM) has been well promoted in recent years. It is now imperative that agronomists sit down with clients and formulate a IWM program based around the capabilities of individual enterprises and the weed resistance status of individual properties.

LOOKING FORWARD TO 2010

Well thanks for coming 2009; now rock on 2010! Next year looks very exciting in many ways. Firstly, the potential legislation allowing farmers to grow Genetically Modified (GM) crops will be decided early in the new year. If the moratorium is lifted there are potentially some new systems and tools available to be used to combat weed issues. It will, however, be imperative that this chemistry is used responsibly and that good IWM practices are implemented alongside its introduction.

The plant breeders have been extremely busy over the last few years, and with that some very exciting lines are now available to growers over most crop types. Canola is an interesting one. There is now a good selection of TTs, ITs and GMs available in OPs and Hybrid, and that's just the start! The market does seem to be looking to

hybrid canola types for increased yield and oil. Based on the performance of some of these new varieties, we can expect some good varietal options for 2010.

On the wheat front, the new variety Mace looks to have performed very well over most rainfall zones and will be a suitable replacement for Wyalkatchem. Some of the other newer lines have been disappointing as far as quality and yield this season in the

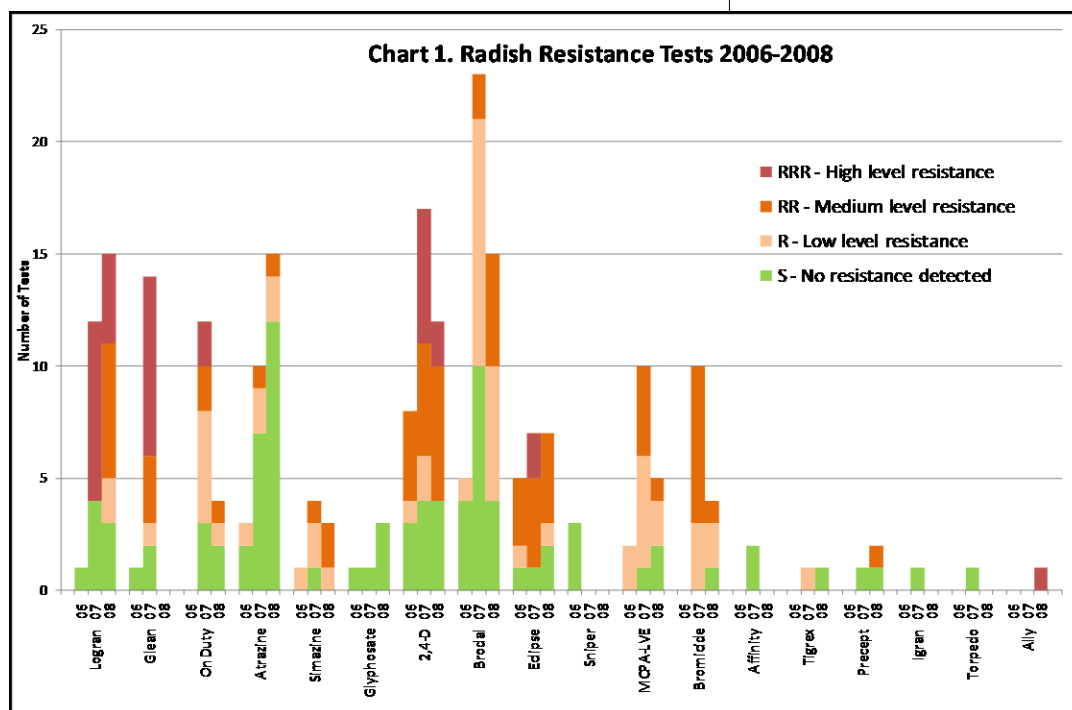


TABLE 1: SEED SET CONTROL MEASURES AND THE LIKELY EFFECTIVENESS

% Control of Weed seeds	Rye Grass Most Likely	Rye Grass Range	Wild Radish Most Likely	Wild Radish Range
Seed Catching	85	45-95	75	65-85
Shallow 'tickle' cultivation	25	15-55	45	15-65
High Seed Rates	40	25-50	20	5-50
Delay Seeding (3 weeks then knockdown)	50	35-70	55	35-70
Grazing	70	30-95	70	50-80
Spray Topping	70	50-90	55	40-70
Crop Topping	75	50-95	25	15-85
Green/Brown Manuring	98	90-99	98	95-99
Hay Cutting (higher if follow-up spray)	80	70-90	80	70-95
Swathing	35	15-50	35	15-60
Crop/Stubble Burning	75	10-90	50	20-90
Crop suppression of weed seed production	Barley	>Wheat	>Canola	>Lupins

(WHARI 2003)

field We will eagerly await the NVT results to sort the chaff from the hay.

Another positive for 2010 is the introduction of new chemistry to help fight the ever increasing battle against radish resistance. Some new combinations of old and new chemistry are now on the market and will be widely adapted to fill this role. New products like X-Pand from Dow and Velocity and Precept from Bayer Crop Science will become more prominent in the fight to kill broadleaf weeds in cereals.

Ryegrass herbicides have not been improved through 2009. However, the new Bayer Crop

Science product "Sakura" is now being trialed throughout WA with great results. Sakura is a new pre-emergent herbicide that belongs to a different group of chemistry than the one we are already using. It is due for release in 2011.

On a final note, one of the big positives for 2010 is the fact that sheep meat prices have stayed reasonable. The sheep enterprise has not been a very profitable part of many farm businesses over recent times. However, the positive impact a profitable pasture phase has on a cropping program is enormous. Legume based pasture not only aids in the growing of cheap crops from a nutrition perspective, but also offers a great IWM tool for the whole system.

SHEEP: PROSPECTS FOR PROFIT (NOVEMBER)

Carly Veitch, reviewed by Ken Severson

SUMMARY

- ◇ Current high sheep meat prices have led to speculation about sheep becoming a big profit driver again.
- ◇ Analysis reveals that low rainfall growers and most medium rainfall growers will continue to struggle. Reasonable profits are possible in the medium and high rainfall zone, with a focus on prime lamb production
- ◇ The outlook for meat prices remains good,

- but the appreciating dollar and competition from other countries / meat types is likely to restrain further increases. The wool outlook remains subdued, particularly given the high exchange rate.
- ◇ We no longer have enough breeding ewes produced to maintain flock numbers; breeding ewes are likely to increase in value.
- ◇ For the majority of growers, reacting to current prices by cutting back on cropping

and increasing sheep numbers is more likely to result in missing out on the above average profit year from your cropping enterprise.

Ken’s article last month on the sheep industry and wool in particular certainly raised a few eyebrows around the place, and probably left a few of you wondering just what on earth you are going to do with your sheep to turn things around? The most common question we are currently asked is ‘How can I not be making big money with such historically high sheep prices?’ Certainly I have heard stock agents telling growers to get their hands on any ewe with a tooth in its head, such is their view of the big profits to be made in sheep at the moment. However, with an average cost of \$76 per head for each sheep produced and \$6.78 per kilo of wool produced for the 2009 budget, big profits are by no means in the bag.

So, we thought it timely to have a closer look at what the prospects are for profitability with sheep in the medium term. In some areas, the chances of sustained profitability remain pretty slim, even with the recent high prices for sheep. However, for growers in the medium and high rainfall zones, with a focus on meat production (either with some use of terminal sires, or an entirely shedding meat flock) there are some prospects that the sheep enterprise could return to a reasonable level of profitability, particularly when compared to other legume options.

PROFIT ANALYSIS

An analysis of a range of sheep enterprise types, using data from the 2008 Profit Series, shows the profitability outcomes of the average enterprise given a range of sheep and wool prices. We first looked at where we have come from – profit at the low prices we have seen up until this year. We then looked at price scenarios similar to what we

have seen in recent times, to see the impact on sheep enterprise profitability. The four scenarios used are shown in Table 1.

We ran the rotational analysis for each rainfall zone – Low rainfall at 2.8 DSE/wgha, Medium rainfall at 4.5DSE/wgha, and High rainfall at 9.0DSE/wgha and again at 12DSE/wgha. This gave us projections for the profitability of 7 different sheep enterprise types – all wethers; self replacing (SR) Merino flock with high ewe %; SR Merino flock with low ewe %; SR Merino flock with cull ewes mated to prime lamb sires; SR Merino flock with the maximum ewes mated to prime lamb sires; Merino ewes all mated to prime lamb sires (ewes purchased); and a Dorper (meat focused, shedding type) flock. The results are presented in Charts 1 to 4. Again remember that these results are based on average cost structures from the Profit Series data, and an assumption of average seasonal conditions and production levels. Therefore, you need to assess your own cost structure and production levels in relation to our Profit Series data.

WHAT IMPACT HIGHER PRICES?

What does this all mean for sheep enterprise profitability? Well, if you are in the low rainfall zone even prices at the peak of \$5/kg, \$100/Hd for wethers and wool at 1000¢/kg is not enough. At 2.8DSE/wgha you are simply not able to generate enough income to cover all the operating costs and make a profit. The performance from sheep must be compared with an average loss of \$86/ha for lupins and \$113/ha for field peas, and the conclusion is that we are still searching for a profitable alternative break crop. However, at current prices all bar the all wether flock and the SR Merino with low ewe percentage flock are able to make a positive gross margin. Very few growers in the low rainfall zone will be seeing a return to profitability; the most likely outcome for

TABLE 1: PRICES USED IN ROTATIONAL ANALYSIS FOR SHEEP PROFITABILITY PROJECTIONS

	Merino Lambs \$/kg	XB Lambs \$/kg	Shipper Wethers \$/hd	Western Market Indicators ¢/kg
Historical Prices	3.00	3.25	60	800
Current Prices	4.00	4.25	75	800
Current Meat/Higher Wool	4.00	4.25	75	1000
High Meat/Wool Prices	4.50	5.00	75	1000

Chart 1. Low Rainfall Zone - Sheep Profitability @ 2.8 DSE/Wgha

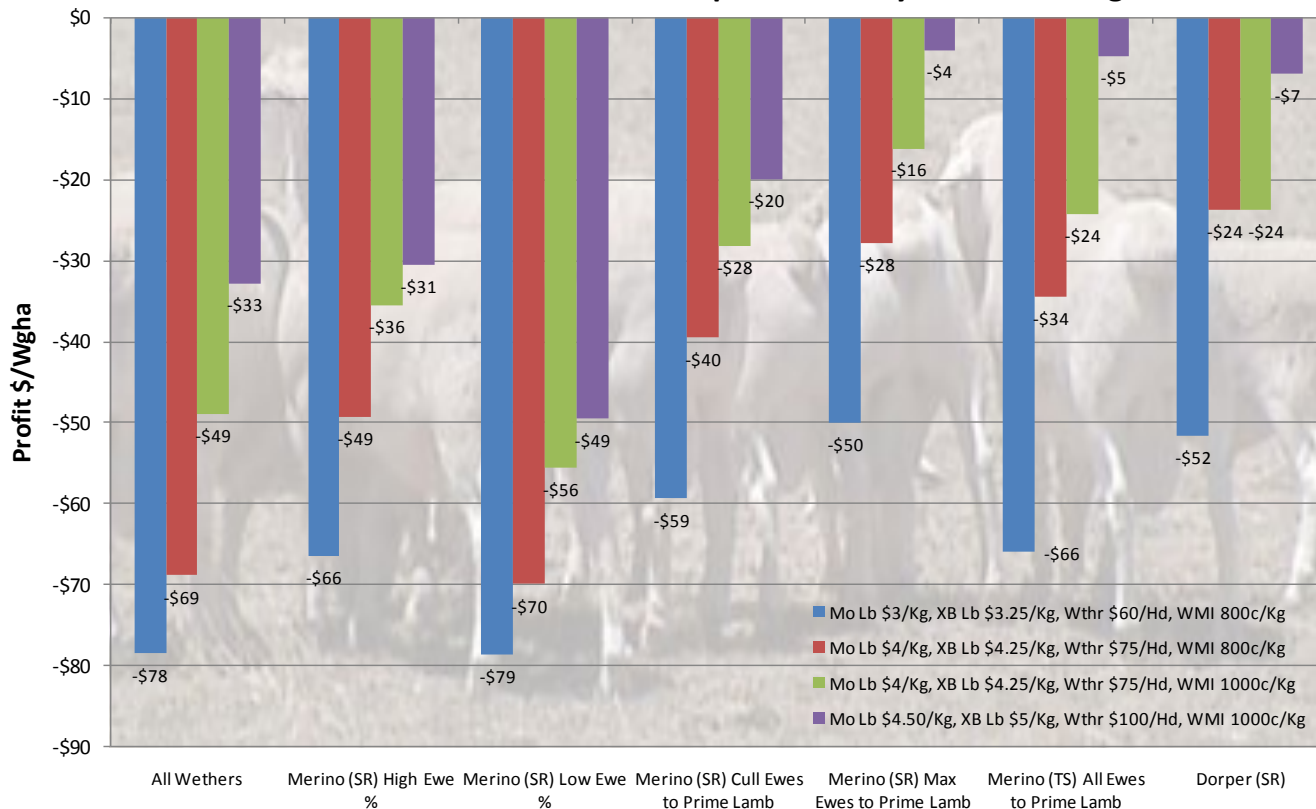


Chart 2. Medium Rainfall Zone - Sheep Profitability @ 4.5 DSE/Wgha

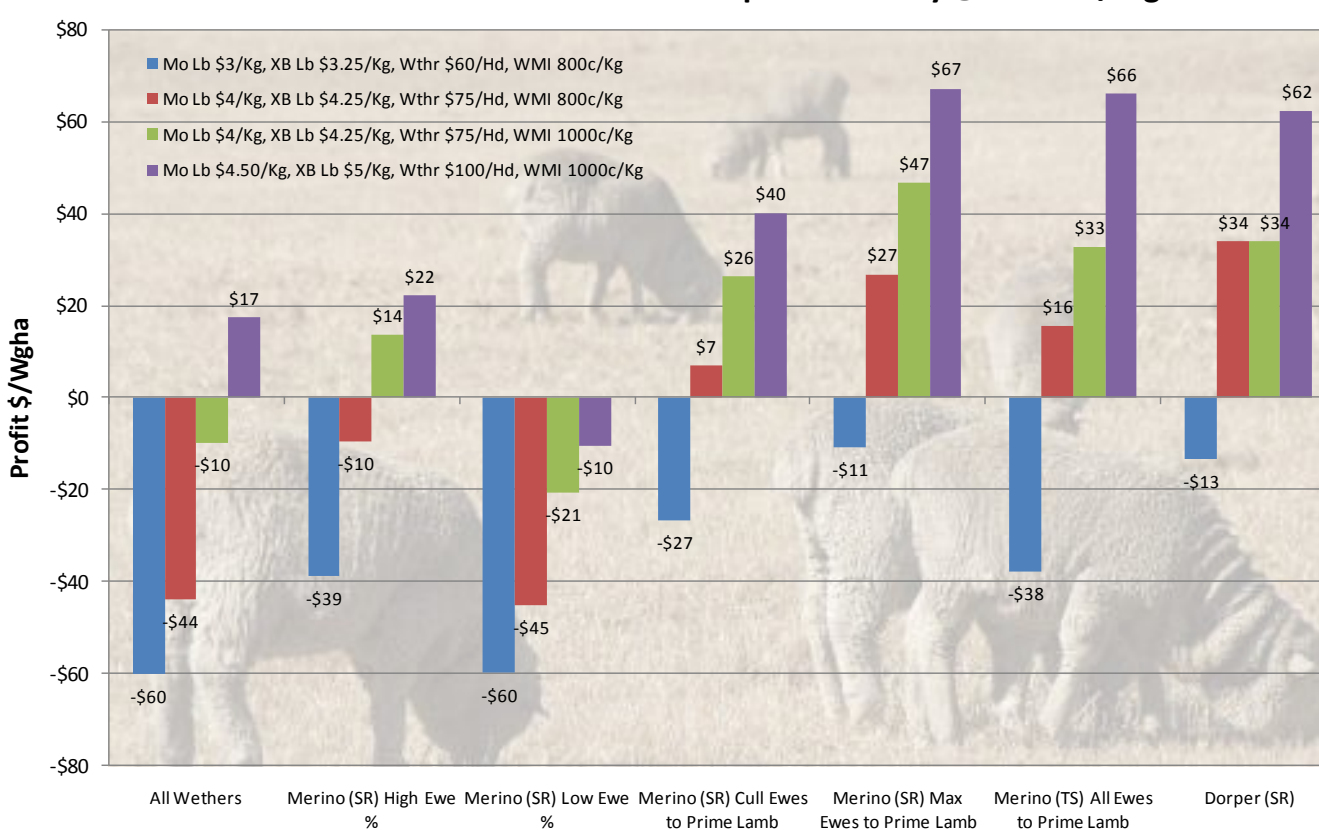


Chart 3. High Rainfall Zone - Sheep Profitability @ 9.0 DSE/Wgha

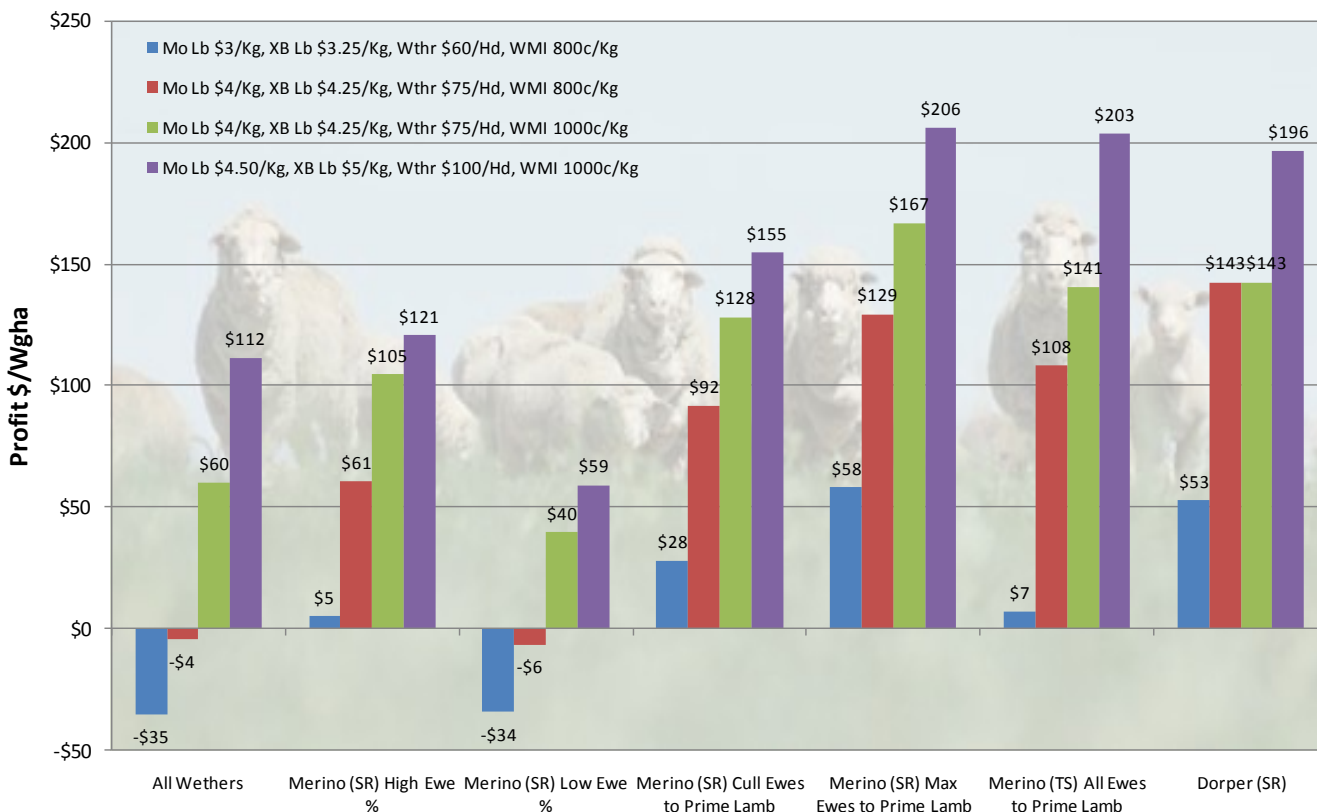
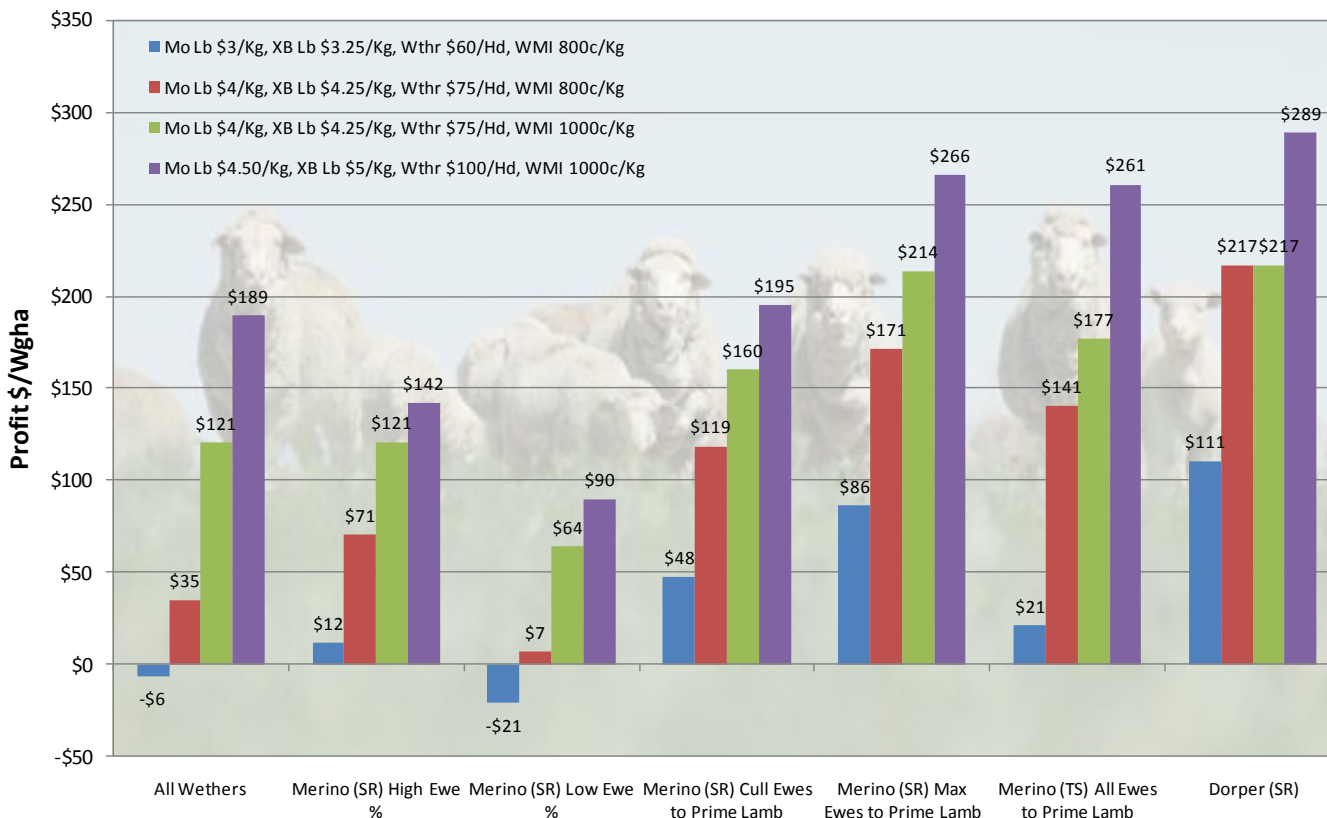


Chart 4. High Rainfall Zone - Sheep Profitability @ 12.0 DSE/Wgha



those still running sheep is loss minimisation through the non-cereal phase.

For the medium rainfall zone, wool based flocks really need to see both Merino lamb at \$4.50/kg, wether prices at \$100/hd and the WMI over 1000¢ per kilo to have any real prospect of profitability. Flocks with a prime lamb focus return to profitability (range \$7 to \$34/wgha, before interest and tax) at current meat prices. However, not until we reach the peak prices is that profit enough to cover the average financing cost for this zone of \$51/ha. So, for the average medium rainfall grower who has been losing \$49/ha over the last five years, you are most likely looking at a breakeven situation – certainly not a result to justify cutting back on your wheat area and increasing your sheep numbers.

In the high rainfall zone, we looked at two scenarios – the average at 9DSE/wgha and the higher stocking rate of 12DSE/wgha that is more common in the high production western and coastal high rainfall zone areas. At 9DSE/wgha, you can see that wool based flocks will continue to struggle until wool is above the 1000¢/kg mark on the WMI. For those flocks that have more of a focus on prime lamb production, you can see that even at \$4 to \$4.25/kg for lamb and \$75/hd for wethers, we start to return to decent profits. At these levels, the sheep enterprise is more than able to cover the cost of financing at an average of \$74 per hectare.

At 12DSE/wgha we really start to see some more attractive profit potential. At these high stocking rates even relatively modest rises in meat or wool prices can make a significant difference to enterprise profitability. Again, we need wool over 1000¢/kg for the wool flocks, but for prime lamb producers good profits are attainable at current prices. At these levels, it certainly becomes a more attractive option to run sheep on higher risk paddocks, such as those prone to frost or waterlogging.

WHAT IS GOING TO IMPACT ON THE FUTURE PRICES FOR LAMB AND SHEEP MEAT?

We know that in the low rainfall zone very few growers will be able to make a profit, even at \$5 per kilo for lambs and 1000¢/kg on the WMI. In

the high and medium rainfall zones we have concluded that for all flocks we need meat prices to be in excess of \$4.25/kg (approx \$80 to \$90/hd) and wethers at \$75/hd. For wool based flock we also need the Western Market Indicator to be over 1000¢/kg. So, what is our view of the chances of sustaining these prices over the medium term (or reaching them for wool)?

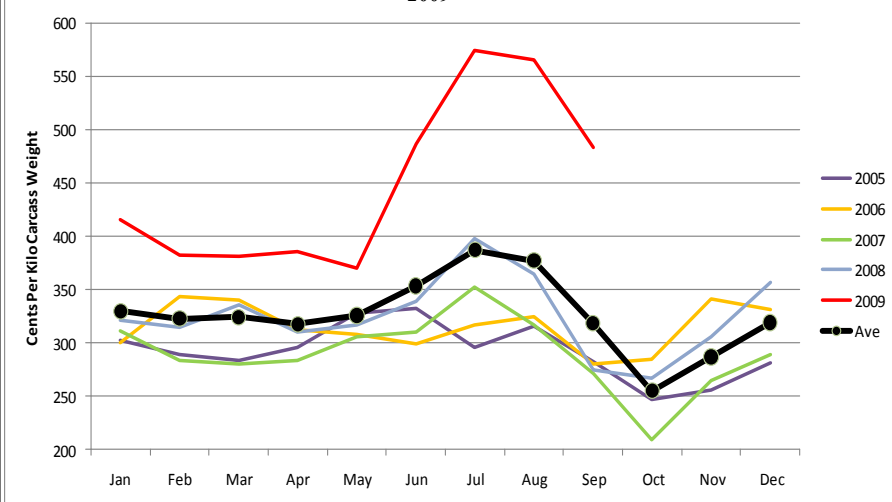
In July this year we saw prime lamb prices above \$5.50/kg and sale prices for wethers at the \$150/hd mark. These were record high prices and we have now seen them come back to \$4.50/kg with the spring lambs hitting the market and \$70/hd for wethers. Charts 5 to 7 show the trend in prices for prime lamb, shipper wethers and the Western Market Indicator.

One of the biggest barriers we face is the value of the Australian dollar. The sheep industry is largely an export based industry. As the value of the Australian dollar goes up, so too does the relative price of Australian sheep and sheep meat in the export market. This increases the likelihood of buyers searching elsewhere for cheaper alternatives. In particular, there is a risk of substitution away from Australian live sheep exports. This is most likely in countries such as Saudi Arabia where sheep imports are not subsidised, rather than those countries where the live trade has government support, such as Kuwait and the United Arab Emirates.

In recent weeks, we have seen the Australian dollar continue to appreciate against the US dollar, on the back of continued positive news out of the Australian economy and signs of improvements in the global economy. Also influencing the AUD is continued softness of the US dollar, due to a commitment to low interest rates there. Should Australia continue to weather the global economic crisis better than the rest of the western world, as is expected, one could assume that the Aussie dollar is likely to remain at high levels over the period 2010 to 2012.

The big four banks early October forecasts have the AUD/USD exchange rate at \$US0.88 to \$US0.93 at year's end, rising to up to \$US0.98 in June 2010 and finishing 2010 in the range \$US0.87 to \$US0.93. Indeed the governor of the Reserve Bank, Glenn Stevens, in stating that the

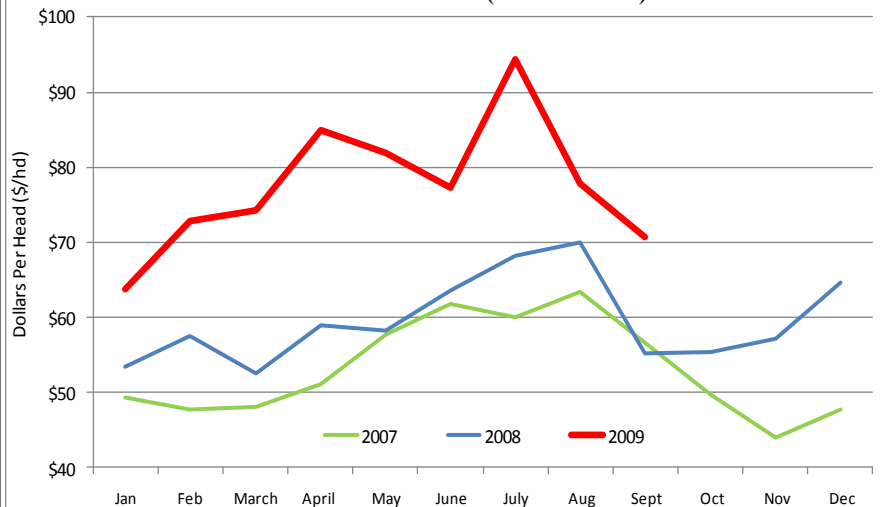
CHART 5: PRIME LAMB - 20-22KG CWT (CENTS/KILO CARCASS WEIGHT) 2005-2009



three months. However, over the next 12 months or so it would seem more probable that the dollar will be higher rather than lower.

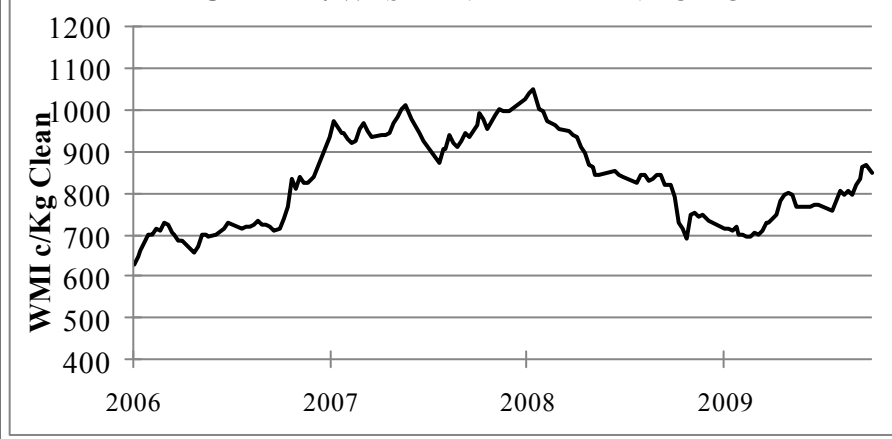
Australia missed out on contracts for the Hajj festival in Saudi Arabia in November this year. These contracts were awarded by the Islamic Development Bank in Saudi Arabia to Africa this year, reportedly due to price. This was also partly due to the timing of the festival, with fat-tail lambs being required for shipping in October. This will only get more difficult in the coming years, as the date of the Hajj festival moves 11 days earlier each year. Australia missed out for first time in many years, having been awarded contracts of up to 500,000 head in previous years. A total of 4.2M sheep were exported from Australia in 2008. As a result, ABARE has forecast live export numbers to be down 9% for 2009/10. Reports in the media have indicated the exporters feel that prices over the \$100/hd mark couldn't be sustained, but that \$80/hd is feasible due to increasing wealth in the Middle East.

CHART 6: EXPORT WETHERS (ALL WEIGHTS) 2007-2009



When lamb prices reach a certain point, consumers will begin to substitute for alternative products. In particular, beef and to a lesser extent chicken, tend to be substitutes for lamb as lamb price increases. So, the outlook for lamb price is linked to the outlook for beef; if lamb prices are rising, but beef prices are stable, then consumers are more likely to purchase beef instead. Unfortunately, the outlook for beef prices is not as positive as for lamb, which may impact on consumer demand for lamb.

CHART 7: WESTERN MARKET INDICATOR



Export demand for beef is expected to be constrained by the appreciating Australian dollar and limited growth in demand in the three major markets (Japan, the Republic of Korea and the United States) due to the economic conditions and increased competition from US beef.

Reserve Bank would not be "too timid" in raising interest rates, prompted speculation that the dollar would reach or even exceed parity and caused a jump in the dollar to its current level of \$US0.92 at the time of writing. Of course, forecasting the dollar is not an exact science and experts were last predicting parity in July last year, before we saw its spectacular crash from \$US0.97 to \$US0.60 in

The higher prices recently seen for sheep have been driven almost entirely by reduced supply. And, as they say 'Nothing cures high prices like high prices.' Should farmers react to current meat prices, and current grain prices, by investing in sheep this will in turn lead to an increase in supply. What we need to remember is that the reason for the big reductions in sheep numbers, and therefore supply, is a result of the ongoing losses we have been making in running sheep. At current prices, most of you will still only be breaking even, or making relatively small profit margins. We need prices to stay where they are at, or higher, for sheep to pay their way in most situations. A review of the outlook says that while the prospect of prices sitting at that level of \$4 to \$4.50/kg and around \$80/hd of wethers is good, the high Aussie dollar and competition from other exporting nations and other meats will act to hold prices back from reaching and maintaining those record high levels we did see. That's not to say there will not be spikes in the market at these prices; there may well be. However, unless you are able to sell into those price spikes every time, those are not the price levels you will be achieving on average.

WHAT ABOUT WOOL?

The outlook for wool is decidedly less rosy. There are signs of a recovery in demand from China, being driven by a recovery in domestic retail demand. China processes and uses around half their Australian raw wool imports domestically, with the remainder being exported as processed product. Recovery in China's export demand will largely depend on economic conditions in the US, with the US being one of their largest markets. There is likely to be little good news there until at least the second half of 2010. Demand from Europe and Japan for raw wool is also weak, with many European carpet mills going into receivership. Again, there is likely to be little activity there until late next year.

Raw wool stocks are currently at record lows. This, combined with the increased demand from China, has driven the recent price rises we have seen for wool (last sale WMI 850¢/kg). However, the appreciating dollar is not going to do us any favours, and the increased demand is not enough to offset this effect. Recent price rises have also decreased wool's competitiveness against substitute fibres, with the outlook for cotton and

synthetics suggesting they will become increasingly attractive against wool. ABARE predicts an EMI of 840¢/kg and WMI of 815¢per kilo on average for the 09/10 year. While this may reflect a rise on last year's prices, we know this is simply not enough for most of you to make a profit.

The simple fact remains that wool is not a desirable product in many cases. It faces increasing competitiveness with cotton, synthetic, and newer bio-type fibres. As the 2010 mulesing deadline looms we have no alternative to mulesing, and without legislation against it many growers will continue to use this practice. When we fail to meet this deadline, you can bet that PETA will be ramping up their campaign against the wool industry, with increased fervour. This, combined with subdued demand from developed countries and the high Aussie dollar, makes it difficult for us to see the WMI going much higher than current levels in the medium term. The trend towards a focus on meat production and reduced sheep numbers is likely to continue.

THE EWE SITUATION

The continued decline in sheep numbers raises an interesting question – can the flock now maintain itself, given the number of breeding ewes available? The structure of the Australian sheep flock has changed significantly. At 30 June 1990, ewes made up 37% of the flock; by 30 June 2008, breeding ewes comprised 59% of the national flock. However, total ewe numbers have still been declining. Nationally, the number of breeding ewes has fallen from 48.6M at 30 June 2006 to 45.4M at 30 June 2008 – a 7% drop in two years.

In any sheep flock we need to mate around 30% of ewes to Merino or other maternal sires to produce replacement breeders, in order to maintain a self replacing flock. In 2003/04, MLA survey results indicated 38% of Merino ewes were mated to non-Merino rams. In Profit Series data, 40% of ewes are mated to prime lamb sires. If the majority of the ewes produced are sold as prime lambs, rather than kept as first cross breeders, then we are past the point at which we are able to maintain our flock – even if all Merino ewe lambs are kept.

At the end of June 2008 there were 10 million

breeding ewes in WA. To maintain a self replacing flock, we need to produce 2.5 million replacement ewes each year. If only 60% of those are joined to maternal sires, then at the average weaning rate of 74% this leaves us with 4.44 million lambs produced. Of these only 50% are going to be ewes, so this leaves us with 2.2 million possible replacement breeding ewes –300,000 less than the 2.5 million we need. This is without considering deaths or culls.

Likewise, if we have 10 million ewes producing a total of 7.4 million lambs, of which 2.2 million are kept for breeding, this leaves us with 5.2 million lambs available for slaughter or export each year. In the 2008/09 year, a total of 7.17 million sheep or lambs were slaughtered or exported from WA. Adding deaths of 5% of the total flock (approximately 16.5 million) removes another 825,000 head. So, if we are removing 8 million per year with replacement of only 7.4 million, sheep numbers are only going to continue to decline.

The other impact of this is that we are likely to see breeding ewes increase in value. In the eastern states 1½ year old Merino ewes have regularly been reaching \$130 to \$140 per head, with first cross ewes reaching up to \$160/hd. At Midland and Katanning, 1½ year old ewes have been selling for \$40 to \$65/hd. At Northam recently 1½ year old ewes reached a top of \$88/hd. However, a browse of ads for private ewe sales shows many asking well above \$100/hd, particularly for first-cross or alternative breeds.

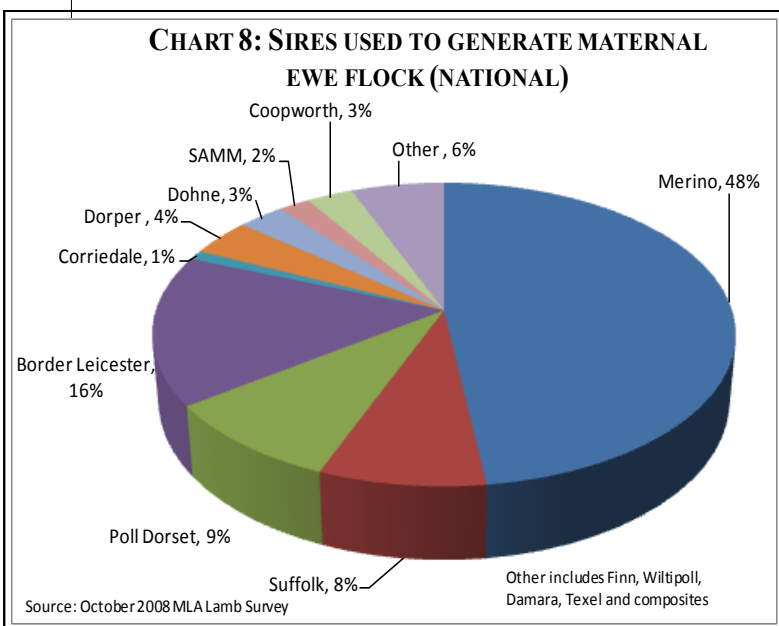
This trend is likely to continue. However, the question will be where the demand for ewes will be focused. As the focus of our production system moves away from wool and toward increased fertility and prime lamb production, growers will be looking for breeding ewes with better maternal characteristics than the Merino. Chart 8 shows the sires used in generating breeding ewes in 2008. It is likely the trend away from Merino will increase, as growers look toward first-cross or pure maternal ewes from breeds such as Border Leicester, Poll Dorset, Suffolk and the like. A growing proportion of producers will head down the path of shedding types such as the Damara and Dorper, where wool is completely taken out of the equation.

SYNOPSIS

So, the likely story here is that the Merino breed will continue to reduce its dominance of the Australian sheep flock. Large, plain bodied, highly fertile ewes will be more in demand and prices are likely to reflect this.

However, for the majority of producers the simple fact remains that it is still very difficult to make a genuine profit from sheep, particularly in the low and medium rainfall zones. While current grain prices mean the cropping margins will be very thin, or negative, for this year it is the exceptional years where the big profit driver is your cropping enterprise that produces the majority of long-term profit. In 2007 many businesses had huge profits from their cropping enterprise on the back of good yields and high prices. In fact the average profit across all growers for their cropping enterprise was \$233/ha in 2007. The impact of this will be felt in those businesses for years to come.

It is impossible to predict the years that are going to be the good ones for price and yield, prior to seeding. Simply put ‘you’ve got to be in it to win it’ and for the majority of growers, reacting to current prices by cutting back on cropping and increasing sheep numbers is more likely to result in missing out on the above-average profit year from your cropping enterprise. The exception to this are the above-average sheep producers in the high and medium rainfall zones. They are able to maintain high stocking rates on highly productive pastures, or on country less suited to cropping. At current or better prices, the sheep enterprise shapes up as a profitable alternative for those producers.



Wool Prices for Budgets in 2010

Wool Prices (gross cents/kg greasy)

		Wool Yield							
		58%	60%	62%	64%	66%	68%	70%	72%
Micron	19.0	511	529	546	564	582	599	617	634
	19.5	472	489	505	521	537	554	570	586
	20.0	434	449	464	478	493	508	523	538
	20.5	423	438	452	467	482	496	511	525
	21.0	413	427	441	456	470	484	498	513
	21.5	407	421	435	449	463	477	491	505
	22.0	400	414	428	441	455	469	483	497
	22.5	396	410	424	437	451	464	478	492
	23.0	392	406	419	433	446	460	473	487
	23.5	385	398	411	424	438	451	464	477
	24.0	377	390	403	416	429	442	455	468

Note that wool prices are quoted on a cents per kilogram greasy price as this is the way it is recorded in most growers cashbooks. To this end you will need to ensure growers allow for selling costs (15c/kg) and wool tax (2% or around 10c/kg). Total costs around 25c/kg. Note also that these prices assume 78% of the clip is fleece wool and that the remainder of the clip is worth 50% of the fleece price.



FARMANCO

This is our current estimate of budget prices for 2010. These have been developed by looking back at historic prices and forward at world and domestic markets. Your individual situations **will** affect these estimates eg. freight, quality premiums/deductions so take these into consideration. If you have any queries, please give us a call.

York 9641 2299

Narrogin 9881 6226

Mundaring 9295 0940

Dowerin 9631 1007

Esperance 9071 3655

Katanning 9821 7839

Kojonup 9834 1165

Marketing 9295 022

Livestock Prices for Budgets in 2010

Sheep Prices (gross)

Class	Mar ¼	Jun ¼	Sep ¼	Dec ¼
CFA Ewes (1)	\$30	\$35	\$35	\$30
CFA Ewes (2)	\$50	\$55	\$55	\$50
Ewe Hoggets	\$65	\$75	\$75	\$60
Wether Hoggets	\$50	\$60	\$60	\$50
Shipper Wethers	\$70	\$75	\$75	\$70
Rams	\$50	\$50	\$50	\$50

Slaughter Lambs

Class	Mar ¼	Jun ¼	Sep ¼	Dec ¼
Prime Lambs (3)	\$4.00	\$4.00	\$4.25	\$3.50
Store Lambs (4)	\$3.50	\$3.50	\$3.75	\$3.00

(1) Slaughter Grade Ewes 50 kg lwt (2) Sound mouths. Suitable for breeding.
 (3) \$/kg Carcass Weight on 20-22kg carcass (4) \$/kg Carcass Weight on 12-16kg Carcass
 Note: These are gross prices. Selling costs of 5% need to be included as costs in cash flow.

Cattle Prices (gross)

Class	\$/hd
Cull Cows	\$400-550
Breeders	\$600-800
Heifers	\$600-650
Bulls	\$750

Slaughter Cattle

	Mar ¼	Jun ¼	Sep ¼	Dec ¼
Yearling Steers (1)	\$3.30	\$3.50	\$3.40	\$3.20
Prime Cattle (2)	\$1.35	\$1.60	\$1.50	\$1.40

(1) \$/kg Carcass Weight Yearling Steers 170-230 kg carcass weight
 (2) \$/kg Live Weight Grown Steers 500 - 600 kg live weight

Grain Prices for Budgets in 2010

2009/2010 Wheat - Estimated GRAINPOOL Harvest Pool - Loan and Distributions Ex GST

Wheat 09/10	NEPR (FOB)	Dec-09	May-10	Apr-10	Jul-10	Oct-10	Jan-11	
AH	\$262	\$171	\$26	\$43	\$43	\$51	\$54	\$51/t to wheat loan
ANW1	\$245	\$157	\$25	\$45	\$40	\$47	\$50	\$45/t to wheat loan, \$5/t to trading account
ANW2	\$230	\$145	\$23	\$37	\$37	\$44	\$47	\$47/t to wheat loan
APW	\$250	\$161	\$25	\$38	\$41	\$51	\$59	\$53/t to wheat loan, \$6/t to trading account
ASF1	\$275	\$181	\$28	\$45	\$48	\$51	\$79	\$59/t to wheat loan, \$20/t to trading account
ASW	\$240	\$153	\$24	\$46	\$46	\$46	\$47	\$34/t to wheat loan, \$13/t to trading account
AGP	\$230	\$145	\$23	\$37	\$44	\$35	\$49	\$49/t to wheat loan
Feed	\$205	\$138	\$21	\$26	\$44	\$49	\$35	\$35/t to wheat loan

(1) Red figures represent loan drawdowns for those taking a wheat loan (80% Drawdown in Dec and 10% Top up in May)
 (2) Green figures represent distributions to the wheat loan account OR to the cheque account for those clients who take the distributions.
 (3) Black figures represent payments made to the cheque account once the wheat loan is repaid or a distribution.
 (4) Be sure that the budget accounts for CBH costs charged back to the grower (Wheat \$10.00/t 30 days after delivery, freight in Feb)
 AH = Hard; ANW1 = Noodle; ANW2 = Out of Spec Noodle; APW = Premium White; ASW Soft = Soft; ASW = Standard White; AGP = General Purpose

2008/2009 GRAINPOOL Harvest Pool - Loan & Distributions Ex GST

2010/2011 GRAINPOOL

NOTE: POOL ANALYSIS CHANGED TO GRAINPOOL Harvest Pool

Harvest Loan

	Wheat loan		Distributions		Wheat loan		Distributions		GRAINPOOL Loan
	Jan-10	Jan-10	Jan-10	Apr-10	Apr-10	Apr-10	Apr-10		
AH	\$30	\$0	\$30	\$0	\$32	\$32	AH	\$271	\$160
ANW1	\$22	\$5	\$27	\$0	\$34	\$34	ANW1	\$275	\$163
ANW2	\$11	\$15	\$26	\$0	\$42	\$42	ANW2	\$262	\$153
APW	\$21	\$6	\$28	\$0	\$30	\$30	APW	\$260	\$151
ASF1 SOFT	\$19	\$9	\$28	\$0	\$43	\$43	ASW Soft	\$267	\$157
ASW	\$18	\$8	\$26	\$0	\$34	\$34	ASW	\$249	\$142
AGP	\$17	\$9	\$26	\$0	\$27	\$27	AGP	\$243	\$138
Feed	\$20	\$0	\$20	\$33	\$8	\$41	Feed	\$209	\$123

(1) Blue figures represent amounts paid to the wheat loan account. (2) Black figures represent payments made to the cheque account once the wheat loan is repaid.
 (3) Green figures represent those clients who have elected to take the quarterly distributions (4) Be sure to check actual loan balances for Flexible Drawdown clients.

Estimated pool payments for Other Pooled Grains delivered to GPWA Ex GST

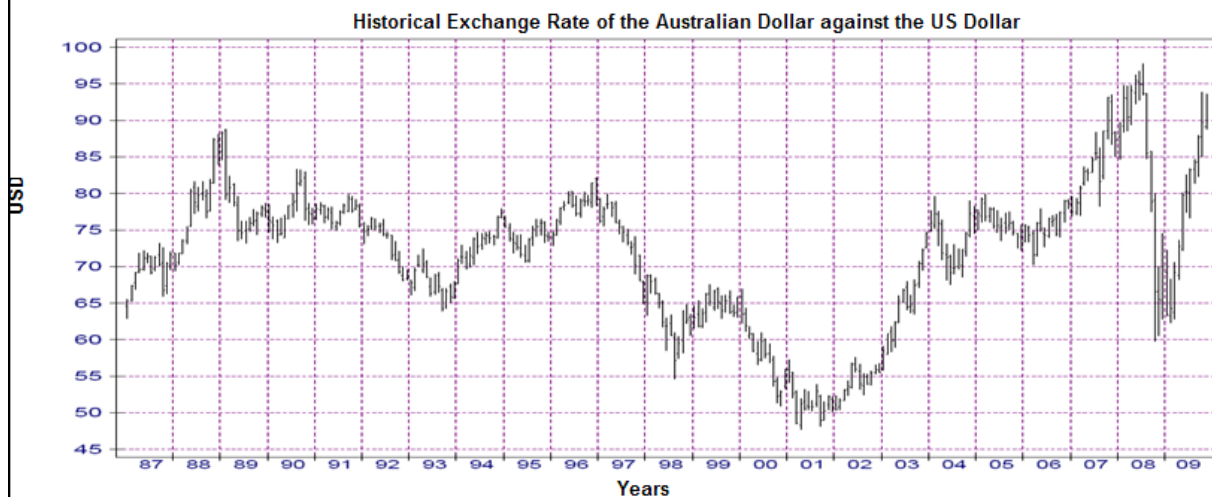
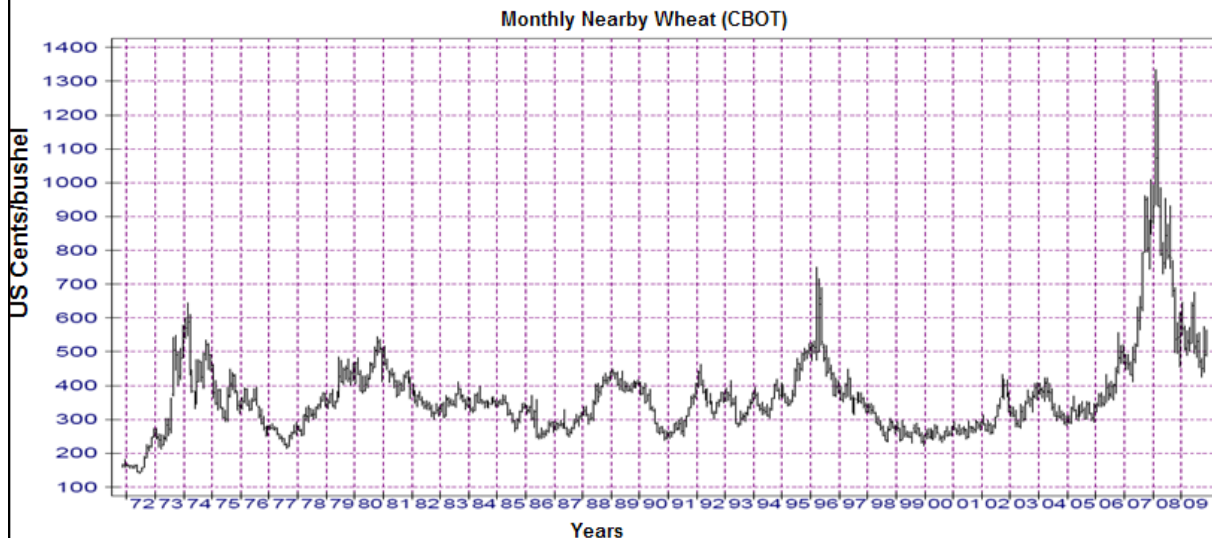
GPWA Other Pooled Grain Harvest 2009/2010	EPR (FOB)	Dec-09	Mar-10	Sep-10	Dec-10	GPWA Harvest:	Previous Pool 2008/09 Apr-10	EPR (FOB) 2010/2011	Harvest Advance 2010/2011 Dec-10
Lupin Pool	\$256	\$142	\$18	\$10	\$13	Lupin Pool	\$13.00	\$250	\$138
Malt Barley Baudin Pool	\$220	\$125	\$22	\$13	\$22	Malt Barley No 1 Baudin Pool	\$17.00	\$240	\$137
Malt Barley Gardiner Pool	\$215	\$122	\$21	\$13	\$19	Malt Barley No 1 Gardiner Pool	\$17.00	\$235	\$134
Malt Barley Buloke Pool	\$205	\$115	\$14	\$16	\$8	Malt Barley No 1 Buloke Pool	\$17.00	\$225	\$128
Feed Barley Pool	\$170	\$92	\$9	\$14	\$7	Feed Barley No 1 Pool	\$8.00	\$200	\$112
Oat 1 Pool	\$172	\$94	\$10	\$14	\$7	Oat 1 Pool	\$16.00	\$175	\$95
Canola Pool	\$455	\$297	\$32	\$32	\$32	Canola No 1 Pool	\$17.00	\$440	\$287

(1) Payments include Receival Fee and CBH Freight charged direct to grower



Components of Wheat Price - Determining an Estimate For 2010/2011 Pool Return







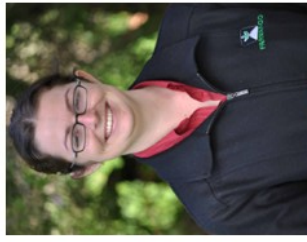


Use the data to put the expected values of the three components of price (ie wheat futures, exchange rate and basis) into historical perspective and the stocks to use ratio to give a view as to supply/demand pressure. Currently FARMANCO are budgeting on APW EPR for 2010/2011 of \$258/t (AUD) based on CBOT (march) = 585 c/bus, AUD = 96 cents, FOB basis = 90 c/bus. Use the exchange rate/wheat futures matrix to help determine a reasonable range.



Historical FOB Basis (March contract only)											Current Estimate
Crop Year	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	9 yr ave	10/11
Chicago FOB Basis c/bus	52	77	136	127	91	26	74	-61	42	63	90
Kansas FOB Basis c/bus	47	86	133	92	61	1	61	-118	6	41	90
Stocks to Use	35%	27%	22%	25%	24%	19%	19%	25%	29%	25%	25%

Wheat Futures + FOB Basis c/bus	APW Wheat EPR AUD\$/t FOB												
	Exchange Rate - Value of AUD in US Cents												
	80	82	84	86	88	90	92	94	96	98	100	102	104
540	\$248	\$242	\$236	\$231	\$225	\$220	\$216	\$211	\$207	\$202	\$198	\$195	\$191
555	\$255	\$249	\$243	\$237	\$232	\$227	\$222	\$217	\$212	\$208	\$204	\$200	\$196
570	\$262	\$255	\$249	\$244	\$238	\$233	\$228	\$223	\$218	\$214	\$209	\$205	\$201
585	\$269	\$262	\$256	\$250	\$244	\$239	\$234	\$229	\$224	\$219	\$215	\$211	\$207
600	\$276	\$269	\$262	\$256	\$251	\$245	\$240	\$235	\$230	\$225	\$220	\$216	\$212
615	\$282	\$276	\$269	\$263	\$257	\$251	\$246	\$240	\$235	\$231	\$226	\$222	\$217
630	\$289	\$282	\$276	\$269	\$263	\$257	\$252	\$246	\$241	\$236	\$231	\$227	\$223
645	\$296	\$289	\$282	\$276	\$269	\$263	\$258	\$252	\$247	\$242	\$237	\$232	\$228
660	\$303	\$296	\$289	\$282	\$276	\$269	\$264	\$258	\$253	\$247	\$243	\$238	\$233
675	\$310	\$302	\$295	\$288	\$282	\$276	\$270	\$264	\$258	\$253	\$248	\$243	\$238
690	\$317	\$309	\$302	\$295	\$288	\$282	\$276	\$270	\$264	\$259	\$254	\$249	\$244
705	\$324	\$316	\$308	\$301	\$294	\$288	\$282	\$276	\$270	\$264	\$259	\$254	\$249
720	\$331	\$323	\$315	\$308	\$301	\$294	\$288	\$281	\$276	\$270	\$265	\$259	\$254
735	\$338	\$329	\$322	\$314	\$307	\$300	\$294	\$287	\$281	\$276	\$270	\$265	\$260
750	\$344	\$336	\$328	\$320	\$313	\$306	\$300	\$293	\$287	\$281	\$276	\$270	\$265
765	\$351	\$343	\$335	\$327	\$319	\$312	\$306	\$299	\$293	\$287	\$281	\$276	\$270
780	\$358	\$350	\$341	\$333	\$326	\$318	\$312	\$305	\$299	\$292	\$287	\$281	\$276
795	\$365	\$356	\$348	\$340	\$332	\$325	\$318	\$311	\$304	\$298	\$292	\$286	\$281



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