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Australia

LOCK-UP REPORT

GRAIN AND FEED LOCK-UP - NOVEMBER 2009

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Report Highlights:
Rainfall continues across much of the Australian continent where winter cereal crops are grown. To date, Post has received no reports of rain damaged grain as scattered rainfall continues. Total wheat production for 2009/10 is unchanged from Post's previous forecast while barley production is up on the previous reported. Sorghum production for 2010/11 is down on Post's last report while rice production is up sharply. The state of Western Australia is currently harvesting its first GM canola crop.

Post:
Canberra

Commodities:
Wheat
Barley
Sorghum
Rice, Milled

Weather Conditions

Since Post's last report, weather conditions generally have continued to be beneficial to winter cereal production. Cooler and wetter-than-average conditions, particularly in southern Western Australia, have allowed winter cereal crops to fill to their potential and finish well. South Australia and Victoria have also had beneficial conditions and these have compensated for dry and hot conditions experienced in much of NSW and southern Queensland.

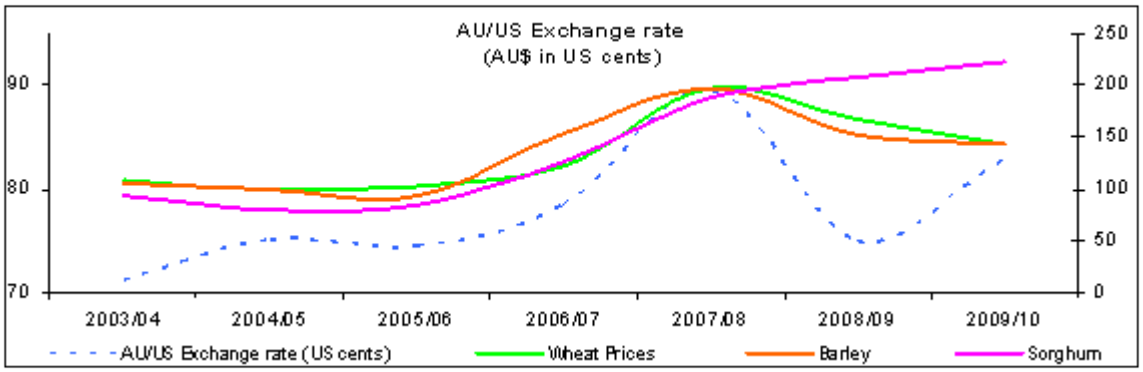
At time of writing this report, rainfall continues across much of the Australian continent where winter cereal crops are grown. However, this rainfall has arrived too late for those areas which experienced dry conditions in August and September, such as parts of mid-western, northern and southern NSW. In the driest winter cereal production areas, harvest has already commenced.

To date, Post has received no reports of rain damaged grain as scattered rainfall continues although recent investigation has revealed some frost damage in eastern Australia. Post advises however that, for crops waiting to be harvested, winter cereal yields will not likely respond to rainfall from this point onwards.

For summer crops, such as sorghum and rice, recent rainfall has improved irrigation water reserves somewhat. However, reservoirs continue to remain at historically low levels particularly in southern NSW. Dryland sorghum production will have likely benefitted from recent rainfall as producers prepare for planting. Despite a recent upward revision, rice production remains at historically low levels.

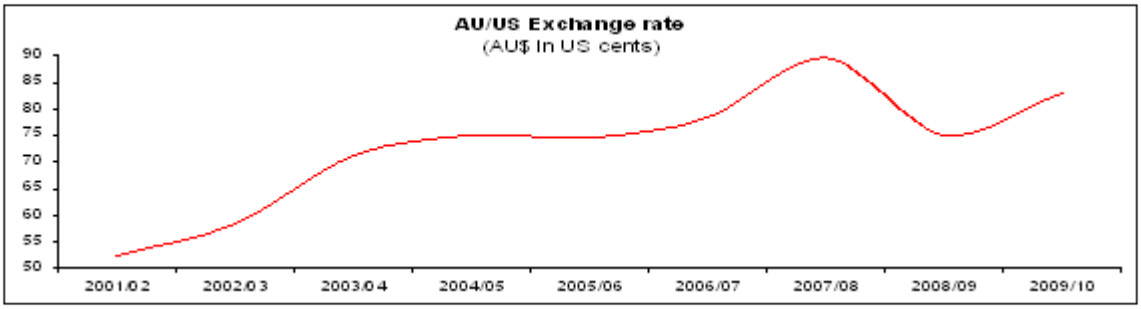
Prices

Much media attention in Australia has been focused on lower wheat and barley prices. Growers who, since 2002/03, have faced drought conditions and high prices are now growing concerned about dry conditions and low prices going forward.



Source: ABARE price index

Recent gains in the value of the Australian dollar have created much concern regarding grain prices (going forward). Australia is expected to export around two thirds of its wheat crop and over half of its barley crop. The valuation of the Australian dollar, combined with world grain prices, substantially impacts upon domestic prices received for winter cereals "at the farm gate". The past 12 months have seen both world prices and the valuation of the Australian dollar conspire to decrease winter cereal prices "at the farm gate" in Australia.



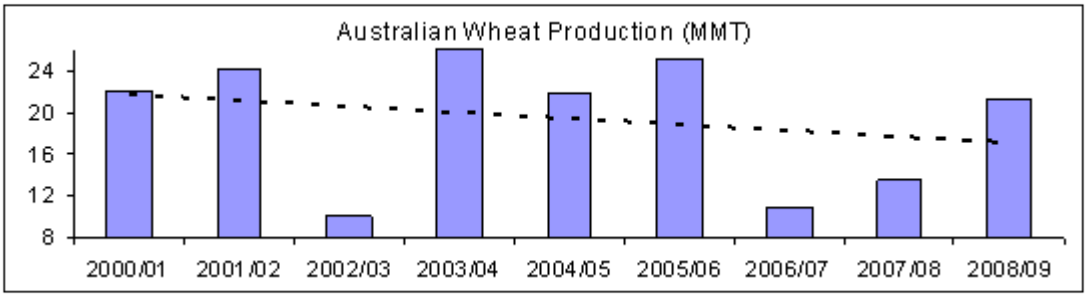
Source: ABARE data (July-June)

Wheat

Total wheat production for 2009/10 is forecast at 23.63 MMT, unchanged from Post's previous forecast. Slightly improved conditions in the states of Western Australia, South Australia and Victoria have compensated for poor conditions in many winter cereal growing regions in the state of New South Wales.

Of particular interest to Post's analysis are the cooler-than-average conditions experienced in Western Australia, a state which typically represents around 40 percent of Australia's total wheat production. The Western Australian wheat belt experienced below-average temperatures and good rainfall during the critical month

of September, according to official Australian Bureau of Meteorology data. These lower temperatures were perhaps just as beneficial to yield as the much needed rainfall.



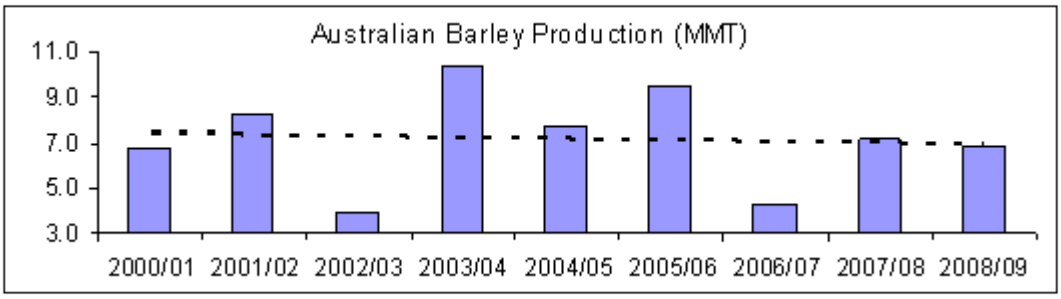
Source: ABARE Data (July-June)

If achieved, a crop of 23.63 MMT would represent only the fifth largest crop despite a record planted area.

Barley

Barley production in 2009/10 is forecast at 7.8 MMT, up on the 7.6 MMT previously reported by Post. Improved yields in the states of Western Australia and South Australia, which collectively are expected to account for around 60 percent of Australia's barley production, account for the overwhelming majority of the forecast increase. Slightly higher yield and planted area in Victoria have also contributed to an improved outlook.

Some industry sources are expecting the final barley number for 2009/10 to be as high as 8.5 MMT. Post believes the poor price outlook at time of planting has seriously constrained area planted to barley, particularly in Western Australia. However, better than expected yields may result in a higher final production number.



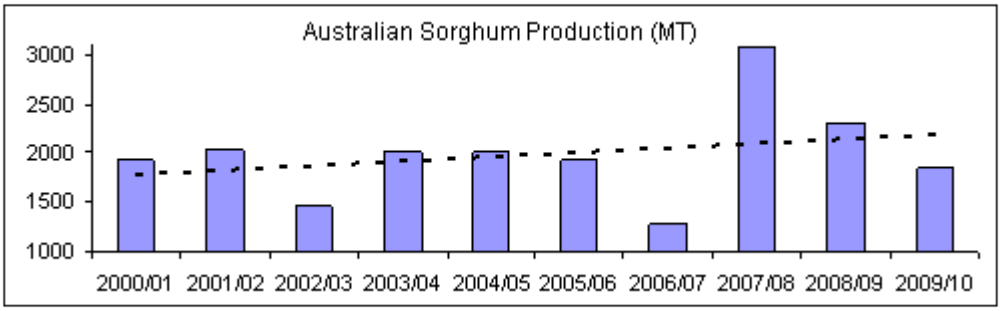
Source: ABARE data (July-June)

A crop of 7.8 MMT, if achieved, would represent the fourth largest crop on record but remains well below the record 10.4 MMT harvested in 2003/04.

Sorghum

Sorghum Production for 2010/11 is forecast at 2.0 MMT, down on Post's last report and considered only slightly above the ten-year-average. Despite recent rainfall events, drier than average conditions in northern NSW and southern QLD in September and much of October will likely constrain production of sorghum below that previously expected by Post.

Planting for the 2010/11 sorghum crop has commenced at time of writing this report.



Source: ABARE data (July-June)

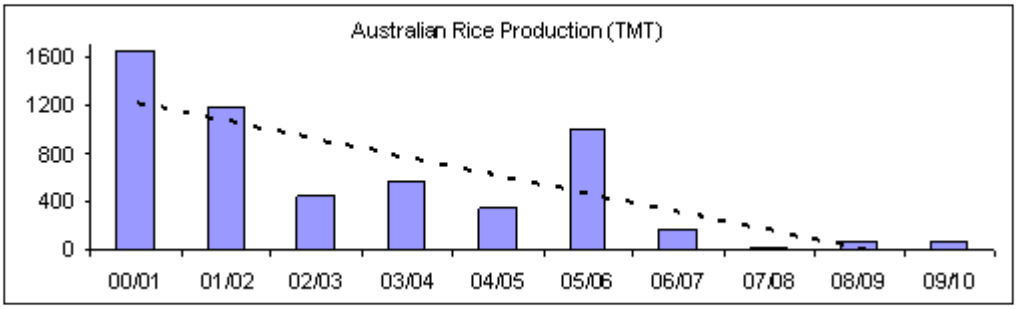
Historically low levels of irrigation water, despite having improved somewhat, will also likely constrain the production of irrigated sorghum. Post acknowledges scope for increased sorghum production as sorghum traditionally has a long planting window and producers can take advantage of rainfall by planting "opportunity" sorghum crops. Post has assumed continued planting rainfall events in line with average seasonal conditions.

Industry sources have reported high export demand for old crop sorghum (2009/10). This, combined with renewed domestic demand, is likely responsible for sorghum prices holding relatively firm while prices for other grains, particularly barley, have eased.

Rice

Rice production in 2010/11 is forecast at 175,000 MT, up sharply on Post's previous forecast. A recent increase in the allocation of irrigation water will likely allow more rice to be grown than previously forecast. Despite the increase in allocated irrigation water, overall allocation remains at historically low levels. The Murray Valley general security allocation was recently increased to nine percent while the Murrumbidgee general security allocation has been increased to eleven percent.

Despite the sharp increase in forecast production, a crop of 175,000 MT, if achieved, would be considered the fourth smallest crop on record. Long running and severe drought, which began in 2002/03, has severely depleted irrigation water reserves and slashed production to historically low levels. Some irrigation water co-operatives have been successful in saving water through productivity improvements. A proportion of this water has been reallocated to irrigators and this reallocation effectively adds another four and seven percent respectively to existing allocations.



Source: ABARE data (July-June)

Post anticipates that increased production would likely place some downward pressure on Australian rice imports (including potential rice imports from the United States).

Post notes with interest the planned production of rice in the Ord River Irrigation Area (ORIA) in 2010/11 in the remote Kimberley region in the far north of the state of Western Australia. This will represent the first time rice has been grown commercially in the ORIA since the 1970's. Post's investigation has revealed that up to 400 hectares will likely be planted with plans to expand further should these plantings prove viable. (See report #AS9036).

The Ord River Irrigation Scheme

The Ord River Irrigation Area (ORIA) is located in the remote East Kimberley region in the far north of the state of Western Australia. The irrigation area covers around 15,000 hectares and is considered small in comparison with other irrigated areas in Australia.

Two factors make the ORIA unique. The first is its extremely remote location, 2,200 kilometers (1,400 miles) from the WA state capital of Perth, marginally closer than Jakarta in Indonesia. The second unique factor is the enormous water reservoir, Lake Argyle, which provides water to the irrigation area via Lake Kununurra, as well as environmental flows into the Lower Ord River.

In flood, Lake Argyle covers an area of over two thousand square kilometers. In 2008, the lake discharged a total of 4,400,000 mega liters of water while the ORIA used only 171,500 mega liters (or around 3.8 percent) of that discharge. The following table shows the theoretical potential (planted area) of the outflow of Lake Argyle, not allowing for other requirements such as urban use or environmental flows.

Theoretical Potential use of Lake Argyle Discharge
(not including environmental, urban or other requirements)

	Assumed discharge (Mega Liters)	Assumed water use (Mega liters per ha)	Planted area (potential)
Rice	4,400,000	10-16	440,000
Sorghum	4,400,000	8	550,000
Sugar Cane	4,400,000	18	244,444
Wheat	4,400,000	5	880,000
Cotton	4,400,000	10	440,000

Source: Post Estimate

Currently, the ORIA produces a broad range of horticultural and broad acre crops. Mangoes, cucurbits, citrus, hybrid seed, and field crops such as chickpeas, culinary beans and chia account for the majority of the agricultural crops. Sugar production ceased in 2007 with the closure of the local sugar mill.

Currently under trial are cotton and rice (along with numerous other field crops). Both of these industries failed at a commercial level in the ORIA during the 1970's due to pest and diseases. However, with the advent of new genetically modified (GM) varieties and improved cultural practices, local producers are optimistic that these crops could, with sufficient area planted, form the basis of new field crop industries. In particular, rice has potential with a geographic advantage for markets in Asia compared with other Australian rice growing areas and is expected to be planted on a commercial basis over the next year.

Currently there are plans to expand the ORIA by another 8,000 hectares, and this development is commonly referred to as "M2". Local sources believe that the crops to be grown in this area will likely be cotton and rice. The drought in southern Australia has seen areas planted to cotton and rice plummet to record low levels in recent times. Abundant water availability in the ORIA has created much interest in more traditional rice and cotton growing areas in southern Australia, which are currently facing record low water availability.

Continued expansion of the ORIA has created much discussion at industry and government levels. "Ord Stage 2" would likely compose of 15,000 hectares although this may not be realized for some time. Local industry sources believe that up to 150,000 hectares of land could eventually be irrigated in the ORIA given the appropriate investment, and new export market opportunities.

Western Australia Harvests GM Canola

The state of Western Australia is currently harvesting its first GM canola crop at Geraldton, in the far north of the state. The harvest, which is part of a GM Canola trial, has been conducted with a view to ending the state's moratorium on GM crops (pending the results). The trial commenced in April 2009 and was vigorously opposed by some environmental groups and opposition parties which tried to block the trial at the legislative level.

A total of 17 farms and three research stations have been used to trial the new GM varieties of canola with a total planted area of only 854 hectares. According to reports, trial plots cover an area of between 17-30 hectares. The trial includes not just the growing of canola, but also the segregation, transport and storage of the harvested seed.

The trials were initiated in order for the western Australian government to take "a managed approach" to the introduction of GM crops. Farm groups have supported the trials as the technology provides enormous benefits across a number of crops across the grains industry. Similar trials were conducted in NSW and Victoria in 2008.

There has been a great deal of debate over the concern for co-mingled GM and non-GM grain. Some sectors of the cropping industry believe that Australia receives a premium as a "non GM crop producer" and that growing GM crops potentially threatens that trade.

According to ABARE's current forecast, Western Australia is poised to harvest around 825 TMT of canola in 2009/10 off around 626,000 hectares. This makes Western Australian the largest canola producing state, producing just under half of Australia's canola.