

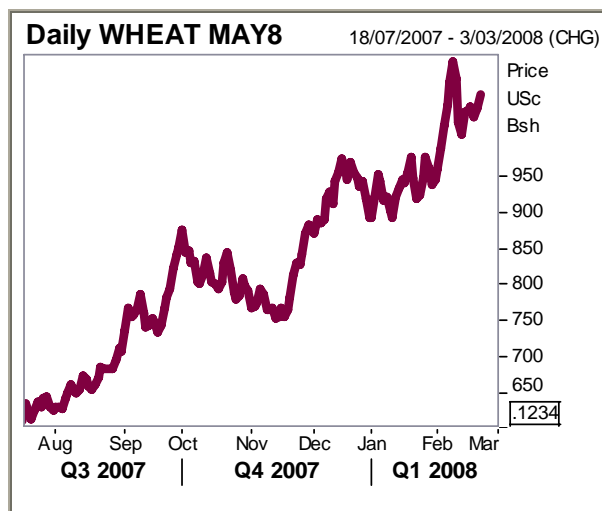
Overview

Last week was relatively lacklustre following the volatility of the preceding fortnight. All major grain futures ended higher, with new crop prices tending to be stronger than the old crop.

Strength in commodities provided significant support with oil, gold, iron ore and coal leading price direction.

Today we have seen the electronic market extremely strong with wheat up 30 c/bu and corn and soybeans also stronger.

Chart 1: Chicago May 08 Wheat – 6 months



Major points;

- Electronic market up strongly
- USDA released first US 08/09 estimates
- Crop conditions stable awaiting winter wheat emergence from dormancy
- Market awaiting results from Iraq tender
- Commodities strong - GSCI up 2.8%
- US Dollar weaker for the week
- Funds buyers of agricultural commodities

Table 1: Commodity Pricing Table

US Grains	Month	Last	Weekly
Wheat - CBoT	May-08	1,049.00	21.50
	Jul-08	985.75	48.25
Wheat - KCBT	Mar-08	1,110.00	28.00
	Jul-08	1,063.00	46.75
Wheat - MGE	Mar-08	1,925.00	(10.00)
Corn	Mar-08	522.25	7.50
	Sep-08	549.00	11.00
Soybeans	Mar-08	1,419.50	45.75
Soy Oil	May-08	62.30	3.73
Soy Meal	Mar-08	361.00	2.20

Global Wheat Spot Futures

France	Mar-08	273.00	8.25
UK (feed)	Mar-08	184.00	4.00
China	May-08	2,027.00	37.00
Australia	Mar-08	500.00	(20.00)

Commodities

GSCI		656.58	18.57
Gold	Mar-08	944.50	42.10
Copper	Mar-08	379.80	27.30
Oil WTI	Apr-08	99.06	3.37
Natural Gas	Mar-08	9.24	0.54
Ethanol	Mar-08	2.26	0.03
Sugar	Mar-08	13.78	0.52
Cattle	Apr-08	93.80	2.47
Hogs	Apr-08	63.53	(0.88)
Pacific Panamax	Mar-08	57,429	5,072

Currencies

EUR / USD	1.4831	0.0154
AUD / USD	0.9232	0.0164
USD / BRL	1.7070	(0.0460)

Futures Market

Electronic trading is sharply higher this morning with wheat up between 20-30 c/bu at the moment, with futures moving more into an inverse. Kansas has similar strength. Soybeans and corn are also up, with beans 20 c/bu higher and corn around 5 c/bu stronger.

Daily volumes have been solid over the week without being eventful. Open interest continues to slowly rise across most exchanges with the

current market size being 606,000 contracts in Chicago wheat. This is dwarfed by open interest in corn with 2,157,000 lots and behind soybeans at 878,000 contracts. However to demonstrate the growth in the market, open interest in wheat futures are up 7.5% since the USDA's January stocks report. Open interest is up significantly in the spring crops, with corn up 17.5% in six weeks and the soybean market size up 14.8% over the same period.

This growth in open interest is only partly attributable to index fund activity with speculative ownership of grains increasing consistently over this period. This pattern has continued over the last week.

Table 2: CFTC Speculative Fund Position

Speculative Fund Position	19-Feb	Change
Wheat - CBoT	(393)	1,395
Wheat - KCBT	28,089	(3,114)
Corn	255,138	18,721
Soybeans	117,369	3,014
Sugar	137,098	9,403

Commodities have been strong over the last week with Crude Oil flirting with the USD100 / barrel level. Political tensions threatening supply in Nigeria, Venezuela, Iran and northern Iraq along with shorter term supply issues from US refineries have outweighed economic growth concerns impacting demand. Once again speculators have been buyers over the last week, further supporting values.

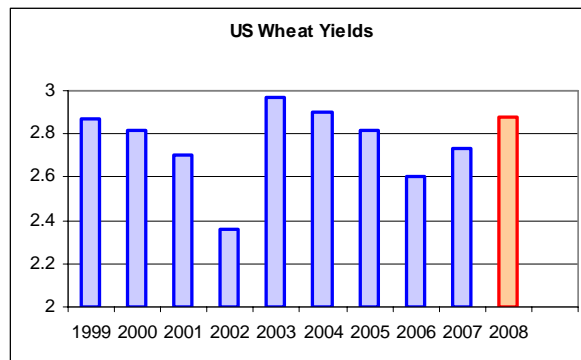
All major energy, precious and base metal values rose over the week leading the Goldman Sachs Commodity Index higher by 2.8%. Weakness in the US Dollar was seen as encouraging the rise in commodities.

Physical

USDA Report

Whilst Friday's USDA report was not a full monthly WASDE report it did provide a first look at the 2008/09 US supply situation. US wheat acreage was broadly in line with trade estimates at 64.0 million acres. Yields were at the high end of estimates at 42.8 bushels/acre, especially when considered against the last few years, although more than reasonable when looked at over the decade.

Chart 2: US Historical Wheat Yields



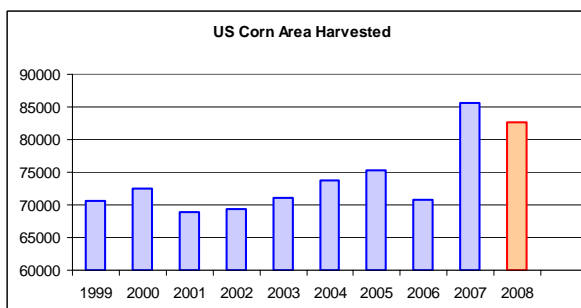
Total US wheat production was projected at 63.4 mmt which seems sound assuming no drought year.

US new crop export projections were as expected lower than this year given global production is anticipated to be at record levels and hence export competition should be high. In this environment the US will not be the residual supplier to the world, in fact substantial business should go back to Black Sea suppliers in particular.

The end result in terms of wheat stocks is a near doubling of current carryout and indicates a comfortable situation going forward. This is all predicated though on a near 650 mmt global wheat crop which will result in lower US export competitiveness.

The USDA outlook was more an issue in terms of the focus upon spring crop estimates with the battle for planting between corn and soybeans heating up. The USDA's projected 2008/09 corn planted area was 90 million acres, down just 3.6 million acres from last year's record (which was itself a huge 20% increase on the 10-year average). The chart below shows US acres of corn harvested, as distinct from planted, over this period.

Chart 3: US Corn Harvested Area



However with the continued relative strength in soybeans (see Chart 4), corn plantings of this magnitude are likely to come under threat.

Chart 4: Soybean / Corn Ratio



The USDA estimated yield at 154.9 bushels / acre and, whilst definitely achievable with good weather, it remains the second highest yield on record. Despite US corn production estimated at 325.4 mmt, down just slightly from last year's record, the USDA is anticipating a fall in ending stocks largely due to rising ethanol demand. Current nearby ethanol margins remain positive, at 25-30 c/gallon, although small negative margins are reported in some regions giving strength to this story.

Whilst the USDA is expecting a fall in both feed and export demand, the extent of these falls, especially for exports can be questioned. However if actuals turn out close to forecast the ending stocks situation is still relatively comfortable.

The risk is that these US production estimates do not come to fruition and demand continues to remain largely unaffected by price. With global stocks near record lows for corn and other major crops, there is little margin for error.

DEMAND

US weekly export sales figures were within expectations at 101,000 mt. New sales were limited to known Japanese business and some small contracts. For Hard Red Spring wheat (HRS) sales were small with price inelastic Japan buying 30,000 mt, but cancellations of contracts leading to net purchases of only 19,000 mt. This suggests that these price levels may be slowing demand for this critical grade, although it will take several weeks to confirm this pattern. Actual US exports remained strong with 610,700 mt shipped over the week providing firm support to export projections.

The market continues to await the results of the latest Iraq tender with offers due on the 23rd. The trade believes that Iraq must come in shortly given the shipment pace of previous sales. However the sales process may continue to take some time before confirmation of any deals.

With Australia issuing export permits to two trading houses there may well be Australian wheat offered into this tender, however with liquidity poor and old crop stocks limited (bid-offer spreads for old crop have reached \$50 / mt) it is unlikely that substantial tonnage could be offered without the backing of the AWB Pool. Even then stock availability is unlikely to be high.

IKAR has estimated Russian wheat shipments to date at 11.43 mmt. USDA has total annual exports out of Russia at 12.5 mmt.

German high protein wheat remains one of the few quality wheat alternatives to the US. There are more indications that other EU origins, notably French are struggling to meet quality specifications with remaining stocks.

The EU granted 200,000 mt of export licences last week bringing total exports of soft wheat to 4.27 mmt for the year or 5.9 mmt of all wheats.

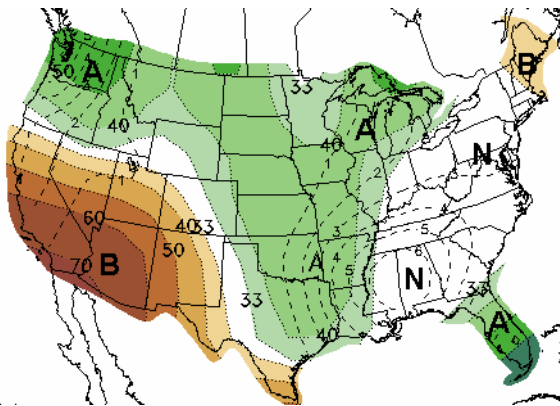
PRODUCTION

The South American soybean and wheat crops remain very important to the short term price direction of the grains complex.

The Buenos Aires Grain Exchange forecast Argentine soybean production in a small range around the USDA's 47 mmt estimate, removing some fears that drier conditions had substantially impacted the bean crop. However estimates for corn production were lower, ranging from 19-21 mmt, below the USDA's current estimate of 21.5 mmt. Harvest is just beginning with 3% cropped to date and further damage to Argentine corn will place more pressure on US exports.

The US is not focussed upon weather with the emergence of winter wheat from dormancy in the coming weeks the fundamental priority. However with rainfall deficits still in existence in the southern HRW states, forecast rainfall next week will definitely be beneficial to the crop.

**Chart 5: US 6-10 Probability of Precipitation
(Green Above Average)**



Russian analyst SovEcon estimated crop condition for total winter grain crops at 93-95% fair to good, above the average of 91%. However it warned that limited snow cover in the south may reduce moisture available to crops in the spring, with resultant yield impacts.

Adverse weather has impacted the Indian rapeseed crop, following damage to Chinese rapeseed with the winter freeze. The crop problems to the smaller vegoils, along with nearby demand and firmer crude values continue to provide support to the soybean complex.

Some rainfall in Spain over the last week but the rest of the continent was dry. This is not a concern at this stage.

AUSTRALIA

It was a very quiet week on the Australian scene.

Lower rainfall occurred this week across most of the Australian grain belt, but rains whilst beneficial are only required in April in time for planting.

ABARE released a sorghum crop estimate of 2.45 mmt during the week, a figure very much at the high end of trade estimates which are generally in the 2.1-2.2 mmt range.

Summary

The week was a chance for a breather in grains, although the term is used relatively as we continue to see price intra-day ranges in futures of between 30-50 c/bu.

Spring wheat continues to be a major factor in wheat price direction although this slowly divorcing from other wheat markets as

Minneapolis once more becomes a more niche demand market. However there may well be additional spring wheat activity if demand does not continue to ease at these price levels. For the last two weeks we have seen evidence of cancellations of cargoes along with movement of US sales into new crop.

However the driver of grains in the near term will likely be the commodity story, as money continues to enter the market. Should crude oil momentum be maintained above \$100 pb, grains are likely to move higher.

Increasing grain prices are likely to increase the incentive of major government importers to secure supply and resume the debate over food versus fuel security in a US election year. To date the US farmer has dominated this discussion, however with food prices shooting up markedly over the last twelve months, pressure upon programs such as the US Farm Bill and Renewable Fuels targets may finally come from those who have been financing it – the consumer.

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