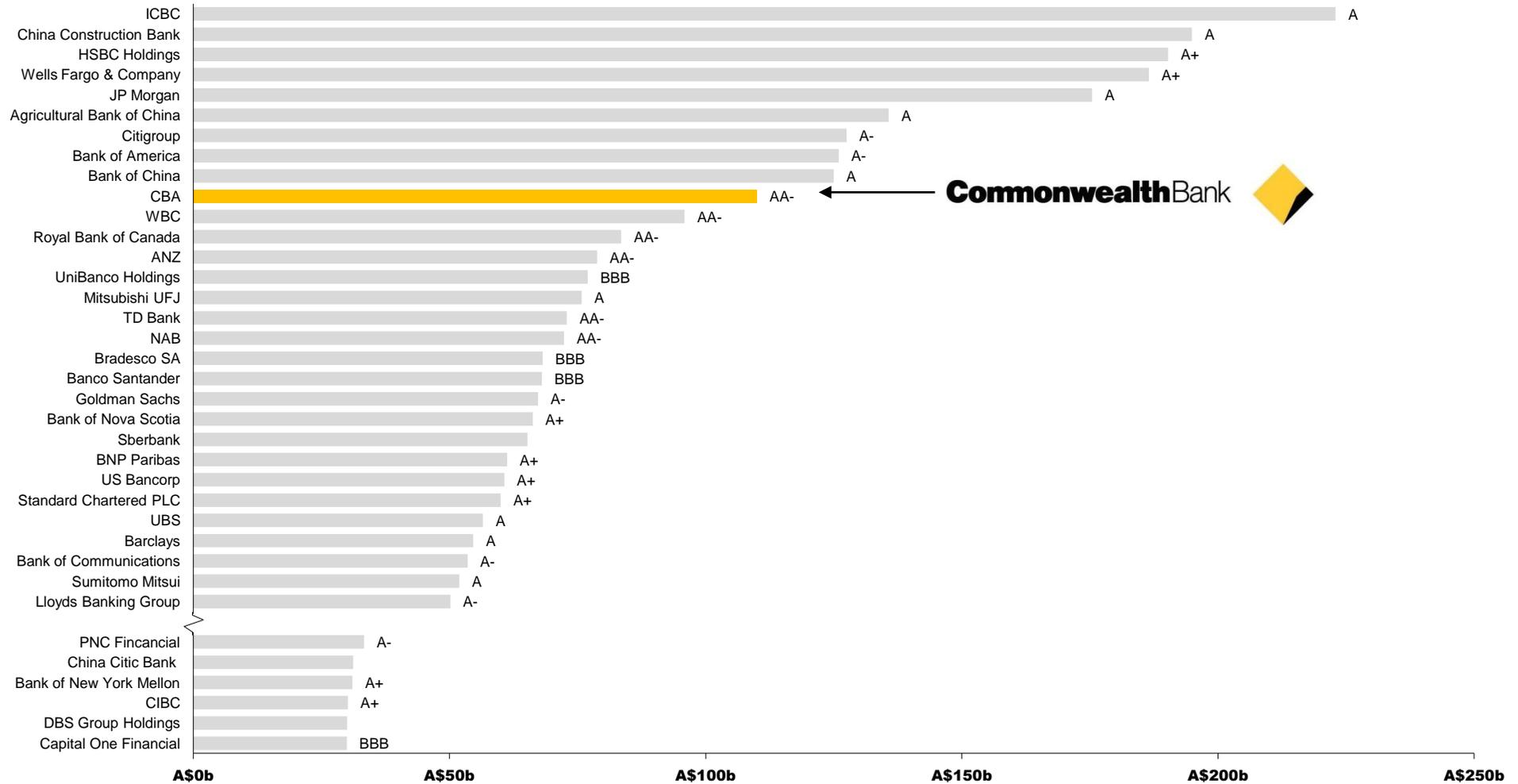


nabim

Edinburgh, May 29 2014.
Steve Jesse, CBA.

Who is CBA? Australia's largest bank and ranked in the top 10 globally



Some of us have been in the business for a long time....



What we will look at:-

- Global economy
- Current grain market trends
- Banks and ‘Funds’ in commodities
- Global corporates in agricultural markets
- Final thoughts

Global macro GDP:-

Cautiously optimistic, Europe still facing economic financial market and now political challenges

“

- China 2013 7.7% ,2014 7.3%, 2015 7.2%.
- US 2013 3.4%, 2014 3.9%, 2015 4.5%.
- Euro Area 2013 1.1%, 2014 2.4%, 2015 2.9%.
- UK 2013 3.5%, 2014 4.5%, 2015 4.1%

Source Goldman Sachs, May 2014.

Global macro China

China is still a good story, especially for agricultural commodity demand.

“Ours is a growth industry, and at its core lie simple facts. There will be more people in the world tomorrow than today, and they will earn more and eat better diets than they have in the past.” Bunge website.

- Headline Chinese nominal GDP numbers no longer double digit (e.g. 10.4% 2010) but 7% is still a strong number and the rates of growth seen in previous years were not sustainable.
- “History of the world’s economic development shows that no country can maintain rapid economic growth forever....Therefore, a moderate decline of China’s economic growth at the present time is inevitable and follows the general law of global economic development”. Development Research Center of the State Council of the People’s Republic of China, May 2014.
- For agricultural commodities, demand is much more resilient and less effected by broader economic growth measures.

Global macro and commodities

2008 through 2012 was an uncomfortable period for many commodity traders and processors.

- What happened to the fundamentals?
- In this period, our commodities tended to mirror price moves in other asset classes with global macro developments often overwhelming underlying agricultural market fundamentals, at least in the short term.
- There was extreme short term volatility.
- Resulting in difficult times for those of us trying to run businesses up and down the global food supply chain

“The challenges presented by this type of market were a factor in the 66 percent drop in our net profits”.
Emery Koenig, CRO Cargill January 2012.

Back to basics?

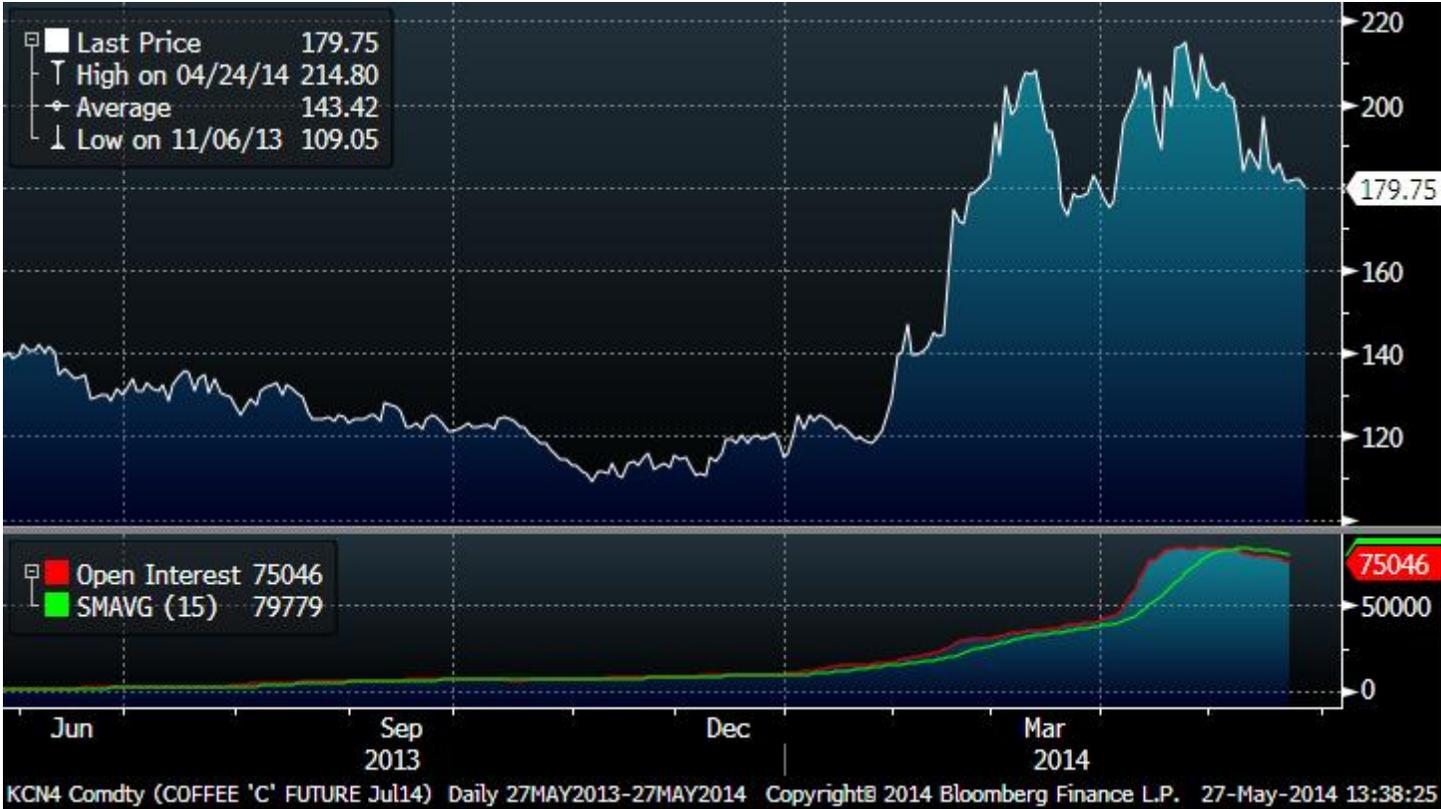
Many analysts now believe we are in a new cycle where fundamentals are reasserting themselves.

“The correlation of commodities to other asset classes has collapsed to pre-crisis levels....Moreover, the correlation between commodity sectors has also been on the decline. This suggests that commodity sector returns are increasingly being driven by sector specific fundamentals”.

Michael Lewis, Global Head of Commodities Research, Deutsche Bank, May 2014.

- Volatility is likely to remain high but at least we should be able to understand why markets are moving more easily.

Coffee a good old fashioned fundamental supply story.



Beans

Fundamentals rule but US domestic old crop may distort short term new crop trend.



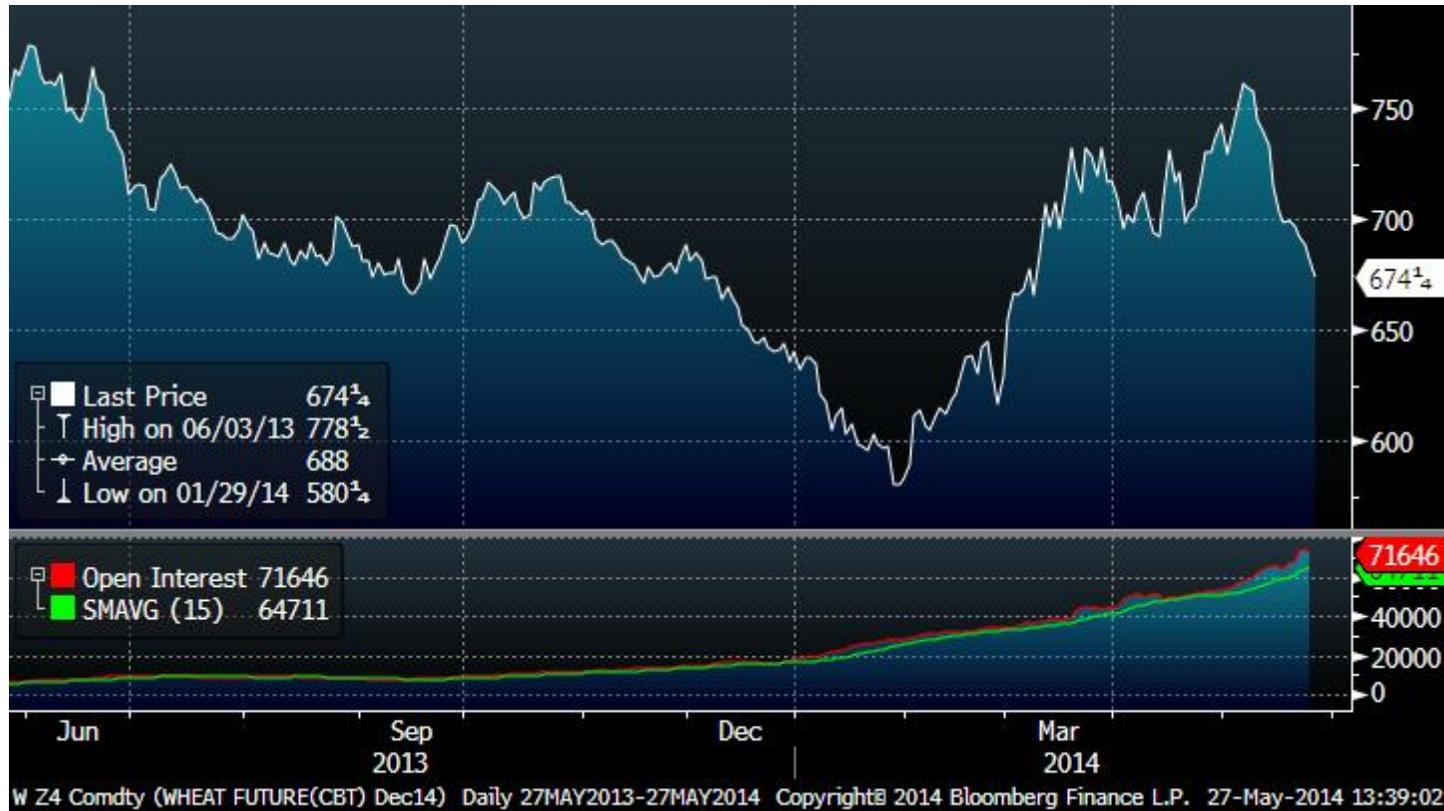
Corn

What is fundamental fair value today?



Wheat

Unless we have a major global supply shock, futures alone are seldom the ideal hedging tool.



Grain fundamentals

It really is back to basics but there are still too many variables to make sensible price forecasts.

- Beans remain the focus. Old crop prices and old/new crop spreads set to remain wild as the US deals with an impossibly tight carry out. Record bean / corn ratios should encourage maximum planting in the US but we still have a growing season to get through. Chinese demand likely to be stable to slightly higher. Prices can still trade in \$10 to \$14 range pending final acreage and yield.
- We may have a good idea of final acreage but yield and domestic and export demand remain unclear making the pivotal US stock number difficult to pin down. Cost of production may hold prices above the lower end of analysts guesses.
- Wheat, we close to Northern Hemisphere winter wheat harvests but not close enough to call medium term prices yet. There certainly is a hard wheat story in the US (likely priced in already). There have been some concerns in parts of the FSU but current fob prices don't yet indicate major issues. Thus far, the Russia / Ukrainian situation has not had a major impact. As we are now accustomed to, Black Sea fob prices set global winter wheat markets, true value based on quality and condition will dictate true market values in physical markets.
- Questions...what is 'trend line' yield in corn? what value El Nino / long range weather forecasts? Will England win the World Cup again (ever?)....

Financial Players in our markets

- Funds....who / what do we mean? Do they really impact long term prices?
- Banks...impact of commodity index products, proprietary futures and physical trading.
- Private Equity interest?

Corporates.

What next?

- ABCD's....need to grow, increased competition.
- What room for old fashioned (asset light) traders?
- Private Equity interest?

Final thoughts.

- China remains the key driver of the global economy and most of our markets.
- Following last week's elections, what will the EU look like in a couple of years?
- Higher volatility is here to stay but driven more by fundamentals than global financial market hysteria (we hope, beware more problems in European banking markets and heaven forbid a genuine problem in China).
- 2014/2015 could prove a transitional year where stock rebuilds in grain markets lead us into a more benign and lower price environment, but we need good harvests in the Northern Hemisphere followed by similar in Latin America and Australia end 2014 beginning 2015.

THANK YOU

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