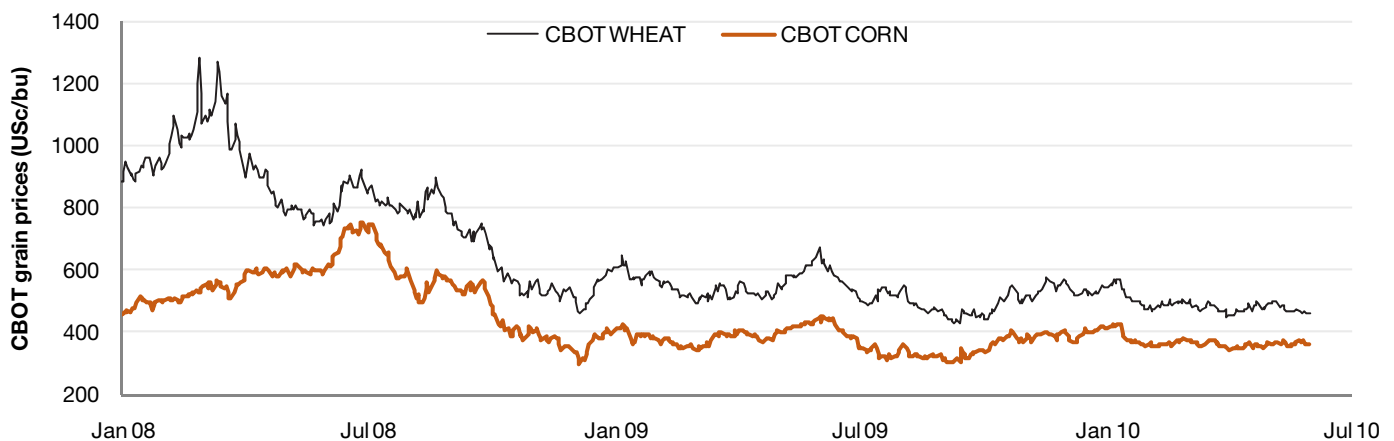


Global grains, down but not out.

- Global grain prices are likely to remain under pressure for the next 12 months because of abundant global supplies.
- Total global wheat stocks are forecast to rise further in 2010/11 to a fresh 9 year high. But there is a glimmer of hope for prices:
 - Wheat stocks in the top 5 exporting nations are forecast to fall this season.
 - Excluding China, world wheat stocks will fall by over 4mt in 2010/11. This will be the first year-on-year decline since 2007/08.
 - At times, investor short covering will buoy prices.
- World coarse grain prices will also feel the pressure of glowing global supplies. In particular, the US corn production in the upcoming season is forecast to be another bumper with near ideal growing conditions thus far. But offsetting this bearish supply story is the re-emergence of China as a potentially significant importer for the first time in over a decade. China alone can lift this market.
- Australian wheat prices will be weighed down by heavy international values. However a recent downward revision to the AUD currency forecast will provide some support.

Figure 1: CBOT grain prices (first futures contract, US\$/bu)



Source: Bloomberg and CBA Research

Table 1: Grain price forecasts, Commonwealth Research

		Current at 28/05/2010	Actual (Quarter Average)				Forecast (Quarter Average)								
			Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11	Sep 11	Dec 11	Mar 12	Jun 12
Wheat (CBOT)	US\$/bu	458	558	486	534	477	467	453	470	492	525	525	533	562	553
	US\$/t	168	205	178	196	175	171	167	173	181	193	193	196	206	203
	A\$/t	199	263	210	217	195	196	193	207	222	236	230	231	243	239
Corn (CBOT)	US\$/bu	359	393	337	394	360	360	357	362	373	375	375	375	375	380
	US\$/t	141	155	133	155	142	136	131	133	137	138	138	138	138	140
	A\$/t	167	199	155	172	157	155	152	159	169	169	164	162	162	164
Wheat, NSW (ASX)	A\$/t	211	280	234	216	208	204	202	205	222	247	245	246	258	254
	US\$/t	179	219	199	195	187	178	174	171	180	202	206	209	219	216
Currencies (period end)															
AUD/USD		0.85	0.81	0.88	0.90	0.92	0.85	0.87	0.82	0.81	0.82	0.85	0.85	0.85	0.85

Source: CBA Research



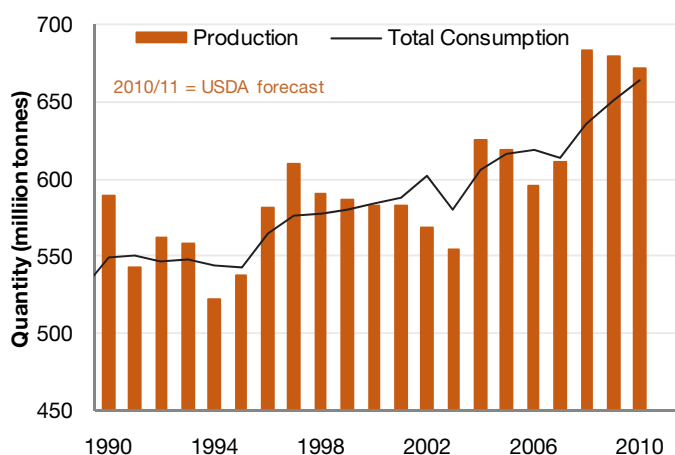
Wheat

Global wheat prices are likely to remain under pressure for the next 12 months because of abundant global supplies. This will pressure Australian wheat prices. However, as we indicate in this report, it may not be all one way traffic.

The USDA's May 10 *World Agriculture Supply and Demand Estimates* (WASDE) was a bearish report at first glance.

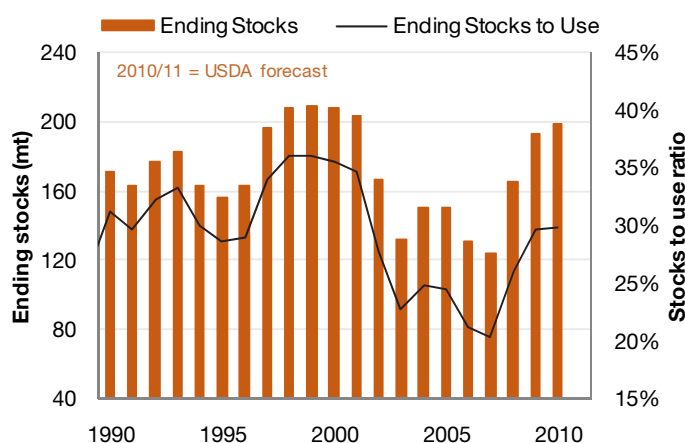
- Global wheat production for the coming year is forecast to be the 3rd largest on record behind the two previous seasons. At 672mt, this will be the 3rd consecutive season where production has outstripped consumption requirements, resulting in another build in global ending stocks.
- The USDA forecast that global wheat ending stocks in 2010/11 will swell to 198mt, up 5mt from 2009/10 levels and up nearly 74mt from 2007/08 stocks. The 2010/11 forecast is the highest level for around a decade.

Figure 2: Global wheat production and use



Source: USDA (May WASDE) and CBA Research.

Figure 3: Global wheat stocks



Source: USDA (May WASDE) and CBA Research.

Analysis of key country¹ prospects also suggests generally subdued price outcomes.

- US wheat ending-stocks in 2010/11 are forecast to expand to their most burdensome level since 1986/87. This is despite a 5mt pullback in production due to a lower area planted.
- EU27 wheat production for the upcoming season is forecast at 145mt, up 6mt from 2009/10. EU ending stocks are forecast to rise to 18mt in 2010/11 compared to 12mt back in 2007/08.
- Chinese and Indian wheat stocks are expected to hit their highest levels in nearly a decade.

But moving away from these Big Four reveals some results that may act to support wheat prices.

- Global ending stocks, excluding China, will fall by nearly 4mt in 2010/11. This is the first year-on-year decline since 2007/08. Ending stocks in the top 5 exporters² are forecast to fall by 3mt.
- Excluding the EU27, wheat production will fall in each of the top 5 exporters in 2010/11. The cumulative decline in production is forecast to be 11mt (includes US, Canada, Russia and Australia). Ukraine and Kazakhstan wheat production is also forecast lower in 2010/11.

Our read on these statistics is that global wheat availability may not be as ample as the headline "global ending stock" estimate may imply. Export competition should fall over the coming 24 months. And because of the reduced area planted around the globe this year, the market has a

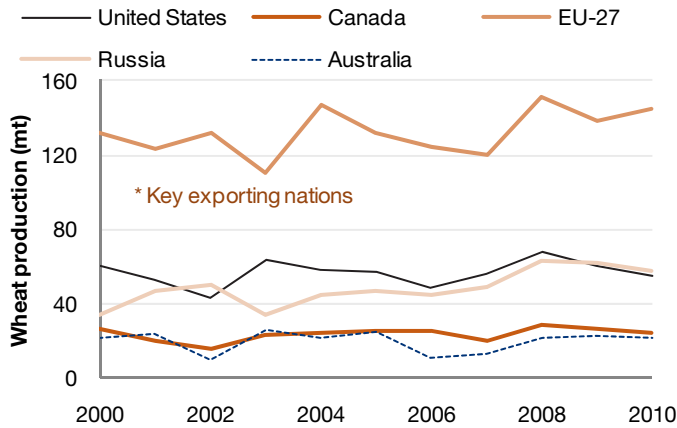
¹ The **US** is the world's largest wheat exporter and 4th largest producer. The **EU27** is the world's largest producer and consumer; they are also the 3rd largest exporter. **China** is the 2nd largest producer and consumer and the world's largest holder of wheat reserves. **India** is the world's 3rd largest producer and consumer.

² Top 5 exporters, in order, are US, EU27, Canada, Russia and Australia.



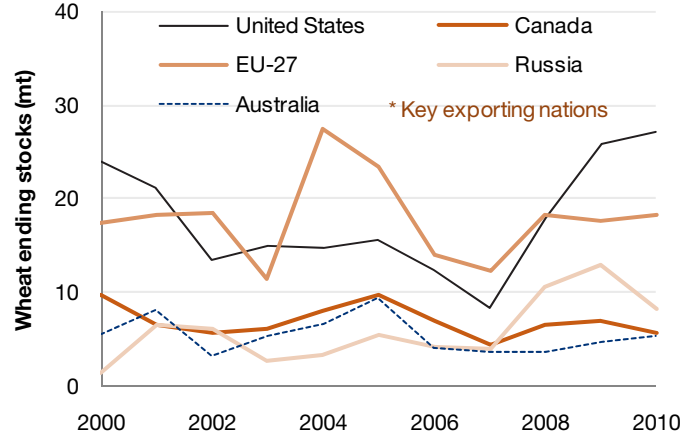
greater sensitivity to potential production scares. The USDA has forecast EU27 yields at near decade highs in 2010/11. A downward revision could have a material impact on global supply.

Figure 4: Wheat production, top 5 exporters



Source: USDA (May WASDE) and CBA Research.

Figure 5: Wheat ending stocks, top 5 exporters



Source: USDA (May WASDE) and CBA Research.

Other factors may also support wheat prices over the coming 12 months. Most notable is the current position of non commercial traders (speculators) on the Chicago wheat market.

The speculative investor has been bearish on wheat prices for some time. This is indicated by their persistent net short positions on the CBOT futures market (refer figures 6 and 7). Key results as at 25th May 2010 are:

- Speculative investors held 121k short contracts against 79½k long contracts, resulting in a net short position of over 41k contracts.

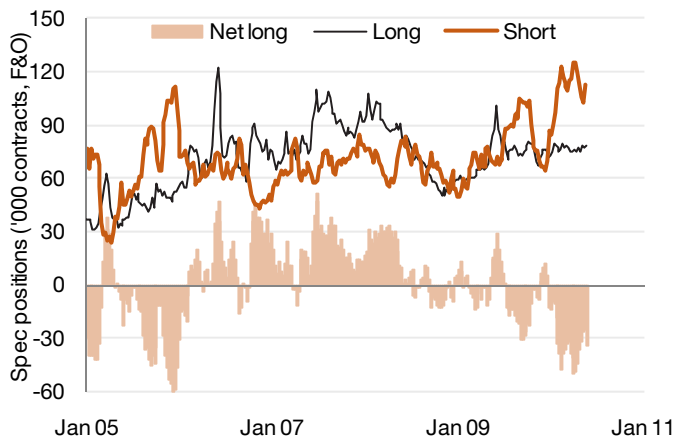
Aggregate short positions are not far from their peak of 125½k lots registered in late March. Net short positions are within sight of the record 50k lots observed at the same time.

Two points to keep in mind are:

- Speculative net positions are a reasonable guide for market price direction; and,
- Speculative traders opt to cover short positions if they deviate to far from 'normal'.

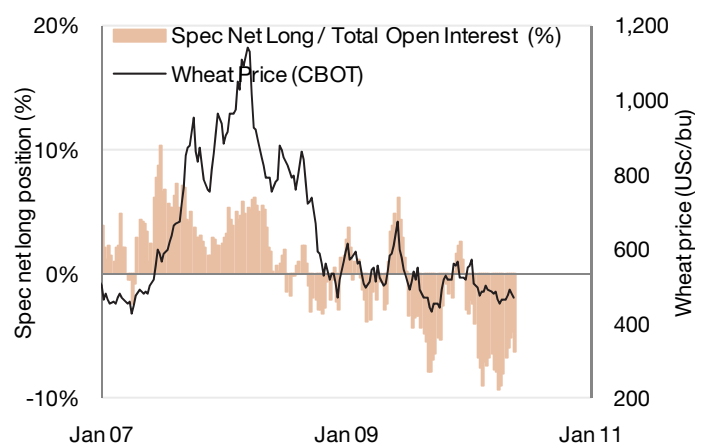
This is far from an exact science, but the current near record short positions are susceptible to continued covering. This can lead to bouts of price support.

Figure 6: Speculative traders positions, CBOT wheat



Source: CFTC, Bloomberg and CBA Research.

Figure 7: Spec traders positions verse price, CBOT wheat



Source: CFTC, Bloomberg and CBA Research



Aussie wheat production prospects

Australian wheat crop conditions are favourable. This follows widespread east and west coast rain over the past week. Additional rain expected over the coming 10 days should provide a near ideal environment for late season planting and early crop establishment.

We reiterate our recent forecast of a 5% year-on-year decline in wheat area in 2010/11, resulting in a crop of 20-21mt. The possible range of production outcomes is extremely wide, and conditions in spring will be critical. A kind spring growing season could easily result in a 23mt plus crop.

Wheat price forecasts...

We have trimmed our medium term expectations for global wheat prices reflecting hefty global supplies. But we do not forecast a precipitous decline in prices because of the significant regional anomalies and the current position of the speculative investor.

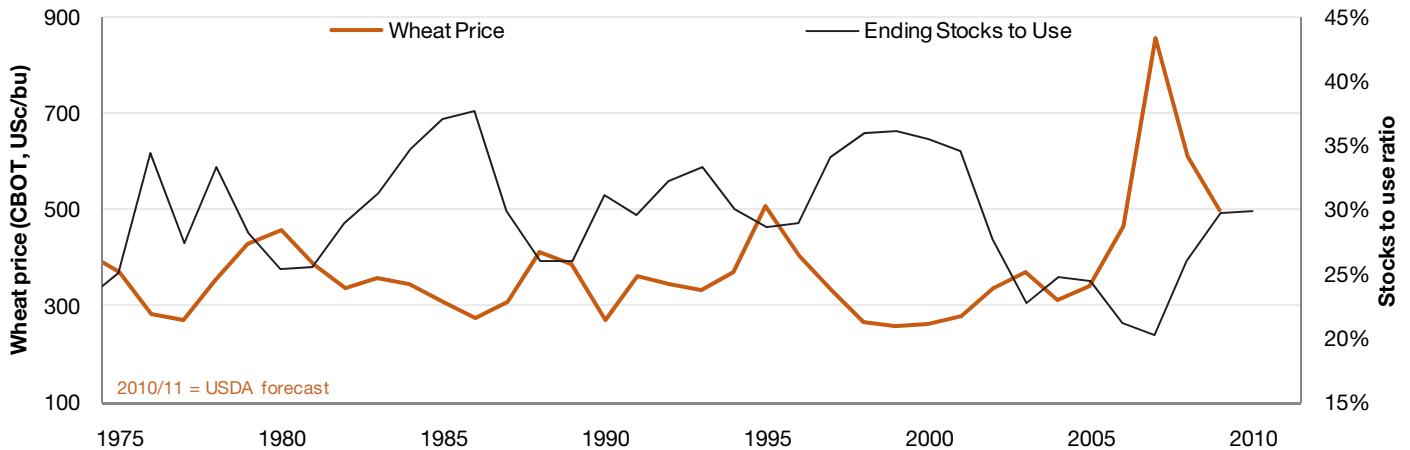
Wheat prices from 2011/12 should be supported by a tightening global stock situation, strong medium term consumption growth trends and the requirement for expanding production. Competition for acres will remain an important theme.

Our forecast price range for the balance of 2010 is USc430-510/bu before rising to USc470-570/bu in 2011/12.

Australian wheat prices will continue to take direction from the combined influence of Chicago futures and the Australian Dollar. The recent declines in the AUD/USD from over USc93 a few weeks ago to current levels in the mid USc80's has provided a substantial boost to local values.

A recent downward revision to the AUD/USD forecast by the CBA currency team is supportive for ASX grain prices.

Figure 8: Global wheat stocks verse price



Source: USDA (May WASDE) and CBA Research.



Coarse Grains

The USDA’s May WASDE report painted a reasonably bleak picture for global coarse grain prices.

- Global corn ending stocks for 2009/10 were unexpectedly revised higher to 147mt. This outweighed a reduction to US old crop ending stock estimates.
- In the first estimate for the 2010/11 crop year, the USDA pegged world corn production at 835mt, up 3.3% from 2009/10 levels. World consumption was forecast sluggish at 829mt, resulting in 2010/11 ending stock estimated at 154mt, which is the highest level since 2001/02.

Figure 9: Global corn production and use

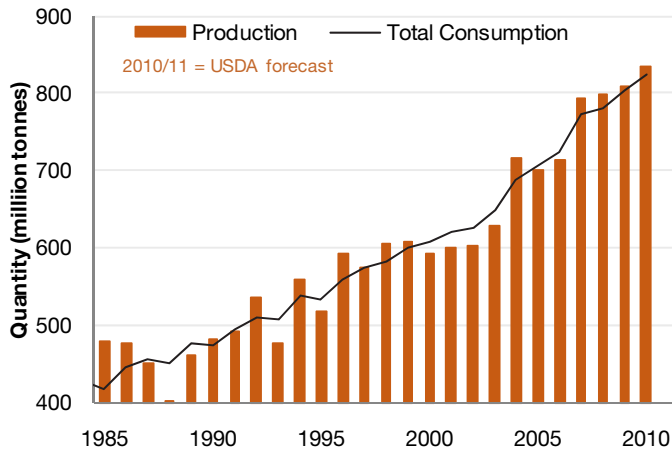
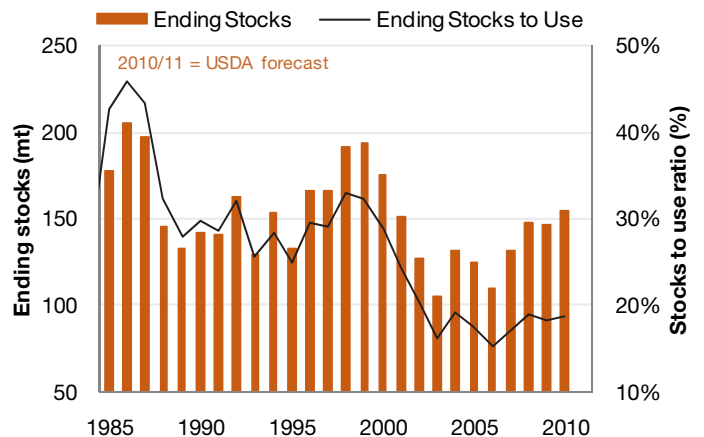


Figure 10: Global corn stocks



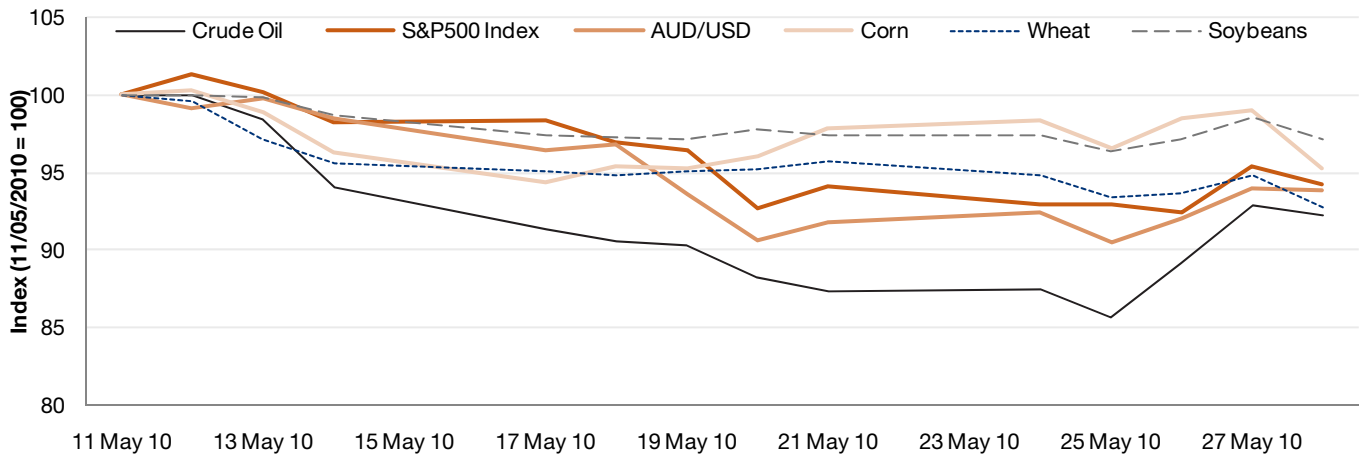
Source: USDA (May WASDE) and CBA Research.

Source: USDA (May WASDE) and CBA Research.

Chicago corn futures subsequently fell roughly 8% after the reports, but they failed to break through their late April lows of USc351/bu. After this failed attempt lower the corn market stabilised and ground higher in the week ending 21st May to close at USc369/bu. This was a particularly impressive performance considering the widespread price destruction that has been observed in most risk assets during that period.

But, just to prove that the grains markets are a volatile unknown, last Friday’s (28th May) violent sell-off – down nearly 4pct for the session to USc359/bu – unwound much of the resilience of the previous two weeks.

Figure 11: Price movements of key ‘risk assets’ (Index, 11 May 2010 = 100)



Source: Bloomberg and CBA Research.



China to the rescue?

The recent resilience in the corn market was primarily because of China. According to the USDA, China has not imported over 100kt in any one marketing year since 1998/99. In fact, in the first half of this decade China was a significant exporter of corn, selling 15mt in 2002/03. This has now changed.

In the past few weeks China has purchased at least 350kt of US corn for delivery in 2009/10 and 130kt for delivery in 2010/11. It is possible there have been much larger purchases. On the 25th May, Bloomberg cited the US Grains Council saying that China has booked almost 1mt of US corn. The same media report indicated that China may purchase up to 3mt this year. Reuters on the 26th May reported that Chinese authorities may issue a further 4-5mt of import quotas in the coming months.

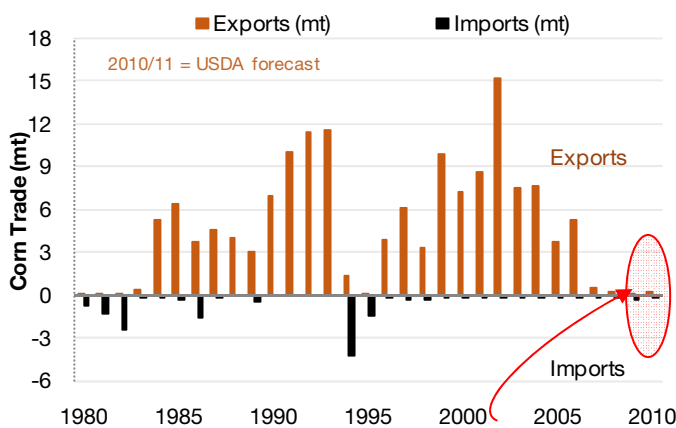
China's re-emergence as an importer is due to:

- Strong domestic demand, which has grown consistently at over 3.4% p.a. during the past 5 years. The USDA has forecast consumption to reach a record 155mt in 2009/10 before climbing further to 159mt in 2010/11.
- Disappointing domestic production in 2009/10 because of excessive dryness in key production areas. The USDA has forecast the 2009/10 crop at 155mt compared to 165mt in the prior year. And recent media reports suggesting another downward revision may be possible. Reuters reported (26th May) that production could be as low as 140mt, resulting in a production deficit of more than 10mt⁴.
- Early concerns about the potential size of the 2010/11 crop.
 - It has been too cool and wet in important NE crop regions, including Heilongjiang and Jilin, resulting in slow planting progress and crop development. It is also forecast to become too dry and hot in the Yellow River region over the next 10 days which may induce crop stress.
- Continued tightness in the Chinese stocks-to-use ratio, despite near record aggregate inventory levels (refer Figure13 below).

Forecasting Chinese grain production and consumption is fraught with danger. However there is clearly upside to the USDA's May WASDE estimates which pegged full year imports this year at only 300kt and for 2010/11 at 100kt. This will likely result in higher US exports and a reduction in US ending stock estimates.

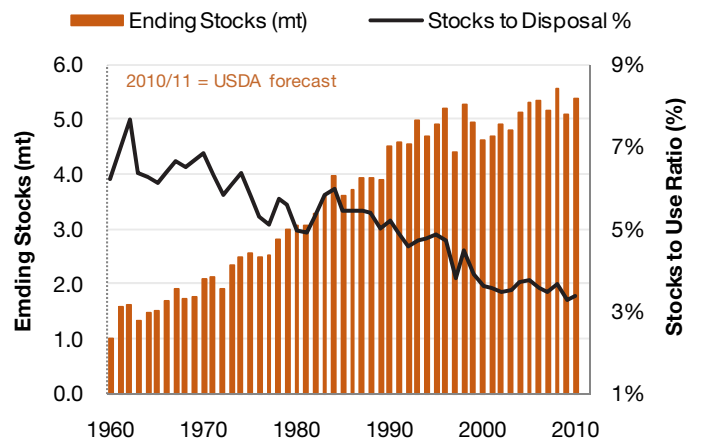
The China story has the market on its toes; particularly considering Chinese import buying was largely responsible for keeping the soybean market strong in the face of rising global soybean supply.

Figure 12: Chinese corn trade



Source: USDA (May WASDE) and CBA Research.

Figure 13: Chinese corn stocks



Source: USDA (May WASDE) and CBA Research

³ Source: USDA weekly export sales reports.

⁴ The USDA's May WASDE estimate had production matching consumption at 155mt.



Developments elsewhere. US production prospects are very good...

Northern hemisphere corn planting is currently nearing completion in many areas. Contrary to the situation in China, progress and conditions in the US are currently very favourable.

- As at 24 May, 93% of the crop had been planted versus the 5yr seasonal average of 89%. Emergence rates are ahead of the normal while crop conditions themselves are pointing to big yields. The USDA has indicated over 70% of the corn crop is rated good to excellent.

- This is in line with ratings of the 2009/10 crop (at around the same stage of development), and that crop went on to yield a record 10.34t/ha (164.7bpa).

The USDA has forecast US yields this year at 10.26t/ha (163.5bpa), which if realised, will be the second largest on record. This will require ongoing excellent weather conditions.

Putting it all together – corn price outlook...

The opposing situation in China and the US add an additional layer of uncertainty to price forecasts. The bearish influence of huge US crops in 2009/10 and 2010/11, big crops in other parts of the world (excluding China in 2009/10), and growing global stocks is forecast to be mostly neutralised by the bullish Chinese import story.

Chicago corn prices are expected to oscillate around current levels for the balance of 2010. A weaker outlook for wheat and soybean prices may contribute to a slight downward bias. Our forecast trading range is US\$300-400/bu.

Medium/long term prices should be supported by continued demand growth – related to both ethanol consumption and a recovery in livestock feeding demand – and the continued turf war. Our calculation is that global corn production will be required to grow by at least 2.5% pa over the next 5 years (~24mt per year), to meet rising demand.



Research

Commodities		Telephone	Email Address
David Moore	Base & Precious Metals, Oil	+612 9118 1099	MoorDa@cba.com.au
Luke Mathews	Agri Commodities	+612 9118 1098	luke.mathews@cba.com.au
Lachlan Shaw	Iron Ore, Coal, Steel, LNG	+613 9675 8618	lachlan.shaw@cba.com.au

Economics		Telephone	Email Address
Michael Blythe	Chief Economist	+612 9118 1101	michael.blythe@cba.com.au
Michael Workman	Senior Economist	+612 9118 1019	michael.workman@cba.com.au
John Peters	Senior Economist	+612 9117 0112	john.peters@cba.com.au
James McIntyre	Economist	+612 9118 1100	james.mcintyre@cba.com.au
George Johns	International Economist	+44 207 710 3918	george.johns@cba.com.au

Fixed Income		Telephone	Email Address
Adam Donaldson	Head of Debt Research	+612 9118 1095	adam.donaldson@cba.com.au
Philip Brown	Fixed Income Quantitative Strategist	+612 9118 1090	philip.brown@cba.com.au
Michael Bors	Credit Research Analyst	+612 9118 1108	borsma@cba.com.au
Steve Shoober	Credit Research Analyst	+612 9118 1096	steve.shoober@cba.com.au
Winnie Chee	Securitized Product	+612 9118 1104	winnie.chee@cba.com.au
Tally Dewan	Quantitative Analyst	+612 9118 1105	tally.dewan@cba.com.au
Kevin Ward	Database Manager	+612 9118 1960	kevin.ward@cba.com.au

Foreign Exchange		Telephone	Email Address
Richard Grace	Chief Currency Strategist	+612 9117 0080	richard.grace@cba.com.au
Joseph Capurso	Currency Strategist	+612 9118 1106	joseph.capurso@cba.com.au
Sara Hoenig	Economist	+612 9118 1107	sara.hoenig@cba.com.au

Delivery Channels & Publications		Telephone	Email Address
Monica Eley	Internet/Intranet	+612 9118 1097	monica.eley@cba.com.au
Ai-Quynh Mac	Information Services	+612 9118 1102	maca@cba.com.au

New Zealand		Telephone	Email Address
Chris Tennent-Brown	CBA NZ Economist	+64 9374 8819	chris.tennent-brown@asbbank.co.nz
Nick Tuffley	ASB Chief Economist	+64 9374 8604	nick.tuffley@asb.co.nz
Jane Turner	Economist	+64 9374 8185	jane.turner@asb.co.nz
Christina Leung	Economist	+64 9369 4421	christina.leung@asb.co.nz

Sales

Institutional	Telephone	Equities	Telephone
Syd FX	+612 9117 0190	Syd	+612 9118 1446
	+612 9117 0341	Asia	+613 9675 6967
Credit	+612 9117 0020	Lon/Eu	+44 20 7710 3573
Japan Desk	+612 9117 0025	NY	+1212 336 7749
Melb	+613 9675 6815		
	+613 9675 7495	Corporate	Telephone
	+613 9675 6618	NSW	+612 9117 0377
	+613 9675 7757	VIC	+612 9675 7737
Lon FX	+44 20 7329 6266	SA	+618 8206 4155
Debt & Derivatives	+44 20 7329 6444	WA	+618 9482 6044
Corporate	+44 20 7710 3905	QLD	+617 3015 4525
HK	+852 2844 7538	NZ	+64 9375 5738
Sing	+65 6349 7077	Metals Desk	+612 9117 0069
NY	+1212 336 7739	Agri Desk (Corp)	+612 9117 0157
		Agri Desk	+612 9117 0145



Please view our website at www.research.commbank.com.au. The Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945 ("the Bank") and its subsidiaries, including Commonwealth Securities Limited ABN 60 067 254 399 AFSL 238814 ("CommSec"), Commonwealth Australia Securities LLC, CBA Europe Ltd and Global Markets Research, are domestic or foreign entities or business areas of the Commonwealth Bank Group of Companies (CBGOC). CBGOC and their directors, employees and representatives are referred to in this Appendix as "the Group". This report is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy any securities or financial instruments. This report has been prepared without taking account of the objectives, financial situation and capacity to bear loss, knowledge, experience or needs of any specific person who may receive this report. No member of the Group does, or is required to, assess the appropriateness or suitability of the report for recipients who therefore do not benefit from any regulatory protections in this regard. All recipients should, before acting on the information in this report, consider the appropriateness and suitability of the information, having regard to their own objectives, financial situation and needs, and, if necessary seek the appropriate professional, foreign exchange or financial advice regarding the content of this report. We believe that the information in this report is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this report. Any opinions, conclusions or recommendations set forth in this report are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by the Group. We are under no obligation to, and do not, update or keep current the information contained in this report. The Group does not accept any liability for any loss or damage arising out of the use of all or any part of this report. Any valuations, projections and forecasts contained in this report are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. The Group does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met. Past performance is not a reliable indicator of future performance. The Group has provided, provides, or seeks to provide, investment banking, capital markets and/or other services, including financial services, to the companies described in the report and their associates. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject any entity within the Group to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to the Group. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior written permission of the appropriate entity within the Group. In the case of certain products, the Bank or one of its related bodies corporate is or may be the only market maker. The Group, its agents, associates and clients have or have had long or short positions in the securities or other financial instruments referred to herein, and may at any time make purchases and/or sales in such interests or securities as principal or agent, including selling to or buying from clients on a principal basis and may engage in transactions in a manner inconsistent with this report.

US Investors: If you would like to speak to someone regarding the subject securities described in this report, please contact Commonwealth Australia Securities LLC (the "US Broker-Dealer"), a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (the "Exchange Act") and a member of the Financial Industry Regulatory Authority ("FINRA") at 1 (212) 336-7737. This report was prepared, approved and published by Global Markets Research, a division of Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945 ("the Bank") and distributed in the U.S. by the US Broker-Dealer. The Bank is not registered as a broker-dealer under the Exchange Act and is not a member of FINRA or any U.S. self-regulatory organization. Commonwealth Australia Securities LLC ("US Broker-Dealer") is a wholly owned, but non-guaranteed, subsidiary of the Bank, organized under the laws of the State of Delaware, USA, with limited liability. The US Broker-Dealer is not authorized to engage in the underwriting of securities and does not make markets or otherwise engage in any trading in the securities of the subject companies described in our research reports. The US Broker-Dealer is the distributor of this research report in the United States under Rule 15a-6 of the Exchange Act and accepts responsibility for its content. Global Markets Research and the US Broker-Dealer are affiliates under common control. Computation of 1% beneficial ownership is based upon the methodology used to compute ownership under Section 13(d) of the Exchange Act. The securities discussed in this research report may not be eligible for sale in all States or countries, and such securities may not be suitable for all types of investors. Offers and sales of securities discussed in this research report, and the distribution of this report, may be made only in States and countries where such securities are exempt from registration or qualification or have been so registered or qualified for offer and sale, and in accordance with applicable broker-dealer and agent/salesman registration or licensing requirements. The preparer of this research report is employed by Global Markets Research and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, the New York Stock Exchange, Inc., any other U.S. self-regulatory organization, or the laws, rules or regulations of any State.

European Investors: This report is published, approved and distributed in the UK by the Bank and by CBA Europe Ltd ("CBAE"). The Bank and CBAE are both registered in England (No. BR250 and 05687023 respectively) and authorised and regulated in the UK by the Financial Services Authority ("FSA"). This report does not purport to be a complete statement or summary. For the purpose of the FSA rules, this report and related services are not intended for retail customers and are not available to them. The products and services referred to in this report may put your capital at risk. Investments, persons, matters and services referred to in this report may not be regulated by the FSA. CBAE can clarify where FSA regulations apply.

Singapore Investors: This report is distributed in Singapore by Commonwealth Bank of Australia, Singapore Branch (company number F03137W) and is made available only for persons who are Accredited Investors as defined in the Singapore Securities and Futures Act and the Financial Advisers Act. It has not been prepared for, and must not be distributed to or replicated in any form, to anyone who is not an Accredited Investor.

Hong Kong Investors: This report was prepared, approved and published by the Bank, and distributed in Hong Kong by the Bank's Hong Kong Branch. The Hong Kong Branch is a registered institution with the Hong Kong Monetary Authority to carry out the Type 1 (Dealing in securities) and Type 4 (Advising on securities) regulated activities under the Securities and Futures Ordinance. Investors should understand the risks in investments and that prices do go up as well as down, and in some cases may even become worthless. Research report on collective investment schemes which have not been authorized by the Securities and Futures Commission is not directed to, or intended for distribution in Hong Kong.

All investors: Analyst Certification and Disclaimer: Each research analyst, primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the report. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing, and interpreting market information. Directors or employees of the Group may serve or may have served as officers or directors of the subject company of this report. The compensation of analysts who prepared this report is determined exclusively by research management and senior management (not including investment banking). No inducement has been or will be received by the Group from the subject of this report or its associates to undertake the research or make the recommendations. The research staff responsible for this report receive a salary and a bonus that is dependent on a number of factors including their performance and the overall financial performance of the Group, including its profits derived from investment banking, sales and trading revenue.

Unless agreed separately, we do not charge any fees for any information provided in this presentation. You may be charged fees in relation to the financial products or other services the Bank provides, these are set out in the relevant Financial Services Guide (FSG) and relevant Product Disclosure Statements (PDS). Our employees receive a salary and do not receive any commissions or fees. However, they may be eligible for a bonus payment from us based on a number of factors relating to their overall performance during the year. These factors include the level of revenue they generate, meeting client service standards and reaching individual sales portfolio targets. Our employees may also receive benefits such as tickets to sporting and cultural events, corporate promotional merchandise and other similar benefits. If you have a complaint, the Bank's dispute resolution process can be accessed on 132221.

Unless otherwise noted, all data is sourced from Australian Bureau of Statistics material (www.abs.gov.au).