



Worldwide Barley Situation/Outlook

June 2011



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Outline

- Agricultural Trends
- Worldwide Barley Situation
- Price Volatility
- Fight for Acres
- Increased Risks to the Industry
- Financial Impact to the Industry
- Outlook & Summary



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Agricultural Trends

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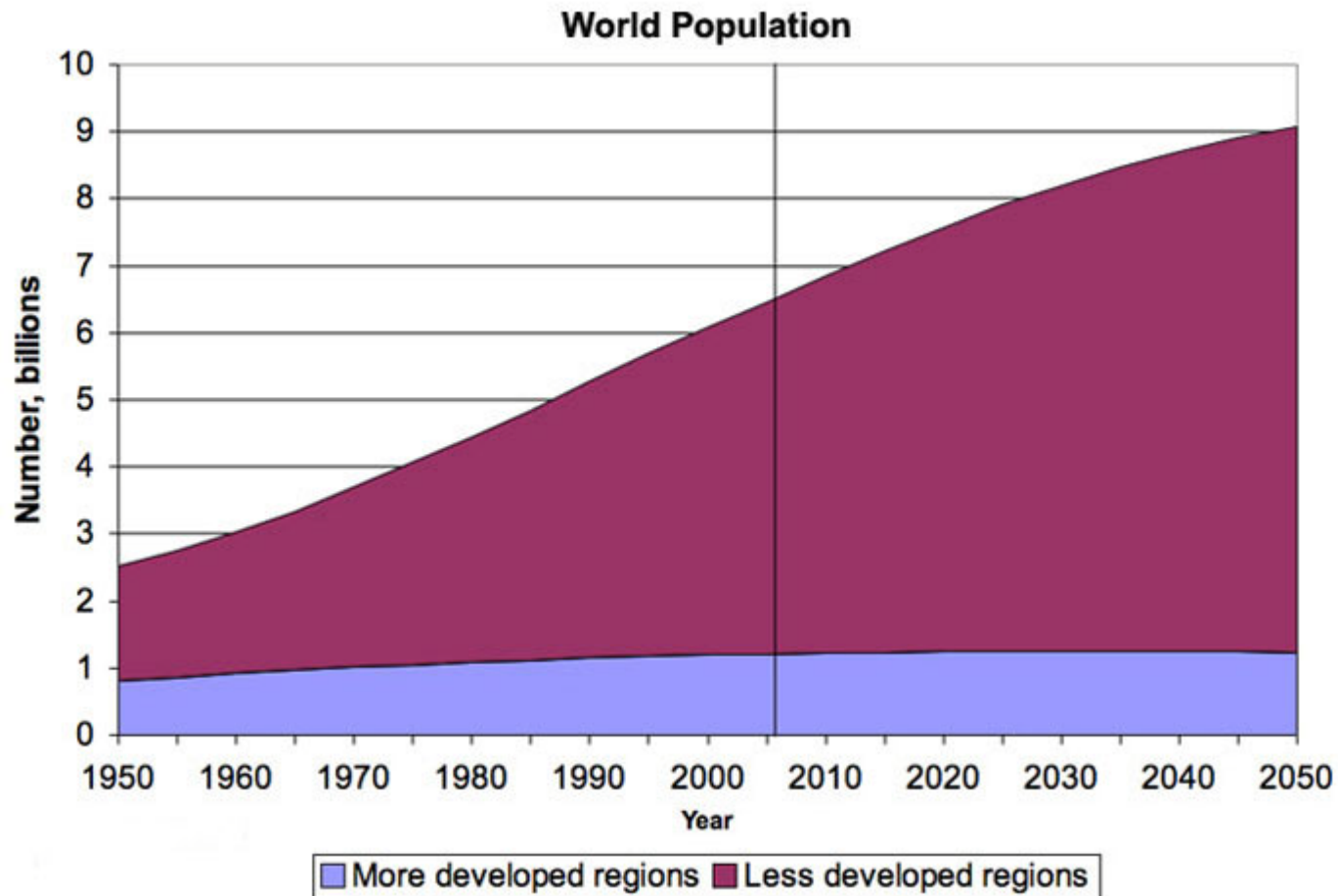


Broad Trends Facing Agriculture

- Growing World Population
- Growing Wealth
- Growing Need for Alternative Fuels
- Setback due to recession in 2008, but broad trends have returned.

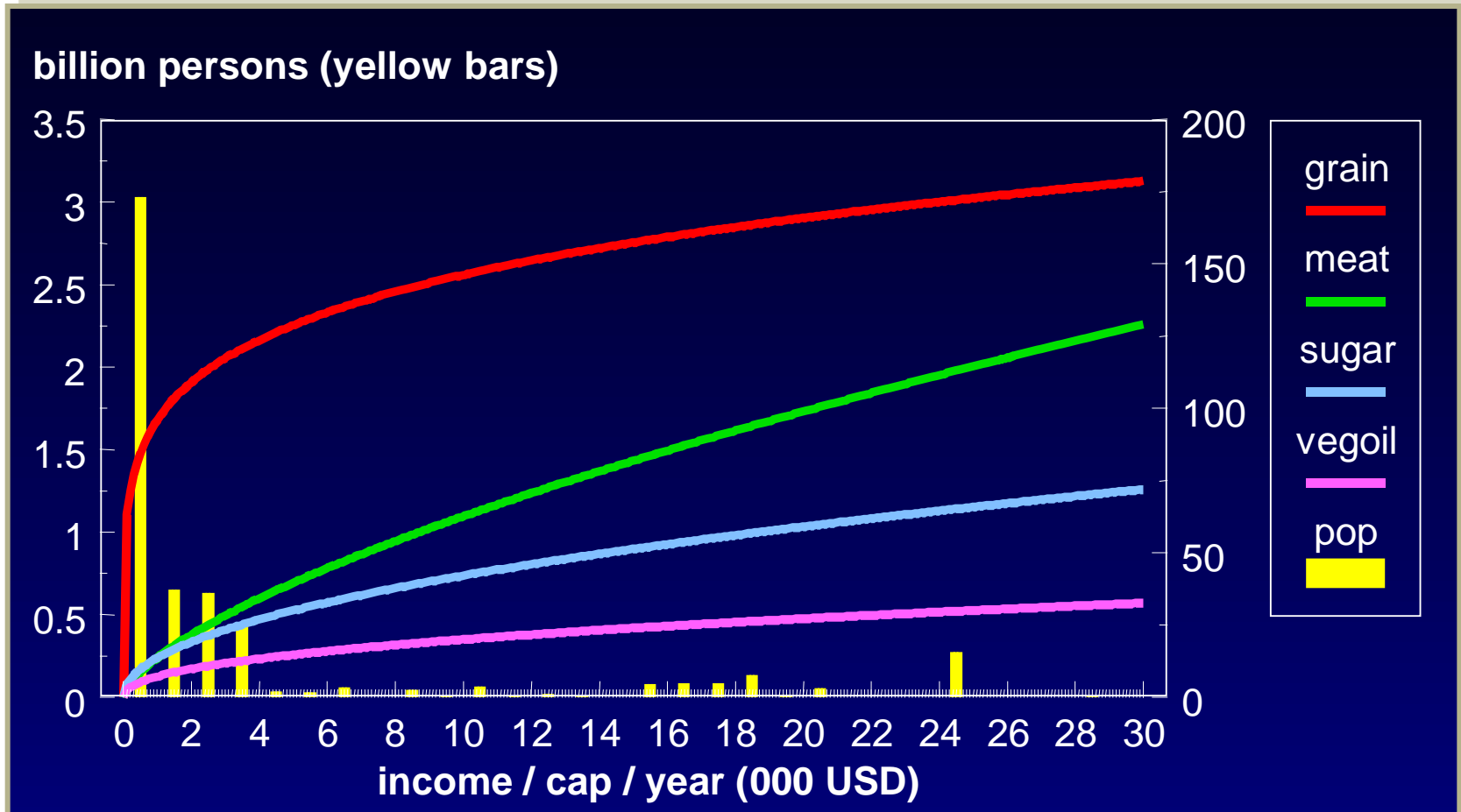


Growing World Population



Source: United Nations

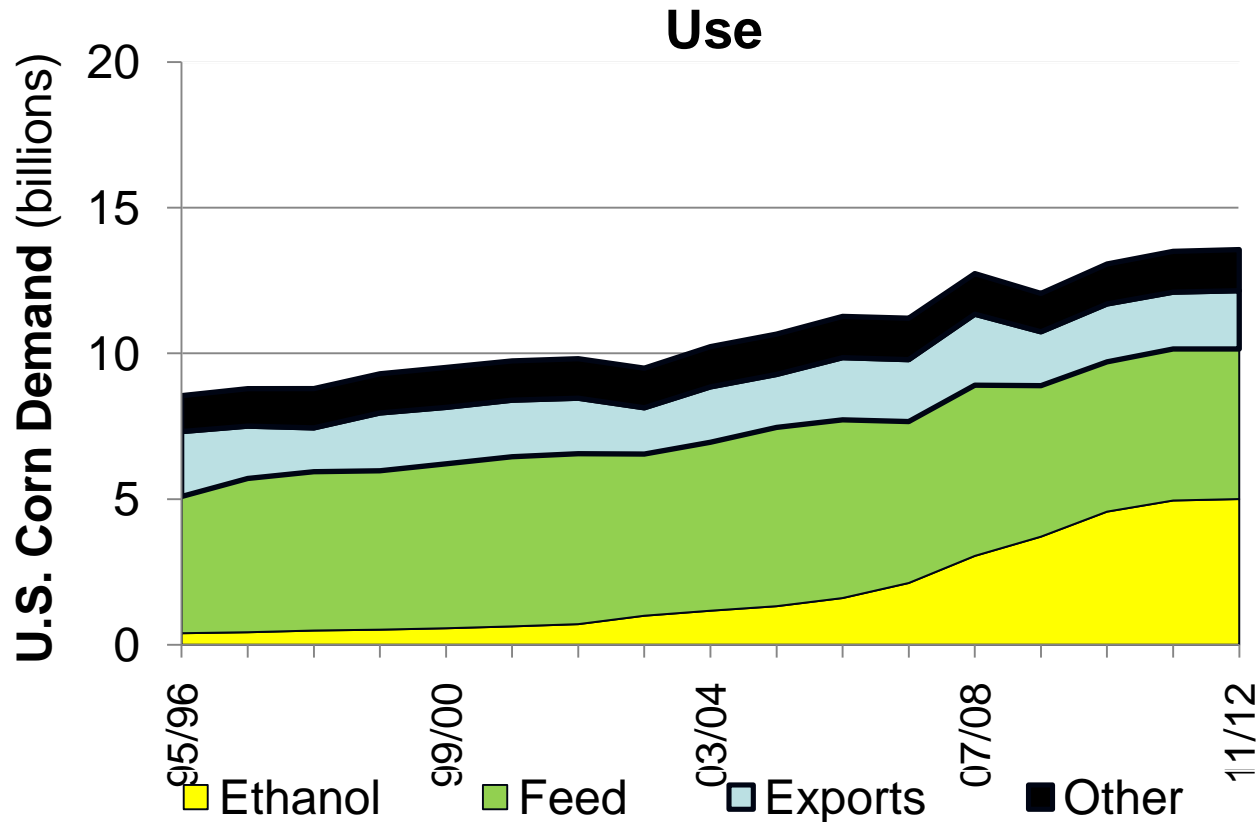
Growing Wealth



Population, per Capita Income and Food Consumption

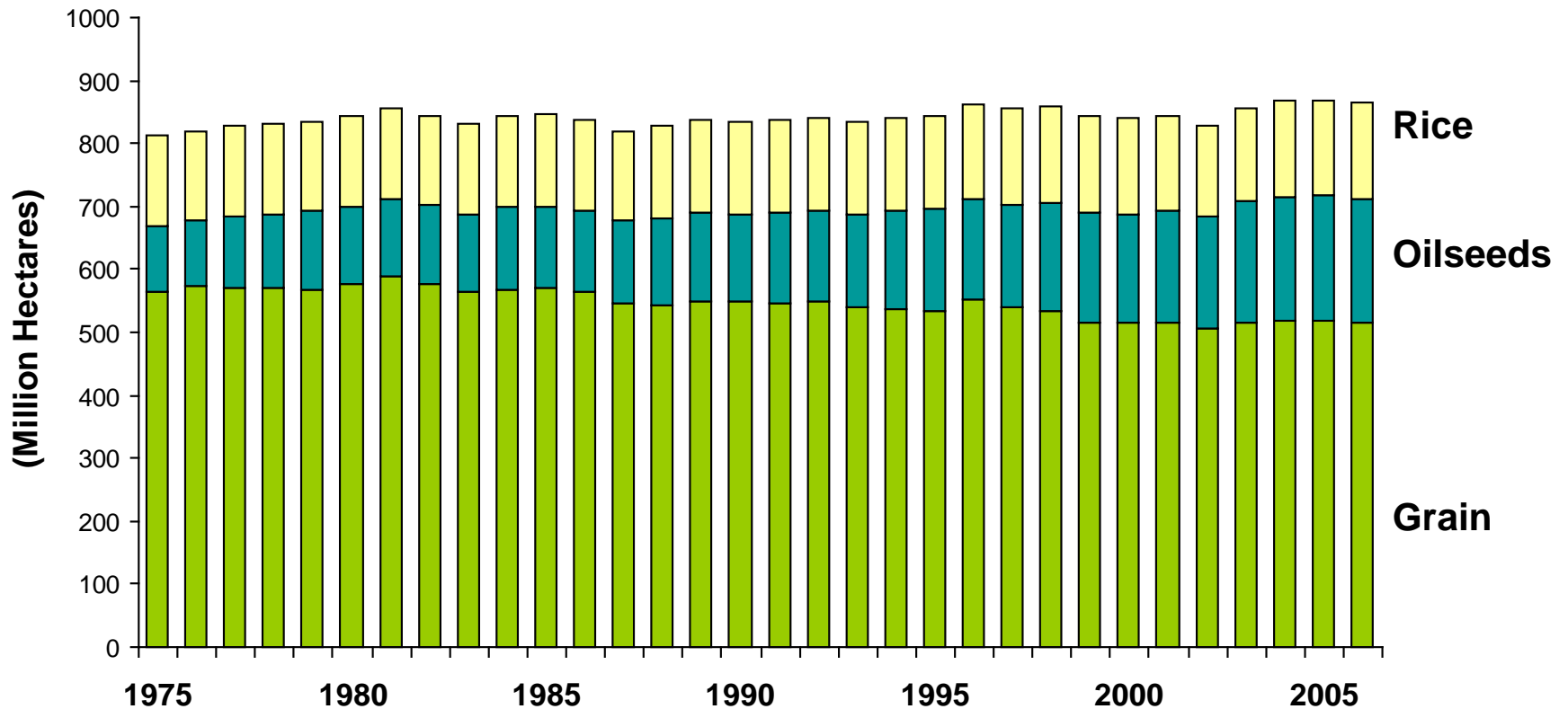
Growing Need For Alternative Fuels

Ethanol Driving the Increase in US Corn Demand



Source: Michael Jewison, USDA

Global Cropland – 1975-2005



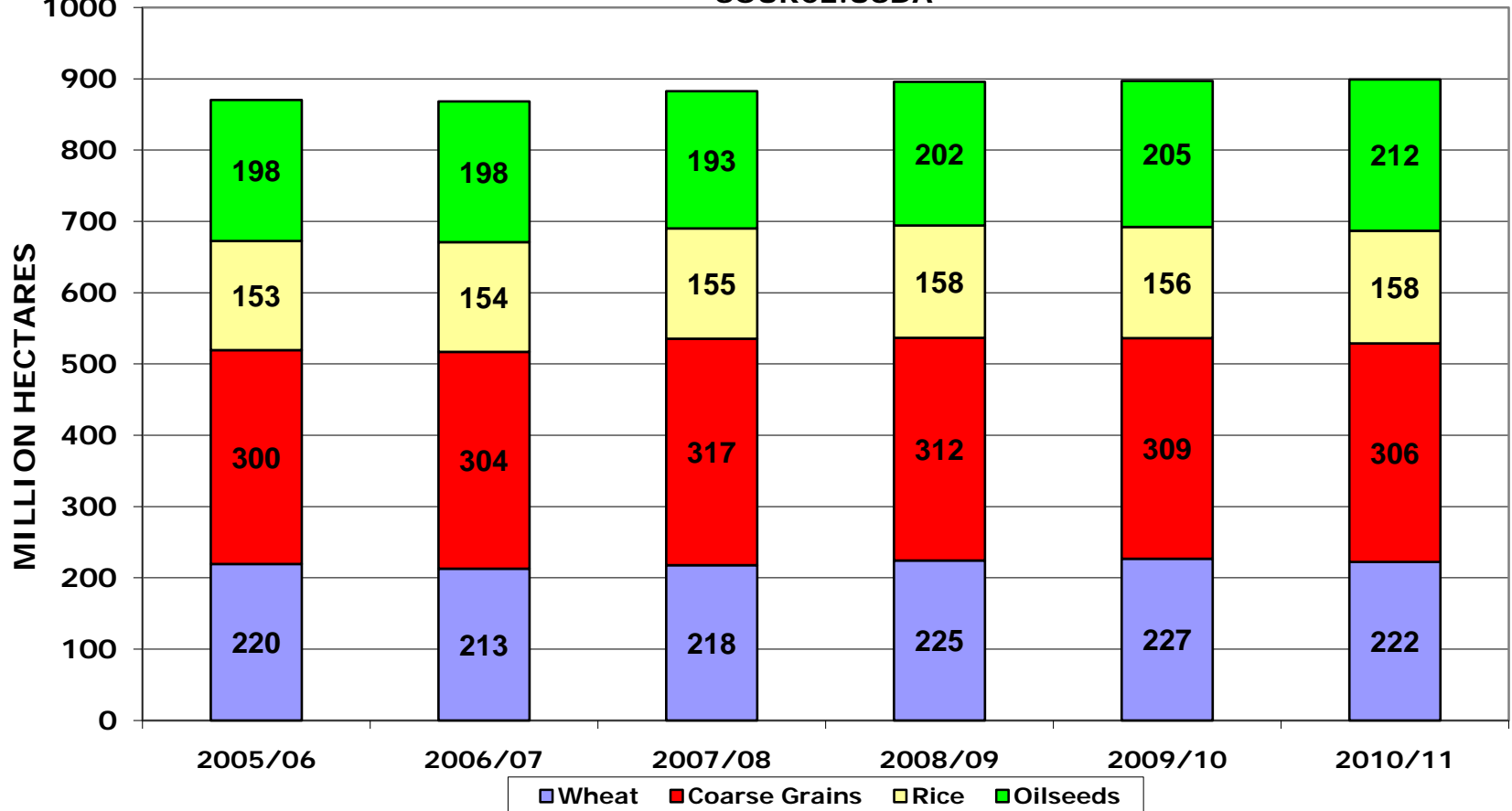
Source: USDA

Global Cropland – 2005-2011

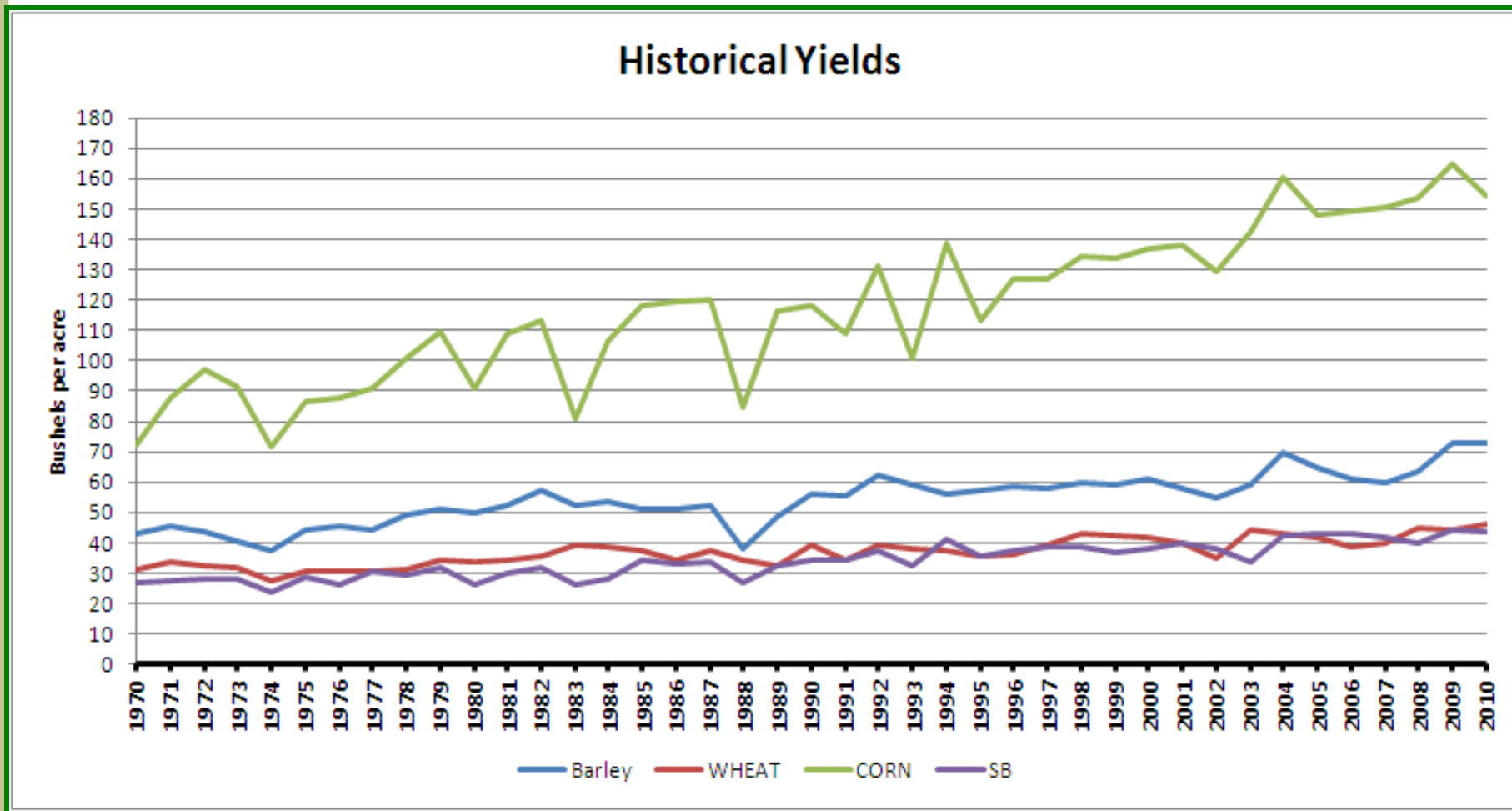


WORLD GRAIN, RICE, OILSEED AREA

SOURCE:USDA



Malting Barley – North American Yield Comparison



Impacts to Agriculture

- Competition for land: Food, Feed, Fuel and between crops.
- Fewer acres are producing more output per acre. When a drought strikes, the per acre yield decrease has a much greater overall impact.
- Lower grain ending inventories.
- Higher prices and higher price volatility.



Outline

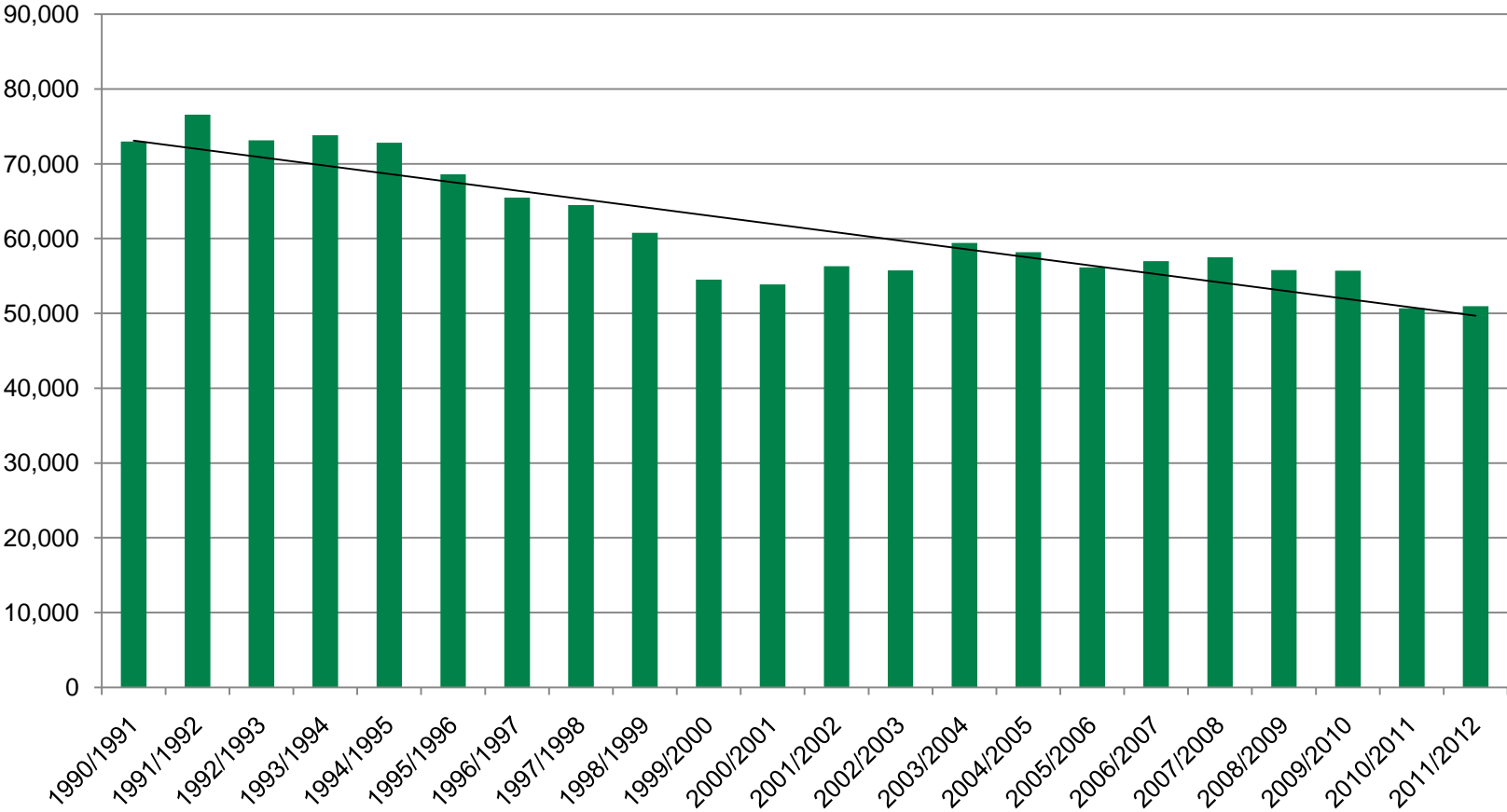
➤ Agricultural Trends

Worldwide Barley Situation

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World Barley Area Harvested (in '000 HA's)



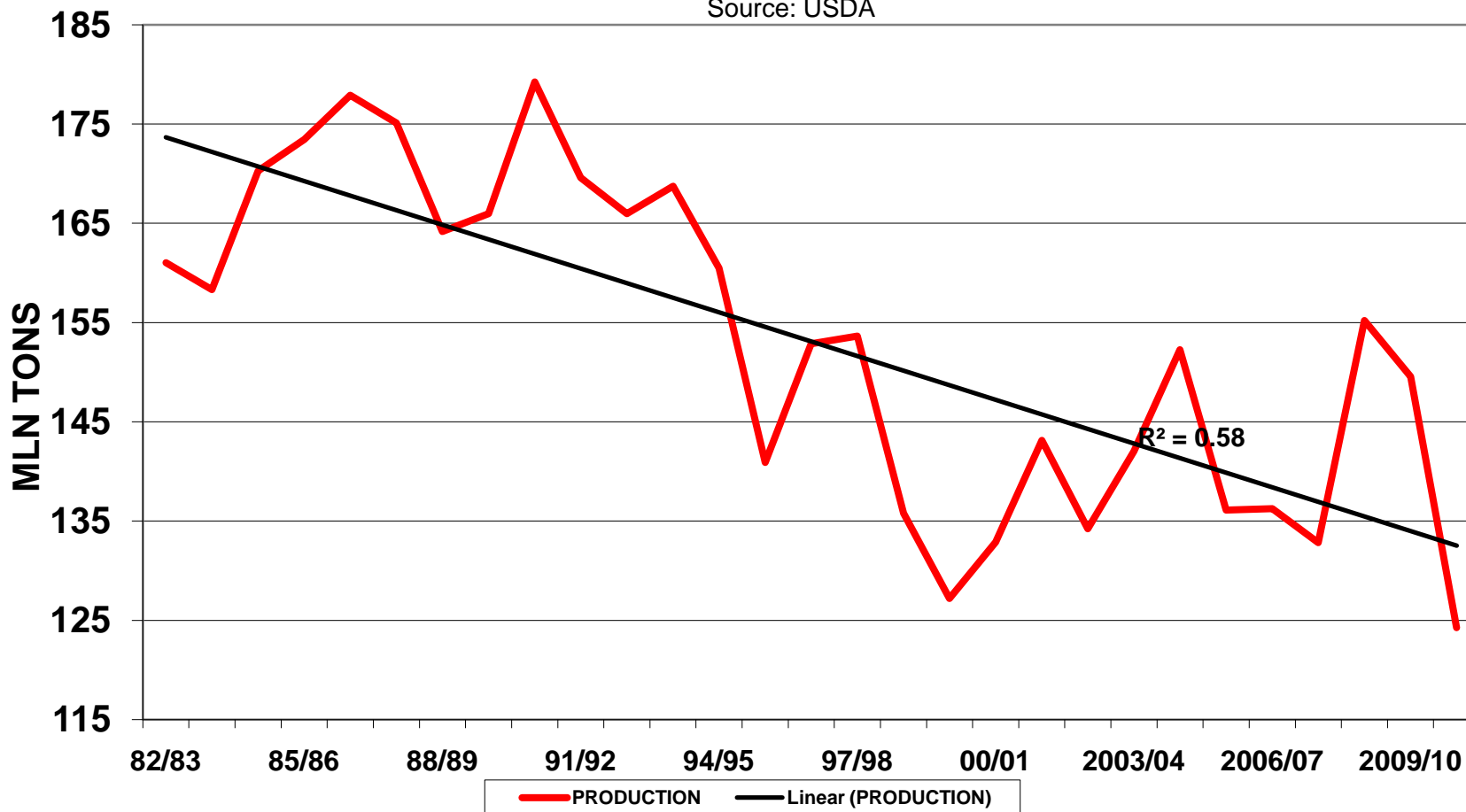
Source: USDA

World Barley Supply

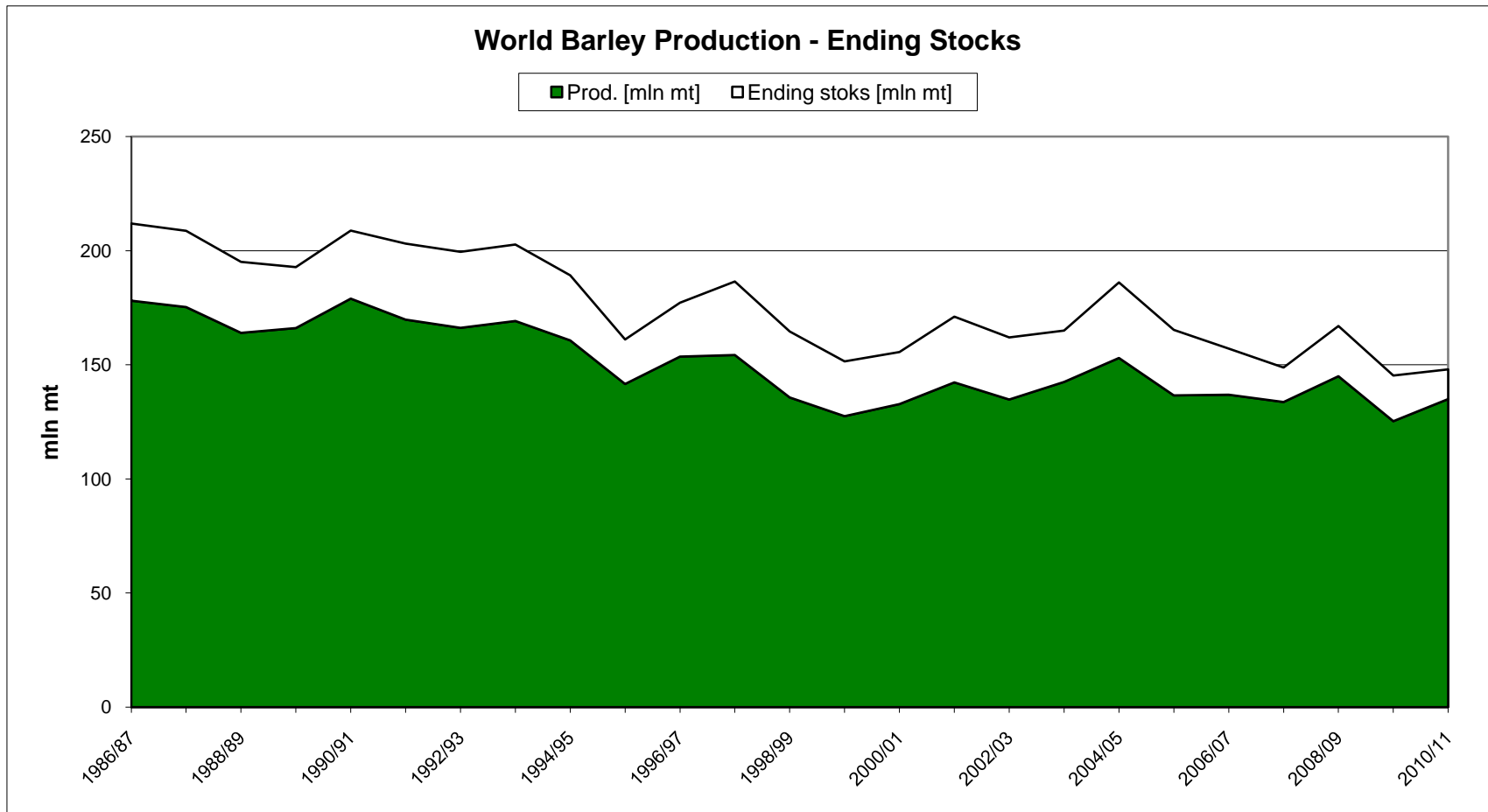


WORLD BARLEY PRODUCTION

Source: USDA



World Barley Production – Ending Stocks

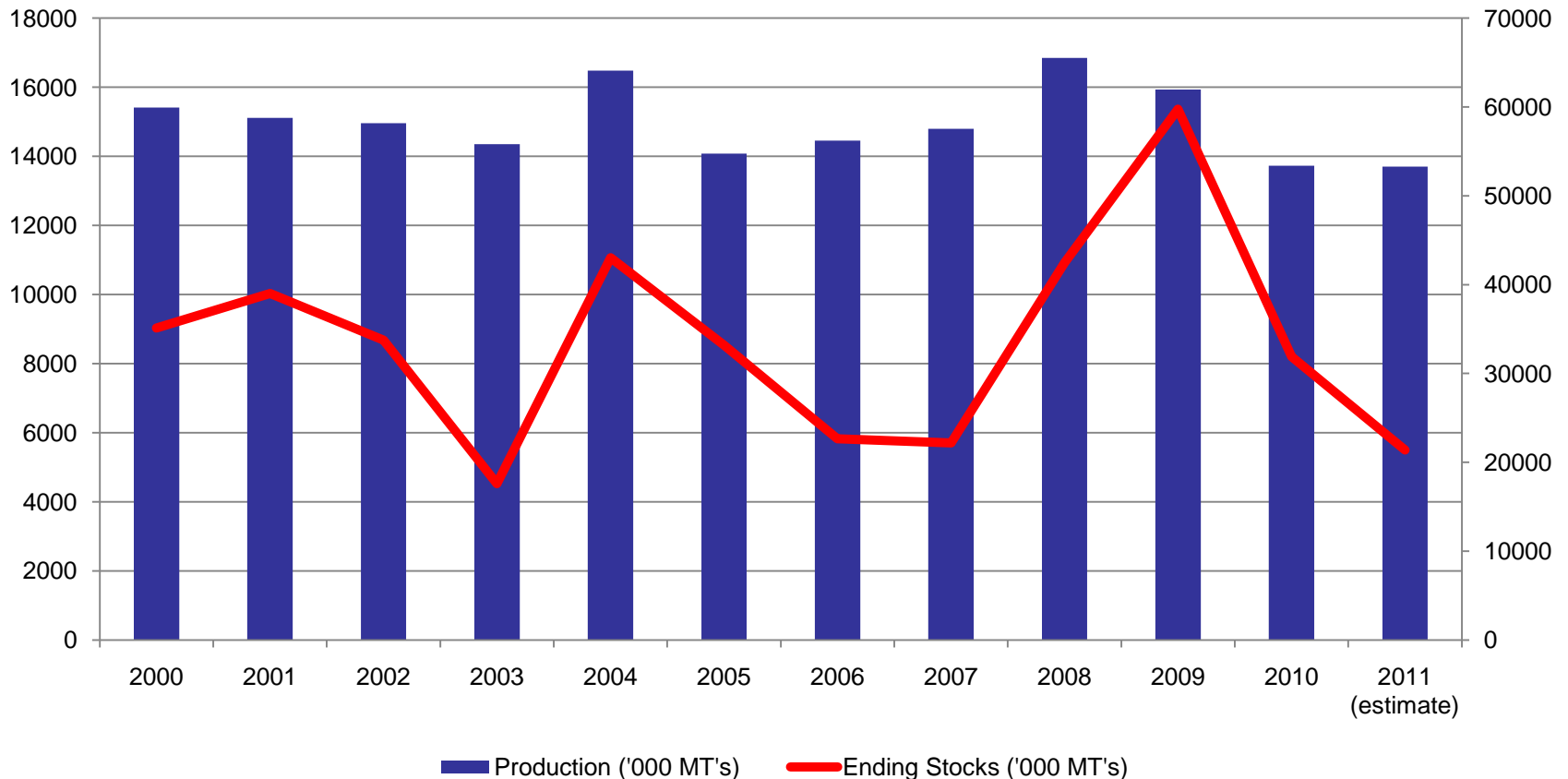


Source: USDA

EU Barley Production & Ending Stocks

EU 27 S&D

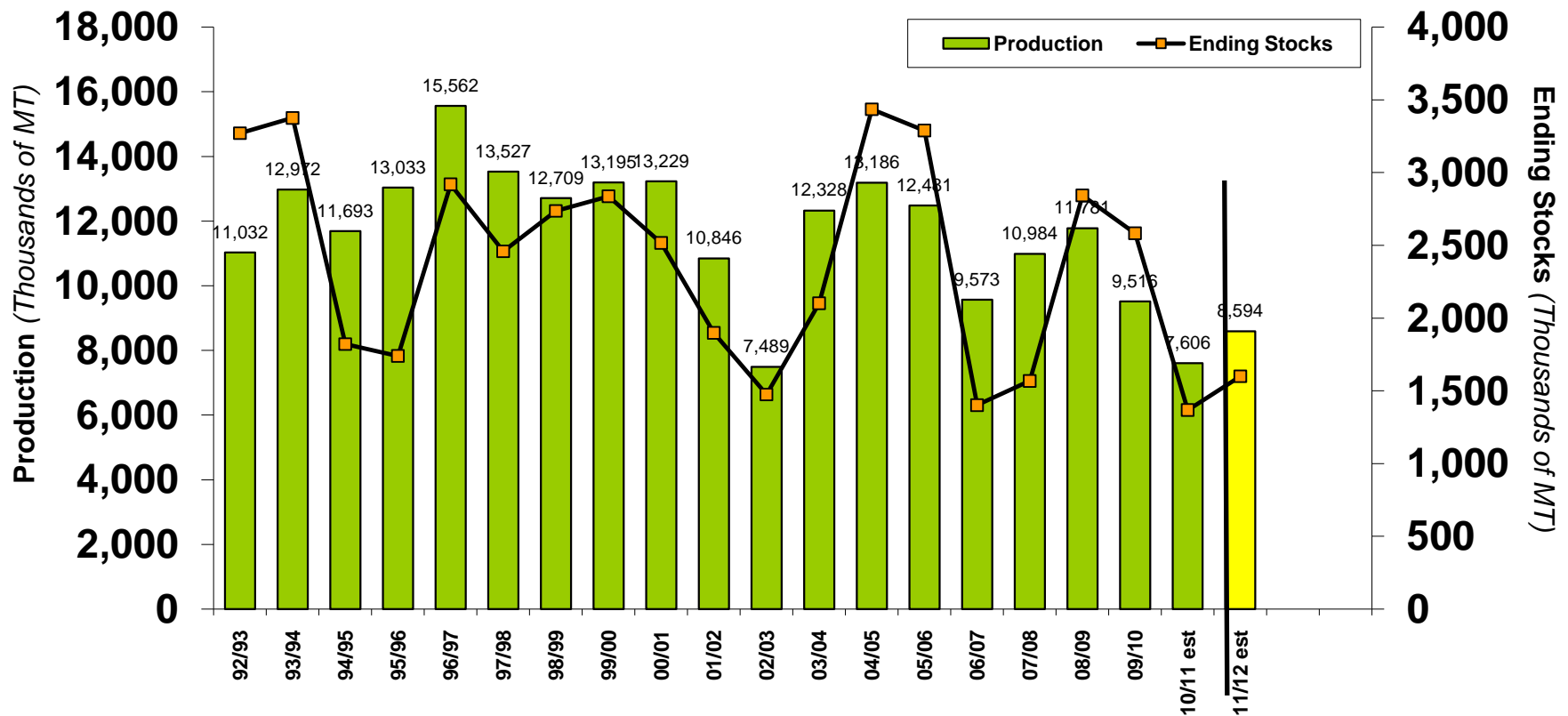
EU 27 Production and Ending Stocks



Source: USDA

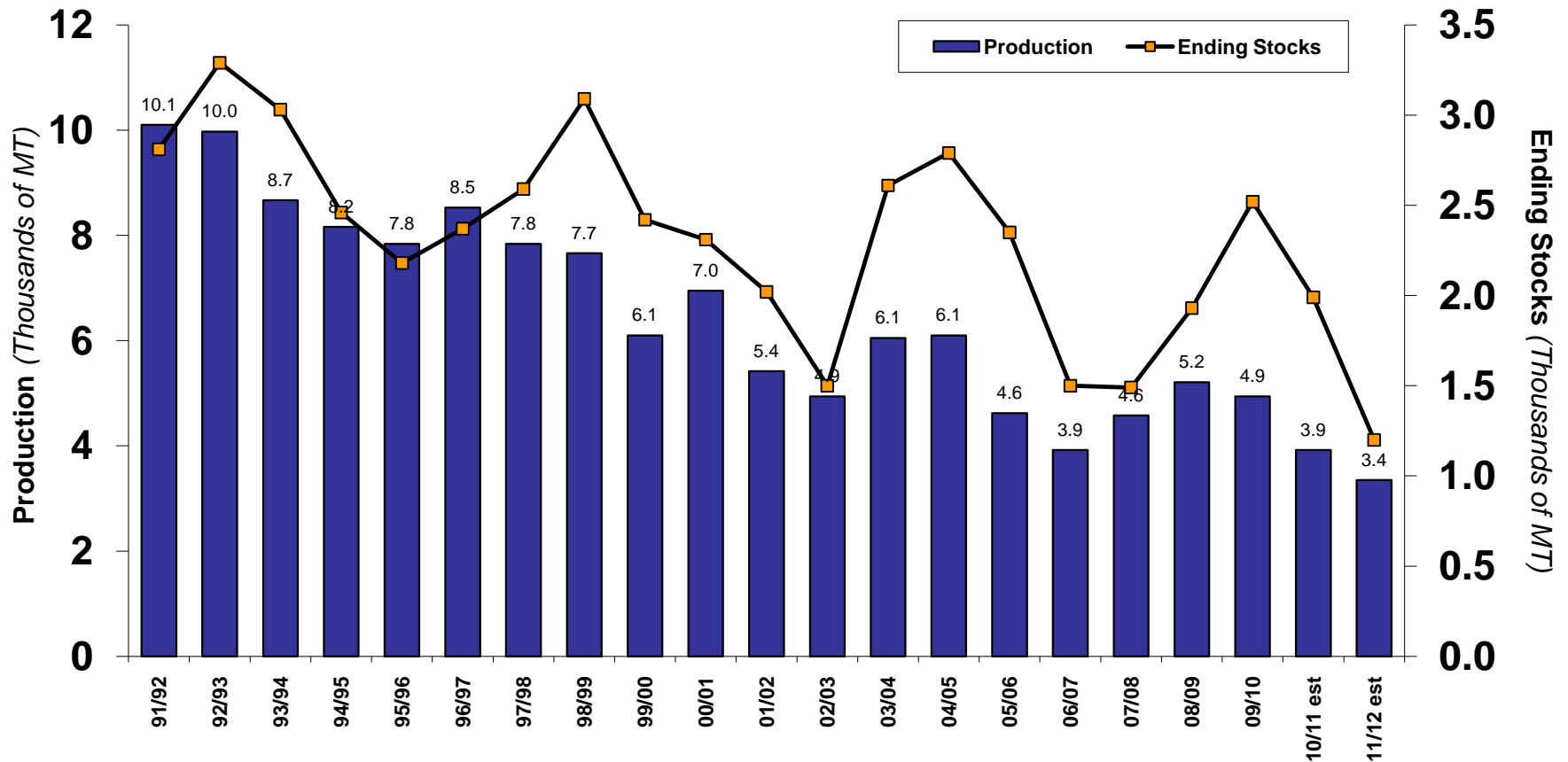
Canadian Barley Production & Ending Stocks

Canadian S&D



USA Barley Production & Ending Stocks

USA S&D




North American Barley

- **U.S. barley carryout down 24 mln bushels from last year**
 - **Canada is coming in with a historically tight carryout**
 - **Acres are expected to down 5-10% this year**
 - **Wet conditions are preventing barley acres from getting planted**
 - **Corn and soybeans continuing to pressure production**
- **Prices are approaching highs set in 2008. If we have further weather issues we could surpass previous record highs.**

European Barley

- **Tight carryout of 2010-2011 crop**
 - **Values are now over \$440/mt basis Creil**
 - **Worse drought that France has seen in decades**
 - **Continued liquidation of intervention stocks has eliminated safety net**
 - **Little if any barley will be available for export**
- **Europe will likely become a net importer of malting barley this years instead of its traditional role as an exporter. If we have dry conditions for the next month prices will move higher.**

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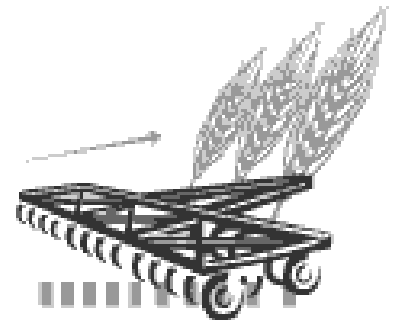
Price Impact due to Tight Barley Supply

Price Volatility

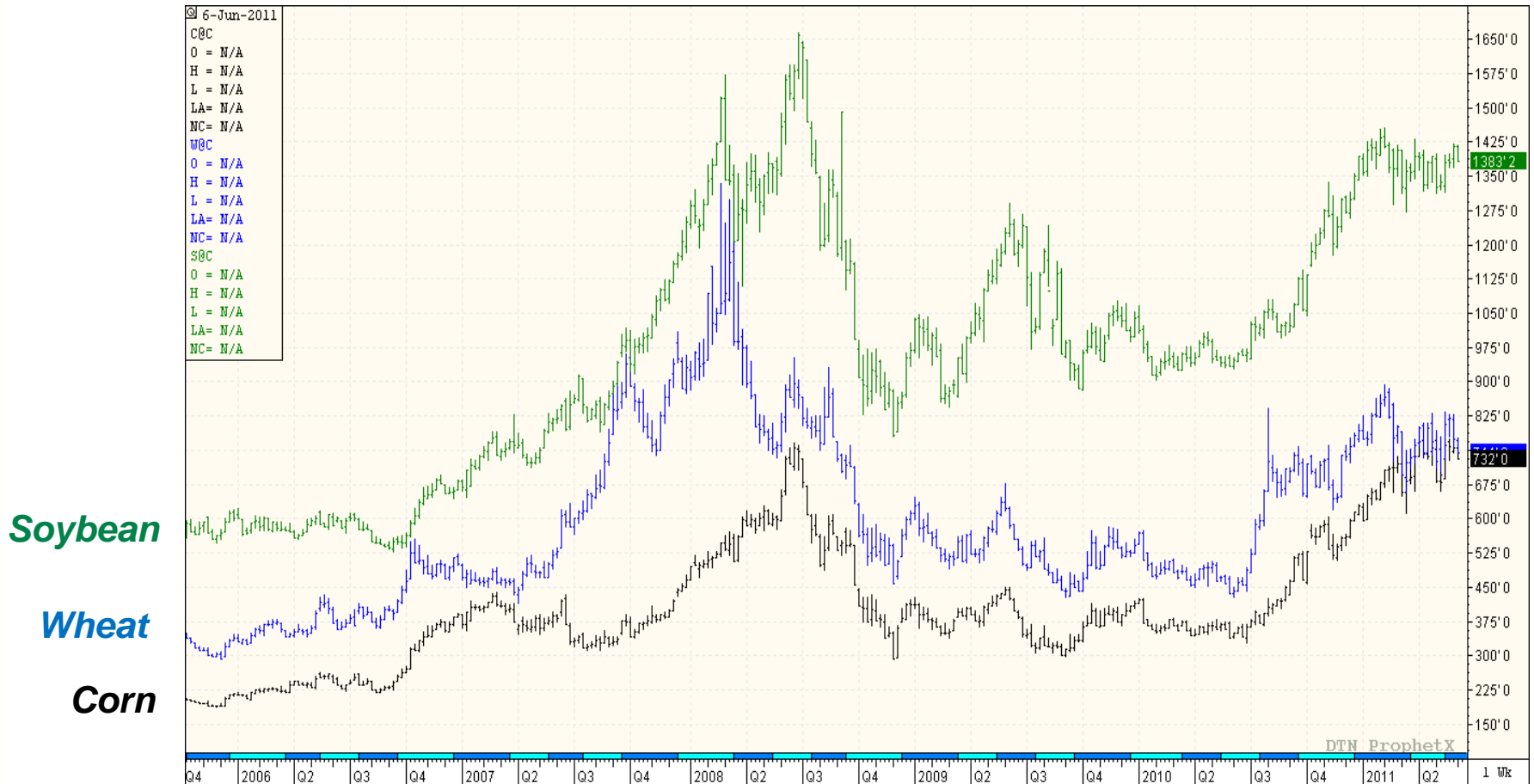
- Impacting all grains (Wheat, corn, soybeans, canola, etc.).
- Massive daily price swings in all commodities
- Daily price limits for some commodities have been increased. The daily wheat limit is now \$0.60.
- Increase fund participation is adding to price volatility

For Crop 2011, The Fight For Acres Continues

- Many profit generating cropping options.
- Corn is battling for acres due to an extremely tight carryout
- Barley acres are under pressure from GMO crops
- Focus has switched to a “Weather Market”

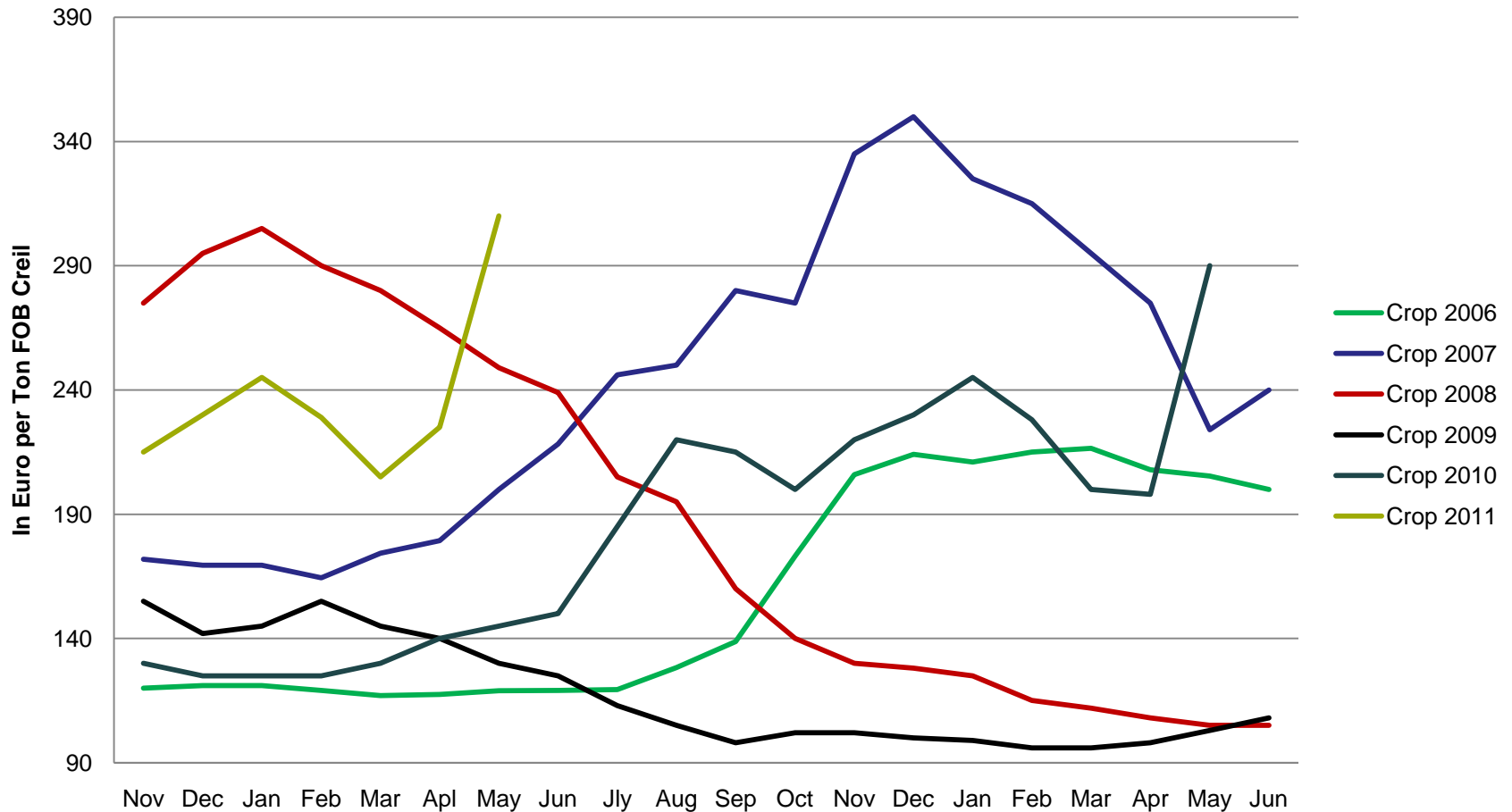


Volatility



Price Trend – European 2-Row Spring Malting Barley

2 Row Spring Prices



Price Trend – 2 Row, Basis Vancouver

CWB 2 row Vancouver Value (US\$)



Outline

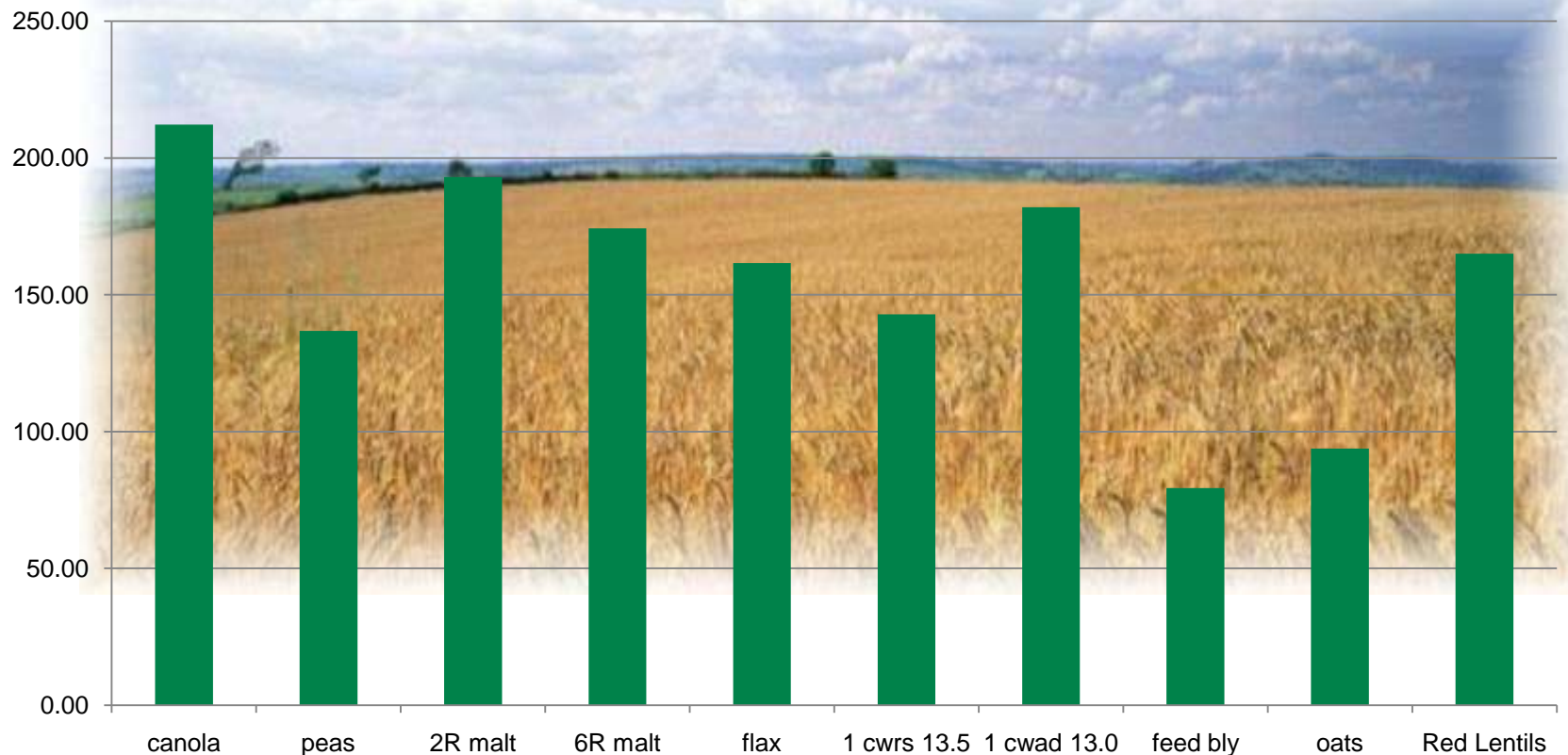
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Fight for Acres

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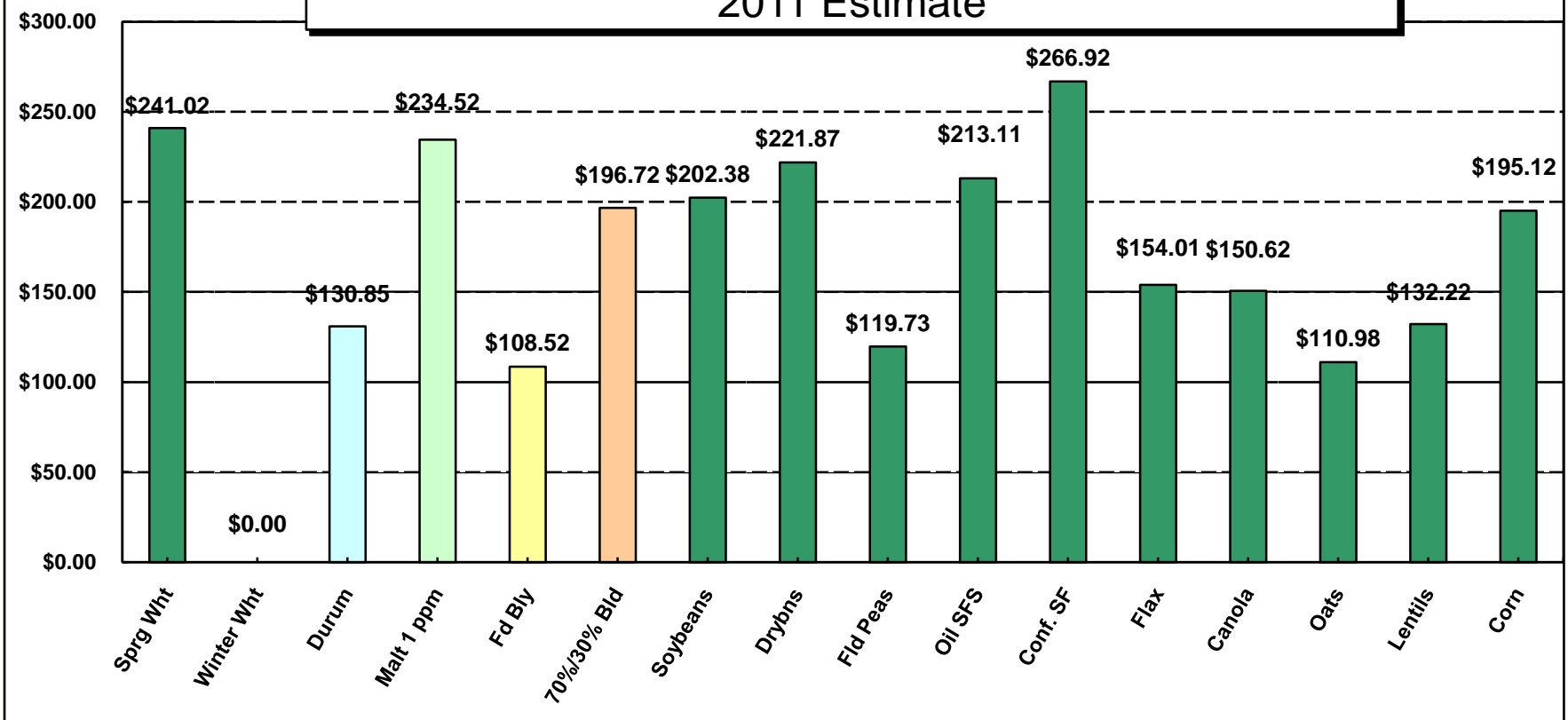
20011/12 Canada Estimated Net Return Per Acre



Source: Cargill Limited

20011/12 North Dakota Estimated Net Return Per Acre

North Dakota Average Farmer Returns Per Acre
District - North Central (Dryland)
2011 Estimate



Source: Cargill Malt

Malting Barley over time has become less attractive to Farmers

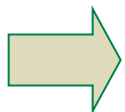
PRICE: Barley prices relative to other crops have not been as competitive.

YIELD: Advances in yields for barley have not kept up with corn and soybeans.

RISK: Difficulty in achieving malt barley quality has increased risk of growing barley.



COMPLEXITY: Contract growing programs, variety requirements, and reduced marketing outlets, have increased the complexity to the farmer.



Malting barley does not have a good story to tell!

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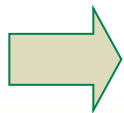
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Risk

- No way to hedge risk exposure through a viable, liquid barley exchange.
- Complexity (Quality parameters & varietal confusion).
- Risk of non-performance on barley contracts.
 - “Act of God” contracts allow the farmers an out if their crop doesn’t meet quality specifications
- Added Legal fees and expenses to guarantee barley contract performance.
- CWB uncertainty will limit offerings as the barley desk may dissolve



Malting barley will remain a specialty crop with unique risks.

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Impacting the Bottom Line

- Increased costs of barley to replace non-performance of existing barley contracts.
- Increased processing costs – Energy, Labor.
- Increased supply assurance concerns.
- Increased Transportation costs and logistical congestion/delays.



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Outlook

- Malting barley prices need to be competitive to competing crops at planting time, and have higher relative prices to feed barley after harvest.
- Together, the Brewing and Malting industry need to make growing malting barley more appealing through increased flexibility, reduced complexity, and improved relationships & programs with farmers.



Summary

- Malting barley and malt stocks are extremely tight.
- Barley supply has been reduced due to some poor crops.
- Barley prices expected to stay higher than they used to be.
- Fewer industry players due to consolidation.
- Price volatility will remain a feature given tight carryouts.
- Potential remains for explosive prices if weather threatens yields.

