



Argentina, Brazil, and the United States are the three major exporters of corn and soybeans. This year a devastating drought in Argentina changed the landscape of world supplies of these crops as losses mounted during harvest. But many other challenges face Argentina as well. The following article was written by Guillermo Garcia, head of Research and Business Analyst for Bunge Argentina. Guillermo has more than 20 years in the agricultural business, and has been with Bunge Argentina since 2000.

THE ARGENTINE PARADOX by Guillermo Garcia

It is said in Argentina that a country is defined by one of four major economic perspectives. There are developed countries and underdeveloped countries. Then there is Japan, a country that has limited natural resources but has become one of the most important economies in the world. Lastly, there is Argentina, a country with many natural resources, but with so many economic and political complications that it cannot secure a place as a major economic force in the world.

Argentina is blessed with natural resources such as fertile soil, which allows for lower fertilizer usage. Advanced technologies and innovations, controlled erosion, and no-till farming practices have all contributed to lower production costs. In 2007/08 Argentina, a country that exports 90 percent of its production, harvested near record volumes at the same time that international prices were peaking. It was a win-win situation for the farmer, but politics soon entered the picture and the complications began.

Argentina's production is developed without any kind of fiscal incentives or conservation program aids, which added to tensions between the government and the producer when export taxes were levied starting in 2001. This situation continued, and intensified from 2007 through today. Producer profits had been used by different governments as an avenue to increase fiscal revenue. The application of more export taxes reduced the profits of farmers who already did not have the aid of government subsidies. Export taxes were easy to collect, and were validated by the government as a way to combat internal food inflation.

As international prices rose to their peak in 2008, the government of Argentina was tempted to once again increase export taxes which were already ranging from 23 to 34 percent, depending on the commodity, in an incremental formula — the higher international prices, the higher the export tax would become in percentages. The new tax would

WELCOME

Welcome to the summer edition of *The Grain Report*. World markets continue to work through recessionary issues. Analysts search for clues as to whether we are past the worst case scenario. For the first time in two years, whether through financial hardship or not, acreage in the U.S. for spring plantings has declined. On top of that Argentina encountered one of the worse droughts in a decade. In this issue we will look at Argentina's struggle, and some of our own unusual weather events in the U.S.

Have a great growing season, and we will see you back in the fall.

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The Argentine Paradox continued (from page 1)

cut down on producer profits, taking away any benefits from record high prices. It was seen by the farmer as entirely unreasonable, sparking massive riots. Farmers blocked roads disrupting export markets. What's more, the farmer strike, lasting 120 days starting in March 2008, came during peak harvest time adding further complications to an already thorny scenario. Farmers withheld grains from the market, choosing to leave them in on-farm silos instead of bringing them to the market.

The lack of farmer selling during harvest was followed by the global recession, which further exacerbated producer losses. At the same time, a 50 year drought devastated crops such as winter wheat (down almost 50 percent from last year), and soybean production. The latest forecast puts total wheat production at 100-year lows. In May, the latest estimate for soybean production was 34.00 MMT, from a starting point of 50.50 MMT, and falling. Corn production also suffered, along with cattle losses. Areas in the southwest such as Buenos Aires province and la Pampa were experiencing scenes akin to the dust bowl of the 20th century in the U.S.

Summer harvest in 2009 is reaching an end with the lowest production in the last decade for most crops. At this point, the trend of the Argentine producer has been to sell only enough to cover cash needs. Industries associated with farming are also suffering. The economic rhythm has been that of accelerated stagflation, which has forced the government to advance this October's elections to the end of June. The farmer is also waiting for the elections in order to voice his displeasure as well with the continuing unresolved tax issues.



FOOD PRICES REMAIN HIGH

In times of economic uncertainty, food consumption remains steady to higher as world populations continue to grow. Right now there are an estimated 6.5 billion people to feed. By the year 2050, that number is expected to increase to 9.5 billion. The demand for food grows yearly led by what was (until 2008) enormous economic growth in China, India, North Africa, and other emerging nations.

Though food prices are down about 30 percent in the U.S. since last summer, they remain 25 percent higher than in January 2005. Food inflation is running 3 to 4 percent today, versus 5.5 percent in 2008. But we could be preparing to close in on that number after this summer's poor growing season in Argentina.

Total world food stocks were rebounding off historical lows in 2008, led by growing world wheat supplies. Australia, the U.S., Canada, and the Black Sea region produced record wheat crops in 2008/09 that took stocks back into a very comfortable range. At the beginning of 2009, soybean and corn production supplies were heading in the same direction with growing carry-out potential and higher stocks-to-use ratios — until the South American growing season hit its dry spell. With total spring acreage numbers down in the U.S. for the first time in two years, as reported in the March 31 planting intentions, supplies from Argentina and Brazil were critical. Crop loss numbers in South America mounted from January to February, with Argentina remaining the hardest hit.

The latest forecast puts total wheat production at 100-year lows.

As far as the world economy goes, the devastating drought and political uncertainty this year suggests that Argentina's recovery could lag the rest of the world. This is not the first time in Argentina's history that the government and the farmer have had to tango in order to achieve balance. Argentina's long agricultural history and passion assures that there will be light at the end of this darker period of time.

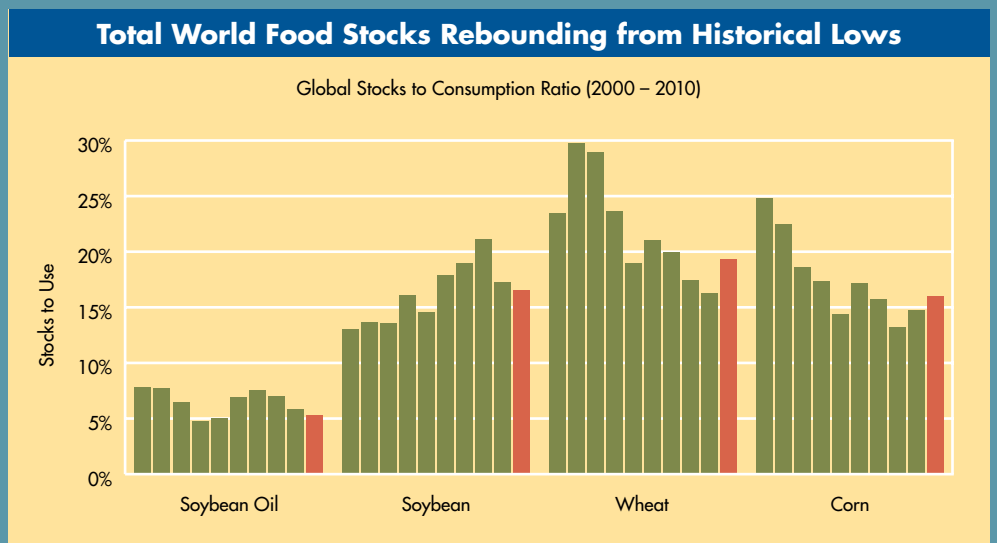


Diminished soybean exports from the Argentine port of Santa Fe.

The largest surprise for the market has been the pace of soybeans exported to China from both Brazil and the U.S. With Argentina out of the picture as a major exporter, the January and February 2009 export pace of soybeans to China from the U.S. was a record 37.50 MMT for the 2008/09 crop year, and has showed few signs of slowing this spring. The vibrant export pace combined with overall world losses contributed to strong spreads and higher flat-price trade.

Throughout the late growing season, it seemed that corn would be the beneficiary of a market rally with heavy rains delaying planting throughout the spring season. But the still fragile livestock and ethanol industries have muted corn rallies. Now, however, Brazil is beginning

to report corn crop losses. In the big supply picture, it means that the U.S. season will have to be nearly ideal in order to avoid much higher prices in the future.



Source: USDA

RED RIVER VALLEY FLOODING ADDS TO TIGHT BALANCE SHEETS

Every now and then an event in an isolated corner of the country captures the attention of the entire nation. Such was the case this spring when a rare and catastrophic flood descended on the Red River Valley in eastern North Dakota and western Minnesota. People from around the country were engrossed in the images coming out of the region showing the rare mix of ice, water, snow, and sandbags. The upshot of the Red River Valley floods means that abandoned acreage may increase, which could add to even tighter balance sheets for corn and soybeans.



Swollen rivers surrounded by melting ice.

Where did the Red River Valley flood story begin? In December 2008 the National Weather Service (NWS) issued an alert that higher than normal snowfall could contribute to flood concerns in the region. Residents in the area had heard this warning before, and knew that other elements such as heavy rainfall and a fast snowmelt would have to happen simultaneously before a flood of high magnitude could occur.

In January and February 2009, heavier than normal snowfall continued throughout North Dakota and Minnesota. By mid-February, the NWS increased the odds for substantial flooding by 50 percent, akin to the year of 1997. That year, flood waters devastated the city of Grand Forks, N.D., and almost wiped out a four block section of the downtown district. Over 800,000 acres of prime cropland went unplanted due to saturated fields. It was a financial and emotional disaster for both urban and rural residents in the area, totaling billions of dollars in damage.

In mid-March the list of perfect storm events needed for a repeat of 1997 began to line up. Unusually warm temperatures began to melt huge stockpiles of snow on frozen fields. The NWS was forecasting wave after wave of heavy precipitation moving into the area over a 15-day period, onto land that simply could not absorb further moisture.

Complicating matters was the layout of drainage unique to the Red River region. Due to the extremely flat topography of the Red River Valley, multiple crests can occur over an extended amount of time as storm systems drop additional rain/snow on the region. By March 19, a crest projection near 40 feet was issued equaling the historical crest of 1897, and topping 1997 by 6 inches. It was determined that to protect the city of Fargo from this amount of water, 1.5 million sandbags would have to be filled and placed on existing levees before the expected crest arrived in

the next 10 to 12 days. Calls went out across the country for volunteers to mobilize. "Sandbag Central" was established at the Fargo Dome, an enclosed football stadium, that would help keep the volunteers and sand warm and dry.

By March 24 the U.S. government declared the entire state of N.D. a disaster area, and the NWS raised the crest projection to 41 feet. A swarm of volunteers from Minnesota to the Dakotas, and as far away as Wisconsin and Montana, descended on the city to help fill and move sandbags to stop the rising water, 24-hours a day. Cold temperatures along with heavy wet snow began to fall unmercifully on the army of volunteers. At times, baseball bats were used to break up frozen sand in the bags so they would lay properly on the levees. A thick blanket of snow covering the landscape in the midst of rising floodwaters gave the entire area an eerie, ghostly appearance. Despite the challenging weather conditions and long tedious hours, workers continued to build the wall of bags higher.

Bad news continued to pound flood workers when the NWS raised crest estimates to an unthinkable 43 feet. Volunteers in Sandbag Central continued to turn out more sand bags than originally needed as forecast levels moved higher. When the final bag was twisted shut in the Fargo Dome, 3.5 million bags were available for fighting the flood.

H1N1 FLU VIRUS AFFECTS AGRICULTURAL MARKETS

With the number of confirmed cases rising and an increasing death toll in Mexico, the H1N1 virus has grabbed the attention of people around the world. Though the World Health Organization has indicated that this virus cannot be spread in properly cooked pork products, China and Russia instituted import bans on pork from Mexico and U.S. states that have had the virus.

In May, USDA Secretary Tom Vilsack testified before the Senate Subcommittee regarding the 2009 H1N1 influenza. Secretary Vilsack reported that pork was safe to consume, and that the virus has not been found in any herds in the U.S. He also stated that the USDA was involved with the surveillance and vaccine development for the virus, and that all efforts would be maintained in working to keep markets open for pork products.



Red River Valley flooding.

The river finally crested in Fargo at midnight on March 28 at 40.82 feet, slightly below estimated levels. The river then began a painfully slow drop over the next 24 hours. Sadly, the anticipated rest planned by all of those who had fought the water to a standstill never developed. Rumors of a second, higher, crest were circulated among the exhausted crew. Another wave of water caused by snowmelt and storms advanced north. Although this new threat caused some tense days, the second crest never developed beyond what had been confronted before. The river started to recede at an agonizingly slow pace over the next several weeks.

A month-and-a-half has passed since the record-breaking wave of water moved through the Valley, and while water levels have dropped significantly, readings remain above flood levels. The river is not expected to drop into its normal banks until late May. Flooded fields still dot the landscape from horizon to horizon. It is unknown at this time how many acres of North Dakota and Minnesota farmland will go unplanted in 2009, but it is likely that abandoned acreage this year will match or exceed the 800,000 acres that were lost in the 1997 flood. At a time when dwindling grain supplies require an almost perfect growing season to meet increasing demand, a perfect flood in an isolated corner of the country may be this year's first obstacle to meeting those lofty goals.

When the final bag was twisted shut in the Fargo Dome, 3.5 million bags were available for fighting the flood.



REGION to REGION

EASTERN DISTRICT

Homer Projects and Events

Construction crews will have a busy summer at Homer, Ill. as the facility begins to ready itself for another harvest. The largest project underway is the replacement of Homer's high moisture corn tanks. These new tanks will give the facility better utilization of its existing dryer capacity.

Other projects include the installation of a new truck scale, probe, and remote printer. These enhancements have dramatically increased truck flow through the facility. A key component of the scale project was the demolition of an old storage building, which provided enough space to stage trucks on Bunge property.

Homer will also install retention walls and aeration fans for the large ground pile that is at the facility. The walls allow for better control and management of the grain by keeping it out of low-lying areas. The aeration fans will help keep the grain in the pile in better condition over time.



Homer Hosts Customer Appreciation Day

The Homer elevator recently held its first customer appreciation lunch and outlook meeting. The well-attended meeting featured an agricultural outlook presentation on the markets from the Bunge St. Louis staff. The feedback from this luncheon was so positive that another event will be planned this summer.



AGRI-Bunge employee Chris Schroeder demonstrates how easily a person can become entrapped in grain.

NORTHERN DISTRICT



Albany Elevator Celebrates Its Safety Record

The Albany, Ill. elevator crew recently celebrated a record accomplishment — more than 32 years (and counting) without a lost time accident. This facility was a Bunge North America elevator until it was included in the joint venture with AGRI-Bunge, LLC in early 2004. Over the past 32 years there have been six different managers. The last lost time accident at the elevator was on October 25, 1976. The location reached 1,000,000 hours of no lost time accidents in May 2006.

AGRI-Bunge Employees Participate in Progressive Agriculture Safety Day

Progressive Ag Safety Day was held April 25, 2009 at the Carroll County Farm Bureau building in Mt. Carroll, Ill. AGRI-Bunge LLC employees participating included Brenda Firch, Linda Alexander, Dave Ven Huizen, Chris Schroeder and Brian Shields,

along with Verl Buchanan, northern district manager for Bunge Grain. Thirty-nine young people ranging in age from 6 to 11 attended.


The event began with a general presentation on electrical safety, followed by five mini safety sessions, which included ATV Safety, 911 Simulator, bike safety, fire extinguishers and grain safety. The grain safety session included demonstrations on wagon engulfment and grain bin entrapment. Participants learned how a grain tube can be used to save a person from being engulfed in grain. They were also given the opportunity to see and feel the corn and soybean seeds. The final demonstration included operation of a personal safety harness.

Bunge's participation in the Progressive Ag Safety Day program reflects our core commitment to safety — whether on the farm, in the office, or at home.

Employees on the Move

Kathryn (Katie) Lindborg transferred to Owensboro, Ky. from the AGRI-Bunge facility in McGregor, Iowa on May 1. She is a graduate of Purdue University and has been with Bunge since June 2008.

See Region to Region (page 8)

A silhouette of a person wearing a cap, sitting in the driver's seat of a vehicle, possibly a combine harvester, against a bright, orange and yellow sunset sky. The person is looking out the window. The vehicle's interior and exterior details are dark against the bright background.

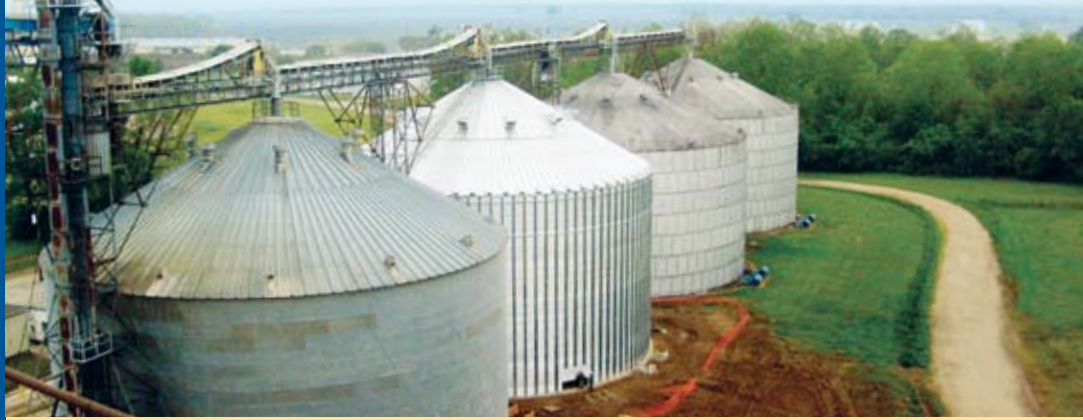
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DID YOU KNOW

...the Red River Valley is an ancient lake bed that is one of the most fertile areas on the planet, with rich black soil up to 75 feet deep in some areas.

...Devil's Lake, in North Dakota, has tripled in size since 1993. The U.S. Geological Survey estimates that each foot above current levels will consume 10,000 acres of prime farm land.

...farmers in Argentina can store up to 200 metric tons of corn per plastic silo bag.



Region to Region continued (from page 7)

SOUTHERN DISTRICT

Tallulah Port Gets New Storage Tank

The Tallulah Port, La. facility has replaced one of its 500,000 bushel storage tanks, which will be ready for the 2009 harvest. The original 105-foot diameter corrugated tank was in use for 30 years. A new version of the tank was purchased and erected in the same location. This tank, which will have an automatic floor sweep to assist in reclamation of the grain, will maintain Tallulah Port's total storage capacity of 2.7 million bushels. K&D Associates, based in Cleveland, Miss., constructed the new storage tank.

Employees on the Move

Shane Maxwell was promoted to assistant operations manager for the Southern District and is now located in the district office in Little Rock, Ark.

Kevin Green assumed the role of elevator manager of the Lake Providence and Goodrich Landing facilities in the Southern District. Kevin joined Bunge in 2003 in Lake Providence before being promoted to assistant manager of Greenville. He most recently served as Grain Marketing Specialist for the North Central Louisiana area.

Justin Campbell has been promoted to assistant manager for the Greenville, Miss. facility. After graduating from Murray State in 2007, Justin joined Bunge as a manager trainee at the Augusta, Ark. facility.

Daniel Crouthers, manager trainee, recently transferred from Vidalia, La. to Lake Providence, La. Daniel began working for Bunge in August 2008 after graduating from Southeast Missouri State.

Eric Lord joined Bunge in February 2009 as manager trainee for the Linda, Mo. elevator. Eric graduated from Louisiana Tech University in Ruston, La. with a degree in agricultural business.



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