



Rabobank

July 2011

Agribusiness Review

Australia and New Zealand

Rabobank Group
 Food & Agribusiness Research and Advisory (FAR)

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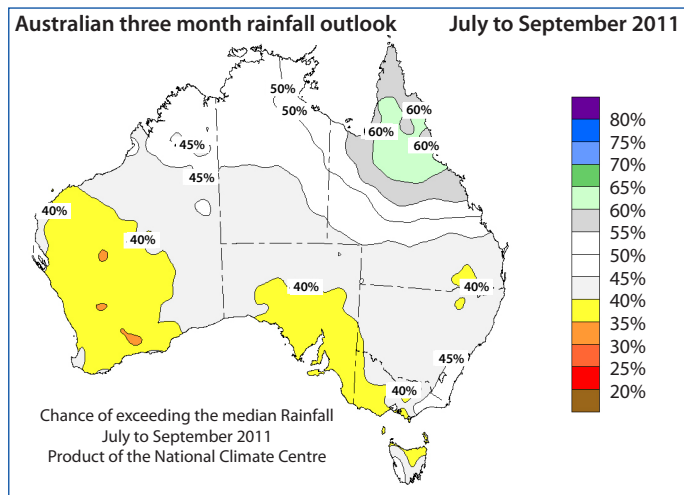
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Report highlights

- Continuing dry conditions across Australia through June, consistent with the end of the La Nina event and expected to prevail into Spring, have switched the focus back to how much rain will fall on winter crops over coming months. June was mild in New Zealand, with Winter really only arriving at the end of the month. The seasonal outlook in New Zealand is generally for warmer than average temperatures and wetter than average rainfall.
- Ongoing debt woes in Greece made news through June, although the expected slowing of US growth is also significant. The data in Australia are generally in line with the more sanguine and uneven picture presented at the global level. New Zealand's economy has shown some more positive signs, with retail and wholesale sales and business confidence all up slightly.
- Both the AUD and NZD fell back against the USD in response to the debt position in Greece, but have since recovered to be trading around USD1.07 and USD0.82 respectively in recent days.
- Global grains markets continued to ease through June. The USDA's upwards revision of areas planted and stocks, better weather and the possible re-introduction of Russian grain into export markets have combined to place downside pressure on prices. Conditions in Australian winter cropping regions are good in eastern and South Australia, and fair in Western Australia, with continuing rain now on most crop farmers' minds.
- Beef prices in Australia and New Zealand continued to ease in June, with the strength of local currencies and soft demand the main headwinds. The lifting of the ban on live cattle trade with Indonesia is a welcome development for northern Australian producers, who are now waiting for permits from the Australian and Indonesian governments before trade can resume. Lamb prices have continued to ease in Australia and to rise in New Zealand, where new records have been set.
- Global dairy markets have been stable over the past few months, with production easing slightly and demand also tempering. Production continued at strong levels in Australia and New Zealand through to the year-end. Prices for the coming season in Australia and New Zealand both look favourable.
- Oil prices fell during late June but have since stabilised around the USD110/ barrel mark.

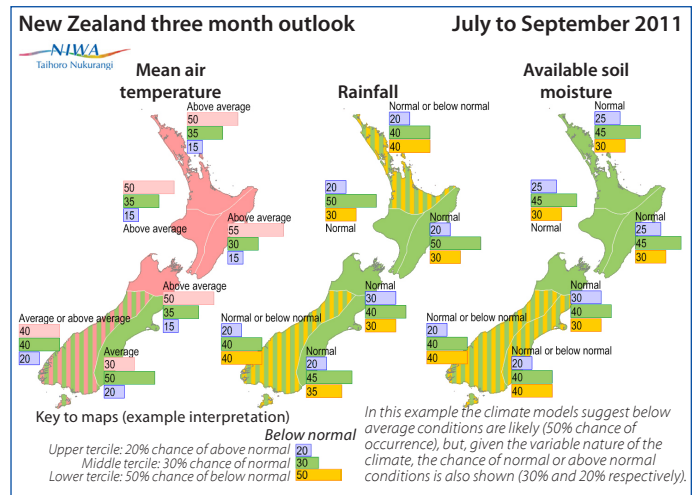


Australia

- Below-average rainfall was received across most of Australia throughout June, with national rainfall recorded at 17% lower than normal. Tasmania and the Northern Territory were the exceptions, receiving 30% more rain than normal.
- Drier conditions were experienced in the southeast and the southwest. The Murray-Darling Basin recorded the lowest June rainfall since 1986 – receiving half the normal rainfall, however, Basin storages remain at 83% capacity.
- Northern areas of Australia experienced cooler-than-normal June conditions, while southern areas experienced average or cooler-than-average conditions. The Northern Territory experienced the coolest minimum temperatures for June on record.
- The Bureau of Meteorology’s (the Bureau) outlook for winter to spring reflects conditions that are consistent with the end of a La Niña event, coupled with the expected arrival of a weakly positive Indian Ocean Dipole (IOD). Drier-than-normal conditions are favoured across southern Australia during the winter growing season. Temperatures are expected to be normal to cooler-than-normal in the east and warmer-than-normal in the west.
- There has been a marked deterioration in upper level soil moisture across southern Australia, particularly in New South Wales and Western Australia.

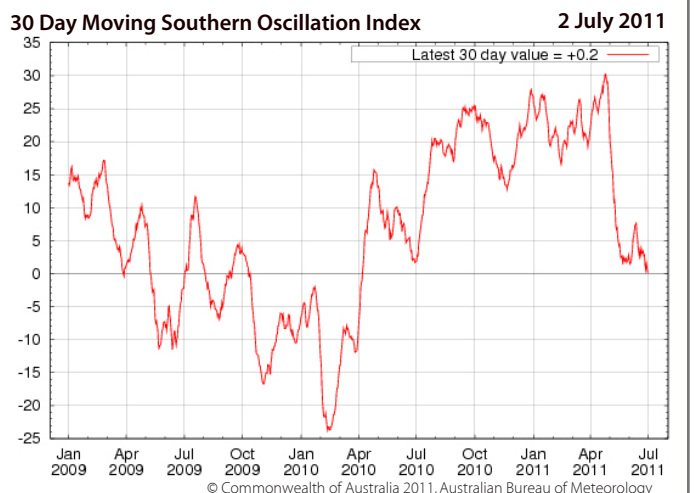
Southern Oscillation Index

- The Southern Oscillation Index (SOI) was relatively contained throughout June in comparison to previous months, and moved within the neutral range (+8 to -8). The current 30 day moving average value of the SOI is 1.9.
- According to the Bureau, atmospheric and oceanic indicators of the El Niño Southern Oscillation (ENSO) are at near-normal levels. This means that neutral conditions have been established, and normal climatic conditions can be expected. The Bureau expects neutral ENSO conditions to prevail into late 2011.
- The Bureau expects a slightly positive IOD to develop during winter. Should this be the case, this would bring drier-than-normal winter and spring conditions to southeast Australia.



New Zealand

- On the back of a record-breaking warm May, June temperatures across the country were also mild and more like autumn than winter. Plenty of rain fell around the country but very little snow, disappointing those eagerly awaiting the beginning of the ski season.
- Ash clouds from the volcanic eruption in Chile that have been hanging over New Zealand airspace since 12 June have finally cleared, but not before causing the cancellation of around 500 domestic and trans Tasman flights, resulting in disruption to tens of thousands of travellers.
- The National Institute of Water & Atmospheric Research’s (NIWA) outlook for late winter (July to September) is for above-average temperatures in the North Island and the Nelson-Marlborough region, near or above-average temperatures in the west and south of the South Island, and near-average in the eastern South Island.
- Seasonal rainfall is likely to be near or below normal in the north of the North Island and the west and south of the South Island, and near normal in all other regions of the country.
- Soil moisture levels are likely to be near normal or below normal in western and eastern South Island, and near normal in all other regions.

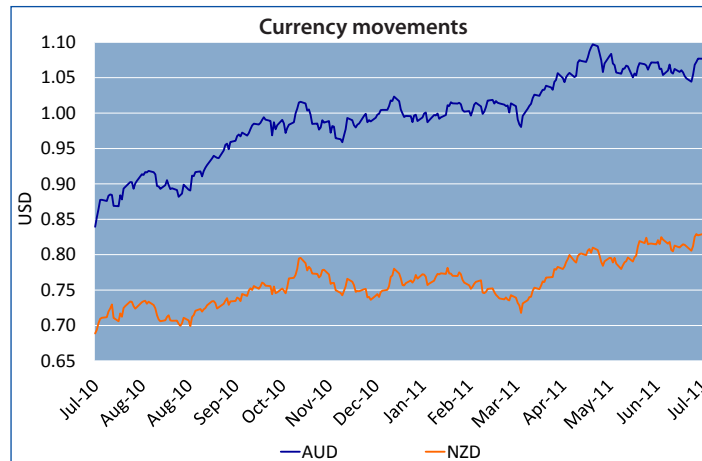


Economy/currency

Currency USD

	Current (01-Jul-11)	Last month	Last year
AUD	1.0770	1.0614	0.8416
NZD	0.8273	0.8146	0.6884

Source: Bloomberg/Rabobank



Source: Bloomberg/Rabobank

Global

- Global economic recovery was expected to be unbalanced and problematic - this is definitely proving to be the case. While at this stage Greece has managed to address immediate demands, the ongoing challenges and local reaction is a salutary reminder that many economies face an uphill battle to return to a strong growth platform that will impact overall economic growth for some time. Concerns surrounding the pace of US growth also continue unabated with mixed data and lower growth expectations for 2011.
- The headwinds facing global growth are presently overshadowing inflationary pressures and in some cases are pushing out the expectation for interest rate increases in the near term, despite the BIS cautioning last week on underestimating these risks stating "highly accommodative monetary policies are fast becoming a threat to price stability".
- Global food price inflation, ongoing agri-commodity price volatility and market uncertainty has gained prominence with the first ever meeting of G20 agriculture ministers held in June agreeing an action plan to present at the leaders' summit in November.

Australia

- Weak data in May is once again raising concerns about the two speed nature of the economy. Retail sales fell back in May by 0.6% month-on-month, yet the volatility in monthly retail sales raises uncertainty about the direction that it will take in coming months. Job ads improved slightly in June offsetting part of the 6.5% drop in May, yet a downward trend is more apparent. Meanwhile, building approvals fell by 7.9% in May - much more than expected

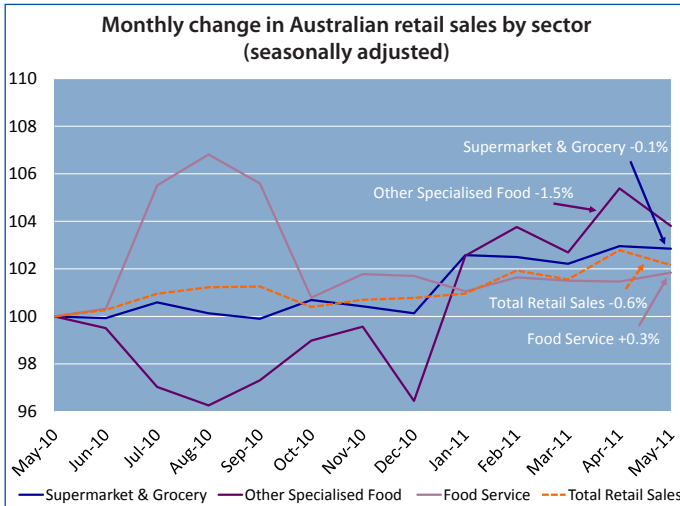
and well below this time last year.

- Recent headwinds in both the global and domestic economy make it increasingly likely that the Reserve Bank of Australia (RBA) will take a neutral stance and defer a hike in the cash rate until the outlook improves. Consumer Price Index (CPI) and employment data for Q2 2011 will be key to watch for a better indication of when the RBA is likely to move.
- The Australian dollar remains well supported at around USD1.07 and is expected to trade above US dollar parity in the next quarter and beyond.

New Zealand

- Some encouraging signs emerge amidst weak economic fundamentals. The March quarter current account deficit of NZD 1.8 billion was lowered from the previous quarter and reduced to 4.3% of GDP for the year, retail sales moved higher, manufacturing volumes were up 1.9%, wholesale trade sales were up 2.8% and business confidence improved overall although is yet to materialise in activity.
- Expectations are for March GDP to have increased modestly with Treasury expecting growth of 0.3% and less than 1% over the first two quarters of 2011 combined. However, despite headline inflation remaining elevated the official cash rate is unlikely to alter at the end of July until fundamentals, particularly the labour market, show marked improvement.
- The New Zealand dollar reached a post-float high against the US dollar during June and remains at high levels around NZD0.82 with current movement based more around global uncertainty impacting on commodity currencies than domestic fundamentals.

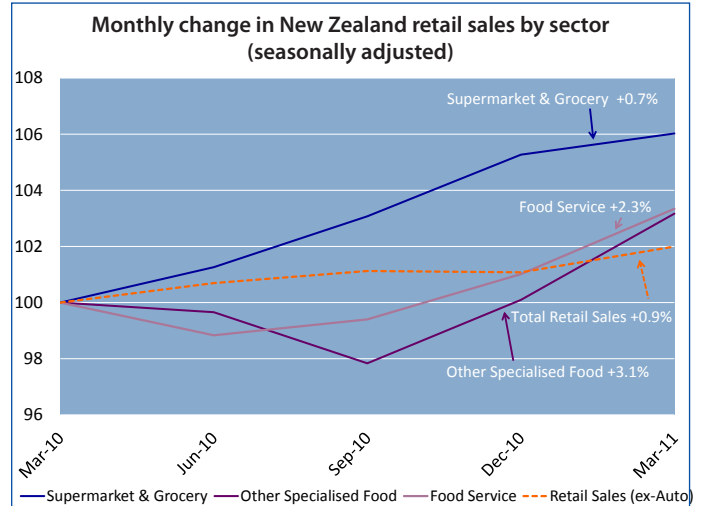
Food retail



Source: ABS Cat 8501 – % reference represents month-on-month change for most recent period

Australia

- The rate of growth in Australian retail trade turnover fell away in May 2011, down 0.6% on the prior month in seasonally-adjusted trade estimates. This takes the annual growth rate to a still quite modest 2.2% (ABS, 2011). Declines were felt almost universally across the sector, with the exception of the food service and pharmaceutical/cosmetic categories.
- Soft equity and house prices are certainly not helping to buoy household sentiment. The Australian stock market continued to fall through May, and house price data recently released by national industry groups point to continued flat or declining house prices across much of Australia. Amongst this fragile setting, the Reserve Bank of Australia needs to walk a tightrope with its monetary policy settings and will keenly await the release of Consumer Price Inflation estimates at the end of July.
- Seasonally-adjusted Supermarket & Grocery retail trade is estimated to have remained flat, declining 0.1% in May. The Other Specialised Food retail channel fell more markedly by 1.5% and its mixed fortunes of late seem to closely reflect consumer sentiment and household proclivity for discretionary spending.
- Trade in Food Service channels (Cafés, Restaurant & Take-away) bucked the trend in May, increasing 0.4% on the prior month. The Food Service result was more uniform than it has been in many months, with a 0.5% monthly rise in the Take-away food channel breaking what has otherwise been a downward trend. Trade in the Cafe & Restaurant channel remains volatile, up this month by 0.3% on the prior month.



New Zealand

- The first read on New Zealand retail trade for some time came with the release of March quarter data last month. Retail trade was estimated to have increased by just under 1% on the prior quarter, and rose 2% on a year earlier (Statistics NZ, 2011). Results across the retail sub-sectors were mixed, however the various food retail channels were reported to have outperformed the broader sector.
- In the absence of monthly and more disaggregated data, it is difficult to gain too much insight into the release given the various impacts of the devastating Canterbury earthquake in February, subsequent Reserve Bank of New Zealand interest rate cut in March, and GST increase in the prior quarter. Nevertheless, Food and Beverage services rose strongly by 2.3% on the prior quarter, while Supermarket and Grocery trade rose only modestly on the prior quarter but is strongly up by 6% in annual terms.
- New Zealand food price inflation has continued to gather momentum through the year and is likely to have a significant impact on broader CPI data in the June quarter. Food prices rose 0.5% in May on the prior month and now sit 7.4% higher than a year earlier. The GST rate increase in October 2010 has had some role to play in higher prices. However, higher fresh produce and commodity prices are mostly to blame.
- Vegetable prices remain high (+21.4% year-on-year), and are likely to stay high due to the seasonal pressures usually experienced around the middle of the year. Meat and poultry prices increased again in April by 0.7% on the previous month to take the price level 10.4% higher than a year earlier. Milk-related products, and to a lesser extent Bread & Cereals products, also remain elevated on the back of high input prices.

Grains and oilseeds

ASX wheat prices

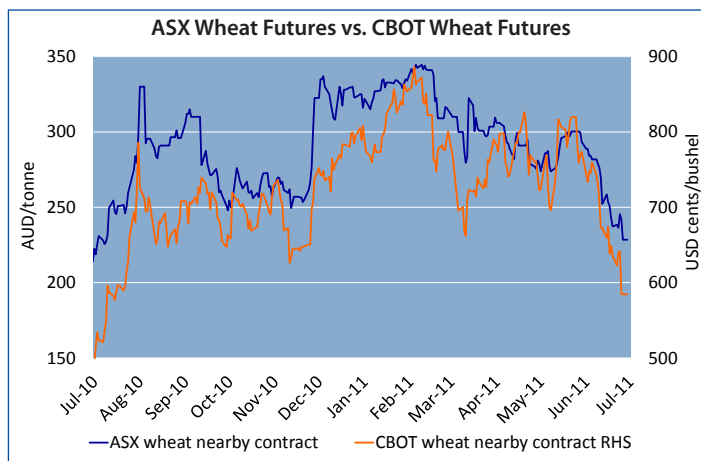
	Current (01-Jul-11)	Last month	Last year
AUD/tonne	288.50	300.30	215.00

Source: Bloomberg/ASX/Rabobank

Chicago Board of Trade Wheat Futures (nearby contract)

	Current (01-Jul-11)	Last month	Last year
USD c/bushel	584.50	759.25	487.75

Source: Bloomberg/CBOT/Rabobank



Source: Bloomberg/CBOT/ASX/Rabobank

Global

- An expected improvement in US stock levels, macro events and seasonality are expected to result in bearish grain and oilseed prices in coming months. Fears of a worldwide growth slowdown are currently adding to weaker sentiment in a number of markets. None-the-less, there are still risks to global grains and oilseed production that are expected to prevent prices collapsing below previous averages in the near term.
- The United States Department of Agriculture (USDA) quarterly Acreage and Grains Stocks reports released in June contained a few surprises about US crop potential and supplies. The USDA lifted expectations for area planted to corn and cotton in MY 2011/12, while lowering area expectations for soybeans and wheat. The area planted to corn in the US for MY 2011/12 is expected to be 92.3 million acres, while stock levels have been estimated at 3.67 billion bushels – both above market expectations and downside news for corn prices. Corn has been leading price movements across the grains complex.
- The Chicago Board of Trade (CBOT) wheat futures eased by around 23% in June, and wheat prices are looking increasingly bearish as a result of improving weather conditions in Europe and Russia's re-entry into the global grains market. The June USDA Acreage and Grain Stocks reports also suggest further downside pressure on wheat prices. Despite the estimated decline in area planted, US wheat stock estimates were above market expectations at 823 million bushels. Much of the wheat price direction will though be driven by movements in the corn market, which is still looking tight despite better prospects for US corn supplies. The premiums for high protein wheat remain supported by the constrained

supply in the United States, Canada and the European Union. Russian production levels are expected to be a swing factor in MY 2011/12 as there is still uncertainty about Russian export potential.

- Canola and soybean prices have also fallen back in recent weeks, yet not to the same extent as corn and wheat prices. The June USDA Acreage and Grains Stocks reports estimated higher-than-expected soybean stocks in the US - downside news for soybean prices, yet the direction of prices will still depend largely on Chinese demand for soybeans as we approach harvest.

Australia

- Winter crop plantings in the eastern states and South Australia are looking promising, with most plantings complete within the optimal planting windows and with good subsoil moisture. Wheat and canola areas have been favoured over barley on the east coast, with favourable seasonal conditions and stronger prices making canola production in particular more appealing. On the downside, there have been problems with mice on the grain belt in southern New South Wales and parts of Victoria and some areas still await good rain to solidify crop plantings.
- The MY 2011/12 crop prospects have improved somewhat in Western Australia (WA), with recent rainfall being timely for the sowing of most winter crops. Yet consistent rainfall in coming months will be needed to support the crop plantings in southern WA, particularly with the absence of good subsoil moisture in many regions. Winter crops in the northern part of the state are better placed with reasonable subsoil moisture and rainfall providing a good crop base and outlook for the 2011/12 season.

Beef

Australian beef prices

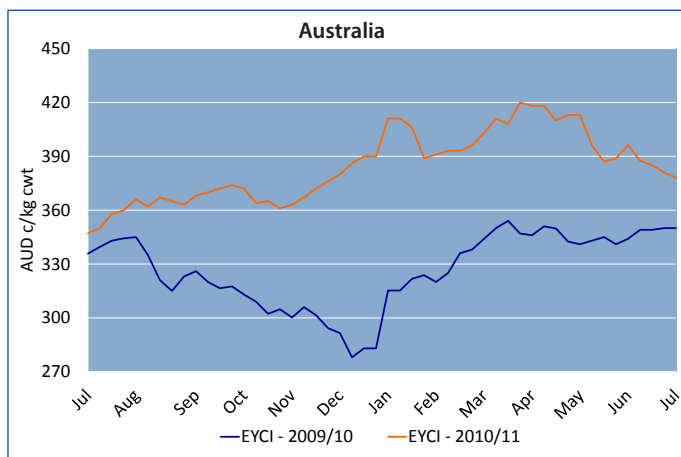
All shown as AUD cents/kg cwt	Current (01-Jul-11)	Last month	Last year
Eastern Young Cattle Indicator (EYCI)	378	387.5	349

Source: NLR5/Rabobank

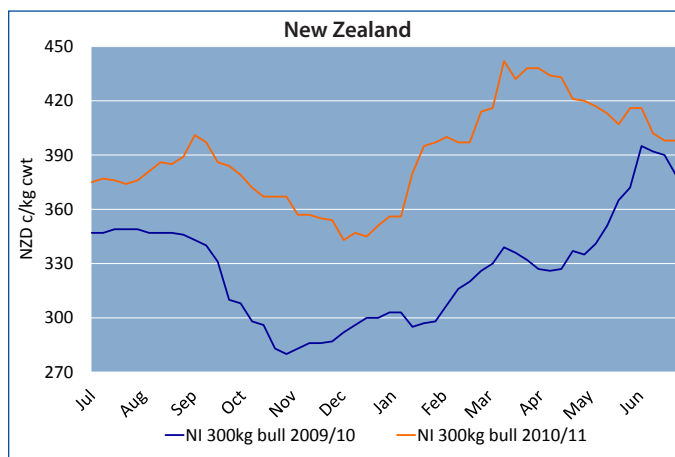
New Zealand beef prices

All shown as NZD cents/kg cwt	Current (04-Jul-11)	Last month	Last year
North Island Bull 300kg	398	416	375
South Island Bull 300kg	390	395	334

Source: NZX Agrifax/Rabobank



Source: NLR5/Rabobank



Source: NZX Agrifax/Rabobank

Global

- Domestic US lean manufacturing beef prices continued to feel pressure from slow food service demand dropping USD 10c/lb over the month. While July prices started at USD 185c/lb with Independence Day celebrations hopefully lifting traded volumes, manufacturing beef is struggling against low poultry prices due to a high volume of poultry in frozen storage at the moment.

Australia

- Australian cattle prices fell throughout June, with finished cattle prices feeling the greatest pressure. Queensland Japan Ox dropped to AUD3.01/kg cwt, compared to AUD3.14/kg cwt for the same time last year. The fall has been due to a combination of factors, including the very high Australian dollar, which is eroding export returns as well as relatively subdued demand in Japan and strong competition from the US in the Japanese beef market. The Korean and Russian markets, which drove major sales in the first quarter also slowed, as stock levels built up. Some of the pressure in export markets should ease over upcoming months. However, the continued strength of the Australian dollar compared to major export market currencies will limit beef export prices in Australian dollar terms, meaning the growth in cattle prices will likely be modest.
- The lifting of the ban on live exports to Indonesia has been a welcome development for producers in northern Australia. The next step for the resumption of trade is for the Australian Government to issue export permits for livestock that comply

with the chain of custody control system and will pass through qualifying channels in Indonesia, and for the Indonesian Government to issue import permits.

New Zealand

- Farmgate beef prices moved further downward in June, with prime cattle averaging NZD4.12/kg cwt in the North Island, up by 8% year-on-year, while South Island prices remain 20% higher. The spread between North Island and South Island pricing at farmgate level has tightened during June to an average spread of NZD 14c/kg cwt, compared to last season when NZD 55c/kg cwt more was paid by North Island processors.
- Export income in May lifted year-on-year by 4%, while export volumes were down 5.5%. North American exports, as a percentage of total volume shipped, lifted to the highest this season at 60%. In part the stronger demand from importers for New Zealand product over Australian due to exchange rate lifted North American export volumes for New Zealand, but also a softening in Asian demand pushed product to the US.
- Beef prices are expected to continue to ease as manufacturing beef markets remain slow and Asian markets see competition from US product. The higher average prices from beef markets this season have countered the small decline in volume. Total export income for eight months to May 2011 is NZD 1.5 billion, up from NZD 1.3 billion for the same period last season. The season looks set to generate around NZD 2 billion of income.

Sheepmeat

Australian lamb prices

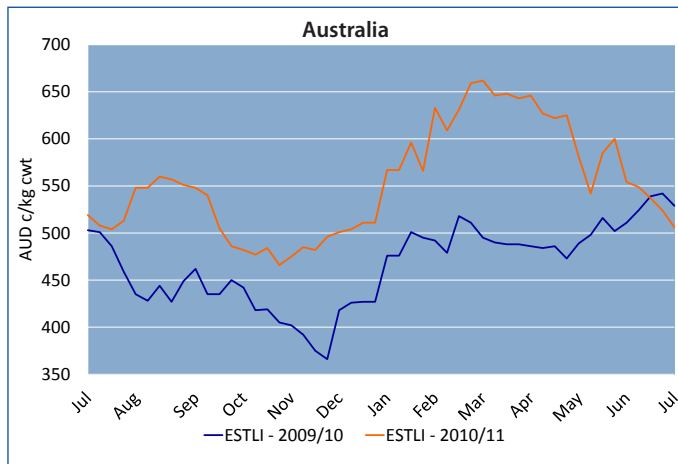
All shown as AUD cents/kg cwt	Current (01-Jul-11)	Last month	Last year
Eastern States Trade Lamb Indicator (ESTLI)	506	554	529

Source: NLR5/Rabobank

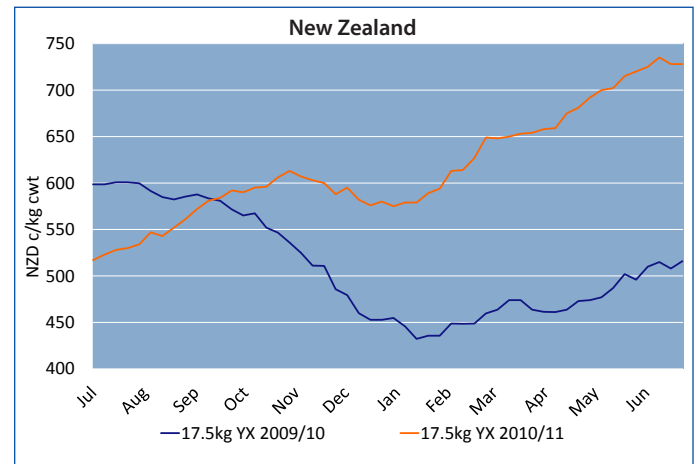
New Zealand lamb prices

All shown as NZD cents/kg cwt	Current (04-Jul-11)	Last month	Last year
North Island 17.5kg YX	749	725	517
South Island 17.5kg YX	711	675	521

Source: NZX Agrifax/Rabobank



Source: NLR5/Rabobank



Source: NZX Agrifax/Rabobank

Australia

- Australian lamb prices have continued to fall during June, with the Eastern States Trade Lamb Indicator dropping by almost a dollar a head for the month, to AUD5.06/kg cwt as at the beginning of July. This is just over 4% lower than the same time for 2010, however, remains well above five-year averages.
- The fall in prices is a combination of factors including lower quality as cold weather conditions hit and the very strong Australian dollar, which is pressuring export returns. Closures of some sheepmeat plants due to these pressures has also impacted prices. Despite the decline in prices, producers appear to be still interested in rebuilding flocks, with prices for light lambs, sheep and merino lambs still higher than last year. The widespread rainfall across the eastern states is one of the reasons behind the strong restocker interest, with improved wool prices also a support for merino lambs.
- Sheepmeat exports fell by 2% in June 2011 compared to 2010, with a modest rise in lamb sales more than offset by a decline in mutton exports. The EU was one of the few markets to see a rise in sales compared to June last year, rising by around a third to 1,648 tonnes. Sales in July should remain pressured by continued restrictions on supply and the high Australian dollar.

New Zealand

- For those that still have stock going into winter, more record prices are being offered at the farmgate. July starts with prices for YX

17.5kg sitting over NZD7.10/kg in the South Island and NZD7.49/kg in the north. This follows average prices for the 900,000 head processed last month of NZD7.29/kg for North Island producers and NZD6.94/kg for the South Island. This is a staggering increase of NZD2/kg on average prices from the same period as last year, remembering that 2010 prices averaged 10% higher the five-year average. In addition to exceptional returns, the season-to-date has also seen a lift in carcass weight averages from 17.5kg to close to 18.5kg for processing. Although some areas have struggled with the wet through the month, the unseasonably mild weather across the country and strong grass growth has meant winter feed is not a concern for most.

- The slaughter of high ewe numbers this season has raised some concerns about capital stock being diminished for next year. So far this season an additional 780,000 or 25% more ewes have been processed compared to last year. Not an unexpected trend with such strong mutton pricing this season.
- Export income in May lifted year-on-year by 20%, while export volumes were down 5%. The high export income for sheepmeat this season has countered the volume drop. While total export revenue for eight months to May 2011 is 1.4% down on the same time last year, export volumes are overall 9% lower. A shortness of sheepmeat for trade globally has been holding up prices. However, softening consumer spending on lamb in the UK and sluggish food service spending in the US are expected to gently pull prices back from these levels in coming months.

Dairy

World dairy prices

	USD/tonne			AUD/tonne			NZD/tonne				
	23-Jun-11	Last month	Last year	23-Jun-11	Last month	Last year	23-Jun-11	Last month	Last year		
Butter	4,725	4,800	4,050	4,476	4,527	4,744	5,820	5,981	5,818	5,909	6,048
SMP	3,900	3,863	3,250	3,694	3,643	3,807	4,804	4,814	4,669	4,688	5,194
WMP	3,950	4,100	3,850	3,742	3,867	4,510	4,865	5,109	5,531	5,116	5,696
Cheddar	4,450	4,575	3,950	4,215	4,315	4,627	5,481	5,701	5,674	5,504	5,974

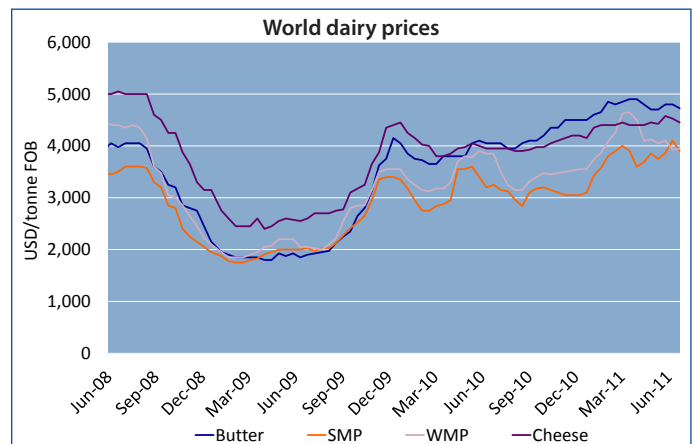
Source: USDA/Rabobank

Global

- Global dairy prices have continued to trade largely sideways with slight easing evident towards the end of the month, particularly for WMP and cheddar cheese, to close modestly the current premium for SMP/butter production. However, WMP prices remain on a par with last year while other commodities are 10-20% higher in US dollar terms.
- This period of relative quiet in dairy markets is likely to continue through July as importers face the impact of rising prices on consumption and export product availability is limited by the Southern Hemisphere trough and easing production growth rates in the EU and US.
- However, dairy is not immune to the uncertainty currently impacting global soft commodity markets. In particular, should lower grain prices persist and improve profit margins for intensive milk producers, this easing of growth in milk flows could prove relatively short lived.
- Retail prices continue to tick upwards, which is tempering demand growth particularly in those markets where food price inflation has created significant pressure on consumers. Despite this, the impact is at least partially offset as consumers in developed markets are returning to dining out and food service trade improves.
- Global dairy markets remain tight as import demand stabilises and are likely to be tested as the Southern Hemisphere season gathers pace from August onwards. However, relative prices are likely to continue to adjust between commodity product lines as milk is redirected to its highest value use.

Australia

- Good seasonal conditions continue to assist a strong finish to the milk production year. However, milk volumes are at seasonal lows during winter months. National milk production tracking 1.3% higher in the three months to May.
- 30 June marked the end of the 2010/11 season and expectations are still for national production to close out the year at 9.1 billion litres - up 1% on last season.
- Most processors have now announced opening farmgate milk prices for southern producers. Prices range between AUD4.65-4.90/kg MS - slightly above where they opened last year.
- These prices levels will support farmers' early season cash flows, and ensure profitability heading into a new season.



Source: USDA/Rabobank

Production growth in key exporting regions

	Latest month	Last three months
EU 27	2.6% (Mar)	2.8%
US	1.5% (May)	1.8%
Argentina	18% (Apr)	17.7%
Australia	1.7% (May)	1.3%
NZ	4.5% for 12 months to May 2011*	

*Rabobank estimate

With favourable seasonal conditions backing up good market conditions, milk flows will start the year in positive territory.

New Zealand

- The majority of producers and processors are currently enjoying the seasonal trough with most not producing at all. Producers are generally well-positioned to start the new season strongly later this month and into August as climatic conditions have been kind to both feed availability and cow condition.
- Finishing touches are also separately being put on two new milk powder dryers readying themselves to receive new season milk next month – one in the North Island and one in the South Island.
- Somewhat surprisingly given the strong finish to the season, May exports were 3% below the previous year suggesting that some inventory will be available to meet commitments over the non-production months of June and July. The most significant falls for the month were shipments to China, Venezuela and the US.

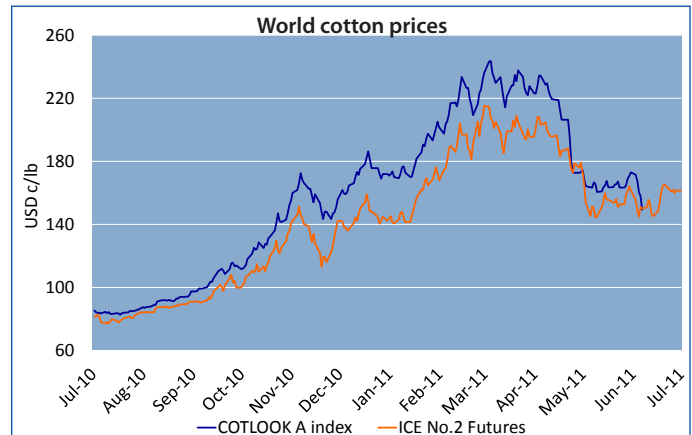
Cotton

World cotton prices

All shown as USD cents/lb	Current (01-Jul-11)	Last month	Last year
Cotlook A Index	161.41	160.97	81.64
ICE No.2 NY Futures (nearby contract)	149.25 (as at 10 June 2011)	168.95	85.35

Source: Bloomberg/ICE/Rabobank

- June was a relatively strong month for near term cotton futures, fending off ailing Chinese demand, shifts in non-commercial interest and the pending Northern Hemisphere supply response.
- The ICE front month July contract closed the month at USD 161.41c/lb, to end on par with early June prices, despite dropping to the lowest level in six months of USD 145.05c/lb in the first half of the month. With the end of the July contract, the October contract will soon trade as the front month. However, December remains the most active contract, in anticipation of the new crop.
- The strength in front month cotton prices has been found in weather-related production constraints, particularly in the US. The drought throughout key cotton production regions of the southern United States has rendered a mere 27% of the 2011/12 US cotton crop rated good to excellent, down from 62% last year, while 41% is rated poor to very poor, up from 6% last year.
- The Indian monsoon has reached all cotton growing areas, bringing above-average rainfall. With an increase in cotton area, production is expected to set a new record - up around 12% year-on-year.



Source: Bloomberg/ICE/Rabobank

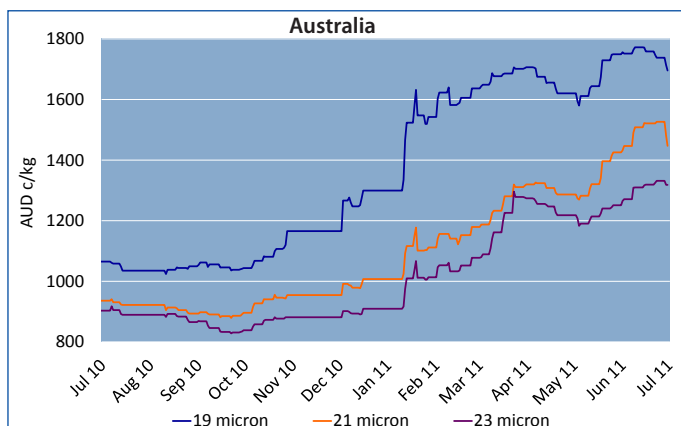
- Picking of Australia's record 2010/11 crop is near completion, with the tail end expected to be picked in the Darling Downs by the end of July. Despite yield downgrades in some regions, Rabobank's forecast of 3.95 million bales of lint and 1.23 million tonnes of seed looks like hitting the mark, and there may be upside to this forecast.

Wool

Australian wool prices (eastern)

All shown as AUD c/kg clean	Current (30-Jun-11)	Last month	Last year
Fine (19 micron)	1696	1750	1065
Medium (21 micron)	1447	1426	936
Broad/coarse (23 micron)	1319	1251	903

Source: Rabobank/Bloomberg/AWEX (average north and south prices)



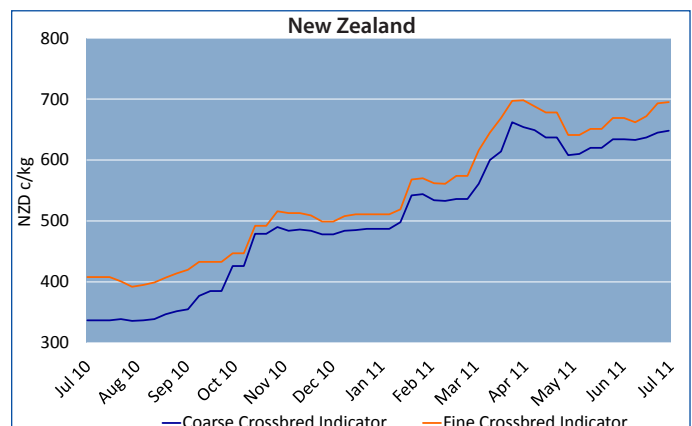
Source: Rabobank, Bloomberg/AWEX (average north and south prices)

- Australian wool prices fell last week for the first time in over a month; the Eastern Market Indicator (EMI) fell by 27 cents to AUD 1409c/kg.
- Small volumes of wool coming to market in the past couple of weeks have helped support prices at these record levels, yet there are some reports of processor demand beginning to ration.
- New Zealand wool prices continue to climb; the fine crossbred

New Zealand wool prices

All shown as NZD c/kg	Current (30-Jun-11)	Last month	Last year
Fine crossbred	695	669	408
Coarse crossbred	648	634	337

Source: Rabobank



Source: Statistics New Zealand/Rabobank

- indicator reaching NZD 695c/kg last week. Demand has been strong from China and India.
- The volume and value of Australian and New Zealand wool exports have increased this year in response to strong international demand, yet concerns about a global growth slowdown and macro issues are a risk to wool demand in 2011/12.

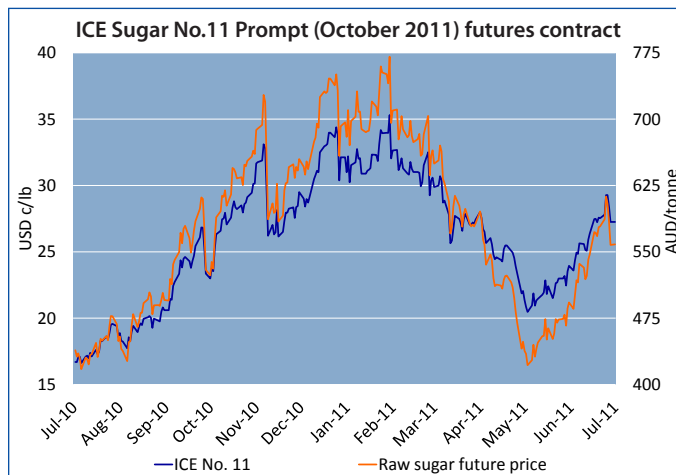
Sugar

ICE Sugar No.11 Prompt (raw sugar futures price October 2011)

	Current (01-Jul-11)	Last month	Last year
USD cents/lb	27.25	22.46	16.70
Converted to AUD/tonne	557.81	466.51	437.47

Source: Bloomberg/ICE/Rabobank

- Sugar futures have rallied through June, with the ICE No.11 front month up 30% over the month, now trading at USD 27.55c/lb. Following the expiry of the July contract, October is now trading as the front month.
- Brazilian raw sugar production has been downgraded once again, as a result of older ratoons and unfavourable weather. The Brazilian cane crop is expected to be below the 556.74 million tonnes cut in 2010/11.
- The Indian government allowed 500,000 tonnes of Indian sugar to be exported through the Open General Licence (OGL) and a further 500,000 tonnes is expected to be granted an OGL in September. The Indian monsoon has now reached all sugar producing regions, with above-average rainfall to date.
- The Australian crush is progressing well and all indications suggest that Australia's 2011 raw sugar production will exceed that of 2010. The weather also looks to be improving according to the Bureau, with the odds of a wetter-than-normal winter in cane growing areas easing, despite remaining elevated.



Source: Bloomberg/ICE/Rabobank

- All eyes will be on the Australian sugar sector in July, with bids for the Tully Sugar Mill set to expire early in the month.

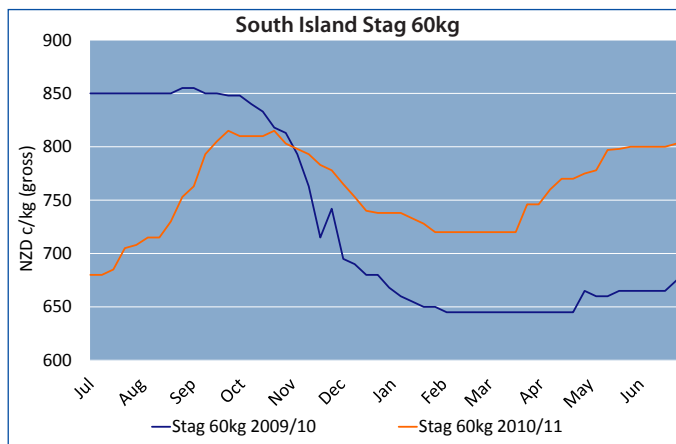
Venison

New Zealand venison prices

All shown as NZD cents/kg gross	Current (01-Jul-11)	Last month	Last year
North Island Stag 60kg	818	800	680
South Island Stag 60kg	833	804	704

Source: NZX Agrifax/Rabobank

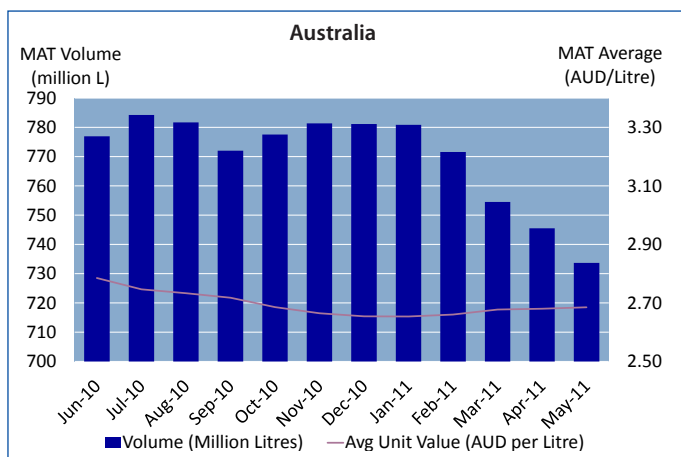
- Venison farmgate prices rallied slightly higher in June to NZD8.07/kg in the South Island - still a solid lift of 16% on last year. Similar to beef pricing but in reverse, the spread between South Island and North Island venison price averages has tightened compared to last year, sitting at only NZD 7c/kg, compared to a spread of NZD 26c/kg in June 2010.
- Average export income lifted again in May to NZD15.50/kg as summer entertaining markets improved. The majority of chilled exports departed for Germany (30% of chilled volume) but the best paying market was the Netherlands at NZD21/kg, consuming 20% of chilled production. Frozen markets still dominated with average returns of NZD12.30/kg for the month (volumes 84%). Prices are expected to hold at current levels through to spring.
- Velvet exports in May lifted in volume and price, with China securing the bulk of the frozen product (a little under 50 tonnes) at an average price of NZD53/kg. Smaller lots of dried product (1.5



Source: NZX Agrifax/Rabobank

tonne) went to Hong Kong and returned the top revenue for the month of NZD200/kg. The remaining dried volume (2.5 tonne) was split into smaller parcels and averaged returns of NZD145/kg FOB.

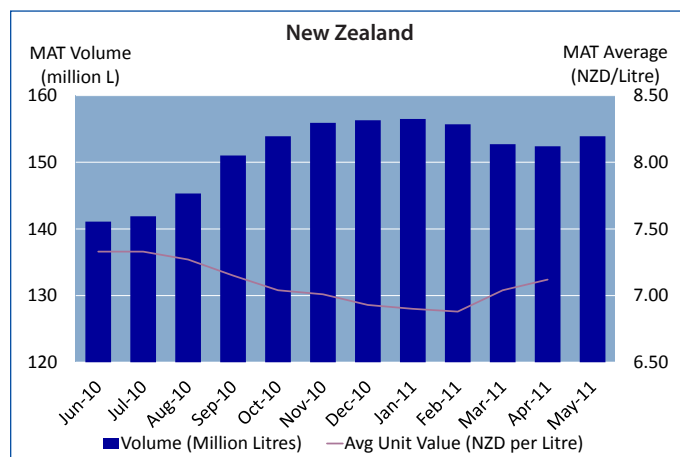
Wine



Note: MAT - Moving Annual Total refers to the twelve months ending with the nominated month
Source: Australian Wine and Brandy Corporation/Rabobank

Australia

- In the year to May 2011, Australian wine export volumes fell 6.3% on the prior year to 733.7 million litres (ML), while the FOB value of exports fell 10.8% to AUD1.970 billion. The value of Australian wine exports has steadily fallen by AUD1 billion over the past four years, and in recent times the decline in the national harvest in 2010 is beginning to show thorough in trade volumes amongst a number of other constraints.
- In the month of May, exports fell 16.7% by volume and 15% by value on the prior corresponding month, while average unit values increased for both bottled wine (+4.7% to AUD4.21) and bulk wine (+11.4% to AUD1.03/litre) compared to a year earlier. At long last, price growth is evident as shifting product volumes has become less of a consideration, even despite the high level of the Australian dollar.
- The Winemakers Federation of Australia released its estimate of the 2011 harvest at 1.62 million tonnes (+1%). The estimate was higher than what many had thought given the level of disease damage incurred in regions across south east Australia. The need to replenish tightening stocks may have led wine companies to accept a proportion of damaged fruit that would ordinarily have been rejected in a normal year. The harvest was somewhat disproportionately skewed towards white grapes (+12.7%) as cool, wet weather prevented some red grapes (-9.2%) from ripening.
- The past two months have marked the re-launch of two of Australia's largest wine companies in a new structure. Both Foster's Group and Constellation Brands have divested their Australian based wine assets, the former in a spin-off and the latter in a sale to a private equity fund. Both entities should benefit from an improved focus and moderate gearing, and their ability to deal with the challenges ahead will have considerable bearing on the future direction of the Australian wine industry.



Note: MAT - Moving Annual Total refers to the twelve months ending with the nominated month
Source: New Zealand Winegrowers based on Statistics New Zealand/Rabobank

New Zealand

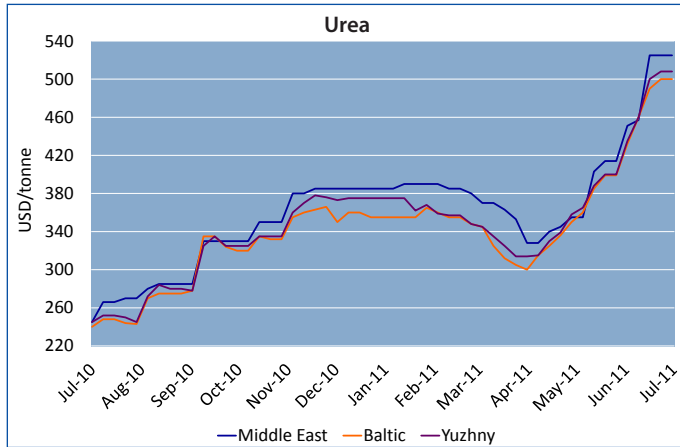
- In the 12 months to May 2011, New Zealand wine export volumes increased 9.4% to 153.9 million litres (NZ Winegrowers Assoc., 2011). Annual bottled wine shipment volumes grew 3.9% to 107.0ML, while bulk wine shipments increased 24.7% to 46.9ML over the period.
- Growth in bulk wine shipments has been waning, however the first release of 2011 vintage Marlborough Sauvignon Blanc in May (one month earlier than the 2010 vintage) has seen these rates accelerate again, led by large wine companies. Growing demand for bulk volumes to supply major brands controlled by foreign retailers and wine companies is likely to support bulk wine trade, however the increased harvest in 2011 is likely to limit the scope for a dramatic rebound in pricing in 2011.
- In the 12 months to April 2011, the annual value of exports grew 5.8% to NZD 1.090 billion. The moving annual total average unit value increased to FOB NZD7.12 per litre in response to higher monthly bottled wine pricing and a lower proportion of bulk wine trade in recent months.
- The NZ Winegrowers Association estimates the 2011 harvest increased markedly by 23% to 328kt. The result was driven by strong yields and a young vineyard estate that continues to mature. Marlborough (+34%), Waipara (+68%), Nelson (+32%) and Central Otago (+15%) lifted production across the South Island, while less favourable conditions further north impacted Hawkes Bay (-9%) and Gisborne (-21%).

Fertiliser

Fertiliser prices

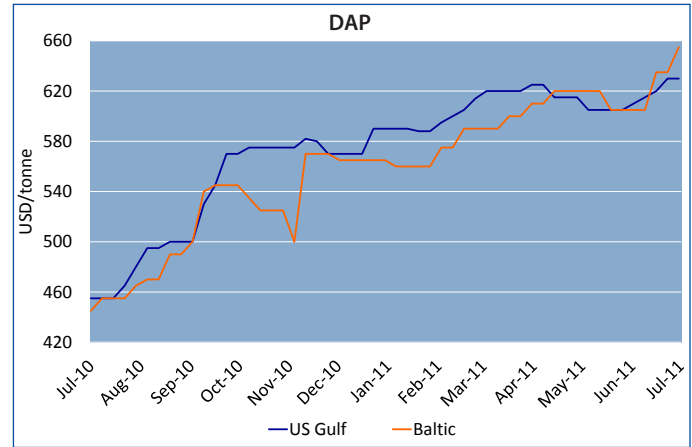
All shown as USD/tonne	Current (30-Jun-11)	Last month	Last year
Urea (Middle East)	525	451	245
DAP (US Gulf)	630	610	455

Source: Bloomberg/CIS/Rabobank



Source: Bloomberg/CIS/Rabobank

- Tightness is a consistent feature across international fertiliser markets. Higher production costs, coupled with tight supply and ongoing strong demand, are key reasons of the firm market conditions. In the past month Latin American demand has increased seasonally while demand is robust from India after local supply shortages emerged. Concerns about planting delays in the US have also subsided favouring a firmer price sentiment.
- Global benchmark urea prices added more than 25% in the past month and have doubled over the past 12 months. A more modest demand-driven rally has been underway for global benchmark DAP prices. Global benchmark prices have added less than 5% in



Source: Bloomberg/CIS/Rabobank

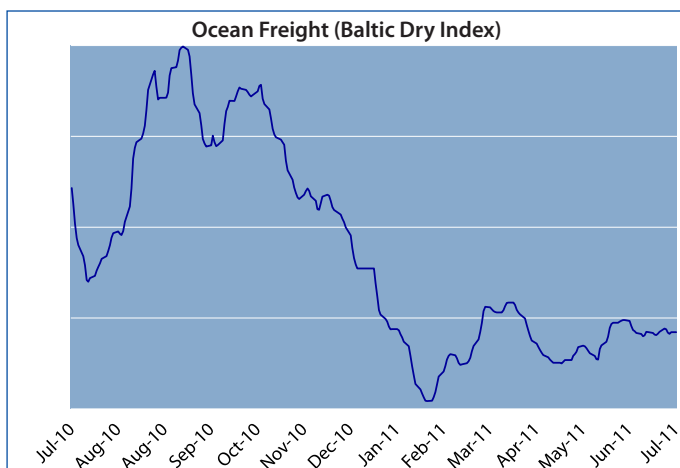
- the past month and are sitting around 40% above July 2010 levels.
- Brisk demand will remain a key feature of the fertiliser market short-term; given high agricultural commodity prices. International fertiliser prices may still have room for further gains in the short-term but demand is approaching seasonal highs.
- For Australian and New Zealand producers, higher global fertiliser prices will eventually be felt in local pricing which could impact margins when planting winter wheat crops begins in Q3. Lags in supply chains will delay some of the effects on local farmers in Australia and New Zealand, and elevated currencies will absorb pricing pressures.

Other costs

Ocean freight index and oil prices

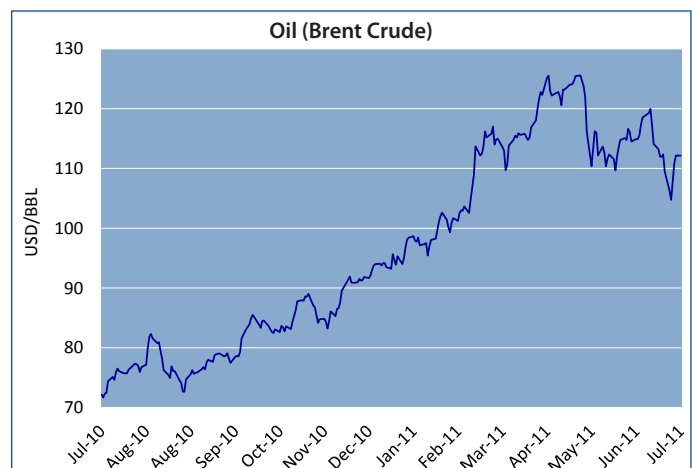
	Current (01-Jul-11)	Last month	Last year
Baltic Dry Index* (ocean freight)	1422	1485	2280
Brent Crude Oil (USD/bbl)	112	117	73

Source: Bloomberg/Rabobank



Source: Bloomberg/Rabobank

*The Baltic Dry Index (BDI) is an index which averages the cost of shipping (for bulk-dry vessels) on 25 of the world's most traded bulk cargo routes. The index was set at a starting level of 1000 points in 1985.



Source: Bloomberg/Rabobank

About the Rabobank Group

Rabobank Australia and Rabobank New Zealand are a part of the international Rabobank Group, the world's leading specialist in food and agribusiness banking. Rabobank has more than 110 years' experience providing customised banking and finance solutions to businesses involved in all aspects of food and agribusiness.

Rabobank operates in 46 countries, servicing the needs of more than nine million clients worldwide through a network of more than 1,600 offices and branches. Rabobank Australia and Rabobank New Zealand are among their countries' leading rural lenders and are significant providers of business and corporate banking and financial services to the Australian and New Zealand food and agribusiness sector. Rabobank has 83 branches throughout Australia and New Zealand in all major agricultural regions.

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