Rabobank

August 2010

Agribusiness Review

Australia and New Zealand

Rabobank Group
Food & Agribusiness Research and Advisory (FAR)

For more information on Rabobank products and services click on the link below:

www.rabobank.com.au
www.rabobank.co.nz

Contents

This report was prepared by Rabobank's Food & Agribusiness Research and Advisory division, a team of leading agribusiness analysts from Australia, New Zealand and around the world.

For further information:
research@rabobank.com

www.rabobank.com.au
www.rabobank.co.nz

Report highlights

- July was wet across most of Australia although the three-month outlook remains generally neutral. By contrast New Zealand had a relatively dry month, with a three-month outlook for generally normal conditions. The chances of a La Niña event have improved; this tends to bring above average rainfall to eastern and northern Australia and to the north of New Zealand.

- Global economic growth has continued on an unsteady trajectory. The global economy has entered its sixth quarter of recovery and while a double-dip recession cannot be ruled out, it remains unlikely. Global sluggishness has affected the Australian economy, and Rabobank has cut its GDP forecast for 2010 from 3.2% to 2.9%. Inflation appears to have moderated, along with house prices, and the Reserve Bank of Australia has kept rates on hold at 4.5%. The Reserve Bank of New Zealand lifted rates to 3%, despite slowing growth in the country's major trading partners and softening business confidence.

- The Australian dollar recovered the ground it had given up since May to be trading around USD0.90, while the New Zealand dollar has been in the USD0.70-0.75 range.

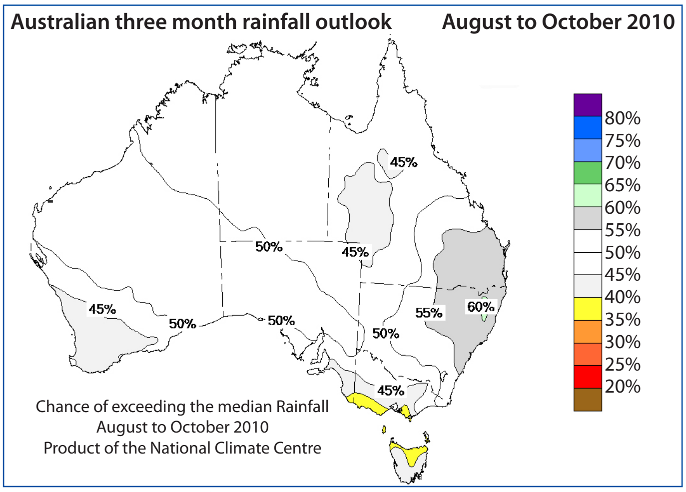
- Global grains prices shifted dramatically during July, with wheat prices leading the charge up 50% in a month, driven by supply side constraints in Russia and western Europe. Prospects for the Australian wheat crop remain positive, with good conditions prevailing except in Western Australia, where dry conditions are challenging production.

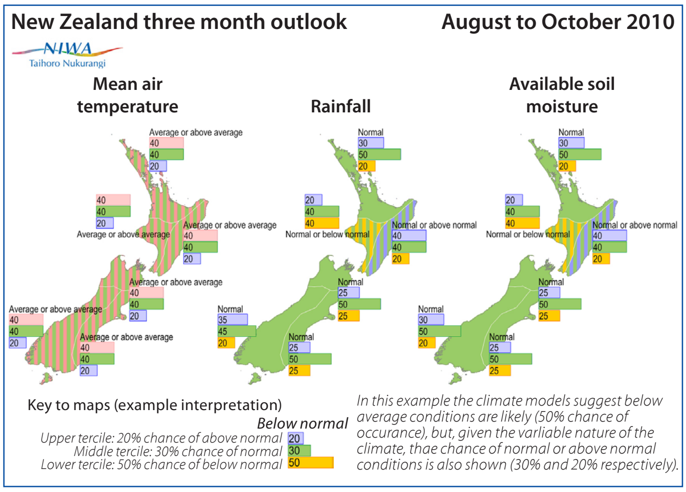
- The market for beef remains a mixed one, with slow improvements in the US offset by soft conditions in north-east Asia. Cattle prices in Australia strengthened during July, largely a result of restocker activity, and have strengthened slightly in New Zealand as well, driven by offshore demand for manufacturing beef. Lamb and sheepmeat prices remain at strong levels, softening slightly in Australia and strengthening slightly in New Zealand over the past month.

- Global dairy prices slipped again in early August trade auctions, as supply availability has improved. Forward prices also softened, though not by the same margin, suggesting buyers see tighter market conditions ahead. Falling dairy prices and rising grain prices will increase pressure on producer margins.

- Oil prices continue to swing around, although over the past month have tightened their range around the USD75 mark.

Climate





Australia

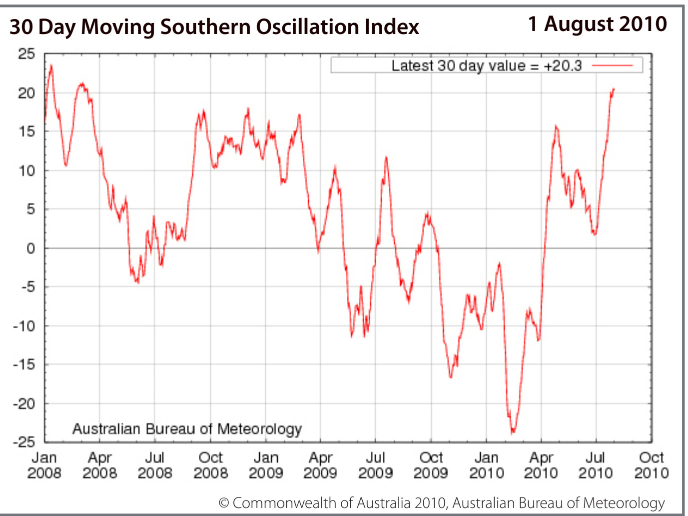
- Australia experienced the wettest July in 12 years, with national rainfall 55% above the average. Southern areas experienced drier and cooler-than-normal conditions, while the north was warmer and wetter. Importantly, rainfall over the Murray-Darling Basin was 37% above average - a welcome relief for storage levels and dryland agriculture.
- According to the Bureau of Meteorology (BOM), above-average rainfall was measured in northern Western Australia (WA), most of New South Wales (NSW) and southern and northeast Queensland. Small areas of northern WA, the Alice Springs district of the Northern Territory, the Peninsula district of Queensland and upper western NSW experienced the highest July falls on record.
- However, southern areas of the country were drier, with below-average rainfall measured in the southern region of WA, extending to Esperance, southeast South Australia, southeast Queensland, Victoria and Tasmania. Small areas of Gippsland in Victoria and southeast Tasmania had lowest July falls on record.
- The latest three-month rainfall outlook paints a neutral picture, with the probability of above-average rainfall events between a range of 40 – 60% across the country.

New Zealand

- July brought dry conditions to many regions across New Zealand, with well below normal rainfall in the southwest of the North Island, Otago, and Tasman District. Two storm events resulted in well above normal rainfall in Gisborne, northern Hawkes Bay and north Canterbury. Elsewhere rainfall was below or close to normal.
- July temperatures were near average in many regions, except for Waikato, the central Plateau, Wellington, the Wairarapa and coastal Otago, where temperatures were below average, and very small pockets of above-average temperatures in some areas.
- Early spring temperatures are expected to be near or above average across the country, with some short-term cold snaps and frosty periods.
- The August to October period is likely to bring near-normal rainfall to most regions, exceptions being the western lower half of the North Island which should receive normal or below-normal rainfalls, and normal or above-normal rainfalls in the east. As a result, soil moisture levels are likely to be normal for much of the country, with the west of the North Island expecting normal or below-normal soil moisture levels and the eastern North Island expecting normal or above-normal soil moisture levels.

Southern Oscillation Index

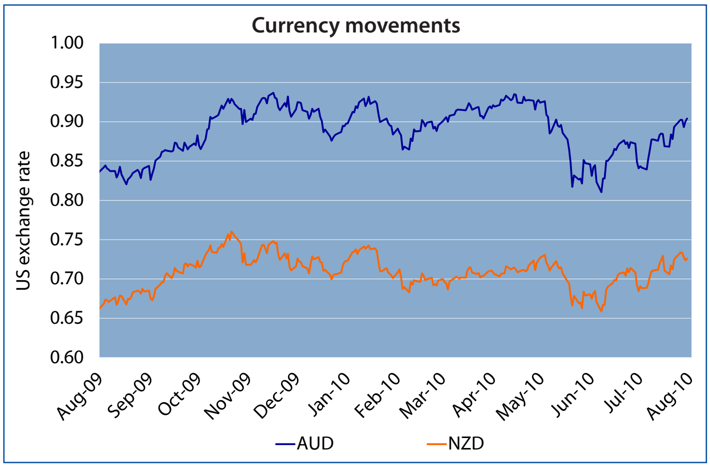
- A La Niña event later this winter is now looking almost certain with leading climate models indicating further cooling of the equatorial Pacific over the next few months and the Southern Oscillation Index shooting up to 20. This is good news for all, but particularly for dryland crops in eastern Australia
- La Niña events usually bring above average rainfall across Australia (in particular across eastern and northern regions) and the north of the North Island of New Zealand, and less rainfall to the south and southwest of the South Island; this can vary depending on the particular season and region.
- Recent La Niña events were from August 2008 – April 2009, June 2007 – February 2008 and from May 1998 – March 2001.



Currency/economy

Currency USD	Current (30/07/10)	Last month	Last year
AUD	0.9042	0.8393	0.8444
NZD	0.7260	0.6886	0.6737

Source: Bloomberg/Rabobank



Source: Bloomberg/Rabobank

Global

- Since the start of June global economic data has tended to disappoint. Most recently, market consensus estimates for growth in the US and Japan have been lowered to reflect weaker-than-expected US consumption and below-market results for Japanese industrial production. Conditions in Europe seem to be improving, although disappointments are still almost a certainty. Germany continues to lead the European recovery, although growth is expected to moderate in coming quarters, as fiscal consolidation intensifies. Emerging Asia continues to perform well. While a double-dip recession cannot be ruled out, it still remains unlikely as the global economy enters its sixth quarter of recovery.

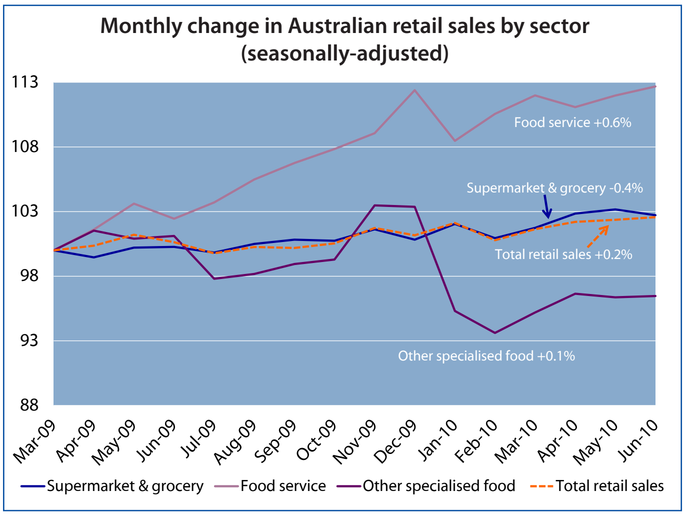
Australia

- A loss of momentum in the global economy has moderated expectations for Australian growth this year. Rabobank now expects GDP to expand at 2.9% in 2010, a downward revision from the 3.2% forecast earlier in the year. After six hikes in the official cash rate (OCR), growth in interest rate sensitive sectors, such as housing and retail sales, has slowed. That said, the labour market and trade have continued to expand strongly. In fact, Australia posted a record trade balance in June, supported by strong rural exports of beef and cotton.
- Moderating house price growth, and underlying CPI shifting down into the Reserve Bank of Australia's (RBA) 2-3% target band for the first time in three years has provided the RBA with some comfort on current interest rate settings. It is now more likely that interest rates will remain at current levels for the remainder of the year. Nevertheless, limited spare capacity will be soaked up quickly by an expected turn-around in business investment in the 2H 2010. This would mean interest rates shifting higher, either later this year, or perhaps even more likely, the beginning of 2011.
- Slowing Chinese growth, an RBA likely to keep rates on hold for an extended period, and slightly weaker domestic growth prospects all indicate a slightly weaker profile for the Australian dollar (AUD). Counterbalancing these fundamentals is a weakening US dollar (USD). While the Australian dollar is currently above USD0.90, we reiterate our AUD range of USD0.85-0.90 in the near term.

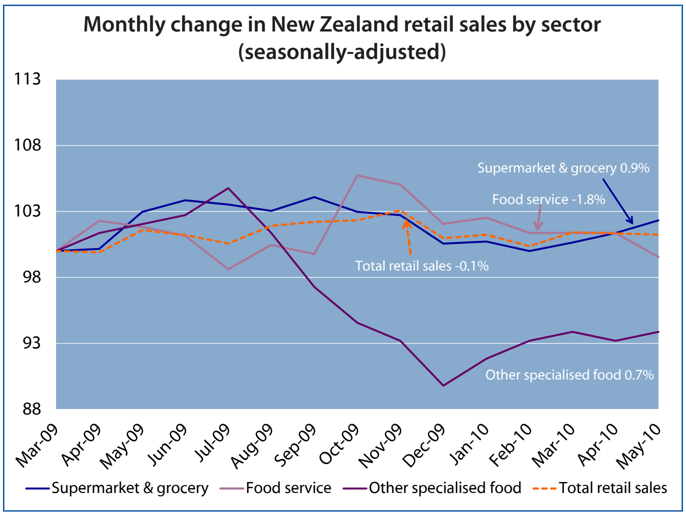
New Zealand

- The slowing growth momentum in a number of New Zealand's major trading partners, such as the US and Western Europe, will create headwinds for the near-term recovery. Business confidence is down from its peak of late 2009. While household consumption is expected to expand as income improves, this will be at a more subdued pace than in the previous boom. These concerns failed to deter the Reserve Bank of New Zealand (RBNZ) from hiking for the second time, shifting the official cash rate (OCR) by 25 basis points to 3%. While the RBNZ seems to be focused on curbing near-term inflationary pressures, the accompanying statement did seek to downplay the pace of future interest rate increases. Market expectations have eased, but still put the OCR at 3.5% by year-end. However, Rabobank stands by it call for interest rates to increase one more time this year to 3.25%.
- The impact of cooling international dairy prices on the New Zealand dollar (NZD) will be counterbalanced by the supportive New Zealand interest rate differential. Near term, the NZD seems to be stuck in the USD0.70-0.75 range, although fundamentals would suggest a downshift sub-USD70.

Food retail



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



Source: NZ Statistics, Rabobank – % reference represents month-on-month change for most recent period

Australia

- Seasonally-adjusted Australian retail trade turnover increased by 0.2% in June 2010 on the prior month and 1.9% on the prior corresponding period. Retail sales increased only marginally in trend terms and continue to reflect a tentative consumer mindset. Seasonally-adjusted supermarket and grocery retail turnover fell by 0.4% in June, while food service channels (cafés, restaurant and takeaway) increased 0.6% on the prior month, led by a 1.5% rise in takeaway trade.
- CPI inflation figures showed a 0.3% decrease in food prices for the June quarter which contributed to a moderate 1.4% increase in food prices in the year to June 2010. Contributing to the quarterly fall in food prices was a 4.8% and 3.0% decline in fruit and vegetable prices respectively. Food retailers have reported that consumers are being especially price sensitive and have reduced fresh produce purchases in recent times, however it is also not unusual to observe decreases in fruit and vegetable prices in the June quarter.
- Coles and Woolworths recently released their full year 2009-10 financial results, with each retailer recording a lift in annual Australian comparable store food and liquor sales of 5.0% and 3.3% respectively. Sales revenues in the fourth quarter increased 4.2% and 1.8% respectively, pointing to continued 'top-line' gains being made by Coles on the back of its strategy to revitalise its store formats and product offerings.
- Consumer confidence registered its strongest rise in 12 months in July, increasing 11% following the RBA's decision to keep the OCR on hold (Westpac-Melbourne Institute, 2010). The result suggests that consumers have begun to shrug off the imposition of higher interest rates and uncertainty associated with the pace of global economic recovery.

New Zealand

- Seasonally-adjusted core retail trade dropped by 0.2% in May. The flat trend in the first five months of 2010 is starting to negatively impact on the small annual improvement seen late last year. Core retail sales for the 12 months to May 2010 are ahead of the previous 12 months by 1.9%, but growth has started to contract.
- June quarter wage and salary information released by Statistics New Zealand showed public sector increases of 2%, the lowest since 1999. Overall, the year-to-June wage and salary rates, including overtime, have increased by 1.6%. Annual CPI increased 1.8% in the year to June 2010 - its fifth consecutive increase of less than 2%, although the RBNZ is predicting that it will move above 3% later in the year as a result of the increase in GST and the impact of the Emissions Trading Scheme. Positively, New Zealand experienced its first June trade surplus in eight years. Export values for the June quarter are similar to the record highs of late 2008 - a positive sign for consumers and retailers in the medium-term.
- Grocery and supermarket spending since the start of the year is up by 1.2%, with May's seasonally-adjusted sales up just under 1% on April. The combined food price index showed a increase for June of 1.3%, following a decline in food prices in May. This is not unexpected as winter vegetable prices jumped 15% and low cost meat and dairy product prices also rose on the back of strong global demand.
- Takeaway retail spending improved slightly, while the larger turnover of café and restaurant spending declined. The net result is the last six months of 'eating away from home' spending has remained unchanged on the previous six months. This category captures 23% of total food expenditure, largely unchanged from ten years ago. Supermarket and grocery retail spending is 64% of the annual NZD24 billion food spend.
- Woolworths Australia released its full-year sales results to 27 June 2010. The New Zealand supermarket chain's revenues reached NZD5.185 billion, an increase of 4.6% on FY 2009 results.
- Foodstuffs Wellington Co-operative announced full-year results to the end of March, bringing the combined Foodstuffs Co-operative revenue to NZD8 billion.

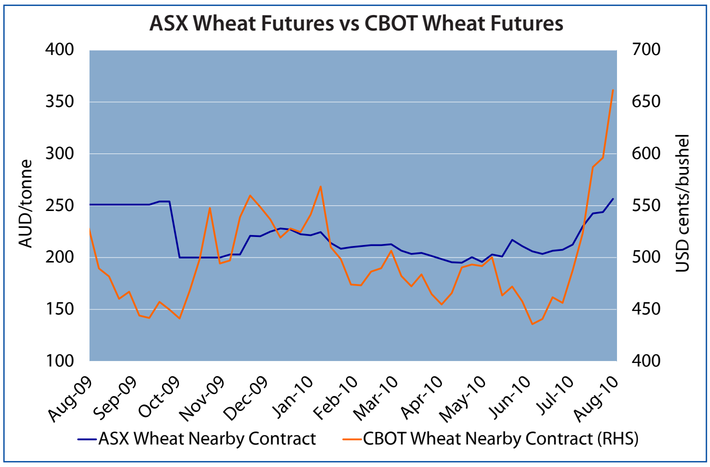
Grains and oilseeds

ASX wheat prices	Current (30/07/10)	Last month	Last year
AUD/tonne	256	213	251

Source: Bloomberg/ASX/Rabobank

Chicago Board of Trade Wheat Futures (nearby contract)	Current (30/07/10)	Last month	Last year
USD c/bushel	661	488	528

Source: Bloomberg/CBOT/Rabobank



Source: Bloomberg/CBOT/ASX/Rabobank

Global

- Echoes of 2007 swept the global grain market in late July, with wheat being the market leader. Wheat prices climbed at a feverish pace, the front-month CBOT wheat contract shifting 50% higher in the month as production expectations were trimmed in Russia and Western Europe. Supply-side factors have taken charge of the market, and therefore price direction from here will be reliant on further changes in crop expectations.
- Market estimates of the extent of total wheat crop losses in Russia and Western Europe vary widely, but the consensus falls between 20-25 million tonnes. In light of this deteriorating situation, the Russian Government has banned wheat exports from 15 August until the end of the year. The next major event for the market will be the release of the USDA's World Agricultural Supply and Demand Estimates in a few days. This report is anticipated to make further downward revisions to production in Europe and Russia. The export market is expected to call on the US for up to 10 million additional tonnes of wheat this year. With wheat ending stocks at 23-year highs, the US should easily absorb these additional demands.
- World wheat stocks are still ample with a buffer nearing 50 million tonnes above the lows seen in 2008. However, world importers have lost opportunities in Russia, which is a low-cost source of wheat. This has recalibrated market expectations for prices, and further downward revisions in the Russian crop could spark a further rally in prices.
- That said, prices have likely overshot as high stocks entering this year and grain substitution will absorb some of the losses. This situation is very different from 2006 – 2008 as wheat availability remains solid, particularly in the US with stocks at high levels.

Australia

- Australian winter crop conditions remain positive. Beneficial rains fell across some drier areas of northern New South Wales and southern Queensland, while southern New South Wales, Victoria and South Australia all continue to look good. During a recent trip visiting grain growers in Victoria, the remark was often made that things are the best they have been in a decade, so long as the locusts do not cause significant damage in the spring. For the east coast, frost and locust are the key risks.
- In Western Australia it is very much a mixed affair. Water logging is a problem in a few areas in the south, with northern cropping regions suffering from low sub-soil moisture, a late start and irregular weather. As a result, above average rainfall will be required for yields to reach near average levels. As the BOM climate predictions do not favour this outcome, Rabobank has lowered its production estimate for Western Australia to a range of 6.3-6.7 million tonnes, down from the 7.5 million tonnes expected at the start of the season.
- Outside of the production cycle, recent consolidation in the Australian grain sector took a leap forward. Graincorp and the former single desk holder, the Australian Wheat Board (AWB), have agreed to merge. Graincorp shareholders will own 58% of the merged group, and AWB shareholders 42% of the new entity. This came as somewhat of a surprise to the market, as AWB was thought to be engaged in discussions with Gavilon. Next steps are ACCC approval, which is anticipated to take between three and six months. In Rabobank's view, this merger makes strategic sense although much of the detail is yet to be seen. Attractive gains should flow from significant cost synergies at the very least.

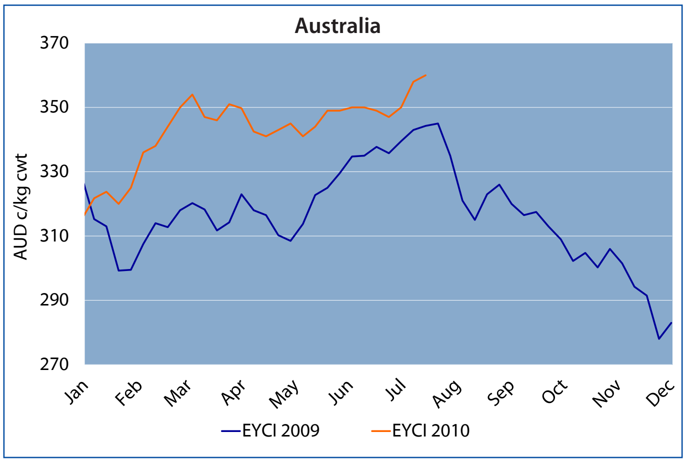
Beef

Australian beef prices			
All shown as AUD c/kg cwt	Current (30/07/10)	Last month	Last year
Eastern Young Cattle Indicator (EYCI)	360	349	344

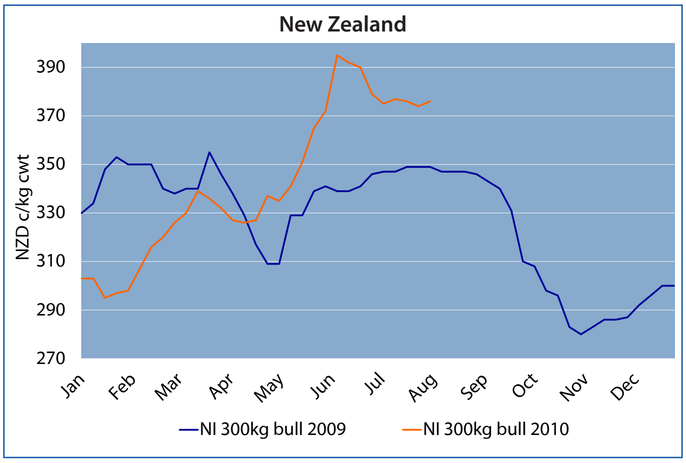
Source: NLRS/Rabobank

New Zealand beef prices			
All shown as NZD c/kg cwt	Current (02/08/10)	Last month	Last year
North Island Bull 300kg	376	375	349
South Island Bull 300kg	344	334	321

Source: NZX Agrifax/Rabobank



Source: NLRS/Rabobank



Source: NZX Agrifax/Rabobank

Global

- The latest US government figures show that the cattle herd in the US has fallen to 100.8 million head in 2010, down by over one million head in the past year. A combination of high input costs (such as grains), uncertainty around consumer demand and changing producer demographics and land use are some factors behind the fall; the herd has now declined for 13 of the past 15 years. The falling supply is expected to support higher cattle and beef prices in the market over upcoming years. The US is New Zealand's largest beef export market and Australia's second largest, with the majority of sales being for manufacturing beef.
- US imported lean beef prices lifted by USD 3-8 cents/lb or 2-5% over the past month, regaining some of the ground lost during June. Prices are still hovering 15-20% higher than at this time last year. The increase in US cow slaughter rates has eased, but continues to run higher than in 2009. However, this has been insufficient to offset lower imported supplies as New Zealand export volumes ease seasonally and Australian export appetite for the US market remains limited by strong currency headwinds.

Australia

- Further rainfall on the east coast of Australia has resulted in strong restocker activity. This has lead to a rise in the Eastern Young Cattle Indicator in July, ending the month on AUD3.60/kg cwt, 5% above the same time in 2009 and the highest level since September 2008. Japan Ox prices have been less buoyant, falling slightly below the same period in 2009, as export returns continue to face pressure from subdued Japanese demand and the high Australian dollar.
- Beef exports for July reached 89,623 tonnes, a rise of 8% compared to 2009. While sales to developed markets such as Japan and the US remain behind 2009 levels, sales to developing regions have recovered significantly off the back of reasonably robust economic growth and restricted supplies from competitors. The Middle East, the Philippines and Russia have been major growth destinations for beef sales this year.

New Zealand

- Farm gate beef prices have lifted over the past month – largely a reflection of strong manufacturing beef prices offshore – with bull beef prices around 7% higher than last year. Bull beef prices lifted by up to 3%, predominately in the South Island as slaughter rates eased back for cattle across the country. Manufacturing cow prices held at higher levels and now sit 10-15% above 2009 levels.
- Beef & Lamb NZ has confirmed its early season forecast that 2009/10 export beef production (year-end September) will finish 3.9% lower than last season as some beef cattle herd rebuilding gets underway and the high cull dairy cow rates of 2009 fall.
- Lower production is now being reflected in export volumes. June export volumes were 6% lower year-on-year with exports for the nine month season to June down 7% or 24,000 tonnes. Compared to June 2009 monthly exports were lower to Taiwan (-21%), North America (-12%) and Korea (-4%), while exports increased to Russia, Indonesia and the EU.

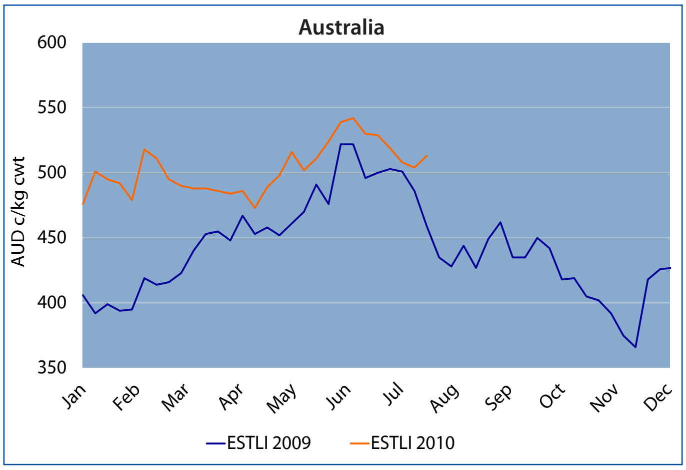
Lamb

Australian lamb prices			
All shown as AUD c/kg cwt	Current (30/07/10)	Last month	Last year
Eastern States Trade Lamb Indicator (ESTLI)	513	529	459

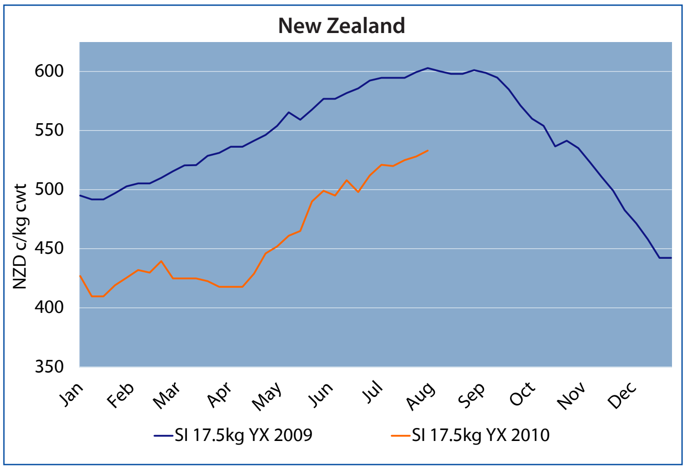
Source: NLRS/Rabobank

New Zealand lamb prices			
All shown as NZD c/kg cwt	Current (02/08/10)	Last month	Last year
North Island 17.5kg YX	534	517	600
South Island 17.5kg YX	533	521	603

Source: NZX Agrifax/Rabobank



Source: NLRS/Rabobank



Source: NZX Agrifax/Rabobank

Australia

- Trade lamb prices have eased slightly in the past month from their June peaks, with the Eastern States Trade Lamb Indicator ending July at AUD5.13/kg cwt. This was still well above the same time in 2009, and not far below record levels.
- Heavy lamb prices have tracked similar to last year's (very high) levels, but unlike trade lamb, have not exceeded them. Prices for this category have been held back by the high Australian dollar, with heavier lambs generally targeted for export rather than domestic customers. Increased feed and water availability, which enabled producers to hold onto animals for longer, has also seen improved availability of heavier lambs this year.
- Prices for sheep offals have risen rapidly this year, with strong demand out of the Middle East and tight supply driving prices to record levels in June. Skin prices have also recovered compared to 2009 levels, with merino skins valued at AUD11.50 each in late July, up from AUD3.50 for the same time last year.
- Sheepmeat exports for the calendar year to July have plummeted compared to 2009, impacted by reduced supply, the high Australian dollar and strong local demand (for lamb). Mutton sales have fallen from 80 kiloton (kt) to 55kt, with much of the decline taking place in shipments from Western Australia and New South Wales, while lamb exports have declined in the same period by 8% to 87kt.

New Zealand

- The seasonal lift in lamb prices was steady during July, increasing by around 3%. Farm gate prices are 11% (NZD 60-70 cents/kg) below last year as the unfavourable currency weighs on the market, and despite limited supply availability procurement premiums haven't reached the highs seen in some years.
- Beef & Lamb NZ has revised down its early season forecast for export lamb slaughter by two million head (4.5%) over the 2009/10 season (year-end September) due to lower breeding ewe numbers (as a result of increased dairy cow numbers in the South Island) at the start of the season than originally expected.
- This situation is highlighted by slaughter number running around 5% lower on a weekly basis and export volumes 4% (13,000 tonnes) lower over the nine months season-to-date. The year-on-year fall has been particularly evident over the past two months, with May volumes down 10% and June falling 19%.
- A collaborative meat sector strategy project was launched in mid-July. The group comprising all key stakeholders – Beef & Lamb NZ, Meat Industry Association, Ministry of Agriculture and Forestry (MAF) and New Zealand Trade and Enterprise (NZTE) – will look at strategic issues across the sector and supply chain with the first phase expected to be completed by early 2011.

Dairy

World dairy prices

	USD/tonne 22/07/2010	USD/tonne Last month	USD/tonne Last year	AUD/tonne 22/07/2010	AUD/tonne Last month	AUD/tonne Last year	NZD/tonne 22/07/2010	NZD/tonne Last month	NZD/tonne Last year
Butter	3,950	4,050	1,950	4,501	4,639	2,384	5,534	5,694	2,956
SMP	3,125	3,250	2,025	3,561	3,722	2,476	4,378	4,569	3,070
WMP	3,250	3,850	2,000	3,703	4,410	2,445	4,554	5,413	3,032
Cheddar	3,950	3,950	2,700	4,501	4,524	3,301	5,534	5,553	4,093

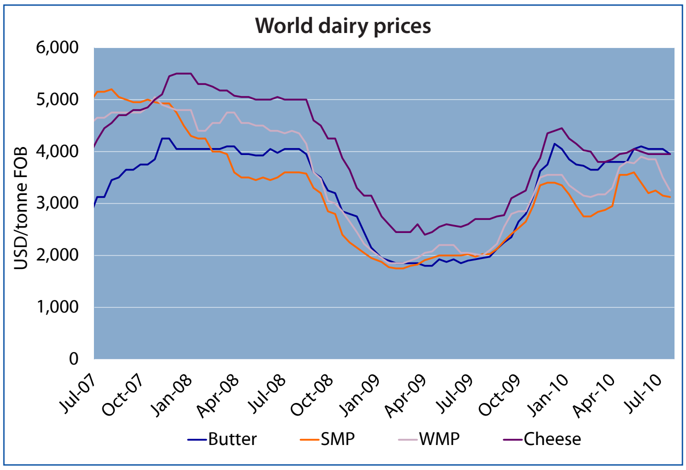
Source: USDA/Rabobank

Global

- The 3 August globalDairyTrade (gDT) auction brought the second significant price fall in as many months. The trade weighted average of prices achieved on the gDT fell 8% on prior month levels, to be down 21% since early June.
- The only good news for exporters is that pricing of forward contracts on the auction suggest that the market is factoring in milk powder prices to increase 5-10% from spot rates by early 2011 (though AMF to soften further).
- This recent fall in pricing would appear to reflect a significant shift in market sentiment from mid year.
- Recent months have certainly confirmed expectations that supply is now in recovery mode in most key regions. All major exporters posted year-on-year milk production growth in May, with early indications suggesting further growth in June. Market expectations of improved product availability through the coming Southern Hemisphere spring may also have been inflated by widely reported MAF forecasts of 14% growth in New Zealand production – at least double consensus forecasts.
- At least until recently, attractive export pricing (and in the US, industry funded export subsidies of cheese) has also encouraged greater exports from the Northern Hemisphere – with American exports surging to more or less record levels in May.
- Thankfully for suppliers, the improvement in supply availability of the world market has not been exacerbated by EU intervention destocking – with offers to purchase stock so far rejected as too low.
- With supply on the rise and prices slipping, buyers are reported to be holding off purchases where possible – despite little evidence of any significant change in end use demand.
- In a bad couple of months for dairy farmers, not only have dairy export prices significantly fallen, but global wheat prices have rallied almost 50% in US dollar terms (see grain market commentary), eroding expected margins for grain feeding in the 2010/11 season.

Australia

- Australian dairy farmers have faced unwelcome shifts on three fronts since June - international dairy prices have fallen, the Australian currency has risen and grain prices have rallied.
- When expressed in Australian dollar terms, the gDT prices have fallen 30% since 1 June. Thankfully, this comes off a very high starting point, the prices do not reflect the full range of products



Source: USDA/Rabobank

Production growth in key exporting regions

	Latest month	Last 3 months
EU 27	1.3% (May)	0.0%
US	2.3% (Jun)	1.7%
Argentina	4.9% (Jun)	-0.7%
Australia	4.5% (Jun)	4.0%
New Zealand	3% for 2 months to July 2010*	

*Rabobank estimate

sold by Australia (notably cheese) or domestic market conditions, and forward sales and hedging will ensure some further insulation.

- And while global grain prices have risen, the rising Australian dollar actually waters down global price movements in local currency terms.
- Thus Australian farmers in export regions still face high milk prices and attractive margins over feed costs: but the likely returns over the 2010/11 season have reduced in recent months.

New Zealand

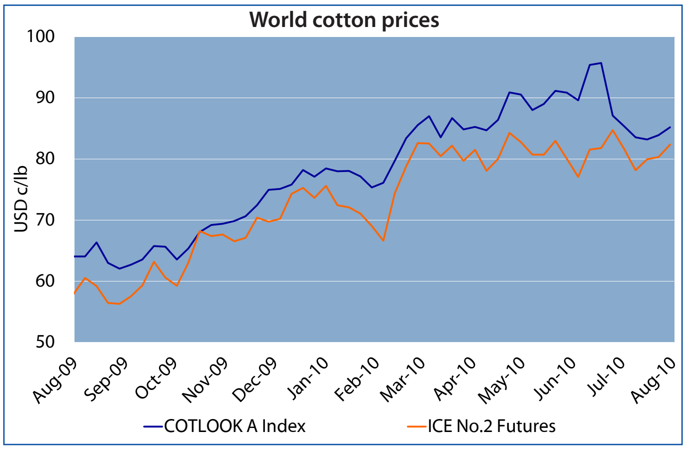
- The new milk production season is now underway in the North Island with generally good, albeit wet, conditions and will build further momentum in the South Island during August.
- Offshore interest (and activity) in New Zealand's dairy industry gathered pace during July with the announcement that Bright Dairy would acquire a 51% stake in Synlait Milk Ltd for NZD 82 million. This adds to existing Russian, Japanese and Singapore interests in New Zealand dairy processing assets acquired over the past three years and the prospect that at least two additional new processors may be operational by August 2011. Meanwhile, Olam launched a takeover bid for New Zealand Farming Systems Uruguay.

Cotton

World cotton prices			
All shown as USD c/lb	Current (30/07/10)	Last month	Last year
Cotlook A Index	85.20	85.35	64.05
ICE No.2 NY Futures (nearby contract)	82.36	81.64	57.93

Source: Bloomberg/ICE/Rabobank

- The Australian cotton price rose to a six-week high at the end of July, supported by a weakened US dollar and growing demand from textile makers buying now, rather than waiting for the next crop.
- The cotton market is experiencing short-term tightness due to low inventories; they are at their lowest levels since December 2004, down 96% to 47,500 bales.
- While US cotton production in 2010/11 is expected to increase by 50% year-on-year to 18.3 million bales, most farmers will not start the harvest until October. The USDA forecasts global production to rise by 13% this season, to 116 million bales. However production in China has been revised down by 5-10% due to severe flooding.
- The USDA forecasts global cotton demand to increase by 6% in 2009/10 to 116.55 million bales.



Source: Bloomberg/ICE/Rabobank

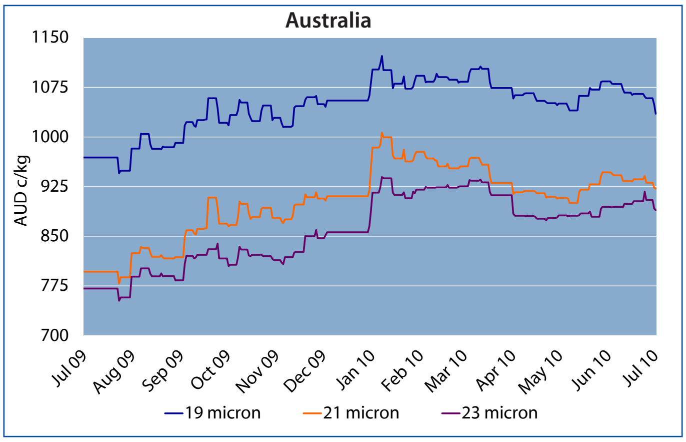
Wool

Australian wool prices (eastern)			
All shown as AUD c/kg clean	Current (14/07/10)	Last month	Last year
Fine (19 micron)	1035	1065	969
Medium (21 micron)	922	936	797
Broad/coarse (23 micron)	890	903	771

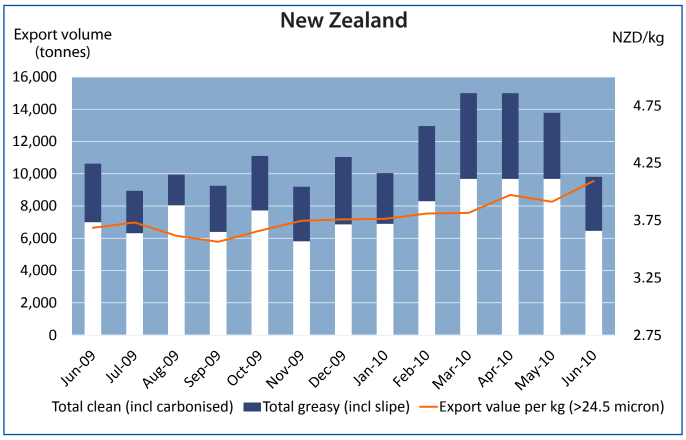
Source: Rabobank/Bloomberg/AWEX (average north and south prices)

New Zealand wool prices			
Average FOB export value (NZD/kg)	June 2010	May 2010	June 2009
Fine <24.5 micron	8.49	9.27	7.62
Broad/coarse >24.5 micron	4.09	3.91	3.69

Source: Statistics New Zealand/Rabobank



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



Source: Statistics New Zealand/Rabobank

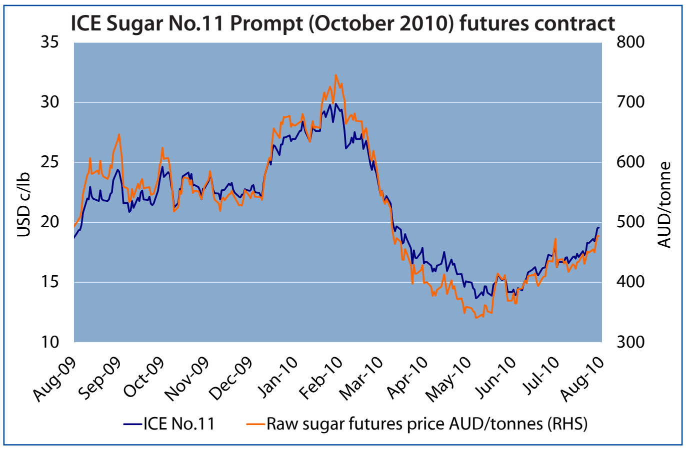
- Wool auctions resume on 9 August, after a three-week break to the auction season. Before the break, the wool market had started to soften. Prices eased across all categories, particularly as the headwinds of renewed strength in Australian dollar added to competitive pressures for Australian woolgrowers. Finer quality wools in the 18-19 micron category suffered the largest falls, as the European debt woes stifled any hope for a quicker-than-expected recovery in higher-end apparel markets.
- Softer Chinese growth prospects are expected to weigh on prices further when trade reopens next week. However, stock rebuilding and improving income growth in China this year are positives for prices into 2011.

Sugar

ICE Sugar No.11 Prompt (raw sugar futures price October 2010)	Current (30/07/10)	Last month	Last year
USD c/lb	19.57	14.33	17.32
Converted to AUD/tonne	477.16	389.83	478.68

Source: Bloomberg/ICE/Rabobank

- The sugar price is holding up around USD 17c/lb, the same level as one year ago, due to short term tightness in the global market driven by export availability and strong import demand.
- The Indian monsoon is progressing well, with most cane areas receiving adequate rain. However, the next few months will be critical for sugar cane growth. Should over-production be realised next season, India may switch from a significant sugar importer to a significant exporter, adding further downward pressure to sugar prices.
- The domestic crush is a bit of a mixed bag. Tonnes are down in Mackay due to damage from Tropical Cyclone Ului earlier in the season and smut outbreaks. Ayr is having a bumper crop with both yield and production outstripping the forecast. The Ingham harvest is progressing with average yields and production following rain induced delays.
- Recent mill breakdowns and strikes have had a minor impact on the crush, as excess capacity exists due to lower throughput.



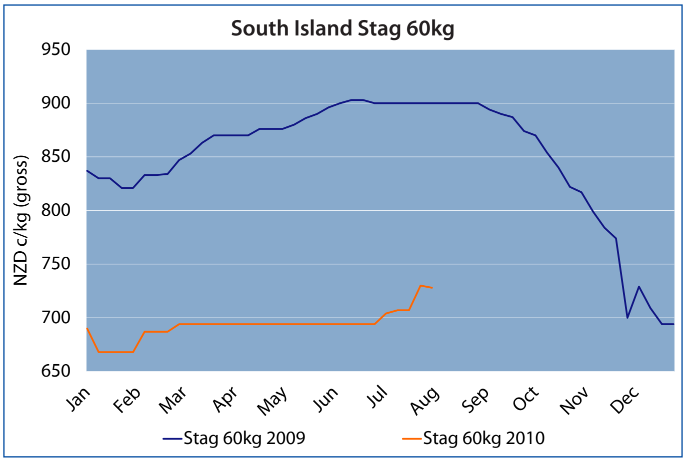
Source: Bloomberg/ICE/Rabobank

Venison

New Zealand venison prices			
All shown as NZD c/kg gross	Current (02/08/10)	Last month	Last year
North Island Stag 60kg	708	680	850
South Island Stag 60kg	728	704	900

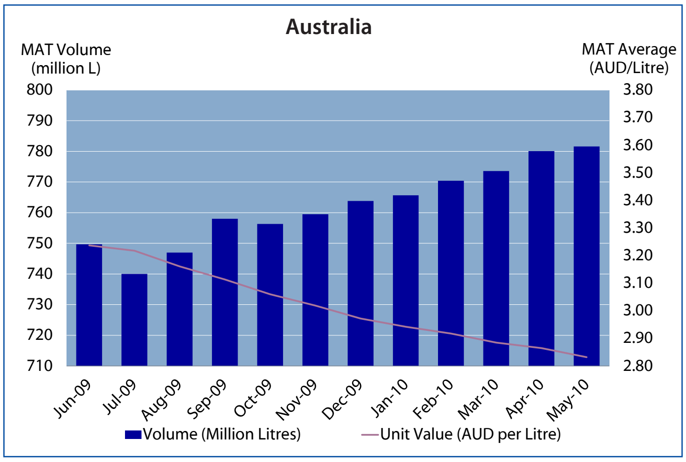
Source: NZX Agrifax/Rabobank

- Deer farmers will have been buoyed by the late, but welcome, lift in farm gate venison prices during July. Prices increased by around NZD 25 cents/kg (4%) during the month, although are still 15% (NZD1.30-1.40/kg cwt) lower than in 2009 as the stubbornly strong EUR/NZD exchange rate continues to impact.
- Export volumes that increased 17% year-on-year for the June quarter may be pointing to a turning point for industry production volumes. After several years of a declining deer herd and export volumes significantly lower over the past two years, export volumes are showing signs of lifting. It is a seasonal low point for production over the winter months, so any confirmation of a positive trend emerging will not be evident until later in 2010.



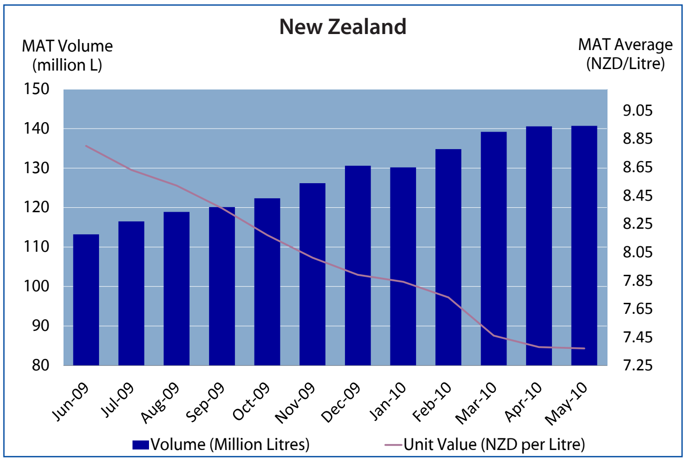
Source: NZX Agrifax/Rabobank

Wine



Note: MAT - Moving Annual Total refers to the twelve months ending with the nominated month

Source: Australian Wine and Brandy Corporation/Rabobank



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

Australia

- Australian wine export sales volumes in the 12 months to May 2010 increased 6.4% to 781.6 million litres (ML), while the FOB value of exports decreased 7.6% to AUD2.21 billion. The monthly average export unit value in May fell by 4.4% on the prior month to FOB AUD2.63/litre (AWBC, 2010).
- Annual export volumes continue to grow towards their heady heights recorded in 2006-07, however monthly average unit values have fallen by around one third since that time. While some of this value decline can be accounted for by the increased incidence of offshore bottling practices by major wine companies, the greatest pressures continue to arise from fragile consumer spending in key export markets, elevated industry supply levels, and a strong Australian dollar.
- Data out of the key US wine market indicates that the first half of 2010 has seen a marked improvement in sales of all wine (i.e. not only Australian) priced over USD15/ bottle. There are reports of improving trends in direct-to-consumer sales, and the on-premise appears to be stabilizing. ACNielsen data appears to show super-premium wine sales in grocery stores growing by over 10% compared to 2009. This somewhat overstates the rate of recovery, in that some of the growth in grocery store sales reflects the migration from on-trade to off-trade sales over the past year, and it does not adequately reflect the degree to which the increase in sales is being driven by promotions and price reductions.

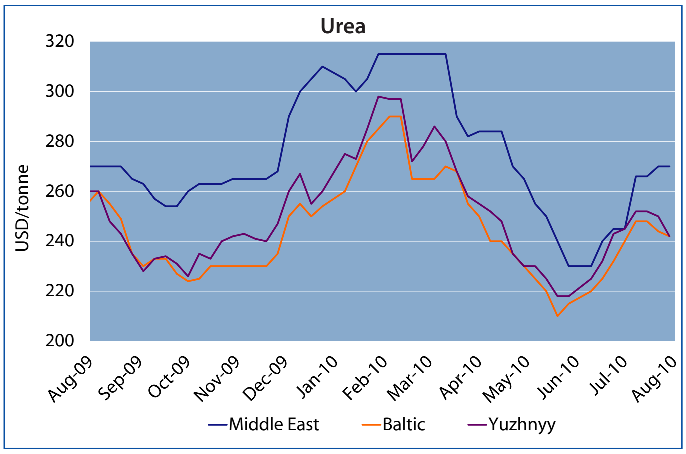
New Zealand

- May 2010 New Zealand wine export sales increased 1.0% on the prior corresponding period to 10.4 million litres. On an annualised basis, shipments in the 12 months to May 2010 grew by 0.1% on the prior month to 140.7 ML.
- Bulk wine shipments which had jumped from their already elevated level in the lead up to vintage more than halved to 15.4% of export shipments in May, while exports of bottled wine recorded a strong 25.7% increase in May on the prior corresponding period. Proportional exports of 2009 vintage Sauvignon Blanc appear to be running ahead of the 2008 vintage at a similar stage and roughly in line with other prior vintages, albeit at a significantly discounted price.
- The annual value of exports in the 12 months to May 2010 remained steady at around NZD1.03 billion. The monthly average unit value of exports in May increased 9.8% on the prior month to FOB NZD7.38 per litre, suggesting that the dip in values below NZD7/litre during the prior two months was only a momentary response to clear inventories despite what remain challenging global trading conditions.
- The NZ Winegrowers Association released its 2010 vintage wine grape pricing survey results that more precisely quantified market movements observed over the past year. The survey confirmed an average price for Marlborough Sauvignon Blanc of NZD1,218 per tonne, a 26% decline on the 2009 vintage average price of NZD1,651 per tonne. By contrast, average prices for Marlborough Pinot Noir (for still wine production) remained steady at an attractive NZD2,754 per tonne.
- Indicative market movements in other variety/region combinations of particular note included Marlborough Pinot Gris (-16%); Gisborne Chardonnay (-28%) and Pinot Gris (-21%); Central Otago Pinot Noir (-5%); and Hawkes Bay Merlot (-2%), Chardonnay (-16%), Sauvignon Blanc (-26%) and Syrah (+2%).

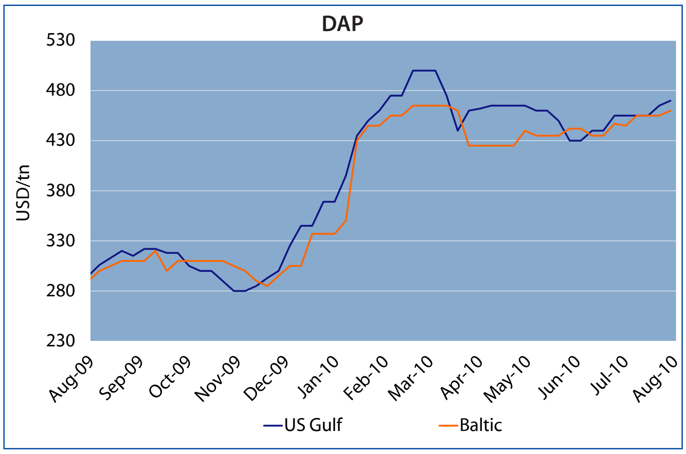
Fertiliser

Fertiliser prices			
All shown as USD/tonne	Current (29/07/10)	Last month	Last year
Urea (Middle East)	270	245	270
DAP (US Gulf)	470	455	295

Source: Bloomberg/ICIS/Rabobank



Source: Bloomberg/ICIS/Rabobank



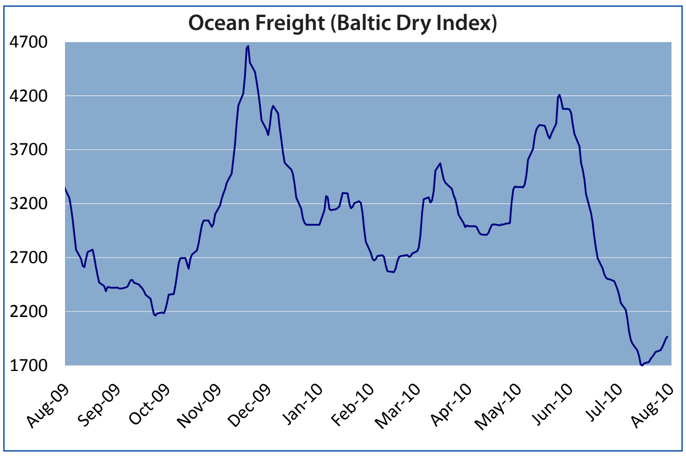
Source: Bloomberg/ICIS/Rabobank

- Benchmark DAP prices have lifted in recent weeks, with the prices ranging between USD470-480/tonne. This compares with a low of USD430/tonne in May 2010. Higher prices are reflecting the tightening of supply chains as buying activity picks up pace in Central America and the US. In Brazil, demand has also gathered pace, as plantings of soybeans have increased this year, and areas dedicated to cotton and sugar are expected to increase in the coming year. In Europe, demand is softer, however, the sharp increase in grain prices should encourage additional planting in the coming season in line with potentially better seasonal conditions. Chinese export growth has been robust, as the lower export tax regime at this time of year encourages shipments.
- Other news includes Saudi Arabian phosphate rock producer, Ma'aden, beginning trial production. These tests revealed higher-than-expected rock quality, which will be utilised to produce 3 million tonnes per year of DAP fertilisers for export to Australia, India and Latin America.
- Nitrogen prices have shown strength since mid-June, driven by improving demand in South East Asia and Brazil, at the same time as maintenance is keeping production in the Ukraine lower. Although gas prices remain subdued (a key feedstock), urea prices are expected to shift higher in the coming month. An elevated Australian dollar is likely to offset these higher USD prices to Australian farmers.

Other costs

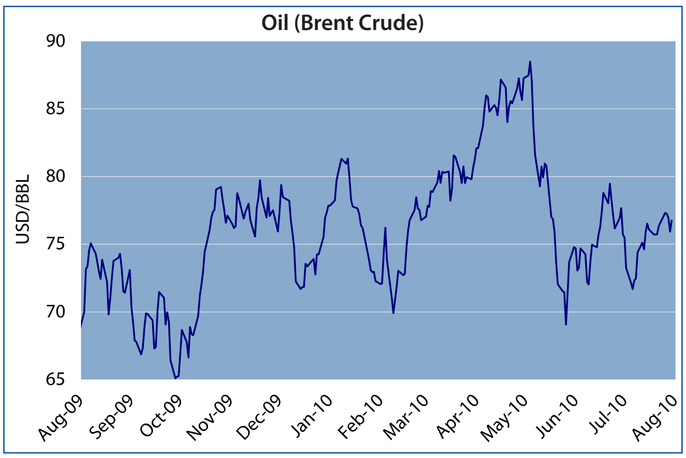
Ocean freight index and oil prices			
	Current (30/07/10)	Last month	Last year
Baltic Dry Index* (ocean freight)	1967	3733	3375
Brent Crude Oil (USD/bbl)	76.76	74.26	66.12

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.

Rabobank Australia

For more information call 1300 30 30 33

New South Wales

Armidale	(02) 6771 3644
Dubbo	(02) 5804 5600
Forbes	(02) 6851 2844
Goulburn	(02) 4855 1100
Griffith	(02) 6964 5388
Moree	(02) 6752 9600
Orange	(02) 6362 5311
Sydney	(02) 8115 4000
Tamworth	(02) 5711 1010
Wagga Wagga	(02) 6923 2900

Northern Territory

Darwin	(08) 8981 7355

Queensland

Atherton	(07) 4030 5800
Ayr	(07) 4783 6555
Brisbane	(07) 3115 1810
Bundaberg	(07) 4151 0477
Cloncurry	(07) 4742 2831
Dalby	(07) 4660 8700
Emerald	(07) 4980 7500
Goondiwindi	(07) 4671 4607
Ingham	(07) 4776 0143
Longreach	(07) 4652 5700
Mackay	(07) 4957 5847
Rockhampton	(07) 4922 2455
Roma	(07) 4622 8977
Toowoomba	(07) 4642 0400
Townsville	(07) 4722 3100

South Australia

Adelaide	(08) 8124 2300
Berri	(08) 8580 1900
Clare	(08) 8841 3300
Kadina	(08) 8821 4911
Mount Gambier	(08) 8726 2500
Port Lincoln	(08) 8682 5200

Tasmania

Hobart	(03) 6270 2230
Launceston	(03) 6323 1700
Smithton	(03) 6452 0100

Victoria

Hamilton	(03) 5551 4600
Horsham	(03) 5382 7333
Leongatha	(03) 5662 6900
Melbourne	(03) 9940 8400
Sale	(03) 5144 4937
Shepparton	(03) 5821 5711
Swan Hill	(03) 5032 2944
Warrnambool	(03) 5562 5747

Western Australia

Albany	(08) 9841 6977
Bunbury	(08) 9721 7344
Dalwallinu	(08) 9661 2495
Esperance	(08) 9071 4965
Geraldton	(08) 9923 0288
Lake Grace	(08) 9890 2444
Merredin	(08) 9041 4999
Moora	(08) 9653 1300
Narrogin	(08) 9881 4544
Perth	(08) 9325 5566

Rabobank New Zealand

For more information call 0800 722 622

Alexandra	(03) 440 2215
Ashburton	(03) 307 8128
Auckland	(09) 375 3701
Blenheim	(03) 577 1758
Christchurch	(03) 341 4200
Dannevirke	(06) 374 4030
Dunedin	(03) 471 9139
Feilding	(06) 323 0788
Gisborne	(06) 868 1499
Gore	(03) 203 9069
Hamilton	(07) 834 7755
Hastings	(06) 870 8646
Hawera	(06) 278 0400
Invercargill	(03) 218 1955
Masterton	(06) 377 0326
Matamata	(07) 888 9600
Nelson	(03) 543 8263
New Plymouth	(06) 759 9210
Oamaru	(03) 433 1133
Otorohanga	(07) 873 6860
Pukekohe	(09) 237 1291
Rotorua	(07) 348 0969
Taumarunui	(07) 895 7077
Te Puke	(07) 573 0105
Thames	(07) 867 9099
Timaru	(03) 684 8480
Waipukurau	(06) 858 6039
Wellington	(04) 819 2700
Whakatane	(07) 307 2540
Whangarei	(09) 430 2501

Business Banking

Auckland	(09) 375 3701
Christchurch	(03) 341 4219
Hamilton	(07) 834 7755
Wellington	(04) 819 2700

Corporate Banking

Wellington	(04) 819 2700

Australia and New Zealand Agribusiness Review is produced by

Food & Agribusiness Research and Advisory

For enquiries please contact your nearest branch or +61 2 8115 4000 in Australia or 0800 722 622 in New Zealand

Authors:

Justin Sherrard
General Manager of Food & Agribusiness
Research and Advisory
Justin.Sherrard@rabobank.com

Tracey Allen, Analyst
Climate Change & Sustainability
Tracey.Allen@rabobank.com

Alana Clark
Executive Assistant
Alana.Clark@rabobank.com

Wayne Gordon, Senior Analyst
Commodities, Economics
Wayne.Gordon@rabobank.com

Tim Hunt, Senior Analyst
Dairy (Australia), Food Processing
Tim.Hunt@rabobank.com

Hayley Moynihan, Senior Analyst
Dairy, Animal Proteins (New Zealand)
Hayley.Moynihan@rabobank.com

Rebecca Redmond
Research Analyst - New Zealand
Rebecca.Redmond@rabobank.com

Marc Soccio, Senior Analyst
Food, Wine and Horticulture
Marc.Soccio@rabobank.com

Wendy Voss, Senior Analyst
Animal Proteins (Australia)
Wendy.Voss@rabobank.com