



Rabobank

July 2010

Agribusiness Review

Australia and New Zealand

Rabobank Group

Food & Agribusiness Research and Advisory (FAR)

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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.

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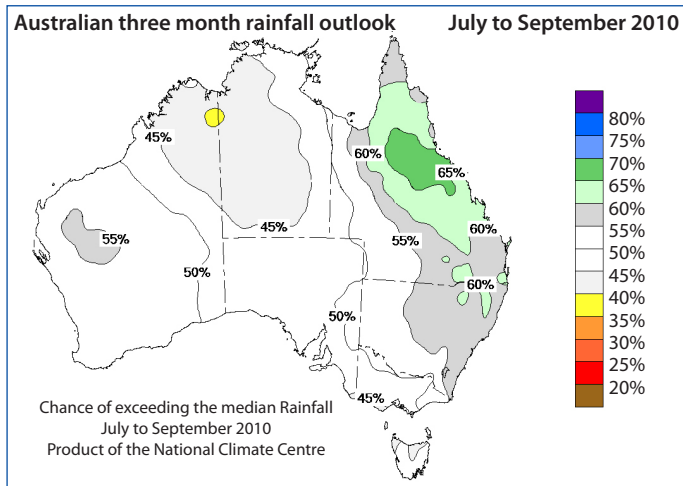
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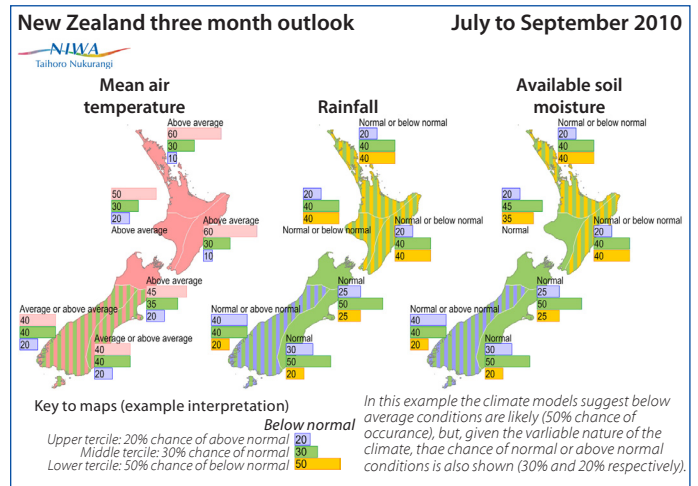
Report highlights

- June was dry across most of Australia, although the three-month outlook has improved, with average seasonal conditions expected over most of the country, with above-average rainfall likely in Queensland. By contrast New Zealand had a wet June with above average temperatures. The three-month outlook is for continuing warm conditions across the country, with a pattern of normal to dry conditions in the north and east of the North Island and normal to wet conditions in the west and south of the South Island.
- Concerns about the durability of the global economic recovery strengthened during June, reflecting a string of weak data for the United States and Europe. Economic activity in China is also slowing, in line with Chinese government plans; while this is not problematic per se, it has weighed on the market. Mixed signals continue to dominate the Australian economy and the Reserve Bank of Australia held rates at its July meeting, for a second consecutive month. The Q1 GDP result for New Zealand supports the view that the recovery is growing slowly, notwithstanding concerns over the global economic situation.
- Risk aversion in global markets has led the value of the Australian dollar down and has also affected the strength of the New Zealand dollar.
- Global grains prices have shifted slightly upwards, buoyed by news of reduced corn plantings in the US and wet weather in Canada, although reduced US ethanol demand could yet bring prices back. Rabobank's Australian wheat production forecast is at 21.8 million tonnes, with slightly lower-than-forecast production in the west offset by higher-than-forecast production in the east.
- Global beef prices remain flat, with the economic outlook keeping a lid on earlier price rises. Beef production has eased in both Australia and New Zealand, with subdued demand in most export markets and high local currencies; however both countries have seen bright prospects in some markets. Lamb and sheepmeat prices continue their slow rise.
- Global dairy slipped in early July trade auctions; an unexpected outcome that appears backed by fundamentals in the market. Supply has strengthened in line with improving prices and demand has eased slightly given the mixed signals over the economic outlook.
- Oil prices have swung around over the last month following the market sentiment; they climbed to near USD80/barrel in mid-June before falling back towards USD70/barrel in early July.



Australia

- Rainfall across Australia was well below normal in June, down from 6% above the long-term average in May. A meagre 5% of the country recorded average rainfall in June.
- South-western Western Australia (WA) experienced its third driest June on record, with rainfall 60% below average. The reduced subsoil moisture may have implications for wheat yields. In addition, temperatures in WA recently equalled the warmest 12-month period on record. This matched the record set between October 2004 and September 2005. WA is the third state to reach this record in 2009-10, following Victoria and Tasmania.
- New South Wales (NSW) also experienced below-average rainfall in June. The Murray-Darling Basin recorded the lowest June rainfall in 18 years, 34% below the historical average. June rainfall over Queensland was the lowest in six years, with no rainfall recorded over the west of the state.
- Nevertheless, the latest three-month rainfall outlook paints an improved picture across eastern Australia, with predictions sliding up to 60 – 65% in the north east. Winter rainfall over the balance of the country is even, with predictions of 50 -55%. This represents an improved outlook over the prior season.

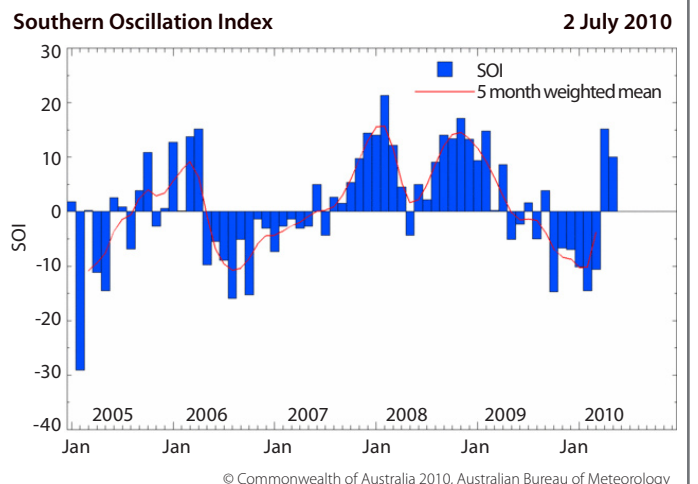


New Zealand

- June was an extremely wet month for most regions of New Zealand, with Marlborough and parts of Waikato and Bay of Plenty receiving double their normal rainfall. Well-above-normal rainfall fell in most other regions, except the West Coast and parts of Southland. Heavy rainfall in the first week of July has resulted in flooding on the East Coast, as soil quickly exceeded saturation point.
- June temperatures were below average for inland and eastern parts of the South Island and near average in most other regions.
- The outlook for the remainder of winter and early spring is for above-average temperatures across much of the country, with some short-term cold snaps and frosts likely.
- North Island rainfall is likely to be normal or below normal, and near-normal rainfalls are likely over much of the South Island, the exception being the west and south of the South Island which is likely to experience normal or above-normal rainfalls.
- Soil moisture levels are likely to be normal or below normal in the north and east of the North Island, normal or above normal in the western South Island, and near-normal in other regions.

El Niño

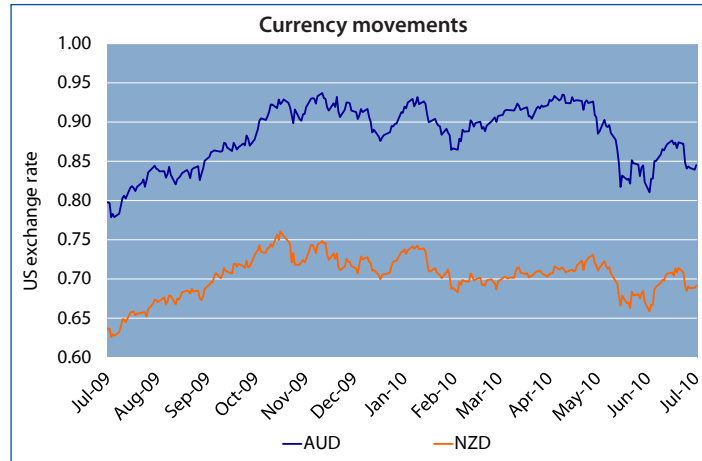
- Despite a peak in early June, the Southern Oscillation Index (SOI) is now trending downward past +8 in to neutral territory. A SOI between +8 and -8 is neutral, while an SOI greater than +8 may indicate the strengthening of a La Niña event.
- The recent downward trend in the SOI reduces the likelihood of the La Niña event (higher probability of wetter spring conditions) which was anticipated to occur late this winter or early spring. That said, BOM suggest that other climate models still indicate the possible development of La Niña conditions by late winter or early spring.
- A La Niña event, if it does eventuate is generally positive news for Australian crop production.



Currency USD

	Current (06/07/10)	Last month	Last year
AUD	0.8451	0.8104	0.7977
NZD	0.6914	0.6587	0.6367

Source: Bloomberg/Rabobank



Source: Bloomberg/Rabobank

Global

- A string of weak data has renewed concerns about the durability of the global recovery, particularly in the US and Europe. The health of the European banking sector, a poor US labour report and indications that China is slowing have combined to shift market sentiment to the downside. In Rabobank’s view, growth is still positive, but the momentum in the recovery has slowed.
- Recent data released for China has shown that economic activity has slowed, and will do so further in the coming quarters. That said, this has been targeted and desired by the Chinese government, and hence is nothing to be overly pessimistic about. It wasn’t long ago when concerns were surfacing of the negative consequences to the global recovery of an overheating Chinese economy.
- On a more serious note was the weaker-than-expected US labour market data. Unemployment fell slightly, due to a fall in the participation rate. This is negative for consumption going forward, and as a result the risk of a double-dip recession in the US has increased.

Australia

- Mixed signals are the best way to describe the direction of the Australian economy at this point. Weaker-than-expected housing data and private business investment have been the lead for Rabobank to revise down Australia’s GDP forecast slightly, 3% for 2010 from the earlier estimate of 3.2%. Activity is still expected to pick up in 2H 2010, and unless China capitulates, growth in the Australian economy is still robust.
- Notable in June was a change of Prime Minister in the Australian Government, as Kevin Rudd was replaced by his deputy Julia

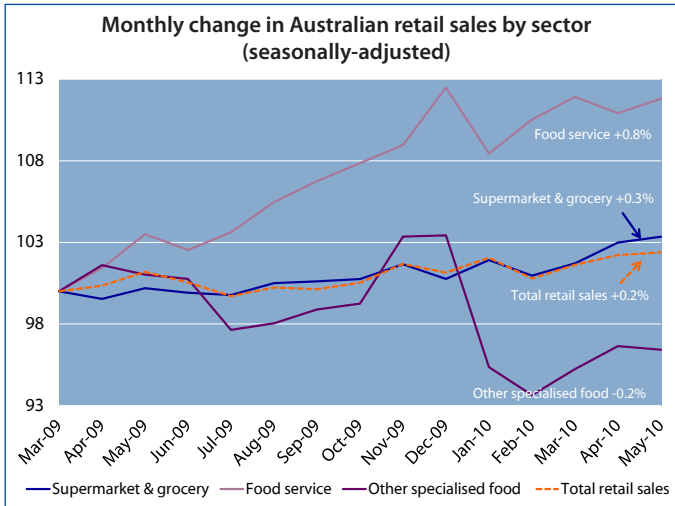
Gillard. In a complete change of direction, a revised Mineral Resources Rent tax gained broad support from miners, which is positive for business investment in the medium term.

- Although changes in the mining tax should have been supportive for the Australian dollar (AUD), the global risk appetite is driving current AUD direction. Recasting our dollar range from last month, it is now more than likely the range is somewhat lower at USD0.83-USD0.87 for Q3 2010. This is based on the Reserve Bank of Australia this year lifting rate only 25 basis points more, slowing commodity export growth and a levelling out of the terms of trade.

New Zealand

- A solid result for the New Zealand economy is the best way to describe Q1 GDP for New Zealand, released in June. Q1 2010 real GDP, by the production measure, expanded by 0.6% quarter-on-quarter (Rabobank 0.6%, Consensus 0.5%, Reserve Bank of New Zealand (RBNZ) 0.8%). This certainly indicates the recovery is becoming more sustainable, and despite the global turmoil, more interest rates hikes are likely this year as the RBNZ seeks to bring interest rates off emergency settings. However, unlike other market commentators, Rabobank stands by its call that the RBNZ will raise rates back to 3.25% by the end of the year, with one pause factored in due to debt crisis uncertainties and the slowing recovery momentum in the US.
- Like the AUD, risk aversion has weighed on the New Zealand dollar (NZD), but not the same degree in Australia. Rabobank still sees its June target range of USD0.65-0.70 holding. Likewise, the New Zealand dollar is expected to stay within the AUD0.80-0.83 range, as in a similar fashion, all is fine at this stage unless China capitulates.

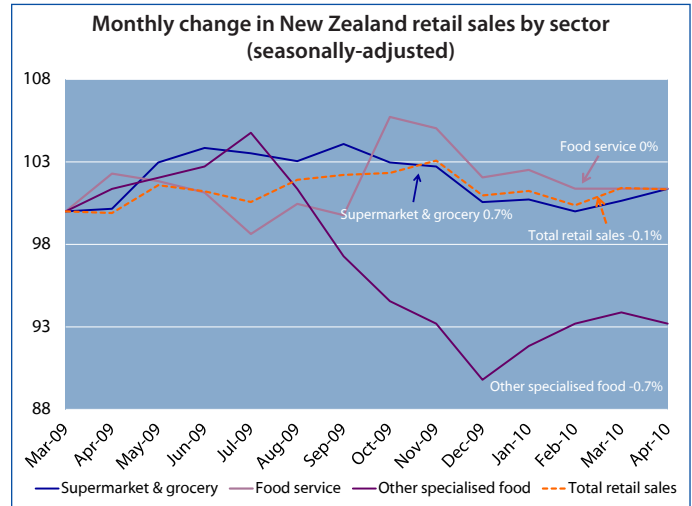
Food retail



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

Australia

- Seasonally-adjusted Australian retail trade turnover increased by 0.2% in May 2010 on the prior month and 1.2% on 12 months earlier. Retail sales remained subdued in trend terms, reflecting both the removal of government fiscal stimulus and recent successive rises in the official cash rate (OCR). Seasonally-adjusted supermarket and grocery retail turnover increased at 0.3% in May, while food service channels (cafés, restaurant and take-away) increased 0.8% on the prior month, led by a 1.5% rise in café and restaurant sales.
- Growth in supermarket and grocery retail sales over the course of the 2010 year continues to outpace broader retail industry sales. Long-term grocery discounting strategies are likely having an effect, with some residual price sensitivity still likely to be present amongst consumers in the wake of the downturn and successive interest rate rises.
- Retail sales in higher value food service channels such as cafés and restaurants resumed their upward growth trajectory in May but continue to exhibit significant monthly volatility. In lower value channels, monthly growth rates of takeaway retail sales have been relatively subdued, however year-on-year growth rates are still in excess of 10%.
- Independent grocer Metcash recently announced a takeover offer for fellow independent retailer Franklins, a subsidiary of South African based retailer Pick-n-Pay. If finalised, the move would reinforce Metcash's position as the third largest grocery wholesaler in the Australian market, and eliminate a competitive threat in the large New South Wales market.
- Consumer confidence declined 5.6% in June 2010 which represents the index's fourth fall in the five months since reaching its period peak in January 2010 (Westpac-Melbourne Institute, 2010). With the ratio of household debt to disposable income reaching an all-time high in March 2010 (RBA, 2010), consumer confidence is as sensitive as ever to the future pace of monetary policy tightening and the performance of the housing and equity markets.



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

New Zealand

- Retail trade turnover in April 2010 remained flat (-0.1%) after a tentative gain March, leaving turnover improvement of 2.2% for the 12 months to April 2010. Consumer retail sales growth will continue to be hampered by the weakness in the housing market, RBNZ rate rises, energy cost increases due to the Emissions Trading Scheme and a 3% GST rise in October 2010.
- The combined food price index showed a 0.7% decline for May 2010, continuing the trend of stabilising food prices and the first annual decline in food prices since the year ending July 2004. While meat, grocery, fruit and vegetables all declined between 0.7%-2.7% within those groups, major seasonal and globally influenced price changes occurred. Significant rises occurred in coffee (10%), plain biscuits (9%), cheese (4%) and butter (6.5%). Overall the meat price index dropped but it was split - expensive cuts of beef, fresh chicken and bacon all saw major declines, while rises of 2-4% in shopping cart staples of sausages, lamb chops and beef mince will have a bigger influence on the average consumer meat spend.
- Consumer New Zealand has raised the issue of fair returns to fruit and vegetable growers by the major New Zealand supermarkets. It has been suggested a code of conduct similar to that in Britain for grocery retailers may be appropriate.
- Foodstuffs Group have announced full year results of NZD7.9 billion (February 2010), up 3.9% on 2009. This result apportions 52% market share to the cooperative for the NZD15.2 billion sector. While the Wellington cooperative hasn't yet formally announced its March year-end results, Foodstuffs Auckland announced increasing revenues of 5.5% to NZD3.47 billion. Foodstuffs South Island reported a 4% rise in revenue to NZD2.278 billion. Supermarket chain Progressive (Woolworths Australia) has been rolling out its new supermarket and refurbishment strategy, phasing out two of its three brands in New Zealand by replacing all Woolworths and Foodtown stores with Countdown branded premises in an effort to improve its market share.

Grains and oilseeds

ASX wheat prices

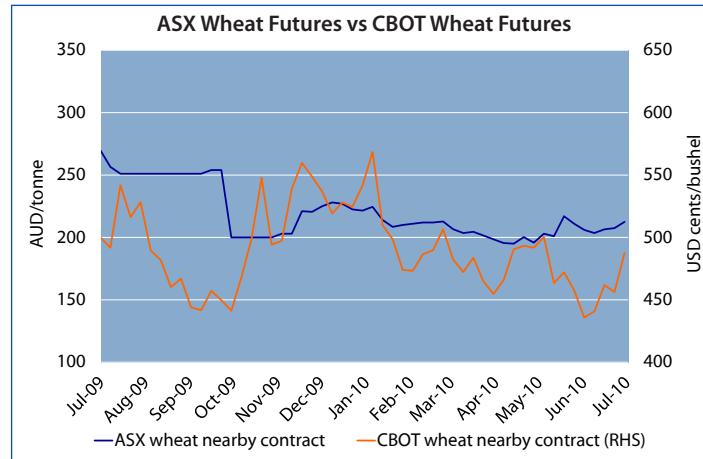
	Current (02/07/10)	Last month	Last year
AUD/tonne	213	206	270

Source: Bloomberg/ASX/Rabobank

Chicago Board of Trade Wheat Futures (nearby contract)

	Current (02/07/10)	Last month	Last year
USD c/bushel	488	436	500

Source: Bloomberg/CBOT/Rabobank



Source: Bloomberg/CBOT/ASX/Rabobank

Global

- Aside from the ongoing global macro economic events, Canadian weather and revisions to US corn plantings by the US Department of Agriculture (USDA) have dominated grain market news in recent weeks. The much anticipated USDA Prospective Plantings report surprised most market participants, who suspected that the ideal conditions at sowing time had expanded the US corn area above previous estimates. However, nothing could be further from the truth, with a lower-than-expected corn area and a downward revision to US stocks tightening the balance sheet and causing a surge in most prices for grains, particularly corn.
- For wheat, wet weather in Canada has shifted protein premiums upwards, although recent reports of better quality grain in Kansas has seen spreads close slightly. Canola prices also benefited from the expectation that the Canadian harvest could be pared significantly, with robust Chinese demand for edible oils remaining one of the few good news stories.
- The sharp shift in grain prices was, however, underpinned by market expectations that US ethanol demand would remain elevated, which would reduce corn stocks back towards the critical levels last seen in 2006/07. In Rabobank's view, revisions to ethanol demand is imminent as the US economic recovery appears to be stalling somewhat. At this stage, a fall in US consumer confidence could lower US gasoline demand, which would ease ethanol demand and relax market concerns to the tightening stock situation. This would see prices give up some of their recent gains.

Australia

- Australian wheat planting is complete, with seasonal conditions, while varying markedly across grain growing regions, still looking mostly favourable. Rabobank has revised Western Australian wheat production lower to 7.5 million tonnes for 2010/11, with areas and yields likely to be below those expectations formed at the start of the season. On the other hand, east coast production has been revised higher leaving the overall estimate broadly unchanged at 21.8 million tonnes. The strength of the La Niña event seems to be waning, but the latest Bureau of Meteorology three-month outlook for rainfall shows an improving probability of median rainfall conditions for spring, which is much better outlook than one month ago. This is still a positive for east coast production and grain handlers.
- Wheat exports are expected to improve somewhat in May and June as the impact of the weaker Australian dollar improved the competitiveness of Australian grain in the international market. This situation could persist for longer than we first anticipated, perhaps through Q3 2010 at least. This is a short-term positive for Australian wheat exporters, however, if demand growth softens as a result of this hiccup in the global recovery, then this is a negative for next year.
- Canola prices have jumped in June; weather concerns in Canada rallied prices by more than AUD40/tonne, with the question now being how long can this last? While crushing demand has been strong, at these higher prices for canola relative to other vegetable oils, crushing margins will slide as crusher contracts are reset in coming months. This will weaken crusher demand for canola and inevitably weigh on prices. Either feedstock prices for other vegetable oils, such as soybeans, need to rise, or canola prices will have to fall.

Beef

Australian beef prices

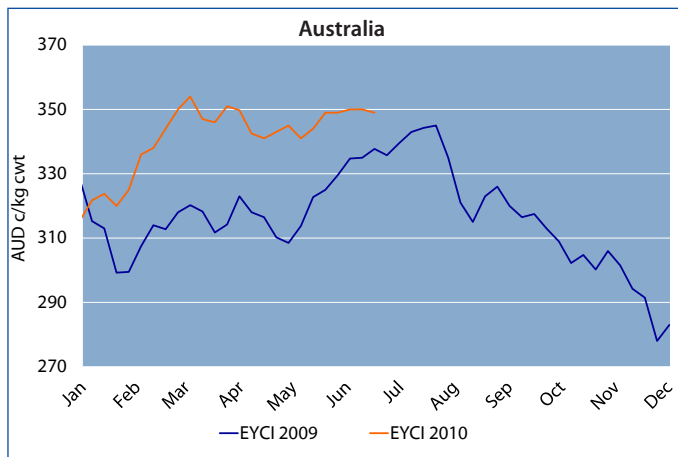
All shown as AUD c/kg cwt	Current (03/07/10)	Last month	Last year
Eastern Young Cattle Indicator (EYCI)	349	349	338

Source: NLR5/Rabobank

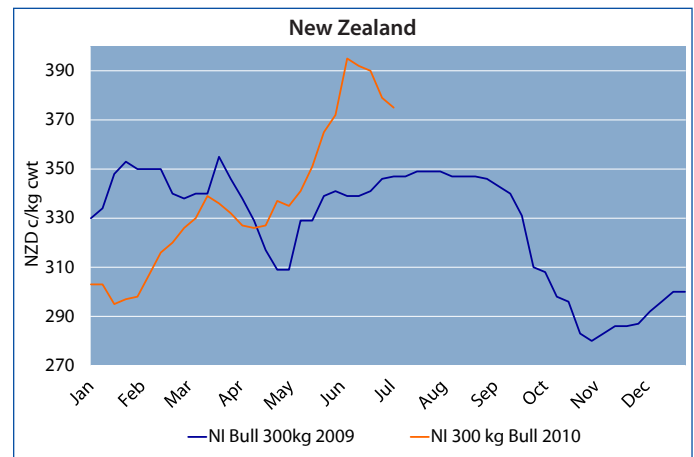
New Zealand beef prices

All shown as NZD c/kg cwt	Current (05/07/10)	Last month	Last year
North Island Bull 300kg	375	395	339
South Island Bull 300kg	334	326	312

Source: NZX Agrifax/Rabobank



Source: NLR5/Rabobank



Source: NZX Agrifax/Rabobank

Global

- The US President Barack Obama has announced his intention to try to progress the US-Korea free trade agreement. The agreement was signed three years ago but has yet to be passed by either country's government, due to disagreements over automotive and beef trade issues. If the free trade agreement was to be finalised it would result in tariffs on beef (currently 40%) being phased out progressively over 15 years. Australia is also in the process of negotiating a free trade agreement with Korea, with five rounds of discussions taking place so far and New Zealand has also been seeking to reinvigorate its current negotiations.
- US imported lean beef prices eased a further USD 6-10 c/lb or 4-6% over the past month, but still sit 18% higher than at this time last year. Greater uncertainty has crept back into the market as the sobering economic outlook is providing mixed signals after improving demand earlier in the year had pushed prices higher.

Australia

- Young cattle prices have remained steady over the past month, starting July at AUD3.49/kg cwt, a rise of 3% on the same time last year. Restocker demand has been a significant factor supporting higher prices this year with improved rainfall and pasture availability in some east coast cattle regions. The Longreach region in Queensland is reporting its best season in around a decade. In contrast, much of the west coast is experiencing dry weather conditions, putting pressure on cattle producers in that state.

- A combination of reduced cattle availability, the high AUD and subdued demand in key markets has seen Australia beef exports for the year to June fall to 436,000 tonnes, down 6% on last year and the lowest level for this period since 2004. Sales to the US have seen the greatest decline, plunging from 146,000 to 105,000 tonnes. In contrast, sales to Russia, one of the markets hardest hit by the downturn in 2009, more than doubled to 16,000 tonnes.

New Zealand

- Farm gate beef prices have been mixed over the past month with South Island prices lifting slightly and North Island prices easing – partly closing the differential. Bull beef prices eased 5% in the North Island and rose 2.5% in the South Island, but currently sit 8% and 6% higher than the previous year respectively as offshore prices have improved.
- Cattle slaughter rates have been trending below last season by around 3%. While steer and heifer slaughter is up, bull and cow slaughter is down 5-8% season-to-date as the impact of falling beef cattle numbers takes hold. Anecdotal evidence of herd rebuilding is limited to date but the positive dairy outlook will also be playing a role in lower cull cow numbers this season.
- Despite lower slaughter rates in the season-to-date, May beef export volumes increased 2.8% year-on-year. The biggest increases were in exports to North America with volume 30-40% higher than in May 2009 as favourable US prices saw more beef diverted to this market. Exports to Indonesia were up 20% to 6,500 tonnes for the month, continuing a trend of increased exports to this market.

Lamb

Australian lamb prices

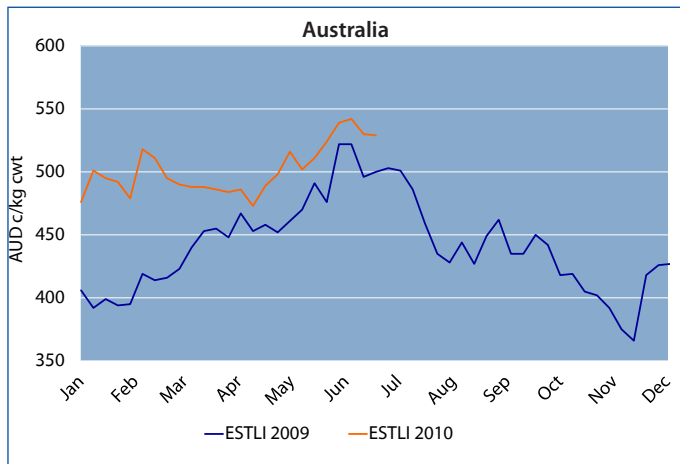
All shown as AUD c/kg cwt	Current (03/07/10)	Last month	Last year
Eastern States Trade Lamb Indicator (ESTLI)	529	524	500

Source: NLRs/Rabobank

New Zealand lamb prices

All shown as NZD c/kg cwt	Current (07/06/10)	Last month	Last year
North Island 17.5kg YX	517	510	583
South Island 17.5kg YX	521	495	577

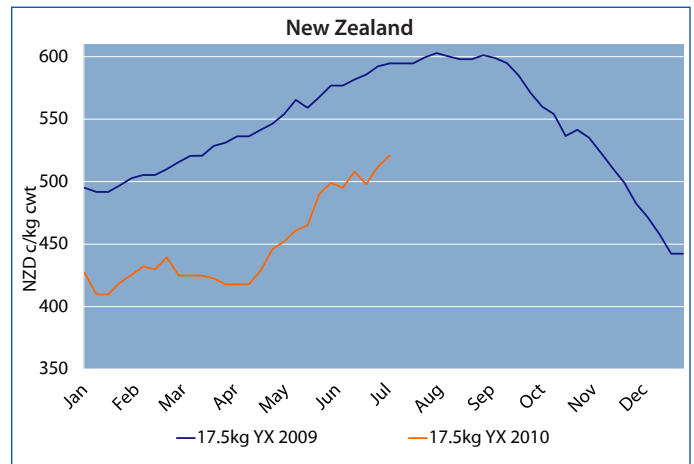
Source: NZX Agrifax/Rabobank



Source: NLRs/Rabobank

Australia

- June lamb prices continued to strengthen, with the Eastern States Trade lamb indicator hitting a record AUD5.42/kg cwt in the middle of the month, before easing slightly. Tight supply and an easing in the value of the Australian dollar combined with solid restocker demand has provided support for this sector.
- The tight supply and high prices for sheep and lambs is also providing support for the Australian goat sector, as there is some substitutability between the products. Exports for goat for the year-to-date have risen to just under 13,000 tonnes, compared to just under 10,000 tonnes for the same period in 2009. Over the hooks goat prices have also risen across all categories, with 20.1+kg goats valued at AUD2.97/kg cwt, up from AUD1.87/kg cwt at the same time last year.
- A combination of falling local flock numbers, reduced imports from Australia and New Zealand and some improvement in demand has also seen a rise in lamb prices in the US, Australia's largest export market for lamb. US wholesale prices for high value cuts such as racks have surged by almost 40% on the same time last year to USD838c/lb. On-farm prices in the US have also risen, with slaughter lamb prices around 15% above 2009 levels.



Source: NZX Agrifax/Rabobank

New Zealand

- Lamb prices continued their steady seasonal rise over the past month, but at a relatively sluggish rate of 2-5%. Farm gate prices still remain significantly below last year (by NZD 70-80c/kg) as key exchange rates are less favourable and significant procurement premiums aren't being paid to secure lambs despite the time of the year and limited supply availability.
- The lower numbers for processing have resulted in an earlier close to the processing season in many plants with lamb slaughter down around 6% for the season-to-date.
- Falling slaughter numbers also started to show through in May export volumes, which were 10% (4,300 tonnes) lower than May 2009. For the first five months of 2010 export volume fell 1.5%, while value was 3.3% less than the same period in 2009.
- The European Commission released its review of the sheep and goat meat market in mid-June indicating that 2010 production was likely to fall 1% from 2009 while consumption would be 0.7% lower. Production per annum is expected to fall a further 2.2% by 2015, while consumption would drop 1.3% over the same period leading to an increased reliance on imports.

Dairy

World dairy prices

	USD/tonne			AUD/tonne			NZD/tonne		
	24/06/2010	Last month	Last year	24/06/2010	Last month	Last year	24/06/2010	Last month	Last year
Butter	4,050	4,100	1,900	4,639	4,924	2,377	5,694	6,126	2,961
SMP	3,250	3,400	2,025	3,722	4,084	2,533	4,569	5,080	3,155
WMP	3,850	3,900	2,050	4,410	4,684	2,564	5,413	5,827	3,194
Cheddar	3,950	4,000	2,600	4,524	4,804	3,252	5,553	5,976	4,051

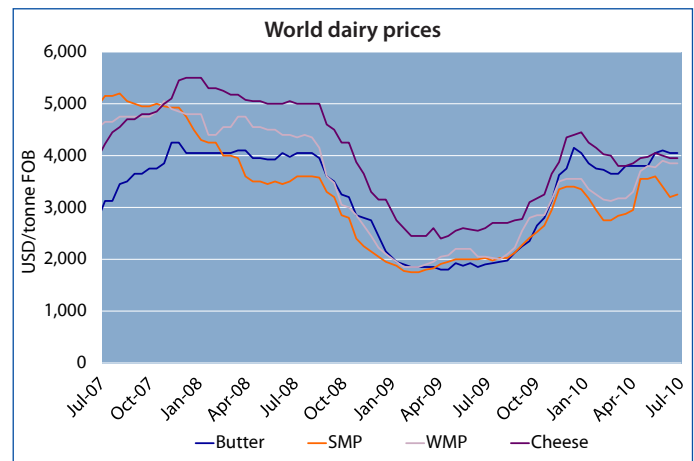
Source: USDA/Rabobank

Global

- US dollar international dairy commodity prices appeared to more or less hold their ground through June (based on USDA surveys), before an apparent slump in the global Dairy Trade (gDT) auction on 6 July. The trade weighted average of prices achieved on the gDT fell 13.7% on prior month levels, with double digit percentage price falls seen for pretty much all product types auctioned across all periods.
- With the value of the US dollar itself little changed in the month to 6 July, downward price pressure appears to have come from the fundamentals of the dairy market itself.
- Recent months certainly appear to have brought a switch in supply side momentum. May is likely to have seen a return to milk supply growth in export regions as a whole, following the recent strengthening of milk prices across all countries. Attractive export pricing has also seen the US industry increase its efforts to expand offshore shipments, while EU intervention stocks are now for sale.
- Meanwhile, commodity buying may well have eased, given what appears to have been a slowdown in economic growth in key consumption regions, headwinds from rising retail prices and wholesale buyer resistance to what had been extremely high price levels.
- Despite the gradual shift in fundamentals in recent months towards easing market tightness, the speed and extent of adjustment of prices on the gDT auction in early July were greater than expected. Buyers and sellers will be carefully assessing whether this translates to a similar adjustment in the broader dairy market in coming weeks, or proves an exaggerated signal of market direction.

Australia

- The strong tail to the Australian 2009/10 production season continued through May, with supply up 4% on the same month of the prior year.
- Spirits are high on farm, with Rabobank's June Rural Confidence Survey depicting rising confidence and investment intentions amongst local dairy farmers.
- Positive expectations appear to have been well founded, with Murray Goulburn announcing on 1 July an opening price for the 2010/11 season of AUD4.75/kgMS and an expected end price in the range of AUD5.30–5.50/kgMS.



Source: USDA/Rabobank

Production growth in key exporting regions

	Latest month	Last 3 months
EU 27	-0.8% (Apr)	-1.0%
US	1.2% (May)	1.2%
Argentina	-0.5% (May)	-6.2%
Australia	4.2% (May)	2.2%
New Zealand	0.2% for 12 months to May 2010*	

*Rabobank estimate

- At current input cost levels, and subject to adverse climatic events, the opening price level alone will be profitable for most farmers, with step ups thus constituting significant potential upside.

New Zealand

- At present New Zealand production has virtually ceased, as usual over the winter months, with farmers generally well positioned to start the new season over the next six weeks.
- May export volumes fell 15% (36,000 tonnes) on the prior year, reflecting the poor finish to the season and high previous year exports. SMP and butter fell farthest, down 45% and 40% respectively. WMP and casein export volumes were higher than the prior year.
- Fonterra shareholders resoundingly approved the 'trading among farmers' proposal. This will see the establishment of an internal share trading mechanism, and enable farmers to sell their beneficial share rights (dividends and changes in share value) to external parties while retaining full voting control of the cooperative.

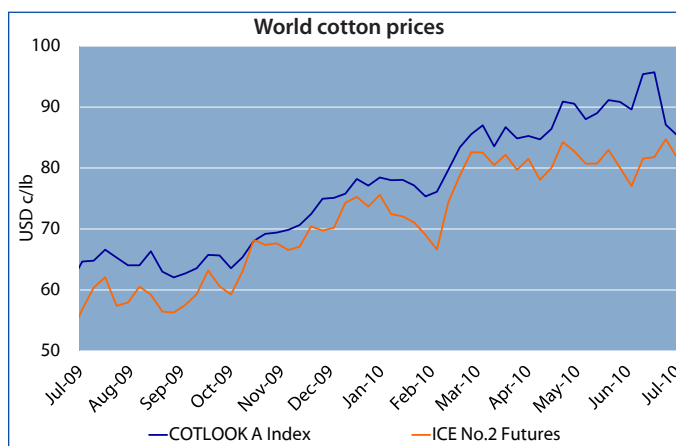
Cotton

World cotton prices

All shown as USD c/lb	Current (02/07/10)	Last month	Last year
Cotlook A Index	85.35	89.60	64.65
ICE No.2 NY Futures (nearby contract)	81.64	77.06	56.80

Source: Bloomberg/ICE/Rabobank

- Global cotton prices have ranged between USD77-84c/lb since March 2010, underpinned by the potential fall in the stocks-to-use ratio to its lowest level since 1994/95. Prices are expected to remain at current elevated levels for the time being, before settling in the mid-USD 70c/lb toward the end of 2010/11.
- US production expectations, as the largest global exporter of cotton, are an indicator of how quickly the current supply situation will persist. While higher prices have encouraged increases in areas planted to cotton globally, which should ease current market tightness, demand growth is robust and may still outstrip production gains leaving stocks to fall further.
- The Australian cotton harvest is largely complete, and quality has improved on the previous year. Cotton areas are currently forecast to increase by more than 40% in 2010/11, but like all things this is weather dependent as water storages remain low in many cases.



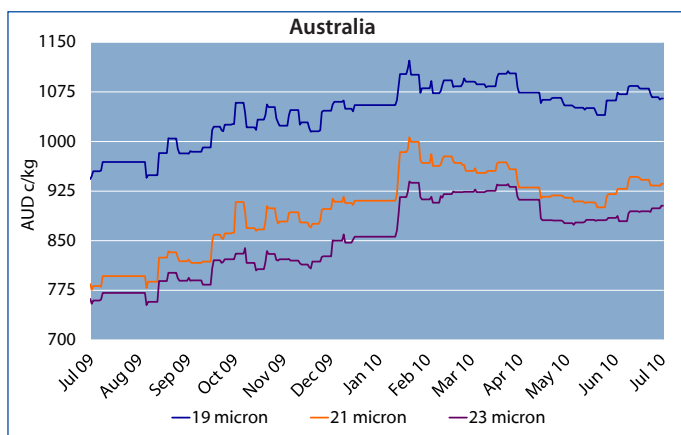
Source: Bloomberg/ICE/Rabobank

Wool

Australian wool prices (eastern)

All shown as AUD c/kg clean	Current (01/07/10)	Last month	Last year
Fine (19 micron)	1065	1062	948
Medium (21 micron)	936	921	776
Broad/coarse (23 micron)	903	885	755

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

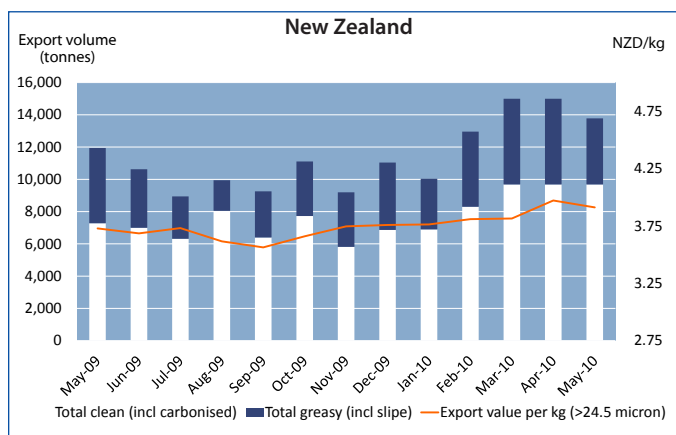


Source: Rabobank, Bloomberg/AWEX (average north and south prices)

New Zealand wool prices

Average FOB export value (NZD/kg)	May 2010	April 2010	May 2009
Fine <24.5 micron	9.27	9.71	7.68
Broad/coarse >24.5 micron	3.91	3.97	3.73

Source: Statistics New Zealand/Rabobank



Source: Statistics New Zealand/Rabobank

- Although risks to the global recovery have increased, wool prices continue to hold firm. In general, supply-side constraints, a weaker currency and export demand from China have supported domestic prices. The outlook depends on the slowdown in China not affecting its domestic demand, as European demand is expected to remain weak. Rabobank's view is that Chinese demand will slow, but not until after the Northern Hemisphere winter.
- In 2011, further improvements in demand, particularly in Europe, should support higher wool prices. China will continue to dominate the demand side, and if the Yuan/USD appreciates as expected, this should improve domestic Chinese purchasing power in the short term. While supply is expected to recover somewhat, higher prices for fibre substitutes, such as synthetics and cotton, will also provide some lift.

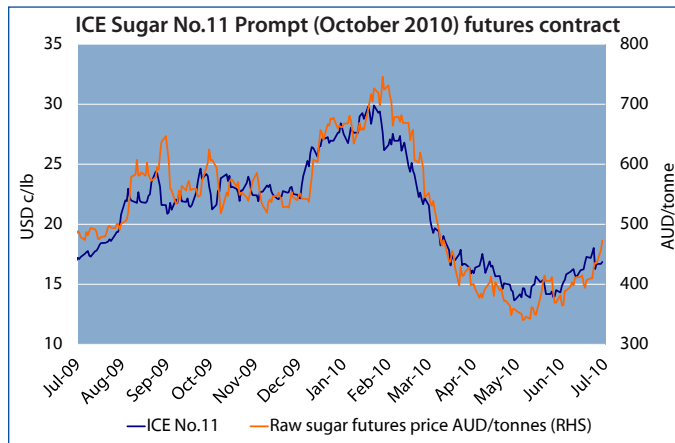
Sugar

ICE Sugar No.11 Prompt (raw sugar futures price October 2010)

	Current (06/07/10)	Last month	Last year
USD c/lb	16.86	14.33	17.32
Converted to AUD/tonne	437.50	389.83	478.68

Source: Bloomberg/ICE/Rabobank

- Sugar somewhat bucked the negative trend of other commodity markets in June, with prices shifting higher, reflecting building production risks and the persistence of low global stocks by historic standards. Falling harvest expectations in Thailand and Brazil, and questions over the strength of the Indian monsoon, have turned the market's attention back to the tight short-term market balance. At this point, although prices are slightly above Rabobank's expected range of USD 13-16c/lb, the bank has not altered its view as prices are likely to settle into the upper part of the band in coming weeks.
- CSR's attempts to sell its sugar and renewable energy business shifted up a gear in July. Wilmar, a significant supplier of edible oils to China, surprised the market by announcing it had entered into an agreement with CSR to acquire Sucrogen Limited. The deal is expected to be complete by the end of Q3 2010, but is still subject to Australian and New Zealand government approval. Buying Sucrogen will give Wilmar 45% of Australia's raw sugar production and account for about 4% of global trade. It is early days, so how this will impact on Australian sugar producers is yet to be seen.



Source: Bloomberg/ICE/Rabobank

- The Australian sugar harvest is progressing well, although heavy rainfall earlier in year seems to have impacted on yields. Currently, raw sugar production is expected to be slightly below the previous year, at around 4.4 million tonnes of raw sugar. This is below Rabobank's March forecast of near 4.6 million tonnes.

Venison

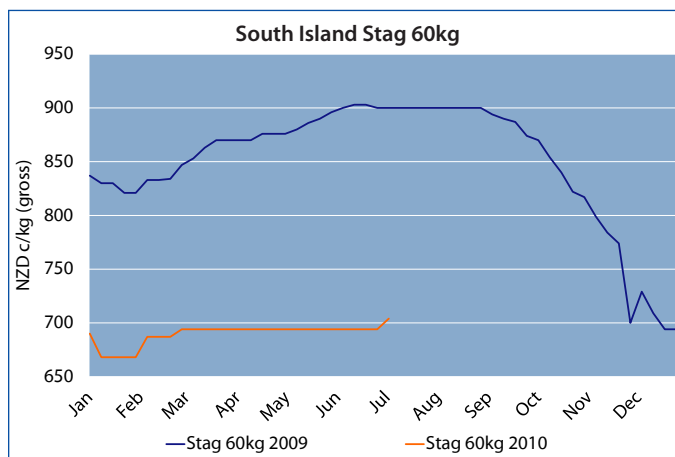
New Zealand venison prices

All shown as NZD c/kg gross	Current (05/07/10)	Last month	Last year
North Island Stag 60kg	680	665	850
South Island Stag 60kg	704	694	900

Source: NZX Agrifax/Rabobank

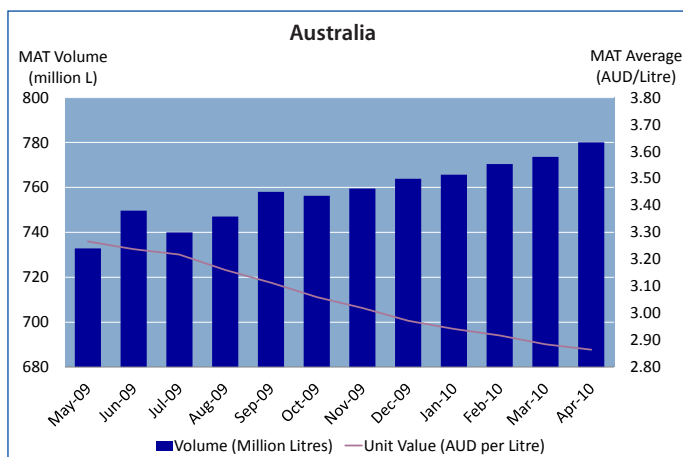
New Zealand

- Hopes for a seasonal lift in farm gate venison prices have diminished, as despite the market remaining firm, the Euro has continued to be relatively weak. As a result prices are languishing more than 20% (NZD1.70-2.00/kg cwt) lower than in 2009.
- May export volumes were down 4.5% on the year prior, but value was 34% lower as the unfavourable exchange rates took their toll. This brings year to date export volumes 17% lower than 2009 for the first five month period, but the proportion shipped chilled has increased to 10%.
- New Zealand's Prime Minister, John Key, visited Korea on 5 July looking to further progress free trade negotiations between the two countries. Korea remains the largest export destination for velvet.

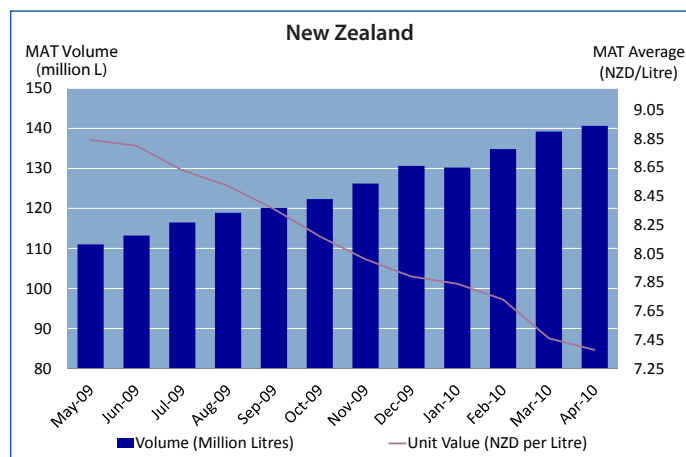


Source: NZX Agrifax/Rabobank

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 April 2010 increased 7.3% to 780.1 million litres (ML), while the FOB value of exports decreased 7.5% to AUD2.23 billion. The monthly average export unit value in April fell by less than 1% on the prior month to FOB AUD2.86/litre (AWBC, 2010).
- Annual export volumes are now again approaching their heady heights recorded in 2006-07, however monthly average unit values have fallen in the order of 70% 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.
- On 26 May Foster's Group announced the intended break-up and separate listing of the company's beer and wine divisions. The announcement, coinciding with another major (AUD1.2 billion pre-tax) asset write-down in the wine business and short-term cessation of dividends, once again spurred M&A speculation that has flavoured the stock ever since North American brewer Molson Coors Brewing Co. purchased a 5% holding in November 2008. For the moment at least, it would seem as though much is yet to be determined with internal strategic reviews still said to be pending in what could yet be a drawn-out process.

New Zealand

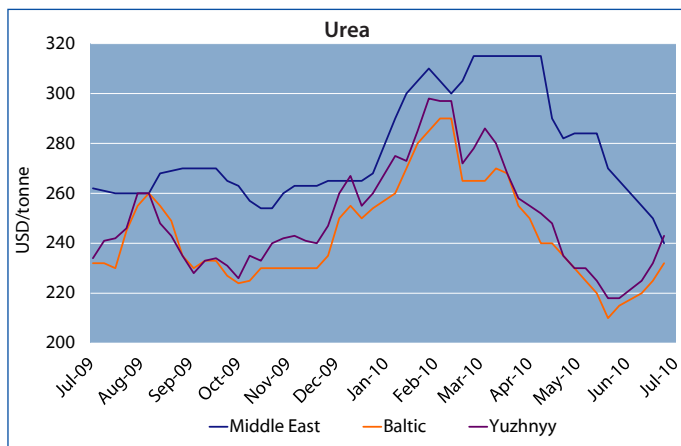
- April 2010 New Zealand wine export sales increased 12.7% on the prior corresponding period to 12.4ML. On an annualised basis, shipments in the 12 months to March 2010 grew by 1% on the prior month to 140.6ML.
- Bulk wine shipments, which had jumped from their already elevated levels in the lead up to vintage, remained very high at 33.9% of export shipments in April, while exports of bottled wine recorded a 2.5% increase in April 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 April 2010 increased by 6.6% to NZD1.03 billion. The average value of exports in April increased 11.3% on the prior month to FOB NZD6.72 per litre, and provides hope that the dip in the average value below NZD7/litre over the past two months is only a momentary response to clear inventories despite what remain challenging global trading conditions.
- The New Zealand Winegrowers Association released its vintage survey results to its members in June. The survey confirmed a vintage of 265,000 tonnes, and an average grape yield of 8t/ha across the country. Sauvignon Blanc contributed 66% of the total intake, while Chardonnay (10%), Pinot Noir (9%), and Pinot Gris (5%) represented the other major varieties. Marlborough supplied 69% of the annual harvest, with Hawkes Bay (15%) and Gisborne (7%) also large contributors.

Fertiliser

Fertiliser prices

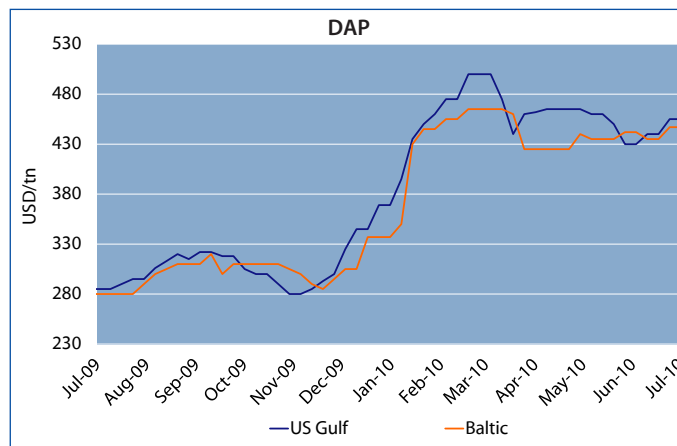
All shown as USD/tonne	Current (01/07/10)	Last month	Last year
Urea (Middle East)	245	230	260
DAP (US Gulf)	455	430	285

Source: Bloomberg/ICIS/Rabobank



Source: Bloomberg/ICIS/Rabobank

- In June, Baltic and Middle East urea prices have reversed their downward trend closing the gap between these prices and the Ukraine (Yuzhnyy). International urea prices have been under pressure due to seasonal demand weakness, weak Southeast Asian demand due to the drought, and ample supply. Indian and Latin American buying should provide some momentum to stabilise the market in coming weeks and lift prices. As feedstock benchmark gas prices are expected to remain flat, producer margins should lift with improving urea prices.
- Strong demand and low producer inventories have held phosphate prices at higher levels this year, at some points near double the same time the previous year. Strong demand from



Source: Bloomberg/ICIS/Rabobank

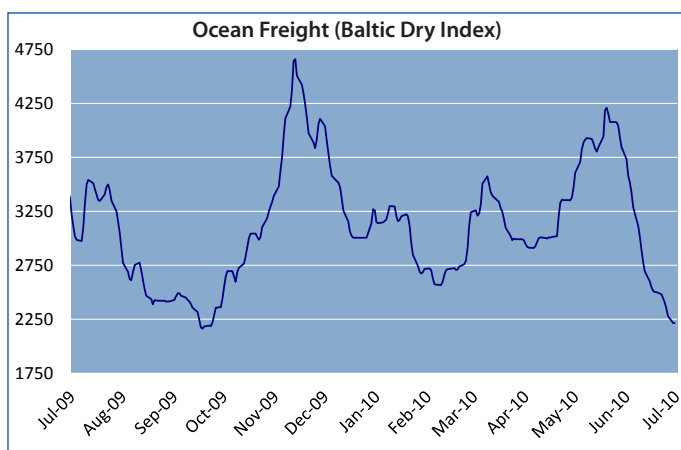
- India, the current low-tariff season in China, South American buying, and 2H 2010 restocking of a near-empty North American supply chain will support prices in the short term. Potash prices have remained largely flat internationally despite a significant recovery in demand. South American buying is set to resume soon, and while negotiations are still ongoing, producers are seeking a USD30/tonne price increase for new contracts.
- Australian and New Zealand dollar weakness is keeping upward pressure on domestic fertiliser prices. Lower currency valuations are likely to persist for longer than first thought, which means wholesalers are likely to start passing more-fully the currency impact through to the retail level in Q3 2010.

Other costs

Ocean freight index and oil prices

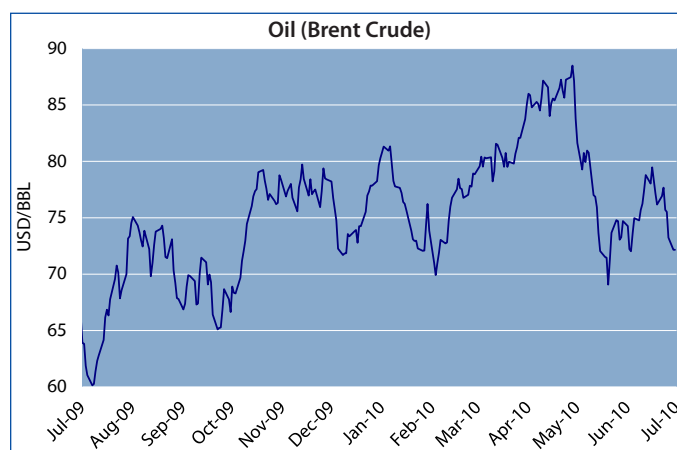
	Current (06/07/10)	Last month	Last year
Baltic Dry Index* (ocean freight)	2216	3733	3375
Brent Crude Oil (USD/bbl)	72.16	74.26	66.12

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.

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