



Rabobank

September 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

Climate	2
Currency/economy	3
Food retail	4
Grains and oilseeds	5
Beef	6
Lamb	7
Dairy	8
Cotton	9
Wool	9
Sugar	10
Venison	10
Wine	11
Fertiliser	12
Other costs	12

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

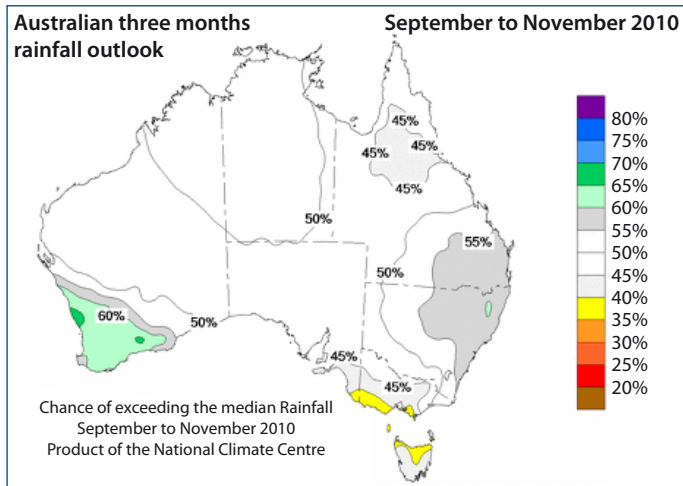
Professional advice is recommended for all financial and strategic decisions. However, this information is not professional advice and has not been prepared to be used as the basis for, and should not be used as the basis for, any such decisions. This information is general in nature only and does not take into account an individual's personal circumstances. No representation is made that any forecast or projected information is correct or will eventuate and past performance is not indicative of future performance. Although reasonable efforts have been taken to ensure the accuracy of the contents of this publication, no warranty is given in regard to the total completeness and accuracy of the printed contents. Rabobank has no obligation to update this document or correct any inaccuracies and/or omissions or otherwise advise the reader. The persons involved in the preparation and distribution of this information and their related persons disclaim all liability for any direct, indirect, consequential or other loss or damage suffered due to any use of or reliance on the information. Information contained in this publication may not be reproduced or published without Rabobank's prior written consent.

We have considered the environment when producing this document.

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

Report highlights

- La Niña conditions have continued to develop across the Pacific and as a result August was wet across most of Australia, except the south-west of Western Australia. The three-month outlook for Australia remains generally neutral. New Zealand also had a relatively wet month, with the three-month outlook for generally normal conditions.
- The global economy has continued on an unsteady trajectory with a broad-based recovery remaining elusive. Data from the US has been most concerning, while data from the eurozone has tended to surprise to the upside, and growth remains on a solid footing across Asia. The Reserve Bank of Australia has kept rates on hold at 4.5%, despite better-than-expected Q2 GDP growth, which showed the private sector starting to lift. The Reserve Bank of New Zealand kept rates at 3%, with strong retail figures offset by weak data elsewhere.
- The Australian dollar is trading around USD0.90, although Rabobank believes it will drop into the USD0.85-0.90 range. Rabobank believes the New Zealand dollar will settle in the USD0.68-0.73 range.
- Global grains prices are being driven by supply-side factors. Concerns over supply have held global wheat prices around USD7.00/bushel for most of the last month. The current factors markets are focussing on are European and Russian production outcomes and Australian and Argentine production, with any (further) setbacks expected to cause prices to lift. Prospects for the Australian wheat crop remain positive, with good conditions prevailing on the east coast while dry conditions are challenging production in Western Australia.
- In general, beef prices continued to shift upwards through August. Prices for heavier cattle in Australia have remained flat while young cattle prices have improved. Beef prices have also improved in New Zealand, driven by offshore demand and tight supply. Lamb and sheepmeat prices remain at strong levels in Australia and New Zealand, with tight supply and strong demand expected to keep prices at elevated levels
- Global dairy prices have rallied in recent trade auctions, as demand has improved despite ongoing milk supply growth in the Northern Hemisphere. There has been a strong start to Southern Hemisphere production, with good conditions in both Australia and New Zealand.
- Oil prices have been trading in a range between USD70-80 for most of the past three months.



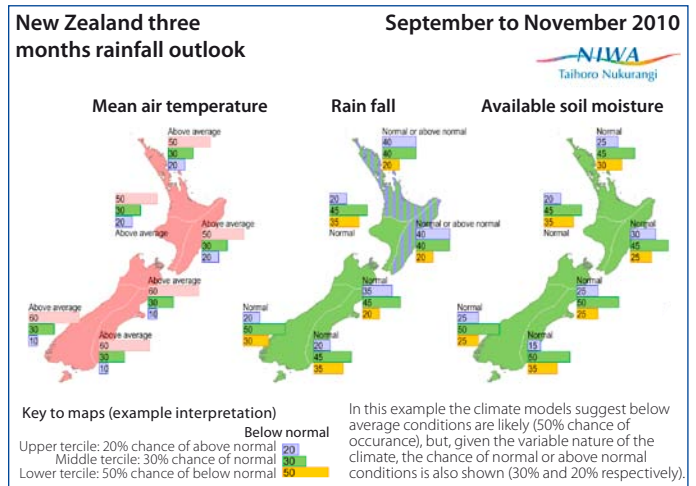
© Copyright Commonwealth of Australia 2010, Bureau of Meteorology

Rainfall Australia

- La Niña conditions now cover the Pacific Ocean and as a result, August was a wet month, particularly over Northern Australia. Across the country, The Bureau of Meteorology (BOM) reported that rainfall was 42% above average. Queensland recorded more than double the average rainfall and Victoria recorded the wettest August since 1981. However, rainfall was very much below average in Western Australia, particularly in the southwest, and through central NSW.
- Temperatures were mixed across the country with warmer than average conditions across northern and far western areas and cooler than average days throughout central and southeast Australia. However, on average, nationally averaged maximum temperatures were moderately below the long term average.
- According to the BOM's latest three-month rainfall outlook for September to November 2010, there is an even chance of receiving above average rainfall across the majority of the continent. However prospects are looking up in southwest Western Australia with the chance of exceeding average rainfall at 60-65%. The odds still favour drier than average conditions in southern Victoria and northern Tasmania.

Southern Oscillation Index

- The Southern Oscillation Index (SOI) is now above +20 points, indicating that La Niña conditions are well and truly at play. It is now likely that La Niña will persist through spring and into 2011 in both Australia and New Zealand. NIWA National Climate Centre also predicts that the La Niña conditions will strengthen in New Zealand during 2010.
- It is likely that La Niña will continue to bring above average rainfall to northern and eastern Australia and to the north-east of the North Island New Zealand. While reduced rainfall is likely over the south and south-west of the South Island.
- Models suggest that a negative Indian Ocean Dipole (IOD) event may have commenced in the Indian Ocean which often brings above average rainfall over southern areas of Australia.

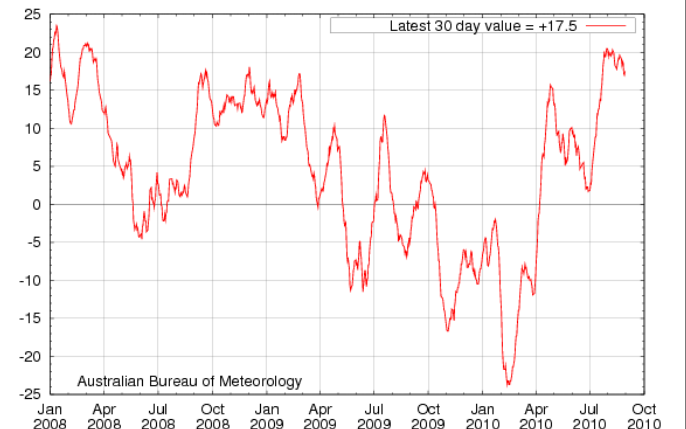


Copyright © NIWA 2010. All rights reserved

New Zealand

- New Zealand experienced a wet August owing to La Niña conditions over the tropical Pacific. More than double the average rainfall was recorded around Kaitaia, Coromandel, the Bay of Plenty, and eastern Otago. One and a half times the average August rainfall, was recorded in most of the North Island, Nelson, Marlborough, and parts of Canterbury and Otago.
- During spring, the National Institute of Water and Atmosphere Research (NIWA) expects temperatures to be above average across the country with occasional cooler periods. Average rainfall is likely to fall across both islands, however the north and north east of the North Island may receive above average rainfall. This is good news for average soil moisture and stream flows.
- In the aftermath of the 7.1 magnitude earthquake which struck Christchurch there have been ongoing disruptions and repairs required to electricity supplies, bores, water lines and dairy sheds. While irrigation is not yet in use, these disruptions may impact production as the drier months approach from November onwards. Meanwhile, dairy farmers have managed disruptions using milking sheds on neighbouring properties.

30 Day Moving Southern Oscillation Index 1 September 2010

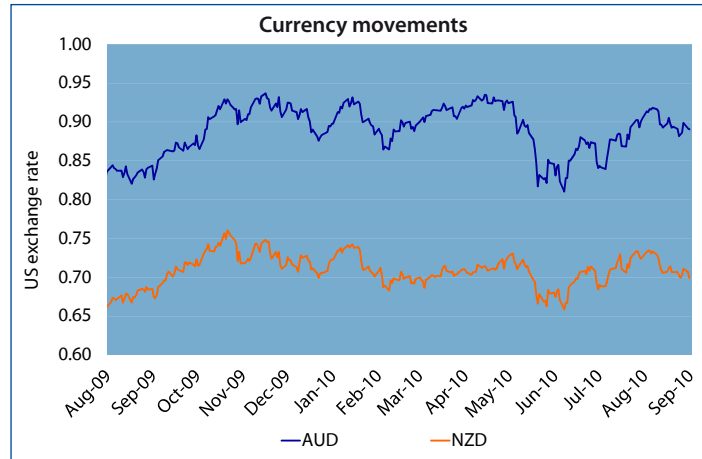


© Commonwealth of Australia 2010, Australian Bureau of Meteorology

Currency USD

	Current (31/08/10)	Last month	Last year
AUD	0.8906	0.9042	0.8439
NZD	0.6990	0.7260	0.6851

Source: Bloomberg/Rabobank



Source: Bloomberg/Rabobank

Global

- One step forward, one step back best describes economic dataflow in August, as the evidence of a solid broad-based recovery remains elusive. The economic performance in the euro area has been surprising to the upside, especially in Germany. Meanwhile, the tepid performance of the US labour market reignited concerns of a double-dip recession. Rabobank still believes that market pessimism has been overdone in August, and that a double-dip is still likely to be avoided.
- In Asia, growth remained on solid footing, with Indian Q2 GDP expanding by a strong 8.8% year-on-year. Nevertheless, inflation concerns have re-emerged, particularly in Russia, where the worst drought in a century has lifted food prices. If these pressures continue to build, monetary policy may need to tighten across Asia in earnest.

Australia

- Australia has a new Labor-led minority government and has reasserted itself as one of the best performing economies in the developed world following a blistering Q2 GDP growth rate of 1.2%. In the GDP data, the most encouraging sign was a beginning in the process of the economy rebalancing away from government support toward private expenditure – this has taken longer than expected. A surge in consumption was a surprise because it countered anecdotal reports from retailers that households had cut back spending.
- The Reserve Bank of Australia (RBA) re-confirmed the Official Cash Rate (OCR) is on hold, but only “for the time being”. The RBA announcement reminds the market that this is not the end of the tightening cycle, but simply that it has paused for the moment. Rabobank still expects the next move is most likely be in Q1 2011 with the OCR to rise by at least 75 basis points by the end of

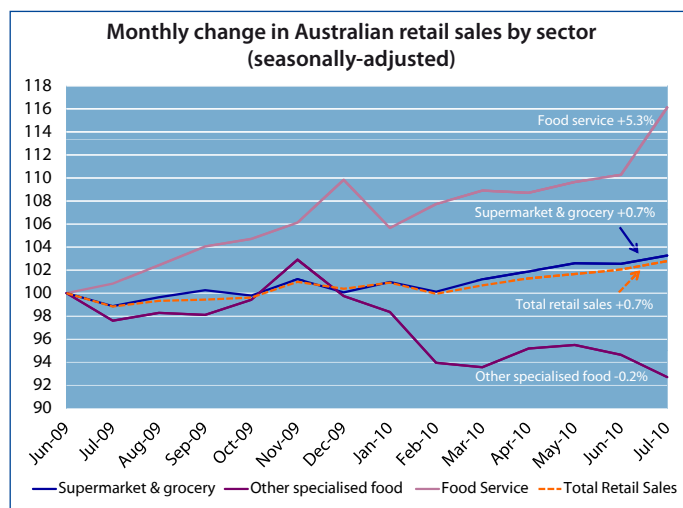
next year.

- Swings in the market’s risk appetite continue to underpin movements in the Australian dollar (AUD), particularly against the US currency. On a fundamentals basis, a weakening trade balance and a flat line in the terms of trade for Q3 2010 should place downward pressure on the AUD. While the dollar continues to trade above USD0.90, we expect a broader range of USD0.85-0.90 to prevail in the nearer term.

New Zealand

- An earthquake measuring 7.1 on the Richter scale hit Christchurch on 4 September and thankfully there was no loss of life. Initial estimates suggest the likely impact of the quake is around NZD2 billion, or around 1% of nominal GDP. Aside from the destruction of capital stock, stoppage to business activity is the main short-term negative. That said, in the medium term, there are positive impacts to growth, which include a pick-up in business activity as investment is brought forward, and labour demand increases as rebuilding begins.
- A bounce in June retail figures disguised weak data elsewhere, which shows a patchy recovery. Business sentiment eased in August, with fewer businesses now expecting better times over the year ahead. On these data, Rabobank maintains its view that the Reserve Bank of New Zealand (RBNZ) will remain on hold until December, with one further 25 basis point increase likely at the end of the year (an Official Cash Rate of 3.25%).
- New Zealand dollar fundamentals have weakened with lower traded dairy prices and a now-expected interest rate hold by the RBNZ. Nevertheless, US dollar movements will drive NZD movements in the near term, with a trading range of USD0.68-USD0.73 expected.

Food retail



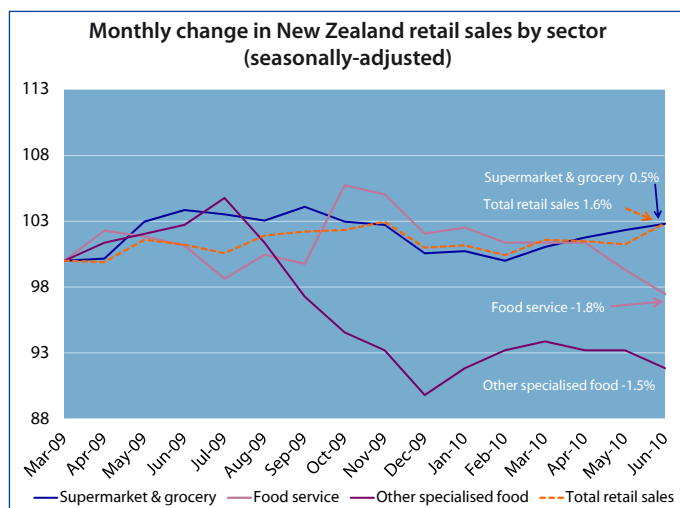
Source: ABS Cat 8501 - % reference represents month-on-month change for most recent period

Australia

- Seasonally adjusted Australian retail trade turnover increased by 0.7% in July 2010 on the prior month and 4.0% on the prior corresponding period. The July result combined with upward revisions of prior months suggests that retail sales are beginning to reflect a more positive consumer mindset.
- Seasonally adjusted Supermarket & Grocery retail turnover increased by 0.7% in July, while Food Service channels (Cafés, Restaurant & Take-away) increased 5.3% on the prior month, led by a strong 8.5% rise in Café, Restaurant & Catering trade. This more premium food service channel has now increased 17.4% on a year earlier after suffering significant declines during the downturn. Relative to June 2007, Café, Restaurant & Catering trade has recovered to levels comparable to the Supermarket & Grocery channel that outperformed during the global economic downturn.
- Consumer confidence in August increased 5.4% on the prior month following the RBA's decision to again keep the OCR on hold (Westpac-Melbourne Institute, 2010). Household savings rates to June 2010, expressed as a proportion of disposable income, have fallen sharply over the past year from their highs reached in 2008-09 during the depths of the GFC (ABS, 2010). Judging from a higher consumer propensity to spend, a strong terms of trade result in the June GDP estimates, and inflation still sitting towards the upper end of the RBA's target range, it appears the stage is being set for future tightening of monetary policy settings.

New Zealand

- Statistics New Zealand released quarterly retail sales to June 2010 last month. The June quarter continued the trend of increasing spending in total retail sales (including motor vehicle expenditure)



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

that's been on the rise since March 2009. The total retail spending during the 2010 June quarter was up 0.5% (NZD83 million) compared with the March quarter. Due to the large size, the motor vehicle retailing and automotive fuel retailing industries have a significant impact on total retail sales.

- The value of core retail sales rose 0.4% for the June quarter (NZD51 million) following a 0.6% (NZD73 million) decrease in March 2010. Supermarket and grocery stores (up 0.9% or NZD36 million), while a significant decrease occurred in cafes and restaurants (down 2.1% or NZD21 million) for the quarter. Quarterly sales volume and sales value reached turning points in the December 2009 quarter, and have been falling since then. The contrasting direction of sales spend at supermarket (eat at home) versus cafes and restaurants reflects the reality of wage growth stagnation and unemployment rising again in the June quarter.
- July 2010 food prices overall rose 1.6%. Seasonal influences such as fruit and vegetable prices increasing 8.7% were balanced by marginal increases in meat, poultry, and fish of 0.5%, restaurant meals and ready-to-eat food price increases of 0.3% and declines in non-alcoholic drinks prices of 1.1%
- Individual items that moved significantly were fresh milk (up 5.9%) and yoghurt (up 7%), while staples like bread dropped 2.1% and coffee declined 6.6%, balancing the seasonal influences of winter fruit and vegetable prices, which moved up.
- Comparing prices in the year to July, international influences on dairy have been the most notable – the local pricing for fresh milk (up 10.8%), cheddar cheese (up 11.8%), and butter (up 27.2%) compared to July 2009 and are all significant increases. While fresh milk prices are now at peak levels, cheddar cheese prices are now 10.7% below their 2008 peak. Butter prices peaked in May 2010, but have since fallen by 5.3%.

Grains and oilseeds

ASX wheat prices

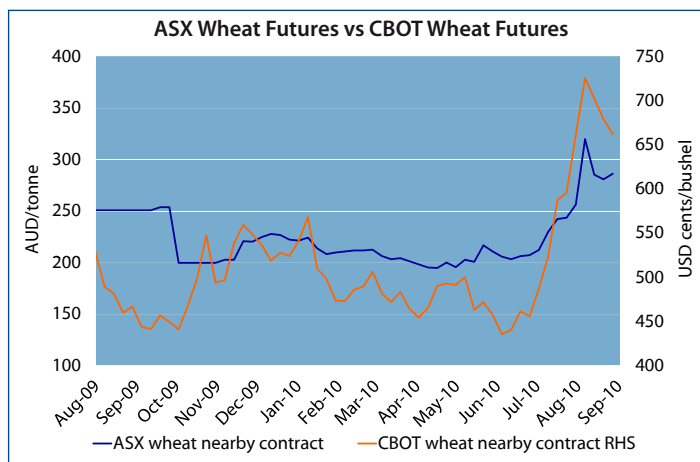
	Current (27/08/10)	Last month	Last year
AUD/tonne	287	256	251

Source: Bloomberg/ASX/Rabobank

Chicago Board of Trade Wheat Futures (nearby contract)

	Current (27/08/10)	Last month	Last year
USD c/bushel	663	661	467

Source: Bloomberg/CBOT/Rabobank



Source: Bloomberg/CBOT/ASX/Rabobank

Global

- Supply-side factors are in charge, and market attention remains focused on European and Russian production outcomes. The next big event for the global grain market is the release of the USDA World Supply and Demand estimates on 10 September. Wheat production in Russia is likely to be downgraded to near 40 million tonnes (previous estimate of 45 million tonnes) and European wheat export availability is also likely to be revised lower.
- Market interest following this USDA report will turn to winter wheat sowing potential for 2010/11. At this stage, Russian authorities suggest that the winter wheat crop areas are likely to be as large as the previous year, however sowing progress is behind that of 2009/10 and will be highly dependent on rainfall over the next few weeks. In the near-term, price direction will take its lead from winter wheat plantings and Southern Hemisphere – Argentina and Australia – production outcomes. Rabobank believes current USDA production estimates for these countries are overly optimistic.
- Fears of a broader global food shortage, similar to the events of three years ago have recently elevated. While there is no doubt that expectations for world grain stocks have tightened in August, and an extension of the ban on wheat exports by Russia from the end of 2010 until at least the 2011 harvest has further fuelled fears of a shortage, global grain stocks are still at ample levels. In 2007-08, global stocks hit critical levels across most producing countries, whereas this time around prices are rallying on the reduced availability of grain for export.
- These near-term supportive factors have shifted Rabobank's expectations for the global wheat price over the coming 12 months from USD5.00-5.50/bushel to USD6.50-7.00/bushel.

Australia

- Australian winter crop production continues to show strong potential. Rabobank currently expects wheat production at around 22 million tonnes. Western Australian production is still uncertain, but East Coast production estimates continue to show upside potential. The three-month weather outlook from the Australian Bureau of Meteorology supports an above average harvest on the East Coast. Nevertheless, it is though still a long way to harvest and a severe locust plague or damage due to water logging in some regions of Victoria could yet emerge to reduce East Coast production expectations.
- Australian wheat exports experienced a surge of activity in July according to market sources, underpinned by the Russian export ban. Rabobank estimates that Australia will export near 14.5 million tonnes this marketing year (October 2009-September 2010), the same volume as 2008/09. In order to achieve this level, exports will need to lift; as of June exports were almost one million tonnes behind the pace of 2008/09.
- Current USDA expectations are for Australia to provide a 16.5 million tonne offering to the world market in 2010/11. On a production basis, 16.5 million tonnes is achievable; however with the distribution of production falling heavily to the East Coast, upcountry capacity constraints could limit exports to less than the USDA's current expectations.

Beef

Australian beef prices

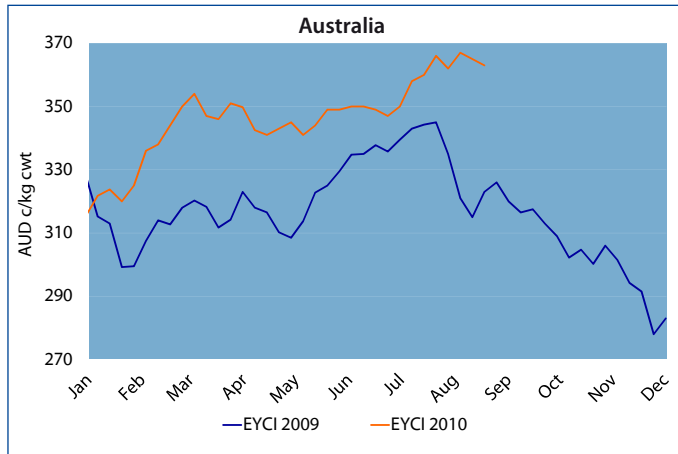
All shown as AUD c/kg cwt	Current (27/08/10)	Last month	Last year
Eastern Young Cattle Indicator (EYCI)	365	360	315

Source: NLR5/Rabobank

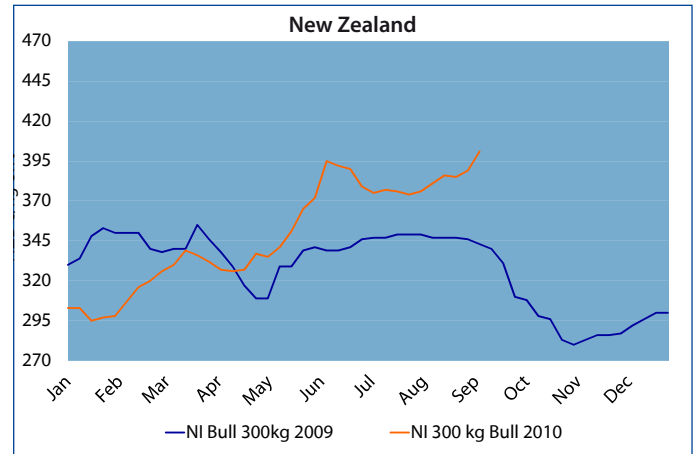
New Zealand beef prices

All shown as NZD c/kg cwt	Current (30/08/10)	Last month	Last year
North Island Bull 300kg	389	376	346
South Island Bull 300kg	356	344	319

Source: NZX Agrifax/Rabobank



Source: NLR5/Rabobank



Source: NZX Agrifax/Rabobank

Global

- The Indonesian Supreme Court has announced its decision to only recognise entire countries as FMD-free, rather than allowing state-based recognition. This overturns a decision by the Indonesian government in 2009 to allow imports on a state by state basis from Brazil. While no Brazilian beef had actually entered the market the overturning of the law is a positive for Australasian exports as it means that low-cost producers such as Brazil (and perhaps more importantly, India) will not be able to export fresh beef to Indonesia until all states are FMD-free.
- US imported lean beef prices lifted by US 5-10 cents/lb or 3-6% with prices now almost 30% higher than this time last year. US imported beef availability remains tight with lower shipments from both New Zealand and Australia, with Australian shipments in particular down by more than 30% year-on-year. Returns in markets other than the US are also proving attractive for exporters.

Australia

- Australian young cattle prices continued to climb during the past month, reaching AUD3.65/kg cwt at the end of August. This compares to AUD3.15/kg cwt for the same time in 2009. The improvement is largely due to wet weather across much of eastern Australia – this has impacted on supply to the market with the rainfall making it more difficult to muster and transport cattle, as well as giving re-stockers a boost of confidence that there will be sufficient feed and water availability in spring – leading to buyer interest rising from this group.

- While young cattle prices have risen strongly, producers looking to sell heavier cattle, particularly in northern Australia, are feeling the effects of the Indonesian government weight restrictions – which limit live cattle imports to under 350kgs live weight. This has seen prices for medium steers (400-500kg live weight) remain steady nationally, and decline by 4% compared to the same time last year. With the spring flush of cattle on the way prices should continue to ease over upcoming months.

New Zealand

- Farm gate beef prices continued to climb through August with prices now around 16% (or NZD0.50/kg) higher than last year. Bull beef prices lifted by up to 6%, while steer prices increased 8-10% during the month. Stronger pricing offshore has been the key driver alongside lower stock availability as slaughter volumes trail last year by around 15% on a weekly basis.
- While July exports were 6% higher than in July 2009, season to date volumes remain 2.4% (8,000 tonnes) lower. Compared to July 2009 monthly exports were lower to North America (-10%), Russia and the EU, while exports to other major destinations moved higher, particularly to Japan and Indonesia.

Lamb

Australian lamb prices

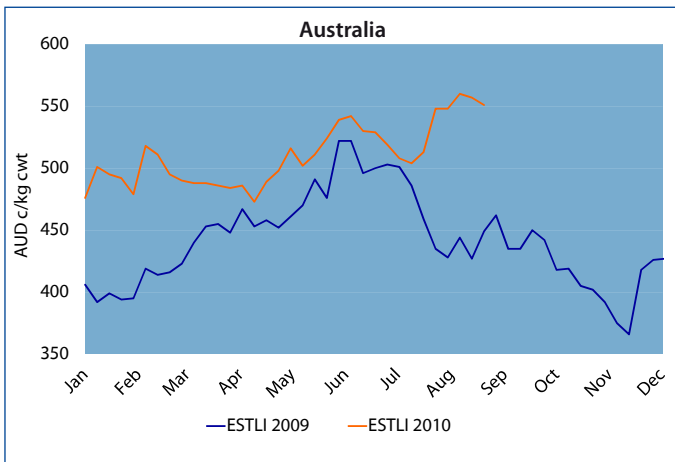
All shown as AUD c/kg cwt	Current (28/08/10)	Last month	Last year
Eastern States Trade Lamb Indicator (ESTLI)	557	513	427

Source: NLR/S/Rabobank

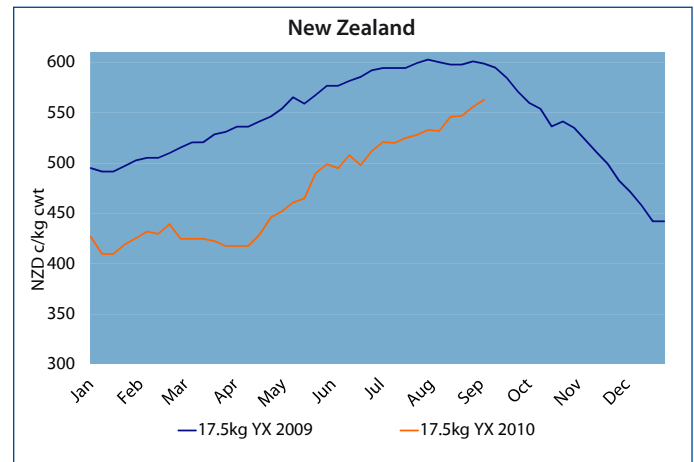
New Zealand lamb prices

All shown as NZD c/kg cwt	Current (30/08/10)	Last month	Last year
North Island 17.5kg YX	561	534	585
South Island 17.5kg YX	556	533	601

Source: NZX Agrifax/Rabobank



Source: NLR/S/Rabobank



Source: NZX Agrifax/Rabobank

Australia

- Lamb prices continue to ride the wave of tight supplies and high re-stocker demand, with the Eastern Trade Lamb Indicator surging to AUD5.57/kg cwt in the last week of August – well over one dollar a kilogram up on the impressive levels seen at the same time last year. Mutton prices also continue to impress at AUD4.14/kg cwt, a 50% rise on the same time last year and well up on the traditionally higher priced EYCI. As with cattle, prices for sheep and lambs should ease as supply rises with spring; however prices will remain above last year levels.
- Sheepmeat prices in China have reached record levels in late July of 38.3 Yuan/kg. Prices for both sheepmeat (and beef) in the Chinese markets rose rapidly in 2007, as tightening flock numbers impacted on local production. China is the largest producer of sheepmeat in the world, and has also become Australia's second largest export market for lamb – with China/Hong Kong taking 14% of exports (12,705 tonnes) so far in 2010.
- Australia's largest export market for lamb, the United States, has seen a further decline in the sheep flock in mid-2010, dropping to just under 7 million head. This is the fifth year in a row that the flock has fallen, and is expected to result in increased demand for Australian and New Zealand lamb imports in 2011.

New Zealand

- Lamb prices continued to increase through August, lifting by 5-6% or NZ25-30c/kg for the month. Farm gate prices are now only trailing last year by 3-6% (NZ 20-50c/kg).
- Lamb slaughter numbers are now around 20% lower on a weekly basis and July export volumes down 25% (7,000 tonnes) on the previous year. The cumulative fall year-on-year has been pronounced over the past three months with May through July volumes down 17% or nearly 17,000 tonnes from 2009.
- New Zealand exporters have also been enjoying the Chinese market. July export volumes were lower in absolute terms, but exports to China increased to 12.2% of total exports by volume compared to 10.3% in 2009. For the seven months to July 2010 China accounted for 7.7% of total sheepmeat exports.
- European local lamb prices have moved significantly higher, much earlier in the season than usual. EU heavy lamb prices are 9% higher than this time last year, while British prices are around 20% higher in euro terms. The EU market remains the key destination for more than half of New Zealand's sheepmeat exports and the firm market continues to bode well for prices over the coming season.

Dairy

World dairy prices

	USD/tonne			AUD/tonne			NZD/tonne		
	2/09/2010	Last month	Last year	2/09/2010	Last month	Last year	2/09/2010	Last month	Last year
Butter	4,100	3,950	2,250	4,521	4,389	2,691	5,750	5,512	3,328
SMP	3,100	2,963	2,275	3,418	3,292	2,721	4,348	4,134	3,365
WMP	3,313	3,150	2,550	3,653	3,500	3,050	4,646	4,396	3,772
Cheddar	3,925	3,900	2,775	4,328	4,333	3,319	5,505	5,443	4,105

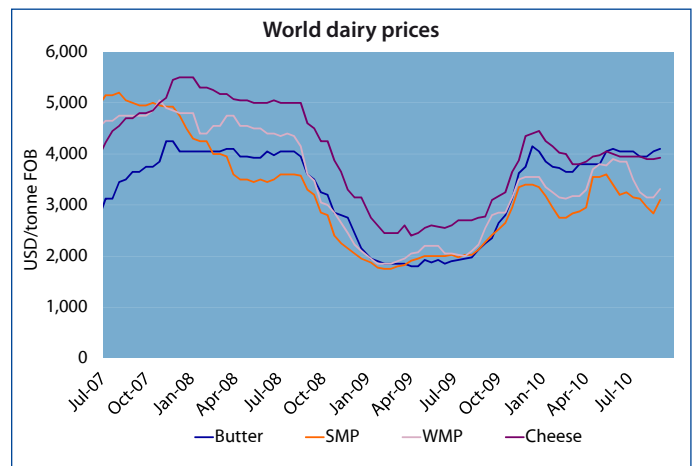
Source: USDA/Rabobank

Global

- After eight weeks in decline, international dairy commodity prices rallied in August/early September. The extent of the rally varied depending on which data you look at, with USDA surveys suggesting a 1%-5% price recovery in the month to September 2 and the gDT auction suggesting a 17% jump. But the key point in either case is that it drew to a close a period of decline and offset all ground lost through July (reported as modest by USDA and heavy on the gDT platform).
- The improvement in international prices appears to have been driven largely by demand side developments.
- Anecdotal evidence suggests that buyers held off as long as they could to take advantage of falling prices, and have now come back into the market with increased force.
- Russia (the world's largest dairy importer in 2009) also appears to have entered the market with renewed vigour in recent weeks, as drought conditions impact local milk production and leave processors short of product.
- These shifts appear to have more than offset any increased buyer comfort afforded by ongoing milk supply growth in the Northern Hemisphere and a promising start to the Southern Hemisphere season.
- With export supply availability expected to remain solid through coming months, and the temporary fillip of buyers re-entering the market after a period of strategic absence likely to pass, sellers will be hoping that Russian buying proves enduring and that the global economic recovery stays on track to underpin recent price gains.

Australia

- "It never rains, but pours" as the old adage goes, and in early September key southern milk production regions of Australia received the biggest deluge in around a decade, causing localised flooding and excessive soil moisture.
- The deluge is likely to impact near-term milk flow, as milk trucks struggle to access some regions and farmers and cows temporarily lose access to paddocks.
- However, it also underpins the best irrigation water allocations in years and, for many, set paddocks up for exceptional growth once they dry off somewhat and the weather starts to warm.
- Milk production certainly started the season on the right foot, to be up 3.2% in July, as farmers responded to strong milk prices, good margins over feed and favourable seasonal conditions.



Source: USDA/Rabobank

Production growth in key exporting regions

	Latest month	Last 3 months
EU 27	2.0% (Jun)	0.9%
US	2.9% (Jul)	2.2%
Argentina	11.1% (Jul)	5.0%
Australia	4.6% (Jun)	4.1%
New Zealand	5% for 3 months to Aug 2010*	

*Rabobank estimate

New Zealand

- Good soil moisture and relatively mild spring conditions to date have boosted the start to the New Zealand season. While still very early days, initial indications are that milk flows are around 5% higher than the same period last year.
- Canterbury dairy producers are dealing with the impact of the September 4th earthquake – which primarily disrupted electricity supplies and water. However, temporary arrangements are being put in place for milking cows and it is still early in the season so milk flows are only just now starting to gather pace. The greater Canterbury region accounts for around 16% of New Zealand's milk production annually.
- Milk producers have been encouraged by payout announcements with Fonterra holding its original 2010/11 season forecast and Westland increasing its forecast to NZD6.50-6.90/kgMS, levels comparable to Fonterra's milk price forecast.

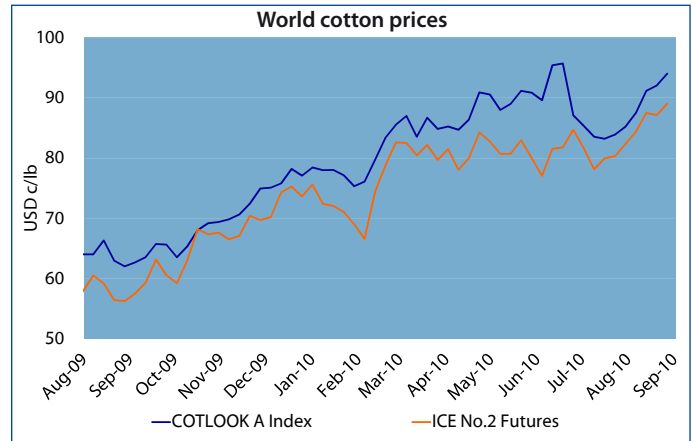
Cotton

World cotton prices

All shown as USD c/lb	Current (27/08/10)	Last month	Last year
Cotlook A Index	94.00	85.20	62.05
ICE No.2 NY Futures (nearby contract)	89.03	82.36	56.30

Source: Bloomberg/ICE/Rabobank

- Cotton futures rallied through August and recently hit a two and a half year high above US\$89c/lb in response to expectations of rising demand and low stockpiles. China's demand grew at a faster-than-expected pace in August and the prospect of further demand increases from the world's largest consumer of cotton, coupled with the lowest fibre inventories in eight years, sent prices soaring.
- With the futures price now above US\$90c/lb, and US exports up 24% to China this year suggestions have been raised that cotton futures could reach a 15 year high above US\$94c/lb. Indian demand is also strong and is expected to increase by 9% this year.
- Following recent rainfall events over NSW and QLD, confidence has improved in dryland crops in Australia and record dryland cotton areas are expected this season, estimated at over 100,000 ha.
- US cotton output is expected to rise by 50% this year to 18.8 million bales, up from 12.2 million last year.
- The severe floods in Pakistan have destroyed 700,000 acres of



Source: Bloomberg/ICE/Rabobank

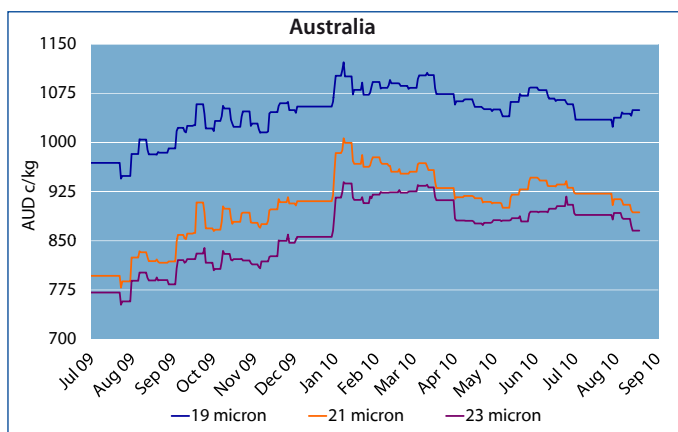
planted cotton to date and production has been revised down by 17% to 8.75 million bales. As a result, Pakistan is likely to increase imports by around 70% or 3.5 million bales.

Wool

Australian wool prices (eastern)

All shown as AUD c/kg clean	Current (31/08/10)	Last month	Last year
Fine (19 micron)	1050	1035	982
Medium (21 micron)	894	922	819
Broad/coarse (23 micron)	866	890	790

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



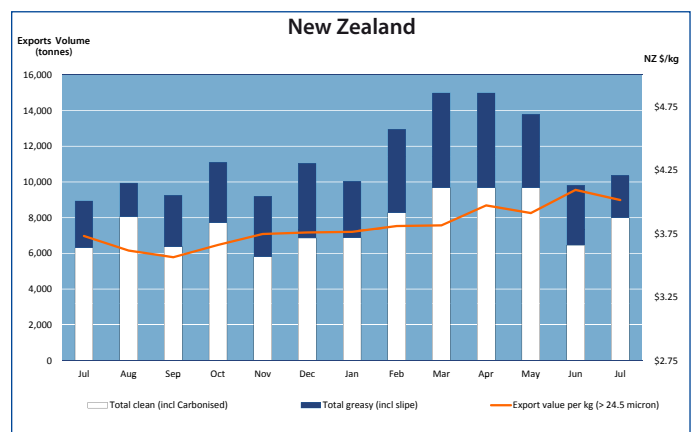
Source: Rabobank, Bloomberg/AWEX (average north and south prices)

- Fibre prices – cotton and wool – have been reflecting similar drivers of strong interest from Chinese mills, and varying degrees of supply-side tightness. Higher cotton prices have improved wool's relative competitiveness, which has underpinned wool's attractiveness to the end-user.

New Zealand wool prices

Average FOB export value (NZD/kg)	Current (July 2010)	Last month	Last year
Fine <24.5 micron	\$7.26	\$8.49	\$9.93
Broad/coarse >24.5 micron	\$4.01	\$4.09	\$3.73

Source: Statistics New Zealand/Rabobank



Source: Statistics New Zealand/Rabobank

- Prices have weakened somewhat over August, as supply conditions improved following the traditional mid-year auction break. Quality wools came under the most pressure, in line with the general global recovery story looking more uncertain. Ongoing interest by Chinese mills will continue to support the wool market, although prices may still drift lower as greasy wool availability improves seasonally.

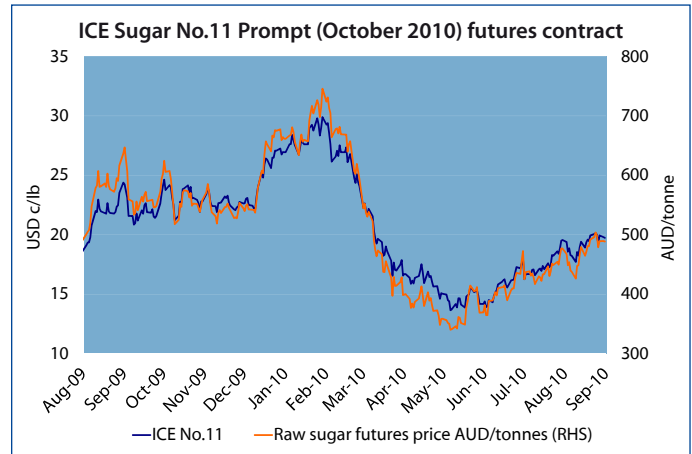
Sugar

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

	Current (31/08/10)	Last month	Last year
USD c/lb	19.75	19.57	24.39
Converted to AUD/tonne	488.90	477.16	637.17

Source: Bloomberg/ICE/Rabobank

- The sugar price continued to rise during August, pushing above US20c/lb on the back of short term supply constraints and low stocks in a number of major importing countries.
- Domestically, this season's harvest and crush is progressing well despite intermittent setbacks due to rain and labour strikes at mills. The crush is expected to flow in to December or later should La Niña weather conditions hold up the harvest. The long 2010/11 season is likely to weigh on next season's yields as growing time will be shortened.
- Logistical hold-ups in Brazilian ports have eased, however dry weather is now the key supply risk factor. UNICA has downgraded production forecasts for Brazil's Center South, which is the world's largest sugarcane producing region. Further production downgrades are possible should dry conditions persist beyond September. With La Niña conditions at play, Brazil is likely to experience dry conditions into 2011.
- Weather related supply concerns are also held for beet production in Russia and the EU and cane production in Pakistan, Indonesia and South Africa.
- However the Indian monsoon - the main source of irrigation for Indian farmers – has strengthened and near average rainfall conditions have boosted production prospects to 22 million



Source: Bloomberg/ICE/Rabobank

tonnes. Should Indian production meet expectations, imports may not be required and surplus stocks could be exported.

- Chinese import demand is also set to surge by more than 40% to 1 million tonnes in 2010 year-on-year following low levels of domestic production for two consecutive years. Strong Chinese demand, coupled with production downgrades in Russia, Pakistan and Indonesia, may extend the futures price rally.

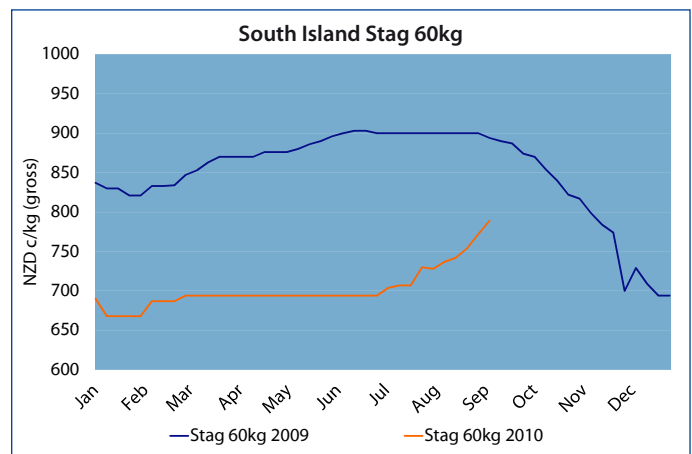
Venison

New Zealand venison prices

All shown as NZD c/kg gross	Current (30/08/10)	Last month	Last year
North Island Stag 60kg	753	708	855
South Island Stag 60kg	772	728	900

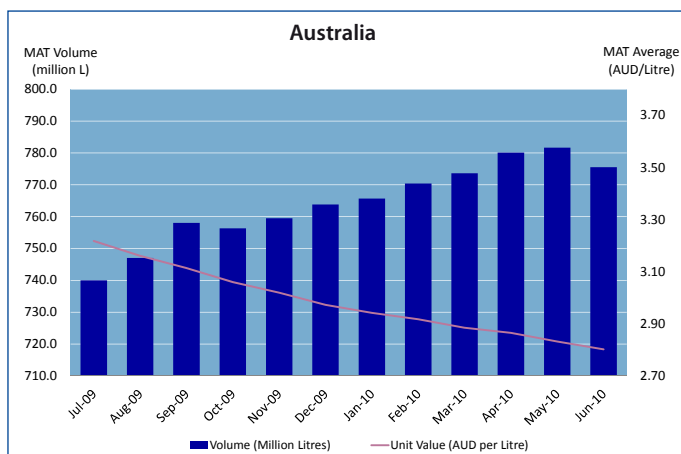
Source: NZX Agrifax/Rabobank

- Venison prices have continued to push higher through August as the chilled export season gets underway. Farm gate prices increased by around NZD0.50/kg (7%) during the month, on top of the 4% increase last month. Prices are still 11% (NZD0.90-1.05/kg cwt) lower than in 2009; however as the NZD/EUR exchange rate is 18% higher this points to the current strength of offshore product prices.
- Export volumes increased year-on-year for the second month in a row with July exports 41% higher than in 2009. While still the low part of the production season and with chilled exports now underway this points to an encouraging trend that some stabilisation of the herd and production volumes is becoming evident after almost three years of sharp declines.



Source: NZX Agrifax/Rabobank

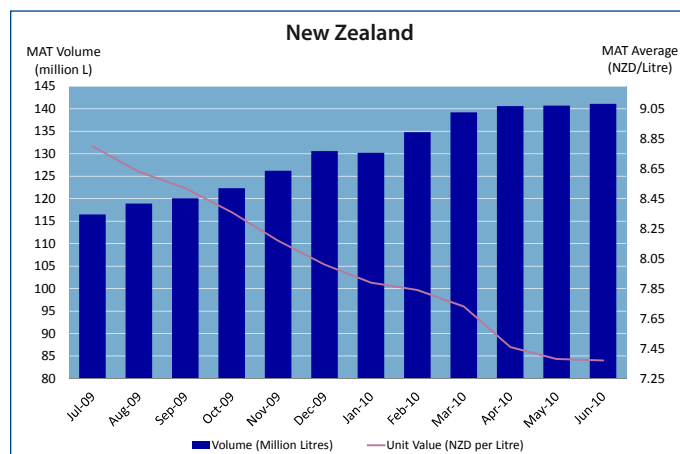
Wine



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

Australia

- Australian wine export sales volumes in the 12 months to June 2010 increased 3.3% to 775.5 million litres (ML), while the FOB value of exports decreased 10.5% to AUD2.17 billion. The monthly average export unit value in May declined by 10.4% on the prior corresponding period to FOB AUD2.87/litre, with the value of bottled wine exports decreasing 1.7% on the prior corresponding period to FOB AUD4.36/litre (AWBC, 2010).
- The major markets for Australian wine in the year to June 2010 stayed largely the same as a year earlier, however in-market trends were somewhat divergent. The volume of bottled wine shipments to the UK declined at the expense of bulk shipments, which would seem to indicate a further transition to off-shore bottling practices by major wine companies in that market. Off-shore bottling practices were also believed to be responsible for a significant share of the increased bulk shipments into Canada (up 86%) and New Zealand (up 264%). The US market remained the number one market by value despite recording declines in the volume of bottled and bulk wine shipments.
- In the year to June 2010 China consolidated its position as Australian wine's fourth largest market in terms of volume (45.9ML) and value (AUD143.3 million). While the volume of bulk shipments more than doubled during the course of the year and represent over half of all shipments, the volume of bottled shipments increased by over 50% at the highest average unit value of Australia's top 10 volume export markets. The growing significance of this market becomes even clearer if considered together with Hong Kong. While the value of shipments to Hong Kong declined marginally by 2.9% to AUD42.0 million in 2009-10, average unit values increased 3.0% to AUD7.61 FOB. Further, this market's role as a duty free trading hub is expected to play an increasingly significant role in the global wine trade and development of the mainland Chinese wine market.



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

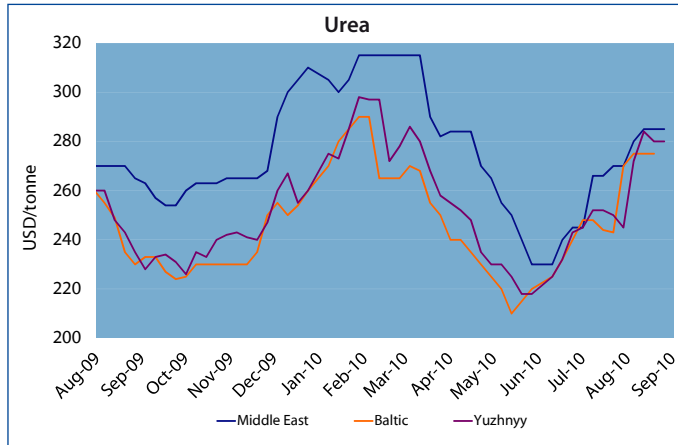
- New Zealand wine export sales increased 4.3% in June 2010 on the prior corresponding period to 9.6 million litres. On an annualised basis, shipments in the 12 months to June 2010 grew by 25.3% on the prior period to 141.1 ML.
- Bulk wine shipments represented 24.0% of export shipments in the month of June and averaged 26.9% over the prior twelve month period. While bulk shipments remain elevated, exports of bottled wine have maintained a growth trajectory, recording a modest 2.8% increase in June on the prior corresponding period and have increased 15.1% on an annualised basis.
- The annual value of exports in the 12 months to June 2010 remained steady at around NZD1.04 billion. The average unit value of exports in June increased 3.5% on the prior month to FOB NZD7.64 per litre and has recovered strongly following a momentary dip in the average value below NZD7 per litre over the vintage period. The average value of bottled wine shipments rose to its highest level thus far in the 2010 year to NZD8.94 per litre, however exporters continue to struggle with a New Zealand Dollar resting at around 12 month highs against the USD, GBP and EUR.
- Major markets for New Zealand wine exporters in the year to June 2010 remained relatively consistent compared to a year ago. The major exception was China which is now listed by the New Zealand Winegrowers Association as consuming over 1.5 million litres of New Zealand wine. Of the major markets, Canada continues to command the greatest price premium for New Zealand wine producers while still recording annual volume growth of 42.7% to reach 7.4ML in 2009-10.

Fertiliser

Fertiliser prices

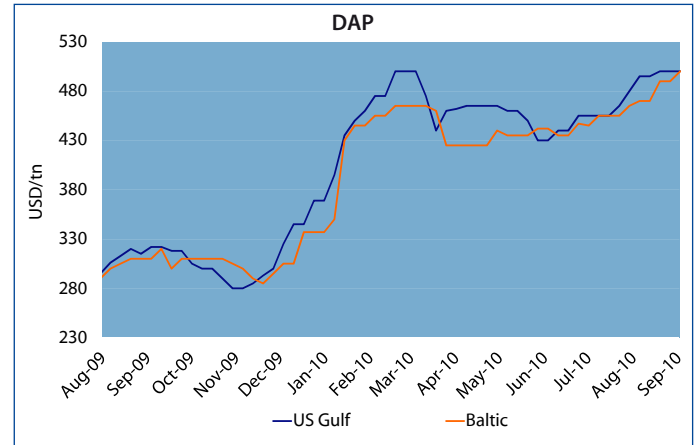
All shown as USD/tonne	Current (26/08/10)	Last month	Last year
Urea (Middle East)	285	270	265
DAP (US Gulf)	500	480	315

Source: Bloomberg/ICIS/Rabobank



Source: Bloomberg/ICIS/Rabobank

- DAP prices have hit their highest levels since November 2008, reaching USD500-520/tonne. Strong demand from Europe and the US buoyed prices, while further tightening of inventories also supported higher prices. Strong DAP demand from Brazil and Argentina has also been a factor.
- Improved availability due to strong Chinese exports in August is likely to halve in September as the window for the lower export tax rate closes until mid-October. This will be price supportive, with DAP input costs also staying elevated, keeping margins tight for manufacturers. Near-term prices are expected to edge higher, but by the end of the year prices should have moderated somewhat as supply starts to catch up and demand eases.



Source: Bloomberg/ICIS/Rabobank

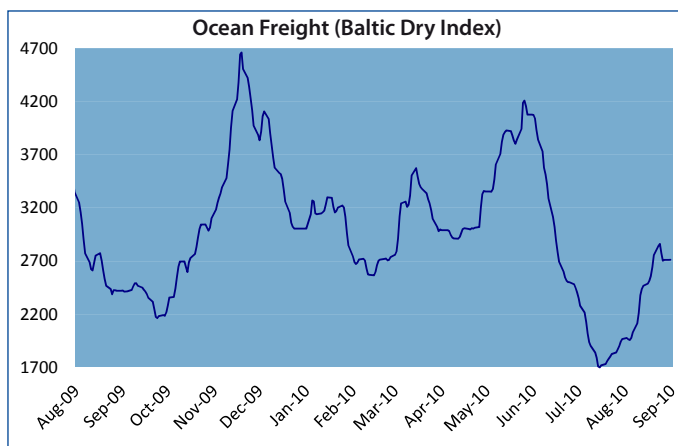
- Urea markets have firmed, with the upturn in prices from the mid-year trough likely to drift sideways in the near-term. Urea producers in Ukraine have the potential to open up capacity that is currently sitting idle. However, high domestic gas prices have kept producer margins tight, even as prices edge higher. Urea prices are expected to begin moderating early in 2011, while still holding at a higher level than has been historically the case – in a range between USD260-280/tonne.
- Domestic urea availability should improve in the next year or so, particularly as Australian-based urea producer Perdaman gets the green light from the Federal Government to commence building a urea plant in Western Australia. The new plant will have a build cost of an estimated AUD3.5 billion.

Other costs

Ocean freight index and oil prices

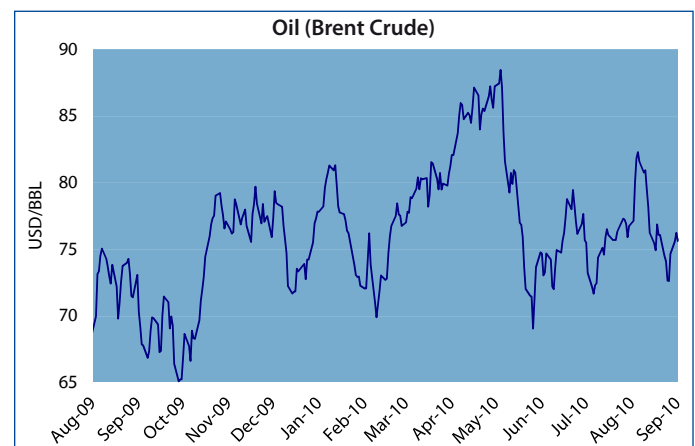
	Current (31/08/10)	Last month	Last year
Baltic Dry Index* (ocean freight)	2713	1967	2421
Brent Crude Oil (USD/bbl)	76.26	76.76	73.10

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

Devonport (03) 6424 0000
Hobart (03) 6270 2230
Launceston (03) 6323 1700
Smithton (03) 6452 0100

Victoria

Ballarat (03) 5334 4900
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

Corporate and Food and Agribusiness Banking

Auckland (09) 375 3701
Christchurch (03) 341 4219
Hamilton (07) 834 7755
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