Rabobank

June 2010

Agribusiness Review

Australia and New Zealand

Rabobank Group
Food & Agribusiness Research and Advisory (FAR)

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Contents

Report highlights

- May brought welcome rainfall across most of Australia, excepting Queensland, and also saw warm temperatures across much of Australia. However water storage levels in the Murray-Darling Basin have improved only marginally, and the outlook across many cropping regions is for below average rainfall. New Zealand also experienced welcome rainfall across many dry areas, and the outlook is for average rainfall and warm weather for winter. The El Niño event across the Pacific has officially finished.
- While the global economic recovery continues, sentiment has turned and the impacts of the European debt crisis have spanned virtually all markets. The outlook for Asian economies remains strong, and the US outlook is also positive even though recent jobs data has disappointed. The Australian economy continues to expand, although is not unaffected by the softening in global demand and the withdrawal of stimulus spending. As a result the Reserve Bank of Australia held the Official Cash Rate (OCR) at its May meeting. In New Zealand the recovery is also growing gradually, although it is not without its points of fragility. The Reserve Bank of New Zealand is expected to increase the OCR this month or next.
- The Australian and New Zealand dollars have shifted down as a result of global risk aversion; both are down almost 10 percent against the US dollar in May.
- Global grain prices have been affected by the European debt crisis with investor sentiment pushing global wheat prices to their lowest levels since September 2009. Good seasonal conditions along Australia's east coast have continued, raising expectations for the domestic crop; canola is also benefitting from a return to crop rotations.
- Global beef prices remain flat, although cattle prices in Australia and New Zealand have stayed well above their 2009 levels, and the depressed levels of local currencies suggest there may be room for further modest rises. Lamb and sheepmeat prices remain firm, backed by strong demand and restricted supply.
- Global dairy prices remain firm, slipping only a little in recent trade auctions despite an increase in the US dollar; the combination of strong pockets of demand and sustained falls in production have made dairy prices indifferent to the recent European debt crisis. The outlook for milk pricing is also positive.
- Oil prices have slipped over the last month, following the market sentiment, and have been trading around the USD70/barrel mark.

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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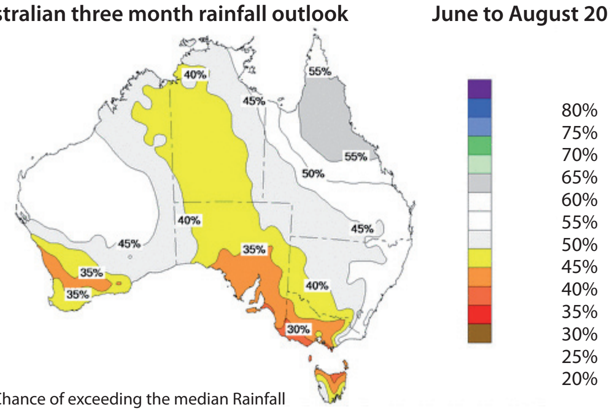
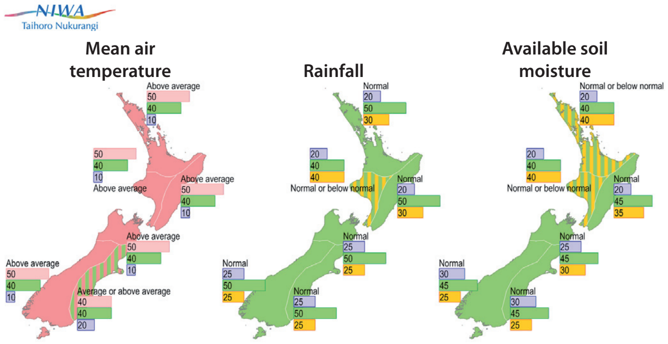
Climate

Australian three month rainfall outlook **June to August 2010**



Chance of exceeding the median Rainfall
June to August 2010
Product of the National Climate Centre

New Zealand three month outlook **June to August 2010**



Key to maps (example interpretation)
Below normal
Upper tercile: 20% chance of above normal 20
Middle tercile: 30% chance of normal 30
Lower tercile: 50% chance of below normal 50

In this example the climate models suggest below average conditions are likely (50% chance of occurance), but, given the varliable nature of the climate, thae chance of normal or above normal conditions is also shown (30% and 20% respectively).

Australia

- May daytime temperatures were above average across most of the country, the exceptions being northern Western Australia and central areas of the Northern Territory. Average overnight temperatures were more mixed with mostly well-above-normal temperatures in the northern tropics, below-normal in the eastern states and average temperatures in most other areas.
- Winter daytime temperatures are likely to be warmer-than-normal for most of the country, and warmer-than-normal overnight temperatures are likely for most of Western Australia, the Northern Territory and Queensland.
- May was a wet month for much of the country, with Queensland, where statewide rainfall was 48% below normal, the main exception. For the first time this decade, there was above-average autumn rainfall across the Murray Darling Basin catchments.
- According to the New South Wales Department of Primary Industries, May marked a significant turning point in the state's drought. Latest figures show almost one third of the state has moved out of drought, with just under 8% of the State remaining. However, more than half of New South Wales is marginal and without continued rain in these areas to build up soil moisture, could slip back into drought; large water storages are still low, at only 28.8%.
- The national outlook for total winter rainfall shows an increasing chance of a dry season across many southern cropping districts. Part of the Western Australian wheatbelt, most of the cropping areas of South Australia and much of southern Victoria and Northern Tasmania are expected to be dry.

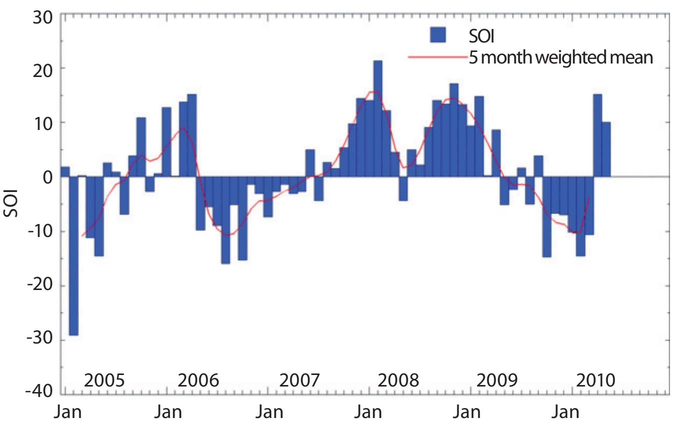
New Zealand

- The first week of June has seen winter well and truly arrive with both temperatures and rain falling, especially in eastern areas of both islands, bringing soil moisture to capacity in most regions. However, the cold temperatures may mean there is little chance for pasture growth to benefit from the rain at this stage.
- Despite the cold start, the NIWA National Climate Centre outlook for winter is for above average temperatures (with typical winter cold spells and frosts at times) and near or slightly below-average rainfall for this time of year across most of the country.
- This should result in near-normal soil moisture over most of the country apart from the north and west of the North Island, which may experience slightly below normal soil moisture levels.

El Niño

- The El Niño event across the Pacific Basin has officially finished with conditions returning to neutral. Most leading climate models indicate further cooling during winter, with the possibility of an La Niña event developing late winter or spring.
- While La Niña generally brings wetter and cooler conditions over much of Australia and the north of the North Island of New Zealand, and less rainfall to the south and southwest of the South Island, this can vary depending on the particular season and region.
- Although the Southern Oscillation Index (SOI) fell slightly from +15 to +10 in May, it still remains firmly in positive territory. Sustained periods of +8 and above are a further indication of the likelihood of a La Niña event.

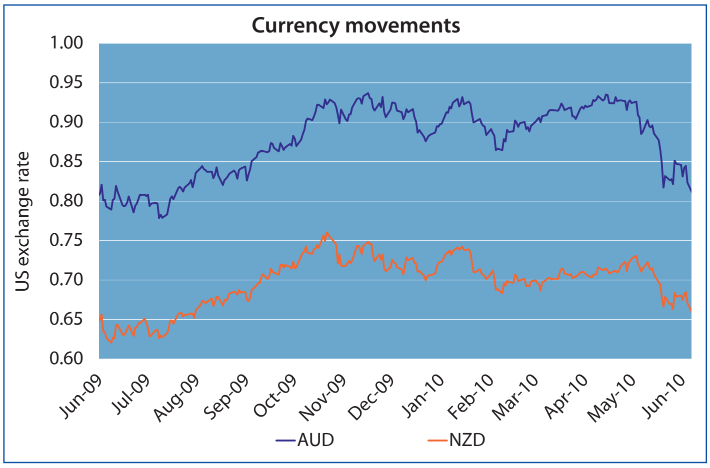
Southern Oscillation Index **2 June 2010**



Currency/economy

Currency USD			
	Current (07/06/10)	Last month	Last year
AUD	0.8104	0.8880	0.7892
NZD	0.6587	0.7144	0.6205

Source: Bloomberg/Rabobank



Source: Bloomberg/Rabobank

Global

- Sentiment has clearly turned, with the European sovereign debt crisis the obvious catalyst to increased concerns that the global recovery may be stumbling. Recent turbulence has spanned virtually all markets – from stocks and bonds to foreign exchange and commodities. Notwithstanding, Rabobank stands by its call that the overall growth impact of this debt crisis will be limited, and put low odds on a double-dip recession at this stage.
- The Asian expansion continues to shape; Indian gross domestic product (GDP) expanded by a robust 8.6% year-on-year (yoy) in Q1 2010. While industrial indexes have softened across Asia, for China, this deserves more of a cheer than a jeer. A slowdown in domestic activity is exactly what is needed to rein in current inflation pressures and prevent the economy from overheating.
- Nevertheless, recent US jobs data has been disappointing, and this will shape expectations to the broader recovery, at least until better data is found.

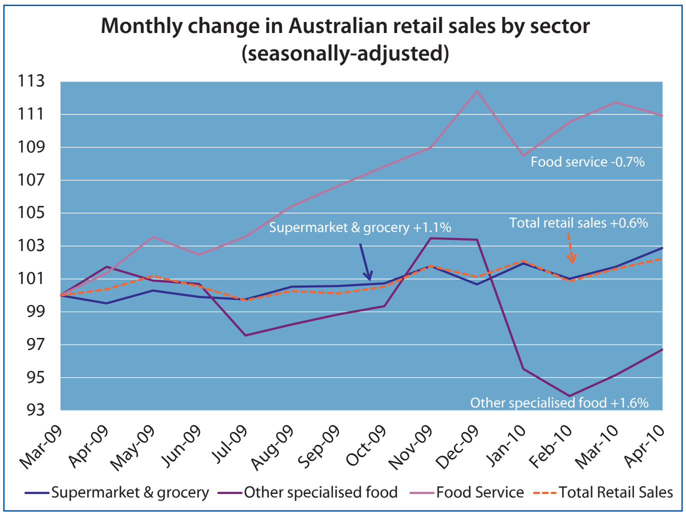
Australia

- The Australian economy started 2010 modestly. Although GDP expanded by a solid 0.5% quarter-on-quarter (qoq) and 2.7% yoy, this was mostly government expenditure. Private investment was stagnant and the housing boom had geared down.
- Aside from current financial market jitters, Rabobank does anticipate the pace to improve in the 2H 2010, underpinned by improved labour market indicators and planned business activity. Concerns remain, however, the biggest being if private investment falters, then we shall be in for a more protracted softening.
- The Reserve Bank of Australia (RBA) recently held the cash rate at 4.5%, its first pause since February. Inflation data is now likely to be a key to RBA moves over the rest of this year and the next. Rabobank's view of two hikes with certainty has evolved to perhaps two, but increasingly likely just one. This would leave the official cash rate (OCR) at 4.75%, not 5% as first thought.
- The Australian dollar (AUD) has borne the brunt of a sharp pick-up in risk aversion, slipping almost USD0.1 to be trading near USD0.81 currently. The recent flight to the US dollar (USD) has been somewhat overdone, in the bank's view. This is expected reverse in Q3 2010, lifting the AUD from current levels back to a trading range above USD0.85. That said, more negative news could usher the AUD below USD0.80 level in the near term.

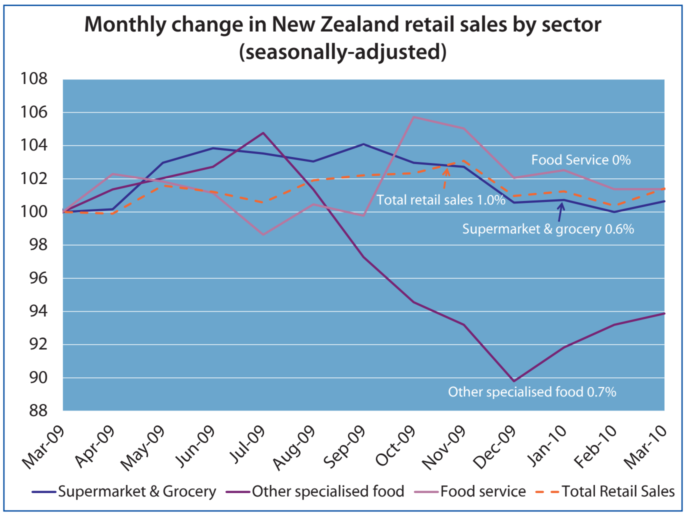
New Zealand

- The economic recovery in New Zealand is underway. However, with households still deleveraging, a more gradual recovery than usual is anticipated for this year at least. Outside of a meltdown in the global economy, Rabobank still expects growth to gather pace in the 2H 2010, as the boost to the terms of trade lifts incomes.
- After more than a year on the sidelines, Rabobank views a 25 basis point rise by the Reserve Bank of New Zealand (RBNZ) as imminent and clearly planned, with a June shift highly likely. Recent events provide an excuse to hold, so while a hike is expected, there would be no surprise if the RBNZ changed its mind.
- For the New Zealand dollar (NZD), putting current near-term volatility aside, higher dairy prices and local interest rates should support the currency against the USD from Q3. Against the AUD, it is expected to head lower as Australia continues to outperform on the growth front. Near term: USD0.65-0.70; 2H 2010: USD+0.70.

Food retail



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



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

Australia

- Seasonally-adjusted Australian retail trade turnover increased by 0.6% in April 2010 on the prior month and 1.8% on an annualised basis. Retail sales remained flat in trend terms, reflecting both the prior impact of government fiscal stimulus and recent successive rises in the OCR. Seasonally-adjusted total food retail turnover increased at just over twice the rate of broader retail sales in April, while food service declined 0.7% on the prior month, led by a an unexpectedly strong 2.6% decline in café and restaurant sales.
- Full-year results announced by independent wholesaler Metcash Limited pointed to tougher prior period comparisons due to the cycling of the fiscal stimulus in 2008-09. Like its competitors, the IGA chain has implemented a broad based long-term grocery discounting strategy across its network which has helped the retailer maintain its market share against its two major competitors. It was suggested that retailer margins are not being impacted by discounting activity, which suggests that those FMCG companies involved are shouldering margin pressures in order to grow volumes.
- Consumer confidence declined 7% in May which represents the index's biggest fall since February 2009 (Westpac-Melbourne Institute, 2010). This result was anticipated as a third successive rise in the OCR on 4 May 2010 sent standard variable home loan rates over 7% p.a., a level that has been a historical threshold for consumer confidence, and made even more prescient at a time when household indebtedness remains at historically high levels. Equity market weakness on the back of renewed recovery fears stemming from the EU's financial market jitters, as well as signs of some slowing in the property market, would also have dented consumer confidence.

New Zealand

- Combined food prices fell 0.5% in April, returning prices to levels seen in late 2009. This brings annual movements for the year to April 2010 to +0.4%, but this is expected to move higher over coming months as seasonal increases impact fresh produce and attractive export returns lift local pricing.
- Meat prices have dropped across all sources in April. Beef and sheepmeat prices are both down 5%, poultry is down 3.2% and fish prices fell 2%. Dairy basics like milk were up 4.5%, but the impact of these increases has been moderated on the back of seasonal reductions in fruit and vegetable pricing.
- Grocery food prices are up 2.3% for the year to April. Broadly speaking, the easing of grocery prices experienced at the start of the year has now reversed. This is due to earlier higher costs of ingredients, such as sugar, flowing through to consumer items. These price rises have been seen in soft drinks (1.9%), snack foods (4.1%) and chocolate biscuits (7.7%), all impacting on the grocery basket. While the costs of ingredients such as sugar have fallen from their peak in February, related grocery prices will remain elevated as wholesalers run down stocks purchased at the higher price levels. Other inputs, like dairy fats and milk proteins, are still elevated and will strongly influence the price of manufactured goods in coming months.
- Seasonally-adjusted retail trade turnover figures released by Statistics New Zealand show spending rose in 1% in March.
- Combined spending on out-of-home food consumption remained flat for the month but significant trends continued within the sector. Takeaway spending increased 1.1% to NZD115 million, while cafés and restaurants continued to take the pressure of dealing with declining spending for the fifth month in a row.
- Grocery and supermarket consumer spending increased in March 2010 by 0.6%. However, comparing seasonally adjusted spending in the Q1 2010 to the Q4 2009 it shows a decline from NZD4.084 billion (Q4 2009) to NZD3.784 billion (Q1 2010).

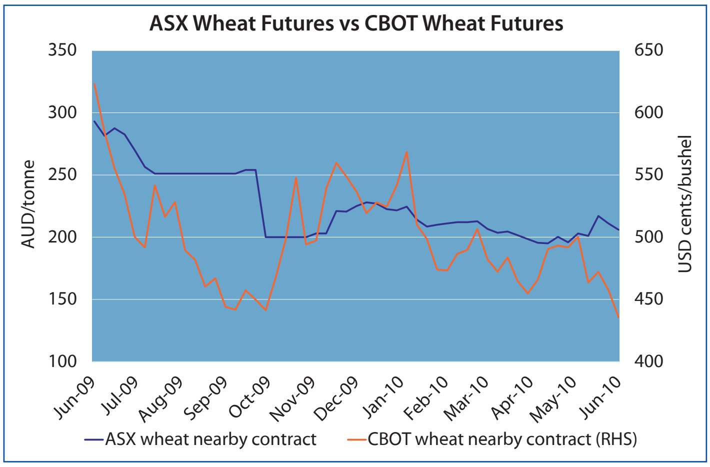
Grains and oilseeds

ASX wheat prices	Current (04/06/10)	Last month	Last year
AUD/tonne	206	203	293

Source: Bloomberg/ASX/Rabobank

Chicago Board of Trade Wheat Futures (nearby contract)	Current (04/06/10)	Last month	Last year
USD c/bushel	435	500	623

Source: Bloomberg/CBOT/Rabobank



Source: Bloomberg/CBOT/ASX/Rabobank

Global

- International grain markets have joined the European debt-driven commodity sell-off, with CBOT wheat prices in US dollar terms slumping to their lowest levels since September last year. Prices at these levels last year sparked a USD1/bushel rally, but with such negative sentiment in markets, and the US winter wheat harvest getting underway, a repeat of this seems unlikely at this stage.
- Price developments for wheat from here will be determined by whether or not expectations of good harvests globally will be confirmed – current forecasts show the third biggest crop ever.
- On the demand side, global consumption of wheat is expected to rise almost 4%, with higher feed grain use a key driver. Nevertheless, total demand will fall short of supply for another year leading to a third consecutive build in global stocks. Rabobank expect stocks to rise to their highest levels in nine years.
- Corn has also felt the heat, stumbling to a nine-month low on a weaker economic outlook for the US, lower oil prices and a robust supply outlook. With oil prices dropping back toward USD70/barrel and some economists reversing previous higher US growth forecasts, ethanol prices have eased. Lower demand from US ethanol producers and fading import interest from Chinese buyers will keep a lid on near-term corn prices.

Australia

- Beneficial rainfall in recent weeks has supported a positive start to Australia's winter cropping season. At this stage, East Coast wheat plantings are more advanced, nearing completion in many areas with Western Australia - around 40% of Australia's wheat crop - now in full swing following an improvement in moisture levels. Rabobank forecasts Australia's wheat area to decline by 5% from the previous year to around 13 million hectares.
- With ideal crop conditions in many regions upside potential does exist for the current forecast 21.8 million tonnes (mt). However, at this stage high risks can be attached to any forecast. Last year disappointing spring conditions significantly reduced yield and grain quality.
- The pace of Australian wheat exports toward the end of 2009 has weakened somewhat. On a marketing year-to-date basis (October to September), wheat exports are now lagging behind the previous year's level. However, the recent slump in the AUD versus the USD translated into increased interest in Australian wheat. The export pace is expected to pick up in June as a result.
- Canola in Australia has benefitted significantly from the swing back to crop rotations this year - from wheat to alternative crops with better returns. Rabobank forecasts area to increase by around 16% in 2010/11, with New South Wales the largest contributor to this increase. Currently, production is forecast to exceed 2mt, although if follow-up rains are not received in Western Australia - the largest producing state - this estimate could be downgraded.
- New season contract prices are currently being offered at around AUD420/tonne. The current fall in the AUD has generated a selling opportunity, particularly as big global oilseed crops are expected this year. A larger global crop is likely to start putting downward pressure on oilseed prices around the time the Australian harvest begins.

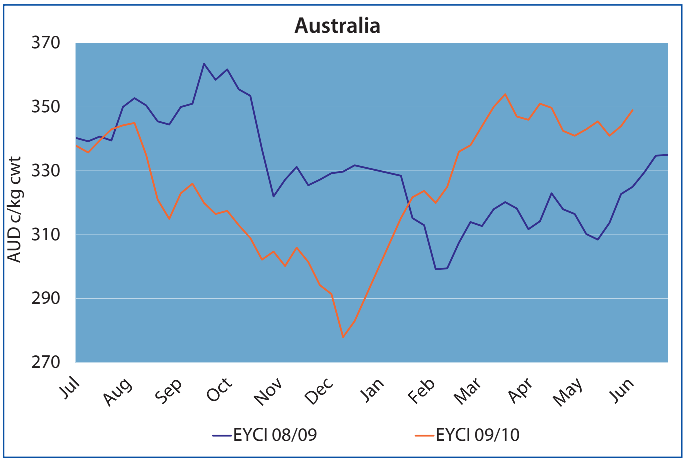
Beef

Australian beef prices			
All shown as AUD c/kg cwt	Current (04/06/10)	Last month	Last year
Eastern Young Cattle Indicator (EYCI)	349	343	325

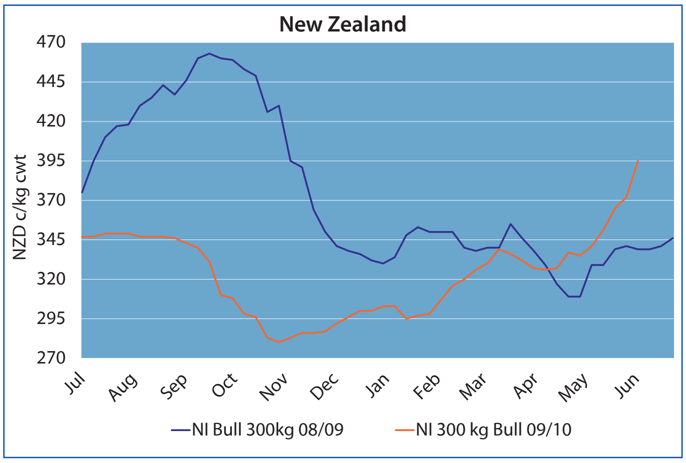
Source: NLRS/Rabobank

New Zealand beef prices			
All shown as NZD c/kg cwt	Current (07/06/10)	Last month	Last year
North Island Bull 300kg	395	341	339
South Island Bull 300kg	326	311	312

Source: NZX Agrifax/Rabobank



Source: NLRS/Rabobank



Source: NZX Agrifax/Rabobank

Global

- Japan continues to work on controlling an outbreak of foot and mouth disease (FMD), which was first discovered in April. Since that time almost 120,000 hogs and cattle have been designated to be culled. At this stage the FMD outbreak appears to have had little impact on Japanese consumers. In order to concentrate on containing the disease the Japanese government has postponed meetings with the US government to discuss the easing of import restrictions on US beef into Japan.
- US manufacturing beef prices have suffered from cautious buying and the announcement of a further CWT round for dairy herd retirement. Prices fell around USD 10 cents/lb or 6% over the past month for both imported and domestic lean beef, but still sit around 20% higher (USD 25-30 cents/lb) than in June 2009.
- Argentina's beef exports are coming under pressure again with volumes unlikely to fill the lucrative EU Hilton Quota this year. The combination of a smaller cattle herd after the 2009 drought, government policies to limit domestic price increases and the local demand for beef is expected to lower export volumes considerably.

Australia

- Australian cattle prices continued to hold well above 2009 levels, with the EYCI ending May at AUD3.44/kg, 7% above the same time last year. Once again rainfall has played an important role in providing price support, with good falls around the country tightening supply. There also appears to be some signs increased demand coming from processors, with prices rising for heavier cattle categories such as Japan Ox. Prices for all cattle should continue to rise over upcoming months, with a seasonal tightening of supply in southern Australia combining with a lower Australian dollar.
- The short-term outlook appears more uncertain for cattle producers in northern Australia. The Indonesian government has reduced the number of import permits available for live cattle. It is also enforcing weight limits for live cattle imports to the market, with cattle only allowed up to a maximum of 350kgs liveweight. The move has come in response to concerns from local Indonesian producers that large amounts of beef and live cattle imports in late 2009 and early 2010 have contributed to a decline in domestic cattle prices.

New Zealand

- The strengthening in offshore manufacturing beef prices over recent months is now being reflected in farm gate prices with sharp movements higher over the past month, particularly in the North Island. Bull beef prices lifted 16% in the North Island and 5% in the South Island, while manufacturing cow prices moved up by 10-25%. Differences of NZD 60-70 cents/kg in schedule prices are likely to reflect the sharp fall in North Island slaughter throughput compared to last year.
- April beef export volumes increased 6% year-on-year, but value increased 9%. The monthly volume increase is largely due to higher slaughter rates earlier than usual in the season.

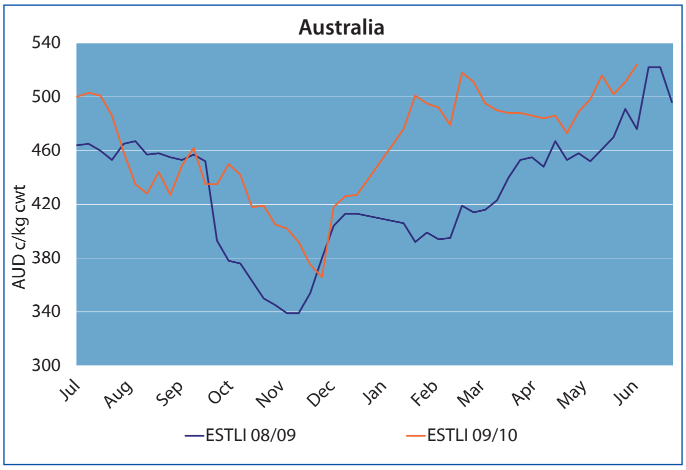
Lamb

Australian lamb prices			
All shown as AUD c/kg cwt	Current (04/06/10)	Last month	Last year
Eastern States Trade Lamb Indicator (ESTLI)	524	498	476

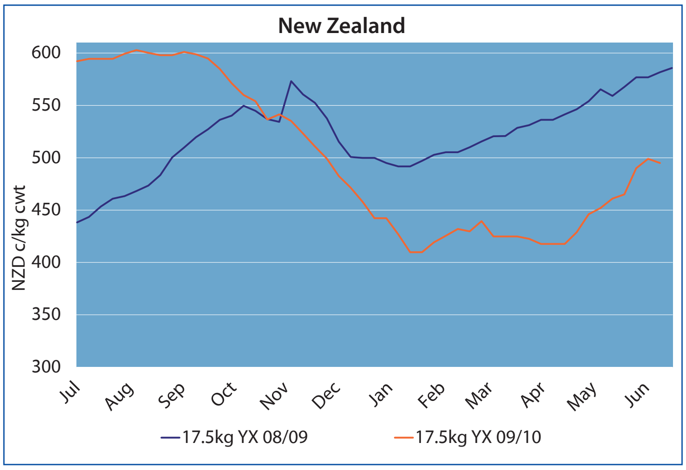
Source: NLRS/Rabobank

New Zealand lamb prices			
All shown as NZD c/kg cwt	Current (07/06/10)	Last month	Last year
North Island 17.5kg YX	510	477	583
South Island 17.5kg YX	495	461	577

Source: NZX Agrifax/Rabobank



Source: NLRS/Rabobank



Source: NZX Agrifax/Rabobank

Australia

- Lamb prices continued to rise in May, normally a month when prices seasonally decline. Prices have held due to a combination of limited supply and solid demand both in Australia and overseas. The Eastern States Trade Lamb Indicator ended the month at AUD5.11/kg cwt, up from AUD4.70/kg cwt at the same time last year. Very tight supply and strong demand from restockers has seen mutton prices soar - with saleyard prices ending the month at just under AUD4.00/kg cwt - a massive 41% higher than the same time in 2009.
- There is little expectation that prices for either sheep or lambs will fall significantly over upcoming months, with winter generally the time of the year when stock availability is at its lowest in Australia. Export returns should also receive support from the recent decline in the value of the Australian dollar.
- Lamb exports in May rose by 5% compared to the same month in 2009. The increase was due to a combination of increased availability of heavier lambs due to improved growing conditions and a depreciation of the Australian currency compared to some key market currencies such as the US. Despite the monthly increase, exports for the year to May for lamb remain 13% below the same period last year, with mutton exports down by 30%.

New Zealand

- Lamb prices have started their seasonal increase over the past month, albeit belatedly compared to usual trends. Farm gate prices have increased 7% or around NZD 30 cents/kg cwt over the past month, however, prices remain 10-15% lower than the same period last year.
- The number of lambs processed has fallen considerably in recent weeks due to higher slaughter rates earlier in the season. With relatively few likely to come forward for processing over the winter months processing chains and plants are facing the prospect of the season finishing earlier than usual.
- Earlier processing is also being reflected in export volumes with April exports 5.3% (around 2,000 tonnes) higher than in April 2009, while total New Zealand dollar export value increased 8% (NZD24 million). However, total exports for the four months to April are only 1% ahead of 2009.
- European heavy lamb prices have continued the upward trend that emerged over the last quarter of 2009 as EU27 production is expected to be 2-3% lower in 2010. Prices had been running 3-6% ahead of the previous year until easing slightly leading into the usual seasonal peak, but still remaining 1% higher than late May 2009. Light lamb prices are currently trailing the previous year by more than 3%.

Dairy

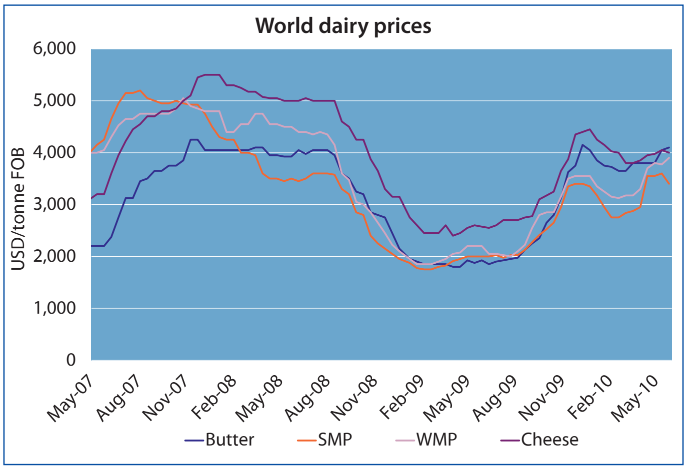
World dairy prices

	USD/tonne			AUD/tonne			NZD/tonne		
	27/05/2010	Last month	Last year	27/05/2010	Last month	Last year	27/05/2010	Last month	Last year
Butter	4,100	3,800	1,925	4,924	4,108	2,475	6,126	5,298	3,110
SMP	3,400	3,550	2,000	4,084	3,837	2,571	5,080	4,949	3,231
WMP	3,900	3,800	2,200	4,684	4,108	2,828	5,827	5,298	3,554
Cheddar	4,000	3,975	2,575	4,804	4,297	3,310	5,976	5,542	4,160

Source: USDA/Rabobank

Global

- Near-term dairy pricing remains extremely firm in international trade. Despite a 3.5% rise in the value of the US dollar itself during May, the globalDairyTrade (GDT) auction on 1 June yielded only marginal declines in powder prices for August delivery and a double digit rise in the price of anhydrous milk fat (AMF).
- The easing of USD prices was more substantial for later contract periods, with the market effectively now pricing in a 5%-7% fall in the cost of milk powders by Christmas, and a 15% correction in the fat market.
- Exceptionally high near-term pricing reflects ongoing tension between strong pockets of demand and a sustained period of falling milk production in export regions. The tightness of the physical market was highlighted by the near indifference of recent pricing to the EU sovereign debt crisis, Chinese attempts to rein in growth and financial market jitters.
- Nonetheless, the second half of the year could well see product availability improve somewhat, a scenario buyers at the GDT auction appear to have factored in.
- In early June the EU commenced the sale of intervention stock, with 65,000 tonnes (t) of SMP and 25,000t of butter put out to tender (around three weeks of global trade in each product line).
- The tide has also turned for milk production, with the total production of export regions expected to have risen in April for the first time in nine months, as the benefits of improving wholesale markets feed through to higher milk prices alongside still modest feed costs.
- EU destocking and the return of milk production growth both reflect a healthy rebalancing of a market that has been propped up since late 2009 in part by post-financial crisis distortions. Some pressure relief is almost certainly in the interest of buyers and sellers alike, if we are to avoid a difficult boom/bust cycle.
- A substantial market fall still appears unlikely, provided EU destocking is sensibly managed and the global economy continues close to its current trajectory. The supply tide is coming in, but that is likely to be a slow process, and could still be at least matched by demand side improvements.



Source: USDA/Rabobank

Production growth in key exporting regions

	Latest month	Last 3 months
EU 27	-1.3% (Mar)	-1.2%
US	1.7% (Apr)	0.8%
Argentina	-6.5% (Apr)	-9.7%
Australia	2.5% (Apr)	-0.7%
New Zealand	0.2% for 12 months to May 2010*	

*Rabobank estimate

Australia

- The benefits of higher milk pricing, lower feed costs and good seasonal conditions finally drove milk production above previous year levels in April 2010, with a strong tail to the season expected.
- Exceptional commodity market pricing and some softening in the Australian dollar moved Fonterra to provide an unusually early signal to Australian suppliers, with an opening price of AUD4.36/kgMS announced late May. Farmers are now waiting keenly to see if Murray Goulburn trumps that when it announces its own opening price in late June.

New Zealand

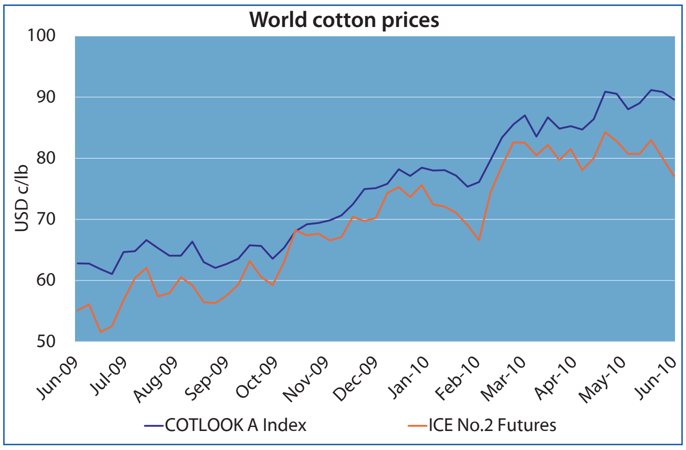
- Fonterra also buoyed the outlook for its New Zealand shareholders with the 2010/11 season milk price forecast higher than the current season at NZD6.60/kgMS plus a distributable profit of NZD 30-50 cents/share.
- With the season now finished, milk volumes look to have finished broadly in-line with the prior year and export tonnages are also starting to ease with April volumes 3% lower than the previous year.

Cotton

World cotton prices			
All shown as USD c/lb	Current (04/06/10)	Last month	Last year
Cotlook A Index	89.60	88.00	62.80
ICE No.2 NY Futures (nearby contract)	77.06	80.71	55.11

Source: Bloomberg/ICE/Rabobank

- International cotton prices have retreated somewhat in recent weeks, driven lower by concerns that the global recovery may be faltering. Prices still remain well elevated at just above USD 77c/pound (lb), and barring a meltdown in the global economy, which is unlikely, cotton prices should see limited downside from here.
- Global cotton production is forecast to decline for the third consecutive year, with a significant fall in Chinese output expected. While this fall in Chinese production will be somewhat offset by an increase in Indian production, domestic and external demand pressures have prompted the Indian government to impose new export taxes on cotton. Government policy changes will continue to drive uncertainty in the market, although there have been reports that India has recently lifted its ban on cotton exports, which was imposed in May.
- Global demand for cotton this year has been estimated by the International Cotton Advisory Committee to increase by 3.5% year-on-year, underpinned by consumption in India and China. Aside from financial market turbulence, and any potential weakening of cotton demand that could occur, a low stocks-to-use ratio - lowest since 1994/95 - should keep cotton prices well elevated this year.



Source: Bloomberg/ICE/Rabobank

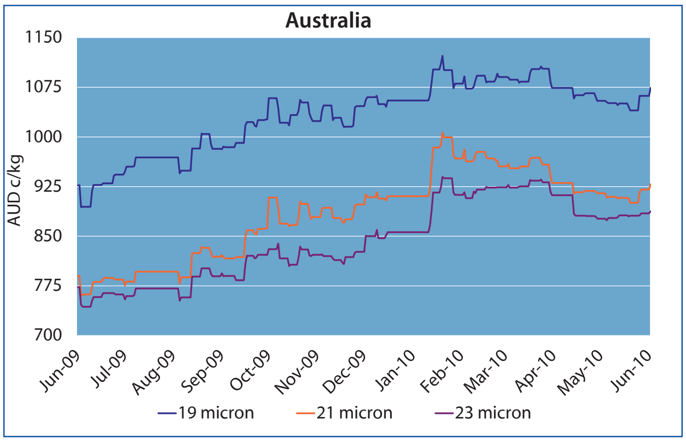
Wool

Australian wool prices (eastern)			
All shown as AUD c/kg clean	Current (03/06/10)	Last month	Last year
Fine (19 micron)	1072	1055	894
Medium (21 micron)	929	915	760
Broad/coarse (23 micron)	888	877	747

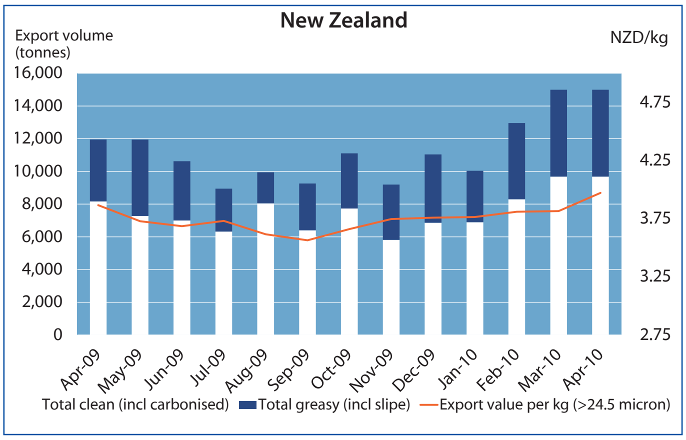
Source: Rabobank/Bloomberg/AWEX (average north and south prices)

New Zealand wool prices			
Average FOB export value (NZD/kg)	April 2010	Last month	Last year
Fine – less than 24.5 micron	9.27	9.71	8.31
Broad/coarse >24.5 micron	3.97	3.81	3.87

Source: Statistics New Zealand/Rabobank



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



Source: Statistics New Zealand/Rabobank

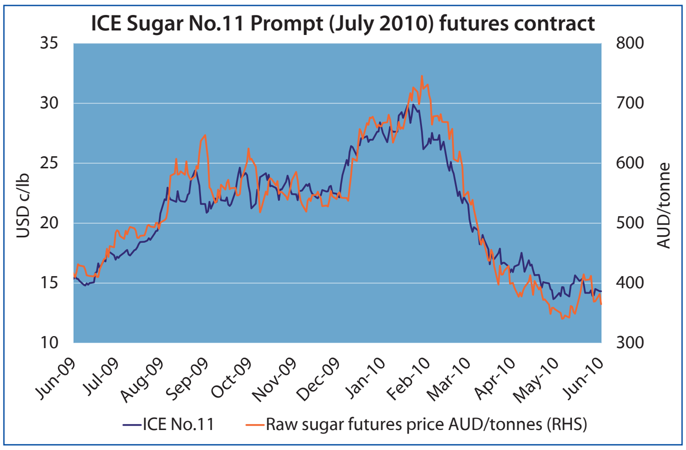
- Wool prices drifted slightly lower in May, but continue to hold-up surprisingly well despite increased financial market turbulence.
- Global wool production fell by around 8% in 2009, as higher sheep prices and dry conditions in a number of key producing countries led to increased slaughter rates. While production is expected to be lower again in 2010, it is likely that production will then stabilise, albeit at low levels.
- On the demand side, Chinese textile production remains supportive, with domestic demand the largest contributor to growth. In Europe, not surprisingly, consumption remains subdued and this is reflected in demand for wool from European buyers.
- Australian producers should benefit from the sharp fall in the AUD against the USD, and better seasonal conditions. Production is still expected to contract in 2010, but increase by around 3% in 2011.

Sugar

ICE Sugar No.11 Prompt (raw sugar futures price July 2010)			
	Current (08/06/10)	Last month	Last year
USD c/lb	14.33	13.75	15.37
Converted to AUD/tonne	388.02	341.37	429.36

Source: Bloomberg/ICE/Rabobank

- Sugar prices seemed to have stabilised somewhat in a range of USD 14-15c/lb, defying the recent sharp sell-off in other commodity markets. In May, prices did find new year-low at just below USD 14c/lb – the lowest price since early 2009.
- This apparent floor in the sugar price is welcome news, with the collapse in prices from the highs of near USD 30c/lb surprising all in the market. Putting it simply, the expectation for a surplus in 2010/11 has had a more severe impact on commercial and investor sentiment than first anticipated, and has been the key reason for the continued downtrend in the market. The 2010/11 surplus will continue to cap price gains, however current prices have factored in the Indian monsoon proceeding without any setback. It follows that if this event disappoints some upside to sugar prices could result.
- Overall, we expected prices will trade in a range USD 13-16c/lb as market participants assess the outlook for supply further into the season. For Australian producers, the sharp fall in the Australian dollar has provided some relief to falling international prices, particularly if the international price holds, if not lifts a little from current levels.



Source: Bloomberg/ICE/Rabobank

- The Australian crushing season has just commenced and weather conditions are favourable at this stage. Anecdotally, field testing of cane maturity indicates good sugar content and purity not dissimilar to last year's levels, which was one of the best years in a decade. Raw sugar production is expected to be similar to that of last year - 2009 is estimated to have produced around 4.6mt of raw sugar.

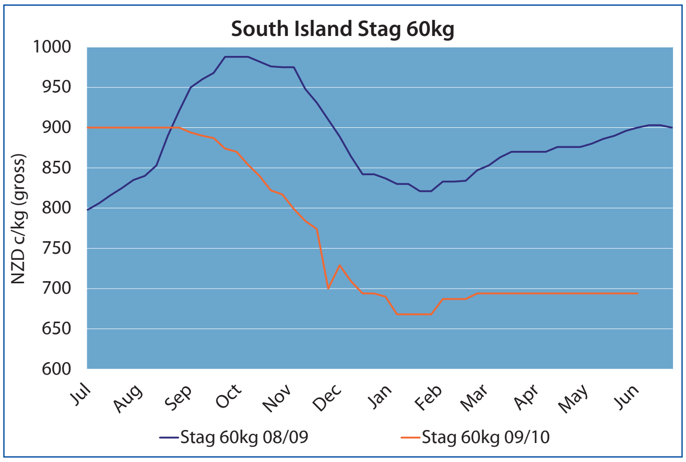
Venison

New Zealand venison prices			
All shown as NZD c/kg gross	Current (07/06/10)	Last month	Last year
North Island Stag 60kg	665	660	850
South Island Stag 60kg	694	694	900

Source: NZX Agrifax/Rabobank

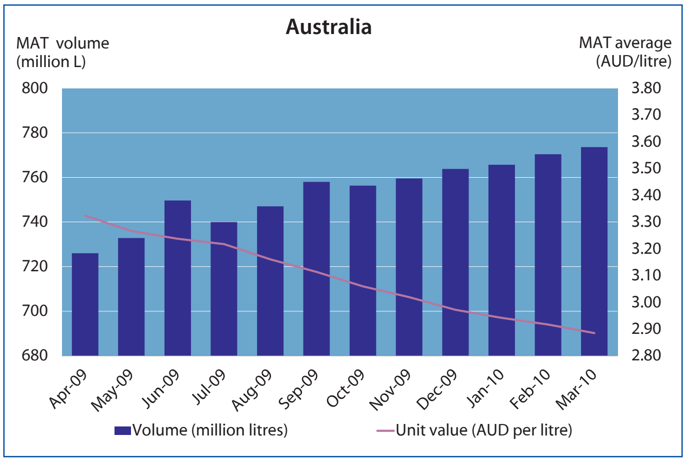
New Zealand

- Farm gate venison prices continue to remain flat heading into winter despite slaughter numbers falling substantially. Prices are now more than 20% (NZD1.80-2.00/kg cwt) lower than in 2009.
- European prices have been holding up reasonably well but the fragile Euro and ongoing economic uncertainty are still buffering the exchange rate and influencing returns; the average NZD/EUR exchange rate was 25% stronger during the first five months of 2010 compared to the previous year.
- While April export volumes increased 26% on the year prior (and value was 20% higher) the year-to-date performance provides a better measure of activity and value. Exports for the first four months of 2010 were 19% down on 2009 and export value had fallen by 37% (NZD40 million).



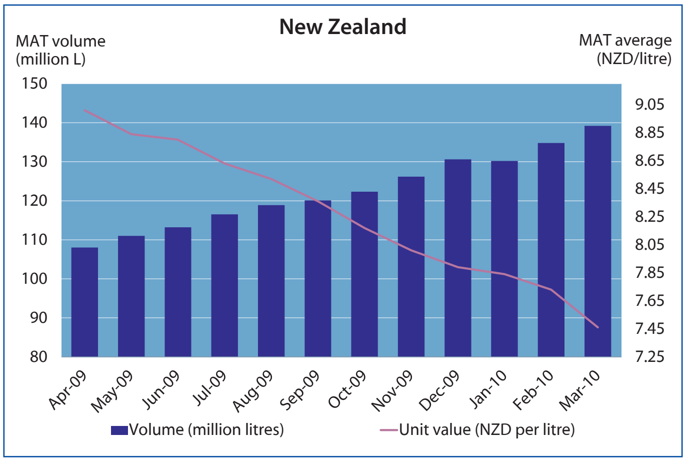
Source: NZX Agrifax/Rabobank

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 March 2010 increased 6.9% to 773.6 million litres (ML), while the monthly average unit value increased 2% on the prior month to AUD2.65 per litre (AWBC, 2010). Average export values continue to come under pressure from fragile consumer spending in key export markets, elevated levels of bulk wine exports, and a strong Australian dollar. The impact on export values of the recent fall in the Australian dollar is difficult to predict without knowledge of the hedging book of major exporters, however no doubt some companies saw the opportunity to lock in more favourable rates.
- The Winemaker's Federation of Australia released the results of its post vintage production survey which stated that the 2010 wine grape harvest fell 11.5% below the 1.72 million tonne crop reported in 2009. Unseasonably hot weather, irrigation rationing and wineries encouraging growers to reduce contracted production are believed to have contributed to lower yields.
- Production of white wine grape varieties was more greatly impacted than red wine grape production in 2010, falling an estimated 15% and 8% respectively. Chardonnay (-24%) suffered the greatest decline of the major white varieties, while Grenache (-36%), Cabernet Sauvignon and Merlot (both -14%) registered significant declines. Sauvignon Blanc (+15%) and Pinot Noir (+26%) were the strongest improvers of the major varieties, while production of Pinot Gris (+5%) continued to rise, as did Tempranillo (+39%) off a much lower base.

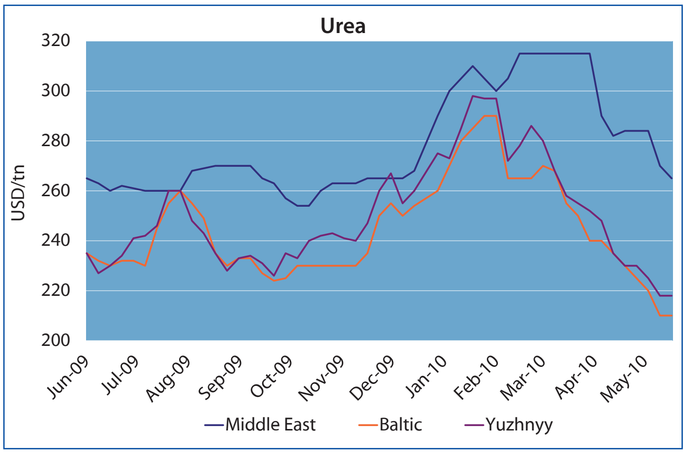
New Zealand

- New Zealand wine export sales for March 2010 increased by 38.9% on the prior corresponding period to a new record monthly shipment volume of 15.7ML. The strong monthly result grew shipments in the 12 months to March 2010 by 3.3% on the prior 12 month period to 139.2ML. However, detracting from the result was the record high proportion of bulk wine shipments that reached 36.9% of total monthly shipments.
- While export volume growth was strong over the past year, the annual value of exports in the 12 months to March 2010 increased only marginally by 2% to NZD1.04 billion. The average value of exports in March fell 3.5% on the prior month to NZD7.73 per litre (FOB) consistent with the continued growth in bulk wine shipments and challenging global trading conditions.
- Imported shipments of all New Zealand wine into the US market in the March quarter increased 61% by volume and 62% by value as growth resumed at higher value price points, albeit relative to softer prior period comparisons. A relatively lower 23.4% of New Zealand wine was imported as bulk in the US market, and the imported value of New Zealand bottled wine at USD66/case is positioned second only to France at USD77/case (GF&A, 2010). Shipments of New Zealand wine into the Australian market in the March quarter also showed good growth of 30.8% on the prior corresponding period and 4.9% on a moving annual total basis.

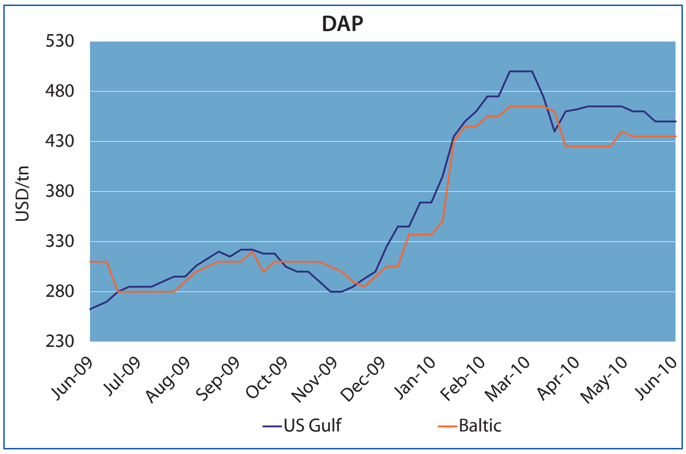
Fertiliser

Fertiliser prices			
All shown as USD/tonne	Current	Last month	Last year
Urea (Middle East)	240	265	265
DAP (US Gulf)	450	460	265

Source: Bloomberg/ICIS/Rabobank



Source: Bloomberg/ICIS/Rabobank



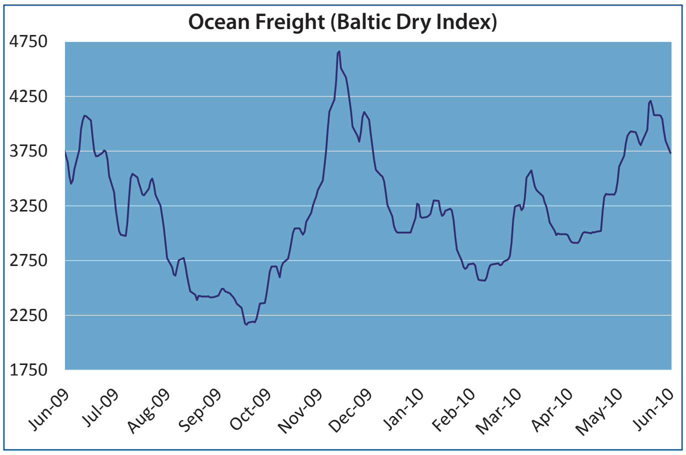
Source: Bloomberg/ICIS/Rabobank

- International urea prices continued to press lower in May as delayed spring demand in Europe and the US and very dry conditions in China impacted demand. Prices currently range between USD210-240/tonne, but could drift lower in the coming month. With a large overhang of Chinese urea stocks and increased Indian production, international prices will only stabilise when high-cost producers are forced to shut down.
- US Gulf DAP prices have weakened somewhat in May, although on an average basis prices have remained steady at USD440/tonne (FOB). While the Chinese low-tax export window has resumed (1 June-31 August), at present the pick-up in pace of Chinese shipments has been modest. That said, stocks remain subdued in China as producers have been running well below capacity as drought in southern China and cold weather in the north weighed on demand.
- While supply-side factors, such as power issues in China, may tighten global DAP stocks, which could pressure prices higher near-term, low soft commodity prices and increased world DAP capacity (mostly in China) is likely to cap significant increases in the medium term.
- The most significant change to domestic pricing in New Zealand and Australia is likely to be due to the depreciation of the relevant currencies against the USD – all else being equal pressing prices higher in domestic terms.

Other costs

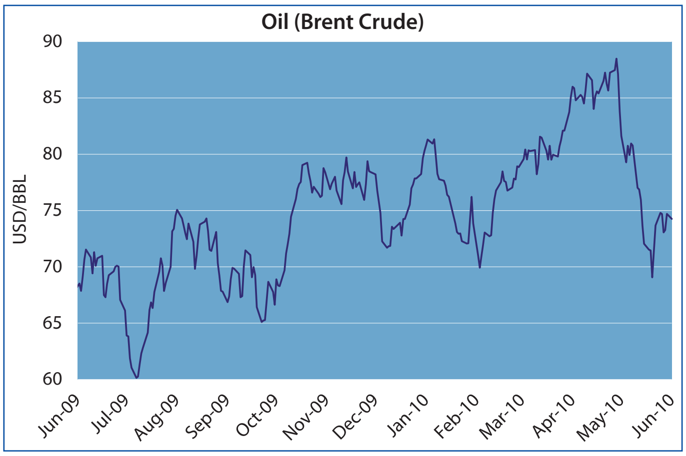
Ocean freight index and oil prices			
	Current (07/06/10)	Last month	Last year
Baltic Dry Index* (ocean freight)	3733	3608	3646
Brent Crude Oil (USD/bbl)	74.26	81.62	68.52

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

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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.

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