



Rabobank

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Agribusiness Review

Australia and New Zealand

Rabobank Group

Food & Agribusiness Research and Advisory (FAR)

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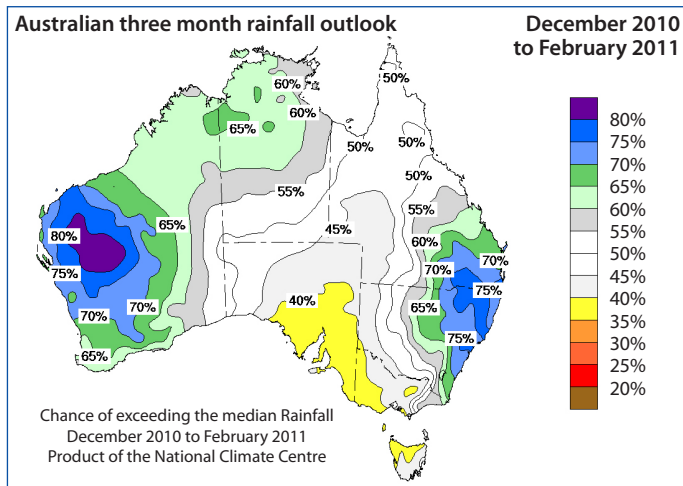
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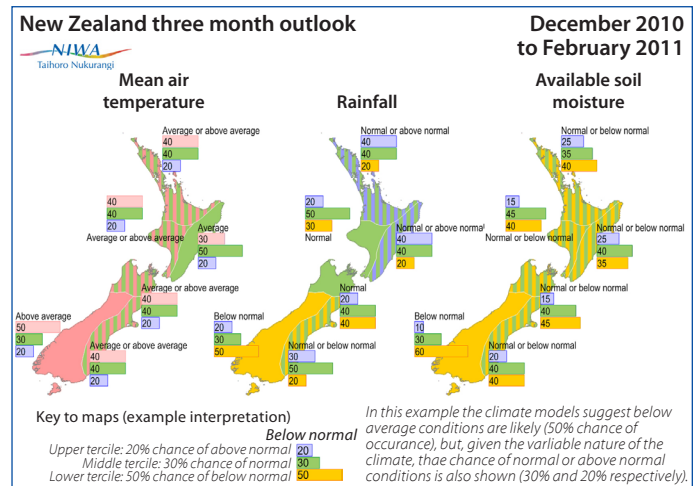
Report highlights

- La Niña conditions continued to dominate in November, which was a wet month across the north and east of Australia, and average in Western Australia. Dam storage levels continue to rise in the Murray-Darling Basin. In New Zealand La Niña has produced dry and warm conditions, and the outlook is for below normal to normal rainfall (except the north and east of the North Island) and soil moisture conditions.
- Macroeconomic events created instability in global commodity and equity markets during November, with the US dollar rising and equity markets and commodity prices slumping as a result. The outlook for Australia remains positive, although expectations have come back a peg. New Zealand continues to send mixed signals, with a return to consistent growth not expected until mid-2011.
- Both the AUD and NZD have moderated somewhat from recent highs on renewed USD strength, and are expected to trade at elevated levels against the USD – the AUD at USD0.95-1.00 and the NZD at USD0.73-0.78.
- Global grains markets retreated in November, despite the fundamentals of tightly balanced global supply and demand remaining in place. The fundamentals are supportive of higher prices, although volatility is also likely to remain. Recent rainfall has led to a downgrading of the Australian wheat crop, with quality downgrades also commonplace as the East Coast harvest is delayed by the weather.
- Beef prices remain at seasonally high levels in Australia and New Zealand. This is especially the case in Australia where the east coast rainfall has disrupted supply to markets, creating strong re-stocker demand. Turkey has become a significant destination for live exports, with numbers just behind Indonesia for November. Secondary markets are also significant for New Zealand, particularly Indonesia and Russia.
- Lamb and sheepmeat prices are also at seasonally strong levels in Australia and New Zealand, with restricted supply supportive of prices for coming months at least.
- Global dairy prices drifted upwards for a third consecutive month in November, with strong demand from China and Russia helping to lift prices despite an increase in global production.
- Oil prices remained strong through November, with expectations for prices above USD80/barrel over coming months.



Australia

- During November Australia received more than one-and-a-half times the average monthly rainfall, with most rain falling over the north and east of the country. It was the wettest November in ten years in New South Wales, Queensland and within the Murray-Darling Basin. Western Australia received average rainfall.
- New South Wales recorded its fifth wettest and tenth coolest November on record. November was the fifth consecutive month of above-average rainfall, consistent with the moderate-to-strong La Niña climate pattern.
- Regional New South Wales has been awash with floods in early December as the Murrumbidgee and Castlereagh Rivers reached peaks, coupled with dams at capacity and continued above-average rainfall. Natural disaster zones have been declared in 34 shires in New South Wales since floods started in October, with Wagga Wagga and Coonamble among the worst hit of late.
- Storages within the Murray-Darling Basin are near 80% capacity and some New South Wales General Security allocations increased over the month including the Gwydir to 55%, Lachlan to 23%, Murrumbidgee to 59% and the Lower Namoi to 99%. High Security/Reliability allocations are unchanged at 67% in South Australia, 95–100% in New South Wales and 100% in Victoria. The South Australian Government announced that carry over provisions will cease in June 2011.

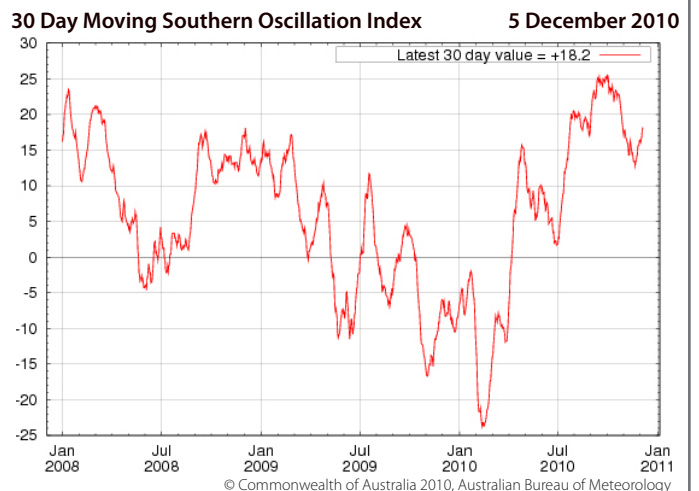


New Zealand

- November was extremely dry across the North Island and western areas of the South Island, with many November low rainfall records broken. This resulted in unusually dry soils for this time of year in the north and west of the North Island, and northwest of the South Island.
- Record warm temperatures in the South Island and warmer-than-normal temperatures across most regions of the North Island were recorded in November. A record-breaking hot spell occurred across the country at the end of the month, resulting in numerous November extreme maximum temperature records being broken.
- Summer soil moisture levels will be below normal in the west and south of the South Island, and are likely to be near normal or below normal in all other regions. According to Agriculture Minister, David Carter, the risk of a significant drought in the Waikato, the largest milk-producing province, and Northland is “very high”.
- Looking ahead, Southland is likely to receive below-average summer rainfall and warmer temperatures, while the north and east of the North Island is likely to receive heavy rain as a result of the ongoing La Niña climate pattern. NIWA forecasts suggest that summer temperatures are likely to be near or above average across New Zealand.

Southern Oscillation Index

- The Southern Oscillation Index trended upward above +15 during November, well within the La Niña range (above +8). According to the Bureau of Meteorology (BOM), the La Niña climate pattern is likely to remain throughout the Southern Hemisphere summer and into the first quarter of 2011.
- The La Niña climate pattern has brought above average rainfall to northern and eastern Australia since September 2010. This has had a detrimental impact on sugarcane and grain farmers, while cotton growers will relish high rainfall with bumper areas planted this season. In New Zealand, La Niña has brought warmer and drier conditions than normal that are almost identical to the 1988-1989 La Niña summer.

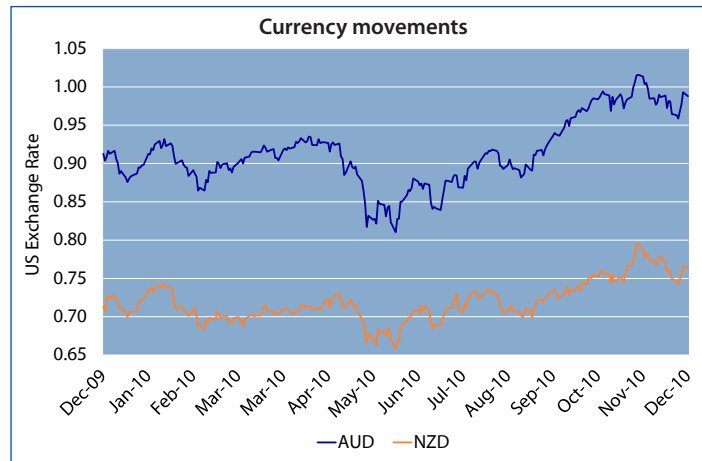


Economy/currency

Currency USD

	Current (06/12/10)	Last month	Last year
AUD	0.9878	1.0159	0.9147
NZD	0.7636	0.7955	0.7164

Source: Bloomberg/Rabobank



Source: Bloomberg/Rabobank

Global

- Macroeconomic events are to blame for much of the recent instability in global commodity and equity markets. The demand threat of building inflation issues in China, wobbles in the European banking sector and mixed data from the US contributed to a reappraisal of risk by markets in mid-November. As a result, the US dollar jerked upwards, and equity markets and commodity prices slumped. That said, the flow of economic data has since evened out – Indian GDP revealed healthy growth and Chinese manufacturing data was stronger-than-expected.
- All-in-all, it seems 2010 is ending the way it began. In essence, an uneven growth story. China and India have outperformed other major economies and uncertainties still lurk in the US, Western Europe and Japan. Nevertheless, Rabobank remains cautiously optimistic on the global economic outlook for 2011. Of most concern are downside risks stemming from emerging economy inflation concerns, continuing issues in the European banking sector, and persistently high US unemployment.

Australia

- Important economic releases for Australia in recent weeks included GDP, unemployment and the December Reserve Bank of Australia (RBA) statement on monetary policy. Since the RBA lifted rates in November domestic data has been less than exciting – a very soft Q3 GDP report, a rise in unemployment and a significant fall in October retail sales. Nevertheless, the big picture still looks bright in 2011. Asia's expansion continues to show strength, heavy investment plans by major mining companies are firming up and the highest terms of trade in recent times all point to strong growth in the next two years at least.
- Many have challenged the RBA's wisdom of the interest rate

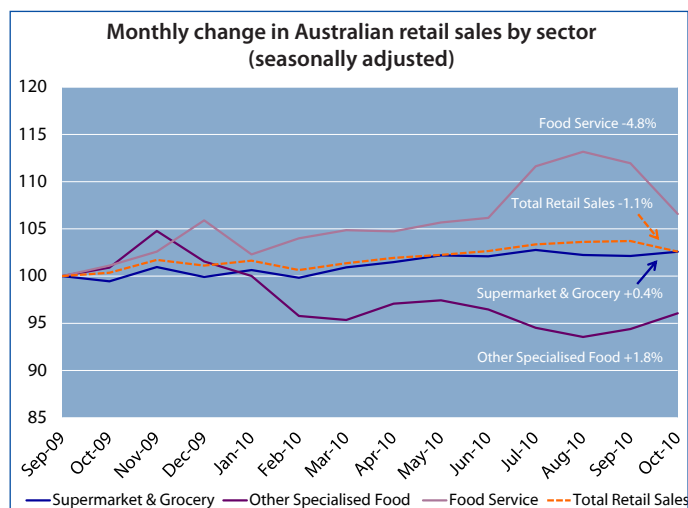
hike in November, but the December meeting minutes were unrepentant. However, the language seems more dovish than seen previously; downplaying previous inflation expectations somewhat. As a result, Rabobank now expects the cash rate to reach 5.25% by the end of 2011.

- Weaker domestic macroeconomic indicators and the reappraisal of interest rate expectations have weakened Australian dollar (AUD) fundamentals. This, together with a stronger near-term US dollar picture will keep AUD expectations in a range of USD0.95-1.00 for the month ahead.

New Zealand

- 'Mixed messages' is an apt description of New Zealand's economic data. On one hand, housing data softened further, but on the other hand trade and retail sales beat expectations. Despite this see-sawing of partial indicators, Q3 GDP – released on the 23 December – is expected to reveal a soft result due to a weather-related production slowdown, tough global conditions outside Asia and a weak domestic rebound. In 2011, a more solid expansion is expected, topped up by the Rugby World Cup, rebuilding following the Canterbury earthquake and robust trading partner growth.
- The Reserve Bank of New Zealand (RBNZ) left the official cash rate unchanged at 3% at its most recent meeting, as expected. In general, the RBNZ's broader economic outlook is little changed, however in the bank's view the weaker starting point for the year signals that the RBNZ could be on hold until mid-2011.
- Similar to the AUD, the New Zealand dollar (NZD) has moderated somewhat from recent highs on renewed US dollar strength. The NZD remains highly susceptible to risk-aversion, but on average is expected to trade in a range of USD0.73-0.78 in the near term.

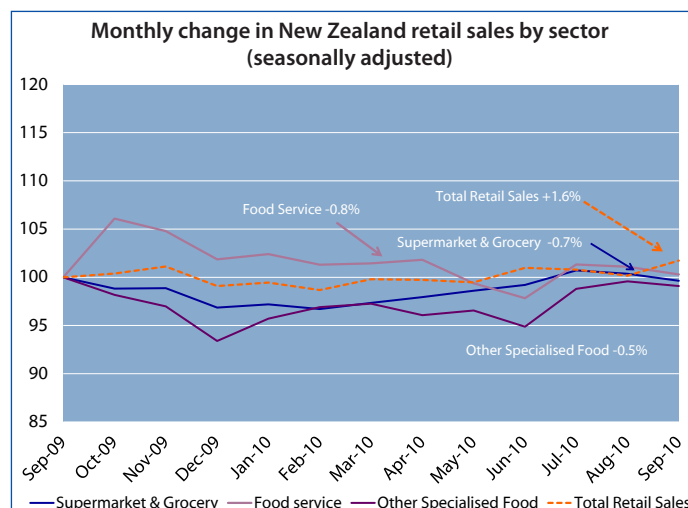
Food retail



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

Australia

- The annual rate of growth in Australian retail trade turnover fell away in October following a strong 1.1% monthly decline in seasonally adjusted trade estimates (ABS, 2010). The strength of the result was especially surprising considering there was no change in official interest rates during the month and consumer sentiment remained buoyant amidst a tightening labour market.
- Some explanation can be found in the increase in the average household savings rate recorded by the RBA in the September quarter which offset prior period declines observed in the first half of 2010. A subdued housing market and elevated household savings rates are indications that the deleveraging process underway in Australian households since the onset of the global economic downturn still has some way to go.
- Seasonally adjusted Supermarket & Grocery retail turnover recorded a modest rise (+0.4%) in October, while trade in Food Service channels (Cafés, Restaurant & Take-away) decreased -4.8% on the prior month. The strong monthly decline in Café, Restaurant & Catering trade (-7.6%) has in large part eroded prior gains recorded since the middle of the year, however this sub-category remains the strongest performing food retail channel over the past year after being one of the hardest hit during the downturn.
- It indeed appears as though consumers will carry the cautiously optimistic mindset that they have adopted over the course of 2010 into the 2011 year. Interest rate movements and public uncertainty surrounding the global economic recovery clearly remain sensitive pressure points for many consumers, again evidenced by the 5.4% monthly fall in consumer confidence in November in the wake of the 25 basis point rise in the official cash rate which was further accentuated by retail lenders (Westpac-Melbourne Institute, 2010).



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

New Zealand

- Seasonally adjusted New Zealand retail trade (ex-Auto) recorded a strong 1.6% monthly rise in September led particularly by the department store and various homewares sub-categories that were boosted by consumers bringing forward purchases prior to the impending GST rise, from 12.5% to 15%, on 1 October (Statistics NZ, 2010). Nominal retail trade (ex-Auto) in the September quarter rose 0.9% on the prior quarter and 1.4% on the prior corresponding period, which represents one of the strongest quarters of growth since the beginning of 2008.
- Trade in the Supermarket & Grocery channel in the September quarter posted a 1.5% rise on the prior corresponding period despite recording its second consecutive monthly decline in September (-0.7%). Cafe & Restaurant trade softened in September (-1.4%) but overall saw a 1.5% improvement in the September quarter, while spending in the Takeaway Food channel remained subdued.
- The Food Price Index rose 2.2% in October with the impact of the GST rate rise showing for the first time. In annual terms, food prices increased by 5.5% with all main food categories experiencing annual price increases including the key areas of Grocery (+4.7%) and Fruit & Vegetables (+16.4%). The jump in average Fruit & Vegetable prices is the most significant in quite some time due to unusual seasonal impacts, while grocery prices have been significantly influenced by higher dairy product prices.
- Consumer confidence weakened in the September quarter and now sits below levels observed at the same time last year. While the estimate still suggests a largely positive consumer mindset, it appears as though consumers remain affected by significant economic uncertainty, debt burdens and a flat housing market.

Grains and oilseeds

ASX wheat prices

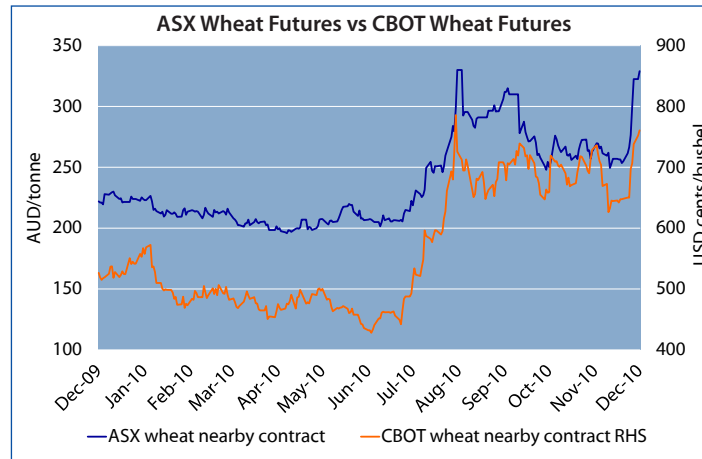
	Current (06/12/10)	Last month	Last year
AUD/tonne	322.50	262.80	225.00

Source: Bloomberg/ASX/Rabobank

Chicago Board of Trade Wheat Futures (nearby contract)

	Current (06/12/10)	Last month	Last year
USD c/bushel	752.00	728.75	536.75

Source: Bloomberg/CBOT/Rabobank



Source: Bloomberg/CBOT/ASX/Rabobank

Global

- Grain and oilseed prices retreated in November, despite there being no change in commodity-specific fundamentals, as markets reacted to broader macroeconomic concerns around the US recovery, renewed tensions in the European banking sector and policy shifts in China. Fundamentals, however, remain very supportive of the grain and oilseed complex in the coming year.
- Characterising the wheat market in recent weeks has been concerns over protein availability, particularly from Australia and the US, which has strengthened the premiums for high-quality and high-protein wheat. These spreads are likely to persist, if not widen, until new crop supply becomes available in mid-2011.
- Volatility will also continue to be a feature in the wheat market, as tight exportable supplies ensure the market intently follows the progress of the recently planted US and Russian winter wheat crop.
- Fundamentals remain supportive of the corn market, with the USDA recently revising down its production estimates for the US corn crop. The largest swing factor in the market will continue to be China, who despite harvesting a bumper crop, remain a net importer of corn.
- With the 2010/11 season being characterised by unfavourable weather conditions, the balance sheet remains tight for corn, barley and, to a lesser extent, wheat. In terms of corn, the global stocks-to-use ratio is forecast to drop to 13.9% by the end of 2010/11, and to a precariously low 6% in the US. In the case of wheat, while the global stocks-to-use ratio is expected to be well above the low stocks recorded in 2007/08, stocks in the traditional exporting countries are expected to drop to 15%. Oilseed stocks are also set to tighten on the back of strong demand, despite a record soybean harvest, with there being no room in the balance sheet for a poor South American soybean crop.
- This tight crop balance will set the stage for an intense battle for acres in 2011/12, as corn will compete for area with soybeans, not

just in the US, but globally. As such, we expect that grains and oilseed markets will need to move higher to provide the incentive for farmers to expand and elicit the area needed to alleviate the tight balance sheet.

Australia

- The domestic harvest continues to be dominated by the weather; however the focus has turned from the poor harvest anticipated in the west, to the persistently wet conditions on the east coast.
- After a near-perfect start to the winter cropping season on the east coast, and good follow-up rainfall during the growing season, the harvest has been significantly disrupted by the wettest spring on record in eastern Australia and recent heavy rainfall and flooding in central and southern New South Wales.
- Harvest has been delayed by up to a month in some regions of New South Wales, Queensland and Victoria, with downgrades now commonplace. While at this stage downgrades are mostly on the quality side, it is also expected to start impacting on volumes.
- South Australia has been less affected by the weather, with the state looking down the barrel of a record wheat crop, surpassing five million tonnes.
- The recent weather events have scaled back Rabobank's forecast for the national wheat crop to somewhere in the vicinity of 22.5 to 23 million tonnes, as the wet has lowered our expectations for yields in New South Wales and Queensland.
- Harvest delays are also adding pressure to grain handling infrastructure, as geographical production imbalances are expected to constrain export capacity to 14.3 million tonnes, despite a 21 million tonne exportable surplus.
- With a lot more feed wheat set to enter the system and domestic demand expected to be sluggish, feed wheat is likely to find its way into the export market to take advantage of the tight global feed grains complex.

Beef

Australian beef prices

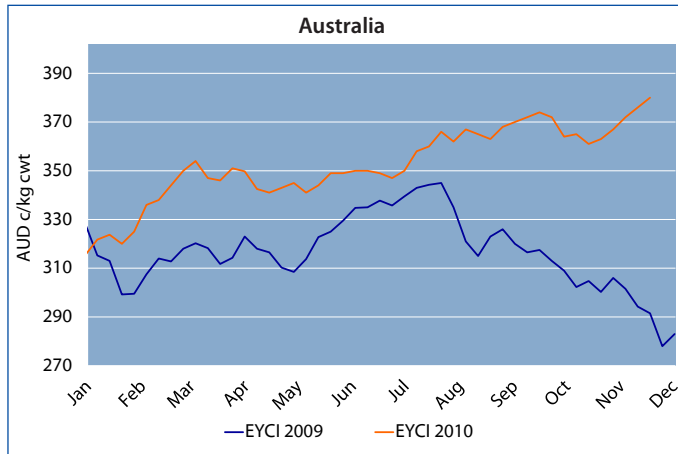
All shown as AUD cents/kg cwt	Current (03/12/10)	Last month	Last year
Eastern Young Cattle Indicator (EYCI)	380	363	291.5

Source: NLRs/Rabobank

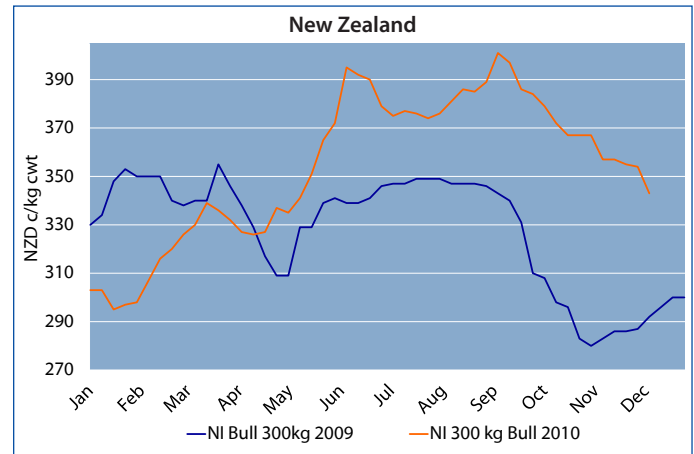
New Zealand beef prices

All shown as NZD cents/kg cwt	Current (06/12/10)	Last month	Last year
North Island Bull 300kg	343	357	292
South Island Bull 300kg	350	340	275

Source: NZX Agrifax/Rabobank



Source: NLRs/Rabobank



Source: NZX Agrifax/Rabobank

Global

- The US government has recognised the Brazilian state of Santa Catarina as free of foot and mouth disease (FMD), effective 1 December 2010, opening up the US market for beef and pork imports from the state. Santa Catarina is a predominantly pork producing state and only a minor producer of beef; however, the change is significant as it is the first Brazilian state to achieve FMD-free recognition by the US government. At this stage there is little expectation that other states of Brazil can achieve Santa Catarina's FMD-free without vaccination status within the next five years.
- The Korea-US free trade agreement has been finalised despite the Korean government refusing to remove a 30-month age restriction on US beef imports - one of the major issues holding back progress in recent years. The final agreement now has to be passed by the Korean and US governments. If passed, the agreement will result in the 40% tariff on US beef imports into Korea being phased out over 15 years.
- Product availability has been impacting US manufacturing beef markets during November with both imported and domestic US lean beef prices increasing 5-7%. The price of imported lean beef is now around 30% (USD 40 cents/lb) higher in US dollar terms than last year and is 10% higher than the US domestic 90CL price.

Australia

- The EYCI saw an unseasonal rise to AUD3.80/kg cwt in early December, its highest level since August 2006 and 30% above the same time in 2009. Prices have been driven primarily by

the significant rainfall which has been experienced on the east coast, which has disrupted supply to markets and created strong demand from restockers. With expectations for rain to continue in upcoming weeks prices should remain at elevated levels over the next month.

- Australian live cattle exports to Turkey surged to over 28,000 head in October, making it Australia's second largest destination for the month behind Indonesia (38,670 head). This compares with total sales of live cattle to Turkey of 168 head in 2009. The surge in numbers has come after rising local red meat prices has seen the Turkish government ease import restrictions and tariff rates for live cattle, sheep and meat imports. The current tariff reductions will last until April 2011.

New Zealand

- Beef prices are now easing seasonally, but not as sharply in comparison to previous years. Higher international prices, particularly in the US, is outweighing the currency strength to leave prices 15-25% (more than NZD 50 cents/kg) above last year, despite slaughter volumes now moving ahead of last season.
- Export destinations during October reflect the attractive opportunities in markets outside the US. While export volumes to the US for the month were 25% lower than last year, shipments to Indonesia, Russia and other destinations were significantly higher. Year-to-date, New Zealand has shipped more beef to Indonesia than to Korea and Japan - traditionally the second and third largest export markets after North America.

Lamb

Australian lamb prices

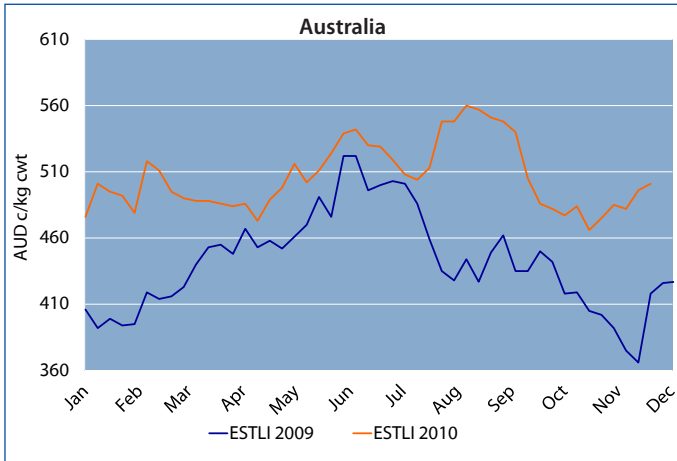
All shown as AUD cents/kg cwt	Current (03/12/10)	Last month	Last year
Eastern States Trade Lamb Indicator (ESTLI)	501	475	418

Source: NLRs/Rabobank

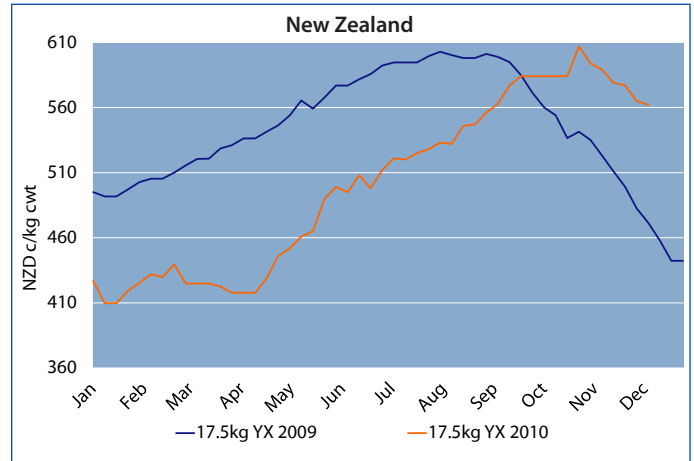
New Zealand lamb prices

All shown as NZD cents/kg cwt	Current (06/12/10)	Last month	Last year
North Island 17.5kg YX	595	607	479
South Island 17.5kg YX	562	589	471

Source: NZX Agrifax/Rabobank



Source: NLRs/Rabobank



Source: NZX Agrifax/Rabobank

Australia

- Lamb prices on the east coast have surged over the past month, with the significant rainfall allowing producers to hold back lambs for flock rebuilding as well as encouraging restocker activity. The ESTLI edged over AUD5.00/kg cwt at the beginning of December, a rise of 20% on the same time last year. With rainfall expected to continue and producer confidence at high levels, lamb prices are likely to remain strong over upcoming months.
- One area where sheepmeat producers have experienced a challenging 2010 has been in Western Australia, which has faced dry weather conditions for much of the year. The disparity in seasonal conditions between the east and west coast has seen over 850,000 sheep being transported to eastern states of Australia, particularly South Australia. Unless there is an improvement in seasonal conditions on the west coast, the exodus of sheep is likely to continue in 2011.
- A reduction of import restrictions in Turkey has extended to live sheep imports, with the tariff falling from 135% to 20% until 1 January. This has supported a surge in live sheep exports to Turkey in November, with sales of 137,285 head for the month; this compares to zero exports in 2009.

New Zealand

- Lamb prices have started their seasonal slide, but this is less prominent than usual and prices have remained 20-25% ahead of 2009. The 3-5% (NZD 20-30 cents/kg) fall from November to December is modest in comparison to the 8-12% typically evident over that period – but slaughter availability is also significantly lower with the seasonal increase in processing volumes not yet coming through.
- The 2010 Lamb Crop Report released last month by Beef and Lamb New Zealand provides plenty of reasons why slaughter rates are lower. The impact of spring storms is illustrated with lambs tailed down 10% (2.78 million lambs) on 2009 with the lowest lambing percentage since 1995-96 at 109.6%. Export lamb slaughter is expected to fall 6.8% (1.42 million lambs) with production 5.9% lower due to higher average carcass weights.
- Declines in livestock availability are also becoming prominent in export volumes, which have been tracking below 2009 since May. October exports were down 17% (3,000 tonnes) on the previous year and exports for the ten months year-to-date are 8% (27,000 tonnes) lower.
- EU carcass weight lamb prices are holding firm on 2009 with prices averaging 6% higher than the previous year over the first ten months. Supply tightness remains a key factor with production in the UK down 11% over the first three quarters of the year.

Dairy

World dairy prices

	USD/tonne			AUD/tonne			NZD/tonne		
	25/11/2010	Last month	Last year	25/11/2010	Last month	Last year	25/11/2010	Last month	Last year
Butter	4,500	4,350	3,750	4,599	4,459	4,065	5,937	5,819	5,181
SMP	3,050	3,100	3,400	3,117	3,178	3,686	4,024	4,147	4,697
WMP	3,525	3,475	3,550	3,602	3,562	3,849	4,650	4,648	4,905
Cheddar	4,150	4,100	4,350	4,241	4,203	4,716	5,475	5,484	6,010

Source: USDA/Rabobank

Global

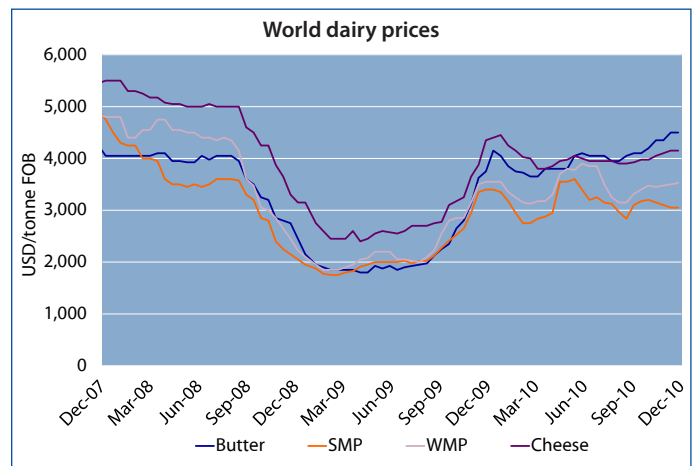
- For a third consecutive month international dairy commodity prices drifted upwards through November, and now sit approximately 5% above early September levels on a weighted-average basis.
- Around half of the upward drift can be explained by a moderate fall in the value of the USD itself over the same period (down 2.3% on a broad index basis over the same period) – suggesting market fundamentals have actually changed little.
- Recent supply growth in key export regions has been in line with expectations of a strong growth spurt – with outperformance in the Northern Hemisphere offsetting weather disrupted spring peaks in New Zealand and Australia. Milk production in the world's big 6 export regions continued to track more than 3% above prior year levels in September
- The upward bias evident in international pricing, despite such a wave of milk supply growth, tells us much about the ongoing strength of import buying, with China and Russia continuing to lead from the front.

Australia

- With the Australian dollar closing November more or less unchanged on opening month levels, export prices drifted upwards marginally in local currency terms – underpinning what remain very high levels.
- On the ground, heavy rainfalls continued through November and early December in key production regions. This further filled key irrigation catchments and improves the prospect of a long growing season, but delayed the cutting of silage and hay.
- Largely reflecting excessive spring rainfall, milk production fell 2% below prior year levels in September.
- Heavy rains have also savaged much of the grain crop in Victoria and New South Wales – which will increase the availability of feed grain due to widespread downgrades: further shoring up milk/feed margins in coming months.

New Zealand

- A second month of broadly static pricing in New Zealand dollar terms has resulted from firming commodity prices being



Source: USDA/Rabobank

Production growth in key exporting regions

	Latest month	Last 3 months
EU 27	4.5% (Sep)	2.9%
US	2.9% (Oct)	2.8%
Argentina	6.5% (Oct)	8.2%
Australia	-1.9% (Sep)	0.0%
New Zealand	2% for six months to Nov 2010*	

*Rabobank estimate

outweighed by a stronger currency. This has led companies to hold milk price expectations firm for the season, but lift advance rates paid to farmers.

- After a tough spring, recovery was evident during October and November, pushing season-to-date production around 2% ahead of last year, but this is likely to be short lived. Dry conditions throughout most of New Zealand has seen current milk flows now falling behind in most regions – except Canterbury where irrigation provides mitigation. Significant rain is now required prior to Christmas to avoid a sharp and early tailing off of milk flows.
- October export volumes at 6% higher than last year reflected the lift in production. More notable was the swing towards WMP (+37%) at the expense of cheese (-15%) and SMP (-21%), with China taking a massive 33% (35,000 tonnes) of October WMP volumes.

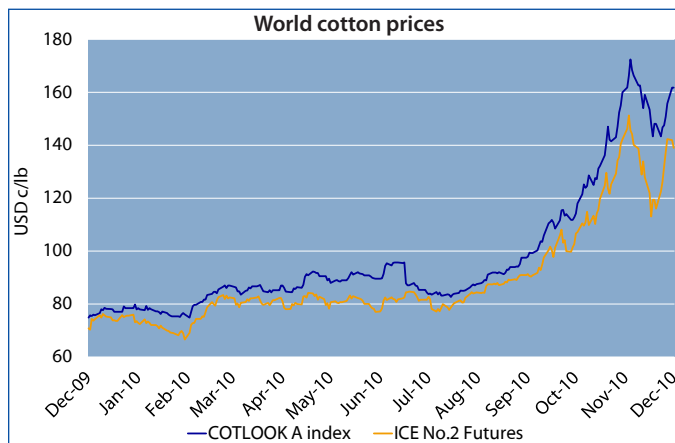
Cotton

World cotton prices

All shown as USD cents/lb	Current (06/12/10)	Last month	Last year
Cotlook A Index	161.75	160.00	75.10
ICE No.2 NY Futures (nearby contract)	141.92	142.23	70.21

Source: Bloomberg/ICE/Rabobank

- Cotton prices continued their blistering upward pace in early November, with the front month futures reaching USD 151.23c/lb. While tight global stocks still underpin the high prices, a shift in market sentiment in response to the depreciating US dollar has also had a significant influence on the price rally.
- During mid-November cotton prices fell from their peaks, spurred downward by concerns over an uncertain global outlook and a shift in Chinese policy designed to curb domestic inflation and minimise speculator impacts on commodity markets.
- Despite the mid-November drop in prices, the outlook for 2011 remains promising. Concerns over Indian export restrictions, strong demand from China, the battle for acres and mounting weather concerns in the US should maintain tight fundamentals in the cotton market which will support prices.
- Locally, the cotton season is off to a bumper start. Well-above-average rainfall over catchment areas has filled most regulated storages, with the exception of Copeton Dam. Rain in cotton-



Source: Bloomberg/ICE/Rabobank

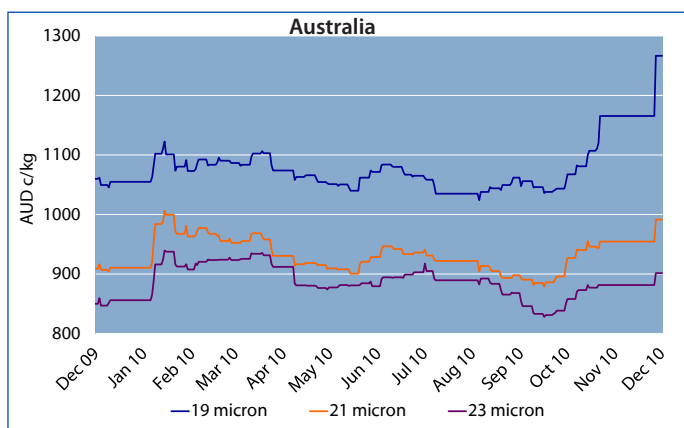
growing regions has bolstered germination providing strong plant vigour. The first watering has also been delayed, which will enable allocations to be either used later in the season or carried forward into 2011/12 crops.

Wool

Australian wool prices (eastern)

All shown as AUD c/kg clean	Current (07/12/10)	Last month	Last year
Fine (19 micron)	1267	1166	1060
Medium (21 micron)	992	955	909
Broad/coarse (23 micron)	902	882	850

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



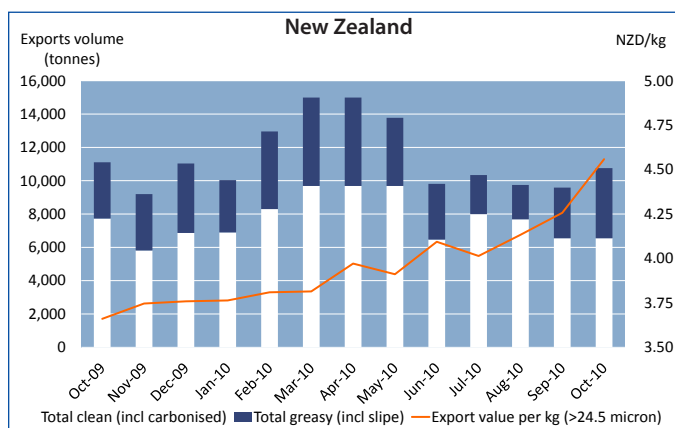
Source: Rabobank, Bloomberg/AWEX (average north and south prices)

- Wool prices remain well supported at levels not seen since early 2008. In particular, fine wool prices have been on an upward trajectory, with the premium for 18 micron wool compared to 21 micron wool sitting at around 60%, up from 25% a year ago.
- This widening price differential has been largely driven by the marked decline in fine wool production, with production of 19.5 micron and finer falling by 10.5% in the four months to November 2010, compared to 2.3% across all micron groups.

New Zealand wool prices

Average FOB export value (NZD/kg)	October 2010	September 2010	October 2009
Fine <24.5 micron	8.40	7.11	8.31
Broad/coarse >24.5 micron	4.56	4.26	3.66

Source: Statistics New Zealand/Rabobank



Source: Statistics New Zealand/Rabobank

- This constrained supply complex (particularly for fine wool) is expected to support prices in the coming year, with the recent pick-up in exports also indicating an improvement in demand, although consumer confidence remains fragile in major retail markets.
- The coming year looks positive for wool growers, as fundamentals are expected to support prices above their five-year average and sheepmeat prices are also expected to remain buoyant.

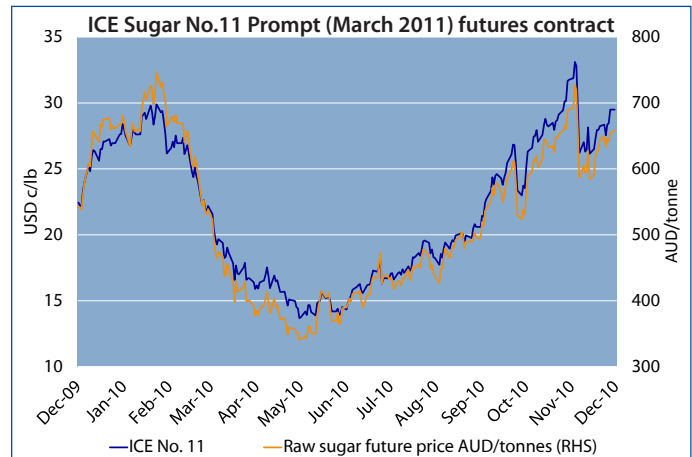
Sugar

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

	Current (06/12/10)	Last month	Last year
USD cents/lb	29.50	31.76	22.52
Converted to AUD/tonne	658.06	689.23	542.78

Source: Bloomberg/ICE/Rabobank

- Following a record peak above USD 33 c/lb, macroeconomic influences sent jitters through commodity markets during November as sentiment shifted and speculative funds flowed in and out of sugar futures, hedging against US dollar weakness.
- The La Niña climate pattern has again induced above-average rainfall over northern Queensland in November, bringing the Australian sugar harvest and crush to a close in most regions.
- In an average year, the cut and crush would be complete by early December; however, with most mills now closed, farmers face the prospect of leaving cane to standover until next season. For example, the Maryborough Sugar Factory is 80% of the way through the crush and is likely to continue through December to reach expectations of 0.7 million tonnes and meet their forward commitments.
- Rabobank has downgraded local production expectations for this season from 4.6 million tonnes to 3.9 million tonnes. Queensland Sugar Limited (QSL) has also reduced the pool price from AUD480 to AUD450/tonne IPS (International Pol premium Scale) and will look to source raw sugar from Brazil and Thailand to fulfil commitments. Market estimates suggest that wet conditions have reduced the harvest by up to AUD100 million of cane in northern Queensland, with around 60,000 tonnes left to standover



Source: Bloomberg/ICE/Rabobank

in Bundaberg alone. Despite these production losses, prices are still at record highs and this will help to ease some of the financial impact of production downgrades.

- Looking ahead, production next season is likely to be constrained as a result of cane standing over in water, limited cane plantings due to a wet spring and damage to young cane. With La Niña conditions persisting into Q1 2011, the risk of flooding during the wet season is now a real threat.

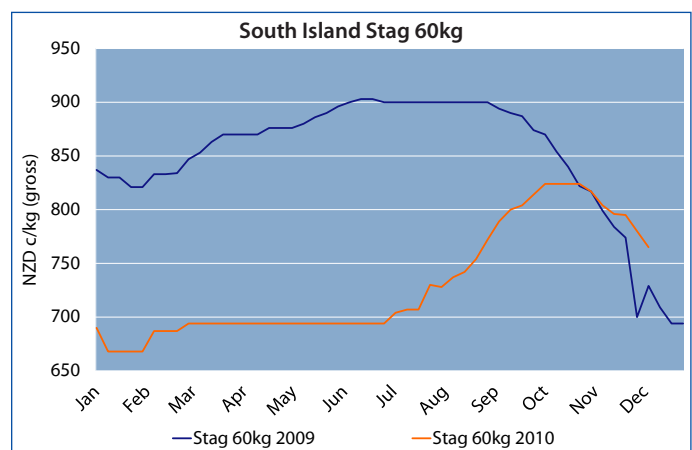
Venison

New Zealand venison prices

All shown as NZD cents/kg gross	Current (06/12/10)	Last month	Last year
North Island Stag 60kg	765	798	695
South Island Stag 60kg	765	804	729

Source: NZX Agrifax/Rabobank

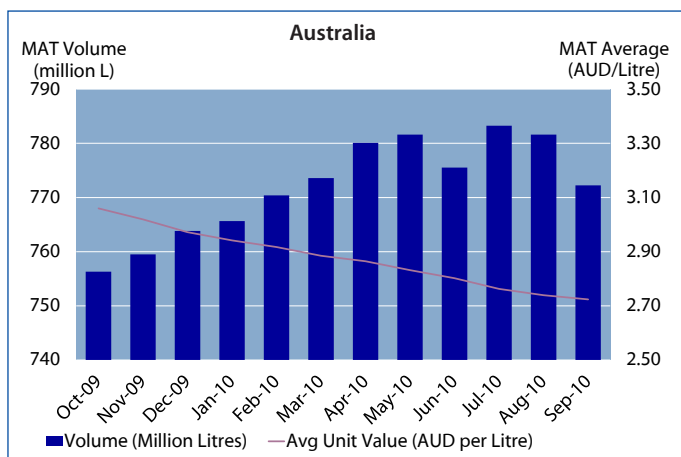
- Venison seems to have entered something of a holding pattern, with relative stability compared to what the market has typically experienced. Farm gate prices have eased seasonally, but these have been modest movements compared with previous years. Prices are currently 5-10% above 2009 levels as international prices are staying firm.
- Some stability in production levels is also evident. While October exports were down 29% on the previous year, exports over the three months to October were only 4% lower with a more even spread of volume across months than in 2009 and a greater proportion shipped chilled.
- Export prices for frozen velvet have firmed over recent months – albeit with low volumes exported during October. FOB prices for velvet destined for Korea have increased to around NZD115/kg,



Source: NZX Agrifax/Rabobank

while product destined for China has been around NZD70/kg over recent months.

Wine



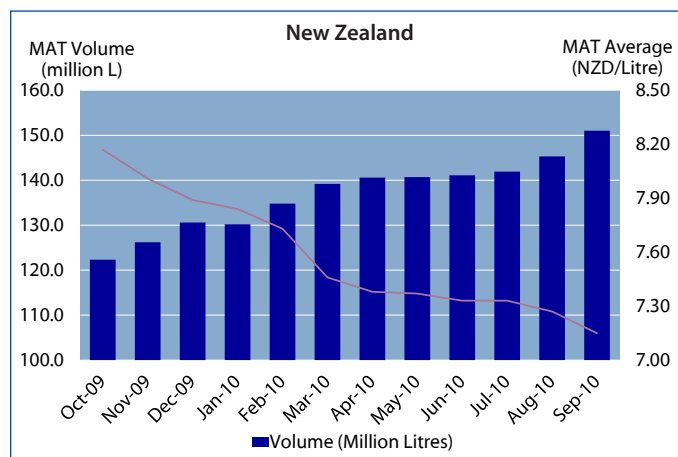
Note: MAT - Moving Annual Total refers to the twelve months ending with the nominated month
Source: Australian Wine and Brandy Corporation/Rabobank

Australia

- Australian wine export sales volumes in the 12 months to September 2010 increased 1.8% on the prior corresponding period to 772.3 million litres (ML), while the FOB value of exports decreased 10.8% to AUD2.103 billion. The monthly average export unit value in September declined by 5.2% on the prior corresponding month to FOB AUD2.75/litre, while the value of bottled wine exports recorded a 6.1% increase on the prior corresponding month to FOB AUD4.15/litre (AWBC, 2010).
- Annual industry survey data released by the Australian Bureau of Statistics confirms that continued strong sales volumes in 2009-10 and a short 2010 harvest have contributed to the lowest stock-to-prior year's sales ratio held by the industry in over a decade. That said, the profitability of sales still remains a concern for many wine producers, especially in key export markets where a high Australian dollar, soft consumer spending and foreign competition are weighing on performance. Locally Australian consumers are estimated to have responded strongly to competitive pricing pressures in the domestic market, with sales volumes growing by 4.7% to a record high 470.8ML in the year to June 2010, worth an estimated AUD2.123 billion.
- In terms of the 2011 harvest, continued heavy rain into the growing season across south eastern Australia has continued to threaten the potential of the crop. Wine grape growers continue to battle serious fungal diseases such as downy mildew with harvest in the major inland river regions less than a month away in some cases. Outbreaks of downy mildew prevent young grape bunches from forming or cause brown rot in mature bunches which can ultimately result in significant crop loss. The impact of disease may result in wineries imposing quality related price downgrades to affected parcels of fruit and offering higher-than expected prices for unaffected parcels of varieties that have been particularly impacted.

New Zealand

- New Zealand wine producers reported another strong lift in wine shipments to 18.9 million litres in September 2010, up 44.3% on



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

the prior corresponding period. On an annualised basis, shipments in the 12 months to September 2010 grew by 25.7% on the prior period to 151.0 ML (NZ Winegrowers Assoc., 2010).

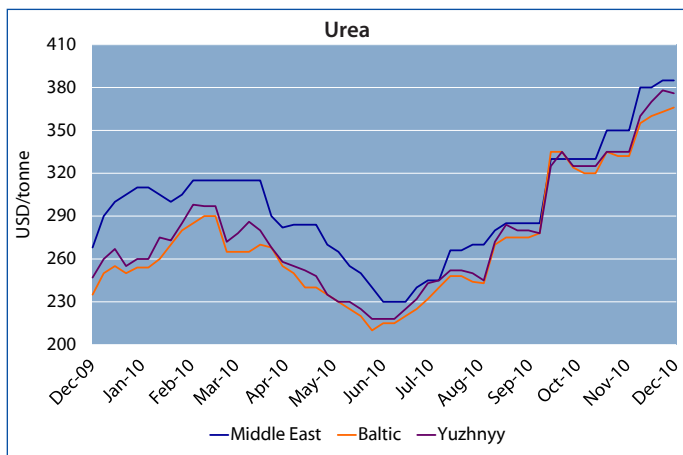
- A new monthly record of 11.5 ML of bottled wine was exported in September 2010, 6.5% higher than the prior month and 9.5% higher than a year earlier. Despite higher bottled wine shipments, bulk wine shipments also reached a record high 7.3ML or 38.6% of export shipment volumes in September. Strong shipment volumes have led to a growing need for private label operators to firm up supplies and review future supply requirements. The resultant firming in bulk wine prices observed in recent months is likely to have played a key role in the decision of many small-to-medium sized wineries to sell inventory through the bulk market.
- The annual value of exports moved 6% higher to a record NZD1.06 billion in the 12 months to September 2010. Average bottled wine export unit values fell sharply to a record low of FOB NZD6.92 per litre as exporters continue to struggle with soft consumer spending in key export markets and a New Zealand dollar resting at 12 month highs against the USD, GBP and EUR.
- On 11 November the New Zealand Government introduced the long-awaited New Zealand Alcohol Reform Bill for consideration by parliament. With this legislation the New Zealand Government is looking to proactively address the public cost associated with the antisocial and health related effects of alcohol abuse, with a particular focus on youth drinking.
- Amongst the Bill's proposed measures are to increase the legal age for off-premise alcohol purchases to 20 years (while keeping the on-premise legal drinking age at 18 years), more closely regulate alcohol advertising messages, regulate the alcohol content of 'Ready-to-Drink' beverages (RTDs), introduce powers to ban dangerous products and to introduce a minimum pricing structure for alcohol. While the New Zealand wine industry is not directly implicated in the proposed reform measures given its more premium market positioning, any negative impact on wine consumption is likely to affect those wine producers and importers who market relatively lower cost products.

Fertiliser

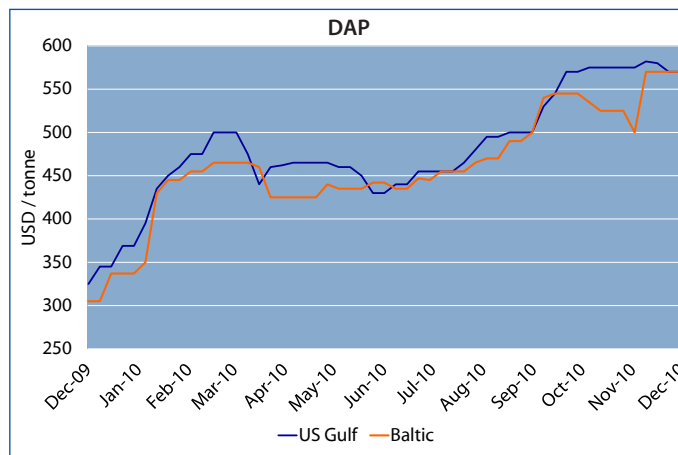
Fertiliser prices

All shown as USD/tonne	Current (02/12/10)	Last month	Last year
Urea (Middle East)	385	380	268
DAP (US Gulf)	570	575	325

Source: Bloomberg/ICIS/Rabobank



Source: Bloomberg/ICIS/Rabobank



Source: Bloomberg/ICIS/Rabobank

- As anticipated, DAP prices have started to ease in line with weaker seasonal demand, which should continue into December/January. However, in Rabobank's view, the current softness will be short-lived as the market looks to remain increasingly tight over the next year. Chinese tax revisions, extremely low US inventories that will require re-building before April/ May, and the delayed start-up of Saudi Arabia's Ma'aden fertiliser plant is enough to keep pressure on supply in 2011. Market estimates indicate DAP prices may range between USD550-600/tonne in 2011.
- In medium term DAP supply capacity is expected to gradually catch demand, although it is unlikely the supply-side will shift to

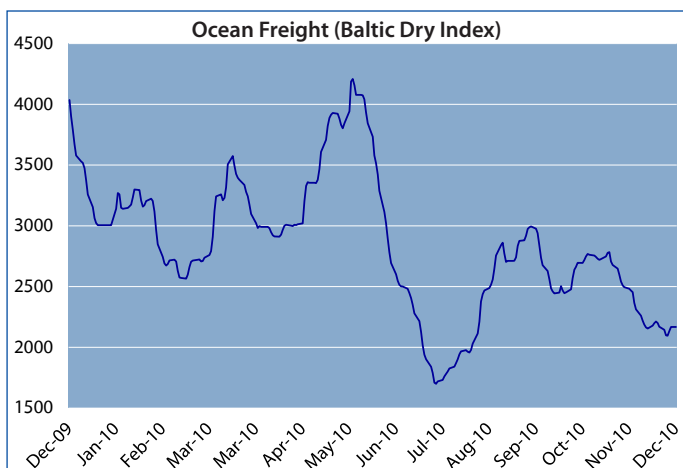
- excess until at least 2014. Aside from the Ma'aden project, plant expansions in Morocco will provide around four million tonnes per annum of new capacity to ease tightness by 2015.
- Urea prices have also softened, as seasonal factors outweigh the negative supply news of higher Chinese export taxes. That said, strong earlier-than-expected buyer interest from India and higher energy prices should support prices at current lower levels.
- Elevated Australian cotton area for the next two years at least will increase demand on urea, which could lead to spikes in prices if shortages eventuate in 2H 2011.

Other costs

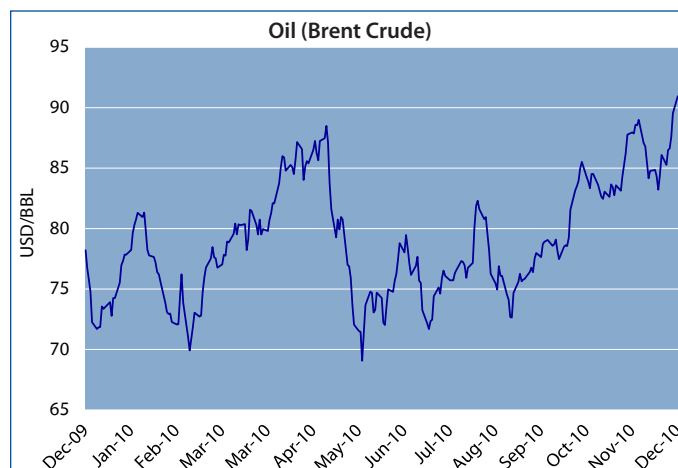
Ocean freight index and oil prices

	Current (06/12/10)	Last month	Last year
Baltic Dry Index* (ocean freight)	2168	2495	4107
Brent Crude Oil (USD/bbl)	89.54	87.77	78.41

Source: Bloomberg/Rabobank



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.

About the Rabobank Group

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

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

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