



Rabobank

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Agribusiness Review

Australia and New Zealand

Rabobank Group

Food & Agribusiness Research and Advisory (FAR)

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

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Report highlights

- The start of 2010 has been wetter and cooler than usual in Queensland and the Northern Territory, and warmer and drier than normal elsewhere. The south of New Zealand has been wet and cool, while the north of New Zealand has been dry and warm. Pacific Ocean temperatures remain warm – above El Niño thresholds in most areas – but the trend is now to cooling, with an expectation that the Southern Oscillation Index will gradually return to normal conditions over the next few months
- The recovery in the global economy continues, although there are signs of volatility. The Australian economy has surprised mainly on the upside, with improving labour, housing and consumer and business confidence. While the Reserve Bank of Australia held rates at its most recent Board meeting, it confirmed its tightening bias. The economic recovery in New Zealand remains fragile, with several risks to momentum, including non-residential construction, the housing market and unemployment. There has been an easing of both the Australian and New Zealand dollars over recent weeks, although both are expected to firm over coming months.
- World grain prices tumbled in January, on the back of expectations of ample global grain stocks. Yield results in Australia show the wheat crop has come in just under expectations, at around 22 million tonnes. The sector has shifted to marketing, with the recent softening of the AUD/USD exchange rate spurring interest in Australian exports, particularly from Asian buyers.
- Young cattle prices have improved during December-January in both Australia and New Zealand, although remain below five-year average levels. Exports have been hampered by the relative strength of the local currencies against the USD and subdued demand in export markets, particularly in Asia. Good rainfall, a recent weakening in currency, improved prices in the US (New Zealand producers), and potential access for additional exports to the EU (Australian producers) offer some potential for improvement.
- Global dairy prices have eased over the last six weeks. Rabobank sees this as a correction to a price overshoot; the fundamentals are still positive, at a time when milk production in key export regions remains restricted. The recent weakening of local currencies has protected exporters from some of the impact of falling prices.
- The Baltic Dry Index has levelled off after falling during December. Oil passed the USD80/barrel mark in early January but has since fallen back to the mid-USD70s range.

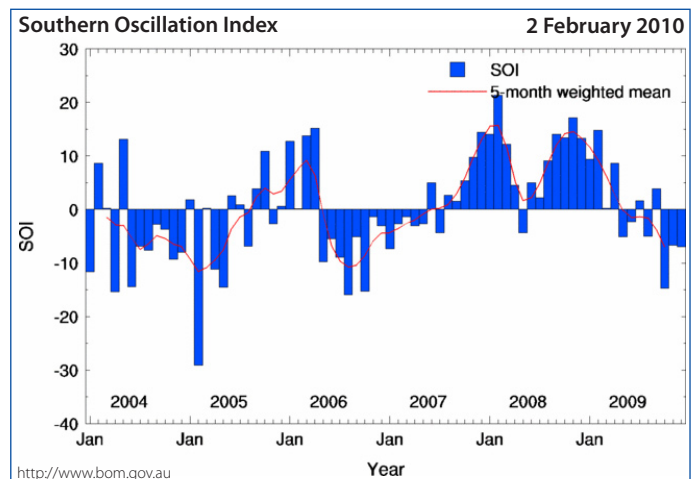
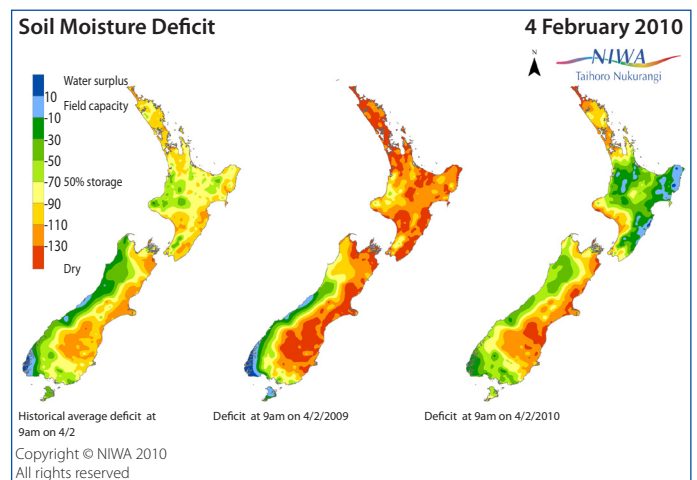
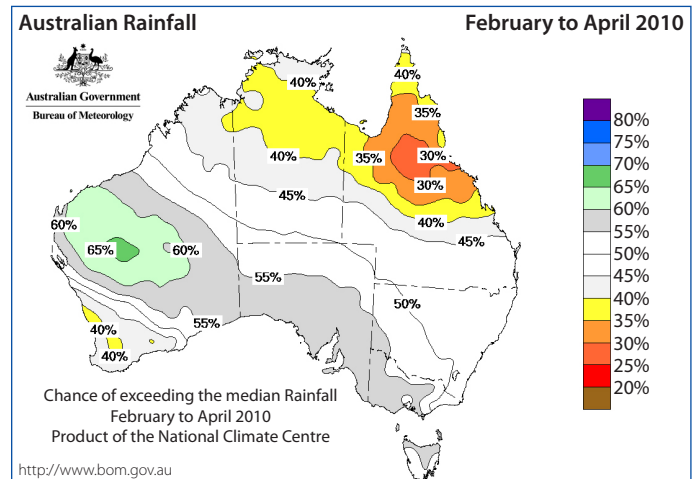
Climate

Australia

- The start of 2010 has generally been wetter and cooler than normal through most of Queensland and the Northern Territory, and warmer and drier than normal elsewhere.
- The national outlook for total rainfall for the February to April period shows contrasting odds across the country - below average falls are likely in northern parts of both Queensland and the Northern Territory, whereas a wetter-than-normal three months is likely for northwest and central Western Australia, mainly as a result of recent warmer Pacific Ocean temperatures (an influence from the persisting El Niño). Most of New South Wales, Victoria, South Australia and Tasmania should experience near-average conditions.
- The national outlook for average maximum temperatures for the three month period from February to April, shows mixed odds. There is a moderate to strong chance of above average temperatures across a broad region covering much of northern and eastern Australia, and in the west of Western Australia. In contrast, cooler-than-average daytime temperatures are likely in the southeast of the country, again, mainly as a result of recent warmer Pacific Ocean temperatures.
- Pacific Ocean temperatures remain warm - above El Niño thresholds in most areas - but the trend is now to cooling. The Bureau of Meteorology suggests that tropical Pacific temperatures should gradually ease towards more average values over the coming months. The Southern Oscillation Index has fallen over the past fortnight in response to weakening Trade Winds, although this is only expected to have a temporary effect on the trend to cooling Pacific temperatures.

New Zealand

- The south of New Zealand experienced thundery rain and hail in early December, which cooled average monthly temperatures but improved soil moisture levels. In contrast, December brought dry, sunny weather to northern parts of New Zealand, which caused extreme soil moisture deficits. By mid-January the government declared Northland a medium-level drought zone, for which it will offer drought relief measures. Parts of Waikato and the Bay of Plenty, areas around Nelson and the east coast of the lower South Island are also experiencing extreme soil moisture deficits.
- New Zealand is now halfway through what the New Zealand Metservice describe as "an El Niño summer", caused by the higher-than-normal sea-surface temperatures in the eastern equatorial Pacific Ocean. These temperatures peaked during December and most leading climate models suggest tropical ocean temperatures have a more than 90% chance of lasting until at least April, at which time it should weaken.
- El Niño will continue to impact on New Zealand's summer weather, resulting in December's weather pattern continuing through until at least February. Low pressure systems in the Southern Ocean

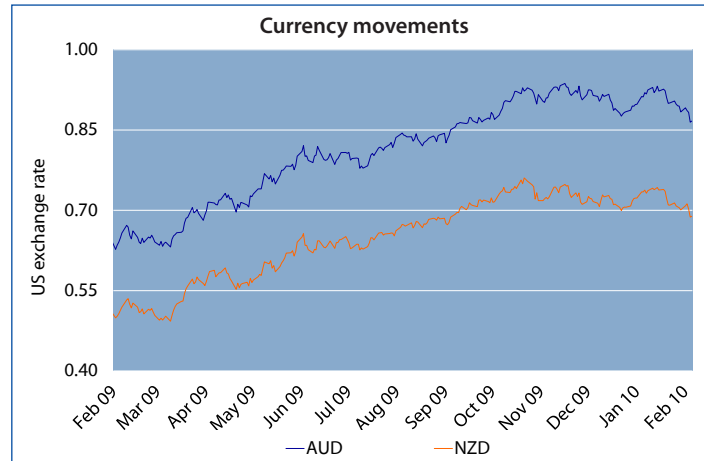


- may occasionally pass close to Southland and high-pressure systems in the Tasman Sea may occasionally cross the North Island, bringing with it periods of dry, sunny weather.
- Overall, conditions in 2010 have been similar to the same time in 2009, and the hottest days of the year are likely to occur in early February. Between the highs, conditions are likely to be cloudy and wet as a result of passing troughs and low-pressure systems. Some of these troughs may come from the subtropics and bring some widespread wind and rain over the next few months.

Currency USD

	Current (05/02/10)	Last month	Last year
AUD	0.8865	0.9119	0.6487
NZD	0.6888	0.7346	0.5133

Source: Bloomberg/Rabobank



Source: Bloomberg/Rabobank

Global

- They say it may get bumpy, and it is certainly has, with the two-speed nature of this recovery in the global economy continuing into this year. While there continues to be evidence of a strong and broad-based improvement, recent GDP releases highlight the contrast between regions. In the December quarter, the US GDP growth bounce surprised the market, while in the UK GDP was only just positive. In Europe, a set of weaker-than-expected service sector indicators highlights the recovery may not be spreading as quickly as anticipated to all segments of the economy. Therefore, the main area of concern is that as fiscal support fades, and if labour markets stay weak, there remains potential for a “soft patch” in mid-year advanced economy growth.
- China’s economic growth engine powered on in the December quarter, with GDP growth broadly in line with market expectations, at 10.7% year-on-year. Meanwhile, CPI inflation rose markedly in December (particularly food CPI), highlighting the increasing inflation risks ahead in these quick recovering Asian economies. These inflation concerns, in part, prompted the Peoples Bank of China to tighten money by hiking the lender reserve requirement ratio. While this is likely to have little impact on demand for agri-commodities, it may lead to a near-term destocking of raw materials, which could spillover to weaken Australian dollar fundamentals.

Australia

- The Australian economy continues to surprise on the upside, so far gracefully sidestepping the severity of the global downturn. An improving labour market, robust housing sector data, as well as consumer and business confidence at elevated levels despite three rate hikes, and a rapidly expanding China all point to solid growth

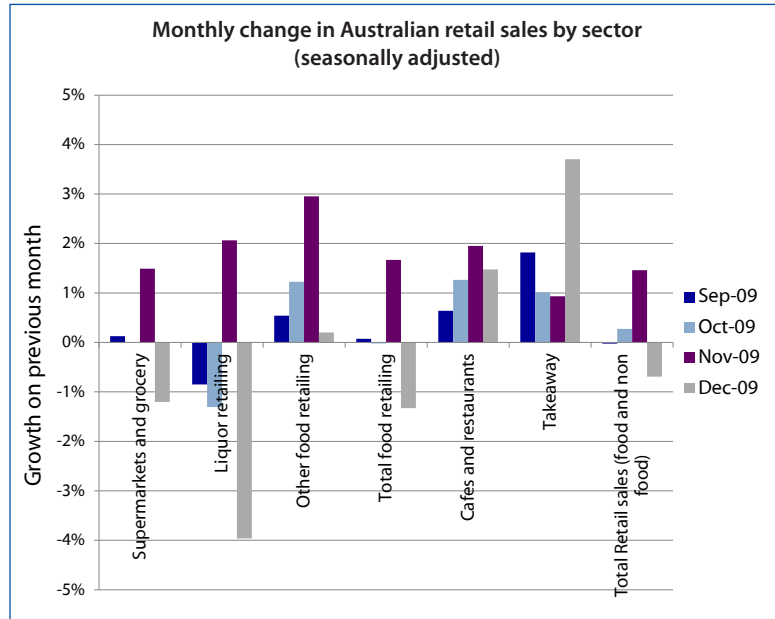
in the year ahead. Currently Rabobank forecasts the Australian economy to expand by 2.8% in 2010, up from 0.9% in 2009.

- The Reserve Bank of Australia (RBA), at its first meeting for 2010, surprised nearly all segments of the market by keeping the official cash rate steady at 3.75%. On the face of it holding back the RBA was the desire to have more data to assess the impact of the three consecutive hikes at the end of 2009. Nevertheless, the RBA’s statement leaves no doubt its tightening bias remains intact, albeit on hold for now. In light of China’s actions, and the RBA’s decision to hold rates, the Australian dollar has weakened somewhat. That said, interest rates are still anticipated to tighten further this year and commodity demand is expected to stay robust for 2010 as a whole, which should see AUD/USD firm from the current level.

New Zealand

- “Gently as it goes” describes the New Zealand economic recovery. While momentum seems to be building, the risks to the outlook are many. Non-residential construction is contracting and the housing market weakened into year-end. So while improvements in some sectors have been noticeable (retailing is a recent case), momentum in others such as housing has already started to fade. Unemployment is a significant concern, now at levels not seen since mid 1999.
- The Reserve Bank of New Zealand (RBNZ), as expected, left the official cash rate unchanged at 2.5%. Rabobank’s view is that the RBNZ will begin removing monetary policy stimulus in the June quarter. A recent easing in the NZD/USD rate (sub USD0.70) will provide some temporary relief to exporters, but it is likely to be only temporary. The NZD is expected to gather momentum once the current bout of risk aversion in global markets begins to fade.

Food retail



Source: ABS Cat 8501

Australia

- The Australian Bureau of Statistics (ABS) reported that seasonally adjusted retail turnover decreased by 0.7% in December 2009 whilst increasing 1.0% over the last quarter. 'Cafes, restaurants and takeaway food services' registered a rise of 3.7%, the largest of all industry groups, buoyed by particularly strong spending in the takeaway food sub-group. From a price perspective, CPI data showed that restaurant prices increased at a greater rate than take away and fast food prices for the first time since the September 2007 quarter.
- Fruit prices recorded the strongest increase of all CPI expenditure classes in the December 2009 quarter, rising 15.9% on the previous quarter due to adverse seasonal conditions during the critical ripening period for many crops in the eastern states. Food prices more generally rose 1.4% on the previous quarter, reversing their downward trend over the past two quarters to record a rise of 1.9% in the year to December 2009. This is the most modest increase of all CPI groups and a significant decline from levels experienced in 2008-09.
- Woolworths reported its half year results that showed that while growth in total sales of its Australian food and liquor division declined on the prior corresponding period from 9.0% to 6.8%, comparable sales growth relative to inflation improved during the period.
- Renewed signs of the shifting Australian grocery retailing landscape came via announcements from Coles and Woolworths regarding long-term discounting and national pricing strategies for categories excluding fresh fruit and vegetables. These strategies are seen as a direct response to similar policies already in place at Aldi and are reportedly to be financed out of accumulated cost savings in operations rather than at the expense of wholesale suppliers.

New Zealand

- Mixed retail sales increased in November (0.8%), with the dominant category supermarket and grocery only lifting marginally (0.2%) for the month (seasonally adjusted), after October declined -1.1%. The total spending in grocery in November was NZD1,288 million lifting the category spend to NZD14,036 million for 11 months YTD, compared to FY08 NZD14,366 million. This means the full year spending for grocery is forecast to finish at least 7% ahead of 2008.
- Seasonal influences played out as fresh produce spending declined by 3% compared to the previous month while November liquor sales were up 9%. Fresh produce spend lowered as cheaper seasonal vegetables and fruits came to market. Cafe and restaurant spending increased over both October (NZD353 million) and November (NZD348 million) compared to the monthly average for the previous six months (NZD328 million), a jump of NZD20-30 million (9%). Takeaway food consumption remained solid at NZD111 million also up 9% on the monthly average.
- Food prices decreased in December for the fifth consecutive month (-0.3%). For the full year to December, food prices only rose 0.9% in total. Comparing December prices month on month with the previous year, major reductions have been seen in poultry (-8.5%), beef (-2.9%), fish (-2.9%), milk (-4.5%), butter (-28%) and cheddar cheese (-15.9%).

Grains and oilseeds

ASX wheat prices

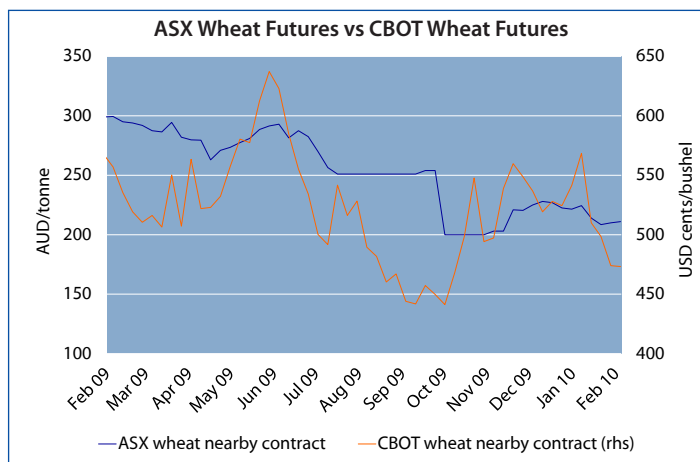
	Current (05/02/10)	Last month	Last year
AUD/tonne	211	224	299

Source: Bloomberg/ASX/Rabobank

Chicago Board of Trade Wheat Futures (nearby contract)

	Current (05/02/10)	Last month	Last year
USD c/bushel	473	568	557

Source: Bloomberg/CBOT/Rabobank



Source: Bloomberg/CBOT/ASX/Rabobank

Global

- International benchmark grain prices nosedived in January, tumbling to their lowest levels since October 2009. In general, prices had been boosted through December by delayed harvests and severe weather in the United States (US) – particularly for corn and soybean – as fears of a fall in yield and lower US end-of-season stocks mounted. However, grain prices weakened sharply in response to the supply-side ramifications of the USDA's World Agriculture Supply and Demand Estimates (WASDE) report. The report reflected ample global grains supplies in 2009/10, projecting record global production for corn and soybeans and the second highest wheat crop on record. Demand growth is expected to remain tepid, which is reflected in comfortable stock levels. For example, global wheat stocks are projected to be at their highest level since 2001/02.
- In 2010, amid ample supplies and improved global stock levels, any sharp lift in grain prices seems unlikely at this stage. Rabobank anticipates that demand for grains will improve this year, a function of both weaker prices as well as recovering consumer demand, which should pick-up as the global recovery gathers pace. For wheat – the sector where stock levels are most burdensome – a combination of reduced global area, a modest stock decline and outside market factors (improved economic conditions, improving demand for other grains, heightened investor appetite and relative currency movements) will at the very least provide a floor to any further sharp falls.

Australia

- Now the grain harvest is complete in Australia attention has turned towards this season's marketing programs. For wheat, Rabobank expects that near 15 million tonnes (mt) is available for export, with the Australian wheat harvest likely to have reached

around 22mt. This is lower than the mid-season estimates of near 23mt, as extreme heat and then harvest rain took its toll, particularly on grain quality in regions that have a later window. While this year's lower-than-expected harvest is likely to have minimal impact on global trade, it is worthwhile remembering the severe impact that production shortfalls have had on global export availability and prices in recent years. While it is too early to make an informed judgment about 2010/11, low prices suggest a decline in planting interests for wheat in Australia. However, much will depend on the timing of opening rains, which will determine farmers' access to alternatives.

- Following a very sluggish start to the 2009/10 marketing year (October - September), export sales of Australian wheat have started to firm up. The sharp drop in Chicago prices in recent weeks (which Australian wheat is broadly benchmarked against) and some general weakness in the AUD/USD exchange rate has stirred interest, particularly from Asia. Recent sales suggest we are nearing export parity for nearby Asian customers, with the ASX milling wheat May contract trading at around AUD210/tonne.
- The canola harvest for 2009/10 is estimated to have come in slightly below the previous year (1.85mt), at around 1.7mt. In general, this reflects a smaller area planted, particularly in Western Australia, with the earlier harvest time limiting any material impacts on production from the severe heat wave at the end of the growing season. Similar to grain prices, canola prices have eased in recent weeks, and with the pending threat of a large South American soybean crop, a significant near-term recovery seems unlikely. In other news, the genetically modified (GM) footprint in Australia has further expanded. Western Australia is the latest state to lift a ban on GM canola, with commercial areas to be grown from 2010 onwards.

Beef

Australian beef prices

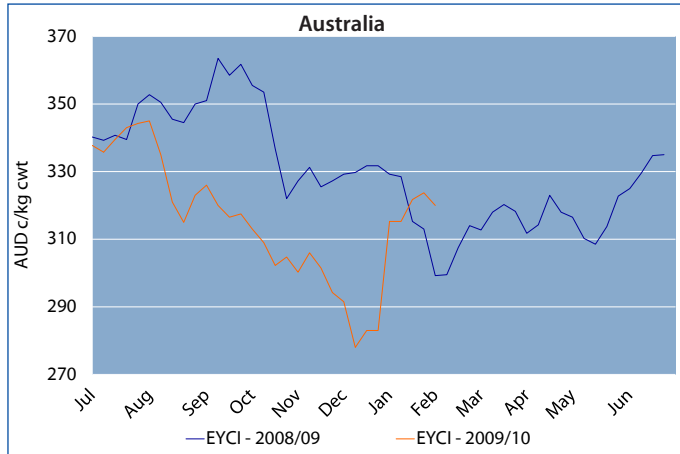
All shown as AUD c/kg cwt	Current (29/01/10)	Last month	Last year
Eastern Young Cattle Indicator (EYCI)	324	283	313

Source: NLRs/Rabobank

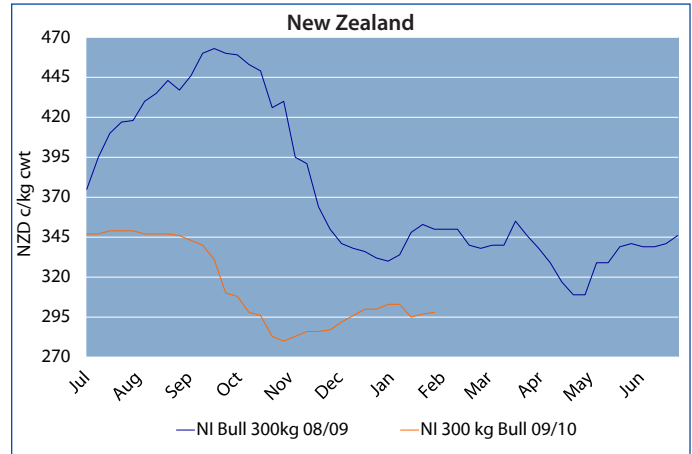
New Zealand beef prices

All shown as NZD c/kg cwt	Current (01/02/10)	Last month	Last year
North Island Bull 300kg	298	303	350
South Island Bull 300kg	284	275	332

Source: NZX Agrifax/Rabobank



Source: NLRs/Rabobank



Source: NZX Agrifax/Rabobank

Global

- The United States (US) cattle herd has fallen to its lowest level since 1959, dropping to 93 million head at the beginning of 2010, the third year in a row it has fallen. With an increasing share of heifers going into feedlots rather than being held for rebuilding, the decline in the US herd looks set to continue. Cow-calf producers are estimated to have lost money in both 2008 and 2009, squeezed by high input costs (particularly grains) and subdued consumer demand.

Australia

- After plunging to AUD2.78c/kg cwt in early December (their lowest levels since the global economic downturn began), cattle prices have recovered to just under AUD3.24 as of late January. Cattle prices generally rise after Christmas, as processors reopen after the holiday season. Good rainfall in parched areas of Queensland over the past month have further contributed to the improved prices. While improved, prices are still well below five-year average levels, with soft export demand and a high Australian dollar impacting.
- The EU has created a new beef quota of 20,000 tonnes for high quality grainfed beef. In order to be eligible for access to the quota exporters must meet stringent conditions, including a minimum number of days on feed. Both the feedlot and the plant at which the cattle are processed must be EU accredited. The quota is open to all countries, however the US and Australia are the main suppliers thought to be able to take advantage. Australia's current

quota for beef to the EU is only 7,150 tonnes so a relatively minor share of the new quota would be a reasonable increase for this high value (but hard to access) market. One major benefit for those managing to access this quota is that there will be a zero tariff. This compares to a 20% tariff on Australia's existing quota allocation.

New Zealand

- Farmgate prices dropped to the lowest point of the year in November before climbing back slightly in December. Despite a slight improvement in imported beef prices in the US due to poor weather in December and early January, price schedules have stayed well below last year, sitting below NZD3.00/kg. The improved prices in the US, which could have provided a welcome relief for processors, have offered marginal change due to the NZD staying strong against the USD through to end of January. However, a slight weakening of the New Zealand currency is occurring, which could offer much needed opportunities for both farmers and processors alike.
- Cattle slaughter before Christmas was slow only reaching 19% of the forecast kill, compared to a five-year average of 22% pre-Christmas. This has picked up due to drought conditions in the North Island, with 30% total bulls processed by mid-January bringing numbers back to typical levels.
- Beef exports to North America were down from 23,000 tonnes in December 2008 to 15,000 tonnes in December 2009 (a decline of 35%). Other export markets stayed at typical levels.

Lamb

Australian lamb prices

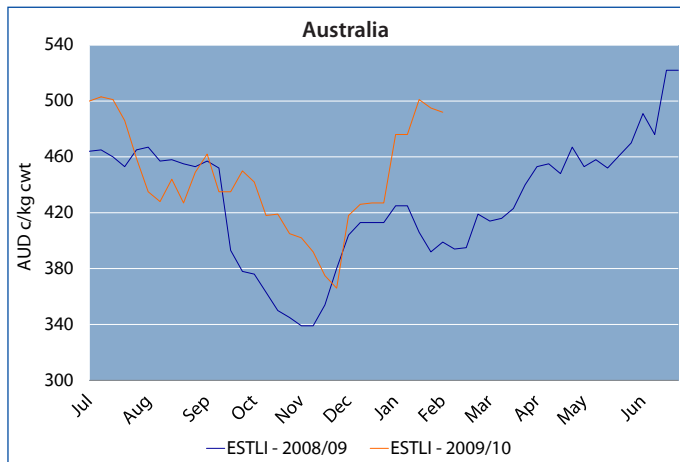
All shown as AUD c/kg cwt	Current (29/01/10)	Last month	Last year
Eastern States Trade Lamb Indicator (ESTLI)	495	427	392

Source: NLRs/Rabobank

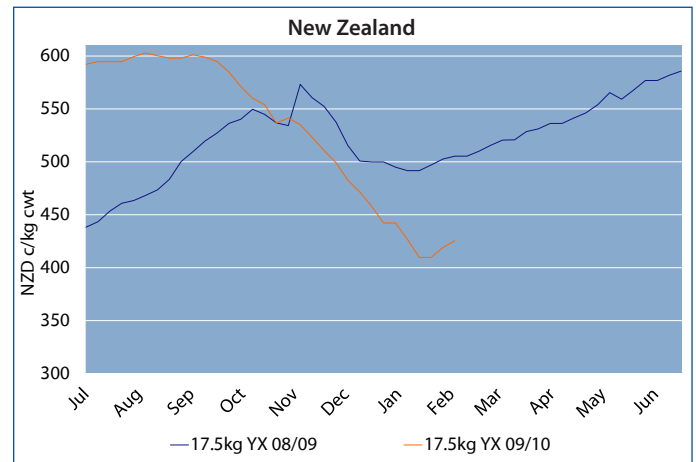
New Zealand lamb prices

All shown as NZD c/kg cwt	Current (01/02/10)	Last month	Last year
North Island 17.5kg YX	436	455	488
South Island 17.5kg YX	425	427	503

Source: NZX Agrifax/Rabobank



Source: NLRs/Rabobank



Source: NZX Agrifax/Rabobank

Australia

- Sheep and lamb prices have reached extraordinary levels over the past month. The Eastern states trade lamb indicator ended January at just under AUD5.00/kg cwt, around 25% above the same time in 2009. This level of price has previously only been seen in the winter months when supply is at its lowest, rather than in January. Supply concerns continue to impact, while demand from restockers, feedlotter and live exporters also remains relatively robust.
- Domestic sales of lamb, which takes up around 55% of production, have been strong, providing good support for prices. However, this demand may ease slightly if further interest rate rises result in a reduction in household spending.
- The reduced supply of sheep and lambs in Australia saw turnoff in 2009 fall by around 5% to just over 32 million head. Sheep slaughter and live exports are estimated to have fallen, while lamb slaughter increased by 4%, reflecting the rising share of lambs in the flock as producers shift away from wool to meat production.
- Total sheepmeat exports also fell by 3% for the year, with a rise in lamb sales more than offset by the decline in mutton sales. The Middle East was a standout for Australian exports in 2009, with both lamb and mutton sales to the region rising. Much of this rise was due to increased sales to Jordan.

New Zealand

- Farm gate prices for lamb have started to level following a decline through December and January, which saw prices fall 14% lower than in the same period 12 months ago.
- Agrifax reported slaughter levels to end-January have reached 34% (7.4 million) of projected kill for the season (21.9 million). This is down on the same period 12 months ago by 11%, when 8.4 million lambs had been processed. In its mid-season update released last week, Meat & Wool New Zealand (MWNZ) suggests the total kill level could still rise this year, possibly reaching levels 5% higher than currently forecast.
- Exports for 2009 finished 14% down on 2008, at 381 million tonnes compared to 441 million tonnes in 2008.
- Total sheep meat export volumes in the final quarter for 2009 were 5% lower than Q408, equating to a 8% decline in value. The majority of sheep meat cuts were shipped as bone-in product (77%); boneless cuts made up 18%, with the remainder as shipped as carcass.
- A softening of the New Zealand dollar and higher overseas prices are bringing schedule prices back up as procurement for Easter shipments is finalised.

Dairy

World dairy prices

	USD/tonne			AUD/tonne			NZD/tonne		
	04/02/2010	Last month	Last year	04/02/2010	Last month	Last year	04/02/2010	Last month	Last year
Butter	3,725	3,850	1,850	4,231	4,173	2,851	5,328	5,213	3,599
SMP	2,750	3,175	1,750	3,123	3,442	2,697	3,933	4,299	3,404
WMP	3,150	3,350	1,850	3,578	3,631	2,851	4,506	4,536	3,599
Cheddar	4,025	4,250	2,450	4,571	4,607	3,776	5,757	5,755	4,766

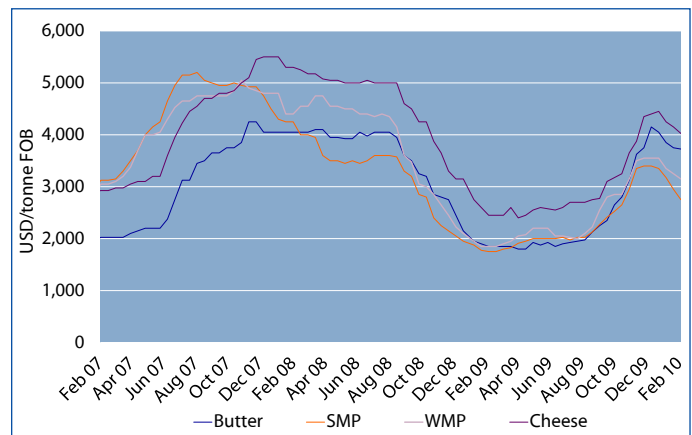
Source: USDA/Rabobank

Global

- Global dairy prices eased in the first six weeks of 2010, continuing a modest slide in train since mid December. USD surveys suggest the price of most key commodities had fallen 10% below mid December levels by early February, with SMP down 20%.
- The slide almost certainly reflected a correction of what had begun to resemble a substantial price overshoot in late 2009.
- The global economy is still improving, but slowly in most regions. And with retail dairy prices now on the rise again, there is evidence that end consumption growth is slowing rather than accelerating in some markets. Anecdotal evidence suggests that wholesale buying has also slowed, as buyers contemplate full inventories, high pricing and the forthcoming Northern hemisphere spring flush.
- Nonetheless, recent falls are unlikely to predicate a market slump. While fundamentals don't support record prices, they are not bad and are getting better. In particular, the brakes are very much on in terms of milk production in key export regions, while there is no sign of an imminent sale of EU intervention stocks.
- The biggest uncertainty in the market in the next few months is whether China can sustain recent powder import volumes, which are reported to have leapt further in January on already strong levels. Consumer appetite for imported product may be supported by the recent announcement that a number of smaller Chinese companies had been discovered selling melamine tainted products carried over from 2008. Notwithstanding, the Commerce Ministry announced an 'import alert' on milk powder last month, raising fears that importers will reduce inward product flows.

Australia

- A softening of the Australian dollar has partly offset recent falls in international prices in local currency terms, enabling most processors to announce further increase in farm gate milk prices in January. Feed costs have continued to drift down, water allocations to drift up and the weather has been far better than a looming El Niño had threatened.
- Yet while many farmers are now looking at a breakeven season or better, improved conditions have arrived too late to avoid a substantial reduction in milk supply.
- December export shipments rose 16% above the GFC impacted volumes of 2008, but will reduce substantially in coming months.



Source: USDA/Rabobank

Production growth in key exporting regions

	Latest month	Last 3 months
EU 27	-1.0% (Oct)	-0.70%
US	-0.9% (Dec)	-1.00%
Argentina	-3.6% (Nov)	-3.70%
Australia	-9.0% (Dec)	-7.70%
New Zealand	-0.4% for eight months to January 2010*	

*Rabobank estimate

New Zealand

- Exporters enjoyed some offset to falling international prices through January, with the local currency weakening somewhat over the month.
- Seasonal conditions were less kind. El Niño brought drought to the upper and central North Islands in January, reducing production earlier than expected. While the South Island has fared better, with a cool and wet summer feeding through to handsome production gains, national milk production is estimated to have fallen marginally short of previous year levels in recent months.
- With recent milk supply trends still to feed through the supply chain, total exports for December 2009 were still significantly up on the same month in 2008, with a total increase in volume of 20%. Shipments to China more than doubled over the same period, and accounted for 20% of all product leaving New Zealand in December

Cotton

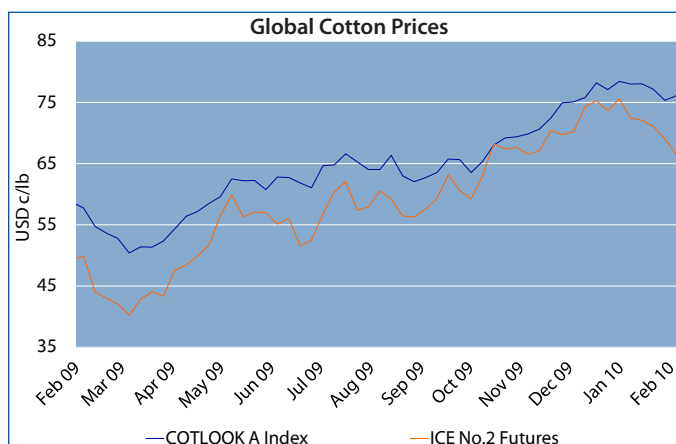
World cotton prices

All shown as USD c/lb	Current (05/02/10)	Last month	Last year
Cotlook A Index	76.10	78.10	57.75
ICE No.2 NY Futures (nearby contract)	66.62	72.44	49.86

Source: Bloomberg/ICE/Rabobank

Global

- ICE No. 2 cotton nearby futures prices started 2010 strongly reaching levels not seen since March 2008. The rise in prices was supported by the stronger performance in outside markets and the tightening cotton supply outlook. However, the gains were not sustained as the market reacted to negative economic news as January progressed with speculative investors in most commodity markets selling positions as they wait to see a clearer picture on the global economy before repositioning their level of activity in the market.
- It is likely the fall in prices has been an overreaction and prices will again move higher in the short-term. The support for higher prices will come from the need to alleviate the tight cotton global supply outlook as stocks are depleted (especially in the US) and demand from key import regions remains firm.
- For Australia, the start of 2010 has generally been favourable for the cotton sector with reasonable in-crop rains in most regions, and



Source: Bloomberg/ICE/Rabobank

along with an increase in area planted to cotton, a lift in production of around 10 to 15% from the previous year is likely.

Wool

Australian wool prices (eastern)

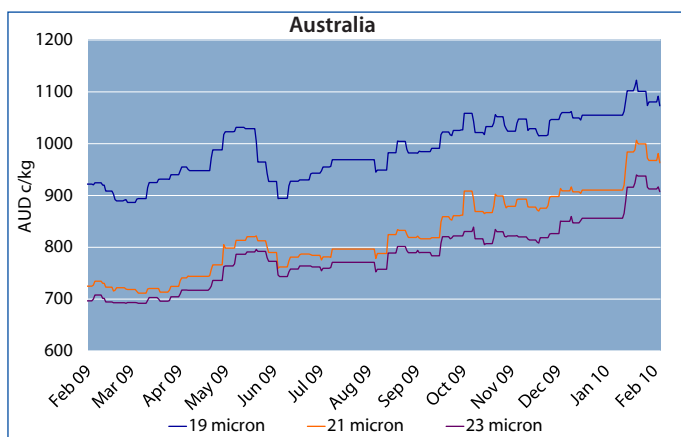
	Current (04/02/10)	Last month	Last year
Fine (19 micron)	1073	1055	921
Medium (21 micron)	963	911	727
Broad/coarse (23 micron)	908	856	700

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

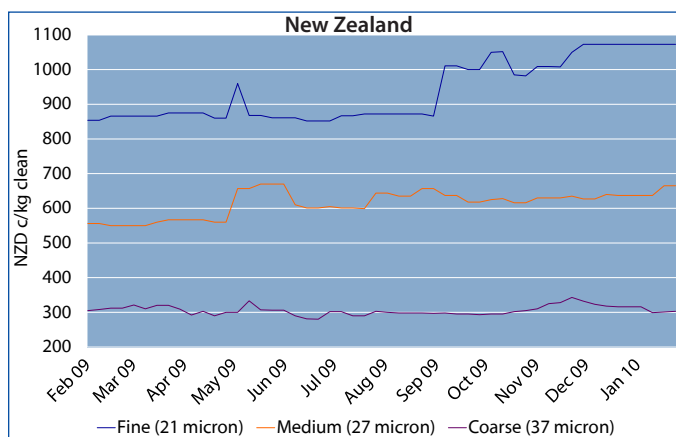
New Zealand wool prices

	Current (01/02/10)	Last month	Last year
Fine (19 micron)	1073	1073	854
Medium (27 micron)	685	637	556
Broad/coarse (37 micron)	333	316	305

Source: NZX Agrifax/Rabobank



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



Source: NZX Agrifax/Rabobank

- In international dollar terms (shown by US dollars) the market has performed strongly in recent months, reaching USD8.70/kg (clean), which is only 5% below the decade high levels of USD9.20/kg, seen in early 2008, when the international fibres market was at its strongest.
- With the Chinese New Year occurring in February it is likely that buyer activity will soften during this period and impact wool prices. However, it is expected that prices will find support at

current levels and move sideways with more of a chance of upside to world fibre prices, including wool, as we move into the second quarter of 2010.

- Australian wool prices, shown by the AWEX Eastern Market Indicator, reached a 21-month high in January with market sentiment being driven by limited supply and general momentum for all prices across the global fibres sector upwards.

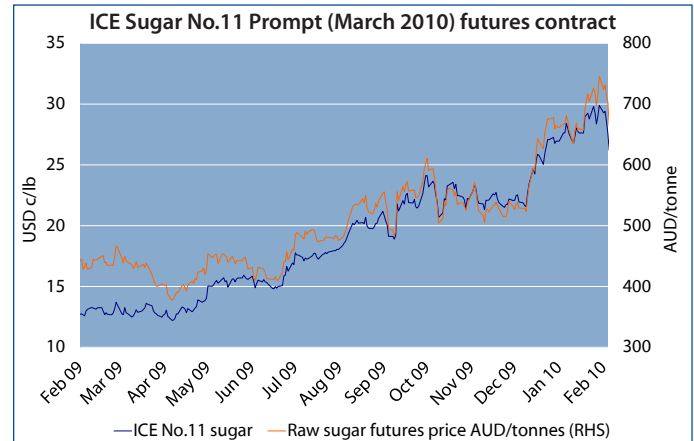
Sugar

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

	Current (05/02/10)	Last month	Last year
USD c/lb	26.17	27.64	12.98
Converted to AUD/tonne	664	668	439

Source: Bloomberg/ICE/Rabobank

- ICE No.11 nearby raw sugar futures reached a new 29-year high at the beginning of February at levels above USD0.30/pound. The high prices have been supported by tight global raw sugar supplies and import demand remaining relatively strong.
- In Brazil, much of the supplies of sugar and ethanol have been depleted and at least two to three months of tight domestic market conditions for sugar and ethanol lie ahead. In January, the Brazilian authorities moved to reduce the blend of anhydrous ethanol in gasoline from 25% to 20%. It is expected that this measure will only assist contain domestic prices, with ethanol demand from flex-fuel car drivers already in decline due to the elevated prices.
- The current outlook for India suggests that imports of sugar (raw and white) in the period from October 2009 to September 2010 will be 6.0-6.5 million tonnes (no official figures are available). With 2.5-3.0 million tonnes likely to be imported in the March to mid-April period, one or more price spikes are possible as major importers compete for available exportable supplies.
- In Australia, the 2010/11 season looks set to produce a larger



Source: Bloomberg/ICE/Rabobank

sugarcane crop than the previous year. The initial expectations from Queensland Sugar Ltd indicate that the increased Australian production could see exports rise 10% year-on-year to 3.0-3.1 million tonnes of raw sugar in 2010/11.

Venison

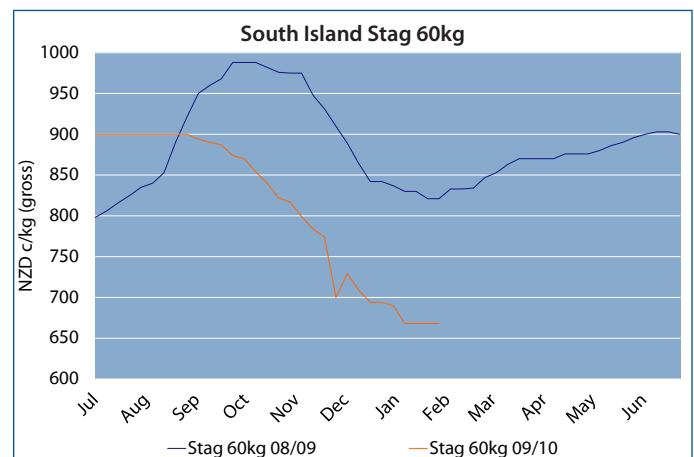
New Zealand venison prices

All shown as NZD c/kg gross	Current (01/02/10)	Last month	Last year
North Island Stag 60kg	650	668	787
South Island Stag 60kg	668	690	821

Source: NZX Agrifax/Rabobank

New Zealand

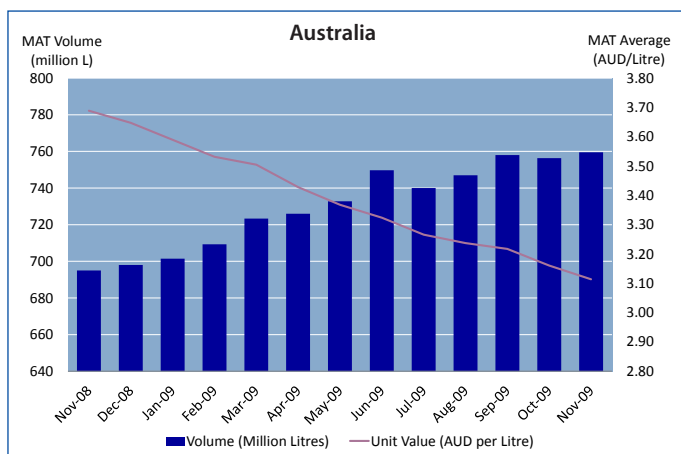
- Farm gate prices have continued to hold above the five-year average, although are 15% lower in January 2010 year-on-year, and dropped 10% from November to December, and a further 4% in January. Reported kill numbers are falling, shortening supply, which is forecast to maintain pricing at current levels.
- The trend from October 2009 of increasing chilled exports continued strongly to year end, with November 2009 chilled shipments making up 61% of total November exports. A good month in December meant the final quarter of 2009 generated 55% of the total chilled export volume. The year finished with total chilled exports up 1.3% on 2008 levels (velvet was also up on 2008 levels, by 18%).
- December frozen venison exports were up 50% on November, but overall the quarter finished poorly, with total shipments at 2,051 tonnes, compared to 2,877 tonnes in Q408 (-29%). However,



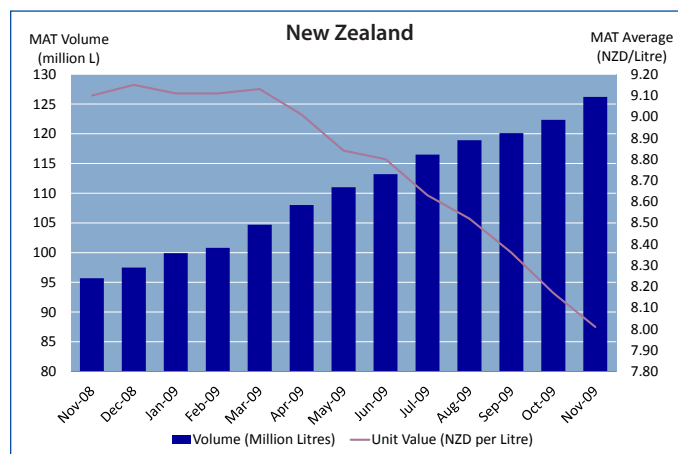
Source: NZX Agrifax/Rabobank

December 2009 tonnage shipped was 38% down on the same period in 2008.

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 November 2009 increased by 9.2% to 759.5ML, while the average unit value declined 15.9% to \$3.02/L. This result follows on the back of a general trend in key export markets of consumers trading down to lower price points and pressures from a strong Australian dollar.
- The ABS estimates that the Australian vineyard estate contracted by 941ha in 2008-09, a trend that is likely to continue on the back of the Federal Government's water buyback scheme and small block irrigators exit grant, and what is shaping up to be another year of marginal returns for grape growers.
- Early indications of the 2010 harvest point to a lighter crop than the 1.72 million tonnes reported in 2009, despite improved irrigation allocations across the inland river regions. Poor fruit set in some varieties is apparent and many growers have been given little reason to invest in production with average grape prices expected to again move lower.
- The industry's inventory to prior year's sales ratio is estimated to have held steady for the time being at around 1.63 in 2008-09. This provides an encouraging sign that industry supply pressures could be beginning to stabilise, however further improvement in this metric will critically depend on the size of the upcoming 2010 harvest and future export sales growth in what is a difficult global trading environment.
- Speculation over the outcome of the Henry Tax Review delivered to Treasury in December 2009 has included talk of reforms to alcohol taxation. The Winemakers Federation of Australia is naturally concerned about the consequences of the government replacing the Wine Equalisation Tax (based on value) and replacing it with a more uniform system based on alcohol content. Such a measure would have the ultimate effect of increasing the general price of wine relative to other alcoholic beverages.

New Zealand

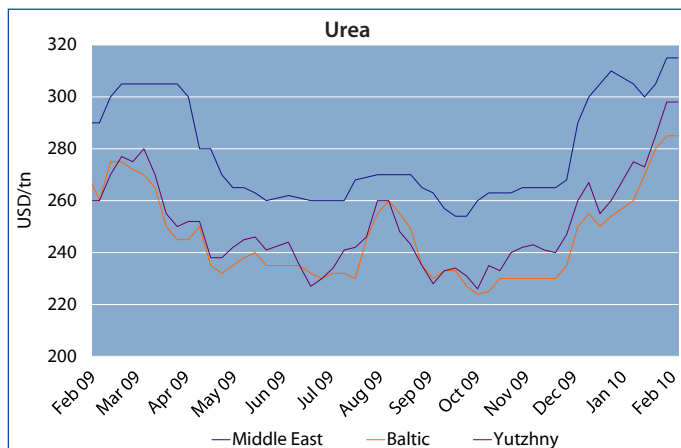
- New Zealand export sales have slowed from their record level set in October 2009 largely in line with seasonal trends in shipments. Exports sales grew 3.5% in the year to December 2009 to 130.6 million litres, however average unit values recorded at November 2009 have continued to decline to \$8.01 owing largely to currency pressures and the still elevated level of bulk wine sales.
- Sales of 2008 vintage Sauvignon Blanc have now progressed past 85% of the theoretical production level estimated by New Zealand Winegrowers. While this level is below that estimated for the 2007 vintage at the same stage, the industry has risen to the challenge of marketing the significant increase in supply, albeit at a significant discount.
- Proportional sales of the 2009 vintage are marginally ahead of the 2008 vintage at the same stage. Given that monthly shipments are now trending higher than they once were, this suggests that the industry's stock to sales ratio of Sauvignon Blanc has improved on a year earlier. That said, it is likely that a greater proportion of the vintage will need to be exported than in past years given the more limited capacity of the domestic wine market.
- Major wineries across New Zealand have sent a clear message to independent contracted growers to remain within prescribed production targets in the lead up to the 2010 harvest. Issued prices for wine grapes are significantly lower than a year earlier, especially when viewed in conjunction with imposed yield limits.
- Given the market signals being sent by wineries, spot wine grape prices are likely to be marginal at best. A risk to the industry is that growers left wanting for a market will have excess grapes made into bulk wine. While providing them with some return, this strategy could more broadly support bulk wine sales and impact the New Zealand wine brand.

Fertiliser

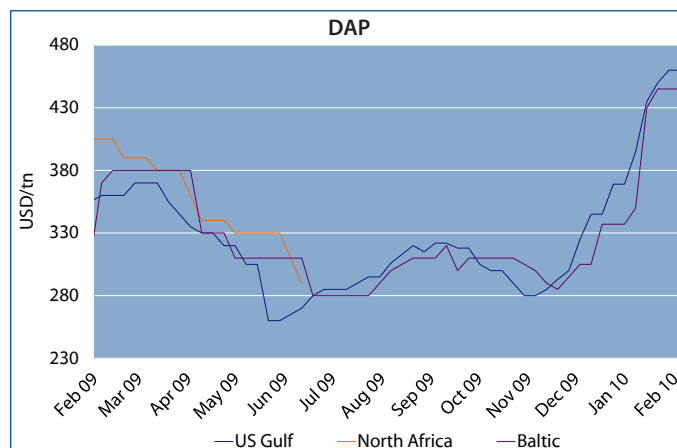
Fertiliser prices

All shown as USD/tonne	Current (04/02/10)	Last month	Last year
Urea (Middle East)	315	305	290
DAP (US Gulf)	460	395	360

Source: Bloomberg/ICIS/Rabobank



Source: Bloomberg/ICIS/Rabobank



Source: Bloomberg/ICIS/Rabobank

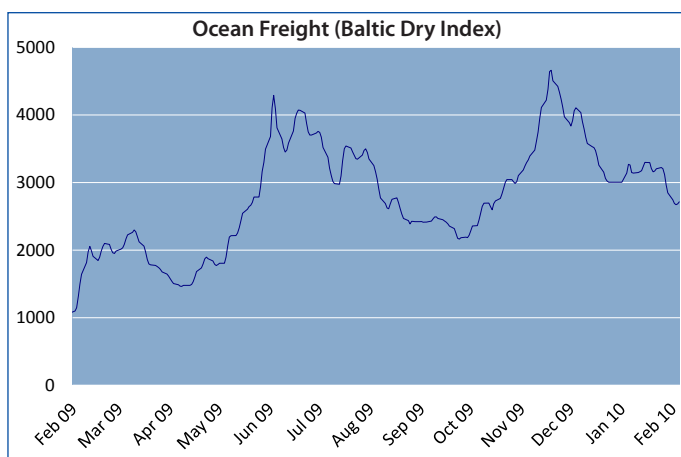
- International fertiliser prices for the major nitrogen and phosphate products, urea and DAP, increased sharply during December and January to reach levels not seen since the second half of 2008. The pick-up in global demand, along with some supply disruptions in key export regions, has meant that competition for available supplies has pushed prices to these elevated levels.
- With the spring planting season approaching in the northern hemisphere, as well as a firmer picture for global demand, nitrogen and phosphate prices are expected to stay at or rise above current levels over the next few months.
- In China, a key exporter of nitrogen and phosphate products, the fertiliser tax for the off-season period has been revised lower from 10% to 7%, however, the 110% high season export tax remains. As a result of this tax differential, most exports are concentrated in the off-season: for urea - January, July to 15 September and 16 October to 31 December; for DAP and MAP - January, June to August and 16 October to 31 December.
- In Australia and New Zealand it is expected that new product brought into the fertiliser supply chain is reflective of international market movements with price increases for some products, such as DAP, up by around 30% from November 2009 retail levels.

Other costs

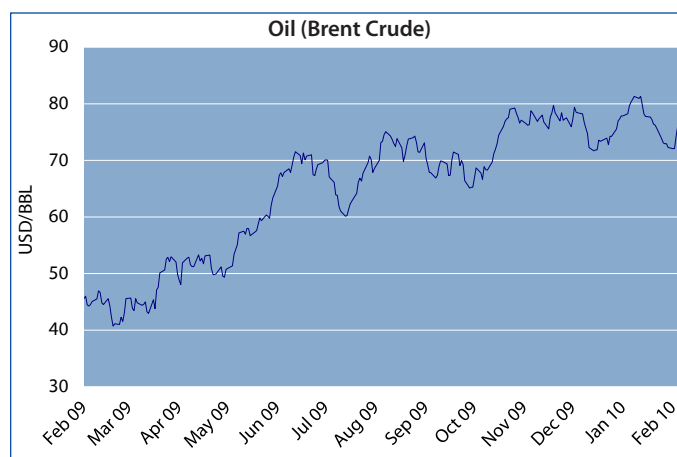
Ocean freight index and oil prices

	Current (05/02/10)	Last month	Last year
Baltic Dry Index* (ocean freight)	2715	3270	1498
Brent Crude Oil (USD/bbl)	73.86	79.65	44.50

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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