Rabobank

March 2010

Agribusiness Review

Australia and New Zealand

Rabobank Group
Food & Agribusiness Research and Advisory (FAR)

For more information on Rabobank products and services click on the link below:

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

Contents

Report highlights

- In general the weather in Australia during February was wetter and warmer than average. Over the past week these conditions have combined with storms across eastern Australia to produce widespread flooding, in southern Queensland in particular. By contrast New Zealand has been drier and warmer than average for this time of year, producing ongoing soil moisture deficits in the north of the North Island and the east of the South Island.
- Global climate models continue to indicate a gradual return of the Southern Oscillation Index to neutral conditions.
- Economic data around the world continues to support a gradual economic recovery, with a combination of mainly positive data, such as US jobs data and consumer confidence, combined with some negative sentiment, such as the recent sovereign debt crisis in Greece.
- In Australia the data continues to show a return to a mining sector led economy, with GDP data rising and the official cash rate going up to 4.0% balanced against concerns over household debt levels. The picture in New Zealand is one of a more gradual recovery, with improving manufacturing and a positive trade balance on the positive side pitched against uncertainties that include a sluggish labour market. Little movement is expected in the value of the Australian and New Zealand dollars – both may drift slightly higher in coming weeks.
- World grain prices have remained subdued, with global stocks revised upwards. Some price improvement is possible later in the year if planting levels are reduced, although the recent improvement in seasonal conditions in Australia will also depress feedgrain prices.
- Young cattle prices have improved during February, in particular in Australia, and to a lesser extent in New Zealand. In Australia tightening cattle supplies have been the main driver, creating very difficult conditions for processors given the sluggish demand in export markets, while New Zealand has seen an improvement in demand in export markets.
- Global dairy prices have shown signs of stabilising in recent weeks, easing concerns that the price declines over January-February could lead to a price slump. Market fundamentals are generally positive, with supply side constraints in many regions and some demand side support. Notwithstanding, the market is largely in a holding pattern while attention shifts to the northern hemisphere spring flush.
- The Baltic Dry Index ticked up in the last week, although remains at moderate levels. Oil has traded in the USD70-80/barrel range since the start of 2010.

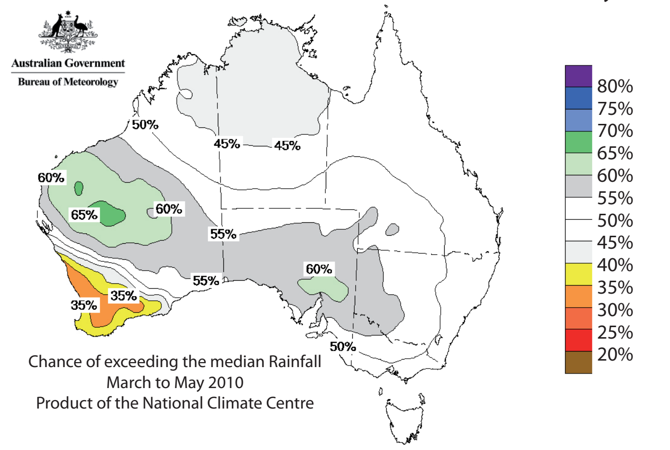
This report was prepared by Rabobank's Food & Agribusiness Research and Advisory division, a team of leading agribusiness analysts from Australia, New Zealand and around the world.

For further information:
research@rabobank.com

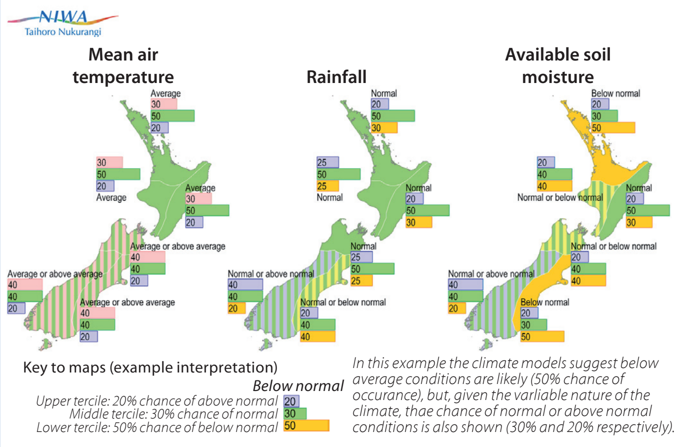
www.rabobank.com.au
www.rabobank.co.nz

Climate

Australian three month rainfall outlook **March to May 2010**



New Zealand three month outlook **March to May 2010**



Australia

- Recent widespread rainfall across central and southern Queensland and New South Wales will lift soil moisture levels and some storages. Floodwaters in southern Queensland have, however, damaged infrastructure, stock and crops, with risks remaining in northern New South Wales as floodwaters drain south. Victoria was also severly battered by storms in early March.
- In general, the weather in Australia during February was warmer and wetter than average. Maximum temperatures for February were above normal, with Tasmania and Western Australia experiencing their third and fourth, respectively, highest February temperatures on record. Temperatures were cooler than normal in New South Wales, Queensland and the Northern Territory.
- February was a wet month for the majority of mainland Australia, with the exception of Western Australia.
- The national outlook for total autumn rainfall (March to May) is for close-to-average rainfall for the majority of Australia. The main exception is south-western Western Australia, which should experience below average falls.
- Autumn temperatures across the north and in Western Australia are likely to be above average, while parts of south-eastern Australia are likely to be cooler than average. Minimum temperatures for this period are likely to be higher than average for most of the mainland.

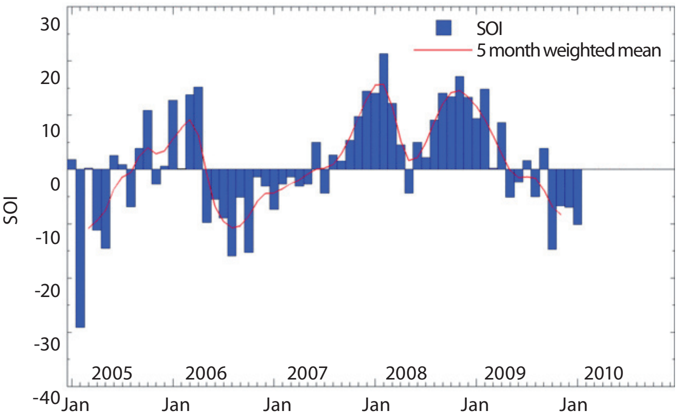
New Zealand

- In February, New Zealand experienced weather that was generally warmer and drier than average for this time of year.
- Rainfall was well below normal over most areas of New Zealand, which resulted in ongoing severe soil moisture deficits in Northland, with deficits also developing in parts of Auckland, Marlborough, Canterbury and Otago.
- Temperatures were above average in most regions, the exceptions being coastal areas of Wairarapa, Marlborough, Canterbury and Otago, which all experienced near average temperatures.
- The outlook for autumn is for average temperatures and rainfall in the North Island, with insufficient rainfall to address the ongoing soil moisture deficits in the north.
- The autumn outlook for the South Island is for average to above average temperatures, with a mixed picture for rainfall. Rainfall in the east is expected to be at or below average, leading to soil moisture deficits. In the north, average rainfall with higher temperatures raises the possibility of soil moisture deficiencies developing. Rainfall and soil moisture is expected to be at or above average on the west coast and in the south.

El Niño

- A declining El Niño event exists across the Pacific Basin, with most leading climate models indicating further cooling and a return to a neutral (near-average Pacific temperatures) pattern during the next three to six months. Notwithstanding Central Pacific Ocean temperatures have warmed slightly during the last fortnight, slowing the demise of the current El Niño event.
- There has been an increase in the Southern Oscillation Index in the first week of March following the rapid fall seen in February. This recent increase is likely due to a weakening of the trade winds over the western and central Pacific during late January and early February.

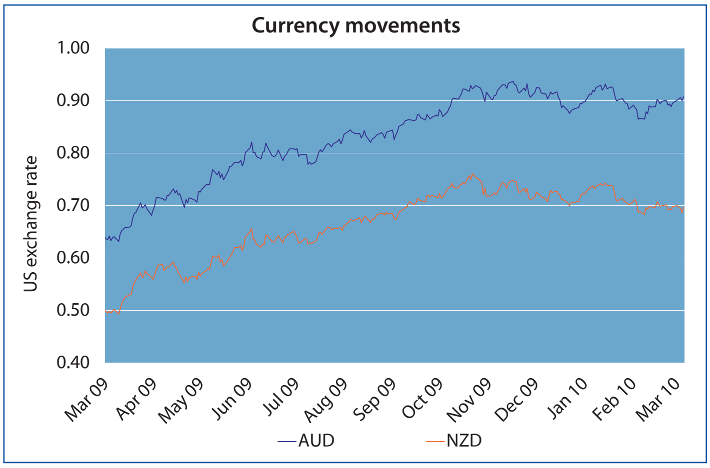
Southern Oscillation Index **4 March 2010**



Currency/economy

Currency USD	Current (05/03/10)	Last month	Last year
AUD	0.9077	0.8665	0.6383
NZD	0.6969	0.6888	0.4986

Source: Bloomberg/Rabobank



Source: Bloomberg/Rabobank

Global

- The global recovery has lost some momentum in recent weeks. Upside surprises in macroeconomic data are getting harder to come by, but positive US jobs data showed there are still some in the pipeline. Importantly, the improving labour market is flowing through to consumption, with real consumer activity moving into positive territory. This points to the US recovery now being increasingly self-sustaining with a more convincing pick-up in US import demand around the corner.
- While unemployment in the US is expected to have peaked, the labour market story is less positive in the euro area where the unemployment rate is expected to drift higher this year. While the euro zone is expected to still avoid a double-dip recession, this view is contingent on German GDP growth continuing to hold up. The recent sovereign debt crisis in Greece has not helped confidence, although it now seems unlikely that this crisis will spillover to bigger countries, such as Spain and Italy. In Japan, a fall in the unemployment rate and signs of a gradual improvement in capital investment signify that perhaps the worst of the crisis has passed, and expectations are for a brighter 2H 10.
- In Asia (excluding Japan), data continues to support the strong, ongoing recovery that started in early 2009. Nevertheless, the recovery is entering a more mature phase, for example, recent business activity indicators in China are less of the 'amazing' and more of the 'norm'. While a hike in the benchmark interest rate by the People's Bank of China is not expected until 2H 10, increased capital requirements for Chinese banks is tightening credit availability. In other Asian economies, the key focus has also turned to the exit strategies from current emergency monetary policy settings, which will play a part in determining the strength of consumer demand in 2H 10.

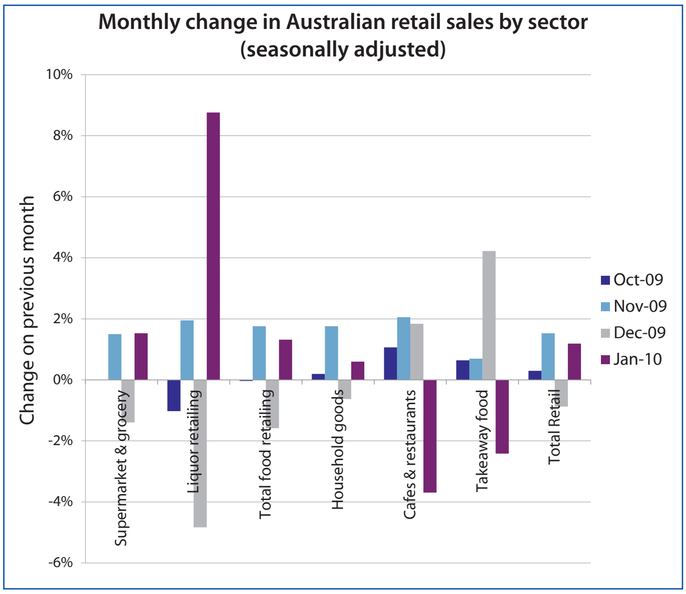
Australia

- Recent GDP data showed a rise in the December quarter of almost twice Rabobank's initial estimate (0.9% vs. 0.5%). With upward revisions to previous quarters, the pace of growth has jumped to 2.7% year-on-year. The other recent notable event was the Reserve Bank of Australia's (RBA) decision to lift the official cash rate (OCR) by 0.25% to 4%.
- The RBA is increasingly finding itself in between an exceptionally strong mining sector and a potential household debt bubble. This is likely to make the RBA's job increasingly difficult, with future adjustments to the OCR a delicate process. Rabobank still anticipate the OCR to increase to 4.5% by Q3, before pausing, and then moving higher in 2011. This increase in the OCR and the strong GDP result supported the Australian dollar back above the USD0.90, and more notably pushing the AUD/NZD above the 1.30 mark for the first time since 2000.

New Zealand

- An upbeat National Bank Business Outlook survey and improved manufacturing sales volumes were positives in a recent string of otherwise poorer economic data. The trade balance was also positive, showing a surplus in January for the first time since May 2009. This highlights that exports are showing a steady recovery from both the global recession-induced slump and from the impact of a high NZD on export earnings.
- The labour market continues to struggle, which is likely to keep the Reserve Bank of New Zealand steady on rates until mid-year, which it has previously signalled as its intention. The OCR is expected to increase 0.25% in June. While Rabobank anticipates little change on the horizon for NZD fundamentals, the NZD is likely to drift slightly higher in coming weeks from the current USD0.70 mark as risk aversion subsides.

Food retail



Source: ABS Cat 8501

Australia

- Retail trade estimates for January 2010 released by the Australian Bureau of Statistics point to significant strength in consumer spending with total retail trade turnover increasing by a seasonally adjusted 1.2% on the prior month. The Reserve Bank of Australia (RBA) recently announced that unemployment has peaked at a much lower rate than earlier expected, and the strength in consumer spending would seemingly have contributed to the RBA's recent decision to raise the official cash rate to 4%.
- Total food retail turnover, encompassing grocery and liquor retailers, increased at the slightly higher rate of 1.3% on the prior month in seasonally-adjusted terms. Liquor retailers recorded the strongest rise of 8.8% in January, more than compensating for the decline in this category observed in December 2009. Food service, encompassing cafés, takeaway and restaurant retailers, fell 3.1% on the prior month in contrast to six consecutive prior monthly gains.
- Coles released its half-year results which showed clear signs that the company's turnaround strategy has gained significant traction. In the six months to 31 December 2009, comparable food and liquor sales gained 6% on the prior corresponding period, with management crediting renewed focus on store presentation, product quality and customer service initiatives.
- The discount strategy across Coles' non-fresh fruit and vegetable lines employed during the period was reported to have led to a 0.9% decline in food and liquor deflation. The company commented that despite improved confidence in the general economic outlook, consumers remain value oriented and Coles sees its ongoing investment in improving its private label product range as a key growth driver.

New Zealand

- Lastest retail sales data showed seasonally adjusted retail turnover decreased by 1.8% in December 2009, while the quarter overall dropped by 0.1%. Food related categories followed this general trend. The Consumer Price Index increased by 2% in the year to December 2009.
- Supermarket and grocery store spending from seasonally-adjusted retail figures declined by 2.1% in December - a spend of NZD1,257 million. A year-on-year comparison with December 2008 showed an overall improvement of 3.2% in sales.
- Takeaway food retailing dropped 4.2% in December 2009, after a small rise in November. Cafés and restaurants have not been able to lure back spending in this sector, experiencing another drop of 1.3%. Café and restaurant retail figures showed an annual increase of 2.4%.
- Food pricing in January, not seasonally-adjusted, increased by 2.1%. The cold spring across much of the country resulted in an increase in fruit prices of 6.6% and vegetables of 3.4%. Dairy jumped 3.6% overall, with fresh milk taking the biggest increase of 5.1%. Beef, lamb and chicken all followed the trend of increased prices, averaging an increase of 3.3% for the month, with poultry up by a staggering 7.8%, reflecting feed costs.
- Woolworths Australia announced half-year results in January with its New Zealand stores posting revenue of NZD2.686 billion for the half, a 4.5% increase on the prior corresponding period. Woolworths'New Zealand supermarkets recorded the strongest increase in earnings of the company's major operating divisions, posting a rise of 26.9% to NZD116.6 million. Retail sales statistics for supermarket and grocery show retail spend for six months to December 2009 of NZD7.815 billion.

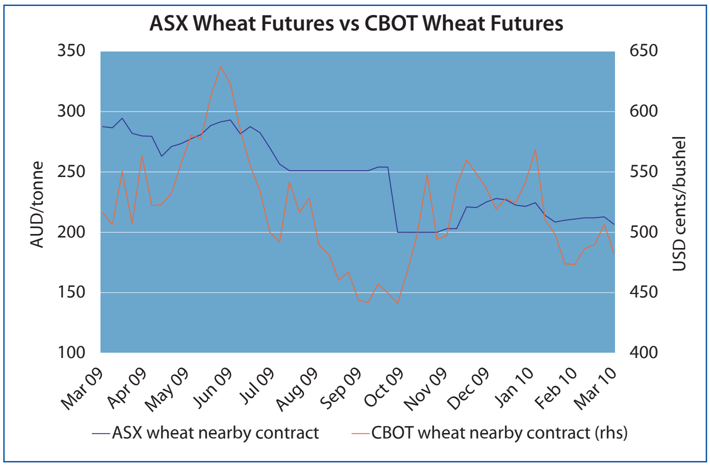
Grains and oilseeds

ASX wheat prices	Current (05/03/10)	Last month	Last year
AUD/tonne	207	211	287

Source: Bloomberg/ASX/Rabobank

Chicago Board of Trade Wheat Futures (nearby contract)	Current (05/03/10)	Last month	Last year
USD c/bushel	482	473	516

Source: Bloomberg/CBOT/Rabobank



Source: Bloomberg/CBOT/ASX/Rabobank

Global

- Wheat prices have remained subdued since the release of the January USDA World Agricultural Supply and Demand Estimates data. A significant upward revision to global stocks, which has been reiterated in the most recent February estimates, is now expected to weigh on market expectations for much of this year. Currently Rabobank forecasts wheat prices to hover around USD5/bushel in 2010.
- With the current stock overhang it is hard to imagine prices pressing higher, however, the prospect of lower world wheat plantings in 2010 and a knock-on effect on production may lift prices by 2H 10. While US winter wheat plantings have fallen to their lowest level in 97 years, in general, Northern Hemisphere crop conditions for wheat remain satisfactory. On a global basis, plantings are only expected to decline slightly, and coupled with a tepid recovery in consumption, a further increase in stocks levels this year is now likely.
- For the other major world grains and oilseeds, Rabobank forecasts indicate some upside to corn prices, although limited, throughout 2010 as demand from ethanol and feed improves. For soybeans, Rabobank expects prices to ease throughout 2010 under the weight of exportable surpluses from South America.

Australia

- Withstanding the flood damage in Queensland and northern New South Wales, in general, planting conditions look favourable for east coast grain producing regions, with many producers starting the season with a full moisture profile. South Australia and Western Australia are still heavily reliant on timely opening rains this autumn; however, the current three-month outlook from the Bureau of Meteorology paints an optimistic picture.
- At current prices, areas dedicated to grains are likely to be wound back somewhat in favour of increased cotton and legume plantings, and a shift towards livestock production. The Australian wheat area is expected to fall by more than 5%, which, based on average yields, puts the 2010/11 crop at around 20 million tonnes. This is around two million tonnes below the 2009/10 crop estimate. The timing of opening/follow-up rains will, in the end, play a significant part in determining the level of the shift between crops at planting time, particularly in Western Australia.
- It is a 'steady as it goes' approach on the Australian export front, as current market conditions are not overwhelming for either producers or consumers. There have been a few cancellations of grain cargos on the east coast, but this is not out of line with market expectations. Australian wheat prices still seem high when compared to some other regions, but sales of higher protein quality remains strong, particularly in the containerised market. The Australian milling wheat (NSW) ASX nearby wheat contract is currently trading at AUD205/tonne. On the domestic front, a vast improvement in seasonal conditions has also weakened feed markets and further depressed prices.
- For legumes, a pick-up in inquiry from the Indian subcontinent for chickpeas has strengthened market prospects for the next few months as Ramadan draws closer (August) and available stocks will need replenishing. Lentil prices have come back sharply from their 2009 peak of AUD970/tonne, to be currently at around AUD690/tonne. While prices are not expected to retrace this upward path this year, currently new-crop prices, being offered at around AUD600/tonne, are still at historically high levels.

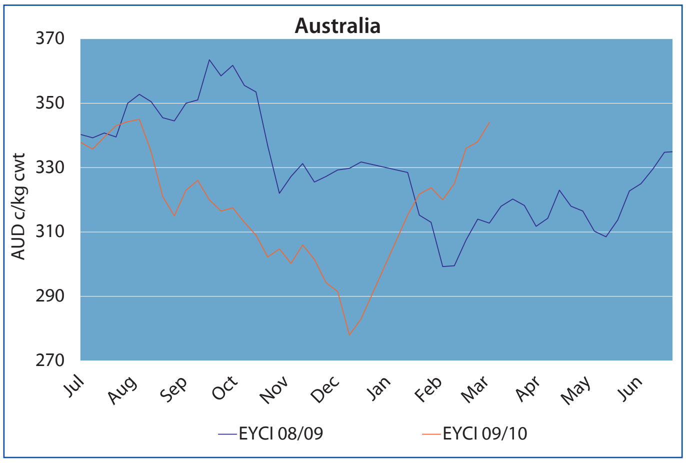
Beef

Australian beef prices			
All shown as AUD c/kg cwt	Current (08/03/10)	Last month	Last year
Eastern Young Cattle Indicator (EYCI)	344	320	313

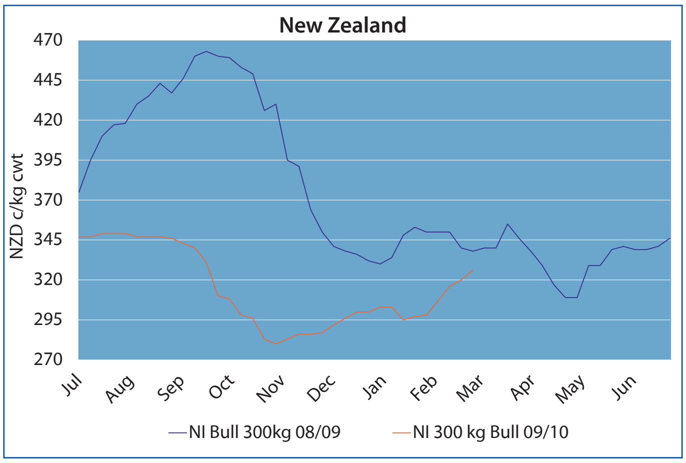
Source: NLRS/Rabobank

New Zealand beef prices			
All shown as NZD c/kg cwt	Current (01/03/10)	Last month	Last year
North Island Bull 300kg	326	298	338
South Island Bull 300kg	321	284	329

Source: NZX Agrifax/Rabobank



Source: NLRS/Rabobank



Source: NZX Agrifax/Rabobank

Global

- The Indonesian Ministry of Agriculture advised the WTO that it plans to regulate beef offal imports from April, with the goal of increasing self sufficiency. Last year New Zealand exported 9,400 tonnes of mixed offal, such as tongue, liver and heart, and a further 26,900 tonnes of beef meat to Indonesia. Australia exported some 14,000 tonnes of offal (mainly hearts and livers) to Indonesia last year.

Australia

- Australian cattle prices have continued to rise over the past month, supported by good rainfall in southern Queensland. Young cattle prices have risen to AUD3.44/kg cwt as of early March, 10% above the same time last year.
- A combination of tightening cattle supplies, continued slow demand in key markets and the high Australian dollar has seen a major drop in beef exports in early 2010. Total exports for the year to the end of February reached 106,000 tonnes, a 22% fall on the same time for 2009. Sales to the US in particular have plummeted, falling 43% to around 24,000 tonnes.
- Australian cattle processors continue to face tight operating conditions, as restrictions on cattle supply combine with a strong Australian dollar and reasonably subdued demand in Japan and Korea. Feedlotters also face increasing pressure as feeder cattle prices rise, however, low feedgrain prices are providing some relief.

New Zealand

- Meat & Wool New Zealand forecast cattle slaughter numbers to fall by 6% during the 2009/10 season to 2.19 million head; season-to-date 828,000 head have been processed, 38% of forecast, and it is expected the season will finish in-line with expectations.
- Cattle farm gate prices have continued their recovery throughout February. North Island bull and steer prices gained 9%, and South Island prices also increased with bull and steer prices up 10% on average and cow prices up 12%. The disparity between North and South Island prices has closed to less than 3%.
- Prices have improved as a result of strengthening demand in Japan and severe weather conditions in the US during February, which decreased domestic supply. US imported cow and bull prices increased by 11% during February, to reach their highest levels since October 2008.
- Beef exports to North America continued their pre-Christmas downward trend falling another 9.4% month-on-month in January. Over the last three years, January shipments to the US have averaged 16,100 tonnes per month, but have been down by 27% in volume this year. Other export markets improved month-on-month, bringing the total export to 28,300 tonnes for February (-2.3%). Decreased supply in the US, improvements in US domestic and imported prices through February and kill numbers coming back in line with season forecast post Christmas, are expected to reverse this trend.

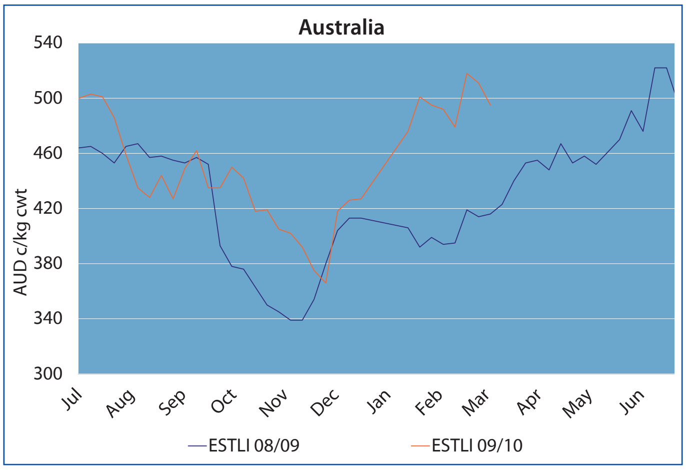
Lamb

Australian lamb prices			
All shown as AUD c/kg cwt	Current (08/03/10)	Last month	Last year
Eastern States Trade Lamb Indicator (ESTLI)	495	492	416

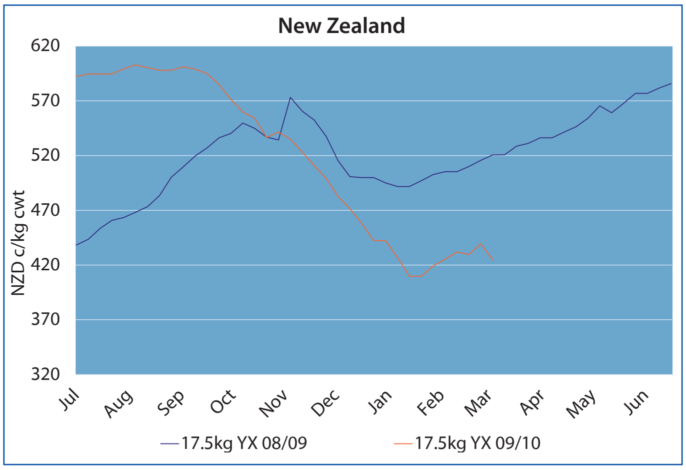
Source: NLRS/Rabobank

New Zealand lamb prices			
All shown as NZD c/kg cwt	Current (01/03/10)	Last month	Last year
North Island 17.5kg YX	460	436	499
South Island 17.5kg YX	425	425	516

Source: NZX Agrifax/Rabobank



Source: NLRS/Rabobank



Source: NZX Agrifax/Rabobank

Australia

- Australian sheep and lamb prices continue to remain at historically high levels, supported by very tight supply locally, improved seasonal conditions and solid demand in domestic and export markets. The Eastern Trade Lamb Indicator reached AUD4.95/kg cwt at the beginning of March, an increase of around 19% over the same time last year.
- Restrictions on livestock supply and the high Australian dollar are impacting on Australian sheepmeat export sales. Both mutton and lamb exports have fallen in the first months of 2010, down by 23% and 18% respectively to the end of February. While sales to most countries have fallen, the Middle Eastern market continues to grow, mainly due to increased mutton sales to Dubai.
- Sheepmeat imports into China are expected to continue to rise in 2010, with total imports forecast by the Chinese government to 60,000 tonnes. The growth in imports into this market has been rapid; in 2003 total imports were just below 30,000 tonnes. Australian exports to this market have also risen rapidly, from 6,000 tonnes in 2003 to 13,000 tonnes in 2009. While much of the growth has been in low value cuts, there has also been an increase in sales of higher value products for use in the five star hotel restaurant trade.

New Zealand

- Farm gate prices for lambs improved through February. North Island processors have faced strong competition for lambs as farmers hold on to stock due to good growing conditions. Agrifax reported overall kill numbers are 10% down on last year; to date the total kill has reached 45% of the season forecast.
- The volume of lambs processed by North Island meat companies in the last week of February was 40% lower than the same week last year, resulting in prices in the North Island moving to NZD80/head at time of writing for 17.5kg lambs, an increase of 6% on January. Overall, North Island 17.5kg lambs have averaged returns of NZD83.70/head since the start of October.
- South Island prices for February were 2% higher than in January. Farm gate prices averaged NZD75/head in February, and fell below NZD75 at the start of March. Since October South Island 17.5kg lamb has averaged NZD80/head. Meat & Wool New Zealand forecast an average of NZD72/head for the 09/10 season; last year farm gate prices averaged NZD89/head.
- Export figures for January show 38,000 tonnes of product was shipped, consistent year-on-year with January 2009. Overall chilled product constituted 20% of total product exports, up from 16% a year ago. This brings chilled shipments back in line with pre-crisis volumes.
- Total sheepmeat export volumes in January were 13% higher than December 2009, equating to a 17% improvement in value. Typically, the EU dominated New Zealand sheepmeat exports (48%), while exports to North America held (7.4% of total) and China declined slightly (5.5% of total).

Dairy

World dairy prices

	USD/tonne			AUD/tonne			NZD/tonne		
	04/03/2010	Last month	Last year	04/03/2010	Last month	Last year	04/03/2010	Last month	Last year
Butter	3,650	3,725	1,850	4,046	4,231	2,924	5,289	5,328	3,747
SMP	2,838	2,750	1,800	3,145	3,123	2,845	4,112	3,933	3,646
WMP	3,175	3,150	1,900	3,520	3,578	3,003	4,601	4,506	3,848
Cheddar	3,800	4,025	2,450	4,212	4,571	3,873	5,506	5,757	4,962

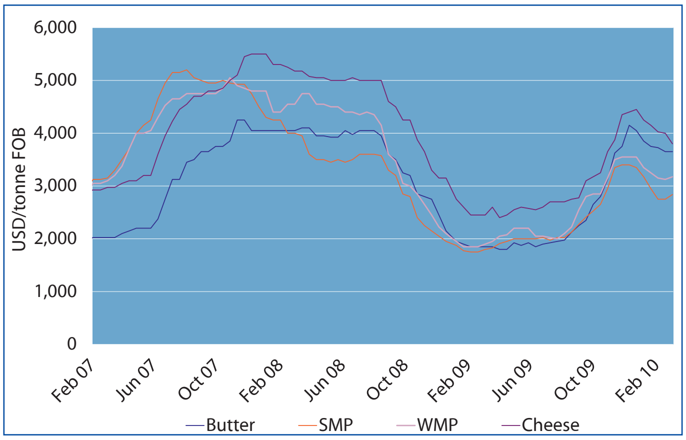
Source: USDA/Rabobank

Global

- Global dairy prices have shown signs of stabilising in recent weeks, following a period of modest decline. USDA surveys suggest that the price of most key commodities on 4 March were within a couple of percent of their levels a month prior (with fat products marginally down).
- Recent stability provides further support for the thesis that while a price correction was warranted, there is enough support in the market to avoid a more substantial price slump.
- Supply side constraints are certainly still compelling, with the US, EU, Australia and Argentina still reporting milk supply below previous year levels in recent months. And with the world economy continuing to tip-toe around the most obvious recent pitfalls, enough buyers remain active to sustain hope of a decent year for demand growth.
- However, it is pertinent to note that current pricing is probably being set on low trade volumes, as the market drifts through the lull between a weak Southern Hemisphere season and the forthcoming peak of the Northern Hemisphere spring.
- Coming months will reveal whether global demand is strong enough to soak up the traditional surpluses generated in the EU spring without damaging product value in international trade.
- Current data trends suggest it probably is, though buyers and sellers alike will be holding their breath given the predominance of uncertainties.

Australia

- A stronger Australian dollar pushed local returns to exporters down a couple of percent through February, despite the stabilisation of US dollar pricing.
- However, export pricing remains firm by traditional standards, enabling Fonterra to announce another step-up in February – pushing still more suppliers above breakeven.
- Heavy rains (and localised storms) lashed the eastern seaboard of Australia in the opening weeks of March. While localised property damage was significant in some regions, the rain will extend the growing season in some parts of southern Australia, leaving many regions primed for an autumn break and providing welcome inflows into most key irrigation storages (on and off farm).
- The downpour represents a further widening in the gap between prevailing conditions (which are generally positive) and milk supply (which continues to contract well below previous year levels) – reflecting the inability to turn around production mid season.



Source: USDA/Rabobank

Production growth in key exporting regions

	Latest month	Last 3 months
EU 27	-1.3% (Dec)	-1.2%
US	-0.6% (Jan)	-0.8%
Argentina	-2.1% (Dec)	-2.6%
Australia	-9.2% (Jan)	-8.6%
New Zealand	0.2% for nine months to February 2010*	

*Rabobank estimate

New Zealand

- The New Zealand dollar fell marginally again in February/early March, providing further support to stabilising world market prices in local currency terms.
- Seasonal conditions have also turned for the better. Following a dry summer in some parts, a warm, wet and productive February was seen in all areas except Northland.
- Firm milk pricing and improved conditions most likely pushed monthly milk production ahead of year ago levels in February, and will help maintain some stocks availability for shipment.
- January exports of cheese, SMP and butter were up 10% on December volumes, WMP increased 6%, while casein dropped 21%. Comparing year-on-year exports for January, shipments of WMP and SMP have jumped 45%; by contrast casein has dropped 40%.
- Fonterra's capital restructuring plan is progressing with a third of farmers opting to buy extra shares totalling AUD270 million. A bond offer underway is expected to generate additional revenue for capital investment.

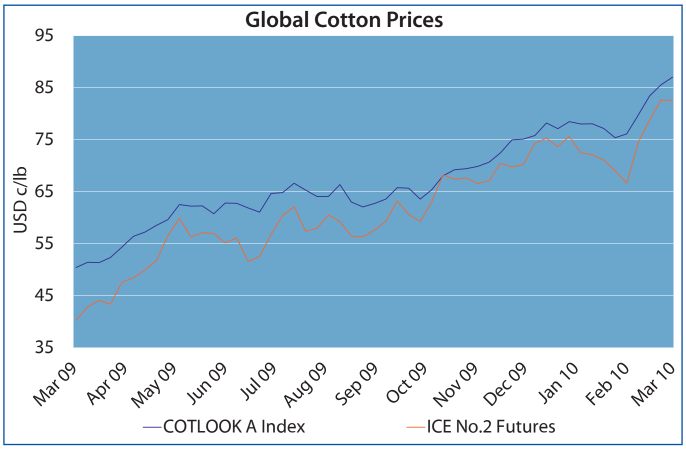
Cotton

World cotton prices			
All shown as USD c/lb	Current (05/03/10)	Last month	Last year
Cotlook A Index	87.00	76.10	50.40
ICE No.2 NY Futures (nearby contract)	82.53	66.62	40.26

Source: Bloomberg/ICE/Rabobank

Global

- ICE No.2 cotton futures turned the corner and pushed higher in February as increased speculator activity along with the continued outlook for tighter world cotton stocks placed upward pressure on world prices.
- However, in early March, international cotton prices have found some level ground after reaching a near two-year high. In the weeks ahead ICE No.2 cotton futures prices appear vulnerable for a correction down in nearby contract prices to levels just below USD0.80/lb. The down side to prices will come as speculators on the futures market pause and monitor supply and demand developments in the physical market.
- In the medium-term, it is anticipated that world area to cotton will increase and production will rebound to higher levels. Although the rebound will start to provide relief to world cotton stocks, it is expected that cotton prices will lag and remain elevated over the next 18 months or so. The higher price outlook will also depend heavily on the amount of cotton produced in China and India over this period.



Source: Bloomberg/ICE/Rabobank

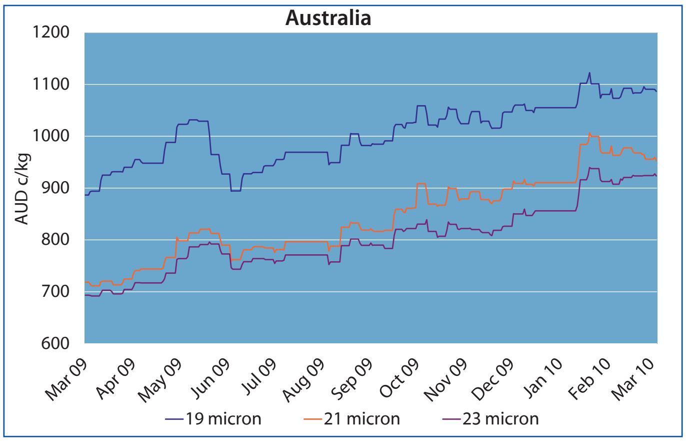
Wool

Australian wool prices (eastern)	Current (04/03/10)	Last month	Last year
Fine (19 micron)	1087	1073	893
Medium (21 micron)	953	963	715
Broad/coarse (23 micron)	924	908	693

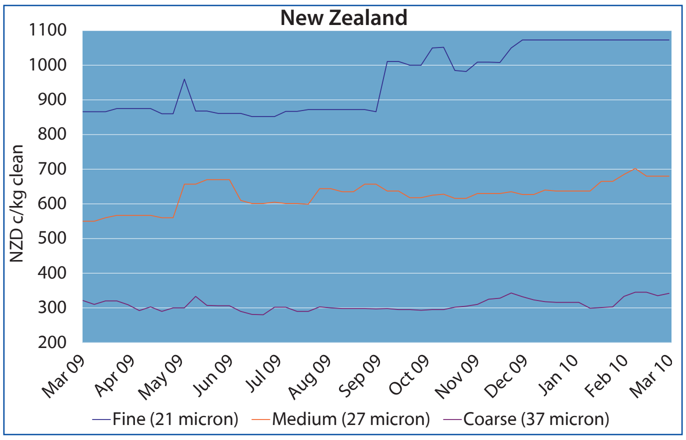
Source: Rabobank/Bloomberg/AWEX (average north and south prices)

New Zealand wool prices	Current (01/03/10)	Last month	Last year
Fine (19 micron)	1073	1073	866
Medium (27 micron)	680	685	550
Broad/coarse (37 micron)	342	333	321

Source: NZX Agrifax/Rabobank



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



Source: NZX Agrifax/Rabobank

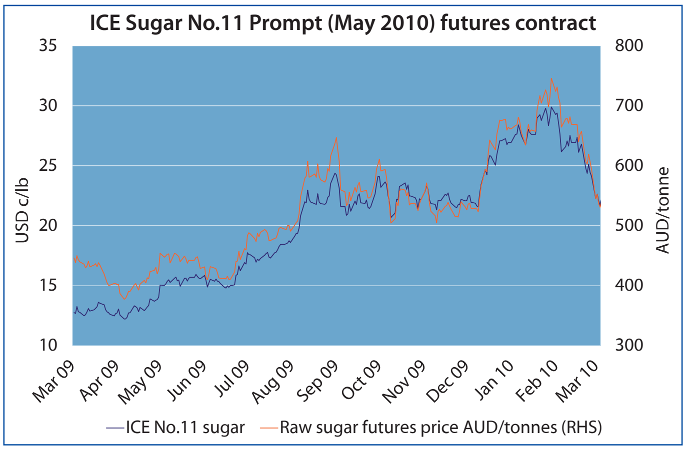
- International wool prices, in US dollars, appear well supported at or above current levels. However, it is expected that the growth in prices will be capped as buyer resistance starts to emerge. Resistance will occur if prices reach levels that encourage fibre processors to look at wool-blends.
- Although the Chinese New Year removed some competition from the wool market in February, Australian wool prices generally held their ground with the AWEX EMI showing a range of AUD/9.16 kg to AUD9.26/kg clean over the month.
- New Zealand wool prices have lifted to more average levels in February 2010 after experiencing historically low prices in 2009. Although prices retreated towards the end of the month, it is likely that wool prices in the strong wool segment will remain at higher levels in 2010 compared to 2009 with an upside to current prices as the year progresses.

Sugar

ICE Sugar No.11 Prompt (raw sugar futures price May 2010)	Current (05/03/10)	Last month	Last year
USD c/lb	22.19	26.17	12.83
Converted to AUD/tonne	539	664	443

Source: Bloomberg/ICE/Rabobank

- ICE No.11 nearby raw sugar prices fell throughout February as the threat of demand deferral or destruction, along with funds becoming more risk-averse as a result of high prices, placed some downward pressure on prices.
- Although the decline in raw sugar prices has been dramatic, prices remain at high levels by historical standards, and fundamentals continue to indicate tight market conditions ahead. The possibility remains of price rebounds from current levels as a result of limited exportable supplies and the need to replenish stocks in major import regions.
- The International Sugar Organization's latest global supply/demand balance projects a global sugar deficit for the 2009/10 international crop year (ending 30 September) of 9.4 million tonnes, raw value. The tighter outlook is mainly a result of downward revisions to production in countries such as Thailand, China, Brazil, Ukraine, Mexico and Pakistan.
- With price risks remaining to the upside, much of this risk depends on the early progress of the new crop in Brazil, as this will largely determine the extent to which short-term global sugar export availability increases.



Source: Bloomberg/ICE/Rabobank

- For Australia, the lift in domestic sugar prices, still high by historic standards, will likely mean that sugar cane harvested area will increase in 2010/11 for the first time since 2002/03. However, the increase in area will be limited and overall production is likely to be only 5-10% higher than 2009/10.

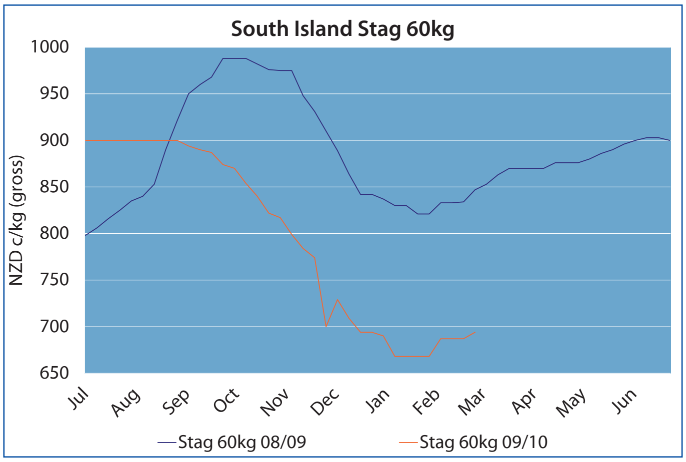
Venison

New Zealand venison prices			
All shown as NZD c/kg gross	Current (01/03/10)	Last month	Last year
North Island Stag 60kg	645	650	793
South Island Stag 60kg	694	668	847

Source: NZX Agrifax/Rabobank

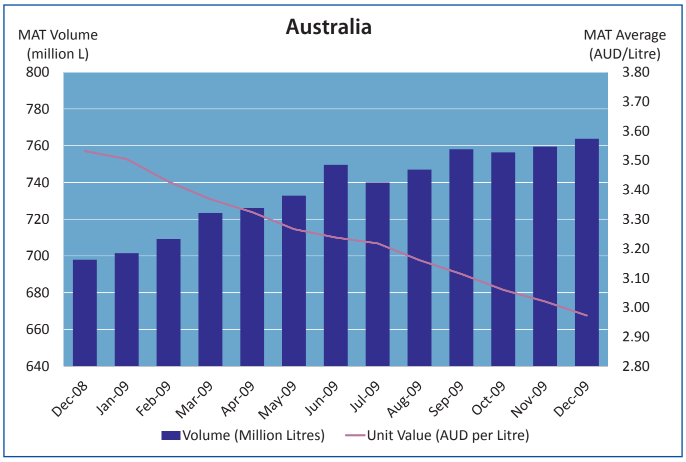
New Zealand

- South Island farm gate prices for venison have increased by 4% in February, following a post-Christmas dip, finishing just under NZD7/kg for a 60kg animal; North Island prices have settled at NZD6.45/kg. Compared to early 2009, this is a decrease of 17%, when prices averaged NZD1.30/kg higher. However, it remains well above the five-year-average of NZD5.43/kg.
- Export volumes month-on-month halved for chilled product, and frozen exports dropped by 12.5% in January as markets slowed post-Christmas.
- Deer Industry New Zealand reports declining production, with 485,900 deer processed to October 2009, compared to 586,000 in FY08. The forecast kill for 2009/10 is 370,000.
- Velvet markets continue to be dominated by Korea (15.8 tonnes), with smaller volumes going to Hong Kong (3.8 tonnes). Exports for velvet dropped 36% month-on-month in January across both markets. Deer Industry New Zealand reports that unemployment in Korea continues to affect the recovery of this market.

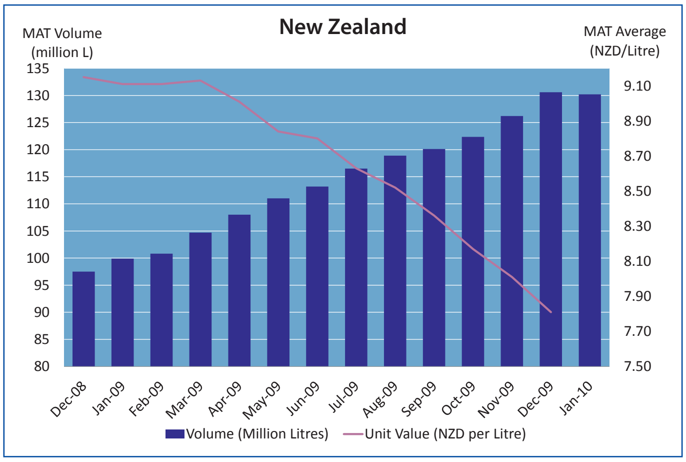


Source: NZX Agrifax/Rabobank

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 2009 year increased 9.3% to 763.8 million litres (ML), while the average unit value declined 15.8% to AUD2.97 per litre. 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 (AWBC, 2010).
- Domestic sales of Australian wine increased 7.5% on the prior corresponding period to a record 110.2 million litres in the December 2009 quarter. This result is significant given the contribution of budget stimulus measures in the prior period, however the decline observed in liquor retail turnover in the December 2009 quarter would suggest that retail discounting has played a significant role in sales volume growth. On a moving annual total basis, the 378.2ML of Australian wine sold domestically in the year to 31 December 2009 remains only marginally below the peak level reached in the 12 months to 30 June 2007.
- Table wine imports to Australia declined 2.9% on the prior corresponding period to 15.3 million litres in the December 2009 quarter. The previously strong growth seen in table wine imports appears to have stalled and volumes in fact declined 1.8% on a moving annual total basis to 49.9ML in the December 2009 quarter. Nevertheless, imports of white table wine, predominantly from New Zealand, now account for 19.9% of white table wine consumed in Australia, up from 5.8% in the December quarter of 2004 (ABS, 2010).
- Woolworths recently commented on the changing product mix in the domestic wine market when questioned about the increased shelf space being dedicated to private label wines. Woolworths noted that market penetration of private label wines in Australia is still low in comparison to other developed wine markets such as the UK and US, and their market share should be expected to continue to grow as these products gain acceptance with value oriented consumers.
- Expectations remain for a lighter wine grape harvest in 2010 compared to the 1.72 million tonnes reported in 2009, despite improved irrigation allocations across the inland river regions. Poor fruit set in some varieties has been apparent and many growers have been given little reason to invest in production with average grape prices expected to again move lower.

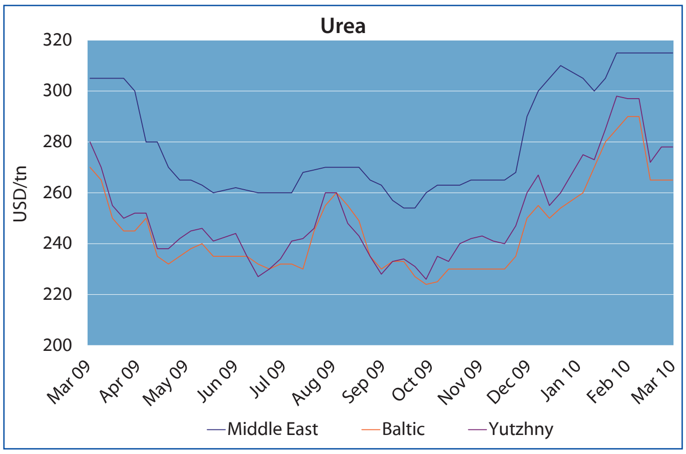
New Zealand

- New Zealand wine export sales increased 11.5% on the prior corresponding period to 7.7ML in January 2010. Shipments of 130.2 ML in the twelve months to January 2010 were marginally down on the total reported in the prior month for the first time in many months. A positive note is that the proportion of bulk wine in the export sales mix continued to decline in January for the third consecutive month, falling to 16.9% of total shipments.
- The value of exports reached a new 12 month record of AUD1.02 billion recorded in the 2009 calendar year. The average value of exports fell to AUD7.89 per litre during the year as global tightening in consumer discretionary spending coupled with recent strength in the value of the New Zealand dollar has made maintaining export unit values increasingly difficult for New Zealand wine producers trying to grow sales volumes in global markets.
- Sales of 2008 vintage Sauvignon Blanc are now only a minor proportion of monthly export sales and proportional sales of 2009 vintage Sauvignon Blanc appear to be running ahead of the 2008 vintage at a similar stage. The higher average quality of the 2009 vintage is expected to aid wine companies as they continue to manage down inventory levels in an increasingly competitive market place.
- The New Zealand Winegrowers Association has firmed up its crop estimates for the 2010 vintage and suggests that the upcoming wine grape harvest will not exceed the 285,000 tonne intake recorded in the preceding two years. This is welcome news in an industry currently dealing with elevated inventory levels, and is to a large extent a function of affirmative yield management strategies implemented in a coordinated manner across the industry.

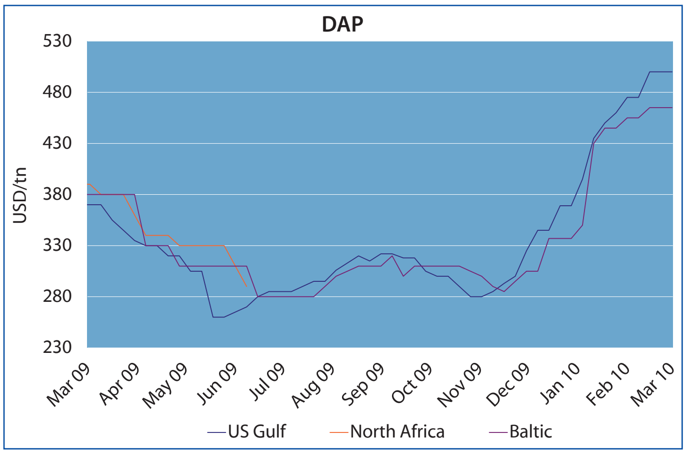
Fertiliser

Fertiliser prices			
All shown as USD/tonne	Current (04/03/10)	Last month	Last year
Urea (Middle East)	315	315	305
DAP (US Gulf)	500	475	370

Source: Bloomberg/ICIS/Rabobank



Source: Bloomberg/ICIS/Rabobank



Source: Bloomberg/ICIS/Rabobank

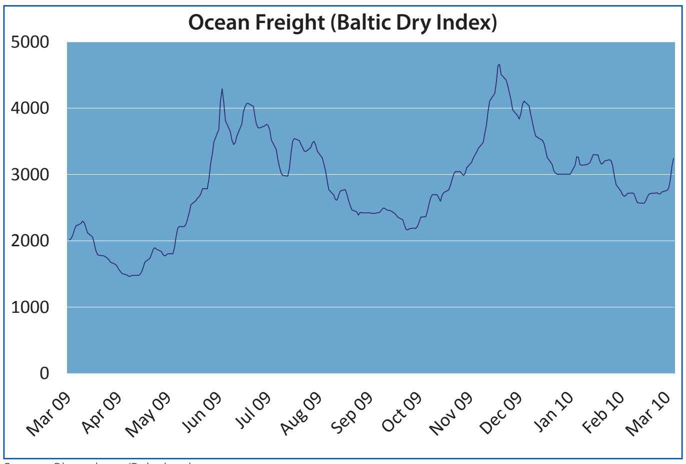
- International benchmark granular urea prices fell back to base levels in March as sales slowed due to the continued absence of Indian buying and adverse weather conditions in Europe hampering logistics to farm gate. The weaker euro also disadvantaged traders for many are needing to convert forward agreements that were made in US dollar terms.
- Urea prices are expected to move higher in March/April as European weather improves, along with strengthening seasonal demand from the large consumption regions of North America and Asia.

- The upward momentum in international DAP prices during the start of 2010 softened in late February, with traders waiting to see how India's new Nutrient Based Fertiliser Subsidy (NBS) system impacts the market. This waiting approach has meant seasonal imports of DAP to India have been delayed and the excess production of DAP in February/March by major exporters will cap prices as the short-term stock position loosens. It is also considered that, at current crop prices, DAP costs are expensive and this will likely lead to a demand slow down if prices were to increase again.

Other costs

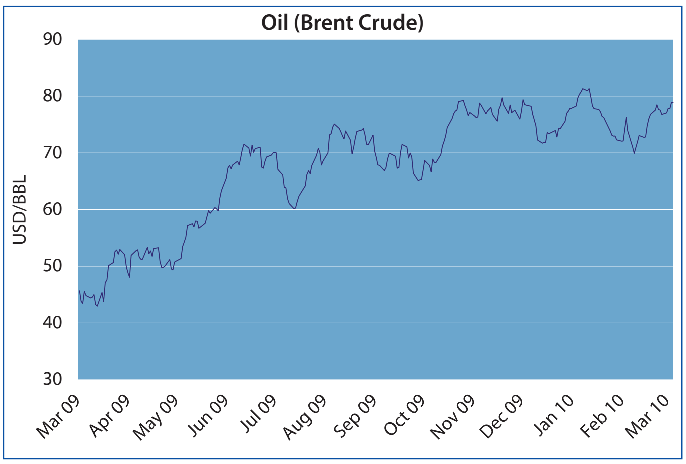
Ocean freight index and oil prices			
	Current (05/03/10)	Last month	Last year
Baltic Dry Index* (ocean freight)	3242	2715	2167
Brent Crude Oil (USD/bbl)	78.86	73.86	45.57

Source: Bloomberg/Rabobank



Source: Bloomberg/Rabobank

*The Baltic Dry Index (BDI) is an index which averages the cost of shipping (for bulk-dry vessels) on 25 of the world's most traded bulk cargo routes. The index was set at a starting level of 1000 points in 1985.



Source: Bloomberg/Rabobank

About the Rabobank Group

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

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

Rabobank Australia

For more information call 1300 30 30 33

New South Wales

Armidale	(02) 6771 3644
Dubbo	(02) 5804 5600
Forbes	(02) 6851 2844
Goulburn	02) 4855 1100
Griffith	(02) 6964 5388
Moree	(02) 6752 9600
Orange	(02) 6362 5311
Sydney	(02) 8115 4000
Tamworth	(02) 5711 1010
Wagga Wagga	(02) 6923 2900

Northern Territory

Darwin	(08) 8981 7355

Queensland

Atherton	(07) 4030 5800
Ayr	(07) 4783 6555
Brisbane	(07) 3115 1810
Bundaberg	(07) 4151 0477
Cloncurry	(07) 4742 2831
Dalby	(07) 4660 8700
Emerald	(07) 4980 7500
Goondiwindi	(07) 4671 4607
Ingham	(07) 4776 0143
Longreach	(07) 4652 5700
Mackay	(07) 4957 5847
Rockhampton	(07) 4922 2455
Roma	(07) 4622 8977
Toowoomba	(07) 4642 0400
Townsville	(07) 4722 3100

South Australia

Adelaide	(08) 8124 2300
Berri	(08) 8580 1900
Clare	(08) 8841 3300
Kadina	(08) 8821 4911
Mount Gambier	(08) 8726 2500
Port Lincoln	(08) 8682 5200

Tasmania

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

Victoria

Hamilton	(03) 5551 4600
Horsham	(03) 5382 7333
Leongatha	(03) 5662 6900
Melbourne	(03) 9940 8400
Sale	(03) 5144 4937
Shepparton	(03) 5821 5711
Swan Hill	(03) 5032 2944
Warrnambool	(03) 5562 5747

Western Australia

Albany	(08) 9841 6977
Bunbury	(08) 9721 7344
Dalwallinu	(08) 9661 2495
Esperance	(08) 9071 4965
Geraldton	(08) 9923 0288
Lake Grace	(08) 9890 2444
Merredin	(08) 9041 4999
Moora	(08) 9653 1300

Rabobank New Zealand

For more information call 0800 722 622

Alexandra	(03) 440 2215
Ashburton	(03) 307 8128
Auckland	(09) 375 3701
Blenheim	(03) 577 1758
Christchurch	(03) 341 4200
Dannevirke	(06) 374 4030
Dunedin	(03) 471 9139
Feilding	(06) 323 0788
Gisborne	(06) 868 1499
Gore	(03) 203 9069
Hamilton	(07) 834 7755
Hastings	(06) 870 8646
Hawera	(06) 278 0400
Invercargill	(03) 218 1955
Masterton	(06) 377 0326
Matamata	(07) 888 9600
Nelson	(03) 543 8263
New Plymouth	(06) 759 9210
Oamaru	(03) 433 1133
Otorohanga	(07) 873 6860
Pukekohe	(09) 237 1291
Rotorua	(07) 348 0969
Taumarunui	(07) 895 7077
Te Puke	(07) 573 0105
Thames	(07) 867 9099
Timaru	(03) 684 8480
Waipukurau	(06) 858 6039
Wellington	(04) 819 2700
Whakatane	(07) 307 2540
Whangarei	(09) 430 2501

Business Banking

Auckland	(09) 375 3701
Christchurch	(03) 341 4219
Hamilton	(07) 834 7755
Wellington	(04) 819 2700

Corporate Banking

Wellington	(04) 819 2700

Australia and New Zealand Agribusiness Review is produced by

Food & Agribusiness Research and Advisory

For enquiries please contact your nearest branch or +61 2 8115 4000 in Australia or 0800 722 622 in New Zealand

Authors:

Justin Sherrard
General Manager of Food & Agribusiness
Research and Advisory
Justin.Sherrard@rabobank.com

Alana Clark
Executive Assistant
Alana.Clark@rabobank.com

Wayne Gordon, Senior Analyst
Commodities, Rural Economics
Wayne.Gordon@rabobank.com

Tim Hunt, Senior Analyst
Dairy (Australia), Food Processing
Tim.Hunt@rabobank.com

Hayley Moynihan, Senior Analyst
Dairy, Animal Proteins (New Zealand)
Hayley.Moynihan@rabobank.com

Adam Tomlinson, Analyst
Commodities
Adam.Tomlinson@rabobank.com

Rebecca Redmond
Research Analyst - New Zealand
Rebecca.Redmond@rabobank.com

Marc Soccio, Senior Analyst
Food, Wine and Horticulture
Marc.Soccio@rabobank.com

Wendy Voss, Senior Analyst
Animal Proteins (Australia)
Wendy.Voss@rabobank.com