



Rabobank

November 2010

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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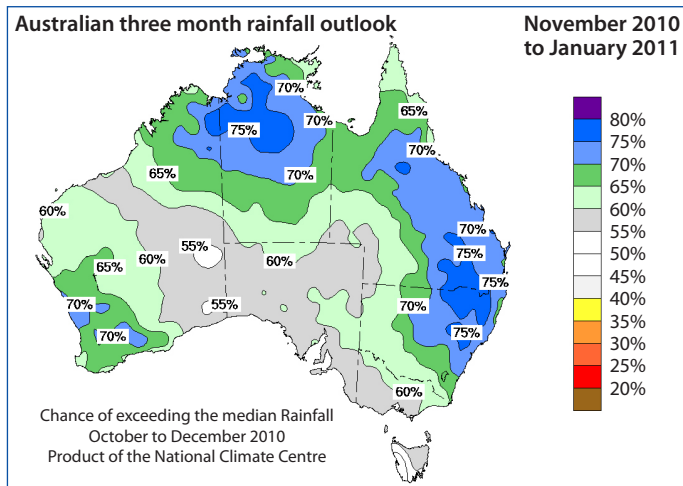
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Report highlights

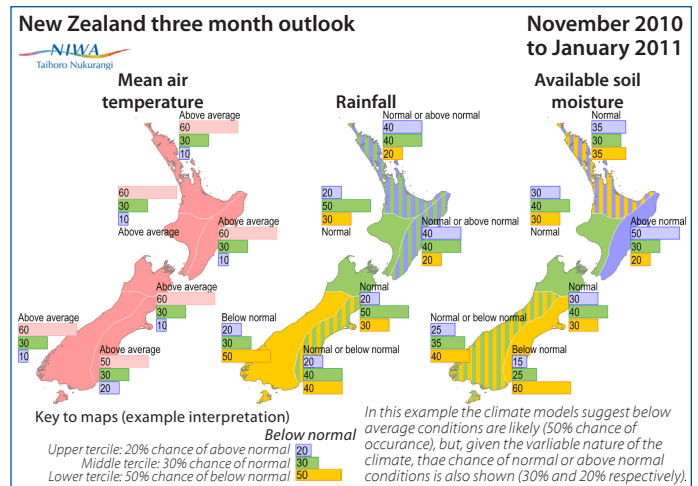
- La Niña conditions produced the third wettest October on record in Australia, with only a few parts in the south of the continent avoiding the deluge. Dam storage levels in the Murray-Darling have increased further and irrigation allocations are expected to lift further. October in New Zealand was relatively dry, except for the east coast of the North Island. The outlook for New Zealand is for warm weather with average but variable rainfall.
- The global economic outlook continues to improve, gradually. The US Fed's announcement of further quantitative easing (QE2) supports optimism for US growth in Q4 10. The Reserve Bank of Australia lifted rates to 4.75%, while recent employment growth has raised expectations of growth in New Zealand's economy.
- A weakened USD has changed the outlook for the AUD and NZD. The AUD broke through USD1 in early November, and is now expected to stay around this mark well into 2011. The NZD has also shifted up markedly and is now expected to trade in the USD0.75-0.80 range.
- Global grains markets are tightly balanced, with most recent news bullish for prices. Corn is the leader in the complex with other grains following suit. Weather risk continues to dominate the Australian wheat crop outlook; dry conditions in the west reducing the crop there while good conditions suggest a big crop on the east coast.
- In general, beef prices softened during October, as expected at this time of year, and affected by the elevated levels of the AUD and NZD. Australia's secondary markets of Russia and Indonesia have become increasingly important, while New Zealand's traditional markets of the US, Indonesia Japan continued to dominate demand.
- Lamb and sheepmeat prices also eased slightly in Australia, as expected at this time of year, but remain at strong levels. In New Zealand prices continued to track above last year levels.
- Global dairy prices were relatively stable in October, with both supply and demand continuing to improve, particularly in Russia and China. Weather has held back production in Australia and New Zealand, and the elevated AUD and NZD is also influencing prices.
- Oil prices reached a two-year record in early November, and are now expected to settle above USD80/barrel.



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Australia

- This October was the third wettest on record, induced by the La Niña event, with more than double the average rainfall across the country. It was also the wettest October on record in the Northern Territory. However, below-average rainfall was recorded in southwest Western Australia, southeast South Australia and southern Tasmania.
- The Murray-Darling Basin also record its wettest October since 1975, as a result of well-above-average rainfall across the Basin states. South Australia recorded its fifth wettest October on record, New South Wales (NSW) its sixth wettest and Queensland recorded its tenth wettest October on record.
- The wet October has boosted Murray-Darling Basin storages to 73% capacity. In response, NSW General Security allocations increased in a number of valleys including the Gwydir now 29%, Lachlan now 20%, Murray now 60% and Upper Namoi now 100%. This lift in general security allocations will provide irrigators with additional certainty as we approach the summer months.
- High Security/Reliability allocations remain unchanged in NSW from 95-100% and in Victoria from 85-100% and General allocations of South Australian River Murray entitlements will remain at 67%.
- Wet conditions during October also brought cooler-than-average temperatures. Maximum temperatures across the country were below average, while minimum temperatures were at average levels.



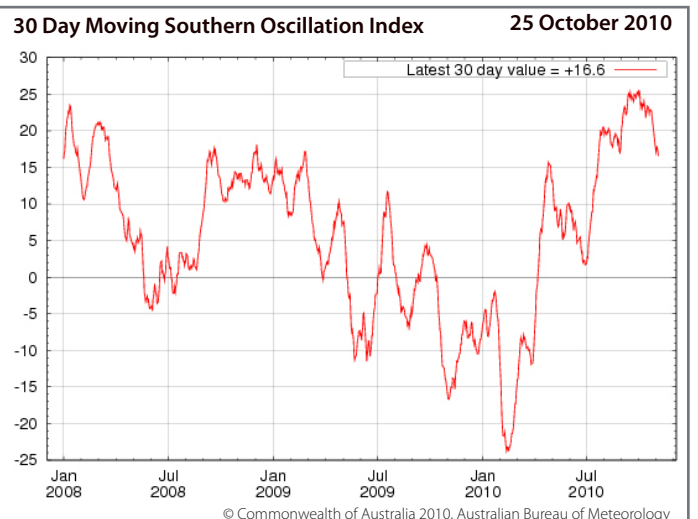
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New Zealand

- More than double the normal October rainfall was recorded in Gisborne and Hawkes Bay, but October was very dry for the rest of the country. Much of the North Island (excluding the east coast) received less than 40% of their normal October rainfall and Nelson had the driest October since records began in 1941.
- Monthly mean temperatures for October were near-normal for much of the country with below-average temperatures on the east coast of the North Island and warmer-than-average temperatures in the southwest South Island.
- October soil moisture deficits were greater-than-normal in much of Northland, coastal Nelson, mid-Canterbury and North Otago.
- According to the National Institute of Water & Atmospheric Research (NIWA), a warm and early summer is likely with temperatures during November expected to be above-average across the country.
- During the three months to January 2011, rainfall over the South Island is expected to be average at best. This is likely to result in lower soil moisture levels, providing Southland with some relief to help water-logged soils recover.
- Near or above-average rainfall is expected over the North Island, which should result in above-normal soil moisture levels in the east.

Southern Oscillation Index

- The Southern Oscillation Index (SOI) trended downward towards 15, after reaching a 21-month high in September. Nonetheless, the SOI remains well within the La Niña range (above +8) and according to the BOM, remains a moderate to strong event that is likely to persist into 2011.
- Persistent La Niña conditions, which promote above average rainfall, now act as a double edged sword. The winter grain harvest on the east coast could see yield penalties and quality downgrades and the cane harvest has experienced significant delays. However, above average rainfall has kick-started cotton and other summer crop plantings very early in the season. Meanwhile average conditions are expected in South Australia and Victoria for the harvest.



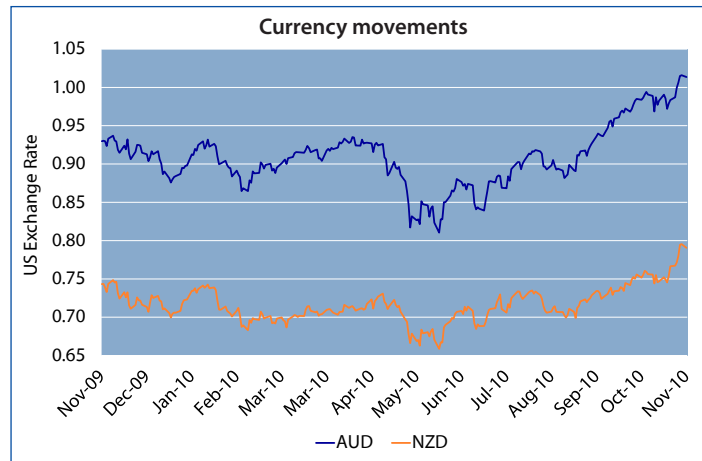
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Economy/currency

Currency USD

	Current (08/11/10)	Last month	Last year
AUD	1.0135	0.9850	0.9189
NZD	0.7906	0.7557	0.7251

Source: Bloomberg/Rabobank



Source: Bloomberg/Rabobank

Global

- Recent economic data have been perking up, supporting a market sentiment that many large western economies have finally turned a corner, and 2011 looks brighter. The US Fed's announcement of further quantitative easing (QE2) was in line with expectations, which supported optimism for US growth in Q4 10. Equity and commodity markets responded, shifting higher as investors faced an unusual combination of firm economic data and improving liquidity conditions.
- China hiked interest rates in October; the first time in this cycle. This should be taken as a positive medium-term development - Rabobank believes it was driven by recognition of the economy's improving prospects, rather than an 'inflation scare' per se. Robust GDP growth for China of 8.8% is forecast for 2011.

Australia

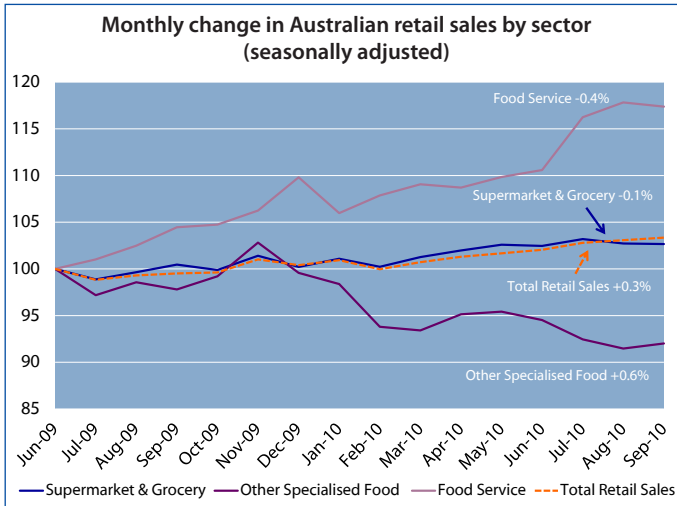
- Of the recent economic data flow, the Reserve Bank of Australia (RBA) lifting interest rates was the most notable. On Melbourne Cup day the RBA lifted interest rates for the seventh time since October 2009, by 25 basis points to shift the Official Cash Rate (OCR) to 4.75%. The RBA stated "notwithstanding recent good results on inflation, the risk of inflation rising again over the medium term remains [...] the balance of risks had shifted to the point where an early, modest tightening of monetary policy was prudent". Also, with the labour market continuing to firm, a "further increase is likely over the coming year". Rabobank expects another 75 basis points of tightening next year, taking the OCR to 5.5% by end 2011.
- The Australian dollar broke through the USD1 threshold in early November, buoyed by weakening US dollar fundamentals and the

surprise RBA lift in interest rates. Recent Australian dollar strength is mostly a QE2 story – US Fed quantitative easing has weakened US dollar fundamentals. It is more-than-likely the Australian dollar will stay in a range of USD0.98-1.03 for a while now, but price volatility is also likely, so dramatic day-to-day swings are possible.

New Zealand

- Good news has been hard to come by in New Zealand, but this time it came in the guise of a fall in the unemployment rate. Employment surprised to the upside, increasing by 23,000 for the September quarter – double market expectations. Labour force participation improved and the unemployment rate fell 0.5 percentage points to 6.4%. Agriculture, forestry and fishing led the charge. Tempering the bank's enthusiasm over this result is the wild swings in labour force data in recent quarters, and just one data point has done little to alter our perception that growth is likely to be slow in coming months. Rabobank still expects the Reserve Bank of New Zealand (RBNZ) to hold fire on interest rates until at least March next year, with very gradual steps from thereon.
- That said, the market reaction through the currency to this data point was staggering - the New Zealand dollar shot up 2% to close trade last week at USD0.796. Anticipation that the RBNZ may hike interest rates at its next meeting in December was a key driver of this rally. In Rabobank's view the New Zealand Dollar could shift higher in the near term before giving way to a reassessment of the timing of interest rate hikes and growth. This means the New Zealand dollar will continue to hover in the USD 0.75 – 0.80 range for the near term.

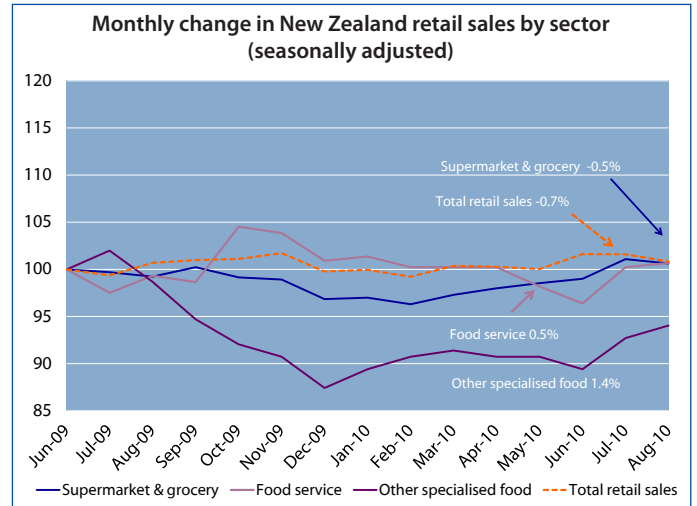
Food retail



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

Australia

- Seasonally adjusted Australian retail trade turnover increased by 0.3% in September 2010 on the prior month and 3.9% on the prior corresponding period. As Australian consumers have grown more confident about the outlook for the labour market, the pick-up in growth in retail trade indicates a greater propensity to spend by consumers that has the Reserve Bank wary of the consequences of future growth in household incomes on the outlook for consumer inflation.
- Seasonally adjusted Supermarket & Grocery retail turnover remained relatively flat (-0.1%) in September, while Food Service channels (Cafés, Restaurant & Take-away) decreased 0.4% on the prior month. While Café, Restaurant & Catering trade declined 0.6% in September following a period of very strong gains, consumer confidence increased 3.4% in October on the prior month (Westpac-Melbourne Institute, 2010).
- The apparent return to dining out in the Café, Restaurant & Catering food service channel over the course of this year could have potentially conflicting consequences for the Grocery channel. While this trend could be viewed as a positive sign that value conscious grocery shoppers may begin to trade-up and increase their average spend on various grocery items, the volume of trade may in fact suffer as consumers choose to dine at home less frequently. Trade in the Other Specialised Food channel is likely to give some indication of the strength of the former effect as it would be expected to respond to a shift back to more premium product purchasing behaviour.



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

New Zealand

- Seasonally adjusted New Zealand retail trade remained flat in August (-0.1%), while core spending took a slightly bigger fall (-0.7%) on the prior month. Fifteen of the twenty core retail categories saw a reduction in spending in August, including Supermarket & Grocery (-0.3%) which is a modest 1.6% higher than the same period last year. Food service trade dropped back again in August on the prior month, driven by a reduction in takeaway trade but partially offset by a further small increase in Cafe & Restaurant trade (+0.6%).
- September quarter economic releases hinted at positive momentum in the economy with a third consecutive trade surplus in September on the back of solid agricultural export prices and a 0.5% reduction in unemployment to 6.4%. While these are positive developments for the retail sector, muted wage growth is likely to continue to weigh on spending in the short term.
- The Statistics New Zealand food price index rose 0.7% in September on the prior month, driven by a 1.2% rise in the grocery food sub category where higher domestic dairy product prices were impacted by strong international milk prices. Meat and poultry prices declined across most product groups on the prior month and compared with a year earlier.

Grains and oilseeds

ASX wheat prices

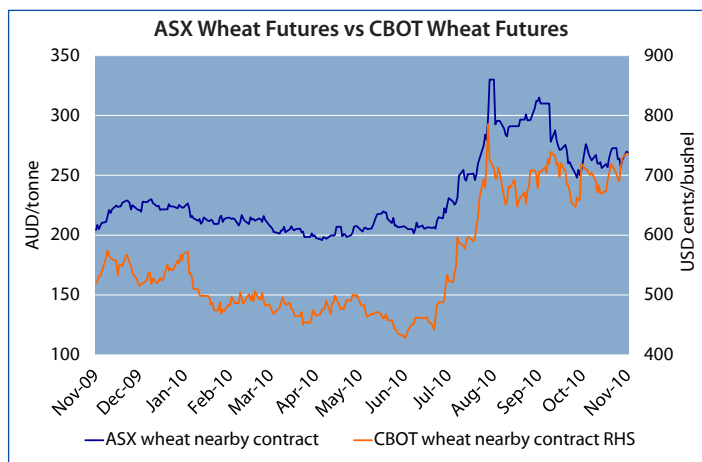
	Current (08/11/10)	Last month	Last year
AUD/tonne	269.80	254.00	209.00

Source: Bloomberg/ASX/Rabobank

Chicago Board of Trade Wheat Futures (nearby contract)

	Current (08/11/10)	Last month	Last year
USD c/bushel	736.25	719.25	497.25

Source: Bloomberg/CBOT/Rabobank



Source: Bloomberg/CBOT/ASX/Rabobank

Global

- Wheat market fundamentals remained relatively unchanged this month, with the Northern Hemisphere crop all but in the bin, and prospects remaining good for the Southern Hemisphere. Nevertheless, exportable supplies remain tight. Russia is now not expected to re-enter the global export market until 2011/12, and the Ukraine recently announced export quotas. This is likely to keep pressure on US exports in the near term. In addition to the general price movement, higher-protein wheat price spreads have widened to reflect mounting concerns around protein availability given quality uncertainties in Canada and Australia's East Coast.
- Corn prices are leading the grains market, posting the largest gains. The October USDA World Agricultural Supply and Demand estimates shocked the market by sharply revising US corn yield and production lower. Rabobank is now forecasting the US corn stocks-to-use ratio to reach their lowest level since 1995/96 at 5.5%. This means that market fundamentals remain highly sensitive to further downward revisions in US production. Chinese corn import demand is another significant swing factor to an already highly leveraged market. With Chinese corn production results below expectations, a high level of uncertainty can be attached to their import requirements for 2011.
- Alongside grains, oilseed prices have continued to firm - soybean prices recently hit a new contract high – buoyed by strong Chinese demand for oilseed products. China now accounts for 60% of the global soybean trade. There is still upside potential for soybean prices from here, particularly if production risks again emerge in South America due to dry conditions faced by soybean producers.
- Rabobank maintains a view that this rally may not yet be at an end, particularly as demand shows little sign of weakening even at current/elevated prices. This is expected to play out into strong

planting intentions, and the ensuing intense battle for acreage for the 2011/12 crop.

Australia

- As the domestic crop approaches harvest, weather continues to dominate the outlook, which firmly remains an east-west affair. In Western Australia, persistent hot and dry weather has pushed expectations for the Western Australian wheat crop down to 3.8 million tonnes, which would be the smallest crop in 30 years.
- In stark contrast, New South Wales and Victoria are anticipating a record wheat crop, as early spring rains have built on one of the best starts the winter cropping season has seen. Not all rain has been welcome however, with recent heavy rains downgrading crops to feed wheat in central Queensland. While the locust risk remains modest, further heavy rainfall poses the largest risk in many regions. The latest BOM outlook has lifted prospects of a wet harvest in New South Wales and Queensland.
- While the Australian wheat crop is expected to come in above the ten-year average, with Rabobank forecasting production at 22.5 million tonnes, it will be a challenging environment for exporters. The high Australian dollar and east coast infrastructure bottlenecks are expected to constrain export capacity to below 14.5 million tonnes, which will leave stocks up 25% from their 2009/10 levels.
- The canola harvest is yet to begin in eastern Australia, but oil content is expected to be high, with production expected to come in at 2 million tonnes, despite the drought affected Western Australian crop.
- For summer crops, prospects remain positive, with strong planting intentions expected to nearly double sorghum production to 2.3 million tonnes this year.

Beef

Australian beef prices

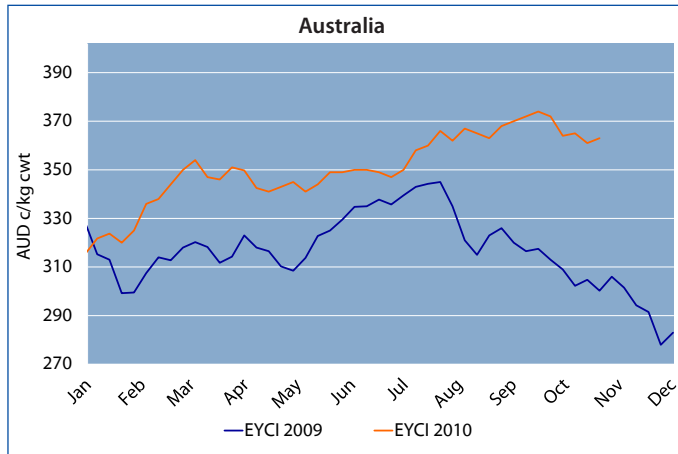
All shown as AUD cents/kg cwt	Current (05/11/10)	Last month	Last year
Eastern Young Cattle Indicator (EYCI)	363	372	300

Source: NLR5/Rabobank

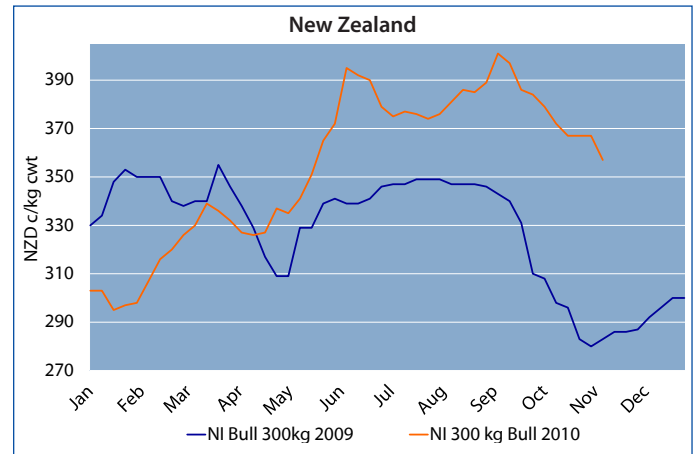
New Zealand beef prices

All shown as NZD cents/kg cwt	Current (08/11/10)	Last month	Last year
North Island Bull 300kg	357	372	283
South Island Bull 300kg	340	350	263

Source: NZX Agrifax/Rabobank



Source: NLR5/Rabobank



Source: NZX Agrifax/Rabobank

Global

- The spread between US domestic beef prices and imported 90CL prices increased further in October and as a result imports are expected to slow into the US. The situation remains largely unchanged from September with imported prices exceeding domestic pricing, but the difference has stretched out to USD 20c/lb, this coupled with improving domestic availability is expected to be the limit most US manufacturers will pay over domestic supply. Increasing US cattle slaughter will improve US domestic product availability. This can be expected to continue until Christmas.
- October has been no change from September with regard to US lean beef prices, which remain 15-25% higher than the same period in 2009.

Australia

- The rising Australian dollar and subdued demand in Japan has placed pressure on Australian beef sales over the past month, which in turn has seen an easing in prices. Medium and heavy prices saw the greatest falls, down by 5-6%, as these categories tend to be most exposed to export markets. Young cattle prices eased during the past month with the EYCI down 2%, to AUD3.63/kg cwt in November. While prices have eased, they remain well above both 2009 and five-year average levels. Largely this is due to the significant rainfall experienced on the east coast, which disrupted supply of cattle to markets and increased demand from restockers. Prices should continue to ease over the coming month, but will remain above both five year average and 2009 levels.

- With subdued demand and the high Australian dollar impacting on key Australian beef export markets such as Japan and the US, secondary markets, including Russia and Indonesia, are becoming increasingly important destinations. Sales into Russia in October reached almost 10,000 tonnes, exceeding exports to the US, traditionally Australia's second largest beef export market. The surge in demand from Russia has been due to a shortage of product from traditional South American suppliers when Russian importers have been looking to fill their yearly quota.

New Zealand

- Farm gate beef prices eased again during October, coming back on average NZD 20c/kg. Comparing prices with 2009, they are still 18% more favourable than the same time last year.
- Strong farm gate pricing for beef cattle, ranging from NZD3.60-4.00/kg, has not spurred cattle to market. By the end of October (new season) New Zealand processors showed slaughter figures down 20% on the same period last year. North Island processors have reported a total of 81,000 stock being slaughtered, while South Island cattle figures equate to 26,000.
- September beef exports dropped a little on August, as expected in the later part of the season. Traditional market export volumes stayed strong - US (32%), Indonesia (12%) and Japan (11%), generating 52% of the month's revenue and purchasing 54% of the volume. Japan continues to take 30% of its product in the premium chilled form, offering returns 40% higher than frozen cuts.

Lamb

Australian lamb prices

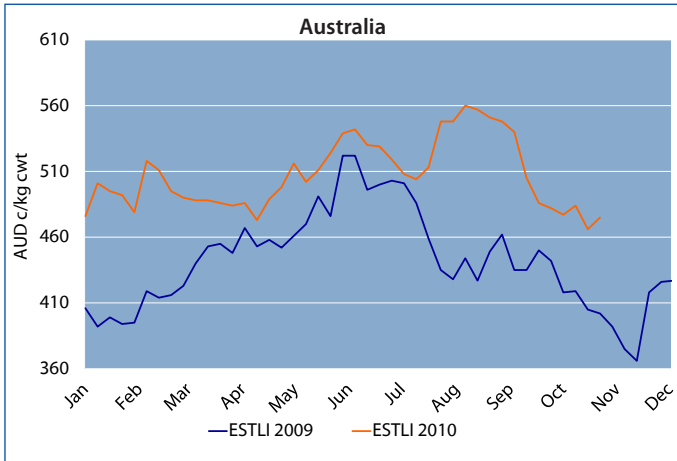
All shown as AUD cents/kg cwt	Current (05/11/10)	Last month	Last year
Eastern States Trade Lamb Indicator (ESTLI)	475	482	402

Source: NLRS/Rabobank

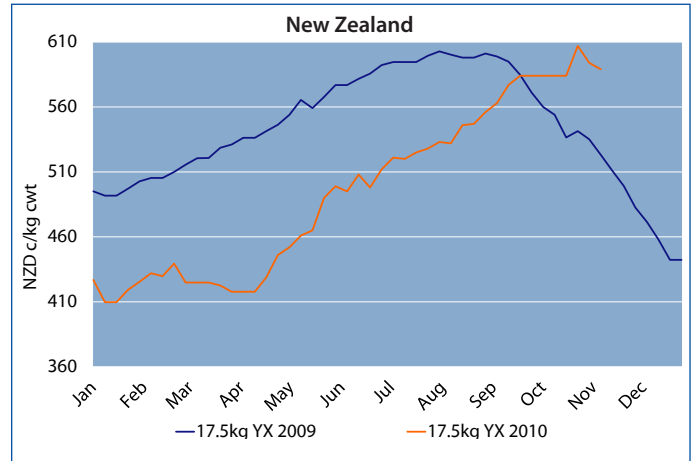
New Zealand lamb prices

All shown as NZD cents/kg cwt	Current (08/11/10)	Last month	Last year
North Island 17.5kg YX	607	596	525
South Island 17.5kg YX	589	584	523

Source: NZX Agrifax/Rabobank



Source: NLRS/Rabobank



Source: NZX Agrifax/Rabobank

Australia

- With the spring flush of lambs well underway, lamb prices have eased during the past month, down by 1% to AUD4.75/kg cwt as at early November. While prices have experienced a seasonal decline, they remain well above those of 2009 and five-year average, supported by lower overall sheep and lamb numbers and improved seasonal conditions (which are supportive of restocker buying) as well as strong demand locally and in a number of developing countries. Prices are likely to continue to ease over the upcoming month, as seasonally higher supply and the pressure of the Australian dollar impact but are expected to remain well above 2009 levels.
- Reduced flock numbers, improved weather conditions, solid domestic demand and a high Australian dollar has impacted on Australian sheepmeat exports in October. Exports of lamb dropped from 16,405 tonnes in October 2009 to 13,789 tonnes in 2010 – with one of the biggest falls to the US, Australia’s largest individual export market. Sales to the middle east for lamb rose, driven in large part by a rise in sales to Iran - a country which took no Australian lamb in 2009 – which reached 1,287 tonnes. Mutton exports have fallen 14% in October compared to the same time last year, with restricted supplies a major challenge for those looking to secure product. Exports for the calendar year for mutton and lamb have declined 27% and 8% respectively compared to 2009.

New Zealand

- Lamb farm gate prices continued to move higher during October and into the start of November, reaching over NZD6/kg, an average increase of 20c/kg over the month. November price easing following seasonal decline is not unexpected but strong market demand and limited supply are supportive of this not being overly dramatic. Farm gate pricing is now 9% higher than the same period last year.
- October figures showed the new lamb processing season started with slaughter numbers 8% higher than last year, with throughput of 1.2 million lambs and 164,000 ewes. However, storms and snow in both the south of the South Island and lower North Island created considerable lambing losses late September. The losses will only be qualified this month by the release of Beef & Lamb New Zealand’s stock survey. Anecdotal indications are that stock numbers overall will be back 3-5% on last year.
- Lamb exports in September 2010 were 30% lower than the same month last year and 22% down on August. By comparison the volumes exported in the last quarter of the 2008/2009 season averaged 21,350 tonnes per month, the last quarter of the 2009/2010 season finished with average export volumes of 16,300 tonnes of product per month.
- The 2009/2010 season saw processors ship 357,750 tonnes of sheep meat, generating revenue NZD 2.7 billion. Both volume and revenue are 7% lower than the 2008/2009 season, reflecting the lower stock numbers available for processing for this season.

Dairy

World dairy prices

	USD/tonne			AUD/tonne			NZD/tonne		
	28/10/2010	Last month	Last year	28/10/2010	Last month	Last year	28/10/2010	Last month	Last year
Butter	4,350	4,200	3,125	4,459	4,329	3,478	5,819	5,686	4,349
SMP	3,100	3,200	2,950	3,178	3,299	3,283	4,147	4,333	4,106
WMP	3,475	3,475	3,150	3,562	3,582	3,506	4,648	4,705	4,384
Cheddar	4,100	3,975	3,650	4,203	4,098	4,062	5,484	5,382	5,080

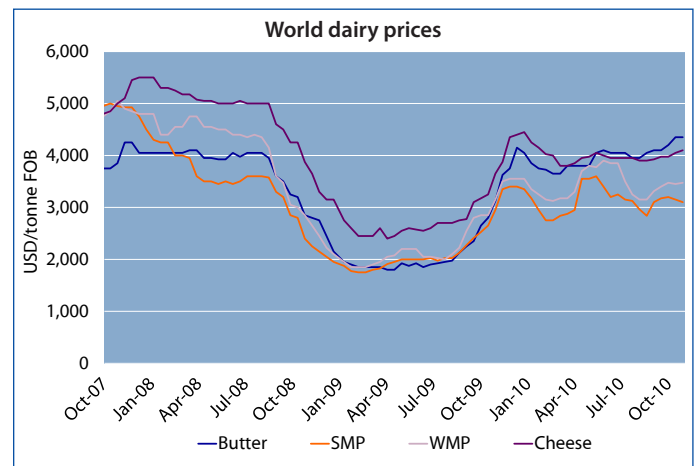
Source: USDA/Rabobank

Global

- International dairy commodity prices were generally stable through October.
- Supply side momentum remained strong through August, with milk production up nearly 3.5% year-on-year (YOY) in the world's six largest export regions combined. Weak internal demand in the EU and US continued to further underpin unusually strong export volumes from these regions.
- A wet spring in Australia and New Zealand has tempered expectations of an exceptionally strong Southern Hemisphere spring flush (October/November), though market supply is nonetheless expected to be well above normal.
- The firmness of dairy commodity prices through October, despite the recent wave of supply growth, suggests that import buying remains extremely strong. After the traditional seasonal lull in August and September, Chinese dairy imports appear to have jumped again in October. And with Russia still actively covering its needs in the wake of the recent drought, competition for tradeable supply remains strong.
- With the world's largest import buyers still 'up and about', and moderating expectations for Southern Hemisphere supply growth, prices may yet continue to hold firm through the closing months of 2010.

Australia

- Whilst the Australian dollar continues to trade around US dollar parity, firm dairy commodity prices have allowed Murray Goulburn, Burra Foods and United Dairy Power to announce milk price step-ups in recent weeks.
- This spring has continued to be a wet one across Victoria, particularly in the west with continuing rainfall delaying or precluding silage harvest in some areas. Water allocations in irrigation districts have continued to increase, with many low reliability shares receiving allocations.
- August production figures from Dairy Australia show milk output faltering slightly at the national level, with Western Australia and Tasmania the only states to post year-on-year increases.



Source: USDA/Rabobank

Production growth in key exporting regions

	Latest month	Last 3 months
EU 27	2.7% (Aug)	1.9%
US	3.3% (Sep)	2.7%
Argentina	9.6% (Sep)	9.8%
Australia	-0.5% (Aug)	2.2%
New Zealand	1.5% for five months to Oct 2010*	

*Rabobank estimate

New Zealand

- Even though the New Zealand dollar moved higher through October, dairy prices in local currency terms were broadly static due to rising global prices. Butter and cheddar prices lifted, while powder prices eased.
- Most regions recovered from the poor September and season-to-date production has only now started to edge ahead of last year, albeit slowly and with a flatter peak milk flow than first expected.
- While New Zealand dairy export volumes are trending lower over the early months of the season (the four months to September 2010 are down 10% on 2009) the largest import buyers are providing increased activity. Exports to China are up 32% and exports to Russia are 50% higher over the same period in 2009.

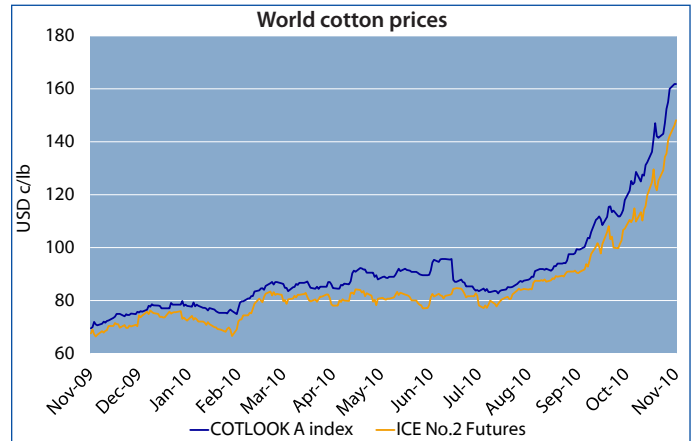
Cotton

World cotton prices

All shown as USD cents/lb	Current (08/11/10)	Last month	Last year
Cotlook A Index	161.80	118.00	69.85
ICE No.2 NY Futures (nearby contract)	146.23	107.17	66.54

Source: Bloomberg/ICE/Rabobank

- Poor weather and insatiable Chinese milling demand continues to absorb global cotton supplies, which has helped to extend the price rally to an all time high of USD 1.42, up 88% this year.
- Weather related setbacks including a cold snap in China, hailstorm damage in Texas and potential tropical cyclones in India have reduced production expectations, while demand from Chinese mills continues unabated. Should these weather-related supply shocks continue, the price rally should strengthen in the short term.
- With most supplies sold, Rabobank feels that the market might as well be trading in money. The significant speculative exposure to the cotton market currently means that prices will be highly volatile and subject to small changes in the fundamental outlook.
- Queensland and New South Wales (NSW) plantings are all but complete, soil moisture profiles are outstanding, temperatures are warming up and there has been plenty of rain about. These positive indicators point to bumper yields (both irrigated and



Source: Bloomberg/ICE/Rabobank

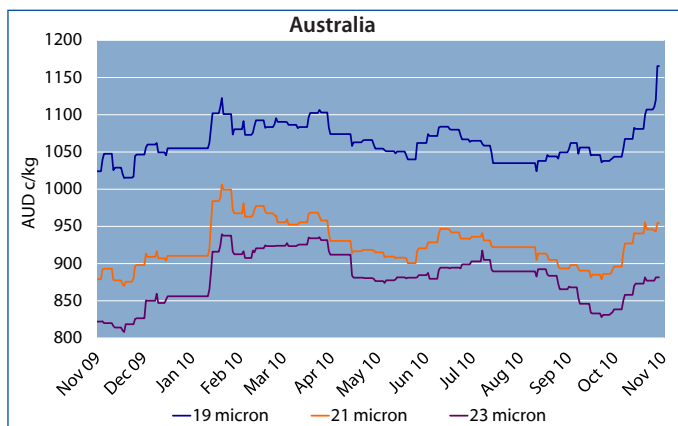
dryland). However, ongoing rain through inland NSW has limited plantings in some areas, where there will be a rush towards the end of the planting window.

Wool

Australian wool prices (eastern)

All shown as AUD c/kg	Current (29/10/10)	Last month	Last year
Fine (19 micron)	1166	1042	1024
Medium (21 micron)	955	892	879
Broad/coarse (23 micron)	882	835	822

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



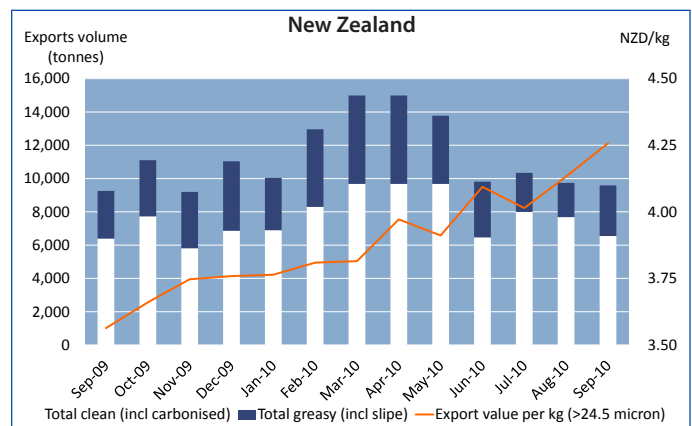
Source: Rabobank, Bloomberg/AWEX (average north and south prices)

- Wool prices continue to defy the strong Australian dollar with the Eastern Market Indicator strengthening throughout October and into the first week of November to reach its highest level since early 2008. In US dollar terms, the indicator is reported to have hit its highest level in 22 years.
- Market sentiment is primarily being driven by limited supplies, as strong buyer activity from China (which accounts for 70% of Australian wool exports) further demonstrates the low raw fibre stocks situation there. In addition, stronger demand from Europe

New Zealand wool prices

Average FOB export value (NZD/kg)	September 2010	July 2010	September 2009
Fine <24.5 micron	7.11	6.82	7.81
Broad/coarse >24.5 micron	4.26	4.13	3.94

Source: Statistics New Zealand/Rabobank



Source: Statistics New Zealand/Rabobank

has helped to underpin the market (particularly for fine wool), with Italy increasing activity in the market this season.

- The strong global fibre complex, highlighted by the significant price increases for cotton and the recent jump in nylon fibre prices, is also providing support for wool prices.
- While positive fundamentals are expected to continue to underpin prices, there are signs of prices steadying at current levels as the environment remains challenging for mills.

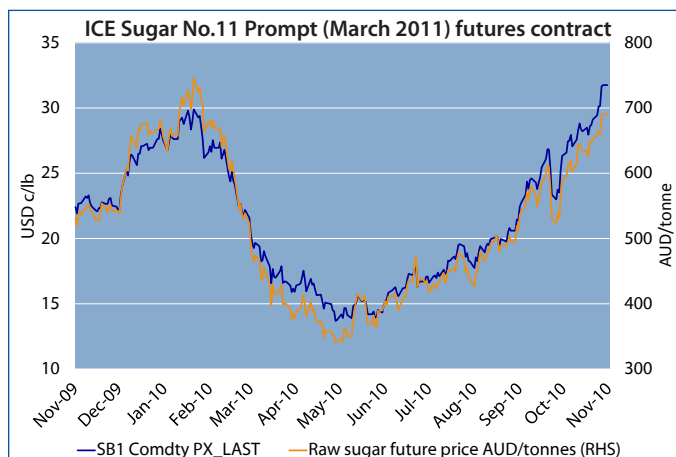
Sugar

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

	Current (08/11/10)	Last month	Last year
USD cents/lb	31.76	26.32	22.43
Converted to AUD/tonne	691.61	589.09	538.14

Source: Bloomberg/ICE/Rabobank

- Climatic extremes have once again constrained sugar output and this, coupled with a resurgence in import demand from Asia and the Middle East, has pushed near-term futures contract prices to a 29-year high above USD 31.7c/lb.
- Sugar stocks in 2010/11 are now anticipated to remain lower-than-expected, following production downgrades in Brazil's Centre-South and Pakistan. More recently, the Thai and Indian harvests have been delayed to enable the sucrose content to rise following an above-average monsoon, and the Brazilian crush will be shortened due to the very dry conditions.
- New concerns have surfaced around the potential for bans on Indian exports as the government seek to rebuild domestic stocks and stabilise domestic prices.
- Wet weather has delayed the Australian crush further. In Ingham and Maryborough, the crush is now about two thirds complete and likely to persist through December. While growers in Mossman are reported to have had a frustrating year due to wet weather, the crush is expected to wrap up this week. The harvest and crush in Mackay and Bundaberg are over about 75-80% complete and are expected to finish in November or December. Mills in Ayr will extend the crush and remain in operation while viable supply continues.



Source: Bloomberg/ICE/Rabobank

- The Atherton Tablelands have had a good season, relatively unaffected by the wet weather, with delays limited to mill downtime. However, next season's crop in Mossman is expected to be downgraded due to late plantings and late fertiliser applications. Ongoing rainfall continues to dilute sugar content (CCS) and threatens stand over.
- Rabobank forecasts prices to remain above USD 19c/lb as a 12 month view.

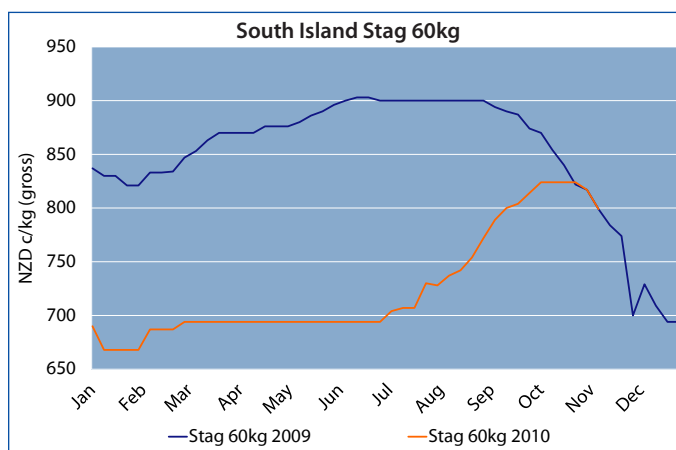
Venison

New Zealand venison prices

All shown as NZD cents/kg gross	Current (08/11/10)	Last month	Last year
North Island Stag 60kg	798	810	793
South Island Stag 60kg	799	824	799

Source: NZX Agrifax/Rabobank

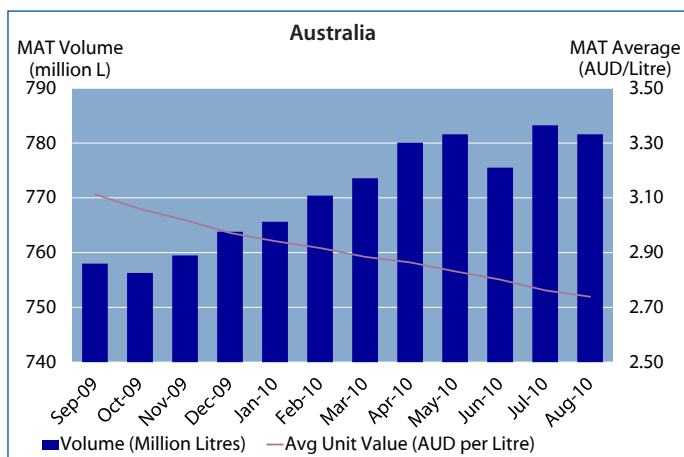
- Venison prices continued their strong spring push through into October, followed by traditional seasonal easing in early November.
- Chilled export volumes for September improved 26% on last year, however with the majority of the chilled product being shipped to the EU, and the strengthening of the New Zealand dollar by 15% over this period, improved revenues have eluded exporters.
- Monthly exports of frozen venison improved 12% in September year-on-year, with the major market, Germany, taking 60% of the volume. Exports of frozen venison to Germany in September doubled compared to 2009, with the slight reduction in the New Zealand dollar FOB from 10.80/kg last year, to 9.70/kg this year.
- Chilled and frozen venison exports for the 2009/2010 season totalled 15,720 tonnes compared to 2008/2009 this represents a reduction of 7%. Given this relatively light reduction in volume, the 23% decline in revenue will be disappointing for processors and



Source: NZX Agrifax/Rabobank

farmers, however retention of farm gate prices above NZD7/kg for the season provides stability that the market is seeking.

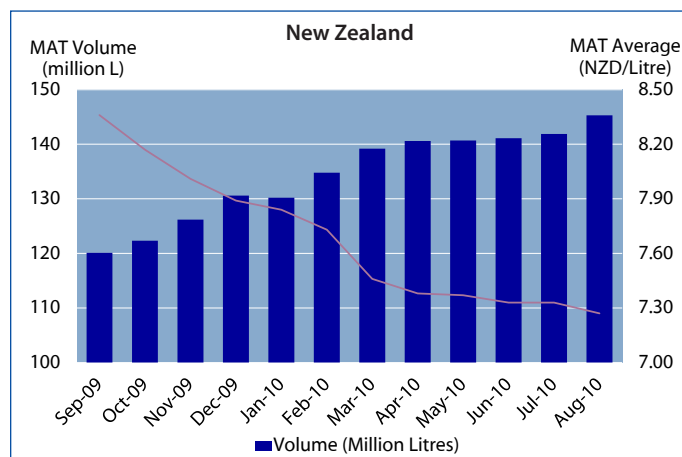
Wine



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

Australia

- Australian wine export sales volumes in the 12 months to August 2010 increased 4.7% on the prior corresponding period to 781.6 million litres (ML), while the FOB value of exports decreased 9.3% to AUD2.141 billion. The monthly average export unit value in July declined by 5.2% on the prior corresponding month to FOB AUD2.62/litre, while the value of bottled wine exports recorded a 2.8% increase on the prior corresponding month to FOB AUD4.19/litre (AWBC, 2010).
- Reports of a smaller than expected 2010 Californian wine grape harvest and a not dissimilar sized crop to last year in the major European producer countries could provide some much needed support to global bulk wine prices as major Californian wine companies may look to supplement supply of basic wine from the global market.
- In terms of the structure of the Australian vineyard estate, recent estimates released by the Australian Bureau of Statistics indicate that 8,164 hectares or approximately 5% of Australia's wine grape bearing vineyard area was removed in the 12 months prior to the 2010 harvest. An estimated 1,406 hectares were added to the non-bearing vineyard estate in the lead up to the 2010 harvest, bringing the estimated non-bearing area to 3% of Australia's total 156,632 hectare vineyard estate.
- Abundant winter and spring rains have contributed to improved vineyard condition and irrigation water availability across southeast Australia. That said, continued rain into the growing season has begun to threaten crop potential in some major production regions through increased risk of serious fungal diseases such as downy mildew.



Note: MAT - Moving Annual Total refers to the twelve months ending with the nominated month
Source: New Zealand Winegrowers based on Statistics New Zealand/Rabobank

New Zealand

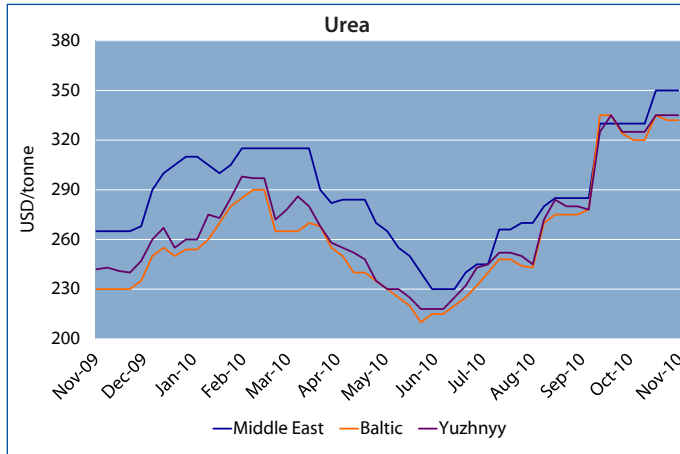
- New Zealand wine producers reported a strong lift in wine shipments to 15.1 million litres in August 2010, up 29.1 on the prior corresponding period. On an annualised basis, shipments in the 12 months to August 2010 grew by 22.6% on the prior period to 145.3 ML (NZ Winegrowers Assoc., 2010).
- A new monthly record of 10.8 ML of bottled wine was exported in August 2010, 24.1% higher than the prior corresponding month and 17.6% higher on an annualised basis. Despite higher bottled wine shipments, bulk wine shipments are proving stubborn and once again moved higher to 28.5% of export shipment volumes in August. Some firming in bulk wine prices in recent months is likely to have played a key role in the decision of many small to medium sized wineries to sell inventory through the bulk market.
- The annual value of exports in the 12 months to August 2010 moved 4.0% higher to a record NZD1.05 billion compared to 12 months earlier. Average bottled wine export unit values in August were 6.2% lower than 12 months earlier at FOB NZD7.36 per litre as exporters continue to struggle with a New Zealand dollar resting at 12 month highs against the USD, GBP and EUR.

Fertiliser

Fertiliser prices

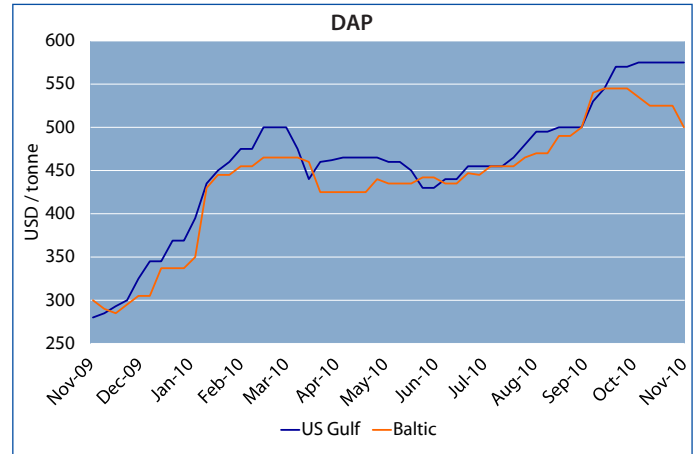
All shown as USD/tonne	Current (04/11/10)	Last month	Last year
Urea (Middle East)	370	330	265
DAP (US Gulf)	575	575	325

Source: Bloomberg/ICIS/Rabobank



Source: Bloomberg/ICIS/Rabobank

- A more bullish fundamental picture has emerged in recent weeks, which has pushed benchmark urea prices higher – prices are between 5% and 12% higher than a month ago. The factors driving prices higher were stronger-than-expected demand from India, concerns that the export tax window in China may close early, further increases in grain prices and weakening US dollar fundamentals. DAP prices remain firm at USD575/tonne.
- Rabobank had initially expected fertiliser prices to start showing some weakness from mid-November to end-January - this now looks less likely. Although demand is still expected to moderate



Source: Bloomberg/ICIS/Rabobank

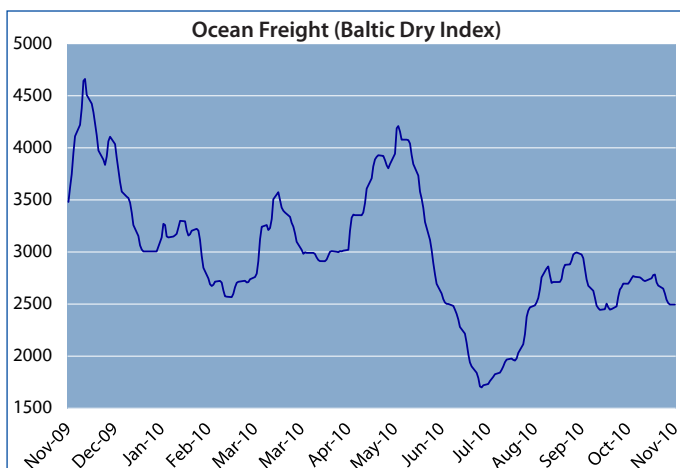
- in South America and the US in the near term, the supply-side constraint looks more-than-likely to persist for longer. A driver of further supply-side tightness was the surprise rumour that China – which accounts for around 20% of DAP trade and 17% of urea trade – will attempt to restrict fertiliser exports in the near term by raising the export tariff on urea from 15 November. This brings forward the usual tariff increase date from end-January as the Chinese government seek to sure-up domestic supplies for the coming year and to hold lower farm input prices.
- Our view is still for a high-point in fertiliser prices in April-May 2011.

Other costs

Ocean freight index and oil prices

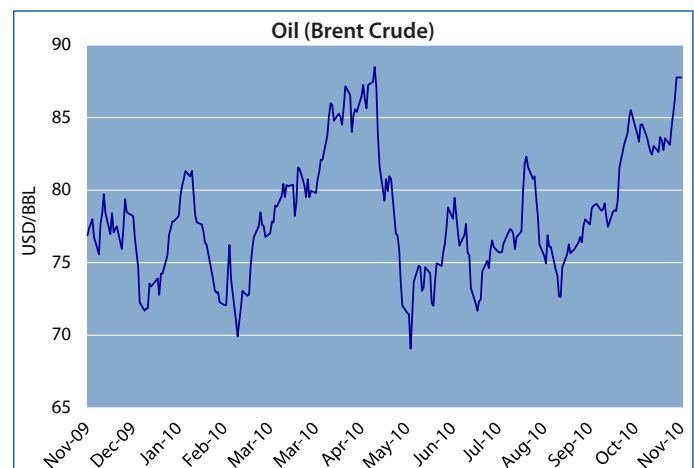
	Current (08/11/10)	Last month	Last year
Baltic Dry Index* (ocean freight)	2495	2696	3480
Brent Crude Oil (USD/bbl)	87.77	85.52	76.89

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.

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