



Rabobank

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Agribusiness Review

Australia and New Zealand

Rabobank Group
Food & Agribusiness Research and Advisory (FAR)

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Contents

Report highlights.....	1
Climate.....	2
Currency/economy	3
Food retail.....	4
Grains and oilseeds.....	5
Beef	6
Lamb.....	7
Dairy.....	8
Cotton	9
Wool.....	9
Sugar.....	10
Venison	10
Wine.....	11
Fertiliser	12
Other costs	12

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

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Report highlights

- October was dry across most of Australia, after average rainfall in September, with the southern coast the only area experiencing a wet month. The rainfall outlook for Australia is for average conditions into summer, with the exception of NSW and south-eastern Queensland, which are expected to receive less than median rainfall. By contrast October was generally wet and cold for much of New Zealand. All regions are expected to have normal soil moisture conditions. The Southern Oscillation Index has shifted strongly towards El Niño conditions.
- The momentum towards global economic growth strengthened in October, with data from the USA and China confirming the strength in the global economic recovery.
- The Reserve Bank of Australia increased the official cash rate by a further 25 basis points at its early November meeting. The strength of the recovery was confirmed in the Mid Year Economic and Fiscal Outlook, which showed considerable improvements in the economy relative to Budget estimates. The latest economic data in New Zealand also shows an improvement in conditions, with further improvements in business confidence, although this is countered by a higher than expected unemployment result. Both the Australian and New Zealand dollars continue to trade at high levels.
- World grain prices saw some gains during October, although started to slide late in the month. The gains have been welcome even though they are not supported by the fundamentals; global stocks are ample and demand for exports is slow. Yield results in Australia are generally positive, and quality and protein levels have been good. There is some downside news in regions affected by the dry conditions in early Spring.
- Young cattle prices continued their slow decline during the past few months in both Australia and New Zealand, with soft demand in Japan and the USA and the strength of the dollars not favouring exporters. Strong sales of beef into Korea have though provided some welcome positive news.
- International demand for dairy continued its upwards run through October, with demand conditions improving faster than initially expected, at a time when milk supply is limited. The news for Australian and New Zealand dairy producers is likely to remain positive at least until Northern Hemisphere supply starts to rebuild in early 2010.
- The Baltic Dry Index started to trend back upwards during October. Oil also saw gains during October that have taken it to 12 month highs - it is now trading around USD77/barrel.

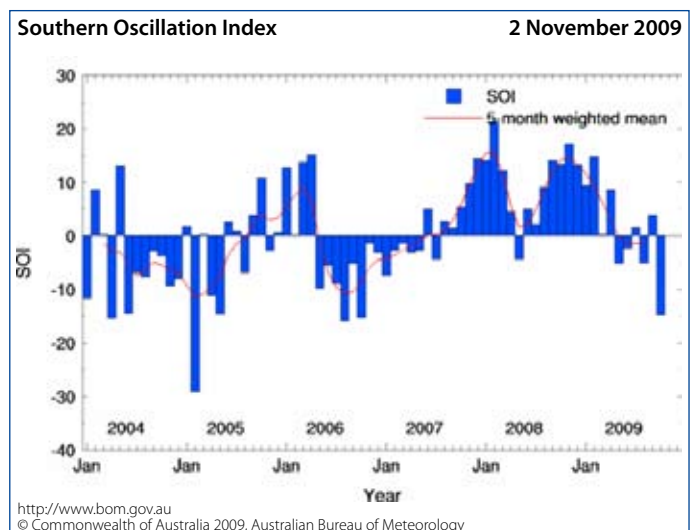
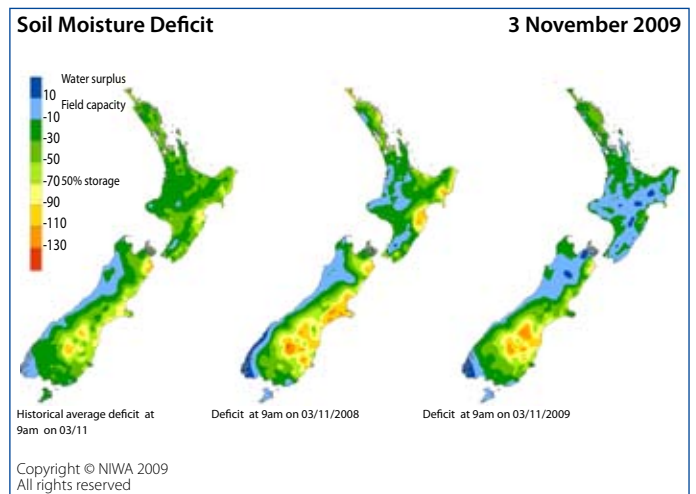
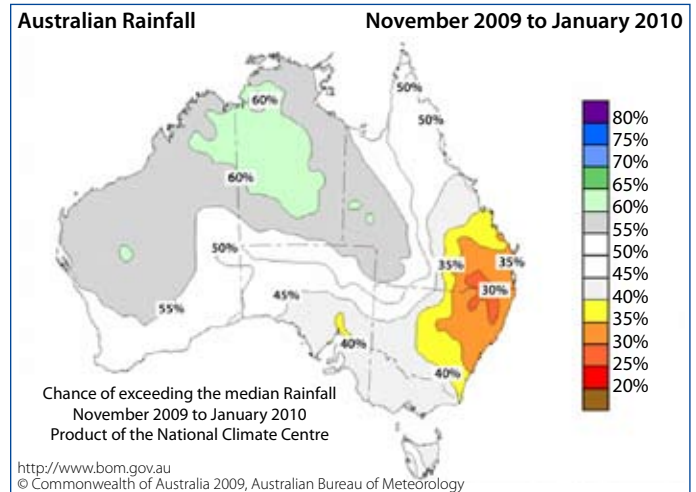
Climate

Australia

- October saw temperatures around most of Australia closer to average than in recent months. However, the monthly mean temperature was still slightly above normal, due to above-average daytime maximum temperatures, especially in Western Australia and the Northern Territory, where in the far north and Darwin the mean monthly maximum of 34.8°C was the highest on record for any month.
- Cool overnight temperatures, most pronounced in the Northern Territory, Kimberly region and much of Queensland, brought the minimum down below average for the month. Much of New South Wales, Victoria and South Australia also experienced minimum temperatures slightly below normal for this time of year.
- The Bureau of Meteorology's national outlook for temperatures for the November 2009 to January 2010 period is for warmer-than-normal minimum temperatures over mainland Australia, and warm daytime temperatures over most of Queensland and New South Wales.
- October was a fairly dry month across most areas of Australia with rainfall for the continent 45% below the October average. The low rainfall pattern was consistent over most areas, with all states and territories recording rainfall at least 27% below average, including the southern coast of Australia which had experienced a particularly wet winter and early spring.
- Little or no rain fell in large areas of the interior, including north-eastern South Australia, far western Queensland and much of the southern Northern Territory. Coastal Queensland, around Rockhampton and Hervey Bay, were also areas to receive significantly little rain.
- In contrast, most of Coastal New South Wales (apart from the far north and south) and eastern Victoria received substantial above-average rainfall, as did some areas of southern Queensland and northern New South Wales.
- Ocean surface temperatures in the central equatorial Pacific have warmed further and now exceed levels typical of an El Niño event by their greatest margin so far this year, with most leading climate models suggesting tropical ocean temperatures will remain above El Niño thresholds until at least early 2010. The rising Pacific temperature increases the likelihood of below average rainfall across large parts of southern and inland eastern Australia, while the warm Indian Ocean increases the chance of wetter-than-average conditions across the tropics and western Western Australia.

New Zealand

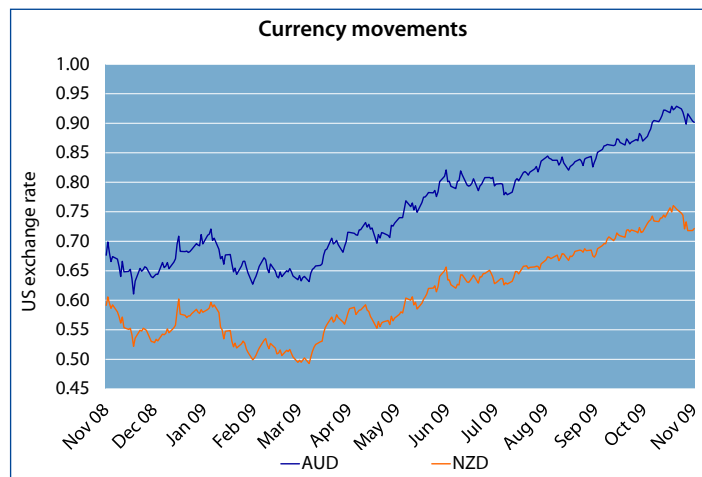
- October was generally wet and cold for much of New Zealand, with higher rainfall for most of the North Island, and particularly the East Coast where rainfall was more than 50% higher than the October average. Temperatures were around 1°C or more lower than usual at this time of year. Soil moisture levels remain at or near capacity for much of the country, with the exceptions being parts of South Canterbury and Otago.



- NIWA's outlook into 2010 is for the moderate El Niño conditions to persist, but they are unlikely to have a significant influence on New Zealand. Soil moisture levels are expected to be normal for most parts of New Zealand with normal or below normal moisture levels likely for the north and east of the North Island and eastern parts of the South Island.

Currency USD			
	Current (03/11/09)	Last month	Last year
AUD	0.9016	0.8698	0.6764
NZD	0.7216	0.7160	0.5914

Source: Bloomberg/Rabobank



Source: Bloomberg/Rabobank

Global

- Global data and surveys have again turned to point upwards in October. In particular, the third quarter US GDP gain (up 3.5%, annual rate) confirms that a synchronised global upturn is now underway. In Japan, amongst some data disappointments, industrial production has surprised positively in September, but more importantly manufacturers indicated that they planned to continue to raise production in October and November. Outside Japan, emerging Asia continues to expand, with the all-important Chinese third quarter GDP figure confirming solid growth has continued. Chinese growth is of key importance to Australia, with business investment and Australian dollar fundamentals moderately tied to China's economic fortunes.

Australia

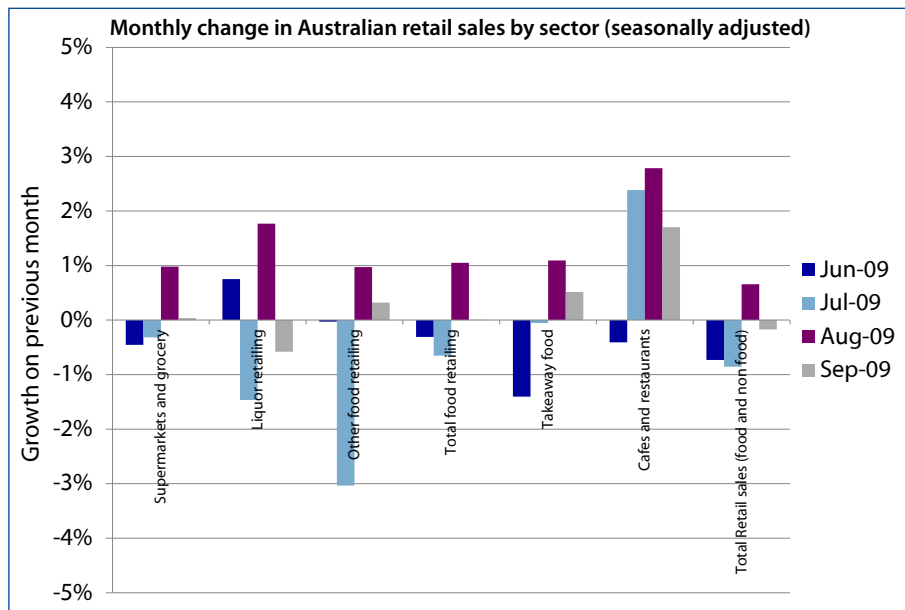
- The Reserve Bank of Australia (RBA), as expected, became the first central bank to undertake back-to-back rate increases since the beginning of this financial crisis, taking the official cash rate (OCR) up by another 0.25% to 3.5%. The key to the decision remains the RBA's view that with growth 'likely to be close to trend' and 'inflation...consistent with the target in 2010' it is 'prudent to lessen gradually the degree of monetary stimulus that was put in place when the outlook appeared to be much weaker'. While market expectations are for further rises in December and February, a weaker-than-expected retail sales print for October may give the RBA Board some scope to leave the OCR unchanged in December.
- The Mid-Year Economic and Fiscal Outlook (MYEFO) for the 2009-10 Commonwealth Budget was released on 2 November. As generally anticipated, expectations for the Australian economy have improved considerably relative to the Budget estimates released on 12 May. Unemployment is now expected to peak at 6.75% in mid-2010, compared with the 8.5% forecast at budget.
- The Australian dollar (AUD) extended its rally against the US dollar

(USD) in October (1.9%), though it did see selling pressure towards the end of the month as equity market volatility dampened the global risk appetite. Looking ahead, the AUD is likely to trade sideways in a range of USD0.88-0.92 in the coming month.

New Zealand

- The Reserve Bank of New Zealand (RBNZ) left the OCR unchanged at 2.5%, as expected, at its October meeting. However, the wording of the statement was adjusted to a more neutral bias. Governor Bollard now expects to keep the cash rate 'at' the current level, rather than the previous statement wording of 'at or below', until the second half of 2010.
- The release of the Household Labour Force Survey further supported the RBNZ's stance. The unemployment rate increased higher than the markets expected (actual 6.5%, consensus 6.4%, previous 6%), and with wage growth subdued, the RBNZ is likely to remain on sidelines as indicated, despite markets pricing in a move in the OCR following the RBNZ's March 2010 meeting.
- New Zealand's ANZ export commodity price index rose another 4.6% in October, building on the 6.8% rise in September. An 8.2% rise in dairy product prices and a 7% rise in forest product prices underpinned the October result. Converted back into New Zealand dollars (NZD), the commodity price index fell 0.4% and remained 19.3% lower year-on-year, reflecting the stronger NZD. Adding to this momentum, Fonterra's November milk powder auction average price lifted by 13.7% from the October result. This paves the way for further improvements in prices, particularly if the NZD takes a breather.
- The New Zealand dollar has outperformed most other currencies against the US dollar, however, we anticipate it will start to lose some steam in the near-term as markets revalue the level monetary policy tightening factored in for the first half of 2010.

Food retail



Source: ABS Cat 8501

Australia

- After an encouraging August, Australian food sales stagnated again in September. Food retail sales were unchanged on previous month levels (seasonally adjusted terms). In contrast, expenditure on eating out showed solid gains for the second month running, with both takeaway and café and restaurant channels benefitting.
- Part of the reason for the reduced dollar value of sales of food at retail level through September is likely to lie with the price of food itself.
- ABS data released in October showed that while the CPI rose 1% in the September quarter (on previous quarter levels), food prices fell 0.8%. Falls were recorded for every major category (dairy, bread, meat, snacks, other). This represents the second consecutive decline in food prices, and reflects the passing through of reductions in agricultural commodity prices earlier in the year and peak growing season and favourable conditions for fruit and vegetables.
- Despite the stagnancy of the retail food market in September, both Coles and Woolworths posted solid growth for the first quarter of 2009/10.
- In a pleasing victory for Wesfarmers, Coles achieved higher same store growth in the food and liquor department than its rival (at 6.1% v 5.8% at Woolworths). Coles attributed its improved performance to solid volume growth, better fresh product quality, improved service and a stronger value offering (inflation of Coles food and liquor products was flat in the first quarter).
- Coles noted that private label sales were rising at double digit rates, as consumers sought out value products. But despite such growth, the retailer announced a complete overhaul of its private

label brand following poor feedback on the brand from consumer research groups. The “You’ll Love Coles” brand will be replaced by ‘Coles’, a quality seal will be affixed guaranteeing 100% satisfaction or a 100% refund, with the whole range of private label products to be repackaged by March 2010.

- While noting improved consumer confidence, both retailers stressed the important role that interest rates and petrol pricing will play in driving results over the balance of the year.

New Zealand

- Latest retail sales data showed a mixed month for food related sectors during August. While supermarket and grocery sales have held up well over the past year a 0.2% decline in August (seasonally adjusted) followed a 0.4% fall in July. Other food retailing sales also fell 0.5%. However, eating out showed improvement with both takeaway food sales and café and restaurant sales up 2.1% and 1.6% respectively.
- Part of the impact at retail level will be lower food prices, with a fall of 0.7% during September following the 0.9% August decline. Biggest falls during September were for fruit and vegetables (down 8.4%), particularly lettuce and cucumber. The meat, poultry, fish category increased 1.8% for the month, led by fresh chicken at 6.9%.
- The month-on-month decline has seen the annual increase in food prices fall to 3.3% for the year to September 2009, well down from the peak of 10.8% for the year to September 2008. Over the past 12 months the biggest increases have been evident in non-alcoholic beverages (9.7%) and the meat, poultry, fish category at 7.1%.

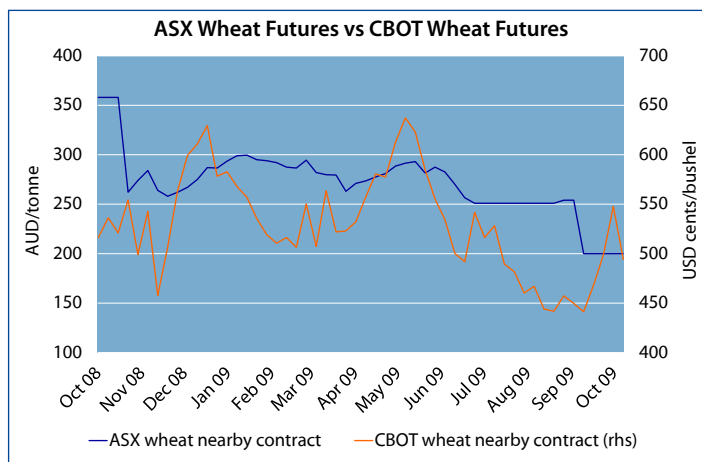
Grains and oilseeds

ASX wheat prices			
	Current (30/10/09)	Last month	Last year
AUD/tonne	200	200	358

Source: Bloomberg/ASX/Rabobank

Chicago Board of Trade Wheat Futures (nearby contract)			
	Current (30/10/09)	Last month	Last year
USD c/bushel	494	441	536

Source: Bloomberg/CBOT/Rabobank



Source: Bloomberg/CBOT/ASX/Rabobank

Global

- The length of the October rally in grain prices took most by surprise, particularly as there was little change in the broad fundamental picture of weak demand and comfortable global supplies. The CBOT nearby wheat contract added more than USD1.00/bushel to be back above USD5.50/bushel, and then surrendered some of the gains to be back under USD5.00/bushel (AUD200/tonne) by the month's end.
- Outside market influences of a weaker USD, improving economic sentiment and renewed investor interest in the broader commodity sector were the principal drivers of the rally. However, recent price volatility proved to be an important lesson for commodity markets when real economy data releases disappoint market expectations. Weaker-than-expected US housing and labour market data reversed the trend of increasing risk appetite, the USD strengthened sharply, which quickly unravelled the October commodity price gains.
- Weather disruptions in the US corn and soybean new-crop harvest, and delays in US winter wheat plantings were the only tangible market specific fundamental that was providing a lift to grain prices. This has led to a small risk premium re-emerging in October, having been largely absent from the market in recent months, although supplies still remain adequate in a weak demand environment. While corn farmers are beginning to recover from the exceptionally slow start, further wet weather is forecast for coming weeks, which all else being equal should again pressure prices higher.
- The World Agricultural Supply and Demand Estimates (released 10 November) may be the next set of bullish news for grain prices. Barring further revisions to demand, we expect that weather

related downgrades to US yields should pressure corn or soybean prices higher, which is likely to carry wheat prices higher as well.

Australia

- Increased harvest activity is seeing a pick-up in market activity. Yield results are mixed, particularly in those regions that took the brunt of the very dry conditions in early spring, but quality and protein levels so far are good. Recent patchy storm activity has posed an additional challenge to some northern New South Wales districts; however, reports suggest downgrades to grain quality are minimal. In the remainder of the Australian grain belt, the crop looks average to above average with potentially record crops in both South Australia and Western Australia. The Australian wheat crop forecast remains at 22.8 million tonnes, with some potential for upward revisions if the harvest remains broadly trouble free.
- The Australian Wheat Board increased its 2009/10 Wheat Pool estimates in Western Australia by AUD8.00/tonne for all grades, lifting the benchmark APW grade in the Western Pool to AUD258/tonne FOB. The estimated pool returns for all grades in AWB's Eastern Pool (except durum) were also increased by AUD6.00/tonne, with APW now at AUD264/tonne FOB.
- Exchange rate movements and the CBOT will continue to largely govern the direction of Australian spot grain prices in the next few months. Historically, US wheat futures experience a seasonal lift from the end of November to around mid-January. For the AUD/USD exchange rate, with most of the supportive news already built-in, it is likely the AUD/USD will take a breather and step sideways during November and early December. As a result, Australian grain prices are likely to experience some lift in coming months.

Beef

Australian beef prices

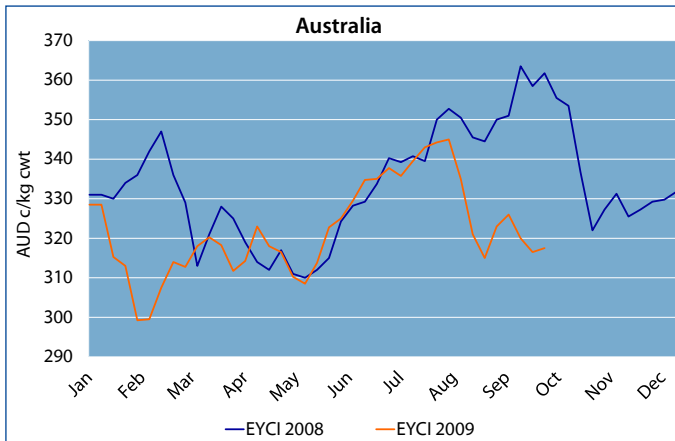
All shown as AUD c/kg cwt	Current (30/10/09)	Last month	Last year
Eastern Young Cattle Indicator (EYCI)	305	317	322

Source: NLRS/Rabobank

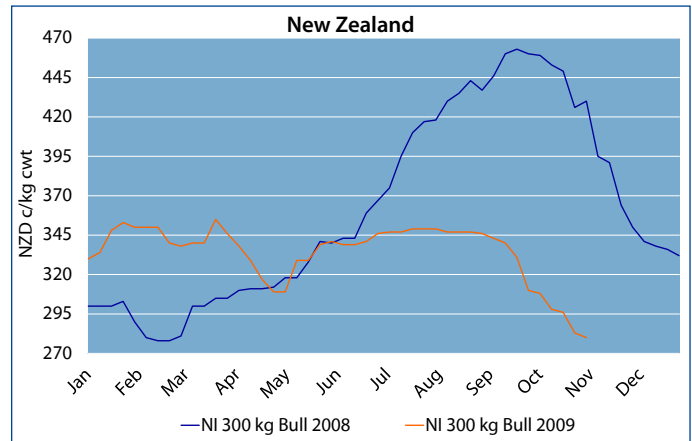
New Zealand beef prices

All shown as NZD c/kg cwt	Current (02/11/09)	Last month	Last year
North Island Bull 300kg	280	308	430
South Island Bull 300kg	258	258	391

Source: NZX Agrifax/Rabobank



Source: NLRS/Rabobank



Source: NZX Agrifax/Rabobank

Global

- Sales of beef are reported to have been strong for this year's Korean Chuseok (Thanksgiving festival), one of the major retail sales periods for beef in the Korean calendar. The strong sales should support demand for Australasian beef over upcoming months from this market, as importers and wholesalers look to replenish stocks utilised during the festival.
- While the Korean market, Australia's third largest, has seen relatively strong demand for beef in 2009, other major markets in Japan and the US have been soft, which combined with the strong Australian and New Zealand dollars, has pressured returns for exporters.
- US manufacturing beef markets regained some ground towards the end of the month, but on quiet volumes, to end 1-2% lower than last month in US dollar terms. However, domestic US cow prices lifted slightly as slaughter rates move lower in the final quarter of 2009 and the dairy buyout programme attracted only 26,000 cows – many fewer than expected. Imported manufacturing cow (90CL) and bull (95CL) prices are now virtually the same as this time in 2008. However, most change has occurred for domestic US cow prices which at USD1.27/lb are more than USD 20 cents/lb (or 14%) lower than last year.

Australia

- Young cattle prices continued their downward slide during October, starting the month at AUD3.17/kg cwt and ending it at

AUD3.04/kg cwt, 5% below the same time in 2008. The price falls has been driven by a rapid rise in the value of the dollar together with continued soft demand in export markets and dry weather.

- There was some relief on the latter front in the last week of October, with good rainfall in northern New South Wales and Southern Queensland – two areas which have been badly in need of moisture. This saw some stabilisation of prices, however improvement in export markets or a drop in the value of the Australian dollar is needed before prices will see any significant rises.

New Zealand

- New Zealand farm gate prices also took a currency related tumble during October as the NZD/USD varied by up to 6% for the month – ending any prospect of the usual spring price peak. With the exception of North Island steers, both bull and steer prices are now well below NZD3.00/kg, falling 8-10% over the course of the month. Farm gate beef prices are now around NZD1.50/kg (or 30-40%) lower than during the same period in 2008.
- Cattle slaughter has started the first few weeks of the processing season strongly with numbers well ahead of last year across all stock classes. This is likely to reflect the increased number of producers targeting finishing cattle early in the season and those wary of the potential for further downward pressure on schedule prices during the peak processing period.

Lamb

Australian lamb prices

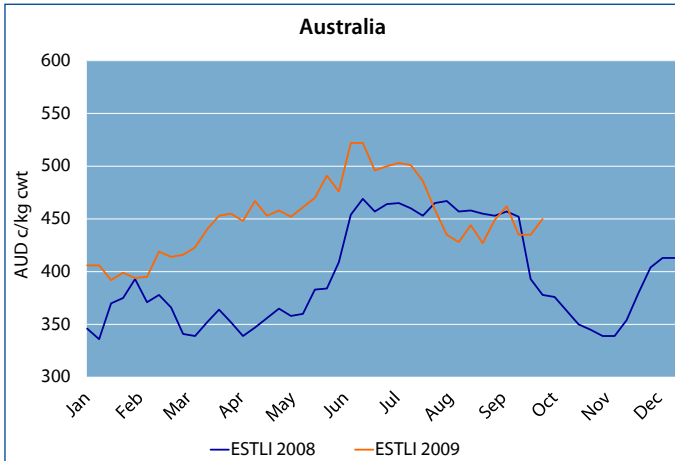
All shown as AUD c/kg cwt	Current (30/10/09)	Last month	Last year
Eastern States Trade Lamb Indicator	405	450	345

Source: NLRS/Rabobank

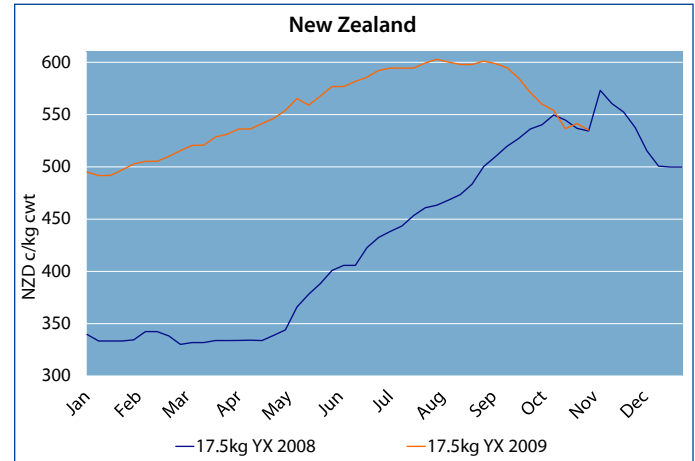
New Zealand lamb prices

All shown as NZD c/kg cwt	Current (02/11/09)	Last month	Last year
North Island 17.5kg YX	536	565	563
South Island 17.5kg YX	535	560	534

Source: NZX Agrifax/Rabobank



Source: NLRS/Rabobank



Source: NZX Agrifax/Rabobank

Australia

- The spring flush is seeing a rise in the number of new season lambs available to the market, with the eastern states trade lamb indicator experiencing a seasonal decline over recent weeks. Despite the fall, prices for trade lambs remain at an impressive AUD4.05/kg cwt as at the end of October, compared to AUD3.45/kg cwt as at the same time last year, with tight supply a key factor supporting the market.
- Heavy trade lambs, which are suitable for export markets, also remain above 2008 levels, however prices have been impacted to a greater extent than for trade lambs by the strong Australian dollar. Prices for the end of October fell to AUD3.85/kg cwt, compared to AUD3.45/kg cwt at the same time last year.
- Local lamb and mutton production is expected to decline in the United States, Australia's most valuable lamb export market, in 2009 and 2010, as the falling sheep flock drives down the availability of lambs for slaughter. The US Department of Agriculture has forecast that production will fall by 3% in 2009 to 168,000 tonnes cw, and by a further 3% next year. The US sheep flock has fallen from a peak of 53 million head in the 1930's to under six million head in 2009, with low wool prices, high grain prices and predators taking their toll on the flock.

New Zealand

- Farm gate lamb prices continued to ease during October with prices down around 5% in both the North and South Islands at NZD5.35/kg. In comparison to last year, prices are 5% lower in the North Island and holding at similar levels in the South Island despite currency pressure.
- The relative strength of the Euro and the high proportion of sheep meat exports destined for the EU have assisted returns. While the NZ dollar has strengthened 23% and 21% against the US dollar and GB pound respectively, it is only 7% higher against the Euro, which has provided some shelter for export returns.
- Over the first few weeks of the new processing season, lamb slaughter is in line with last year, although North Island volumes are lower this has been largely offset by increased South Island slaughter numbers. Mutton slaughter is currently tracking around 10% ahead of last season across both the North and South Islands.
- The UK sheep flock fell 4% to June 2009 (DEFRA) with expectations the breeding flock will fall further in 2010 as the impact of electronic tagging and profitability pressure continues. While both UK consumption and production have fallen year to date, this is expected to see tight market conditions continue into 2010 supporting demand for imports.

Dairy

World dairy prices

	USD/tonne			AUD/tonne			NZD/tonne		
	29/10/09	last month	last year	29/10/09	last month	last year	29/10/09	last month	last year
Butter	3,125	2,650	2,850	3,478	3,015	4,635	4,349	3,686	5,098
SMP	2,950	2,525	2,400	3,283	2,873	3,903	4,106	3,512	4,293
WMP	3,150	2,850	2,850	3,506	3,243	4,635	4,384	3,965	5,098
Cheddar	3,650	3,175	3,875	4,062	3,612	6,302	5,080	4,417	6,932

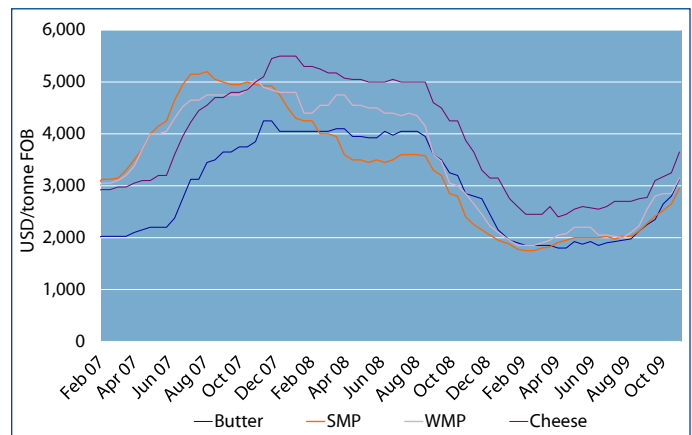
Source: NZX Agrifax/Rabobank

Global

- Global dairy prices continued to rocket up through October. USDA surveys suggest the price of key commodities rose 11%-18% in the month to 29 October, in line with Fonterra auction results in the first week of November. With the USD relatively stable over the same period, export returns improved considerably in almost all major production regions.
- By late October, the FOB Oceania price for SMP sat well above the intervention buying price levels in the EU and US markets (by 18% and 45% respectively). Not surprisingly, companies have ceased selling SMP to intervention, the EU has slashed SMP export subsidies to zero, and no applications for subsidised powder exports have been approved in the US since early September.
- Most indicators suggest that the demand conditions are improving faster than anticipated. A prominent example has been the US market, with economic growth coming in at an annualised 3.5% in the September quarter, retail prices now considerably below their 2008 peak, and sales of liquid milk and cheese continuing to expand through the third quarter.
- On the supply side of the market, the Southern Hemisphere peak (October/November) appears to have been very weak, with production expected to have fallen below previous year levels in New Zealand, Australia and also quite possibly Argentina and Brazil.
- With a significant share of the earlier Northern Hemisphere peak sold to intervention, and not for current commercial sale, the market has tightened considerably. Spot prices have thus leapt as buyers rush to snap up the thin volumes of traded product available and market sentiment continues to rise.
- With little prospect now of a distinct increase in supply until the Northern Hemisphere season starts to build in early 2010 (assuming no commercial sales from intervention till at least that point), the sustainability of current prices over coming months will be heavily influenced by demand conditions.
- Given recent jumps in the wholesale cost of dairy, that will likely require ongoing positive news on the recovery of the world economy.

Australia

- Strong gains in export pricing for dairy commodities in USD terms offset a modest strengthening in the AUD during October, with prices up 8%-15% in local currency terms.
- Ongoing improvements in the global dairy market enabled Murray Goulburn to announce a second step-up in late October, and to



Source: USDA/Rabobank

Production growth in key exporting regions

	Latest month	Last 3 months
EU 27	0.0% (Aug)	1.10%
US	-0.7% (Sep)	-0.3%
Argentina	-9.0% (Aug)	-3.20%
Australia	-9.0% (Sep)	-4.6%
New Zealand	0% for five months to October 2009*	

*Rabobank estimate

- foreshadow the likelihood of another to come in December.
- The recent combination of good rainfall, improved water allocations, lower feed grain prices and higher milk prices will push many farmers in south east Australia back above breakeven levels in the second half of the season, as long as current market and seasonal settings hold.
- However, the improvement comes too late to reverse production levels, with an extremely weak October peak expected.

New Zealand

- While the New Zealand dollar continued to strengthen over the past month, increasing commodity prices prevailed with prices in local currency terms lifting 10-18%. Local currency prices for SMP are now just 4% below with this time last year, but remain around 14% and 27% lower for WMP and cheese respectively.
- Peak seasonal milk production flows appear to have passed with a whimper in late October at around 3-5% below last season's peak as wet and relatively cold conditions took their toll in the North Island.
- November's focus will be centered on the Fonterra AGM and outcome of the capital structure vote scheduled for the middle of the month.

Cotton

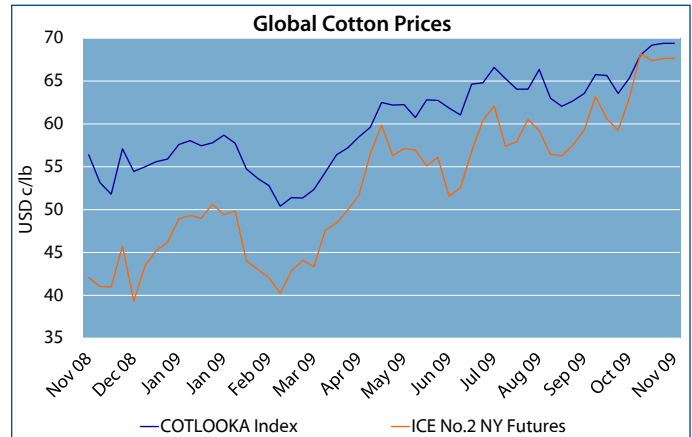
World cotton prices

All shown as USD c/lb	Current (02/11/09)	Last month	Last year
Cotlook A Index	69.40	63.55	57.05
ICE No.2 NY Futures (nearby contract)	67.64	59.26	44.29

Source: Bloomberg/ICE/Rabobank

Global

- ICE no.2 nearby cotton futures prices increased in October, reaching levels not seen since August 2008.
- Upward pressure on cotton prices continues due to increased investor interest towards cotton futures markets and the overall concern that further supply problems in the US and China could occur, .
- In the US, late season rains are affecting fibre quality and harvest progress. At the beginning of November the US cotton harvest progress was 28% compared to the five-year average of 50%.
- Lower quality Chinese cotton production and continued government support for the domestic textile industry is likely to result in increased Chinese cotton imports for mill use in 2009/10.
- Australian cotton plantings for the 2009/10 season are likely to be up by between 10% and 20% from the previous year. Due to the cool late



Source: Bloomberg/ICE/Rabobank

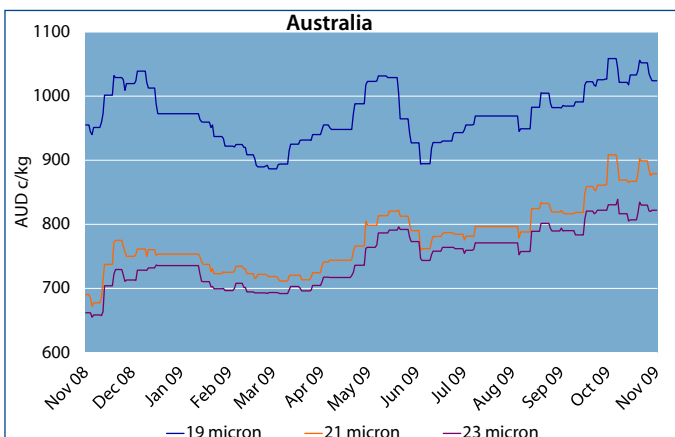
start and lack of planting rains the APVMA has granted an extension to Monsanto for the Bollgard II planting window until 12 November in central Queensland and 25 November in southern regions.

Wool

Australian wool prices (eastern)

All shown as AUD c/kg clean	Current (01/11/09)	Last month	Last year
Fine (19 micron)	1024	1059	955
Medium (21 micron)	879	909	691
Broad/coarse (23 micron)	822	831	662

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



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

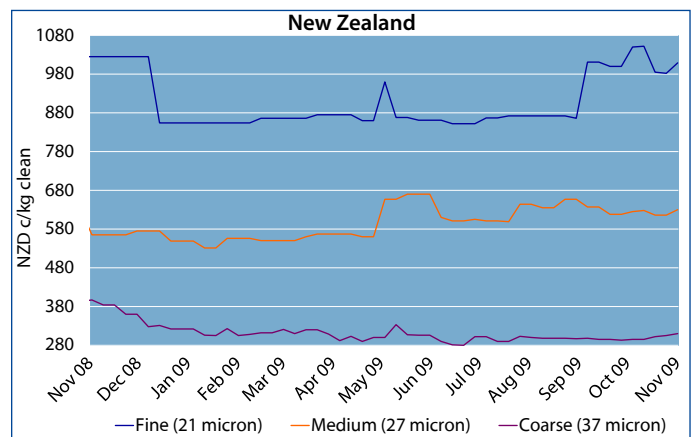
Australia

- Volatile currency movements and continued uncertainty in retail demand saw wool prices at the start of October reach year-high levels, before taking an uneven path throughout the rest of the month.
- During October the Eastern Market Indicator (EMI) moved between AUD8.48/kg and AUD8.76/kg clean, a slightly higher trading range than September.

New Zealand wool prices

All shown as NZD c/kg clean	Current (02/11/09)	Last month	Last year
Fine (21 micron)	1009	1050	1025
Medium (27 micron)	630	625	565
Broad/coarse (37 micron)	310	295	397

Source: NZX Agrifax/Rabobank



Source: NZX Agrifax/Rabobank

- After making huge ground in USD terms over the last nine months, the EMI made its first major correction falling by around 4% towards the end of the month.
- During November the national wool offerings at AWEX auctions are expected to be higher than November 2008 levels, maintaining supply going into Christmas period.
- Although some price resistance, especially in USD terms, may have been reached, wool prices during November are expected to stay in a similar trading range to the previous few months.

Sugar

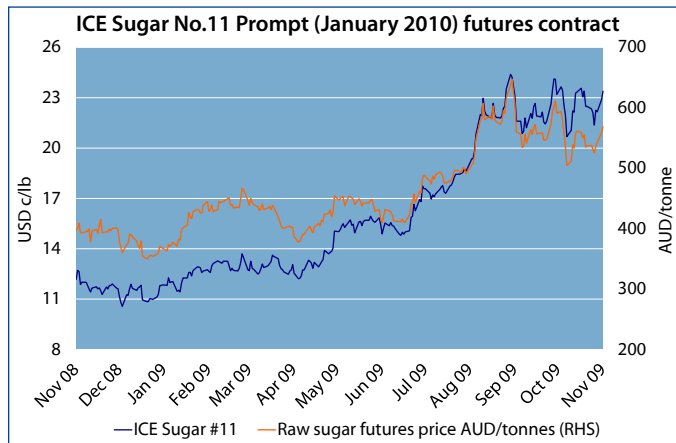
ICE Sugar No.11 Prompt (raw sugar futures price January 2010)

	Current (03/11/09)	Last month	Last year
USD c/lb	23.39	23.65	12.18
Converted to AUD/tonne	569	594	397

Source: Bloomberg/ICE/Rabobank

Global

- ICE no.11 nearby sugar futures prices continue to be volatile at an elevated trading range; a pattern that began in July 2009.
- The developments of this pattern has seen the initial concerns of lower production in India due to dry weather and wet weather in Brazil impacting world supply progressing into market fluctuations with increased fund activity and increasing focus towards overall sugar demand.
- Although it is expected that the global supply concerns and the declining available stocks will continue to keep sugar prices at elevated levels, major points to watch in the next few months will be; (1) the overall strength of import demand at the high price levels and (2) the higher Brazilian ethanol prices might prompt the government to reduce blending rates which could increase the amount of cane cut for sugar.



Source: Bloomberg/ICE/Rabobank

Venison

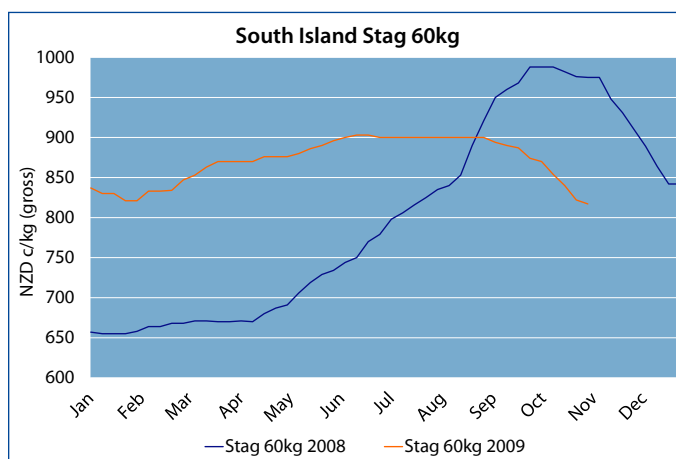
New Zealand venison prices

All shown as NZD c/kg gross	Current (02/11/09)	Last month	Last year
North Island Stag 60kg	813	848	937
South Island Stag 60kg	817	870	975

Source: NZX Agrifax/Rabobank

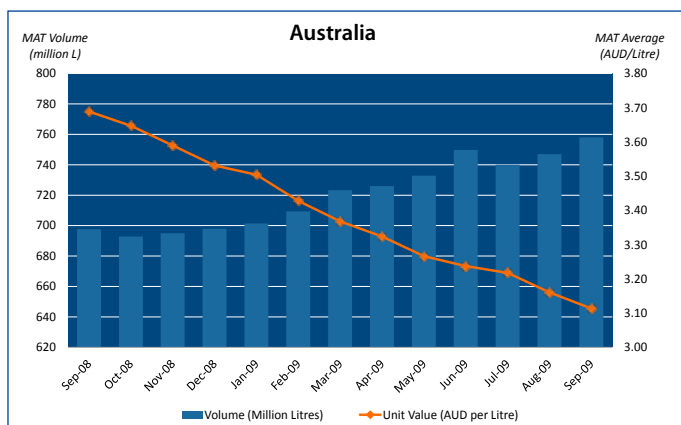
New Zealand

- Farm gate venison prices continued to edge lower during October, falling 4% in the North Island and 6% in the South Island. Prices are now 13-16% below the last year, which has wiped NZD1.20-1.60/kg from farmer returns.
- While the New Zealand dollar has not strengthened as significantly against the Euro, as seen versus other currencies, the market has eased back from the high prices of late 2008. Various European venison cut prices are around 10% lower than this time last year as the market has adjusted to lower supply volumes and reached the point of some price resistance.
- Deer Industry New Zealand have reported some positive signals in velvet markets with New Zealand wholesale prices increasing and a low level of inventories evident in both Korea and New Zealand.

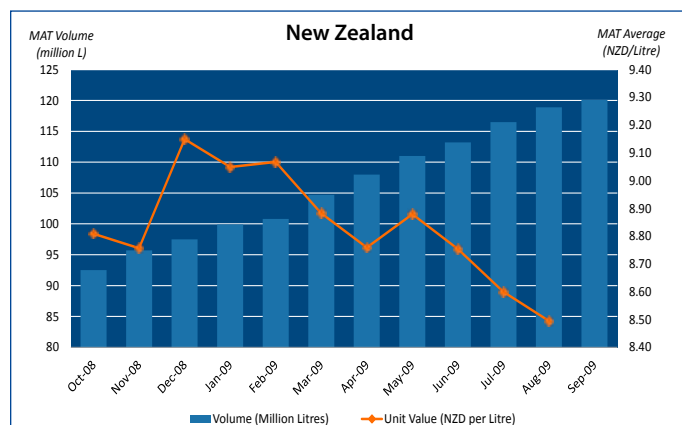


Source: NZX Agrifax /Rabobank

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

- Exports of Australian wine gathered some momentum in September increasing almost 18%, following a strong 10.4% increase in August. While export values continued to decline in September, the pace of decline moderated. Value fell 0.3% to AUD229 million, compared to a decrease of 9.2% in August. On a Moving Annual Total (MAT) basis, the AUD value of wine shipments fell for a twentieth consecutive period, falling 8.4% to AUD2.36 billion.
- The less-than AUD2.50 price point experienced the strongest volume growth, up 40.5% in September. Volume fell in the AUD5.00-7.49 (-19.1%), AUD7.50-9.99 (-45.8%) and greater-than AUD10.00 (-12.4%) price point. The strong growth in the less-than AUD2.50 price point illustrates the level of trading down occurring in wine export markets. The Australian dollar continues to apply downward pressure to values.
- Bulk wine volumes increased sharply in September, which is likely to be the result of producers clearing stocks before the coming vintage. Bottled exports did increase (up 8%) by volume, but fell (-2.2%) in value terms.
- The Australian Bureau of Statistics released the Australian Grape Crush and Wine Production statistics for 2008-09 on 30 October. The Australian vineyard area declined for the first time in recent history, falling 5% to around 157,000 hectares. Moreover, around 8% of vineyards were left unharvested last year – this is an almost tripling from the previous year. As a result, Australian winery intake in 2009 fell 7% to 1.7 million tonnes.
- The ABS data shows vineyard development has almost ground to a halt, with only 5,000 hectares planted in 2009 – the lowest level of new plantings since 1994. This is not surprising given the flood of established vineyards already on the market and the lack of interest in these properties. That said, recent anecdotal evidence suggests that some of these properties being offered for sale are starting to move, particularly those properties in the cooler climate premium growing regions of South Australia.

- September rainfall was average to above average across all catchments of the Murray Darling Basin. In response, Murray System inflows for September were 640GL, which is the highest monthly inflow since November 2005. However, it is still well below the September long term average of 1,590 ML/day, and the 10 year September average of 923GL. With allocations remaining highly dependent on future rainfall and system inflows, a heightened El Niño warning from Bureau Meteorology is not positive for median or higher-than-median rainfall, and hence inflows in coming months. Notwithstanding the improvements in recent river flows, the climate outlook limits prospects for irrigation allocations in 2009-10 water year.

New Zealand

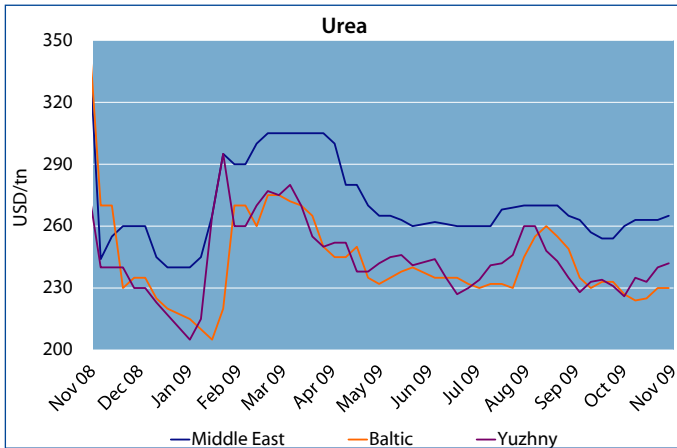
- New Zealand wine exports jumped 30% to 120.1 million litres in September, on a MAT basis, from the previous year. Bulk wine shipments MAT September 2009 are 28.3 million litres (23.5% of total exports), up a whopping 270% on MAT September 2008. Sauvignon Blanc exports (84% of total exports) were up 17% in September. Of the Sauvignon Blanc exported in September, around three-quarters was from the 2009 vintage.
- The August 2009 export average value was NZD7.95 per litre, up 70 cents per litre on the previous month. Excluding bulk wine from the data, the August average value was NZD9.15, up 54 cents per litre from the previous month. The total value of exports MAT August 2009 is NZD1.01 billion, up 24% on the previous year.
- Similar to Australia, lower overall grape requirements from the 2010 vintage will see a reduction in yields and some vineyards being pulled from production and put on maintenance. Reported market estimates put a production requirement at 265,000 tonnes – a reduction of more-than 20,000 tonnes. To reach this goal, yield limits in the order of approximately eight tonnes to the hectare would be required for this vintage.

Fertiliser

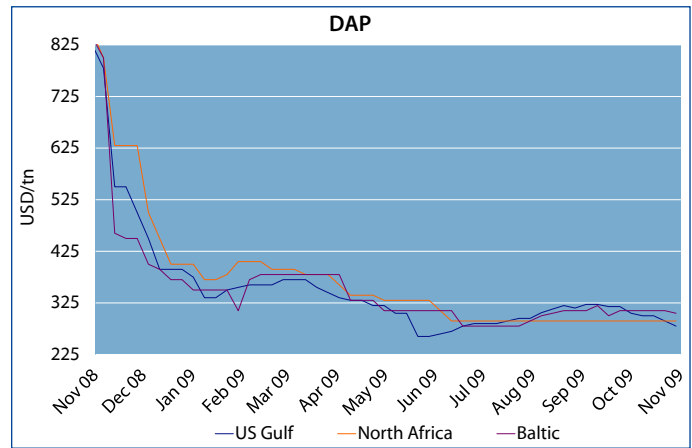
Fertiliser prices

All shown as USD/tonne	Current (29/10/09)	Last month	Last year
Urea (Middle East)	265	260	345
DAP (North Africa)	290	290	850

Source: Bloomberg/ICIS/Rabobank



Source: Bloomberg/ICIS/Rabobank



Source: Bloomberg/ICIS/Rabobank

Global

- Demand for most fertiliser and farm input products remained relatively subdued during October with prices continuing to move sideways, especially for phosphorus and potassium based products.
- Urea prices were the only slight exception as many producers have cut back on production capacity and ran down inventories which has placed some upward pressure on international prices.
- The major purchases for urea continue to come from the Asian

region, predominantly Pakistan and India. The lacklustre demand from South America is expected to turn around in November and December as retailers start to source more product ready for upcoming corn applications.

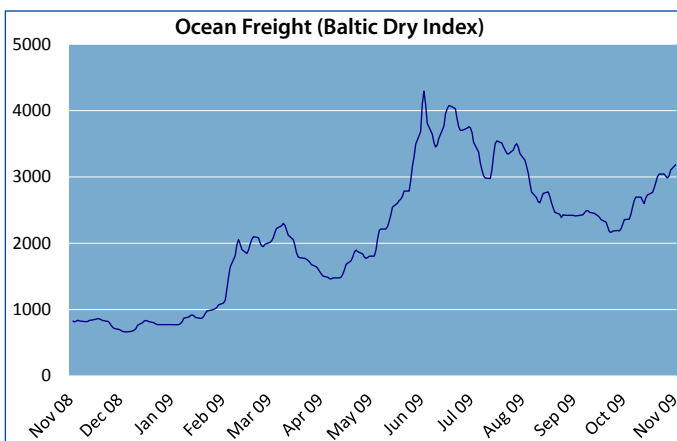
- Locally domestic prices for farm inputs are subdued as the stronger currency relative to the US dollar and the more manageable freight costs is keeping prices at lower levels. Fertiliser prices for nitrogen and phosphate products are now back at levels not seen since late 2006.

Other costs

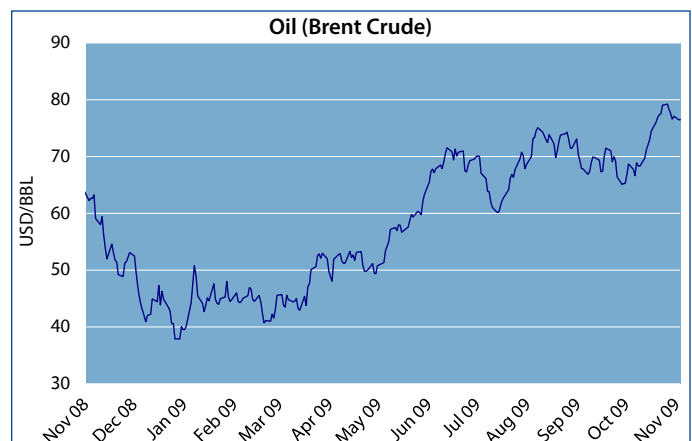
Ocean freight index and oil prices

	Current (02/11/09)	Last month	Last year
Baltic Dry Index* (ocean freight)	3185	2357	827
Brent Crude Oil (USD/bbl)	76.49	68.67	62.25

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 twenty-five of the world's most traded bulk cargo routes. The index was set at a starting level of 1000 points in 1985.

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Rabobank Australia and Rabobank New Zealand are a part of the international Rabobank Group, the world's leading specialist in food and agribusiness banking. Rabobank has more than 110 years' experience providing customised banking and finance solutions to businesses involved in all aspects of food and agribusiness. Rabobank is structured as a cooperative and has a AAA credit rating from Moody's and Standard & Poor's.

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Rabobank New Zealand

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

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

Wendy Voss, Senior Analyst

Animal Proteins (Australia)

Wendy.Voss@rabobank.com

