Rabobank

Australia & New Zealand Agribusiness Review

September 2009

Rabobank Group
Food & Agribusiness Research and Advisory (FAR)
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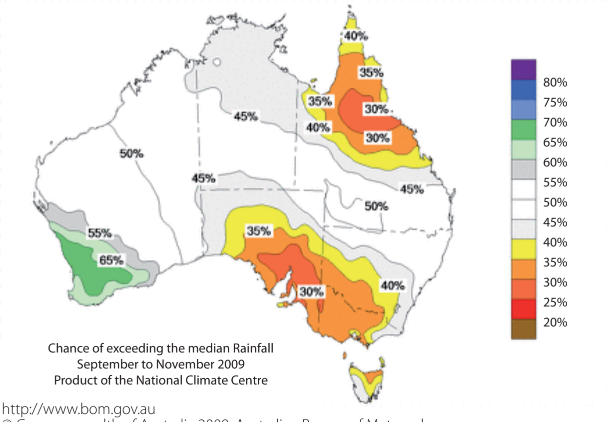
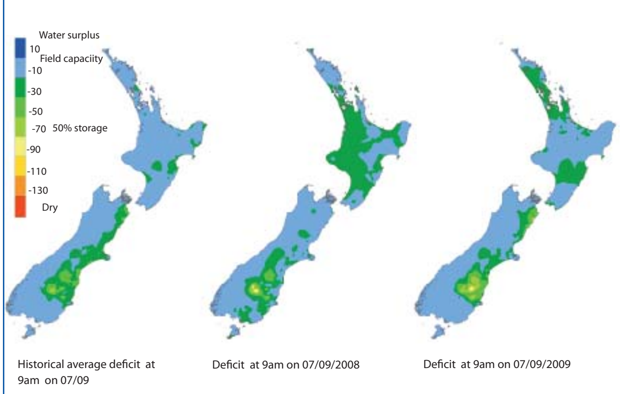
Seasonal Outlook

Australian Rainfall September to November 2009

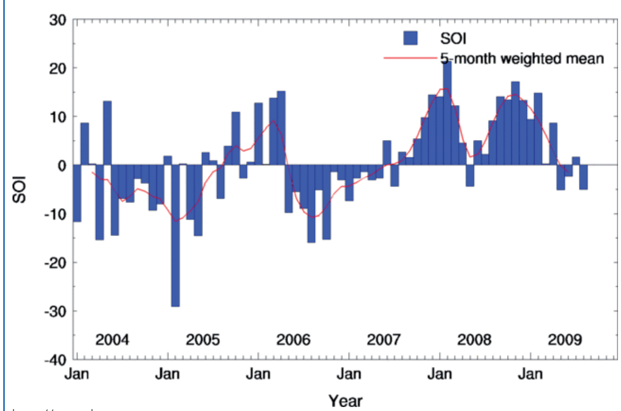


http://www.bom.gov.au

Soil Moisture Deficit 7 September 2009



Southern Oscillation Index 2 September 2009



http://www.bom.gov.au

Australia

- Australia experienced very warm conditions in August. The maximum temperatures in Queensland and the Northern Territory were the highest on record and for a vast area of Australia, maximum temperatures were more than 3°C above average.
- August delivered very little rainfall to most parts of Australia, with Queensland (93% below normal) and New South Wales (74% below normal) both especially dry.
- Southern Victoria and Tasmania were the only regions to receive above average August rainfall, with solid follow up rain recorded through early September.
- The Bureau of Meteorology's (BOM) Australian rainfall outlook for September to November indicates that drier than normal conditions, along with warmer temperatures, are likely in most parts of Australia. The exception to the dry conditions will be in south-west Western Australia, where odds favour a wetter-than-normal season.
- The monthly SOI value for August was -5.0, compared to +1.6 in July. Although the SOI is near neutral and not yet in El Niño conditions, many international climate models predict the tropical Pacific Ocean temperatures will continue to warm to above El Niño thresholds for the remainder of 2009.

New Zealand

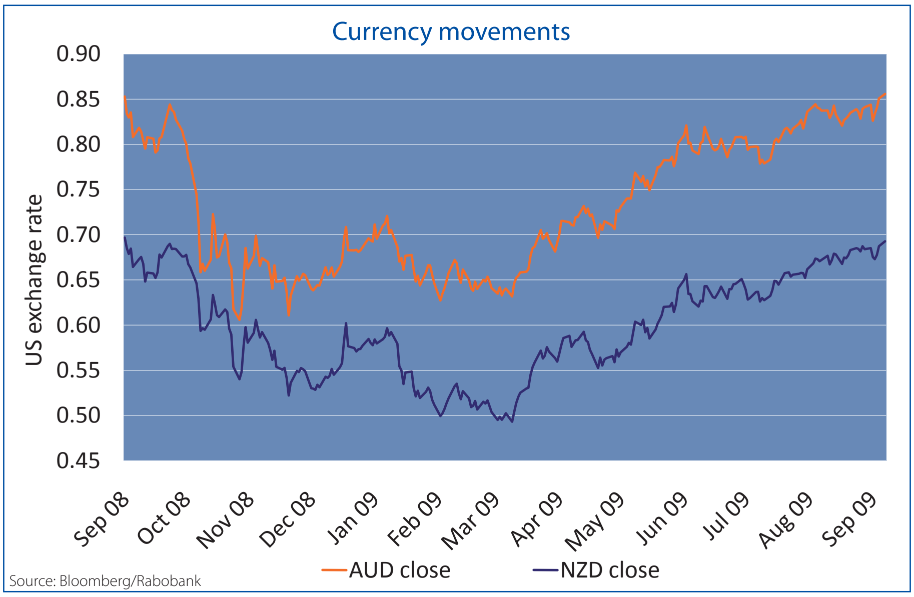
- The early arrival of spring in New Zealand during August was welcomed after a winter that seemed to have started very early. It was the warmest August on record, with higher-than-normal rainfall for Waikato and the West Coast, while eastern regions of both islands received less than 50% of normal rainfall. Soil moisture levels were at field capacity for most of the country, providing a good start to spring pasture growth.
- NIWA's outlook to November is for windy conditions to persist with normal spring temperatures likely. Soil moisture is expected to be normal or below normal for most regions, due to normal/below normal rainfall, except the West Coast and Southland, where normal or above normal rainfall is expected.

*Please see last page for important information

Currency/economy

Currency USD = Close (bid)			
	Current (07/09/09)	Last week	Last year
AUD	0.8557	0.8260	0.8182
NZD	0.6928	0.6752	0.6730

Source: Bloomberg/Rabobank.



Global

- Recent weeks have provided more signs that the global recovery is on track. Most major indicators are consistent with the early stages of a synchronised upturn.
- The key to the sustainability of the rebound depends on the course of consumer spending. Here, the headwinds of elevated unemployment will continue to weigh on any recovery in consumption, particularly in developed countries.

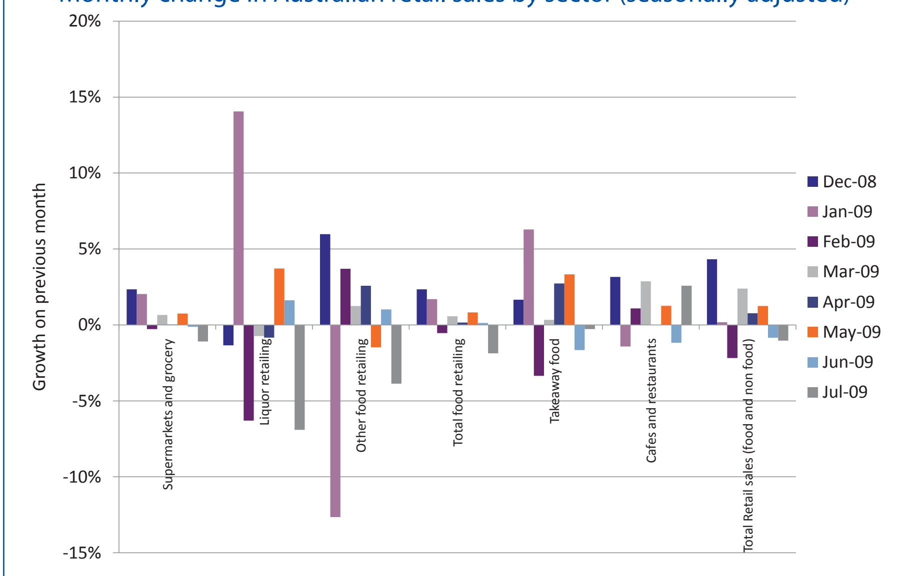
Australia

- The highlight of last week was the June quarter GDP result. It showed that Australia has indeed been "the lucky country" in this global downturn. The solid 0.6% expansion, following on from the 0.4% increase in the March quarter, was underpinned by strong household spending and engineering and equipment investment.
- The Reserve Bank of Australia left the Official Cash Rate (OCR) steady at 3%, as expected. While the tone of the statement was slightly more hawkish, market speculation is heating up that a 25 basis point rise is imminent.
- The most important piece of the consumer picture, in July retail sales, was released this week. Retail sales declined 1%, against market expectations of a positive result, as the impact of the direct government stimulus to households waned. As a result, a pre-Christmas rate hike by the RBA is not the 'done deal' that market pricing implies and many in the markets think it is.
- While the Australian dollar (AUD) eased slightly following the retail sales release, in general, it has moved higher to be trading at one-year highs. At this stage there appears little downside, particularly given Australia's strong trade links to China. Ranges from 8 August to 8 September on the AUD were as follows: vs USD, low .8160, high 0.8564; vs NZD, low 1.2169, high 1.2456; vs JPY, low 77.21, high 81.75.

New Zealand

- The New Zealand Treasury upgraded its economic view this week, with GDP growth expected to return to positive territory in the present quarter. Unemployment is also now expected to peak somewhat lower than previously foreseen. The Treasury cited an improved global outlook, higher migration and increasing confidence as being behind the upturn.
- The Reserve Bank of New Zealand (RBNZ) left the OCR at 2.5%, as the market had expected. The RBNZ retains the view that "We expect to keep the OCR at or below the current level through until the latter part of 2010".
- The Bank of New Zealand has released the latest edition of its business confidence survey. A net 56% of respondents are now optimistic that the economy will improve over the next 12 months, up 14 points from last month and a 41 points stronger than just two months ago.
- The Electronic Card Transactions (ECT) survey showed a 0.3% month-on-month (mom) rise in the value of all electronic transactions in August after a 1.2% mom increase in July. This suggests that the August retail sales report (released 13 October) will be broadly flat presuming that next Monday's sales data confirms a reasonably solid increase in July.
- That said, despite the heightened optimism, a key concern is that the New Zealand economy could slip back into the previous trend of domestic led growth, albeit less buoyant given the lack of credit to support it.
- The strong New Zealand dollar (NZD) will continue to pose headwinds for exporters. While domestic fundamentals are not supportive of the current rally, the NZD is likely to continue to be buoyed by the broader pick-up in risk asset demand. Ranges on the NZD were as follows: vs. USD low 0.6650, high 0.6925; vs. JPY low 62.62, high 65.69; vs. EUR low .4696, high 0.4827 high.

Food retail



Source: ABS Cat 8501

Australia

- Australian food sales slipped in July at the retail level, disrupting the trend to modest growth evident in recent months. Total food retail sales fell by more than 1.9% on June levels (in seasonally adjusted terms), the biggest fall in four and a half years. Next month's CPI data will shed light on whether part of this reduction in sales value is attributable to shifts in food prices rather than changes in the volume of product sold.
- The other key headline of the Australian food retail sector during the last month was the announcement of full year results for Woolworths, on 27 August.
- Across all business units, the company delivered a 12.8% rise in net profit, to a record AUD1.83 billion.
- In the Australian supermarket and liquor division, EBIT was up 17.4% on a normalised basis (on the sales growth of 7.4% reported last month).
- In announcing the results, CEO Michael Luscombe referred to the positive impact of the Government's recent economic stimulus packages, which helped offset otherwise difficult economic conditions.
- Private label growth continued to outperform.
- Luscombe noted that the company's food sales rose strongly in July and August, giving the company a flying start to the new financial year.
- He noted that discretionary spend in coming months would continue to be influenced by macroeconomic factors, such as interest rates, petrol prices and confidence around employment.
- Nonetheless, management is expecting net profit after tax to rise another 8%-11% in the current financial year.
- For coming years, Woolworths' plans include entering hardware wholesaling and retailing and adding 15-25 new supermarkets per year (along with expanding existing store sizes).
- As the giant of Australian retailing reported another strong result, a global giant made its first small step into the Australian market – with Costco throwing open the doors at its Melbourne warehouse on 17 August. The Docklands store is the company's 558th, but its first in the Southern Hemisphere.
- Foodworks' shareholders also voted to approve the acquisition of 45 Coles stores. With ACCC approval already granted, the transaction is now set for completion.

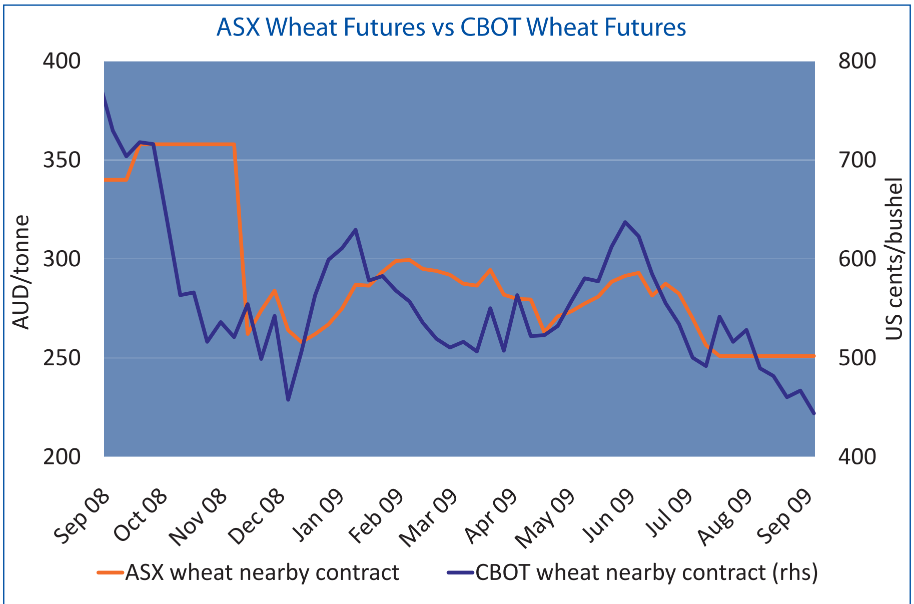
New Zealand

- Woolworths' New Zealand result was relatively modest by comparison, with sales up 3.9% and EBIT 4.8%, on a 52 week comparative basis. Woolworths expects to add a further three to five supermarkets per year in New Zealand.
- Meanwhile the larger New Zealand grocery group, Foodstuffs, reported combined sales of NZD7.6 billion for the year, up 4.7% on the previous year and taking them to the position of New Zealand's second largest business. Distributions to members increased 6.6%, to NZD337 million.
- Increases in grocery store sales paled in comparison to the ongoing increase in retail New Zealand food prices. Food prices rose 0.6% from June to July 2009, holding the annual increase at 8.4%. The annual rate of increase has not been below 6% since February 2008. Higher fruit and vegetable prices were the key driver, up 3.1%, largely a result of green vegetable prices increasing over winter months.
- June retail sales increased 0.1% on a seasonally adjusted basis. Supermarket and grocery sales were up 0.9%, while takeaways and other food retailing increased by 5.6% and 2.9% respectively. However, café and restaurant sales remained lacklustre, down 2.5% for the month.

Grains and oilseeds

Chicago Board of Trade Wheat Futures (nearby contract)			ASX Wheat (nearby contract)	
USc/bushel			AUD/tonne	
Current (04/09/09)	Last month (07/08/09)	Last Year (05/09/08)	Current (04/09/09)	Last month (07/08/09)
444.00	489.50	729.75	251.00	251.00

Source: Bloomberg/CBOT/ASX/Rabobank



Source: Bloomberg/CBOT/ASX/Rabobank

Global

- World grains prices continue to grind their way lower; the CBOT wheat nearby contract price is now trading at just above USD4.30/bushel - its lowest level since the start of April 2007.
- While market participants had anticipated prices would find support at the USD5-5.50/bushel level amid concerns over quality and protein-wheat supply, this has failed to eventuate. Relatively benign weather during the Northern Hemisphere summer has resulted in the harvest progressing without any major setbacks resulting in yields and quality above expectations.
- Near-term momentum continues to suggest further easing of wheat prices in the second half of 2009, with a seasonal low likely to be set in October/November as the Northern Hemisphere harvest comes onto the market.
- In addition, there appears to be little cause for optimism for wheat prices into 2010. Burdensome fundamentals are set to continue as the dominant factors in the market. Rabobank has lowered its wheat price outlook for the next 12 months based on these factors.
- Unless there is a major Southern Hemisphere production-issue, there are few reasons to expect a rally in global wheat prices in late 2009 and 2010, with world stock levels building for the second consecutive season.
- In feed grains, the benchmark CBOT corn nearby contract price has shed 32% since June to be now trading just above USD3/bushel. Corn price movements in the coming months will largely be determined by the production outlook in the US, which so far appears set to benefit from favourable seasonal conditions. If realised, the resumption of the bearish trend would see prices move to sub-3/bushel.

Australia

- The recent rainfall arrived just in time to prevent further downgrades to crop conditions, particularly in Queensland and New South Wales. While rainfall will still benefit crops, the very dry conditions experienced over the previous month have lowered yield expectations in these two states. In Western Australia and South Australia yields have been revised higher as spring conditions are broadly good to excellent.
- With this rainfall the potential for an El Niño event appears to have been pushed aside for the moment as the market focuses back on prices. That said, BOM remains cautious to whether the El Niño pattern across the Pacific Ocean has intensified, which may provide some upside potential to the current rainfall outlook.
- While the BOM seasonal outlook still indicates potential downside, at this stage, crop conditions are reported as average to better-than-average in a number of regions.
- As a result, the Rabobank forecast for Australian wheat production remains at 22.8 million tonnes. Some regional adjustments have been undertaken to the forecast model, with upside in some regions effectively cancelled by downside in others.
- So far this year, the ASX contract price has tracked the Chicago benchmark. The ASX January contract price is currently trading at AUD204/tone, having lost around USD95/tonne since June.

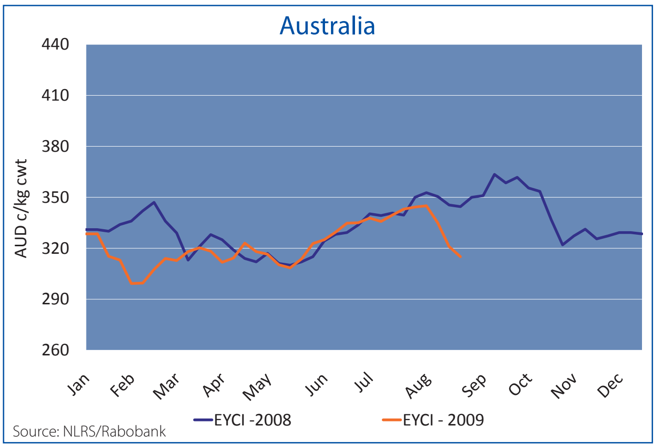
Beef

AUD prices (c/kg cwt)			
	Current (28/08/09)	Last week	Last year
Eastern Young Cattle Indicator (EYCI)	315	321	334

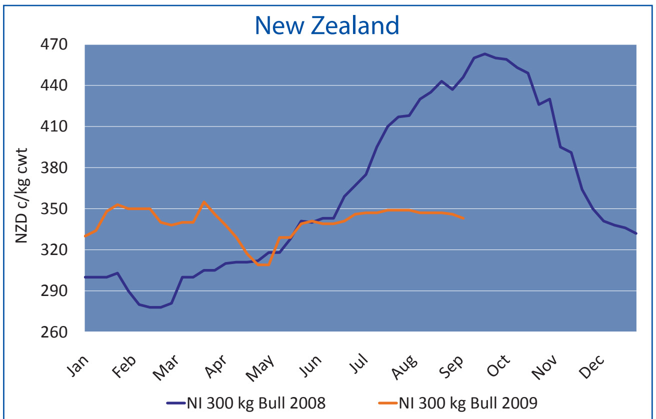
Source: NLRS/Rabobank

NZD prices (c/kg cwt)			
	Current (07/09/09)	Last week	Last year
North Island Bull 300kg	343	346	446
South Island Bull 300kg	315	319	398

Source: NZX Agrifax/Rabobank



Source: NLRS/Rabobank



Source: NZX Agrifax/Rabobank

Global

- US imported manufacturing beef markets eased a further USD4 cents/lb (3%) to early September, while domestic cow prices fell USD10 cents/lb. The CWT dairy cow buyout of 87,000 head is currently being processed, which has seen lean beef availability increase in the short-term. However, total US cow and bull slaughter has fallen below 2008 levels, with beef cow slaughter down 9% from the same period last year, as improved climatic conditions and lower feed costs slowed slaughter rates.
- Brazilian beef exports continue to be impacted by subdued global demand, with volumes for the calendar year to July down by 13% on 2008, and values down 29%. Russia remained Brazil's largest fresh beef market in 2009, despite export volumes falling by 27% for the year to July, followed by Hong Kong and Egypt.

Australia

- Young cattle prices were expected to rise seasonally through August, but dry weather conditions, subdued demand in export markets and the relatively strong Australian dollar has resulted in prices falling to AUD3.15/kg cwt at the end of the month, a drop of 8% compared to the same time last year. Rainfall in southern Australia resulted in young cattle prices lifting to AUD3.23/kg cwt in early September, however more rain is needed in many cattle producing areas.
- Export prices for Australian beef to the Japanese market have fallen significantly compared to the same time in 2008, with grassfed fullset prices falling by 12% and grainfed fullset prices down by 14%. Japanese consumers have been significantly impacted by the global economic downturn, resulting in subdued beef demand, with food service particularly hard hit. US beef exports to the Japanese market have also increased in 2009, providing increased competition for Australian beef.
- The lukewarm response of Korean consumers to US beef has supported demand for Australian beef in the market, with wholesale prices for most cuts steady to higher than the same time last year.

New Zealand

- Farm gate bull beef prices eased 1% over the past month in the North Island and 3% in the South Island, as subdued offshore markets were reflected. North Island steer prices lifted slightly during August and held in the South Island. Prices are currently around 20% (approx. NZD1.00/kg) lower than the same period last year and, with US dollar manufacturing beef prices down 23%, the other driver has been the marginally lower New Zealand dollar compared to August 2008.
- July beef exports fell 14%, in comparison to July 2008 as slaughter numbers eased towards the end of the season. However, value was NZD32 million (18%) lower for the same month. Exports to North America, Japan and Korea saw the greatest falls, in addition to markets such as Russia and the EU that were favourable in mid-2008, however volumes to Indonesia lifted.
- Meat and Wool New Zealand released its new season outlook in late August with a mixed outlook for beef, as resilient manufacturing markets are offset by more pessimistic prime markets. Under a mid-exchange rate scenario of NZD/USD0.63, an all beef price of NZD2.84/kg is anticipated. Export cattle slaughter is expected to fall 4.8% over the 2009/10 season across all classes, with a noticeably lower cow kill (-5.1%) from the high of 2008/09.
- In the Commodity Levies Act referendum, beef farmers voted in favour of increasing the maximum potential levy for the period to 2014/15 to NZD4.60/head. The current levy is NZD3.60/head.

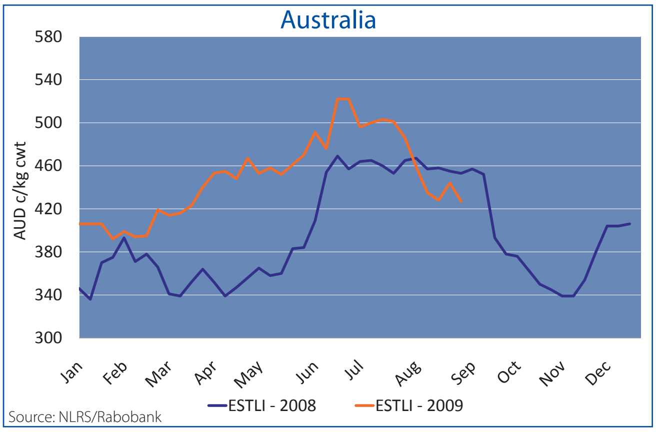
Lamb

AUD prices (c/kg cwt)			
	Current (28/08/09)	**Last week**	**Last year**
Eastern States Trade Lamb Indicator	427	444	455

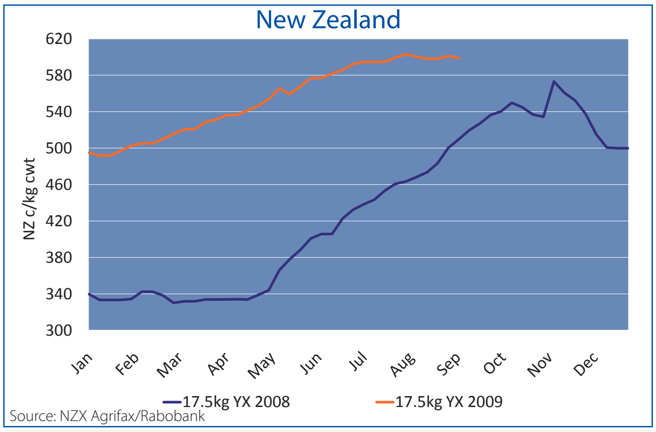
Source: NLRS/Rabobank

NZD prices (c/kg cwt)			
	Current (07/09/09)	**Last week**	**Last year**
NI 17.5kg YX	588	585	485
SI 17.5kg YX	599	601	510

Source: NZX Agrifax/Rabobank



Source: NLRS/Rabobank



Source: NZX Agrifax/Rabobank

Australia

- Lamb prices fell in August, with the Eastern States Trade Lamb Indicator ending the month at AUD4.27/kg cwt, compared to AUD4.55/kg cwt at the same time last year. The decline has been mainly due to the dry weather conditions on the east coast, as producers face the prospect of reduced feed and water availability for livestock. Early spring rain in southern Australia saw some recovery in prices in early September, with the indicator jumping to AUD4.49/kg cwt. Mutton prices eased during August to AUD2.78/kg cwt, but remained 50% above the same time last year, with very tight supply limiting price falls.
- Sheep slaughter in 2009 has dropped by 12% (at the end of June) compared to 2008. Western Australia has seen the biggest fall, down by nearly 40% compared to last year (which had the highest slaughter since the 2000 drought) and 37% below the five year average, to 1.05 million head.
- Lamb export values have surged by 35% for the year to June (latest available data) compared to the same period in 2008, supported by the lower Australian dollar (relative to June the previous year), reduced Australian mutton exports and lower New Zealand lamb sales. The rise in export values was across a number of markets, including the US (Australia's largest lamb export market), the Middle East and China. Mutton export values have risen by 18% compared to last year, to AUD253 million at the end of June, despite volumes dropping by 14% during the same period.

New Zealand

- Farm gate lamb prices have generally held steady over the past month, with limited volumes remaining for processing. Prices were around 20% (NZD1.00/kg) higher than the same period last year as the season winds down.
- Sheepmeat exports for the month of July were 23% lower than in July 2008. However, total value only fell by 4%, as a higher proportion of boneless and chilled product was shipped. The largest volume falls were evident to the UK (-9%), France (-11%), Germany (-29%) and the US (-40%), while the volume sent to China increased 31% over the same month in 2008.
- Meat and Wool New Zealand released its new season outlook in late August, with a reasonably solid outlook for lamb, due to tight supply availability in most markets. Under a mid-exchange rate scenario of NZD/USD 0.63, a lamb price of NZD 4.60/kg is anticipated, down 10% from 2008/09. Export lamb production is expected to fall 2.2% over the 2009/10 season, as the impact of a smaller ewe flock is felt and some flock rebuilding occurs. Mutton production is expected to fall 8.8%.
- In the Commodity Levies Act referendum, sheep farmers voted in favour of increasing the maximum potential levy for the period to 2014/15 to NZD0.60/head. The current levy is NZD0.40/head.

Dairy

World dairy prices									
	USD/tonne			AUD/tonne			NZD/tonne		
	03/09/09	last month	last year	03/09/09	last month	last year	03/09/09	last month	last year
Butter	2,250	1,975	3,600	2,707	2,345	4,193	3,336	2,932	5,135
SMP	2,275	2,025	3,300	2,737	2,404	3,844	3,373	3,006	4,707
WMP	2,550	2,000	3,600	3,068	2,374	4,193	3,781	2,969	5,135
Cheddar	2,775	2,700	4,600	3,339	3,206	5,358	4,114	4,008	6,561

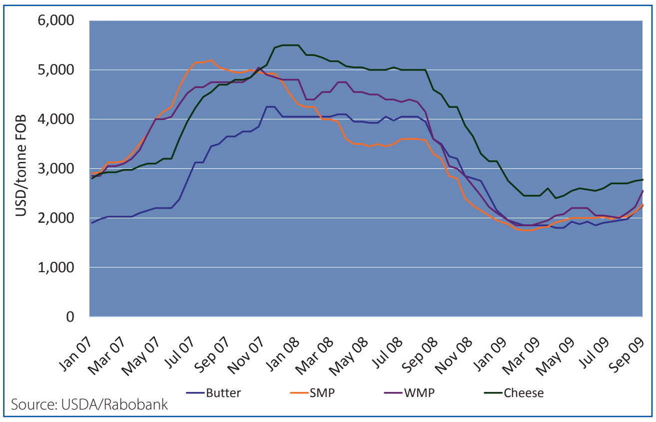
Source: USDA/Rabobank

Global

- Global dairy prices continued to move upwards through August. USDA surveys suggested the price of all major commodities rose through the month, varying from 3% for cheddar to 28% for WMP (four weeks to 3 September).
- The globalDairyTrade auction results on 2 September surprised again by lifting WMP prices a further 24%, from the 25% increase seen in early August.
- The outperformance of WMP prices in the last month or so probably reflects a combination of strong demand from China (a traditional WMP importer) and the large stockpiles of SMP and butter in the Northern Hemisphere (dampening the recovery in prices for these products).
- More broadly, news from the demand side of the market continues to show encouraging, but still modest, improvement. Global economic data releases continue to come in at or above expectation, gradual retail price reductions continue in many regions and buyers continue to be more active.
- However, while supply growth has essentially stagnated in key export regions as a group, hopes of a supply reduction are yet to be fulfilled. It is still hard to find regions that are significantly reducing milk production; some are yet to reduce milk supply at all (the US has not reported one month of supply below previous year levels since the market crashed) and others are showing disconcerting signs of actually expanding (EU production rose in year on year terms in June by 2.7%).
- With only modest improvements in demand and limited adjustment in new milk supply, stocks have continued to build – if at a reduced rate – in the Northern Hemisphere.
- While the market thus appears to be heading in the right direction for those looking for a price lift, the sustainability of such large price movements, as seen in WMP, will remain at risk until inventories of other dairy products reduce and demand further strengthens.
- Recent jumps in the WMP price have opened up a substantial premium for milk processors in the production of WMP over most other product combinations (e.g. SMP/butter, cheese/whey). This is likely to encourage producers to switch to WMP production where possible in coming months, exerting a dampening influence on WMP prices and providing some support to the prices of others.
- More generally, commodity prices are starting to approach (or now exceed) the levels at which exporting is again attractive for US and EU processors, which will limit further upside in the near term.

Australia

- With a relatively stable local currency and international prices on the rise, August saw the first improvement in the trade weighted index of dairy export prices in Australian dollar terms since a temporary lift in March.



Source: USDA/Rabobank

Production growth in key exporting regions		
	Latest month	Last 3 months
EU 27	2.7% (Jun)	1.7%
US	0.0% (Jul)	0.2%
Argentina	5.0% (Jun)	3.5%
Australia	-2.0% (Jul)	-1.4%
NZ	-2% for three months to August 2009*	

*Rabobank estimate

- Encouraged by the apparent stabilisation of the world market and the prospect of some improvement on this front, on 27 August Murray Goulburn became the first Australian exporter to announce a step up for the 2009/10 season – lifting prices by around 3.5% on opening price levels.
- The step up, and recent reductions in the local costs of grain and fertiliser, will lift some pressure from export milk suppliers: though the situation for most of them remains extremely tight.
- Reflecting this reality, Rabobank's September quarter Rural Confidence Survey reported a further small decline in short term confidence amongst Australian dairy farmers (survey completed prior to the Murray Goulburn step up).
- Milk production was down 2% (year-on-year) in the opening month of the 2009/10 season.

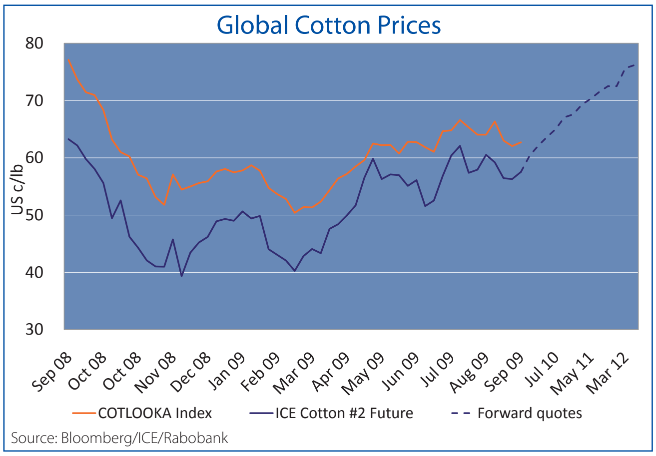
New Zealand

- The New Zealand production season has started slowly, as producers have rationalised feed and fertiliser costs, lowered stocking rates and adjusted to a lower milk price environment. Production is current trailling the same period last season.
- Early season prospects have been buoyed during August by the increase in global prices, with little overall movement in the average New Zealand dollar, resulting in the improvement flowing through in local currency terms.

Cotton

Monthly average cotton prices (US c/lb)			
	Current (04/09/09)	Last week	Last year
Cotlook A Index	62.70	64.05	77.10
NY Futures (xxx xx)	57.53	56.30	63.26

Source: Bloomberg/ICE/Rabobank



Source: Bloomberg/ICE/Rabobank

Australia

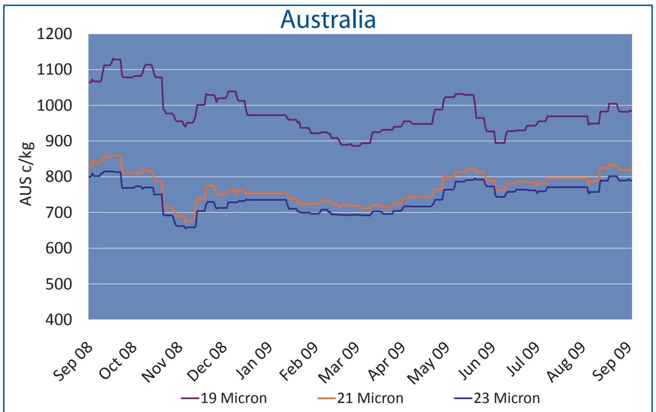
- ICE No. 2 nearby cotton futures prices fell to a two-month low in August, before recovering to end of July levels .
- Improved cash sales and US export data has fuelled the recent price increases. However, while the global supply and demand outlook appears on balance for the 2009/10 international crop year, the upside potential to recent price gains will be limited.
- Market participants will be watching the Northern Hemisphere cotton crop conditions over the next few weeks, as harvest quickly approaches. Current expectations are for a reasonably good harvest and, unless weather problems occur, better than expected production could eventuate and most likely weigh down on prices; the short-term demand picture for cotton remains unclear.

Wool

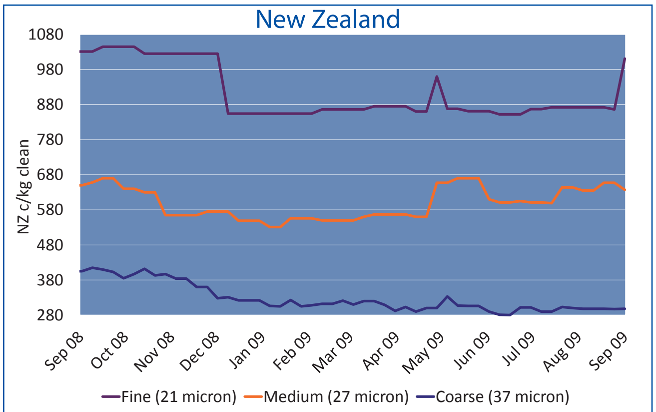
Eastern Market Indicator (AUD c/kg clean)				New Zealand (NZD c/kg clean)			
	Current (03/09/09)	Last week	Last year		Current (07/09/09)	Last week	Last year
Fine (19 micron)	985	982	1073	Fine (21 micron)	1011	866	1031
Medium (21 micron)	817	819	828	Medium (27 micron)	637	657	650
Broad/coarse (23 micron)	790	790	810	Broad/coarse (37 micron)	298	297	405

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

Source: NZX Agrifax/Rabobank



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



Source: NZX Agrifax/Rabobank

Australia

- The stronger AUD continues to impact on wool prices, with most of the gains realised in international terms not reaching the local farmer. The Eastern Market Indicator in August ranged between AUD7.66/kg (clean) and AUD8.23/kg (clean), spiking at a level similar to May 2009. In USD terms wool prices have risen to levels similar to September 2008 at around USD6.80/kg (clean).
- The Australian wool offerings at AWEX are more than 10% down season-to-date when compared to last year. However, the tighter supply is being balanced out by the weaker demand brought on by the global economic slowdown. Until a clearer picture for demand for woollen products is presented and buying activity strengthens, any upside to wool prices will be limited.

New Zealand

- The New Zealand wool industry received some grim news in August when Meat and Wool New Zealand announced the funding of industry-good activities for wool would not be supported.
- On a more positive note for fine and medium micron wool producers, prices have shown some upside in August and early September.

Sugar

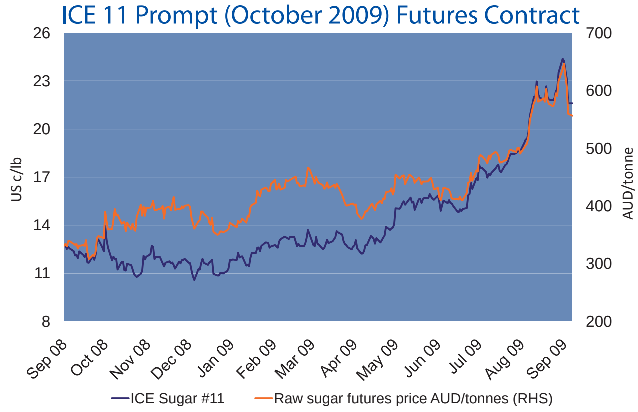
ICE 11 Prompt (raw sugar futures price October 2009)					
US c/lb			AUD/tonne		
Current (07/09/09)	Last week	Last year	Current (07/09/09)	Last week	Last year
21.60	24.24	12.37	556.50	647.97	334.08

Source: Bloomberg/ICE/Rabobank

Australia

- ICE nearby sugar futures prices spiked in August, hitting a 28 year high before easing over 10% in the first few weeks of September.
- The pull back in prices was considered a reaction to the gains in the last week of August; key international buyers from Egypt and Pakistan held down their price tenders.
- On the contrary, India still remains a keen importer, with its depleted supply outlook maintaining pressure on international sugar prices.
- The other major factor keeping pressure on sugar prices has been wet weather in Brazil, which has restricted raw sugar processing capacity during this crushing season. However, the second half of August did see more favourable crushing conditions due to the finer weather.
- Locally, the sugar harvest is coming along quickly and early reports suggest a crop similiar to last year of around 4.6 million tonnes will be produced. The high sugar prices have provided optimism for a sector that has endured some low prices in recent years.

ICE 11 Prompt (October 2009) Futures Contract



Source: Bloomberg/ICE/Rabobank

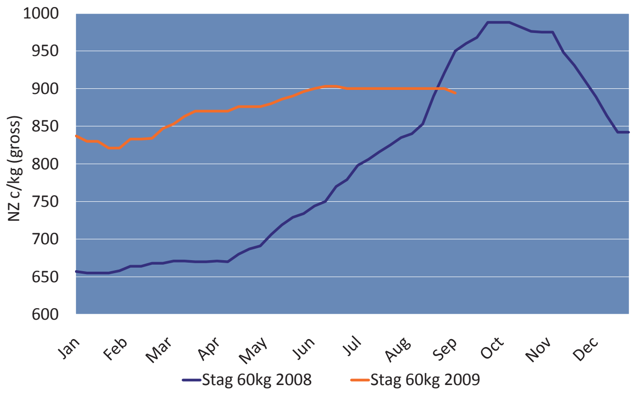
Venison

NZ c/kg gross			
	Current (07/09/09)	Last week	Last year
NI Stag 60kg	855	855	920
SI Stag 60kg	894	900	950

Source: NZX Agrifax/Rabobank

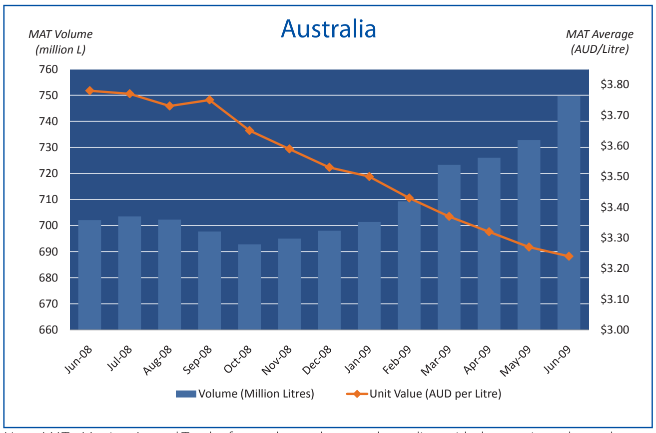
New Zealand

- Venison prices were static from June, before dipping slightly in early September, indicating little potential for the usual seasonal uplift. Markets remain uncertain for premium end products, such as venison, which, combined with exchange rate strengthening, provides few reasons for price increases to occur.
- Export value for the month of July (-36%) fell by a greater proportion than volume (-33%), providing evidence of pressure on New Zealand dollar returns despite the lower production and export levels.
- The largest markets have seen the biggest fall in export volume, with Germany 34% lower, Belgium 38% down and exports to Sweden dropping 55% from July 2008. However, some small markets have held up relatively well, such as the Netherlands, the UK and the US.

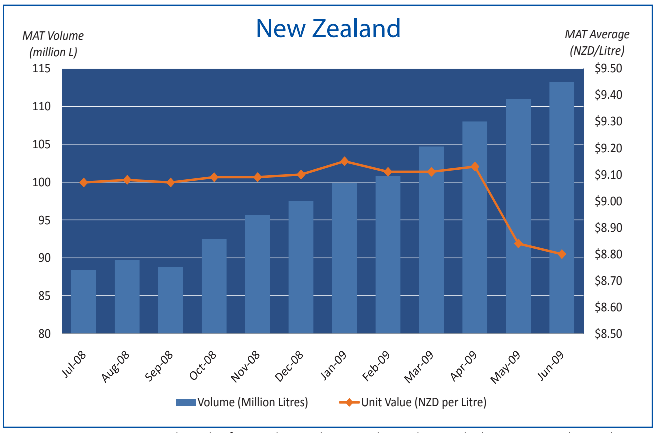


Source: NZX Agrifax /Rabobank

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

- The Australian wine sector continues to face a set of challenging trading conditions, including the strong Australian dollar, weak demand, wine stocks at persistently high levels and intense competition from other suppliers.
- Despite these conditions, in August, total Australian wine export shipments increased 10.4%, following a 16% decline in July. However, the Australian dollar value of exports continued to decline, albeit at a slower rate. Values fell 9.3% in the month, compared with a decrease of 21% in July.
- On a moving annual total (MAT) basis, the AUD value of shipments fell for the nineteenth consecutive period, down almost 10% to AUD2.36 billion.
- Of total exports, bottled exports made up 57% by volume, and 84% by value. The UK was the leading export destination in value (30%) and volume terms (38%). The US accounted for around one quarter of value and volumes shipped.
- Bulk wine volumes experienced a significant rebound in August on both a month ago and on a year-on-year basis. The increase in bulk volumes was the largest month-on-month increase since February 2003. While the strength in bulk wine sales has been evident for some time, this sharp increase is, in part, being driven by wineries clearing stock before the next vintage.
- Bottle wine exports remained weak, driven by a decline in every category, with the exception of the less-than AUD2.50 price point. In general, the weakness in bottled wine shipments is an ongoing concern, as it is a barometer for the health of demand for branded wine.
- Looking ahead, while a recovery in GDP growth in the economies of key export markets is now gathering momentum, it will remain difficult to reverse the current trend toward lower price points. This is particularly the case for those markets, such as the UK, where discounting and the effect of the global downturn on household incomes is expected to continue for some time yet. This, together with improved seasonal conditions leading into this vintage will only serve to keep pressure on returns to growers.
- In addition, there has been a significant increase in the number of vineyards offered for sale to the market, with around 5,000 hectares in South Australia alone. As it remains unlikely that these properties will all be sold by the start of the 2010 vintage, this may lead to a number being mothballed which could result in a fall in production from these operations in 2010.

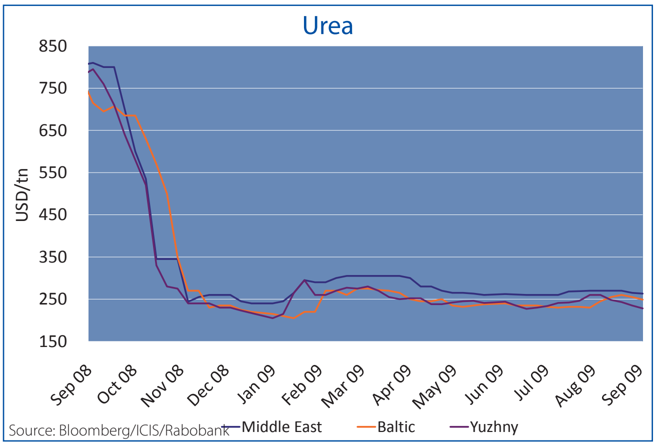
New Zealand

- In July, wine exports were 11.5 million litres, up 40% from a year earlier. However, similar to Australia, growth was principally driven by the bulk wine category, which made up almost 37% of total export sales – the highest share on record.
- In July, for the major markets, exports increased to Australia (94%) and the United Kingdom (34%), while in the United States export sales declined (9%). The United Kingdom remained New Zealand's largest market in volume terms.
- Australia and other countries' consumer enthusiasm for sauvignon blanc remains intact; the variety posting the strongest growth in total export sales, up almost 50% for the month. Bulk sales contributed strongly to this sharp increase.
- Small wineries grew exports the fastest (up 211%) in July, however, this group makes up the smallest percentage of New Zealand's exports. Larger wineries increased export sales by 27%, and the medium sized wineries were up by 4%.
- As in Australia, grower returns will come under increasing pressure this vintage, as the stronger currency weighs on competitiveness and favourable climate conditions point towards solid production. Again, it remains likely that fruit may be left on the vine this season, as crushing facilities come under pressure and weak global demand limits wineries' demand for additional fruit.

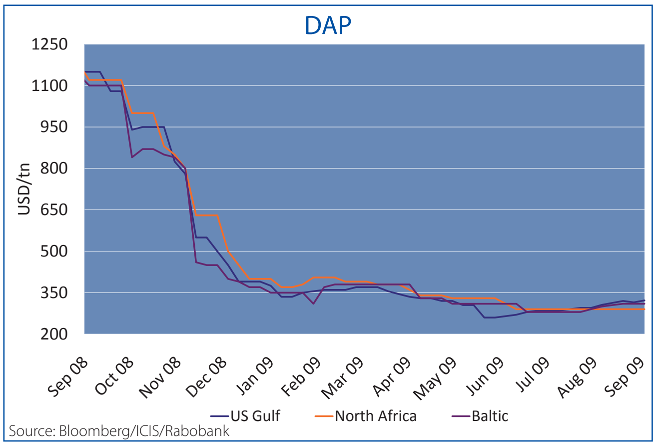
Fertiliser

All shown as USD/tonne	Current (03/09/09)	Last month	Last year
Urea (Middle East)	263	270	810
DAP (North Africa)	290	290	1120

Source: Bloomberg/ICIS/Rabobank



Source: Bloomberg/ICIS/Rabobank



Source: Bloomberg/ICIS/Rabobank

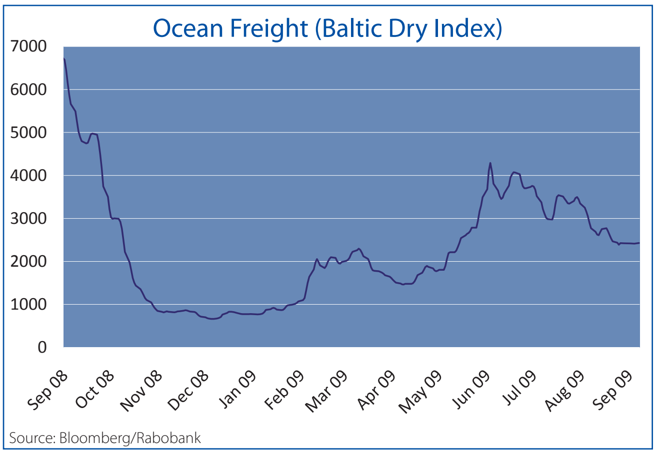
- Urea prices softened slightly, before finding support around current levels. It appears likely that demand from major buyers in the Indian subcontinent and Brazil, and overall preparations for the northern hemisphere 2010 spring planting season, will prevent prices returning to the low levels experienced at the end of 2008.
- Natural gas prices are an important indicator of urea prices moving forward. Natural gas is a major feedstock for urea; its prices have declined to levels not seen since early 2002.

- DAP prices continued increasing slightly during August, with demand from Asian and South American buyers placing some slight pressure on price outlook.
- Phosphate rock prices have also started to increase to around USD100-120/tonne, up from USD80-100/tonne during the second quarter of 2009.
- International muriate of potash port prices moved sideways in August, at around USD430/tonne, after falling by over 25% in July.

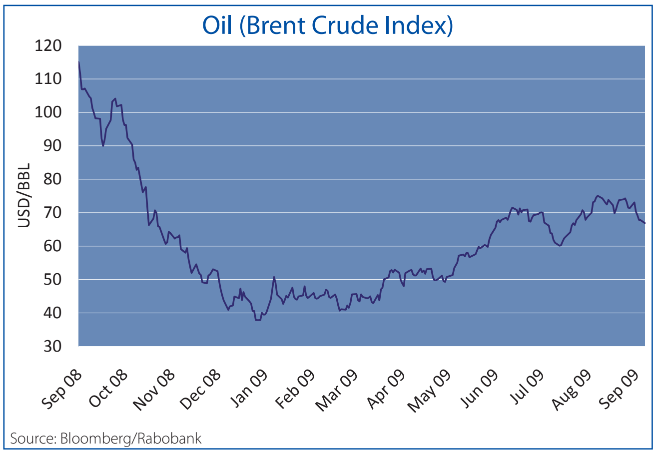
Other costs

	Current (07/08/09)	Last week	Last year
Baltic Dry Index	2429	2423	5492
Brent Crude (USD/bbl)	66.87	70.33	104.74

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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