Rabobank

Australia & New Zealand Agribusiness Review

July 2007

Rabobank Group
Food & Agribusiness Research (FAR)

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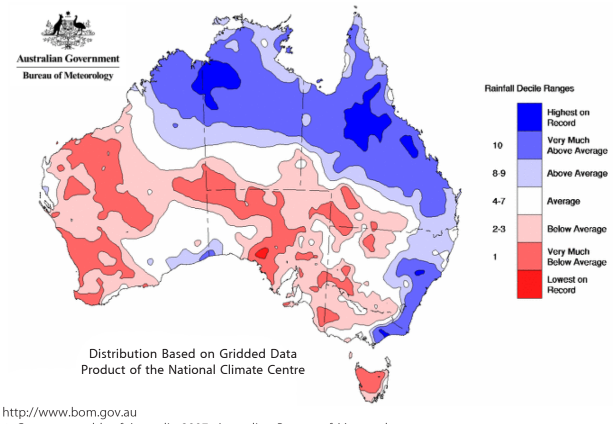
Seasonal Outlook

June 2007 Australian Rainfall Deciles



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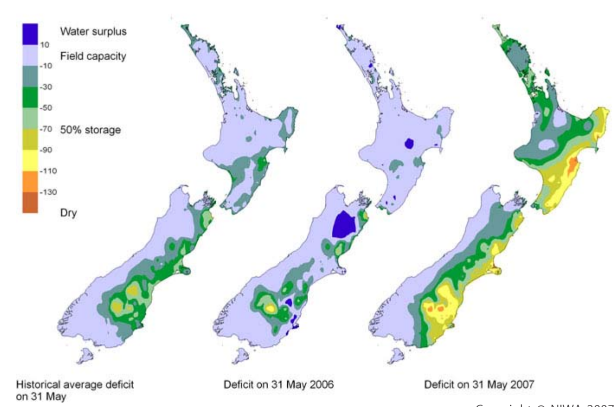
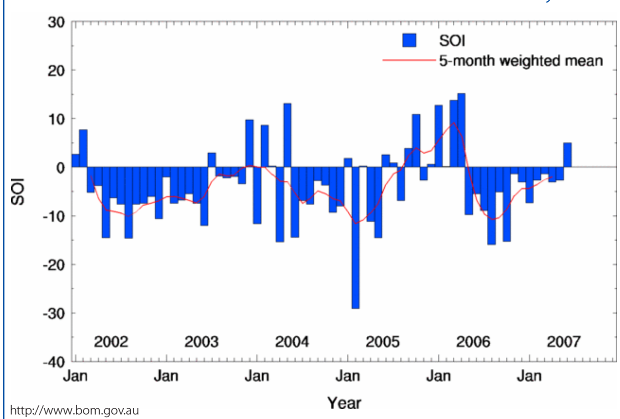
Soil Moisture Deficit May 2007



Southern Oscillation Index 2 July 2007



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Australia

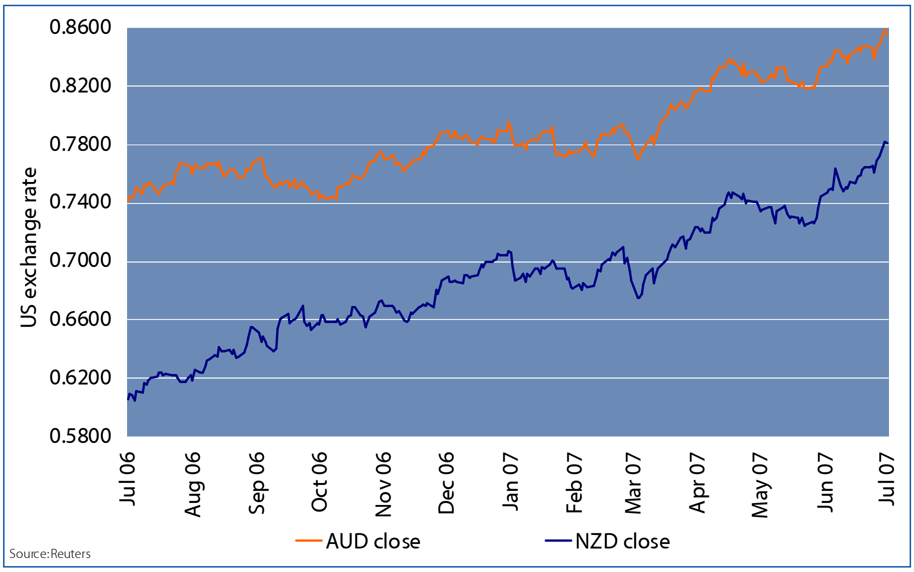
- After a long period of dry weather, June 2007 was notable for several reasons: storms brought heavy rainfall and flooding to parts of NSW and Victoria; and it was the coldest recorded June since the 1950s across much of Australia.
- Heavy rain occurred across coastal southeastern Australia, causing severe flooding in the Gippsland (Vic) and Hunter (NSW) regions. In the tropical northern zones where June is usually the dry season, heavy unseasonal rainfall was also recorded. In other parts of Australia, June was generally a dry month.
- A La Niña appears to be developing after stalling through autumn. International climate models are predicting that a La Niña will develop through winter. In addition, the Southern Oscillation Index (SOI) has moved rapidly into positive territory. The 30 day trend to 24 June is +12. A cooler Pacific ocean and a positive SOI (around or above +10) is generally associated with wetter than average conditions in the east and north of Australia.
- The outlook for winter rainfall from the Bureau of Meteorology continues to suggest that there is a 50% chance of accumulating at least average rain for the coming three months across the majority of Australia.

New Zealand

- After the warmest May on record winter struck with a vengeance in June, particularly in the South Island, where snowfalls reached low levels in Otago, Southland and high country areas on several occasions during June.
- Dry conditions on the east coast of the North Island were alleviated with almost twice the normal rainfall received in parts of the Hawkes Bay. However, the impact of destocking in this region will still be evident into next season.
- Soil moisture deficits remain high in parts of Marlborough, Canterbury and Otago, which is unusual for the winter months. The outlook for the remainder of winter is for normal rainfall in most parts of the country, but is likely to be below normal for the east coast of the South Island.

Currency/economy

Currency USD = Close (bid)			
	Current (3/07/07)	Last week	Last year
AUD	0.8559	0.8456	0.7418
NZD	0.7813	0.7653	0.6059



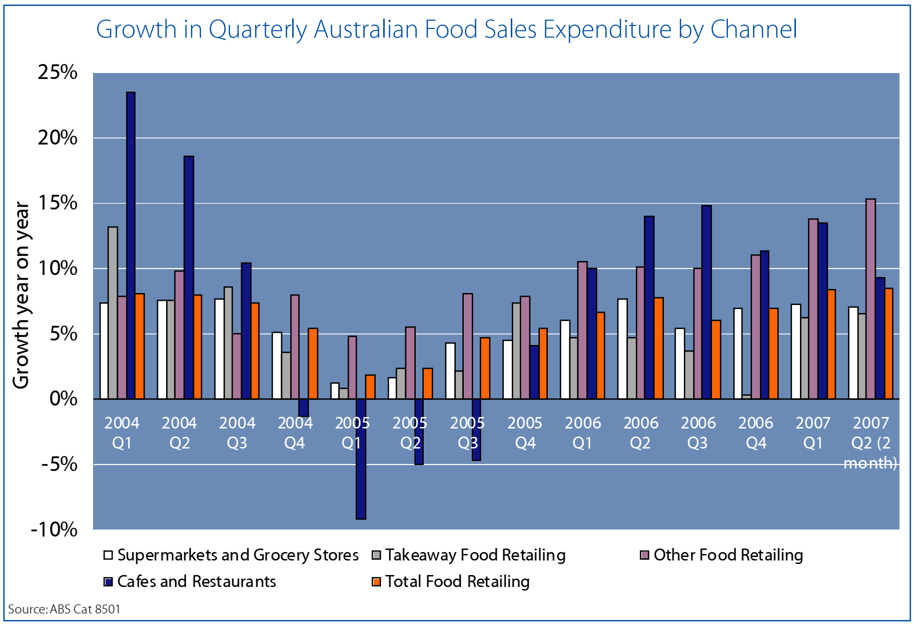
Australia

- The Australian economy continues to grow above expectations as indicated by recent GDP data, pushing the AUD/USD to 18 year highs of 0.8599.
- Inflation concerns, improving wage conditions, low unemployment (4.2%), strong consumer spending and a potential recovery in the housing sector has heightened expectations of another rate rise in second half of 2007.
- Recent retail sales coming in marginally under expectations has been one of the few indicators going against the trend. The only barrier to any RBA activity this year is the timing of the Federal election and implications of any action being politically beneficial to either party.
- Range on the AUD/USD over the last four weeks 0.8413-0.8599 with an average rate of 0.8483. AUD and NZD have continued to be attractive to foreign investors as demand for yield produced rallies in both currencies against all the majors.

New Zealand

- The NZD signalled the beginning of a new uptrend as the currency broke out to fresh highs (0.7840).
- New Zealand rates edged higher and the long term inverse yield curve continued to lose its lustre as steady but tight employment data, robust retail spending, bullish housing market, high balance of trade and rising credit card spending edged the RBNZ towards another interest rate hike, which was realised in early June. Expectations are for more to follow.
- The RBNZ intervened in the foreign exchange market for the first time since floating the currency in 1985 in the hope that it would be able to influence sentiment on currency direction, but the trend remains set, it would appear.
- Current account deficit remained high although off historic levels, retail sales settled a little to -1.20% month-on-month for April and business confidence although still quite negative, improved from -48.3 to -37.2. GDP was steady year-on-year for Q1 at 2.5% vs expected 2.4%.
- Of concern lately has been a revision upwards by Fonterra on farmer payments indicating the extra spending power derived from this may negatively impact inflation.
- Range on the NZD/USD over the last four weeks was 0.7512-0.7840 with an average of 0.7663

Food retail



Australia

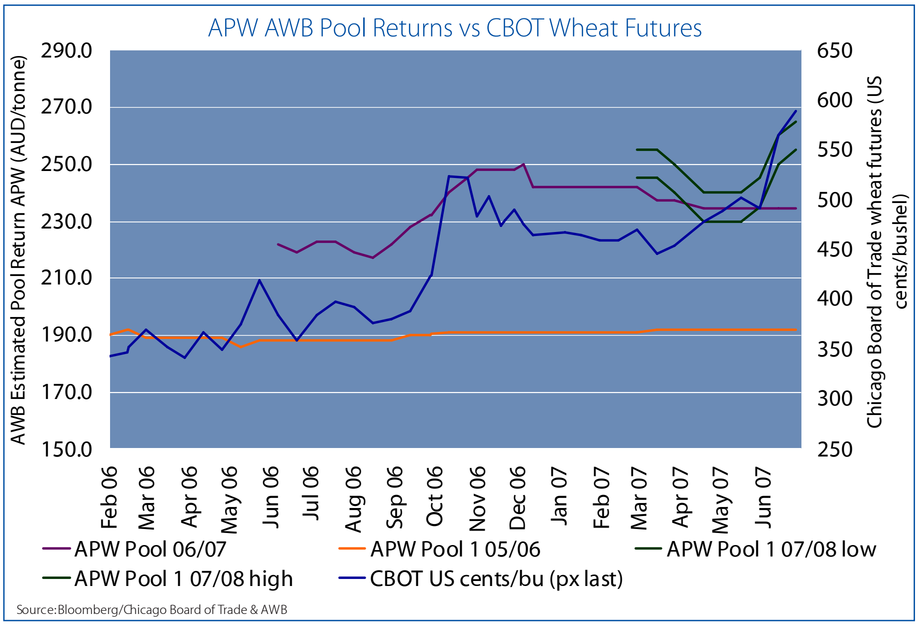
- Australian food retail sales fell in May – reversing the acceleration of growth evident in the preceding months of 2007. Sales were down 0.1% in seasonally adjusted terms, with declines in all segments bar takeaway food. The decline was in line with a similar decline in total retail sales during the month.
- The causes are difficult to pin point, though some have highlighted recent increases in petrol prices as a contributing factor.
- With most factors still pointing to strong conditions for retail sales growth – including strong employment, rising consumer confidence and neutral prospects of an interest rate rise in the short term – the stagnation may well prove short lived.
- Despite the May slowdown, total food retail sales remained 8.5% above previous year levels in the April/May period (see chart).
- July brought with it the closure of the Coles Group's tender process – with the company's board recommending shareholders accept a $17.25 per share (cash and script) offer for the Group from Wesfarmers. Coles shareholders will vote on the proposal in October.
- Assuming the proposal is accepted, Wesfarmers will have plenty of work to do in turning around the Group's supermarket business. Wesfarmers' CEO has already recognised this, suggesting a slow turnaround was to be expected.
- Wesfarmers' strategy for the group is yet to be fully disclosed, though it has spoken of the need to be consistently competitive on price, improve the fresh food offering and bolster customer service.
- Competitors will be gearing up to confront a competitor under new and quite likely improved management.
- Having missed out on a piece of the action in the Coles sales process, Woolworths also faced frustration on the other side of the Tasman. The New Zealand Commerce Commission declined the applications from both Woolworths and Foodstuffs for clearance to purchase 100% of The Warehouse. While reasons for the decline have not yet been made public, Woolworths is seeking a High Court judgement to overturn the decision.

New Zealand

- New Zealand food prices rose 4.1% for the year to May 2007 (Statistics New Zealand). The fruit and vegetable category and the meat, poultry and fish category both increased 10% during the year while grocery food items only increased 1.2%.
- The Nielsen/Grocers Review survey of New Zealand's top 100 grocery brands revealed that these brands accounted for 45% of total scanned grocery sales, or NZD4 billion, in the year to March 2007. This was growth of 5.2% from 2006 with Watties, Cadbury and Griffins topping the table respectively.

Grains and oilseeds

Chicago Board of Trade Wheat Futures			AWB APW 2006/07 Pool Price	
USc/bushel			AUD/tonne	
Current (25/06/07)	Last month (29/05/07)	Last Year (4/07/06)	Current (25/06/07)	Last month (29/05/07)
589.50	491.00	384.25	255.0	234.5



Global

- Price volatility in grains and oilseed markets has continued to be extreme through June and early July. CBOT wheat reached an 11 year high on 27 June due to lower than expected production from wet conditions in the US, a smaller than expected planting in Canada and poor weather in Russia, Ukraine and parts of the EU.
- Barley yields have also been reduced by dry conditions across the EU and the proportion of malt barley is expected to be reduced leading to an extremely tight situation and the potential for an increasing malt premium.
- Global consumption of wheat is forecast to exceed production again in 2007/08 with the International Grains Council (IGC) forecasting production at 614 million tonnes (mt) against consumption of 619mt leading to even tighter stocks and bullish fundamentals for wheat prices.
- For the oilseed complex, Chicago soybean prices increased dramatically in late June and early July with the unexpected news that US soybean planted acres fell by 15%, the smallest area since 1988, due to competition from corn. This is likely to lead to a much tighter global soy balance than expected in 2007/08.
- In contrast, the USDA estimates that corn plantings jumped 19 percent from 2006 and are the highest level since 1944. This extremely large US corn acreage was driven by high prices at sowing time due to strong demand from the US ethanol sector. CBOT corn prices have fallen by nearly 25% in June due to improving US weather conditions and the very high acreage.
- According to the IGC, in 2007/08, global consumption of all grains (wheat, corn, barley etc) in ethanol production is forecast to reach a total of 107mt, 50% up on 2006/07.

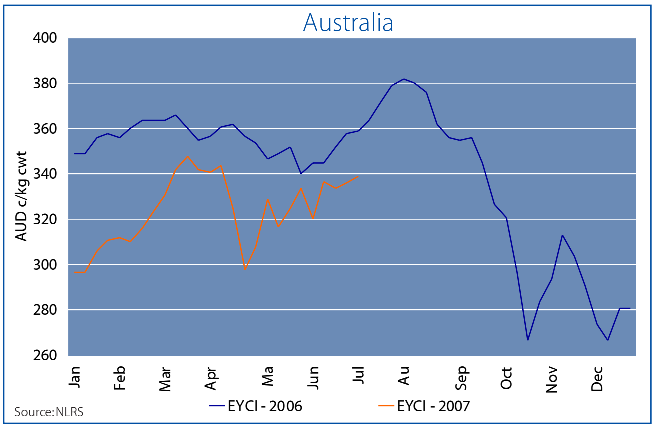
Australia

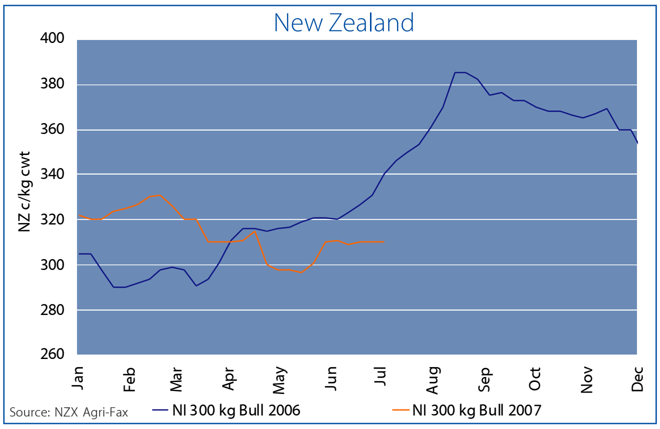
- After more or less widespread rain at the end of April and in May, June proved to be a dry month with most of the cropping regions of Australia receiving below average falls.
- Light rainfall in the last week of June provided some relief to the long term rain-deprived cropping regions in WA and southern Queensland which allowed planting to proceed. In more northern regions, yields will be constrained by the late timing. In most other regions, planting is now finished or approaching completion.
- Rain will be required on an ongoing basis across Australia through winter for crops to reach full potential.

Beef

AUD prices (c/kg cwt)			
	Current 29/06/07)	Last week	Last year
Eastern Young Cattle Indicator (EYCI)	339	336	358

NZD prices (c/kg cwt)			
	Current (2/07/07)	Last week	Last year
North Island Bull 300kg	310	310	340
South Island Bull 300kg	293	293	324





Global

- Japan has lifted the 100% carton inspection requirement on US beef imports. Industry expects that the removal of this requirement could see beef imports increase from the current levels of 2,000 tonnes per month to as much as 5,000 tonnes per month. There has been no change to the age related condition that US imports can only be sourced from animals 20 months or under.
- US cow and heifer slaughter for the year to May reached 2.4 million head, 16% higher than the same period last year. This is a continuation of the higher slaughter levels seen in 2006, and is thought to be driven by a combination of poor seasonal conditions early in the year and concerns as to the impact of high corn prices on calf prices.
- US domestic lean beef prices have eased accordingly with 90CL cow prices falling 15% over the past month to USD1.37/lb. However, this is still a 10% premium over imported lean beef prices.

Australia

- Rain in May and June has seen further strengthening of the EYCI, which ended the month at AUD3.39/kg cwt, around 5% below the same time last year. Japan Ox prices have also risen in response, as the Japanese and Korean markets move into their peak demand period.
- The high Australian dollar continues to impact negatively on exporter returns. US dollar prices for imported 90CL cow beef into the US are currently at USD1.25/lb, a 3% rise on last year. However, the Australian dollar returns to exporters are estimated at around AUD2.99/kg cwt, 11% below last year levels. Prices for the Japanese market show a similar trend. While chilled grassfed fullset export prices are around 11% above the same time last year, Australian dollar prices are 5% below last year's levels. This erosion of returns is placing some downward pressure on live cattle prices.

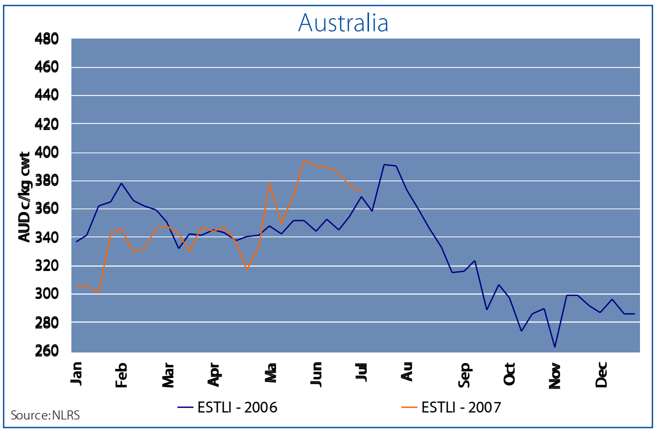
New Zealand

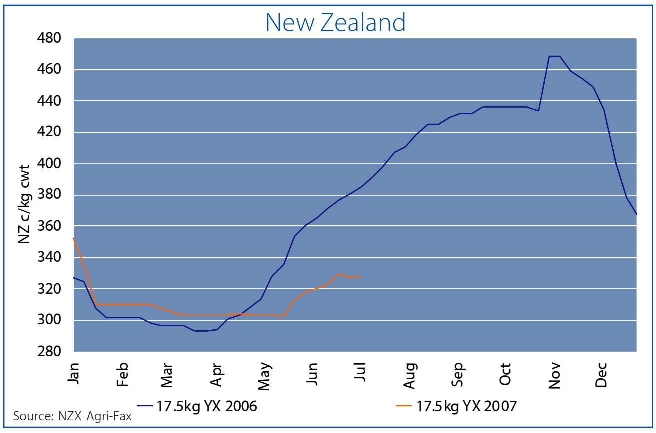
- Bull beef schedule prices have remained static over the past month at around NZD3.10/kg cwt in the North Island and NZD2.95/kg cwt in the South Island. The surging New Zealand dollar is keeping schedule prices very flat for this time of year. Prices have been easing since March and usually the winter increases are well underway by July. With flat international pricing and a strong currency there appears little prospect of improvement in the short-term.
- The current strength of the dairy industry is set to impact on beef production in 2007/08 as cows are potentially retained for herd expansion and new conversion activity. Manufacturing beef production is likely to fall in the short-term as a result.

Lamb

AUD prices (c/kg cwt)	Current (29/06/07)	Last week	Last year
Eastern States Trade Lamb Indicator	372	376	345

NZD prices (c/kg cwt)	Current (2/07/07)	Last week	Last year
NI 17.5kg YX	316	316	355
SI 17.5kg YX	328	328	385





Australia

- Tight supply continues to support lamb prices, with the Eastern States Trade Lamb Indicator ending June at AUD3.72/kg cwt. While this was a 5% rise on the same time last year, lamb prices have eased slightly over the past month. A number of abattoirs have closed for their annual maintenance, reducing competition amongst buyers. The high Australian dollar and subdued demand in key export markets has also impacted on the prices abattoirs are willing to pay.
- ABARE has forecast that Australian lamb prices will rise by 16% to AUD 3.75/kg cwt for the 2007-08 financial year due to steady export demand and tightening supplies. Reduced supply and increased interest in flock rebuilding will see mutton prices increase by 48% to AUD 2.00/kg cwt.

New Zealand

- Lamb prices have lifted a little in the South Island over the past month, but remained static in the North Island. Prices are 10-15% lower than this time last year as the currency continues to mask the slight firming of international prices over recent weeks.
- UK retail data (TNS) for the year to May 2007 indicates positive trends in lamb consumption with total sales up 7%. Volume increased 6% to exceed 100,000 tonnes and the average retail price increased 1%.
- The move by PPCS and Alliance to engage PricewaterhouseCoopers to undertake an analysis of options for their operations is expected to provide a basis to decide the future direction of the industry. The various farmer groups that have been active over the past 12+ months promoting industry reorganisation have reacted positively to the announcement.

Dairy

World dairy prices									
	USD/tonne			AUD/tonne			NZD/tonne		
	22/06/07	last month	last year	22/06/07	last month	last year	22/06/07	last month	last year
Butter	2,750	2,200	1,725	2,861	2,683	2,349	3,171	3,031	2,826
SMP	4,950	4,250	2,050	5,602	5,184	2,792	6,209	5,855	3,358
WMP	4,525	4,050	2,075	5,181	4,940	2,826	5,741	5,579	3,399
Cheddar	3,950	3,200	2,675	4,337	3,903	3,643	4,807	4,408	4,382

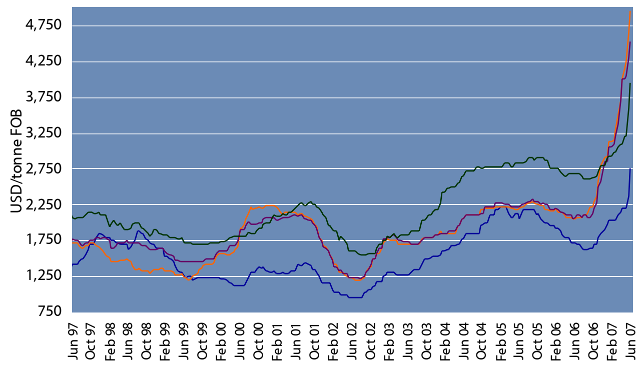
Source: USDA

Global

- In a stunning extension of the recent bull run, the rate of ascension of international dairy prices accelerated through June. While powder prices were up 12%-16%, butter and cheese prices rose 23%-25%.
- This marks the first period in two years during which butter and cheese product prices have outperformed powders. This more than likely reflects the renegotiation of the prices of these products by processors looking for a commensurate return to that available from spray drying.
- While the fire under global pricing may have been lit by the Australian drought, it is Argentina's situation that now appears to be fanning the flames. A dry summer was followed by flooding in March, and high maize prices have discouraged feed use and encouraged the diversion of resources to crop production. Milk production has slumped as a result, and in stunning reversal, a country that increased exports by 30% last year, reduced exports by 56% in May.
- Those looking for increased supply will have been encouraged by the recent announcement of farm gate prices in Oceania (see below). With US milk prices also likely to hit record levels this year, and Argentine prices up strongly, the market's demand for more supply is certainly now being translated to farm gate signals.
- However, the ability of exporters in Oceania to increase supply remains modest, while the enthusiasm of farmers in the US and Latin America remains tempered by high feed grain prices. As a result, demand remains the more likely balancing item in the global market in the short term, as the rise in international prices is gradually passed on to consumers.

Australia

- The Australian dollar's climb in June was more than offset by rising international prices, with AUD export prices closing the month a handsome 20% above the 2006/07 average for cheese and butter, and 40%-50% up for powders.
- This enabled exporting cooperatives to announce opening prices for the 2007/08 season some 30%-40% above last year's opening levels – pushing milk prices well into record territory even before any step ups are announced (which traditionally add at least 10% to milk prices during the year).
- With further significant rainfall occurring in most growing regions in June, most regions are well placed to enjoy an excellent season. The challenge remains negotiating fodder shortages through winter (due to limited production last year), and for irrigators, planning their season without certainty of irrigation water availability.



Source: USDA

Production growth in key exporting regions		
	Latest month	Last 3 months
EU 15	2.0% (Apr)	1.9%
EU 10	1.8% (Apr)	3.3%
US	0.9% (May)	1.2%
Argentina	-17.3% (Apr)	-13.5%
Australia	-11.4% (May)	-10.2%
NZ	3% for 12 months to May 2007*	

**Rabobank estimate (NZ does not publish timely production data).*

New Zealand

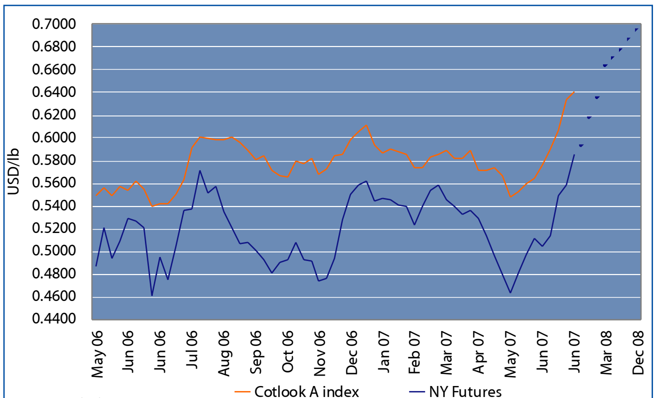
- Despite the currency, NZD dairy export prices at the end of June were significantly above the 2006/07 season average with powders (including casein) 40-55% higher, butter up 30% and cheese up 24%.
- Its always nice to be popular and the privately owned independent NZ dairy companies have found themselves the centre of overseas attention with dairy products in hot demand. Following the Dairy Trust offer to purchase a majority shareholding in Open Country Cheese during May, Olam International (a Singapore-based food and agricultural commodity oriented company) has purchased a stake just short of 20% in Open Country Cheese.
- During June, Synlait announced a NZD30 million investment from Mitsui & Co into the company, taking a 14% shareholding, in addition to providing a loan. Meanwhile New Zealand Dairies announced a NZD24 million investment from shareholder Nutritek, an Asian-based baby food manufacturer.

Cotton

Monthly average cotton prices (USD/lb)			
	Current (29/06/07)	Last week	Last year
Cotlook A Index	0.6410	0.6330	0.5415
NY Futures (Jul 07)	0.5850	0.5589	0.4950

Australia

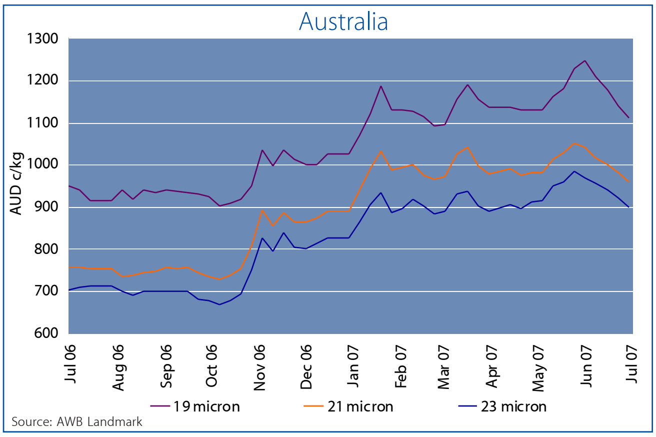
- The cotton market has continued its uptrend from May with nearby NYBOT No.2 futures gaining 16% during the month of June. The Dec 07 contract has reached contract highs of US64.4¢, some US 13¢ above the lows reached back in mid May.
- Recent acreage numbers released by the USDA at the end of June showed the lowest US cotton planted acres in 18 years and a number well below market expectations has further fuelled the recent bull rally.



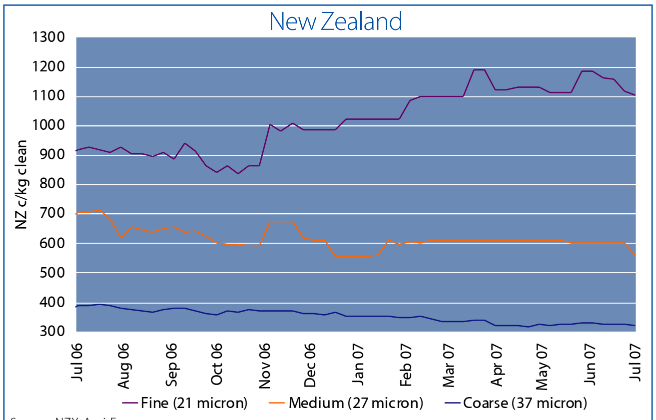
Source: Cotlook

Wool

	Eastern Market Indicator (AUD c/kg clean)			New Zealand (NZD c/kg clean)		
	Current	Last week	Last year	Current	Last week	Last year
Fine	1113	1139	951	1105	1115	920
Medium	961	982	756	562	600	705
Broad/coarse	898	922	702	320	327	388



Source: AWB Landmark



Source: NZX Agri-Fax

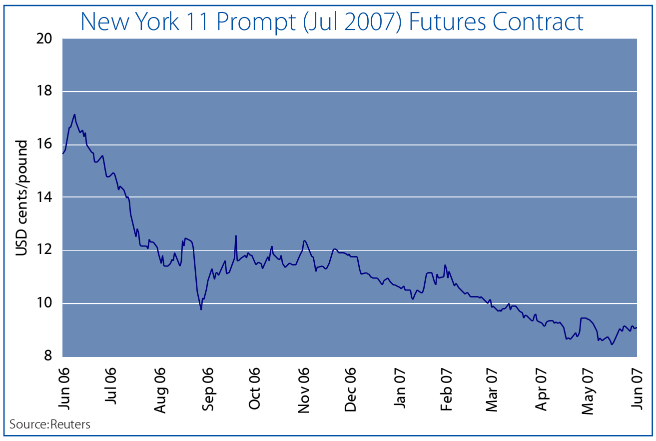
- Wool prices have seen a sharp turnaround this month with the appreciation of the Australian dollar bringing extreme pressure on processors. As a result prices across all micron ranges have shed close to 9% during the month of June.
- The benchmark AWEX Eastern Market Indicator (EMI) has fallen 7.6% to AUD 931¢ since the last week in May to the end of June.
- Increased wool offerings at auction in recent weeks have also contributed to price weakness, with the apparent shortage of available production this season being more than offset in the short term by the release of stocks onto the market.

Sugar

New York 11 Prompt (raw sugar futures price Jul 2007)					
US¢/lb			AUD/tonne		
Current (29/06/07)	Last week	Last year	Current (29/06/07)	Last week	Last year
9.07	9.16	15.63	236	238	467

Australia

- World sugar prices continue to trade in a narrow range between US 8.5 and 9.5¢/lb for the NYBOT No.11 nearby contract. There remains limited upside opportunity for prices given the significant supply of sugar available globally.
- India and Brazil will continue to be the key drivers of fundamentals and hence prices over coming months. Brazilian harvest is currently under way in the major central south producing region where sugarcane production is on par with year ago levels, although sugar production is lagging as more cane has been directed towards ethanol production at this stage. A recent weakening in ethanol prices is likely to see this balance corrected over coming months.
- Indian stock levels remain significant and are not likely to be drawn onto the world market at current prices. Near term prices would need to reach levels of 10 - 11¢ to draw these Indian stocks onto the world market.

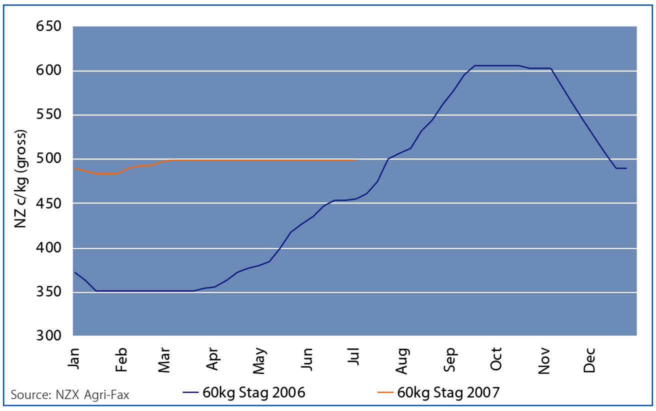


Venison

NZ c/kg gross	Current (2/07/07)	Last week	Last year
NI Stag 60kg	480	480	430
SI Stag 60kg	499	499	455

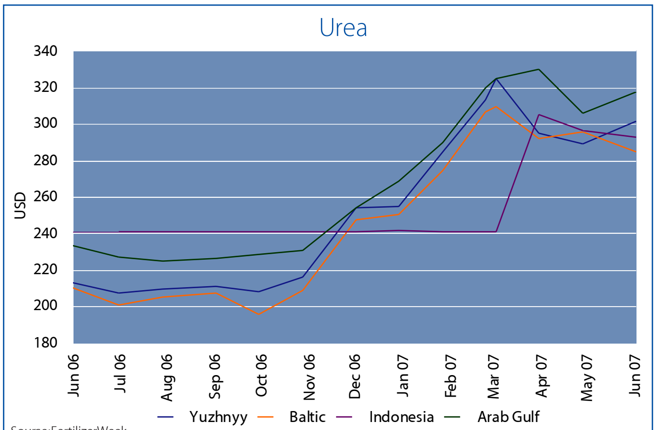
New Zealand

- Venison prices are still showing no sign of movement, having remained at the same level for nearly five months. European prices are 15-30% higher than this time in 2006 as the market has recognised lower volumes now coming from New Zealand; however the New Zealand dollar is also 12% higher against the Euro which is dampening the effect.

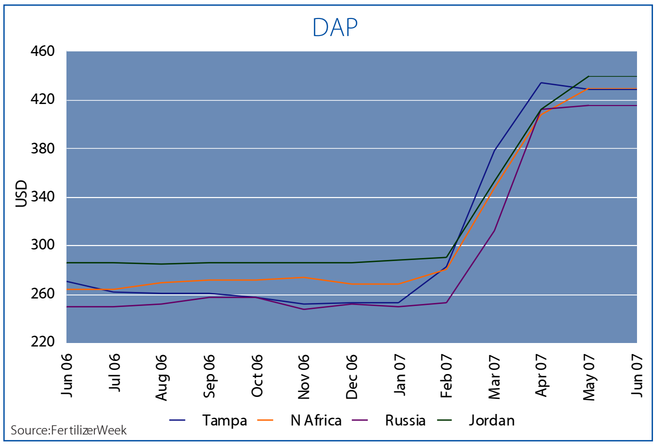


Fertiliser

All shown as USD/tonne	Current (7/06/07)	Last month	Last year
Urea (Arab Gulf)	317.50	306.00	234.50
DAP (Jordan)	440.00	440.00	286.50



Source:FertilizerWeek

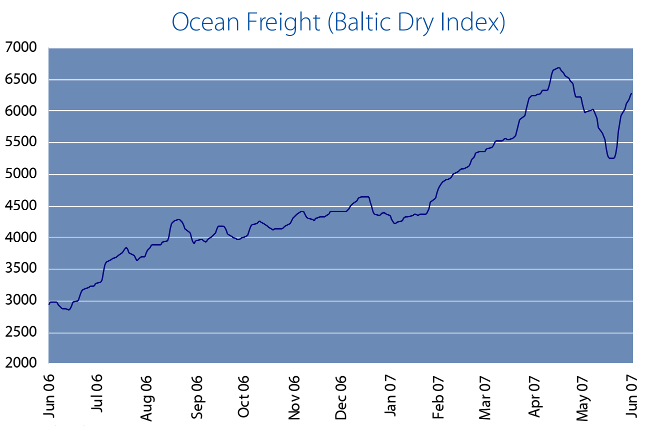


Source:FertilizerWeek

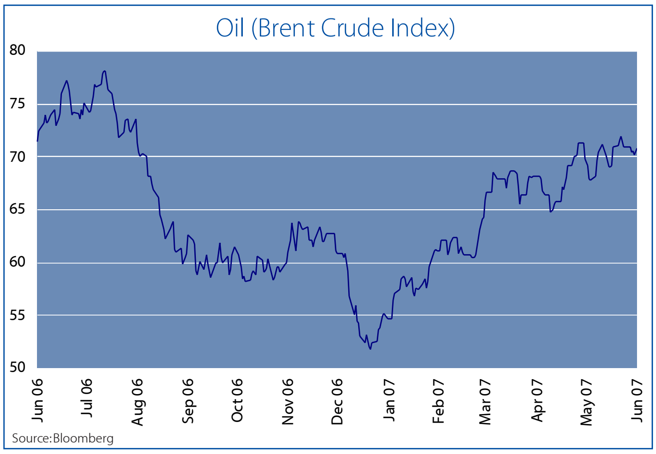
Other costs

	Current (29/06/07)	Last week	Last year
Baltic Dry Index	6278	5922	2964
Brent Crude Index	77.07	70.96	71.47

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.



Source:Bloomberg



Source:Bloomberg

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