



Australia & New Zealand Agribusiness Review

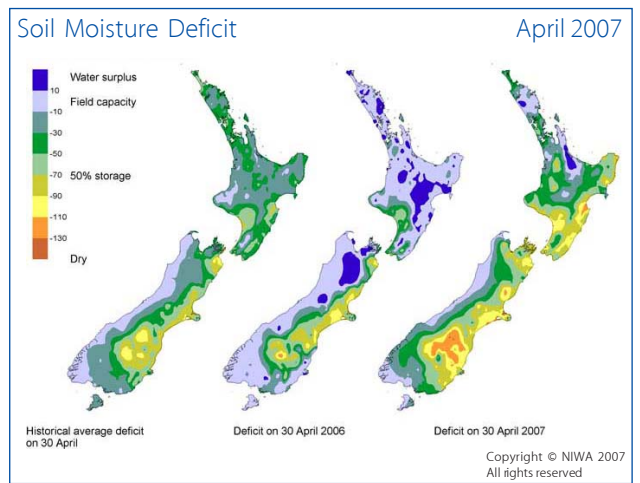
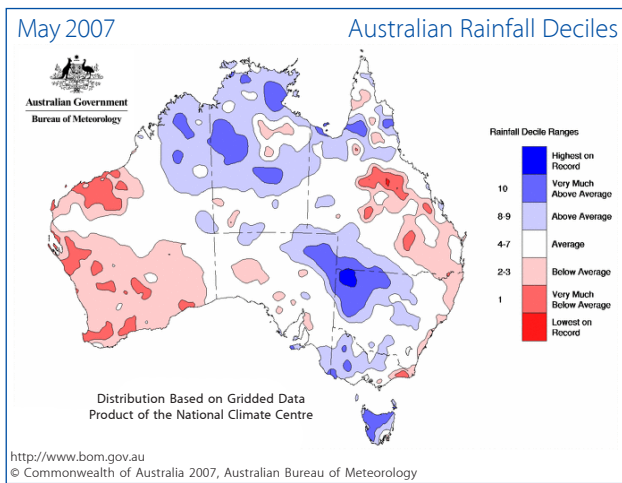
June 2007

Rabobank Group
Food & Agribusiness Research (FAR)

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Seasonal Outlook



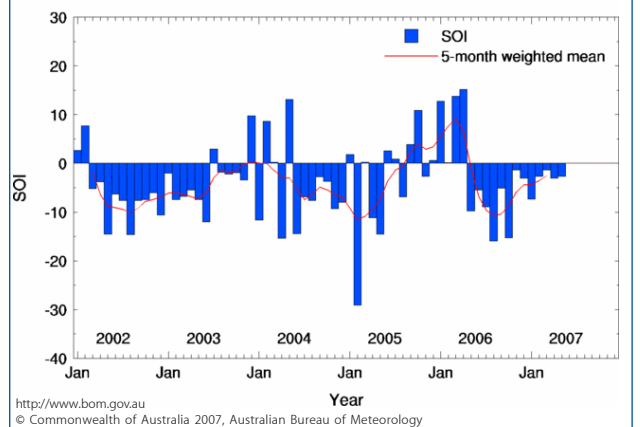
Australia

- Widespread rain that occurred in late April was followed by intermittent falls through May.
- In May, above average falls occurred in Victoria and South Australia with average falls through much of the rest of the country, except WA and south east Queensland, where rainfall was 'below average' to 'very much below average'.
- Current three month forecasts suggest a 45-50% chance of accumulating average rainfall for winter across Australia. However, these predictions may alter if the cooling conditions of the Pacific Ocean continue (as is predicted by a number of models) and a La Niña subsequently develops. The WA Department of Agriculture experimental climate models are suggesting a 70-90% of a La Niña developing.
- The Bureau of Meteorology (BOM) forecasts a moderate to strong shift towards warmer conditions in the north and west of Australia for the June to August period.

New Zealand

- Most of New Zealand enjoyed an 'Indian Summer', with the warmest May since records began over 140 years ago, and record low rainfall in the north and east of the country.
- Unfortunately this has exacerbated the soil moisture deficits already being experienced in the east of the North Island (Gisborne through to Wairarapa) and in Marlborough and Central Otago in the South. The situation

Southern Oscillation Index 4 June 2007

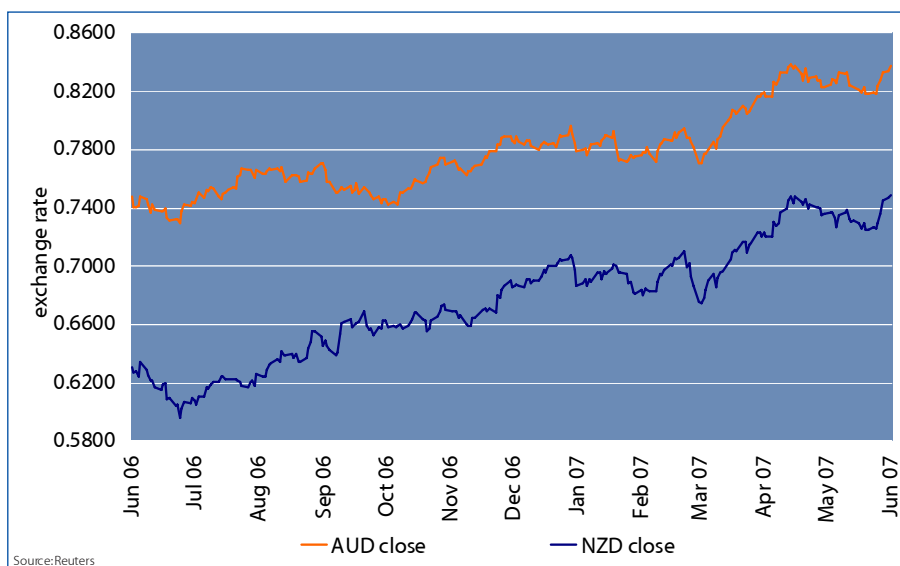


on the North Island's east coast has now reached drought proportions (autumn rain has usually been evident by this time) and farmers have been reducing stock numbers. Both Federated Farmers and Government are now taking action through some relief funding, feed supply meetings and other initiatives.

- NIWA's outlook to July is for above average temperatures and low or normal rainfall for much of New Zealand. The east of both islands is expected to remain drier than normal.

Currency/economy

Currency USD = Close (bid)			
	Current (5/06/07)	Last week	Last year
AUD	0.8371	0.8183	0.7479
NZD	0.7490	0.7262	0.6308



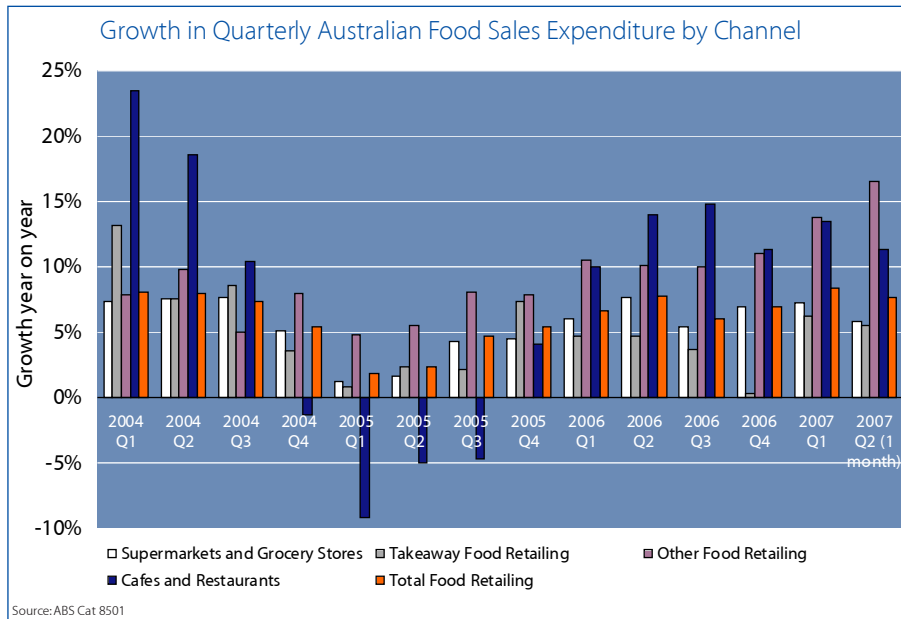
Australia

- The Australian economy has continued its impressive growth of recent times with March quarter seasonally adjusted Gross Domestic Product (GDP) exceeding expectations, increasing by 1.6% for the quarter and 3.8% over the year. This quarterly increase, buoyed by strong consumer spending, was the highest since December 2003, and comes despite a still drought-affected rural sector.
- Whilst the Reserve Bank has this week, as expected, left official interest rates on hold at 6.25%, strong economic growth numbers have increased the likelihood of a further increase later in the year.
- The AUD has also strengthened over the past month, breaking through the USD0.8400 barrier in early June to reach its highest level since February 1989. High official cash rate (OCR) expectations and stronger than expected economic data have both contributed to a buoyant currency environment.

New Zealand

- The Reserve Bank of New Zealand (RBNZ) increased the official cash rate (OCR) by a further 25 basis points in early June to 8%. This is the third quarter percent rise in four months from the RBNZ, taking rates to their highest level since the OCR's inception in March 1999. Given the demand momentum in New Zealand and the inflationary risk to the upside, the Reserve was not deterred by some recent tentative signs in the business sector.
- The NZD has continued to appreciate against the USD, gaining a further 1.3% in May to reach USD0.7500 in early June, a post float (March 1985) high and its highest level since 1982.
- The NZD has also been strong against other currencies, reaching a one month high against the AUD, a fifteen month high against the Euro and a seventeen year high against the Yen.

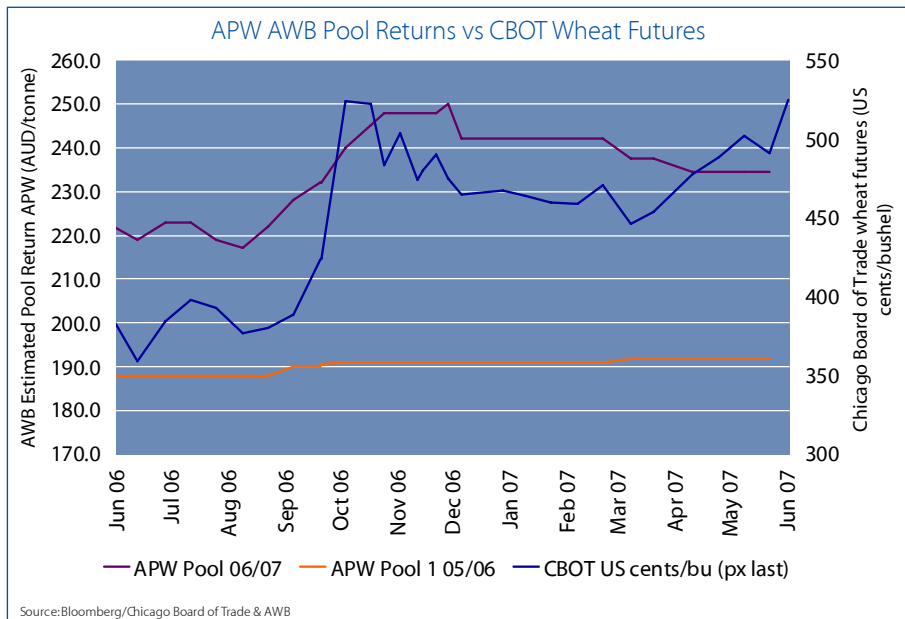
Food retail



- Australian food retail sales grew at their fastest rate in 20 months in April. Sales were up 1.4% in seasonally adjusted terms, led by supermarkets and liquor. While pleasing growth was also evident in restaurant and café channels, takeaway food sales were stagnant.
- The result was particularly impressive given that total retail sales (i.e. across food and non-food categories) ground to a halt in April, rising just 0.1% in seasonally adjusted terms. The general slowdown was attributed to a mild autumn (impacting sales of winter clothing) and petrol price rises through February and March.
- Recent growth pushed food sales further above the levels seen 12 months ago, with total food retail sales up 8.2% in April in year-on-year terms (see chart).
- The short term outlook for domestic food sales remains favourable, with consumer sentiment still strong on the back of rising incomes and strong employment.
- Despite favourable retail conditions, Coles has continued to struggle. Third quarter food and liquor sales were up just 0.8% on a same stores basis, with the addition of new stores bringing sales growth to 3.2%.
- The Coles Group attributed the poor performance in its food and liquor division to the adverse impacts of the conversion of Bi-Lo stores to the Coles brand, which was halted at Easter. The group has launched several initiatives in an attempt to turn around the performance of Bi-Lo in the fourth quarter, including improving the meat counter and Smart Buy house brand and value offerings. More broadly, Coles has also accelerated its latest discount program, Price Rewind, by drastically cutting the prices of up to 500 of its grocery items.
- Coles' competitors appear to be benefiting from the combination of strong retail sales and an underperforming competitor. As previously noted, Woolworths registered same store growth of 5.7% in the January to March period. Metcash also continued to thrive. Stripping out the one-off impacts associated with its restructure following the purchase of Foodland assets, its profit rose 42% for the year ended April 2007 on the back of an 18% revenue expansion.
- During May Coles and Wesfarmers agreed on confidentiality terms that allowed the latter entry to the deal 'data room'. The other group known to be conducting due diligence, a private equity consortium, saw several parties (including CVC and KKR) reportedly walk away from the deal, leaving a reduced consortium to consider its options.
- Coles has advised bidders that the company is seeking binding bids from interested parties by Monday 25 June.
- The uncertainty regarding the future of the Coles Group, including the potential entry of a new competitor to the food retail market, is a strategic consideration for other retailers at present. Metcash, for one, has suggested that any new owner of the Coles group would likely receive help from manufacturers concerned to maintain a counterbalance to Woolworths' buying power, with potentially negative implications for other retailers.

Grains and oilseeds

Chicago Board of Trade Wheat Futures			AWB APW 2006/07 Pool Price	
	USc/bushel		AUD/tonne	
Current (8/06/07)	Last month (1/05/07)	Last Year (6/06/06)	Current (29/05/07)	Last month (1/05/07)
524.4	488.5	385.00	234.5	234.5



Global

- Price volatility remains the story for global grain markets. The combined influence of strong demand driven by food, feed and biofuels; very tight stocks; and unpredictable weather has made for unpredictable market conditions.
- Estimates of world wheat stocks made by both US Department of Agriculture and International Grain Council (IGC) suggest that the global stocks of wheat are going to remain extremely tight through 2007/08. Stocks are currently at their lowest since 1980/81.
- The IGC wheat production forecast for 2007/08 has been downgraded slightly due to very dry conditions in Morocco, EU and Ukraine, however, the forecast remains the second highest on record. Concerns regarding frost damage to the US wheat crop in April have not proved as dire as first thought and the crop is progressing well.
- Given the tight balance sheet, particularly for corn and wheat, the market is expected to be very responsive to adverse weather conditions.
- Despite early concerns the US corn crop is in excellent condition, with emergence ahead of the five year average (94% compared to 88%). The rapid construction of ethanol plants (around 100 are scheduled to be completed in 2007) and the voracious demand generated by these plants for corn suggests that corn prices will remain strong. Any hiccups in weather which affect corn yield is likely to send

prices upward. There is concern about dryness in June which may affect plants in the early stages of development.

- Palm oil prices rose sharply in the last week of May reaching new highs - soy, sun and canola oil prices have followed suit. The rally is attributable to a combined shortage of palm oil and very strong demand growth from food and biodiesel.

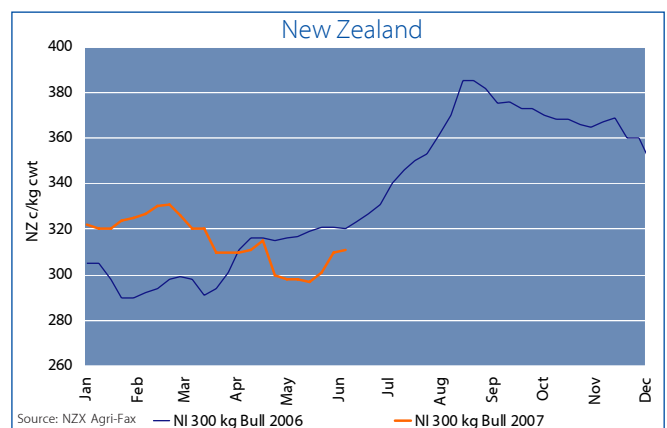
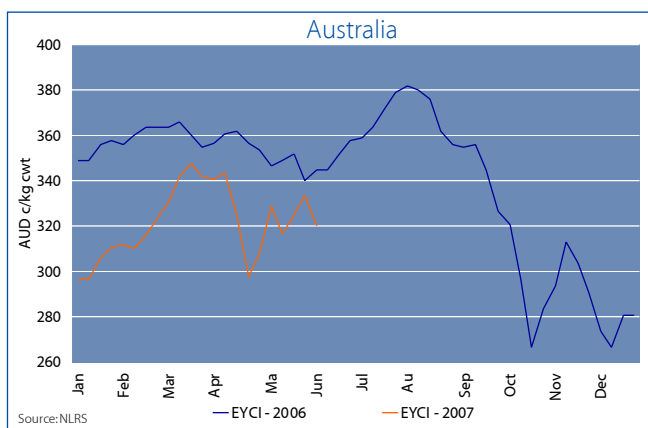
Australia

- The Australian winter cropping season has begun well with the majority of grain growing zones receiving decent breaking rain from late April and continuing intermittently through May. However, the Geraldton zone in Western Australia and the South East of Queensland remain the exceptions. Mid June is the seasonal cut-off for seeding in the majority of cropping regions, negative yield impacts would be expected from seeding after this date.
- Early forecasts suggest large grain crop area as growers respond to price signals and rain. A barley crop of around 9.5 million tonnes (mt) and a wheat crop of 23-25mt are not out of the question at this early stage. However, ongoing rain will be essential as there is minimal subsoil moisture available to support continued growth.
- Canola production forecasts vary between 1.2-1.55mt this year (up from 500,000 tonnes in 2006/07) as it is difficult to predict if farmers will elect to plant barley and wheat at the expense of canola.

Beef

AUD prices (c/kg cwt)			
	Current 1/06/07)	Last week	Last year
Eastern Young Cattle Indicator (EYCI)	320	334	340

NZD prices (c/kg cwt)			
	Current (4/06/07)	Last week	Last year
North Island Bull 300kg	311	310	320
South Island Bull 300kg	295	288	309



Global

- The Korean government has ceased issuing quarantine certificates for US beef, effectively banning imports. The step was taken after two US shipments containing prohibited beef bones were discovered during quarantine inspections. The US government, which has been pressuring Korea to open up to bone-in beef imports, says that the beef was prepared for domestic consumption and was shipped to Korea by mistake. With Korea entering into its peak buying period for beef, a ban on US beef is expected to drive renewed interest in Australian beef. However, it is unclear how long the ban on US imports will remain in place.
- The World Organisation for Animal Health (OIE) has reclassified the US and Canada as 'controlled risk' countries for BSE. The OIE recommends that countries with the controlled risk classification be permitted to export bone-in beef and offals from animals under 30 months, excluding specified risk materials. The announcement has seen increased pressure from the US for countries such as Japan and Korea to open up to bone-in beef imports from cattle under 30 months of age. Australia was rated as a 'negligible risk' country, the highest rating achievable under the system.
- At its May meeting, the OIE also recognised an increased area in Argentina as being Foot and Mouth Disease (FMD) free without vaccination. The state of Sanata Catarina in Brazil was also recognised as FMD free without vaccination. The announcement is expected to see Brazil and Argentina push for access for these states into the US market.

Australia

- J&F Participacoes S.A. of Brazil has announced it will purchase Swift & Co., the US' third largest beef processor, and parent company of Australia Meat Holdings (AMH). The purchase will see J&F add four US and four Australian beef plants to their holdings, making them the world's largest beef processor. J&F already operate 24 beef plants located in Brazil and Argentina.
- Good rainfall in May saw stronger demand for young cattle in southern states. Queensland, however, is experiencing continued poor seasonal conditions, with increased numbers of young cattle entering the market. This has limited the rise in the EYCI, which reached AUD3.20/kg cwt at the beginning of June, compared to AUD3.43/kg cwt for the same time last year.

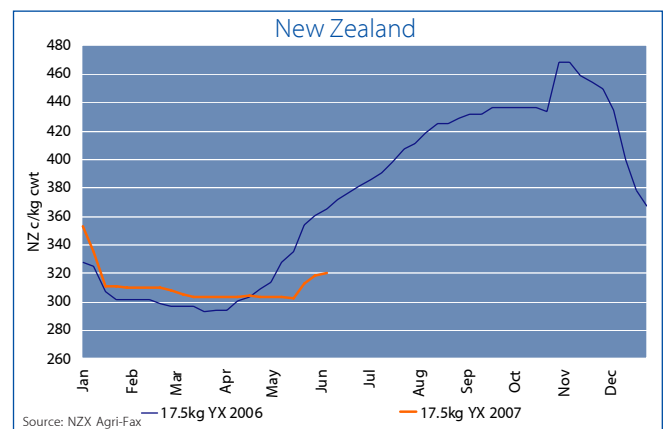
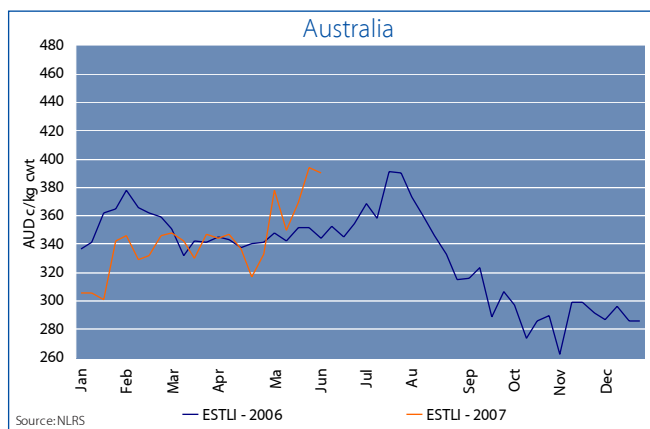
New Zealand

- Beef schedule prices have shown some signs of improvement during May but remain 3-5% below last year at this time. With US import manufacturing prices around USD 5c/lb higher than in June 2006, the exchange rate is having the biggest impact.
- Cattle processing volumes are running around 2% ahead of last season (NZX Agri-fax), due almost entirely to the high rate of cow slaughter in the North Island, which is 9% higher than in 2006.

Lamb

AUD prices (c/kg cwt)			
	Current (1/06/07)	Last week	Last year
Eastern States Trade Lamb Indicator	390	394	352

NZD prices (c/kg cwt)			
	Current (4/06/07)	Last week	Last year
NI 17.5kg YX	317	317	349
SI 17.5kg YX	320	318	365



Australia

- Rain in southern states has had a strong impact on lamb prices, with competition increasing between restockers and processors. This was reflected in a jump in the Eastern States Trade Lamb Indicator, which rose to AUD3.90/kg cwt, AUD 38c/kg cwt above the same time last year. June to September is generally a period of reduced supply for the lamb sector, however the high slaughter levels early in the year is expected to result in tighter than usual supply through winter.
- Processors are expected to face tighter margins over the upcoming months, as subdued demand in major export markets and the impact of the high Australian dollar combines with higher lamb procurement costs.
- According to ABARE, improved returns to slaughter lambs over recent years has seen renewed interest in lamb production in northern New South Wales, northern Western Australia and Southern Queensland. The introduction of new breeds suited to drier climates, improved wool prices and the increased use of sheep for weed control are also contributing to the expansion of flocks in these regions.

New Zealand

- Farm gate lamb prices have finally lifted over recent weeks as processing volumes have lowered and the winter seasonal schedule approaches. International prices have also lifted during May providing a better price footing than was evident earlier in 2007.
- With lowering slaughter rates the lamb kill is now only 7% ahead of this time last year. NZX Agri-fax had earlier reported export slaughter running around 20% ahead earlier in the season. High early processing rates will reduce supply availability during the second half of the season.
- Increased slaughter has also been evident in export volumes with 23% more sheep meat shipped during the March 2007 quarter (total 134,000 tonnes), compared to the previous year.
- Affco announced its half year results to March 2007, reporting a NZD15.9 million loss, compared to NZD4.1 million profit last year - citing a tough international lamb market as a key contributing factor.

Dairy

World dairy prices									
	USD/tonne			AUD/tonne			NZD/tonne		
	25/05/07	last month	last year	25/05/07	last month	last year	25/05/07	last month	last year
Butter	2,200	2,100	1,800	2,667	2,602	2,387	2,978	2,942	2,842
SMP	4,000	3,500	2,075	4,848	4,337	2,751	5,414	4,903	3,276
WMP	4,000	3,375	2,100	4,848	4,182	2,784	5,414	4,728	3,315
Cheddar	3,100	3,050	2,650	3,758	3,779	3,514	4,196	4,273	4,184

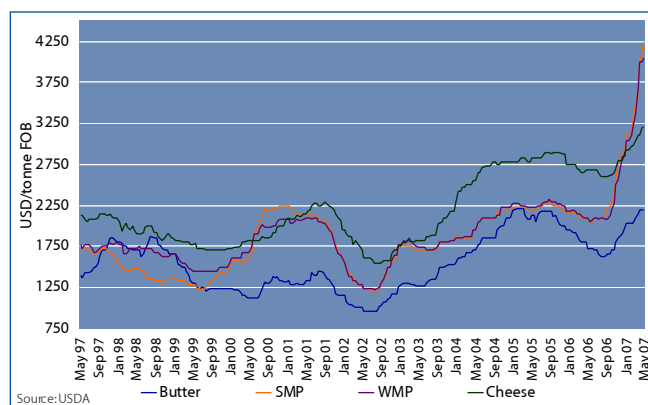
Source: USDA

Global

- USD commodity prices continued to rise through May, though the rate of increase was slower than in previous months.
- Prices continue to be pushed higher by structural and temporary supply side reductions. The EU has continued to reduce its support to farmers and exporters as part of its ongoing CAP reforms, while Oceania production costs have risen significantly in recent years. More temporarily, drought in Australia, high feed costs in intensive dairying regions around the world and flooding in Argentina in March have further derailed growth.
- Scarce milk supply has, in turn, fed through to significant declines in export volumes, with domestic market sales typically receiving priority. Where supply is available, exporters appear to be directing available milk to cheese exports, sacrificing short term gains in order to maintain supply to longer term strategic customers. Australian dairy exports fell 13% in April, with WMP exports half the levels seen 12 months prior. EU exports of SMP and butter also more than halved in the first two months of 2007, with cheese shipments up 11%.
- Record USD export prices are starting to feed through to higher farm gate prices for farmers in many regions. In particular, farmers in New Zealand, Australia and US are all expected to receive record prices for their milk in coming months. But the enthusiasm with which farmers will respond to these signals will remain tempered in many regions if feed costs remain high as expected.

Australia

- In early June, AUD export prices were still marginally above the average for 2005/06 for cheese and butter, and 65% to 75% higher for powders.
- While milk production has been less impacted than forecast by the drought, production was still down 8.9% in April.
- Recent rainfall has been at least adequate to ensure a good start to the production season next month in most rain fed districts in the south. Farmers are also likely to receive encouragement from exporting co-operatives when they announce opening milk prices in the next month or so. The challenge for farmers remains negotiating the winter period, with serious shortages of fodder in many regions, and for irrigators planning their season without certainty of irrigation water availability.



Production growth in key exporting regions		
	Latest month	Last 3 months
EU 15	1.5% (Feb)	1.2%
EU 10	3.6% (Feb)	3.3%
US	1.3% (Apr)	1.0%
Argentina	-14.5% (Mar)	-9.7%
Australia	-8.9% (Apr)	-10.1%
NZ	2% for 11 months to May 2007*	

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

New Zealand

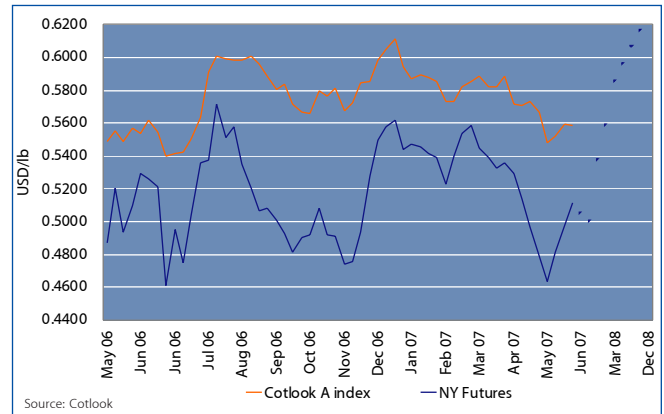
- NZD powder export prices were 80%-90% above their level 12 months ago in May, with butter and cheese up 12% and 5% respectively.
- The strength of export pricing enabled Fonterra to announce a forecast payment of NZD 5.53/kg milk solids for suppliers for the 2007/08 season. This would represent a 27% increase on 2006/07 payments, and present a strong encouragement for supply growth.
- The New Zealand government has determined that quotas to restricted dairy markets will be reallocated according to processor's share of the nation's milk supply. However, due to its control over 90% of the milk supply, Fonterra will retain the lion's share of access to these markets.
- The Supreme Court also ruled in late May that the 'default milk price' (at which independent dairy processors can buy raw milk from Fonterra) should be calculated using a cost of equity capital rather than a weighted average cost of capital - aimed at ensuring independent processors can compete with Fonterra on a level playing field.

Cotton

Monthly average cotton prices (USD/lb)			
	Current (25/05/07)	Last week	Last year
Cotlook A Index	0.5585	0.5595	0.5570
NY Futures (March 07)	0.5114	0.4976	0.5094

Global

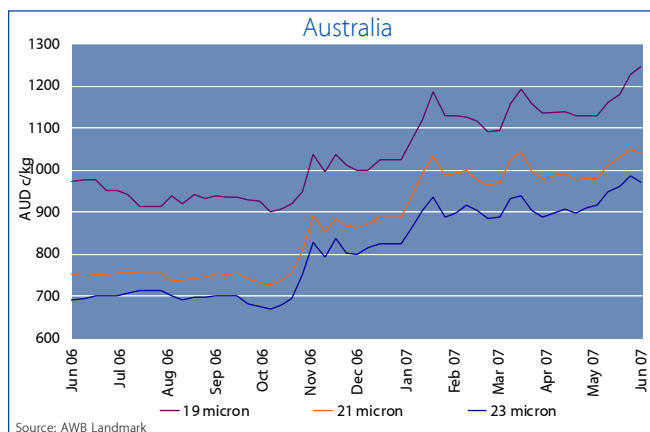
- Cotton futures have shown some signs of strengthening throughout May, with the nearby futures contract closing the month 9% higher than it opened the month. That said, prices remain around 21% below the long term average and the fundamentals in the market continue to indicate a bearish situation into the second half of 2007, barring any significant weather events.
- Whilst domestic supply conditions appear quite negative for 2007/08, given the low water storage availability, other non-US major crops appear to be in quite good condition at this stage. Planting and early crop development in China is progressing well and Indian production is also expected to be higher with the monsoon on track and an increased usage of GM plantings expected again next season.
- US export sales continue to be positive for the market although actual shipments continue to lag. It appears likely that a significant portion of the current sales activity is set for



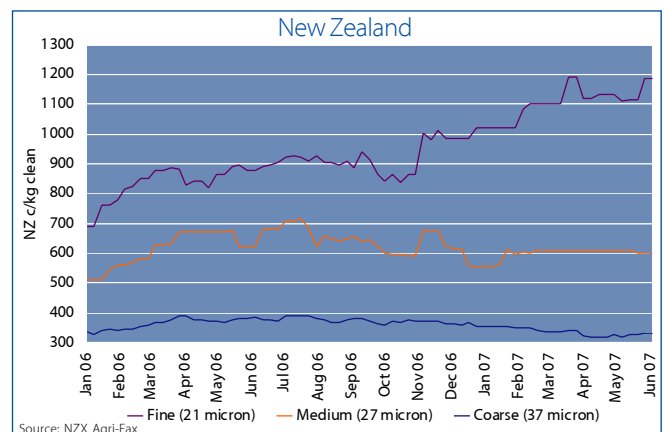
delivery in the 2007-08 marketing year, not for the current season. Not surprisingly, with US cotton stocks being some of the cheapest in the world, international mills are locking in their purchases for long term delivery.

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	1246	1229	975	1186	1186	879
Medium	1041	1052	751	600	600	622
Broad/coarse	970	986	692	330	330	385



- Fine wool prices have led the way in Australia over the past month with strong gains of over 10% pushing the 19 micron price guide to its highest level since February 2003. Other categories have also strengthened with the 21 and 23 micron price guides also gaining 6% throughout May.
- Strong demand conditions, buoyed by a robust global economy, have combined with a tight global supply situation, triggered by drought in Australia and a general shift away



from wool production to continue pushing wool prices higher in 2007.

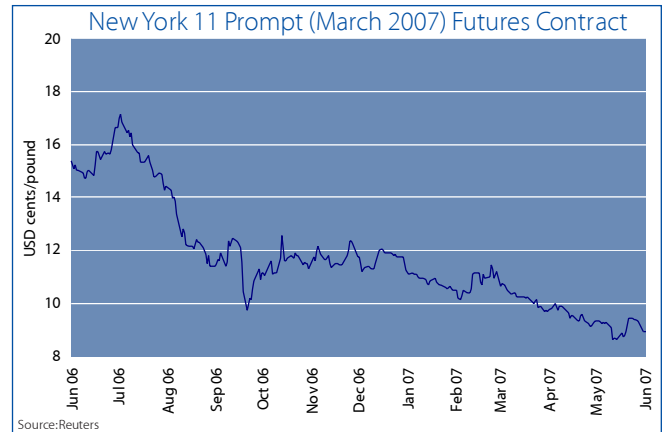
- Early stage processor margins are starting to come under increased pressure, due to the sharp rise in raw wool prices and relatively stagnant price they are able to command for their semi-processed product. This is likely to impact the likelihood of further raw wool price increases and even the sustainability of current price levels.

Sugar

New York 11 Prompt (raw sugar futures price March 2007)					
US¢/lb			AUD/tonne		
Current (5/06/07)	Last week	Last year	Current (5/06/07)	Last week	Last year
8.92	9.38	17.48	235	253	235

Australia

- Near term July contract NY no.11 prices have continued to ease over the past week, closing below month opening levels. Improving seasonal conditions in Central South Brazil have lifted any fears of a weather induced rally in the market; the supply of sugar from this region over the next few months is likely to continue to exert bearish pressure on world prices.
- The outlook for the global sugar market continues to remain bearish with early season forecasts for 2007/08 indicating another significant surplus of around 9.5mt. Following expectations of a surplus close to 9.1mt in 2006/07, global stocks are expected to increase by close to 19mt in two seasons. With global sugar consumption growing at around 2.5% per annum it will take some time to reduce this stockpile.

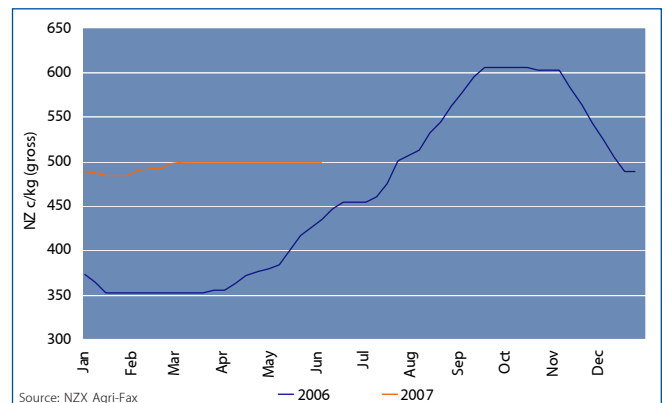


Venison

NZ c/kg gross			
	Current (4/6/07)	Last week	Last year
NI Stag 60kg	480	480	404
SI Stag 60kg	499	499	435

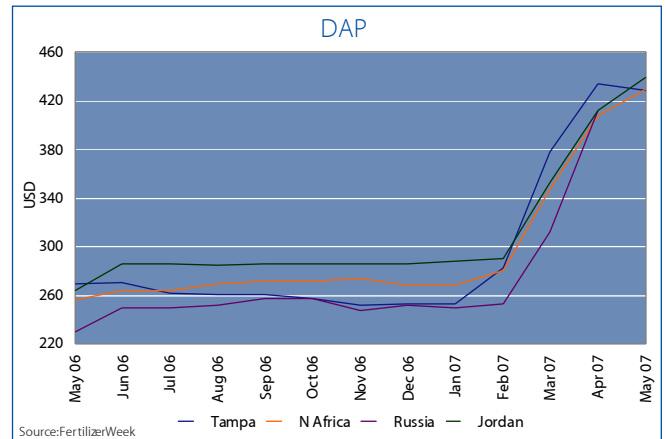
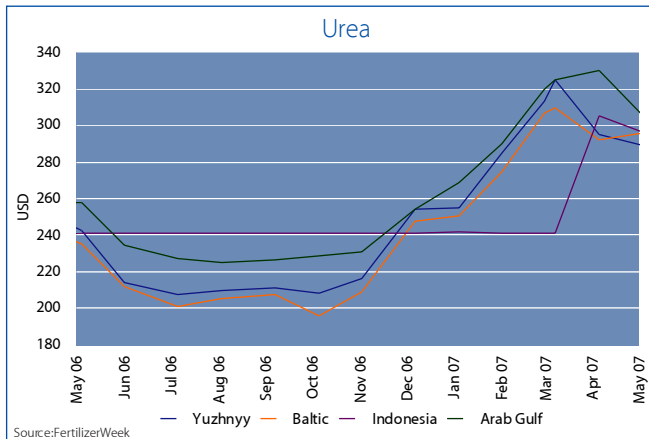
New Zealand

- The balance achieved in the venison market through lower supply volumes continues to be reflected in firm market prices. While the seasonal price lift is not yet evident, European prices continue to range from EUR0.50-1.50/kg more than seen in May 2006.
- The deer industry is ensuring it keeps pace with consumer requirements and best practice through the release of the Deer Code of Welfare during May. Given the positioning of venison towards wealthy and high-value consumers the code recognises the increasing importance of animal welfare and acceptable production methods.



Fertiliser

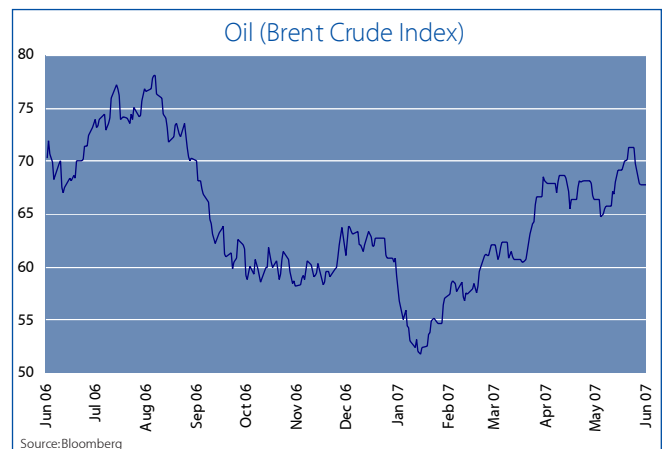
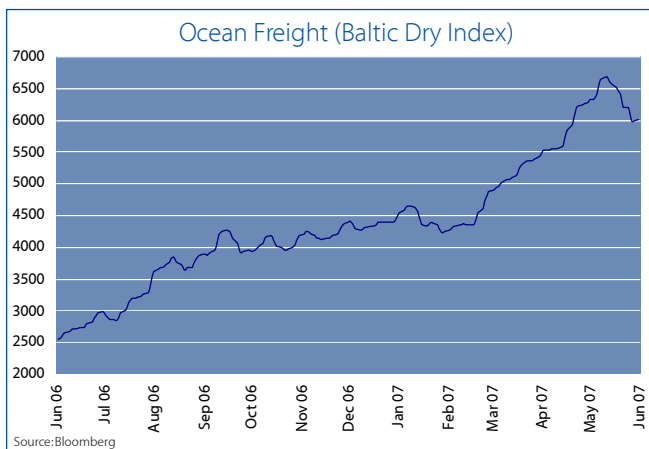
All shown as USD/tonne	Current (3/05/07)	Last month	Last year
Urea (Arab Gulf)	306.00	330.00	257.50
DAP (Jordan)	440.00	412.50	264.00



Other costs

	Current (4/06/07)	Last week	Last year
Baltic Dry Index	6011	6212	2551
Brent Crude Index	67.80	71.27	70.33

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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