



Rabobank

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Agribusiness Review

Australia and New Zealand

Rabobank Group

Food & Agribusiness Research and Advisory (FAR)

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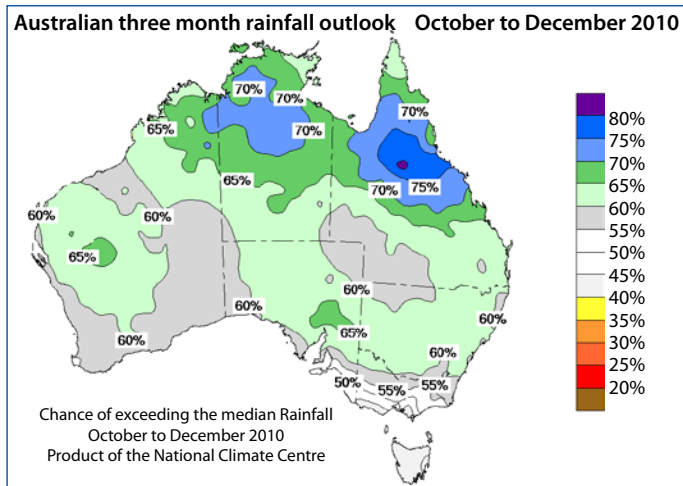
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Report highlights

- La Niña conditions produced the wettest September on record in Australia, with only the southwest of Western Australia remaining dry. Dam storage levels have increased and a wet outlook for the next quarter means irrigation allocations will lift. Heavy rainfall and snow in New Zealand in September impacted on lambing and milk production. The outlook for New Zealand is for warm weather with average to dry conditions.
- The global economic outlook appears to be improving, with central bank support and robust activity in developing Asia the drivers. The Reserve Bank of Australia kept rates on hold at 4.5%, despite good growth and mounting inflationary pressures. The outlook for New Zealand's economy has softened and as a result Rabobank has revised its growth forecasts down.
- A weakened USD, designed to stimulate US domestic activity, has changed the outlook for the AUD and NZD. As a result Rabobank believes the Australian dollar is now expected to trade above USD0.90 mark while the NZD should trade in the USD0.70-0.75 range.
- Global grains prices, having stabilized through much of September at elevated levels, went into a tail-spin at month's end on news of reduced climate risk in Brazil and Russia and an upwards revision to US corn stocks. The Australian wheat crop is a tale of a dry west coast and wet east coast; the resultant crop is expected to come in the 22-23 million tonne range.
- In general, beef prices continued to hold during September, despite the elevated AUD and NZD. Prices for young and heavier cattle in Australia shifted up slightly, while prices in New Zealand eased slightly on reduced demand in the US market. Lamb and sheepmeat prices eased slightly in Australia during September, as expected at this time of year, but remain at strong levels. In New Zealand prices finally tracked above last year levels, with tight supply the main contributor.
- Global dairy prices firmed in September, with a return to pricing stability the main message from trade auctions. Supply side issues to watch over coming months include the impact of adverse weather in New Zealand, higher feed prices, and the release of EU inventories.
- Oil prices, which have traded between USD70-80 since the middle of the year, have recently shifted above USD80/barrel.



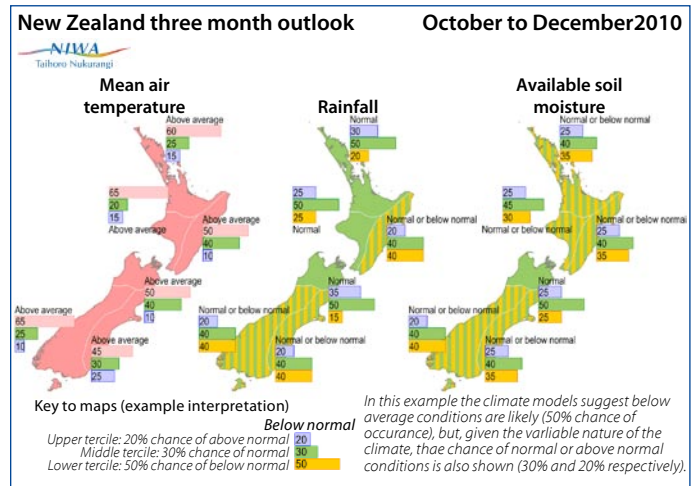
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Australia

- September 2010 was the wettest September on record, with over three times the average rainfall across the country, driven by the La Niña event.
- During early September, torrential rains fell over the north-east and western Victoria, flooding a number of towns including Horsham, Shepparton and Wangaratta and destroying crops. Conversely, south-west Western Australia experienced a very dry late winter and early spring.
- Heavy rainfall throughout the Murray-Darling Basin has lifted water allocations significantly. Basin storage levels are at 66%, up from 29% in June.
- The Bureau of Meteorology (BOM) announced that the very high rainfall during September marks the end of a 14-year meteorological drought in south-east Australia.
- The La Niña event has strengthened through September and climatic models indicate it will persist into 2011 at least. As a result, the majority of the country is at least 60% likely to receive above average rainfall over the next three months, with a higher probability of wetter-than-average conditions in northern Australia. For the remainder of the country, average to slightly above average rainfall is expected.

Southern Oscillation Index

- The Southern Oscillation Index (SOI) continues to rise and has now peaked at a 21 month high of 25 points.
- With ongoing warming of the Indian Ocean and cooling of the equatorial Pacific, the La Niña event is likely to extend into early 2011. This may delay the sugar harvest in Australia and has the potential to downgrade Australian east coast crop quality.
- A negative Indian Ocean Dipole (IOD) event also emerged in September, which is common during La Niña periods, and is likely to bring above average rainfall across southern Australia in spring. While this looks to have boosted the rainfall outlook in South Australia, the odds of wetter-than-average conditions in south-west Western Australia have eased somewhat.

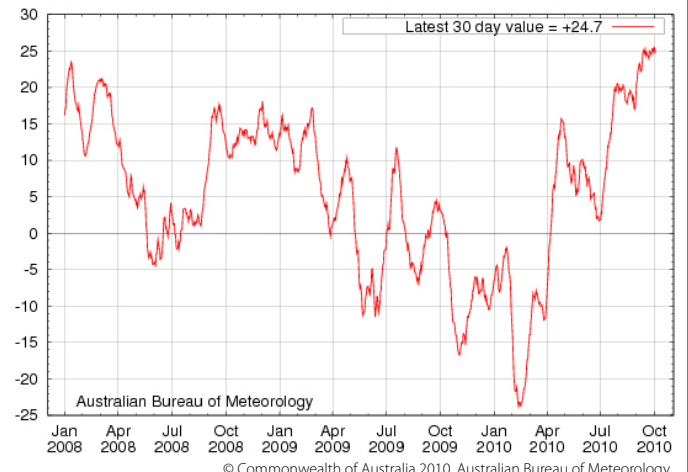


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New Zealand

- Near-record rainfall, snow and low temperatures marked September as a dismal month for much of New Zealand, with estimates that farmers may have experienced more than NZD50 million in losses, including the loss of up to 500,000 lambs and up to a 25% fall in milk collection in some areas due to heavy snow.
- Rainfall records were broken the south-west of the North Island and the north and north-west of the South Island, where in some cases double the normal rainfall for this time of year was recorded. It was extremely wet in most other regions, except for eastern Northland and coastal north Canterbury, which received near-normal rainfall, and south Canterbury and coastal Gisborne which were very dry.
- September temperatures were above average in the north and east of the North Island, and the eastern South Island and well below average in the west and south of the South Island.
- The outlook for the October to December period is for above-average temperatures in all regions. Rainfall is likely to be near or below normal in the east of both the North and South Islands and the south-west of the South Island, and near normal elsewhere. This is likely to result in near or below normal soil moisture levels in most regions.

30 Day Moving Southern Oscillation Index 27 September 2010

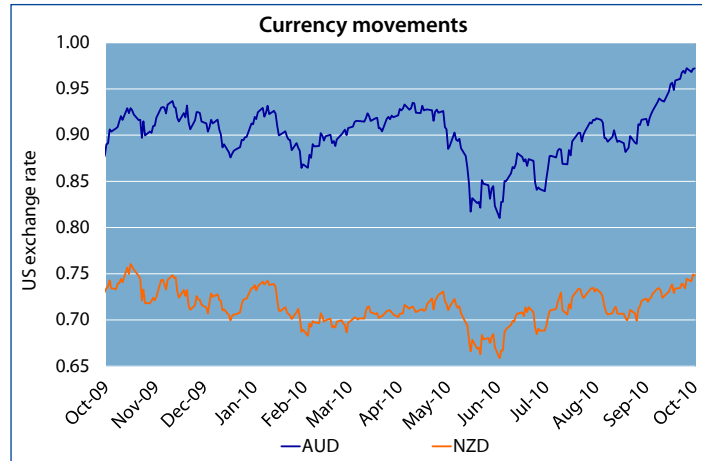


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Currency USD

	Current (06/10/10)	Last month	Last year
AUD	0.9722	0.9176	0.8902
NZD	0.7282	0.7233	0.7344

Source: Bloomberg/Rabobank



Source: Bloomberg/Rabobank

Global

- Three major factors are driving the more upbeat global outlook currently: 1) US Federal Reserve’s claims that it is willing and ready to step up to further quantitative easing to support the US economy; 2) all of the big central banks have signalled, in one way or another, that interest rates are most likely on hold until the middle of 2011. Supporting this view was the recent announcement by the Bank of Japan confirming it is now pursuing a ‘virtually zero interest rate policy’; and 3) ongoing robust activity indicators for developing Asia.
- The recent lift in grain prices again sparked fears of an inflation blow-out in the developing world. Most concerns are attached to the impact on growth if interest rates had to be quickly increased. While the impact of higher food prices is a downside risk to Asian growth, at this stage prices for grains and oilseeds seem to have settled, which has calmed these initial fears.

Australia

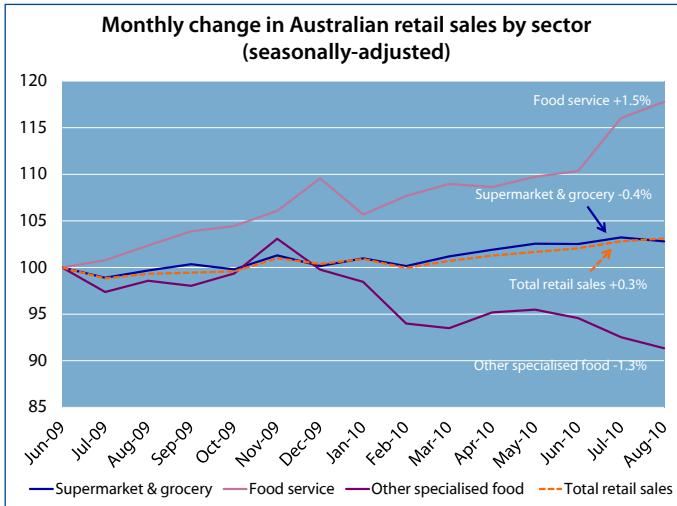
- Australia continues to outperform its developed country peers, with recent GDP data showing that the economy expanded at an above-trend pace in Q2 10. That said, the two-speed nature of this recovery is starting to show signs of strain. Inflation pressures are again building, with Rabobank expecting the Reserve Bank of Australia to raise the official cash rate (OCR) once more this year, and by a further 75 basis points next year – this would take the OCR to 5.5% by the end of 2011.
- The Australian dollar (AUD) shifted up a gear in September, with its fate now firmly depending on US dollar (USD) fundamentals. Improvements in the global risk appetite, which is somewhat

related to the US Fed’s claims to undertake further quantitative easing, have weakened USD fundamentals. While many have been forecasting the AUD to reach USD parity, this is not Rabobank’s view. The bank thinks parity advocates have discounted the market’s sensitivity to further worse-than-expected news on the US labour or housing market front, which could provide some near-term relief. In addition, bulk commodity prices are flattening, so an easing in the terms of trade momentum would also help hold the AUD lower. Nevertheless, barring any unforeseen economic adversities, the AUD will hover above the USD0.90 level for a while yet, perhaps for 12 months.

New Zealand

- New Zealand’s near-term economic outlook has softened in September. Real GDP by production increased 0.2% in Q2 10, following a 0.5% increase in Q1 10. Although this was the fifth consecutive quarter of economic growth since the recession, growth fell well short of expectations. As a result, Rabobank has adjusted its growth forecast lower to 1.9% for 2010 and 2% for 2011. This allows for the below-expectation Q2 10 result, the negative on-farm production impacts from recent extreme weather conditions and the near-term effects of the Christchurch earthquake.
- In Rabobank’s view, the Reserve Bank of New Zealand (RBNZ) is now on hold. We expect the OCR to remain steady at 3% in 2010 (a change from Rabobank’s expectation of 3.25% at the start of the year), with an increased likelihood that the RBNZ will sit on its hands beyond our projected Q1 2011 move date. Based on fundamentals, the New Zealand dollar should continue to trade in the USD0.70-0.75 band.

Food retail



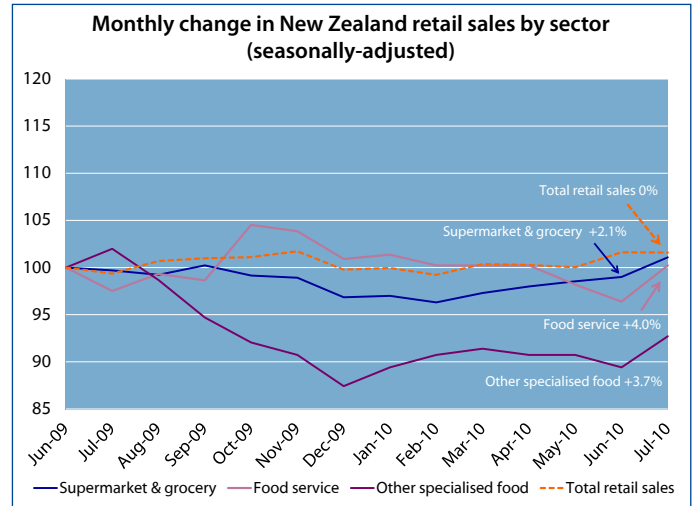
Source: ABS Cat 8501 - % reference represents month-on-month change for most recent period

Australia

- Seasonally-adjusted Australian retail trade turnover increased by 0.3% in August 2010 on the prior month and 3.8% on the prior corresponding period. The more subdued estimate in August compared to the prior month would not appear to pose a direct threat to consumer inflation and is likely to have played a key role in the decision of the RBA to keep its policy rate on hold in October.
- Seasonally-adjusted supermarket and grocery retail turnover decreased by 0.4% in August, while food service channels (cafés, restaurant and take-away) increased 1.5% on the prior month, led by a 2.8% rise in café, restaurant and catering trade which again registered the strongest growth of any retail subcategory.
- The strong recovery in this more premium café, restaurant and catering food service channel over the past year is a positive sign of more buoyant household discretionary spending. While consumer confidence decreased 5.0% in September on the prior month (Westpac-Melbourne Institute, 2010), confidence levels remain above average levels observed in the years leading up to the global economic downturn.

New Zealand

- Consumer data for July continues to reflect the subdued nature of New Zealand's economic recovery. The broad measure of retail sales was weaker than the market expected (consensus -0.1%), declining by 0.4% in the month, following a 1% increase in June. Most surprising in the July retail data was the lack of obvious bring-forward of consumption due to the increase in the GST. Although recent anecdotal information from retailers does suggest consumers have increased spending in September, just prior to the GST increase, at this stage the impact on consumption of the GST looks somewhat smaller than has been factored into expectations.



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

- Seasonally-adjusted, electronic card transactions between July and August increased by only 0.1%. Credit cards accounted for 44% of the total transaction value in the year-to-August 2010, the lowest proportion since the series began in 2002, and the total seasonally-adjusted core retail sales value remained unchanged. Consumers limited spending in the majority of non-food retail sectors, with declines across 11 of the 20 core retail areas.
- Food-related spending has been the exception, showing improvement in July after a number of flat or declining months. Combined spending in supermarket, fresh produce, liquor, café and restaurant, and takeaway spending increased to NZD1.992 billion for the month, up from NZD1.957 billion in June. On a year-on-year basis, food sector spending growth was still sluggish, increasing only 0.8%. Moreover, this improvement in spending has been on the back of lower food prices, which have fallen 1% year-on-year.
- On the first of October, the GST increased from 12.5% to 15%; this is expected to increase the prices for goods and services by just above 2%. Near-term, this is expected to sharply lift CPI by adding an estimated 2-2.5% to the headline number. Nevertheless, the GST influence on the headline CPI number is expected to be short-lived. Headline CPI is expected to peak just below 5% in early 2011, with the impact of the GST fading by the 2H 11.
- In general, prospects for the retail sector look less upbeat than six months ago. While employment conditions still look set to improve slowly and the terms of trade boost should begin flowing solidly through to household income, a weak housing sector will keep consumers cautious. Until consumers have more in their pockets longer-term, spending will focus on the essentials. This should support food retail and supermarket sales, although it will do little for other segments.

Grains and oilseeds

ASX wheat prices

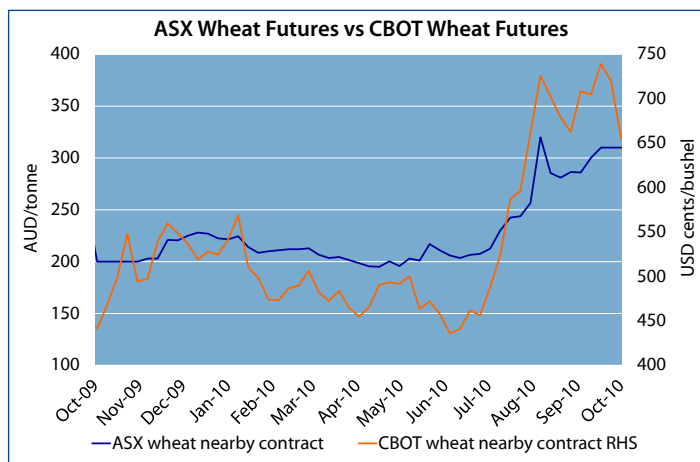
	Current (01/10/10)	Last month	Last year
AUD/tonne	310	286	200

Source: Bloomberg/ASX/Rabobank

Chicago Board of Trade Wheat Futures (nearby contract)

	Current (01/10/10)	Last month	Last year
USD c/bushel	655	708	441

Source: Bloomberg/CBOT/Rabobank



Source: Bloomberg/CBOT/ASX/Rabobank

Global

- Rain in Brazil and Russia, and a larger-than-expected upward revision to US corn stocks by the USDA was enough to send the markets into a tail spin at the end of September. On a week-on-week basis, October started with price falls across the board – the largest in wheat (-8%), with soybean (-6%) suffering the least. Favourable harvest conditions for US corn and soybean producers and an acceleration in planting in Brazil and Argentina has added to the bearish market sentiment.
- The sell-off was somewhat anticipated, particularly given the significant positions accumulated by speculators in the market over the last few months. That said, Rabobank still believes this is not the end of the rally. Weather related factors and strong demand from China and the US ethanol sector are expected to keep soybean and corn markets highly sensitive to any swings in fundamental news. Corn is still the market leader in our view, with wheat prices likely to show a strong correlation to movements in the corn supply/demand balance from here.
- Russia will continue to be a large swing factor in global markets, with the timing of its re-entry to the global export market not expected until 2011/12. Although wheat production is expected to recover this coming year, the Government is likely to hold off on lifting the export ban until domestic stocks are back at average levels.
- Canola prices, also impacted by weather, have weakened somewhat as the harvest has at last picked up pace in Canada – around 56% of the crop is now harvested. According to the Canadian Wheat Board this was up from around 33% in mid-September, but still lagging behind the five-year average of 89% for this time of year. In 2010, Canada is expected to produce around 16% less canola than in 2009, with near 10 million tonnes currently forecast for 2010.

Australia

- Australian crop expectations remain an east-west affair. Western Australian crop conditions have worsened over September, with wheat production revised lower to around four million tonnes – the lowest production since the 2002/03 drought. Australia's total wheat crop is now at the lower end of our range of 22-23 million tonnes, and by no means are we at the end of the season yet.
- On the other hand, east coast producers have experienced some of the best growing conditions in over a decade. New South Wales is poised to post a record wheat crop of 8.7 million tonnes, and is this year the largest producing state in Australia – a trophy usually held by Western Australia. Nevertheless, too much rain is not always a good thing, and the recent wet spring forecast by the BOM has raised concerns about losses from disease and quality downgrades due to potential wet harvest conditions. Locust infestation remains a risk to this year's production; this is most prevalent in southern New South Wales and northern Victoria.
- Australian grain and oilseed exports will be limited by infrastructure bottlenecks and the very strong Australian dollar. Although tight international supply-side conditions may create a buffer to the full impact of the +USD0.90 dollar on relative competitiveness, this will only be the case in the near term. An anticipated moderation in global supply-side constraints from mid next year means Australian exporters are likely to come under increasing pressure to meet lower global market prices, which will feed back through to lower farm gate incomes.

Beef

Australian beef prices

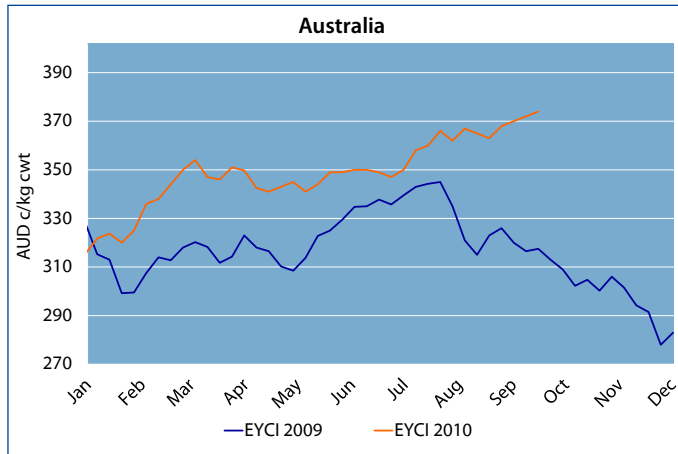
All shown as AUD cents/kg cwt	Current (01/10/10)	Last month	Last year
Eastern Young Cattle Indicator (EYCI)	374	363	317

Source: NLR/Rabobank

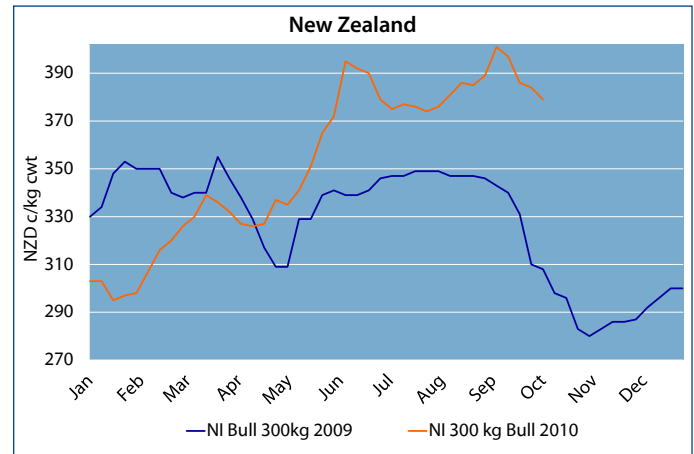
New Zealand beef prices

All shown as NZD cents/kg cwt	Current (04/10/10)	Last month	Last year
North Island Bull 300kg	379	401	308
South Island Bull 300kg	357	366	204

Source: NZX Agrifax/Rabobank



Source: NLR/Rabobank



Source: NZX Agrifax/Rabobank

Global

- The big movement in US beef prices during September came from domestic 90CL cow prices, which fell USD 22 cents/lb to USD 146 cents/lb. This was the result of increasing US cow slaughter as livestock availability improves over the autumn months. This pulled imported 90CL prices down by USD 5 cents/lb over the month despite imported lean beef availability being low. While it is not unusual for imported prices to exceed US prices at this time of year, the difference of USD 15 cents/lb is significant.
- US lean beef prices remain 15-25% higher than the same period in 2009 – an indicator of improved market demand and lower availability. Imports are around 9% lower year-to-date and the USDA has lowered its estimates of imported beef volumes for 2010 which is likely to support prices over coming months.

Australia

- Young cattle prices continued to rise during September, ending the month at AUD3.74/kg cwt - a rise of 18% above the same time last year. Prices were 5% above the five-year average, but have been unable to reach the highs of 2004 and 2005. Heavy cattle prices have also risen off the back of limited supply. Given pressure from the Australian dollar, higher grains prices and the expected seasonal increase in cattle supply, prices are likely to have limited room for growth for the rest of 2010.
- The Russian market has again increased in importance for Australian exporters. As Russian buyers looking to fill quota face higher prices out of major South American suppliers, they are

once again looking to Australia for product. Australian exports for September rose to 5,482 tonnes – its highest level since 2008.

New Zealand

- Farm gate beef prices eased slightly during September as the double whammy of NZD/USD exchange rate strengthening by more than 4% and US lean beef prices easing around 3%. In that context the fall of 3-5% (NZD 10-20 cents/kg) in farm gate prices was relatively modest for the month. Prices are still 15-20% more favourable than in 2009.
- The season drew to a close with 2.245 million head of cattle processed. Prime cattle slaughter was close to reaching one million, up 10% on early season predictions. Cow slaughter numbers will finish 2% ahead of earlier estimates, but 7% down on last year's numbers at 813,000. The biggest variation will come from bull kill, which was 15% (70,000 head) off starting season predictions and 10% behind last year's figures at 434,000. As the new season processing starts this week, estimations are export cattle slaughter kill figures will be down 5% on current levels at 2.14 million.
- New Zealand's beef exports during August were substantially lower than July as the seasonal export lows occur through to October. Year-on-year export volumes were down 1.4%. However, the change in export destination reveals the relative unattractiveness of the US market currently. Exports to the US were 30% lower than the previous year, while volumes to Japan were 40% lower – but exports to Korea and Indonesia were up 34% and 25% respectively.

Lamb

Australian lamb prices

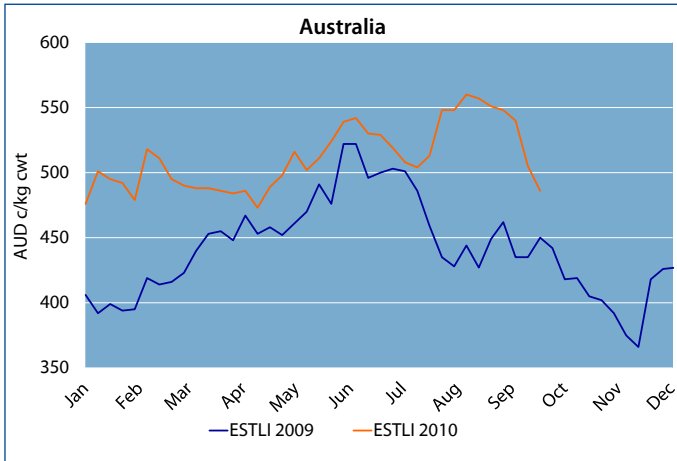
All shown as AUD cents/kg cwt	Current (01/10/10)	Last month	Last year
Eastern States Trade Lamb Indicator (ESTLI)	486	551	450

Source: NLRS/Rabobank

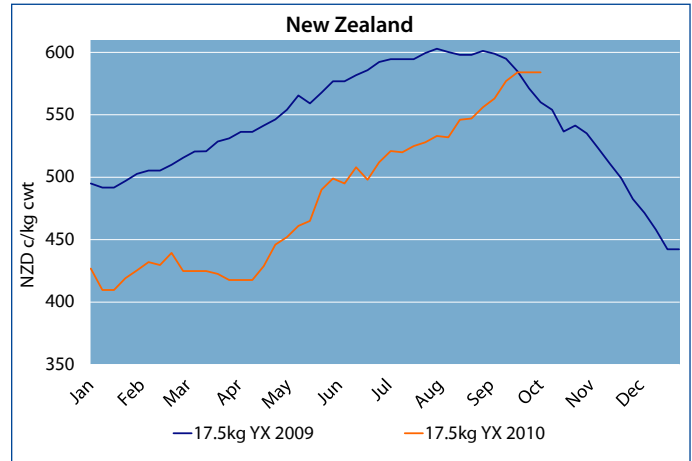
New Zealand lamb prices

All shown as NZD cents/kg cwt	Current (04/10/10)	Last month	Last year
North Island 17.5kg YX	590	572	565
South Island 17.5kg YX	584	563	560

Source: NZX Agrifax/Rabobank



Source: NLRS/Rabobank



Source: NZX Agrifax/Rabobank

Australia

- Australian lamb prices have experienced a seasonal decline in September as spring supply hits the market, The Eastern Trade Lamb Indicator fell to AUD4.86/kg cwt as of the beginning of September – while this was a decline of 12% on early September levels, it remains 8% above the same time in 2009 and around 35% above the five-year average. Prices should continue to ease over spring as the supply of lambs reaches its peak levels for the year.
- A combination of reduced sheep numbers and increased interest from restockers in the wake of improved seasonal conditions has resulted in a drop in eastern states weekly sheep and lamb slaughter in 2010. For the year-to-August sheep slaughter has averaged 12% lower than 2009 levels, with lamb slaughter down by an average of 5%.
- In contrast to the east coast, dry weather conditions persist on the west coast of Australia. Combined with strong sheep and lamb prices on the east coast this has seen a rise in the number of sheep being shipped from Western Australia to eastern states. In September it is estimated that just under 100,000 head crossed the border from Western Australia to South Australia - which is estimated to be higher than the whole of 2009. There has been significant interest from restockers, who are looking to rebuild following a number of years of destocking.

New Zealand

- Lamb prices finally moved higher than the previous year during

September. Prices climbed towards NZD6.00/kg, increasing 3-4% (NZD 18-20 cents/kg) over the month, but fell short of attaining the NZD6.00/kg mark. These prices now sit 4% above 2009 levels.

- Lamb slaughter numbers were around 30% lower on a weekly basis as the 2010 season drew to a close and August export volumes were down 15% (3,000 tonnes) on the previous year. However, export value only fell 14% - holding export unit value.
- Export volumes have now moved lower over the past three consecutive months. Tonnage was 21% (16,000 tonnes) lower during June, July and August than in 2009. As the seasonal low months are typically August through October, export availability will be particularly tight with record low volumes a possibility.
- As the 2010 season drew to a close a further one million head had already been dropped from processing figures. Lamb slaughter numbers for the season reached 20.7 million, and not the 21.7 million estimated. Mutton processing also was unable to bridge any gap finishing 8% behind estimates at 3.5 million. Supply tightness will remain a key feature of the New Zealand lamb market as the September snowstorms and adverse weather in Southland takes its toll on 2010/11 lamb numbers. Early estimates are that around 500,000 lambs have been lost, however the full impact will not be evident for some months. Nevertheless, prospects for lamb slaughter at least holding steady with last year appear to have been shattered, adding pressure to a market that has already been suffering from low supply availability.

Dairy

World dairy prices

	USD/tonne			AUD/tonne			NZD/tonne		
	30/09/2010	Last month	Last year	30/09/2010	Last month	Last year	30/09/2010	Last month	Last year
Butter	4,200	4,100	2,650	4,329	4,529	3,012	5,686	5,793	3,640
SMP	3,200	3,100	2,525	3,299	3,424	2,870	4,333	4,380	3,468
WMP	3,475	3,313	2,850	3,582	3,659	3,240	4,705	4,680	3,915
Cheddar	3,975	3,925	3,175	4,098	4,336	3,609	5,382	5,545	4,361

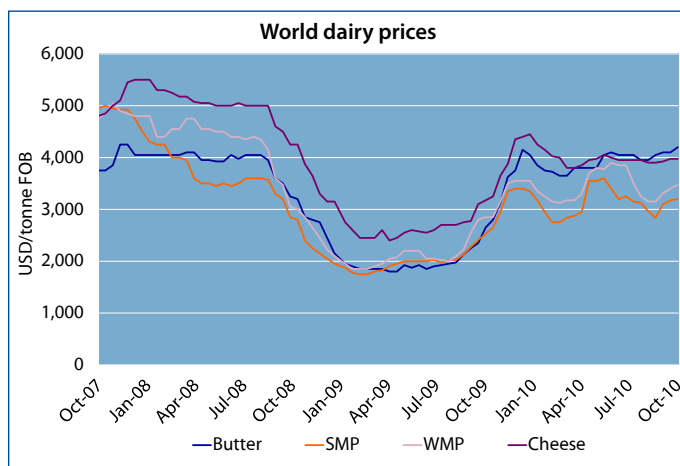
Source: USDA/Rabobank

Global

- International dairy commodity prices firmed during September from the late August price rally. USDA surveys indicated gains of 2-5% over the course of the month, while the gDT auction solidified the early gains – increasing 1.9% on average mid month, before ebbing 1.3% in early October. The key takeaway from current prices is that relative stability has emerged after the topsy-turvy pricing of July and August.
- With the US dollar broad index weakening by more than 3% over the past week, the firming of USD priced commodities suggest little overall change in market fundamentals.
- The demand side improvement as buyers re-entered the market has continued, while supply side availability beyond the end of 2010 has become slightly less certain.
- While further modest EU SMP inventories have been released and key export production regions are exhibiting strong year-on-year growth in milk flows (with the exception of New Zealand) clouds are now appearing on the horizon.
- Feed costs starting to move higher in grain reliant production regions and adverse weather events in New Zealand are now casting more than a shadow of doubt across the rate of growth in production volumes expected through early 2011.
- As export supply availability is expected to remain solid in the near term and buyers continue to gauge the true strength of the economic recovery, ongoing relative price stability will require large importers, such as China and Russia, to underpin demand as the Southern Hemisphere export season gets into full swing,

Australia

- The Australian dollar has surged in recent weeks, placing unwelcome pressure on export returns – although any effect on farm gate prices is likely to be diluted by the hedging and forward contract positions of processors, and product sales in the domestic market.
- Despite the ongoing strength of the dollar, Tatura Milk Industries and Bega Cheese have announced a step-up to AUD4.80 per kilogram of milk solids, with some processors indicating they will await further market developments before following suit.
- In response to the significant rainfall events experienced in September, irrigation allocations in several southern Australian systems have now reached 100% for high reliability shares, with allocations in other systems also likely to reach 100% as the season



Source: USDA/Rabobank

Production growth in key exporting regions

	Latest month	Last 3 months
EU 27	1.6% (Jul)	1.5%
US	2.7% (Aug)	2.7%
Argentina	8.5% (Aug)	8.1%
Australia	3.2% (Jul)	4.2%
New Zealand	0% for 4 months to Sept 2010*	

*Rabobank estimate

unfolds.

- The rain has also helped farmers' margins through a slump in hay prices across the eastern states, on the promise of a rebound in fodder production from the drought-induced lows of recent years.

New Zealand

- A relatively stronger New Zealand dollar has also seen export values decline by up to 3% during September despite commodity prices holding their ground. However, this has had little effect on milk price expectations with Fonterra reconfirming its forecast for the 2010/11 season.
- Early season milk flows have started to track below last year as the country has been lashed by severe weather during September. Significant snow to sea level in parts of Southland and flooding in North Island regions is taking its toll and some producers have reduced milkings to retain cow condition prior to mating.
- The cooperatives have announced their final payouts for the 2009/10 season with Westland at NZD6.45/kgMS, Tatura at NZD6.32/kgMS and Fonterra at NZD6.10/kgMS plus 60 cents/kgMS distributable profits – all before retentions.

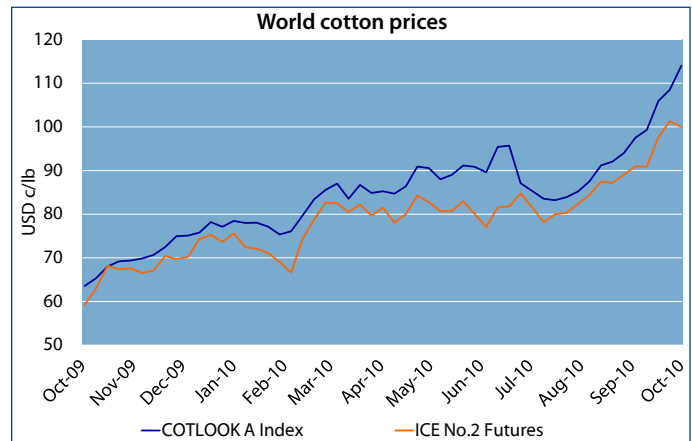
Cotton

World cotton prices

All shown as USD cents/lb	Current (01/10/10)	Last month	Last year
Cotlook A Index	114.00	97.50	63.55
ICE No.2 NY Futures (nearby contract)	99.97	90.95	59.26

Source: Bloomberg/ICE/Rabobank

- Cotton futures continued to rally through September to a 15-year high of above USD 107 cents/lb, owing to ongoing supply constraints as world inventories fell by 98% from June to 16,569 bales in mid-September and the world stocks-to-use ratio remained at 37.7%, the lowest level since 1993/94.
- While futures have since come back below the USD 100 cents/lb mark, following an announcement that India will recommence exports in the coming months, supply is likely to be constrained until the US harvest arrives in late October to early November.
- Import demand is set to strengthen from China, the world's largest grower and buyer, as rain has led to downgrades of domestic cotton quality and production in the final stages of growth.
- On the domestic front, the wet start to spring has boosted water allocations. While the area planted to dryland cotton will be up this year, further improvements in general security allocations will be required to boost irrigated production and take advantage of



Source: Bloomberg/ICE/Rabobank

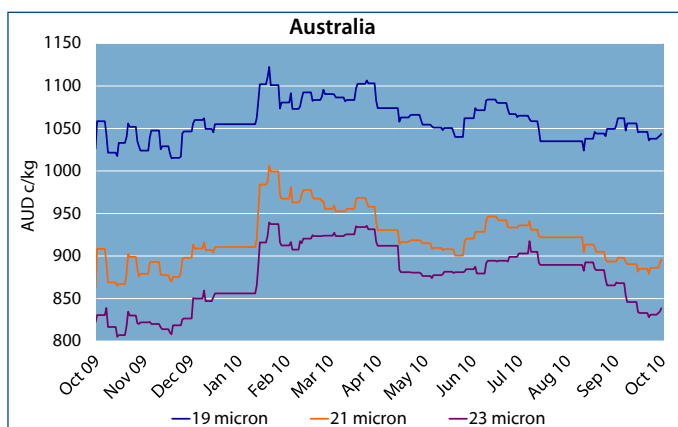
the strong market. General security allocations in the Gwydir and Lachlan are currently at 16% and 10% respectively, which will limit the area planted to irrigated cotton.

Wool

Australian wool prices (eastern)

All shown as AUD c/kg clean	Current (30/09/10)	Last month	Last year
Fine (19 micron)	1044	1050	1027
Medium (21 micron)	896	894	862
Broad/coarse (23 micron)	839	866	822

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



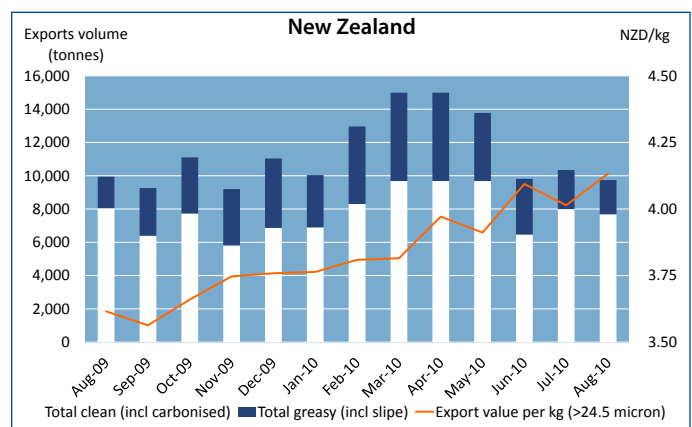
Source: Rabobank, Bloomberg/AWEX (average north and south prices)

- The strong Australia dollar continues to create headwinds for wool, with prices drifting lower in September, while the Eastern Market Indicator in US dollar terms sits 3% below its 15 year peak of USD8.56/kg (clean). In the past, China has appeared reluctant to purchase above USD8/kg (clean), which is expected to place pressure on demand from Chinese mills.
- That said, prices are being underpinned by constrained supplies, with Australian Wool Testing Authority data indicating a 9% fall in

New Zealand wool prices

Average FOB export value (NZD/kg)	August 2010	July 2010	August 2009
Fine <24.5 micron	6.82	7.26	5.06
Broad/coarse >24.5 micron	4.13	4.01	3.62

Source: Statistics New Zealand/Rabobank



Source: Statistics New Zealand/Rabobank

- the volume of wool tested this season. Over the course of the year supplies are expected to remain tight, with production forecast to drop by 1%.
- While Chinese growth prospects remain reasonable, holding up demand for broader wools, sub-trend economic growth in Europe, Japan and the United States is expected to continue to place pressure on the higher-end apparel market and consequently finer quality wools in the 18-19 micron category.

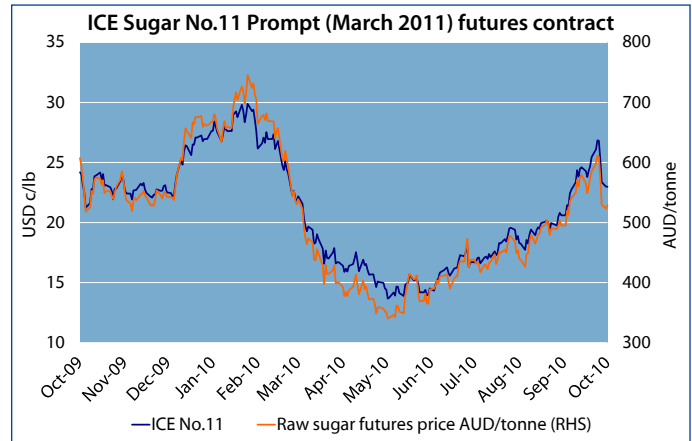
Sugar

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

	Current (05/10/10)	Last month	Last year
USD cents/lb	22.99	20.60	24.19
Converted to AUD/tonne	528.95	494.93	607.47

Source: Bloomberg/ICE/Rabobank

- Sugar futures hit a seven-month high in September, rising 30% over the month above USD 26 cents/lb, due to supply concerns over the drought through the Centre/South of Brazil, which has dried the Amazon River to the lowest level in almost 50 years.
- Despite this, Brazil exported a record volume of sugar during September, up 3.8% from August and 31% higher year-on-year. The crush recently started in the north/north-east of Brazil and is accelerating to take advantage of these higher prices. However, recent rains may delay vessel loadings and bring forward the end of the crush, adding to near-term supply constraints.
- In Australia the domestic crush has been hampered by La Niña conditions which have interrupted the harvest and slowed progress. Due to these rain delays, the harvest is at different stages throughout Queensland, ranging from 30% complete in some areas to 70% complete in others. It is now likely that the harvest will extend through December, mills permitting.
- An extension in the harvest would enable farmers to avoid leaving cane in the fields (known as standover) and to take advantage of the strong prices. Standover may become a risk if the bad weather continues and would result in disruptions to next season's growth



Source: Bloomberg/ICE/Rabobank

and rotations. However, the sugar content of cane (CCS) will decline if it is left in the field and as the weather warms, which will be a concern for farmers harvesting late in the year.

- Looking ahead, La Niña conditions increase the occurrence of tropical cyclones in northern Australia during the cyclone season of November-April, potentially placing further pressure on the crush.

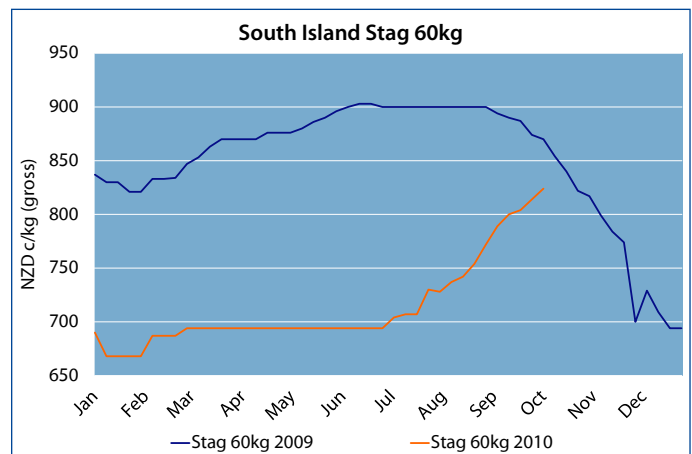
Venison

New Zealand venison prices

All shown as NZD cents/kg gross	Current (04/10/10)	Last month	Last year
North Island Stag 60kg	810	763	848
South Island Stag 60kg	824	789	870

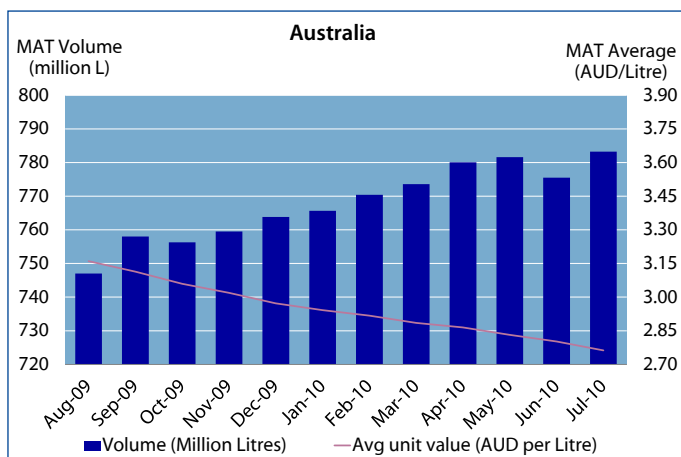
Source: NZX Agrifax/Rabobank

- Venison prices continued to push higher through September as the chilled export season progresses. Farm gate prices increased by around NZD 35-45 cents/kg (4-6%) during the month – now providing three months of consecutive price increases and a sharp contrast to the flat season last year. Prices are still around 5% (NZD 35-45 cents/kg cwt) lower than in 2009; however, the NZD/EUR exchange eased by 1.6% during September, which will provide modest assistance.
- Export volumes extended their run of year-on-year increases for the third month with August exports 11% higher than in 2009. However, the weaker euro hasn't assisted export value, which fell by 7%. While still early to identify the start of a new production cycle, export volumes are suggesting that the deer herd has stabilised and more consistent export volumes and livestock availability may be expected over the 2010/11 season.



Source: NZX Agrifax/Rabobank

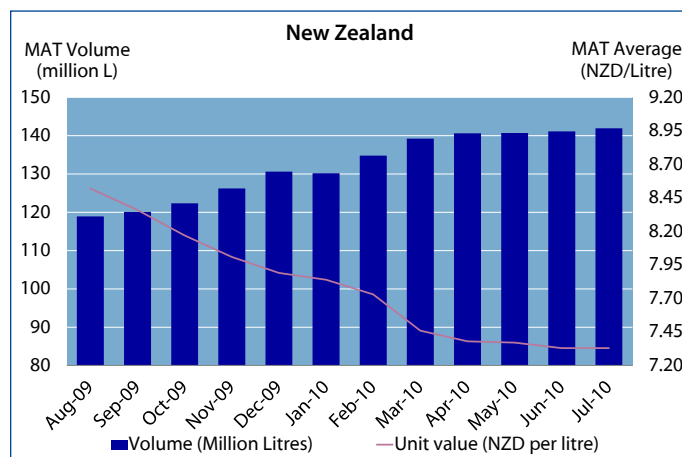
Wine



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

Australia

- Australian wine export sales volumes in the 12 months to July 2010 increased 5.9% on the prior corresponding period to 783.3 million litres (ML), while the FOB value of exports decreased 9.1% to AUD2.163 billion. The monthly average export unit value in July declined by 16.6% on the prior corresponding month to FOB AUD2.65/litre, with the value of bottled wine exports recording a 2.7% increase on the prior corresponding month to FOB AUD4.36/litre (AWBC, 2010).
- Notably, the volume of bulk shipments in July 2010 exceeded those of bottled wine for the first time on recent record, reflecting the structural shift of major wine companies to in-market bottling, and the growth in trade due to global supply sourcing and private label grocery brands in response to the industry’s aggravated supply position.
- The short 2010 harvest has reportedly provided some welcome support to low-end Australian bulk wine prices in recent months, with supplies of Cabernet Sauvignon in particular having shown some tightening after being the first of the major varieties to enter oversupply in the wake of the planting boom. Looking further ahead, it appears bulk wine market fundamentals are not likely to support a concerted rally considering subdued demand for bulk wine from US based wine companies on the back of a large 2010 Californian wine grape harvest, and favourable early season conditions across southeast Australia that are likely to support improved vineyard yields and supply in 2011.



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

New Zealand

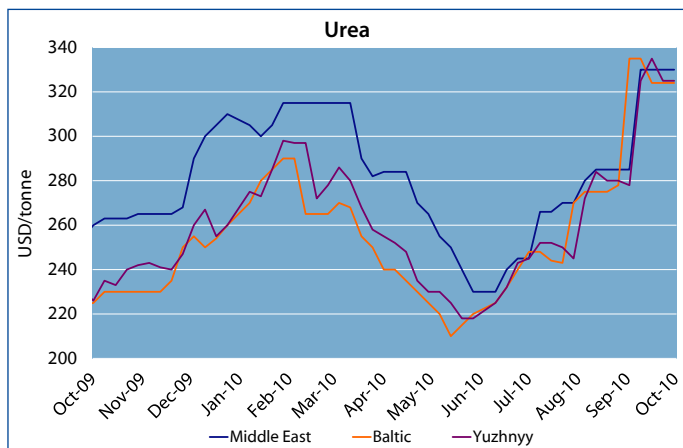
- New Zealand wine export sales increased 6.1% in July 2010 on the prior corresponding period to 12.2 million litres. On an annualised basis, shipments in the 12 months to July 2010 grew by 21.8% on the prior period to 141.9 ML (NZ Winegrowers Assoc., 2010).
- Bulk wine shipments represented 23.8% of export shipments in the month of July and have averaged 25.8% over the prior twelve month period. While bulk shipments remain elevated, exports of bottled wine have maintained a growth trajectory, 28.8% higher in July on the prior corresponding month and 15.8% higher on a annualised basis.
- The annual value of exports in the 12 months to July 2010 moved 2% higher to NZD1.03 billion compared to 12 months earlier, a modest increase when compared to the annual growth in annual shipment volumes. The average unit value of exports in July remained relatively steady as compared to 12 months earlier, estimated at FOB NZD7.36 per litre (+1.5%) for all wine or FOB NZD8.46 per litre (-1.7%) for bottled wine, as exporters continue to struggle with a New Zealand dollar resting at around 12 month highs against the US dollar, pound sterling and euro.

Fertiliser

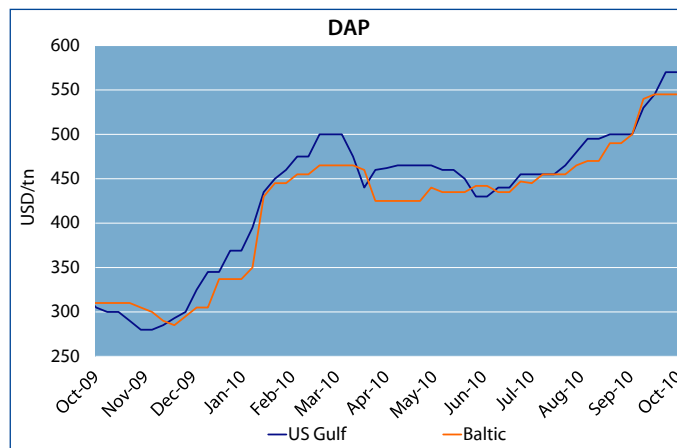
Fertiliser prices

All shown as USD/tonne	Current (30/09/10)	Last month	Last year
Urea (Middle East)	330	285	260
DAP (US Gulf)	570	500	305

Source: Bloomberg/ICIS/Rabobank



Source: Bloomberg/ICIS/Rabobank



Source: Bloomberg/ICIS/Rabobank

- DAP prices marched higher in September, hitting their highest level since November 2008 at USD570/tonne. A tightening of global stocks has been behind the higher prices, with industry sources citing that robust demand from Asia is the key driver of demand. On the supply side, Chinese producers are being encouraged to restrict exports as the Government seeks to hold down fertiliser prices.
- The six-month view for prices is one of a softer spot in late-November to December, before another rally early in the new year as Northern Hemisphere spring planting demand picks up. Short-term tightness in raw materials availability (sulphur and

ammonia) is supportive of current prices. On the supply front, recent indications suggest the Saudi Arabian Ma'aden project should still commence production by mid-2011, producing almost three million tonnes per annum (5% global supply). This should ease supply tightness and see prices moderate through the 2H 11.

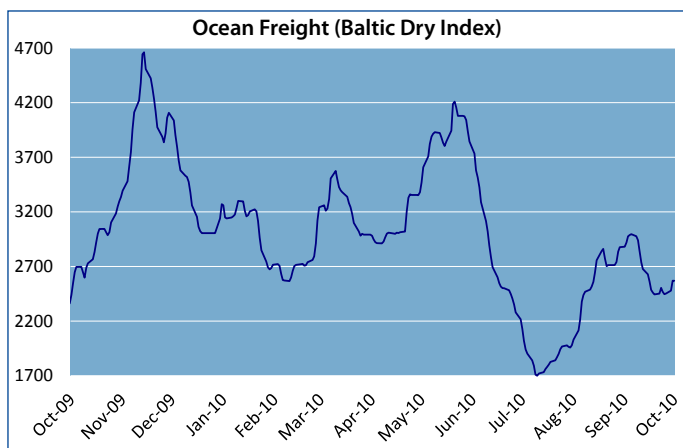
- Urea prices flattened in late September, albeit after a 35% increase since the start of July. Indian tenders of nearly one million tonnes over the last few months have seen prices pushed higher to their current levels. However, from here we expect prices to ease somewhat, particularly now India has completed its near-term urea purchases.

Other costs

Ocean freight index and oil prices

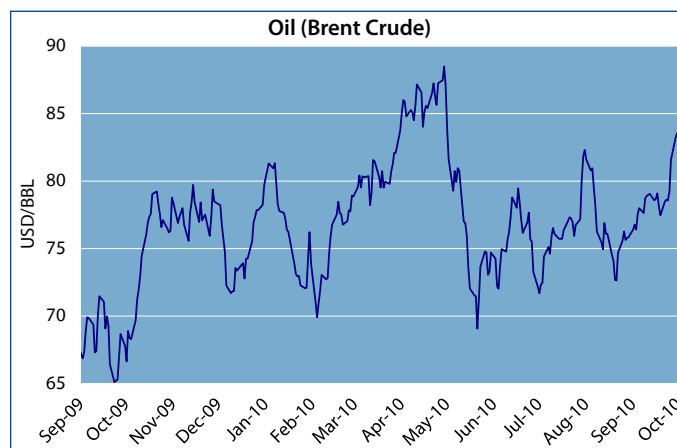
	Current (05/10/10)	Last month	Last year
Baltic Dry Index* (ocean freight)	2569	2881	2362
Brent Crude Oil (USD/bbl)	83.53	76.41	67.77

Source: Bloomberg/Rabobank



Source: Bloomberg/Rabobank

*The Baltic Dry Index (BDI) is an index which averages the cost of shipping (for bulk-dry vessels) on 25 of the world's most traded bulk cargo routes. The index was set at a starting level of 1000 points in 1985.



Source: Bloomberg/Rabobank

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Rabobank Australia and Rabobank New Zealand are a part of the international Rabobank Group, the world's leading specialist in food and agribusiness banking. Rabobank has more than 110 years' experience providing customised banking and finance solutions to businesses involved in all aspects of food and agribusiness.

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