



Rabobank

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Agflation to hit animal protein and dairy industries

Skyrocketing agricultural commodity prices are causing the world to re-enter a period of “agflation”, with food prices forecast to reach record highs in 2013 and to continue to rise well into Q3 2013. Unlike the staple grain shortage 2008, this year’s scarcity will affect feed intensive crops with serious repercussions for the animal protein and dairy industries, according to Rabobank.

Luke Chandler Global Head of Agri Commodity Markets Research at Rabobank commented, “The impact on the poorest consumers should be reduced this time around, as purchasers are able to switch consumption from animal protein back towards staple grains like rice and wheat.

These commodities are currently 30 per cent cheaper than their 2008 peaks. Nonetheless, price rises are likely to stall the long-term trend towards higher protein diets in Asia, the Middle East and North Africa. In developed economies – especially the US and Europe – where meat and corn price elasticity is low, the knock-on effect of high grain prices will be felt for some time to come.”

Due to the long production cycles of the animal protein and dairy industries, the affects of grains shortages will be more sustained as herds (especially cattle) take longer to rebuild, maintaining upward pressure on food prices. However, food makes up a smaller proportion of budget spend in such countries, so the current period of agflation should not lead to the unrest witnessed in response to the shortage in 2008.

Rabobank estimates that the Food and Agricultural Organisation (FAO) Food Price Index will rise by 15 per cent by the end of June 2013. In order for demand rationing to take place, in turn encouraging a supply response, prices will need to stay high. As such Rabobank expects prices – particularly for grains and oilseeds – to remain at elevated levels for at least the next 12 months.

Government intervention

Whilst the impact of higher food prices should be reduced by favourable macroeconomic fundamentals (low growth, lower oil prices, weak consumer confidence and a depreciated US dollar); interventionist government policies could exacerbate the issue. Stockpiling and export bans are a distinct possibility in 2012/13 as governments seek to protect domestic consumers from increasing food prices. Increased government intervention will likely encourage further increases in world commodity and food prices.

Rabobank expects that localised efforts to increase stockpiles will prove counterproductive at the global level, with those countries least able to pay higher prices likely to see greater moves in domestic food price inflation. This is a vicious circle, with governments committing to domestic stockpiling and other interventionist measures earlier than usual—recognising the risk of being left out as exportable stocks decline further.



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On top of that, Rabobank warns that global food stocks have not been replenished since 2008, leaving the market without any buffer to adverse growing conditions. Efforts by governments to rebuild stocks are likely to add to food prices and take supplies off the market at a time when they are most needed.

Background

Current price inflation is the result of weather driven events in large exporting nations, principally a severe drought in the US (its worst since 1936) and similar water shortages in Russia and South America. This rally in grain and oilseed prices will have a significant knock-on effect on other F&A supply chains especially the animal protein industry, resulting in rising meat prices.

Rabobank Australia is a part of the international Rabobank Group, the world's leading specialist in food and agribusiness banking. Rabobank has more than 110 years' experience providing customised banking and finance solutions to businesses involved in all aspects of food and agribusiness. Rabobank is structured as a cooperative and operates in 47 countries, servicing the needs of approximately 10 million clients worldwide through a network of close to 1600 offices and branches. Rabobank Australia is one of the country's leading rural lenders and a significant provider of business and corporate banking and financial services to the Australian food and agribusiness sector. The bank has 61 branches throughout Australia.

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