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Agribusiness Review

Australia and New Zealand

Contents

Report highlights

- The continuation of La Niña conditions has brought wetter-than-normal conditions to eastern and western areas of Australia in January. Most of New Zealand experienced a drier-than-normal January. Australia's rainfall outlook suggests a wetter-than-normal autumn in western and northern Australia, with normal conditions expected elsewhere. Near-normal autumn conditions are also expected in New Zealand.
- Sentiment in global markets improved in January, following signs of progress in the Eurozone recovery. Positive economic indicators from the US added to a more optimistic tone. Growth in China slowed in 2011, but continues to expand at a robust rate. Australia's economic situation is mixed, with subdued retail trade figures alongside resilient export earnings. The New Zealand economy continues on a slow but gradual recovery phase.
- Fundamentals in currency markets continue to support the Australian and New Zealand dollars at elevated levels. For Australian and New Zealand exporters, the likelihood of further appreciation appears limited; but strong currencies will remain a permanent feature over the short-term.
- Following a weaker finish to 2011, global grain markets have found support in the early stages of this year. Mounting concerns about supply, particularly in South America and the Black Sea region, have seen risk premiums build in global pricing.
- A softer tone to global dairy markets, brought about by sufficient global supply and cautious import purchasing, has seen commodity prices fall back. However markets are beginning to find price support with some global buyers enticed back into the market by price discounts on offer.
- Global prices for farm inputs have started to find support in the early stages of 2012. With important planting programs approaching in the Northern Hemisphere, pipelines will need to be filled, triggering a recovery in global demand.

This report was prepared by Rabobank's Food & Agribusiness Research and Advisory division, a team of leading agribusiness analysts from Australia, New Zealand and around the world.

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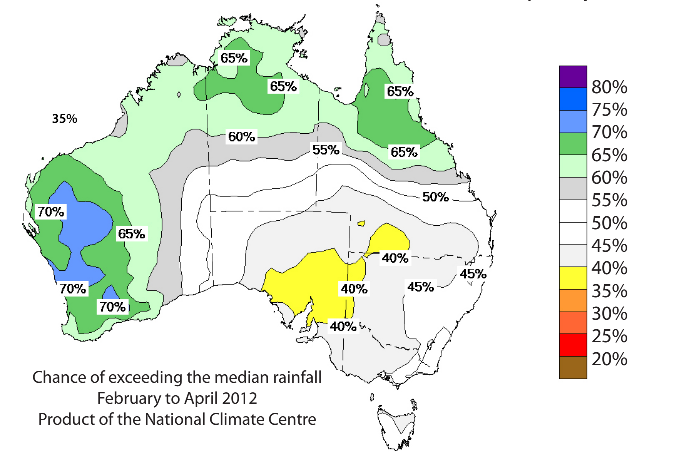
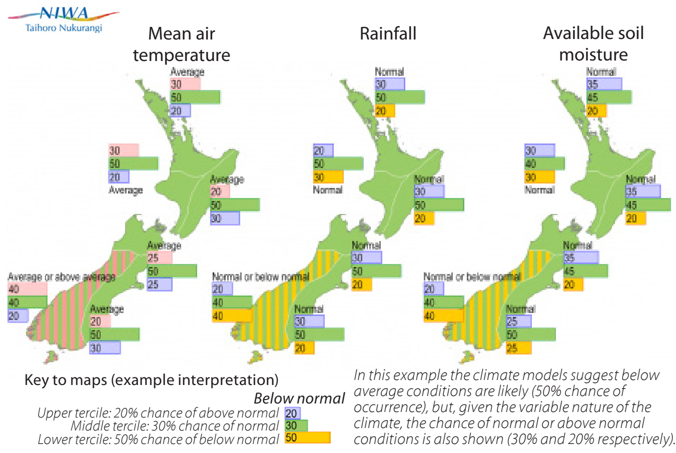
Climate

Australian three month rainfall outlook **February to April 2012**



New Zealand three month outlook **February to April 2012**



Australia

- The continuation of La Niña conditions, coupled with an active monsoon trough, brought wetter-than-normal conditions to eastern and western areas of Australia in January. Average temperatures were generally cooler-than-normal across the country and average maximum temperatures were the lowest in almost a decade.
- According to the Bureau of Meteorology (the Bureau), New South Wales experienced the fifteenth wettest January since records began in 1901, with an easterly trough bringing flooding rain to northern areas as well as to South East Queensland. Tropical Cyclones Heidi and Iggy brought above-average rainfall to Western Australia, drier-than-normal conditions were experienced in northern and central areas of the country, Tasmania and southern parts of Victoria and New South Wales.
- The Bureau's latest rainfall outlook, released in January, points to a wetter-than-normal autumn for western and northern areas of Australia, with normal to drier-than-normal conditions expected across the balance.
- Australian water storages are estimated at around 80% capacity, up 8% year-on-year. The Murray-Darling Basin is at over 80% capacity, while Copeton Dam reached capacity for the first time, following above-average summer rainfall.

New Zealand

- January was a relatively cool and windy month for most of New Zealand due to the presence of prevailing low pressure systems. Easterly and northerly winds throughout the first half of the month caused wet and windy weather in the north east, while very cool southerlies brought unusually cold air over the country.
- Most of New Zealand experienced a drier-than-normal January. Of note, Blenheim and Nelson received half the usual rainfall, while wetter-than-normal conditions were experienced from Gore to Queenstown.
- Temperatures were normal throughout January in the north east of both islands. Areas including the Bay of Plenty, Canterbury and Central Otago experienced a cooler-than-normal month – despite southern areas of the South Island receiving above-average sunlight hours.
- According to NIWA's latest outlook for February to April 2012, near-normal conditions are expected to return in the lead up to autumn, as La Niña moderates. NIWA expects near-normal rainfall and temperatures across most regions in early autumn. However southern and western areas of the South Island are expected to experience normal to warmer and-wetter-than-normal conditions.

Southern Oscillation Index

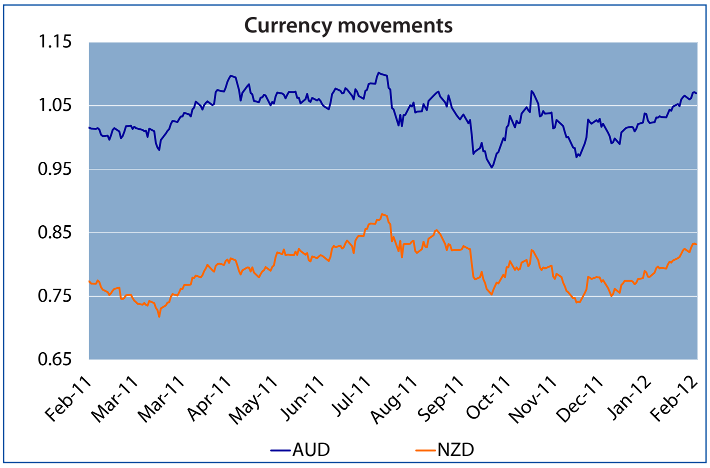
- La Niña conditions persisted throughout January and appeared to intensify towards the month's end, with heavy rainfall causing extensive flooding throughout northern New South Wales and South East Queensland. The Southern Oscillation Index (SOI) eased 14 points over the month and the current 30-day moving average is +8.4 – seven points shy of the level this time last year.
- Despite a sharp drop in the SOI, other indicators of La Niña remained firm, including sea surface temperatures, cloudiness and trade winds. While these indicators are below the peaks of December, they still exceed La Niña thresholds.
- The Bureau expects the intensity of this La Niña event to ease over the coming months, with neutral conditions expected during autumn.

30 Day Moving Southern Oscillation Index **30 January 2012**

Economy/currency

Currency USD	Current (03-Feb-12)	Last month	Last year
AUD	1.0695	1.0378	1.0153
NZD	0.8317	0.7899	0.7734

Source: Bloomberg/Rabobank



Source: Bloomberg/Rabobank

Global

- Sentiment in global markets improved in January, following signs of progress in Europe after the January European Leaders' summit, and some positive economic reports from the US.
- Economic growth in the US registered 2.8% in Q4 2011 (quarter-on-quarter, annualised rate), up from 1.8% in the previous quarter. Yet the headline number contained a significant contribution from inventory rebuilding activity, while underlying business investment remained weak. More recently however, the US payrolls report for January provided a more positive view of momentum in the US economy as the private sector added many more jobs than expected.
- Growth in China's economy slowed to 8.9% year-on-year in Q4 2011 but continues to expand at a robust rate. The PMI index that monitors manufacturing sector expansion ticked higher to 50.5 points in January. This indicates that manufacturing activity is still expanding despite recessionary fears in the Eurozone.

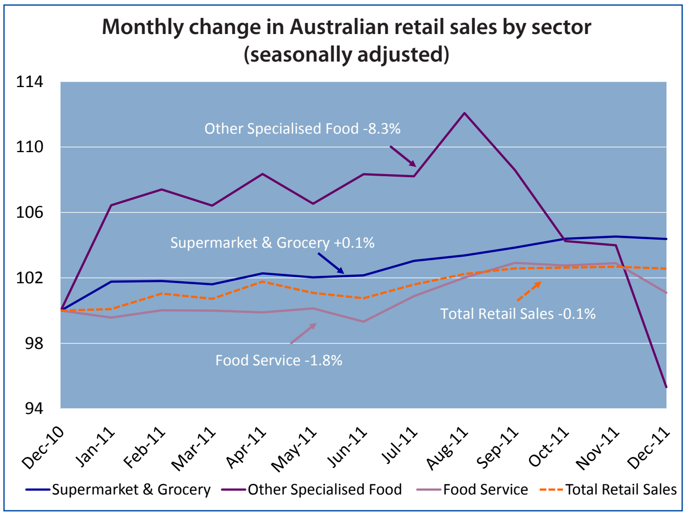
Australia

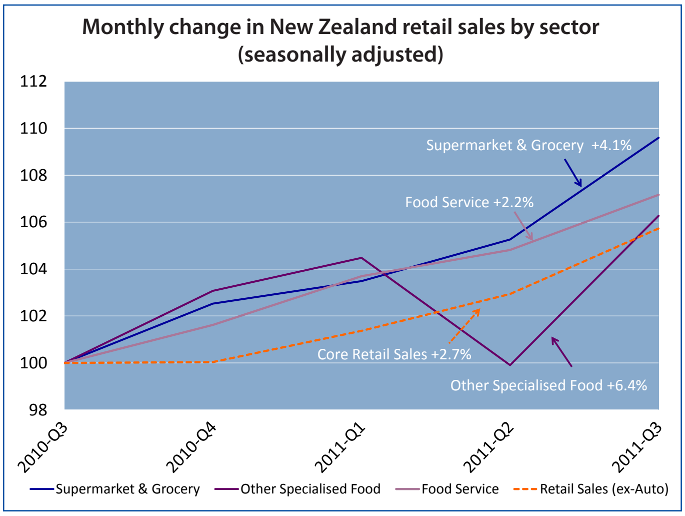
- The Australian economy continues to exhibit symptoms of a split personality. Export earnings are proving resilient as the December 2011 trade surplus surprised on the upside despite falling commodity prices. On the non-resource side of the economy, new home sales fell 4.9% month-on-month in December, reversing November's increase, which suggests that the Q4 2011 rate cuts are yet to bolster confidence to any great degree. Retail spending around the Christmas period remained subdued and the jobs market continues to struggle to find any clear momentum.
- The Reserve Bank of Australia (RBA) left interest rates unchanged at 4.25% after the 7 February monetary policy meeting. Lessening macro risks abroad have provided more scope for prior rate cuts to take effect and this decision should act to signal added confidence in the economic outlook.
- The Australian dollar (AUD) appreciated sharply in January above USD1.07 as some risk appetite returned to markets and investors sought greater diversification from the Euro. At these higher levels, the Australian dollar becomes more exposed to shifts in sentiment in global financial markets.

New Zealand

- The New Zealand economy continues along its ever so gradual path to recovery despite the unstable global outlook. Economic growth surprised on the upside at 0.8% quarter-on-quarter in Q3 2011, with positive export earnings continuing to support activity, however construction activity fell by 2.2% in Q3 which suggests that the Canterbury reconstruction effort is still yet to provide any significant impetus to the economy.
- Consumer Confidence has been battered by the tumultuous events in global financial markets late last year but there are signs that some strength is returning to the housing market which may act to buoy sentiment. On the business front, manufacturing expanded by 2.3% quarter-on-quarter in Q3 2011, however business confidence is estimated to have fallen sharply in Q4 2011 (NZIER survey).
- The Reserve Bank of New Zealand (RBNZ) left the Official Cash Rate (OCR) unchanged at 2.5% at the December monetary policy meeting. The RBNZ is not expected to hike the OCR from the current emergency level until the re-build of Canterbury gets well underway and it receives a clearer sign that progress has been made in Europe. Despite the stable policy setting, the New Zealand dollar appreciated at an even faster rate than the AUD in January for mostly similar reasons.

Food retail





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

Australia

- Seasonally adjusted retail trade posted a slight 0.1% decline in December 2011 versus the prior month, while sales were 2.6% higher compared to the prior corresponding period of 2011 (ABS, 2012). Trading over the Christmas period was supported by gains in the Clothing, footwear and personal accessory (+3.5%) and Department stores (+1.1%) categories, while food retailing was generally softer.
- Trade in the Supermarket & Grocery food retail channel in December fell marginally by 0.1% on the prior month, and rests 4.4% higher than a year earlier. With the exception of the Liquor category, Supermarket & Grocery is the best performing food retail category over the past 12 months. Trade in the Other Specialised Food channel posted a dramatic 8.3% fall on the prior month, which comes on top of three prior monthly declines for the independent food retail sector.
- Australia's two major grocery retailers have reported their Q4 2011 sales results, with comparable store sales growth at Coles (+3.7% versus the prior corresponding period) once again outstripping that at Woolworths (+1.1%). Woolworths again experienced stronger average price deflation during the quarter. The rate of general food price inflation reported across the economy was 2.5% in Q4 2011 versus the prior corresponding period. While not directly comparable, this suggests that other retailers have not lowered prices to the same degree as the majors.
- Trade in the Food Service sector (Cafés, Restaurant & Takeaway) declined 1.8% in December versus the prior month, while sales were 1.1% higher compared to the prior corresponding period. Trade in the Takeaway channel was flat versus the prior month, however the more premium Café & Restaurant channel recorded a sharp 3.1% fall in sales.
- Consumer confidence posted a small rise in January 2012, retracing some of the ground lost in December 2011 as the Eurozone debt crisis came to the fore. Households remain circumspect despite the benefit of two RBA interest rate cuts in Q4 2011, as local asset markets have struggled for direction and global economic reports remain mixed.

New Zealand

- An updated reading on New Zealand retail trade covering the December 2011 quarter is due for release in mid-February and will be reviewed in the March issue of Rabobank's Agribusiness Review.
- Electronic card transactions represent around 60% of total retail sales in New Zealand. Recent estimates released by Statistics New Zealand indicate that the seasonally adjusted value of transactions in core retail industries remained steady in December 2011, while spending on Consumables (which includes food and liquor retailing) rose marginally by 0.5% on the prior month.
- Food prices in New Zealand rose by 0.2% in December 2011 on the prior month and sit 2.9% higher than at the same time a year ago. Across fresh produce, Fruit & Vegetable prices remain 0.9% lower than they were 12 months earlier despite some recent upward pressure on fruit prices, while Meat, Poultry & Fish prices are 3.7% higher despite some recent downward pressure on sheepmeat prices. Restaurant meals and Ready-to-eat food prices were steady in December and sit 2.4% higher than a year ago (Statistics NZ, 2011).

Grains and oilseeds

ASX wheat prices

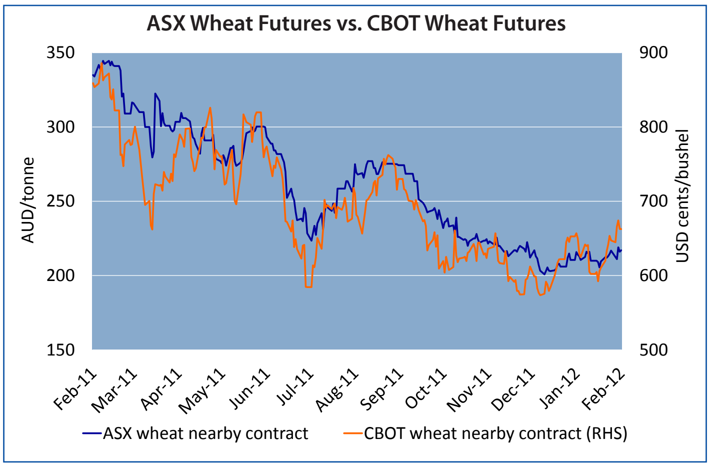
	Current (03-Feb-12)	Last month	Last year
AUD/tonne	217	215.8	335

Source: Bloomberg/ASX/Rabobank

Chicago Board of Trade Wheat Futures (nearby contract)

	Current (03-Feb-12)	Last month	Last year
USD c/bushel	662.5	657	589

Source: Bloomberg/CBOT/Rabobank



Source: Bloomberg/CBOT/ASX/Rabobank

Global

- International grain prices have rebounded during January as a risk premium has been built over supply concerns in multiple regions.
- Russian wheat began to price itself out of the export market during January. Stocks close to port are beginning to run low, forcing buyers to purchase stock from the interior, increasing transport costs. Higher Russian wheat prices make it unlikely that a ban or tariff will be imposed on exports, as buyers increasingly seek wheat from lower cost origins.
- Cold weather has also affected Russian supply, limiting volume and further restricting supply on the international market. It is not uncommon for Russian (as well as Ukrainian and Kazakhstani) exports to ease during this period. Warmer conditions are likely to result in downward pressure on grain prices as supply re-enters the pipeline.
- The door remains open for further Russian exports from March onwards, with recent government announcements suggesting that the wheat export cap may lift from 24 million tonnes to 27 million tonnes.
- The government of Ukraine has estimated that wheat production in the 12/13 marketing year will be 30% lower than last year.
- Europe's largest wheat producers, France, UK and Germany have, up until the recent winter freeze, experienced very mild winter conditions. The wheat crop is well advanced but temperatures as low as -20°C and insufficient snow cover in some areas, particularly in the north east of France is expected to result in some production downgrades. Matif (Paris) wheat futures prices have rallied over 20% since mid-December in response to production concerns and a weakening euro currency.
- South American corn and soybean yields have begun to stabilise after difficult growing conditions in the December-January period. Rabobank estimates the Brazilian soybean crop to be 71.5 million tonnes, a reduction of 3 million tonnes, whilst the Argentinian crop is expected to be 47 million tonnes, a fall of 4 million tonnes.
- With South American production setbacks, US corn has become competitive, resulting in greater demand. US wheat exports also improved with Russian prices shifting higher (at least in the short term). The US 2012/13 season winter wheat crop is in good condition (better than the same time last year) but enters a critical period at the end of February as it emerges from its winter dormancy.
- Despite production concerns, the market remains well supplied with a global wheat stocks-use ratio of 30.6% for the 2012/13 season. The wheat market has the ability to absorb supply shocks, and as a result, the probability of a significant rally is low. That being said, there remains significant weather risk with the North American, EU and Black Sea crops still many months from being harvested.

Australia

- With the 2011/12 bumper harvest complete, the market is now tasked with exporting a crop of more than 27.7 million tonnes. It is expected that this season over 21 million tonnes of wheat will be exported from Australian ports - the biggest export campaign on record.
- Prices continue to trade under international values as the large domestic stock position weighs heavily on the market. It is likely that Australian wheat prices will continue to trade at a discount.
- Australian ASW is particularly competitive into China against US corn, with recent exports into China of approximately 92,800 million tonnes. This wheat has made its way into the Ghanzou area where it is very likely to be used as part of the feed ration. We expect Australian wheat exports to China to at least double in the 11/12 marketing year, with volumes of 1.2 million tonnes expected.
- Prices rallied during the December-early February period. However, with sufficient international stocks, price risk is skewed to the downside - particularly if a significant supply shock does not eventuate in the coming months.

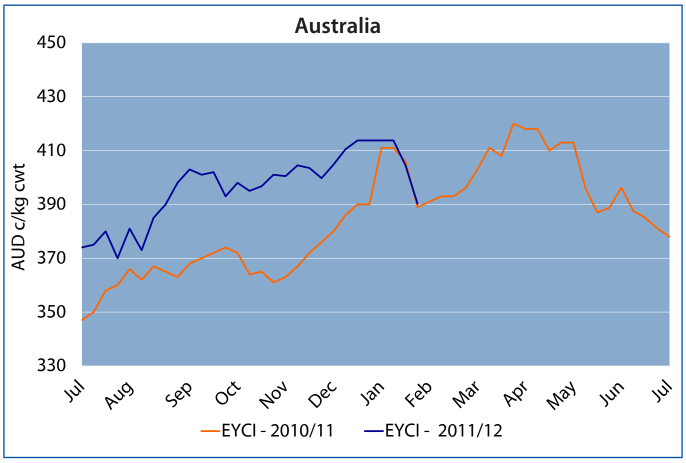
Beef

Australian beef prices			
All shown as AUD cents/kg cwt	Current (3-Feb-12)	Last month	Last year
Eastern Young Cattle Indicator (EYCI)	390	413	389

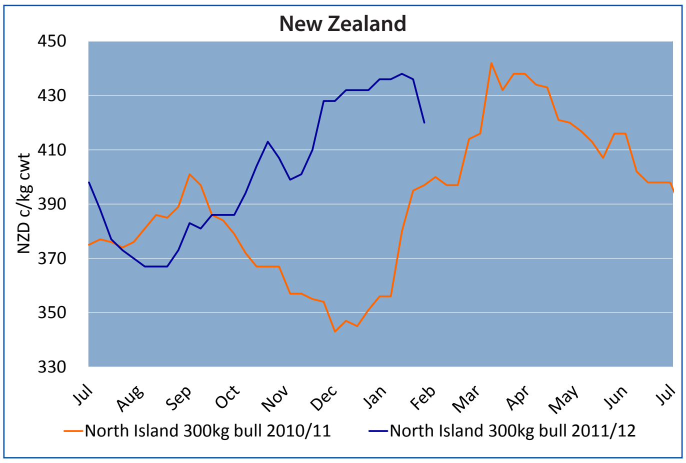
Source: NLRS/Rabobank

New Zealand beef prices			
All shown as NZD cents/kg cwt	Current (30-Jan-12)	Last month	Last year
North Island Bull 300kg	420	436	397
South Island Bull 300kg	379	401	385

Source: NZX Agrifax/Rabobank



Source: NLRS/Rabobank



Source: NZX Agrifax/Rabobank

Global

- US domestic boneless beef prices continued to trade above USD2/lb through January, around USD0.10 higher year-on-year for 90CL product. Rabobank's forecast, however, is that Q1 will experience some downside risks in beef global markets, in particular the US market, as slightly softer winter demand coincides with increasing export volumes from Australia and New Zealand. Remembering that this price softening is set against a backdrop of historically high prices for 90CL and 95CL in the US, with further upside expected from Q2 2012 as drought conditions persist in key areas.
- US exports are strong, and increasing volumes into global markets are expected, particularly into Asia, where the US focus has been on increasing market share in Korea and Japan. The Korea-US FTA is now expected to come into effect by mid-February.
- Late last year, the Japanese Government announced it had begun the process to review import restrictions on the age of US beef entering Japan; no significant progress has been made since then.

Australia

- Late last year the market saw strong demand for cattle drive prices to record levels, However, the EYCI has since fallen back below the AUD4/kg mark. The major factor has been the continued strengthening of the Australian dollar, leading some processors to reduce demand in uncertain times.
- Indonesia import permits announced for 2012 so far allow for 283,000 head of live cattle and 34,000 tonnes of boxed beef to enter the market, with an expectation that 60% of the volume will flow in H1. Under these quotas, exports will drop significantly again this year, continuing the trend both countries experienced last year; in 2011 Australia exported 39,590 tonnes, while New Zealand shipped 20,954 tonnes.
- The limitation of live cattle imports by Indonesia in 2012 will see estimated numbers down 31% on last year. In 2011 Indonesia live cattle exports equated to 60% (410,000 head) of the total numbers sent offshore by Australian producers. Other key markets for live trade were Turkey, China, Israel and Russia. These markets all remain open for 2012 placements.

New Zealand

- Farmgate prices climbed steadily in December, matching trends on US manufacturing beef prices. Prices remained at high levels through January 2012 as stocks remained scarce for processors and US pricing elevated.
- New season exports started their traditional lift but remain slightly down year-on-year as a result of limited stock coming to market for processing. December exports were consequently down 30,000 tonnes, equivalent to a drop of 20% year-on-year. All key markets were affected by product scarcity to some degree; US and Korean year-on-year export volumes were down 7% and 18% respectively in December. Good growing conditions remain for most areas and forecasts continue to project that New Zealand beef production will lift marginally this season.

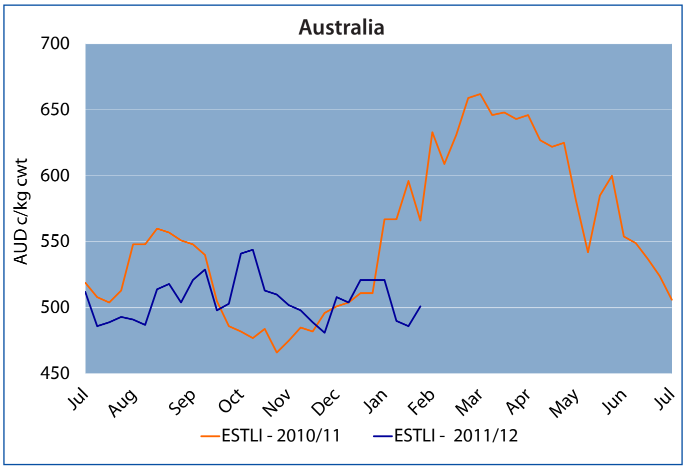
Sheepmeat

Australian lamb prices			
All shown as AUD cents/kg cwt	Current (3-Feb-12)	Last month	Last year
Eastern States Trade Lamb Indicator (ESTLI)	501	521	566

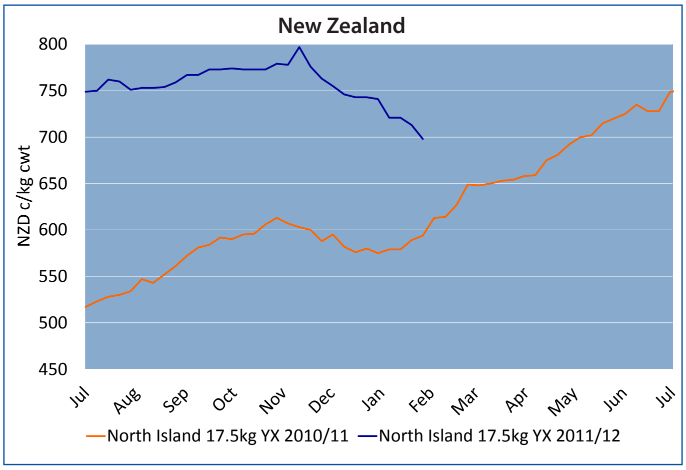
Source: NLRS/Rabobank

New Zealand lamb prices			
All shown as NZD cents/kg cwt	Current (30-Jan-12)	Last month	Last year
North Island 17.5kg YX	698	741	594
South Island 17.5kg YX	671	734	579

Source: NZX Agrifax/Rabobank



Source: NLRS/Rabobank



Source: NZX Agrifax/Rabobank

Australia

- Australian lamb prices have continued their seasonal decline over the past month with the Eastern States Trade Lamb Indicator falling to an average of AUD4.99/kg through January 2012, compared to AUD5.66/kg as at the same time last year and AUD5.13/kg in December 2011. The Australian dollar remains a dominant factor in trading, as export markets are subdued by the economic outlook for 2012 and buyers are unsure about the future.
- Overall sheepmeat exports for the 2011 calendar year were 8% down on the previous year. Lamb exports lifted 2%, while mutton declined by a dramatic 23% as improved pasture and flock rebuilding limited stock coming to market for slaughter. The Middle East was one of the key markets affected by the overall reduction in product availability, with lamb exports down 4% to 35,000 tonnes and mutton exports down 8% to 39,000 tonnes for the calendar year. By contrast, lamb exports to China jumped 9% to 21,000 tonnes and the US remained the number one export market for Australian lamb purchasing 34,000 tonnes of product.
- The outlook for 2011/12 remains favourable as good seasonal conditions benefit flock rebuilding efforts amongst farmers, although it is expected prices will stay below 2011 highs.

New Zealand

- New Zealand farmgate prices have started to soften from the record prices on offer in 2011. By January 2102, prices had fallen below NZD7/kg for the first time since the middle of last year. This follows the UK retail price trends, with many cuts being offered at a discount to last month's prices; however, retail prices for lamb are still well up on previous years. During December UK slaughter also lifted year-on-year, improving short-term domestic supply. In spite of this the liveweight prices in the UK continue to remain elevated in January 2012 - around 10% higher than the same time last year. UK production in the full calendar year improved, but so did exports to continental Europe from the UK; this combined with the continued tight supply from New Zealand has meant prices have only eased marginally.
- Lamb slaughter in Q4 (start of 2011/12 season) fell 13% behind season-to-date figures for 2010/11, and mutton was a further 43% below last season. Production forecasts are still for the 2011/12 season to lift ahead of last season. Generally the season started well for lambing and most parts of the country have typical summer feed levels, if not better. It is worth noting that Southland had a particularly dry start to the summer and may end up with lighter weights coming through.
- November and December exports from New Zealand remained constrained as stock coming to market remained below average levels. Average export returns for December have softened to NZD9.69/kg; however these export prices remained around 10% higher year-on-year. A trend of softening prices is expected to continue through Q1 as economic uncertainty remains across the key EU markets, but overall prices will remain solid.

Dairy

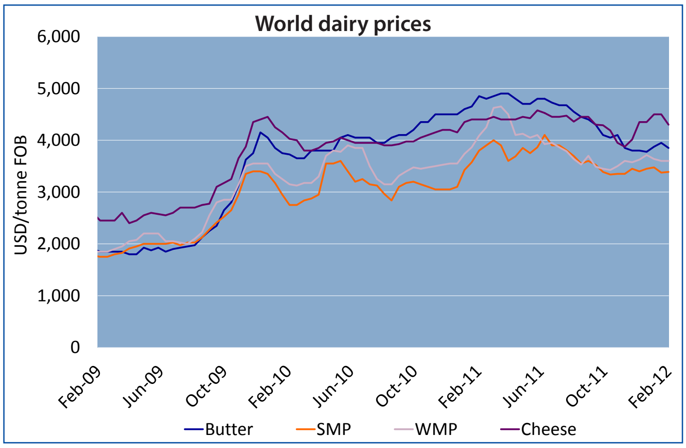
World dairy prices

	USD/tonne			AUD/tonne			NZD/tonne		
	02-Feb-12	Last month	Last year	02-Feb-12	Last month	Last year	02-Feb-12	Last month	Last year
Butter	3,850	3,875	4,850	3,613	3,775	4,821	4,648	4,956	6,271
SMP	3,388	3,475	3,800	3,179	3,386	3,777	4,090	4,444	4,913
WMP	3,600	3,638	4,088	3,378	3,544	4,063	4,346	4,653	5,286
Cheddar	4,300	4,088	4,400	4,035	3,983	4,373	5,191	5,228	5,689

Source: USDA/Rabobank

Global

- At the beginning of February, most international dairy commodity prices continue to exhibit relative stability in US dollar terms. Nevertheless, commodity prices begin the year down on trading levels from a year ago. Milk powders are around 10% lower, while cheese prices are just 2% lower. The biggest drifter over the period is butter with market prices down more than 20%.
- Supply growth in key export regions has continued in recent months. Strong spring production growth in Australia and New Zealand has ensured a plentiful supply of product from the Southern Hemisphere.
- Attention is now turning to the Northern Hemisphere where seasonal flushes are approaching. While production is likely to continue to track above year ago levels, production may well be tempered by softer farmgate prices and sustained high feed cost squeezing farmer margins.
- Domestic consumption in Europe and the US will be a critical factor in determining the size of exportable surplus during the seasonal flush. Unemployment is high in both regions and economic growth is sluggish, particularly in the eurozone which will face recessionary pressures and weak consumer confidence levels.



Source: USDA/Rabobank

Production growth in key exporting regions

	Latest month	Last three months
EU 27	1.6% (Nov)	1.4%
US	2.5% (Dec)	2.3%
Argentina	13.7% (Dec)	11.2%
Australia	5.8% (Dec)	4.4%
New Zealand	8.8% for 8 months to January 2012*	

*Rabobank estimate

Australia

- Australia's national milk production has emerged from a strong spring. At the end of December, preliminary data shows production was up 5.8% on the same period last year. There continues to be solid gains in northern and western Victoria, and Tasmania.
- With softer global commodity prices in US dollar terms, and a stubbornly high Australian dollar, prices for export processors (in Australian dollar terms) have been softer. Stock positions will be light in the near term with most of the output for 2011/12 season production has been sold by exporters.
- A number of southern export dairy processors have announced farmgate price step-ups in recent weeks. Full-year expectations for farmgate prices have been revised down with Murray Goulburn still confident AUD5.30/kgMS is achievable.
- After one year, supermarket discounting of private label drinking milk continues. Processors and farmers with exposure to the market segment continue to adjust to the changed market dynamics.

New Zealand

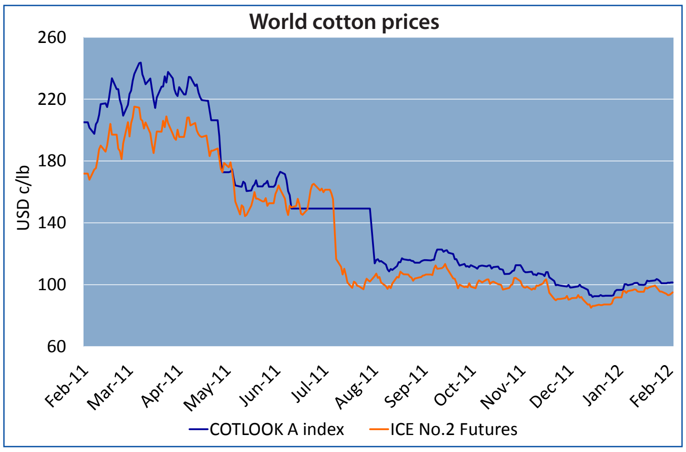
- Dairy commodity prices in local currency terms eased 5% on average in January as the New Zealand dollar gained around 3% against the US dollar. Compared to last year, prices are around 12% lower in New Zealand dollar terms, and are noticeably weaker for butter and WMP.
- Weather conditions continue to support good milk production, which has flowed through to a strong export program. December dairy export volumes were up 27% on the same month last year, largely on the back of strong Chinese buying activity to take advantage of the lower tariff rates for milk powder available in early 2012. China accounted for 19% of New Zealand dairy exports in 2011.
- The New Zealand Ministry of Agriculture and Forestry (MAF) has recently announced proposed changes to the Dairy Industry Restructuring Act (DIRA) and Raw Milk Regulations, reviewing Fonterra's milk price setting process and the volume of milk they supply to other processors. The public consultation process is open until 24 February, at which time options will be presented to the Government.

Cotton

World cotton prices			
All shown as USD cents/lb	Current (02-Feb-12)	Last month	Last year
Cotlook A Index	101.45	96.80	205.05
ICE No.2 NY Futures (nearby contract)	95.04	95.80	171.86

Source: Bloomberg/ICE/Rabobank

- Cotton price benchmarks strengthened throughout January, following a lift in the volume of open interest, which was broadly driven by an increase in net long positions - due to short covering. The front month ICE No.2 (March) contract and the Cotlook A Index are up 5% since the start of the year, currently trading at USD 95.04c/lb and USD101.45c/lb respectively.
- Chinese cotton buying is anticipated to face a seasonal slowdown throughout the first quarter of 2012, while global demand is likely to remain modest. Rabobank expects cotton prices to ease throughout 2012, from USD 95c/lb (AUD 480/bale) in Q1 2012 to USD 75c/lb (AUD 387/bale).
- However, concerns about ongoing dry conditions in the US during the planting season are expected to underpin prices, with the Southern drought anticipated to extend into April.
- Following a month of very-much-above-average rainfall across cotton growing regions of northern New South Wales and South East Queensland, widespread flooding has devastated cotton crops. At this early stage, dryland crops appear to be the worst affected, while irrigated crops will face yield penalties. However, with water storages and subsoil moisture profiles nearing capacity, the industry will benefit from water availability in the coming years.



Source: Bloomberg/ICE/Rabobank

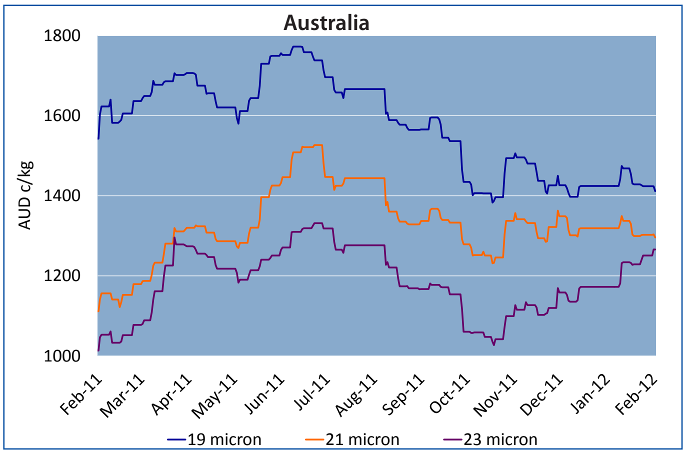
Wool

Australian wool prices (eastern)			
All shown as AUD c/kg clean	Current (02-Feb-11)	Last month	Last year
Fine (19 micron)	1,412	1,425	1,603
Medium (21 micron)	1,296	1,319	1,141
Broad/coarse (23 micron)	1,266	1,173	1,047

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

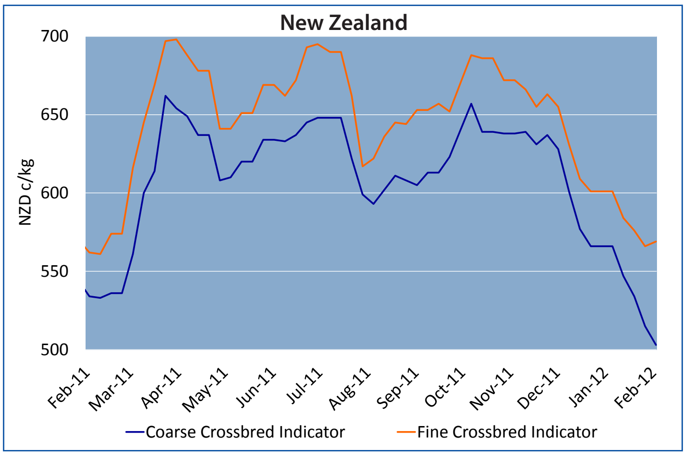
New Zealand wool prices			
All shown as NZD c/kg	Current (03-Feb-11)	Last month	Last year
Fine crossbred	569	601	562
Coarse crossbred	503	566	534

Source: Rabobank



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

- Supply concerns are keeping the Australian market supported at elevated levels despite macroeconomic risks abroad. Broad wool prices (23 micron) gained 7% in January, narrowing the premium between the 21 micron and 23 micron indicators to AUD0.30.
- The weight of wool tested by the AWTA in January increased by 3% month-on-month, yet overall production this season is slightly down on 2010/11 levels.



Source: NZWSI/Rabobank

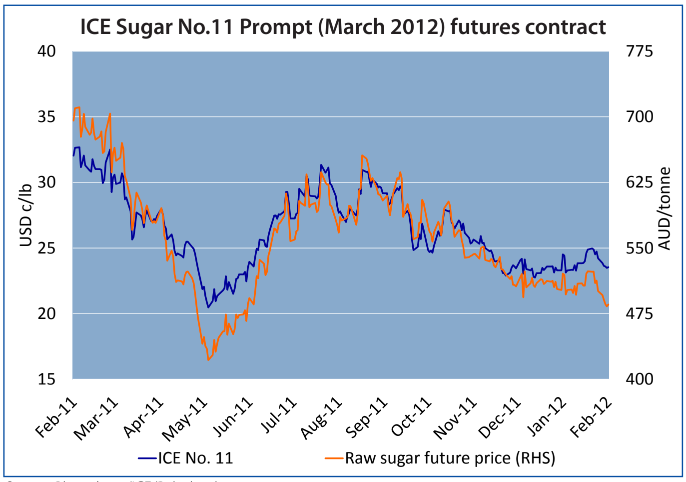
- New Zealand fine and coarse crossbred wool markets are feeling the impacts of global macroeconomic uncertainty, while merino and mid-micron prices have been better-supported. The NZWSI Coarse Crossbred Indicator fell by 9% this month.
- Total wool exports fell by 11% in 2H 2011 year-on-year (Beef + Lamb NZ, clean weight), particularly as a result of softer demand from Europe.

Sugar

ICE Sugar No.11 Prompt (raw sugar futures price March 2012)	Current (03-Feb-12)	Last month	Last year
USD cents/lb	23.54	24.51	32.04
Converted to AUD/tonne	485.38	520.67	695.72

Source: Bloomberg/ICE/Rabobank

- Despite reaching a two-month high in mid-January, the ICE No.11 (March contract) traded in a sideways range, finishing the month up over 1%, and is now trading at USD 23.54c/lb. Wet weather during the Thai harvest and downgrades to the Mexican sugarcane crop, coupled with buying activity from hedge and index funds has been supportive of prices throughout January.
- The Indian government approved a further one million tonnes of exports in early February. This takes Indian sugar export approvals to two million tonnes, with 0.85 million tonnes of exports to date.
- The 2011 Australian sugarcane harvest came to an end prior to Christmas, with almost 28 million tonnes of cane crushed, up 2% year-on-year and down 7% on 2009. This was another below-average result for the industry, largely due to consecutive seasons of weather-related production constraints. Accordingly, sugar content was lower-than-normal, primarily due to the imposition of standover cane from the 2010 season.
- Rabobank expects Australian raw sugar production to reach 4.63 million tonnes in 2012, up over 10% year-on-year. With strong sugarcane production forecast to be around 33 million tonnes, and firm prices expected in 2012, Australian growers may finally be in a position to reap the rewards of elevated sugar prices. Seasonal conditions are expected to remain favourable throughout the early autumn growing period.



Source: Bloomberg/ICE/Rabobank

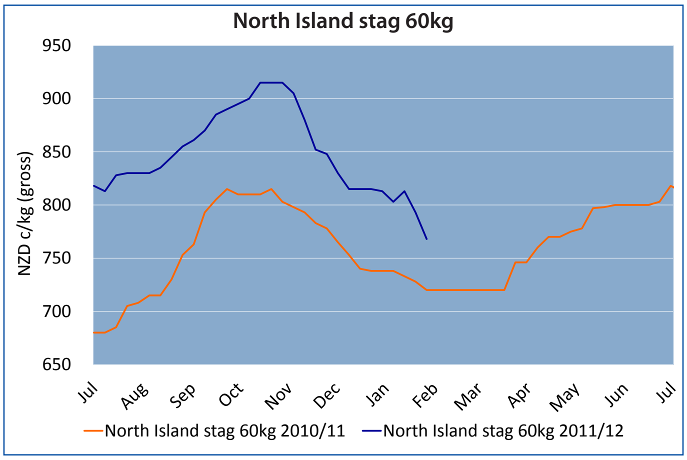
- Mitr Phol has increased its control over Maryborough Sugar Factory (MSF), following a gradual acceptance if its takeover bid which was lodged in December 2011. If the takeover offer is successful, around 75% of Australia's sugar crushing capacity will be owned by offshore investors.

Venison

New Zealand venison prices All shown as NZD cents/kg gross	Current (30-Jan-12)	Last month	Last year
North Island Stag 60kg	768	813	720
South Island Stag 60kg	760	829	737

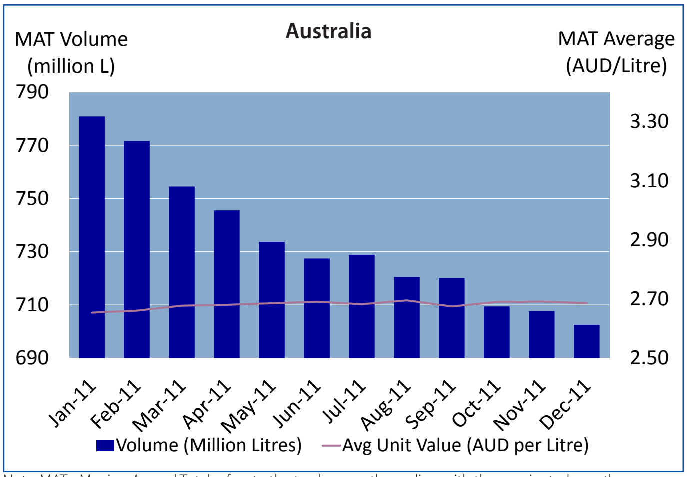
Source: NZX Agrifax/Rabobank

- Farmgate venison prices fell below NZD8/kg in January for the first time since the middle of last year, as EU markets face the challenges of economic reform, along with the traditional change in export mix that occurs at this time of year. The 2011/12 season is more likely to see prices sit closer to the NZD7.50/kg price as traders of premium meats such as venison take on cautionary buying patterns.
- The balance between chilled and frozen exports reversed in December as seasonal demand for chilled product slows. This reduced the overall return for product down to NZD12.50/kg, compared to September's highs of NZD17/kg. Month-on-month the market price returns have not changed - December exports of chilled product still generated NZD22/kg FOB, while frozen venison sales averaged NZD10/kg FOB.
- December dried velvet exports returned NZD280/kg, for around 1,700kg of product, while 15,500kg of frozen product was exported averaging NZD50/kg FOB.



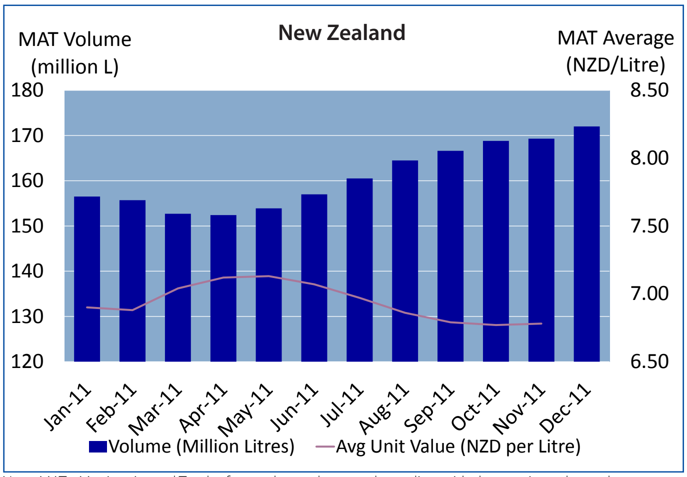
Source: NZX Agrifax/Rabobank

Wine



Note: MAT - Moving Annual Total refers to the twelve months ending with the nominated month

Source: Australian Wine and Brandy Corporation/Rabobank



Note: MAT - Moving Annual Total refers to the twelve months ending with the nominated month

Source: New Zealand Winegrowers based on Statistics New Zealand/Rabobank

Australia

- Australian wine export volumes in the year to December 2011 fell 10.1% to 702.5 million litres (ML), while the FOB value of exports fell 9% to AUD1,886.8 billion. The reduced supply of bulk wine and a subtle shift in the distribution of bottled wine exports from lower margin developed markets to higher margin emerging markets has pushed average export unit values higher for both bottled wine (+4.6% to AUD4.31 per litre) and bulk wine (+7.1% to AUD1.01 per litre) in 2011.
- Australian wine export volumes declined across all reported price segments in 2011, however the relative impacts were far from uniform. The greatest decline occurred in the 'Popular-Premium' (AUD2.50 to AUD4.99 per litre) segment which fell -16.4% by volume and -18.4% by value, while at the other end of the market, the Ultra-Premium (AUD10 per litre and over) segment recorded only a slight -0.4% decline in volume and a strong 11.4% rise in value.
- Trading conditions proved particularly challenging in Australia's top three export destinations in 2011. Volumes to the flagging UK market declined -8.6% with signs that suppliers continued to shift to bottling in-market to reduce supply costs. While the broader US market is expected to register growth in 2011, Australian suppliers lost significant share as shipments declined -13.1% by volume. The Canadian market, which has represented a bright spot in past years, also fell -9.7% by volume in 2011.
- Trade to other traditional markets such as New Zealand (-18.3%), the Netherlands (-13.5%), and Scandinavia (-14%) also registered significant declines. Shipments to the German market rose 12.9% but were based mostly on gains in low-value bulk trade.
- On a positive note, exports to emerging markets across the Asian region again registered growth at higher margin price points in 2011. While shipments to the combined markets of China and Hong Kong declined -22.2% by volume, value grew by 22.7% as the fall was isolated to low-value bulk wine trade and more premium price points experienced strong growth. The ASEAN economic block also followed a similar pattern as shipments grew 2.4% in volume and 19.8% in value.

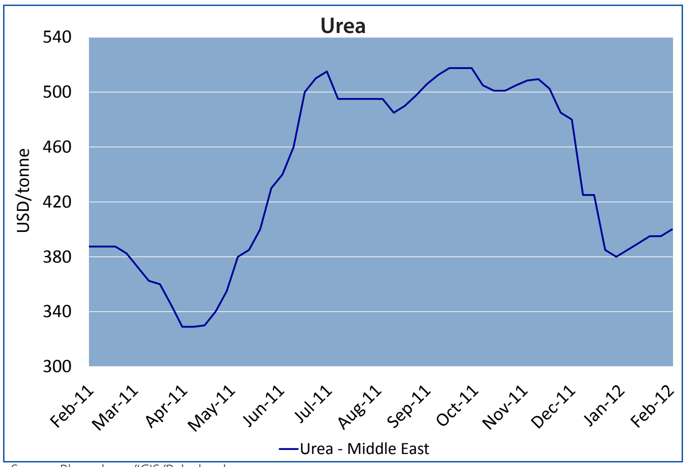
New Zealand

- New Zealand wine export volumes increased 10% to 172ML in the year to December 2011. Over the past 12 months, annual bottled wine shipment volumes have lifted by 3.8% on the prior corresponding period to 111.6ML, while bulk wine shipments have increased 23.8% to 60.4ML (NZ Winegrowers Association, 2011).
- Export volumes remained steady in the month of December on the back of higher bulk wine shipments that represented around 40% of total exports. Bulk exports from small and medium sized wine companies have increased strongly in recent months as larger wine companies appear to be easing back from the market.
- In the year to November 2011, the annual value of exports grew 4.3% on the prior corresponding period to NZD 1.137 billion. The annual average unit value arrested its slide to steady at FOB NZD6.78 per litre as the average value of bottled wine and bulk wine exports have begun to firm from recent lows.
- The performance of New Zealand's top three export destinations was particularly mixed in 2011. The Australian market benefitted from a favourable currency pairing and reinforced its place as the largest market by value, growing 5% by volume and 7% by value. Volumes increased to both the US (+4%) and UK (+10%) markets, however average unit values declined significantly as bulk shipments expanded dramatically.
- While over 90% of New Zealand table wine exports are white wine, the growth in exports of red wine outpaced that of white wine in 2011 driven mostly by demand from China but also Japan and Hong Kong. Exports of sparkling wine more than doubled in 2011 driven mostly by demand from Australia and the UK.

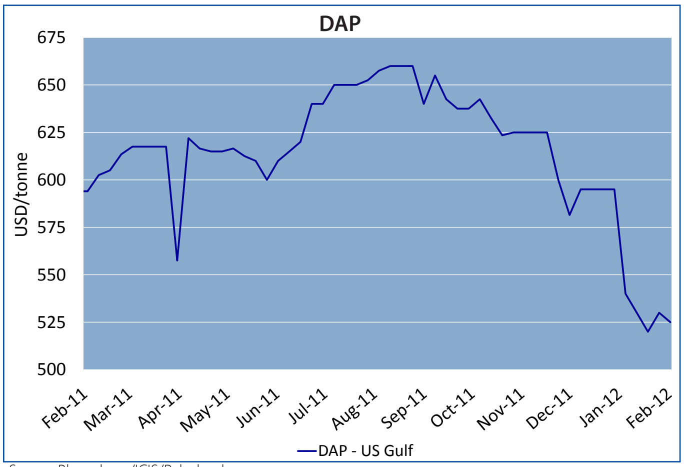
Fertiliser

Fertiliser prices			
All shown as USD/tonne	Current (02-Feb-12)	Last month	Last year
Urea (Middle East)	400	385	390
DAP (US Gulf)	525	540	595

Source: Bloomberg/ICIS/Rabobank



Source: Bloomberg/ICIS/Rabobank



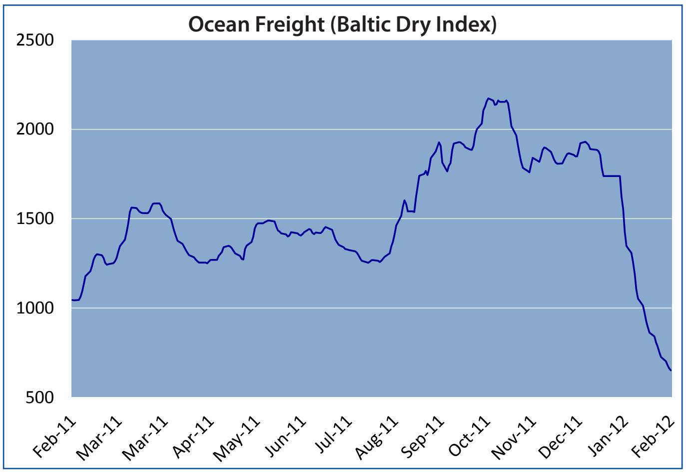
Source: Bloomberg/ICIS/Rabobank

- Over the closing months of 2011, global benchmark fertiliser prices eased back for most key nutrient products. Globally, cautious buying activity coincided with a quiet application period to push prices lower. Eurozone debt concerns also weighed on market sentiment.
- As we enter February 2012, prices for DAP and Urea are starting to find some support. Global benchmark prices are currently trading at USD525/tonne for DAP, and USD400/tonne for urea.
- Support in market pricing is being brought about by a cautious re-entering of global buyers and a more even balance of supply following production cutbacks from global fertiliser producers.
- As spring planting programs approach in the Northern Hemisphere, global demand for fertiliser will likely increase, and underpin prices. In most regions, farm economics support high application levels of fertiliser, and with light inventory levels a common theme, import purchases will be required to re-fill pipelines.
- For Australia and New Zealand, lags in supply chains may prevent the recent weakness in global benchmark prices from reaching the farmgate. Additionally, application is seasonally low. However, there is a possibility that some discounted nutrients could be available short-term.

Other costs

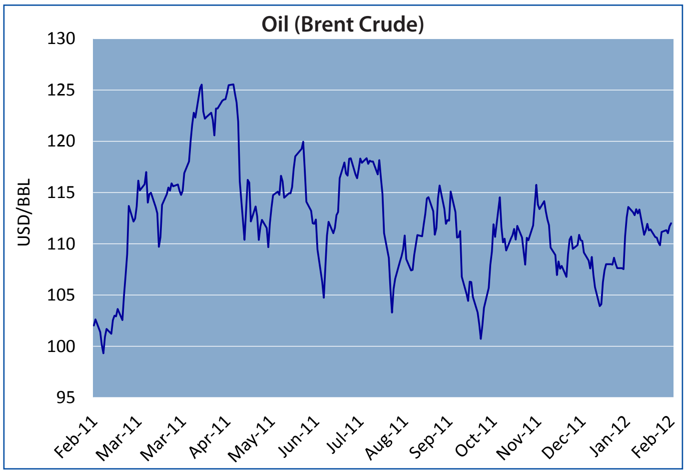
Ocean freight index and oil prices			
	Current (02-Feb-12)	Last month	Last year
Baltic Dry Index* (ocean freight)	651	1738	1064
Brent Crude Oil (USD/bbl)	112	107	101

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

About the Rabobank Group

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.

Rabobank operates in 46 countries, servicing the needs of more than nine million clients worldwide through a network of more than 1,600 offices and branches. Rabobank Australia and Rabobank New Zealand are among their countries' leading rural lenders and are significant providers of business and corporate banking and financial services to the Australian and New Zealand food and agribusiness sector. Rabobank has 83 branches throughout Australia and New Zealand in all major agricultural regions.

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