



**Rabobank**

# Agribusiness Monthly

*Australia and New Zealand*

August 2014

# Report summary



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This report is 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 – Reduced risk of El Niño

## El Nino

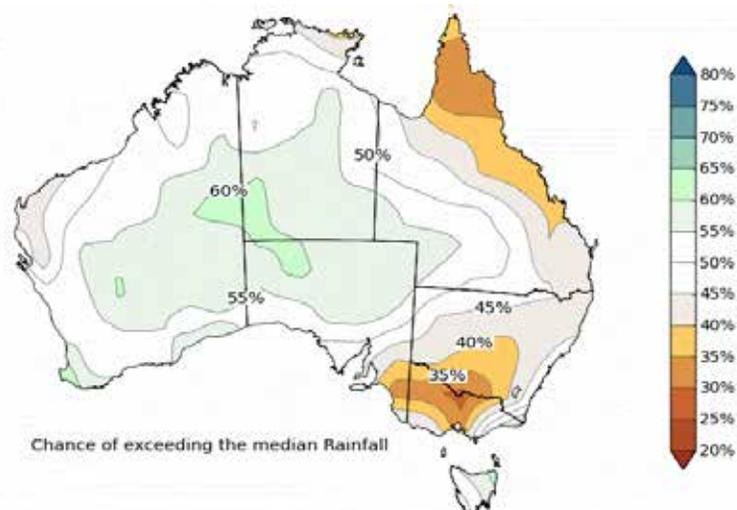
Given the current observations and the climate model outlooks, the Bureau’s ENSO Tracker has shifted to El Niño WATCH status. This means the chance of El Niño developing in 2014 is approximately 50%, which remains significant, at double the normal likelihood of an event.

## Australia

Much of the eastern mainland recorded below-average monthly rainfall in August. For Australia as a whole, rainfall was 32% below average for July.

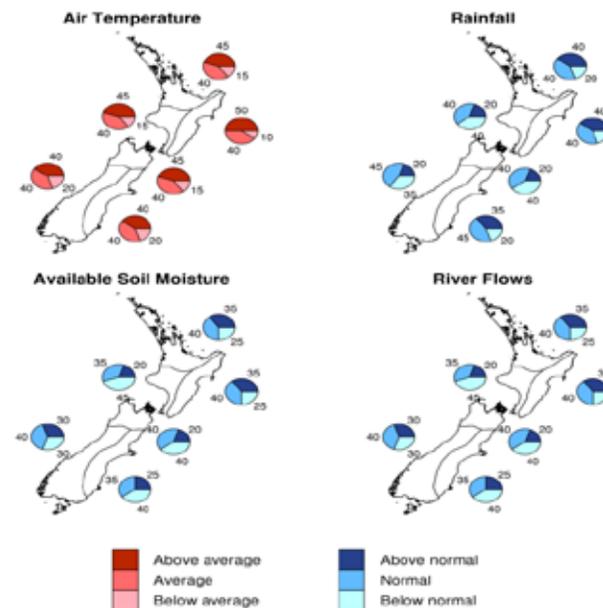
According to the latest climate outlook, a drier than normal season is more likely for northern Queensland, and parts of southeast Australia. A wetter than normal season is more likely for a small part of central Australia and normal conditions for the rest of the country.

### Australian Rainfall Outlook August to October 2014



Source: Commonwealth of Australia 2014, Australian Bureau of Meteorology

### New Zealand Seasonal Outlook August – October



Source: NIWA, 2014. All rights reserved

## New Zealand

According to the latest seasonal outlook for August-October, temperatures across New Zealand are expected to range from average to above average for most parts.

Through the August-October period rainfall is likely to be normal or above normal in the north and east of the North Island, and normal or below normal in the west of the North Island and in the north of the South Island.

Soil moisture levels are most likely to be in the below normal range.

# Beef – Record Australian exports continue



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## Australia

Through the month of July and the first week into August cattle prices continued their stable trend. The EYCI tracked between AUD 3.33/kg cwt and AUD 3.42/kg cwt for the 5 weeks. Trade steers remained relatively stable between AUD 3.59 and 3.74/kg cwt while cow prices saw an improvement to AUD 2.88/kg cwt in the first week of August to be similar to levels following rains in April.

Slaughter levels for June continued the trend of tracking higher than the corresponding month in the previous year. Females are still accounting for a large amount of the numbers with 53% of the June adult cattle slaughtered being females.

Boxed beef exports continue to grow, offsetting the high slaughter levels, with a new record set in July of 121,524 tonnes swt for the month. The US continues to be the lead market, taking 30% of beef and veal exports. This is positive news given the increase in imported prices for ground beef into this market over the month of July.

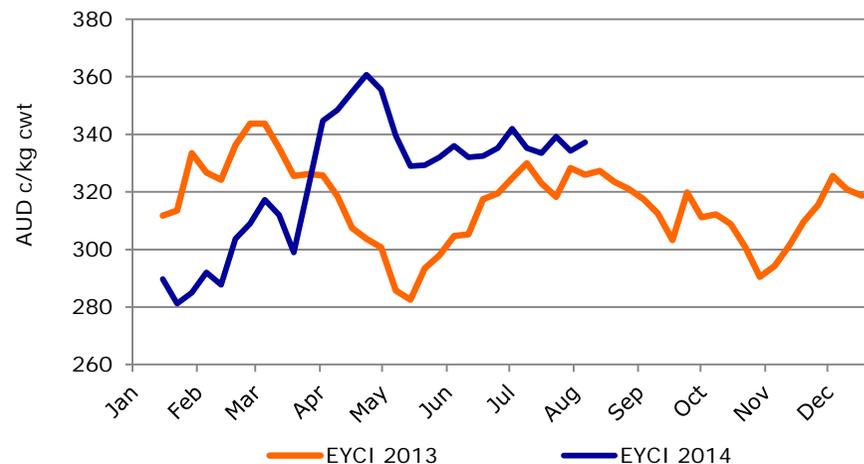
## New Zealand

Farmgate prices during July in the North Island climbed considerably, while South Island prices remained steady. The North Island bull price in the second week of August averaged NZD 4.35/kg cwt, 9% higher than the corresponding week last year and the highest average price since the start of 2012.

Total cattle slaughter during June jumped 15% year-on-year, to 209,046 head, with cow slaughter levels increasing 43% on June 2013, to 89,000 head. Despite the rise in the month of June, total slaughter for the first six months of 2014 remained steady on the same time last year.

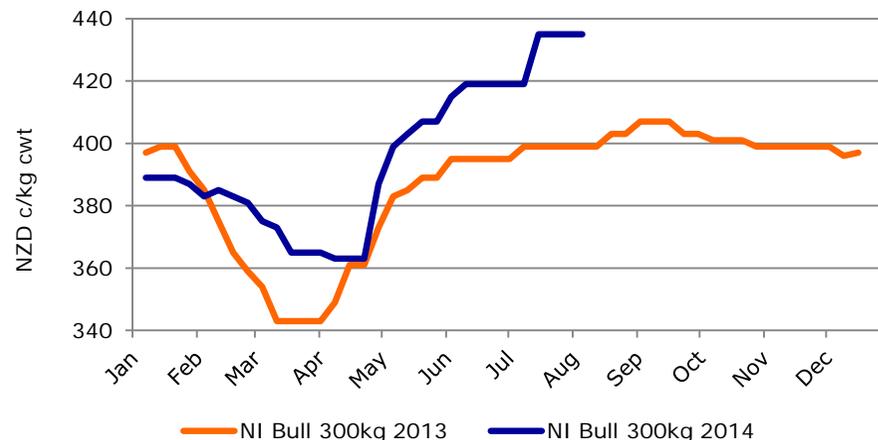
Beef exports in June increased 19% year-on-year, to 43,835 tonnes swt, with exports for the first six months of 2014 rising 6% year-on-year, to just under 250,000 tonnes swt. The US (128,430 t) & China (26,732 t) remain the two largest export markets so far in 2014.

## Australian beef prices



Source: MLA, Rabobank 2014

## New Zealand beef prices



Source: NZX Agrifax, Rabobank 2014

# Dairy – Global commodity prices continue to slide



## Global

Global dairy commodities have continued to slide over the past month as plentiful supplies have eliminated any need for buyers to halt the downward trend.

The impact of higher retail prices slowing consumer demand is playing a role in subduing prices, alongside the slower replenishment of inventory pipelines as purchasers lack urgency with no immediate prospect of supply tightening.

Rabobank anticipates this fundamental situation to largely remain in place through the remainder of the year before the market churns its way through the excess volumes and the market finds its feet again.

## Australia

Australian national milk production for 2013/14 season finished 0.4% higher at 9.239 billion litres. Very strong Autumn and Winter numbers were recorded in both Victoria and Tasmania.

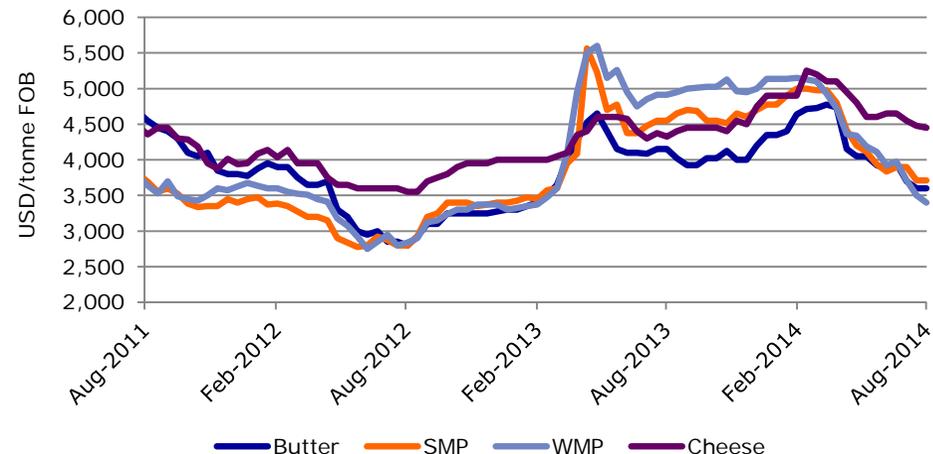
Fonterra Australia have conducted its first review of farmgate pricing for the 2014/15 season. It has held its current price and forecast range unchanged (AUD6.20-6.30/kgMS), but has suggested the closing forecast range is moving toward the lower end.

## New Zealand

Late winter/early spring has remained mild for the critical new season calving period. Cow condition in most regions is good to very good and feed stocks are good.

Milk price forecasts for the new season are now more closely resembling the fall in commodity prices over recent months with Fonterra lowering its forecast by 14% to NZD 6.00/kgMS with other companies reducing price forecasts to a similar extent.

## World dairy prices (USD/tonne FOB)



Source: USDA, Rabobank

## Production growth in key exporting regions

	Latest month	Last 3 months
EU	4.2% (June)	5.3%
US	1.9% (June)	1.6%
Argentina	-6.0% (June)	-6.4%
Australia	8.9% (June)	7.5%
NZ*	6% for the two months to the end of July	

Source: Rabobank

# Grains and Oilseeds – Global prices set new seasonal lows



## Global

Adequate global supply and aggressive selling by Black Sea exporters have driven CBOT December wheat prices 5% lower over the last month, reaching new contract lows. Tight US hard red winter wheat (HRW) stocks as well as concern over conditions in the EU have provided some price support but favourable growing conditions in the Black Sea region and Australia have helped drag markets lower.

Ideal growing conditions for US summer crops have supported the outlook for historically large yields, driving further bearish sentiment in corn and soybean markets. US corn yields are expected to approach a record 170 bushels/acre this season and US soybean acres are estimated at a record 84.84 million acres.

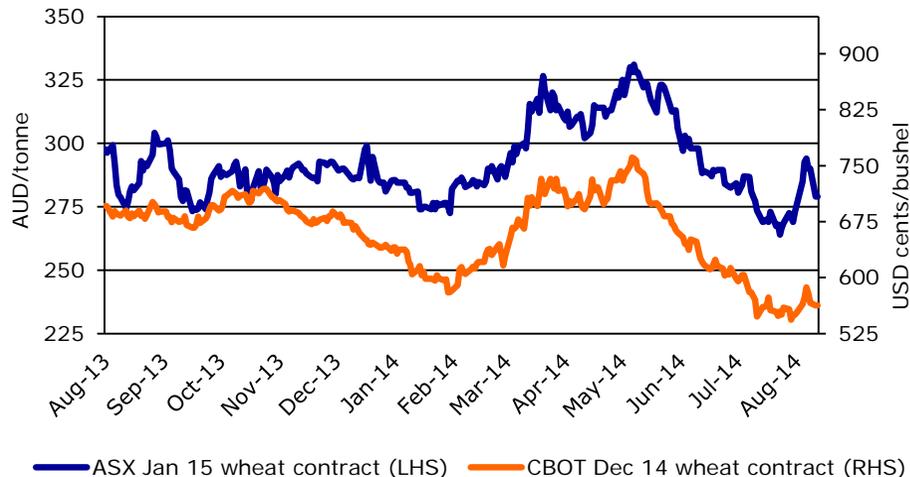
Modest import demand for grains and oilseeds is also limiting upside rallies. However, pricing opportunities may develop in high protein wheat markets on the back of lower US HRW production and a wetter EU.

## Australia

Australian wheat prices remain relatively well supported compared to global markets due to tight domestic old crop supplies and continued dryness in northern New South Wales and Southern Queensland.

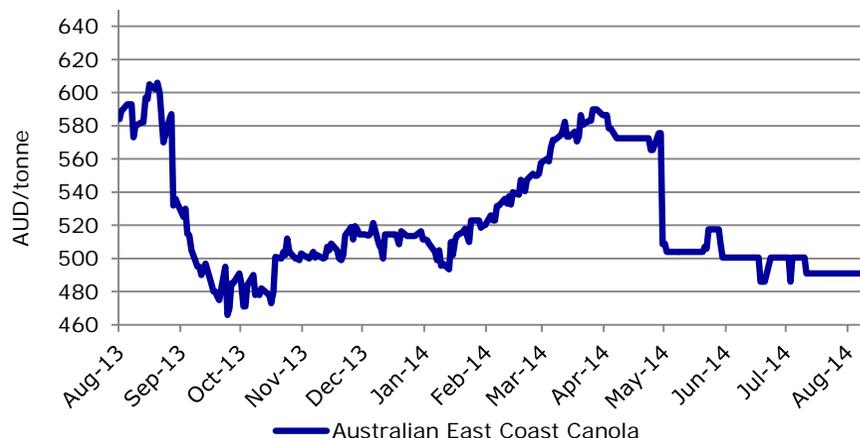
Western Australian growing conditions remain favourable however a lack of rain over the first half of August has left some crops in need of rain. Southern Australian growing regions are also experiencing good winter conditions with most growing areas receiving average to above average rainfall throughout July. Isolated frost events in South Australia are causing some concern for crop yields however the impact will not be known until spring.

## ASX January 15 & CBOT December 14 wheat prices



Source: Bloomberg, Rabobank

## Australian east coast canola prices



Source: Bloomberg, Rabobank

# Sheepmeat – NZ sheep flock falls below 30 million head

## Australia

Lamb prices dropped dramatically through the month of July, coming off the high of AUD 5.83/kg cwt in late June to be AUD 4.93/kg cwt in the first week of August. While prices tend to drop in July it is not usually until later in the month. This drop brings prices into line with the 5 year average. Mutton prices also saw a decrease, although not as dramatic, to be AUD 3.23/kg cwt in the first week of August.

Lamb slaughter of 1.6 million head continues to track similar to the 5 year average (1.5 million head). However 588,700 head of sheep were slaughtered in June, which continues the higher than average slaughter rates. Indicative numbers for July show slaughter numbers easing very slightly for both lambs and sheep.

Lamb exports continue to track at close to record levels with 20,657 tonnes swt exported in July. Mutton exports dropped slightly to 9,929 tonnes swt for July but remain above the 5 year average and continue to support very strong export volumes for 2014.

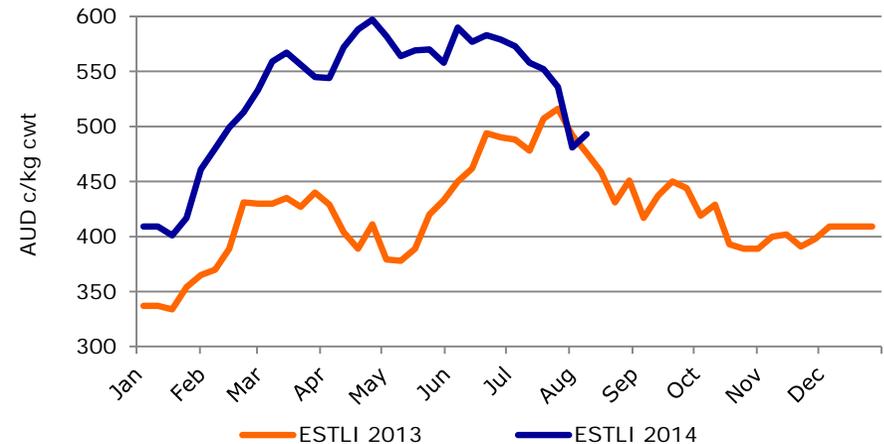
## New Zealand

Farmgate prices in both the North and South Island remain at similar levels, averaging NZD 5.77/kg cwt in the second week of August—9% higher than the same week last year.

Despite lamb slaughter in June increasing 5% year-on-year, to 1.1 million head, total lamb slaughter for the first half of 2014 fell 4% year-on-year, to 13.3 million head. Mutton slaughter during the same six month period increased 4% y-o-y, to 2.58 million head, with the flock at 29.8 million head as at year to June 2014.

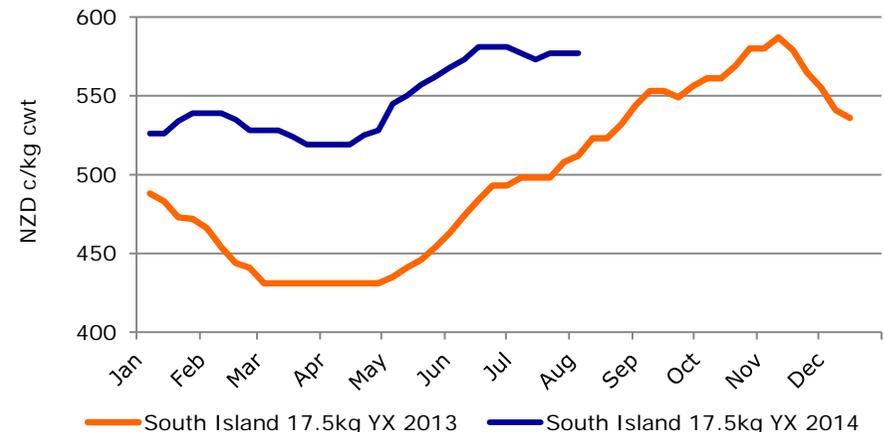
Sheepmeat exports in June fell 14% year-on-year, to 29,651 tonnes swt, as exports to China (10,417 tonnes swt) declined 34% over the same period. Export volumes for the first six months of 2014 increased 2% year-on-year. Encouragingly, strong international demand is also translating into higher export values, with returns 13% higher over the same period, averaging NZD 7.34/kg FOB.

## Australian lamb prices



Source: MLA, Rabobank 2014

## New Zealand lamb prices



Source: NZX Agrifax, Rabobank 2014

# Wool – Positive start to the 2014/2015 selling season



## Australia

Australian wool auctions recommenced from a 3 week recess with the Eastern Market Indicator lifting 15 cents from 2013/2014 close to AUD 1031 c/kg clean (at the time of writing). There was a healthy offering for the first week back with 45,463 bales up for auction and a 6.6% pass in rate.

The new season has also provided some much needed support for the finer end of the market which finished last season with disappointing premiums following high supply, where for the first time we saw more finer wool (<19.5 micron) than mid micron (19.5-24 micron). Premiums for 18-21m were up 47% and the 17-21m premium up 22% from this time last month.

Export statistics for the 2013/2014 season have been released with wool exports to China down 10.6% year-on-year to 76% of total Australian wool exports. This reduction in market share can be largely attributed to the slowing of Chinese demand with greater manufacturing and economic growth challenges.

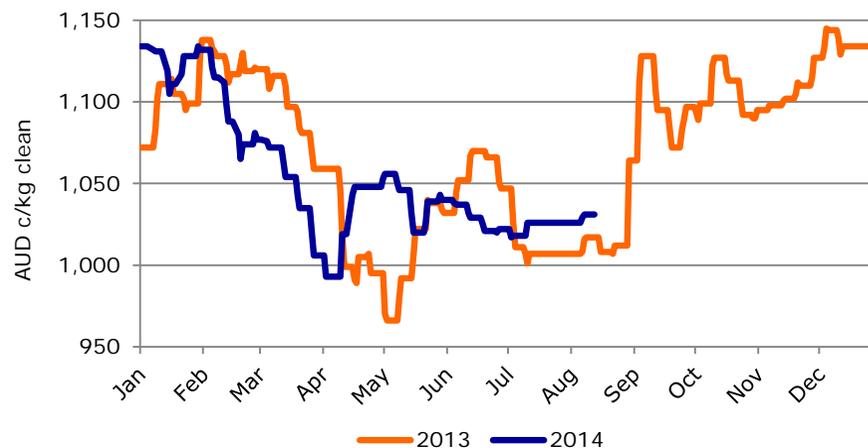
India as the second largest market showed a healthy increase of 23.7% in volume compared to 2012/2013. Overall Australia exported 5.7% less wool in the 2013/14 season year-on-year, however positively with only a 0.6% reduction in value.

## New Zealand

The New Zealand market has opened in a similar fashion to how it ended last season with little significant fluctuation. While there have been improvements late in July across the fine crossbred and coarse crossbred indicators, prices have been comfortably trading above NZD 500 c/kg clean since April 2014.

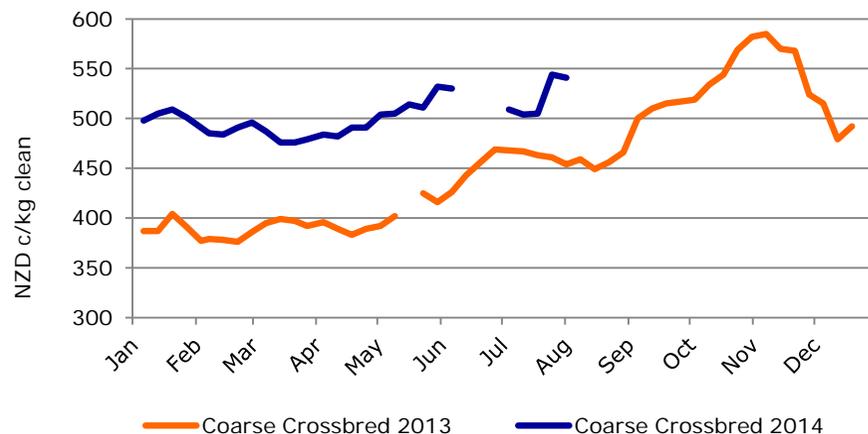
Similar price improvements were seen in their mid micron indicator trading at NZD 755 c/kg clean in the first week of August. A diverse book of buyers and limited volumes are pushing these price improvements.

## Australian wool prices – Eastern market indicator



Source: Bloomberg, Rabobank

## New Zealand wool prices – Coarse crossbred indicator



Source: NZWSI, Rabobank

# Sugar – Brazilian harvest pressure sours prices

## Global

Nearby ICE #11 October futures were down to USc 16.24/lb at the time of writing, representing a 5.5% drop month-on-month. Dry conditions in Brazil have resulted in a faster than normal harvest pace, bringing short term supply pressure on prices. Subsequently Rabobank's Q3 average price forecast has been lowered USc 1/lb to USc 17.2/lb.

Nearby futures, currently 25% below the 5 year average of USc 21.54/lb are expected to hold around current levels. As the Brazilian harvest normalises and expected lower yields in Brazil become evident we may see modest recovery through the 3<sup>rd</sup> quarter.

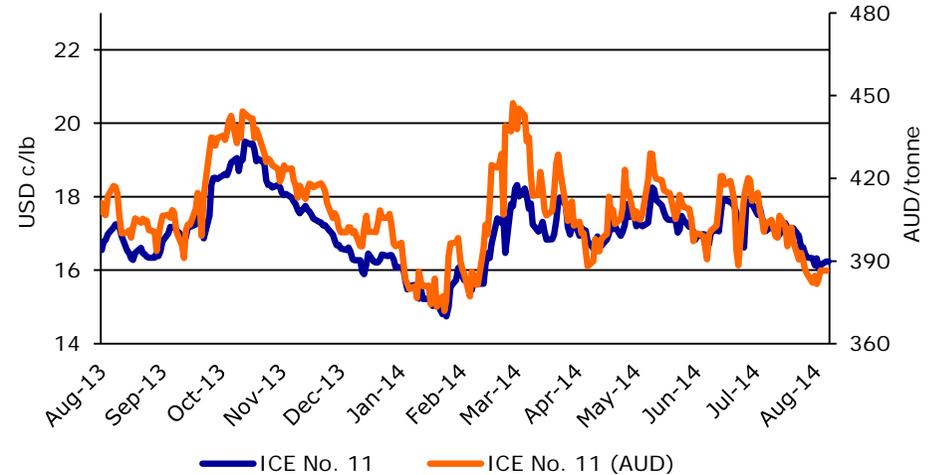
Failure of El Niño rains to materialise in Brazil has increased concerns of a sub 570 million tonne Centre/South Brazil crop in 2014/2015. Together with drier-than-normal conditions persisting across the cane growing regions of India, Thailand, Australia and Indonesia – the global sugar market may be on-track in 2014/2015 for its first deficit season in 5 years.

## Australia

Dry conditions in key sugar growing regions in Australia have provided favorable harvest conditions throughout July and early August allowing mills to catch up on production following a rain interrupted start.

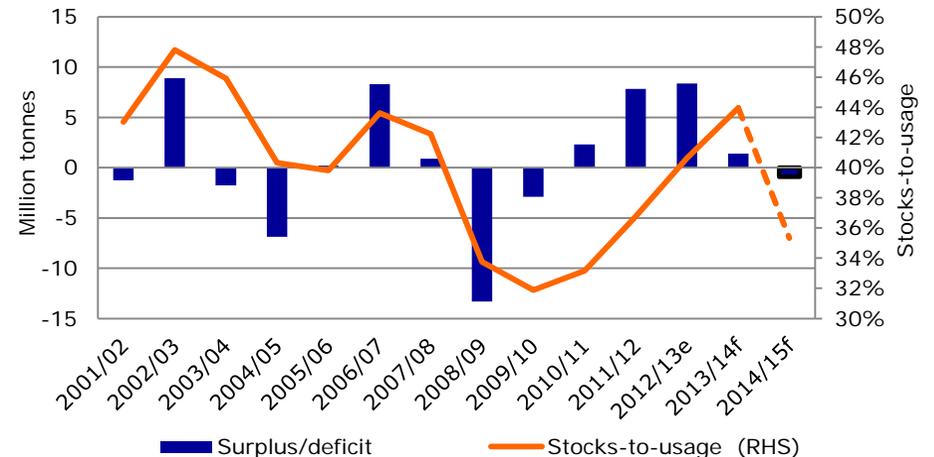
The crush now sits at approximately 25% complete and although tracking marginally behind volumes to date in 2013, planted area and expected improved yields are still indicating 2014/15 production will exceed 2013/14 levels.

## Raw sugar price – ICE No. 11



Source: Bloomberg, Rabobank

## Global Sugar Surplus / Deficit and Stocks to Use



Source: FO Licht, Rabobank

# Cotton – Prices bolled over by record high global stocks

## Global

Bearish momentum has continued for cotton prices this month with ICE #2 futures falling a further 5.5%, to USc 64.4/lb. Weaker than expected US export volumes, coupled with a forecast 36% year-on-year increase in US production and record global ending stocks is expected to bring further downward pressure on ICE #2 Dec 14' cotton futures to sub USc 62/lb. The Cotlook A Index has dropped this month to sub USc 73/lb for the first time since 2009.

The improvements in US crop conditions with shrinking abandonment have driven Rabobank's Q3 average price forecast USc 9/lb lower month-on-month to USc 66/lb. In Q4, a seasonal pick up in physical offtake coupled with the lowest new crop prices for cotton since 2008 are expected to stimulate demand with the gap to polyester fibre narrowing, providing price support. Our longer dated price forecasts remain, with Q4 at USc 70/lb, Q1'15 at USc 73/lb and Q2'15 at USc 75/lb.

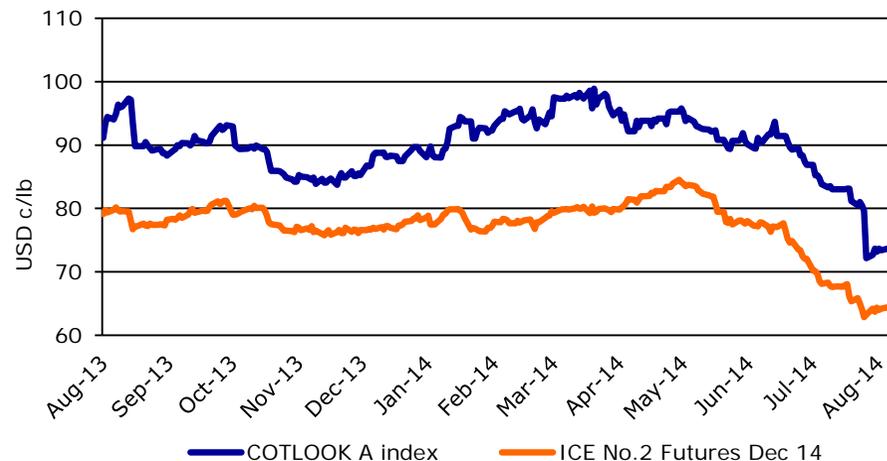
World stocks continue to dominate concerns for the fibre which the USDA now forecast at reaching a record 105.1 million bales by the end of 2014/15, driving the stock to use ratio above 90%.

Overall global production is still forecast to fall in 2014/15 with China and India's reductions to offset gains in the US and Brazil. Clarity around policy support for various growing regions in China remains to be seen adding to the uncertainty of what will happen with the in excess of 60 million bales of stock estimated to be held in China.

## Australia

Focus now turns to planting decisions for the 2014/2015 season and with new crop prices falling below A\$400/bale and some key growing regions suffering from severe to serious rainfall deficiencies during the last 12 months, planting is anticipated to be considerably lower than last years area with estimates ranging from 2.1 million bales to the USDA's prediction at 2.7 million bales.

## Global cotton benchmark prices



Source: Bloomberg, Rabobank

## Global cotton stocks and stock to use ratio



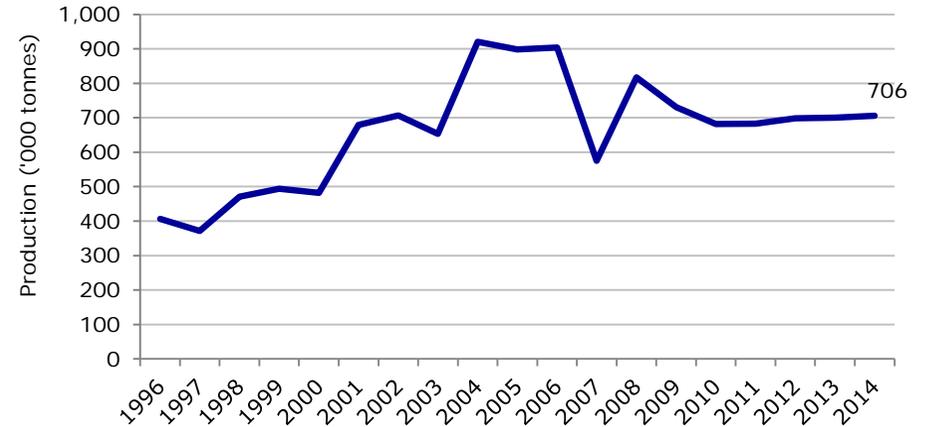
Source: USDA, Rabobank

# Wine – A mixed bag in 2014 for Australia's leading wine state

Australian wine export volumes remained flat in June 2014 versus the same month last year, while annual volumes are slightly down on the prior year. Some regional estimates of the size of the 2014 Australian wine harvest have been released, including the bellwether state of South Australia. The PGIBSA estimates the total state crush to have been slightly higher at 706 thousand tonnes (+0.8% YoY) in 2014, however the farm gate value of production fell significantly to \$423 million (-10.7% YoY). Results were very mixed, with significant increases across the State's three largest subregions compensating for declines elsewhere.

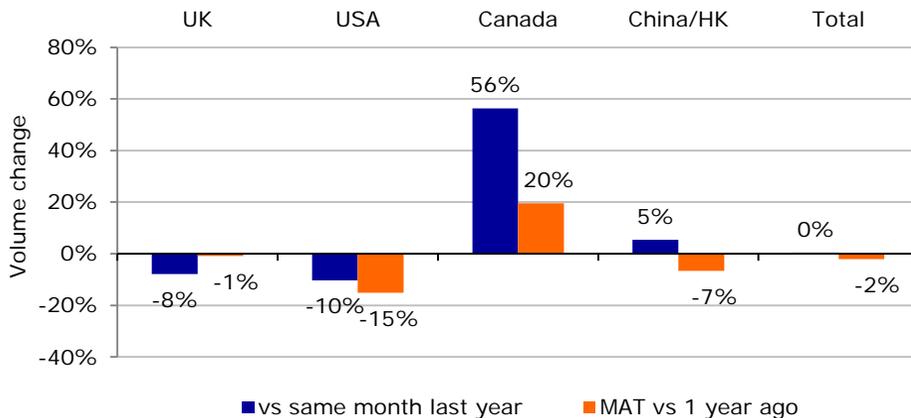
New Zealand export volumes remained flat in June 2014 while annual volumes are tracking 10% higher than last year. The UK market is again growing strongly, and at this rate it won't be long until it again surpasses Australia as the most popular export destination for New Zealand wine.

## Historical South Australian Wine Grape Crush



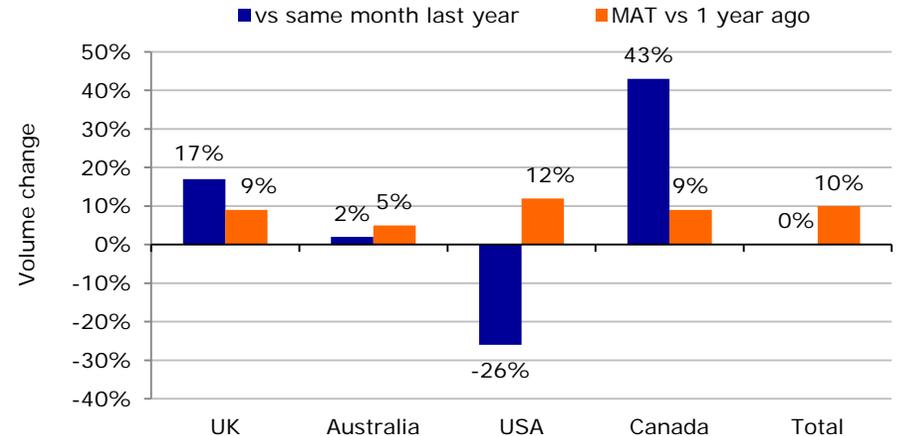
Source: PGIBSA, Rabobank

## Australian wine exports by major market – June 2014



Source: AGWA, Rabobank

## NZ wine exports by major market – June 2014



Source: NZ Winegrowers, Rabobank

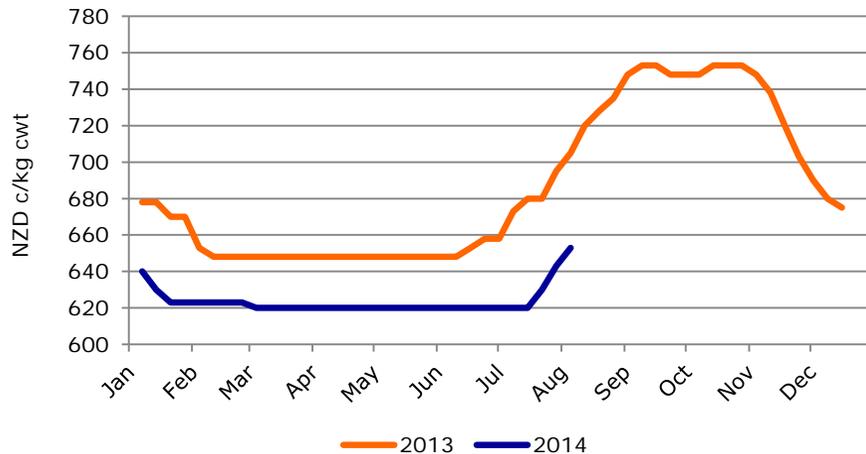
# Venison – Seasonal rise in farm gate prices

## New Zealand

Farmgate prices at the commencement of August began the seasonal increase after remaining unchanged throughout most of 2014. South Island stag prices at the start of the second week of August averaged NZD 6.53 kg/cwt, 9% lower than the same week last year, but will continue to climb over the next few months.

Venison export volumes during June surged 53% year-on-year, to 1,553 tonnes swt. Exports were driven higher by a large increase in both frozen (1,429 tonnes swt) and chilled (124 tonnes swt) shipments, which jumped 48% and 166% respectively. Average export values in June declined 27% yr-yr, averaging NZD 6.87/kg FOB, with both chilled and frozen returns well below year ago levels.

## South Island Stag 60 kg/cwt



# Fertiliser – Weaker crop prices cloud fertilizer markets

## Phosphate

The global phosphate market has remained tight on the back of steady demand from South American and Asian buyers. This has led to slightly firmer global market prices over the past month.

Adding the firm fundamentals, there has been unexpected supply issues in China (storm damage to ports) and the Middle East.

However, price movements have been modest largely due to a slow down in Brazilian activity. Brazilian buyers are now well stocked and demand is moderating in this region.

Looking forward, monsoon rains and subsequently Indian demand will set the tone for global phosphate markets. Demand in India has so far remained sluggish due to poor weather conditions but there has been improved rains in recent weeks.

## Urea

Weaker crop prices have clouded the market, prompting more cautious buyers to wait until nearer the next season before committing to any new tonnes. As a result, over the past month global urea markets have remained mostly range-bound with some minor upward pressure.

The political unrest in eastern Ukraine makes the continuation of cuts in output at nitrogen plants in the region likely.

## Potash

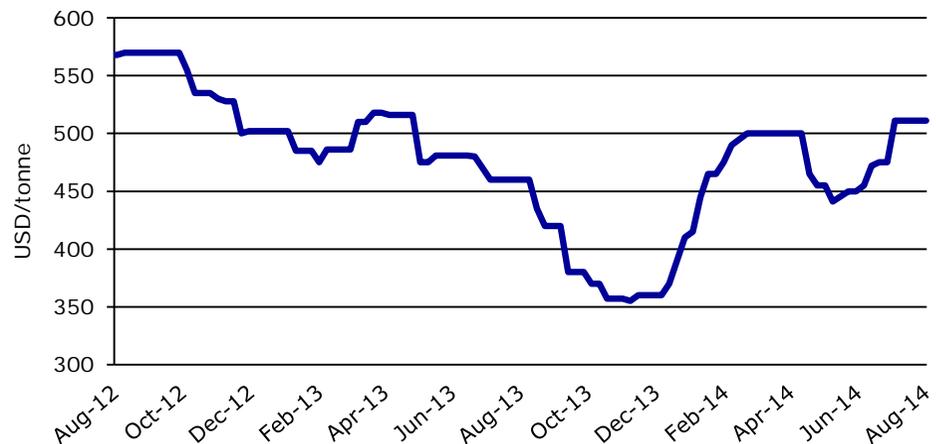
Global potash markets are again unchanged. Right now, demand is sluggish in China, but market activity is expected to pick up from the end of August which could put some upward pressure on global prices.

## Urea - Middle East (FOB)



Source: Bloomberg, Rabobank

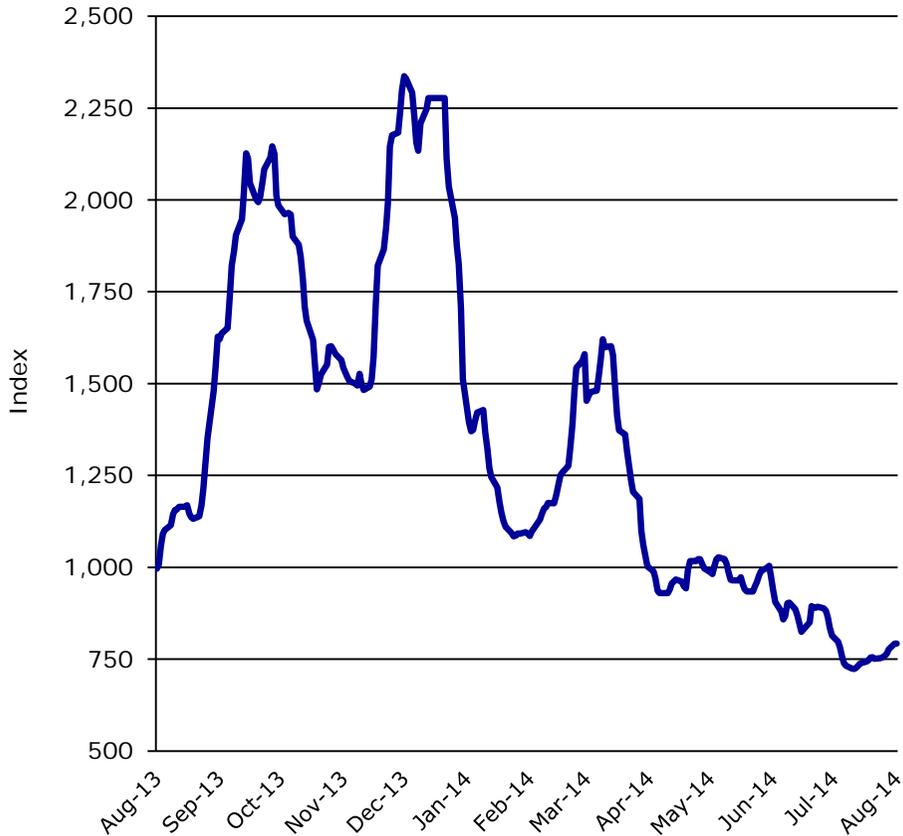
## DAP - US Gulf (FOB)



Source: Bloomberg, Rabobank

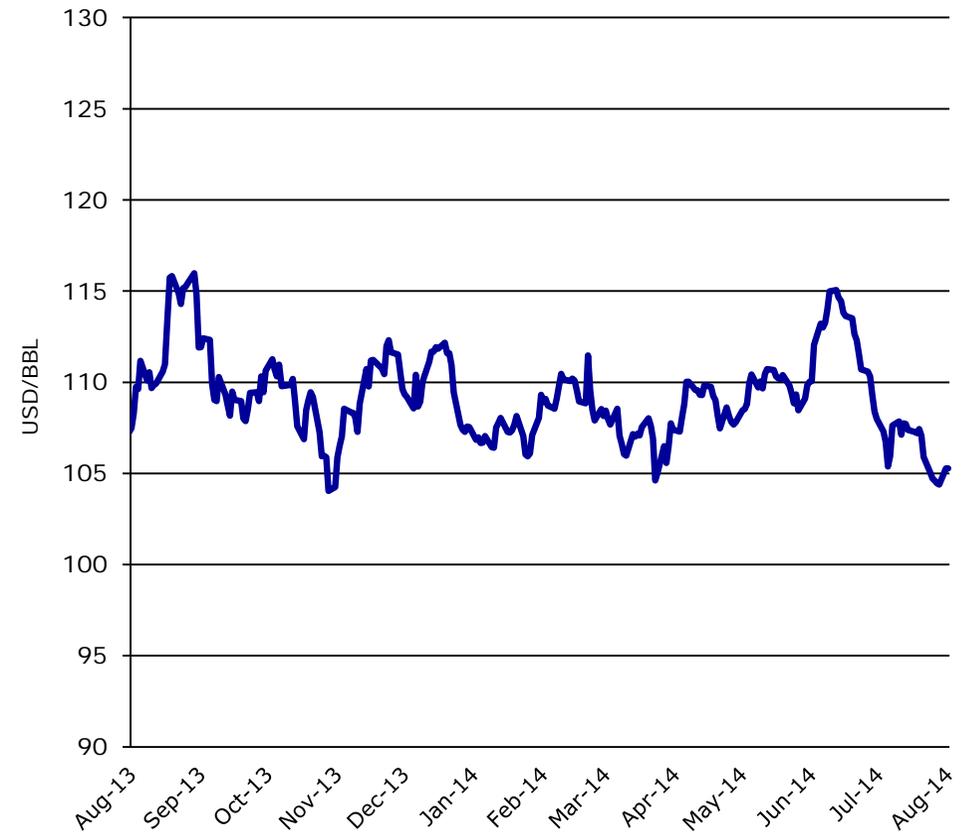
# Other costs – Oil prices steady amid Iraq air strikes

### Baltic Dry Index - ocean freight index\*



Source: Bloomberg, Rabobank

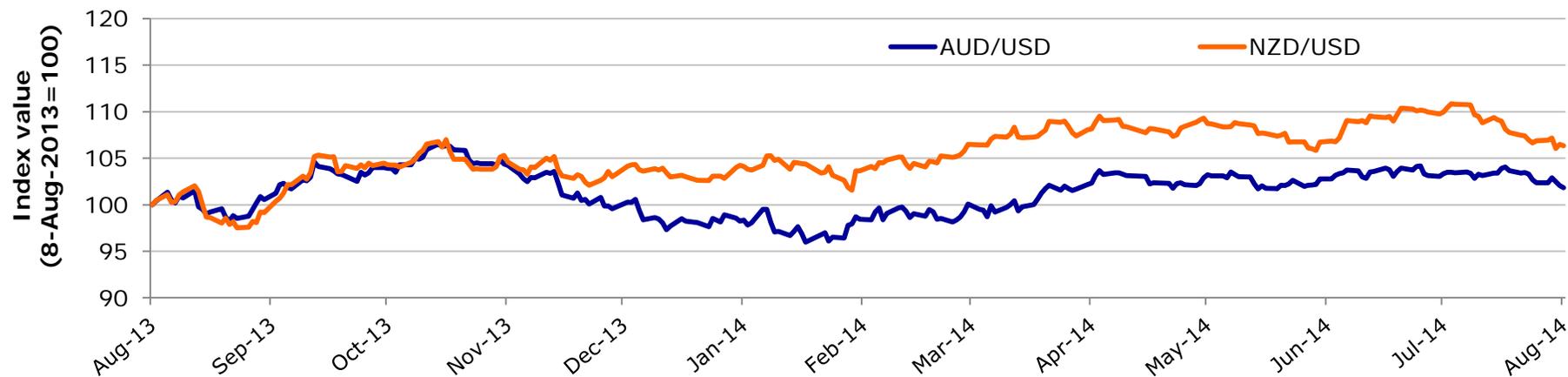
### Brent Crude Oil



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.

## AUD & NZD historical currency movements – Last 12 months



Source: RBA, RBNZ, Rabobank

## Rabobank currency forecasts

	31-Jul-2014	+3m	+6m	+12m
AUD/USD	0.93	0.92	0.90	0.86
NZD/USD	0.85	0.86	0.86	0.85
EUR/USD	1.34	1.35	1.35	1.30
GBP/USD	1.69	1.70	1.72	1.69

Source: Rabobank Financial Markets Research

# Agri-commodity price dashboard



As of 12/08/2014	Unit	MOM	Current	Last month	Last year
<b>Grains &amp; oilseeds</b>					
CBOT wheat	USD c/bushel	▼	547	550	635
CBOT soybeans	USD c/bushel	▲	1,315	1,295	1,374
CBOT corn	USD c/bushel	▼	357	390	472
Australian ASX EC Wheat	AUD/tonne	▲	279	269	275
Australian Canola	AUD/tonne	▼	480	491	582
<b>Beef markets</b>					
Eastern Young Cattle Indicator	AUD c/kg cwt	▲	339	336	328
Feeder Steer	AUD c/kg lwt	▲	189	185	184
North Island Bull 300kg	NZD c/kg cwt	▲	435	419	399
South Island Bull 300kg	NZD c/kg cwt	•	374	374	386
<b>Sheepmeat markets</b>					
Eastern States Trade Lamb Indicator	AUD c/kg cwt	▼	493	558	476
North Island Lamb 17.5kg YX	NZD c/kg cwt	▼	578	588	534
South Island Lamb 17.5kg YX	NZD c/kg cwt	▼	577	581	523
<b>Venison markets</b>					
North Island Stag	NZD c/kg cwt	▲	625	613	668
South Island Stag	NZD c/kg cwt	▲	653	620	720
<b>Dairy Markets</b>					
Butter	USD/tonne FOB	▼	3,600	3,700	4,000
Skim Milk Powder	USD/tonne FOB	▼	3,713	3,900	4,550
Whole Milk Powder	USD/tonne FOB	▼	3,400	3,700	4,913
Cheddar	USD/tonne FOB	▲	4,450	3,700	4,325

Sources: ABS, ASX, AWEX, Bloomberg, CBOT, ICE, MLA, NLRs, NZX Agrifax, NZWSI USDA, Rabobank

# Agri-commodity price dashboard



As of 12/08/2014	Unit	MOM	Current	Last month	Last year
<b>Cotton markets</b>					
Cotlook A Index	USD c/lb	▼	73.65	83.35	94.05
ICE No.2 NY Futures (nearby contract)	USD c/lb	▼	65.29	69.08	87.75
<b>Sugar markets</b>					
ICE Sugar No.11	USD c/lb	▼	16.24	17.19	17.16
ICE Sugar No.11 (AUD)	AUD/tonne	▼	387	403	414
<b>Wool markets</b>					
Australian Eastern Market Indicator	AUD c/kg	▲	1,031	1,026	1,017
NZ Coarse Crossbred Indicator	NZD c/kg	▲	541	509	467
NZ Fine Crossbred indicator	NZD c/kg	▲	578	539	513
<b>Fertiliser</b>					
Urea	USD/tonne FOB	▲	340	320	340
DAP	USD/tonne FOB	▲	511	475	460
Potash	USD/tonne FOB	•	302	302	410
<b>Other</b>					
Baltic Dry Index	1000=1985	▼	792	798	996
Brent Crude Oil	USD/bbl	▼	105	107	107
<b>Economics/currency</b>					
AUD	vs. USD	▼	0.926	0.939	0.915
NZD	vs. USD	▼	0.846	0.881	0.801
RBA Official Cash Rate	%	•	2.50	2.50	2.50
NZRB Official Cash Rate	%	▲	3.50	3.25	2.50

Sources: ABS, ASX, AWEX, Bloomberg, CBOT, ICE, MLA, NLRs, NZX Agrifax, NZWSI USDA, Fertilizer Week, Rabobank

# Hot off the press from FAR

## Getting on the Global Market Access VIP List



q This report on Market Access, outlines how the removal of trade barriers and improvement of trade flows will help grow Australian and New Zealand agriculture

q Political and regulatory risks in the form of technical trade barriers remain, particularly in emerging markets

q Greater collaboration amongst agricultural industry stakeholders will improve free trade agreement outcomes while reducing the impact and incidence of technical trade barriers

## Environmental Regulations are changing the rules of the game



q Society is calling for more accountability from agriculture's impact on the environment. Pressure on agricultural is also coming from the supply chain, including consumers, food processors and retailers.

q This report analyses the impact of environmental regulation on the competitiveness of New Zealand's dairy industry relative to countries with established environmental controls

q New Zealand dairy producers will need to understand their own nutrient profile and plan for future compliance

## Sugar Quarterly Q2



q The global supply and demand balance for 2014/15 appears to be headed for a small deficit, after four years of surplus production

q For the coming months, the market will be largely driven by the progress of the harvest in Centre/South Brazil and expectations for new crop production in the Northern Hemisphere

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