



Rabobank

Agribusiness Monthly

Australia and New Zealand

March 2014

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Climate – Drought persists in Northern Australia, dry in the NZ

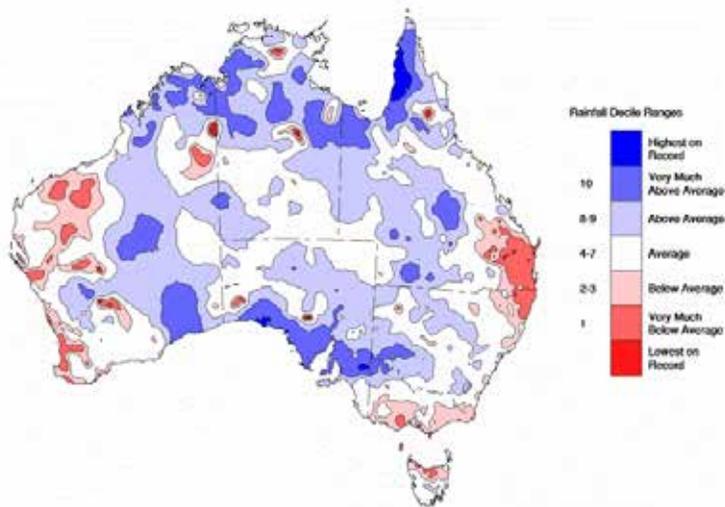
Australia

Encouragingly there has been some recent rainfall across most regions of Australia. However many parts of Queensland and New South Wales remain under drought declaration. The Federal Government has announced a AUD 320 million assistance package to drought-stricken farmers.

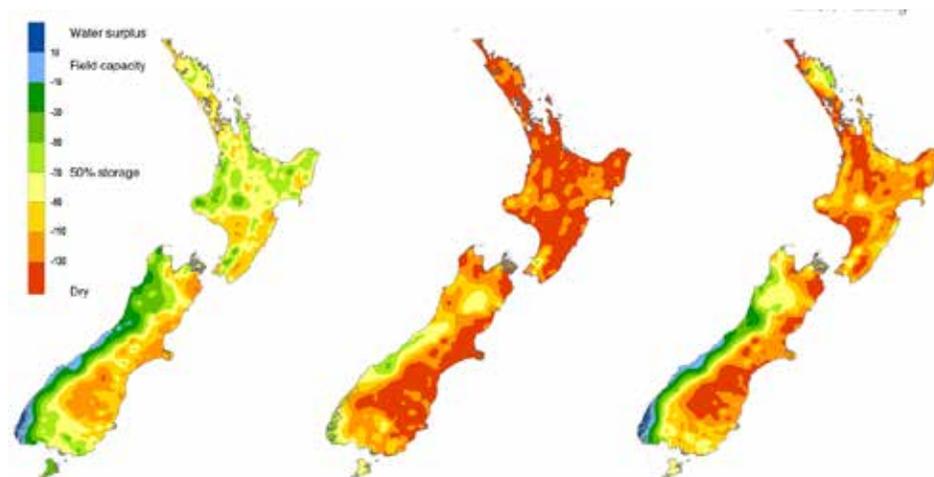
The Bureau of Meteorology's latest seasonal outlook suggests a drier than normal autumn is likely for areas of Queensland while a wetter than normal autumn is more likely for southern and western parts of WA. Over the rest of the country, there is no significant shift in the odds towards either a wetter or drier than normal autumn.

The El Niño-Southern Oscillation (ENSO) remains neutral, with the majority of atmospheric and oceanic indicators close to their long-term average.

Australian Rainfall Deciles – February 2014



New Zealand soil moisture deficit (as at 28/02/2014)



New Zealand

Below normal rainfall (less than 50% of February normal) occurred for much of the North Island. Many locations in the South Island were well below normal.

As at 1 March 2014, soils were much drier than normal across the North Island. Soil moisture deficits are not as extensive as those a year ago in the 2013 drought, and are lowest, relative to normal at this time of year, in the Waikato.

New Zealand's March – May rainfall is likely to be near normal or below normal for the north and west of the North Island, and for the north, west and south of the South Island.

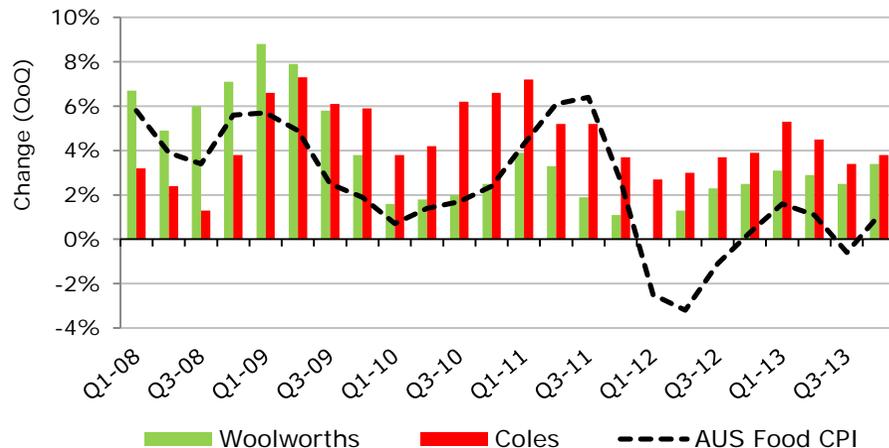
Food retail – NZ retail sales pick up again in Q4 2013

Australian retail sales leapt in January 2014, rising 6.2% versus the same period last year, closing-out what has been a particularly strong Christmas and New Year trading period. In the food retail space, the value of trade in the Cafe & Restaurant channel has been especially buoyant, up 15.7% versus the same period last year.

Woolworths has further narrowed the gap in quarterly sales growth against its rival Coles in Q4 2013. Growth has begun to converge as Woolworths has employed a more aggressive pricing strategy over the past 12-18 months.

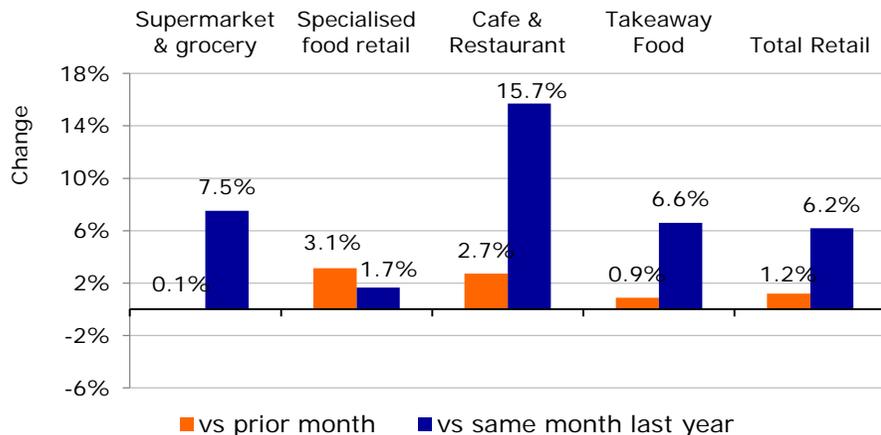
New Zealand core retail sales growth picked up again in Q4 2013, increasing 3.7% versus the same quarter last year. Growth in trade in the food retail categories slipped during the quarter, but nevertheless is tracking well above levels recorded a year ago as the sector struggled to cycle through the stimulus provided by the 2011 Rugby World Cup.

Food & Liquor same-store sales in AUS grocery majors



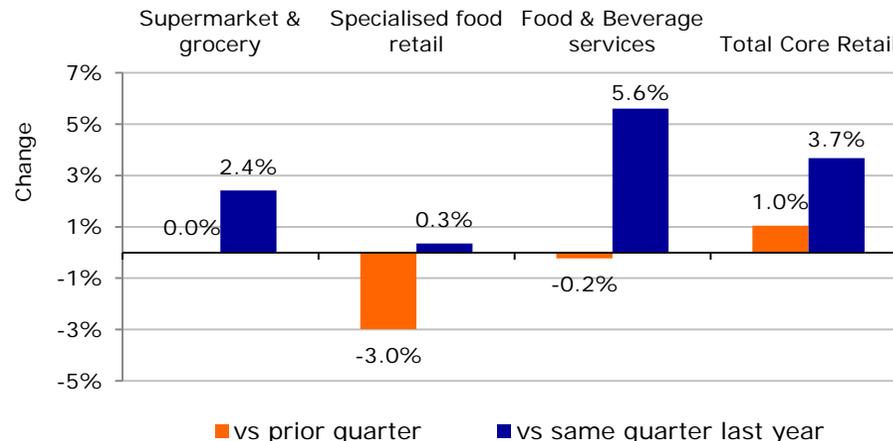
Source: Company announcements, ABS, Rabobank, 2013

Australian Retail Sales – January 2014



Source: ABS, Rabobank, 2013

NZ Retail Sales – Q4 2013



Source: Statistics NZ, Rabobank, 2014

Beef – Highest ever January and February exports for Australia



Australia

Rain throughout large areas of eastern Australia provided some much needed relief for producers; and provided a boost for farmgate prices. However, the rainfall has by no means been enough to turn around the previous difficult season. The latest seasonal outlook predicts a drier than normal 3 month period for Queensland and northern NSW so condition will remain challenging and is expected to result in a continued high flow of cattle to markets putting further downward pressure on the EYCI, which is currently sitting at AUD 309 cents/kg.

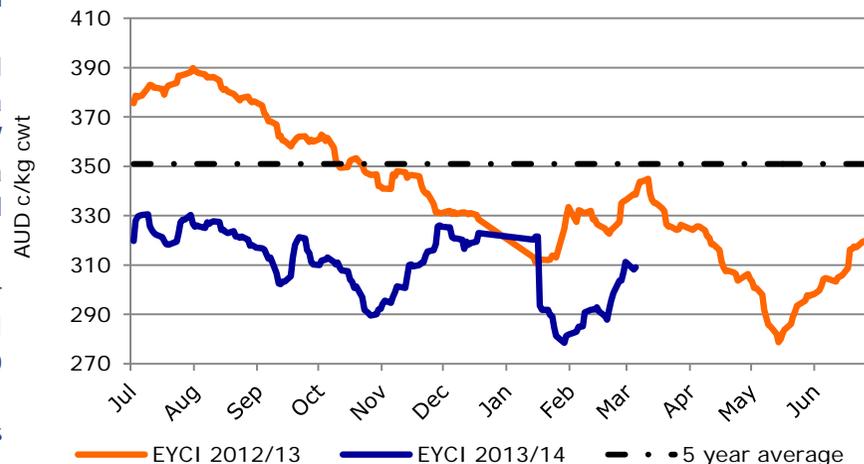
Boxed beef exports for January and February were the highest ever recorded, driven by the high supply of cattle and strong international demand. January beef exports totalled 69,511 tonnes swt, up 14,300 tonnes swt compared to January 2013 (the previous January record). February also broke the previous monthly record with exports totalling 100,031 tonnes swt. The majority of the increase come from shipments to China while Korea, the US and Indonesia all recorded strong increases year-on-year.

New Zealand

New Zealand beef exports increased 8% in January, to 34,203 tonnes swt. The overall rise in shipments was attributed to strong trade flows to China, which surged 23% year-on-year, to 3,233 tonnes swt. Not only are volumes increasing, but average export returns are as well, with January 2014 (NZD 5.66 kg) more than 1 dollar more than the same month last year.

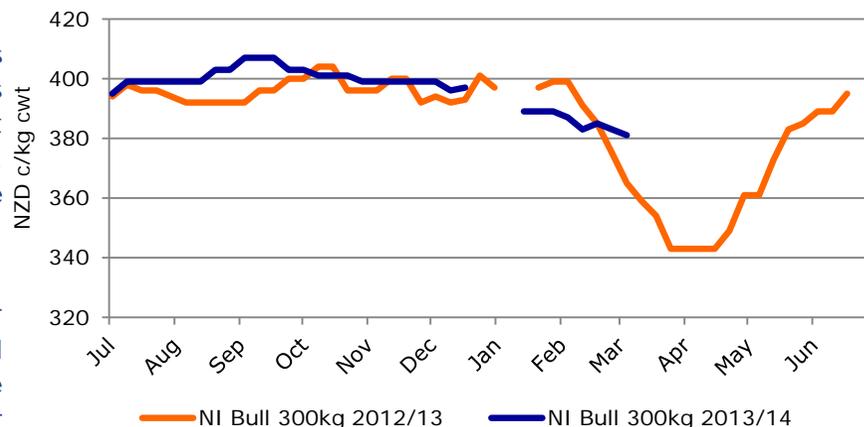
Total slaughter during January remained stable compared to last year, at 242,665, with lower cow slaughter offset by rising bull slaughter levels. Farmgate prices at the commencement of March averaged higher levels than the same time last year, with the NI bull price averaging NZD 381 kg/cwt – 8% higher year-on-year. Prices last year fell away sharply as the drought forced supplies to increase significantly.

Australian beef prices



Source: MLA, Rabobank 2014

New Zealand beef prices



Source: NZX Agrifax, Rabobank 2014

Dairy – Global milk supply begins to pick up pace

Global market conditions

Global milk supply from the main exporting nations continues to pick up pace. Producers in most regions are beginning to see the benefit of improved farmgate milk prices, lower purchased feed costs and mostly good climate conditions. Attention over the next few months will be on the strength of the Northern Hemisphere seasonal peak as it will play a key determinant in the market balance.

Right now the global dairy commodity market remains firm and in many regions inventory levels are tight. The market continues to remain well supported by ongoing strong Chinese purchasing.

Australia

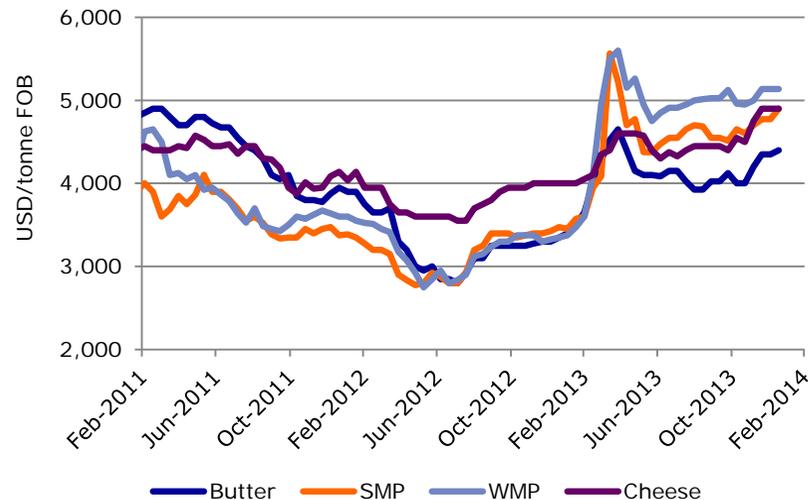
Australian milk production numbers improved in January with output up 3.1% season-to-date. Further lifts to farmgate prices coupled with improving seasonal conditions is allowing producers to begin to make up the lost ground through the first half of the season. Purchased feed costs remain elevated with strong demand in export markets, and in Northern Australia, keeping pressure on local prices. However, milk flows should remain positive in the closing months of the season.

New Zealand

Despite dry conditions emerging in some regions New Zealand milk flows continue at around 6% ahead of the prior season to date. March estimates are for a double-digit percentage increase over the prior year when the drought had taken a firm grip. However, farmers are starting make increased use of supplementary on hand, which is relatively plentiful at this stage.

The added incentive for higher production came in late March when Fonterra increased the forecast 2013/14 milk price by NZ 35 cents/kgMS to NZD 8.65/kgMS. Processors will now be looking to the end of the season and the need to balance ongoing customer requirements through June and July when milk flows largely cease.

World dairy prices (USD/tonne FOB)



Source: USDA

Production growth in key exporting regions

	Latest month	Last 3 months
EU 27	3.9% (December)	4.3%
US	1.0% (January)	0.4%
Argentina	5.3% (December)	5.5%
Australia	3.1% (January)	0.3%
NZ*	6% ahead up until the end of February	

Source: Rabobank

Grains and Oilseeds – Australian and global wheat prices diverge



Global

Rabobank's global grains and oilseed price outlook remains neutral to bearish throughout 2014 despite CBOT wheat prices gaining over 8% through February. US wheat ending stocks for the 2013/14 season are expected decline for the fourth year in row to below 600 million bushels. Strong US exports and a tighter balance sheet is lending short-term price support to the CBOT markets.

Favourable conditions for most of the major wheat growing regions throughout the Black Sea and EU are expected to result in an overall 20 million tonne increase in global wheat stocks. The swell in supply is a major reason for our bearish outlook for global prices in 2H 2014.

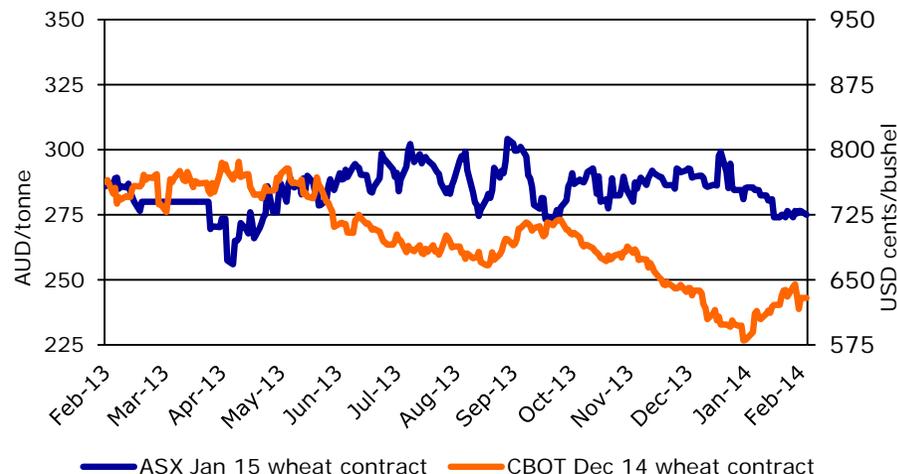
South American production of soybeans is expected to increase 10% year-on-year providing a bearish backdrop to global oilseed prices. Global vegetable oil stocks remain at, or near, record levels and are expected to cap gains for canola prices throughout 2014.

Australia

Wheat prices in N/NSW and Queensland remain very strong despite some softening in markets across Western and Southern Australia. Rabobank expects domestic feed grain demand on the east coast to keep markets well supported throughout 2014, particularly if dryness persists. Additionally, it is anticipated western and southern Australian wheat prices to continue to reflect the bearish sentiments forecast for global G&O markets.

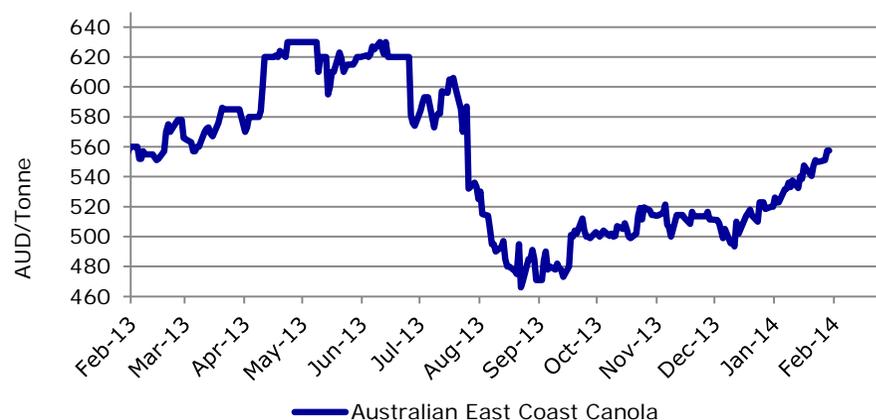
Australian sorghum production is expected to be 30-35% lower year-on-year due to hot and dry conditions limiting both planted acres and yield potential. As a result, feed grain prices in N/NSW and Queensland are expected to remain at a strong premium to southern markets for most of 2014.

ASX January 15 & CBOT December 14 wheat prices



Source: Bloomberg, Rabobank

Australian east coast canola prices



Source: Bloomberg, Rabobank

Sheepmeat – large January export volumes

Australia

January and February lamb exports were the highest level ever recorded for each respective month, totalling 36,057 tonnes swt, an increase of 10% compared to the first two months of 2013. Australia's export locations continue to be dominated by China, the Middle East and the US. It is a similar story for mutton exports, increasing 3,500 tonnes year-on-year to 16,354 tonnes swt for January.

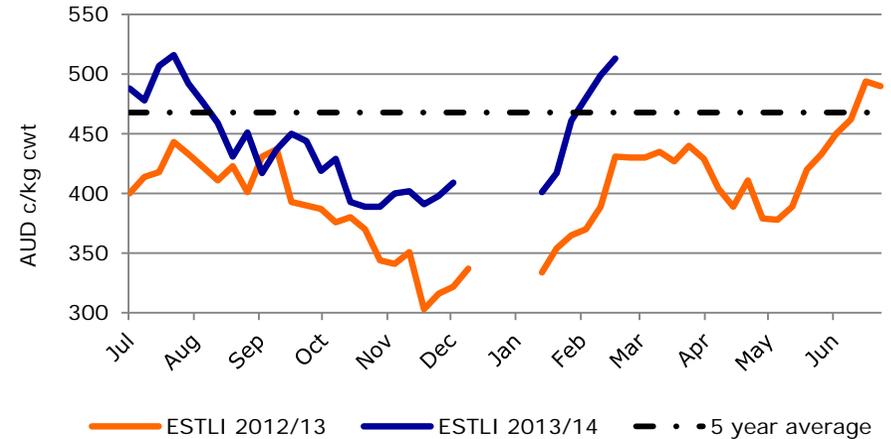
At the end of February the ESTLI closed at AUD 533 cents/kg, up 28% month on month and just over one dollar higher year-on-year. Supply is forecast to contract moving forward, as the 2013 season takes its effect. This will likely maintain the current strong prices, however this will put increased pressure on consumers willingness to pay both domestically and internationally.

New Zealand

Farmgate prices remained relatively stable throughout February and at the commencement of March, the South Island lamb price was 23% higher than the same week last year, averaging NZD 528 cents/kg cwt. While lamb slaughter (2.24 million head) during January contracted 21% year-on-year, concerning mutton slaughter for January jumped 15%, to over 1 million head.

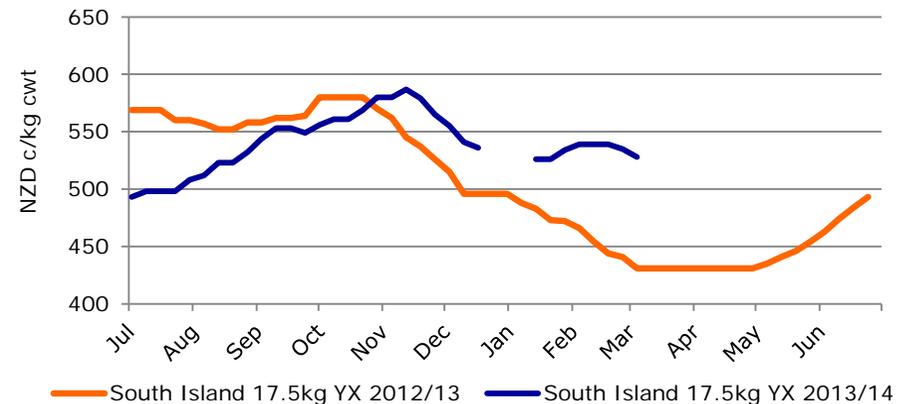
Total sheepmeat exports during January increased 11% year-on-year, to 39,213 tonnes swt. Shipments to China underpinned this rise, with the largest monthly exports on record. Exports surged 91% to 19,030 tonnes and encouragingly, average export values remain above NZD 5/kg. Export volumes are expected to remain strong in the coming months, as slaughter levels increase.

Australian lamb prices



Source: MLA, Rabobank 2014

New Zealand lamb prices



Source: NZX Agrifax, Rabobank 2014

Wool – Prices recover slightly after February slide

Australia

The eastern market indicator had experienced 3 weeks of decline, however it bucked that trend in the last week of February to lift confidence slightly. Oversupply continues to put downward pressure on prices, with the EMI finishing the month at AUD 1077 cents/kg. This is a drop of AUD 55 cents/kg for the month of February and places the EMI 5% lower year-on-year.

The availability of medium wool is expected to remain tight in the short term which will assist prices. Superfine prices will be determined by auction volumes, as oversupply remains a concern. However, the recent designated superfine sale in Sydney saw prices in this category which will lift confidence moving forward.

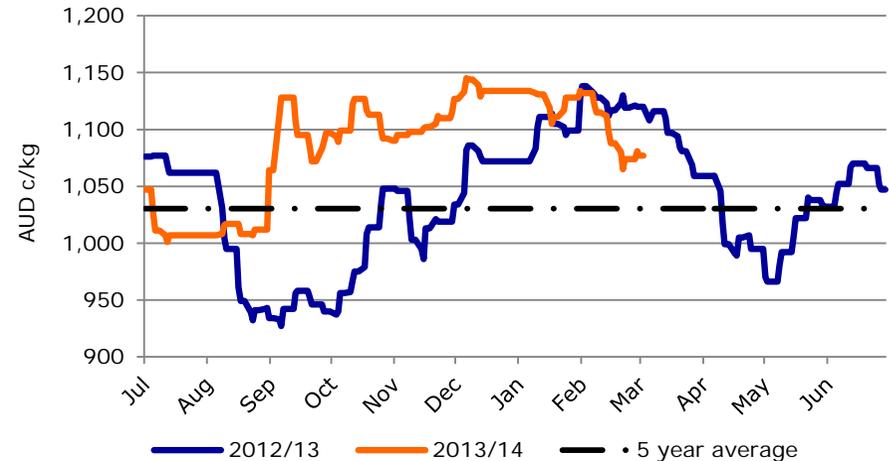
The impact of drought conditions in large areas of eastern Australia has impacted the supply to auction. For the first seven months of the current season (July 2013 to January 2014) AWTA have tested 13% more 19.5 and finer wool than the same period last season. Whilst at the same time, the volume tested for 19.6-24.5 micron wool has declined by 14.6% year-on-year.

New Zealand

New Zealand wool prices were able to hold ground through February. The New Zealand coarse crossbred indicator was able to make up the losses it experienced earlier in the month to finish February at NZD 491 cents/kg. However, the fine crossbred indicator didn't fare as well, losing NZD 4 cents/kg to finish the month at NZD 504 cents/kg.

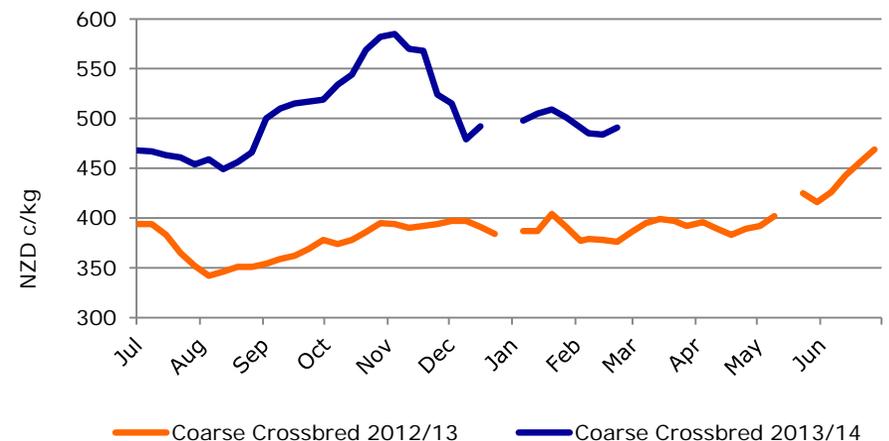
Total wool exports for the current season (July 2013 – Jan 2014) have decreased 6% compared to the same time last year. However, the total value over the same period increased 3.7%, an indication of tightened supply and healthy international demand for stronger wool types.

Australian wool prices – Eastern market indicator (EMI)



Source: Bloomberg, Rabobank 2014

New Zealand wool prices - Coarse crossbred indicator



Source: NZWSI, Rabobank 2014

Sugar – Brazilian weather drives global sugar markets

International

Raw sugar has traded in a downward channel throughout most of Q1 2014, oversold at times largely due to physical supply pressure.

Some uncertainty is developing over the 2014/15 global production outlook and despite some currency weakness in major sugar producing countries such as Brazil, we continue to expect prices to trade slightly higher throughout 2014 on a more neutral production balance in the 2014/15 season.

The persistent rainfall deficit across much of the Centre South of Brazil's cane growing heartland is driving production concerns for the upcoming crop, and prices have found some long awaited support. Whilst very early to assess any cane yield losses across the Centre South, we continue to expect a similar level of production year-on-year at 595 million tonnes.

While weather risk is providing short term support, the historically high global stocks-to-consumption ratio of 44% will continue to keep prices trading in a narrow range during 2014.

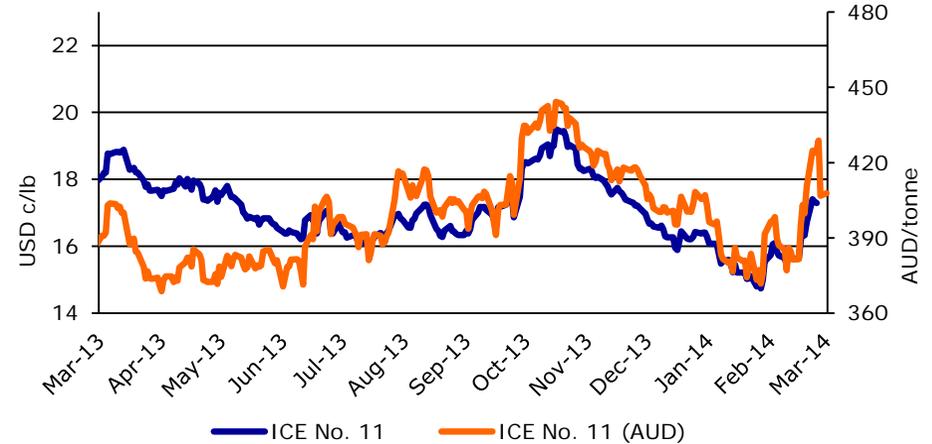
In addition, the Indian export subsidy for up to 4 million tonnes of raw sugar for this season and the next, could increase the exportable supplies of sugar and weigh on prices throughout 2014.

However, in order for this to eventuate it is likely the Indian government would need to agree on a high enough subsidy level in their April review – above the current USD 54/tonne.

Australia

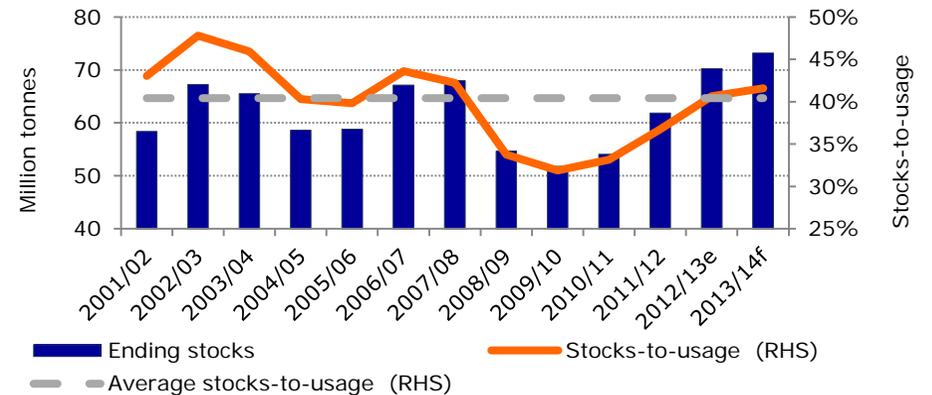
All eyes are on the lingering drought condition in North east Australia. Despite recent rainfalls, key sugar producing regions remain dry and will provide some uncertainty on upcoming crop expectations.

Raw sugar price – ICE No. 11



Source: Bloomberg, Rabobank

Global Ending Stocks



Source: FO Licht, Rabobank

Cotton – World prices firm despite excess stocks



Rabobank

International

Global cotton prices have remain relatively range-bound over the past month. Globally cotton stocks remain very high. Latest numbers show global stock-to-use ratio is nearing 90%.

Importantly, over 60% of these reserves are held in China. China's import demand has weakened significantly during 2013/14 and current imports of 7.8 million bales represent 40% of the volume imported in the marketing-year-to-date this time last year (and in 2011/12).

Rabobank's latest forecasts suggest ICE No. 2 cotton will trade at 85 USc/lb through to the end of Q2 2014. Increased global production and uncertainty surrounding the Chinese cotton policy are likely to keep a lid on prices

Looking to 2014/15 season in the US, there is likely to be a 1.8 million rise in acres which would drive up production to nearly 16 million bales.

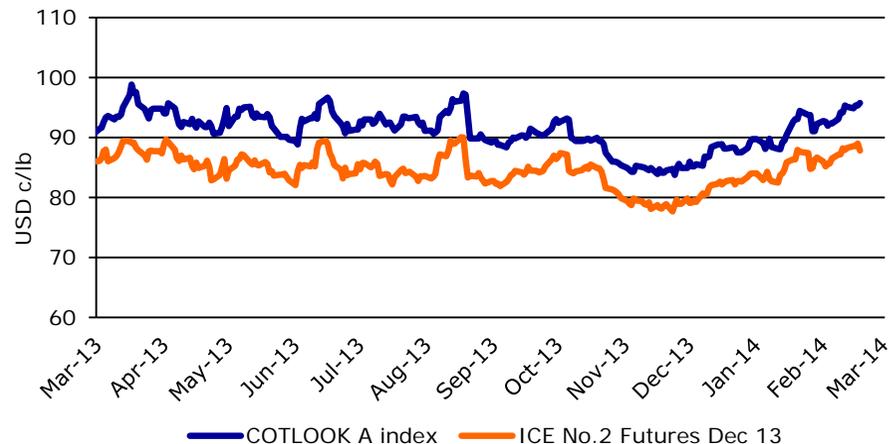
Australia

The falling Australian dollar has been a big windfall for the cotton market and could buffer a looming cut in the Chinese import market. Global supply of high quality cotton is limited which is reflective of the premium that Australian strict middling grades and above receive

Ongoing drought conditions across many of Australia's cotton producing regions is creating uncertainty about the planted area for the upcoming season. The biggest concern would be if dry land areas fail to make a crop in 2013/14 which could bring down the Australian cotton crop.

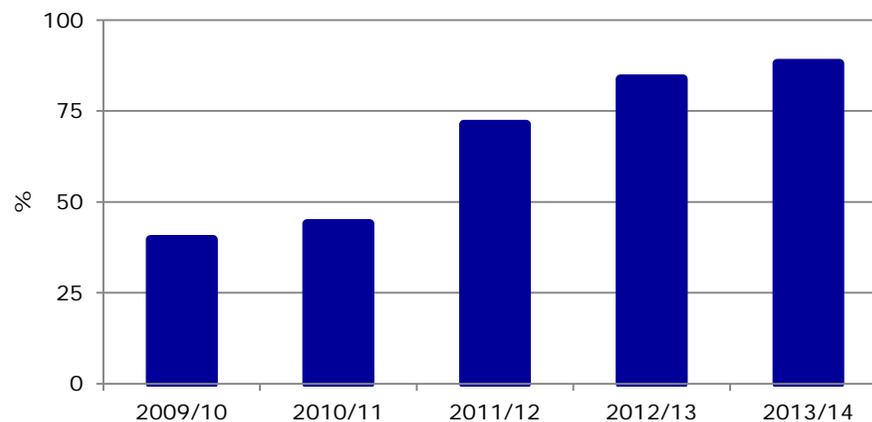
In 2012/13, Australia produced a bumper cotton crop, although slightly down on the record production in 2011/12. The area of cotton planted for the 2012/13 harvest fell by 26% to 444,000 hectares, but growing conditions and water availability were generally favourable, resulting in above average yields.

Global cotton benchmark prices



Source: Bloomberg, Rabobank

Global cotton stock to use ratio



Source: USDA, Rabobank

Venison – export volumes tighten, returns improve

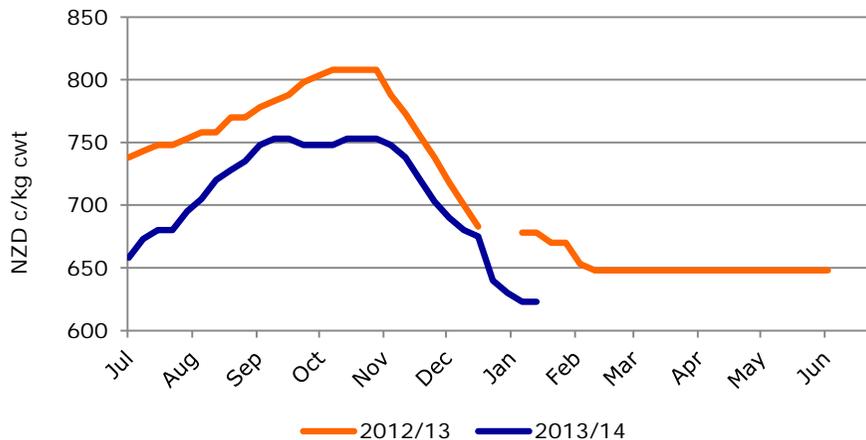
Markets

Total export volumes in the first month of 2014 declined 8% year-on-year, to a total of 643 tonnes swt. Chilled shipments (72 tonnes swt) in January jumped 8%, although frozen exports (571 tonnes swt) declined 10% on January last year.

Encouragingly, on the back of strong demand and improved export returns for chilled product, average export values for January improved 34% year-on-year, to NZD 10.99/kg.

Average farmgate prices have fallen throughout the opening few months of 2014, although remain at similar levels to last year. At the commencement of March, South Island Stag prices averaged NZD 623 cents kg/cwt, 4% lower than the same week last year.

South Island Stag 60 kg/cwt



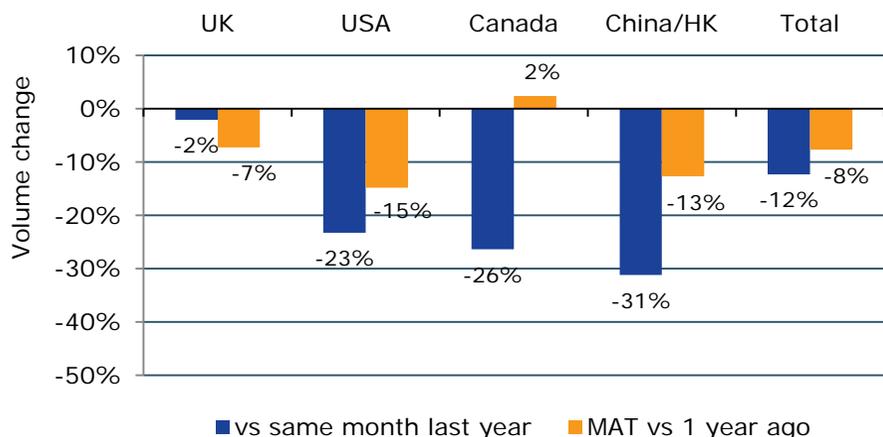
Wine – New Zealand wine exports surging back to growth

Australian wine export volumes continue to slip despite higher available supply from the 2013 vintage and a lower Australian dollar. Momentum remains elusive in North American markets, while the sluggish UK market continues to show favour for lower-value offerings. In China, bottled wine exports are beginning to show sharp declines as central government controls on corruption and lavish expenditure begin to bite down harder.

In the Australian domestic market, volumes of local wine cleared for consumption remained flat, while the lower dollar has begun to impact on the growth in wine imports. Growth in import volumes from New Zealand, however, has picked-up and recorded a strong rise of 16.9% in Q4 2013 versus the same period a year earlier.

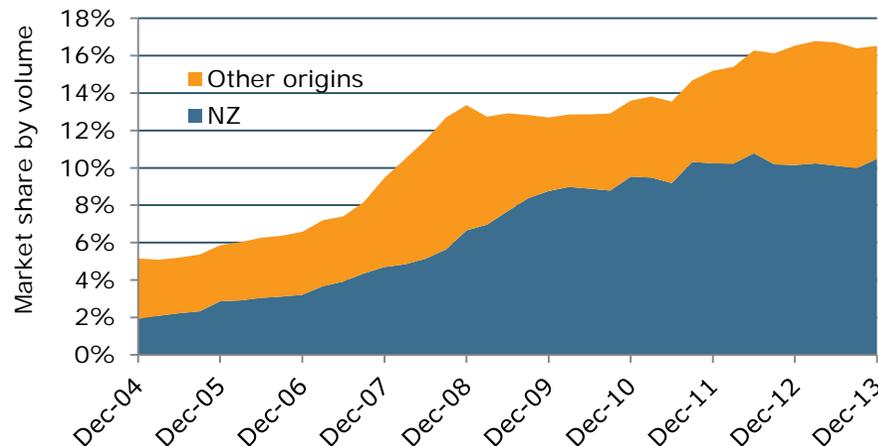
New Zealand wine exports posted a 32% rise in January 2014 versus the same month last year on the back of strong demand from the UK, Australian and US markets. Record highs are now in sights and should be easily surpassed in 2014.

Australian wine exports by major market – January 2014



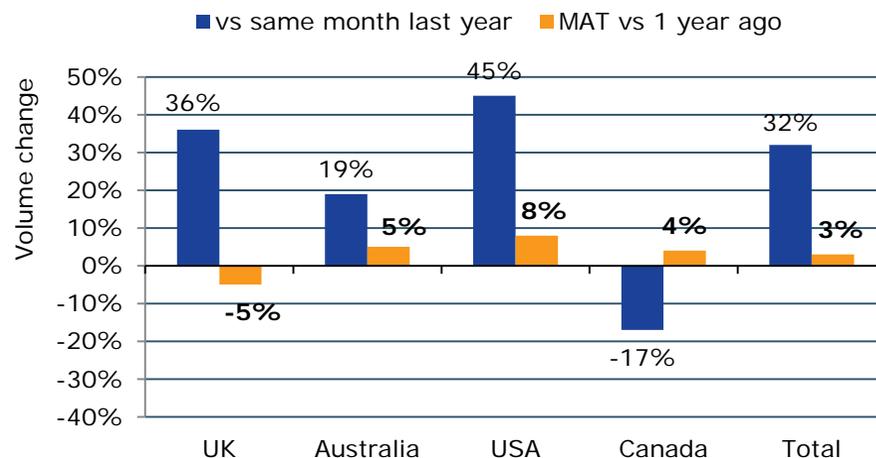
Source: Wine Australia, Rabobank, 2013

Wine imports into Australia



Source: ABS, Rabobank, 2013

NZ wine exports by major market – January 2014



Source: Winegrowers NZ, Rabobank, 2013

Fertiliser – China to remain driver of global price direction



Global market conditions

Over the past month global urea and potash prices remained relatively unchanged. In contrast, global phosphate prices witnessed another small increase. Compared to year ago levels, nitrogen prices are trading at a 15% discount while phosphate prices are sitting 2% higher.

Global nitrogen markets have been impacted by political turmoil in export regions. Ongoing issues could create additional volatility in the market. Supply from Syria has been halted, while Egypt is struggling with gas curtailment issues. Instability in Ukraine could potentially impact markets.

Robust demand in key import markets has continued to support global phosphate markets. Higher raw material costs are also feeding through to phosphate prices. Looking ahead, the pace of Indian import demand for phosphates will determine the direction of the global prices. Right now limited subsidy availability and uncertainty over the Nutrient Based Subsidy (NBS) is causing some hesitation amongst buyers. There is still likely to be some downward pressure on global prices in the months ahead with the opening of the low export tax window in China.

For global potash markets, there is currently very little upside or downside pressure. As a result, global prices remain stable at structurally lower trading range (-20%). With clarity emerging recently on China contract negotiations, attention now turns to India where it is anticipated contracts will be quickly concluded.

Local market conditions

Australian and New Zealand end-users are beginning to see the impact of higher global prices at the farmgate. Recent falls in the currencies (against the US dollar) have added to the pricing pressure. However, retail prices are coming off a relatively low base so remain favourable by historical standards.

Urea - Middle East (FOB)



Source: Bloomberg, Rabobank, 2014

DAP - US Gulf (FOB)

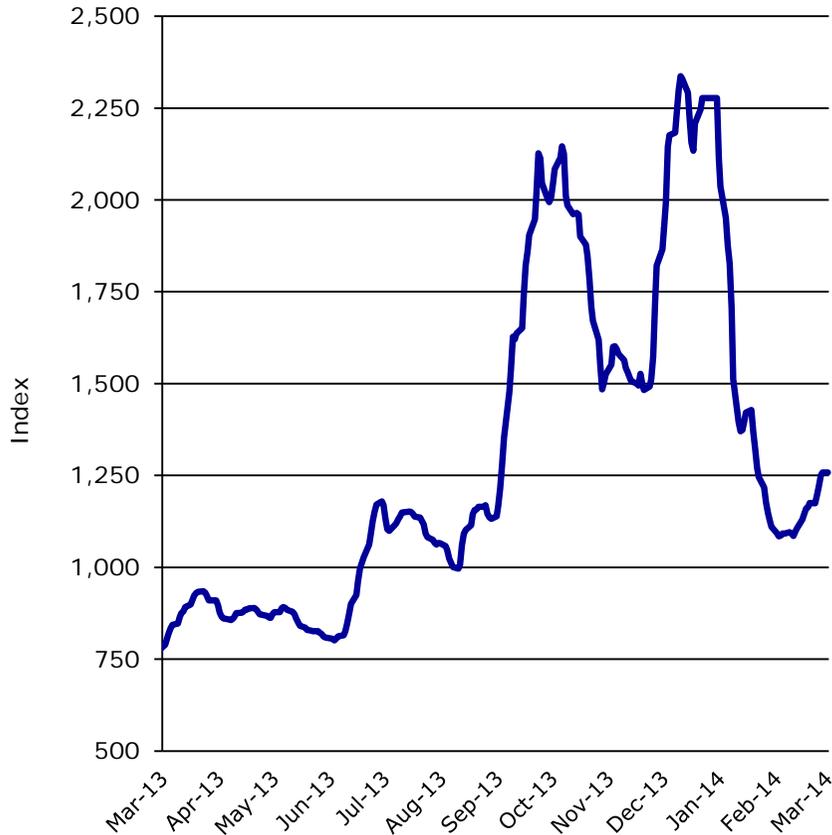


Source: Bloomberg, Rabobank, 2014

Other costs – Tensions in Ukraine could drive oil higher

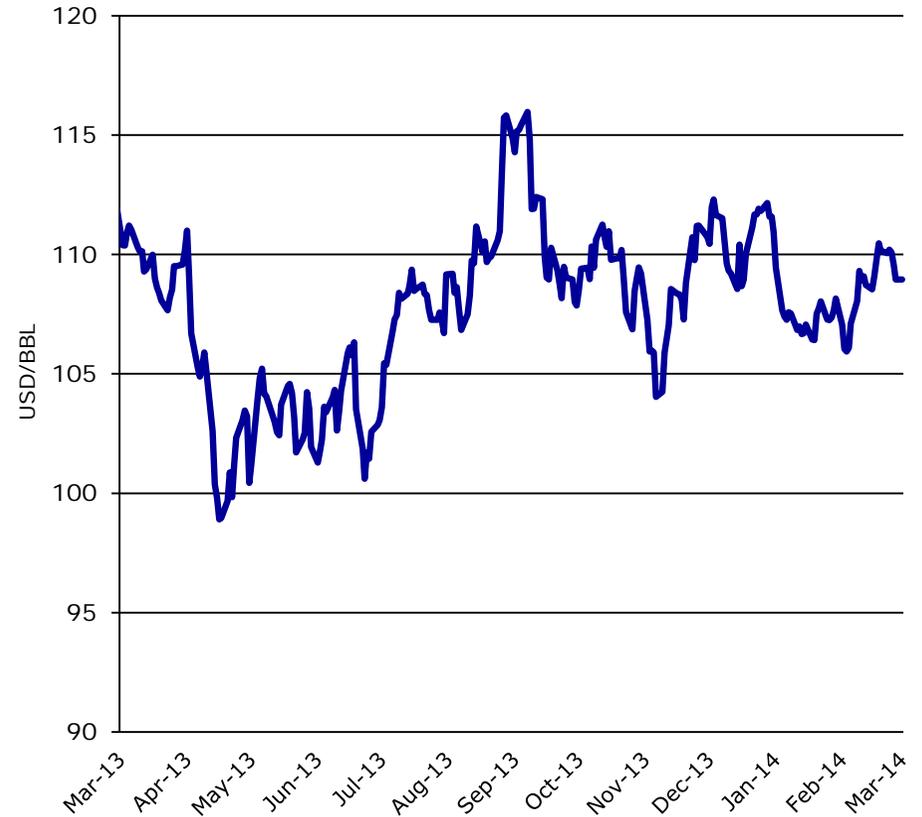


Baltic Dry Index - ocean freight index*



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.

Agri-commodity price dashboard

As of 03/02/2014	Unit		Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USD c/bushel	▲	616	597	696
CBOT soybeans	USD c/bushel	▲	1,394	1,288	1,490
CBOT corn	USD c/bushel	▲	448	432	723
Australian ASX EC Wheat	AUD/tonne	▲	290	277	280
Australian Canola	AUD/tonne	▲	551	523	556
Beef markets					
Eastern Young Cattle Indicator	AUD c/kg cwt	▲	309	282	325
Feeder Steer	AUD c/kg lwt	▲	176	159	176
North Island Bull 300kg	NZD c/kg cwt	▼	381	387	354
South Island Bull 300kg	NZD c/kg cwt	▼	384	391	351
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUD c/kg cwt	▲	513	417	431
North Island Lamb 17.5kg YX	NZD c/kg cwt	▼	540	549	428
South Island Lamb 17.5kg YX	NZD c/kg cwt	▼	528	539	431
Venison markets					
North Island Stag	NZD c/kg cwt	▼	615	620	618
South Island Stag	NZD c/kg cwt	•	623	623	648
Dairy Markets					
Butter	USD/tonne FOB	▲	4,725	4,638	3,650
Skim Milk Powder	USD/tonne FOB	▼	4,975	5,000	3,600
Whole Milk Powder	USD/tonne FOB	▼	5,100	5,150	3,600
Cheddar	USD/tonne FOB	▲	5,200	4,900	4,050

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

Agri-commodity price dashboard

As of 03/02/2014	Unit		Current	Last month	Last year
Cotton markets					
Cotlook A Index	USD c/lb	▼	92.7	93.8	91.7
ICE No.2 NY Futures (nearby contract)	USD c/lb	▲	87.3	84.8	86.5
Sugar markets					
ICE Sugar No.11	USD c/lb	▲	17.4	14.8	18.1
ICE Sugar No.11 (AUD)	AUD/tonne	▲	429	373	391
Wool markets					
Australian Eastern Market Indicator	AUD c/kg	▼	1,077	1,128	1,120
NZ Coarse Crossbred Indicator	NZD c/kg	▼	484	509	376
NZ Fine Crossbred indicator	NZD c/kg	▼	502	528	475
Fertiliser					
Urea	USD/tonne FOB	•	410	410	430
DAP	USD/tonne FOB	▲	500	465	486
Potash	USD/tonne FOB	•	288	288	410
Other					
Baltic Dry Index	1000=1985	▲	1,250	1,217	789
Brent Crude Oil	USD/bbl	▲	110	107	110
Economics/currency					
AUD	vs. USD	▲	0.897	0.874	1.020
NZD	vs. USD	▲	0.837	0.823	0.828
RBA Official Cash Rate	%	•	2.50	2.50	3.00
NZRB Official Cash Rate	%	•	2.50	2.50	2.50

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

Hot off the press from FAR



Rabobank

Fertiliser Q1ly – Q1 2014

Fertiliser Quarterly Q1 2014
Bears around the corner

It was a temporary imbalance between supply and demand that put further temporary upward pressure on prices. Prospective demand for Q1 2014 is finding support from speculative buying from the US and Brazil. With price trading additional support from elevated oil/gas prices. However, at the end of the quarter prices for most specialties and urea could fall as levels seem to have returned close to current levels, with commodity trading from the market and support others already appearing.

Beats around the corner

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Beats around the corner

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q Global fertilizer markets saw a spike in prices in late 2013.

q A temporary imbalance between supply and demand could create further upwards price pressure.

q However, by the end of the Q1, markets could see a downward price correction.

The Wheat Opportunity in Indonesia

The Wheat Opportunity
Indonesia's Wheat Consumption Strong Despite Low Production

Driven by economic growth and convenience, wheat consumption is on the rise in Indonesia, wheat providing an essential and nutritious alternative to rice, and demand consumption could help Indonesia reduce its self-sufficiency target for grains. Over the current consumption rate, Indonesia could import more than 12 million tonnes per year in the coming five years, which Indonesia views as the top three wheat importers in the world. In addition, growth in consumption of wheat-based products will come from both higher and lower income groups, driven by the growth of urban population and food service chains. As a result of the demand surge, supportive regulatory environment and relatively lower prices compared to the US, the outlook for the wheat market in Indonesia is very positive and will see supporting investments across the entire supply chain.

Indonesia's Wheat Consumption Strong Despite Low Production

Indonesia is a rapidly growing economy. However, in the last five decades, the replacement of rice as an important staple has proved. The country is unable to produce wheat domestically. The rice and wheat divide is unfortunate for Indonesia and therefore wheat remains an import. In 2013, wheat and rice were the most traded commodities in Indonesia, valued at 1.2 billion USD. Wheat consumption is expected to increase by 10 percent per annum between 2012 and 2017, making Indonesia one of the highest growth countries for wheat consumption. Current consumption is 7.5 million tonnes, 10% of the total wheat supply in the world. The increase in wheat consumption is expected to reach 12 million tonnes by 2017. The increase in wheat consumption is expected to reach 12 million tonnes by 2017. The increase in wheat consumption is expected to reach 12 million tonnes by 2017.

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q Given the current consumption rate, Indonesia could import more than 10 million tonnes per year in the coming five years, placing Indonesia among the top three wheat importers in the world.

Brazil Agribusiness Outlook 2014

Brazil Agribusiness Outlook 2014
Weaker Exchange Rate to Help Offset Lower Commodity Prices

Another year of record production for several of Brazil's major agricultural crops, including soybeans, corn and sugarcane, is expected for 2014. However, the outlook for prices is a different story as international prices for many of Brazil's key agricultural commodities fell in 2013 and could decline further in 2014. Meanwhile, the R\$/USD exchange rate weakened over the same period in 2013 and is expected to continue its gradual weakening in 2014, which will offset some of the impact of lower world prices on margins. International remains a key point of concern for 2014. With production and export volumes set to rise again, and a further increase in foreign trade, the outlook for the Brazilian agribusiness sector in 2014 is very positive.

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