



Rabobank

Agribusiness Monthly

Australia and New Zealand

April 2014

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Climate – Below average March rainfall in Australia; Cyclone Lusi comes and goes in NZ

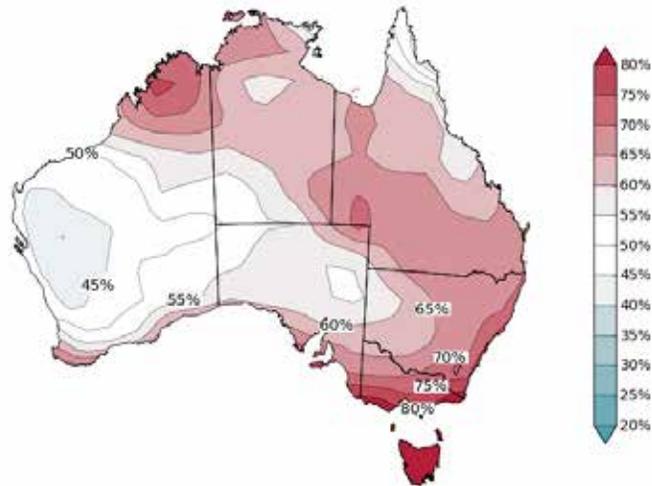
Australia

Through March rainfall was below average over Western Australia, South Australia and inland northern Queensland. Rainfall was above average for NSW and adjacent border regions of neighboring states and extending across southeast Queensland. Overall, on a national basis rainfall was below average during March.

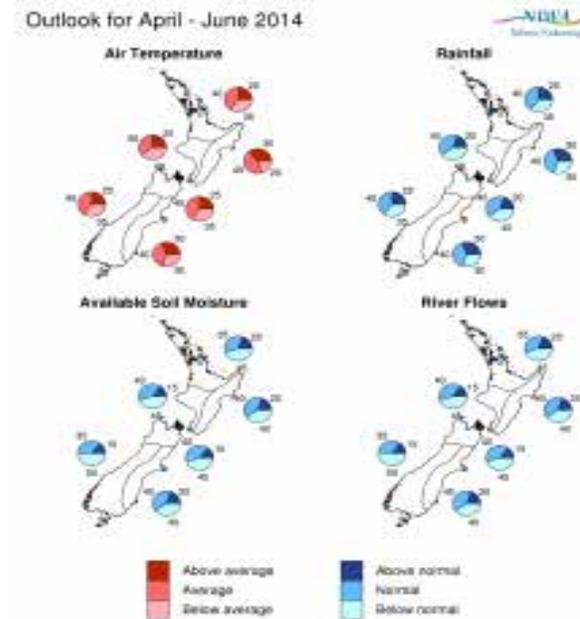
The latest three month outlook shows a greater than 60% chance of warmer than average daytime temperatures across most of the tropical north, the eastern States, southeast SA, and south coastal WA.

Chances exceed 80% for maximum mean temperature over southern Victoria and Tasmania. Warmer than average nights are also likely over most of Australia through the period.

Chance of exceeding maximum mean temperature April to June 2014



New Zealand climate outlook – April to June 2014



New Zealand

Cyclone Lusi came and went in the middle of March, dumping rain in some areas, but missing other regions who were hoping for some much needed rain. Farmers in parts of the Waikato and Northland still require some decent as it remains dry.

New Zealand's April to June rainfall outlook suggests normal or below normal in the southwest of the North Island and in the north of the South Island, likely to be normal or below normal in the north of the North Island and the west of the South Island, and most likely to be near normal for the remaining regions.

Food retail – Consumer sentiment drifts apart in Australia and New Zealand



Australian retail sales recorded more modest gains in February 2014, rising 0.2% against the preceding month on a seasonally adjusted basis. Some pull-back from the strong rebound in growth experienced in 2H 2013 is to be expected given the recent reversal in consumer confidence in Australia. While growth in the value of grocery retail trade has been flat to begin the year, Cafe & Restaurant trade has continued to consolidate recent strong gains.

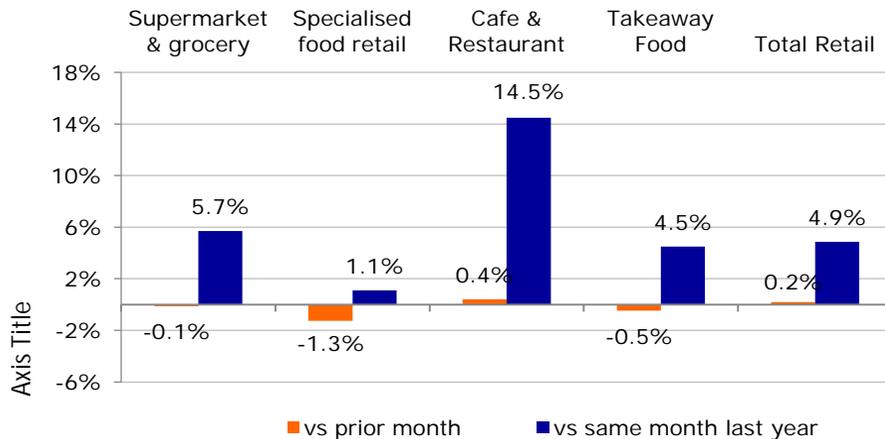
New Zealand core retail sales growth picked up again in Q4 2013, increasing 3.7% versus the same quarter last year. Growth in trade in the food retail categories slipped during the quarter, but nevertheless is tracking well above levels recorded a year ago as the sector struggled to cycle through the stimulus provided by the 2011 Rugby World Cup. Consumer confidence is estimated to have lifted again strongly in Q1 2014 to its highest level since 2005.

Australia & New Zealand Consumer Sentiment, March 2014



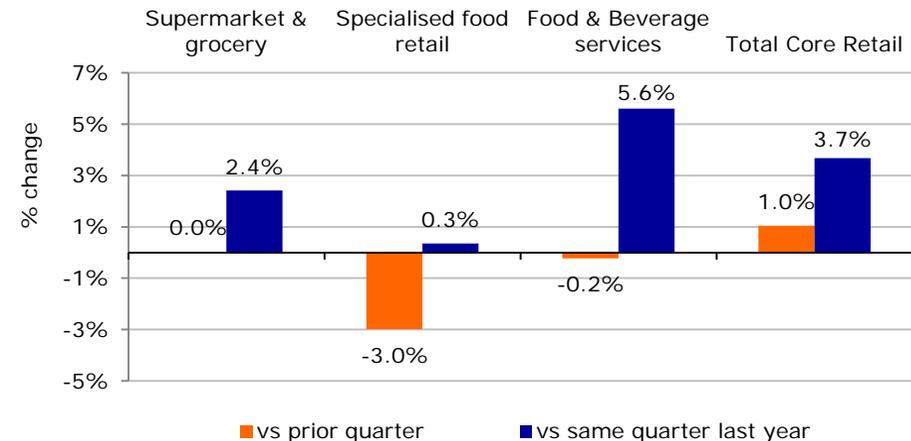
Source: Statistics NZ, Rabobank

Australian Retail Sales – February 2014



Source: ABS, Rabobank

New Zealand Retail Sales – Q4 2013



Source: Statistics NZ, Rabobank

Beef – High Australian slaughter drives record exports in March



Australia

Above average rainfall throughout NSW and southern QLD towards the end of March has lifted the EYCI to its highest level in over a year. The EYCI increased AUD 34.7 cents/kg (11%) from the start of March to the end of the first week in April, to average AUD 344 cents/kg cwt, driven by a reduction in supply at saleyards.

Strong international demand and high slaughter continues to drive record boxed beef exports. March had the highest monthly exports on record, totalling 106,297 tonnes swt. Total first quarter exports for 2014 are up 23% year-on-year or 52,416 tonnes swt. The majority of the increase is being driven by the US, who are now our largest beef export market for 2014.

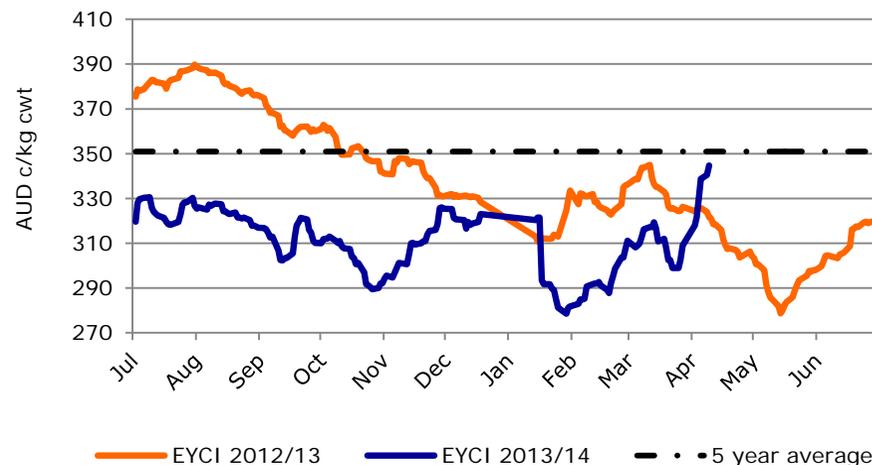
Demand for live exports is also very strong led by large volumes destined for Indonesia. Indonesia has released permits for Australia to export 273,000 head in the second quarter of 2014, after permits for 160,000 head were released in quarter 1.

New Zealand

Total slaughter in February fell 11% year-on-year, to 241,756 head, with a 32% decline in cow processing volumes underpinning the overall fall. Despite this, total beef exports in February moved 4% higher than the same month last year, reaching 42,269 tonnes swt. While exports to the US (20,944 tonnes swt) were at similar levels compared to last year, shipments to Indonesia (2,260 tonnes swt) increased 428% year-on-year, to the highest monthly volumes since July 2011. Exports to Indonesia continue to rise as a result of improved market access, as import permits increase.

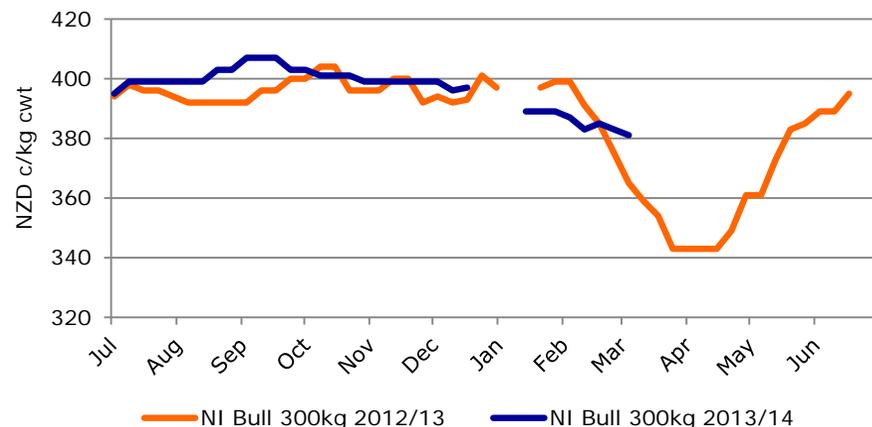
Prices at the farmgate throughout March eased about 15 cents, with the NI bull price at the commencement of April averaging NZD 365 cents/kg cwt. Despite the fall, prices still sit 5% above the same week last year.

Australian beef prices



Source: MLA, Rabobank

New Zealand beef prices



Source: NZX Agrifax, Rabobank

Dairy – A slow easing in dairy commodity prices begins



Global market conditions

Exportable milk supplies began rising strongly in Q4 2013. This trend has continued into early 2014 as farmers in major exporting regions responded to improved margins brought about by high milk prices and falling feed costs.

A strong Northern Hemisphere production season, on the back of an exceptional season in the Southern Hemisphere, is now generating more than enough exportable supply to exceed China's additional import needs, loosening the market somewhat. As a result, markets are beginning to see an easing of pricing. The need to replenish depleted inventories in other key markets will provide some support for the market.

Australia

Australia's season-to-date production (at the end of February) volumes now stand at 6.6 billion litres, down 1.8% on the same period last season.

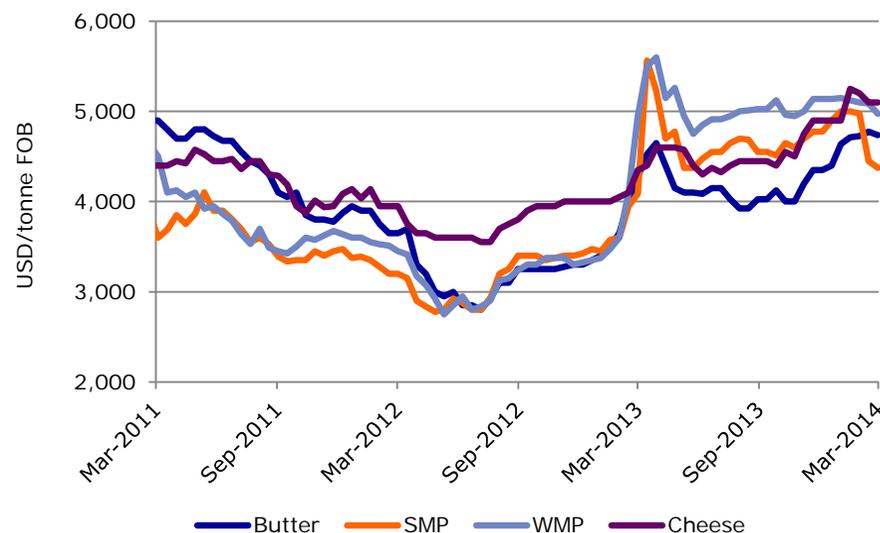
This season has been difficult for farmers given the lingering impacts of last year's drought, stubbornly high purchased feed costs and more unfavourable weather. However, milk flows turned positive in December and have remained that way since, on the back of increased farmgate prices for southern producers and improved seasonal conditions.

New Zealand

Dry conditions continued to plague the upper North Island through March with the highly anticipated Cyclone Lusi providing disappointing rain for most. While milk flows are tracking well above prior year levels in those regions the prospect of a sharp, early end to the season remains.

Export volumes for the first two months of 2014 were up 2%, but volumes shipped to China surged by more than 50% over the prior year.

World dairy prices (USD/tonne FOB)



	Latest month	Last 3 months
EU 27	3.7% (January)	4.4%
US	1.2% (February)	0.7%
Argentina	6.0% (February)	5.6%
Australia	1.5% (February)	0.7%
NZ*	7% for the season to the end of March	

Source: USDA, Rabobank

Grains and Oilseeds – Wheat prices stage short-term rally



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Global

Our global grains and oilseed price outlook remains bearish throughout 2014 despite CBOT wheat prices gaining over 18% through March and 30% since January.

A lack of precipitation over US Hard Red Winter (HRW) wheat areas throughout March added short-term support to global prices. Crop conditions throughout Texas, Kansas and Oklahoma declined through March, the start of the crucial stage in crop development. However, early April rains over the US Southern Plains has improved HRW crop conditions slightly, causing US wheat prices to retreat accordingly.

Global grains and oilseeds prices are expected to weaken on growing global supply come the northern hemisphere summer, with expectations of average Q3 CBOT wheat prices of USD 5.75/bu. Favourable crop conditions throughout the Black Sea region and the EU continue to support our view of modest gains to stocks in major wheat exporters for the 2014/15 season.

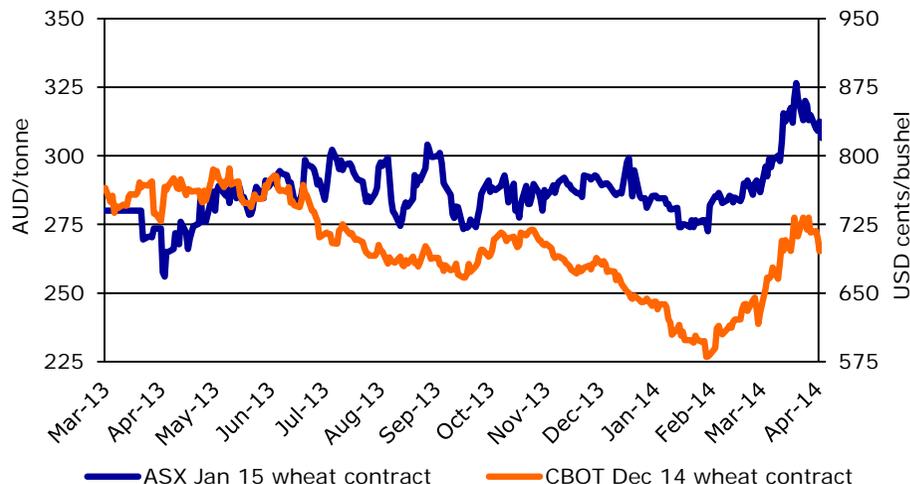
To date -despite rising political tensions- grain flow throughout both Ukraine and Russia has been largely unaffected, however any disturbance to trade would likely drive sharp volatility through global grains markets.

Australia

Recent rainfall has provided a timely boost to planting conditions for 2014/15 winter crops. After a very dry start to 2014, widespread rains across the majority of Australia's cropping regions is expected to support our view of slightly higher planted acreage in 2014.

Crop mix is expected to be very similar to 2013, however we expect a marginal decrease in canola planted acres in favour of barley and wheat.

ASX January 15 & CBOT December 14 wheat prices



Source: Bloomberg, Rabobank

Australian east coast canola prices



Source: Bloomberg, Rabobank

Sheepmeat – Export volumes continue to surge

Australia

Strong international demand continues to push exports higher. Q1 2014 sheepmeat exports increased 23% year-on-year, to 108,633 tonnes swt. Mutton (53,413 tonnes swt) and lamb (55,220 tonnes swt) exports increased 33% and 14% respectively. Lamb exports to the US currently up 19% for the quarter, to 11,870 tonnes swt.

The ESTLI has risen AUD 11 cents/kg since the beginning of March, to finish the first week of April at AUD 544 cents/kg cwt. This puts the ESTLI up AUD 115 cents/kg year-on-year.

Encouragingly for the live export sector, 25,000 sheep destined for Bahrain set sail last week as trade resumes to the region. In 2010 Bahrain took close to 500,000 sheep from Australia.

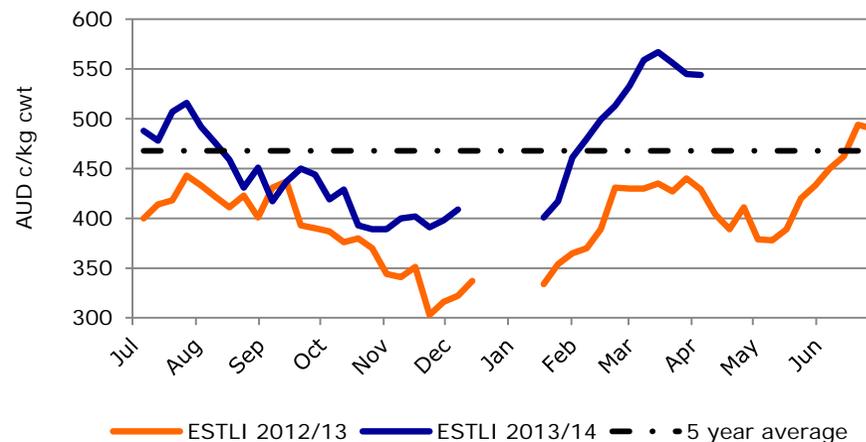
New Zealand

Total sheepmeat exports during February increased 5% year-on-year, to 47,482 tonnes swt – the largest monthly volume in over 3 years. Robust international demand continues to underpin the rise in exports, as most key offshore markets registered a rise in comparison to last year. Shipments to China (18,923 tonnes swt) and the EU (17,219 tonnes swt) both increased 11% year-on-year.

Average export values improved across all key export destinations, with strong returns to the EU markets most encouraging. Demand is forecast to remain strong despite supplies tightening.

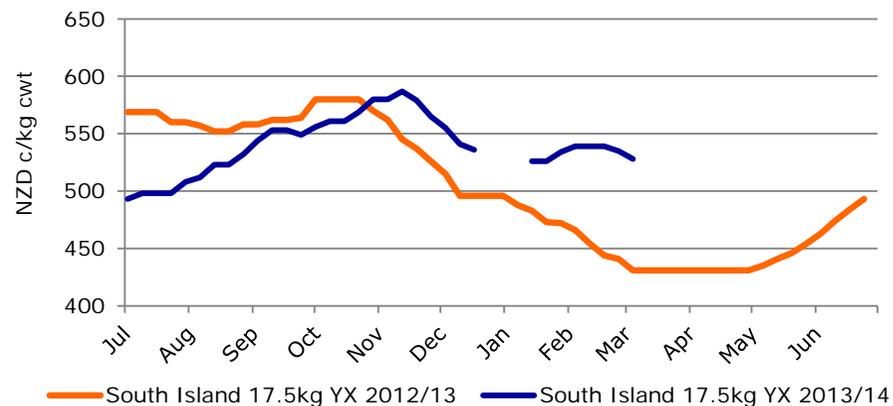
Farmgate prices throughout March eased slightly, but still sit well above year ago prices. At the first week of April, the South Island lamb price was 20% higher than the same week last year, averaging NZD 519 cents/kg cwt. Lamb slaughter (2.95 million head) during April jumped 4% year-on-year, although slaughter volumes for processing are back 3% or 300,000 head year-to-date.

Australian lamb prices



Source: MLA, Rabobank

New Zealand lamb prices



Source: NZX Agrifax, Rabobank

Wool – Aussie wool prices continue to slide

Australia

The Australian wool market continued its downward trend through March with the eastern market indicator losing AUD 84 cents/kg (8%). The EMI is currently trading at AUD 993 c/kg, AUD 66 c/kg lower year-on-year, its lowest point since May 2013. The western market indicator also experienced a significant decline of AUD 106 c/kg throughout March.

The recent strong Australian dollar has hindered market returns. At the same time demand is slightly subdued. Buyers throughout Europe have large volumes of fine and superfine wool to choose from and Chinese buyers have been slow to come back into the market after the Chinese New Year period.

The dry conditions experienced over summer throughout large areas of Australia continue to impact offerings with an increased prevalence of lower spec wool and increased vegetable matter content. Auction offerings of more than 40,000 bales are forecast over the next fortnight ahead of the annual Easter recess, which is expected to keep prices subdued up until this time.

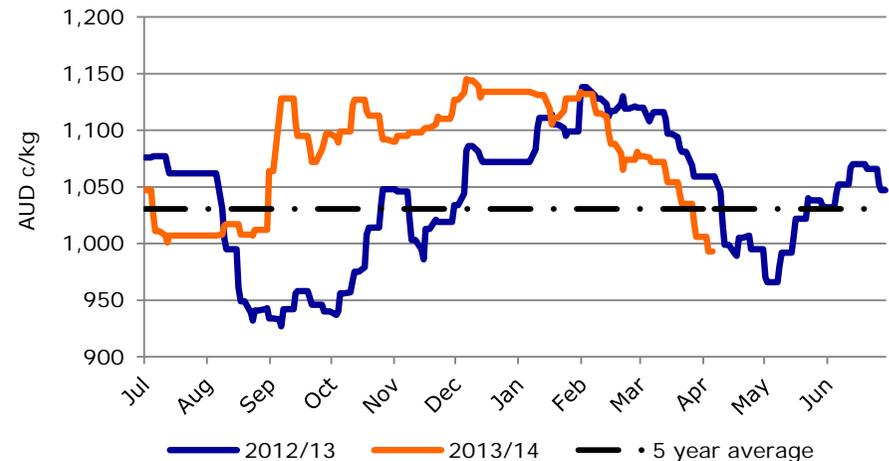
New Zealand

New Zealand fine and coarse crossbred wool prices have declined throughout March, however are still higher year-on-year. The fine crossbred indicator lost 2% over the month and is currently trading at NZD 497 cents/kg, up 2% year-on-year. Despite the coarse crossbred indicator losing 3% over the month, it is still up 21% (or 83 cents/kg) year-on-year at NZD 479 cents/kg.

Recently released export statistics show total February exports increased 21% month-on-month to 8,103 tonnes, an increase of 1,425 tonnes.

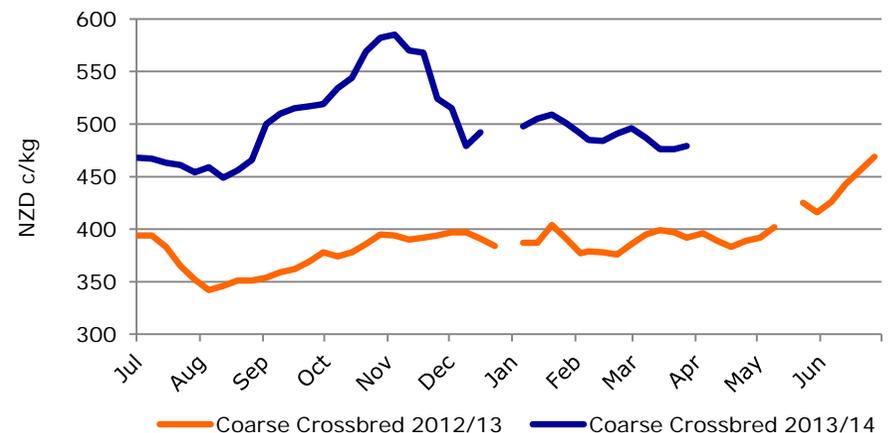
The majority of the gains came from India (up 123% or 616 tonnes), Italy (up 18% or 95 tonnes) and China (up 7% or 195 tonnes).

Australian wool prices – Eastern market indicator



Source: Bloomberg, Rabobank

New Zealand wool prices – Coarse crossbred indicator



Source: NZWSI, Rabobank

Sugar – Brazilian drought, stronger demand boost prices

International

Global sugar markets were mostly range-bound through March but are still trading at a 6% premium from the beginning of the year.

The global sugar market remains well supplied, aided by the Indian governments policy efforts to boost sugar exports. However, prices have found some recent support with emerging concerns about an El Nino impacting global production.

Dry weather in the world's biggest sugar grower, Brazil may reduce production.

While weather risk is providing short term support, the historically high global stocks-to-consumption ratio of 44.3% 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.

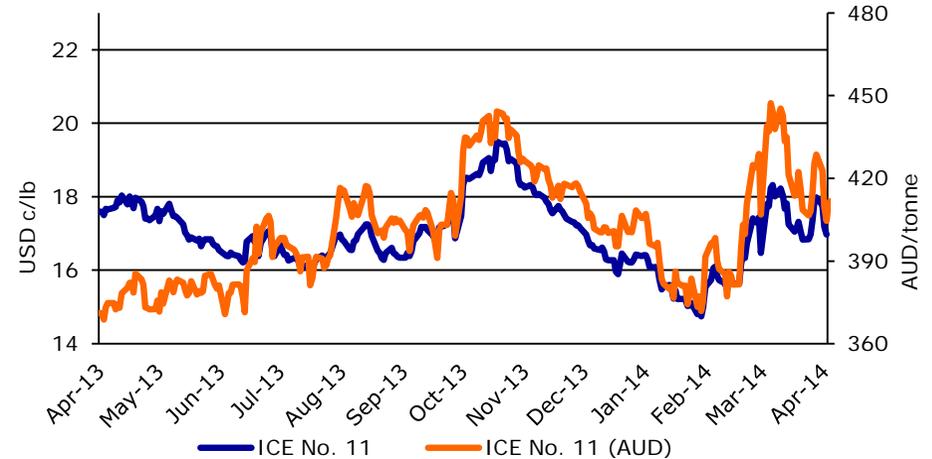
However, in order for this to eventuate it is likely the Indian government would need to agree on a high enough subsidy level in their April review – above the current 54 USD/tonne.

Rabobank expects the market is likely to remain range-bound in the short term.

Australia

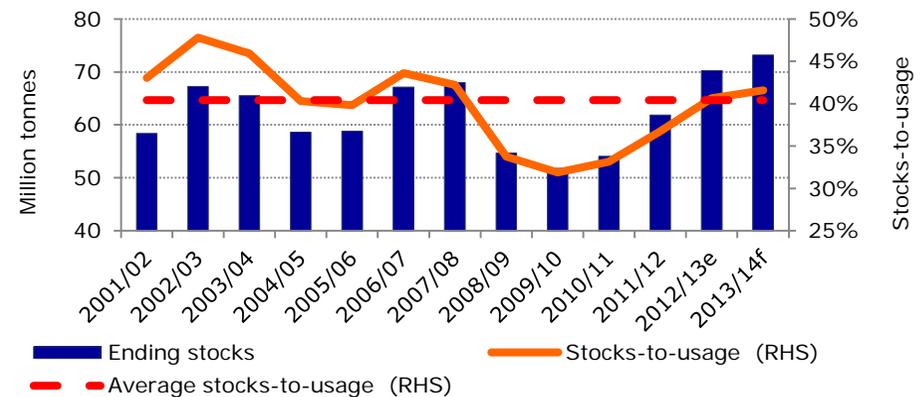
There has been a shake up in Australian sugar sector following the announcement by milling company Wilmar that it intends to move away from its marketing deal with Queensland Sugar Ltd from 2017 and market its sugar directly.

Raw sugar price – ICE No. 11



Source: Bloomberg, Rabobank

Global Ending Stocks



Source: FO Licht, Rabobank

Cotton – Tight stocks push futures to a two year high

International

Cotton futures hit a two year high in mid March at 98.90 USD c/lb as tightening US cotton ending stocks for the 2013/14 season encouraged speculative investment into the Cotlook A index.

Stocks in the US are set to decline for the second season in a row in 2013/14 to 2.5 million bales, following a 26% reduction in production year-on-year. This is the tightest ending stock level since 1990/91. However world stocks remain at a record level, near 97 million bales - 60% of which are in China.

The USDA has forecast US cotton exports for 2013/14 to drop 18% on last season on the back of a lower US supply and a decline in import demand from China, the lowest since 2000/01.

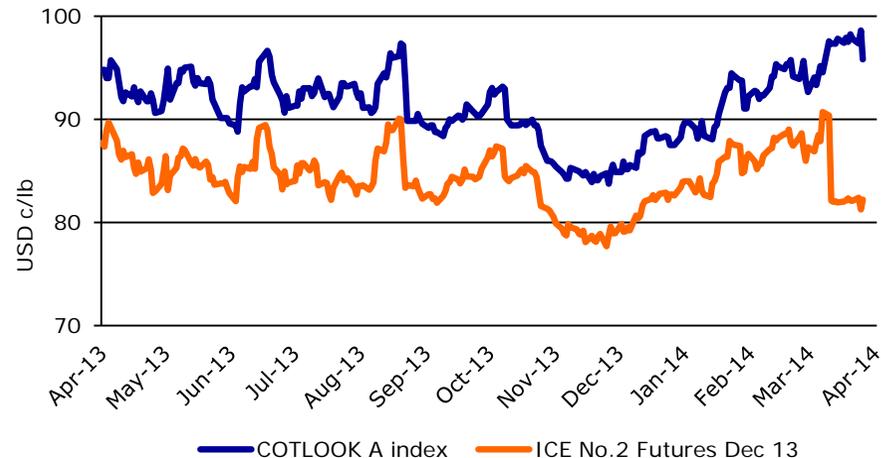
Stocks in the US are set to decline for the 2nd season in a row in 2013/14 as demand exceeds supply. Stocks are expected to be 28% below last season, the lowest since 2010/11.

In late March, the Chinese government announced that it would reduce the minimum price of its cotton auctions by 750 RMB/tonne to RMB17,250/tonne (126 USc/lb). This has drawn more buyers to the auctions starting April, as the government intends to wind down its stockpile.

Australia

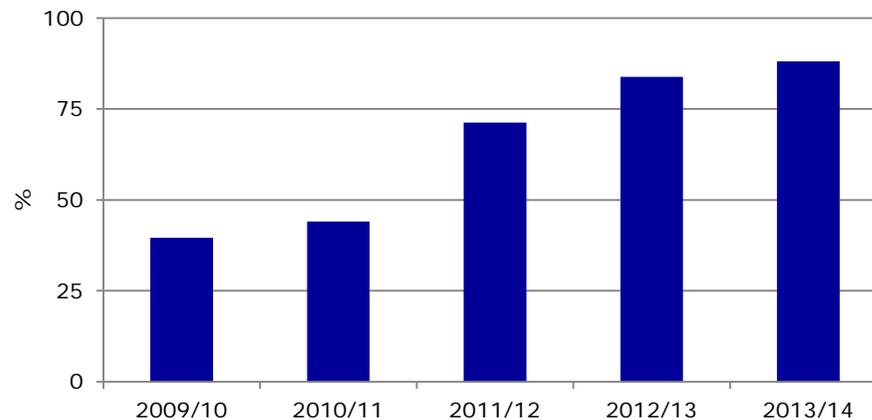
Dry conditions locally have led to a production forecast of 4.1 million bales, the smallest crop in 4 seasons. The impact of heavy rains in NSW towards the end of March are yet to be seen, however with picking having only just started, we are likely to see some quality downgrades in areas.

Global cotton benchmark prices



Source: Bloomberg, Rabobank

Global cotton stock to use ratio



Source: USDA, Rabobank

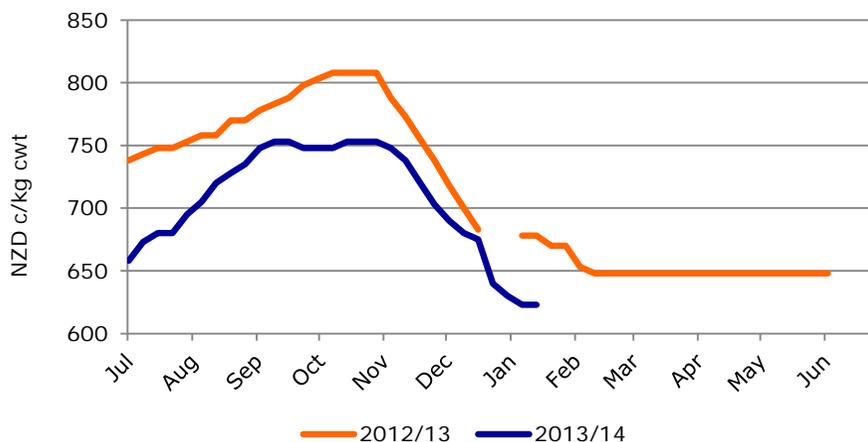
Venison – Export volumes rise, but values slide in February

Markets

Despite tracking well below year ago prices through most of the 2013-14 processing season, average farmgate prices in the North Island during April have now converged on last years prices. Returns in the South Island at the start of April remain below last years prices, with South Island stag returns averaging NZD 620 cents kg/cwt, 4% lower than the same week last year.

Export volumes in February surged 43% year-on-year, to a total of 1,295 tonnes swt. Frozen shipments (1,183 tonnes swt) increased 46%, while chilled exports (111 tonnes swt) also jumped, rising 17% on February last year. Unfortunately, weak returns accompanied the increase in export volumes, with average export values for February falling to the lowest monthly level since April 2012, averaging NZD 6.67/kg.

South Island Stag 60 kg/cwt



Wine – Canadian market in strong growth for both Aussie and Kiwi exporters

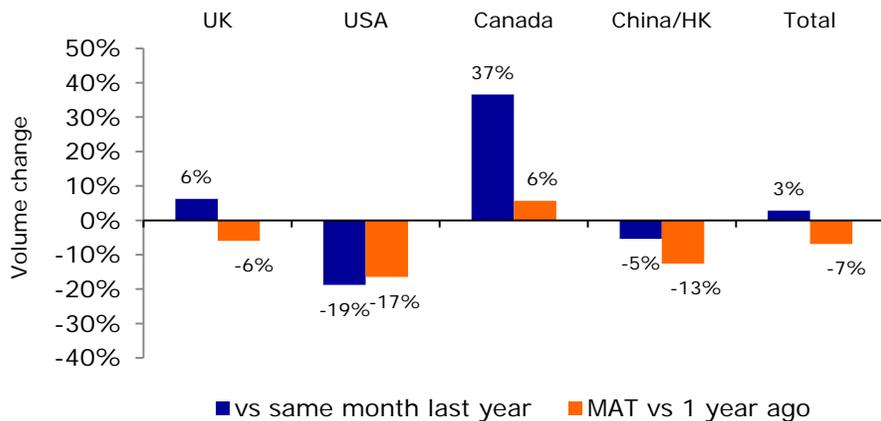


Australian wine export volumes grew by 3% in February 2014 versus the same month last year, helped along by a strong rise in bulk and bottled volumes to Canada during the month.

In the Australian domestic market, data on apparent consumption of alcohol in the country has been released for the 2012-13 year. The figures confirm how wine (and in particular red table wine) has been the winner out of shifting consumption patterns over the past decade. More recently, however, cider consumption has tripled in volume from a low base to pose a rising threat to competing alcoholic beverages.

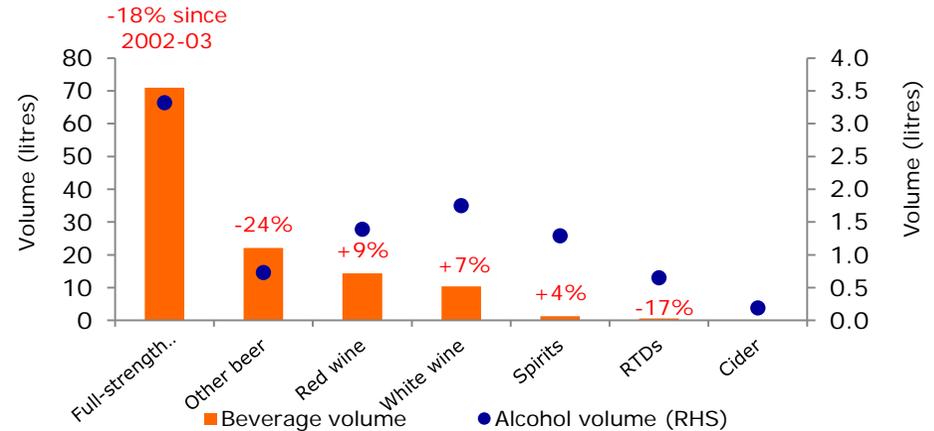
New Zealand export volumes grew by 27% in February 2014 versus the same month last year, and nearly all major markets are back in growth on an annualised basis. The value of exports has been growing faster than volume over the past twelve months, but a high dollar and large 2014 harvest are likely to test the mettle of exporters over the coming 12-18 months.

Australian wine exports by major market – February 2014



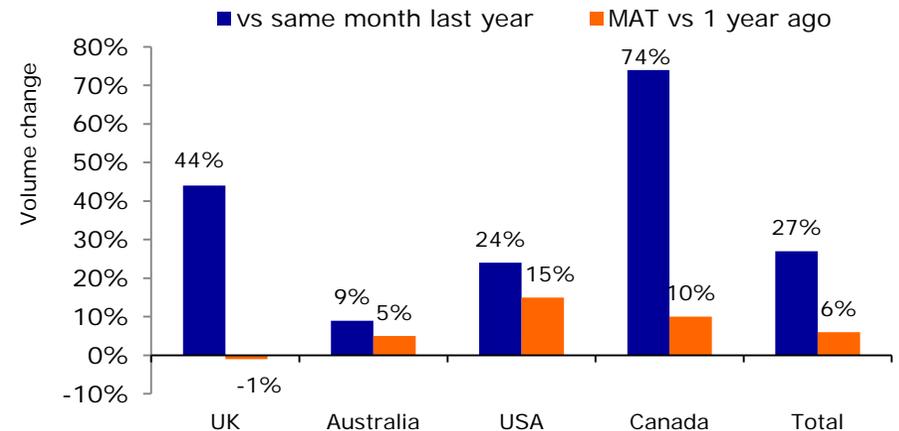
Source: Wine Australia, Rabobank

Per capita consumption of alcohol in Australia, 2012-13



Source: ABS, Rabobank

NZ wine exports by major market – February 2014



Source: Winegrowers NZ, Rabobank

Fertiliser – Chinese export pressure builds on global prices



Rabobank

Global market conditions

Ample Chinese urea supplies continue to weigh heavily on the market and supplies are now assessed at 7.8 million tonnes for January-September 2014, up sharply on the 5.54 million tonnes exported in the same period in 2013. January-February exports in excess of 1.3 million tonnes were above most expectations, and exports are forecast to increase substantially from July once the tax is cut.

In contrast, technical and political issues continue to hamper output and export shipments from the Middle East and the North Africa region (MENA). However, these supply disruptions have not been enough to fundamentally shift pricing trends.

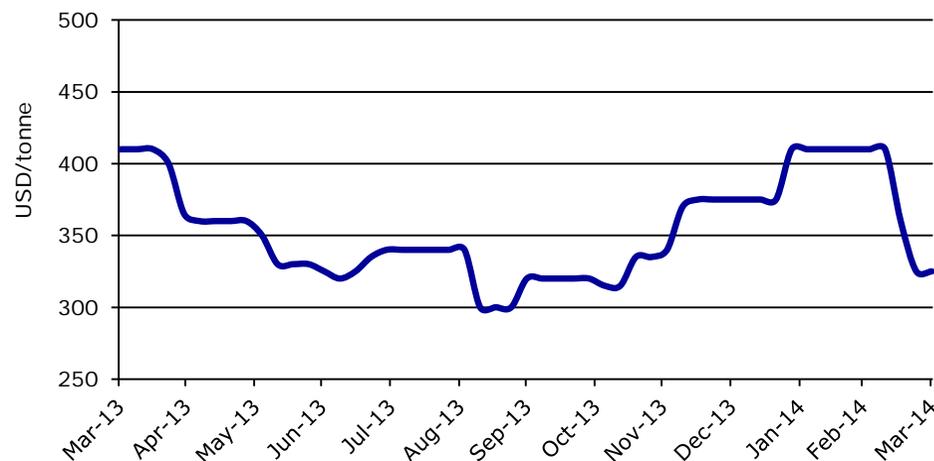
As expected, global DAP prices have started to weaken as we move into Q2. After three months of strong demand, Brazilian buyers have now retreated and price levels are coming under downward pressure. Further downward pressure is now emerging from India where the current MRP and subsidy levels for Q2 have effectively placed a ceiling on the import price.

Local market conditions

According to reports, farmers in both Australia and New Zealand have stocked up early and heavily on fertilizer for the upcoming application season.

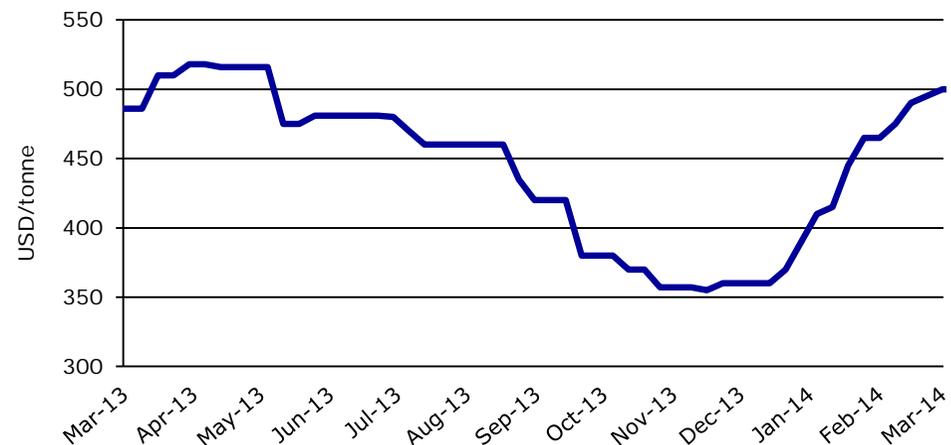
The recent spike in global prices has combined with a weaker currency to drive up the cost at the farmgate.

Urea - Middle East (FOB)



Source: Bloomberg, Rabobank

DAP - US Gulf (FOB)

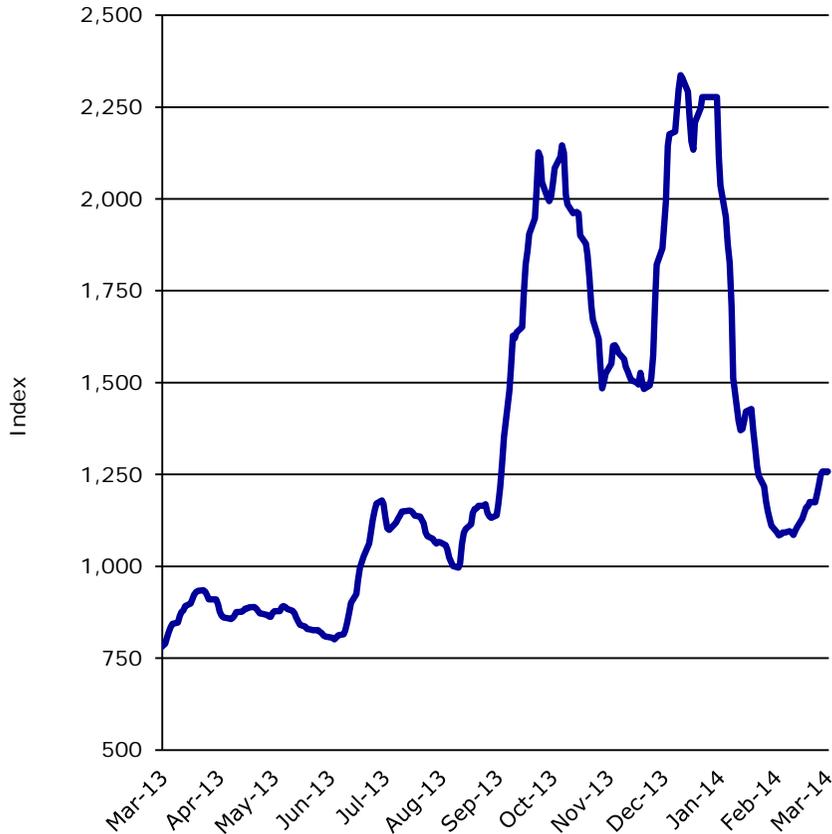


Source: Bloomberg, Rabobank

Other costs – Oil markets subdued on weaker China data



Baltic Dry Index - ocean freight index*



Brent Crude Oil



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.

Agri-commodity price dashboard



As of 3/04/2014	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USD c/bushel	▲	703	667	694
CBOT soybeans	USD c/bushel	▲	1,475	1,418	1,372
CBOT corn	USD c/bushel	▲	500	477	630
Australian ASX EC Wheat	AUD/tonne	▲	307	293	265
Australian Canola	AUD/tonne	▲	579	559	563
Beef markets					
Eastern Young Cattle Indicator	AUD c/kg cwt	▲	344.7	281.8	325.0
Feeder Steer	AUD c/kg lwt	▲	189	178	189
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	▲	4,550	4,150	3,500
Skim Milk Powder	USD/tonne FOB	▲	4,950	4,850	3,550
Whole Milk Powder	USD/tonne FOB	•	5,100	5,100	3,450
Cheddar	USD/tonne FOB	▼	4,800	4,900	4,050

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

Agri-commodity price dashboard



As of 3/04/2014	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USD c/lb	▲	95.3	94.3	95.7
ICE No.2 NY Futures (nearby contract)	USD c/lb	▼	81.4	88.5	89.2
Sugar markets					
ICE Sugar No.11	USD c/lb	▼	17.2	17.7	17.7
ICE Sugar No.11 (AUD)	AUD/tonne	▼	410	437	373
Wool markets					
Australian Eastern Market Indicator	AUD c/kg	▼	993	1,076	1,059
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	▼	325	410	410
DAP	USD/tonne FOB	▲	500	495	510
Potash	USD/tonne FOB	•	410	410	505
Other					
Baltic Dry Index	1000=1985	▼	1,235	1,325	866
Brent Crude Oil	USD/bbl	▼	105	111	109
Economics/currency					
AUD	vs. USD	▲	0.923	0.895	1.044
NZD	vs. USD	▲	0.854	0.839	0.842
RBA Official Cash Rate	%	•	2.50	2.50	3.00
NZRB Official Cash Rate	%	▲	2.75	2.50	2.50

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

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