



Rabobank

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Macroeconomic and geopolitical risks play on New Zealand agri markets in 2012 – Rabobank

Heightened macroeconomic and geopolitical risks are likely to exert a strong influence on global agricultural markets in 2012 resulting in considerable uncertainty in the New Zealand food and agribusiness sector, according to a new report released by Rabobank.

On balance though, the report says, New Zealand agriculture looks set for a generally positive year ahead – with the country's economy buffered, to some degree, from the global economic weakness by developing trade ties with Asia and reconstruction spending in Christchurch.

In its keynote annual research report **New Zealand Agriculture in Focus 2012**, Rabobank says the elevated level of uncertainty associated with the global economic outlook has seen the world's agricultural markets join their financial and industrial counterparts in beginning to exhibit greater risk aversion, price volatility and a deterioration in demand.

General manager for Rabobank's Food & Agribusiness Research and Advisory division Luke Chandler says there is a closer alignment developing between the agri commodity markets and the global macro economy, where the drivers of global economic conditions and financial markets are increasingly influencing global trade in agriculture.

"Historically, agri commodity markets have been less attuned to shifts in macroeconomic sentiment than other global commodity markets and industry sectors, but now that's all changing," he says.

Mr Chandler says this closer alignment is manifesting in a number of ways.

"There is a heightening of the real demand factor – how the scale and distribution of global growth is flowing through into real incomes and impacting the demand for global agricultural commodities," he says. "But this trend is also apparent in investor activity where market speculators shift funds into and out of agri commodities in keeping with broader risk sentiment, therefore influencing agri commodity price movements."

In addition, Mr Chandler says: "Geopolitical factors are having an increasing influence on global agricultural markets, which are being increasingly politicised, impacting international agricultural trade and contributing to heightened uncertainty and price volatility".

The Rabobank report forecasts a slow year for the global economy dictated by uncertainty over exactly when and how the Eurozone sovereign debt crisis will be resolved.



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‘Soft Landing’

Rabobank expects that agri commodity markets will face a “soft landing” in 2012 after prices for many commodities hit record levels in early 2011. While the outlook for the global economy has soured, growth in the emerging economies remains supportive of demand, and supply remains tight for many agri commodities with global inventories resting at modest levels.

“The degree to which global macroeconomic issues filter through to emerging economies will be a significant swing factor for global growth this year,” the report says. “At present the majority of Asia is expected to remain relatively shielded from the subdued growth outlook in Europe and the US.”

This is good news for the New Zealand agricultural economy, Mr Chandler says, with many key trading partners located in this region, including Australia and South-East Asia where economic activity has held up well.

The report says agricultural commodity prices in 2012 are mostly expected to remain above their average levels set over the past decade, but exhibit heightened volatility due to delicately-poised global inventories and financial market instability arising from uncertainty surrounding global economic growth.

New Zealand in focus

Despite the generally positive outlook for prices, the year ahead is expected to present a unique set of issues affecting the competitiveness for those operating in New Zealand’s food and agribusiness sector, Mr Chandler says.

“An historically-high New Zealand dollar will continue to challenge export competitiveness and earnings, while the risk of further downward revisions to global growth cannot be ruled out,” he says.

“The slim yet real prospect of a third consecutive La Nina weather pattern re-emerging this year and preventing a return to more normal weather conditions is also at play here.

“And despite an easing carbon price, the Emissions Trading Scheme will continue to place pressure on operating costs at various points in the agribusiness supply chain.”

Other factors impacting the New Zealand agri sector include continuing bilateral trade negotiations with significant markets, including Russia, India and South Korea and maintenance of robust yet economical biosecurity protocols for agriculture.

“In the background, an ongoing shift in the organisation of food and agribusiness supply chains is taking place,” Mr Chandler says, “with downstream companies looking to increase control over agri commodity supply, and in the process, better manage their price risk,” he says. “These developments could offer both opportunities and risks to New Zealand producers who remain key suppliers of products to global markets.”



Sector summaries

Looking at the main agricultural sectors, the Rabobank **New Zealand Agriculture in Focus** report found:

Dairy -

- Good climactic conditions and record high market returns coincided in 2011 for the first time in many years, but chances of a repeat performance this year are low.
- Globally dairy fundamentals remain solid despite economic and financial turmoil, which is likely to provide firm, but not spectacular, prices and profitability through 2012.

Sheepmeat -

- Sheep and lamb prices are likely to decline slightly in 2012 from the record highs of 2011.
- New Zealand supply will increase, as will production in Australia, New Zealand's main export market competitor.

Beef -

- New Zealand cattle prices are expected to rise modestly in 2012.
- Global beef production is forecast to fall, largely due to a major drought-induced decline in the United States herd.

Horticulture -

- Trans-Tasman trade in horticultural produce continues to swing in favour of New Zealand producers.
- In the kiwifruit sector, the first significant economic impacts of the PSA outbreak will be felt by the industry in 2012. Potential recovery pathways have been identified and are currently under strong consideration to limit the future impact on the industry's scale and profitability.

Wool -

- Ongoing economic problems in some of the main wool-consuming countries pose a downside risk for New Zealand wool exports this year.
- New Zealand wool supplies are expected to remain at low levels.

Wine -

- The focus will again be on supply on 2012 as balance needs to be restored and maintained to establish greater price tension in global markets.

Venison -

- Venison prices are likely to decline slightly in 2012.



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- New Zealand supply will remain stable, while European demand softens under challenging economic conditions in 2012.

Farm inputs -

- A boost in demand for farm inputs underpinned prices through 2011 and will continue to do so throughout 2012.
- Future price direction for the fertiliser markets will be driven largely by Chinese government export policy and seasonal demand conditions in key regions.

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Rabobank New Zealand is a part of the international Rabobank Group, the world's leading specialist in food and agribusiness banking. Rabobank has more than 110 years' experience providing customised banking and finance solutions to businesses involved in all aspects of food and agribusiness. Rabobank is structured as a cooperative and operates in 48 countries, servicing the needs of approximately 10 million clients worldwide through a network of close to 1600 offices and branches. Rabobank New Zealand is one of the country's leading rural lenders and a significant provider of business and corporate banking and financial services to the New Zealand food and agribusiness sector. The bank has 32 branches throughout New Zealand.

Media contacts:

Denise Shaw
Media Relations
Rabobank Australia & New Zealand
Phone: +61 2 8115 2744
or + 61 439 603 525
Email: denise.shaw@Rabobank.com

Jess Martin
Media Relations
Rabobank Australia & New Zealand
Phone: +61 2 8115 4861
or + 61 418 216 103
Email: jess.martin@Rabobank.com