



Rabobank

September 2011

# Agribusiness Review

## Australia and New Zealand

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

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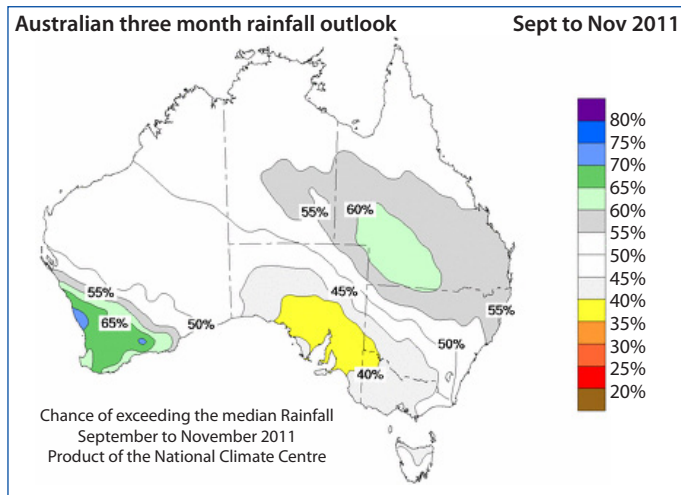
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## Report highlights

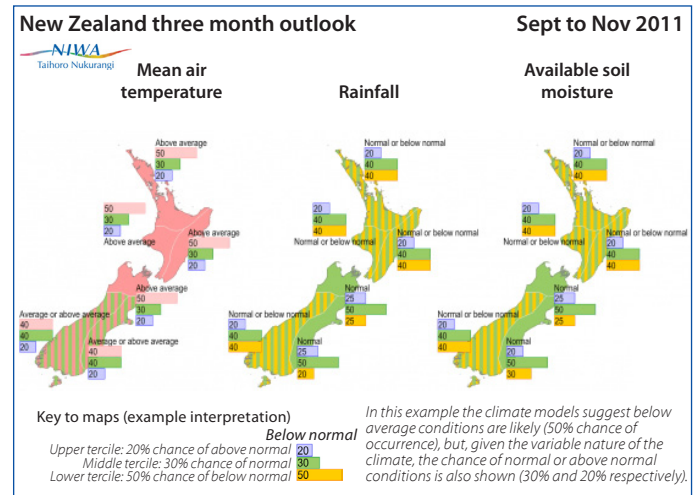
- Spring arrived early for southern parts of Australia, with above-average day and night time temperatures recorded in August, along with drier-than-normal conditions. Despite two polar blasts, winter was mostly sunny and warm across New Zealand. Winter rainfall was below-normal across most of the South Island and near-normal across the North Island.
- Global financial markets remain on edge with little meaningful direction yet to emerge on sovereign debt policy issues, and little positive economic news of late to remove the spectre of recession in the EU and US economies. On the home front, ongoing signs of strength in Australia's mining sector and a positive rebound in the New Zealand retail sector continue to support domestic economic fundamentals.
- The Australian and New Zealand dollars have regained ground following the sharp declines experienced in early August. Heightened volatility is expected to remain in play as global investors search for a lead, however current levels are likely to be supported in the absence of any major global economic shocks.
- The wheat market continues to be dominated by speculation over the size of the US corn crop. Growing conditions in Australia have improved in most areas over the last month, and the Western Australia wheat crop has the potential to outperform previous estimates.
- Australian live cattle exports to Indonesia recommenced in August, around a month after the market was first re-opened. Prices reportedly opened lower than those being achieved at the same time last year, but have since strengthened in recent weeks due to restricted supply of light cattle suitable for the Indonesian market (under 350kg live weight).
- Dairy markets through July and August have largely avoided any flow on effects of turbulent financial markets. On the supply side, the Southern Hemisphere production season is expected to hit its straps in coming weeks. While on the demand side, activity amongst Chinese buyers is likely to intensify as they look to arrange shipments during the new tariff-free period with New Zealand in early 2012.
- The Australian sugar harvest is fast approaching the half way mark, with more than 14 million tonnes of cane crushed as of week 15. While the sugar content of cane has picked up in recent weeks, low cane yields are constraining raw sugar production.

## Climate



### Australia

- Spring arrived early for southern parts of Australia, with the Bureau of Meteorology (the Bureau) reporting above-average day and overnight temperatures in August. Tasmania experienced the warmest August day on record and the national average maximum temperature was the fifth warmest on record.
- August was a drier-than-normal month across much of the country, and the national average rainfall was 18% below-normal. However, an east coast low brought above-average rainfall to the east coast, Victorian Gippsland district and north east Tasmania. The Bureau also report that tropical and central areas of the country were seasonally dry.
- The Bureau's latest rainfall outlook favours a wetter-than-normal spring for south west Western Australia; with strong odds covering the grain belt. However, the odds slightly favour normal to drier-than-normal conditions in southern areas of South Australia, New South Wales and most of Victoria. There is also a slight improvement in the odds of a wetter-than-normal spring throughout northern New South Wales into southern and central Queensland.
- Despite a drier-than-normal August, the Murray-Darling Basin is at 87% capacity.



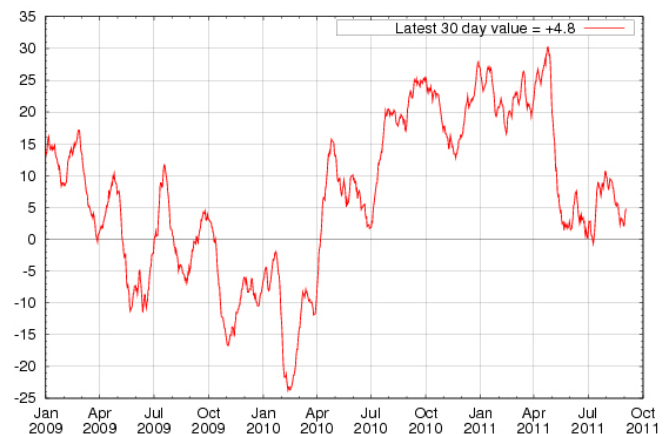
### New Zealand

- Despite two polar blasts, winter was mostly sunny and warm across New Zealand. Average winter temperatures were well-above-average across the north and east of the North Island, Central Otago and the Lakes District. Temperatures in inland north Otago and parts of the northwest South Island were below-average and near-average elsewhere.
- Winter rainfall was below-normal across most of the South Island, apart from coastal Southland which experienced above-normal winter rainfall. Rainfall was near-normal across the Nelson region and the North Island, apart from parts of Northland and north Auckland where rainfall was generally below-average.
- According to NIWA's National Climate Centre, spring temperatures are likely to be above-average in the North Island and the northern South Island, and near- or above-average in other regions.
- Spring rainfall is likely to be normal- or below-normal across the North Island as and the west of the South Island, and near-normal in other regions.
- As a result, soil moisture levels are also likely to be normal- or below-normal in the North Island and the west of the South Island, and near-normal in other regions.

### Southern Oscillation Index

- After spending the first half of August in the La Niña range (above +8), the Southern Oscillation Index (SOI) has eased continuously into the neutral range, before hitting a turning point and rising in September. The current 30 day moving average value of the SOI is +4.8.
- The Bureau expects neutral conditions to persist in the equatorial Pacific Ocean throughout the Southern Hemisphere spring.
- Earlier this year we raised the possibility of a double barrel La Niña emerging in 2011. The Bureau does not rule this out, and a number of climate models have predicted further cooling in spring and summer. La Niña events generally develop in autumn and peak in intensity from winter to early summer.

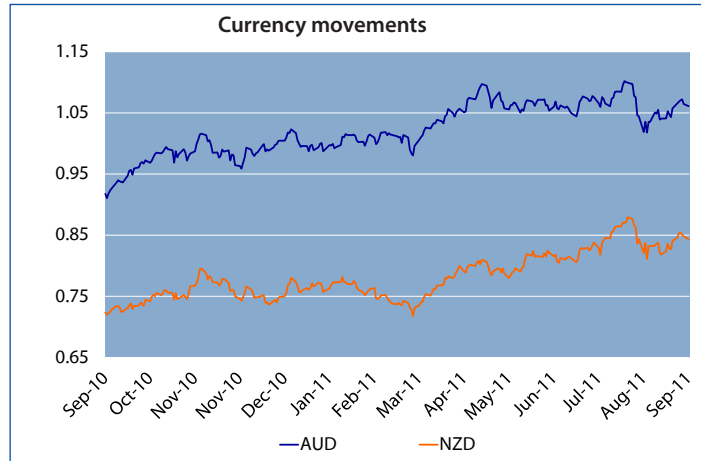
### 30 Day Moving Southern Oscillation Index 3 September 2011



Currency USD

	Current (02-Sep-11)	Last month	Last year
AUD	1.0645	1.0779	0.9166
NZD	0.8481	0.8665	0.7207

Source: Bloomberg/Rabobank



Source: Bloomberg/Rabobank

Global

- Global financial market nerves have settled somewhat since the early August shake-up, yet ongoing concerns and uncertainty over the extent of the fiscal problems in the US and Europe are keeping the global economy on edge, particularly as the longer-term effects begin to be better appreciated.
- In Europe, there is still an apparent lack of consensus among leaders over the painful decisions needed to resolve sovereign debt issues. This is keeping concerns of another financial crisis alive, which is preventing private companies across Europe and the US from deploying mounting cash reserves that are desperately needed in the financial system and real economy.
- Meanwhile in the US, recent data has affirmed the fragility of the recovery. GDP growth was revised lower to 1% for Q2 2011, while employment growth came to a standstill in August and consumer confidence deteriorated in response to the turmoil in financial markets. While the US Federal Reserve has pledged to keep rates low at least until mid-2013 to help stimulate the economy, the effects of the early August market ructions have not yet been fully felt and the budget deficit reduction plan is likely to keep the recovery to a sluggish pace.

Australia

- Ongoing concerns over the state of the global economy have all eyes focused on the non-mining 'slow' side of the domestic economy. Some positive news with retail sales rising by 0.5% in July. However, year-on-year retail sales growth remains at historically low levels, consumer confidence continues to trend lower and activity in the housing market remained weak in July. On the upside, the mining-led 'fast' side of the economy appears to be gathering momentum, with private capital expenditure

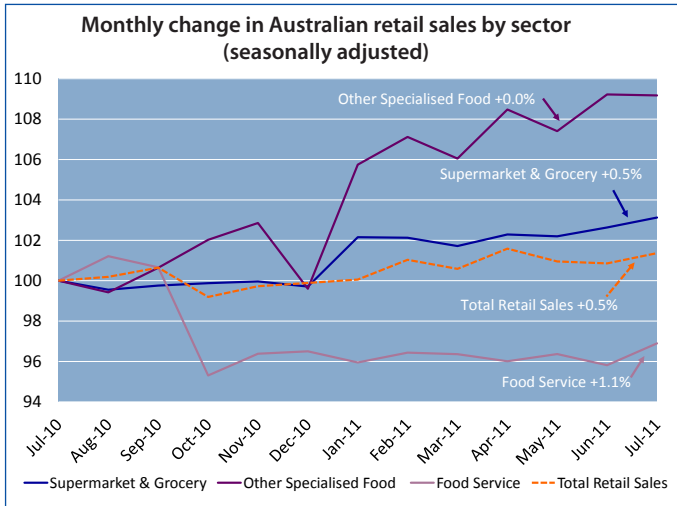
rising by 4.9% in Q2 2011.

- The Reserve Bank of Australia decided to keep interest rates on hold at its September monthly board meeting amidst mounting global economic uncertainty, despite reaffirming its concerns over signs of strengthening underlying inflationary pressures in the economy.
- The Australian dollar has recovered from its early August lows amidst the global market shake-up, in which it momentarily fell below parity during the worst of the financial market ructions. The Australian dollar currently sits at USD1.05, and is expected to find support around current levels in the absence of any major global economic shocks.

New Zealand

- Recent economic data suggests that the New Zealand economic outlook is improving as retail sales volumes increased by 0.9% , consumer confidence rebounded to more neutral levels in Q2 2011, and the terms of trade improved by 2.3% in Q2 2011. The Rugby World Cup and post-earthquake reconstruction activity is likely to support the short-term growth momentum. However, the souring global economic outlook remains a key concern at this critical stage of the domestic recovery.
- The steadily improving economic outlook has questioned the ongoing appropriateness of the emergency level official cash rate of 2.5%. However, with the heightened global economic uncertainty of late, it becomes less likely that the Reserve Bank of New Zealand will act on rates this month.
- The New Zealand dollar has recovered from its early August lows and currently sits at USD0.83. The New Zealand dollar is expected to strengthen in the near-term yet remain sensitive to shifts in global risk appetite.

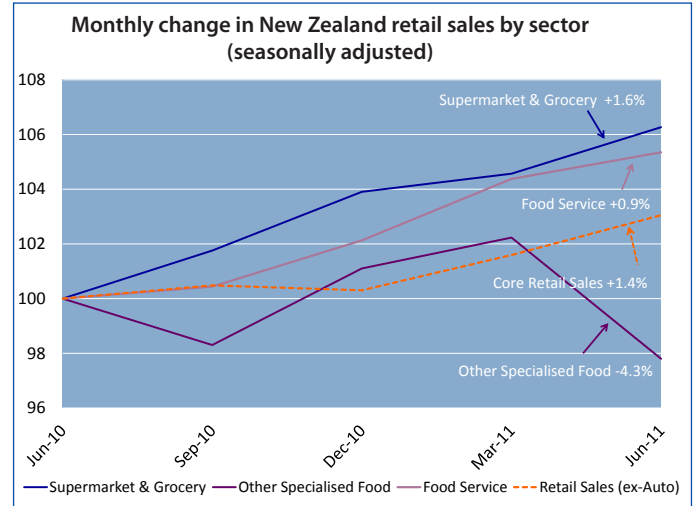
## Food retail



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

### Australia

- Australian retail trade turnover recorded a solid rise in July 2011, up 0.5% on the prior month in seasonally adjusted trade estimates. Despite the positive monthly result, the annual growth rate remains a relatively modest 1.4% (ABS, 2011).
- Trade in the Clothing, Footwear & Personal Accessory retail category continued to deteriorate in July and is now down 7.5% on the prior year, the most depressed of any retail category. This category is one of the most exposed to the strong growth being experienced in internet-based retail trade that continued to climb in July 2011.
- Seasonally-adjusted Supermarket & Grocery retail trade kept pace with broader retail trade, increasing 0.5% in July on the prior month. Australia's two major grocery retailers recently reported on their annual results which again showed strong price deflation despite the impact of higher fresh produce prices. Earnings margins again increased, most notably for Coles as it continues to focus on extracting previously underleveraged operating efficiencies across its supply chain. Grocery suppliers have also been pressured to finance shelf-price reductions, to the consternation of some large manufacturers.
- Trade in Food Service channels (Cafés, Restaurant & Take-away) lifted 1.1% in July, despite spending in the Take-away food channel (-0.1%) recording its ninth decline in the past 12 months. The Café & Restaurant channel recorded a strong rise in July (2.1%), and trade in this more premium channel is significantly higher over the past 12 months after removing the effects of an apparent surveying error in the September 2010 quarter.
- The recent jitters in the global economy have been closely watched by Australian households and have dramatically impacted their mood. Estimates of consumer confidence fell again in August and this measure is now down roughly 17% from its ten-year average level, and 25% lower than the level reached in August 2010 (WMI, 2011). Such a mindset is unlikely to cause households to reduce savings and free up their spending.



### New Zealand

- New Zealand retail trade recorded its second consecutive strong quarterly gain in June 2011, up 1.4% on the prior quarter in seasonally-adjusted trade estimates. Despite the recent pick-up in activity, the annual rate of growth in retail trade remains modest at 3.1%, which includes the 2.2% impact of the GST rate rise last October (Statistics NZ, 2011).
- Seasonally-adjusted Supermarket & Grocery retail trade in the June quarter increased by 1.6% on the prior quarter, and by 6.3% on the prior corresponding quarter. New Zealand's two major grocery retailers recently reported their annual results, with Progressive Enterprises posting stronger top-line sales and gross margin improvements than Foodstuffs. Both organisations reported significant one-off costs related to the Canterbury earthquakes.
- Trade in Food & Beverage Services (Cafés, Restaurant & Take-away) in the June quarter increased by 0.9% on the prior quarter, and by 5.3% on the prior corresponding quarter. In a sign that New Zealand households may be overcoming their gloomy outlook, consumer confidence is estimated to have increased strongly in the June quarter to around its ten-year average level, with the upcoming Rugby World Cup likely to provide added stimulus (WMM, 2011).
- Food prices in New Zealand recorded further increases across most categories in July. Lamb and yogurt prices are now estimated to be at record levels; however, there were some monthly price declines in cereal related products in July (Statistics NZ, 2011).

## Grains and oilseeds

### ASX wheat prices

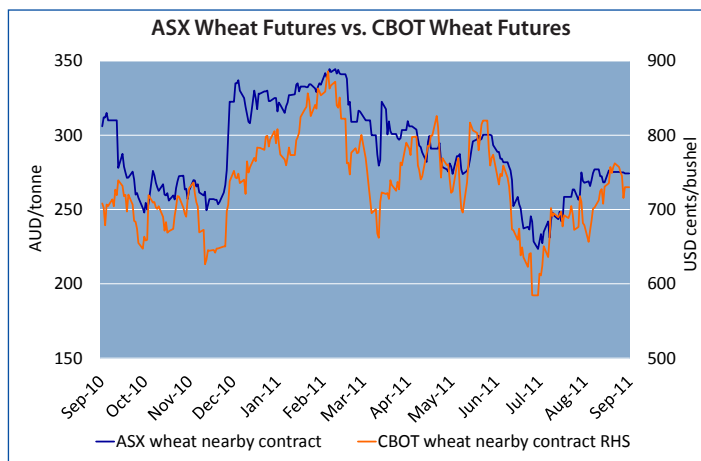
	Current (02-Sep-11)	Last month	Last year
AUD/tonne	274.30	260.00	296.00

Source: Bloomberg/ASX/Rabobank

### Chicago Board of Trade (CBOT) wheat futures (nearby contract)

	Current (02-Sep-11)	Last month	Last year
USD c/bushel	730.00	718.00	708.25

Source: Bloomberg/CBOT/Rabobank



Source: Bloomberg/CBOT/ASX/Rabobank

## Global

- The wheat market continues to be dominated by speculation over the size of the US corn crop as fears rise that estimated yields will once again be lowered by the USDA on 12 September. US Profarmer has estimated corn yields at 147.9 bu/acre, significantly below the USDA August estimate of 153 bu/acre. In four out of the last five years, final yields have been lower than the USDA's August estimate. The incredibly hot July has severely impacted the health of the corn crop and any rain from this point onwards is unlikely to have a significant positive impact upon yields.
- Global wheat supplies are estimated to be at comfortable levels; however, the grains market as a whole remains in a tight stock situation. CBOT wheat futures continue to trade below corn and it is envisaged to continue to do so at least until we see further demand shift from corn to wheat.
- Wheat and corn continue to attract investors as the fundamentals are considered to be far stronger and offer a potentially higher return than bond or equity markets.
- Black Sea wheat continues to undercut other origins and is likely to continue to do so at least over the next two months. The majority of wheat purchased by Egypt's GASC has been of Black Sea origin.
- High quality milling wheat continues to trade at a significant premium in the market and is likely to be reflected in domestic wheat values this season. Threat of crop downgrading in Germany and smaller-than-expected US spring wheat crop continues to support milling wheat values. If dry conditions in the US hard red wheat belt continue, it is likely to result in reduced new season plantings which will ultimately help support prices for milling wheat. The Canadian wheat production is expected to be above USDA estimates.

- The oilseeds market continues to be well-supported from a shrinking US soybean crop as adverse weather conditions in August reduced expected yields in the US. Canola remains not only well-supported by soybean fundamentals but also by its own tight supply situation. The European Union is also expected to be a net importer of canola this year which is likely to support Australian canola values.

## Australia

- Australia conditions have improved in most areas over the last month with Western Australia having the potential to significantly outperform previous estimates. The South Australian winter crop also has excellent potential although there is the possibility of the mice issue re-emerging and impacting upon yield in some areas. Victoria, having received a significant rainfall event two weeks ago, now has very good potential in some areas. However, the Mallee area does need precipitation in the next two weeks if it is to achieve average yields. Central and southern New South Wales are performing relatively well; however, some areas in the Newcastle/Northern zone are likely to have below-average yields. Areas in Queensland such as Emerald continue to perform well.
- The Australian Bureau of Meteorology's seasonal outlook indicates a better-than-even chance of exceeding average rainfall for the September to October period in the majority of the wheat producing areas of Australia.
- Australian east-coast domestic grain prices remain discounted to international values, suggesting shipping and logistical constraints impacting upon prices. Western Australian wheat values are however trading at higher levels, suggesting that the trade prefers to accumulate from this origin.

# Beef

## Australian beef prices

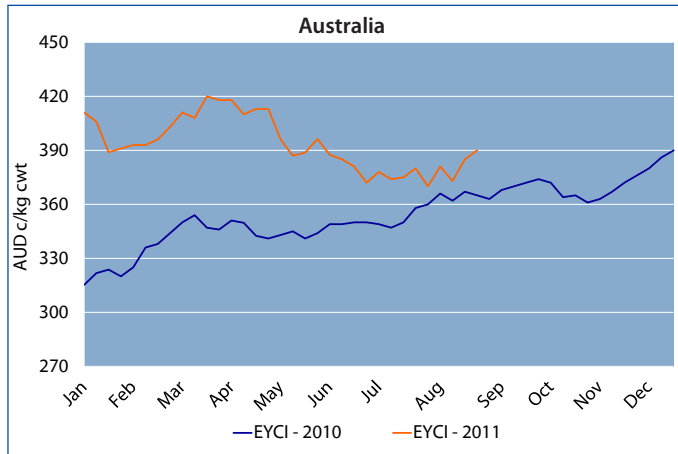
All shown as AUD cents/kg cwt	Current (26-Aug-11)	Last month	Last year
Eastern Young Cattle Indicator (EYCI)	390	370	365

Source: NLR5/Rabobank

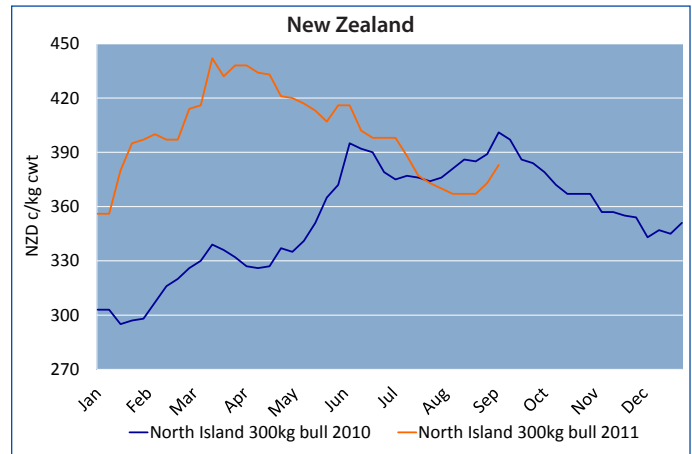
## New Zealand beef prices

All shown as NZD cents/kg cwt	Current (05-Sep-11)	Last month	Last year
North Island Bull 300kg	383	367	401
South Island Bull 300kg	370	370	366

Source: NZX Agrifax/Rabobank



Source: NLR5/Rabobank



Source: NZX Agrifax/Rabobank

## Global

- Beef prices have risen rapidly in Indonesia in recent weeks in anticipation of the end of Ramadan, when beef consumption increases. While prices have spiked compared to previous months, they are only around 1% above festival time in 2010, despite suspension of live cattle export from Australia which took place in the middle of the year. This is due in part to an increase boxed beef imports, but also higher numbers of local cattle reported to have gone into feedlots for processing.
- US imported and domestic prices remained flat through August, although still elevated over last year. Cow slaughter is up for the month due to the drought and light weight cattle are heading to feedlots. The higher-than-average placements will mean an increase in US production late this year and early in 2012. The impact of pulling this production forward and the increased cow slaughter will mean US production will be limited mid to late 2012 as will calf numbers next year; impacting over the next 12 to 24 months.

## Australia

- Young cattle prices have risen for much of the past month, reaching AUD3.90/kg cwt as of late August - an increase of around 7% on the same time last year. Rainfall in some parts of the east coast provided some confidence to producers who had been experiencing dry weather conditions, resulting in a decline in supply of cattle to the market. Queensland Japan Ox prices have also risen modestly to AUD3.11/kg cwt; however, the pressures on

overseas market returns has held prices slightly below the same time last year.

- Live cattle export shipments recommenced in August, around a month after the market was first re-opened (following the June suspension). While official prices offered for live cattle are not yet available, industry reports initial offerings of around AUD1.70/kg live weight, compared to AUD2.00/kg at the same time last year. However, since this time prices have reportedly risen a further AUD 20c/kg live weight with supply of light cattle suitable for the Indonesian market (under 350kg live weight) restricted.

## New Zealand

- Farmgate prices have risen slowly from mid-August into the start of September with prime cattle finishing NZD 20c/kg higher at NZD3.99/kg, while slaughter sits at a seasonal low. Prime cattle slaughter remains slightly behind last year's season-to-date figures (-4%) but processor numbers are balanced by the lift in cow numbers (6%).
- After several months of lacklustre exports to Indonesia, July beef exports jumped to 5,000 tonnes - the single highest month on record - as import permits were released to fill the temporary gap due to the Australian ban. By contrast, other export markets in Asia such as Japan, Korea and Taiwan declined by 30% year-on-year, as US exports continue to rise (influenced by US currency weakness) to these regions and put pressure on imports from New Zealand. US importers continued to secure product from New Zealand creating a lift 10% year-on-year to this market.

# Sheepmeat

## Australian lamb prices

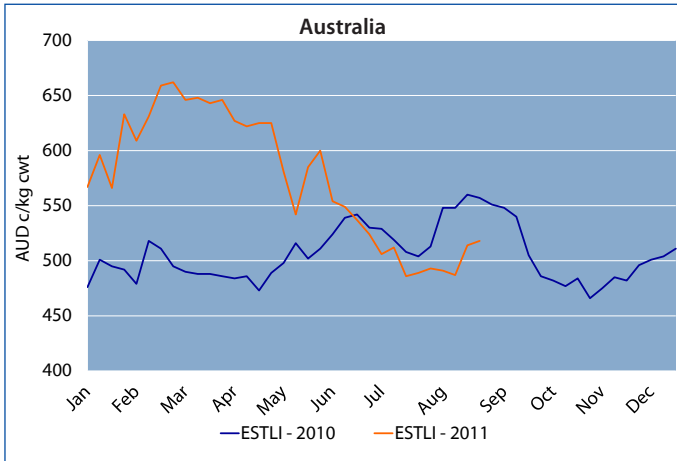
All shown as AUD cents/kg cwt	Current (26-Aug-11)	Last month	Last year
Eastern States Trade Lamb Indicator (ESTLI)	518	493	557

Source: NLR5/Rabobank

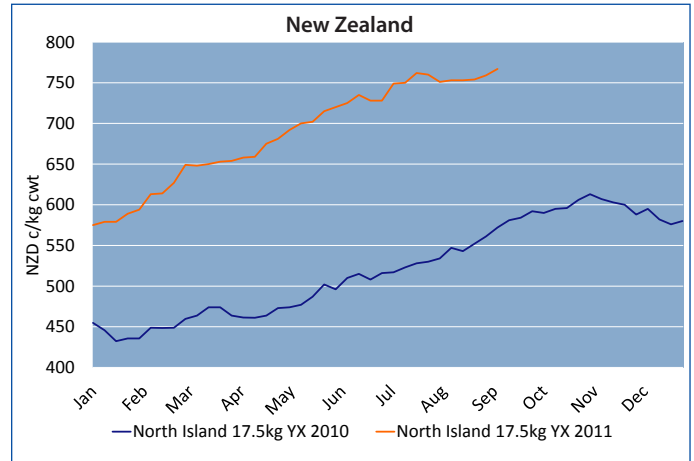
## New Zealand lamb prices

All shown as NZD cents/kg cwt	Current (05-Sep-11)	Last month	Last year
North Island 17.5kg YX	767	753	572
South Island 17.5kg YX	707	709	563

Source: NZX Agrifax/Rabobank



Source: NLR5/Rabobank



Source: NZX Agrifax/Rabobank

## Australia

- After dropping below NZD5.00/kg in July, lamb prices have recovered during the past month, with the Eastern States Trade Lamb Indicator ending August at AUD5.18/kg cwt. The improvement in prices has been in part due to rainfall on the east coast and some improvement in export demand. Despite the improvement this is still below the same time last year and well below the record levels seen in early 2011. Heavy lambs continued to face the greatest pressure on the east coast, weighed down by the strong Australian dollar and subdued consumer confidence both here and overseas.
- In contrast to the east coast, Western Australian lamb prices have risen across all categories compared to the same time last year. The west coast had suffered from severe drought in 2010 – leading to a large numbers of stock being shipped to the east coast. Following rainfall in recent months in the south west of the state, supply in Western Australia has fallen, with producers now holding back numbers for flock rebuilding. The seasonal outlook is for rainfall to continue over upcoming months in the region, supporting continued strong prices.
- Australian lamb slaughter for the calendar year to June has reached 8.5 million head, a fall of 8% compared to last year. Lamb production has also eased, down by 5% to just under 192,000 tonnes, with the lower slaughter numbers partially offset by higher carcass weights due to improved pasture and feedgrain availability.

## New Zealand

- The start of September has seen lamb farmgate prices lift to a new record and remain, on average, NZD2.00/kg higher than last season. The average of NZD7.55/kg through August has continued to encourage lambs to market at slightly elevated numbers to last season, although still at winter processing levels. Heavy lambs have been coming through and the lift, while adding volume, impacts on cut size suitability for some markets. The Beef + Lamb NZ forecast of 19.3 million will be exceeded by a small margin for the season, while the lift of ewe slaughter to 4.4 million head this year has broader implications for next year's lamb crop.
- While July 2011 exports remained 5,000 tonnes below the same month last year, the revenue for the month was 5% higher year-on-year. Although winter production volumes are seasonally low and only 14% of total exports went chilled, revenues from chilled exports equated to 25% of the income in July. Frozen exports averaged NZD8-10/kg FOB, depending on the cut, providing extremely solid prices; however, chilled export returns have been exceptional. The top end of the market, which is consuming half of the chilled product, is paying one average NZD25-30/kg FOB, with a mid-tier bracket (for the other half of the chilled product by volume) paying NZD15-20/kg FOB. Although smaller in volume these products are adding considerable value overall.

## Dairy

### World dairy prices

	USD/tonne			AUD/tonne			NZD/tonne		
	01-Sep-11	Last month	Last year	01-Sep-11	Last month	Last year	01-Sep-11	Last month	Last year
Butter	4,400	4,550	4,100	4,120	4,236	4,536	5,156	5,285	5,766
SMP	3,600	3,694	3,100	3,371	3,439	3,430	4,218	4,291	4,359
WMP	3,700	3,639	3,313	3,464	3,388	3,665	4,336	4,226	4,658
Cheddar	4,450	4,359	3,925	4,167	4,059	4,343	5,214	5,063	5,520

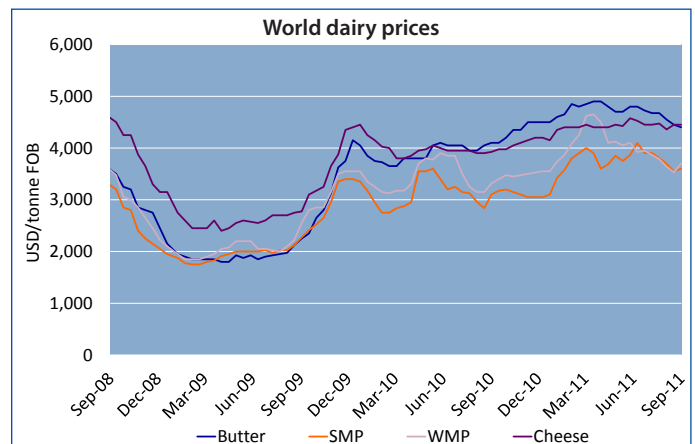
Source: USDA/Rabobank

### Global

- August dairy commodity prices eased slightly as participants on both sides of the market anticipate the season ahead. Price falls in US dollar terms were evident for butter and SMP, down around 3%, while WMP and cheese lifted by 2%.
- The flow on impacts of turbulent financial markets through July and August, combined with dark shadows looming over global growth, are still to be materially felt in dairy markets. Current price movements have related more to seasonal supply shifts and relative product returns.
- The surge in milk production flows from the Northern Hemisphere have eased back towards 1% or below on a monthly basis as seasonal conditions take hold. Very hot weather and nervousness around future feed prices have resulted in mixed fortunes (and consequently milk flows) for US producers.
- Activity this month is likely to shape price trends over the coming quarter. The Southern Hemisphere production season should start to hit its straps and exporters will be expecting to hear the phone start ringing again from key buyers in Asia and China in particular.
- Chinese buyers are likely to be looking towards arranging shipments to take place during the new tariff-free period with New Zealand in early 2012. The safeguard volumes were quickly reached in 2011 and securing that advantage may also stimulate activity.
- Commodity price levels appear supported over the coming month as export supply is between seasons, however the challenge will be for demand to hold up under global economic uncertainty. The true test will come as Southern Hemisphere volume arrives on the market and potentially export spillage increases from weaker domestic demand in the EU and US.

### Australia

- Winter rains were rather widespread across Australia's key dairying regions, particularly southern Victoria. As a result it has been a slow start to the new season's milk production. Preliminary data shows national milk production in July reached 638 million litres; down 1.5% in comparison to last year.
- There are still high expectations for the upcoming spring flush. Good soil moisture, high water storage levels and a positive seasonal outlook all favour good pasture growth prospects. Expectation are unchanged, with Australia heading for growth of 2% over the course of the season.
- As the selling season approaches, Australian dairy processors are confronted with a bouncy Australian dollar and some softness in



Source: USDA/Rabobank

### Production growth in key exporting regions

	Latest month	Last three months
EU 27	1.3% (June)	1.6%
US	0.7% (July)	1.0%
Argentina	7.1% (July)	11.3%
Australia	-1.5% (July)	0.3%
NZ	8% for three months to August 2011*	

\*Rabobank estimate

dairy commodity prices. Critical decisions will need to be made about future product mix following a swing to milk powder late last season.

### New Zealand

- Dairy commodity prices in local currency terms were flat on average in New Zealand over the past month as the New Zealand dollar eased from highs in early August. However, prices remain some 7% below the same period last year and producers will be looking for a lift in US dollar commodity prices to offset the impact of US dollar currency weakness.
- Despite this pricing pressure, it remains early in the production and exporting season and in early September Fonterra reconfirmed its May opening forecast milk price at NZD6.75/kgMS for the 2011/12 season.
- July dairy exports have continued to reflect the strong finish to the production season with volumes 9% higher than in 2010. While volumes to China were broadly flat on July last year, other key import markets lifted purchases with Japan (+3,600 tonnes), Venezuela (+3,600 tonnes) and parts of the Middle East importing relatively strongly compared to 2010.

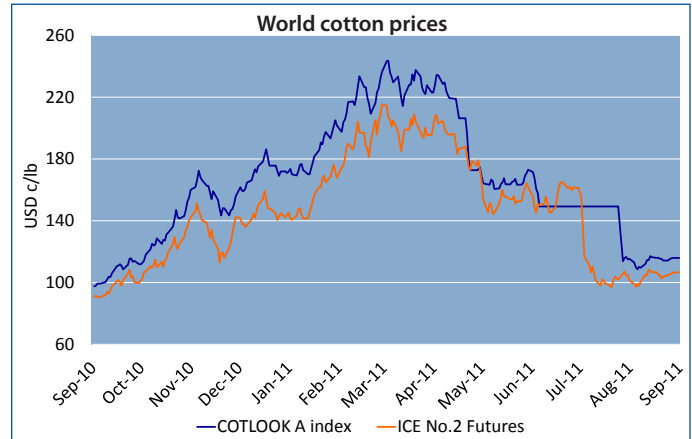
## Cotton

### World cotton prices

All shown as USD cents/lb	Current (02-Sep-11)	Last month	Last year
Cotlook A Index	115.90	116.00	97.50
ICE No.2 NY Futures (nearby contract)	106.59	107.17	90.95

Source: Bloomberg/ICE/Rabobank

- Cotton futures held firm throughout August and the ICE No.2 front month contract gained 3.7% month-on-month, after fending off macroeconomic pressures. The futures curve remains fairly flat, and the largest gains were made mid-curve, in the December-12 and March-13 contracts, each gaining more than 5% over the month. Front month futures are now trading above USD 105c/lb.
- Suboptimal crop conditions in the US (including further yield impacts due to Hurricane Irene), coupled with low global stocks, were supportive of prices in August. 30% of the US crop is currently rated good to excellent, against 60% one year ago. In addition, the US cotton export program is showing signs of a recovery.
- Despite support for near-term prices, a global supply response is in train, and Rabobank has revised its price forecast, with Q2 2012 easing to USD 85c/lb. Weather permitting, global cotton output is expected to reach 120 million bales in 2011/12, which is sufficient to cover the expected global consumption of 116 million bales.



Source: Bloomberg/ICE/Rabobank

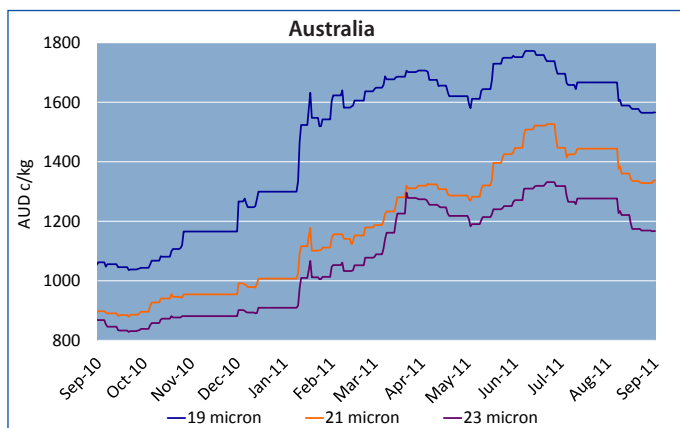
- Planting of the Australian cotton crop is expected to get underway in the coming weeks. Despite high water allocations, pre planting rains will be important, particularly for dryland crops.

## Wool

### Australian wool prices (eastern)

All shown as AUD c/kg	Current (02-Sep-11)	Last month	Last year
Fine (19 micron)	1566	1667	1062
Medium (21 micron)	1337	1444	898
Broad/coarse (23 micron)	1167	1277	868

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



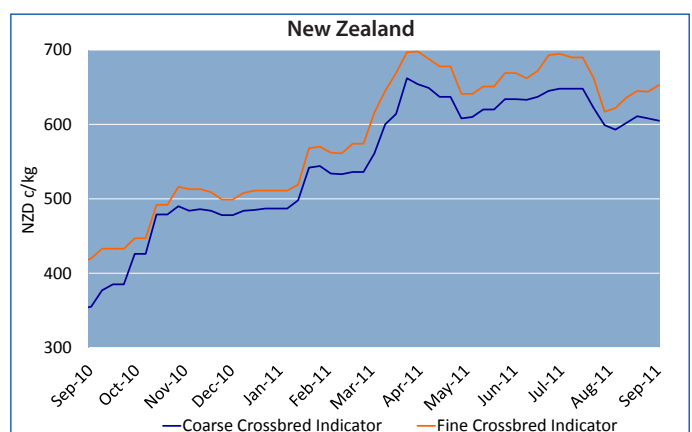
Source: Rabobank, Bloomberg/AWEX (average north and south prices)

- The Australian wool market weakened considerably in early August, with the Eastern Market Indicator (EMI) falling by around 7% in the first two weeks of the month. However, the market has since stabilised, the EMI improved slightly last week to AUD1270 c/kg.
- The global financial market ructions of early August are likely to have reduced activity in the Australian wool market, along with general apprehension about the beginning of the new selling

### New Zealand wool prices

All shown as NZD c/kg	Current (02-Sep-11)	Last month	Last year
Fine crossbred	653	622	420
Coarse crossbred	605	593	355

Source: Rabobank



Source: NZWSI/Rabobank

- season. Confidence appears to be improving, yet downside risks to end user demand in the United States and Europe remain elevated with the economic headwinds in these regions.
- The New Zealand wool market has performed relatively well throughout August. The fine crossbred indicator improved by around 4% month-on-month, while the coarse crossbred indicator gained approximately 2% month-on-month.

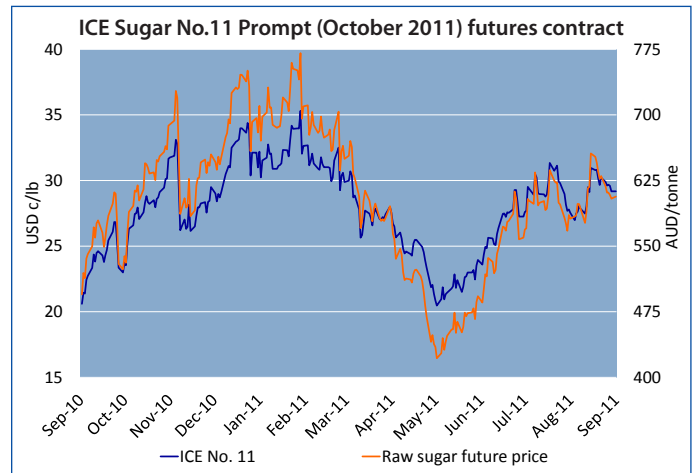
## Sugar

### ICE Sugar No.11 Prompt (raw sugar futures price October 2011)

	Current (02-Sep-11)	Last month	Last year
USD cents/lb	29.18	28.16	20.60
Converted to AUD/tonne	604.33	575.95	495.47

Source: Bloomberg/ICE/Rabobank

- Raw sugar prices weathered the macroeconomic storm of early August, and the ICE No.11 front month futures contract recovered to push through USD 30c/lb mid month, before ending the month at USD 29.7c/lb. Prices found support in Brazilian production downgrades primarily, however the expectations of a supply response in the new season has limited fund-buying activity.
- The futures curve lifted over the month in all contracts, yet remains backwardated. Longer term contracts made significant gains, moving up out of the USD 21c/lb trading range.
- The Brazilian Government has announced a cut in the ethanol blending rate, from 25% to 20% as of October 2011, which is expected to ease domestic consumption pressures.
- The Australian harvest is fast approaching the half way mark, with more than 14 million tonnes of cane crushed as of week 15. While the sugar content of the cane has picked up in recent weeks, it still trails the weekly results of 2010. However, cane yields remain the biggest hurdle to sugar production, and lower than average tonnages are disappointing growers and mills alike. However, planting has been a big focus for cane growers this season, replacing poor performing cane and adding area to the national crop for 2012.



Source: Bloomberg/ICE/Rabobank

- Proserpine Sugar Mill, the last remaining Australian grower owned sugar cooperative has been engulfed in corporate investment activity during August. Sucrogen's bid for the Proserpine mill was narrowly defeated by a growers vote in late August. A number of other local and international companies have expressed interest in the Proserpine milling assets.

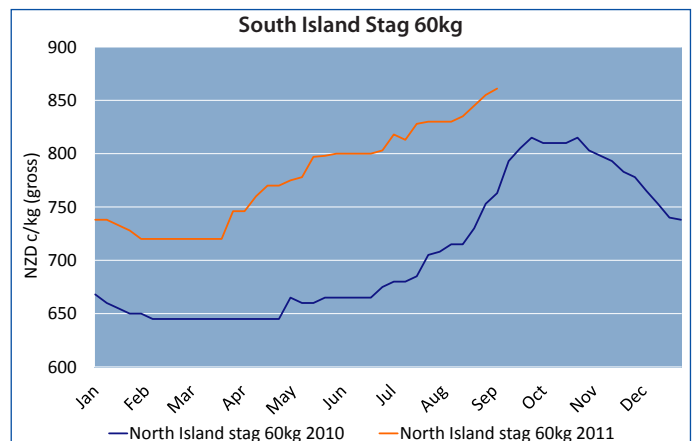
## Venison

### New Zealand venison prices

All shown as NZD cents/kg gross	Current (02-Sep-11)	Last month	Last year
North Island Stag 60kg	861	830	763
South Island Stag 60kg	890	865	789

Source: NZX Agrifax/Rabobank

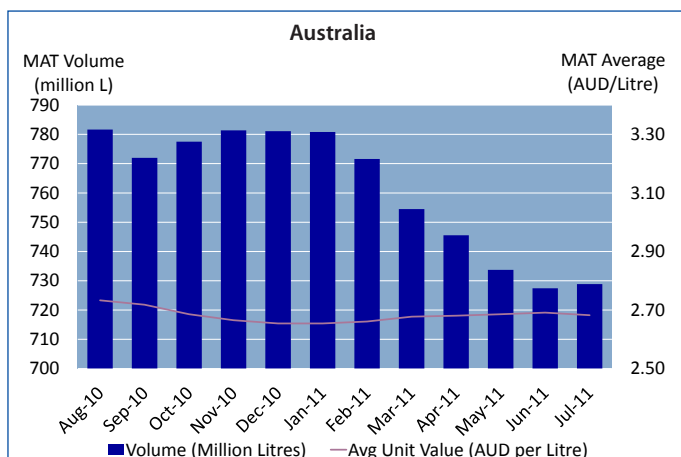
- Farmgate prices have continued to lift through August and into September by a further NZD 40c/kg. The levels reached this month make a new high for the season and bring prices up to levels reached in September 2009. As the season draws to a close, prices have provided a welcome consistency for producers this year.
- July export prices rallied up as markets across Europe and in the US secured the limited supply of product. Volumes of product exported both chilled and frozen were 30% lower than the same month last year. Average export prices lifted to NZD14.80/kg, but chilled returns offered excellent support for farmgate prices at NZD21/kg FOB. Chilled shipments made up 30% of volumes in July shipments, as product headed to summer markets, with the income from these products contributing 42% of income overall.
- Velvet continued to remain lacklustre in volume and price, with average export prices below NZD60/kg. Around 15 tonnes headed to China in frozen form averaging NZD33/kg, while eight tonnes



Source: NZX Agrifax/Rabobank

of frozen product averaging NZD68/kg FOB, headed to Korea. Smaller parcels of dried product moved to Korea and Hong Kong, at NZD200/kg and NZD110/kg respectively for 1.5 tonnes.

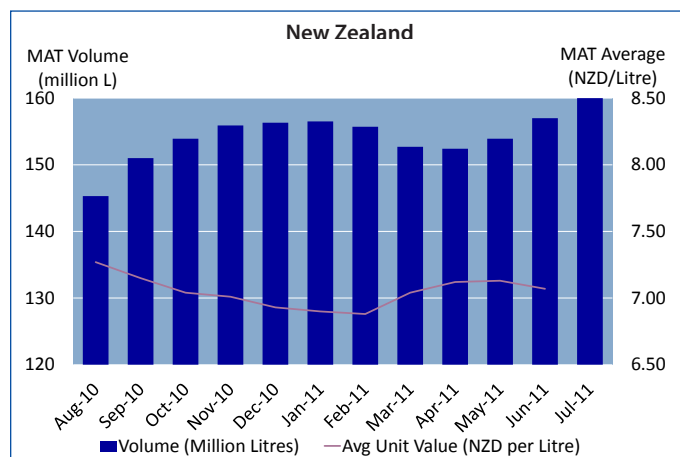
## Wine



Note: MAT - Moving Annual Total refers to the twelve months ending with the nominated month  
Source: Australian Wine and Brandy Corporation/Rabobank

### Australia

- In the year to July 2011, Australian wine export volumes fell 7.1% on the prior year to 728.8 million litres (ML), while the FOB value of exports fell 9.2% to AUD1.955 billion. The industry has experienced a steady decline in monthly shipment volumes over the course of this year as many Australian wine companies have pushed through price increases in markets to combat margin pressure from the high Australian dollar.
- Export volumes increased 2.2% in July relative to the prior corresponding month, the first increase in monthly volumes this year. Average unit values increased for both bottled wine (+2.8% to AUD4.45 per litre) and bulk wine (+7.4% to AUD1.04 per litre) compared to a year earlier, a clear sign that exporters have been revising their pricing structures.
- Wine Australia released its wine grape market pricing data for the 2011 season. Average wine grape prices declined 11% in 2011 (2010: -12%). Total average prices for red wine varieties declined 10% to AUD484 per tonne versus a decline of 7% to AUD356 per tonne for white wine varieties, while average prices across warm inland regions declined 4% to AUD285 per tonne versus a decline of 9% to AUD874 per tonne across cool/temperate climate regions.
- Australian domestic consumption of Australian table wine is estimated to have fallen 3% in the 2010-11 year. Red and rose table wine packaged in glass bottles was the only sub-category to grow over the past year, however the decline in red cask wine consumption more than offset the gain (ABS, 2011).
- Domestic consumption of imported wines increased 4.2% in volume and 2.6% in value in the 2010-11 year. For the first time in many years the volume growth in New Zealand wine imports (+2%) was offset by another country, with an additional 182,000 cases of French wine (+24%) imported during the year. The high Australian dollar has made imported wines markedly more affordable, and many of the leading French Champagne houses have been reporting a strong uplift in sales in the Australian market.



Note: MAT - Moving Annual Total refers to the twelve months ending with the nominated month  
Source: New Zealand Winegrowers based on Statistics New Zealand/Rabobank

### New Zealand

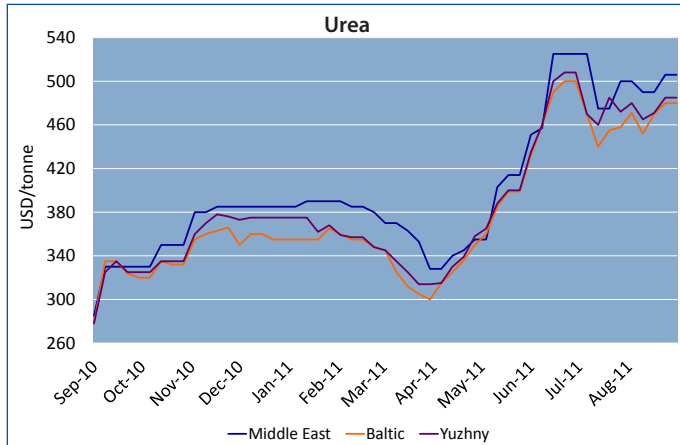
- New Zealand wine export volumes increased 13.1% to 160.5ML in the year to July 2011. Bottled wine shipment volumes grew 2.7% to 108.1ML, while bulk wine shipments increased 43.2% to 52.4ML over the period (NZ Winegrowers Assoc., 2011).
- The monthly volume of bulk wine shipments jumped in July as Marlborough-based wine companies continue to manage down inventories following the increased harvest in 2011. Bulk wine pricing has fallen accordingly as foreign importers and third party brand owners look to secure supplies at attractive prices.
- In the year to June 2011, the annual value of exports grew 4.8% to NZD 1.090 billion. The annual average unit value declined to FOB NZD7.07 per litre in response to a higher proportion of bulk wine in the export mix. Lower bottled wine prices are also having an effect as the New Zealand dollar continues to impact competitiveness in key foreign markets. Average bottled wine pricing fell to NZD 8.18 in the month of June, almost 10% below its level 12 months prior.
- The NZ Winegrowers Association released its wine grape market pricing data for the 2011 season. Average wine grape prices declined 9% to NZD1,172 per tonne in 2011 (2010: -9%) as the market in Marlborough softened 10% to NZD 1,178 per tonne (Sauvignon Blanc -11% to NZD1,088 per tonne) while price growth in the other two major production regions of Hawkes Bay (-7% to NZD 1,192 per tonne) and Gisborne (+9% to NZD879 per tonne) fared better than the national average.
- Over the past five years, average grape prices in Marlborough have declined 50% (Sauvignon Blanc -54%, Pinot Gris -48% & Pinot Noir -15%). This is more than double the decline experienced in the Hawkes Bay (-21%) and Gisborne (-15%).
- Indicative market movements in other region/variety combinations included Marlborough Pinot Noir (-8.9%) and Pinot Gris (-12%), Gisborne Chardonnay/Mendoza clone (+5%) and Pinot Gris (-5%), Central Otago Pinot Noir (-8%), Hawkes Bay Merlot (-5%), Chardonnay/Mendoza clone (-17%) and Syrah (-12%).

## Fertiliser

### Fertiliser prices

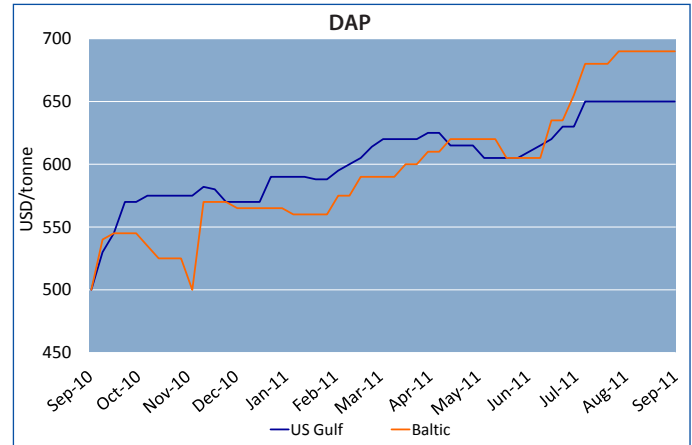
All shown as USD/tonne	Current (01-Sep-11)	Last month	Last year
Urea (Middle East)	506	500	285
DAP (US Gulf)	650	650	500

Source: Bloomberg/CIS/Rabobank



Source: Bloomberg/CIS/Rabobank

- A period of relative stability was common across global benchmark fertiliser prices during August. International trading activity has slowed, but buying interest could re-emerge in coming weeks.
- Baltic, Yuzhny and Middle East urea prices were all firmer during August but gains were quite subdued; the market is in even balance. Sellers are comfortable with current pricing given they are trading at levels around 75% higher than a year ago.
- Gulf and Baltic DAP prices were both unchanged through August. Global markets have been on a slow and steady climb over the past year and now sit around 30% higher. A firm market is underpinned by lower-than-anticipated Chinese DAP exports during the low-



Source: Bloomberg/CIS/Rabobank

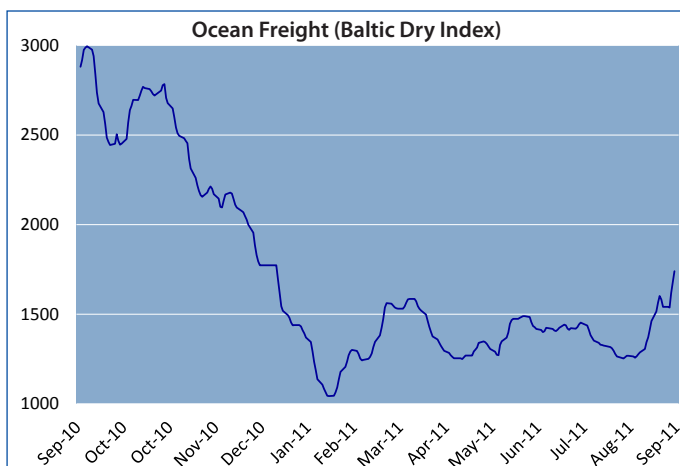
- Chinese urea and DAP exports in July were down 10% and 27%, respectively. Close attention will remain on Chinese export availability during the export tax trading window. Overall volumes are expected to remain modest. On the demand side, attention is on upcoming tenders and contract negotiations in India.
- Global benchmark fertiliser prices are set to remain at elevated levels in the short-term. Supply remains tight across international markets and a drive to capitalise on firm agri-commodity prices will support end-user demand. For Australia and New Zealand, elevated currencies are helping offset some of these higher US dollar prices.

## Other costs

### Ocean freight index and oil prices

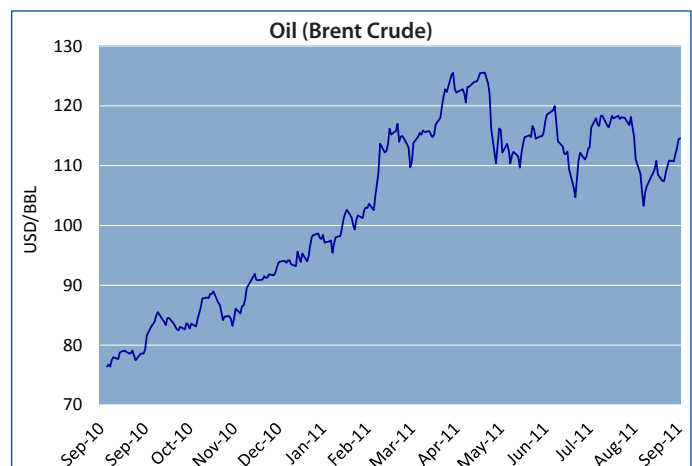
	Current (02-Sep-11)	Last month	Last year
Baltic Dry Index* (ocean freight)	1740	1253	2876
Brent Crude Oil (USD/bbl)	115	118	76

Source: Bloomberg/Rabobank



Source: Bloomberg/Rabobank

\*The Baltic Dry Index (BDI) is an index which averages the cost of shipping (for bulk-dry vessels) on 25 of the world's most traded bulk cargo routes. The index was set at a starting level of 1000 points in 1985.



Source: Bloomberg/Rabobank

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Rabobank Australia and Rabobank New Zealand are a part of the international Rabobank Group, the world's leading specialist in food and agribusiness banking. Rabobank has more than 110 years' experience providing customised banking and finance solutions to businesses involved in all aspects of food and agribusiness.

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

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