



Rabobank

December 2011

Agribusiness Review

Australia and New Zealand

Rabobank Group
 Food & Agribusiness Research and Advisory (FAR)

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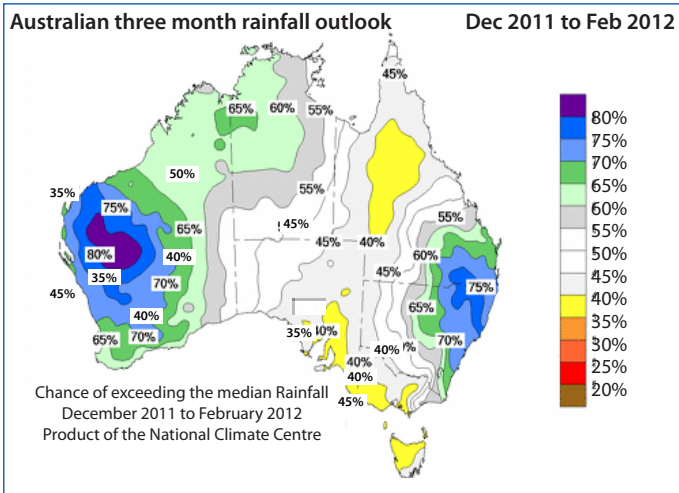
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Report highlights

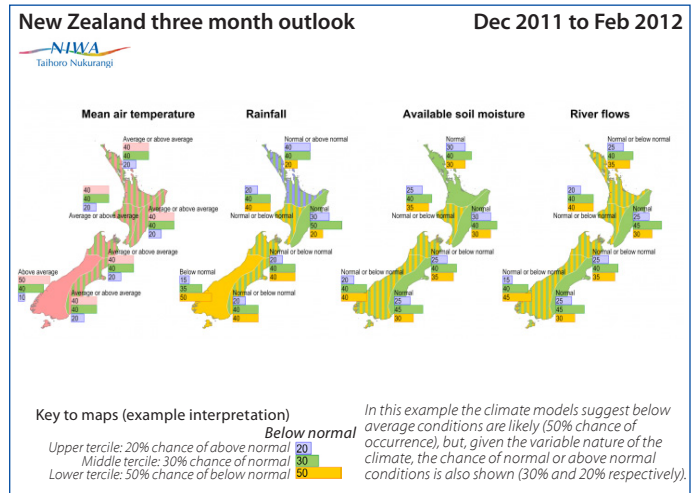
- Wetter conditions continued to prevail across much of Australia, with November the eighth wettest on record. The La Niña event is projected to strengthen into mid-summer, with a wetter-than-normal summer expected across the east-coast of Australia and average to below-average rainfall expected across most regions of New Zealand.
- In terms of the global economy, all eyes remain firmly focussed on the Eurozone as economic activity deteriorates and inter-bank funding tensions rise, making a recession increasingly likely. Economic growth prospects remain positive in Australia, although expectations have been pared back with the Reserve Bank of Australia cutting interest rates by 25 basis points to 4.25%. The New Zealand economy has been temporarily buoyed by the Rugby World Cup, but concerns are rising about the impact of the macroeconomic headwinds on access to credit and export earnings.
- Macroeconomic uncertainty is expected to place some pressure on the Australian and New Zealand dollars, although they are expected to continue to trade at elevated levels against the USD.
- The global wheat crop looks set to be the second largest on record, placing downward pressure on prices although demand remains firm on the back of strong growth in emerging markets. While recent rainfall events have again led to some quality downgrading of the Australian wheat crop, prospects remain strong in Western Australia with their harvest on track to exceed 9 million tonnes.
- Global dairy prices tracked higher in November (except butter) with import demand and buyer purchasing holding up in some key markets. Favourable seasonal conditions are supporting production in Australia and New Zealand, with milk production up on last year.
- Farm input prices have not been immune to global economic and financial uncertainty, with little movement in global fertiliser prices and the price of oil remaining steady at around USD110/barrel.



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Australia

- November was a wetter-than-normal month for most of Australia, the eighth wettest on record, according to the Bureau of Meteorology (the Bureau). More than double the average November rainfall was received across New South Wales, Western Australia and the Northern Territory. While Queensland’s east coast and coastal areas of South Australia mainly received average to below-average rainfall.
- Temperatures in November were mixed, with cooler conditions experienced across north western areas of the country and warmer-than-normal conditions in the south east.
- The Bureau’s latest outlook for December 2011 to February 2012, favours a wetter-than-normal summer across the east coast, from South East Queensland to southern New South Wales, with cooler-than-normal daytime temperatures. Conversely, the odds favour a drier-than-normal summer in north Queensland.
- Warmer-than-normal conditions in the Indian Ocean support a wetter-than-normal outlook for summer across central and southern areas of Western Australia, as well as northern and central areas of the Northern Territory. Drier and hotter-than-normal conditions are expected across southern South Australia and Victoria throughout summer, despite the decaying positive Indian Ocean Dipole.



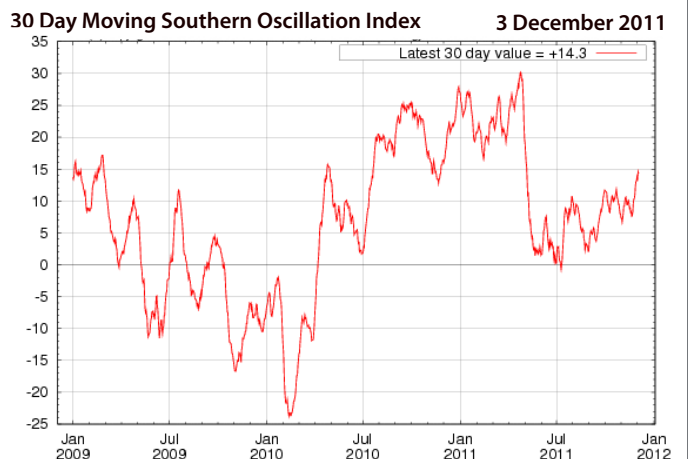
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New Zealand

- Temperatures were near normal across most of New Zealand throughout November, the exceptions being the north of the North Island where warmer-than-normal conditions were experienced and the south west coast of the South Island, which was cooler-than-normal. Dry conditions are now being experienced in Northland, the Eastern Waikato, Western Bay of Plenty and Taupo. Rain across most of the South Island consistently through the month created a wet November.
- The increase in rain over the South Island, particularly on the West Coast, reduced sunshine, while East Coast areas were more settled and sunnier. Soil moisture levels are moving to deficit which will be something to watch, but given the good start to the season for most areas hopefully this can be balanced.
- NIWA’s latest outlook for December 2011 – February 2012 confirms that La Niña conditions will persist through summer. Temperatures will be cooler, and rainfall is expected to be average to below-average across most regions. After a particularly wet November, West Coasters will be surprised to hear they can expect to experience warmer-than normal summer temperatures and below-average rainfall, a welcome relief.

Southern Oscillation Index

- The La Niña event strengthened throughout November and the Southern Oscillation Index (SOI) increased rapidly pushing above the La Niña threshold of +8. The 30-day moving average of the SOI is presently +14.3 – almost doubling over the month.
- Other indicators including Pacific Ocean cooling, cloudiness and trade winds also support the presence of a La Niña, which the Bureau expects to strengthen into mid-summer, albeit to be more moderate than the La Niña of 2010/11.
- Previous La Niña’s have brought above-average rainfall to northern and eastern areas of Australia throughout spring and summer, and increased the prevalence of tropical cyclones.



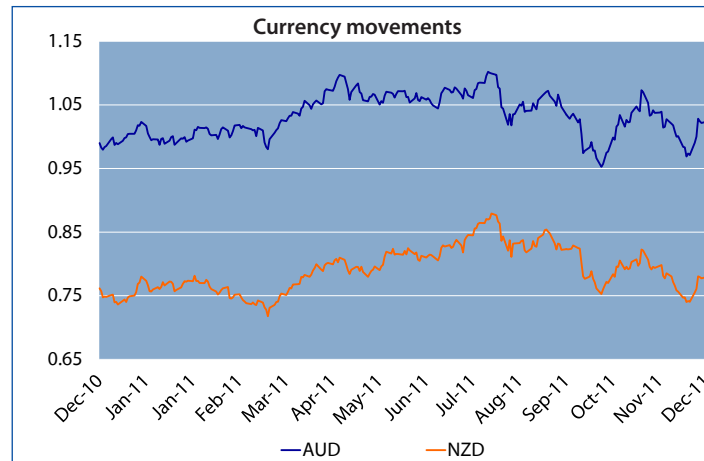
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Economy/currency

Currency USD

	Current (05-Dec-11)	Last month	Last year
AUD	1.0235	1.0375	0.9899
NZD	0.7794	0.7938	0.7617

Source: Bloomberg/Rabobank



Source: Bloomberg/Rabobank

Global

- Uncertainty continues in the Eurozone as economic activity deteriorates and inter-bank funding tensions increase, making a recession increasingly likely. Regional manufacturing activity has reached 'recession territory' and Standard and Poors have placed a number of European countries on negative credit watch, including France and Germany. Policymakers however are now realising the urgency of a debt crisis resolution. A number of Central Banks have taken greater measures to increase liquidity in the region, and support for strict budget discipline is growing ahead of the next European Leaders' summit. Markets will be watching closely for signs of concrete progress at this upcoming summit.
- The United States economy looks set to avoid falling back into recession, yet another round of quantitative easing may still be necessary if economic fundamentals weaken further. November employment growth was positive, yet lower than expected.
- In China, concerns continue over slowing growth, particularly with weaker manufacturing data suggesting that activity in the sector has begun to contract for the first time since February 2009. News that the Bank of China (PBOC) has eased monetary conditions by cutting the reserve requirement ratio has restored some optimism.

Australia

- No surprises in the Australian Mid-Year Economic and Fiscal Outlook for 2011/12, given the current macroeconomic climate. The budget deficit is now expected to widen to AUD37.1 billion from AUD22.6 billion this financial year, with a return to surplus still expected for 2012/13. Meanwhile, projected annual GDP growth has been downgraded from 4% to 3.25% for 2011/12.
- Building approvals and retail sales were weaker than expected in

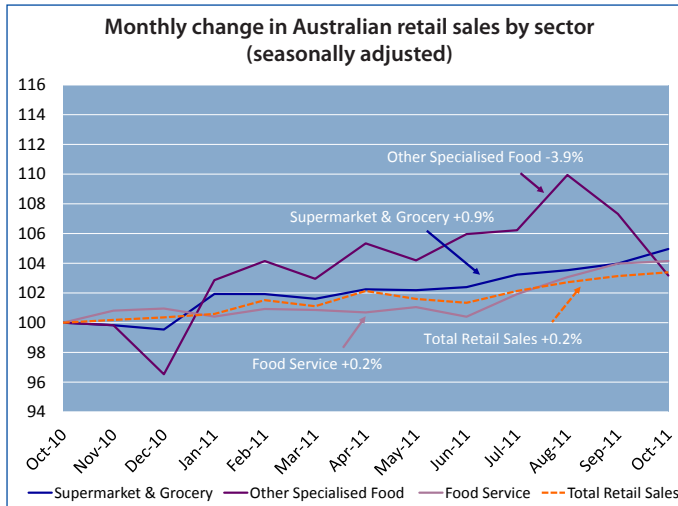
October. Building approvals fell 10.7% month-on-month, while retail sales were down 0.2%. Investment remains strong, led by the resource-based 'fast' side of the economy. Q3 capital expenditure grew by 12.3% quarter-on-quarter.

- The Reserve Bank of Australia (RBA) cut rates by 25 basis points to 4.25% at the December monetary policy meeting. Rabobank expects this to remain the status quo in the near-term unless macroeconomic risks further intensify.
- The Australian dollar is expected to slightly depreciate in the next month as macroeconomic uncertainty continues to drive global markets.

New Zealand

- The Rugby World Cup stimulated domestic spending activity in Q3, with retail sales increasing by 2.2% quarter-on-quarter, leaving strong prospects for Q3 GDP growth. Beyond this, concerns are rising about the impact of the current macroeconomic headwinds. If global debt markets deteriorate further there is a risk that access to credit may become more difficult given New Zealand's overhang of public and private debt, while weaker commodity prices pose a threat to export earnings. The terms of trade weakened in Q3, yet still remain elevated at historically high levels.
- The Reserve Bank of New Zealand (RBNZ) is expected to keep monetary policy on hold until the external outlook improves. At this stage, Rabobank does not expect any change with the Official Cash Rate until in mid-2012.
- The New Zealand dollar is expected to slightly depreciate in the next month as macroeconomic uncertainty continues to elevate global risk appetite.

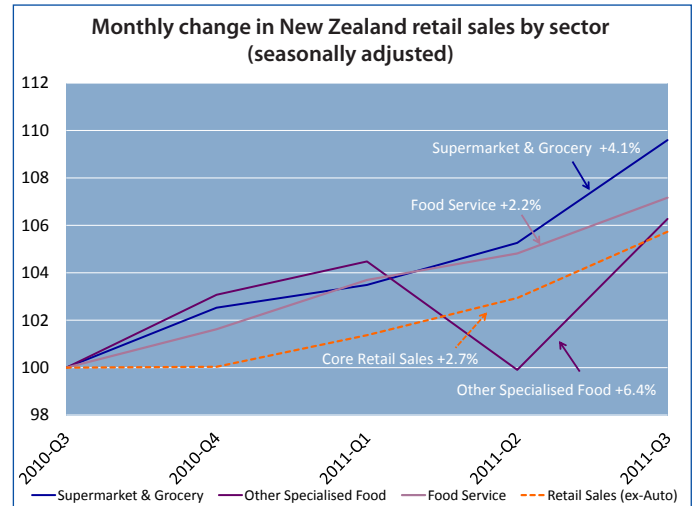
Food retail



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

Australia

- Seasonally adjusted retail trade posted a modest rise in October 2011, with sales increasing 0.2% on the prior month and 3.4% on the corresponding period in 2010 (ABS, 2011). The monthly rate of growth has slackened in recent months and provides some cause for concern leading into the all-important Christmas trading period.
- Trade in the Supermarket & Grocery food retail channel in October increased strongly by 0.9% on the prior month. Once again, this channel appears to be taking trade away from the more premium positioned Other Specialised Food channel on the back of fierce price competition generated by the major retail chains. Trade in the Other Specialised Food channel posted a 3.9% decline on the previous month.
- The pace of growth in Food Service retail trade (Cafés, Restaurant & Take-away) continued to fall away in October, despite posting a 0.2% gain on the prior month. The Café & Restaurant channel has been the better performing sector over the course of 2011, but more recently some momentum appears to have shifted back towards the Take-away channel.
- Consumer confidence amongst Australian households continued to strengthen in November, boosted by the first interest rate cut since the tail-end of the Global Financial Crisis in April 2009. With confidence still below its long-term average, there is a high likelihood that the rate cut will be saved by Australian households looking to sure-up their financial position amidst generally depressed asset markets.



New Zealand

- An updated reading on New Zealand retail trade covering the September 2011 quarter was recently released, indicating that spending amongst New Zealand households continues to improve. That said, interpreting the true underlying trend in the data is inherently difficult at the present moment, with one-off events such as the Rugby World Cup and Canterbury earthquake clouding the picture.
- Core retail trade lifted 2.7% in the September quarter on the prior period, and 7.2% relative to the corresponding period in 2010. Trade across the retail sector appears patchy both as a result of the relatively low level of consumer confidence and the impact of significant one-off events. Consumer confidence held steady in the September quarter just below its long-term average, with little support being offered by global economic uncertainties and a lack of strength in the domestic labour and housing markets.
- The food retail sector generally performed well in the September quarter while more significant purchase items such as household and electrical goods exhibited some weakness. The Supermarket and Grocery sector posted a strong quarterly rise of 4.1% on the prior period, while the Specialised Food (+6.4%) and Food Service (+2.2%) channels also experienced improved trading conditions. These readings would in some small part reflect increased tourism trade and entertaining by locals from the Rugby World Cup.
- Food prices in New Zealand declined 1.3% in October 2011 on the prior month (Statistics NZ, 2011), with seasonal weakness in vegetable prices (-10.2%) and softer meat and poultry (-2.1%) and milk, cheese and eggs prices (-1.2%). Relative to a year ago, general food prices are up 1.1% after taking into account the GST rate rise in October 2010.

Grains and oilseeds

ASX wheat prices

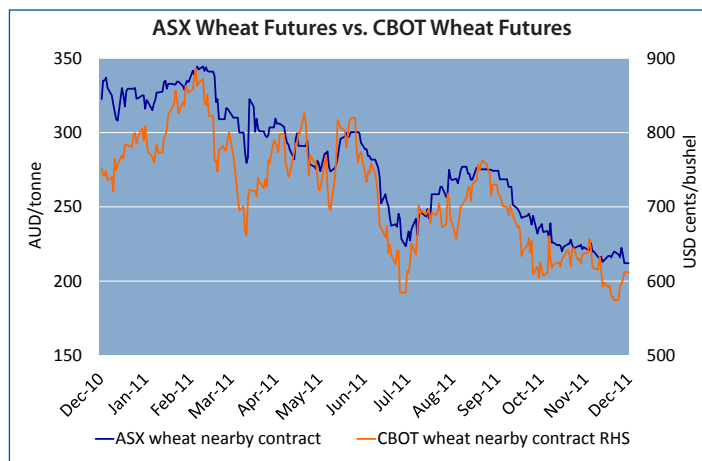
	Current (05-Dec-11)	Last month	Last year
AUD/tonne	212.10	223.00	322.50

Source: Bloomberg/ASX/Rabobank

Chicago Board of Trade Wheat Futures (nearby contract)

	Current (05-Dec-11)	Last month	Last year
USD c/bushel	612.25	636.75	738.00

Source: Bloomberg/CBOT/Rabobank



Source: Bloomberg/CBOT/ASX/Rabobank

Global

- Managed money has continued to reduce its long position in CBOT Corn with an improved supply outlook. After a general trend of short positions in CBOT wheat increasing, short positions have recently been reduced as concerns over the new season Eastern European crop filters into the market. We have also seen short wheat, long corn speculative positions being unwound, which has added further support to wheat prices (at least temporarily).
- The wheat market continues to be well supplied with the 2011/12 crop estimated to be the second largest wheat crop on record at 684 million tonnes. The Ukraine and Argentina continue to be Australia's lowest cost competitors in the market, trading close to current Australian Standard White (ASW) free-on-board values. Australia remains the lowest cost supplier for South East Asia, however it is currently being undercut by Russia/Ukraine in Egypt.
- Stocks of high protein milling wheat remain tight. This is reflected in US Minneapolis wheat values trading higher for delivery now than in the future. It is also rumoured that Black Sea supplies of quality milling wheat are dwindling given Russia's strong start to its export campaign in Egypt.
- Commodity markets remain extremely sensitive to developments regarding the European Union's fiscal health. A slowdown in Europe's economic growth is seen as softening demand for commodities. Rabobank's view remains that despite the likelihood of EU growth weakening in 2012, demand for grains and oilseeds should remain firm, drawing strength from strong growth in emerging markets.
- The blender's credit for the US ethanol industry is due for renewal at the end of December. It is the bank's view that this is unlikely to be renewed. With crude oil trading above USD100/bbl, ethanol

producer margins are robust enough to remain positive without the blenders credit. Ethanol is currently being produced in the US at a frantic pace as producers capture the blenders credit before it expires.

Australia

- Once again the Australian winter crop harvest has been delayed by rainfall. Rain has resulted in weather affected crops and quality downgrading in some districts. It is some small comfort that almost 75% of the northern NSW crop was harvested before the crop damaging rainfall occurred.
- As a result, feed wheat values have fallen across eastern Australia and are now at an even greater discount to Australian Premium White (APW) wheat values. If the rain continues it is likely that the spread will widen further between low and high quality wheat. It must also be highlighted that protein was already generally low before the rainfall event.
- Rain in Victoria is yet to have a serious impact on crop quality. It is expected that the wheat crop will meet earlier forecasts of 3.5 million tonnes.
- Western Australia's wheat harvest is well on track to exceed nine million tonnes. The crop has exceeded earlier expectations, with quality better than expected and the majority of wheat making milling quality.
- The South Australian crop is not expected to be downgraded due to wet weather. Whilst harvest has been interrupted it has not been to the same extent as NSW and it remains likely that the wheat crop will exceed 4.4 million tonnes.

Beef

Australian beef prices

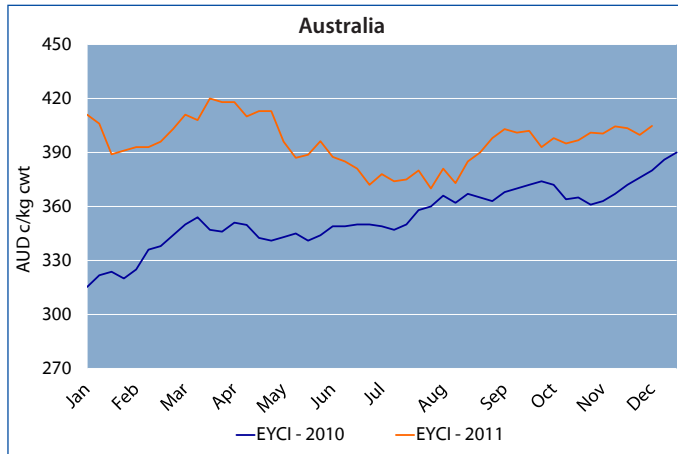
All shown as AUD cents/kg cwt	Current (1-Dec-11)	Last month	Last year
Eastern Young Cattle Indicator (EYCI)	405	401	411

Source: NLR5/Rabobank

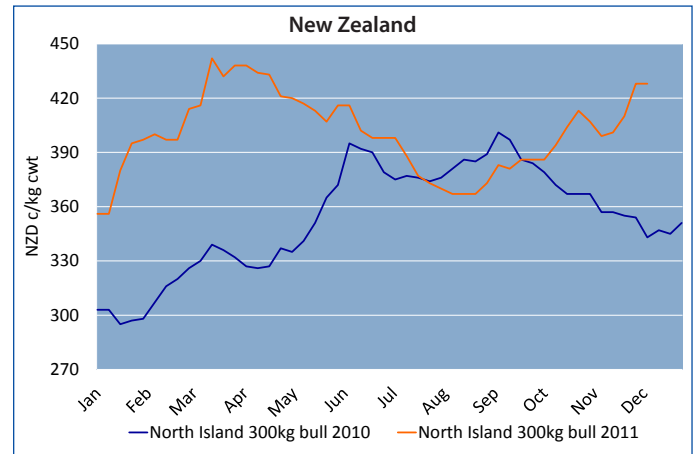
New Zealand beef prices

All shown as NZD cents/kg cwt	Current (05-Dec-11)	Last month	Last year
North Island Bull 300kg	428	399	343
South Island Bull 300kg	406	393	350

Source: NZX Agrifax/Rabobank



Source: NLR5/Rabobank



Source: NZX Agrifax/Rabobank

Global

- US domestic prices, which had started to climb in early November, have continued their upward trend, with lean manufacturing beef prices 24% higher than the same period last year. Beef imports have tightened - New Zealand supply hit the traditional low price point in the market and Australian prices remained elevated as other markets' demand for Australian beef remained firm.
- The US-Korea Free Trade Agreement will come into effect on 1 January, 2012. The agreement allows for the US beef import tariff to reduce from the current 40% to zero over the next 15 years. Restrictions will remain in place around age limits of less than 30 months, however.

Australia

- Decline in the currency has been a shot in the arm for cattle prices, with the Eastern Young Cattle Indicator (EYCI) once again rising to above AUD4.00/kg cwt since late November, to sit 8% above the same time last year. Heavy steer prices have also lifted in recent weeks, with the National Japan Ox indicator price reaching AUD1.96/kg live weight, compared to AUD1.80/kg for the same time last year. If the Australian dollar remains at levels lower than early 2011, cattle prices are likely to remain at elevated levels to the end of the year.
- The Japanese government has announced that it has begun the process to review import restrictions on US beef, which could lead

to the age limit being lifted from its current level of 20 months and under to 30 months and under. The Japanese market is the largest export market for Australia, taking around 36% of total Australian exports in 2011. However, since 2005 Japan's share of Australian sales has continued to decline, due to a combination of a sluggish economy, increased US beef access and better opportunities for Australian product in other markets.

New Zealand

- New Zealand farmgate prices have climbed steadily through November and into December following US manufacturing price changes. With North Island bull prices barely dipping below NZD4/kg cwt in the last 8 weeks and predictions on short US supply next year, saleyard purchases have been bullish. The spread in prices between this time last year has now extended to NZD60c/kg; an overall lift of 16% in farmgate prices year-on-year.
- Exports declined year-on-year by 2%, but remained at fairly typical levels for this time of year. The US importers continue to be nervous around the higher prices and more spot buying behaviour saw New Zealand exports fall 11% year-on-year to this market, while exports to Japan improved 17% year-on-year and prices remain attractive.

Sheepmeat

Australian lamb prices

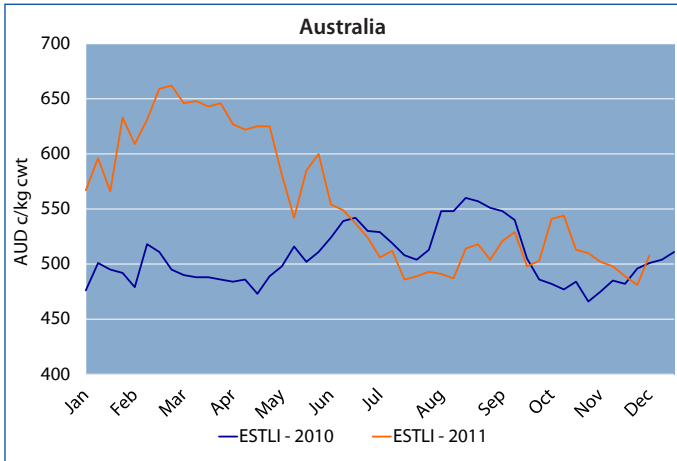
All shown as AUD cents/kg cwt	Current (01-Dec-11)	Last month	Last year
Eastern States Trade Lamb Indicator (ESTLI)	508	502	567

Source: NLR5/Rabobank

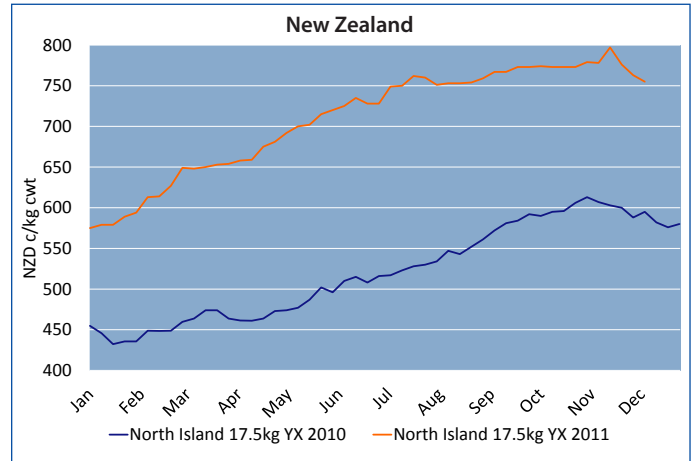
New Zealand lamb prices

All shown as NZD cents/kg cwt	Current (05-Dec-11)	Last month	Last year
North Island 17.5kg YX	755	778	595
South Island 17.5kg YX	785	738	562

Source: NZX Agrifax/Rabobank



Source: NLR5/Rabobank



Source: NZX Agrifax/Rabobank

Australia

- Australian lamb prices have continued their seasonal decline over the past month, with the Eastern States Trade Lamb Indicator (ESTLI) falling to AUD4.89/kg cwt in late November, compared to AUD5.13 as at the same time last month and just 1.5% above the same time last year. Supply should ease over the upcoming month and if the Australian dollar remains around parity with the US dollar, this should provide support for lamb prices at higher levels over the next month. However, the record prices seen by lamb producers in the first quarter of 2011 are unlikely to be replicated in 2012.
- In 2010, while the east-coast was rebuilding its flocks, Western Australia saw a major decline in numbers, on the back of severe drought. Now, following improved rainfall in 2011, Western Australian sheep and lamb producers are looking to rebuild decimated flocks. One of the interesting by-products of this activity has been a rise in demand for fencing materials. In previous years the shift away from sheep to grains production had seen some of this infrastructure removed. The tide is now turning, as soaring livestock prices, stronger wool markets and subdued grains values has seen renewed interest in sheep production.

New Zealand

- New Zealand farmgate prices have continued to be exceptional and record prices were on offer in November. Although a seasonal price softening has started, a number of supply contracts out

for January 2012 suggest the decline will not be sharp. Supply tightness will ease over the coming months and a continued easing in the New Zealand dollar will improve export returns. While, the lamb crop report released last month by Beef & Lamb NZ predicts the lamb slaughter numbers this season to 20.6 million, up 6.8%, it also notes that this is the second lowest number in 49 years; second only to 2010.

- Export volumes were 11% higher than the previous October, although a tough spring last year had left both September and October exports in 2010 the lightest months on record. The 2011/12 season start was a little slow but solid lamb weights and plenty of feed and water offered a positive start to the year. Processing weights averaged close to 1.5kg heavier for the month than last year, a concern for some processors.
- United Kingdom domestic lamb retail prices lifted 12% through October and November and imported products followed the lift. As a result, October export average returns jumped up by a similar margin as tightening European domestic supply continues. The UK economic situation has not however seen any improvement with some predictions of a double dip recession in 2012. However as pre-Christmas buying is upon retailers some further months of sound pricing seems realistic.

Dairy

World dairy prices

	USD/tonne			AUD/tonne			NZD/tonne		
	24-Nov-11	Last month	Last year	24-Nov-11	Last month	Last year	24-Nov-11	Last month	Last year
Butter	3,800	4,100	4,500	3,895	3,950	4,597	5,110	5,151	5,911
SMP	3,450	3,350	3,050	3,537	3,228	3,116	4,640	4,209	4,006
WMP	3,575	3,500	3,525	3,665	3,372	3,601	4,808	4,397	4,630
Cheddar	4,013	3,950	4,200	4,113	3,806	4,291	5,396	4,962	5,517

Source: USDA/Rabobank

Global

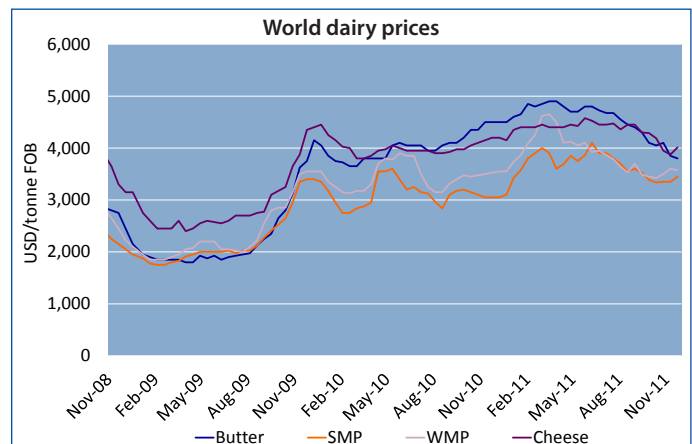
- Through November most international dairy commodity prices drifted higher in USD terms. Milk powders gained 3%, while cheese prices edged 1.5% higher. The exception was butter, with market prices easing by more than 7%.
- Recent supply growth in key export regions continued through November. The market's attention has been on the spring peaks in New Zealand and Australia with solid growth in both countries.
- As we emerge from the Southern hemisphere spring flush, market supply looks set to be sufficient for the remainder of the year. Sluggish internal demand in parts of Europe and US is also helping enhance global supply. Import demand and buyer purchasing appears to be holding up in some key markets.

Australia

- The debt turmoil in Europe has brought some relief for Australian exporters in the form of a weaker Australian dollar (AUD). This has allowed most dairy export commodity prices to gain ground through October. Compared to last year, prices remain stronger in local terms for powders, but have eased for butter and cheese.
- Favourable conditions continue across most dairy regions through the peak months of October and November. Preliminary production data shows national production expanded 4.2% in October year-on-year. This brings year-to-date production to 3.4 billion; up 2.8% on the previous year.
- Spring has continued to be wet across eastern Victoria, but favourable in most other southern dairy regions. An ample supply of low cost feed, high water allocations, and positive farmgate pricing should continue to support production momentum for the remainder of the season.

New Zealand

- November dairy commodity prices in local currency terms more than regained the 6% lost during October on the back of a more favourable currency and relative stability in USD terms. Compared to last year, prices are now stronger in local terms for powders, particularly SMP, but have fallen for butter and cheese.



Source: USDA/Rabobank

Production growth in key exporting regions

	Latest month	Last three months
EU 27	-8.4% (Sep)	-0.07
US	2.1% (Oct)	2.4%
Argentina	11.1% (O)	13.6%
Australia	4.2% (Oct)	3.8%
NZ	8% for 6 months to November 2011	

*Rabobank estimate

- Good milk production conditions have persisted through much of New Zealand in November. While still ahead on a monthly basis, the rate of increase season-to-date is slowing as the peak has now passed, although will be temporarily boosted during December due to the very dry conditions experienced in 2010.
- October dairy export volumes were 12% below the prior year – likely due to supply chain disruptions occurring that month while the product mix moved in favour of casein and SMP. Shipments were particularly strong to the UAE (+4,000 tonnes, largely WMP) and the US (+3,800 tonnes, casein, AMF and ingredients). While volumes to China increased by 16,000 tonnes from September, total exports remained 12,000 tonnes below October last year.

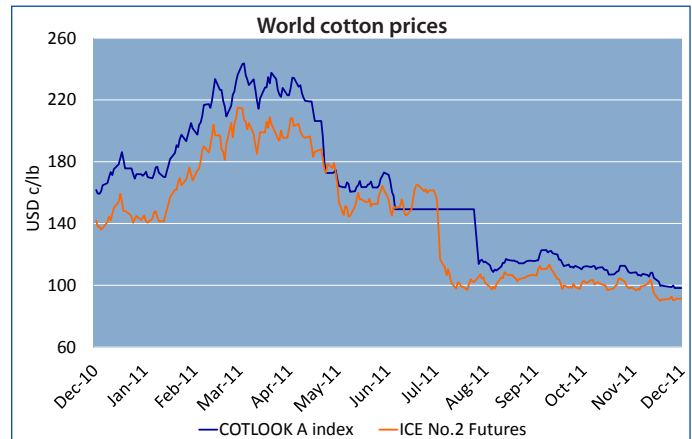
Cotton

World cotton prices

All shown as USD cents/lb	Current (02-Dec-11)	Last month	Last year
Cotlook A Index	98.25	106.55	155.75
ICE No.2 NY Futures (nearby contract)	91.35	97.62	142.33

Source: Bloomberg/ICE/Rabobank

- Front month cotton prices eased 12% throughout November, with the ICE #2 finishing the month at USD 90.31c/lb. This was due to global economic growth concerns and a continued plateau in demand, coupled with the Northern Hemisphere supply response. However, prices regained some ground in early December, as the market anticipates a downgrade in US production estimates.
- Cotton picking continues in India, the world's second largest producer behind China, and production is expected to exceed 27 million bales, up near 8 percent YOY. Indian exports are also expected to increase by around 14% YOY.
- Rabobank expects global cotton production to rise 7% year-on-year in 2012, improving the stocks-to-use ratio (STU) to 48%, the highest level in three years. We expect the ICE #2 benchmark contract to ease to USD 85c/lb in Q1 2012.
- Australian cotton plantings have been boosted by above-average growing season rainfall throughout November. However localised flooding in areas of Moree, a key production region, may prove



Source: Bloomberg/ICE/Rabobank

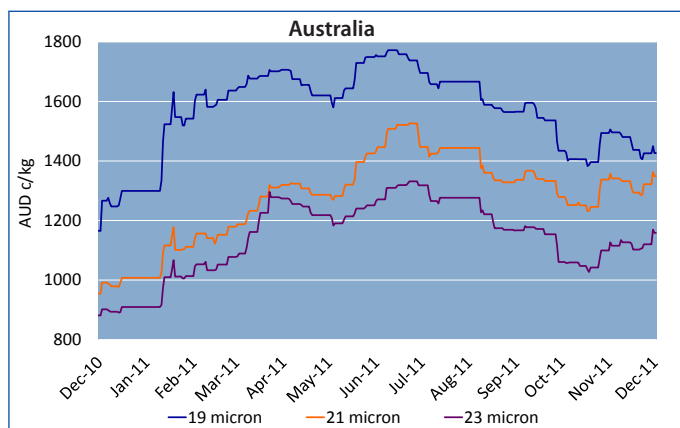
to be yield limiting for dryland crops in particular. Rabobank maintains an Australian production forecast of 4.73 million bales for 2012.

Wool

Australian wool prices (eastern)

All shown as AUD c/kg	Current (02-Dec-11)	Last month	Last year
Fine (19 micron)	1427	1506	1166
Medium (21 micron)	1349	1357	955
Broad/coarse (23 micron)	1159	1127	882

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



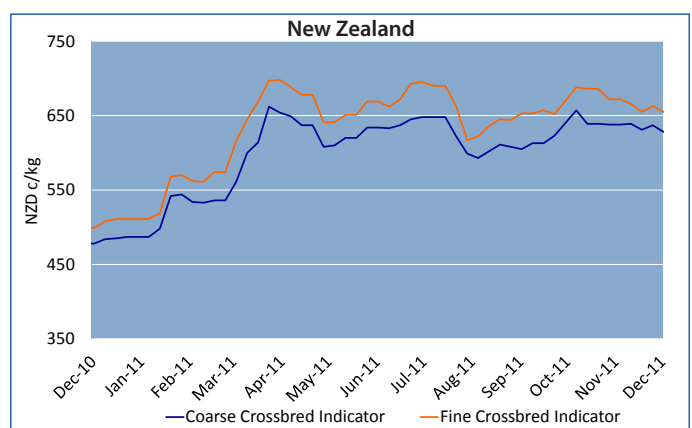
Source: Rabobank, Bloomberg/AWEX (average north and south prices)

- Ongoing macroeconomic uncertainty continues to weigh on buyer confidence, particularly for fine wool. The 19 micron price guide fell by 5% this month, reversing October's gains.
- The deterioration of economic conditions in Europe remains a downside risk for wool exports to this region and overall buyer confidence in the near term.
- In New Zealand, fine and coarse crossbred prices ended the month

New Zealand wool prices

All shown as NZD c/kg	Current (02-Dec-11)	Last month	Last year
Fine crossbred	655	672	499
Coarse crossbred	628	638	478

Source: Rabobank



Source: NZWSI/Rabobank

- slightly lower, while mid-micron prices increased by almost 5% month-on-month and fine merino prices also made slight gains.
- The High Court in Wellington has rejected the appeal against Cavalier Wool Holdings' bid for Wool Services International (WSI), yet WSI shareholders still need to approve any deal.

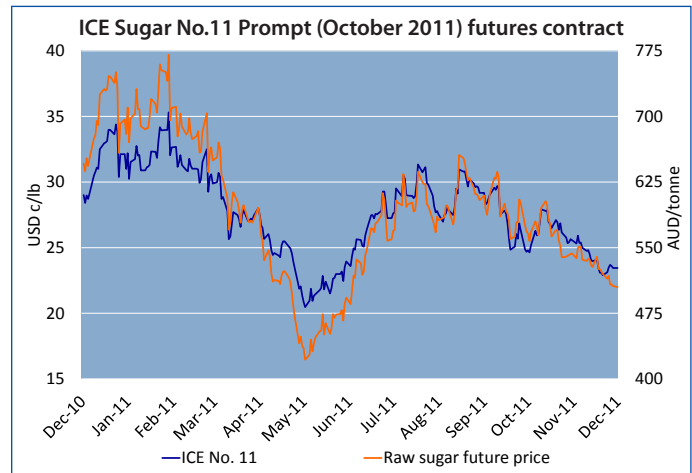
Sugar

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

	Current (05-Dec-11)	Last month	Last year
USD cents/lb	23.45	25.57	29.01
Converted to AUD/tonne	508.87	543.35	646.09

Source: Bloomberg/ICE/Rabobank

- Sugar prices followed the general downturn in agricultural commodity markets throughout November; with the front month ICE# 11 futures contract down eight percent, to USD 23.7c/lb. The futures curve also shifted lower, largely due to concerns over a potential slowdown in global consumption and beet supply becoming available from the Northern Hemisphere.
- Rabobank expects the global sugar market to enter into a surplus of 5.9 million tonnes in 2011/12; the first surplus in three seasons, boosted by a five percent increase in global production YOY to 174.5 million tonnes. A supply response from key production regions including Thailand, India, the EU and Russia has offset losses in Brazil.
- November saw an enhanced interest in Australian sugar assets from international sugar players. Administrators of the Proserpine Co-operative Sugar Milling Association have exchanged contracts with Sucrogen for a proposed takeover. Proserpine creditors are expected to vote on the takeover in the second week of December. Mitr Phol, Thailand's leading sugar company has also made a takeover offer for MSF Sugar – Australia's third largest milling company.
- The Australian sugar crush is entering the final weeks of the 2011 season, with around 600,000 tonnes of cane remaining standing.



Source: Bloomberg/ICE/Rabobank

With sugar content dropping, the race is now against the warmer and wetter weather to harvest the remaining cane, and to prevent standover cane. Around 28 million tonnes of cane is expected to be crushed this season; this is the lowest volume in two decades (excluding the 2010 results). The industry is well positioned for a recovery in 2012 however, with an increase in new cane plantings this season.

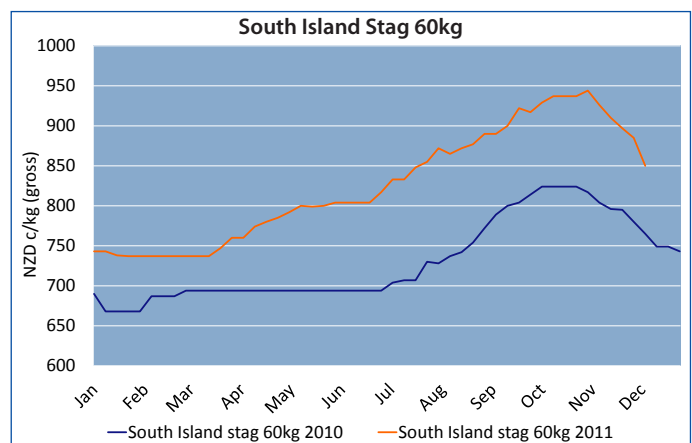
Venison

New Zealand venison prices

All shown as NZD cents/kg gross	Current (05-Dec-11)	Last month	Last year
North Island Stag 60kg	830	905	765
South Island Stag 60kg	830	926	765

Source: NZX Agrifax/Rabobank

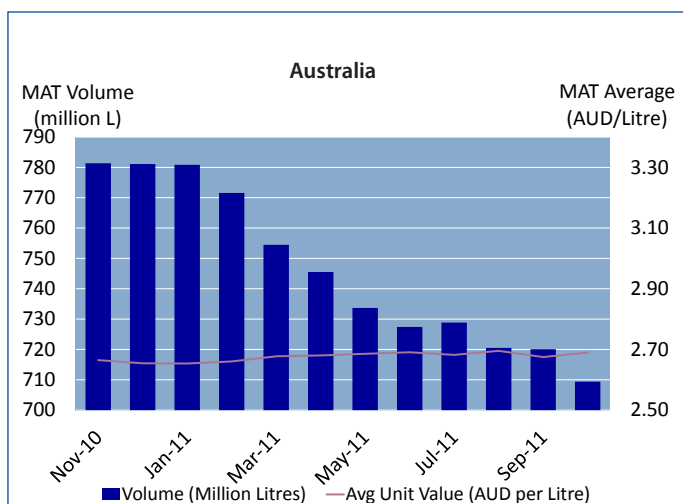
- The balance between chilled and frozen exports continued the seasonal change in dominance, with chilled volumes lifting by close to 50% on the previous month in October. Pricing for chilled product remains extremely solid at NZD22/kg FOB with the highest demand coming from Germany, Belgium and the Netherlands.
- Year-on-year, the volume lift for frozen export was a notable 37%. However, the seasonal preference for chilled product outdid frozen demand, with 800 tonnes and 650 tonnes leaving New Zealand respectively. Frozen prices also lifted a reassuring sign for producers that the market remains steady. Export volumes are reported to have lifted over 80% on the previous month (which we believe was largely around timing issues on previous months exports) but also lifted a notable 30% year-on-year.
- Velvet exports halved in volume, but frozen prices remain stable



Source: NZX Agrifax/Rabobank

at NZD75/kg FOB. A small volume of dried velvet headed to Hong Kong for NZD340/kg, a significant lift on September FOB pricing.

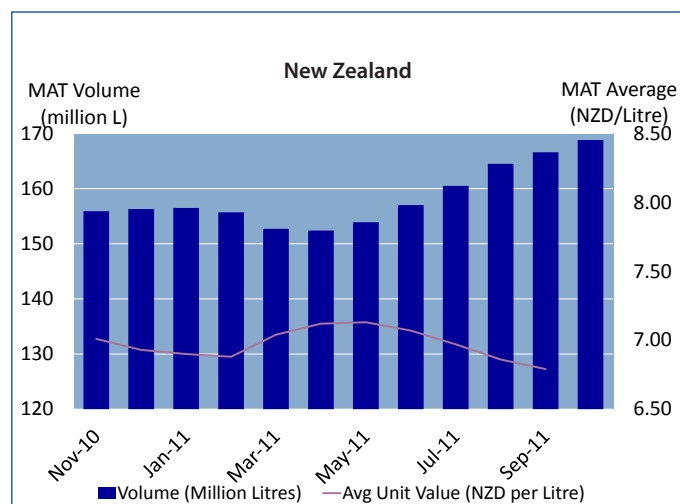
Wine



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

Australia

- Australian wine export volumes in the year to October 2011 fell 8.8% on the prior year to 709.4 million litres (ML), while the FOB value of exports fell 8.6% to AUD1,908.2 billion. The industry has experienced a steady decline in monthly shipment volumes over the course of the year as successive below-average harvests reduce available supply, and as many Australian wine companies take prices higher in core markets to contend with margin pressures.
- Export volumes in the month of October 2011 were down 15% relative to the same month last year. In terms of monthly pricing, average unit values have increased for both bottled wine (+5.6% to AUD4.41 per litre) and bulk wine (+1.8% to AUD1.00 per litre) compared to a year earlier, a picture that certainly suggests exporters have been revising their pricing structures. Bulk shipment volumes eased in the month of October, allowing average pricing for the month to rise to AUD2.75 per litre.
- Updated estimates of Australian domestic wine shipments have confirmed that local consumption of Australian wine declined by 4% in the September 2011 quarter relative to the prior corresponding period (ABS, 2011). In annual terms, shipments are down 1.5% relative to the previous corresponding period to 388.4ML, while imports from New Zealand grew strongly by 17.8% to 51.3ML.
- ABS estimates suggest that the vineyard production base in place at the 2011 harvest remains largely unchanged at around 154,000 hectares, indicating that significant production capacity remains in place. Looking ahead to the 2012 harvest, replenished irrigation water storages and ample sub-surface soil moisture across the country are conducive to improved vineyard yields. While supply potential is higher, the prospect of another cool, wet La Niña climate pattern could again aggravate disease pressures and quality issues.



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

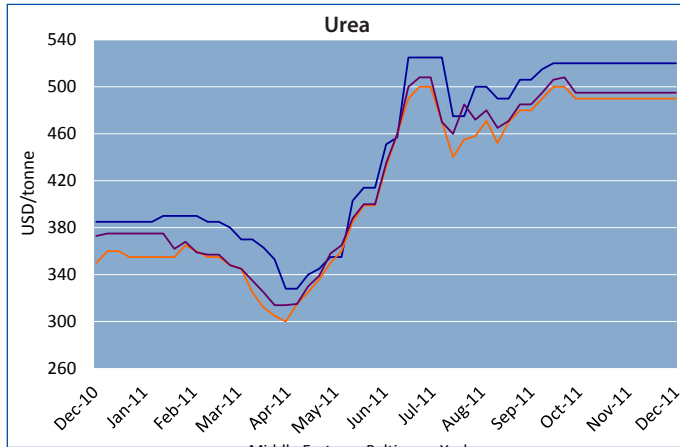
- New Zealand wine export volumes increased 9.7% to 168.8ML in the year to October 2011. Over the past 12 months, annual bottled wine shipment volumes have lifted by only 0.9% on the prior corresponding period to 109.8ML, while bulk wine shipments have increased 30.5% to 59.0ML over the period (NZ Winegrowers Association, 2011).
- Exports eased in the month of October on the back of lower bulk shipments following on from the record set in the prior month. September is typically the peak export month of the year as retailers build inventory in preparation for the all-important Christmas trading period, so a seasonal decline in forward shipments is to be expected.
- In the year to September 2011, the annual value of exports grew 3.8% on the prior corresponding period to NZD 1.1 billion. The annual average unit value continued its slide to FOB NZD6.79 per litre in response to the higher proportion of bulk wine in the export mix in recent months.
- Updated estimates of New Zealand domestic wine shipments have confirmed that local consumption of wine increased by 8.1% in the September 2011 quarter relative to the prior corresponding period (Statistics NZ, 2011). In annual terms, consumption is up 3.5% relative to the previous corresponding period to 102.5ML, stimulated by rapid supply growth that has placed downward pressure on market pricing.
- NZ Winegrowers Association estimates suggest that the vineyard production base in place at the 2011 harvest remains largely unchanged at around 33,600 hectares. The youthful New Zealand vineyard estate still possesses some latent production capacity as prior vineyard plantings continue to mature. That said, this influence is gradually dissipating, and annual seasonal conditions will begin to have a greater impact on the size of the New Zealand wine harvest in coming years.

Fertiliser

Fertiliser prices

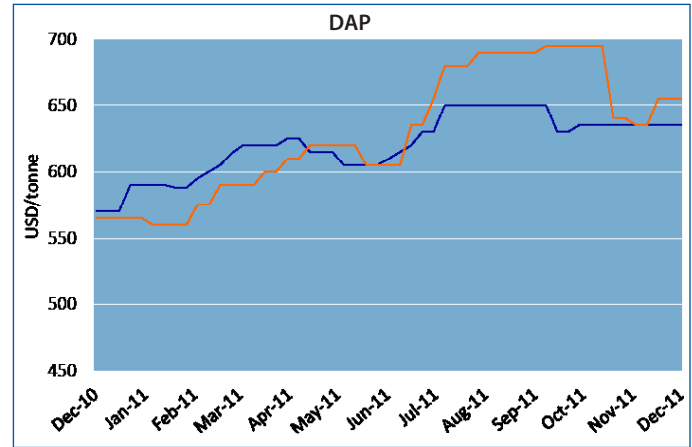
All shown as USD/tonne	Current (01-Dec-11)	Last month	Last year
Urea (Middle East)	520	520	385
DAP (US Gulf)	635	635	570

Source: Bloomberg/CIS/Rabobank



Source: Bloomberg/CIS/Rabobank

- The Eurozone debt crisis continues provide a gloomy overtone to most agricultural markets, fertiliser included. Against the backdrop of economic and financial uncertainty, a softer tone is emerging across the global fertiliser complex.
- Nevertheless, benchmark prices in USD terms were stable through November. As the year comes to close, global prices continue to sit above year-ago levels with urea 35% higher, and DAP 10% firmer.
- Underlying fundamentals are likely to put the global fertiliser market under some pressure in the short-term. International buyers remain cautious having stepped out of the market as they await



Source: Bloomberg/CIS/Rabobank

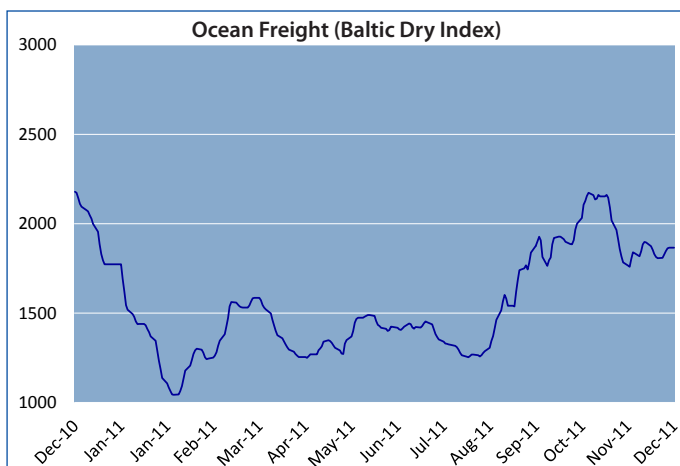
- clarification on whether a resolution to the Eurozone situation is found.
- In most regions, buying activity will also be constrained by the fact inventories are sufficient to cover short-term needs. As a result the general expectation is that the market will remain quiet for the remainder of the year, and price weakness cannot be ruled out.
- The Australian and New Zealand dollars have both slightly weakened against the USD in recent weeks. Any depreciation in local currencies, however slight, will soften import prices in respective markets.

Other costs

Ocean freight index and oil prices

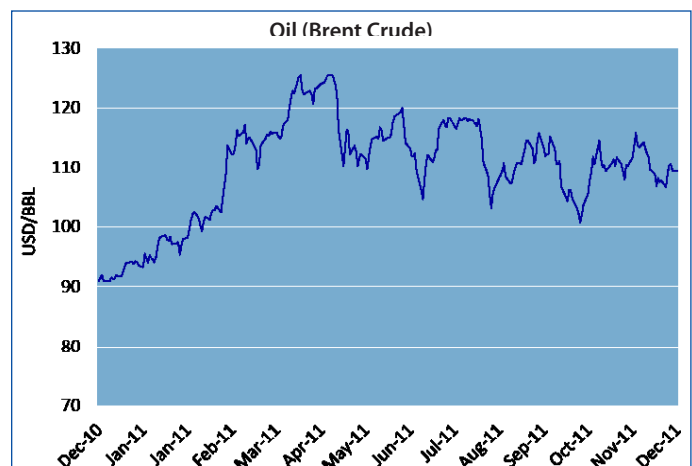
	Current (01-Dec-11)	Last month	Last year
Baltic Dry Index* (ocean freight)	1866	1784	2179
Brent Crude Oil (USD/bbl)	110	110	91

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

About the Rabobank Group

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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