



International Food & Agribusiness Update

International Farm Management
Congress 2011

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Key messages on the global drivers of the food & agribusiness sector



- Global agri-commodity markets are becoming more complex – protein production and weather and climate risks are increasingly significant drivers of the markets
- Agri-commodity markets are set to experience higher prices for the next 3 to 5 years – a product of tight supply and strong demand
- Markets are expected to experience increased volatility: tight supply; dependence on supply from regions with variable climates; speculators; and Government intervention all contribute to volatility

Presentation road map

Major issues and dynamics driving global agriculture



- I. Global food prices reach new highs
- II. The US battle for acres is particularly intense, and beef supply is short
- III. China's pork production and feed grain needs – a new demand driver
- IV. Dairy demand is booming in India
- V. Grains and sugar displacing beef in Brazil
- VI. Unrealised potential of the Black soil region
- VII. Agri-commodity market price volatility, which makes life more complex at the farm gate

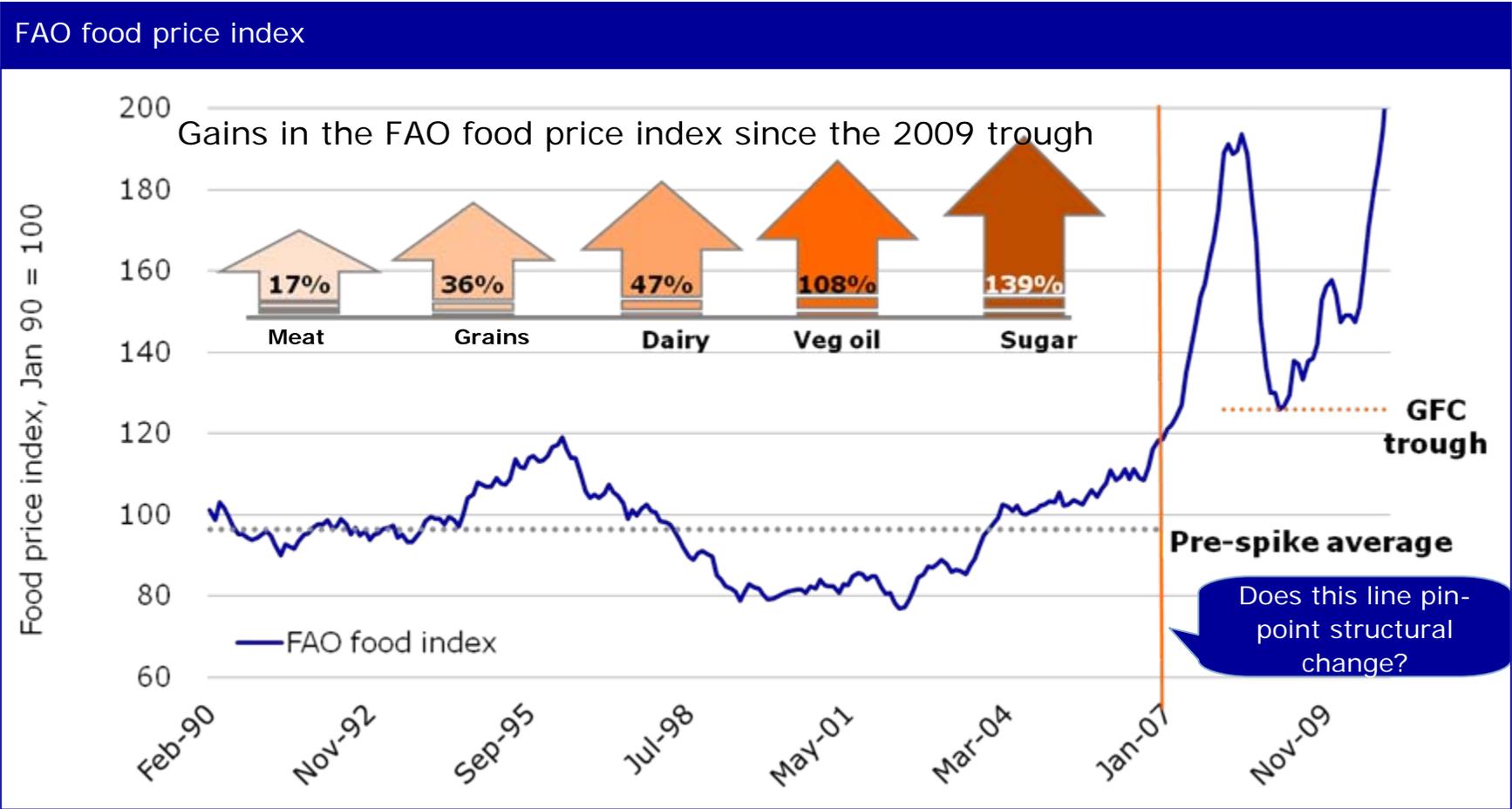
GLOBAL FOOD PRICES REACH NEW HIGHS



Rabobank

Are high agri-commodity prices here to stay?

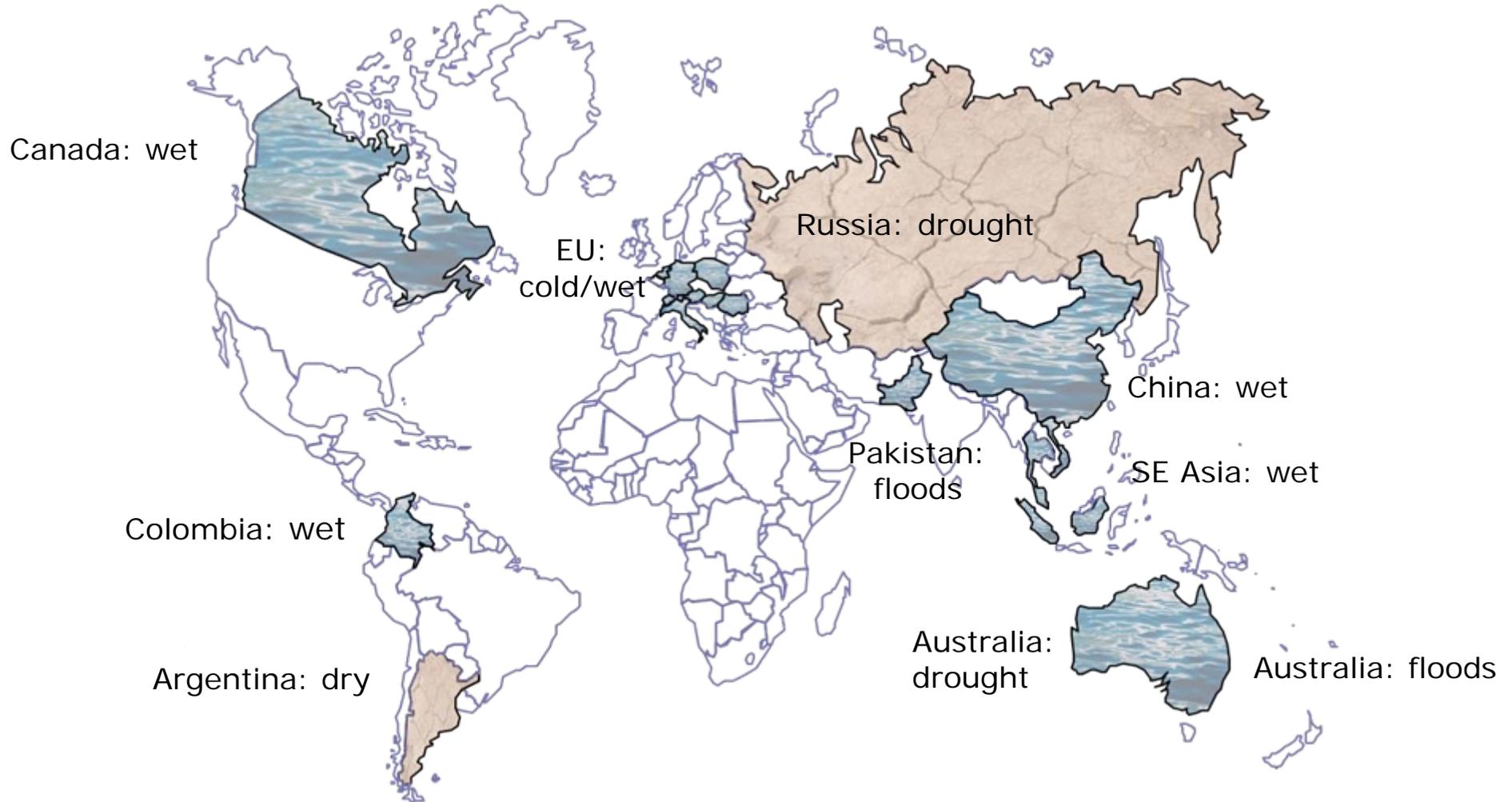
Do recent changes in the FAO food price index signify a structural change or short-term shock?



Source: FAO, Rabobank International

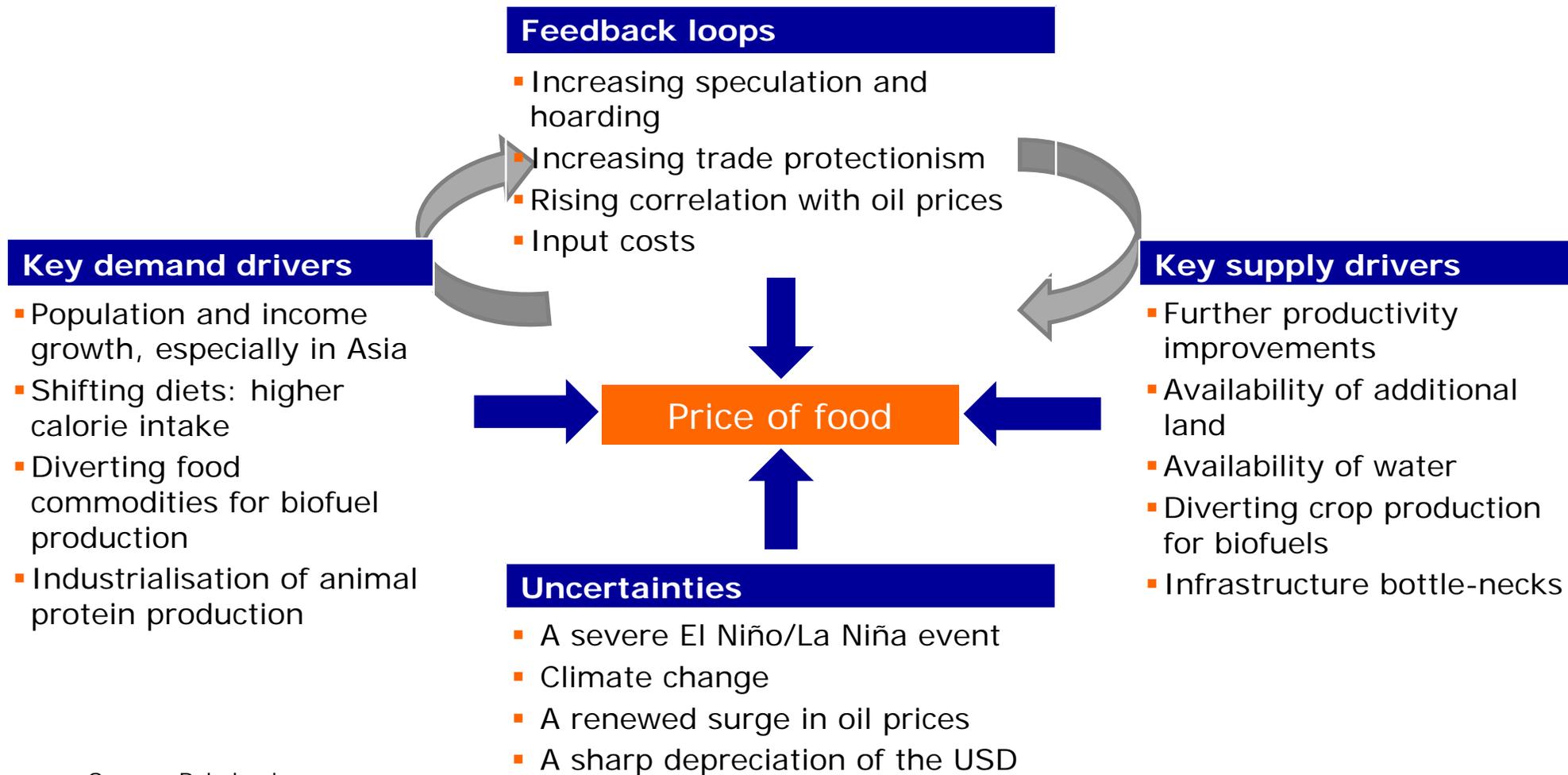
Weather triggered the 2010 price rally

Initial harvest expectations were drastically reduced due to negative weather influences in a number of important production centres



Source: Rabobank

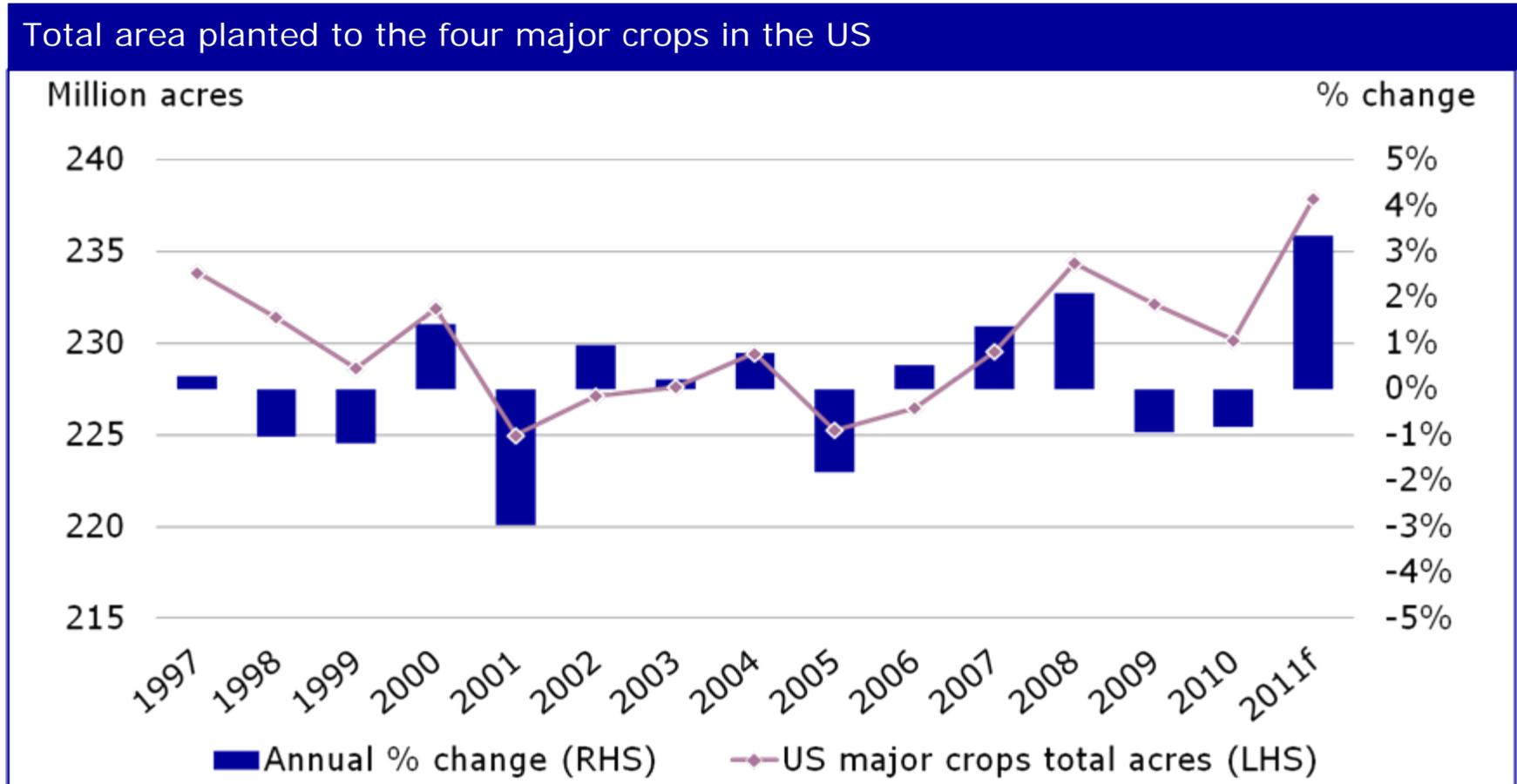
Drivers of global food prices



Source: Rabobank

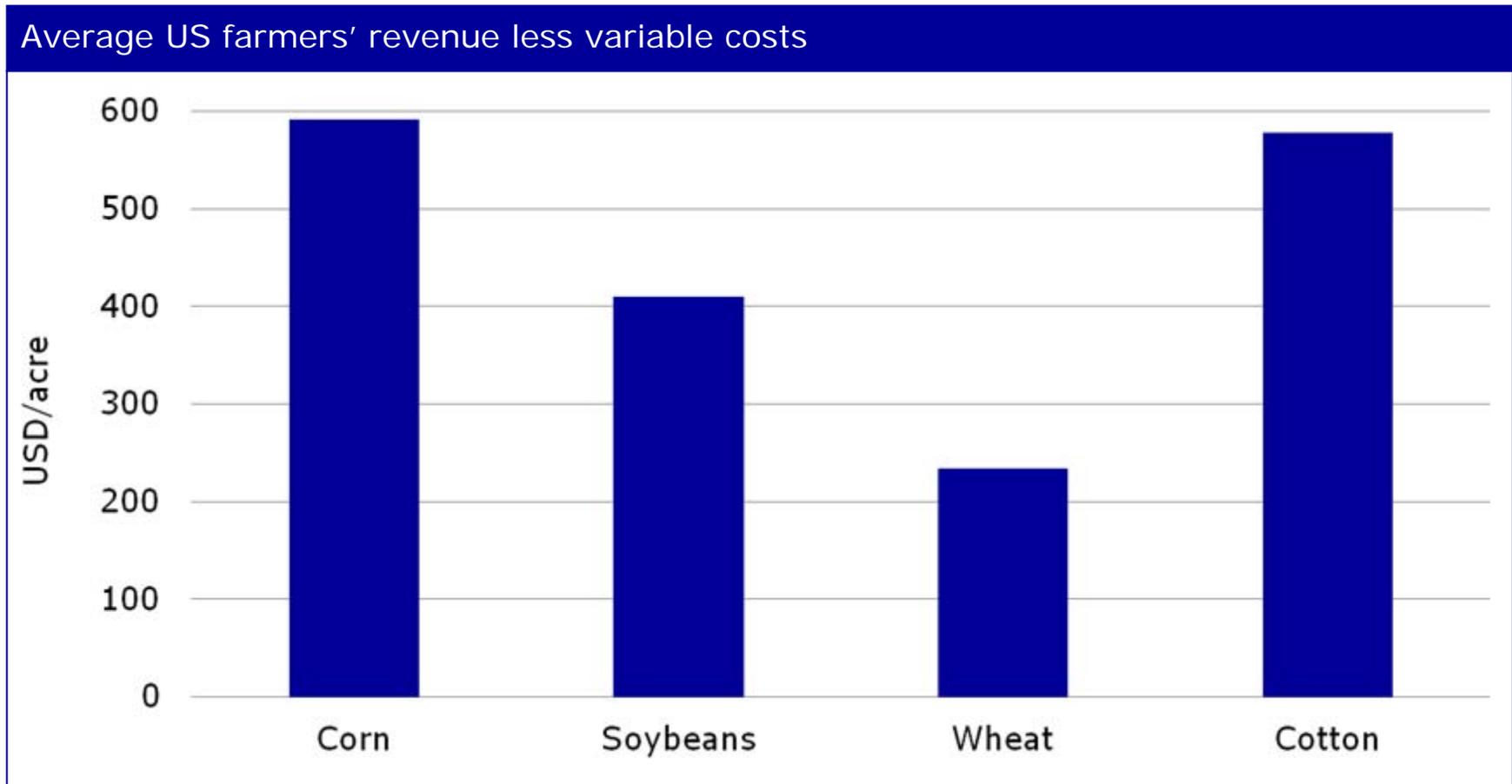
THE INTENSE BATTLE FOR ACRES IN THE US

US major crop acre competition heats up as returns substantially improve...



Source: USDA, Rabobank

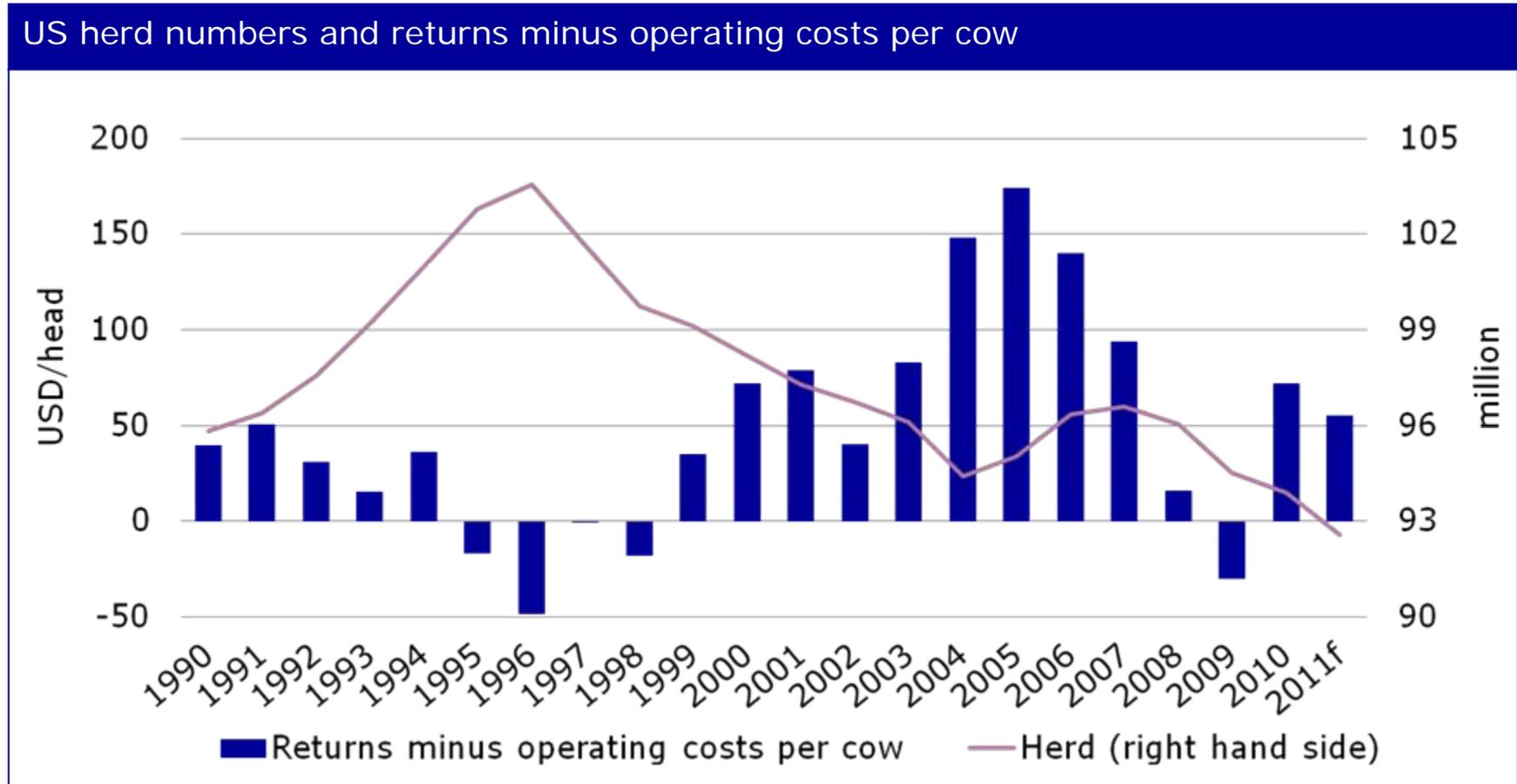
Average US farmers' net profit margins favour increased corn and cotton plantings over soybean and wheat



Source: Bloomberg, USDA, Rabobank

At the same time US beef production slows

US herd numbers at a 40 year low

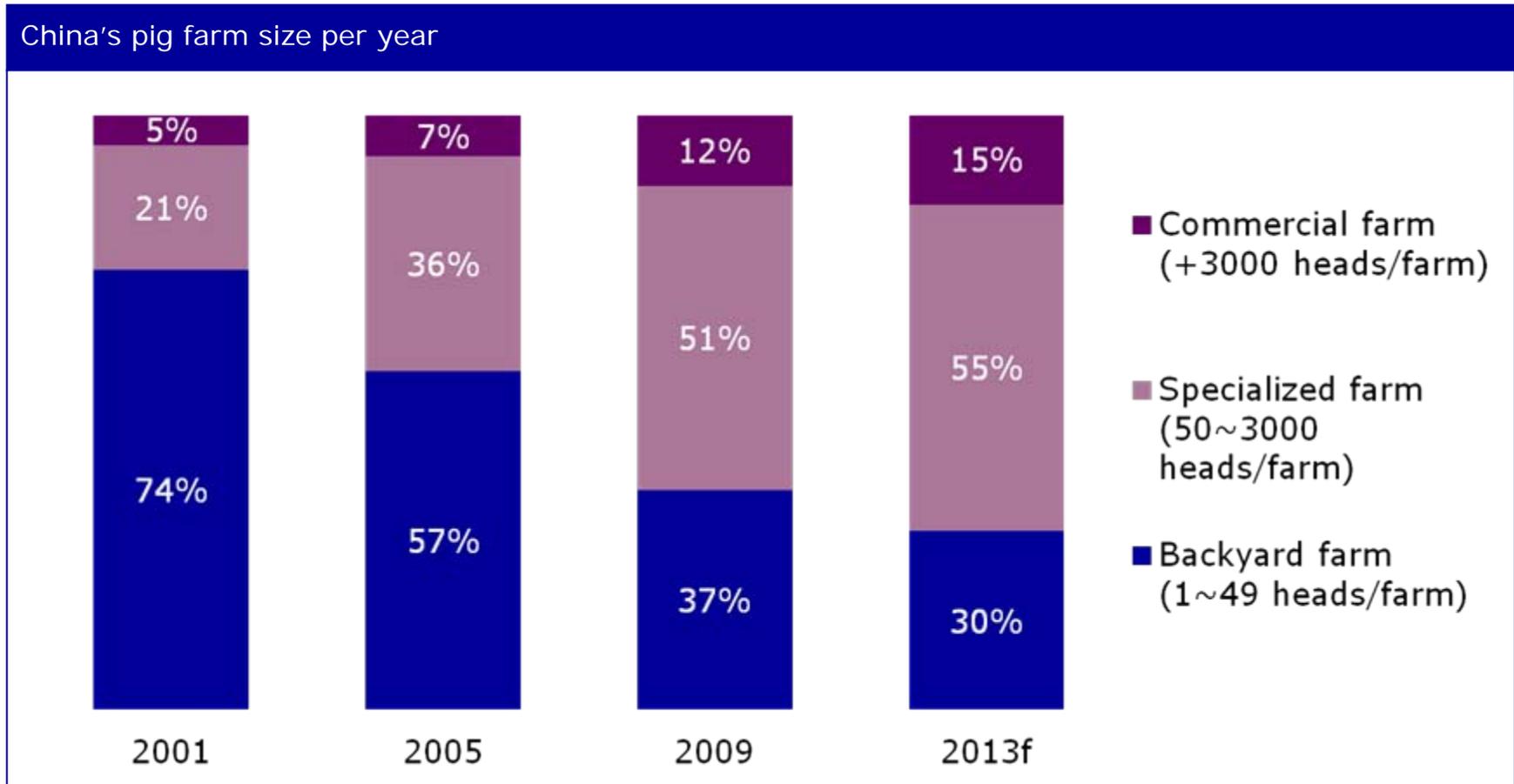


Source: USDA, Rabobank

CHINA'S DEMAND FOR FEED GRAINS

Industrialisation becoming a bigger driver

It's a bigger challenge than just population and income growth driving demand for protein – industrialisation is driving supply chain

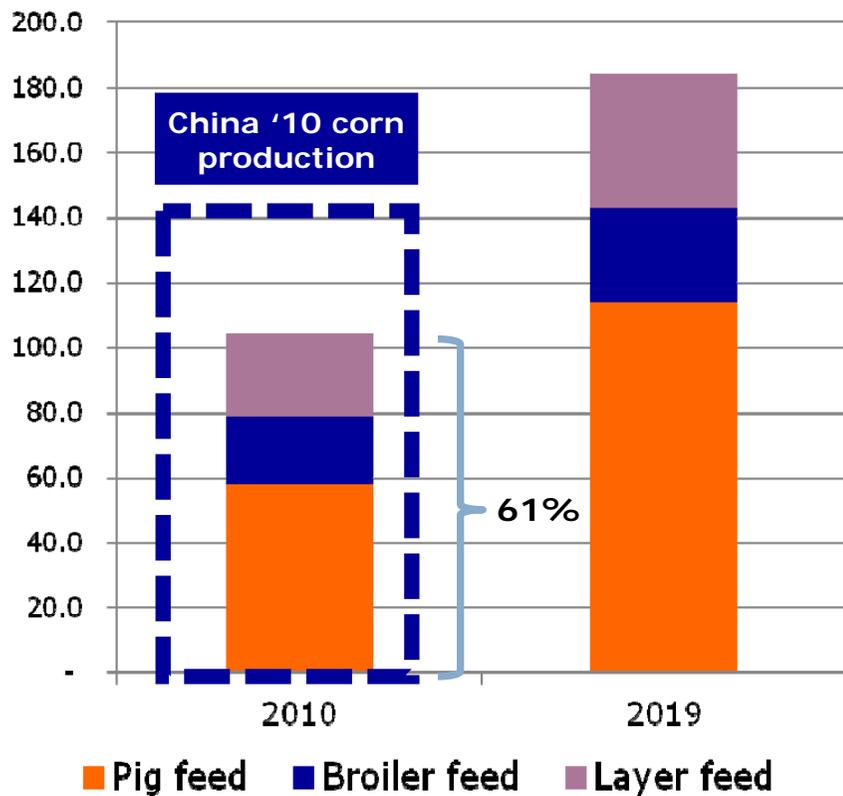


Source: MOA, Rabobank 2010

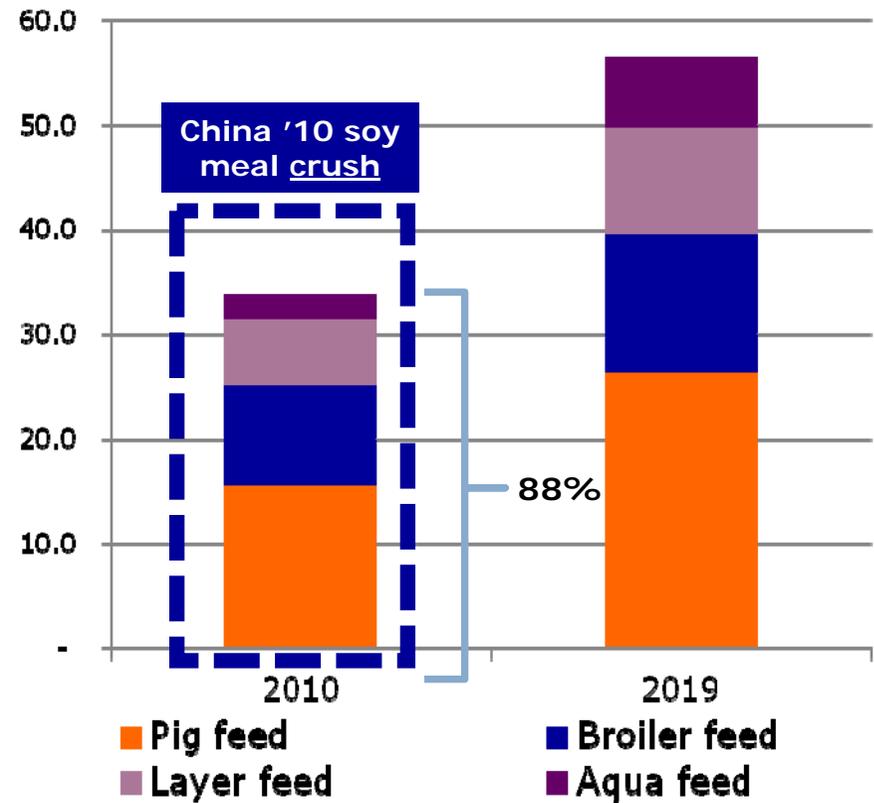
Additional corn and soy meal feed

Additional feed needs are greater than current total production - including only pork, poultry and aqua feed (excluding beef and dairy)

Corn feed demand from pork and poultry



Soy meal feed demand for pork, poultry and aqua



Source: Rabobank, 2010

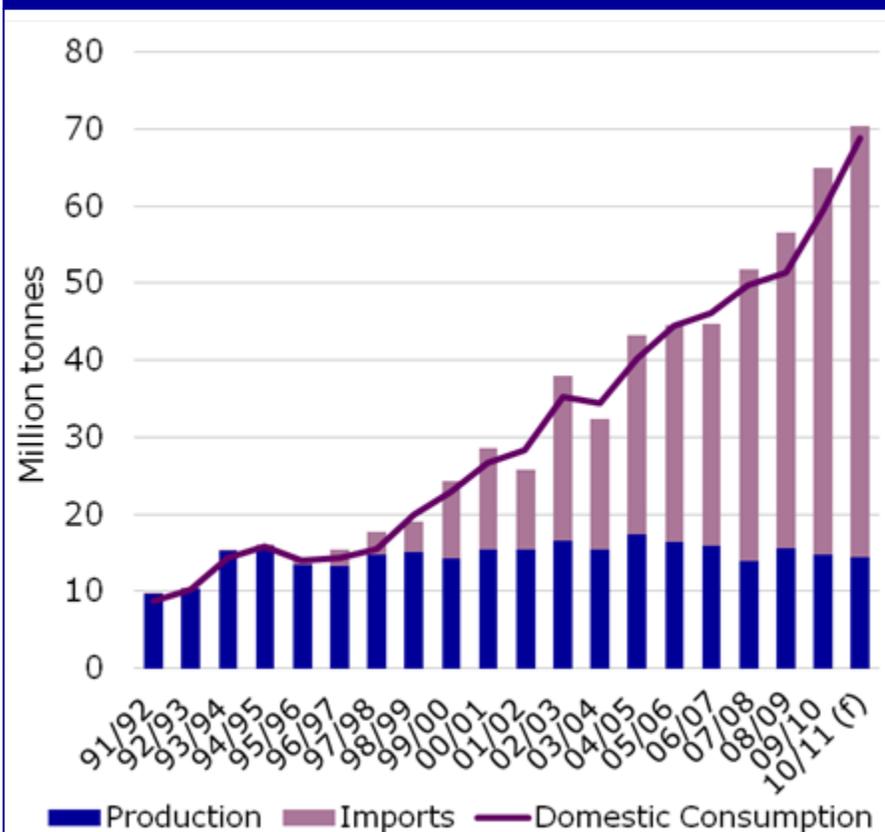


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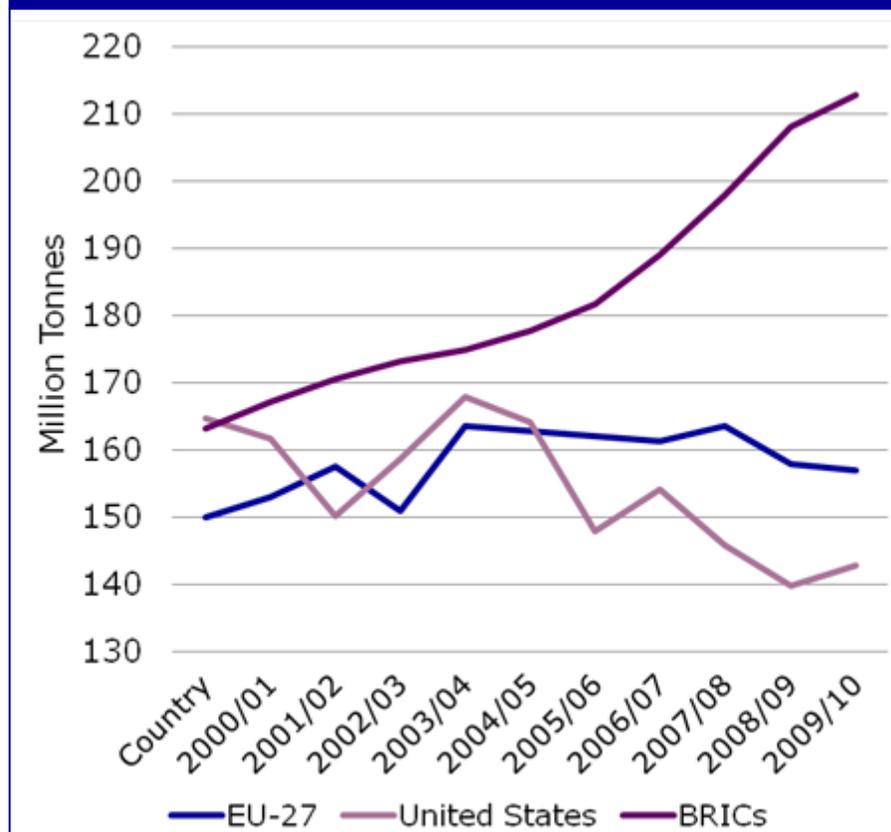
China commodity short

China is rather self sufficient in most agricultural-commodities, soy being the exception. Corn is expected to follow soy, meaning significantly growing imports starting this year

China soybean production, imports and consumption



Total grain used in feed

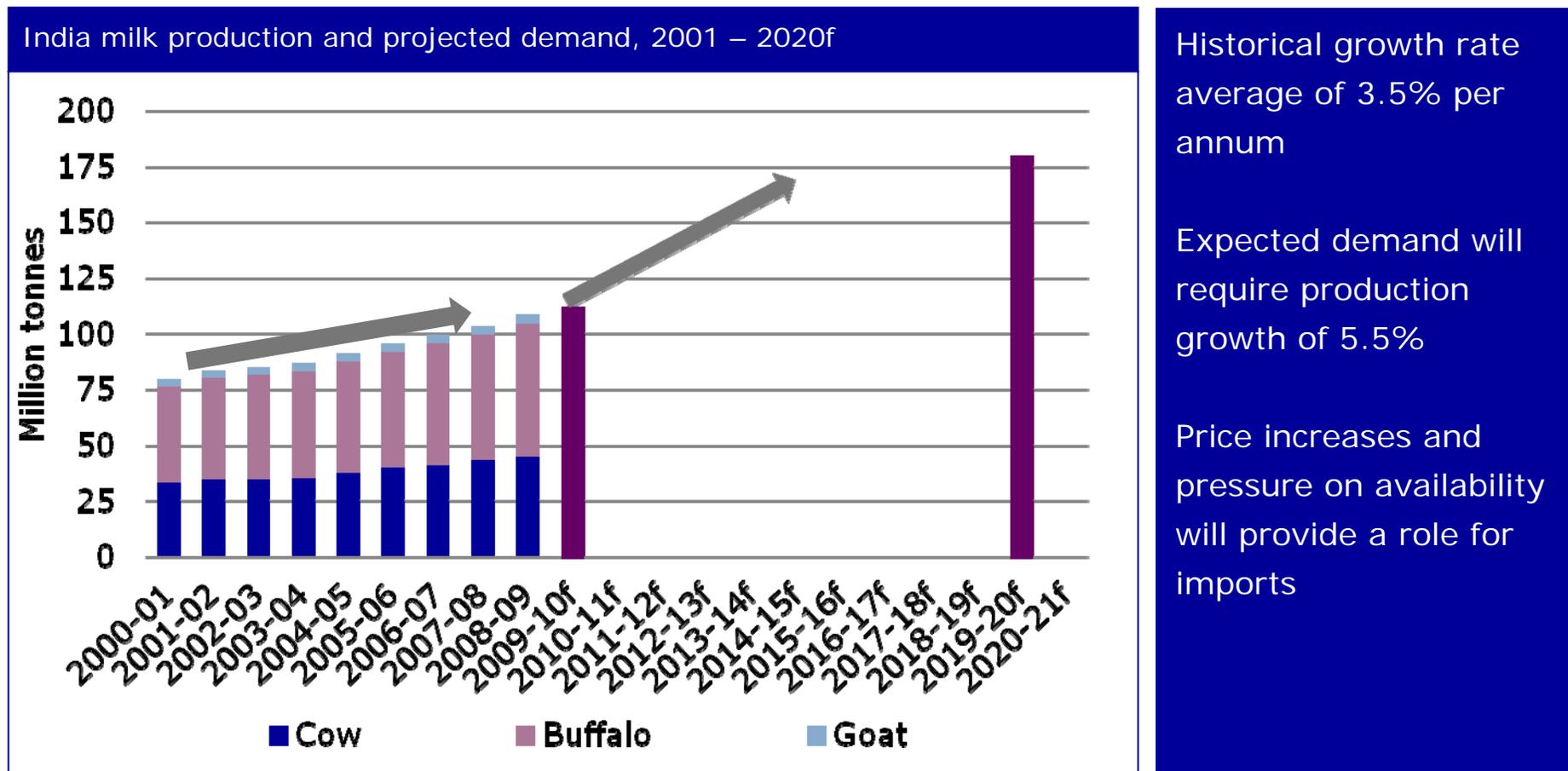


Source: Rabobank, USDA

BOOMING DAIRY DEMAND IN INDIA

How can India's expected dairy demand be met?

The ability to satisfy the increasing consumer thirst for dairy products in India is likely to require contributions from world supply – at least in the short term



Historical growth rate average of 3.5% per annum

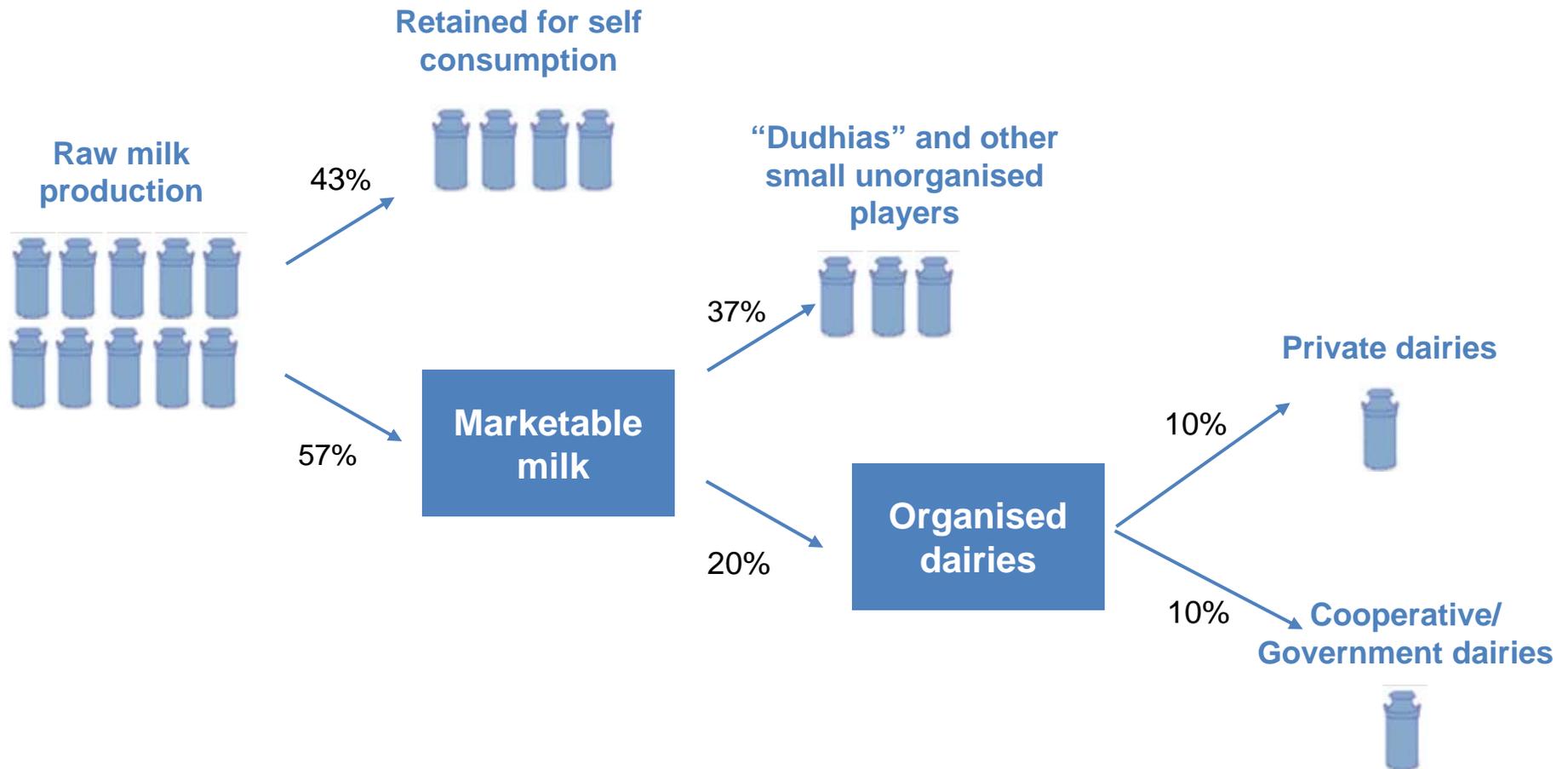
Expected demand will require production growth of 5.5%

Price increases and pressure on availability will provide a role for imports

¹Source: National Dairy Development Board, Rabobank, 2011

Organisation of the supply chain and growing formality could provide the bigger challenge

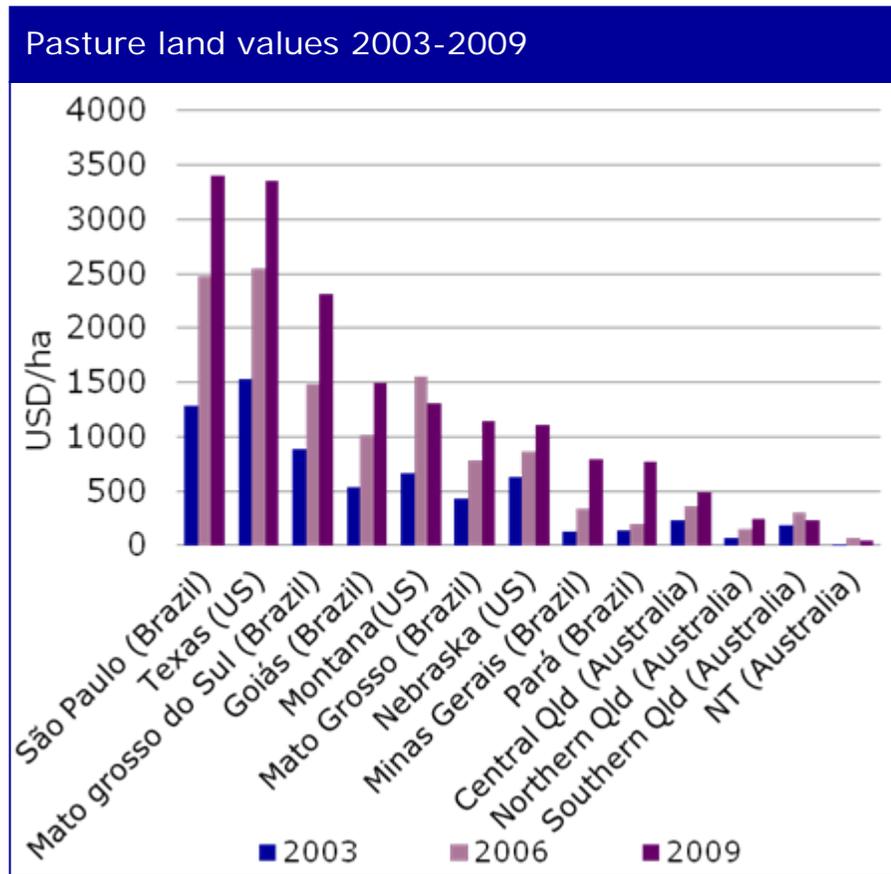
Milk handling by the organised sector is expected to grow from 20% to 30% by 2020 – a growth rate of 15-20% over the next 4-5 years



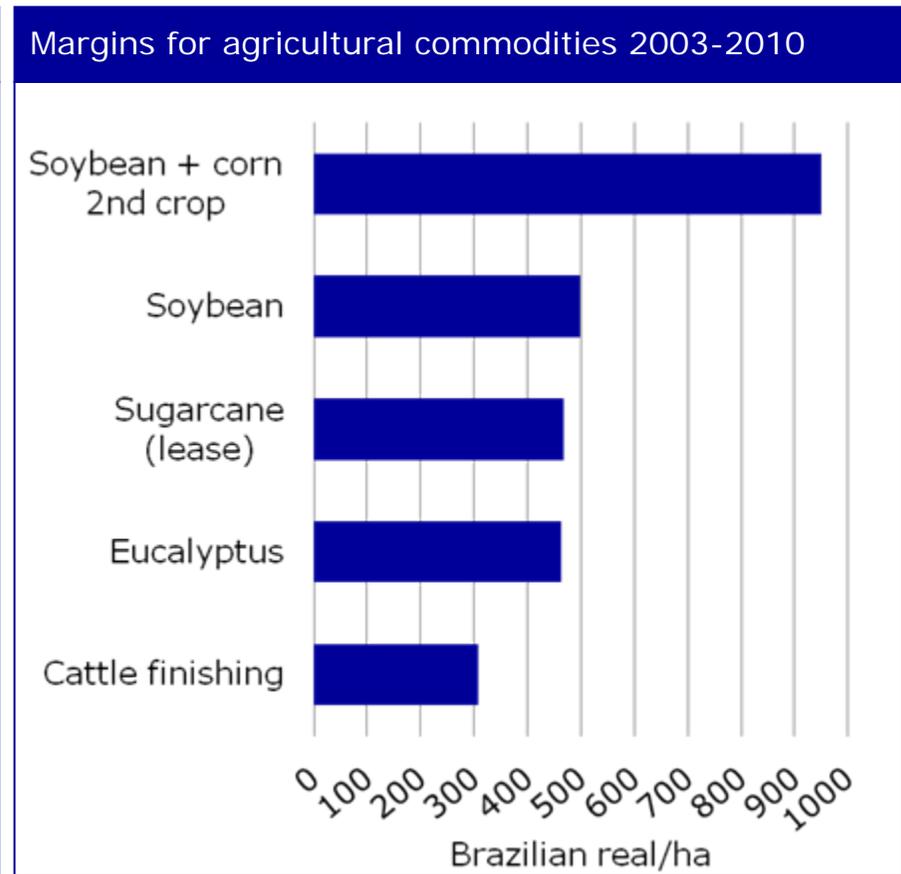
BEEF BEING DISPLACED IN BRAZIL

Brazil has seen a surge in land values over the past decade

Investment in land for sugar and grains has been a major driver in centre and south Brazil – creating a ripple effect throughout the country



Source: FNP, USDA, Australian grazing property index

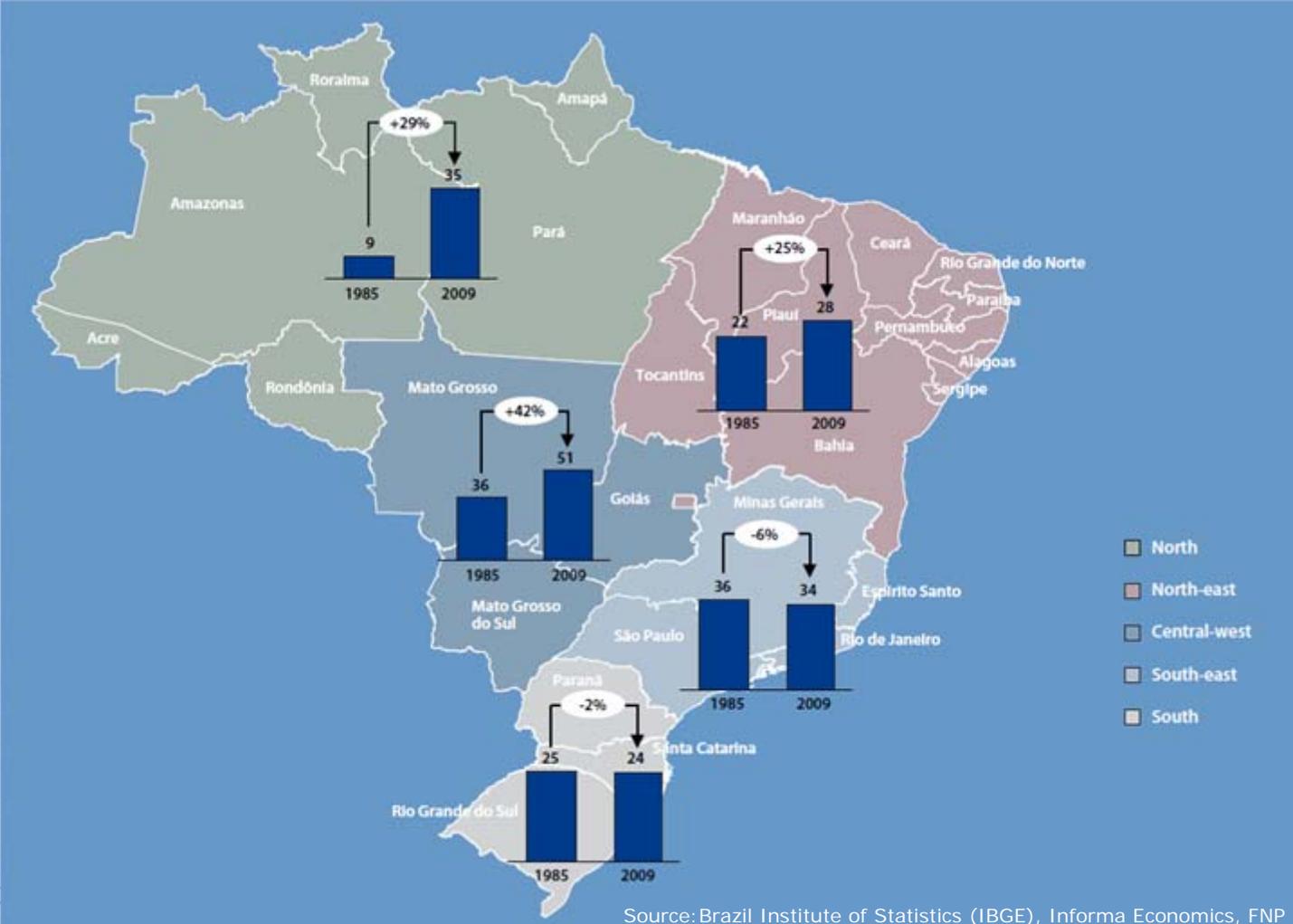


Source: Rabobank estimates

Beef production displaced to northern states as competition in the south favours sugar and grains



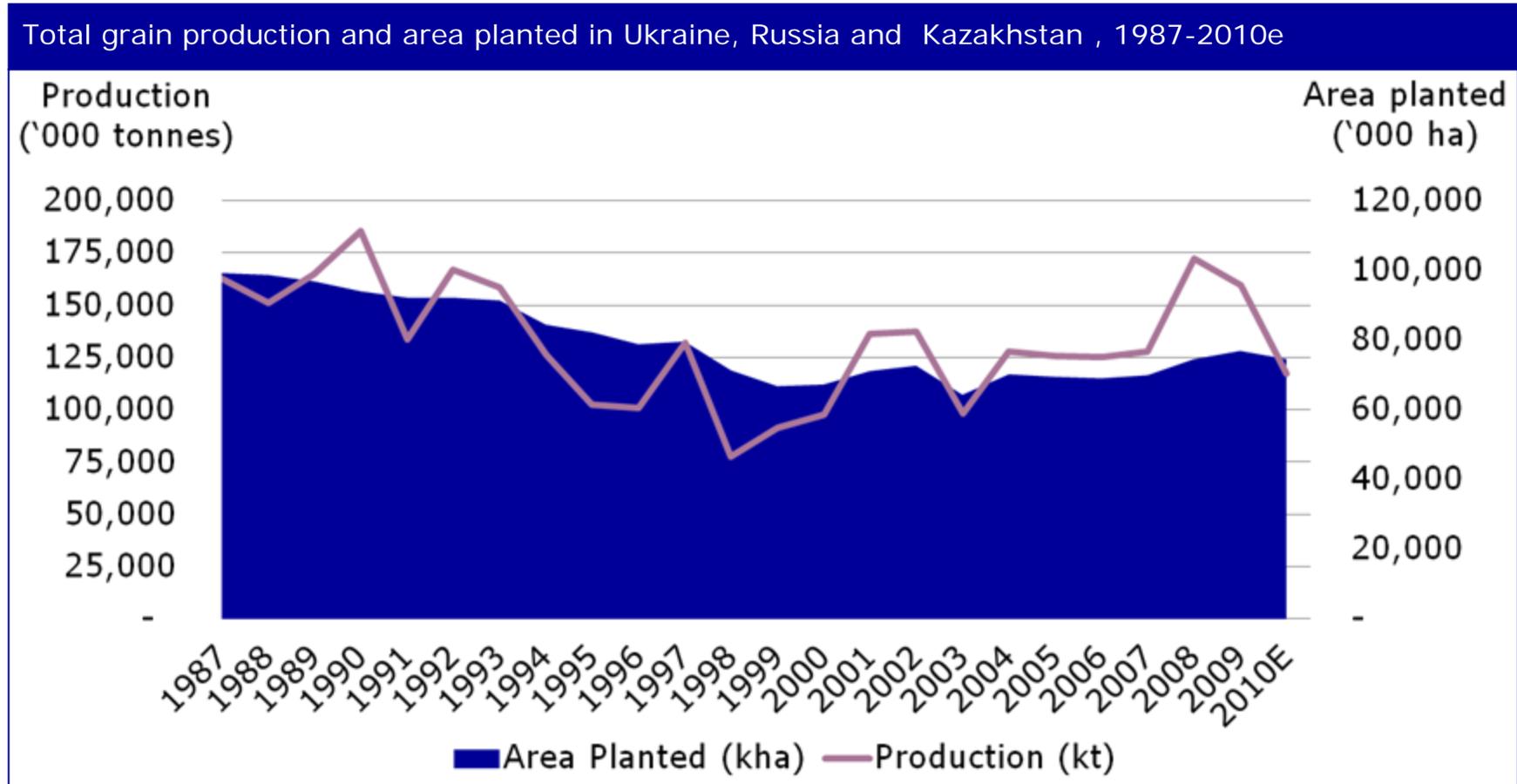
Brazilian cattle herd numbers by region (million head) 1985-2009



Source: Brazil Institute of Statistics (IBGE), Informa Economics, FNP

UNREALISED POTENTIAL OF THE BLACK SOIL REGION

Can the Black soil region grain production potential be realised?



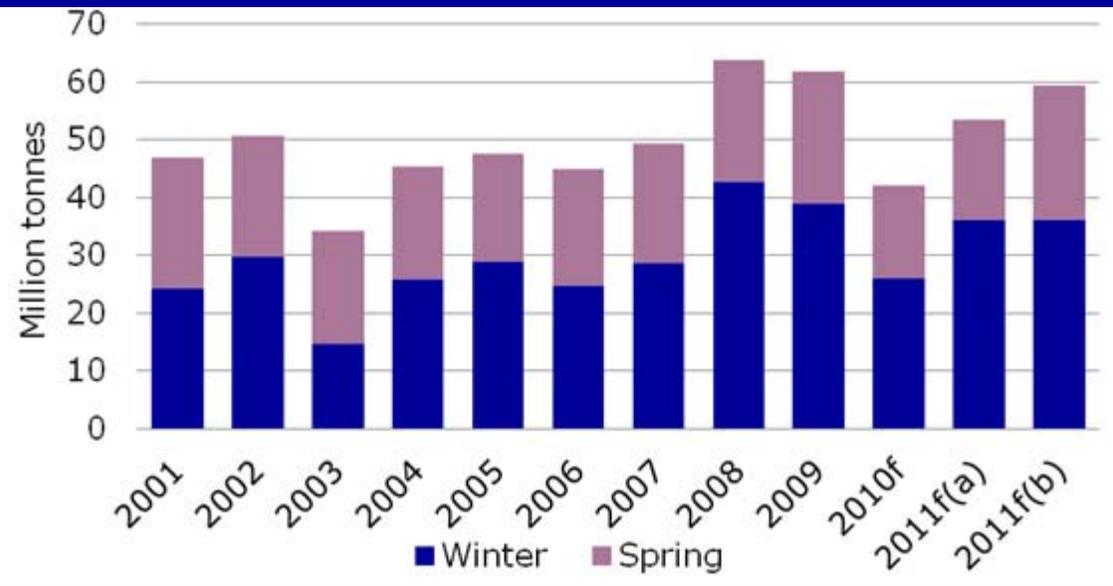
Source: USDA, Rabobank



Russian roulette

- Russia's winter grain plantings fell more than 2 million hectares YOY. This increases the need for a near record high spring planting.
- Following export bans of 2010, Russian exports will be stifled in 2011. Over the last 10 years, on average Russia has exported over 9 million tonnes per annum.
- The most likely export scenario for 2011 is around 3 million tonnes.
- The best case scenario for 2011 could be around 8 million tonnes.

Russia's wheat production



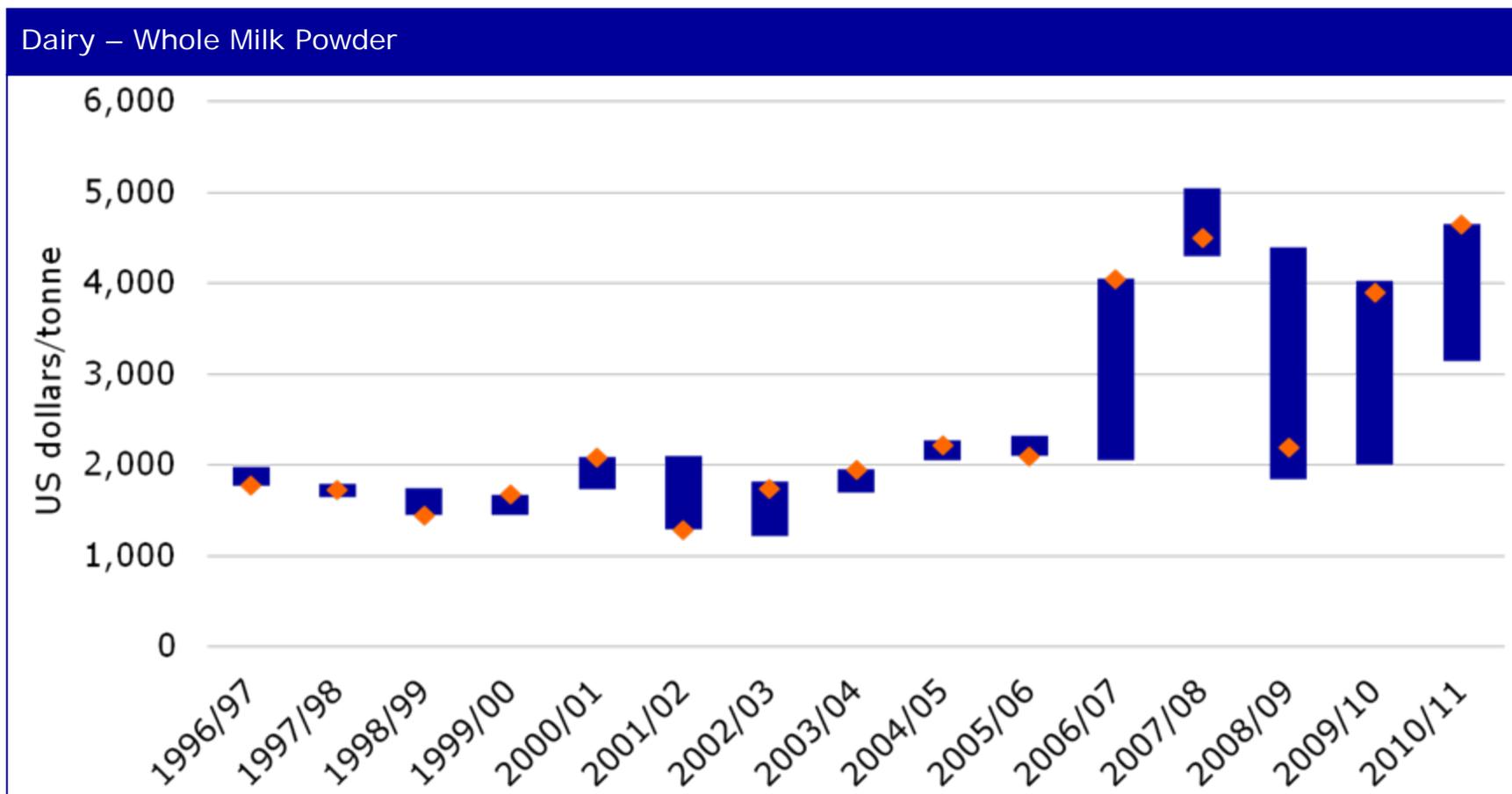
Source: USDA, Rabobank

Russian wheat supply	Low	Base	High
(1000 Mt)	11/12 (f)	11/12 (f)	11/12 (f)
Beginning stocks	4,287	4,287	4,287
Production	44,777	53,588	59,355
Imports	600	600	600
Total supply	49,664	58,475	64,242
Exports	0	3,000	8,000
Total consumption	48,250	48,250	48,250
Total distribution	48,250	51,250	56,250
Ending stocks	1,414	7,225	7,992
Stocks/usage	2.9%	14%	14%
Days of use	10.7	51.5	51.9

MARKET PRICE VOLATILITY

Market volatility has become entrenched in dairy

Volatility likely to persist and combined with input cost volatility will significantly disrupt margins for milk producers

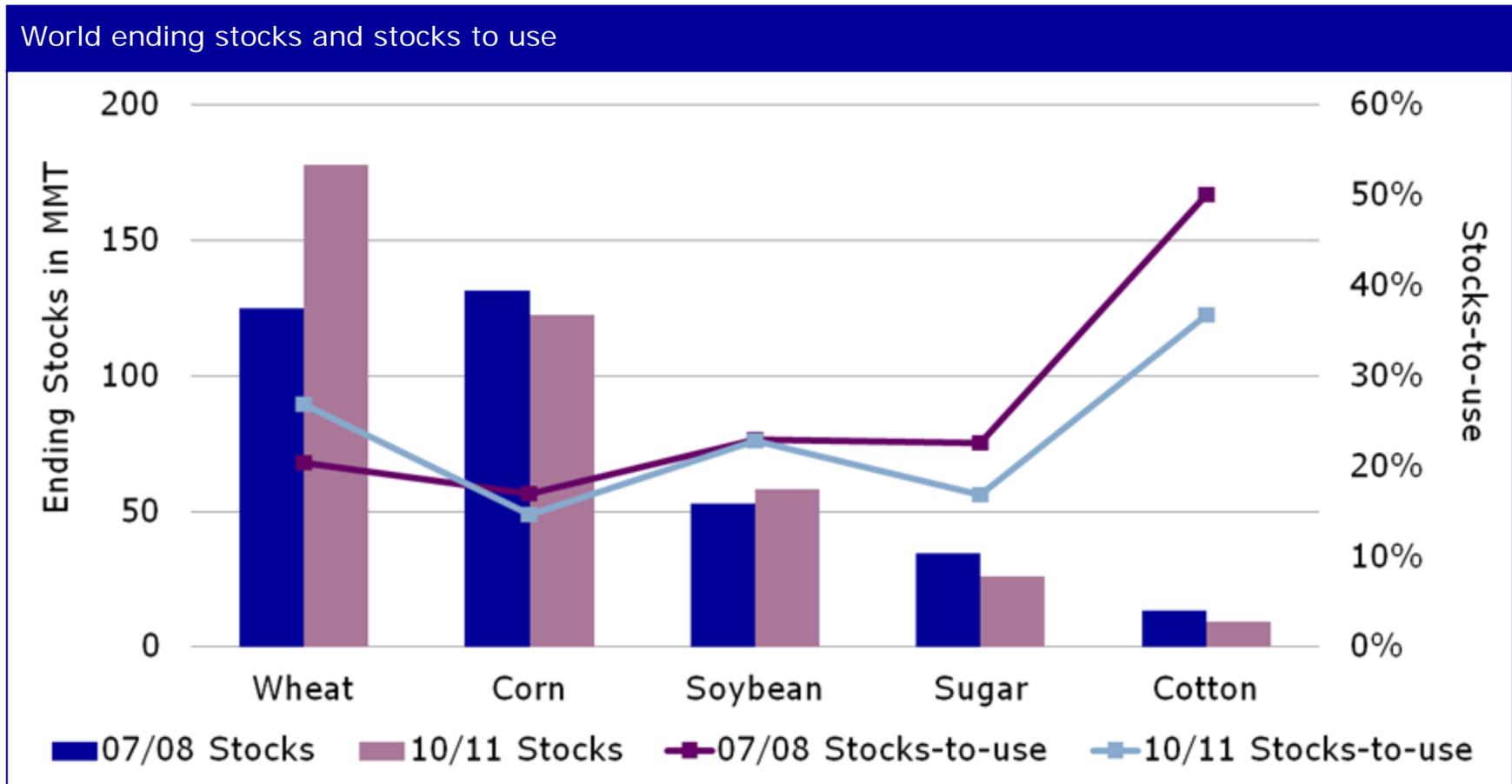


Source: USDA, Rabobank



World ending stocks are low...

This means there is very little flexibility in the system to absorb future weather shocks, or trade disruption



Source: USDA, Rabobank

Free and open markets ...

... can help ease volatility. BUT. Progress on a world trade deal has stalled and a plethora of bilateral trade deals has emerged instead

- Bilateral trade agreements open up markets
- The spaghetti bowl of trade agreements
 - A proliferation in FTA's since stalled WTO
 - Some countries are being left behind
 - Growing influence of BRIIC
- Aust vs. NZ in China

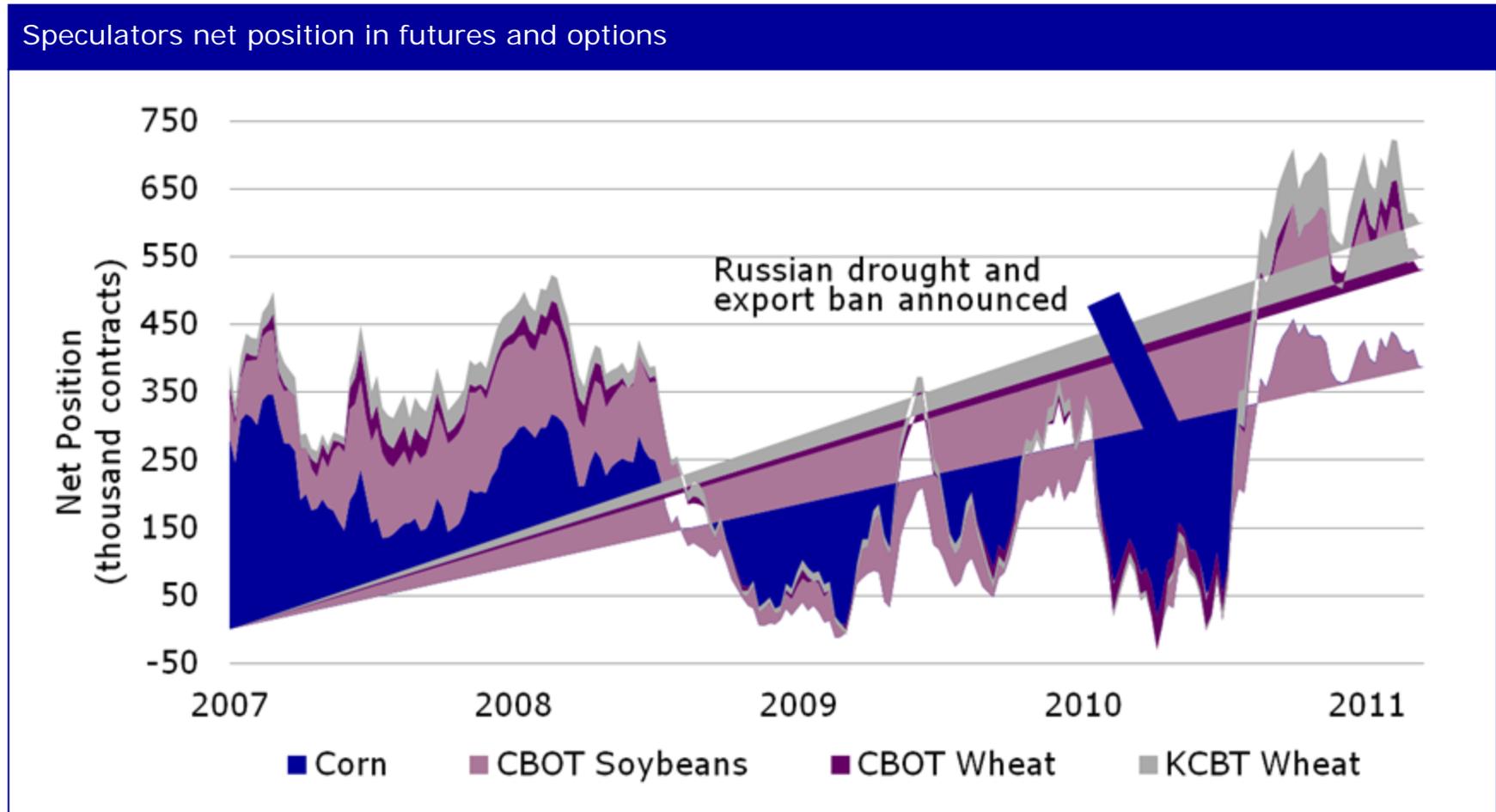


	Australia	New Zealand
2011 China WMP Import duty	10%	6.7%
Estimated duty*	US\$350/t	US\$220/t
2015 China WMP Import duty	10%	3.3%
Estimated duty*	US\$350/t	US\$115/t

* Based on indicative WMP price of US\$3,500/t

Speculators are part of the story also...

Russian drought triggered unprecedented investor interest in agri-commodities, but recent risk aversion has seen some speculators exit



Source: Bloomberg, Rabobank

CONCLUSIONS

Conclusions



- The outlook is positive for those who can manage their way through the complexity and volatility
- This is possible, but will not always be easy. Farmers will do best where they have:
 - Good access to information and insights about market drivers and movements
 - (Financial) tools to help manage volatility
 - A solid financial position that supports their risk management approach
 - A focus on delivering productivity improvements

Rabobank details

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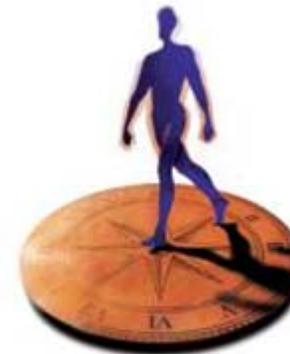
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