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Almond industry update, 5 July 2011

Almond prices for Australian growers have declined since last year. The purpose of this market update is to provide an overview of the long term industry outlook, and assess the market's current position in a broader context.

The global almond industry has experienced tremendous growth in recent years. According to the Almond Board of Australia (ABA), global production doubled from around 400 000 tonnes in 1990, to around 800 000 tonnes in 2009. This increased production is a direct result of a strong increase in demand, evidenced by the global consumption of almonds growing by around 9% per annum since 2000.

Drivers of this growth include an increased awareness of the health benefits of almonds in developed countries, as well as the emergence of a middle class in developing countries such as China and India who have higher disposable incomes and are seeking alternative high protein foods. The Californian Almond Board's trade figures show that almond exports from the US to China increased by 483% from 2005 to 2009. Over the same time period, exports of US almonds to India grew by over 65%, whilst US exports to the Middle East grew by over 200%.

While global consumption continues to rise, producers are challenged with keeping pace with demand. Despite the recent industry expansion, growth in supply is failing to meet the rate at which demand is increasing. This is largely due to the relatively long time period from planting to full production of mature orchards, as well as difficulties experienced by those countries driving demand in establishing a significant domestic production base. As a result of these constraints, world demand is expected to exceed supply by 2013-14.

This imbalance in global demand and supply is good news for Australian almond producers. The Australian industry has witnessed significant expansion in recent years, and is now the world's third largest producer of almonds. As such, the ABA has forecast national productivity to increase Australia's global market share from 3% to approximately 5-7% by 2017, overtaking Spain as the world's second largest producer after the US. This increase in Australian production is possible as only one quarter of the national orchard is mature; as other trees reach full maturity, the productive capacity of the industry will increase significantly.

The Australian almond market is particularly well-placed to take advantage of the forecast shortfall in global supply, for a number of reasons. As the only Southern hemisphere-based producer, the counter-seasonal nature of the Australian production cycle provides a significant market advantage by providing fresh nuts to Europe and Asia during the US off season. In addition our proximity to the growing markets of China and India will play an important part in our ability to cost effectively service these markets. Australia has a reputation for producing consistent, high quality nuts, with strict quarantine controls preventing common pest and disease issues and this reputation will assist our inroads into these new markets.



RFM almond orchards near Hillston, NSW

In spite of the positive long term outlook for the industry, almond prices received domestically have been lower than the long term average price. This has been due in large part to the unprecedented strength of the Australian dollar (AUD), and its effects on terms of trade. As the AUD climbs, Australian exports become less competitive as a result of the currency appreciation. In particular, the relative weakness of the US dollar has greatly assisted US almond producers in marketing exports. The second driver of the current low almond price is this season's large US crop. California, where most of the world's almonds are grown, experienced a near perfect season with ideal climatic conditions, producing a bumper crop and allowing the US to increase exports this year.

RFM believes that the key drivers of these lower domestic prices are a reflection of the cyclical nature of commodity prices. Almond trees tend towards a biennial production cycle, where a bumper season is generally followed by more modest yields. Given the long term nature of almond production, it is prudent to expect periods of both high and low prices over the life of the orchards.



Almond blossoms

The industry outlook is very positive based on growing global demand and Australia's proximity to the new markets. RFM's view is that the Almond Fund 2006, Great Southern 2007 Almond Income Project and Great Southern 2008 Almond Income Project are well-placed to take advantage of anticipated global supply shortages, which over time should result in an increase in domestic prices received.



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