

Aust Q2 trade prices: record XPI rise from bulks- led commodity prices & A\$ fall ; MPI up solidly

Export prices 16.1%qtr, 7.1%yr import prices 1.9%qtr, -5.2%yr

- **Export prices were moderately stronger than expected in Q2, recording a record rise of 16.1%qtr (consensus 15.3%). Strong gains in bulk commodity prices (iron ore & coal) led the gains, with export prices more broadly also lifted by a 2.4%qtr AUD/USD pullback. By commodity class, the rise was led by metalliferous ores & metal scrap (+43.0%), coal (+24.4%), gold (+10.6%), gas (+9.7%) and petroleum & related products (+7.6%), with a partially offsetting fall in sugars & honey (-11.4%).**
- **Import prices recorded their strongest rise since 2008Q4, up 1.9% in Q2 (consensus +1.0%, Westpac +2.4%), boosted by the softer currency, and higher food and mineral fuels. By commodity class, the rise was led by petroleum & related products (+5.5%), gold (+10.6%), gas (+16.5%) and medicines (+3.5%), with partially offsetting falls in road vehicles (-2.4%) and 'other' general industrial machinery & parts (-1.4%). Food and beverage prices rose 1.6% and mineral fuels rose 6.5%. Abstracting from these non-core items, core import prices rose 1.1% in a quarter when the import weighted AUD TWI fell 1.1%.**
- **With the export price upside smaller than the import price upside relative to consensus, the rough terms of trade rose slightly less than consensus expected. Consensus forecasts implied a ToT rise of 14.2%qtr, Westpac forecasts implied a rise of 12.3%qtr, and the outcome was a rise of 13.9%qtr.**

Export prices were moderately stronger than expected in Q2 (consensus +15.3%, Westpac +15.0%), rising a record 16.1%qtr after a 3.8% rise previously. This XPI spike is a reflection of the significant boost to commodity export prices from the surge in bulks (iron ore and coal) prices in Q2, as well as support for other export prices more broadly from a 2.4%qtr AUD/USD fall. Import prices were also stronger than consensus, recording their strongest rise since 2008Q4, lifted by the weaker currency and higher food and beverage and mineral fuels prices. With the import weighted AUD TWI falling 1.1%qtr, the MPI rose 1.9%qtr (consensus +1.0%, Westpac +2.4%) after a 0.3% rise previously. The net was a 13.9%qtr rise in the 'partial' Terms of Trade (not the true ToT as the XPI and MPI do not fully cover all goods trade and don't include services), whereas our Westpac forecasts implied a 12.3% rise and consensus implied a 14.2% rise.

The MPI had a slight net negative implication for our forecast of next Monday's PPI (revised to 0.7%qtr from 0.8%), with a slightly lesser rise in core import prices and mineral fuels than we expected. We retain our 0.9%qtr headline and underlying CPI forecasts. With food and beverage prices in the MPI rising 1.6%qtr (vs +3.0%qtr prev) we retain our forecast for an easing in CPI food group price

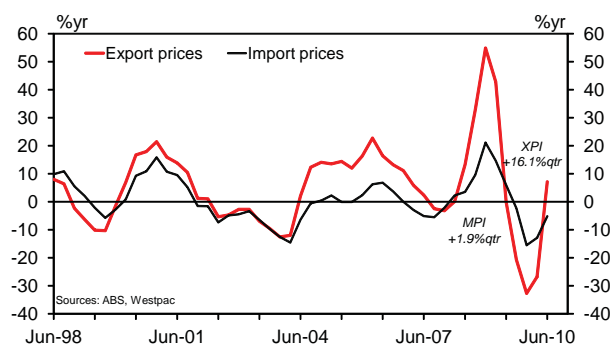
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International trade price indices

	index		% change	
	Mar 10	Jun 10	qtr	yr
Export prices (XPI)	153.6	178.3	16.1	7.1
Import prices (MPI)	116.0	118.2	1.9	-5.2

Source: ABS, Westpac Banking Corporation

International trade price inflation



pressures to +0.1%qtr (vs +1.1%qtr prev). The link between MPI food and beverage prices and PPI equivalents is also not strong, but with MPI components rising a lesser 1.6%qtr in Q2 (vs 3.0%qtr prev) we also remain comfortable in predicting a weaker PPI food and beverage outcome in Q2 than Q1 (-0.6%qtr vs -0.3%qtr prev). That gives a headline PPI contribution of -0.10ppts.

Mineral fuel import prices rose 6.5%qtr, while our forecast based on AUD world gasoline prices implied a rise of 8.0%. Consequently, we have tempered our forecast for PPI petroleum prices to +5.1%qtr (from +6.3%). This reduces its quarterly headline PPI contribution to +0.13ppts from +0.16ppts.

Abstracting from non-core items, core import prices rose 1.1%qtr with the import weighted AUD TWI falling 1.1%qtr. Consistent with historical relationships, we've reduced our forecast for the core imports PPI to +1.8%qtr (from +2.1%), contributing 0.19ppts (was 0.22ppts) to the overall headline PPI quarterly rate.

The net result of the MPI data is a minor downward revision to our Q2 headline PPI forecast to +0.7%qtr (from 0.8%), but that still lifts the annual rate to +1.4%yr (from -0.1%yr), the highest since 2009Q2.

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