

Regional Economic Report

First quarter 2008

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The emerging world moves to the fore

The year has begun with promising rainfall across much of the country and strong prices for many of Australia's commodity exports including record high prices for wheat. Now while we are quick to caution that market volatility has not gone away. In the case of wheat, record plantings and good seasonal conditions this year could see a significant fall in prices. It is also becoming clear that we are in the midst of a significant long running demand shock that is being driven by rising incomes in the emerging world economies. In fact, I feel we should subtitle this report, "the emergence of the developing world".

The last time the emerging economies outperformed so starkly it all ended in tears. In the post Asian Crisis era, the emerging economies were in sync with the developed world and many have taken this to be the norm. But our view is that this era is actually an historical anomaly. In the past, emerging economies have had a growth path independent of the developed world. We agree that only a deep contraction in the US economy has the ability to fully unseat the formidable momentum in the emerging economies.

So why will it not all end in tears this time? A key theme you will find running through this report is our observation that most of the growth in the emerging world is not based on shallow mercantilist programmes. That is, China and India and other large developing regions are not export dependent as many suspect. Higher growth is due to the introduction of new technologies, the resulting rise in incomes, urbanisation and the associated strong investment growth. And as these countries have either high savings rates, rising foreign reserves, and/or very positive terms of trade, we believe they are mostly immune to the credit shocks that are sweeping the financial markets of the advanced economies.

Events in the emerging world mean that global commodity markets are experiencing a demand shock as opposed to a supply shock. So all commodities prices are being driven higher but not all are equal. We have probably seen the best in base metals prices for now, but rising incomes suggest that agricultural commodities will remain well supported, in particular grain prices as fodder demand rises rapidly as animal protein consumption accelerates. Also, government policies to stimulate biofuel production have added to the tightness in the energy and agri markets. But as this is a developing world demand shock, energy and steel prices will continue to rise and fertilizer cost will also be under pressure as agricultural production expands in response to higher output prices. So while Australian farmers can be heartened what looks to be the best global environment for agriculture since the 1980s, they will have to remain on the ball in the face of rising cost structures.

This positive global outlook is having another impact on farm costs in that it is boosting Australian incomes via a rising terms of trade. This has resulted in the unemployment rate falling to a 33-year low, rising wage pressures and broad inflationary impulse. With core inflation now above the RBA target band and expected to stay there well into 2010, unless there is a marked slowdown in economic activity it is clear that interest rates are set to move higher in Australia. While this may not come from the RBA, as the collapse in consumer sentiment suggests the household sector is finally responding to higher rates, higher market rates due to the on going credit crunch remain a significant risk. In additions, due to the factors mentioned above, the risk for rates still lies to the upside and so we should not be looking for the RBA to cut rates any time soon.

We remain positive on the Australia dollar despite some market scepticism. When the RBA raised rates in February and March, and then the Australian unemployment printing a 33-year low in February, the Australian dollar punched through US90c and made it as high as US95c. US dollar weakness will remain in play through 2008 and robust commodities prices and higher interest rates should all conspire hold the AUD well above 90c for most of 2008.

Other key themes in this report are:

- Three different cycles for base metals, bulks and farm commodities.
- Wheat prices to moderate from record highs but still remain at very robust levels.
- Oilseeds getting a significant boost from biodiesel demand.
- Dairy prices to pull back from record highs but the demand outlook remains very positive.
- Sugar prices being held back by robust global production.

Justin Smirk, Senior Agribusiness Economist

World growth: emerging resilience

The last time the EM out-performed so starkly ...

The lead indicators of the advanced countries have softening for some time. In stark contrast, the emerging market (EM) outlook has remained buoyant. The gap between the two regions has opened to a level not seen since the mid 1990s. The previous period of emerging market out-performance ended in a rolling succession of crises from Latin America, to SE Asia, North Asia and Russia. Excess liquidity led to overheating (asset price and investment booms that became bubbles) and national balance sheet problems.

This time around EM balance sheets are formidably strong. If anything, savings are excessive. There is enormous scope to increase domestic spending without hitting an external financing constraint. The "adverse for growth" balance sheet adjustment that needs to happen is in the US (and arguably other Anglo offshoots).

... it all ended in tears.

We have continually shied away from overt membership of the "de-coupling" school, as that group is ahistorical. A glance at the longer run historical record shows that the 1998-2003 period was an anomaly - a coupling of convenience. In truth, Asia and the other key EM were extremely frail at this time, both in terms of balance sheets and psychology. They needed US demand badly to soak up the inventories built with the capacity overhang from the mistakes of the 1990s. In Asia domestic demand was weak, as evidenced by the deflation of asset prices and huge external surpluses driven by high savings and low investment. In Latam, fiscal problems were rife. The Middle East and Africa were struggling under an adverse terms of trade. Eastern Europe and Russia were still reeling from transition and sharp bouts of inflation.

The post Crisis era is an anomaly ...

Prior to this phase, coupling was hardly in evidence. The natural state of affairs was that low income economies with decent institutions grew consistently faster than the advanced group, and with little sensitivity to them as they adapted technology, built a productive and social capital stock from a low base, urbanised, raised incomes through productivity gains, thereby boosting consumption and services demand, with associated positive structural effects. The key was access to technology and capital - not external demand for manufactured goods. The sweetest growth elixir is not mercantile in flavour.

... not the norm.

Our view is that the EM complex is again in the midst of an expansion along the above lines. We are willing to argue strongly that only a deep contraction in US activity will bring the EM down. Growth and balance sheet improvement is more broadly based across countries than at any other time in our sample set, which extends back to 1980. More countries have been growing above their trends rates for more consecutive years than ever before. At the same time the external account and fiscal troubles that created vulnerability in the 1990s have been alleviated on a broad front. IMF modelling argues that roughly 200bps of the narrowing in the EM bond spread can be ascribed directly to fundamentals, a massive positive change.

Only a deep US activity contraction ...

While this has been going on the US economy has decelerated in three successive years. Rolling four year correlations between activity in a broad sample of countries and the US are collapsing as a result. Powerful developmental forces are at play, creating endogenous momentum within economies through new consumption and investment patterns. The massive terms of trade stimulus evident outside East Asia will continue to fuel investment booms across large swathes of central Asia, the middle East, eastern Europe, Africa and Latam. Multinationals are reporting a wide margin of out-performance by their emerging market operations vis-a-vis the US. The issues currently plaguing advanced country financial systems are a peripheral matter for emerging world credit conditions. Liquidity growth (broad money) accelerated further in the EM following the August onset of the US-EU-UK-ANZ crunch.

... could unseat formidable EM momentum.

This catalogue of observations argues that the current divergence of leading indicators between the advanced and EM is more fundamentally based than the comparison episode in the 1990s. While import growth in the advanced countries is certain to slow further, it is worth noting that the emerging world has already been dealing with a soft US economy for the two full years of the housing activity downturn. US import volumes grew just 2% in 2007 and we see something similar in 2008. These two outcomes represent the third and fourth weakest years for US imports in the last 18 years behind only 1991 and 2001. Domestic final sales grew 1.9% in 2007, just a tick higher than in 2001. And the EM accelerated. As important a factor as it has been in recent history there is clearly more to life than US demand.

World growth: emerging resilience

Chart 1.

Leading indicators of global growth

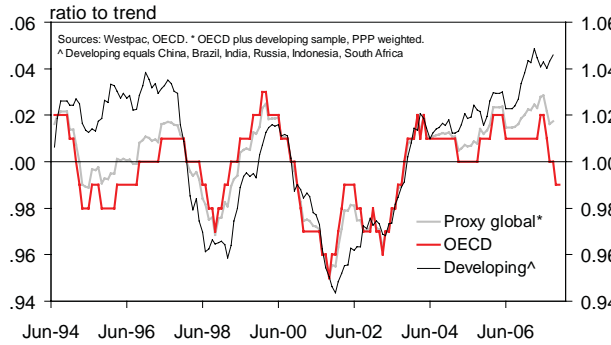


Chart 2.

World growth pulse: quarterly*

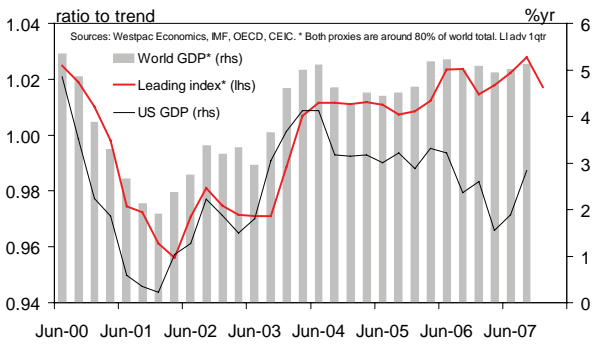


Chart 3.

Liquidity remains easy around the globe

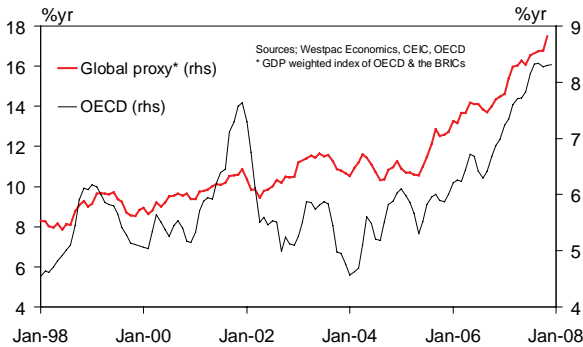


Chart 4.

Broad based growth equals resilience

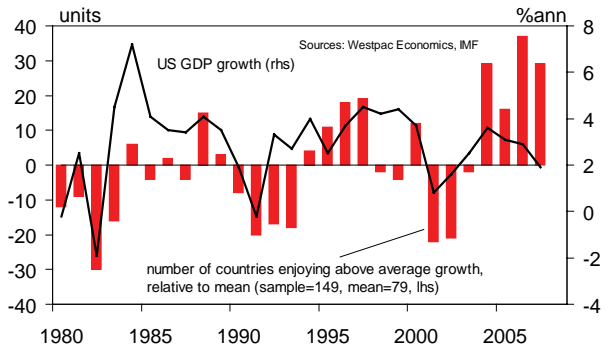


Chart 5.

Broad based improvement in balance sheets

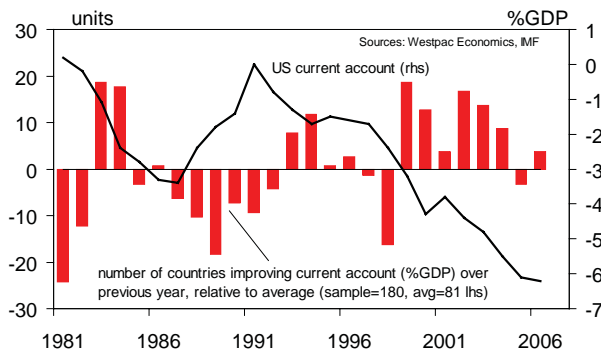
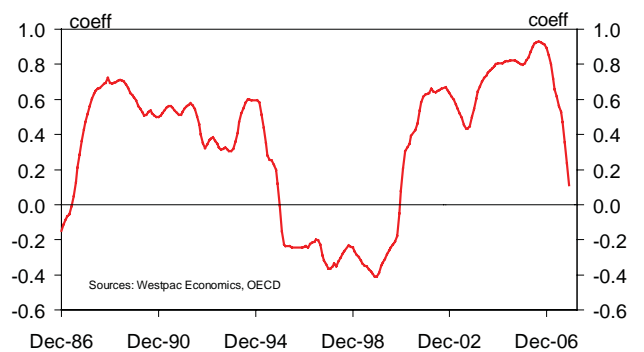


Chart 6.

Rolling correlation of US and Chinese activity



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Australian dollar

- We are still positive ...** During the Christmas period and into 2008 we have doggedly maintained our medium term confidence in the outlook for the Australian dollar. Currency markets have been anxious to sell down the Aussie on any evidence of volatility, shaky global growth or weak US data. Conventional wisdom goes that because the AUD is a commodity/growth currency it is time to sell the Australian dollar (AUD) when signs of weakness in the advanced economies emerge, which is presumed to presage a global slowdown. In December the AUD was trading just below 88¢. Since then expectations for the US economy have deteriorated sharply. The extreme vulnerability of the US was exemplified by the US Federal Reserve's decision to cut interest rates by 125 basis points in the space of eight days in January. Yet, today, the AUD stands just above 89¢ – an extremely resilient performance.
- ... on the AUD in 2008 ...** Our view is that the currency markets place too much reliance on the contagion effect from the weak US economy as it relates to the level, rather than the composition, of global growth. Global growth has been in the 4% to 5½% range for the last five years. Today, the developed world represents around half of global GDP (calculated on a purchasing power parity basis). With the advanced economies expanding at around 2% (average) in recent years, they contribute only 1 ppt of annual volume growth. The remainder comes from the developing world, where East Asia (including China) has averaged growth of around 9%, and the remainder have expanded at a 6% clip. In isolation, China's 11.4% growth explained 35% (1.9ppts) of global growth in 2007. The rest of the developing world provided the remaining 2.4ppts.
- ... despite market scepticism ...** Contributors to China's 11.4% growth were broadly: consumption (4.3 ppts) investment (4.2 ppts) and net exports (3 ppts). We accept that an export slowdown will reduce the contribution of net exports to China's growth but we do not anticipate much flow-on to consumption and investment. Capital formation has always been primarily oriented towards servicing domestic demand. No more than 10% of gross value added, or 20% of gross industrial sales, are accounted for by exporters. The US slowdown has been underway for two years and import demand has decelerated markedly already. China's response so far? Acceleration. In 2008 we expect China's growth to slow to 10.2%, with most of the fall from 11.4% being explained by a reduction in the contribution of net exports.
- ... towards "growth currencies".** Market strategists are keen to point out the collapse in the OECD leading Indicator and its historical relationship with the Australian dollar. However, that index represents just one-fifth of global growth. A more broad based leading indicator covering emerging markets is required. Our weighted composite global leading indicator is one such measure. It has slowed only modestly, because the developing world remains strong. The story is substantially more balanced than the OECD indicator alone would imply. The rampant price gains in the bulk commodity complex highlight that the world is not suddenly grinding to a halt.
- The market view has cobwebs on it.** Our expectations that interest rate differentials would continue to support the AUD have been clearly vindicated. Markets were only giving a 15% probability of a rate hike by the RBA in February as recently as two weeks before the event. We always expected two more rate hikes in 2008. The cash rate differential with the US is set to widen by a further 1% over the next few months pushing the margin beyond the ten year high to 5%, compared to the recent peak of 4¾% in December 2003.
- USD weakness will remain in play.** We do not yet see the end to the structural deterioration in the USD. Part of the long term correction to the current global imbalances must be continued weakness in the US dollar. Our view is that a further 4% to 5% fall in the USD against the Index through 2008 is likely, as the attractiveness of USD assets remains low. We look for the high yield commodity currencies and the high surplus Asian currencies to carry most of the adjustment.
- Accordingly we maintain our constructive targets for the AUD in 2008 to hold above 90¢ US. However, we do accept that it will take time for markets to embrace our view of global growth. That will probably mean a more gradual upswing in the AUD through 2008 than would otherwise be the case.

Australian dollar

Chart 1.

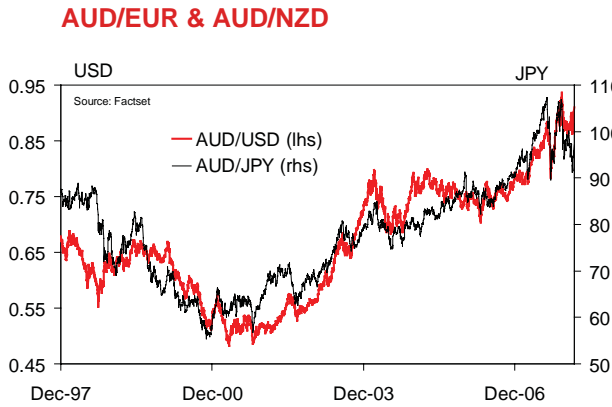


Chart 2.

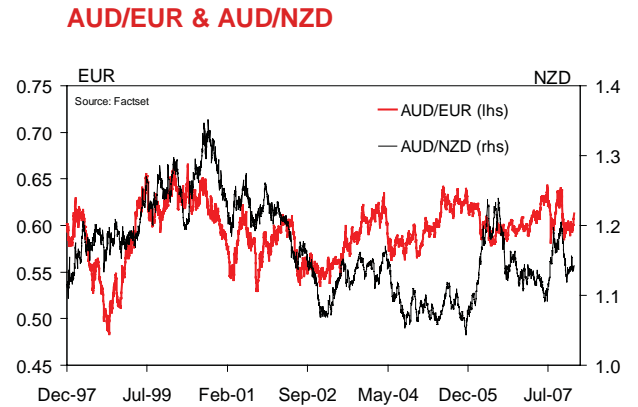


Chart 3.

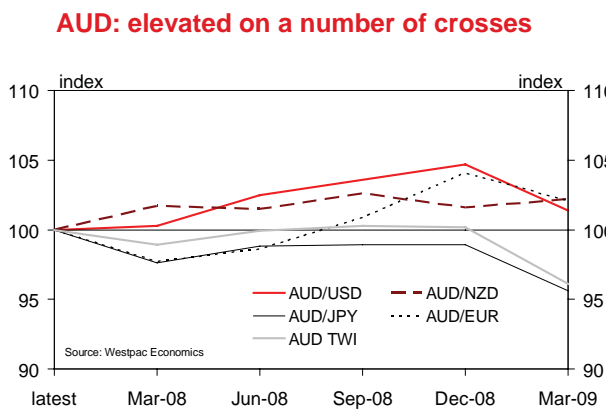


Chart 4.

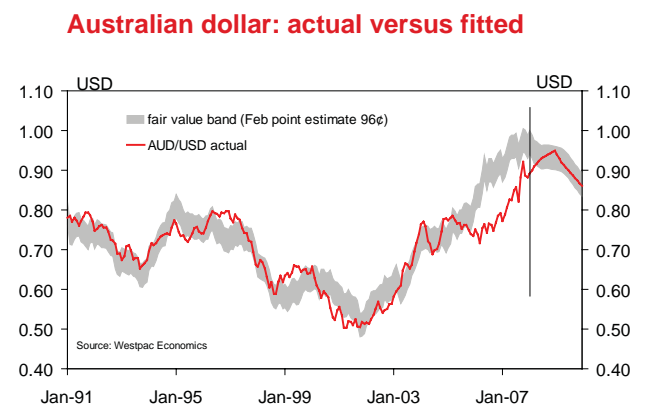


Chart 5.

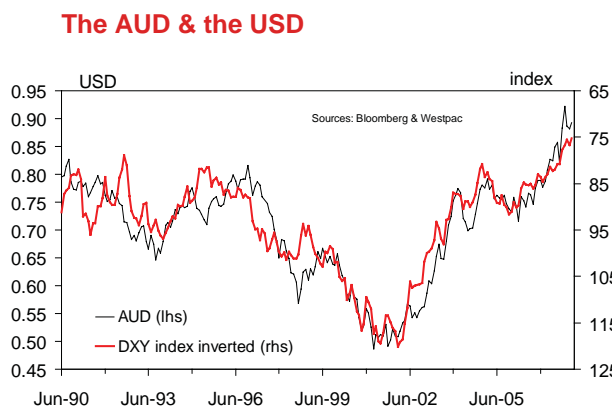
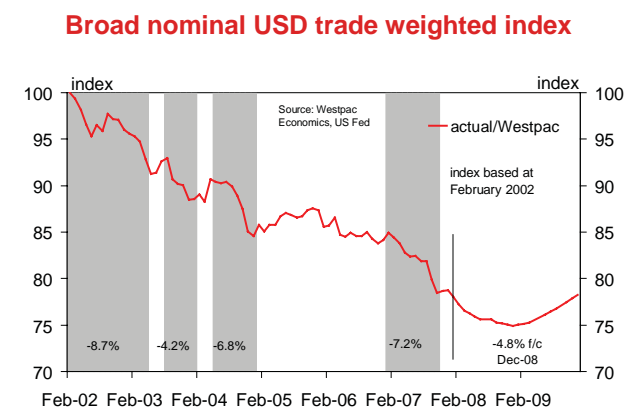


Chart 6.



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Australian interest rates

As interest rates bite consumer sentiment fall.

The collapse in Consumer Sentiment in March has prompted us to predict the end of the RBA's eight year tightening cycle that began in May 2002.

We had expected one final move in May due to our concerns with the likely high read for underlying inflation (to print on April 23) that would have made life very difficult for the RBA.

Inflation risks remain high...

However, the collapse in Consumer Sentiment in March has prompted us to predict the end of the RBA's eight year tightening cycle that began in May 2002. Tightening cycles end when there is an unusually large (non linear if you like) response to one particular move. That extreme move appears to have occurred with the latest read on Consumer Sentiment. The Index fell by 9.1% to its lowest level since September 1993. Its fall over the last three months (21.1%) is the sharpest fall over three months that we have seen since the Index was first calculated in 1975.

but consumers are responding by spending less...

Consumers have shown all the classic signs associated with a solid reduction in spending growth. Their favoured form of savings has become bank deposits and debt repayment. Their attitude towards house purchase is the second weakest reading since the question was included in 1995. There was an extraordinary response towards purchasing a motor vehicle – Sentiment fell by 22.5% – the lowest since the question was first included in 1995. The combination of consecutive rate hikes from levels that would already be assessed as contractionary and the independent rate hikes from mortgage lenders which stemmed from the sharp rise in the cost of wholesale funding has had that "non-linear" impact on confidence and spending intentions.

and saving more...

The signals from the Consumer Sentiment Index as the first real evidence that the rate hikes are having the "non-linear" effect is comparable with 1995. At that time the economy had appeared quite resilient to the 275 bp's of rate hikes in August – December 1994 and markets were predicting a further 300 bp's of hikes. However, the Consumer Sentiment Index collapsed in January 1995 and signalled that rates had peaked. Markets eventually priced out rate hikes and quickly moved to pricing in rate cuts. However, due to inflation remaining near the top of the target zone and residual fears of a wages "blow out" the RBA held rates steady for 20 months, only easing in August 1996. That was despite employment growth collapsing from 5% annual pace to eventually zero by mid 1996. It was only when inflation had clearly peaked and was moving towards the middle of the 2% – 3% base that the Bank decided to ease policy.

The labour market is likely to hold up...

The lessons from 1995/96 are important for the current period. Unlike the US we believe that Australia has a genuine inflation problem. Only some components of inflation will respond to the sharp slowdown in demand that appears to be in store. Housing costs explain a considerable share of the blow out in underlying inflation from 2.9% in 2006 to 3.6% in 2007. Around half of that increase can be attributed to rents. Rising interest rates will further reduce building approvals – further tightening rental markets. Financial services have also contributed to the rise in inflation. These services are measured by the widening of the margin between retail deposit and loan rates. That widening has been due to banks seeking to offset the rise in the cost of funds for wholesale deposits. That process is continuing and can be expected to further pressure the current inflation measures.

Labour markets are also likely to hold up well. Businesses have been pressured by labour shortages for the last few years. They are likely to hoard labour when sales slow in light of the search and training costs they have already incurred.

The labour market is likely to hold up...

In short the required slow down to reduce measured inflation is likely to prove frustratingly distant for the RBA. The fact inflation expectations are rising despite the slowdown in spending will trouble the RBA. We note that the recent Consumer Sentiment Report showed a very sharp deterioration in attitudes towards inflation. Inflation attitudes were more negative than even those on interest rates and conditions. That delicate balance between managing a soft landing while containing the recently break out in inflationary expectations will challenge the RBA and contain any temptations to cut rates too early.

meaning the RBA will not be cutting rates soon.

We expect the RBA to be on hold for 2008 and probably most of 2009 until measured inflation has clearly moved inside the 2% – 3% target zone. Being more bold and cutting rates early would risk a rise in inflation and, worst still, feed into rising inflationary expectations.

Australian interest rates

Chart 1.

Australia: interest rates / cost of funds

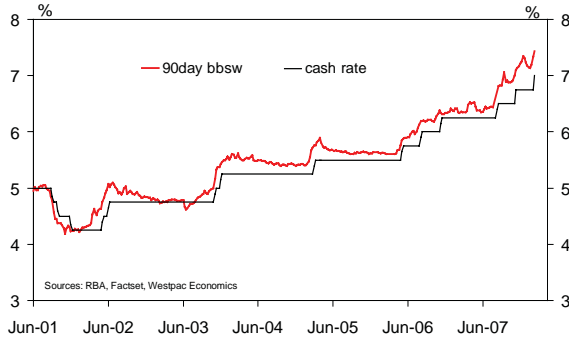


Chart 2.

Long bonds: spread blows out

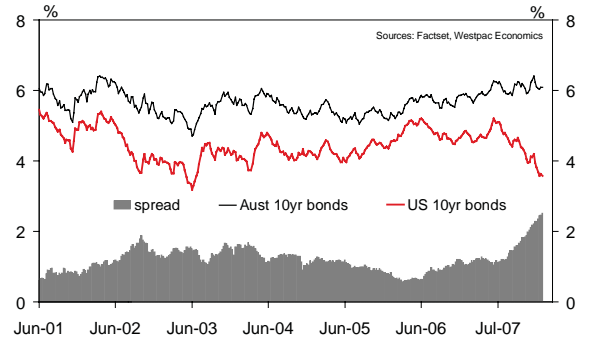


Chart 3.

The US commercial paper market

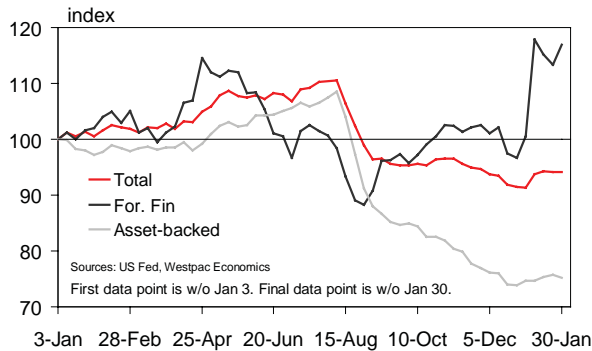


Chart 4.

RBA responding to inflation problem

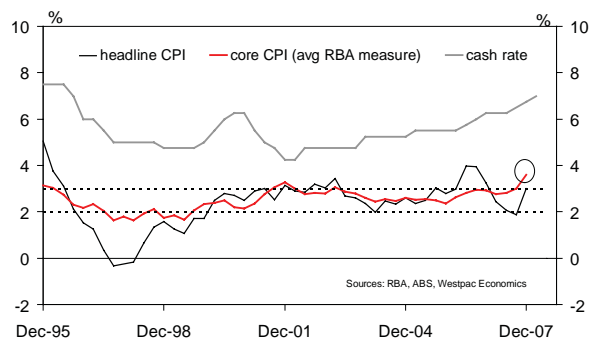


Chart 5.

Household income surges

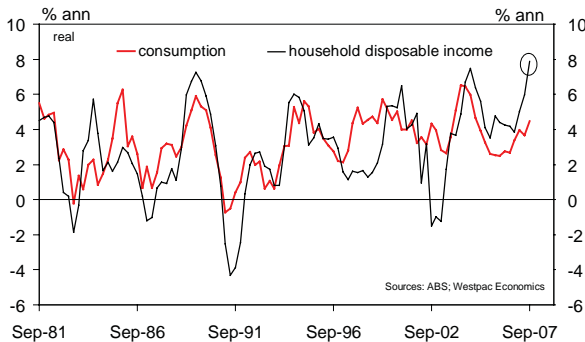


Chart 6.

Jobs growth to reaccelerate 2008H1



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Commodities: three separate trends

The composition of world growth ...

The global story expounded on page 4 has significant implications, not just for the pace of global growth, but also its composition. And growth composition is arguably more important than levels for the determination of relative prices. The slowdown in the OECD has had a significant impact on base metal prices and this will continue as the advanced country slowdown unfurls. However, demand for the basic building blocks of an urbanising and developing economy looks set to remain very robust through our forecast horizon. If you add to this mix the impact that rising developing world incomes have had on the demand for higher protein foodstuffs, and you can see some obvious break out candidates emerging.

... implies base metals will flounder ...

Industrial production in the OECD is holding up for now. While IP fell 0.2% in September, the first monthly decline in eight months, the 6mth annualised pace was still 4%, well above the 3%yr average since the 2002/03 downturn. Nevertheless, base metals have not avoided the pothole that is the US housing downturn. Copper prices peaked in May 2006 and we now know that the March quarter of 2006 was the first negative quarter for US dwelling investment. Other base metals took up the slack left open for speculative demand. Nickel and zinc prices peaked a year later while lead took until October 2007 to find its peak. The Westpac base metals index has fallen 29% from its June 2007 peak. As the US slows, so too the OECD leading indicator has tipped over suggesting demand for raw materials from the industrialised world is set moderate. While other factors do matter, and some are addressed below, we still think that a slowdown in OECD demand is the major negative for the base metal complex.

... as inventories build.

There has also been a steady rebuilding of base metal inventories. The Westpac base metals inventory index has risen 32%yr to January 2008 and is now back to a level just a little higher than its previous cyclical low in December 2000. We believe small changes in inventories at such low levels can have a significant impact on prices. If we are right with our OECD synopsis, then stocks will continue to rise in the first half of 2008 putting downward pressure on prices.

China is important for base metals ...

China is still important for the medium term outlook. However, its impact on growth in global demand for base metals will not be as large as it once was. Chinese net imports of base metals levelled out in 2007H2 and we suspect that a moderation in Chinese exports to the OECD will have a greater impact on demand for base metals relative to other commodities. Growth in Chinese net imports of base metals peaked at 33%yr in May 2007. Irrespective of last year's policy initiatives on the energy conservation front, we see Chinese demand for base metals being neutral for prices until the later half of 2008 or even early 2009.

Amidst all this talk of the US dragging the globe down with it, energy, steel and iron prices continue to strengthen. These markets are clearly being driven by the rapid growth in demand associated with industrialisation and urbanisation, not just in China and India, but now also the Middle East, central and eastern Europe, central Asia and Latin America. In January spot steel prices were up 21%yr in Asia, US scrap steel prices are up 41%yr while global iron ore scrap prices are up 6%yr. Spot steaming coal prices, ex Newcastle, are up 76%yr. All this suggests that while the iron ore and coal producers may not get the 100% rise in contract prices some are now talking about, the rises will be very significant indeed. We have pencilled in a conservative 40% rise in coal/iron ore prices in 2008/09 with clear upside risks to this estimate.

The softs are elevated - for now.

Demand for soft commodities has also been boosted in recent years by rising incomes in the large emerging economies and petro-economies. Supply has been tight, inventories have fallen and prices have lifted. Demand growth will remain robust driven by the emerging markets as ongoing population and income growth and the associated urbanisation drives dietary changes. The supply response to previous price gains will be the key factor. Australia's post drought bounce in grain production is a clear risk to prices. Rising US dairy production will also put some downward pressure on international dairy prices. Meat prices are expected to rise, helped by elevated feed costs, partly the result of biofuel expansion but also rising demand for fodder grains on top of extreme weather conditions in a number of producing nations.

We are watching oil prices closely as a guide to both the general health of global demand – if we are wrong about developing world demand for raw materials we expect it will show in oil prices first – and demand from petro-economies for soft commodities. A significant fall in oil prices, given that supply remains constrained, will be an early warning that we are too optimistic on the rigour of domestic demand outside the OECD.

Commodities: three separate trends

Table 1.

Westpac LME metals inventories and prices

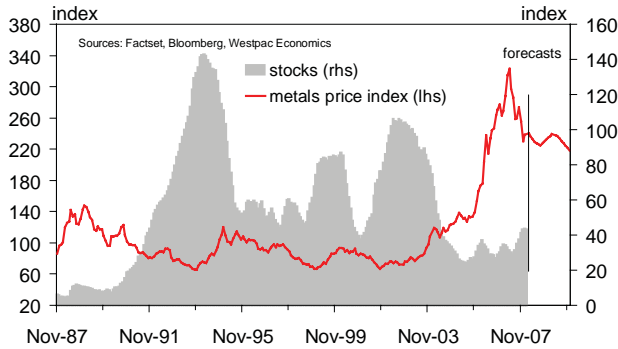


Chart 1.

OECD leading index and base metal prices

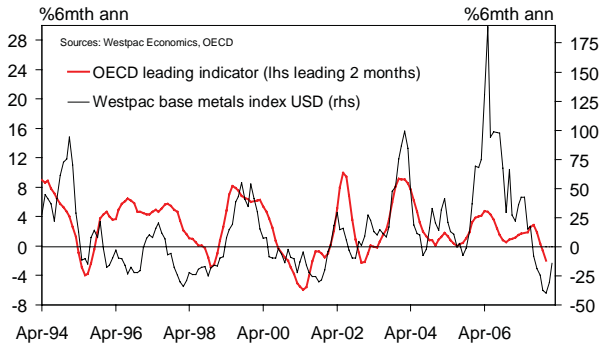


Chart 2.

Chinese trade in base metals

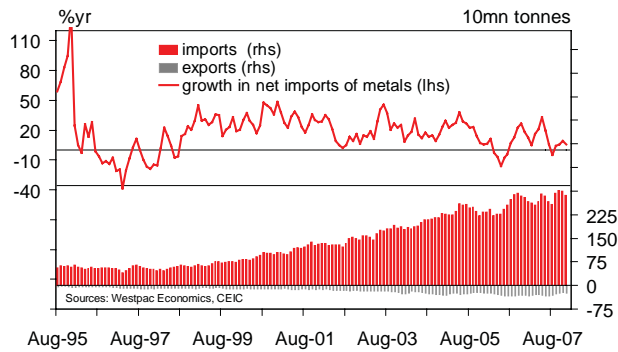


Chart 3.

Iron prices rise as contracts are negotiated

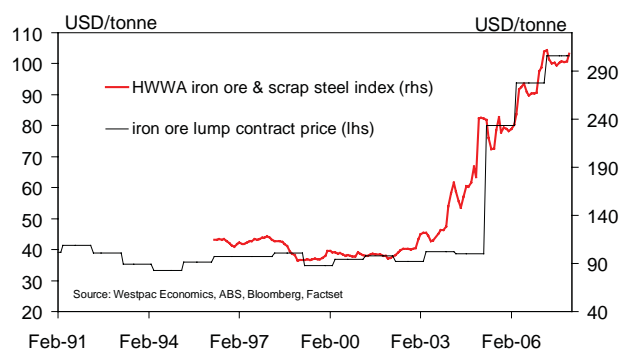


Chart 4.

BRICs and petro-economies drive dairy trade

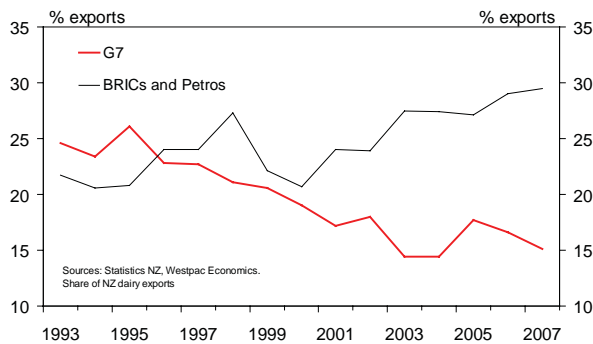
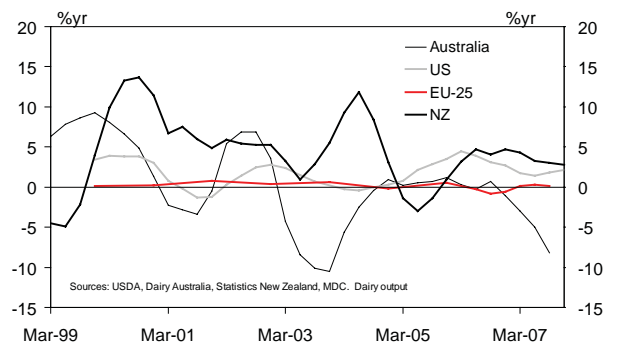


Chart 5.

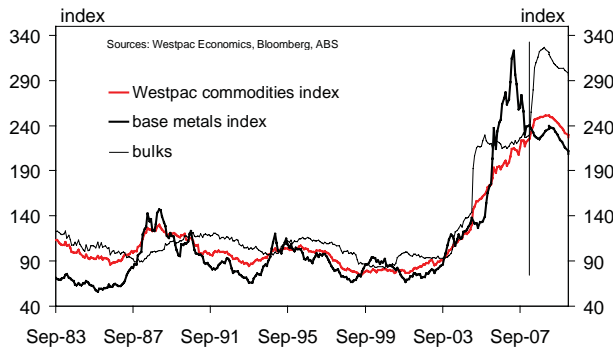
Traded dairy supply hit by Australian drought



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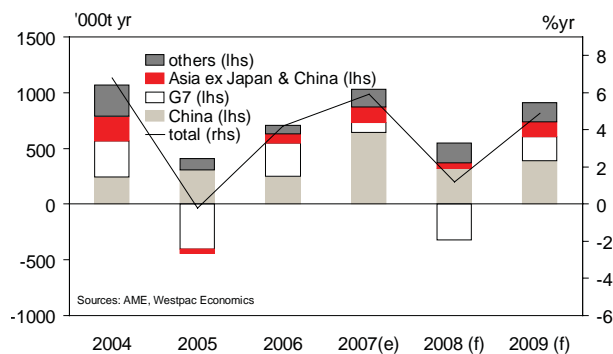
China is a stronger support for bulks

Australian commodity prices



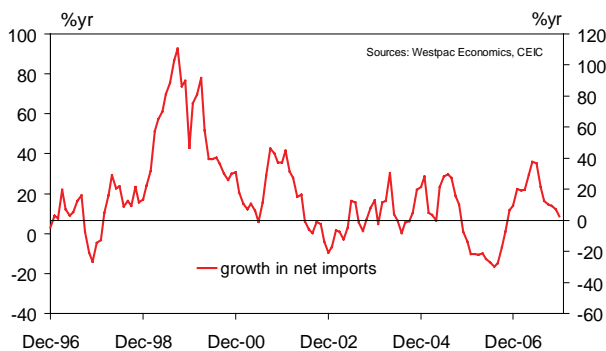
- Base metals prices are closely linked to global industrial demand. The slowdown in the US, and its flow on to the Europe and Japan will see a marked slowdown, if not stalling, in OECD industrial production in 2008. This will weigh on the demand for base metals that, for the near term, we do not expect growth in the developing world to make up.
- Bulk commodity prices – coal and iron ore – are still being boosted by the rapid urbanisation and strong investment demand in the developing world (led by China). Price rises of around 50% on average are at the bottom of expectations.
- Soft commodities (agri) and energy are being driven by rising incomes in the developing world – a very positive backdrop.

Growth in copper consumption



- China has been a big factor in the global growth in copper consumption and grabs all the headlines.
- But note in the chart over, the G7 remains a significant swing factor in terms of copper demand. It represents a drag on copper demand in 2005 that outweighed the growth in Chinese demand that year. In 2008, we are again expecting the drag from the G7 to offset Chinese growth in demand which will see the year average growth in demand slow to 1.2% from 5.9% in 2007.
- Chinese demand growth is also expected to slow in 2008 as export manufacturing growth slows.

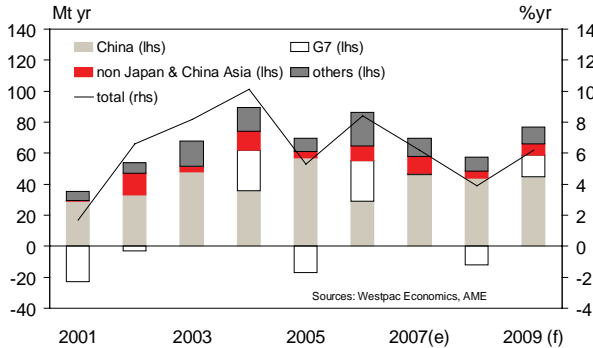
Chinese net imports of copper



- Chinese imports of copper accelerated through the first half of 2007 to be up almost 50% in the year to May. Since then, while they have been volatile, imports have broadly tracked sideways.
- It is worth noting that through 2006, when China was a net exporter of unprocessed copper, prices fell 34% in a five month period.
- While we are not expecting a similar event to occur in 2008, we do expect China's net imports of copper to slow from the heady pace reached in 2007.

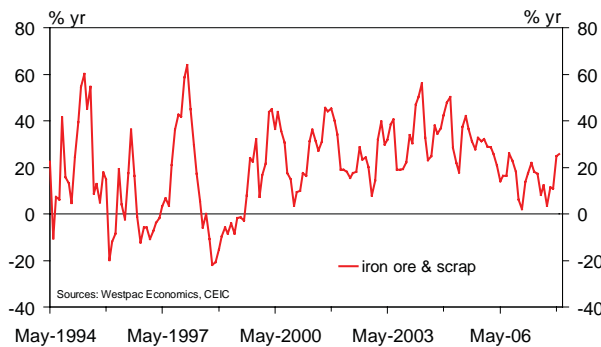
China is a stronger support for bulks

Growth in steel consumption



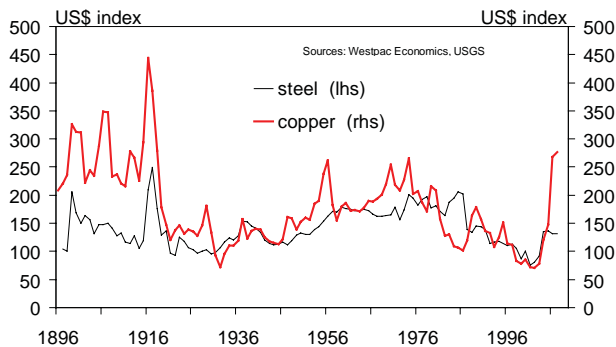
- When growth in OECD IP falls, or even just stalls, steel consumption in the G7 tends to contract. It did so in 2001 and 2005 and we are looking for a similar rate of contraction in 2008.
- Chinese demand being driven by strong investment activity, which is the result of the rapid urbanisation of the Chinese population. This long run structural event sets a very solid base outweighing such vagaries as export growth and the Olympics.
- Other developing nations, in particular the petro economies of the Middle East, are in the middle of a very strong investment cycle.
- Strong investment growth in the developing world will hold up the growth in the demand for steel, around 4% in 2008, despite the forecast contraction in G7 demand.

Chinese imports of steel inputs



- Growth in Chinese imports of iron ore and scrap peaked in early 2004 at 56%yr. Since then, the annual growth pace has slowed but at no point has it gone negative.
- After moderating in the first half of 2007, growth in iron ore and steel scrap imports accelerated again reaching a 26%yr pace in December.
- There is little to suggest, other than supply disruptions, that growth in Chinese imports of iron ore and steel scrap is about to slow meaningfully. As noted above, the investment outlook remains robust.

Real copper vs. real steel



- This divergence between our outlook between base metals and bulk commodities is not a rare event in history. The long run history of copper and steel prices has shown a number of periods of divergence and in particular, where steel prices rose when copper prices were falling.
- It is first worth while noting that copper prices have been far more volatile than steel prices. Steel prices have tended to follow the longer run structural trend with much less year to year volatility.
- Copper prices exploded at the end of WWII but then with the end of the Korean War in 1956, prices collapsed more than 40% while steel prices rose a further 5%.
- More recently, in the period from 1982 to 1985, copper prices fell 17% while steel prices rose 24%.
- The urbanisation of China and India is far and away a larger structural demand shock compared to any that occurred in the 20th century.

Wheat and oilseeds

Robust demand and not just a supply shock ...

Grains, in particular wheat, has been the strongest performer for commodities in the second half of 2007. Wheat prices have more than doubled in the past year to a record US\$11.53 a bushel in February as production failed to keep pace with demand and global inventories fell to a 30-year low. Prices soared in late 2007 following drought in Australia which saw output fall for the past two years, and production fell in Canada and the US. US farmers increased their allocation to corn last year at the expense of other grains, soybeans and cotton.

... is driving grains prices to record highs.

Low inventories and positive demand for food, feed plus still solid demand for feedstock of biofuel production, suggests we should hold a bias for higher prices over the medium term. As we have noted in this report, rising incomes in the developing world are a structural positive for agricultural commodity prices, in particular grains, due to rising feed demand to support rapidly growing livestock production.

The USDA has a very positive backdrop ...

Wheat

The most recent USDA wheat outlook has set a positive backdrop for grain prices. While it slightly lifted the forecast for global wheat production in 2007/08 to 603.6mt it also increased the outlook for demand. World wheat use for the current year is forecast to rise 2.5mt to 619.0mt due mostly to Canada reporting lower-than-expected wheat stocks suggesting higher-than-expected use of feed wheat or an error in some other part of the supply and demand estimates. In addition, world wheat disappearance, that is what the USDA can't account for, in 2007/08 was raised as local marketing year exports were increased 0.9mt more than imports. This boosts the wheat use in importing countries outside the USDA database. As a result, the USDA is forecasting world wheat ending stocks to fall 1.2mt.

... but the risk remain that high prices...

But this does not mean wheat prices should end 2008 on a high note. The record high prices for wheat, and the breaking of more favourable weather conditions, suggests Australia wheat growers have the potential to plant their largest crop ever. And if 2008 turns out to be even an average year in terms of rainfall, this can easily translate into a record crop. Soil moisture conditions in many parts of northern New South Wales and Queensland states are the best in 20 years after the best December to February rainfall in almost nine years. But as we write this report parts of the country, including Western Australia, South Australia and Victoria, are still dry. So a large part of the country doesn't have the confidence of full soil moisture profiles.

... will stimulate record wheat plantings.

Nevertheless, the Australia wheat crop is a potential negative for wheat prices. Just as most events in 2007 conspired to hold back production and boost prices, events could quickly reverse in 2008. In 2007, corn prices came under pressure as US corn acreage surged in response to record high prices in 2006. So while we remain positive for medium to longer-term outlook for wheat prices, we are looking for global prices to fall back from their current lofty highs.

The supply situation looks very tight ...

Oilseeds

Vegetable oil prices have posted record highs over the last few months. While high prices puts pressure on biodiesel profitability, this pressure should ease with the introduction of new mandatory admix requirements in many countries. There are also concerns that South American production will stagnate due to unfavourable growing conditions, while Indian rape/mustard seed production estimates are being ratcheted down. Despite a big lift in European and Canadian plantings, 2007/08 global canola production is expected be the same as 2006/07 at 48mt. With consumption rising again to 50mmt, stocks will fall further 30%, to 4mmt. The 2007/08 supply picture is looking even tighter. Oilworld estimates that European plantings will fall by 8% with Canada also likely shift plantings toward cereals.

... as biodiesel demand accelerates.

While corn-based ethanol receives all the headlines in the food vs. fuel debate, the reality is that the most of world economies are diesel based rather than gasoline based. So the focus of most biofuel production is on biodiesel rather than ethanol. To date, there is no biodiesel contract to trade so hedgers and speculators have turned to Chicago soyoil for a biodiesel financial product. Except for the brief breakdown in crude oil recently, near month soyoil contracts and the spot month crude oil contract have been moving almost in lock step as crude oil has rallied to a high of US\$99/barrel and soyoil to US47¢/lb. Soyoil appears to have changed from a grain contract to an energy contract. As long as the vegetable oil market remains tight, then this can continue. But if supply lifts significantly, this relationship can break down. This happened to sugar a few years ago when a rapid lift in production broke the short-lived link between oil prices, via Brazilian ethanol, and sugar prices.

Wheat and oilseeds

Chart 1.

Wheat price spreads

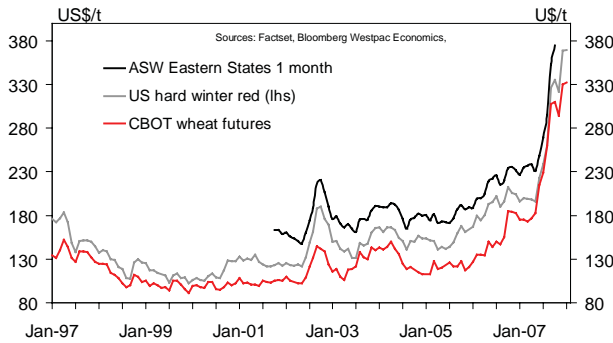


Chart 2.

Wheat consumption per person

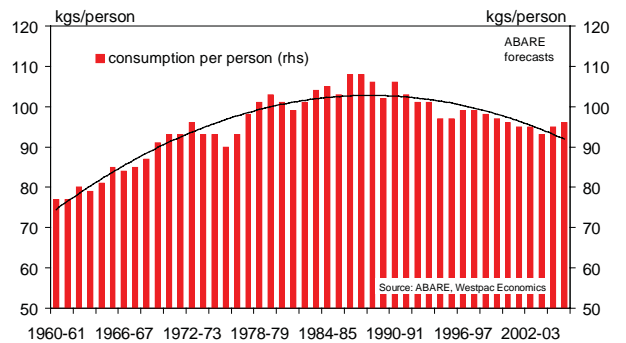


Chart 3.

World corn and barley prices

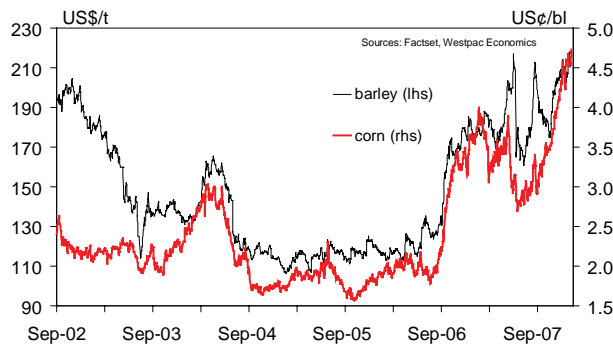


Chart 4.

World canola & soybean prices

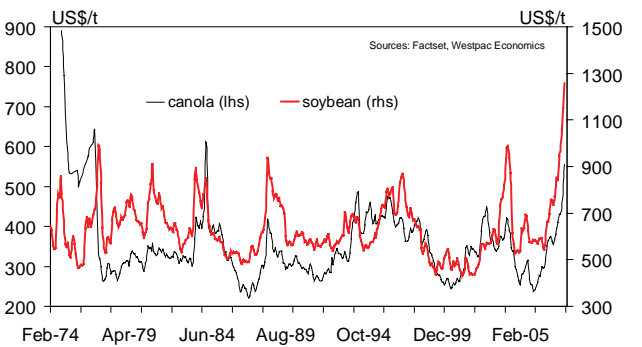


Chart 5.

Ethanol spread to gasoline had narrowed

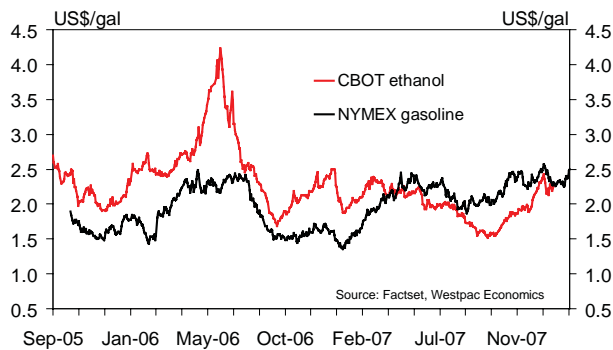
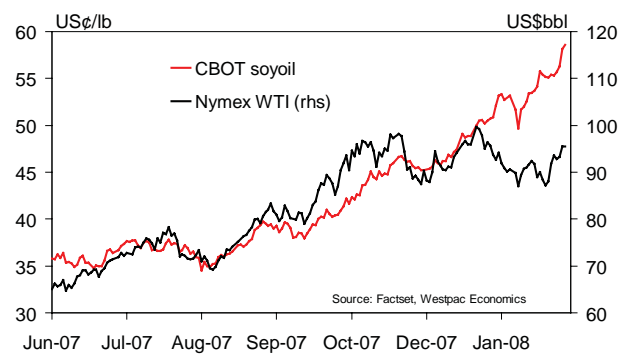


Chart 6.

Soyoil punching higher than crude oil



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Sugar, cotton and wool

The downtrend for sugar has been broken ...

Sugar

The downtrend in sugar prices, since the peak in February 2006, appears to have come to an end in the third quarter of 2007. Nevertheless, market fundamentals are not very exciting for sugar. While demand is growing at a healthy clip, supply is surging as the higher prices of 2005/06 spurred a significant increase in plantings. The resulting ballooning surplus is limiting the upside potential for sugar. Barring any extreme weather events, these negative fundamentals will drive the market but there are a number of potential upside risks for prices.

Rising ethanol demand in Brazil is offering an increasingly attractive alternative market. Robust economic growth and the increasing popularity of flex-fuel cars, is boosting ethanol demand and providing a helpful offset to the currently oversupplied market.

... but prices still held down by robust production.

India has become increasingly important in the global sugar market as it has shifted from being a net importer to a net exporter. While Indian supply is likely to hang over the market, low global prices means Indian exports are increasing reliant of subsidies.

Europe offers an upside risk as it reforms its sugar industry in response to its WTO obligations. But progress has been slow and it is unclear how quickly these developments will occur.

Cotton ended 2007 on a higher note.

Cotton

Cotton prices bottomed last April/May at just under US50¢/lb. Prices have since rallied to a high of around 74¢/lb and so far to date in February, cotton prices have averaged 70¢/lb.

For the third consecutive year, global cotton use outpaced production in 2007 due to rapid growth in China and India, the world's largest consumers of cotton. Rising disposable incomes has boosted domestic demand in both countries while the ending of the Multi-Fibre Agreement had solidified buoyant textile exports. China continues to be the main story in town in regards to demand with cotton use outstripping production every year since 2000 with the deficit being met by imports and stock drawdown.

US production to fall in 2008.

The USDA is estimating cotton production to fall in 2008 due to a sharp reduction in cotton acreage in the US, the world's largest cotton exporter. US acreage is forecast to fall to its lowest since 1989 as cotton prices languish compare to the explosive gains in grain and oilseeds prices. Global cotton stocks remain at historically high levels but the stocks to consumption ratio is at its lowest level in 13 years and in China it is at its lowest level in 18 years.

Falling wool production is a boon for prices.

Wool

Wool production is estimated to fall by 7% in 2007/08 following the selloff of stock in 2006/07 because of drought conditions in most of Australia. In-store stocks at the beginning of 2007/08 fell 28%. Lower stocks, combined with the forecast fall in production, means the overall supply of wool will be well down in 2007/08. Expectations of lower supply are likely to have been an important contributor to the upward movement in prices in recent months. Between July 2007 and January 2008 wool prices rose 20% hitting a peak of \$9.62 on 15 January 2008.

Industrialised world demand is slowing.

The fortunes of wool still remain linked to the growth in demand in the industrialised world. The slowdown in the US and emerging risks to growth in Japan and Europe are all highlighted in the downturn in the OECD leading indicator. As always differing supply trends for differing microns will have some influence on price differentials for the varying categories over the next few years. Lack of plentiful and good quality pasture has contributed to an increase in the proportion of fine wool in the clip in 2007. This is in addition to the underlying upward trend in production of superfine wool (19.5 microns or less) over the past 15 years. The production of superfine wool accounted for almost 39% of the clip 2006/07 compared with 12% of the wool clip in 1995/96 and 18% in 2000/01.

High wheat prices are a positive for wool.

Looking to 2008/09, overall the expectation is that wool supply will be slightly greater than it was in the previous year due to improved seasonal condition. But just how much will depend on just how much extra crop farmers put in this year to take advantage of record high grain prices.

Sugar, cotton and wool

Chart 1.

Production easily outpacing demand

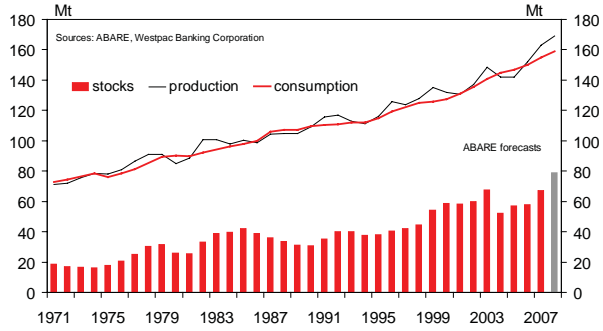


Chart 2.

Oil boost to sugar was temporary

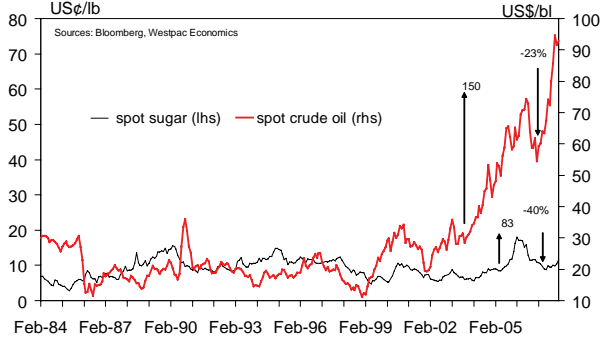


Chart 3.

Falling cotton stocks supporting prices

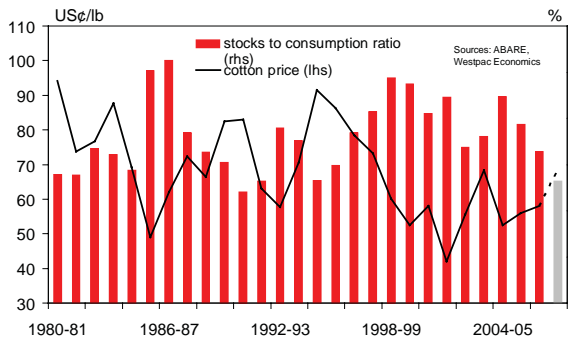


Chart 4.

Production of cotton textiles

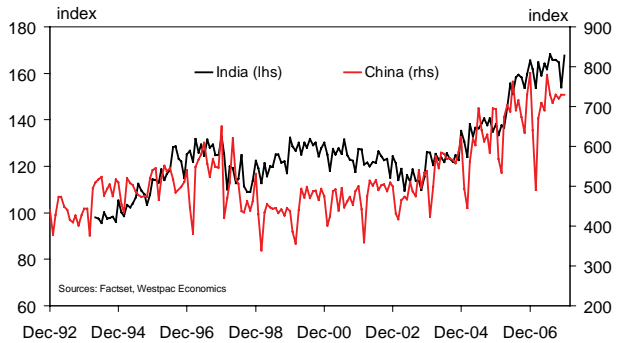


Chart 5.

Wool stocks remain supportive of prices

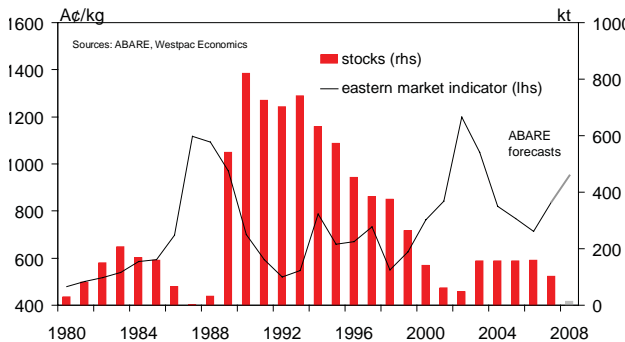
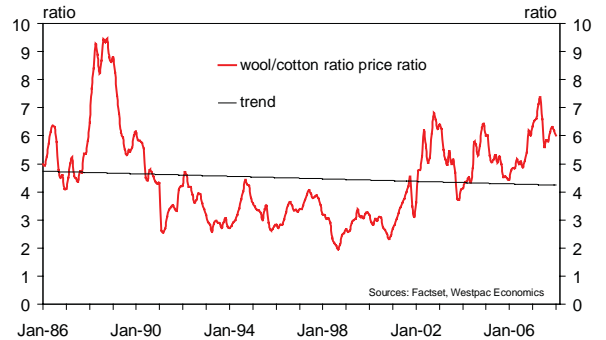


Chart 6.

Wool still strong relative to cotton



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Beef and dairy

Widespread rainfall has lifted cattle demand.

Beef

ABARE is forecasting the Australian average saleyard price for cattle to increase 1% in 2007/08. This view is primarily based on lower Australian beef production and increased demand for cattle as herd rebuilding slowly gets underway with improving seasonal conditions. The La Nina weather pattern continues to bring widespread rain to Eastern Australia and with it a return of confidence to the cattle market. It has been an incredible turnaround and many producers are now looking to capitalize on the pasture feed. However, feedlots remain under pressure. The number of cattle on feed in Australia declined 14% in the December quarter to be down 36% on a year ago as rising feed costs, high feeder cattle prices and falling export prices squeezed margins. We expect this squeeze to continue well into 2008. ABARE is forecasting Australian cattle slaughter to be down 3% in 2007/08.

US is looking to re-enter the north Asian market.

International beef markets remain uncertain with the 'on-again off-again' re-entry of US beef exports into the major markets of Japan and Korea. Uncertainty has been increased with the EU banning all Brazilian beef until further notice on lack of traceability and food safety grounds. Discussions continue on re-opening the Korean market to US 'bone-in' beef and relaxing the age restrictions on US beef entering Japan. Japanese and Korean demand for Australian beef is expected to soften from through 2008 as competition from US suppliers intensifies. The EU decision to ban Brazilian beef will open opportunities for Australian beef into the EU but will raise competition in secondary markets.

Falling production will limit beef production.

Reduced slaughtering and production in Australia lies behind a forecast 5% fall in total beef exports in 2007/08. Australian exports to Japan and Korea are forecast to fall by 6% and 17% respectively in 2007/08. This reflects the ongoing strength of the Australian dollar, rising feed costs with the follow on effects of reduced cattle of feed and thus reducing the supply of grainfed beef suitable for export to the Japanese and Korean markets. Increasing competition from US beef and other meats such as pork and chicken will provide on-going challenges for exports to the key Asian markets.

Rising incomes in the emerging world...

Dairy

World demand for dairy products over recent years has been boosted by rising incomes both in the developing economies of Asia and in the more traditional dairy consuming economies of the European Union and the United States. At the same time, demand from oil-producing nations has become increasingly important, as has Russian demand for butter. International prices jumped sharply higher through 2007, as strong demand met tight supply and depleted stocks.

... remain a structural positive for dairy prices.

The supply response to higher prices is starting to appear, especially from the United States. US milk production in the final quarter of 2007 was up 3.1% on the same period a year earlier; January production was up 1.9%. In combination with a weak US dollar, this has seen more competitive US dairy exports on the world market. This has contributed to international dairy product prices backing off their peaks in recent months. The USDA is forecasting US milk production to increase 2.7% in 2008 as a result of more cows and improving yield. The 1% projected herd increase comes in the face of soaring feed prices. Higher feed prices are expected to dampen US herd expansion and milk production growth in the second half of 2008.

European production gains will be limited.

In the EU, there is optimism around the coming production season following a mild winter. However, production quotas will prevent growth from exceeding 2% (the European Parliament is set to decide in February on a proposed 2% increase in production quotas starting 1 April 2008). Exports are likely to remain constrained by strong domestic demand, a lack of stocks, and the previous removal of export subsidies. This combined with another fall in Australian production this season, despite recent rain, and tightening supplies from New Zealand at the tail end of the season is likely to prevent major falls in international dairy prices in 2008.

We expect 2008 to be a year of consolidation for international dairy prices, easing from their late 2007 peaks, but remaining elevated relative to historical averages. Despite easing from their peaks, 2007/08 average prices will be higher than in the previous year. ABARE is forecasting 2007/08 Australian farmgate prices to be 44 cents a litre, 33% higher than in the previous year.

Beef and dairy

Chart 1.

Beef demand is set to outgrow meat demand

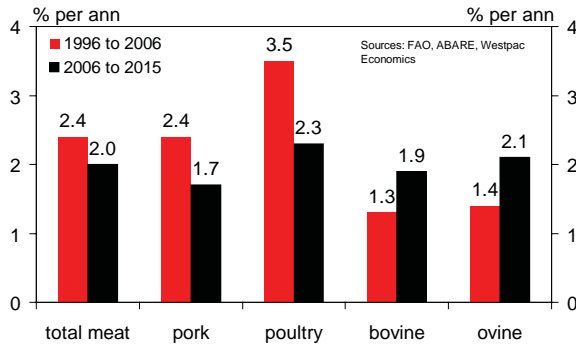


Chart 2.

US market has weakened

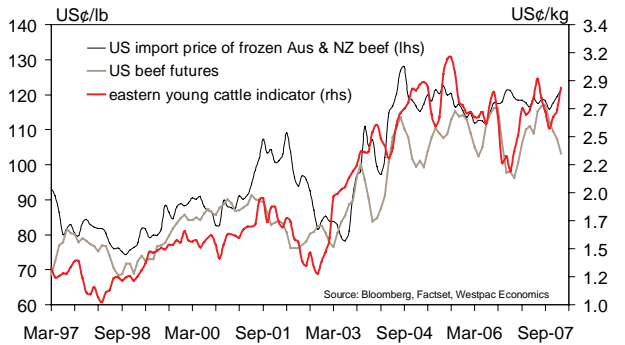


Chart 3.

Cattle slaughtering down to August

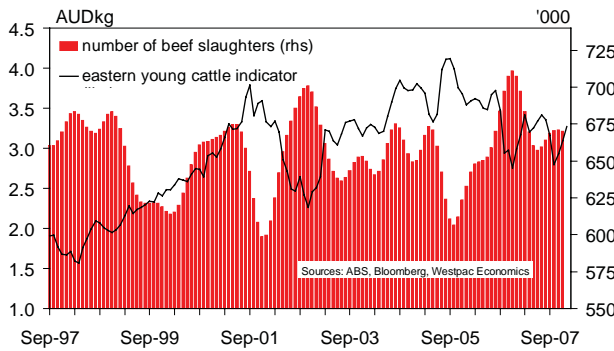


Chart 4.

Global powdered skim milk prices

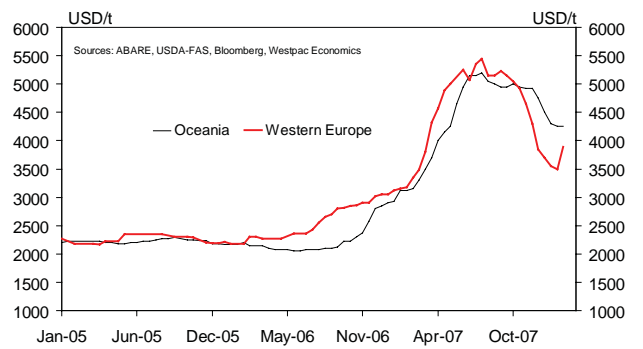


Chart 5.

Global dairy prices

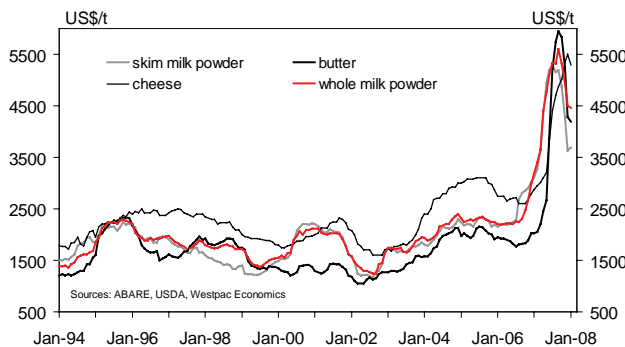
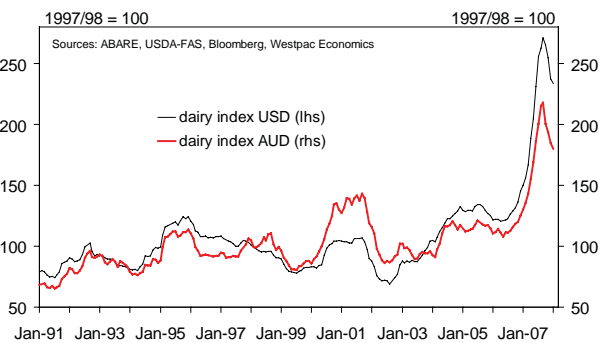


Chart 6.

Dairy price remain robust despite AUD



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Emerging demand supporting crude oil

Prices are up ...

Energy prices have continued to soar despite a building market conviction that the US is close to, if not in, a recession. This is an interesting concurrence of events – you would have thought that energy demand would be sensitive to growth. And the spike in energy prices is not just in oil. Thermal coal ex Newcastle rose more than 44% inside a month to \$131/t in late February. However, we have to leave our analysis on coal prices for another time, focussing here on oil alone. Here we seek to highlight a key theme we have been developing: that economic growth from non-OECD economies are offsetting advanced country growth.

... despite lower demand from the OECD.

Global demand for oil surged in 2004 with growth in demand averaging around an extra 3 million barrels per day (mbpd). This helped to push oil prices up through the US\$50/barrel level in 2004Q3. But note that when demand stalled near the end of 2005, prices continued to rise, hitting a high of US\$61 in late June 2006. Since then, consumption growth has been averaging a little more than 1mbpd and the price has risen through US\$100.

It is very revealing to see where the growth in demand has come from. In 2004, the OECD was consuming an extra 1½mbpd while non-OECD demand grew at a massive 2.3mbpd. This non-OECD demand was lifted by a surge in Chinese demand (0.8mbpd) plus a 0.3mbpd rise in the Middle East and a very chunky 1.1mbpd contribution from the remainder. In 2004, China was at the peak of a very aggressive investment cycle. Since then, Chinese demand growth has moderated and in 2007, it grew at just 0.3mbpd. This, however, more than offset the 0.1mbpd fall in OECD demand. 2007 also saw Middle East demand grow at 0.3mbpd – a rather interesting situation where high oil prices are boosting incomes to an extent that outweighs the effect of higher prices on demand – while demand from the rest of the non-OECD grew 1.1mbpd. This is why global oil demand continued to grow despite demand collapsing in the OECD.

... and will do so again this year.

The composition of growth, and the price of oil, also have an impact on demand. As non-OECD development accelerated in the second half of the 1990s, the oil intensity of their output increased. The ratio of oil consumption growth to economic growth in the non-OECD peaked at 1.7 in 1998. In the same year, oil prices bottomed at close to US\$11. Since then non-OECD oil intensity has eased as oil prices have risen. 2004 was the last big year for non-OECD intensity (1) due to the surge in Chinese investment. We suspect that while higher oil prices will prevent oil intensity from returning to those levels, it can remain firm. In the OECD, oil intensity peaked in 2003 only to moderate as oil prices rose. It went negative in 2006 as these economies responded to higher prices. Positive oil intensity in the non-OECD means oil demand can still grow at close to 1mbpd on our current economic growth forecasts. It is also worthwhile noting that despite higher prices, OECD oil consumption lifted in 2007Q4.

Supply ...

The story gets more complex when we introduce the supply side. From late 2002 to 2003Q3, demand exceeded supply resulting in a significant drawdown of stocks. Nevertheless, oil prices did not vary much from US\$30. However from 2003Q4 to 2006Q6, when the price of oil peaked around US\$60, inventories grew as supply exceeded demand. There were many “supply shocks” around this time, Hurricane Katrina & the Alaskan pipeline break to name two, but they were not enough to drag supply below demand. We suspect that it was the threat of supply shocks, and ongoing geopolitical concerns, that led to a speculative rise in prices at this time.

... speculation, and the Saudis.

Demand did exceed supply through most of 2007 with the gap widening in the last quarter. Supply lifted in 2007Q4, but it was not enough to match the rise in demand. So while we can speculate about how much of the rise through \$100 was due to financial activity, demand must have played a significant role. With the least price sensitive section of the global economy driving oil demand, and marginal growth in oil supply dependent on non-traditional sources, or OPEC, the market will tighten further in 2009. We expect that prices will pull back to around \$90 in 2008 as the northern hemisphere winter ends, and speculative activity shifts direction, but by 2009H2 prices should be back through \$100.

The three S's.

There was a surge in supply in 2007Q4 (1.2mbpd). Is this a sign of things to come? Even with oil prices at US\$100, some OPEC members still appear to support a cut in quotas. OPEC supply may rise as the Saudi's lift production by stealth, but it may not be as large as it otherwise could be. And disruptions to supply remain an ongoing risk. In addition, growth in non-OPEC supply is increasingly dependant on non-crude sources such as bio-fuels, condensates, synthetic crude etc, all of which have a higher cost of production than most crude.

Emerging demand supporting crude oil

Chart 1.

Oil demand stronger in 2005 than 2006

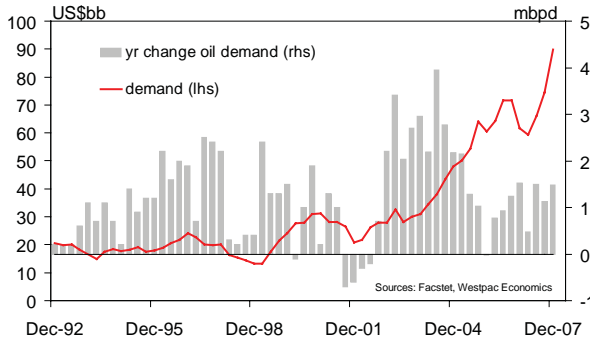


Chart 2.

Growth in oil consumption

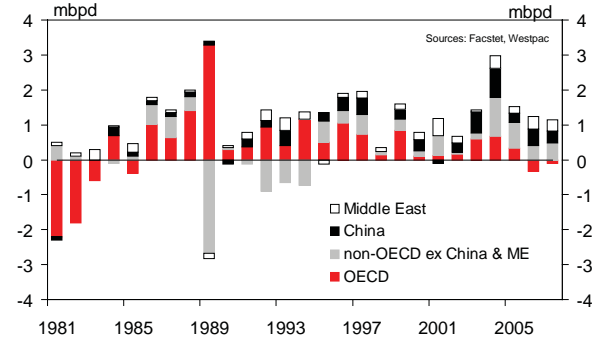


Chart 3.

Non-OECD oil intensity remains positive

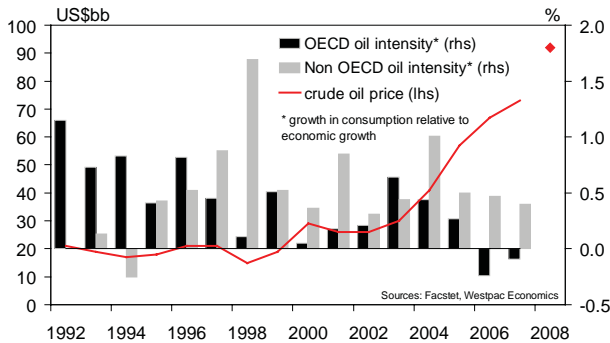


Chart 4.

OECD demand firmed in 2007Q4

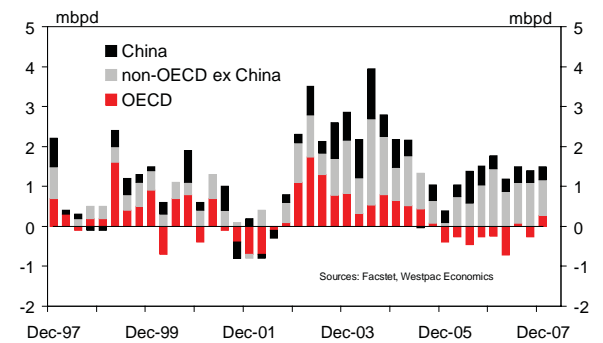


Chart 5.

Demand exceeded supply in 2007

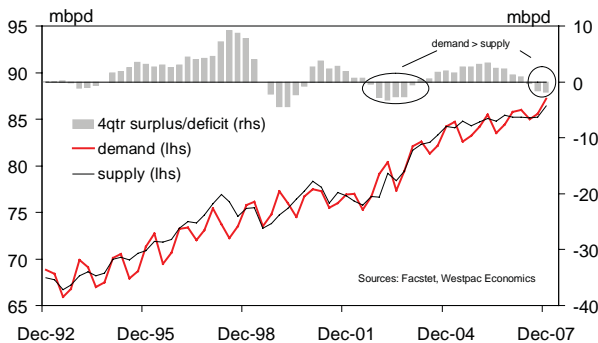
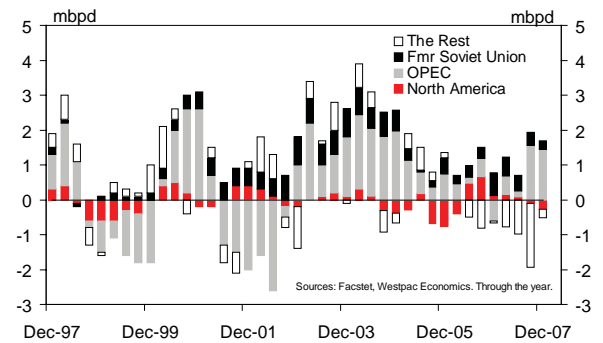


Chart 6.

Growth in oil supply



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Financial forecasts – Australia

Interest rate forecasts

	Latest (Mar 14)	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
Cash	7.25	7.25	7.25	7.25	7.25	7.25
90 Day Bill	7.85	8.25	8.15	8.00	7.25	7.15
3 Year Bond	6.20	6.60	6.65	6.55	6.50	6.30
10 Year Bond	6.02	6.42	6.60	6.40	6.20	6.00
10 Year Spread to US (bps)	254	272	280	250	205	175

Currency forecasts

	Latest (Mar 14)	Jun 08	Sep 08	Dec 08	Jun 09	Dec 09
AUD vs						
AUD index*	100	100.23	100.22	100.22	96.66	100.23
USD	0.9373	0.94	0.95	0.96	0.95	0.95
JPY	92.89	95	97	95	93	92
EUR	0.5980	0.61	0.62	0.62	0.60	0.59
NZD	1.152	1.18	1.17	1.17	1.19	1.20
CAD	0.9273	0.91	0.94	0.92	0.90	0.89
GBP	0.4640	0.46	0.46	0.46	0.44	0.44
CHF	0.9357	0.96	0.98	0.98	0.97	0.95
DKK	4.460	4.52	4.60	4.58	4.47	4.43
SEK	5.656	5.70	5.74	5.66	5.59	5.58
NOK	4.783	4.79	4.87	4.80	4.63	4.75
ZAR	7.436	7.11	7.09	7.06	7.06	7.06
SGD	1.291	1.26	1.27	1.24	1.19	1.17
HKD	7.294	7.30	7.37	7.44	7.36	7.36
PHP	38.75	37.88	38.05	38.21	37.34	37.69
THB	29.32	28.54	28.91	28.10	26.91	26.56
MYR	2.964	3.00	2.97	2.97	2.81	2.78
CNY	6.645	6.64	6.61	6.56	6.21	6.17
IDR	8665	8469	8465	8458	8322	8275
TWD	28.81	27.95	28.31	27.60	26.61	26.28
KRW	934	864	872	855	833	820
INR	37.94	36.01	36.49	35.19	33.71	33.27

*Nominal trade weighted index, with latest data compiling the base. Weights from Reserve Bank of Australia. A reading above (below) 100 indicates a rise (fall) in the AUD. ^Approximate market forward price for AUD/USD, not a forecast. Sources: Bloomberg, Westpac Economics.

Commodity price forecasts

	latest***	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
all commodities index#	246	272	276	277	276	256	253	246
bulk commodities index#	234	361	384	386	378	322	317	317
iron ore (USD/t)*	54	77	83	85	85	77	77	77
coal (USD/t)*	71	116	123	123	118	96	93	93
WCFI**#	325	276	268	268	271	271	269	257
crude oil (USD/bbl) NYMEX	105	90	85	90	95	100	105	95
gold (USD/oz)	982	880	890	890	880	870	850	800
base metals index#	285	234	228	235	242	239	228	221
copper (USD/t)	8520	7200	6900	7000	7300	7200	6500	6300
aluminium (USD/t)	3147	2500	2400	2600	2700	2600	2600	2600
nickel (USD/t)	32620	27000	26000	26000	27000	28000	27000	26000
zinc (USD/t)	2646	2200	2250	2300	2500	2400	2300	2200
lead (USD/t)	3143	2500	2500	2600	2300	2200	2000	1900
rural commodities index#	168	145	142	129	123	120	120	119
wool AUD¢/kg	997	979	979	948	947	895	914	934
wheat USD¢/bu	1127	900	875	750	700	700	700	700
sugar USD¢/lb	14	14.0	13.0	12.0	11.0	10.0	10.0	10.0
cotton USD¢/lb	84	72	72	71	69	67	66	65

	levels				% change			
annual averages	2006	2007	2008	2009	2006	2007	2008	2009
all commodities index#	188	212	263	258	25.7	12.7	24.2	-2.2
bulk commodities index#	219	224	341	333	11.0	2.0	52.5	-2.3
iron ore (USD/t)*	44	51	75	79	25.0	16.2	47.9	5.5
coal (USD/t)*	74	69	108	100	4.2	-6.3	55.9	-7.7
ave coking price (USD/t)	98	84	127	107	5.2	-14.5	51.2	-15.5
ave thermal price (USD/t)	48	51	85	91	-2.1	8.1	65.4	6.4
WCFI**#	215	259	275	267	38.6	20.6	6.4	-3.0
crude oil (USD/bbl) NYMEX	67	73	90	99	17.6	7.7	24.1	9.7
gold (USD/oz)	610	703	890	850	36.0	15.3	26.6	-4.5
base metals index#	225	277	236	232	67.1	22.9	-14.7	-1.8
copper (USD/t)	6695	7121	7131	6825	86.5	6.4	0.1	-4.3
aluminium (USD/t)	2585	2653	2536	2625	35.8	2.6	-4.4	3.5
nickel (USD/t)	23550	36609	26803	27000	60.3	55.5	-26.8	0.7
zinc (USD/t)	3251	3260	2298	2350	134.1	0.3	-29.5	2.3
lead (USD/t)	1281	2569	2607	2100	33.6	100.5	1.5	-19.5
rural commodities index#	85	112	142	120	18.4	32.1	26.4	-15.1
wool AUD¢/kg	814	988	986	923	6.3	21.4	-0.2	-6.4
wheat USD¢/bu	415	640	874	700	25.9	54.4	36.5	-19.9
sugar USD¢/lb	15	10	13	10	47.0	-31.7	27.6	-20.4
cotton USD¢/lb	54	59	72	67	4.7	9.6	21.1	-7.2

Chain weighted index: weights are Australian export shares. * Average Australian export prices fob – Source ABS 5432.0 Merchandise Trade Exports. ** WCFI – Westpac commodities futures index. *** Weekly averages except for bulks. Sources for all tables: Westpac Economics, Bloomberg, ABS.

Commodity futures contracts

Futures contracts	latest***	3rd	6th	9th	12th	18th	24th
crude oil (USD/bbl) NYMEX	105	105	103	102	100	99	98
gold (USD/oz) COMEX	982	985	995	1007	1029	n/a	n/a
aluminium (USD/t) LME	3147	3146	3171	3184	3183	3178	3173
copper (USD/t) LME	8520	8437	8344	8238	8129	7917	7713
nickel (USD/t) LME	32620	32392	32541	32530	32192	31188	30057
zinc (USD/t) LME	2646	2617	2623	2623	2616	2594	2567
lead (USD/t) LME	3143	3097	3090	3070	3044	n/a	n/a

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Summary of world output

Economic growth forecasts#

Real GDP %ann	2003	2004	2005	2006	2007e	2008f	2009f
World	4.0	5.3	4.8	5.4	5.2	4.6	4.7
United States	2.5	3.6	3.1	2.9	2.2	1.5	2.0
Japan	1.4	2.7	1.9	2.8	1.9	1.6	2.0
Euro zone	0.8	1.8	1.6	2.9	2.6	1.5	1.7
Group of 3	1.7	2.8	2.4	2.9	2.3	1.5	1.9
United Kingdom	2.8	3.3	1.8	2.8	3.1	2.0	2.3
Canada	1.9	3.1	3.1	2.8	2.6	1.8	2.2
Australia	3.1	3.7	2.8	2.8	4.0	3.8	3.1
New Zealand	3.5	4.4	2.7	1.7	3.0	2.9	3.0
OECD total	2.0	3.1	2.6	2.8	2.4	1.8	2.0
China	10.0	10.1	10.4	10.7	11.4	9.9	9.8
Korea	3.1	4.7	4.2	5.0	5.1	4.5	4.0
Taiwan	3.5	6.2	4.1	4.9	5.3	4.5	3.8
Hong Kong	3.2	8.6	7.5	6.8	7.1	5.7	5.0
Singapore	3.1	8.8	6.6	7.9	7.0	5.5	4.5
Indonesia	4.8	5.0	5.7	5.5	6.2	5.7	6.0
Thailand	7.1	6.3	4.5	5.1	4.4	4.4	5.0
Malaysia	5.5	7.2	5.2	5.9	6.0	5.2	5.5
Philippines	4.9	6.4	4.9	5.4	7.4	6.0	5.0
Vietnam	7.3	7.8	8.4	8.2	8.3	7.8	9.0
East Asia	8.0	8.7	8.6	9.0	9.7	8.5	8.3
East Asia ex China	4.5	6.0	5.1	5.6	5.9	5.2	5.1
NIEs*	3.2	5.9	4.7	5.4	5.5	4.7	4.1
India	6.9	7.9	9.0	9.7	9.4	8.6	9.0
Russia	7.3	7.2	6.4	6.7	7.0	6.7	5.5
Brazil	1.1	5.7	2.9	3.7	4.5	3.8	3.8
South Africa	3.1	4.8	5.1	5.0	4.8	4.0	3.8
Mexico	1.4	4.2	2.8	4.8	3.3	2.8	3.0
Argentina	8.8	9.0	9.2	8.5	7.5	6.5	6.0
Chile	4.0	6.0	5.7	4.0	5.4	5.0	4.0
CIS ex Russia	9.3	11.0	6.9	9.7	8.2	7.2	7.0
Middle East	6.6	5.6	5.4	5.6	6.0	6.0	5.0
C & E Europe	4.8	6.7	5.6	6.3	5.5	4.8	5.0
Africa	4.7	5.8	5.6	5.6	7.0	7.0	5.0
Emerging ex- East Asia	5.3	6.7	6.2	6.8	6.7	6.2	5.9
Other countries	3.7	9.4	6.3	4.5	4.5	3.8	3.8
World	4.0	5.3	4.8	5.4	5.2	4.6	4.7

#Regional and global groupings are weighted using PPP exchange rates prior to ICP 2005 revisions. Subtracting ½ppt from the global headline approximates growth under ICP 2005. * "NIEs" signifies "Newly Industrialised Economies" as defined by the IMF, viz; Republic of Korea, Hong Kong SAR, Taiwan Province of China, and Singapore. Sources: IMF, Westpac Economics

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Notes

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