

# Westpac Regional Economic Report

Second Quarter 2008



The most up to date trends  
and economic forecasts in  
Australian agriculture

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**Your future is our future**

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# Record commodity prices but costs are rising

Soaring food prices are making all the headlines and it is easy to see why. The US dollar value of the Westpac-NFF Farm Commodities Index has risen 25% in the last 12 months to a new record high for the series. The index has risen more than 80% over the last three years. Of course, what is also apparent is that the rise of the emerging economies in the current decade has provided a significant demand shock, the likes of which the world has not experienced in a very long time.

Global commodity prices, and in particular energy, have been rising solidly over the last few years generating a massive positive terms of trade shock for the Australian economy. In simple terms, the prices we receive for our exports have been rising faster than the prices we pay for our imports. This has boosted economic growth resulting in interest rates here being higher than they would otherwise be if it was just a domestic story. These events have unfolded just as the US dollar came under pressure from that economy's building imbalances and economic slowdown. As a result the Australia dollar has soared against the US dollar to be 13% stronger over the last 12 months. This rise in our currency dampens the rise in export prices so the rise in the Australian dollar value of our Farm Commodities Index was a more moderate 11% over the last 12 months and closer to 50% over the last three years. Australian farmers are now receiving the highest prices for their output since 1988 but the strength of the Australian dollar is tempering what would otherwise have been a very spectacular result.

We do retain an upbeat view on Australian farm commodity prices. However, we also remain positive for our other commodity exports (in particular coal and iron ore) and the ongoing support this will provide the Australian economy. As such, we see no scope for the RBA to cut interest rates this year or even next. In the US, the opposite will unfold with weaker than expected growth manifesting a market pull back from the current aggressive expectations for rate rises there. This nexus of shifting expectations will place further upwards pressure on the AUD/USD and we now expect the Australian dollar to break through parity (US\$1) early in 2009. But we do caution that markets often move faster than forecasters.

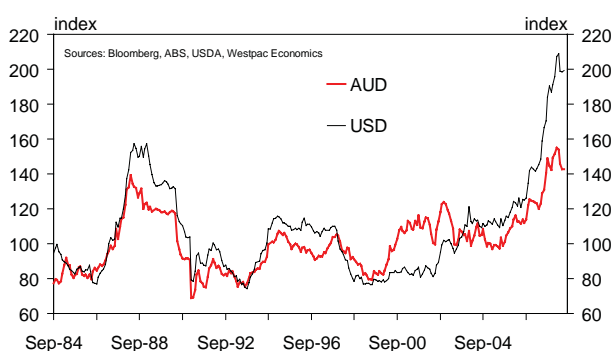
As commodity prices are rising due to robust demand, rather than a simple supply shock, this "commodity supercycle" is a two edge sword for farmers. We are now seeing more widespread inflationary pressures with crude oil prices up almost 100% this year. And the rising cost of energy, along with robust global demand, is driving up the cost of fertilizer, chemicals, farm equipment and freight costs. All up, for 2008/09 ABARE is forecasting the cost of farm inputs to rise faster than outputs, resulting in an almost 4% decline in farmers terms of trade.

There is also the question of the availability of farm labour. Following the drought of 2001/02, the agricultural sector shed around 100,000 employees. During the same time, mining employment surged about 75,000. Given that we believe the resource boom has further to run, it will be very difficult to draw back many of those workers attracted to the higher pay in the mining sector. Skilled shortages are a nation wide problem but the mining boom has made the job of attracting labour to rural Australia even more difficult. We are in a longer-term structural shift for the Australia economy that is focusing more resources into the mining sector. While temporary work visas may help find labour for the less skilled occupations, such as seasonal fruit picking, it does not help solve the problem of a shortage of semi-skilled labour let alone highly skilled economy. As a result, farmers are learning to produce more output with less labour which will see a further consolidation and rising capitalisation in Australian farming.

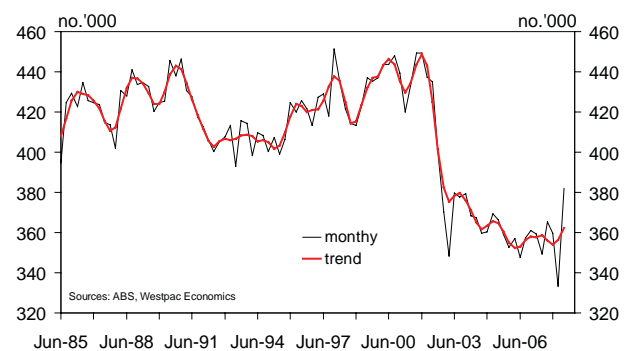
So the outlook for agribusiness in 2008/09 is the usual combination of opportunities and threats. Only this time, record high commodity prices means that those who get the rain, and are "quick on their feet", will be able to capitalise on what we believe is a once in a generation opportunity.

**Justin Smirk**, Senior Agribusiness Economist

## Farm commodity prices hitting highs



## Farm labour has found a base



# Oil prices: more at play than just speculation

## **Oil prices are up ...**

In late June oil prices pushed up through US\$140 per barrel. In terms of records, this easily trounces the 1980s inflation adjusted peak of US\$106. You have to go all the way back to the turn of the 20th century to find higher real oil prices. As oil sets ever new record highs, many policy makers are trying to apportion blame and turned the spotlight on the ubiquitous "speculator". Our research suggests that this focus is misplaced. The most important factor in 2008 has been the fundamentals of demand exceeding supply.

## **... but speculators are hardly to blame.**

Even as economic growth slows in the developed world, and consumers there respond to higher prices by reducing consumption, demand for petroleum products from the developing world continues to grow strongly. Crude oil consumption in the OECD has fallen by an average of 195k bpd in 2008Q1. By comparison, consumption outside the OECD has grown by an average of 1.05mn bpd. All up, global crude consumption is up an average of 850k bpd. Consumption growth has moderated from the recent peak of 1.5mn bpd back in 2006Q4, but continued non-OECD consumption growth has kept global demand rising.

## **Demand has exceeded supply ...**

Production is responding to higher prices, but not fast enough from a consumer perspective. Non-OPEC production is falling as Russian output looks to have peaked. North American production is being dragged down by a decline in Mexican output while the ageing of the North Sea fields mean European production is also falling. OPEC has lifted production this year but the politics of the cartel, with many countries not in favour of lifting quotas (not to mention their limited ability to do so in the short-term) suggests we should not expect any near term respite. While we do expect the gap between supply and demand growth to narrow, we doubt there will be a significant move into outright surplus before the second half of 2009.

## **... pure and simple.**

A casual glance at the level of weekly US crude inventory data and oil prices would suggest there is no correlation at all. However, annual rates of change in inventories and prices reveal a reasonable relationship. The latest data from API reported a 14%yr drop in US crude oil stockpiles in the week ended June 20, the sharpest through the year drop since April 2003. In the same week the oil price was up about 96%yr. Even in the US, where demand is falling, supply constraints have resulted in falling inventories and rising prices. That suggests that the recent move in prices is fundamentally driven, in direction if not scale. We can infer from this that financial speculators are not the cause of the rise in prices in the year to date. That is not to say that they never have an impact on oil prices. Chart 2 shows that from early 2004 to late 2005, when oil prices rose strongly, US crude inventories were also rising. And this was not just a US story. During this period the globe was also in a net surplus position for crude oil and yet prices were still rising. If there ever was a time when you could honestly point to prices being divorced from fundamentals, and thus argue that speculation was a significant factor, it was during the oil price surge of 2004 and 2005.

## **Positioning data implies ...**

At the end of June, Commodities Futures Trading Commission (CFTC) data reported that non-commercial traders (i.e. those who are employed by firms that are not direct producers/consumers of crude oil) had a net-long position of 115k contracts compared with a net-long position of 154k back in early March. Non-commercial traders have reduced their net-long positions by a quarter just as oil prices surged. This is important, as a reduction in net-long positions is the equivalent of selling oil.

The peak in non-commercial net-longs occurred in the week ended August 7 last year, just before the unfolding of the sub-prime credit crisis. That accords with reports of asset managers sending good money after bad by liquidating profitable positions (commodities and carry trades) to meet potential withdrawal demands and mounting credit losses. Non-reportable positions, which are much smaller and generally understood to be purely speculative in nature (as opposed to intermediation activities captured in non-commercial aggregates) were net-short 12,514k contracts in the most recent data. So contrary to popular belief, the most speculative part of the market has been selling oil. And prices have still been rising. In fact, this section of the market has been generally short since 2004 when oil prices were less than US\$40.

## **... that true specs have been selling.**

We argue that the market is also focusing on the fundamentals and are now expecting prices to remain higher for longer. The longest dated forwards curve has moved from backwardation in late 2007 to being more flat with spot. We are now looking for oil prices to peak around US\$155 a barrel in late 2008 before easing back to US\$125 by the end of 2009.

# Oil prices: more at play than just speculation

Chart 1.

### Crude demand grows in non-OECD

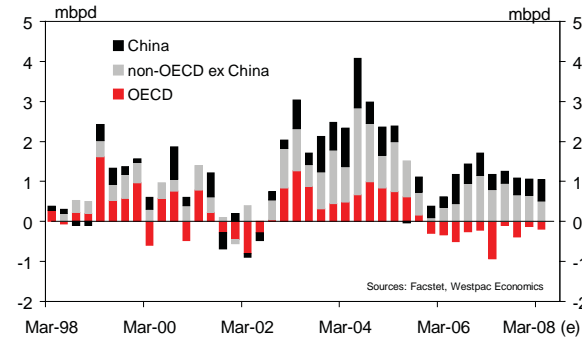


Chart 2.

### US crude inventories falling

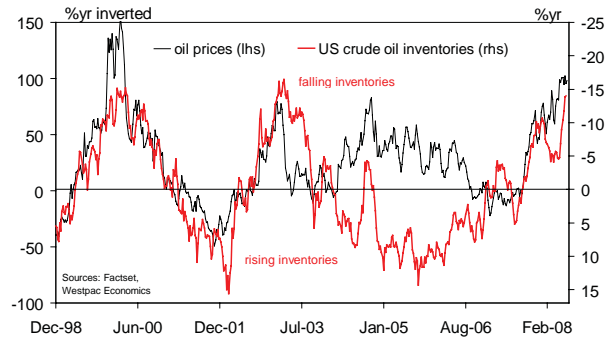


Chart 3.

### Excess demand driving oil prices

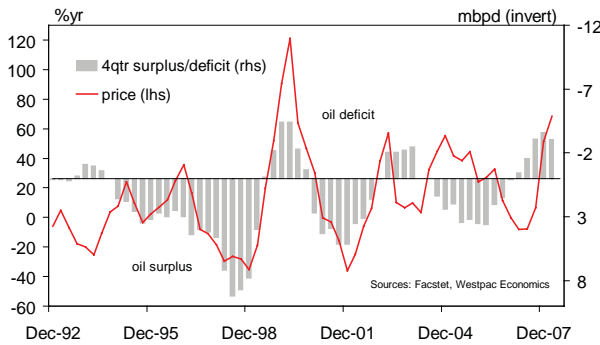


Chart 4.

### The most speculative traders are short

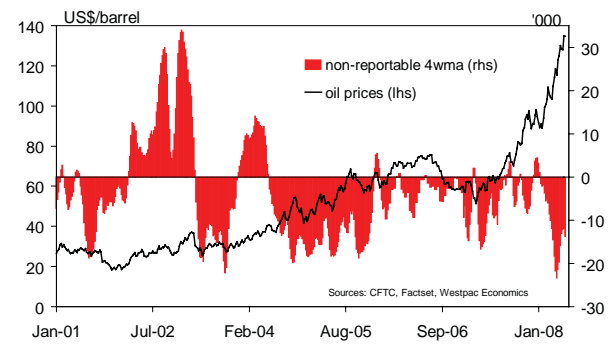


Chart 5.

### Overall long positions are declining.

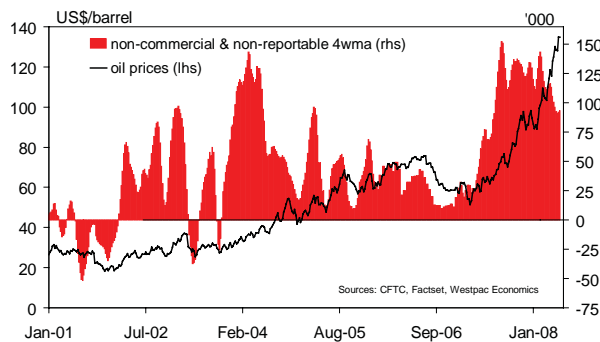
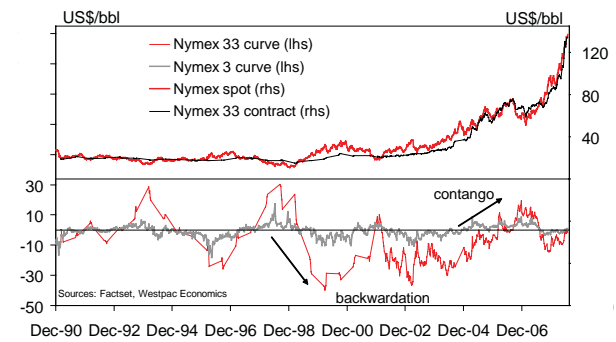


Chart 6.

### Futures move up with spot.



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# Australian dollar continue to firm

## A major re-pricing of US rates ...

The Australian dollar took a right cross to the jaw in June and it flinched a touch, but it was quickly back on the offensive. In the other corner, the US dollar was left wondering what to do after its best shot was repelled so comfortably. The boxing metaphor seems extremely appropriate to describe the recent mix of events and price action.

## ... was absorbed by the AUD ...

The US dollar has spent most of the year up to June on the ropes absorbing punishment. The AUD has been dancing around the ring, chest thumping and taunting its hapless opponent. Finally, in June, the US dollar found some energy and seemed to get back into the bout, encouraged by some machismo from its corner: rising inflation expectations, consequently hawkish Fed speak and a sharp rise in interest rate yields. The AUD managed to duck, weave and dodge its way through this phase and finished the round essentially without a scratch. The US dollar returned to its corner badly shaken, having exerted itself to the extreme only to be confronted with a smiling and apparently daisy fresh opponent.

## ... in arrogant fashion.

Coming back to reality, what we are describing is an extraordinarily resilient AUD response to the significant re-pricing of US interest rates seen through June. A cacophony of concern about inflation expectations has been coming out of the Fed, encouraging markets to anticipate a near term turnabout of policy bias. Between March 31 (or immediately after the Bears Stearns bail out) and June 17, US two year bond yields rose by a remarkable 132bps, from 1.62% to 2.94%. They were 63bps below the Fed funds target on March 31 and were 94bps above it on June 17.

## The US backdrop ...

This was no trivial re-pricing of policy expectations. In a matter of weeks, the market seemed to believe that the US was no longer on the precipice of recession, with more policy stimulus needed to relieve both the beleaguered housing market and fractious financial conditions. Suddenly, the market was arguing that the Fed would (should?) “fight inflation first”, ignore weak activity and system stability issues and focus squarely on anchoring medium term price expectations. This was tantamount to stating that the Phillips curve had shifted almost 90 degrees – from close to flat (i.e. prices highly insensitive to shifts in resource pressures) to close to vertical (i.e. prices highly sensitive to resource pressures).

## ... reminds us of the 2003 episode ...

What matters here is not so much why it happened, but how it impacted upon exchange rates. All other things equal, if we knew nothing else except that US yields had risen by 132bps in six weeks, we would have anticipated a sharp rally in the USD index and a corresponding fall in AUD/USD.

## ... of an aborted attempt ...

We saw a similar situation similar develop in 2003. The markets began anticipating that the Greenspan Fed would be normalising policy soon after cutting rates to 1.00% on June 25 of that year. The two year bond yield rose by 91bps from its low of 1.14% (!) on June 24 to 2.05% on August 27. The AUD/USD rate fell 2½% in response. This episode is depicted by the black lines in chart 4. We also note that once hope of near term hikes faded, the USD was back in the doghouse pretty quickly. The peak in two year yields occurred roughly two months into the sample period. After three months (i.e. the end of September 2003) yields were back at 1.50%, 55bps down from the peak. The AUD/USD rate rose 5½% in response to the greater realism in US market pricing, to be up 3% from its opening level.

## ... to anticipate Fed normalisation.

The current situation could be a re-run of that episode, with the important difference being that the AUD has been highly resilient to the rise in US yields, meaning that the current jumping off point is much higher in both absolute and relative terms. Consider chart 4 again. The current situation is depicted by the red lines. At the peak in US yields, the AUD was actually 4% higher than at the period's beginning! That is why we were inclined to indulge in such excessive metaphorical flourish above. Furthermore, the AUD has been responsive to the re-pricing of yields, popping up from intra-month lows around 93¢ back closer to 96¢ or so in late June, when it temporarily established a new post-float high of 0.9668.

## M&A and iron ore made news in June.

Outside of the US situation, there was a mix of Australian specific news in the month. The highlights were the announcement of even larger than previously discussed iron ore contract settlements, and further additions to the stunning pipeline of prospective inward M&A transactions, many of which involve a Chinese principal (chart 6). A greater focus on foreign direct investment is a nimble response to the deficit funding issues that plagued the AUD through mid-2007, when portfolio debt inflows collapsed due to the credit crunch.

# Australian dollar continue to firm

Chart 1.

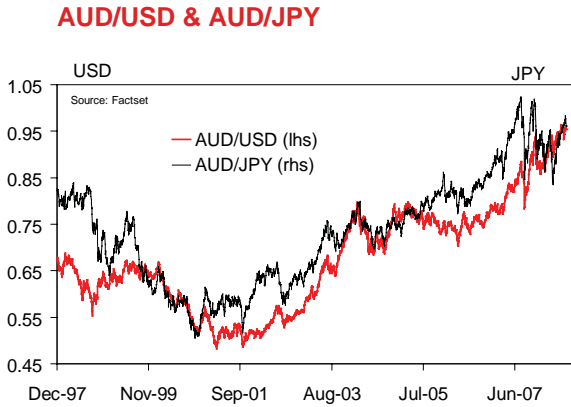


Chart 2.

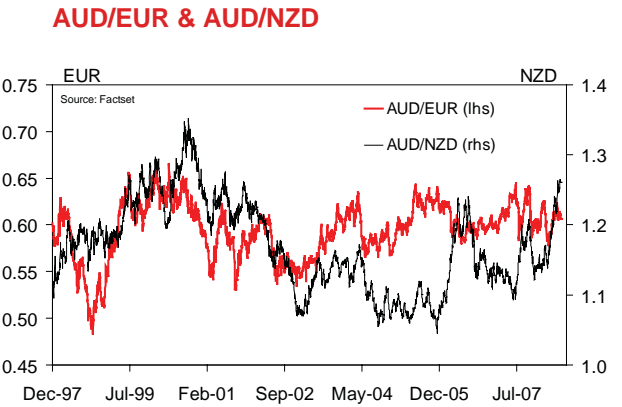


Chart 3.

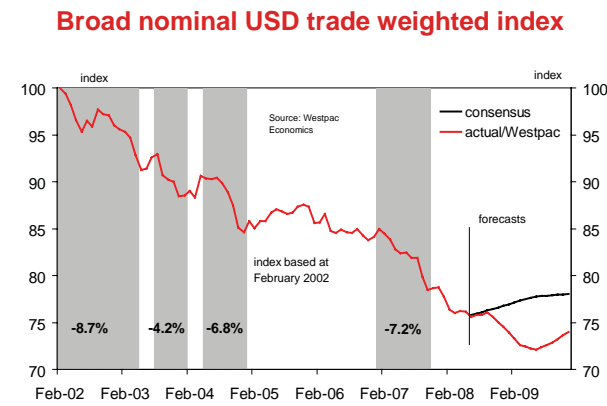


Chart 4.

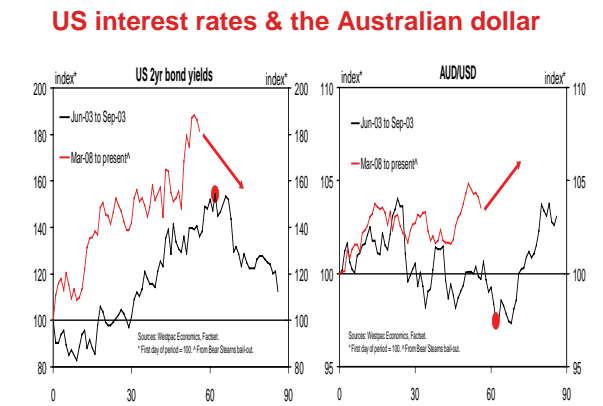


Chart 5.

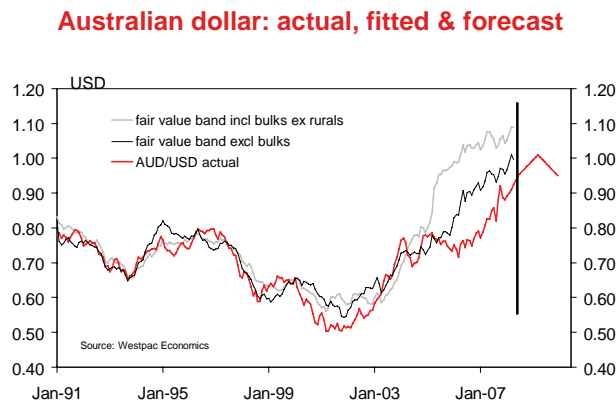
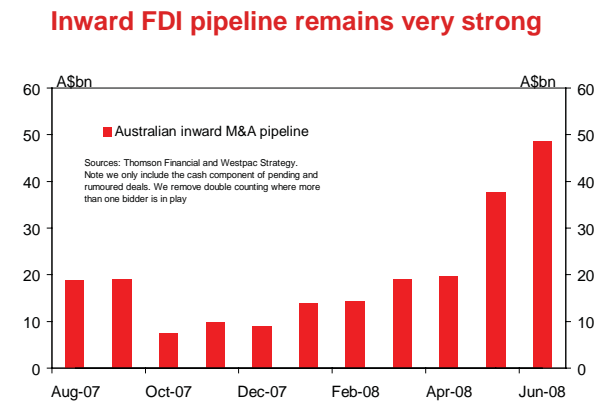


Chart 6.



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# Australian interest rates on hold

- The RBA is on hold ...** Policy was left unchanged after the Reserve Bank's July 1 meeting. That was fully expected. Market pricing had never anticipated that rates would be moved in July just weeks ahead of the Q2 consumer price index release. However, market probabilities have been quite volatile below the 100% ceiling as the emphases contained in RBA communications have progressively altered.
- ... with a domestic slowdown ...** The June Board Minutes which were released on June 17 were more "soothing" than the May Board Minutes. There was no reference in June to "members spent considerable time discussing the case for a further rise in the cash rate". In addition the Minutes referred to the Federal Budget as "mildly contractionary"; talked of business credit "slowing sharply" and anticipated that "a moderation in employment growth could be expected soon". However, eleven days after the Board Meeting the Governor spoke of the economic outlook and allocated around 15 lines of text to evidence of the slowing economy and another 55 lines to his concerns with the potential expansionary impact of the 15% to 20% boost to the terms of trade (ToT), which is yet to really impact the income data.
- ... clearly underway.** It is clear that the Bank is highly uncertain as to exactly how that stimulus will affect domestic spending. Recall that the RBA has forecast a slowdown in domestic spending growth from 6% in 2007 to around 2.5% in 2008 and holding there in 2009. That sequence of a sharp slowdown followed by a period of weak growth is assessed as necessary to reduce inflation from its current 4.25% to 2.75% by end 2010. The ToT will boost national income growth by around 3% over this period.
- The balance of risks ...** We expect that the stimulus to spending and demand from this new income boost will be slow to come through and be much more muted than in previous stages of this commodity cycle. Firstly, the government intermediates one third of the surplus profits through taxes. We judge that it is unlikely to grant further tax cuts in the style of the previous administration as it fears "stoking" further inflation pressures, therefore curtailing the broader circulation of the windfall. Another important channel is through the employment growth stimulus. Our assessment is that labour shortages in the resources sector and its feeder regions will mute the flexibility of resource companies to ratchet up hiring. In short, the spill-over to consumer and business spending that the Reserve Bank fears is likely to be lagged and muted. That would diminish the pressure to raise rates in 2008.
- ... between higher and lower rates ...** The lagged impact on demand from the ToT rise will be offset by the downward momentum of domestic forces in 2009 and a modest through the year fall in the ToT itself. However, the presence of the former should be sufficient to limit the Bank's flexibility to cut rates in 2009. Scrutiny of the impact on demand in 2004 following the initial boost to the ToT shows that if domestic forces are sufficiently powerful (an abrupt reversal in the housing market slowed consumer spending) then the stimulatory impact from a ToT boost may be limited.
- ... is still tilted heavily ...** The near term test for policy will come on July 23 when the June quarter CPI will be released. We believe that such is the Bank's desire not to tighten that it will be prepared to accept a higher starting point for inflation than the 4.2% it currently faces. For that starting point to increase we will need to see quarterly underlying inflation print above 0.9%. The last four reads have been 0.9%, 0.9%, 1.1% and 1.3%. With 0.9% dropping out, and given the recent sequence, it seems likely that annual inflation will rise. Our early estimate for underlying inflation is in the 1.0-1.2% range, indicating that in annual terms underlying inflation will rise. But as long as the next quarterly read is below 1.3% the Bank can argue that in a quarterly sense inflation has peaked.
- ... towards the former.** Recall that all the Bank needs to do to avoid another rate hike in August is to argue that while its inflation task may have increased (needing to bring inflation down from say, 4.4% / 4.5% to 2.75% rather than 4.2% to 2.75%) the growth outlook has surprised on the downside since it last produced its inflation forecast. Apart from the surprise reduction in jobs in May there has been other evidence to justify a weaker growth outlook than in May. Certainly business credit growth has stalled. In the three months to April business credit growth showed a 6% (annualised growth pace). That compared with a 25% annualised growth pace for the previous three months. Many of our customers have commented on how quickly activity appears to have slowed down. Credit market conditions have also deteriorated. Borrowing costs of AA banks are back close to the peaks of the recent crisis, a worrying sign for the future supply of credit.

# Australian interest rates on hold

Chart 1.

**Australian interest rates**

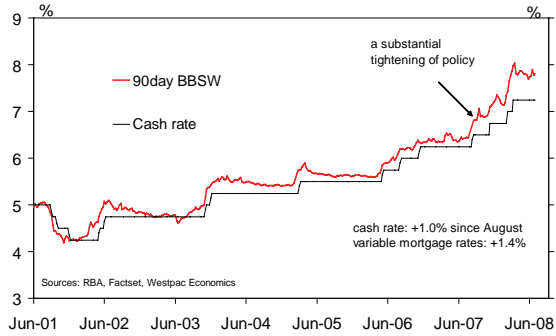


Chart 2.

**Core inflation: well above the band**

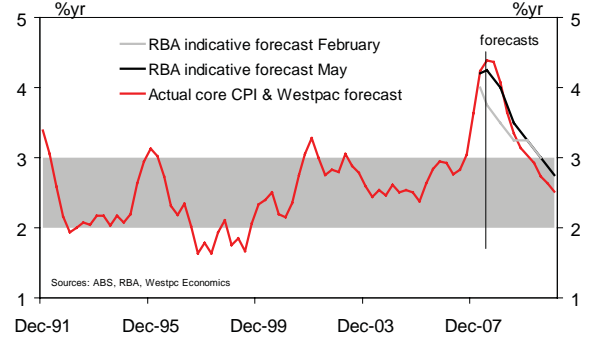


Chart 3.

**Consumer Sentiment Index: 16 year low**

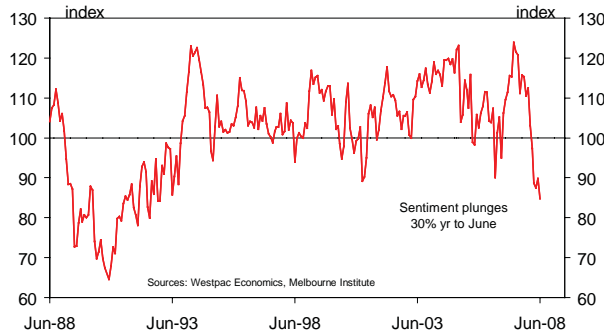


Chart 4.

**RBA rate hikes bite – as they did in 2003**

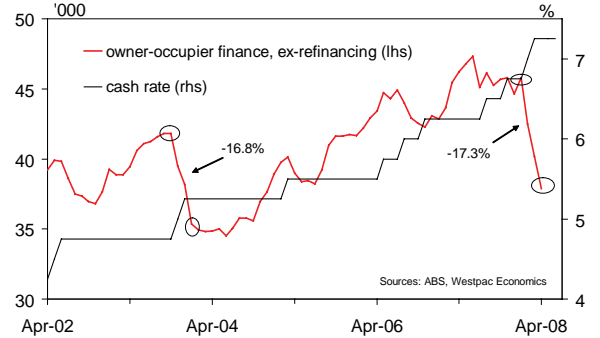


Chart 5.

**Terms of trade & incomes**

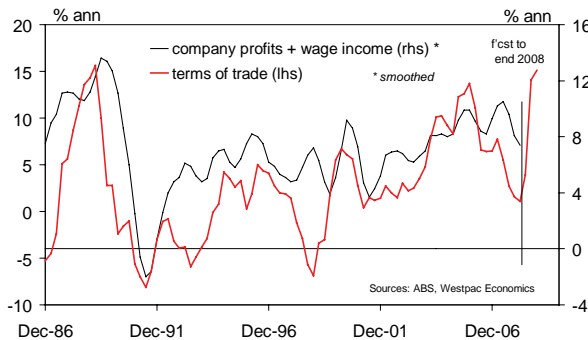
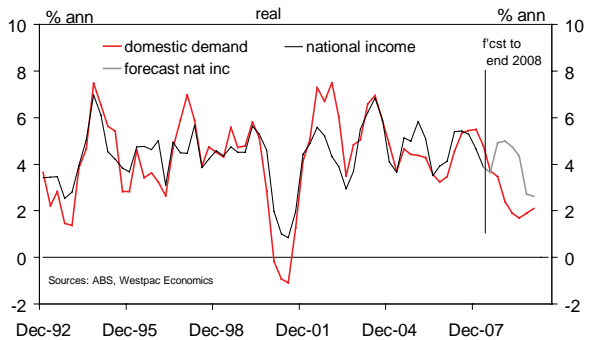


Chart 6.

**National income supportive of demand**



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# Wheat and oilseeds

## Grain prices have been a strong performer ...

Grains, in particular wheat, have been a strong performer among commodities since the second half of 2007. Wheat prices early in 2008 spiked to be more than double that of a year earlier. Production failed to keep pace with demand and global inventories fell to a 30-year low, as drought persisted in Australia and US farmers increased their allocation to corn. However for 2008/09, the global wheat supply story is expected to turn, as producers respond to high returns. However, recent floods in the US heartland highlight climate risks have become more heightened in recent years.

Low inventories and positive demand for food and feed, plus still solid demand as an input to biofuel production, suggests we should hold a bias for higher prices over the medium term. As we have noted previously, 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.

## ... triggering a supply response in '08/09

### Wheat

Global wheat prices remain at historically high levels in 2008, notwithstanding an unwinding of the March quarter spike. The strong demand story remains in place, thereby providing an underpinning for prices over the medium term. Even so, prospects are unlikely to be as favourable in 2008/09, as world wheat supplies begin to respond. The expectation is that growth in world wheat production will outstrip that of consumption over the year ahead.

Global wheat production in 2007/08 was a likely 604mt, a modest 2% rise on the year prior. Supply is expected to show a greater response going forward, with a forecast 7.6% rise in production to 650mt in 2008/09. The area sown to wheat in 2008/09 is expected to be the largest in the past decade, with a forecast rise of 4%. Adding to this, yields are expected to return closer to historical averages. The US and Europe will drive the lift in production, with a 17% and 13% rise in output, respectively.

## Australia ... looking to a record production year ahead

For the Australian wheat industry, it could be a record production year. High prices and the breaking of more favourable weather conditions suggest that wheat growers have the potential to plant their largest crop ever. If 2008 turns out to be even an average year for rainfall, this could see a record crop. The sowing area in 2008/09 is forecast to rise 13% to a record 14 million hectares. Wheat production is forecast to leap to 23.7 mt, up from just 13 mt.

Low inventories remains a key consideration. With stock levels to remain low in 2008/09, the price outlook could turn quickly if there were to be any significant supply disruptions.

## Oilseed prices hitch a ride to crude oil.

### Oilseeds

Vegetable oil prices, charging higher through May and June, are close to their record high of earlier this year. This is against a backdrop of crude oil prices hitting US\$145 a barrel. The introduction of new mandatory biodiesel admix requirements in many countries is adding to demand for oilseeds. While corn based ethanol receives much of the headlines in the food vs fuel debate, most of the world economies are in fact diesel based rather than gasoline based.

## Production to rise in '08/09, but market to remain tight.

World oilseed prices are likely to remain around these high levels in 2008/09 as demand continues to rise. Production of oilseeds is forecast to lift in 2008/09, increasing by 8% to 419mt. That more than reverses the disappointing production dip in 2007/08. Consumption, which has been running ahead of production, is set to expand by 3% or more. This will leave the market tight, with stock levels to rise by less than 2% on this outlook.

The 2008/09 outlook for canola planting in Australia is positive overall but mixed by region, with rainfall variable across the grain belt. The total area sown to canola is forecast to jump by 16% to 1.2mn hectares. Planting is likely to be down in NSW and Victoria, but to leap 60% in WA, following above average April rains.

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. As we have cautioned in the past, 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

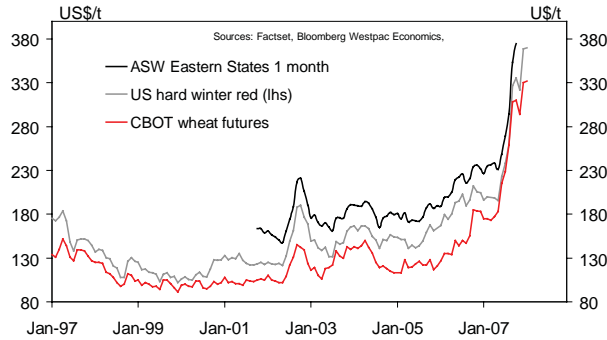


Chart 2.

## Wheat consumption per person

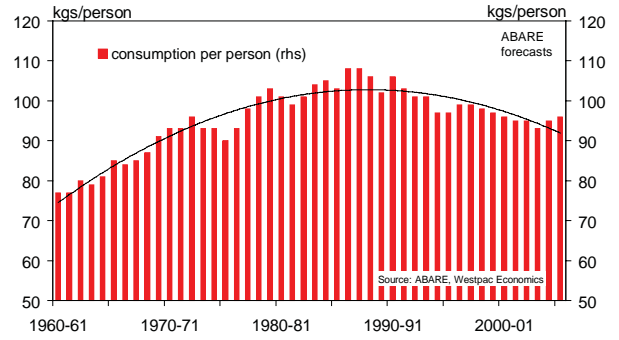


Chart 3.

## World corn and barley prices

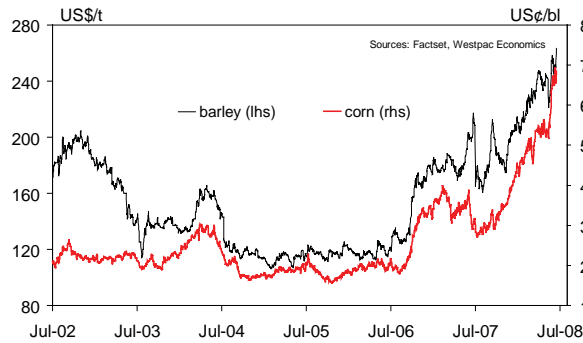


Chart 4.

## World canola & soybean prices

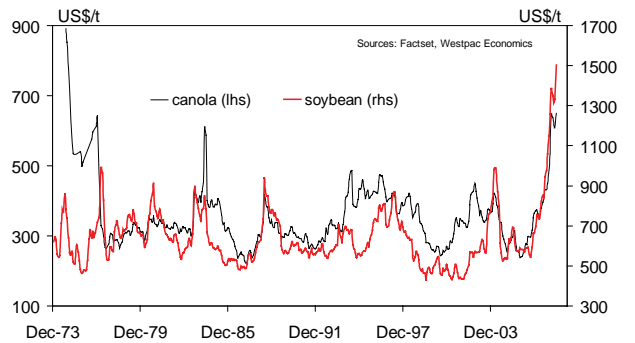


Chart 5.

## Ethanol spread to gasoline

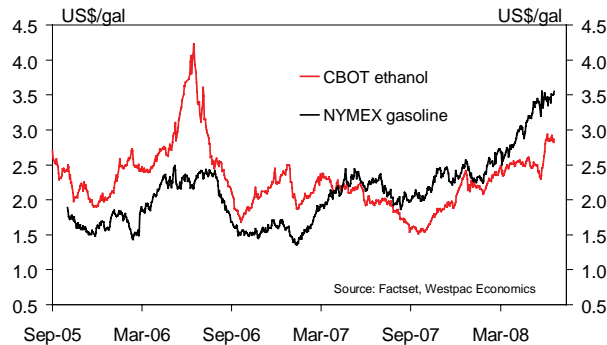
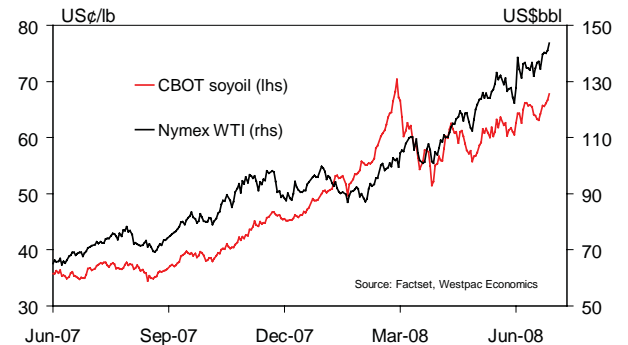


Chart 6.

## Soyoil hitches a ride to crude oil



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# Sugar, cotton and wool

<b>Sugar prices have settled back ...</b>	<p><b>Sugar</b></p> <p>The downtrend in sugar prices, since the peak in February 2006, came to an end in the third quarter of 2007. A firmer tone has been evident of late and by mid-2008 prices were up about 10% from their 2007 average. Nevertheless, market fundamentals are not very exciting for sugar. While demand is growing at a healthy clip, supply has surged as the higher prices of 2005/06 spurred a significant increase in plantings. The resulting ballooning surplus is limiting the upside potential for sugar.</p> <p>World sugar prices are expected to edge lower in 2008/09 as stock levels rise by a forecast 7%, after an 18% surge the year prior. Production is forecast to moderate a little from its record high, declining by 2%, with falls anticipated in Europe and India.</p>
<b>... following supply surge.</b>	<p>High oil prices and policies to encourage use of renewable fuels is boosting demand for sugar cane and sugar beet. This rising ethanol demand is evident in Brazil, where there is robust economic growth and increasing popularity of flex-fuel cars. While sugar cane production in Brazil is forecast to rise by 16% in 2008/09, diversion to ethanol production will limit the lift in Brazil's sugar output to 6.5%.</p> <p>That said there are calls to lower incentives for ethanol production against the backdrop of rising world food prices. The timing and extent of any such incentive reductions is unclear, but a significant effect on demand in 2008/09 appears unlikely.</p>
<b>Cotton prices step higher ...</b>	<p><b>Cotton</b></p> <p>Cotton prices have taken a step higher in 2008 and look set to move up from here. Prices in June were around US74¢/lb, a 28% leap from a year ago. The forecast is for a rise to US78¢/lb on average in 2008/09 as production stalls. While global cotton stocks remain at historically high levels, 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</p>
<b>... as production stalls ...</b>	<p>Cotton production fell by an estimated 2% in 2007/08. Prospects are no brighter for 2008/09, with a 0.4% decline forecast. That would see world production largely stagnate since 2004/05. The expectation is for lower production in the US due to a sharp reduction in cotton acreage, the world's largest cotton exporter. US acreage is forecast to fall to its lowest since 1989 as cotton prices languish compared to the explosive gains in grain and oilseeds prices.</p>
<b>... and demand remains strong.</b>	<p>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. That said, higher cotton prices are expected to have an impact on demand. World cotton consumption growth is forecast to moderate in 2008/09 to 1%, but that would still see stock levels decline by 6%.</p>
<b>Wool prices soften ...</b>	<p><b>Wool</b></p> <p>With the fortunes of the wool industry closely linked to prosperity in the industrialised world, the sector will be unable to escape unscathed from the current global economic slowdown. In the US and Europe woollen apparel sales will be dampened by sluggish overall economic growth. Also, the strong Australian dollar is making wool more expensive for foreign buyers.</p> <p>Wool prices have come off their February peak, although they remain relatively high. This softening trend is likely to continue in the year ahead. The eastern market indicator is forecast to reverse the gains of 2007/08 and average A860¢/kg in 2008/09. Mitigating the downside to wool prices is the low level of wool stocks, with a further decline forecast for 2008/09.</p>
<b>... as global slowdown impacts.</b>	<p>One positive is that wool has become more competitive in 2008 against cotton. Also, the ratio to synthetic prices has levelled out. Notably, the rise in crude oil prices, a major component in the production of these fibres, is having an impact.</p> <p>For the Australian wool industry, production is forecast to fall by 2% to 443kt in 2008/09. The number of sheep shorn is likely to be down by about 3%. This follows a decline in the sheep flock last year and expectations of no change in 2008/09. High world grain prices are pushing up feed costs and also encouraging, particularly in WA, farmers to switch into grain production.</p>

# Sugar, cotton and wool

Chart 1.

## Production easily outpacing demand

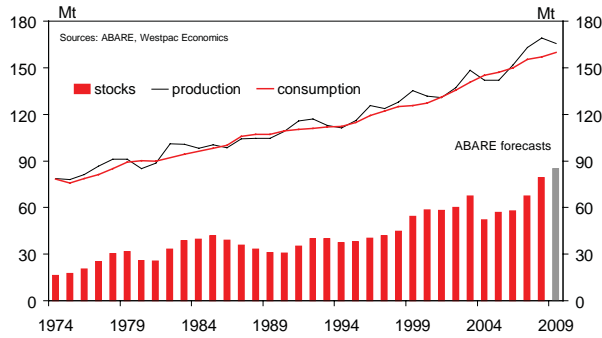


Chart 2.

## Oil boost to sugar was temporary

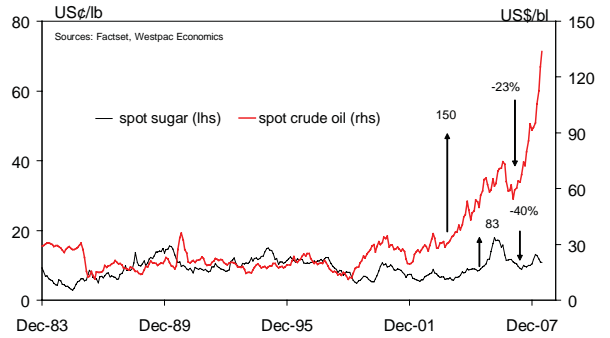


Chart 3.

## Falling cotton stocks supporting prices

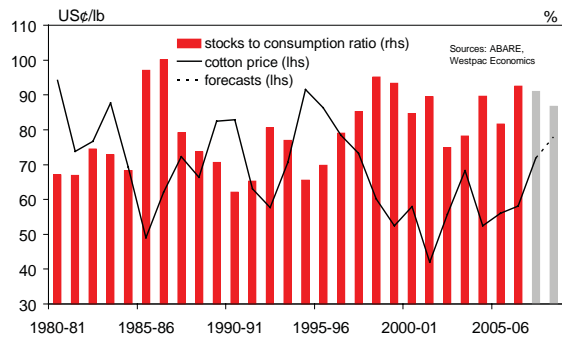


Chart 4.

## Production of cotton textiles

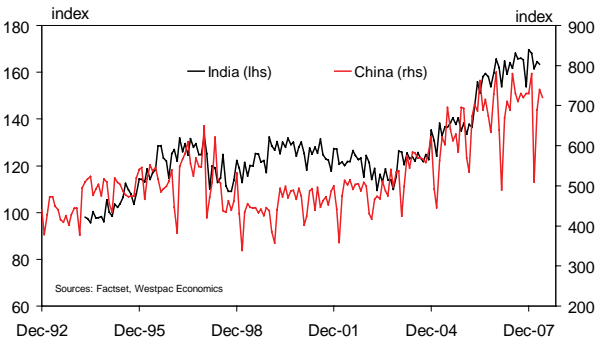


Chart 5.

## Wool stocks remain supportive of prices

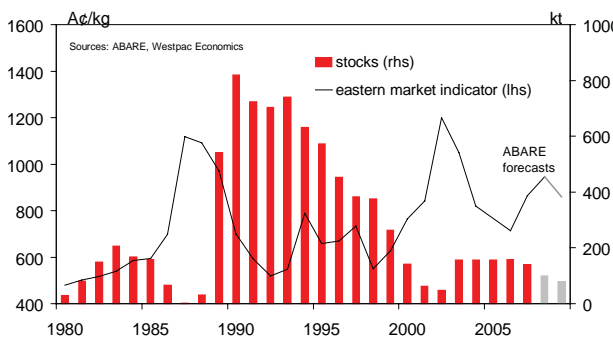
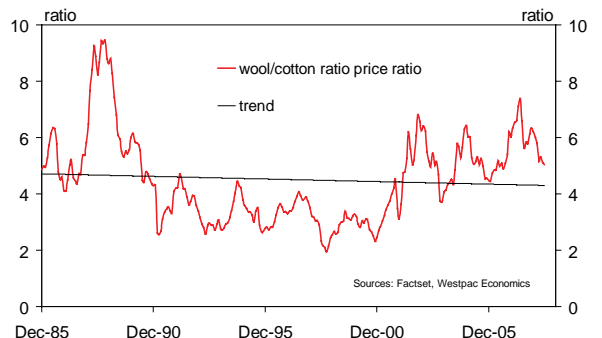


Chart 6.

## Wool more competitive relative to cotton



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# Beef and dairy

## Beef saleyard prices to firm as herds rebuilt.

### Beef

ABARE is forecasting the Australian average saleyard price of cattle to increase by 3% in 2008/09. This view is based on a forecast 1% decline in slaughtering as producers rebuild herds, assuming a return to average seasonal conditions. Capping the upside to prices is an expected decline in export demand for Australian beef. However, with the uncertainty surrounding export markets and the possibility that seasonal conditions disappoint, there is a deal of risk to this price outlook – in both directions.

## Export demand for Australian beef declines ...

Exports are expected to decline in 2008/09, reflecting reduced production and lower demand for Australian beef as competition from the US intensifies. The high currency, which looks set to continue, is reducing export competitiveness. ABARE expects export volumes to decline by 3% in 2008/09, following a 4.5% fall in 2007/08 (excluding the live cattle trade). Exports to Japan and the Republic of Korea are forecast to decline by 4% and 14% respectively. Another negative for exports is that the feed lot segment is feeling the pinch from rising feed costs.

## ... but international markets remain uncertain.

International beef markets continue to be uncertain. While the Republic of Korea agreed in April to relax import protocols on US beef, there have been delays in implementing the new protocols. Protests and public fear about the safety of US beef may mean that Australian exports prove to be more resilient than expected. In the Japanese market, age restrictions on US beef have yet to be relaxed and it is unclear when this will change.

On the international stage, some price positive developments are evident. In the US, production has been limited by a reduced breeding herd and the adverse impact of higher feed costs. This is at a time of strong US demand. Also, Russia is becoming a more significant import market, with strong demand for beef redirecting some product from Latin America away from the US market.

## World dairy prices off highs ...

### 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.

International dairy prices have eased from their late 2007 peaks, but remain well above historical averages. For 2008/09, average prices are likely to be down from 2007/08 by between 5% and 15%, across the various products. ABARE is forecasting the Australian farm gate milk price to rise by 10% in 2008/09 to 54 cents a litre as higher world prices feed through with a lag. Australian dairy farmers will be limited in their ability to lift production in the year ahead because of lead times in herd rebuilding and continued low irrigation water allocations.

As for risks to the price outlook, there is the potential for greater price volatility, given low stock levels of product. Also, seasonal conditions have the potential to significantly impact world prices. There is a need for a return to average seasonal conditions following a 5% drop in production in New Zealand and Australia because of drought conditions.

## ... as global supply begins to respond.

Globally, some supply response to higher prices is evident. In the US, production is up strongly and the weak US dollar has boosted the competitiveness of US dairy exports on the world market. Although, higher feed costs are a constraint on US production. Output in Europe has also increased, but upside has been limited by reforms that have led to reduced surpluses and slower export growth.

On the demand front, conditions have softened a little in the developed world but still remain very good overall. The global economy has slowed and the world oil price shock is a negative for consumer spending power in many countries. Demand from the oil producing countries, not surprisingly, is very strong and is providing a partial offset.

# Beef and dairy

Chart 1.

## Beef demand is set to outgrow meat demand

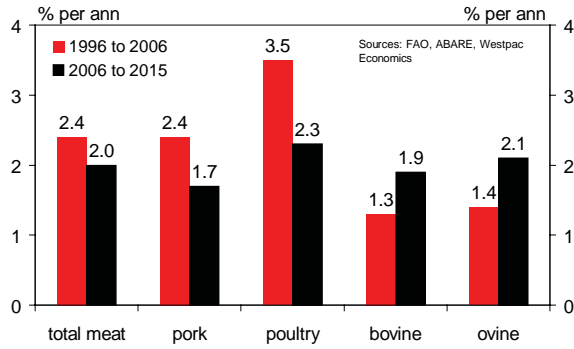


Chart 2.

## Beef prices

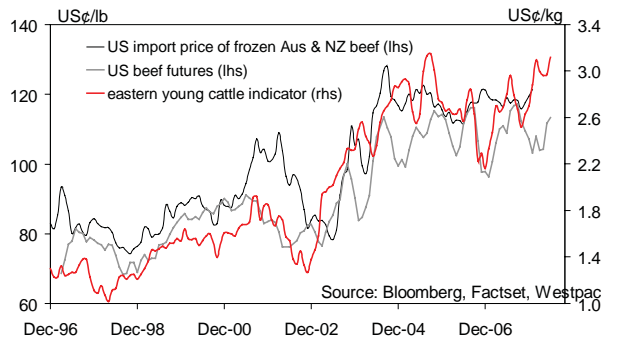


Chart 3.

## Cattle slaughtering down from 2006/07 highs

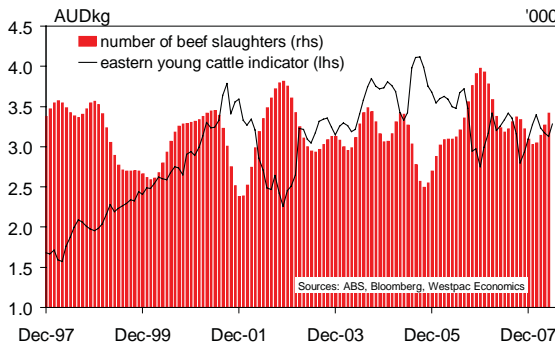


Chart 4.

## Global powdered skim milk prices

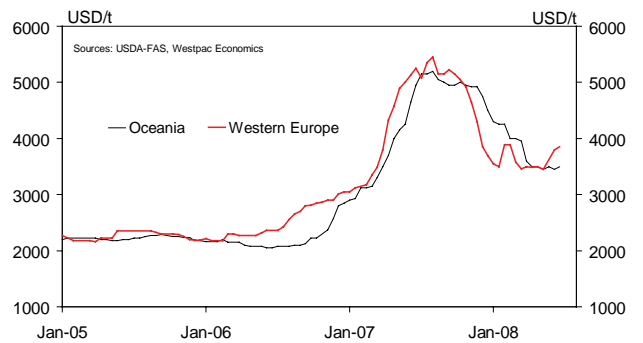


Chart 5.

## Global dairy prices

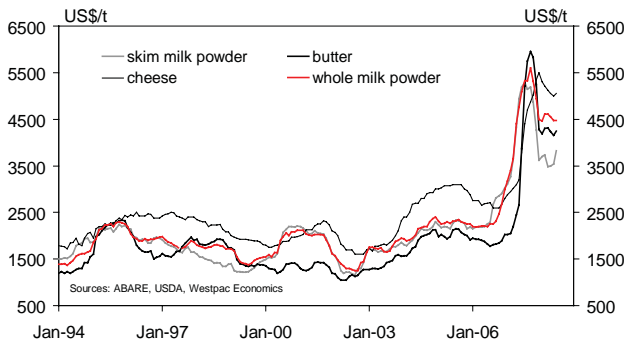
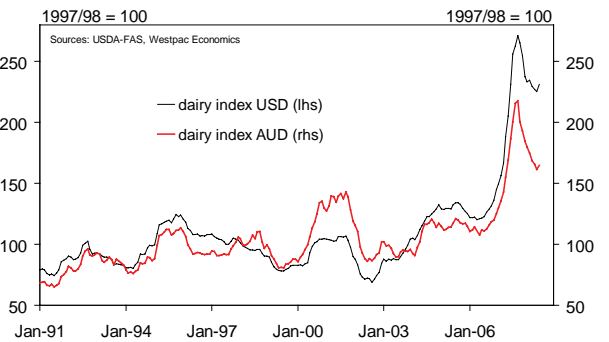


Chart 6.

## Dairy price well above historic norm



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# Steel, iron ore and coal

## Steel demand continues to grow solidly.

The outlook for the global steel market continues to strengthen. Following strong growth in steel production in 2007 of 7½%, the first four months of 2008 saw a sharp reduction in Chinese steel output and the rest of the world grew by just under 3%. As a result, demand has driven steel prices to new highs with prices rising 45% in Asia and 60% in Europe. Even in the US, where the auto industry is in decline and the risk of a full blow recession build, steep prices are up 68%. This is stunning as over the past two decades, steel prices constantly declined in real terms. After eight successive years of absolute price reductions, steel prices only started picking up in 2003 to now be currently trading near to or at record highs. While you can point to the rapid growth of Chinese demand as a major cause of the increases in both steel prices and the price of steelmaking inputs, under-investment over the last two decades has meant delayed mill maintenance while the development of new iron ore and coal mines has significantly lagged the increase in demand. The resulting rise in production costs worldwide has unsurprisingly fed through the whole process – Chinese prices continue to rise while the overall higher quality of their production, and rising freight costs from Asia, has meant European and US steel producers have kept their price premium to Chinese steel. The robust global demand conditions, led by the developing world, and tight supply conditions are set to be very supportive for Australian coal and iron ore export prices for at least the next few years.

## There is an insatiable demand for coke.

### Coking (metallurgical) coal

Metallurgical coke prices have surged higher towards the US\$700/t fob in China (up over 300% in 2 years), as the rate of growth in Chinese coke production slows. First-quarter coke production in China increased just 10%, having expanded 17% in 2007. Government policy aimed at improving the environment ahead of the Beijing Olympics, resulting in a scaling back of steel operations, has been a contributory factor to the slowdown in coke production. Nonetheless, the principal factor behind rising metallurgical coke prices is the lack of availability of coking coal, which has resulted in prices for the latter climbing more than 200%yr. Massive supply disruptions owing to heavy flooding here in Australia has been the key driver of coal prices. Australian hard coal exports fell 17% in Q1 to be down around 10% through the year. The closure of a raft of small mines on safety and environmental grounds in China, along with a sharp increase in rail transportation rates to Chinese ports, have led to the widespread shortage in coking coal in the country as well. Chinese prices for premium coal have increased to RMB2,150/t, with local coke prices rising even more aggressively to RMB2,700/t. As these price increases are being passed on, and the demand growth for steel is not slowing, there is little reason to expect a significant correction in coking coal prices before 2010.

## Strong demand forces the Chinese hands.

### Iron ore

Following extended negotiations, BHP & Rio Tinto won an average 85% increase in the benchmark price for iron ore, an improvement on the CVRD increase of 65%. The market could clearly see this coming as the world spot price for iron ore/scrap was up 80%yr in May. There are, however, some signs that the fundamentals in the iron-ore spot market may be easing. A drop in Chinese hot metal production to 8.3% (well below the 2007 growth rate of 13.5%) points to the fact that an increased proportion of production is coming from scrap. At the same time, Chinese imports rose by 20mn for the first four months of 2008, and production increased by 23%. Supply into China has risen by almost 40mn tonnes and with the supply of ore increasing much more rapidly than demand, the result has been a rise in stocks at Chinese ports. However, the recent decision by the Indian government to implement a 15% VAT on all exports will have an impact on prices, although the final effect remains to be seen. Further, although China's iron ore production is significant, the grade is low and this could affect China's dependence on imports for good quality iron ore, thereby pushing world prices higher.

### Thermal coal

Thermal coal prices have soared again this year as extremely tight supply conditions dominate the market. The Barlow Jonker Index, the benchmark spot price for Australian thermal coal, set a new record high in early July breaking through US\$170/tonne. Spot prices are up 90% so far in 2008 in Australia, 70% in South America, more than 60% in Russia and just under 60% in China. Higher oil prices would be a factor as power utilities in Asia switch to coal amidst growing energy demand. But the big shift this year is confirmation that China's is moving to being a net importing nation. In the second quarter of 2007, China was a net importer of coal as there was a seasonal slowing in coal exports but exports recovered in the second half of the year. However, the trend in exports is clearly slowing as the government shift the incentives away from exporting energy intensive commodities to encouraging a rise in domestic supply.

# Steel, iron ore and coal

Chart 1.

**Steel prices rocket in 2008**

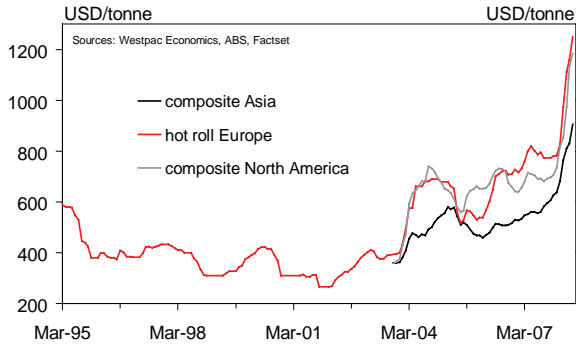


Chart 2.

**Steel prices supporting coking coal**

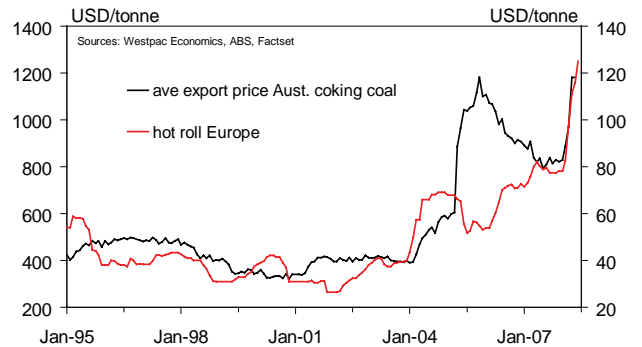


Chart 3.

**Chinese imports of steel inputs**

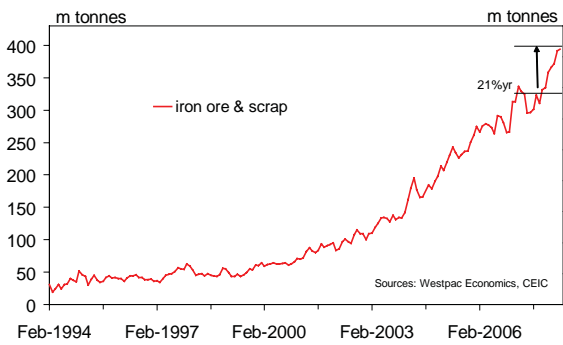


Chart 4.

**Steel prices following iron ore prices**

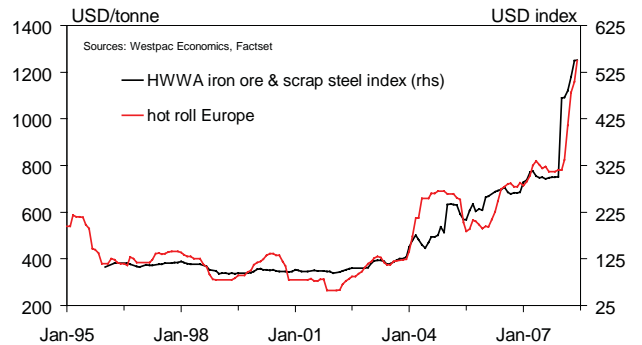


Chart 5.

**Global thermal coal prices explode**

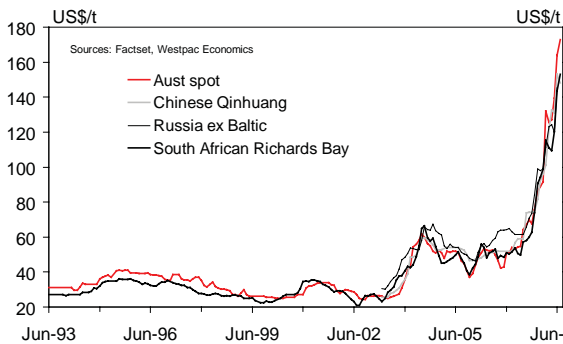
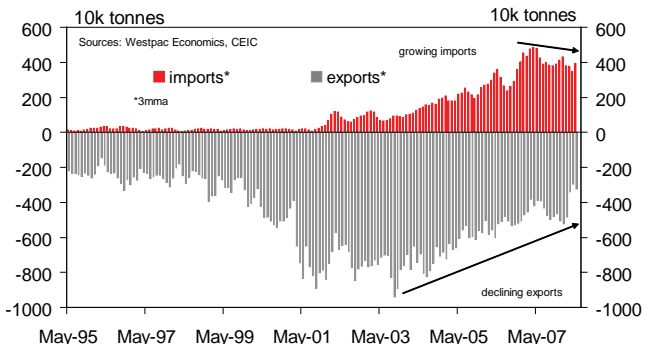


Chart 6.

**Chinese coal exports in decline**



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# Base metals having a very mixed year

## Not all base metals will be equal in 2008.

Base metals have had a very mixed first half of the year. The Westpac Base Metals index is basically flat since December 2007 but this hides some very diverse outcomes. Copper and aluminium prices have risen more than 20% while in contrast, nickel has fallen 14%, zinc is down 20% and lead has fallen almost 30%. The weakness in the last three should not surprise anyone as the housing downturn, and unfolding credit crisis, in the US has led to weaker industrial demand in the developed world. Furthermore, the resulting fall out across the OECD has seen share markets collapse, industrial production slow and consumer/business sentiment fall. This is captured by the OECD leading indicator which weakened from the end of 2007 and through the first half of 2008. This period of time has also seen a slight rise in Westpac's base metals inventories but again the results are very mixed. As you might expect, copper stocks are down 37% but nickel stocks are broadly unchanged, aluminium stocks have risen 17%, zinc stocks are have almost doubled while lead stocks have surged 130%. In addition, the global demand story is not as weak as the OECD picture might paint. Chinese imports of base metals have continued to grow and in net terms have risen 7½% in the year to May. While this may be a moderation from the recent peak of 20%yr in February, it is still a solid outcome and China (as well as the developing world overall) remains a positive for the commodities outlook.

## Traders tried to sell copper and failed.

### Copper

At the start of the year, copper was aggressively shorted (that is sold by traders) because of the gloomy OECD macro economic picture we discussed above. This was based on the long-run traditional relationship between the developed world's macroeconomic environment and the demand for copper. But what the market missed was the rising demand from the emerging world and continuing problems with supply. Barclays Capital estimates that Chinese copper demand grew as much as 10% in the first quarter of 2008 with healthy demand growth from Latin America, the Middle East and other parts of Asia. In 2008 the copper supply pipeline became even more choked with the supply balance moving back into deficit resulting in inventories falling back to recent lows - stocks at the LME are down 37% while Bloomberg estimates that global exchange inventories have fallen 31%. The most recent estimates suggest that production problems are intensifying with mine output declining more than 2% in Q1. The medium term for copper remains positive so we are now looking for prices to firm through 2008.

## Don't forget, aluminium is basically solid energy.

### Aluminium

For aluminium the real story is rising energy costs. Aluminium production has been significantly affected by power disruptions this year, particularly in South Africa, China and South America. Given that we see tight energy markets for at least the near term, then aluminium production remains constrained. Chinese smelters are doing their best to ramp up production but it is increasingly likely that Chinese production will fall short of market expectations given lingering energy constraints and the likelihood of further central government clampdowns on energy intensive and polluting industries. In Brazil, water shortages are lifting energy prices, causing lower output there.

## Nickel supply has exceeded expectations.

### Nickel

Nickel prices breached US\$50,000/t in May 2007 setting a record high price for the metal. Since then, prices have fallen relentlessly falling to a low of almost \$21,000 at the end of June, a fall of close to 60%. Prices have been hit by declining sentiment for the metal as there has been absence of the market anticipated pickup in stainless steel demand, further cutbacks by large Chinese stainless steel producers and continuing hefty stocks at the LME. But it is interesting to note that the forward curve has moved to a very flat position, rather than being in steep decline, suggesting the market is not anticipating that supply can lift from here unless prices are at least maintained at these levels. The rising cost of production will severely constrain further nickel production should prices fall further.

## Zinc output continues to grow.

### Zinc

Zinc prices have continued to fall this year despite the production disruptions in China due to the weather related power outages and the earthquake in Sichuan province. In fact, if it had not been for these disruptions the prices falls would clearly have been steeper. What has happened is that a rise in the global supply of zinc concentrate is facilitating strong growth in zinc metal production. Even if Chinese exports of zinc fall below 2007 levels rising production from the former Soviet Union, India and Peru will more than take up the slack resulting in further inventory building.

# Base metals having a very mixed year

Chart 1.

## OECD indicator & base metal prices

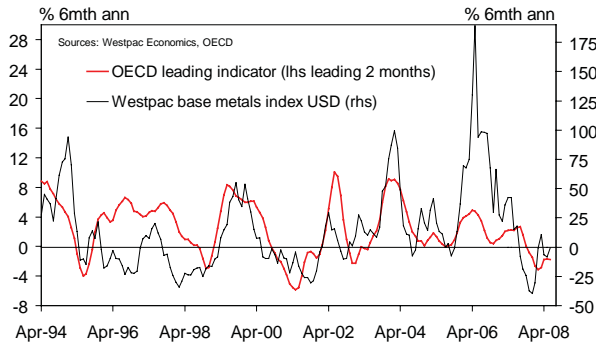


Chart 2.

## Westpac LME metals inventories index

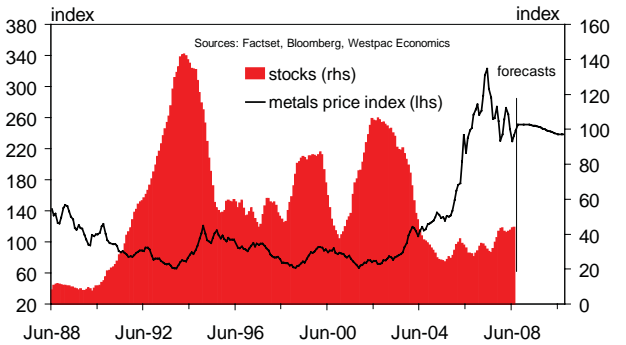


Chart 3.

## Chinese trade in base metals

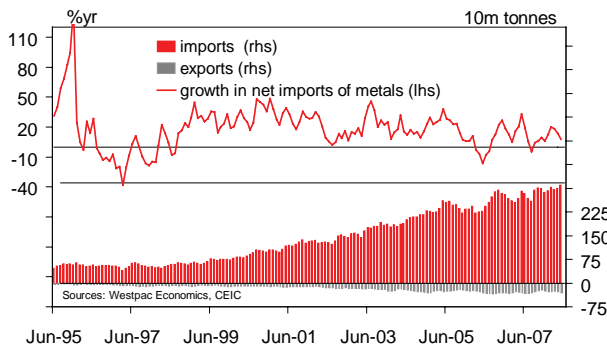


Chart 4.

## LME Aluminium stocks rising

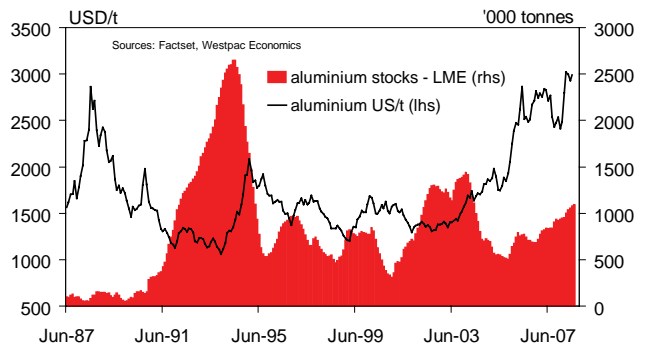


Chart 5.

## Nickel stocks have had a solid bounce

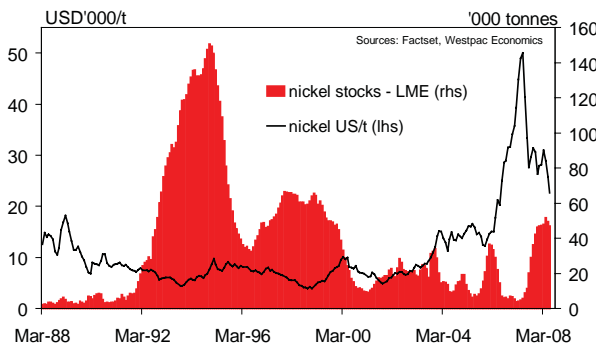
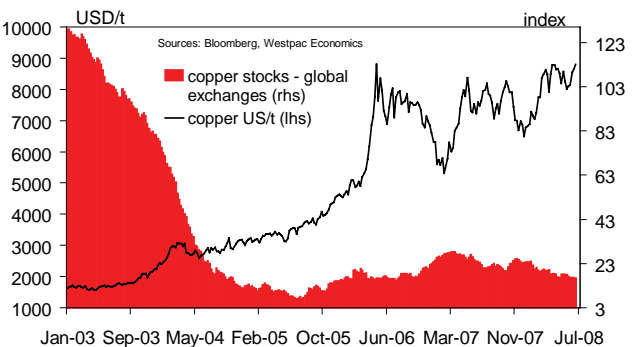


Chart 6.

## Global copper inventories (weekly)



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# Financial forecasts – Australia

## Interest rate forecasts

	Latest (Jul 4)	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09
Cash	7.25	7.25	7.25	7.25	7.25	7.25
Market implied*	na	7.31	7.38	7.39	7.40	na
90 Day Bill	7.78	7.75	7.60	7.50	7.30	7.30
3 Year Bond	6.77	6.20	6.10	6.00	5.80	5.80
10 Year Bond	6.50	6.60	6.50	6.20	6.00	6.00
10–3 Year spread (bps)	–27	40	40	20	20	20
10 Year Spread to US (bps)	252	260	270	250	230	200

\* Market implied rate is the anticipated target rate in the OIS market. Sources: Bloomberg, Westpac Strategy.

## Currency forecasts

	Latest (Jul 4)	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09
AUD vs						
<b>AUD index*</b>	<b>100</b>	<b>100.89</b>	<b>101.31</b>	<b>99.68</b>	<b>97.00</b>	<b>95.52</b>
USD	0.9594	0.97	0.99	1.01	0.99	0.97
USD forward <sup>^</sup>	na	0.95	0.94	0.93	0.92	0.91
JPY	102.46	102	101	99	96	96
EUR	0.6113	0.62	0.63	0.63	0.62	0.62
NZD	1.2694	1.29	1.32	1.33	1.30	1.29
CAD	0.9771	0.98	0.97	0.96	0.93	0.93
GBP	0.4840	0.49	0.49	0.49	0.47	0.47
CHF	0.9853	0.99	1.01	1.01	0.99	0.99
DKK	4.5592	4.61	4.67	4.67	4.61	4.60
SEK	5.7501	5.81	5.83	5.83	5.82	5.81
NOK	4.8854	4.91	4.89	4.83	4.95	4.94
ZAR	7.4339	7.50	7.53	7.51	7.54	7.57
SGD	1.3079	1.33	1.31	1.28	1.23	1.22
HKD	7.4815	7.55	7.69	7.84	7.67	7.52
PHP	43.36	43.60	44.25	44.64	44.01	43.36
THB	32.02	32.53	32.11	31.27	30.09	29.87
MYR	3.1320	3.14	3.16	3.14	2.99	2.87
CNY	6.5729	6.60	6.62	6.58	6.24	5.94
IDR	8836	8924	9059	9191	9034	8876
TWD	29.19	29.59	29.28	28.78	27.65	27.38
KRW	1003	993	1000	980	951	922
INR	41.45	42.32	42.13	41.22	39.67	39.12

\*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. <sup>^</sup>Approximate market forward price for AUD/USD, not a forecast. Sources: Bloomberg, Westpac Economics.

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# Commodity price forecasts

annual averages	latest***	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
<b>all commodities index#</b>	<b>283</b>	<b>344</b>	<b>359</b>	<b>360</b>	<b>345</b>	<b>342</b>	<b>337</b>	<b>318</b>
<b>bulk commodities index#</b>	<b>356</b>	<b>501</b>	<b>536</b>	<b>548</b>	<b>515</b>	<b>516</b>	<b>516</b>	<b>464</b>
iron ore (USD/t)*	73	85	102	108	108	110	110	110
coal (USD/t)*	118	184	185	185	168	167	167	139
<b>WCFI**#</b>	<b>312</b>	<b>318</b>	<b>323</b>	<b>317</b>	<b>311</b>	<b>303</b>	<b>294</b>	<b>293</b>
crude oil (USD/bbl) NYMEX	141	145	155	150	145	135	125	125
gold (USD/oz)	937	920	930	940	950	970	990	1000
<b>base metals index#</b>	<b>232</b>	<b>251</b>	<b>251</b>	<b>251</b>	<b>249</b>	<b>247</b>	<b>244</b>	<b>241</b>
copper (USD/t)	8636	8300	8200	8100	8000	7900	7850	7800
aluminium (USD/t)	3116	3030	3050	3080	3100	3100	3000	2950
nickel (USD/t)	21614	26200	26200	26100	25700	25200	24800	24600
zinc (USD/t)	1917	2320	2330	2350	2360	2370	2380	2350
lead (USD/t)	1764	2260	2270	2260	2230	2220	2210	2200
<b>rural commodities index#</b>	<b>141</b>	<b>132</b>	<b>128</b>	<b>123</b>	<b>119</b>	<b>118</b>	<b>118</b>	<b>117</b>
wool AU¢/kg	860	876	859	842	843	845	847	851
wheat US¢/bu	894	810	760	720	700	700	700	700
sugar US¢/lb	14	12.0	12.0	11.0	10.0	10.0	10.0	10.0
cotton US¢/lb	75	72	71	69	67	66	65	63

annual averages	levels				% change			
	2006	2007	2008	2009	2006	2007	2008	2009
<b>all commodities index#</b>	<b>188</b>	<b>212</b>	<b>304</b>	<b>346</b>	<b>25.7</b>	<b>12.8</b>	<b>43.3</b>	<b>13.8</b>
<b>bulk commodities index#</b>	<b>219</b>	<b>224</b>	<b>408</b>	<b>524</b>	<b>11.0</b>	<b>2.3</b>	<b>81.8</b>	<b>28.5</b>
iron ore (USD/t)*	44	51	79	109	25.0	17.0	55.8	37.4
coal (USD/t)*	74	69	139	172	4.2	-6.3	101.0	23.4
ave coking price (USD/t)	98	84	175	234	5.2	-14.5	108.2	34.0
ave thermal price (USD/t)	48	51	91	96	-2.1	8.1	76.1	5.7
<b>WCFI**#</b>	<b>215</b>	<b>259</b>	<b>310</b>	<b>306</b>	<b>38.6</b>	<b>20.6</b>	<b>19.9</b>	<b>-1.2</b>
crude oil (USD/bbl) NYMEX	67	73	130	139	17.6	7.7	79.5	6.6
gold (USD/oz)	610	703	920	963	36.0	15.3	30.9	4.6
<b>base metals index#</b>	<b>225</b>	<b>277</b>	<b>251</b>	<b>248</b>	<b>67.1</b>	<b>22.9</b>	<b>-9.4</b>	<b>-1.3</b>
copper (USD/t)	6695	7121	8153	7963	86.5	6.3	14.5	-2.3
aluminium (USD/t)	2585	2653	2951	3070	35.8	2.6	11.2	4.0
nickel (USD/t)	23550	36600	26795	25450	60.3	55.4	-26.8	-5.0
zinc (USD/t)	3251	3260	2309	2365	134.1	0.3	-29.2	2.4
lead (USD/t)	1281	2569	2436	2230	33.6	100.5	-5.2	-8.5
<b>rural commodities index#</b>	<b>85</b>	<b>112</b>	<b>138</b>	<b>119</b>	<b>18.4</b>	<b>32.1</b>	<b>22.7</b>	<b>-13.3</b>
wool AU¢/kg	814	988	914	844	6.3	21.4	-7.5	-7.7
wheat US¢/bu	415	640	856	705	25.9	54.4	33.6	-17.6
sugar US¢/lb	15	10	12	10	47.0	-31.7	21.6	-16.4
cotton US¢/lb	54	59	73	67	4.7	9.6	22.8	-8.5

# 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

Future contracts	latest***	3rd	6th	9th	12th	18th	24th
crude oil (USD/bbl) NYMEX	126	126	126	125	125	124	124
gold (USD/oz) COMEX	896	892	905	920	938	1044	na
aluminium (USD/t) LME	2967	2902	2940	2966	2985	3020	3042
copper (USD/t) LME	8363	7922	7850	7787	7728	7611	7496
nickel (USD/t) LME	26199	22303	22393	22407	22413	22167	21802
zinc (USD/t) LME	2295	1974	1993	2011	2025	2047	2067
lead (USD/t) LME	2259	1998	2006	2010	2015	na	na

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# Summary of world output

## Economic growth forecasts#

Real GDP %ann	2003	2004	2005	2006	2007	2008f	2009f
<b>World</b>	<b>3.6</b>	<b>4.9</b>	<b>4.4</b>	<b>5.0</b>	<b>4.9</b>	<b>4.1</b>	<b>4.0</b>
United States	2.5	3.6	3.1	2.9	2.2	1.5	1.6
Japan	1.5	2.9	2.2	2.8	1.9	1.5	1.8
Euro zone	0.8	2.1	1.6	2.8	2.6	1.9	1.5
<b>Group of 3</b>	<b>1.7</b>	<b>2.9</b>	<b>2.3</b>	<b>2.8</b>	<b>2.3</b>	<b>1.6</b>	<b>1.6</b>
United Kingdom	2.8	3.3	1.8	2.9	3.1	1.2	1.7
Canada	1.9	3.1	3.1	2.8	2.7	1.8	2.2
Australia	3.0	3.8	2.8	2.7	4.3	3.0	3.0
New Zealand	3.4	4.5	2.8	1.5	3.1	1.4	3.0
<b>OECD total</b>	<b>1.9</b>	<b>3.2</b>	<b>2.6</b>	<b>2.8</b>	<b>2.5</b>	<b>1.6</b>	<b>1.8</b>
China	10.0	10.1	10.4	11.6	11.9	10.0	9.8
Korea	3.1	4.7	4.2	5.1	5.0	4.6	4.2
Taiwan	3.5	6.2	4.2	4.9	5.7	4.6	4.0
Hong Kong	3.0	8.5	7.1	7.0	6.3	5.6	5.0
Singapore	3.5	9.0	7.3	8.2	7.7	5.0	4.2
Indonesia	4.8	5.0	5.7	5.5	6.3	5.9	5.7
Thailand	7.1	6.3	4.5	5.1	4.8	4.8	5.0
Malaysia	5.8	6.8	5.0	5.9	6.3	5.5	5.2
Philippines	4.9	6.4	4.9	5.4	7.3	5.0	5.0
Vietnam	7.3	7.8	8.4	8.2	8.5	7.6	8.0
<b>East Asia</b>	<b>7.5</b>	<b>8.3</b>	<b>8.2</b>	<b>9.2</b>	<b>9.5</b>	<b>8.1</b>	<b>7.9</b>
East Asia ex China	4.4	6.0	5.1	5.6	5.9	5.2	4.9
<b>NIEs*</b>	<b>3.2</b>	<b>5.9</b>	<b>4.8</b>	<b>5.6</b>	<b>5.6</b>	<b>4.8</b>	<b>4.2</b>
India	6.9	7.9	9.1	9.7	9.2	8.4	8.8
Russia	7.3	7.2	6.4	7.4	8.1	7.3	5.8
Brazil	1.1	5.7	3.2	3.8	5.4	4.3	4.0
South Africa	3.1	4.9	5.0	5.4	5.1	3.3	5.0
Mexico	1.4	4.2	2.8	4.8	3.3	2.8	3.0
Argentina	8.8	9.0	9.2	8.5	8.7	6.5	6.0
Chile	4.0	6.0	5.7	4.0	5.0	5.0	4.0
CIS^	7.8	8.2	6.5	8.2	8.5	7.4	5.0
Middle East	6.9	5.9	5.7	5.8	5.8	6.2	5.0
C & E Europe	4.8	6.9	6.1	6.6	5.8	3.8	3.8
Africa	5.3	6.5	5.7	5.9	6.3	7.0	5.0
<b>Emerging ex-East Asia</b>	<b>5.2</b>	<b>6.6</b>	<b>6.0</b>	<b>6.7</b>	<b>6.7</b>	<b>6.0</b>	<b>5.4</b>
Other countries	4.1	8.7	7.1	6.6	5.8	6.0	5.0
<b>World</b>	<b>3.6</b>	<b>4.9</b>	<b>4.4</b>	<b>5.0</b>	<b>4.9</b>	<b>4.1</b>	<b>4.0</b>

#Regional and global groupings are weighted using PPP exchange rates updated to reflect ICP 2005 benchmark revisions. Adding ½ppt to the global headline approximates growth under the prior weighting system \* "NIEs" signifies "Newly Industrialised Economies" as defined by the IMF, viz; Republic of Korea, Hong Kong SAR, Taiwan Province of China, and Singapore. ^ CIS is the Commonwealth of Independent States, including Mongolia. Sources: IMF, Westpac Economics.

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