

# Regional Economic Report

Summer 2006

- Farmers have a sound financial base to build a viable future.
- The global slowdown will be a very mild one.
- Global farm commodity prices finding a new high.
- The risk of a further rate rise has not faded.

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## Farmers have a sound base to build on in 2007

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The drought continues to deepen across the nation with most of the official forecasters suggesting that it will shave around  $\frac{3}{4}$  of a percent off economic growth. For many rural communities, the collapse in farm incomes to early 1990s lows will result in an almost recessionary like collapse in economic activity. But our research suggests to us that the agribusiness sector, just as it has before, can weather the current storm of adversity and remain a viable industry when the rains come again.

In this report, we review the ABARE survey of the financial health of the farm sector at the start of 2006. What we find is that most of the well reported run-up in farm debt has been used to expand production and lift productivity. At first the focus was on land purchases but as rising land values reduced the attractiveness of this strategy the focus shifted to investment in plant, equipment and improvements. The resulting boost to farm incomes means that the debt servicing position has not deteriorated as much as you would have expected. In addition, rising land values have lifted farm equity to historical highs of around 90 per cent. We also find that the industry as a whole held a healthy level of liquid assets and that Australia's top farmers produce rates of return that are comparable to, if not better than, many alternative investments. These results give us confidence that there is a solid base for the Australian farm sector from which it can build a profitable future. All we need now is the rain!

A further positive note is that the evidence continues to build that global growth can be resilient to a slow-down in the US. Japan and the EU have some momentum while Chinese growth is following its own path. Energy exporters will be free spenders on infrastructure. So while it is plausible to argue that the US slowdown will have an impact, it is all a matter of degree. We are expecting a rather shallow moderation in global growth in 2007.

- Grain prices are getting the normal boost from dry conditions but the coarse grains are getting an added boost from rising fodder demand. In addition the market continues to ponder on the implication of rising demand for ethanol. There has been one report that proposes that the US will have to import corn if the current market conditions for ethanol holds for some time.
- The global market remains positive for the beef industry. It will take some time for US product to re-enter the Japanese and Korean markets in any meaningful way.
- While we are still looking for a correction to commodity prices in 2007, the current strength in global demand and continuing supply disruptions means resources and energy prices can remain higher for longer.
- The RBA raised rates in November and its focus on inflation risks makes us think that interest rates are more likely to rise than fall in 2007.
- With higher interest rates in Australia and robust commodity prices, we have upgraded our outlook for the Australian dollar and expect it to remain around current its levels through 2007.

**Justin Smirk**, Senior Agribusiness Economist ph (61–2) 8254 9336

## The interest rate and Australian dollar outlook

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The RBA raised rates in November ...

As expected, the Reserve Bank raised the overnight cash rate from 6% to 6.25% on November 8. That is the third rate hike in 2006 and forms part of this extended cycle that began in May 2002. The critical issue is whether the November move brings the cycle to an end. We argue that there is plenty of time - and evidence - for another hike. Firstly, the Bank was very "hawkish" with the accompanying statement. It pointed to increasing inflation pressures and gave particular mention to strong increases in producer prices and faster than average wages growth.

... and by highlighting upside inflation risks ...

Of most importance was the recognition that the "risks of inflation exceeding 2-3 per cent over the medium term remained significant" - this is a central bank very worried about achieving its fundamental objective - price stability over the medium term.

If we compare this tightening cycle to the previous two there are some disturbing anomalies. In the previous two cycles, growth momentum had clearly slowed by the time the Bank decided to leave rates on hold. Underlying inflation was still comfortably below the top of the Bank's target range and while it expected that, as a lagging variable, inflation was likely to continue to rise, the clear slowdown in the economy was certain to contain any medium term inflationary pressures. By the time core inflation exceeded 3 per cent, the slowdown in the economy was well entrenched.

... it suggests they still think that rates are more likely to rise than fall.

In the current cycle we have none of that. Underlying inflation has already exceeded the top of the Bank's comfort band, while the unemployment rate remains at generational lows. Commodity prices have continued to climb and while retail sales have slowed, the outlook for income growth remains strong.

Evidence of a slowdown through the labour and housing markets might be difficult to find. In that event the Bank will have little choice but to raise rates again in February.

We have had to lift our AUD forecasts ...

We have raised our forecast for the Australian dollar by 2¢ across the board out to the end of 2007. The revision to our 2006 year end target just recognises that the AUD is unlikely to regress from its current levels in the short term. However, the 2007 revisions recognise that the fundamentals have been improving for the AUD. The recent strength in the currency therefore looks sustainable for some time to come.

... as interest rates are set to rise further ...

The RBA's latest rate hike, which widens the Australian yield differential over the US by 50 basis points since August, was well anticipated. As we moved through November, the focus then shifted to a bout of US dollar weakness driving the Aussie higher.

... and commodity prices are expected to remain higher for longer.

Our expectation for a follow up rate hike by the RBA in February will be supportive of the AUD. But there are other factors supporting the AUD. The rise in commodity prices in the second half of 2006 caught many market players by surprise. Many had thought that commodity prices had peaked in May 2006. China's (resource intensive) growth prospects remain buoyant, while the supply response on the base metal front continues to disappoint. We expect an eventual 25 per cent fall in commodity prices over 2007 and 2008. While that sounds like a large shift, it still leaves price around the very healthy mid 2005 levels. Our research implies that AUD/USD fair value is around 90¢. Currency markets (like equity markets) have discounted a much larger fall in commodity prices than is likely to eventuate. If our projections are correct, that dynamic will continue to see upward pressure on the AUD in 2007.

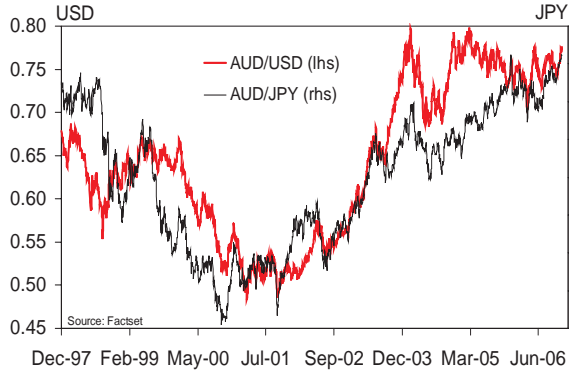
Our forecast for AUD through 2007 is a steady 78¢. We are expressing our forecasts as a bias towards the upper bound of the five year range, rather than a collection of point estimates to highlight we do not expect a meaningful change in 2007.

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# The interest rate and Australian dollar outlook

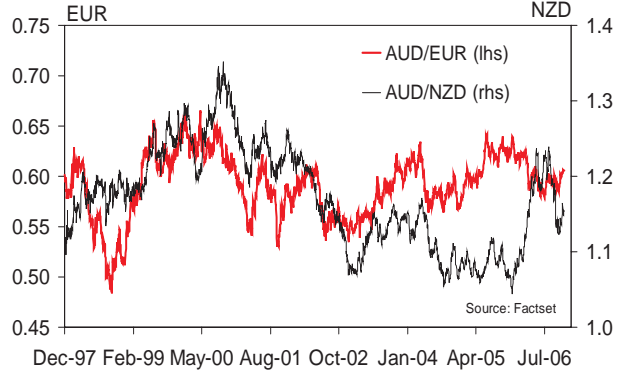
**Chart 1.**

**AUD/USD & AUD/JPY**



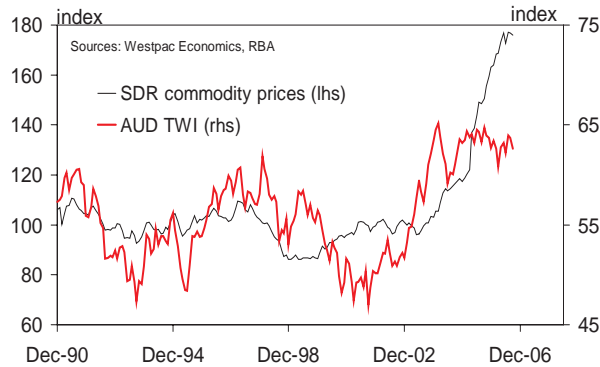
**Chart 2.**

**AUD/EUR & AUD/NZD**



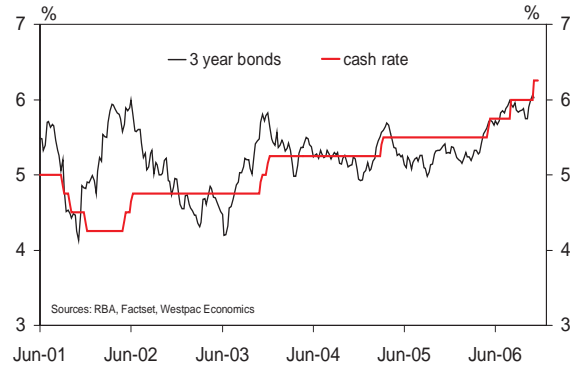
**Chart 3.**

**The Australian dollar & commodity prices**



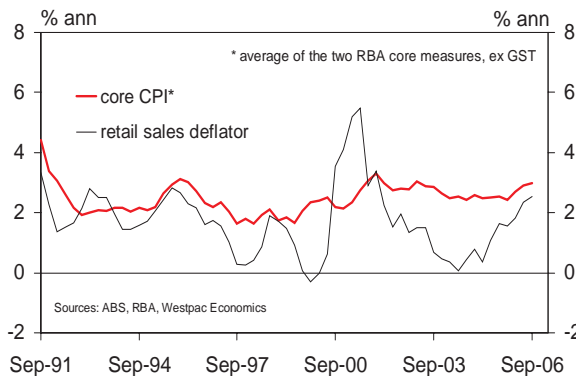
**Chart 4.**

**Australian interest rates: up another notch**



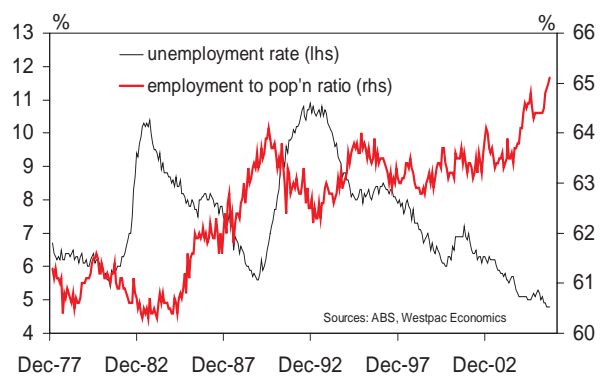
**Chart 5.**

**Consumer inflation on the rise**



**Chart 6.**

**Labour market tight**



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## World growth can absorb a US downturn

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Global output will slow in 2007 ...

How resilient is world growth to an impending slowdown in US demand? A great deal of ink has been spilt on this question in the last few quarters. At the first clear signs that the US housing market was beginning to unravel, forecasters began to wrestle with the thorny issue of non-US resilience. Our view is that world growth can absorb a deceleration in the US and maintain a respectable rate of expansion in 2007. In short, in regions where above trend growth is currently being enjoyed, we expect a reversion back to potential rates, or just below. Exact sensitivities will be determined by differential job markets and financing constraints in the public and private spheres.

... but will remain within reach of trend.

Dealing with the developed world first, we have noted many times that the Japanese expansion is an organic one. It is not excessively reliant on either government spending or net exports. In fact, public spending has been a drag on growth for some years, and net exports have been essentially neutral. We agree with the Bank of Japan view that sees growth slowing from well above potential to a rate equivalent to trend.

Japan and the EU have some momentum ...

In Europe, we note that while the region lagged the global upswing through 2003 and 2004, some momentum has been gathered through the last twelve months. That has provided the ECB with the leeway to begin normalising policy. While EU growth is somewhat dependent on net exports, labour markets conditions have improved. A slowdown to 1.8 per cent in 2007 is no disaster, being within reach of potential.

... while Chinese growth obeys its own laws.

The sensitivity of Chinese growth to US demand is a hotly debated issue. Analysis suggests that a multiplier between  $\frac{1}{2}$  and 1 (i.e. US GDP slows by 1 per cent, China slows by  $\frac{1}{2}$  per cent to 1 per cent) is reasonable. The lower bound implies that an internal fiscal response is forthcoming. The upper bound assumes that the administration stands pat. China has some room to inflate, as the fiscal deficit has narrowed substantially in recent years. Arguing against that is the fact that the multi-year fiscal stance switched to contractionary two years ago. The Chinese rarely write policy on the fly.

Asia can look inward for partial offsets.

Elsewhere in Asia, we note that stimulatory monetary conditions and robust labour markets predict that domestic demand will be a solid support for growth in 2007. While all economies in the region tend to exhibit strong contributions to growth from net exports, there is a lot more going on. Clearly growth will decelerate in most jurisdictions, but headline rates will not deviate too far below potential. In the specific case of India, endogenous momentum will keep growth in the 7 per cent plus range.

Energy exporters will be free spenders on infrastructure.

The rest of the developing world is separated into the haves (the energy exporters) and the have nots. Regions with the most striking dependence on resource and energy commodities have accumulated an embarrassment of riches on their national balance sheets. Current accounts have improved dramatically. So have fiscal balances. The stock of foreign debt outstanding has been reduced in a material fashion. It takes little imagination to foresee infrastructure booms emerging across these regions, offering a powerful argument for a continuation of above trend growth.

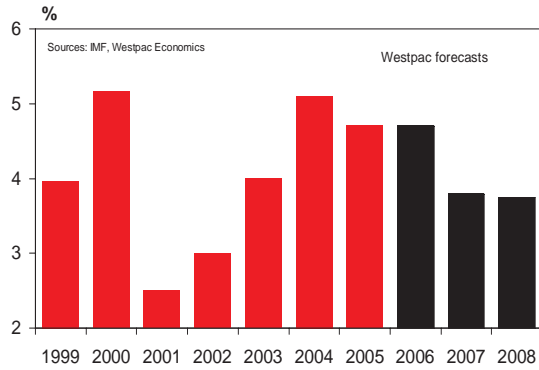
Prepare for a slowdown ...

In sum, it is not plausible to argue that a slowdown in the US economy will leave global growth unscathed in absolute terms. But 2007 will not be 2001 - or 1991 for that matter. The major regions have substantial internal momentum, or less evident internal imbalances, than in either of those prior US slowdown phases. The most likely outcome for world growth in 2007 is a slowdown to a more genial rhythm that looks more sustainable than the breakneck pace of recent years.

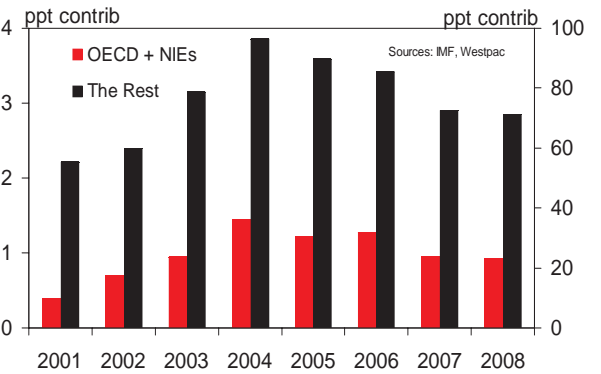
... but a rather shallow one.

# World growth can absorb a US downturn

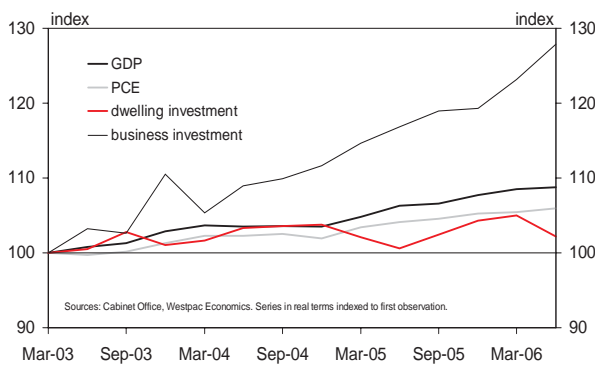
**Chart 1.**  
World growth decelerating, but level healthy



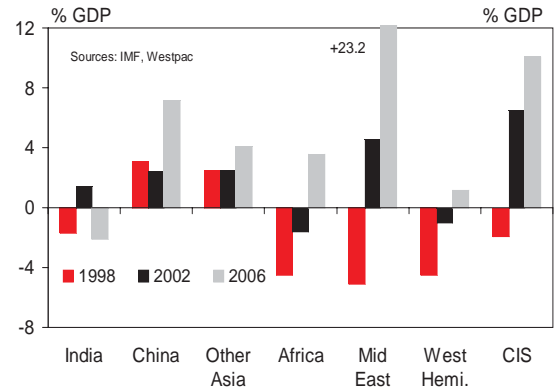
**Chart 2.**  
Contributions to global growth



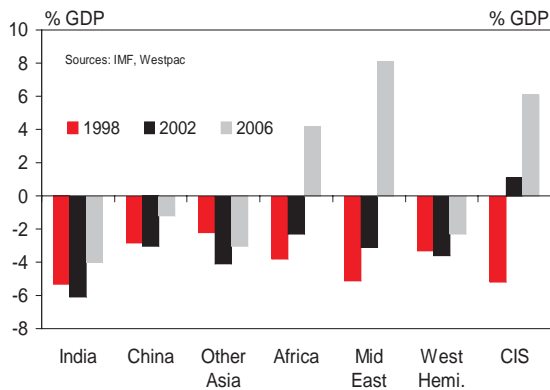
**Chart 3.**  
The Japanese expansion by source



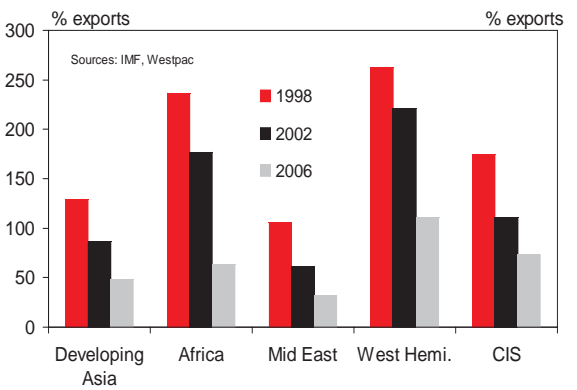
**Chart 4.**  
Current accounts in the developing world



**Chart 5.**  
Fiscal balances in the developing world



**Chart 6.**  
Foreign debt stock in the developing world



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## Coast-to-coast: growth stalls outside of WA & QLD

Western Australia is still smokin' ...

The two speed nature of economy reached an extreme in the first half of 2006. The resource rich states of Western Australia and Queensland contributed over 90 percent of growth in demand over the first two quarters of the year. Both states continue to fire on all cylinders, although WA is the clear standout at 14 per cent annualised, a growth rate that even puts China to shame. The contribution to growth from the rest of Australia over the past six months is the weakest since early 2001. WA and Qld have outperformed the other states in every facet of final demand over the first half of 2006. However, a noticeable wedge has opened up in the relative growth rates of business investment. In WA and QLD, spending is up 33 per cent over the past year, compared with a flat outcome for the rest of the country. It's likely that we have seen the peak in business investment growth outside of the resource rich states, particularly in relation to construction spending. An important offset is likely to come from public spending, most notably in relation to infrastructure projects.

... and the south east has shown signs of improvement.

The housing market should also support growth in the south eastern states. Building approvals have trended higher since the beginning of 2006. Up 6 per cent in NSW, 12 per cent in Victoria, 9 per cent in SA and 25 per cent in Tasmania. A recovery in the housing market should lift the growth contributions from these states above zero in the second half of 2006. However, they won't outperform QLD and WA. As we move into 2007, growth will slow throughout the country, as the cumulative impact of three rate hikes begins to bite, particularly in relation to housing and consumer spending.

Dwelling investment has firmed in NSW ...

**New South Wales:** NSW posted another poor performance in Q2 as through the year momentum slowed further to 1.1 per cent. Consumption continued to underperform, up just 0.3 per cent compared with the national average of 0.6 per cent. Business investment fell for the second consecutive quarter to be 4 per cent lower through the year. Public spending was broadly flat while dwelling investment rose 4.2 per cent.

... employment has strengthened in Victoria ...

**Victoria:** Victoria experienced shifting conditions over early 2006. State demand consolidated, with a 0.6 per cent rise in Q2 offsetting a Q1 dip (revised down to a 0.6 per cent fall from a rise of 0.1 per cent). The household sector was a positive with consumer spending improving and housing activity rebounding. The labour market has tightened with employment jumping 2 per cent over the last half year and the unemployment rate down ½ per cent.

... while Queensland remains above average ...

**Queensland:** Queensland demand rose a modest 0.7 per cent in Q2, although this followed a 3.4 per cent rise in Q1, leaving annual growth at a still heady 7.3 per cent. This remains well above the national average.

... housing lifts in South Australia ...

**Western Australia:** It's very much a case of WA, then daylight, with QLD a distant second in terms of the growth performance over the past 6 months. Final demand surged 5.6 per cent in Q2, to be up 14 per cent in the year.

**South Australia:** South Australia has experienced a period of consolidation. Demand fell by 0.6% in Q2 and rose just 0.5 per cent over the year. Consumer spending is resilient and firmed over 2006H1. Housing activity lifted and is at a record high. Business investment has weakened over the year, but remains at historically high levels.

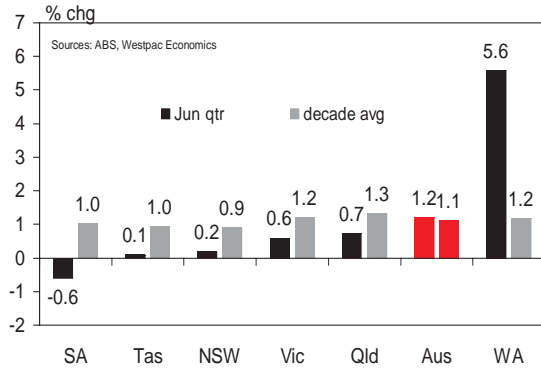
and Tasmania catches it breath.

**Tasmania:** Following a period of rapid population growth, the state paused to catch its breath over the first half of 2006. State demand was flat in the June quarter, following a 0.7 per cent dip in Q1 (revised down from a 0.75 per cent rise). Annual growth has slowed to 3.5 per cent - half the pace of a year ago.

# Coast-to-coast: growth stalls outside of WA & QLD

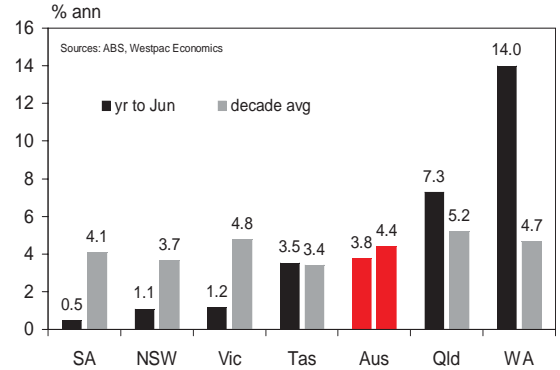
**Chart 1.**

**Demand growth - quarter**



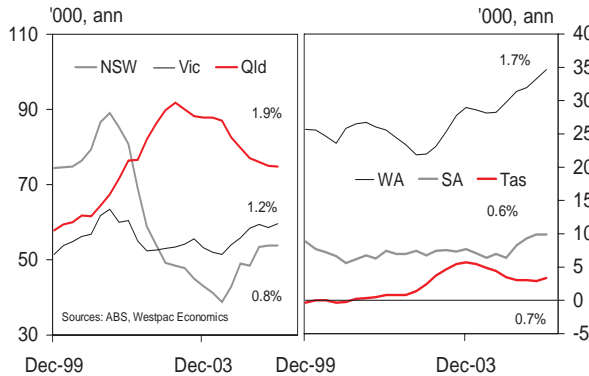
**Chart 2.**

**Demand growth - annual**



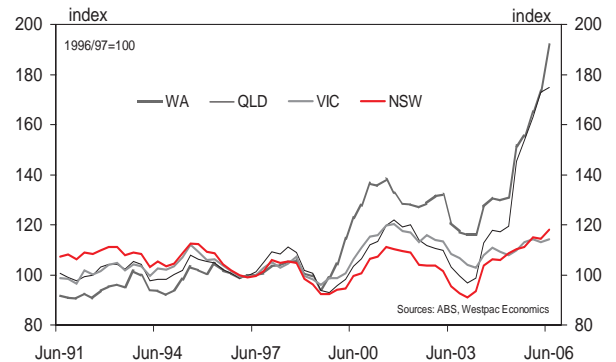
**Chart 3.**

**Population trends: some reversion apparent**



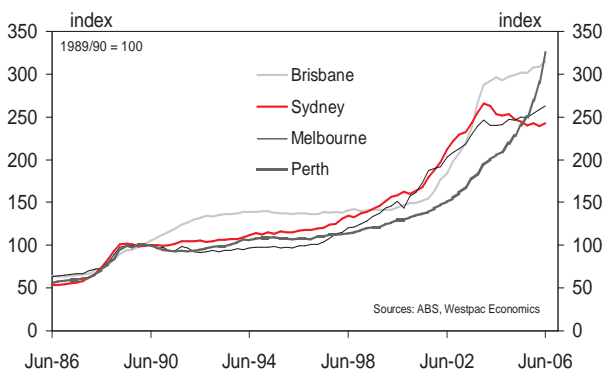
**Chart 4.**

**Export prices by state**



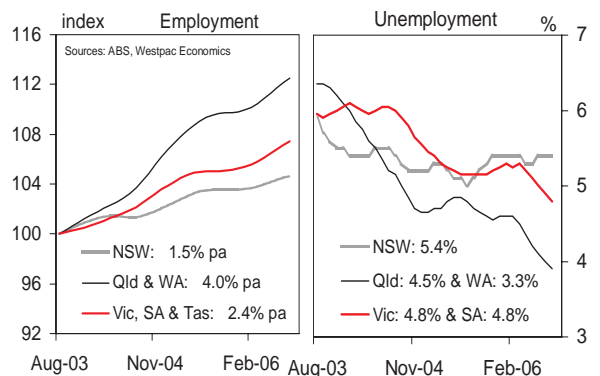
**Chart 5.**

**Established house prices: divergent trends**



**Chart 6.**

**Labour markets**



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## Farmers have been investing for the future

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The drought will decimate farm incomes in 2007 ...

Given the magnitude of the current drought, which both the RBA and ABARE estimate will shave around  $\frac{3}{4}$  of a percent off GDP, we thought it would be timely to review the financial health of the farm sector. Using ABARE's farm survey, we find that the farm sector has undertaken considerable investment in capital to expand farm scale, lift productivity and strengthen viability. So while it is clear that there will be individual farms that will face significant financial stress this year, we find that the financial position of the industry as a whole is well positioned to make a solid recovery once the rains arrive.

... over the last few years farmers have been investing ...

From 1998 to 2004 there was a surge in rural land transactions which peaked in 2001/02 with 10 per cent of farmers buying land that year. From 1990/91 to 2001/02 land values increased only slightly in real terms while at the same time real farm cash incomes grew significantly and interest rates remained relatively low. So it is not surprising that land purchases surged near the end of this period. High cattle prices resulted in the beef industry being a particularly strong buyer of land so it is not surprising that the largest rise in land prices since 1999 has occurred in the pastoral regions. However since 2004 surging land prices, which were further boosted by urban buyers entering the market, reduced the financial attractiveness of this strategy.

... not just in land purchases to expand production ...

The significant rise in land prices has resulted in farmers shifting their focus to lifting productivity, rather than increasing land holdings, to boost incomes. Investment in plant, machinery, vehicles and farm improvements has remained relatively high while land purchases have slowed. The beef industry has been a particularly active buyer of plant and machinery while softer grain prices last year saw the cropping industry ease back its spending. This year, drought conditions will of course be a constraint on investment.

... but also in equipment and improvements to lift productivity ...

This robust investment profile has been financed, in part, by profits and a reduction in liquid assets. These liquid assets include bank deposits, Farm Management Deposits (FMDs), shares and other investments readily convertible to cash. While farm liquid assets remain high, they were reduced in 2004/05 with the largest reduction occurring in the mixed livestock/crops and beef industries. FMDs continue to exhibit their usual seasonal volatility with June being the peak for deposits. As at June 2006, we are yet to see farmers make any net drawdown on their holdings of FMDs.

... which has lifted farm incomes ....

In 2004/05, around 37 per cent of farms increased debt with over 60 per cent of those funds being used to finance new investments. As most of the increase in farm debt has been invested in lifting productivity, the resulting rise in farm receipts has helped to support farms' debt servicing ability. And while interest rates have risen over the last few years, the interest burden on farms remains low compared with the 1980s. The survey also highlights that farms with debt constantly generate higher cash receipts, and significantly faster growth in those receipts, than farms without debt. This is despite the fact that farm size is generally the same between the two groups.

... cushioning the burden of rising debt ...

In terms of financial stability, rising land values has boosted farm capital values to an extent that has more than offset the impact of the rise in farm debt. As such, farm equity ratios are at historically high levels of around 90 per cent.

... and lifting profitability.

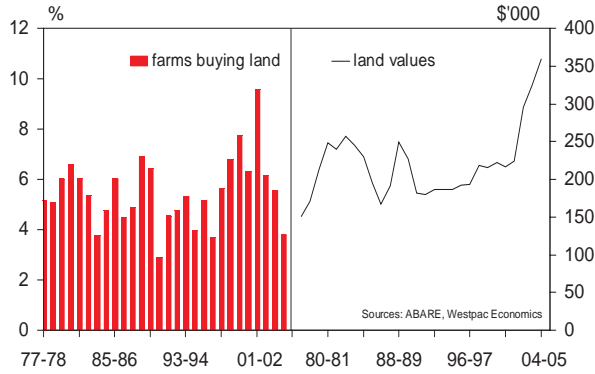
Agriculture remains a profitable industry. The very low rates of return often quoted for agriculture are industry wide averages that reflect the high proportion of small farms in many rural industries. By comparison, the larger better performing farms generate rates of return that are comparable to, if not better than, other investments elsewhere in the Australian economy. It should also be noted that as many smaller farms are located close to the cities, high land values further suppress return rates.

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# Farmers have been investing for the future

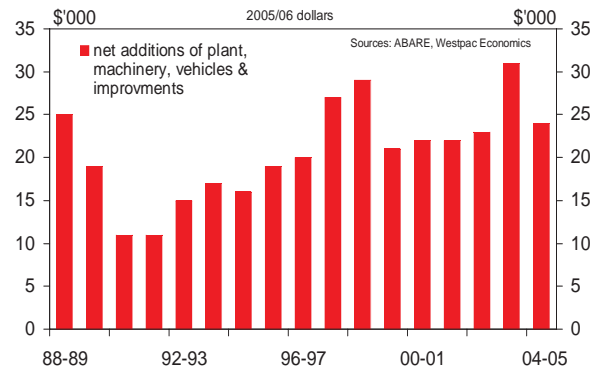
**Chart 1.**

**Farm expansion has slowed ...**



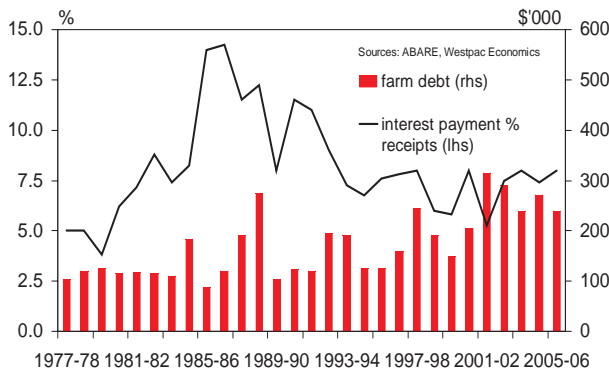
**Chart 2.**

**... but capital investment remains solid.**



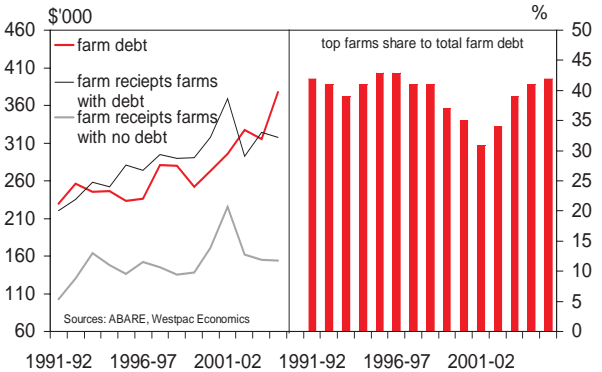
**Chart 3.**

**Debt burden still well below 80's high**



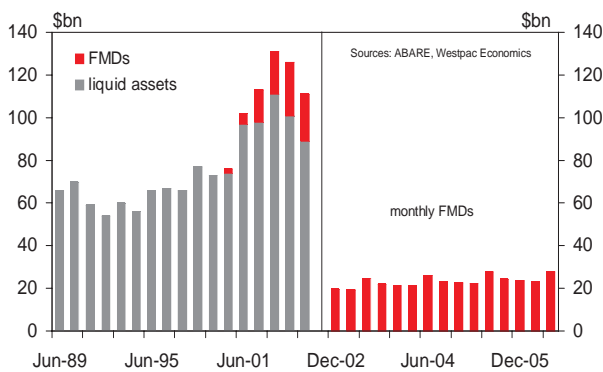
**Chart 4.**

**Farm debt and income**



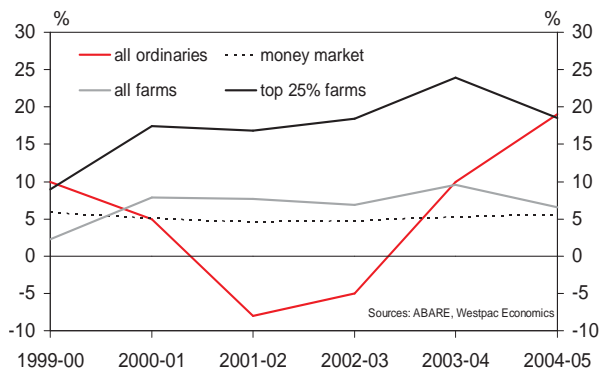
**Chart 5.**

**Farmers have accumulated liquid assets**



**Chart 6.**

**Investment returns are better at the top**



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## Regional industries – wheat and coarse grains

For many regions this is the worst drought on record.

The drought intensified over eastern and southern Australia as the spring rains failed. Rainfall deficiencies were widespread over southern and eastern Australia in the first half of 2006, but the situation took a distinct turn for the worse from August, with a near total failure of the late-winter to mid-spring rains. From the records going back to 1900, it was the driest August to October period averaged across SA, the second driest over Victoria and the Murray Darling Basin, and the third driest for NSW whose state-average was boosted by above-normal falls along the north coast. It has also been remarkably warm during the past three months, with the mean maximum temperatures being easily the highest on record (for the post-1950 era) over NSW, Victoria, South Australia, Western Australia and the Murray Darling Basin. The latest seasonal outlook issued by the Bureau of Meteorology shows a mixed pattern of odds for rainfall over the late spring to mid-summer period. Drier than normal conditions are indicated for south east Queensland and much of NSW, whereas above average three-month totals are favoured in western and northern Queensland and in northwest Western Australia.

Wheat prices rise as production in Australia, Brazil and Europe falls.

### Wheat

Global wheat prices remain supported by tight supply conditions a low stocks. In November the USDA raised its estimate for global wheat production for 2006/07 by 2 million tonnes to 587 million tonnes but this is still 32 million tonnes less than what was produced in 2005/06. Russia, Romania, and Ukraine have lifted production more than offsetting a decline in production in Australia, Brazil, and Europe. Russian production was raised 2 million tonnes as good autumn weather allowed for extended harvesting and higher output. Australian production was forecast to be 10.5 million tonnes. Consumption for 2006/07 was raised to 615 million tonnes mostly due to increased stock feeding in Australia and the Former Soviet Union 12. Exports from Australia were lowered 1 million tonnes and 0.5 million tonnes for Ukraine. However, higher Russia and China exports offset these reductions. Overall, the forecast for ending stocks was lowered to 118.8 million tonnes, 19 per cent less than 2005/06.

Continuing dry conditions have decimated Australia's wheat crop and the risk is that it comes in less than ABARE's forecast of 9½ million tonnes. As we go to print there is still a distinct lack of clarity on the export marketing arrangements for Australia 2006/07 wheat crop. Speculation has gained momentum that with the release of the Cole Report, the single desk arrangement will be changed with the AWB losing its right of veto over Australian wheat exports by other firms.

### Coarse grains and oilseeds

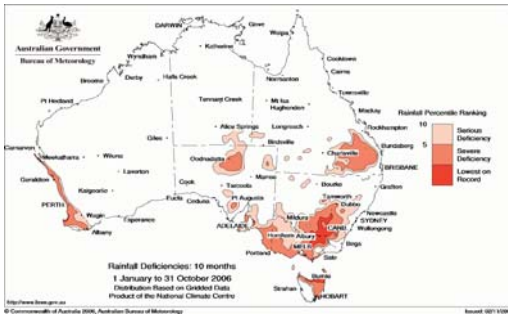
The USDA lowered its forecast for 2006/07 global coarse grain production fractionally to 964.5 million tonnes due to smaller crops of Australia barley, European barley and oats, and Romanian corn. Combined with a reduction in US corn, this more than offset increases from China, Brazil and the Former Soviet Union. Global ending stocks are forecast to rise 1 million tonnes. Global oilseeds supply continues to grow, which does raise some concerns over the ability for oilseeds to maintain current attractive price levels. The easing in crude oil prices is also trimming enthusiasm for bio-diesel demand, and oilseed stocks are at such a level that they can sustain a modest disruption in supply.

Rising ethanol production may result in the US importing corn.

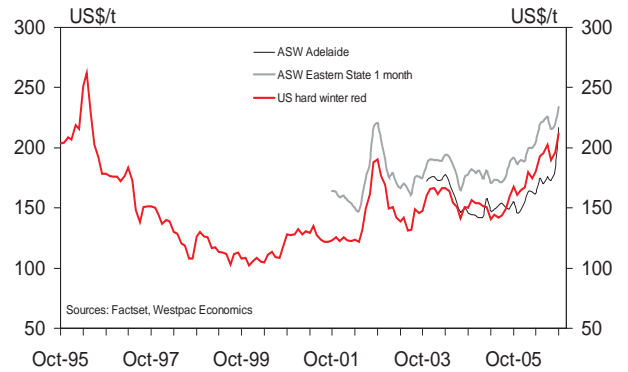
Of a more longer-term interest the Iowa State University released a report predicting that by 2015 the US would be importing corn because it would be using 11 billion bushels (more than the entire 2006/07 crop). If current market conditions prevailed and tax incentives remained constant, ethanol producers could pay up to \$4/bushel for corn and still turn profits. While this is good news for grain growers everywhere, it is not so good news for livestock producers who are under pressure from rising input costs.

# Regional industries – wheat and coarse grains

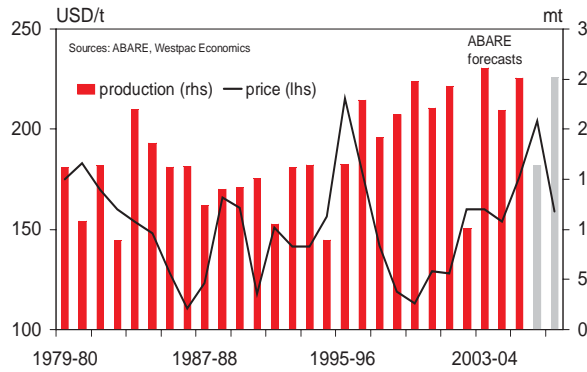
**Chart 1.**  
Drought hammers the SE corner



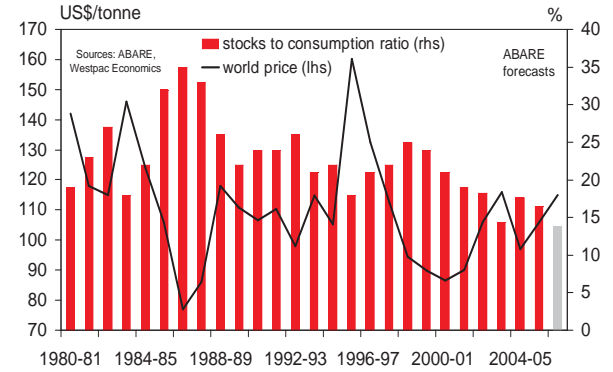
**Chart 2.**  
Wheat price spreads



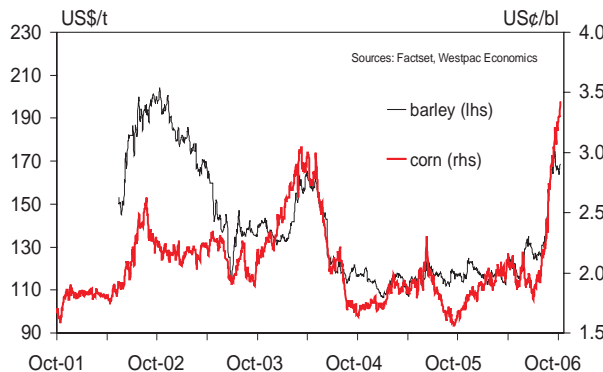
**Chart 3.**  
Australian wheat production



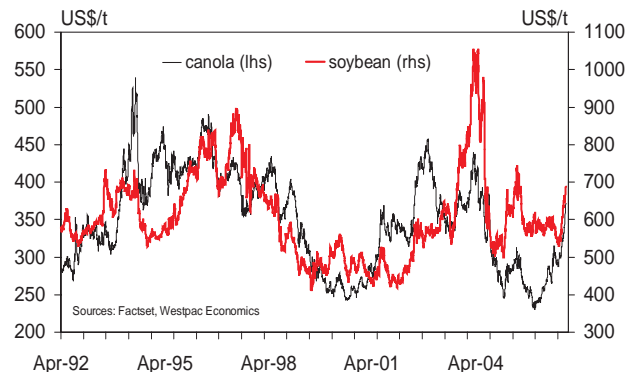
**Chart 4.**  
Coarse grains face upside demand pressure



**Chart 5.**  
World corn and barley prices



**Chart 6.**  
World canola & soybean prices



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## Regional industries – cotton and sugar

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Cotton consumption growth driven by China and India.

### Cotton

The USDA Supply and Demand report provided the cotton industry with a fillip with the 2006/07 global production estimate being reduced by almost 500,000 bales, to 115.7 million bales. This reflects expectations of reduced output from Pakistan, Turkey, Greece and Australia, and comes despite increased output from China and the US. There was, however, some less positive news in higher Chinese production and lower imports. Nevertheless, with demand forecast to be relatively stable, world stocks are tipped to fall, leading to an ending-stocks-to-use ratio of 42 per cent – the lowest in three seasons. Growth in global cotton consumption continues to be driven by the expansion of textile and clothing production in China, India and Pakistan. Both the Indian and Pakistani governments have announced further support for the expansion of these industries.

In September ABARE forecast cotton planting in Australia to fall by 35 per cent to 231,000 hectares in 2006/07. Below average rainfall over much of northern NSW and southern Queensland means that water storage levels in many key cotton growing areas are well below what they were at the same time last year. In November, the USDA estimated the Australian cotton crop at 1.7 million bales while Cotton Australia estimated a range of 1.4 million to 1 million bales. A crop of just 1 million bales would be the smallest crop in 20 years.

Rapid growth in sugar production has suppressed prices.

### Sugar

The world indicator price for sugar is not expected to improve significantly with a forecast for an average of US12¢ in 2006/07. Favourable seasonal conditions in the main sugar producing countries means that global production is exceeding expectations. Brazil is still the dominant sugar producer while Thailand and India are forecast to increase their exports. By comparison, the European Union is expected to decrease its sugar exports in order to meet its World Trade Obligations. In addition rising production in China and Russia will see these nations reduce their import demand. While supply is rising faster than demand, and thus placing downwards pressure on prices, low stockpiles and rising demand for ethanol suggests prices can remain well above the lows of the 1990s.

Brazilian production, and the country's ethanol policies, dominate the sugar outlook.

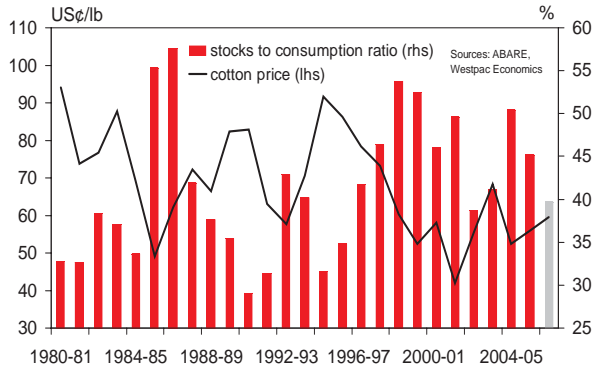
Brazil has dominated the global sugar market since the mid 1990s with growing domestic demand for ethanol supporting a highly efficient sugar industry. The Brazilian government attempts to influence demand and price for ethanol by mandating the proportion of ethanol that should be mixed with petrol which only recently was increased to 23 per cent. As a result most Brazilian mills are able to produce both sugar and ethanol with the mix of production being based on relative prices. It is also worth noting that the Brazilian motor vehicle fleet is made up of four different kinds of vehicles – petrol, diesel, flex fuel and ethanol. Flex fuel vehicles can run on any blend of ethanol and petrol. It is estimated that by the end of 2006, 15 per cent of the Brazilian fleet will be flex fuel and they are set to be increasingly important for ethanol demand.

ABARE is currently forecasting Australian sugar production to fall by 9 per cent to 4.7 million tonnes despite the devastating impact cyclone Larry. The initial estimate of damage caused by the cyclone has been revised down from 40 per cent of production to 10 per cent of production as most of the crop has recovered. Cane smut continues to be a dark cloud hanging over the industry. Initially, the fungal disease was thought to be contained in the area between Bundaberg and Childers but there have been recent sightings of the disease in Mackay. It has been estimated that the disease could cost the Queensland sugar industry around \$800 million dollars if it spreads across the state. In late November, the Commonwealth Treasurer announced that the \$28 million levy on sugar users would be scrapped from December 1.

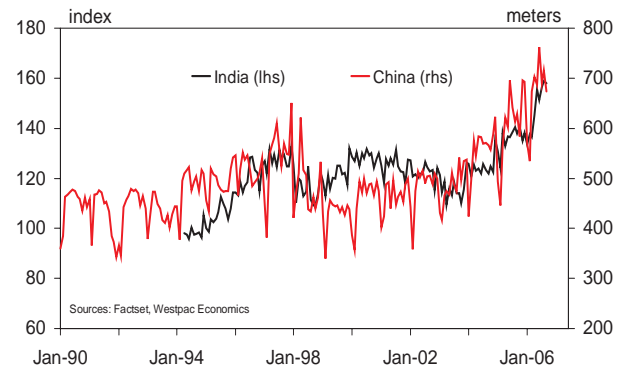
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# Regional industries – cotton and sugar

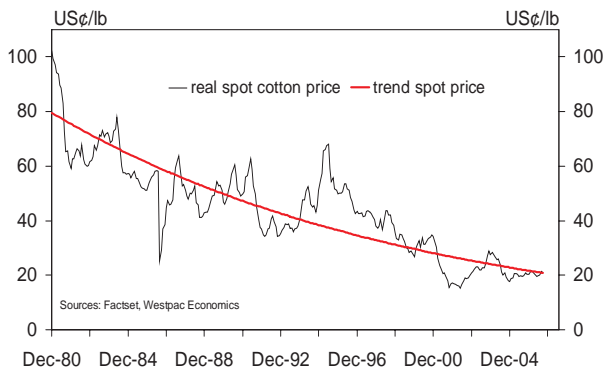
**Chart 1.**  
**Cotton stocks falling – productivity rising**



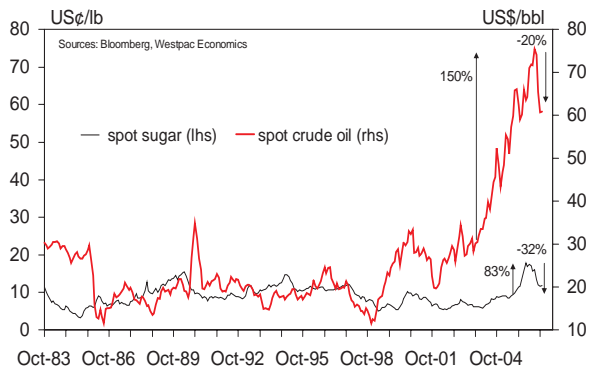
**Chart 2.**  
**Production of cotton textiles**



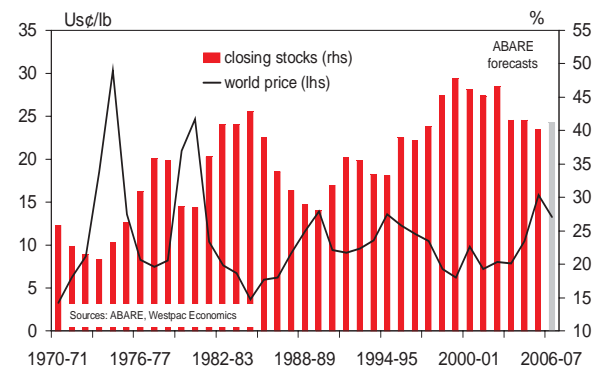
**Chart 3.**  
**Real cotton prices close to trend**



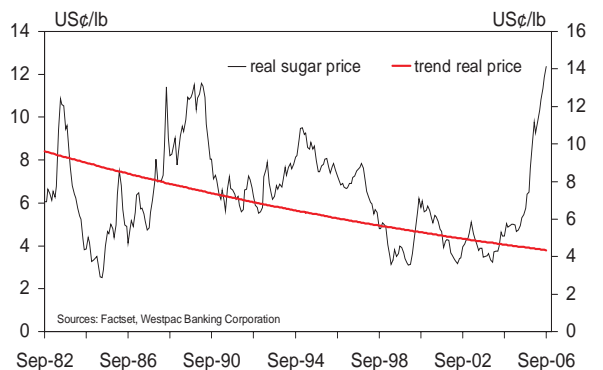
**Chart 4.**  
**Oil boost has faded for sugar**



**Chart 5.**  
**Sugar stocks starting to rise again**



**Chart 6.**  
**Real sugar prices breaks through trend**



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## Regional industries – livestock (beef and sheep)

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The global market remains a positive for our beef industry.

### **Beef**

While current drought conditions remain the focus for the moment, events unfolding in our prime export markets should assure producers that better times are ahead once conditions turn back in our favour. In Japan, prices for grassfed fullsets are 17 per cent higher than last year. Japanese wholesale prices for imported beef are at a near all-time high, increasing 30 per cent since June. The recovery in prices is being assisted by the reality that US product will not be available in market changing volumes for quite some time. Similarly, the continued delays with US product re-entering the Korean market has kept prices reasonably firm, although Korean importers will be reluctant to build stock levels until the impact of US product becomes clear. Imported prices to the US are also firm despite a lift in cow slaughter as the US enters its annual cow cull season. The attractiveness of north Asian markets is allowing Australian exporters to divert product from the US reducing the need to accept lower US bids. High corn prices are just starting to impact on US feeding activity and this should lead to an easing in US meat production from mid-year.

The drought will boost turnoff and lower cattle prices.

Drought conditions in Australia saw cattle yardings increase significantly though September and October. In the first three weeks of October, national yardings of steers and cows increased by 36 per cent compared with the same period last year as farmers turned off a greater number of stock at lighter weights and in poorer condition. The influx of stock to the market has resulted in saleyard prices falling sharply compared with the same period last year. ABARE is forecasting slaughterings to be around 9 million in 2006/07. Due to poor seasonal conditions and the associated higher turnoff for slaughter, the Australian saleyard indicator price of beef cattle to fall around 13 per cent to around 280 cents a kilogram in 2006/07. After a strong rally in late November the EYCI, has eased back to around 300¢ per kilogramme.

Sheep producers are facing a difficult summer.

### **Sheep meat and prime lambs**

Many producers have to make hard decisions about which stock they can afford to carry over the summer. Sheep prices have broken sharply lower over the past couple of months as producers were forced to offload stock. One of the saving graces, for Western Australia at least, has been the live sheep exporters, which have been exporting feverishly in preparation for the peak demand period in the Middle East. The lack of pasture and the resulting earlier turnoff of many lambs mean that slaughter weights should be lower than average and so lamb production is forecast to fall by 3 per cent to around 370,000 tonnes. While lamb prices are currently being affected by the increased turnoff, with fewer lambs available for slaughter in the first half of 2007, prices are expected to firm. For 2006/07 ABARE is forecasting the saleyard indicator price for lamb to be 20 percent less than 2006/07. In contrast to lamb, total slaughter of adult sheep is forecast to rise as a result of the drought. Slaughterings are now forecast to be around 13 million in 2006/07 as producers reduce stock numbers over the coming months. This lift in slaughterings is based entirely on the failure of spring rains across most areas.

Wool prices have risen as the drought reduces sheep numbers.

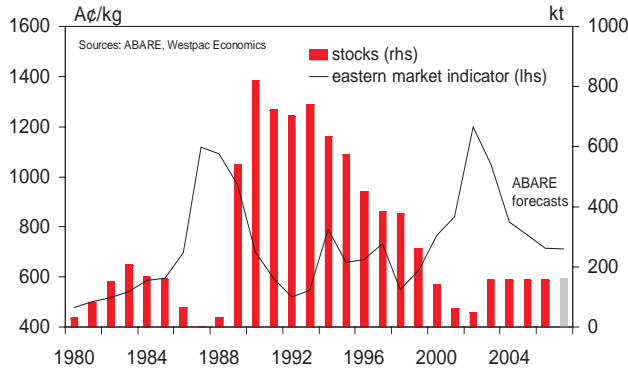
### **Wool**

With Australia being such a major player in the world wool market, the drought-forced sales of sheep are having a direct impact on global production of wool. Prices continued to rally, rising 3.1% during October, with the market buoyancy being experienced particularly for the medium and broader micron categories. China has been buying on an as-needs basis, and their stocks are reportedly tightening as top demand strengthens. Wool's share of the global fibre market has fallen from 4.8 per cent in 1990/91 to 1.9 per cent in 2004/05. In the medium-term, price competition from alternative fibres is expected to remain strong 2007/07 and this is expected to keep the pressure on wool prices.

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## Regional industries – livestock (beef and sheep)

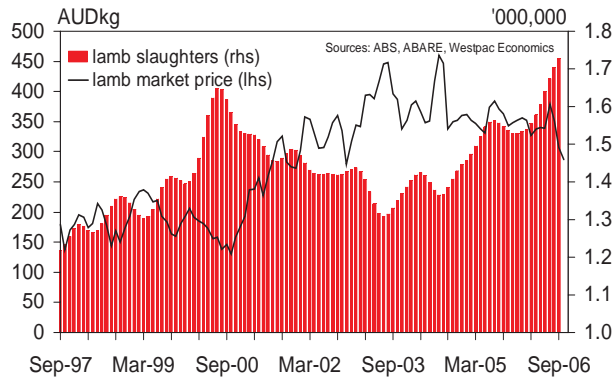
**Chart 1.**  
**Wool stock are supportive of prices**



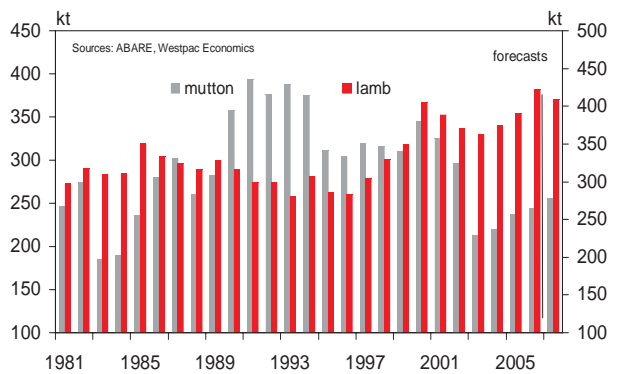
**Chart 2.**  
**Wool prices rising relative to cotton**



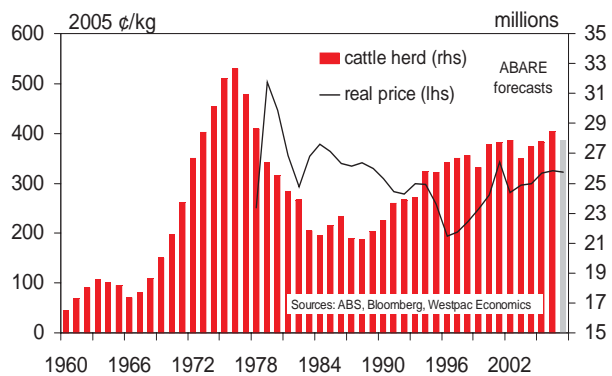
**Chart 3.**  
**Lamb prices and slaughtering**



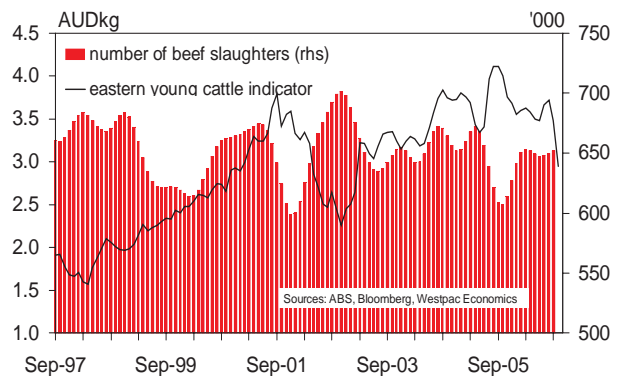
**Chart 4.**  
**Drought a significant risk for production**



**Chart 5.**  
**Drought will hit the cattle herd**



**Chart 6.**  
**Beef prices and cattle slaughtering**



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## Regional industries – livestock (dairy)

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Global conditions remain supportive of dairy export prices.

### Dairy

The world dairy price lifted 2.2 per cent during October and is now approximately 10 per cent above than the 10-year average. European milk production is reported as seasonally low with stocks limited for international buyers. Global prices are likely to remain well supported for the balance of the year as economic conditions continue to favour continued growth in demand for dairy products and supplies are relatively well balanced. The European Commission has also kept export restitutions (i.e. export subsidies) for milk powder and cheese under tight control. Consequently, it is unlikely we will see any significant downward pressure on prices until we are well into 2007. Southern hemisphere production is being inhibited by the current drought in Australia with some suggestions that production may be reduced by up to 20%. Despite higher prices, Australian profit margins are being squeezed by the higher feed grain prices, which are a major input for dairy producers.

Australian is the third largest dairy exporter.

Australia is the third largest exporter of milk, cheese and milk powder and as such, any drop in its dairy production can have an affect on global dairy prices. The current “harsh” drought has lead to the US Foreign Agricultural Service forecasting an almost 4 per cent fall in Australian milk production to 10 million tonnes. Australian dairy farmers are facing difficult conditions as drought results in a significant deterioration in pastures, rising fodder costs and a reduced availability of irrigation water. Cheese production is forecast to fall 3.8 per cent to 328,000 tonnes, butter output is expected to fall 3.9 per cent to 124,000 tonnes and whole milk powder production could fall 3.8 per cent.

The drought will decimate farm incomes in 2006/07 ...

### Overall farm sector

The Australian drought is having a significant impact on farm production and thus farm incomes. ABARE is currently forecasting the output of the three main winter grains, wheat, barley and canola, to be down by over 60 per cent from last year – one million tonnes less than what was produced during the 2002/03 drought. Taking into account the downward revision in crop and livestock earnings identified in this report, the gross output value of these commodities in 2006/07 is forecast to be down by 35 per cent or \$6.2 billion below 2005/06. In real terms, which takes inflation into account, the value of farm production in 2006/07 is forecast to be 16 per cent less than in the 2002/03 drought. ABARE estimates that the total of the direct and indirect effects of the forecast fall in farm production will reduce economic growth in 2006/07 by around  $\frac{3}{4}$  of a percentage point from what would have otherwise been achieved.

... and commodity prices will provide just a modest offset.

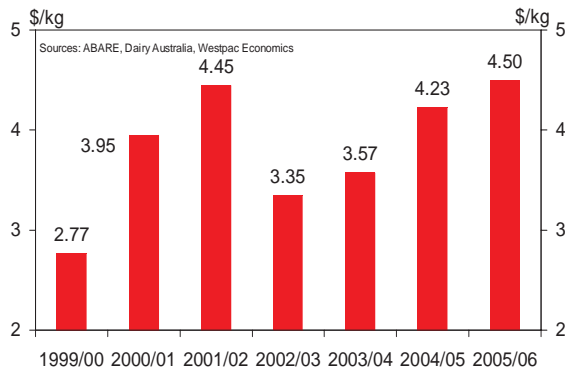
Australia is a major exporter of many agricultural commodities and as such, farm commodity prices have risen as the Australian drought has deepened. Compared with October 2005 levels, global prices in October lifted the Westpac-NFF Farm Commodities Index by 16 per cent on a strong rally in wheat prices (45 per cent), barley (40 per cent) with smaller rises for canola (28 per cent), wool (11 per cent), and beef (9 per cent). However, these price gains were offset by a fall in the price of cotton (7 per cent).

x

## Regional industries – livestock (dairy)

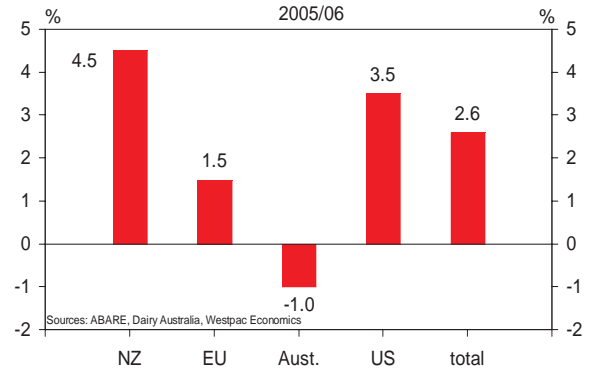
**Chart 1.**

**Ave farmgate price paid by Vic. companies**



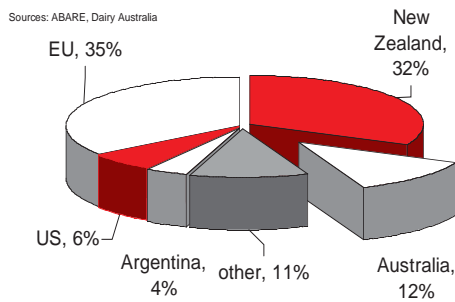
**Chart 2.**

**Change in milk prod. by major exporters**



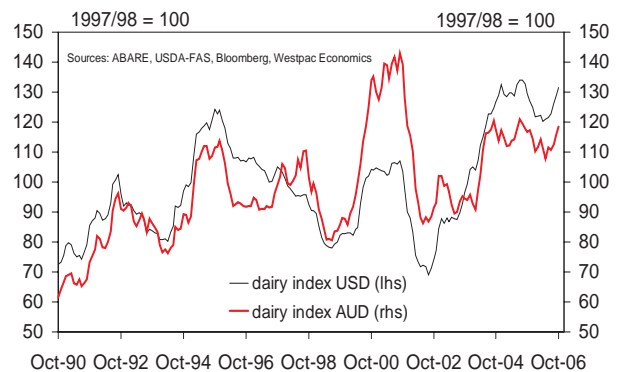
**Chart 3.**

**Share of dairy export trade**



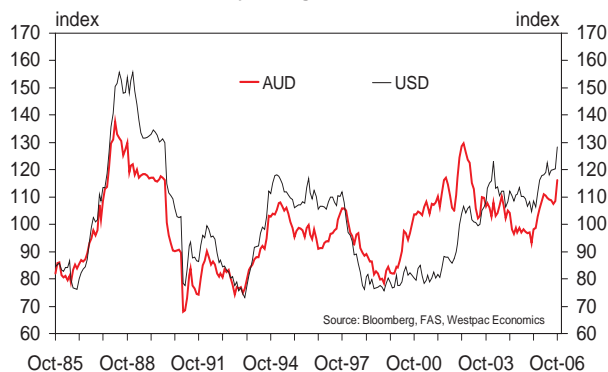
**Chart 4.**

**Currency is crimping rather than buffering**



**Chart 5.**

**Westpac NFF Farm Commodities Index 1994/95 = 100 monthly averages**



**Chart 6.**

**Westpac-NFF farm commodities index**

Australian \$	Index numbers year ago				Percentage change over		
	Oct-06	Sep-06	Apr-06	Oct-05	1 month	6 months	12 months
Wheat (AU c/bu)	669	559	496	460	19.7	35.0	45.4
Barley (AUDt)	190	161	146	135	17.5	29.9	40.7
Canola (AU c/kg)	375	357	314	293	5.1	19.7	28.1
Cotton (AU c/b)	68.3	70.4	73.4	73.5	-3.0	-7.0	-7.1
Sugar (AU c/b)	15.43	15.99	23.77	15.22	-3.5	-35.1	1.4
Beef (AUD/kg)	145.20	142.19	149.14	132.98	2.1	-2.6	9.2
Dairy price index (AUS)	118.5	115.9	111.1	117	2.2	6.6	1.6
Wool (AU c/kg)	815.0	790.9	786.3	733	3.1	3.6	11.1
USD Index 94/95 = 100	128.5	121.1	118.8	110.8	6.1	8.2	15.9
AUDUSD	0.754	0.756	0.735	0.755	-0.2	2.6	-0.1
AUD Index 94/95 = 100	116.2	109.2	110.2	100.2	6.4	5.4	16.0

a) The indexes are calculated as monthly averages  
b) Data sources are Bloomberg, USDA FAS.

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## Regional industries – steel and steel inputs

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Steel producers have cut production to stabilise prices.

### Steel production and demand

AME reports that world steel production fell marginally during September as producers responded to weakening demand and rising stocks. They suspect that this moderation in production will continue through to the end of the year with several US and European steelmakers announcing production cuts and others entering scheduled maintenance periods. The prospect for steel prices varies widely with product and region, but it does now appear that the probability of the traditional fourth quarter softening in prices turning into a collapse is small. Arcelor Mittal is propounding supply restraint to balance the market and has announced production cuts in both Europe and the chronically over-supplied US market. Assuming other major producers follow Arcelor Mittal's lead, global steel prices should avoid a major fall before the end of the year. Prices are generally proving firmer in northern Europe than in the US and southern Europe, with Asia remaining steady. In Asia, the recent raft of changes to China's export tax and rebate regime may add to the small gains in coil prices in South East Asia and should keep Japanese prices at current levels through to early 2007.

Supply disruptions have boosted spot iron ore prices ...

### Iron ore

The market has been tight in recent months, with several major producers experiencing supply disruptions. Spot prices for Indian iron ore fines into China in October sat at around US\$73/tonne, but with port stocks below 39 million tonnes spot prices are expected to increase to around US\$74/tonne. These supply disruptions are now dissipating, which should take some of the edge off the rising spot price within the next month. While supply disruptions have resulted in prices spiking higher, fundamental market tightness is the result of the major producers not keeping pace with the growth in Chinese demand. To September, Chinese imports have increased 48.2 million tonnes (24.2 per cent) and yet over the same period Rio Tinto increased its production by 6Mt (5.28 per cent), BHP Billiton lifted output by only 1 million tonnes, while Brazilian exports were up 17.6 million tonnes (10.8 per cent). The gap between increasing Chinese demand and supply from the major producers is being met by high cost producers, such as India and new entrants, supporting higher prices.

... just as the preliminary negotiations for the 2007/08 contracts begin.

As we write this report, the preliminary talks for the annual iron ore contract negotiations are set to commence. After being outmanoeuvred last year, the Chinese are expected to be far more nimble with initial signals suggesting something between a 5 per cent reduction in price to a roll-over. This view has been supported by Lakshmi Mittal who was reported as saying he didn't expect prices to rise, but could not see them falling either. On the supply side, CVRD has maintained its aggressive stance, with iron ore chief Jose Martins stating the 2007 benchmark price should increase by 40 per cent. Clearly the continuing tightness in supply favours iron ore producers implying that the benchmark prices should remain strong into 2007. We expect contract prices to rise by less than 5 per cent in 2007 before emerging overcapacity in 2008 drives prices lower.

Rio Tinto rocks the market with a below spot bid for coking coal.

### Metallurgical (coking) coal

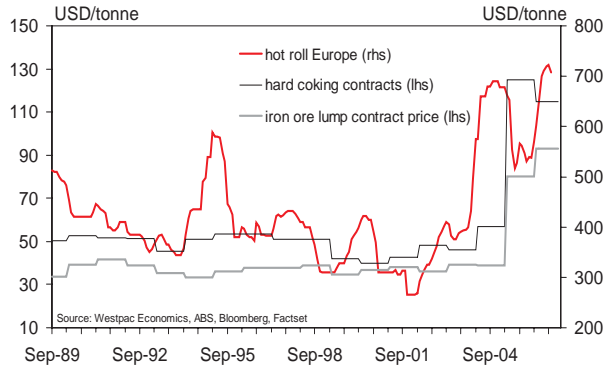
In October, some Australian producers fixed spot sales of hard coking coal to Japan and North Asia at US\$90/tonne while Indian spot sales have ranged US\$90 to US\$98/tonne for premium hard coking coal. However, Rio Tinto rocked the market with its SAIL tender bids which undercut the spot market by around US\$10 tonne and US\$15/tonne for hard and soft coking coals respectively. In the meantime, China's Ministry of Commerce announced the implementation of export taxes on a range of energy intensive commodities effective 1 November. This includes a new tax of 5 percent on coking coal, coke and semi-coke, while exports of pig iron, steel billet and other steel products will be subject to a 10 per cent tax.

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# Regional industries – steel and steel inputs

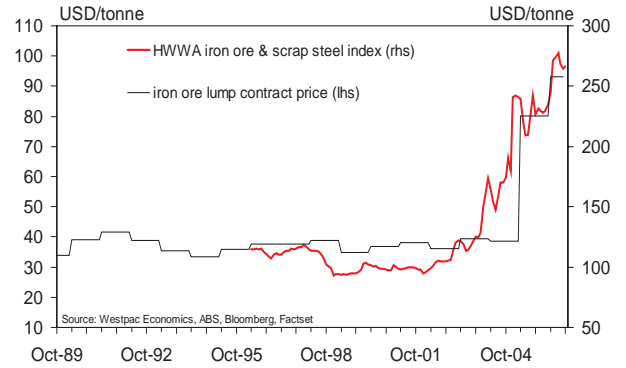
**Chart 1.**

**Steel prices have bounced again**



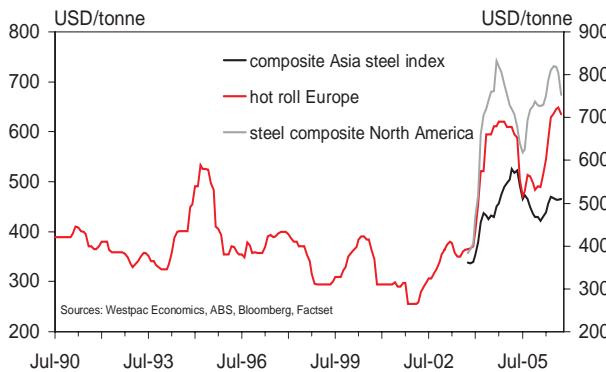
**Chart 2.**

**Scrap and spot iron ore prices rising**



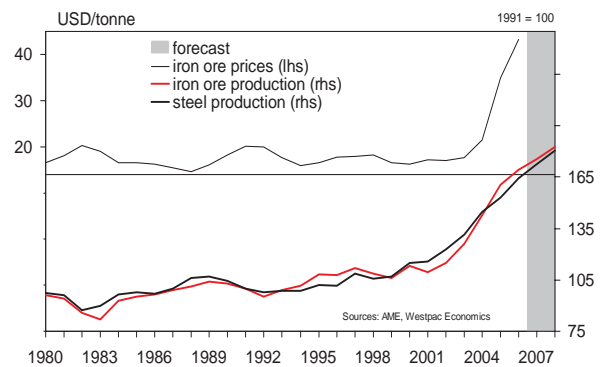
**Chart 3.**

**Steel prices appear to be peaking again**



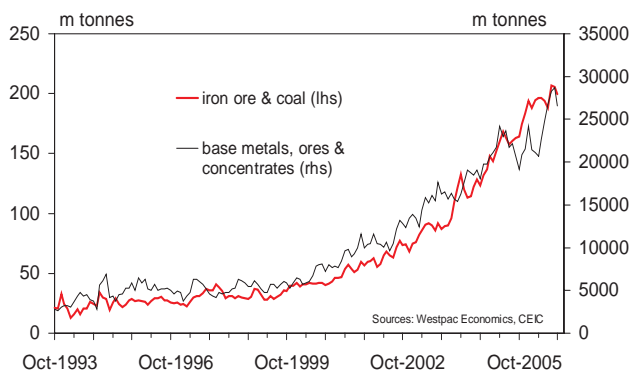
**Chart 4.**

**Iron ore production has lifted already**



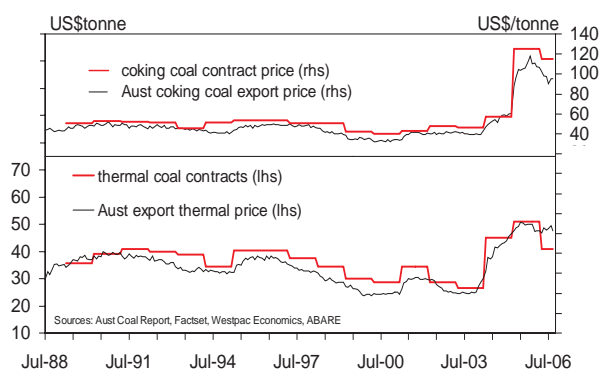
**Chart 5.**

**Chinese imports of raw materials (trend)**



**Chart 6.**

**Coal prices – the thermal/coking divide**



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## Regional industries – energy

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Energy prices remain extremely volatile ...

... as tight supply and robust demand clash.

... but higher prices have dented demand growth.

Demand growth has eased but the market remains bullish.

The Indonesians are cutting price to win market share.

### Energy price summary

Extreme volatility remains the key theme for energy prices this year, in particular crude oil prices. Oil prices briefly crashed through the US\$75 per barrel barrier this year only to correct lower with the announcement of the Israeli/Lebanon cease fire. But it was not just geopolitical events in 2006 that drove prices higher. It has been well documented that underinvestment in the 1980s and 1990s, and the resulting loss of surplus capacity along the supply chain, greatly contributed to the rise in prices. This has appeared not just in crude oil production capacity but all facets of the business including human resources, drilling equipment, transportation, refining and storage. As many of the services and products are also demanded by metals and other resources industries this has resulted in a significant lift in the cost base for the industry. These constraints are unlikely to ease any time soon.

There is a well understood positive relationship between demand growth, capacity constraints and energy prices. As demand continues to grow and bumps up against supply constraints, price pressures rise. At times the rise can be exponential. What this means is that as long as short-term growth in supply is constrained, prices rise to constrain demand. We believe that higher prices have constrained demand with average growth in oil consumption slowing from 3.27 million barrels a day in 2004 to 1.17 million barrels a day in 2005 and an estimated growth of just 0.2 million barrels a day in 2006. Clearly higher prices do impact on demand and this has to enter your analysis when thinking about the outlook for energy prices.

### Crude oil

Our global growth outlook, while moderating, remains supportive of near term oil prices. But as noted above whenever oil prices spike higher there is a corresponding downshift in oil demand. What is interesting to note though is that the most recent drop in oil prices below US\$60 per barrel did not see a corresponding fall in the longest dated oil futures contract. At the end of November the spot price for oil was US\$57 a barrel while the 33 month contract (due to expire in 2¾ years) was still at US\$68 per barrel. This level of contango (future price higher than current price) is not only suggesting that markets are expecting prices to rise again. When future prices are significantly higher than spot it would also encourage the building of inventories as higher future prices make it more profitable to store oil. If we are right and demand growth remains moderate while supply continues to rise, then this rise in inventories will weigh on the market in the second half of 2007.

### Thermal (steaming) coal

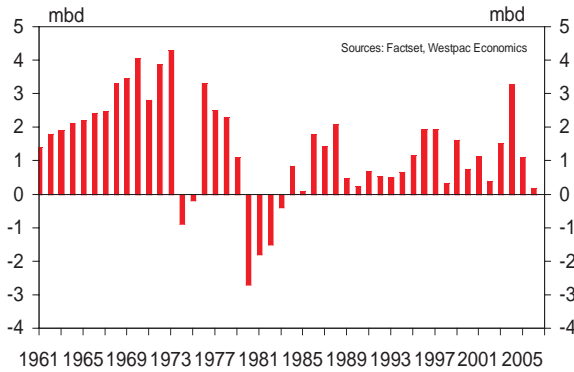
There is a widening price disparity between the Atlantic and Asia-Pacific thermal coal markets with the spot price gap between the two doubling in October. In Europe, the surge in Russian thermal coal exports has stalled – largely due to rail transportation problems. South African exports to Europe are also down on last year – port, weather, rail and industrial issues are all constraining exports – while demand in the region remains strong. Like Europe, demand for thermal coal in the Asia-Pacific remains strong. Current congestion at the Australian port of Newcastle – the number of ships waiting rose to 33 in the first week of November, up from 28 the week before and reversing a trend towards a smaller queue compared to its peak of 42 vessels in mid-October – is symptomatic of a relatively tight bituminous thermal coal market. The fall in spot market prices appears to be the result of discounting by Indonesian sub-bituminous coal producers, with prices going as low as US\$28/tonne, in an attempt to gain market share. As a result some higher quality bituminous coal suppliers are succumbing to the pressure that these sales are generating and also reducing their spot price.

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## Regional industries – energy

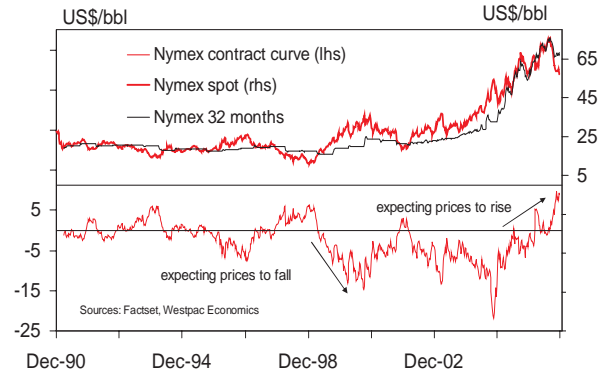
**Chart 1.**

**Growth in oil consumption**



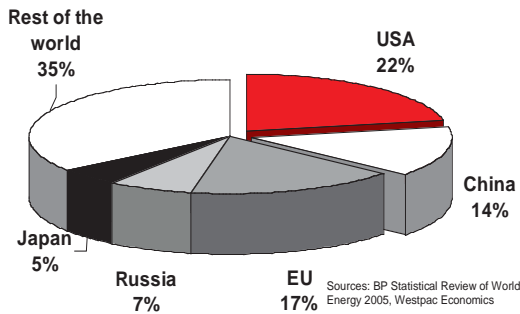
**Chart 2.**

**Futures well above spot**



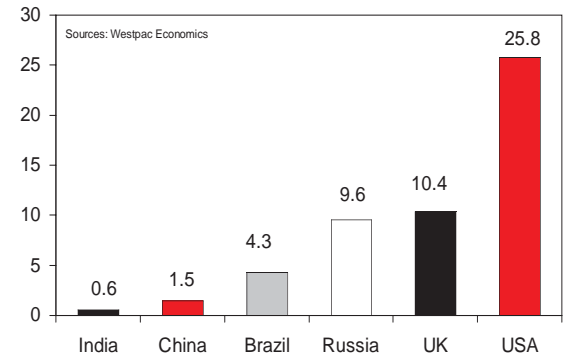
**Chart 3.**

**Total primary energy consumption**



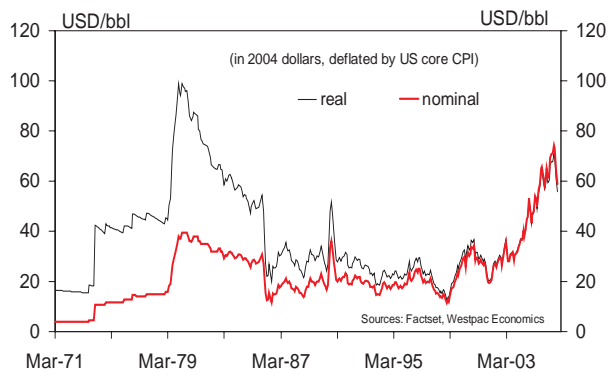
**Chart 4.**

**Per capita oil consumption**



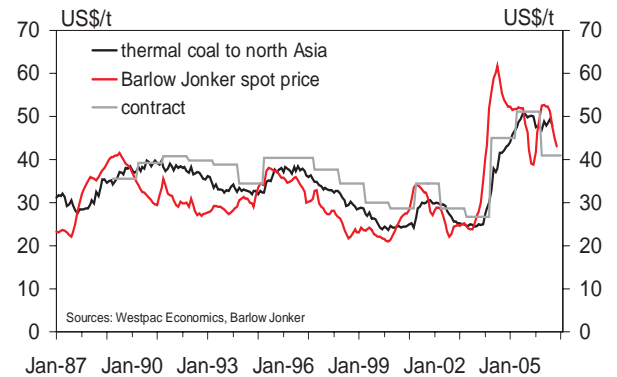
**Chart 5.**

**Real oil prices still above 1991 but not 1970s**



**Chart 6.**

**Thermal coal prices**



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## Regional industries – copper and aluminium

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Supply disruptions have led to a spike in base metal prices.

A robust global growth environment means prices can remain higher for longer.

The US housing downturn has dampened copper demand.

The aluminium rally appears to have run its course.

### **Base metals peaked in the first quarter of 2006**

The current fundamental supply and demand in the base metals market would suggest that copper, zinc, nickel and, surprisingly, lead are all suffering from continuing tightness. A key factor driving base metals balances this year has been supply disruptions, in particular those associated with labour disputes. It is becoming more obvious that these disputes are price related. That is rising perceptions of the level of the short-run windfall and longer-term sustainable prices has led to labour demanding a larger share on the significant incremental gains accruing to capital. If this is the case, these disputes are likely to continue whilst prices remain high, thus further disrupting supply and cementing in higher prices. The global economy also continues to grow at a surprisingly healthy pace and the risk of a hard landing in either the US or China remains remote.

Due to the changes in the fundamental economic environment, we have had to revise up our base metal forecasts by 6 per cent for 2006 and by 23 per cent in 2007. Our modelling of the base metals market still suggests that speculative activity has taken base metal prices beyond fundamentals. However, it is also becoming increasingly clear that rising resources demand from China and India is changing the fundamental relationships in the commodities markets and so we don't expect the correction to the current commodity boom to be as brutal as the correction to the 1980s boom. We are still looking for a fall in commodity prices in 2007. Rising global mine employment suggests a supply response is in the pipeline, but year average base metal prices are now expected to fall by 6½ per cent next year compared to our September forecast for a 20 per cent fall.

### **Copper**

Construction activity in the US has been weakening. So far, dwelling construction activity has fallen 8 per cent over the last 12 months. As around ½ of copper used in the US goes into construction, weakness in this segment, combined with increasing substitution for plastic, has substantially reduced US copper demand. Copper stocks in US warehouses rose in the second half of October and global prices moderated. Although US demand has fallen, copper consumption has increased in the developed world in 2006 due to robust demand in Europe and Japan. This has not, however, shown up in a further inventory drawdown due to a softening in Chinese copper imports. The market had been looking for a recovery in imports in the second half of the year. China's lack of imports may be explained by reduced demand growth and increased supply. Consumption appears to have eased through a combination of a flat output of copper intensive products – such as air conditioners – and substitution. Supply has increased through expanded refining capacity and releases of hidden stock from the Chinese State Reserve Bureau.

### **Aluminium**

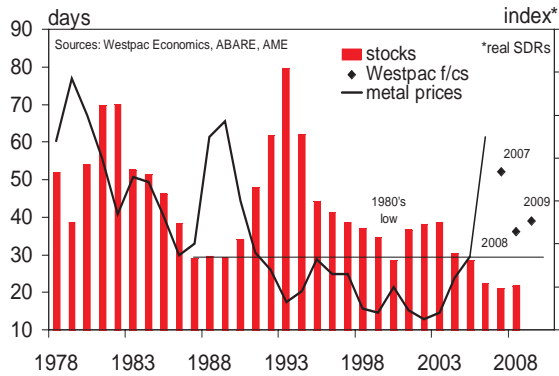
Aluminium's strong performance over Q4 to date has run counter to current fundamentals. A rally from the September lows down around the \$2,400/tonne level does appear to be abating with the bulk of short exposure now diminished and growing market confidence of a surplus arising next year. Providing additional support has been the announcement of the hike in the Chinese export tariff of primary aluminium from 5 per cent to 15 per cent. The Chinese government is trying to focus energy intensive industries, such as aluminium smelting, to domestic demand rather than exports. Aluminium is a very energy intensive product. This sharp rise in the export tax should lead to reduced primary exports bringing more supply to the domestic market and downward pressure on local prices. It will also increase the production of semi fabricated goods, already growing very strongly, and the growth in these products may help digest the increased domestic supply.

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# Regional industries – copper and aluminium

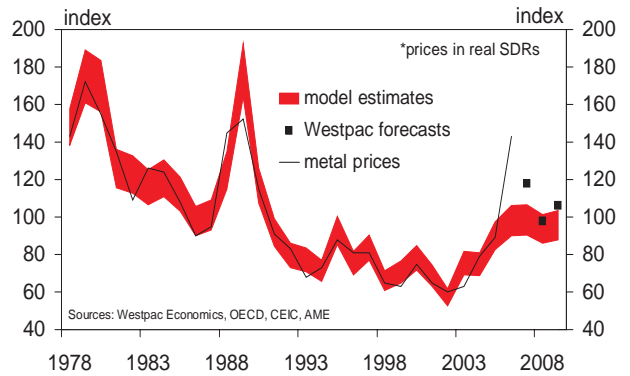
**Chart 1.**

**Base metal stocks to hold below 1980s**



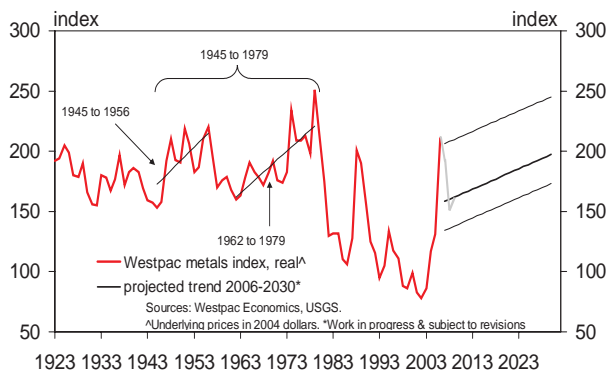
**Chart 2.**

**Base metals over-running fundamentals**



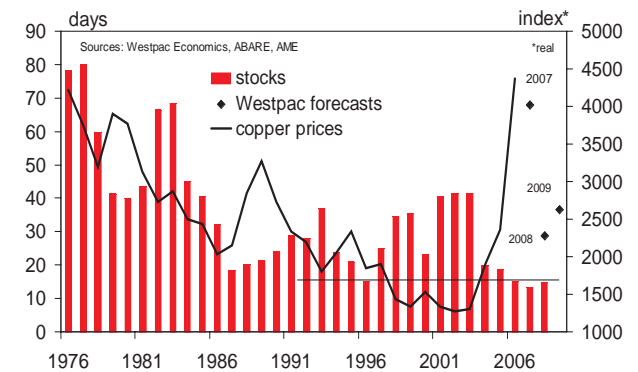
**Chart 3.**

**Projecting the real base metals index**



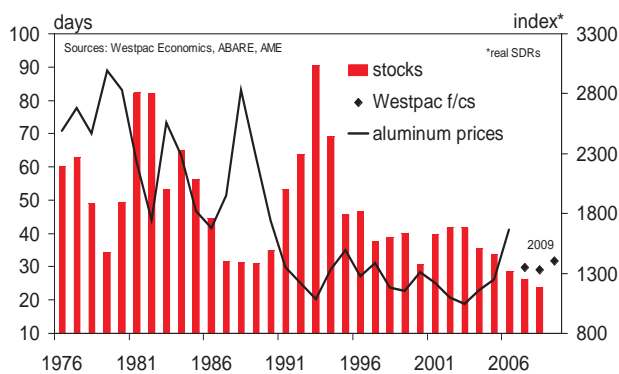
**Chart 4.**

**Copper stocks at 1996 lows**



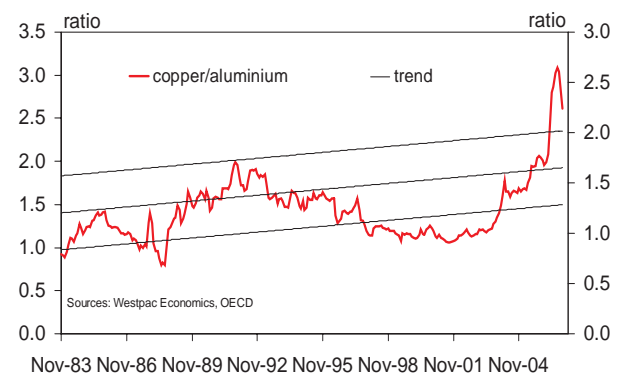
**Chart 5.**

**Aluminium stocks below 1980s lows**



**Chart 6.**

**Copper is off its highs**



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## Regional industries – zinc, nickel and gold

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Supply disruptions remain a key positive for copper prices.

### Nickel

The LME nickel cash price reached near a record high of US\$34,500/tonne on 20 October, just shy of the \$34,750/tonne peak in late August. Prices rose rapidly due to a dip in warehouse stocks and reports of more supply disruptions, this time in New Caledonia. Prices then fell again once a large influx of metal hit the LME complex. Now that stocks are back up to relatively less critical levels, attention shifted to the countrywide disruptions in New Caledonia. Several operations in Japan and Australia receive ore shipments from New Caledonia, and if these also become significantly disrupted, we could see a new record high in prices. As of yet there has been no significant increase in production or drawing out of hidden stock due to the record prices. However, reports suggest that there has been a significant response in the supply of nickel-bearing stainless steel scrap. Nevertheless, while the increase in secondary supply allows steel makers to maintain their scrap ratios, the supply of recycled steel is generally only able to expand slightly in periods of high demand. As such, primary supply has to grow to ease the pressure on the market if the production of stainless steel remains around its current high levels.

Zinc is facing very significant supply constraints.

### Zinc

Zinc prices have unshackled themselves from copper and are now rising higher on their own merits. Previously the prices were locked together as funds managers viewed the metals as similar and traded them together. The fall in the oil price, which led to an unwinding of commodity trades and an exodus of hedge funds from the commodities markets, may have instigated the separation of the copper and zinc prices. Rising stainless steel prices has boosted the use of galvanised steel resulting in the relentless draw down of LME zinc stocks. As there is no near-term additional mine production sufficient to relieve the tight supply until late in 2007, zinc is the only base metal that we see with significant upside risk in 2007. The only cloud on the horizon for zinc is a possible slow down in flat steel production in Europe, which would probably include galvanised products. Major steel producers are sensing weakness in the market due to over-production and, as happened in 2005, are flagging output cutbacks to allow inventories to fall. A reduction in galvanised sheet output would lower zinc consumption and represent a downside risk for prices.

Gold could not hold US\$700 per ounce ...

### Gold

Fundamental supply and demand conditions have never been the key drivers of gold prices. Nonetheless, fundamentals can sometimes have an impact on sentiment in the market. Prices broke through US\$700 an ounce early in 2006 but supply and demand conditions have become less constructive for gold as the year progressed. In the first half of the year, lower mine output backed up by producer de-hedging along with low levels of central bank selling squeezed supply sharply helping to boost prices. For the remainder of the year, there will be a modest relaxation in supply constraints while jewellery demand is expected to remain weak. Currently, jewellery demand is lining up for an 18 per cent fall year on year in 2006.

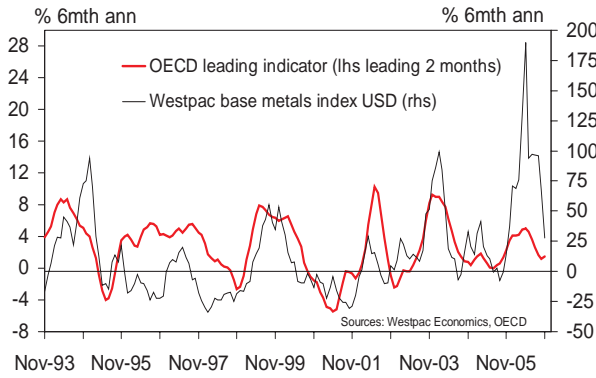
... and the fundamentals have weakened since then.

Other key factors to watch for gold are inflation, geopolitical risk and cross commodity developments (in particular oil). Inflation risk should remain supportive in the near term but these risks will fade as we move into 2007. While a weaker USD should provide some offset, we don't think it will be enough to hold gold at its current levels. A key upside risk for gold is the perception of geopolitical risk. While the Iranian nuclear issue has faded, it is not possible to say that it won't resurface in 2007 – clearly the risks are that it will. As such, geopolitical risk may be supportive of gold prices next year.

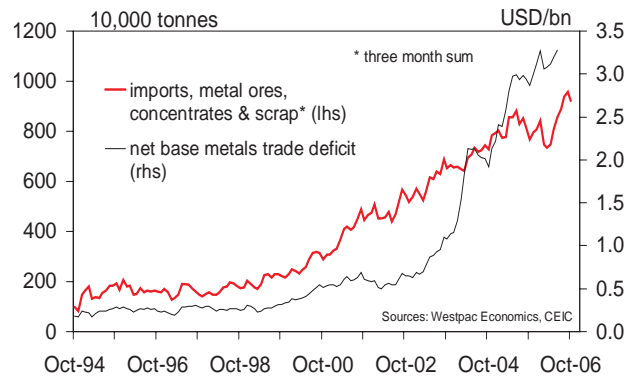
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# Regional industries – zinc, nickel and gold

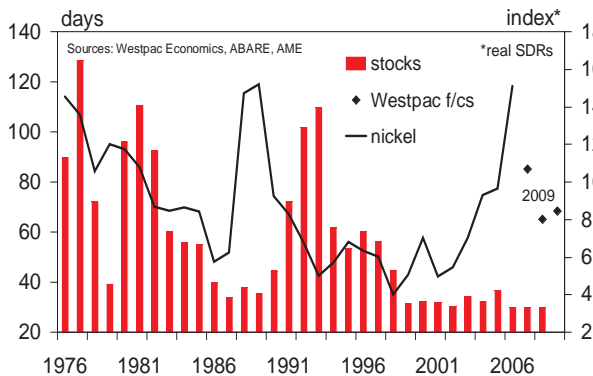
**Chart 1.**  
**Global demand softening not collapsing**



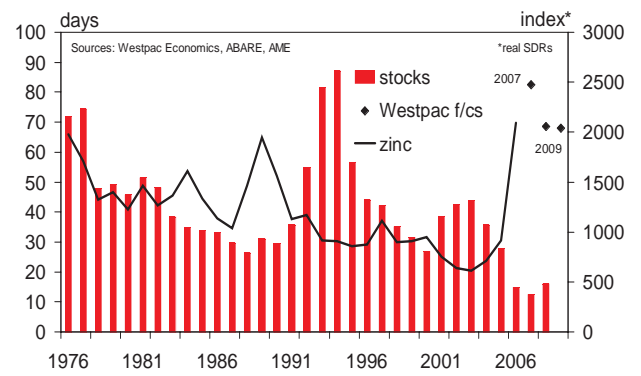
**Chart 2.**  
**Chinese imports of base metals**



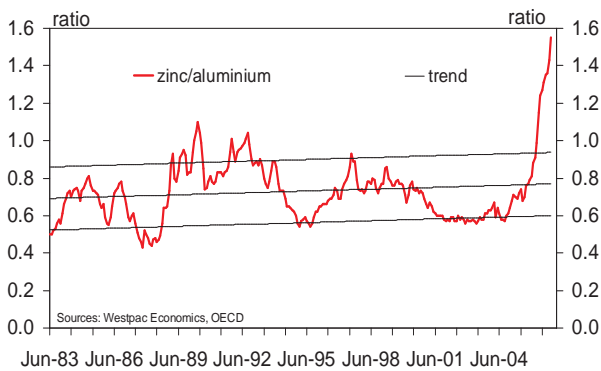
**Chart 3.**  
**Nickel stocks holding the lows**



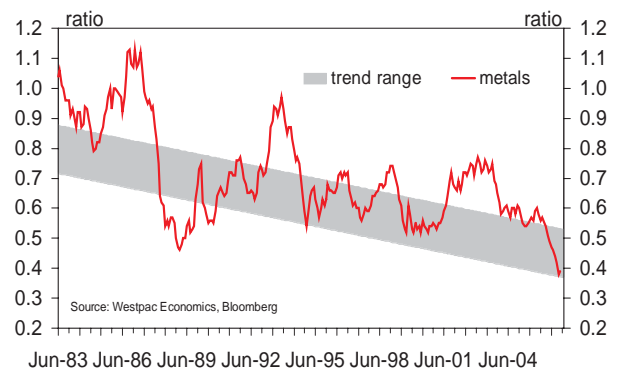
**Chart 4.**  
**Zinc stocks will remain at low levels**



**Chart 5.**  
**Zinc has gone off the scale**

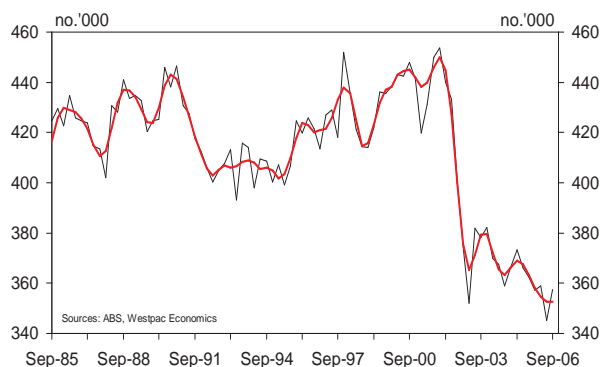
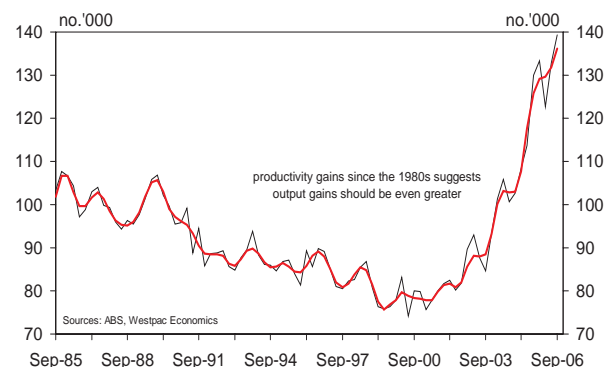


**Chart 6.**  
**Gold still an underperformer to metals**



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## Regional economic indicators & forecasts

**Chart 1.**
**Farmers are doing more with less labour**

**Chart 2.**
**Mining jobs hitting new highs**


### Commodity Forecasts

annual averages	2005	2006	2007	2008	2005%yr	2006%yr	2007%yr	2008%yr
<b>bulk commodities index</b>	<b>197</b>	<b>220</b>	<b>205</b>	<b>177</b>	<b>62.7</b>	<b>11.4</b>	<b>-6.9</b>	<b>-13.5</b>
iron ore (USD/t)*	35	43	45	36	62.3	24.0	3.6	-19.8
coal (USD/t)*	71	75	65	59	63.0	5.2	-13.0	-9.2
ave coking price (USD/t)	93	101	91	80	86.3	8.6	-10.8	-11.6
ave thermal price (USD/t)	49	49	46	47	30.7	1.7	-8.0	2.6
crude oil (USD/bbl)	57	68	61	54	39.6	19.1	-10.9	-11.1
gold (USD/oz)	448	610	620	600	9.0	36.0	1.7	-3.2
<b>base metals index</b>	<b>135</b>	<b>225</b>	<b>211</b>	<b>169</b>	<b>14.9</b>	<b>66.9</b>	<b>-6.4</b>	<b>-19.6</b>
copper (USD/t)	3590	6772	6575	3833	26.8	88.6	-2.9	-41.7
aluminium (USD/t)	1904	2579	2213	2233	10.5	35.4	-14.2	0.9
nickel (USD/t)	14690	23404	17500	13500	6.3	59.3	-25.2	-22.9
zinc (USD/t)	1389	3241	4050	3467	31.3	133.4	24.9	-14.4
lead (USD/t)	959	1269	1088	800	10.9	32.2	-14.3	-26.4
<b>WCFI</b>	<b>155</b>	<b>215</b>	<b>202</b>	<b>175</b>	<b>14.4</b>	<b>39.1</b>	<b>-6.0</b>	<b>-13.3</b>
<b>rural commodities index</b>	<b>72</b>	<b>85</b>	<b>82</b>	<b>77</b>	<b>-3.6</b>	<b>18.8</b>	<b>-3.3</b>	<b>-6.8</b>
wool AUD¢/kg	766	804	801	757	-9.3	5.0	-0.3	-5.5
wheat USD¢/bu	330	420	415	370	-6.9	27.4	-1.1	-10.8
sugar USD¢/lb	10	15	11	13	32.4	47.8	-27.6	17.8
cotton USD¢/lb	52	55	55	54	-7.7	5.8	0.4	-1.8
<b>all commodities index</b>	<b>149</b>	<b>188</b>	<b>176</b>	<b>152</b>	<b>32.9</b>	<b>26.1</b>	<b>-6.4</b>	<b>-13.4</b>

All are in US\$/tonne unless specified.

#Chain weighted index.

\*Average Australian export prices fob - source ABS 5432 Merchandise Trade Exports

\*\*WCFI - Westpac commodities futures index.

The Westpac Commodity Indices can be sourced from Bloomberg at WCFI<GO>

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## Notes

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## Notes

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