Resources at a Glance – July 2008

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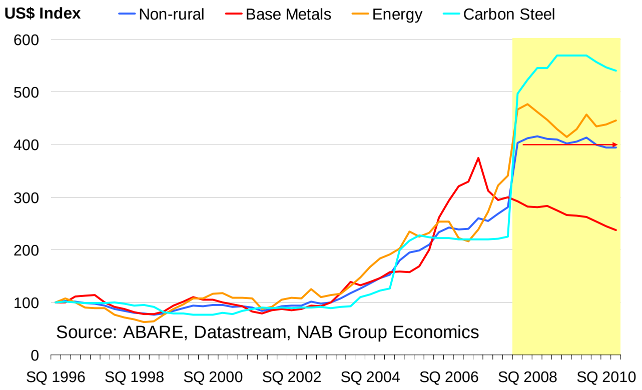
Summary – resource commodities to remain near record levels through to 2010

- China's industrialisation has underpinned global demand for non-rural commodities. Combined with constrained supply – the result of low returns for the industry across the 1990s – this demand has driven aggregate commodity prices to nominal records – around four times the levels of a decade ago.
- More recently, the underlying price trends in commodity markets have diverged – with weakness in the relatively substitutable base metal markets sharply contrasting with continued strength in markets for energy and steel materials.
- These trends are expected to continue – with base metal markets forecast to weaken further, while energy and steel material markets are expected to remain firm – reflecting the structural constraints that continue to limit the production response in these markets. Aggregate resource commodity prices are forecast to increase by around 48 per cent in 2008, and remain around these levels for the next two years.

Non-rural commodity prices remaining near record levels – but the underlying trends are divergent



Until mid-2007, the boom in non-rural commodity prices was broad based – with prices for energy, steel materials and base metals increasing on the strength of Chinese demand and supply side constraints – the result of low returns for the industry across the 1990s.

In more recent times, we have seen trends in various resource markets diverge, as the underlying supply and demand conditions have varied. Weakness has been evident in a number of base metal markets – particularly those which have ready substitutes in their end use, such as nickel and zinc.

In contrast, energy commodities – such as oil and coal – have continued to soar, as structural constraints in supply – both infrastructure and investment based – continue to limit the ability of producers to respond to the strength of demand, largely from China.

Over the next few years, we expect these trends to continue. Supply growth is expected in the base metal sector – a response from producers that has been expected for a number of years. Most metal markets are expected to record production surpluses this year.

Infrastructure and investment constraints are likely to continue to constrain supplies of energy commodities. That said, high prices for energy commodities are likely to encourage conservation – so-called "demand destruction". Consumption of oil in OECD nations has declined each year since 2005, as consumers have sought to optimise their usage. This slowing in demand growth may limit the upside potential for commodities such as oil and coal.

Prices for iron ore are forecast to rise again in 2009 – as demand from steel producers continues to outstrip the capacity of producers to increase supply. That said, the rate of increase is likely to slow from the average estimated increase of 85 per cent in 2008.

Aggregate commodity prices – as measured by our Commodity Price Index – are forecast to rise by around 48 per cent in 2008 – largely driven by the increases in iron ore and energy prices. Resource commodity prices are expected to remain around these levels for the next two years.

Annual price profile

		2004	2005	2006	2007	2008 f	2009 f	2010 f
Oil - WTI	US$/bbl	41.43	56.58	66.11	72.34	116.50	110.00	115.00
Aluminium	US$/t	1717	1900	2568	2637	2830	2925	2750
Copper	US$/t	2868	3691	6714	7117	8000	8025	7625
Lead	US$/t	888	976	1288	2581	2187	1300	1138
Nickel	US$/t	13852	14716	24244	37227	26770	24000	20750
Zinc	US$/t	1048	1385	3272	3242	2196	2000	1850
Gold	US$/oz	410	445	604	697	920	900	825
Thermal coal	US$/t*	45.00	52.50	52.50	55.65	125.00	120.00	115.00
Hard coking coal	US$/t*	57.00	125.00	115.00	98.00	315.00	285.00	255.00
Iron ore -fines	US$/dltu*	36.6	62.7	74.6	81.7	147.0	176.4	176.4

*Annual contract prices
Source: Datastream, NAB Group Economics

For more details, see our more detailed "At a Glance" reports.

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