



# The Outlook for China, Australia and Commodities

*Brisbane Mining Club*

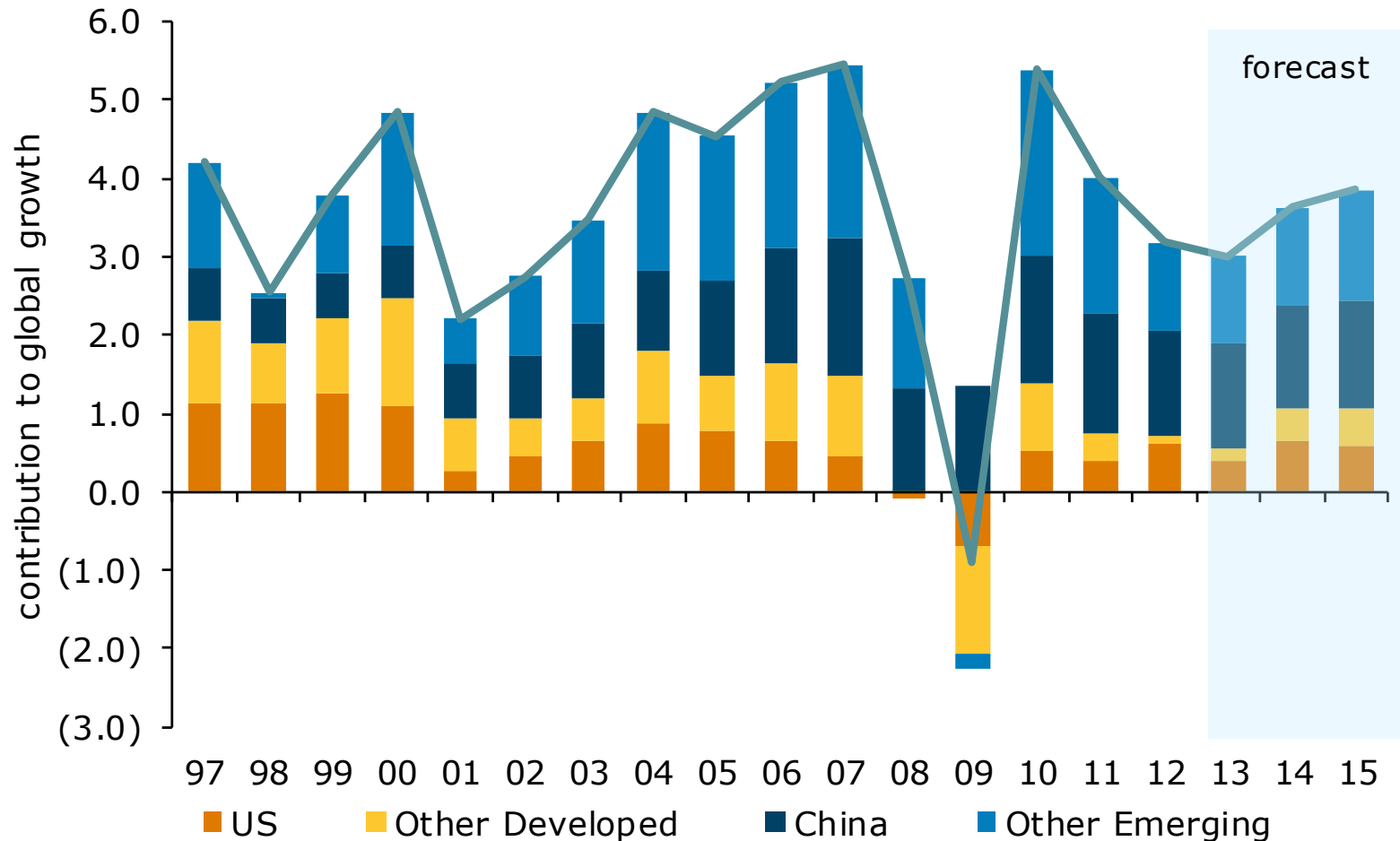
**Warren Hogan**

Chief Economist

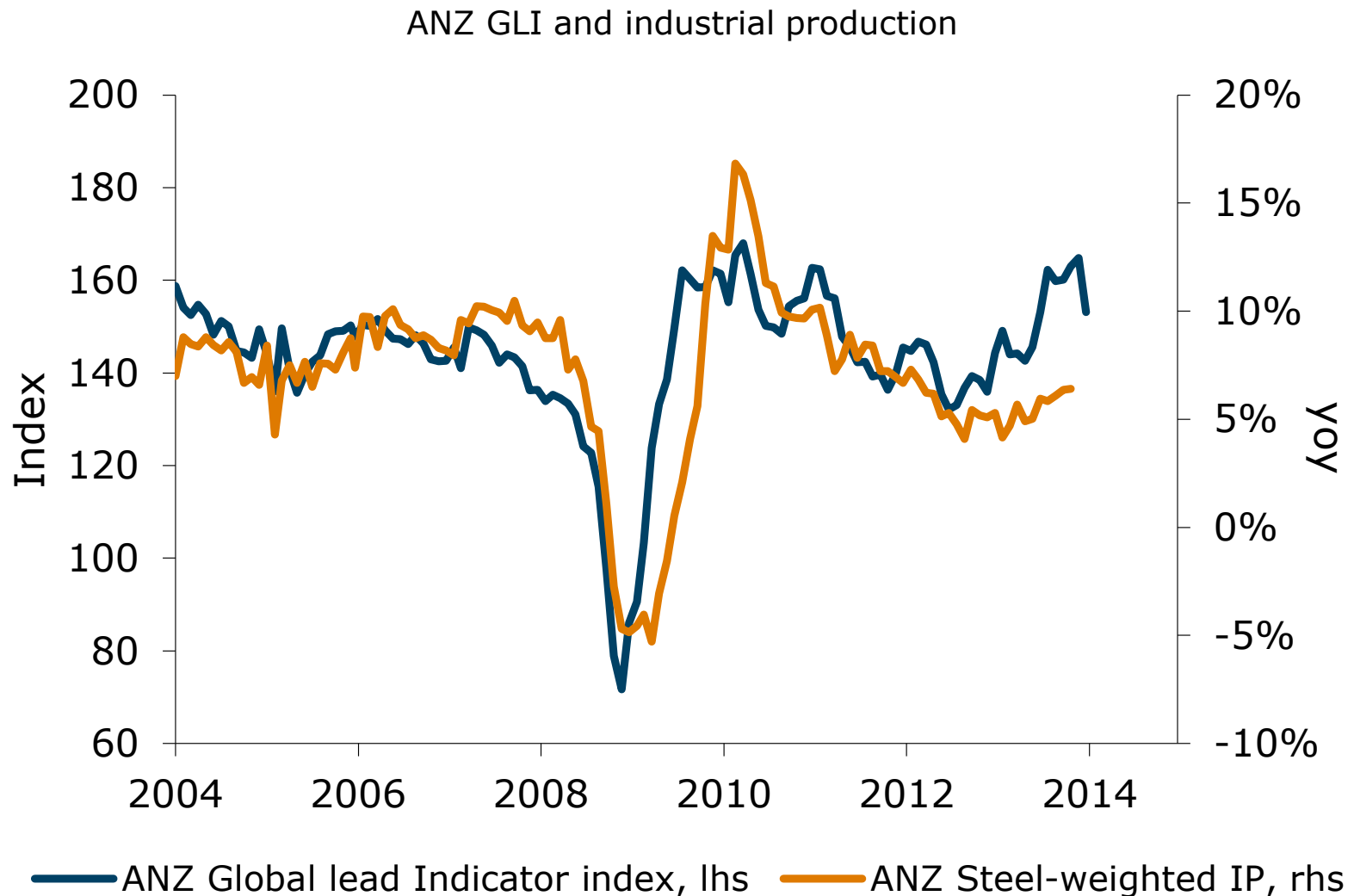
12 February 2014

# Global growth will bottom in 2013 at 3% - rebounding towards 4% by 2015

## ANZ Global GDP Growth Forecasts

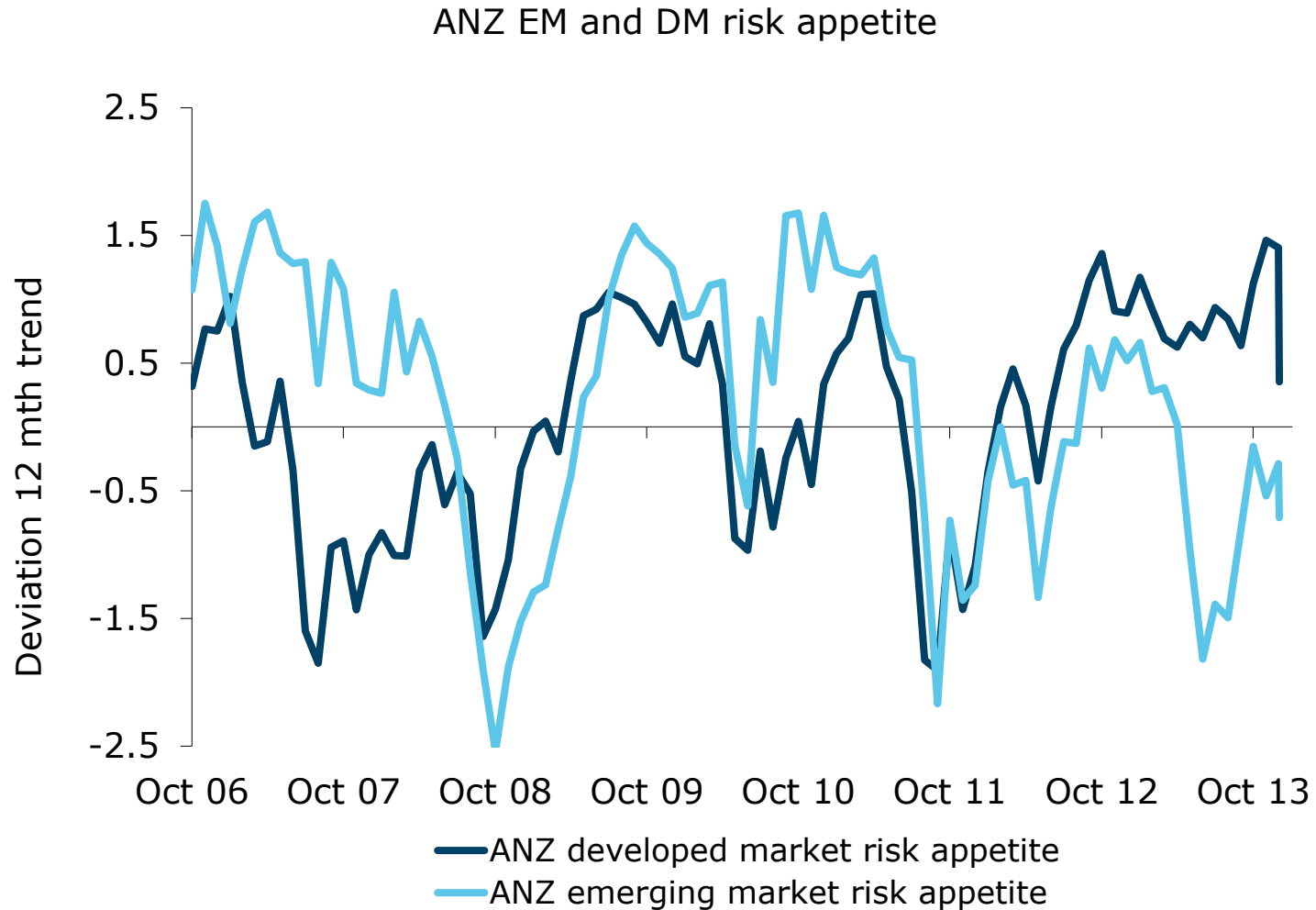


## World economy – The ANZ Global Lead Indicator (GLI) has consolidated recently but remains at an elevated level.

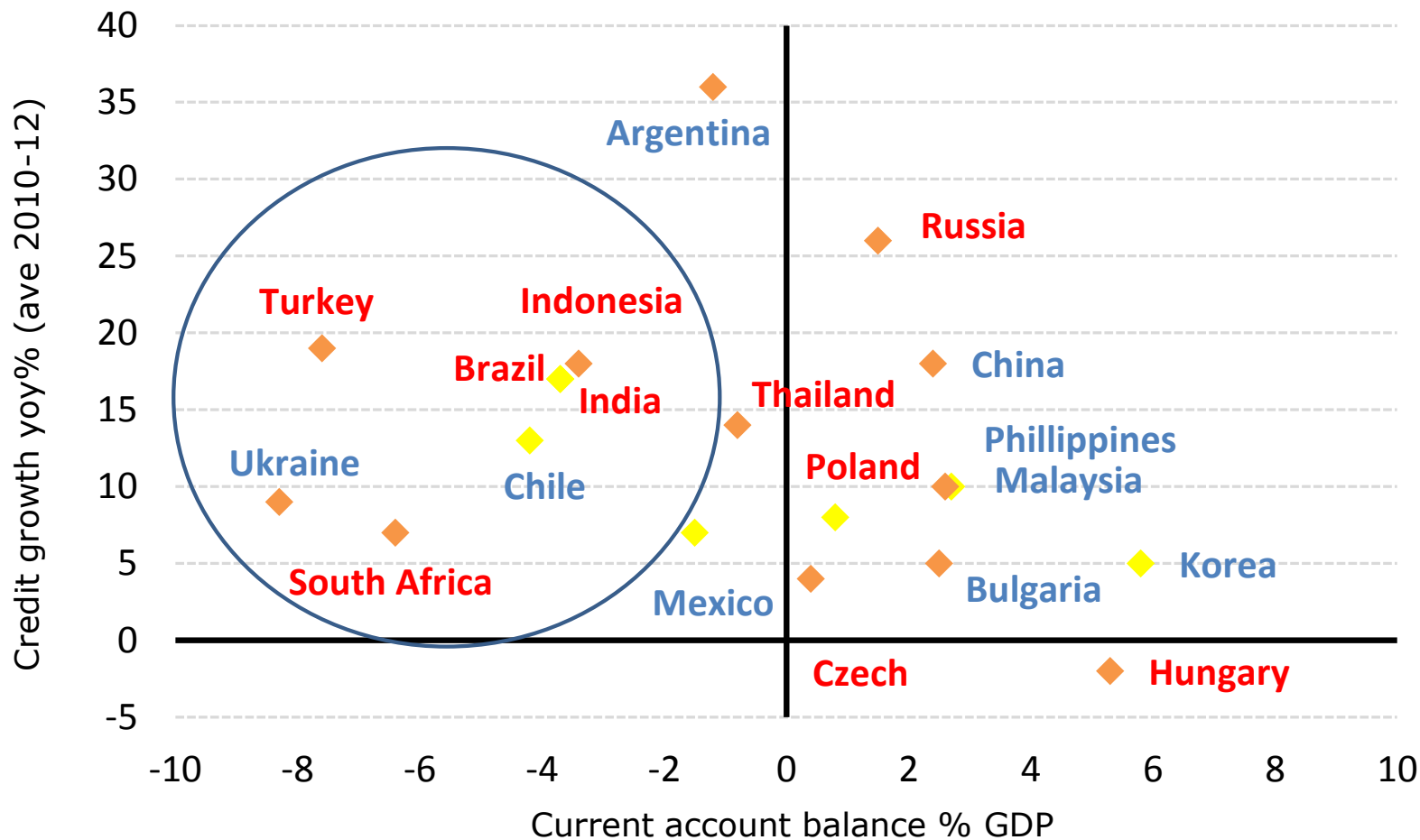


# All markets are being impacted by 'tapering'

## But will tapering induce another bout of EM risk aversion in 2014?



# EM risks are idiosyncratic, not generalised – volatility has been concentrated in countries with financial imbalances and political risks



Orange diamond indicates medium political risk

Yellow diamond indicates low political risk

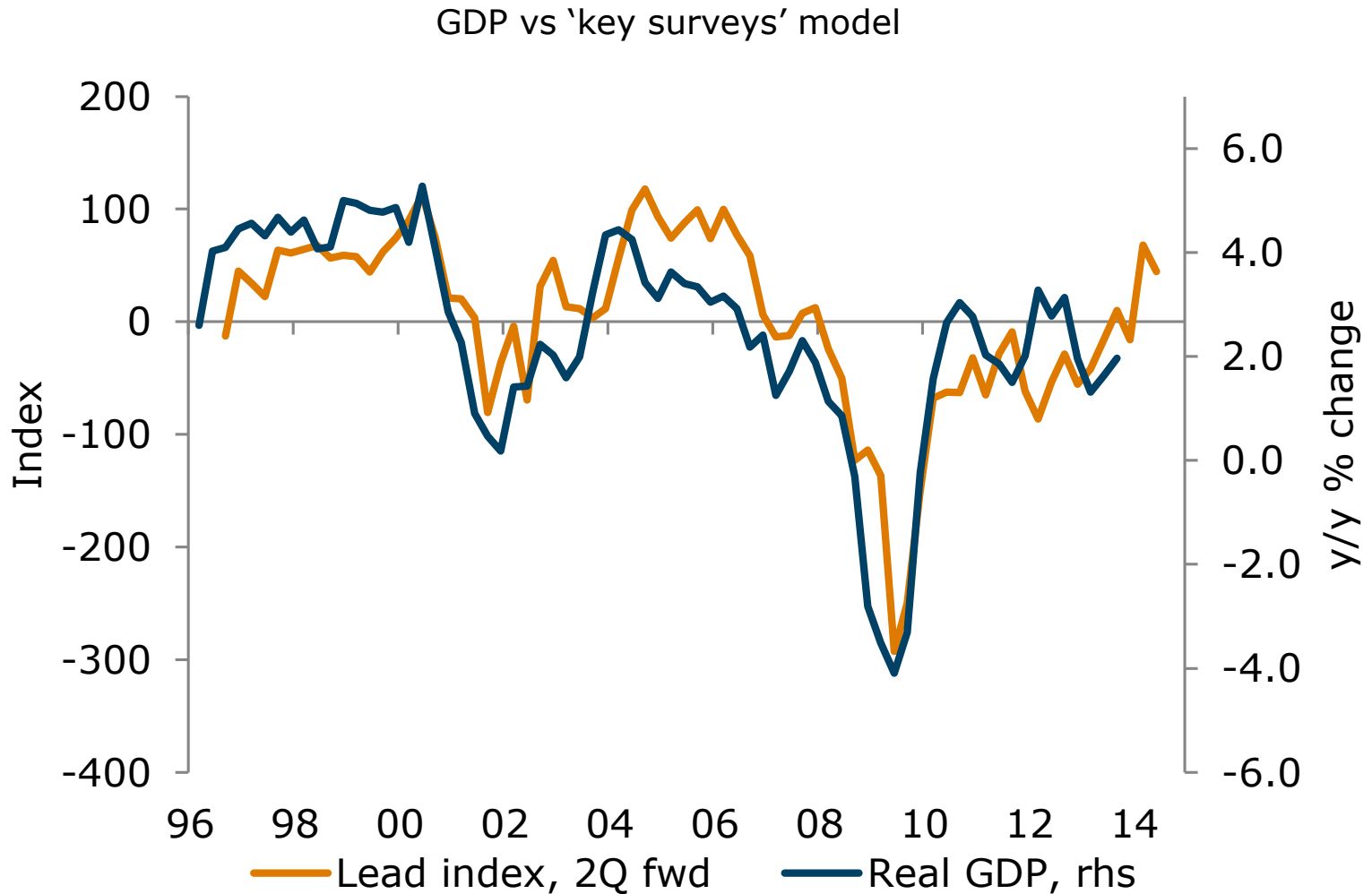
Red indicates election in 2014 (includes local, parliamentary & presidential elections)

# Japan - Abenomic's has lifted confidence and this should feed through to improved spending in the short-term



# US activity

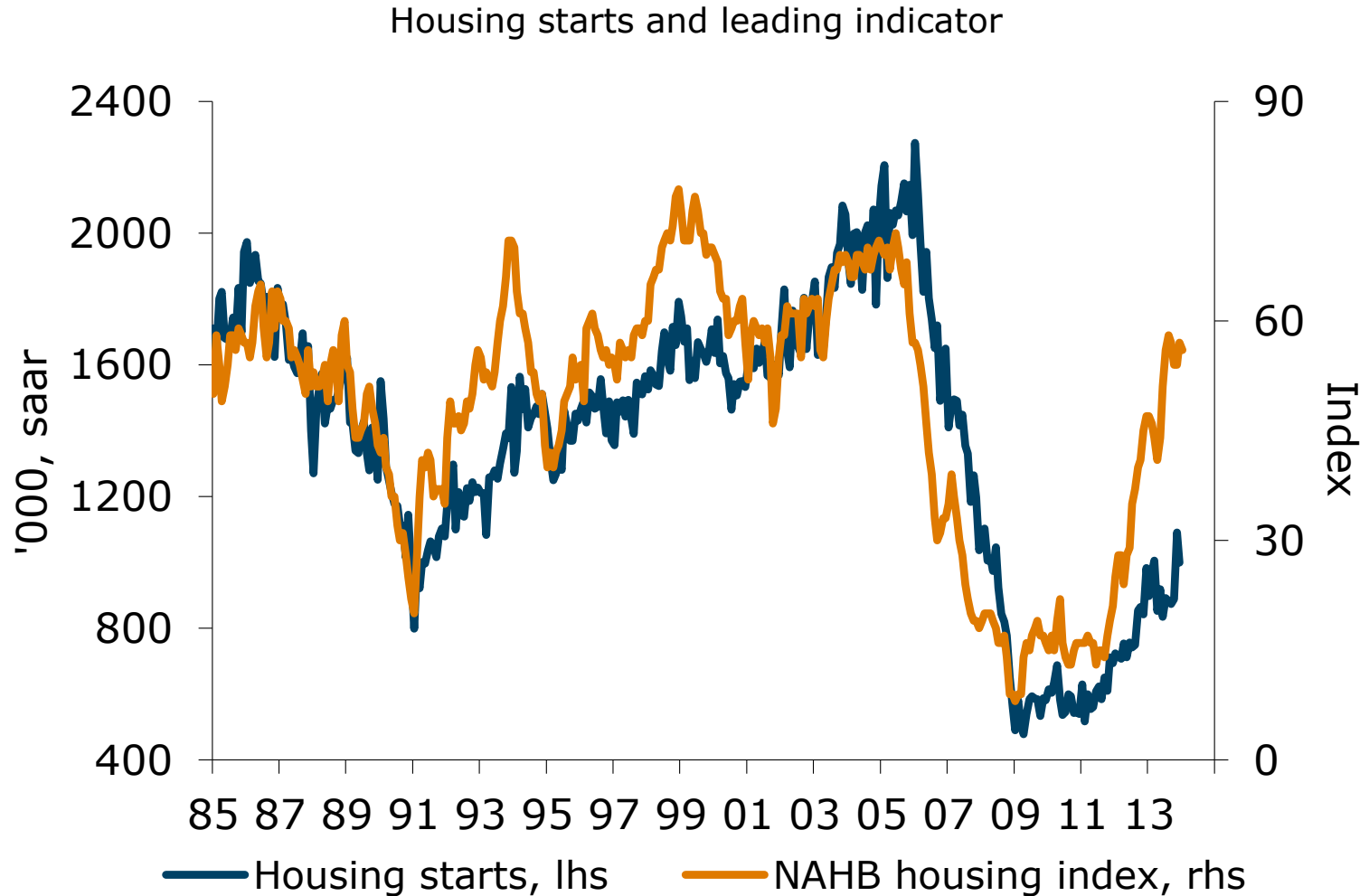
## Our lead indicators point to stronger GDP growth in 2014



Source: BEA, Bloomberg, CBO, ANZ  
Model of NAHB, ISM and Architectural billings.

# US housing

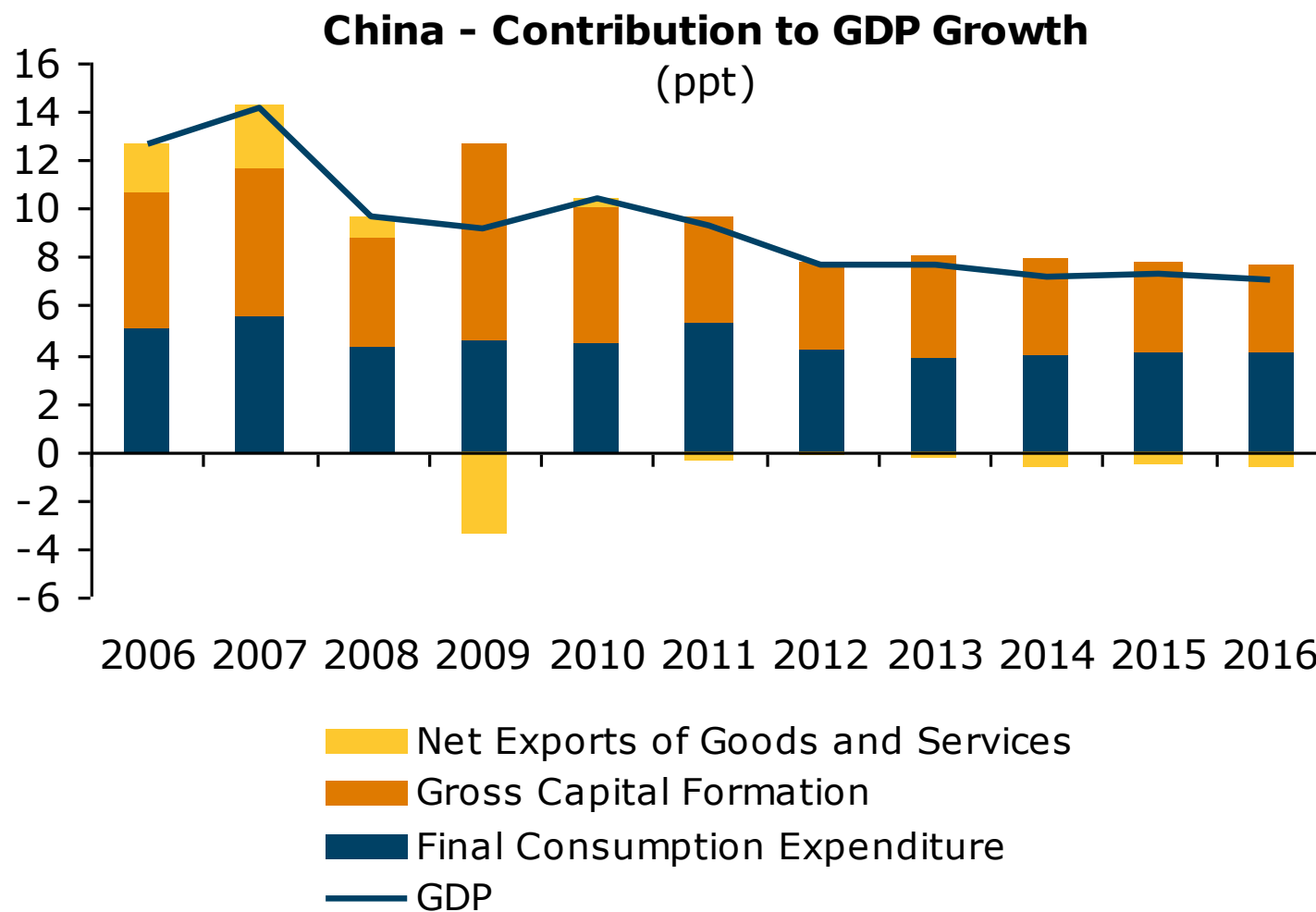
Housing has renewed momentum after a brief pause in mid 2013



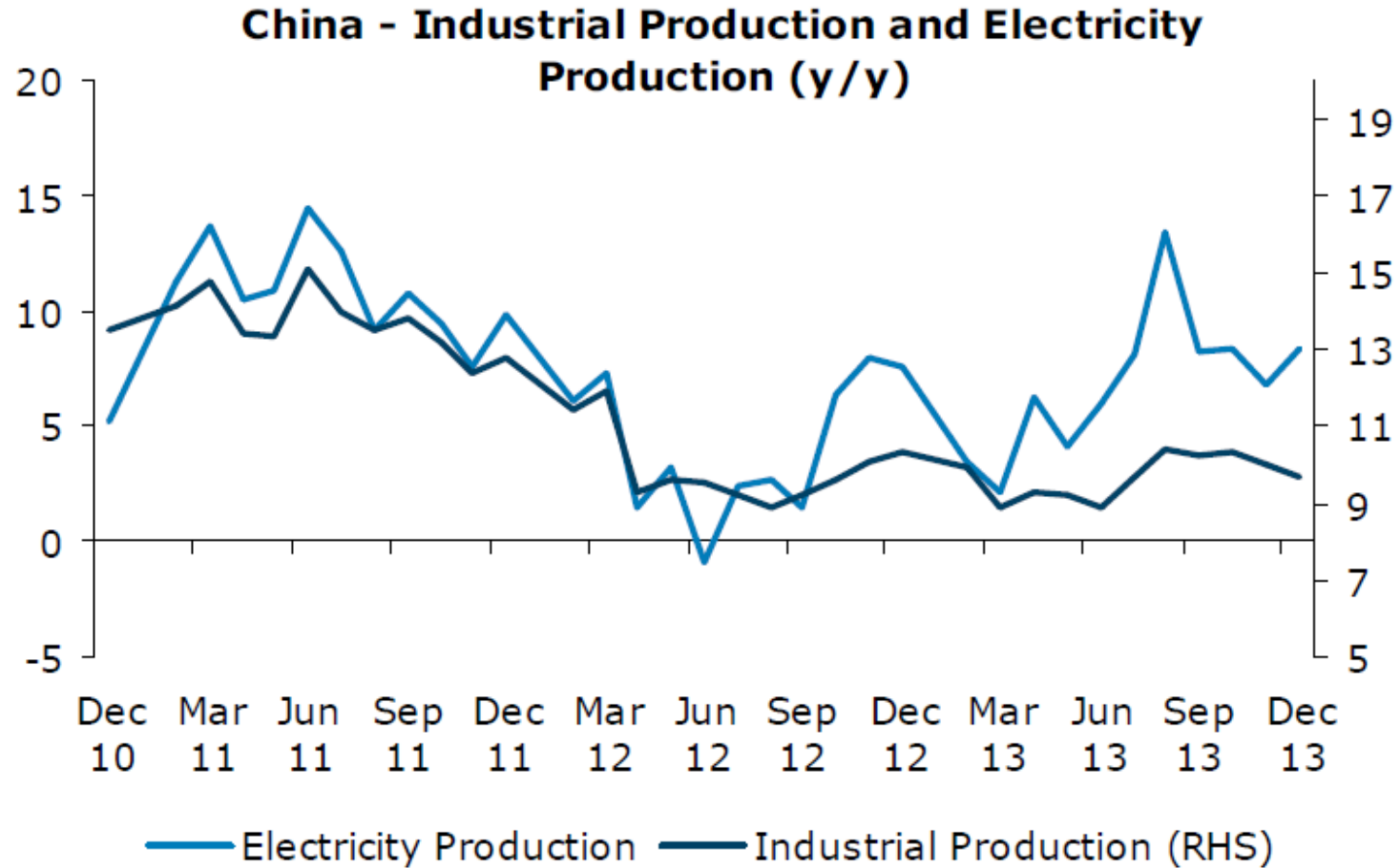


# China's growth is gradually slowing over the medium-term

The real focus is economic reform and re-balancing.



# Industrial production has picked up since the middle of 2013 although it has slowed a little in recent months.



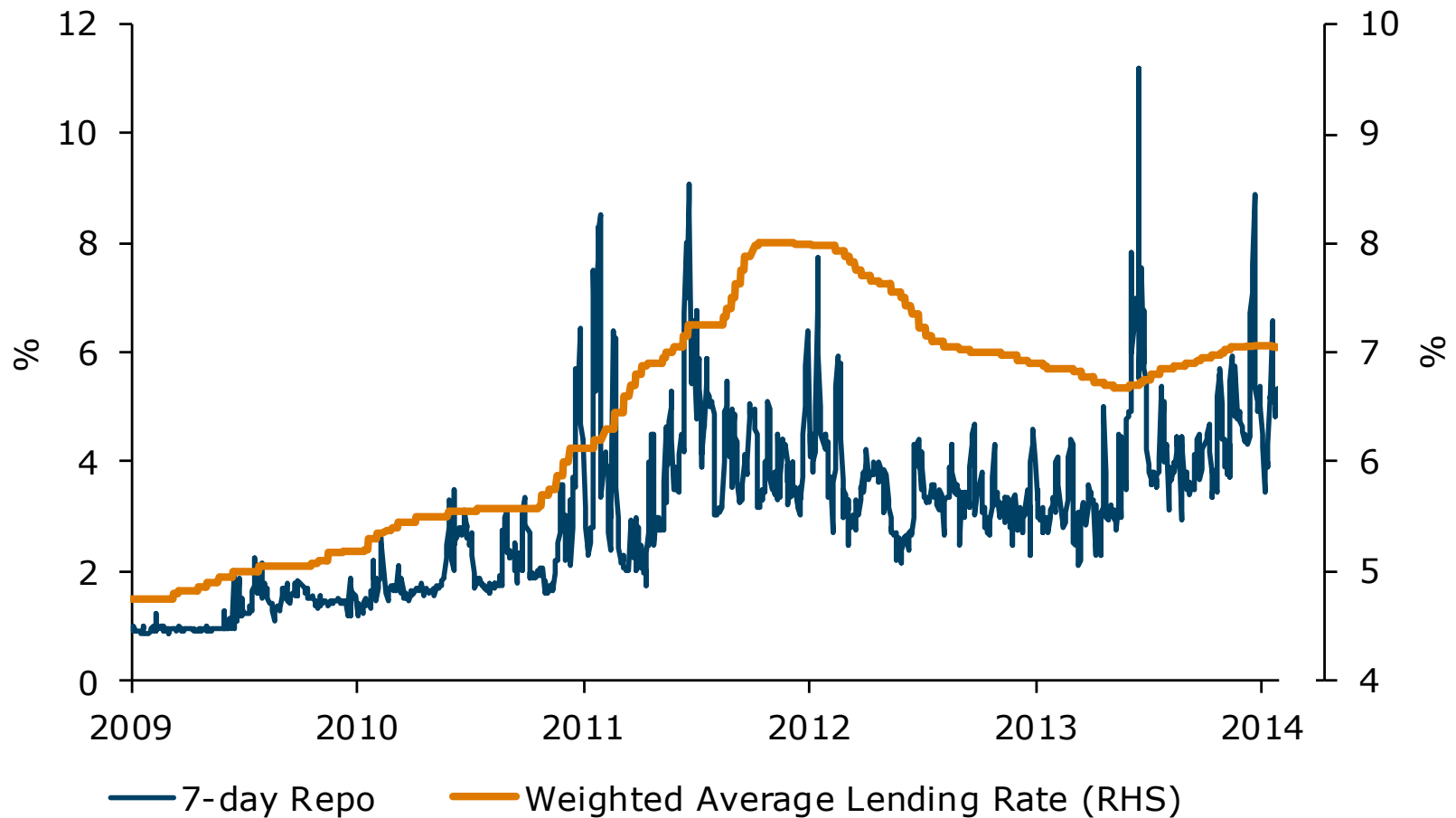
# The key real estate market looks overheated



# Domestic financial imbalances will keep liquidity tight

## And keep authorities focused on financial reforms

### China 7 day Repo vs Bank Lending Rate



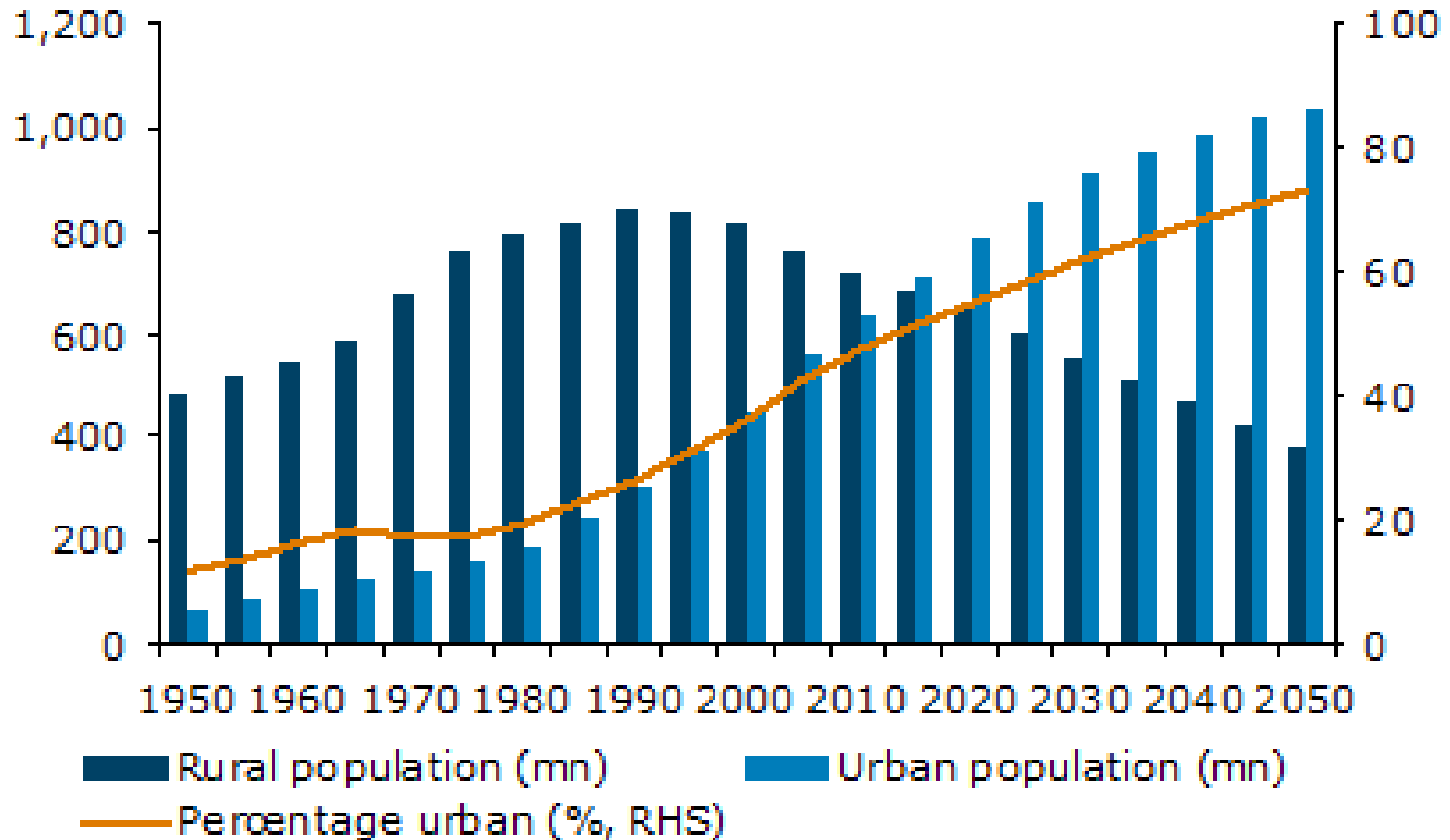
# Although China's growth will trend down, the extra GDP added each year is much larger than before



# China's urbanisation still has many years to run

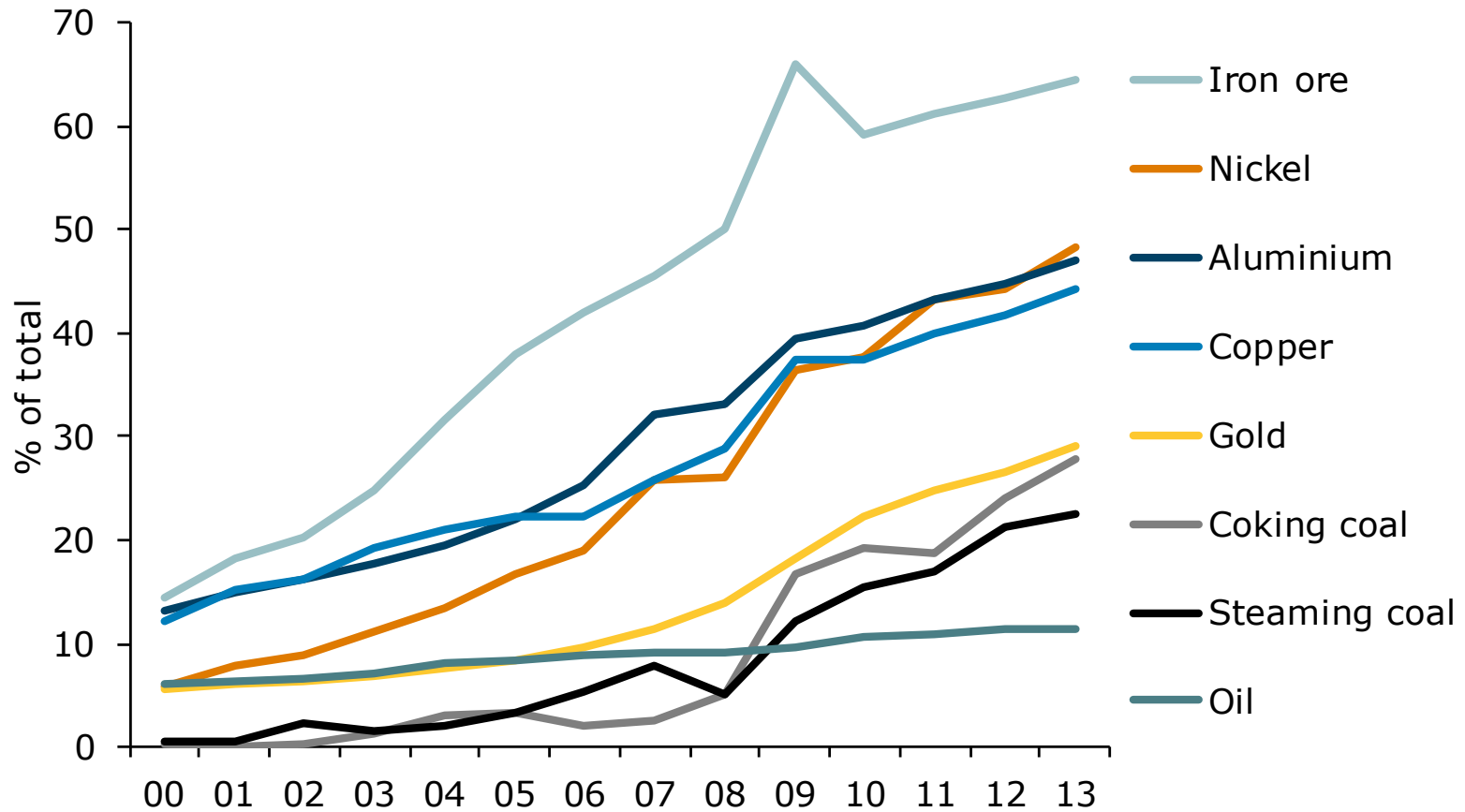
This will underpin further growth in commodity demand

China Urbanisation



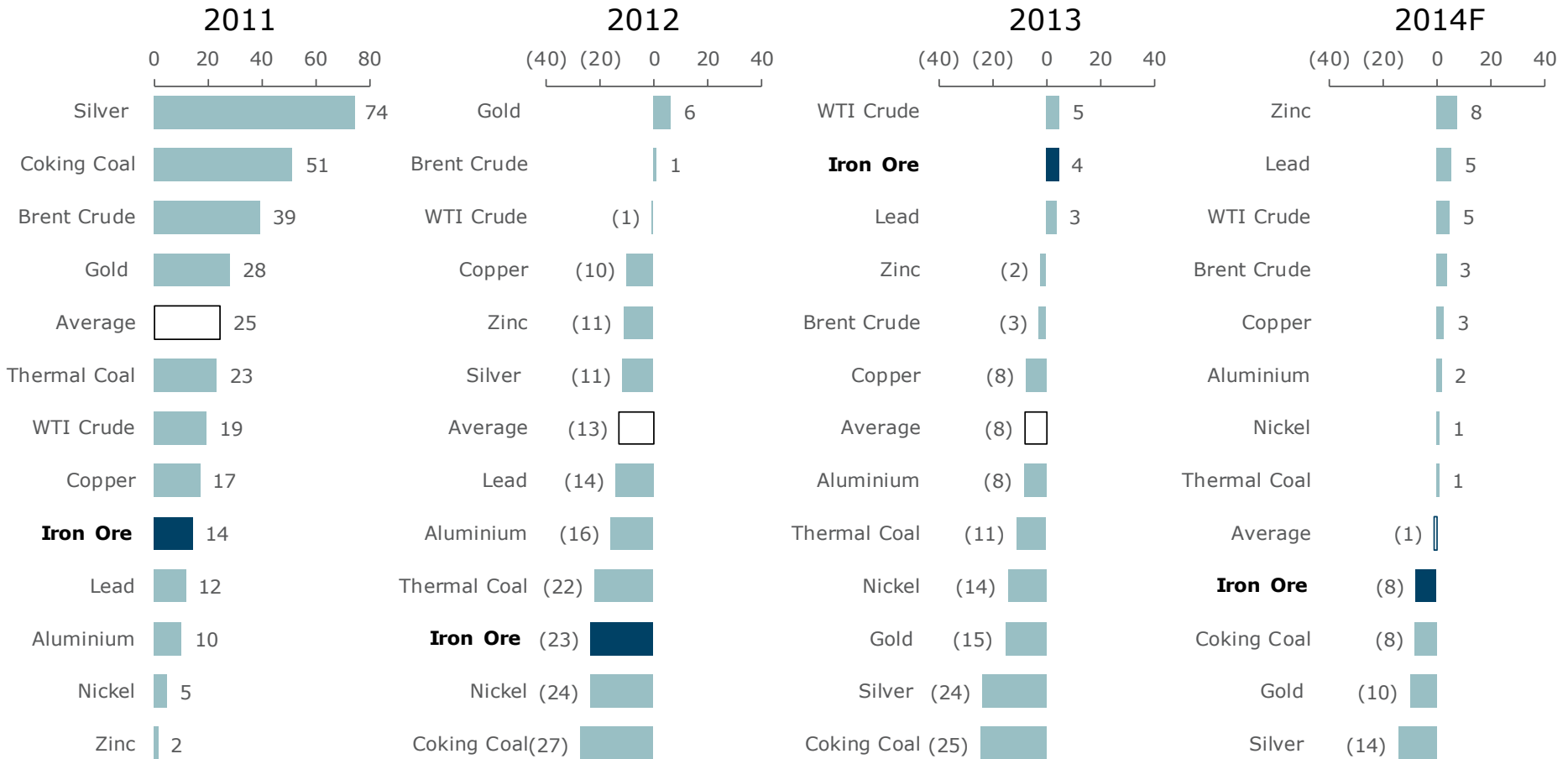
# China's strongest demand impact is for iron ore

## China's Share of Global Consumption



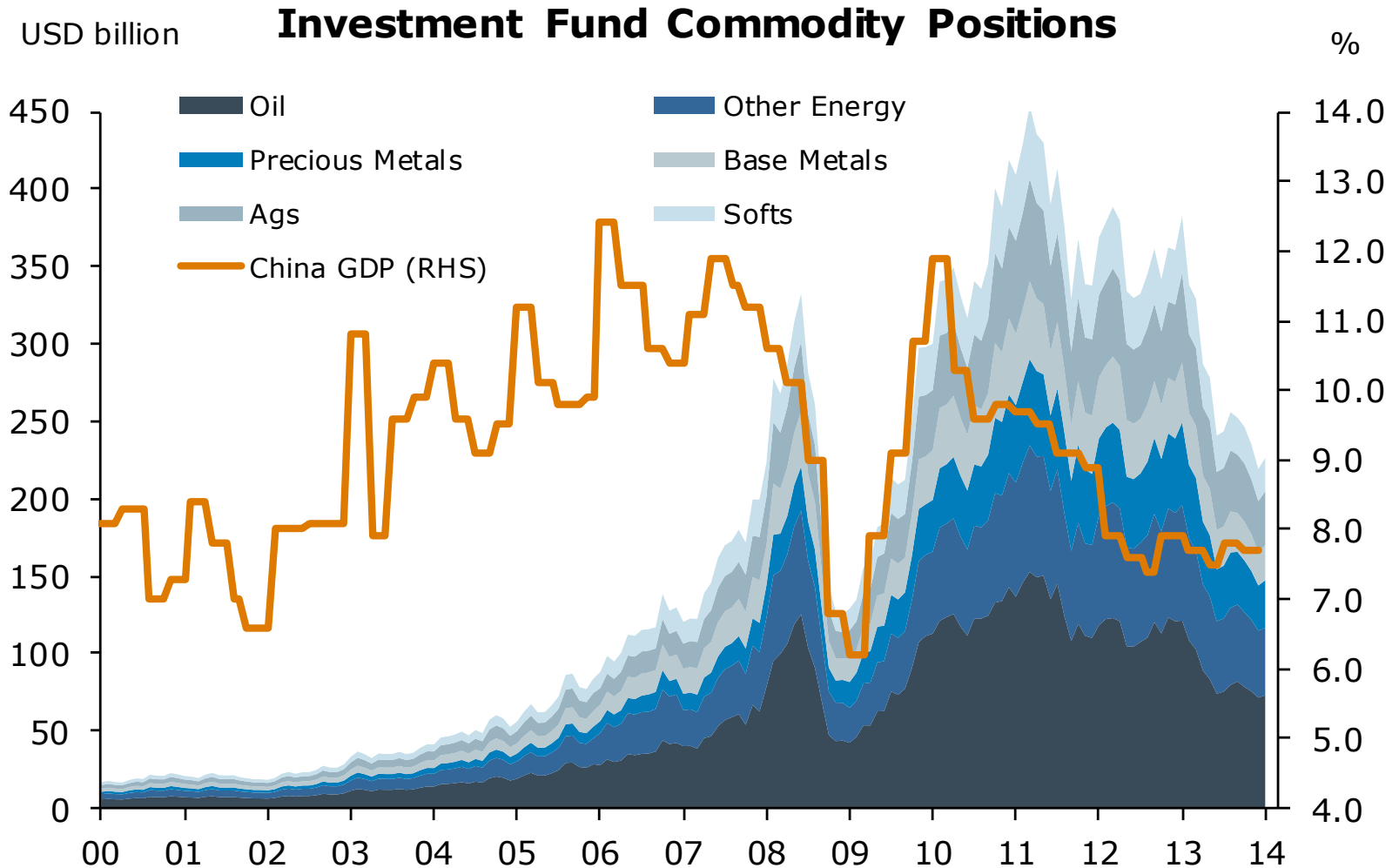
# A less difficult year in 2014 – base metals and energy to outperform

## Average Annual Percentage Change

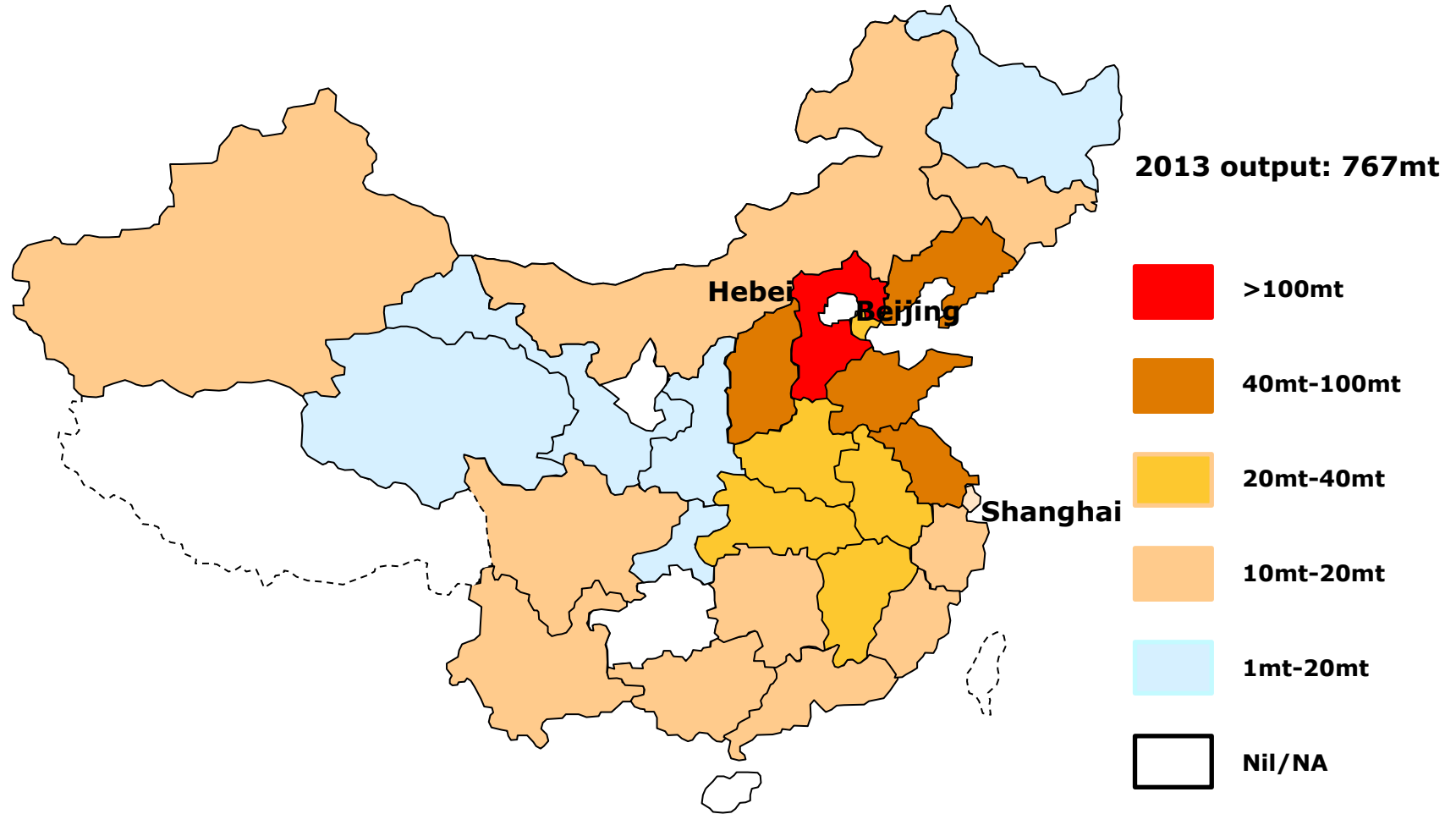




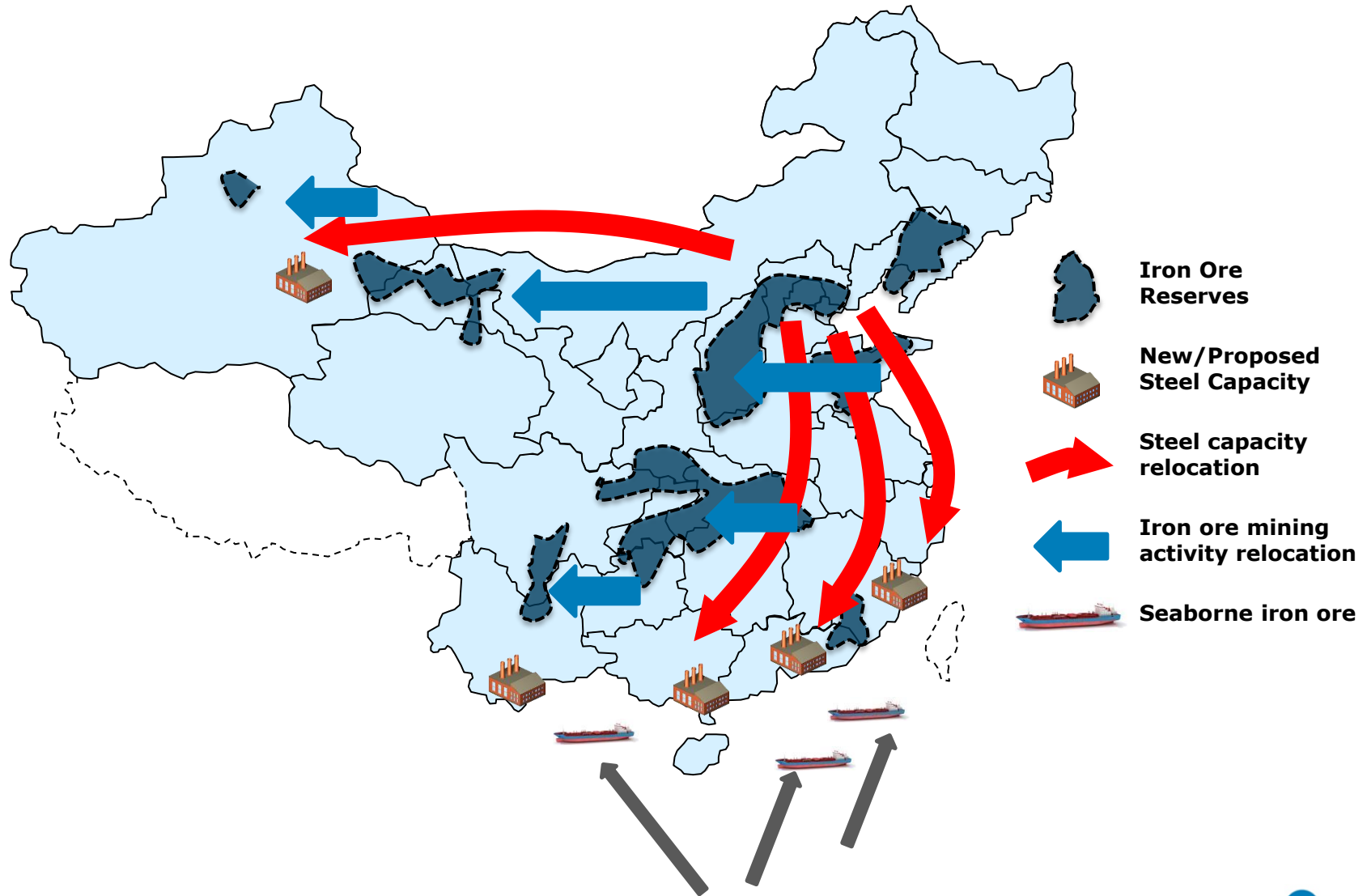
# Total funds in global commodity indices have halved since early 2011



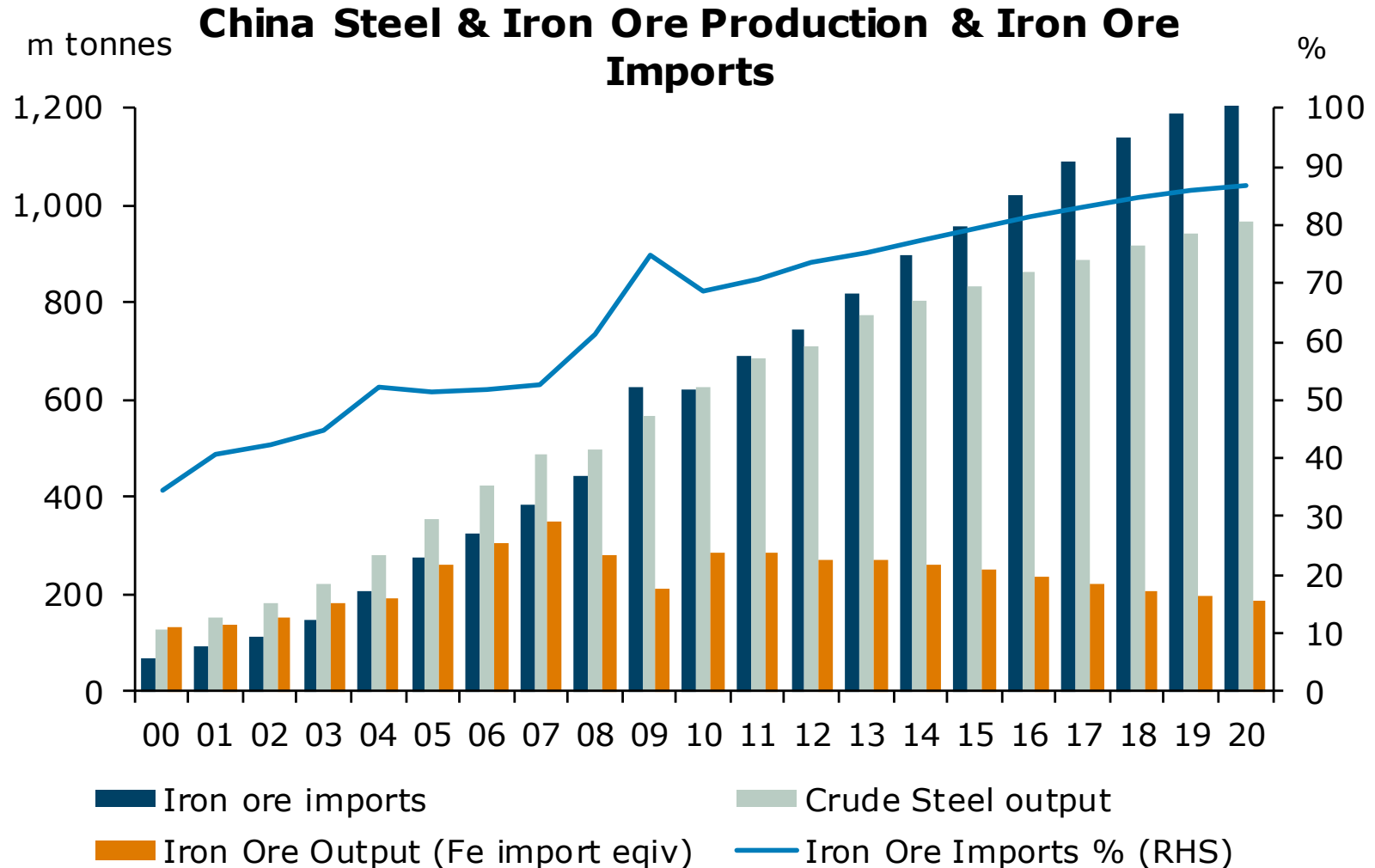
# China's steel production is concentrated in the north east too close to the capital!



# China's new steel capacity will likely move away from domestic iron ore supply, supporting stronger imports

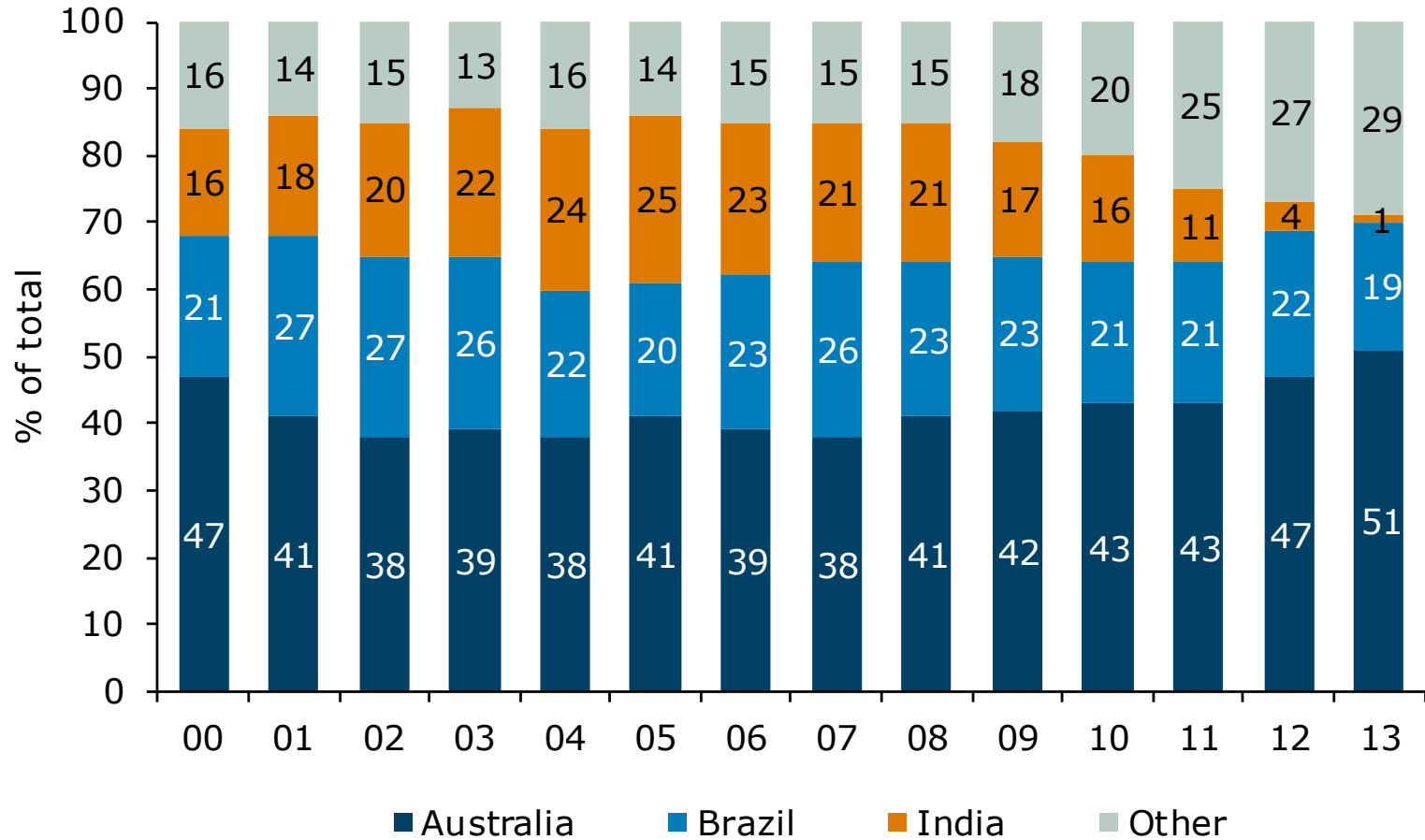


# China's iron ore production is also diminishing which will increase the reliance on imports

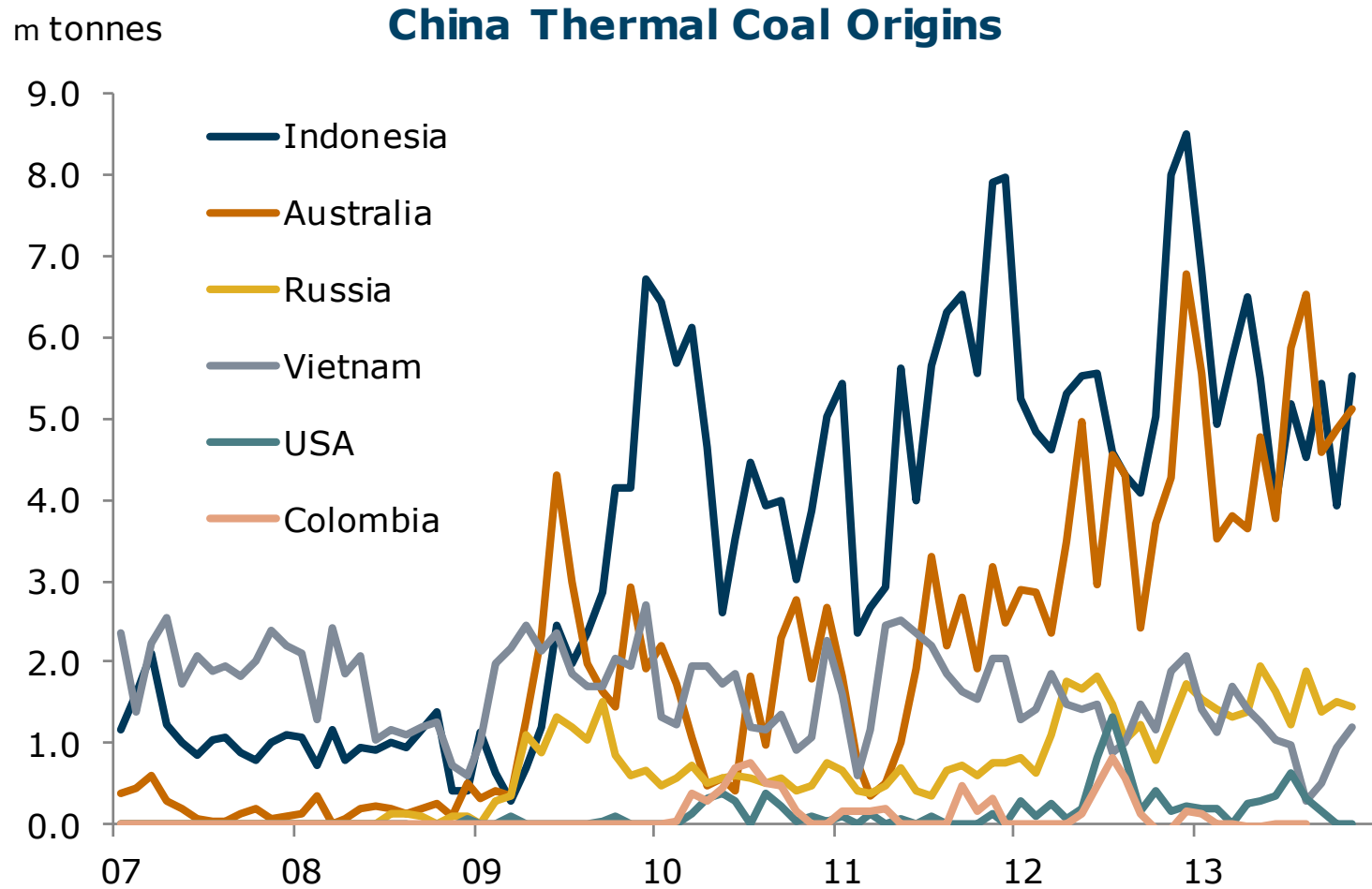


# Australia is best positioned to supply this increased import reliance

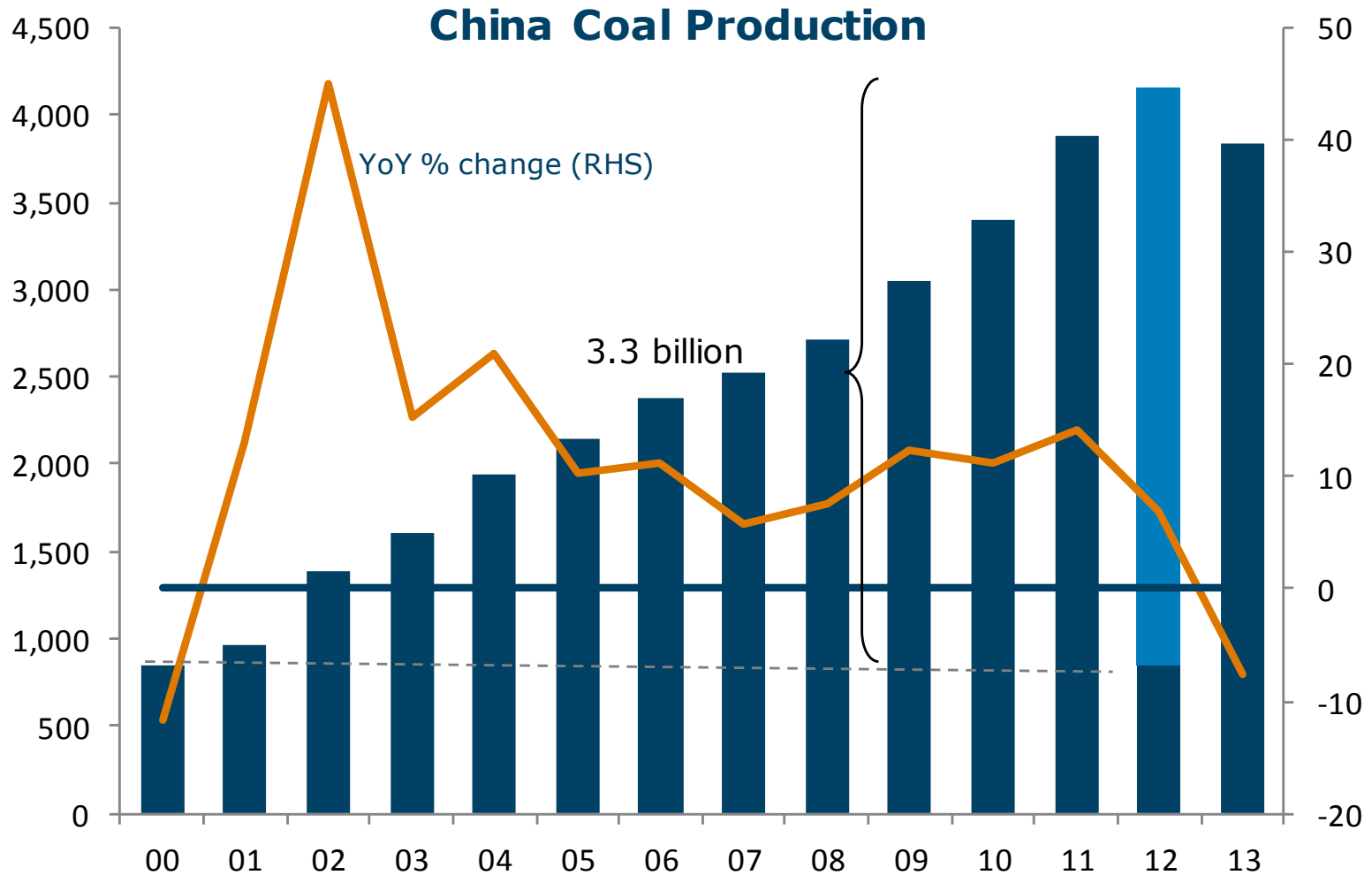
## China Iron Ore Imports by Destination



# China thermal coal imports continue to be strong offsetting slower domestic coal production over the past 18 months

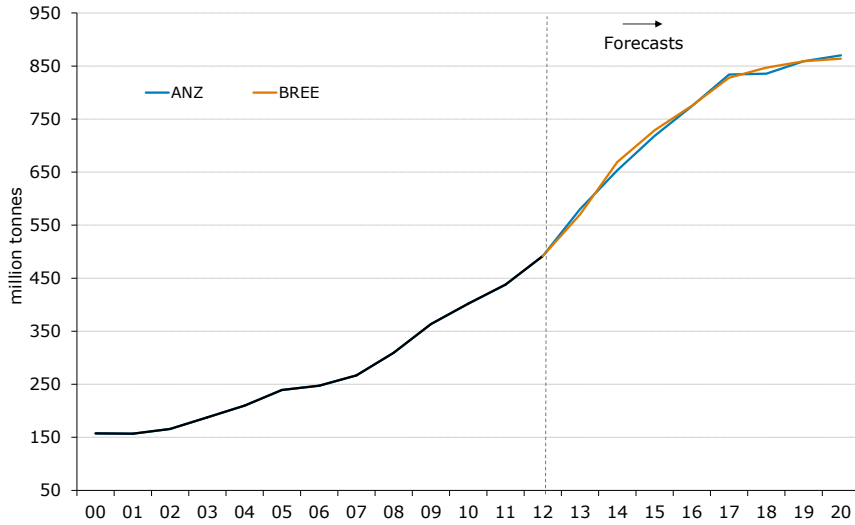


# China's coal production has fallen for the first time in 13 years

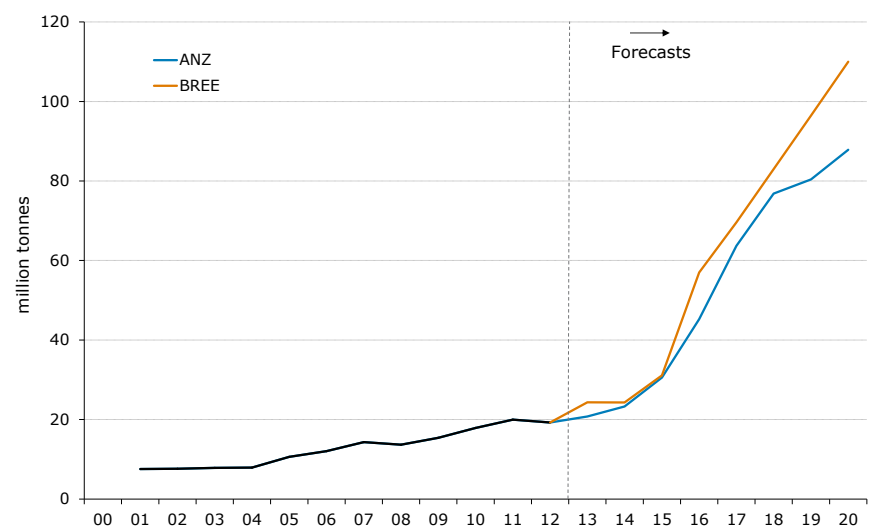


# Bulk commodity export volumes are expected to pick up sharply as resource projects move from the construction to the production phase.

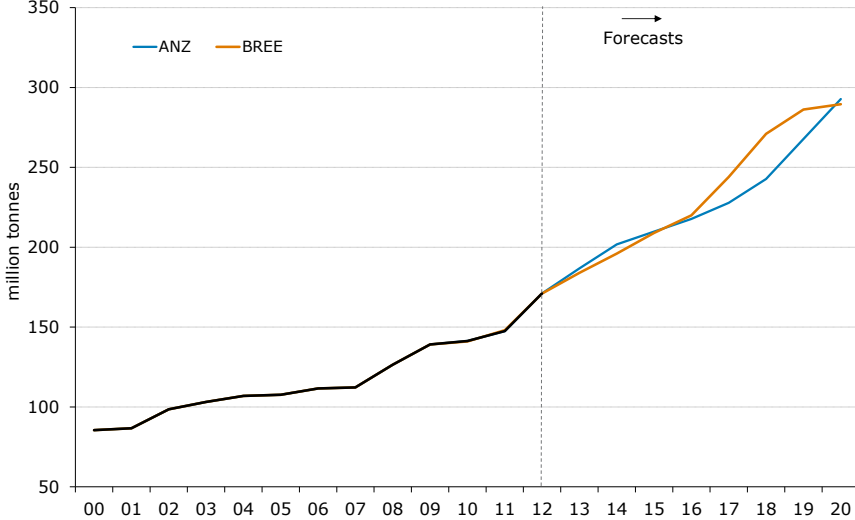
## Iron ore



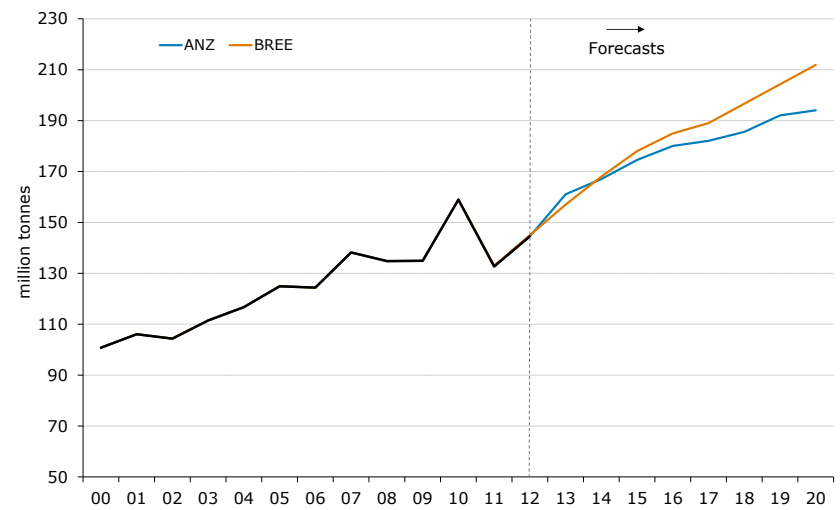
## LNG



## Thermal coal

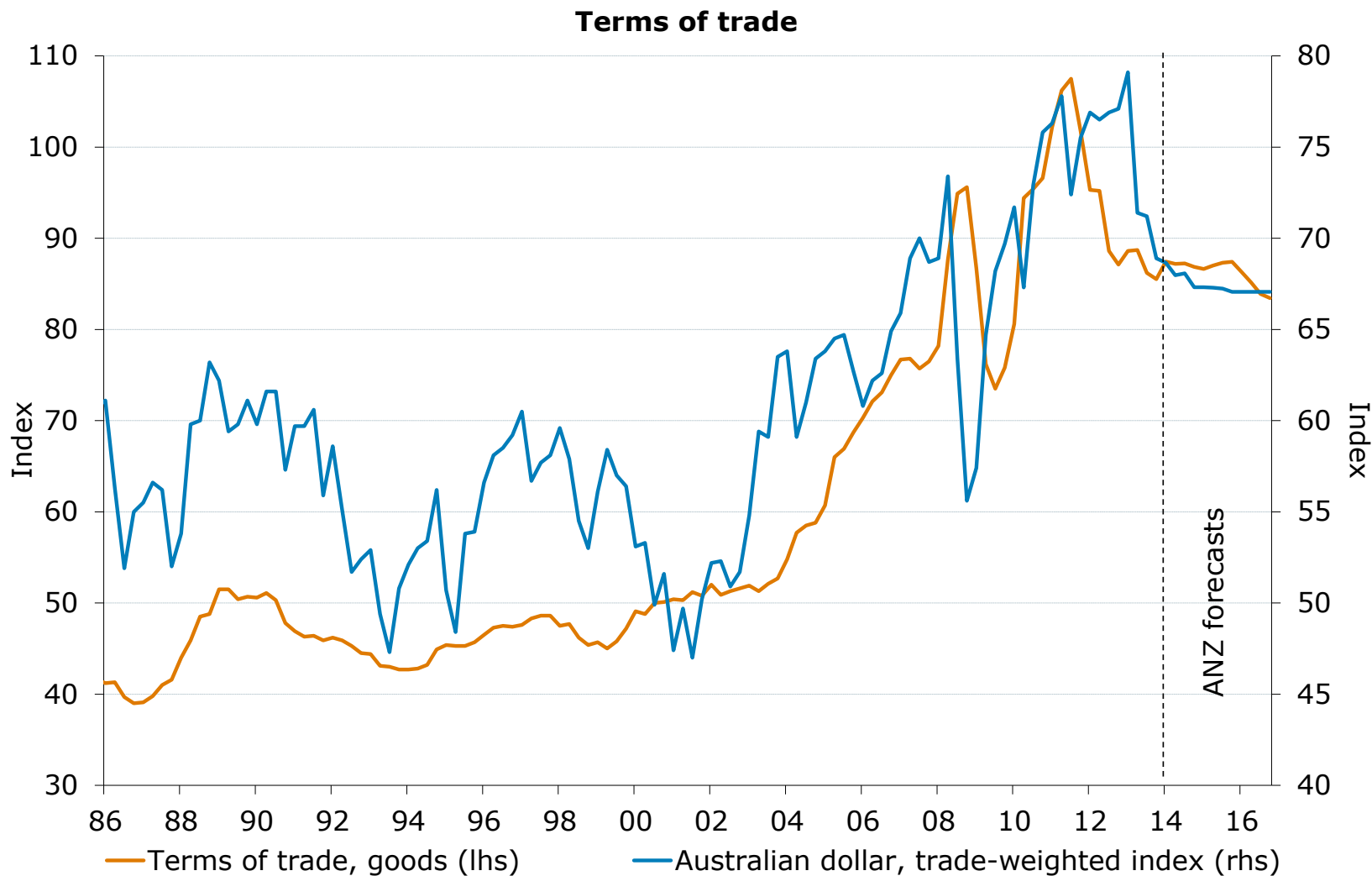


## Coking coal



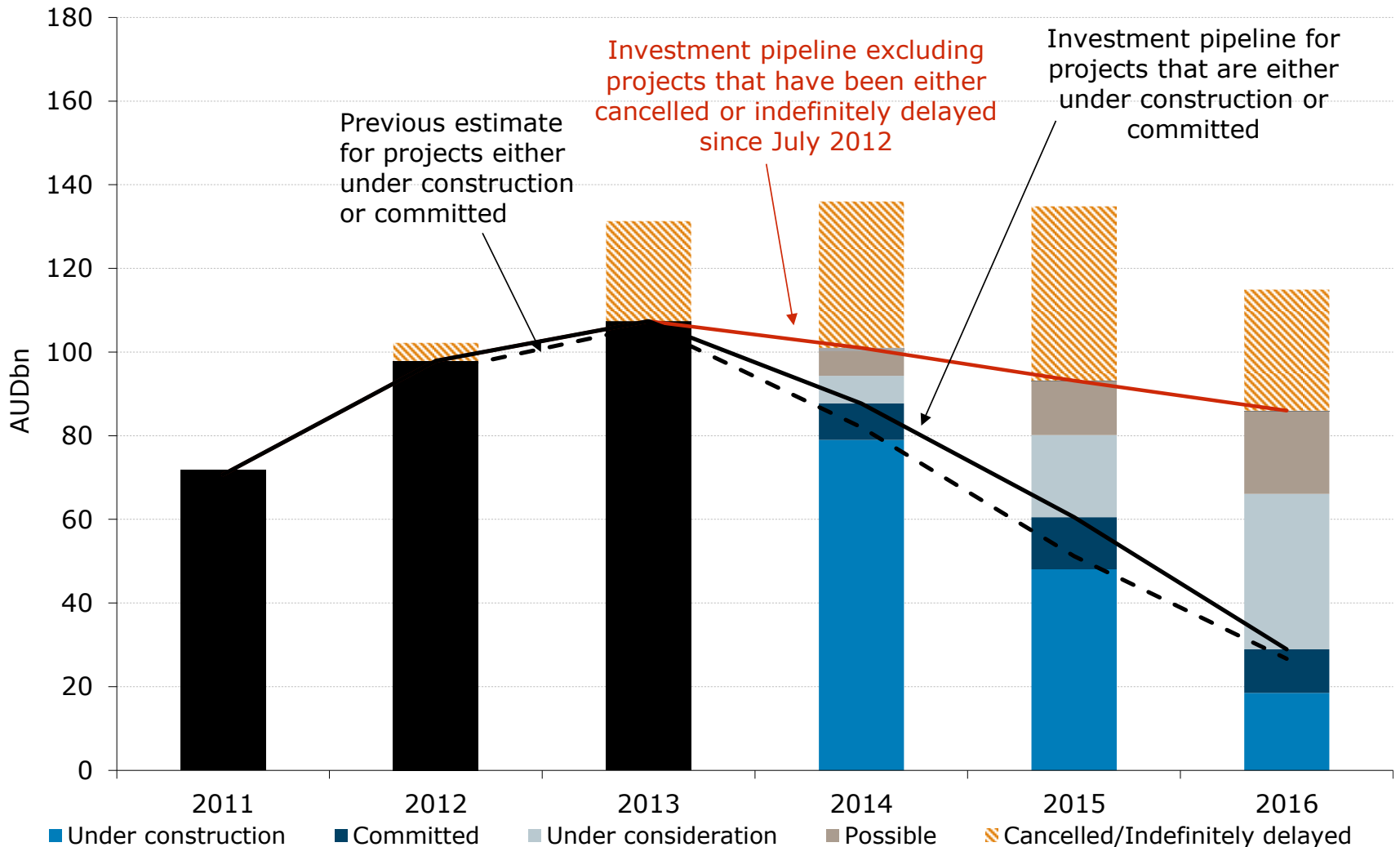


# We do not expect significant further falls in commodity prices and thus our terms of trade are likely to stabilise in 2014



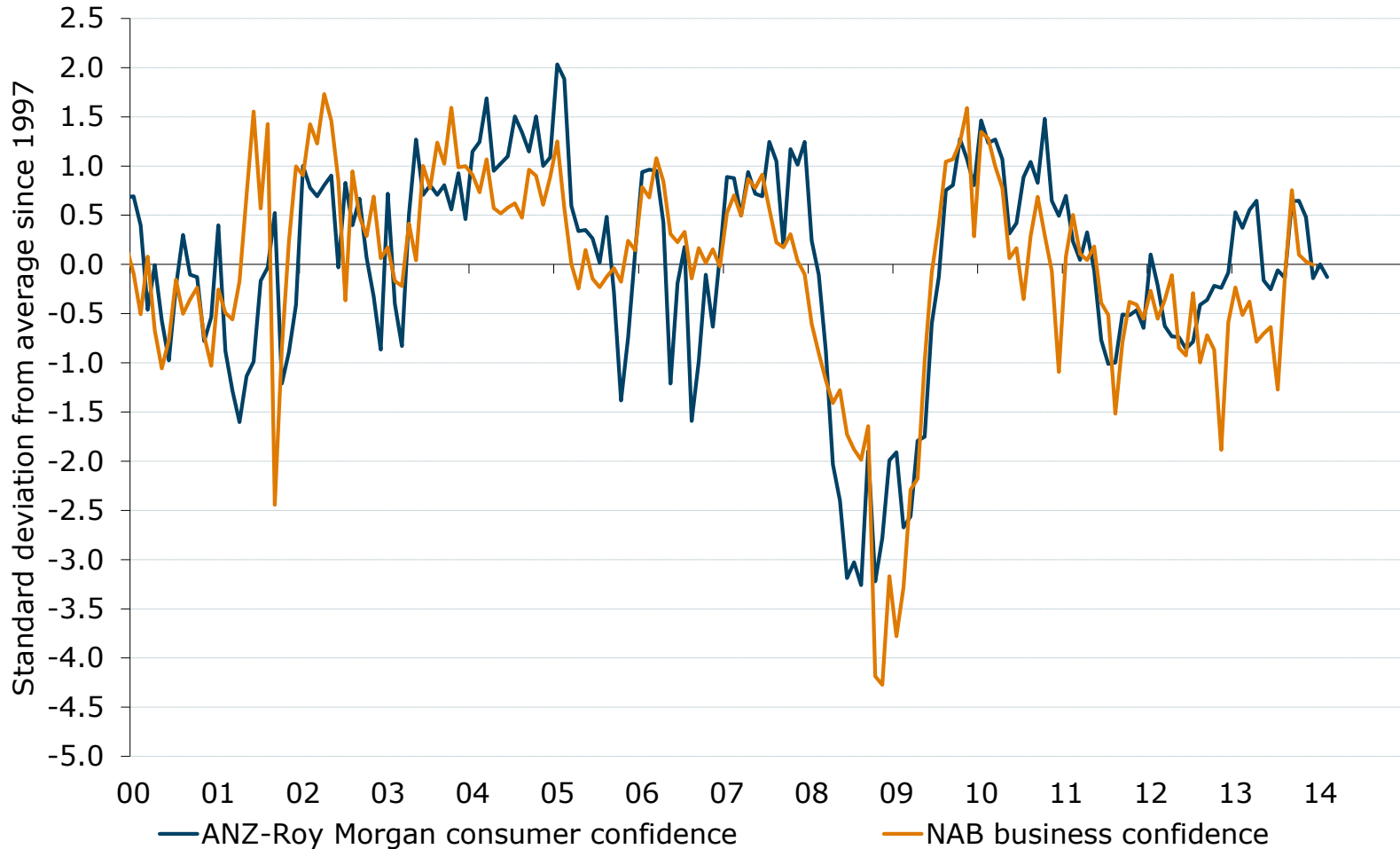
# Expected investment in major mining, energy and infrastructure projects appears to have based in late 2013.

**Mining, energy and infrastructure investment still slowing**



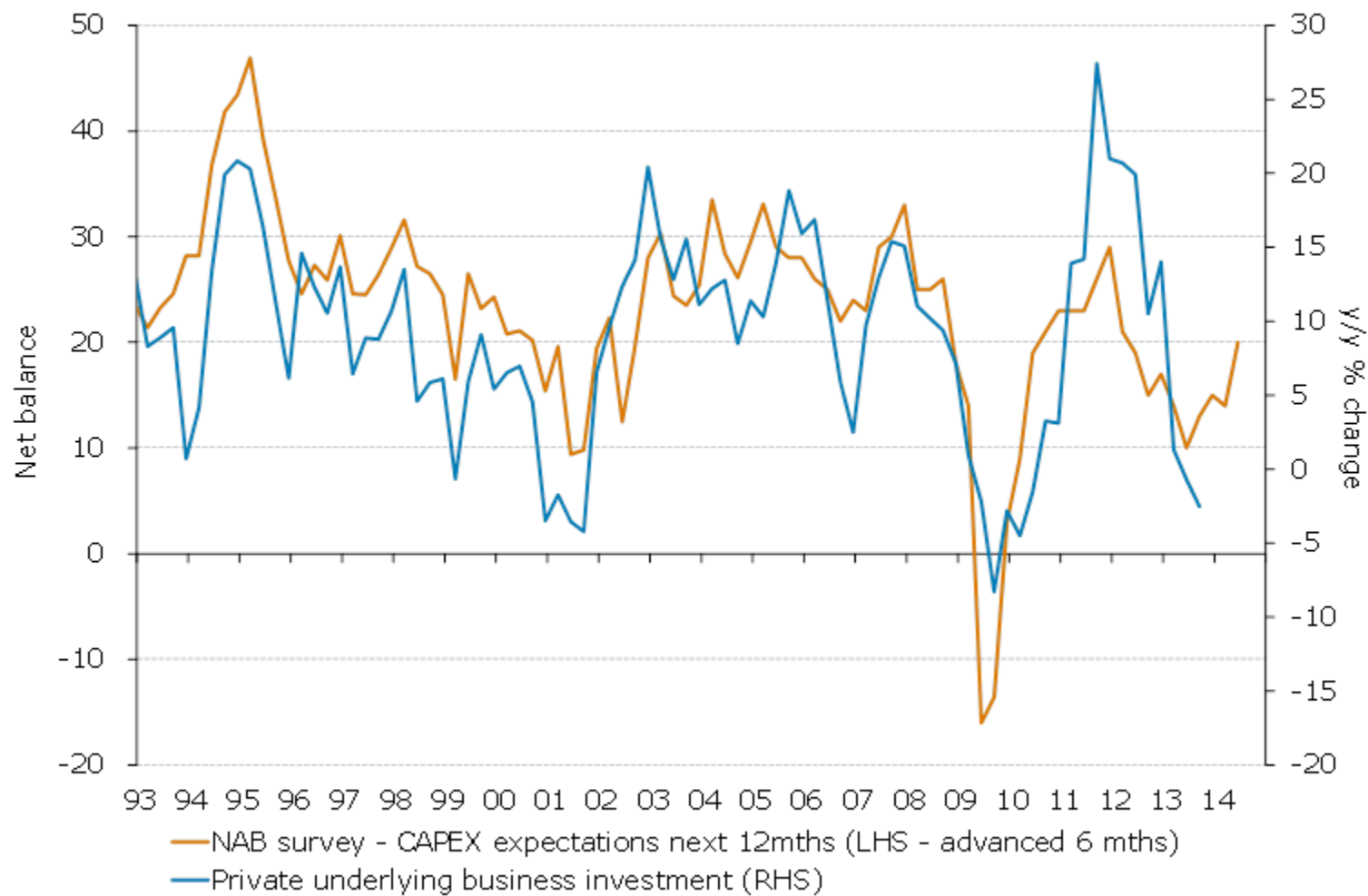
# Business and consumer confidence are rising – we believe this will translate into stronger activity in 2014

## Business vs. consumer confidence



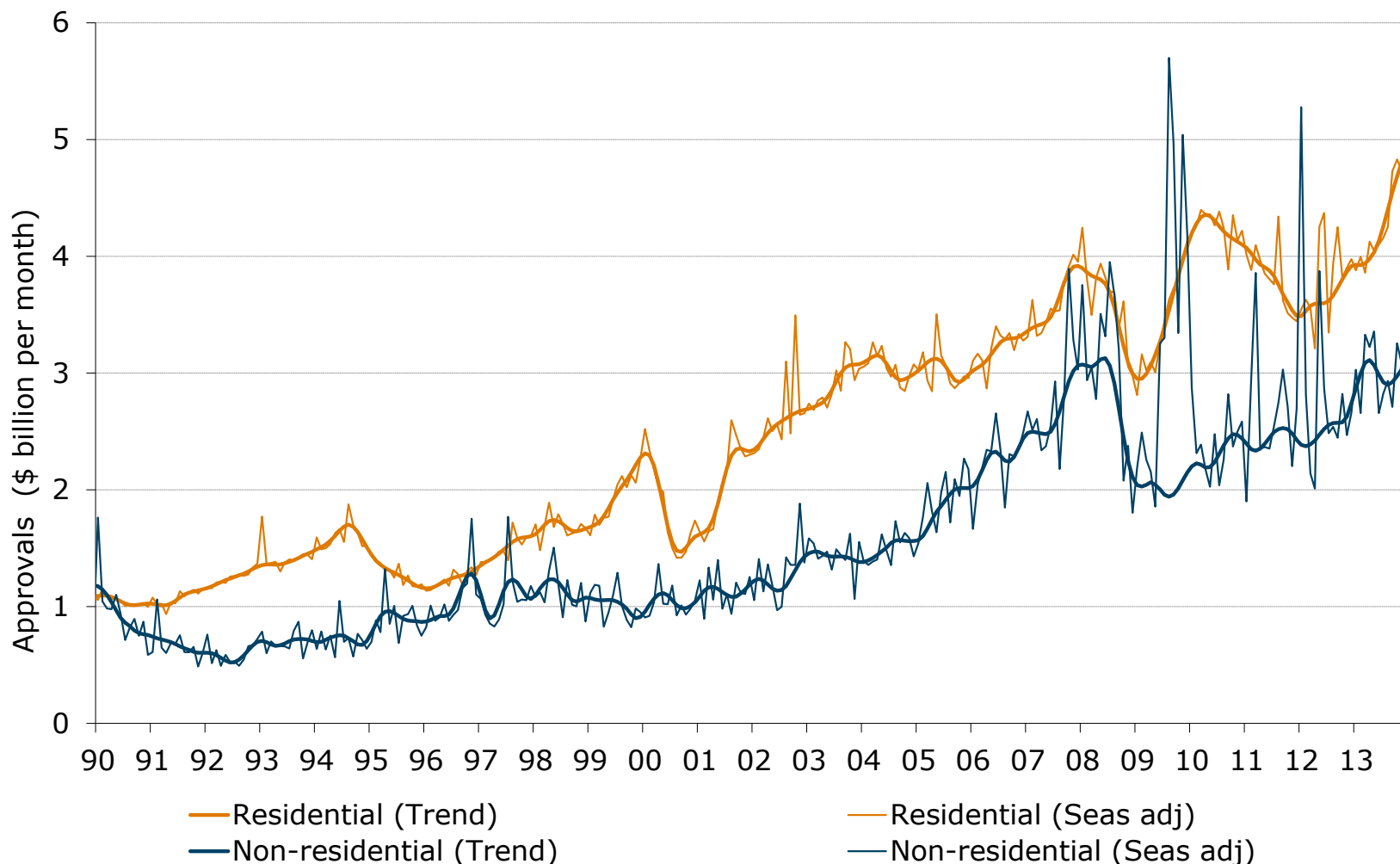
# Signs of life in the non-mining sector are beginning to emerge

## Capex and lead indicator



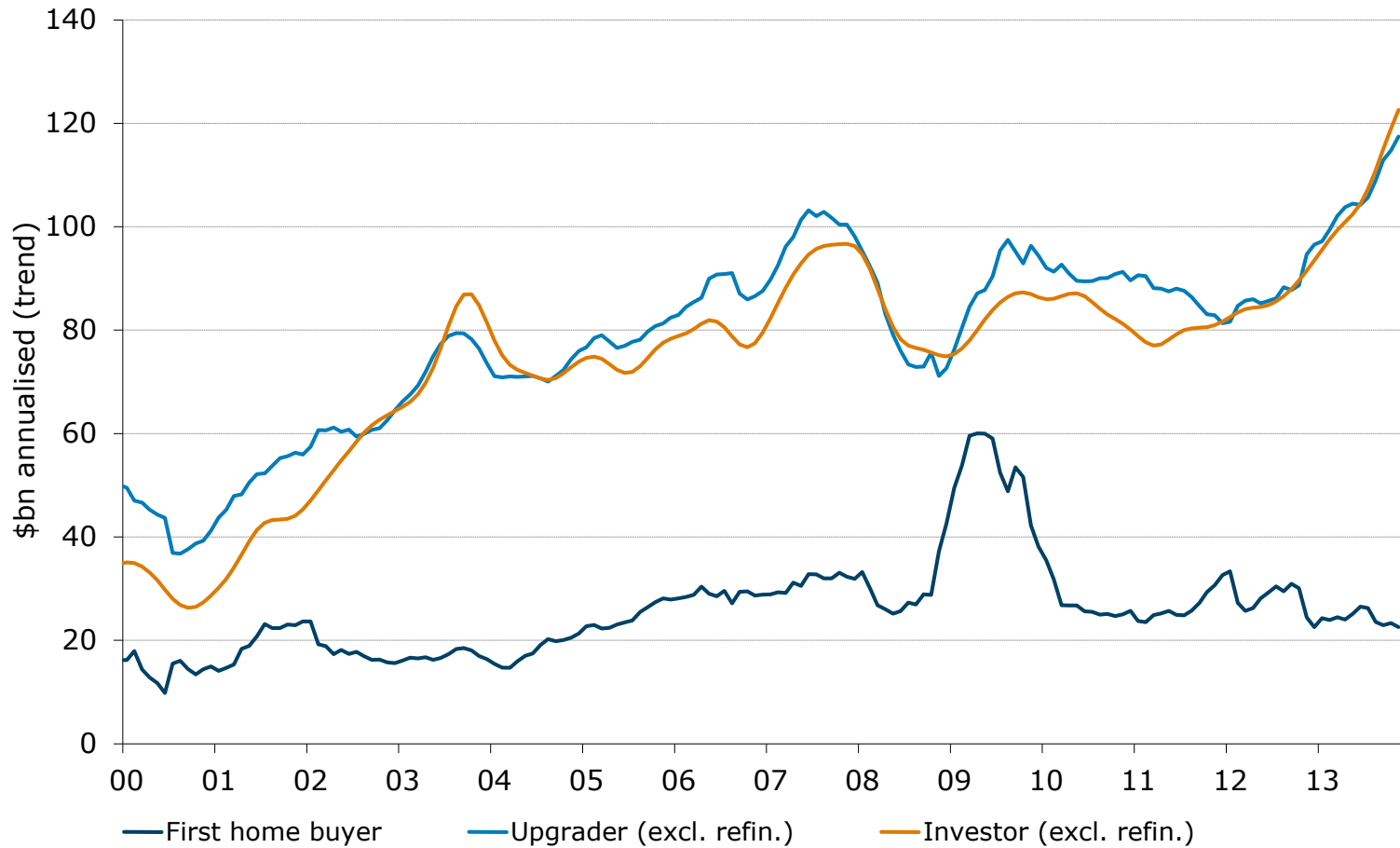
# Both residential and non-residential building approvals are lifting signalling a recovery in the non-mining economy

## Non-residential and residential building approvals



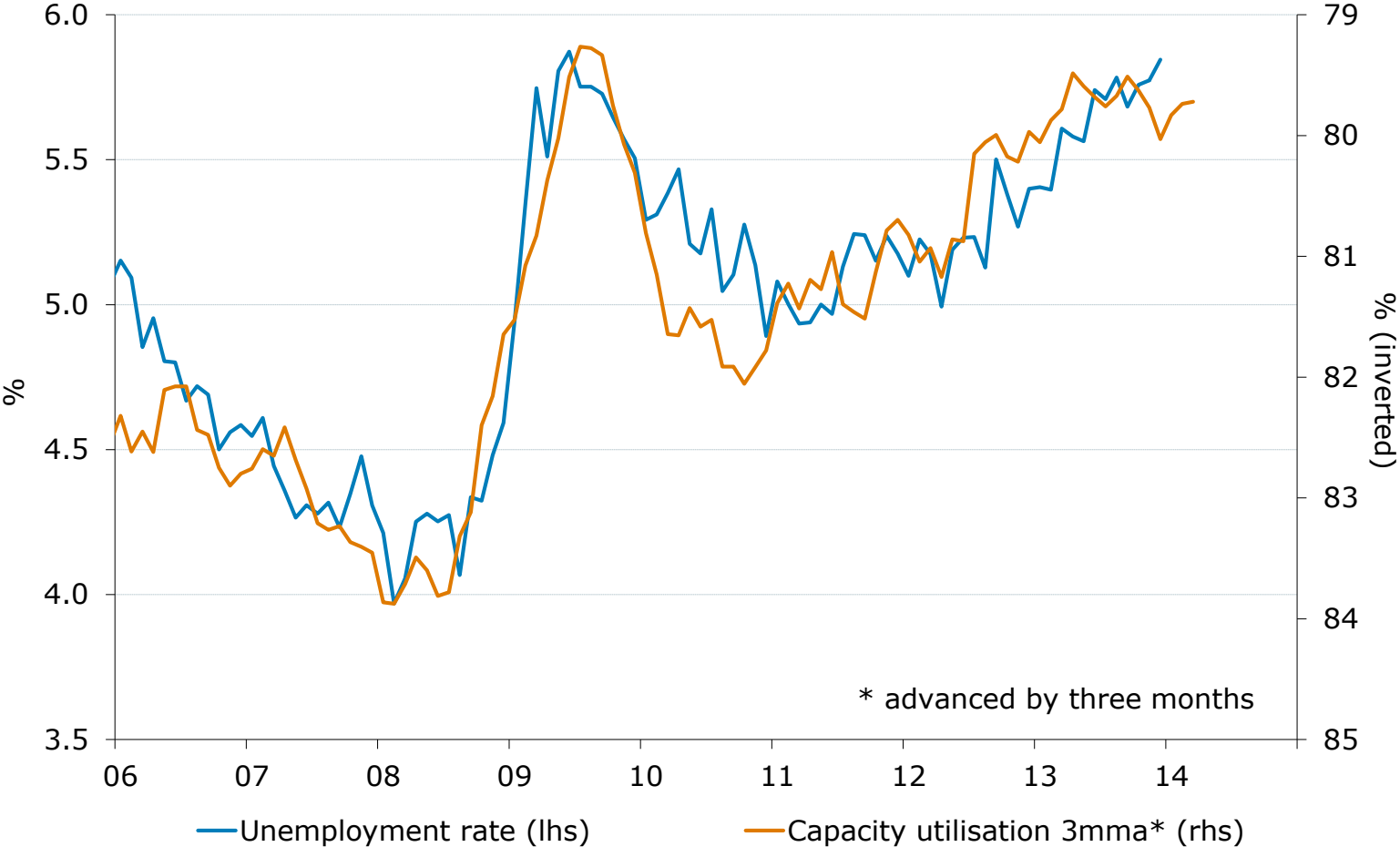
# Investor and upgraders/downsizers have driven this cycle. First home buyers have been weak, particularly in NSW

## Housing finance by type of buyer



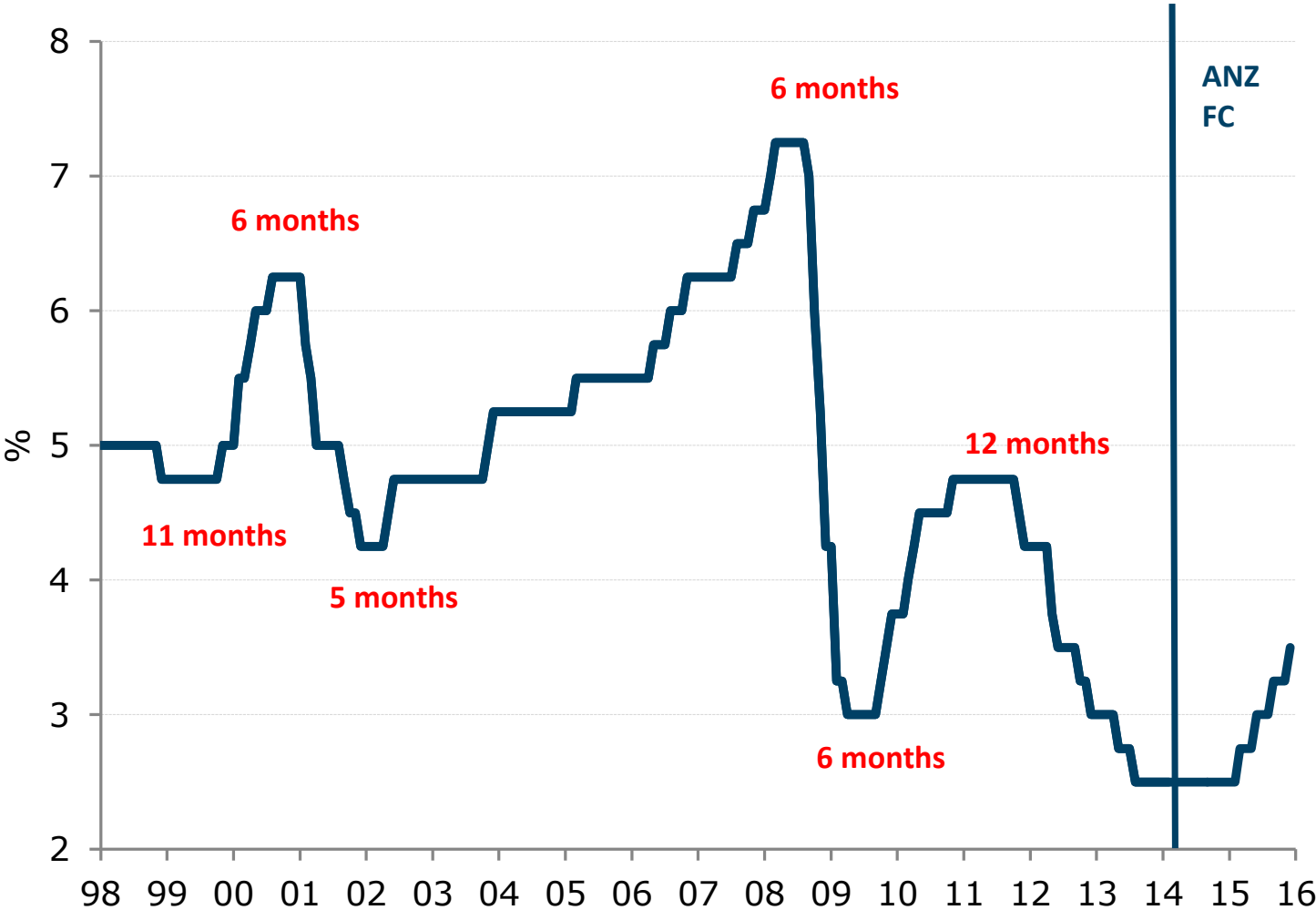
# Near term indicators of employment are stabilising

Capacity utilisation vs. unemployment



# We expect Australian short-term interest rates to remain at current levels this year. Higher rates are expected in 2015

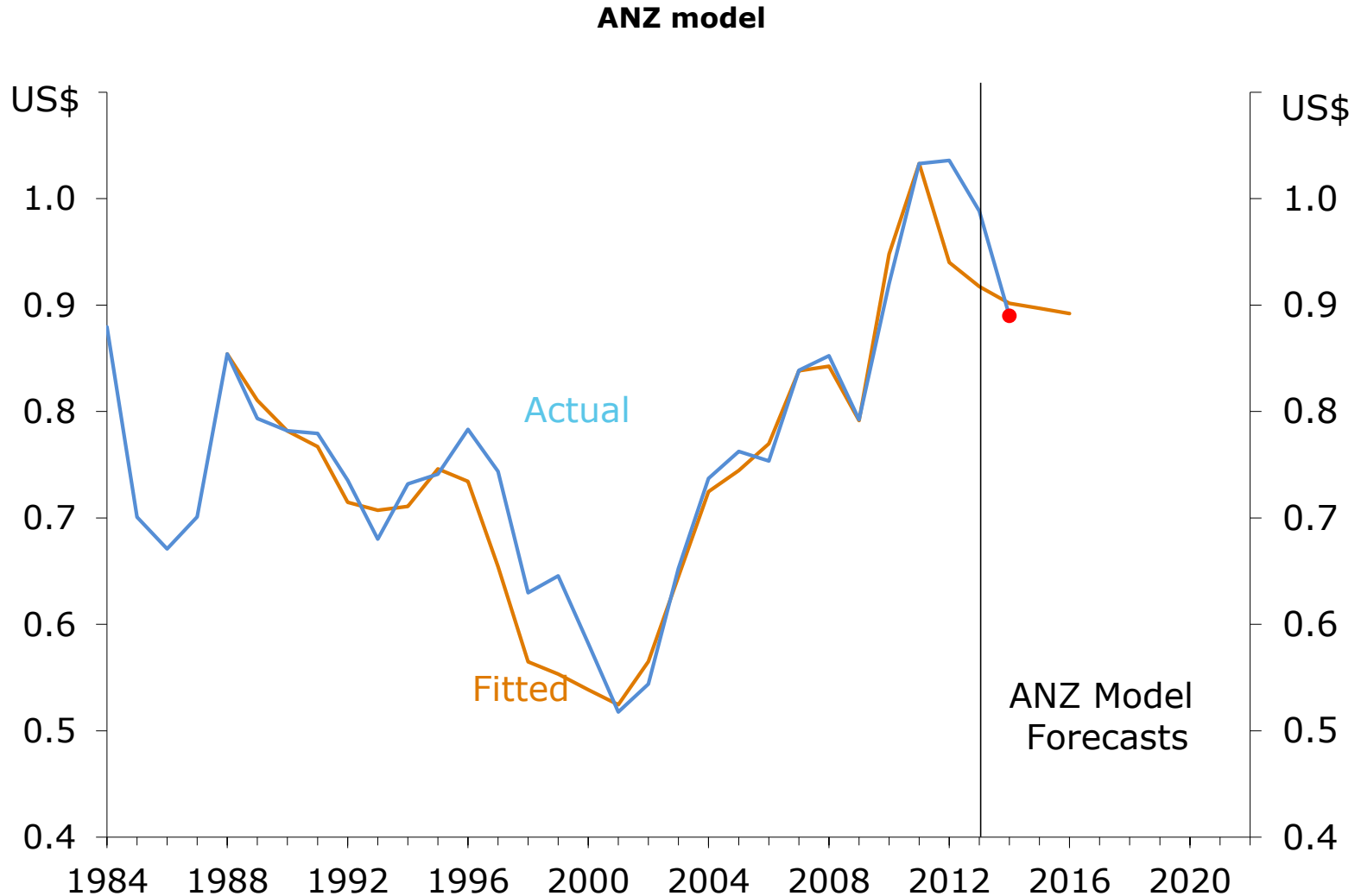
Time between last move and direction change





# The AUD is broadly back to 'fair-value'.

We expect a further modest decline as commodity prices come off



**THANK YOU!**



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