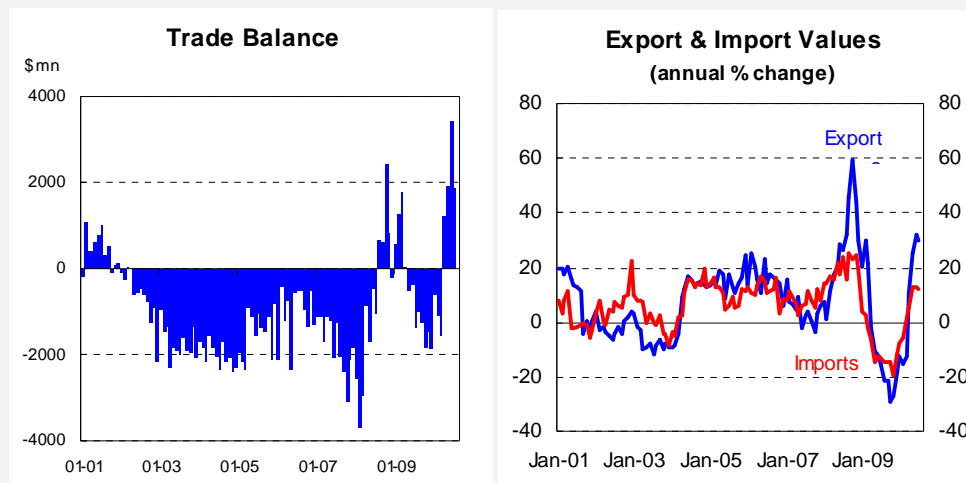


DATA SNAPSHOT

Commodities driving growth

Thursday, 2 September 2010

- Australia's trade surplus narrowed to \$1.9bn in Jul following a record \$3.4bn in June. The deterioration reflects a 6.0% fall in non-rural goods including iron ore and coal. More specifically, the ABS reports a 27% decline in hard coking coal exports versus a 9% rise last month.
- We think this reflects the cut in shipments from Hay Point in Queensland due to maintenance. Hay Point is Australia's largest port for hard coal and shipments there fell by 24% in July.
- This means this smaller surplus will probably be short lived. Although maintenance at the port is expected to continue into August this is to improve capacity. Demand for commodities remains very strong with over 50 ships queuing at Dalrymple Bay alone. Dalrymple Bay is part of Hay Point.
- Australian should continue to experience large trade surpluses for some time due to the record prices being paid for iron ore and coal. In time this will be followed with increasing record volumes. To this the ABS has produced a valuable table in this month's report and which is reproduced below. It compares prices for iron ore and coal.
- Note the large percentage increase in prices in April and May signalling new quarterly and annual contracts. Here prices for iron ore increased by roughly 40%, while coal depending on its quality ,rose between 3 and 28%.
- Futures prices as well as news reports suggest contract prices for iron ore, as well as coal (not all coal is quarterly) rose even further in September. Futures prices are also suggesting that prices may moderate in December.
- The table shows volumes are slightly more volatile reflecting various bottlenecks. In March for instance coal exports were disrupted by floods in Queensland - hard coking coal dropped 26%, semi-soft 14% and bituminous 16%.
- While there have been various reports of softening demand from China, the pressure to increase capacity in Queensland and NSW has not eased and is unlikely to do so while there are a large number of ships lining up at ports and mining companies are earning above-normal profits.



Australia's trade surplus narrowed to \$1.888bn in Jul. It follows a \$3.438bn surplus in June. The trade balance has been in surplus since April 2010. The shift to surplus is a measure of the commodity boom and the record improvement in the Terms of Trade. The contribution from the exports was clearly seen in yesterday's second quarter GDP.

The ABS reports exports goods and services fell \$1.191b (4%) to \$25.395b. This includes a

contraction in non-rural goods of \$1.076b (6%). Non-monetary gold fell \$0.219b (15%). Rural goods rose \$0.113b (5%). Services credits fell \$15m.

Meanwhile imports of goods and services debits rose \$0.359b (2%) to \$23.507b. Intermediate and other merchandise goods increased \$0.698b (9%) while capital goods expanded \$4m. The ABS said the purchase of six new Super Hornet fighter aircraft for the Royal Australian Air Force added \$477 million to imports. Non-monetary gold fell \$0.269b (44%) and consumption goods fell \$64m (1%). Services debits fell \$9m.

2010 %	Feb	Mar	Apr	May	Jun	Jul
IRON ORE						
Lump						
Volumes	-8	12	-9	5	-3	2
Price	17	-2	42	9	6	np
Fines						
Volumes	-9	7	5	-3	10	-7
Price	16	-	38	13	5	np
COAL						
Hard coking						
Volumes	-26	1	41	2	9	-27
Price	4	5	12	13	5	np
Semi-soft						
Volumes	-14	-7	15	11	-2	-1
Price	2	-3	28	20	9	np
Bituminous						
Volumes	-16	-4	22	-9	15	3
Price	4	-1	3	12	4	np

np - not available for publication

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