



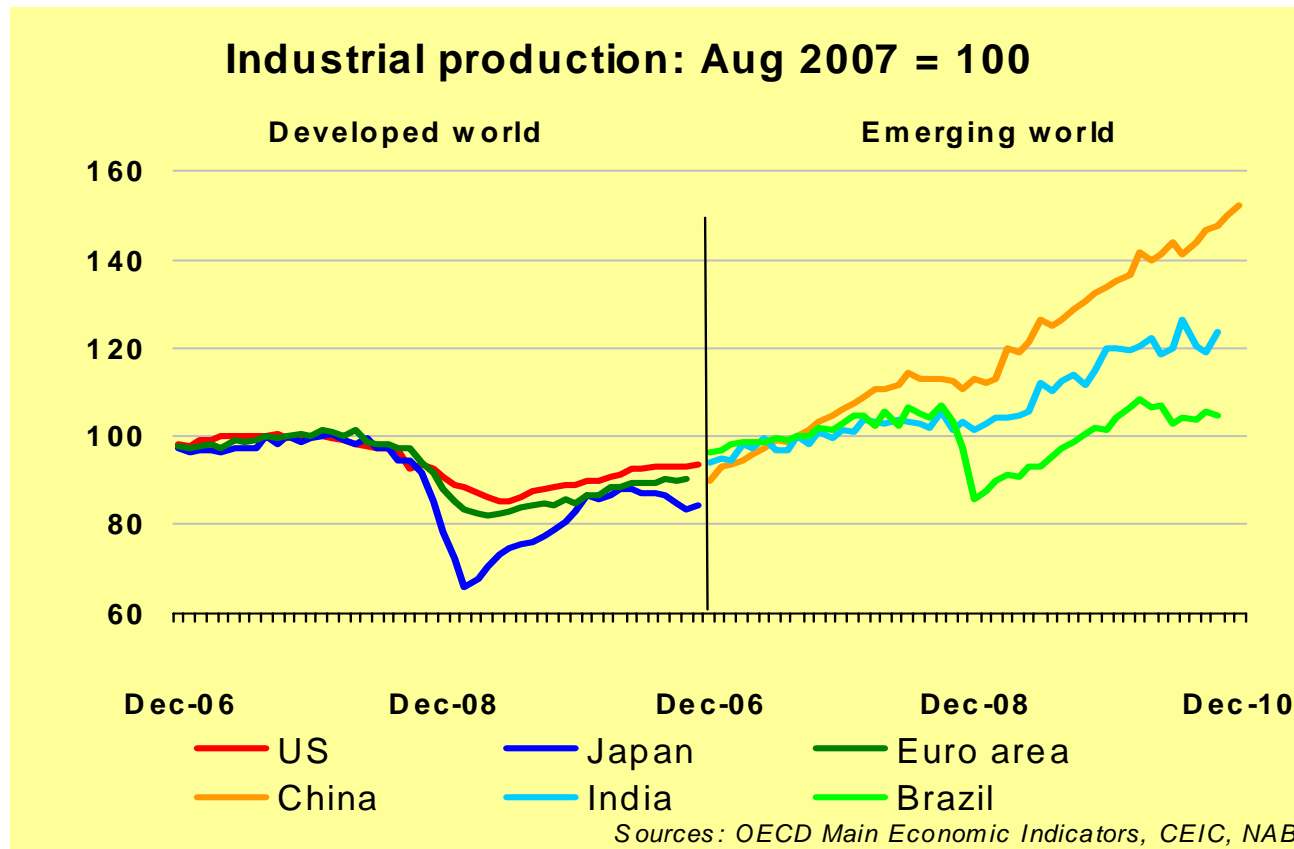
Outlook on the Global Economic Scene and Grain Commodities

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Overview

- Global economic conditions
- Australian economic conditions
- Conditions and outlook for grains

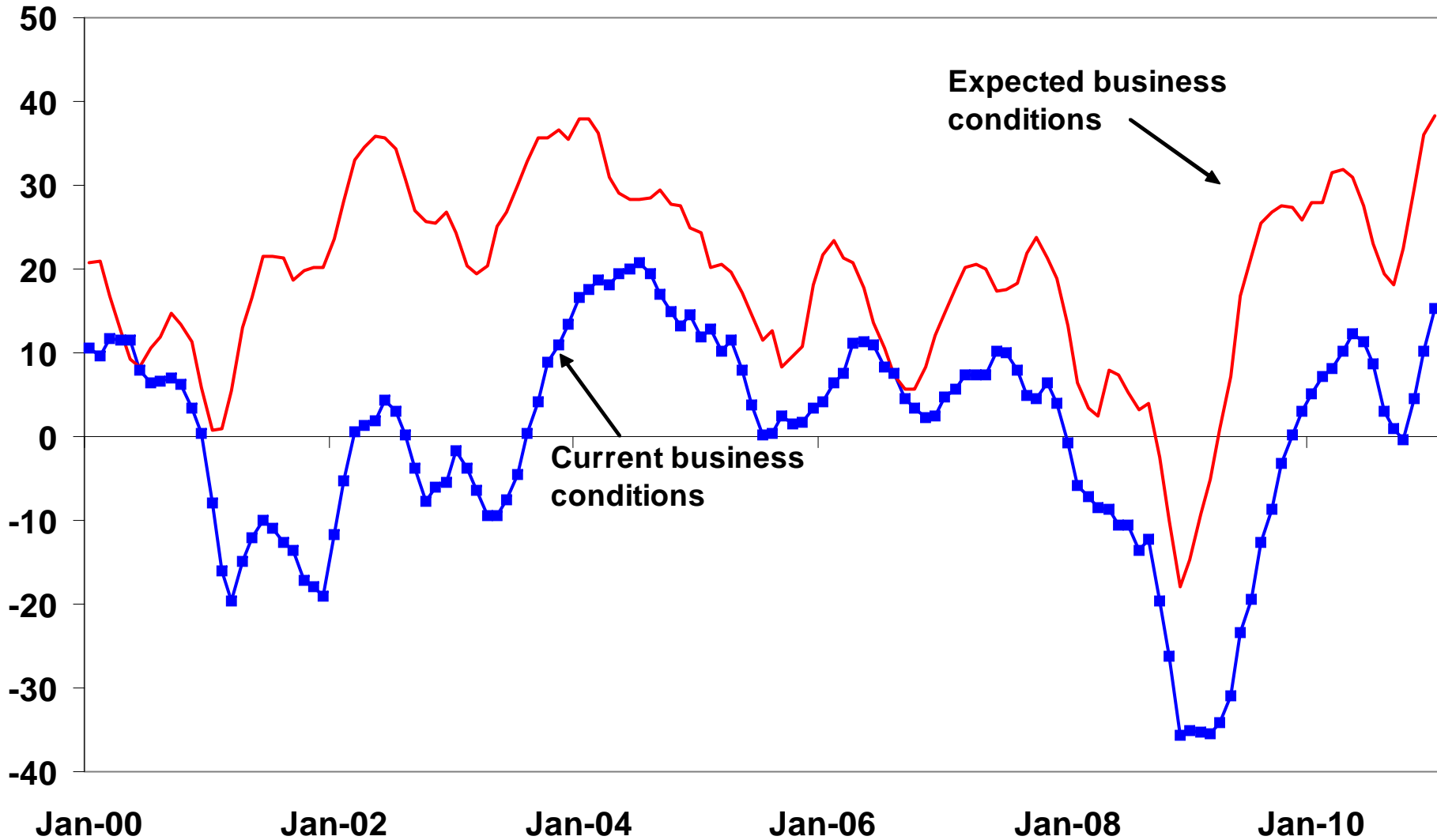
As has been the case for most of 2010 we have a two-speed global recovery



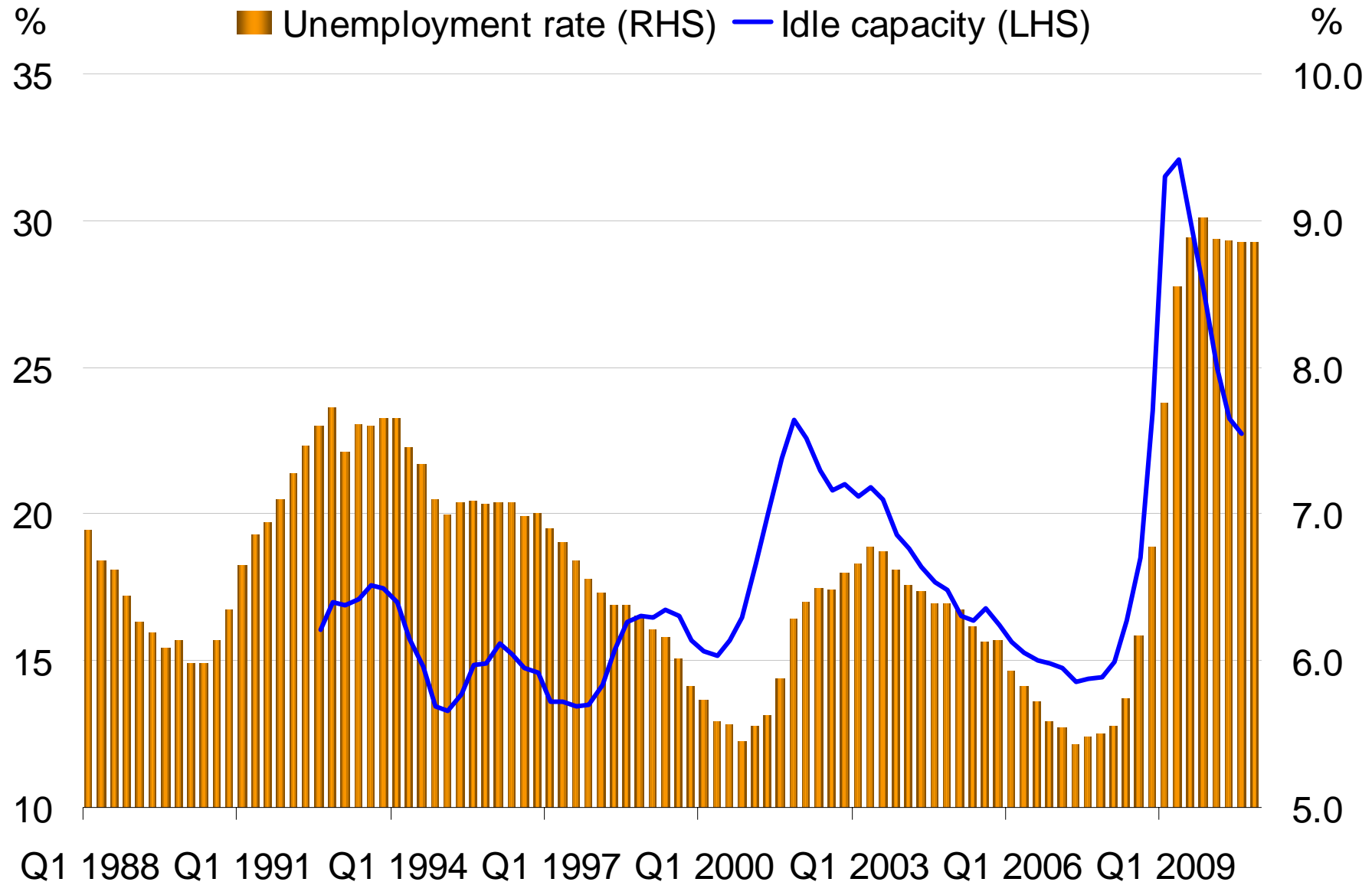
Business survey measures in big developed economies encouraging



Business survey balance statistics - US, UK, Germany and France 3MMA

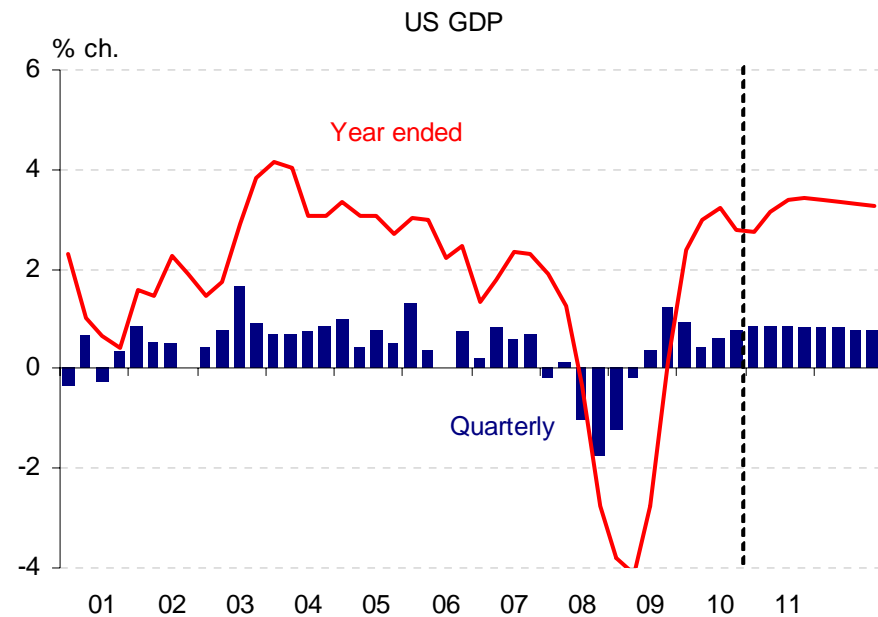
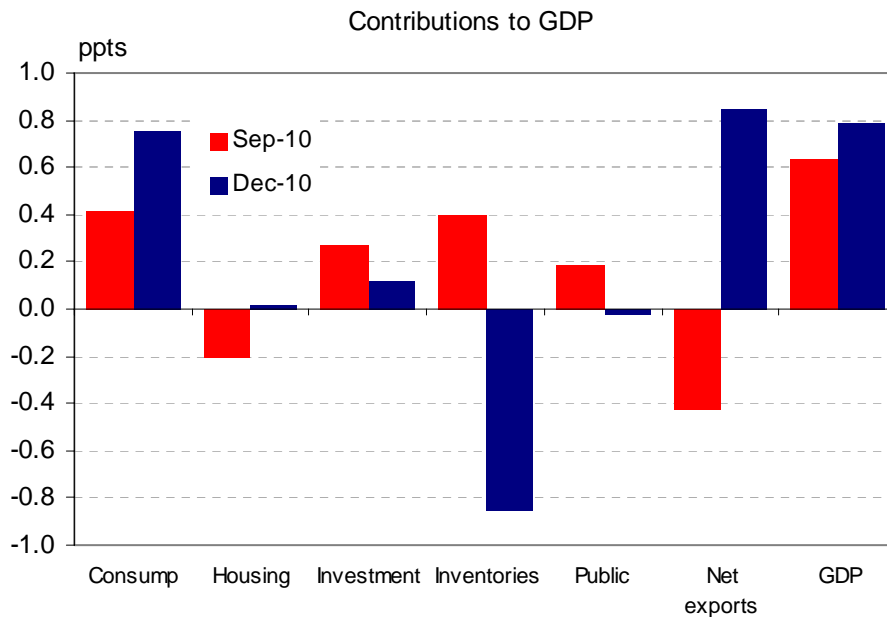


But large scale idle production capacity still a concern



Source: Datastream, NAB Economics

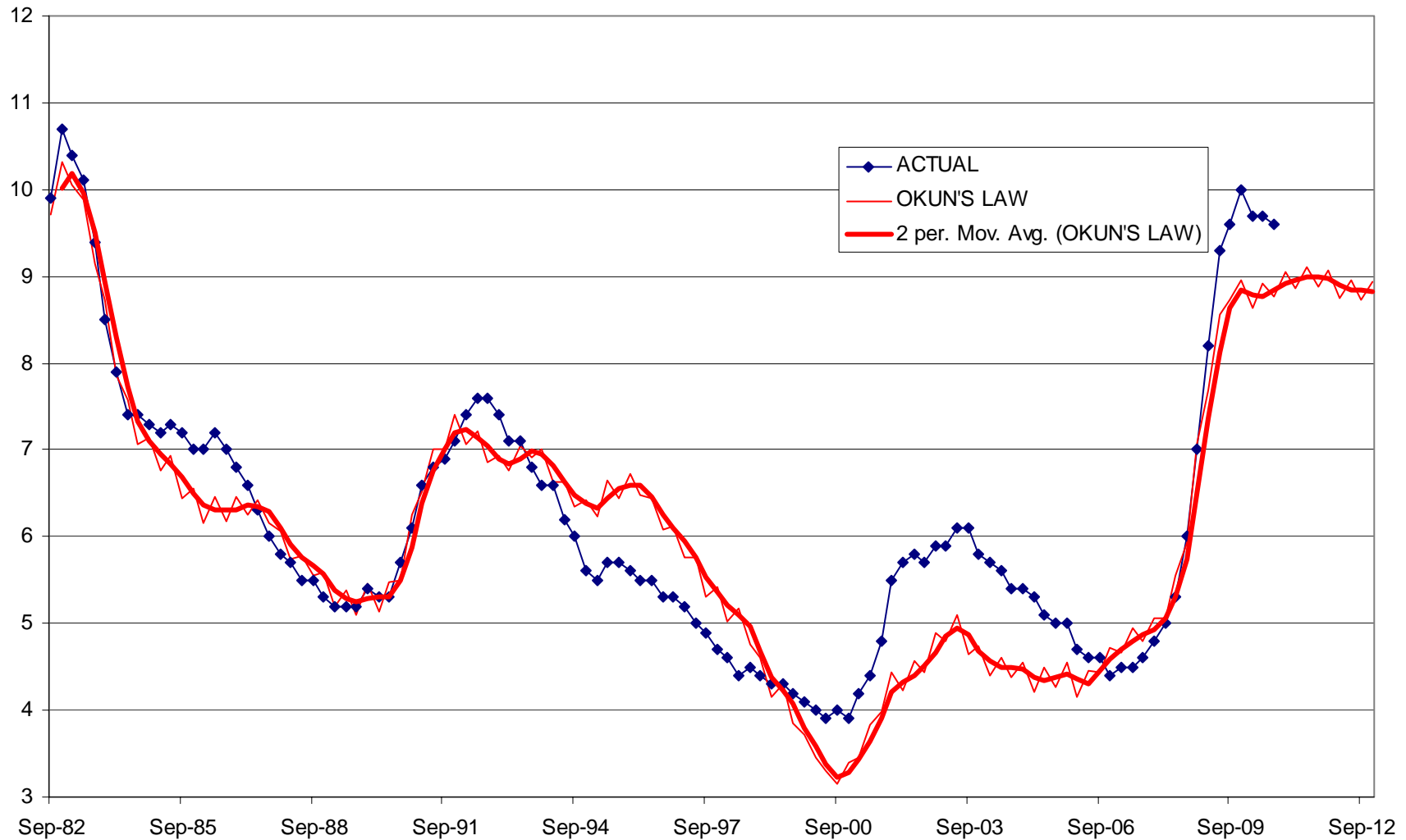
US GDP up supported by consumption & exports, manufacturing to add momentum in early 2011



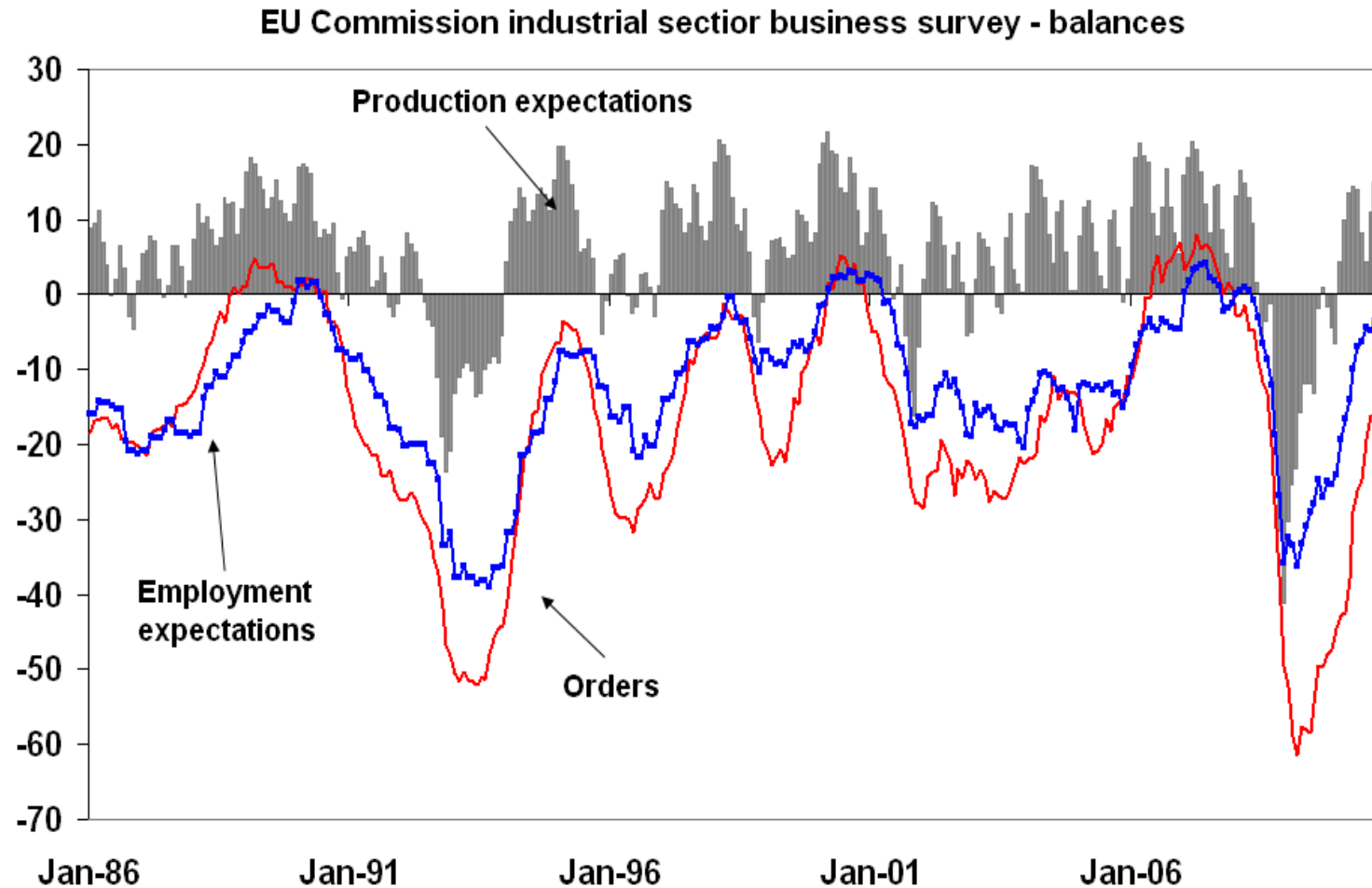
But growth not enough to significantly reduce unemployment



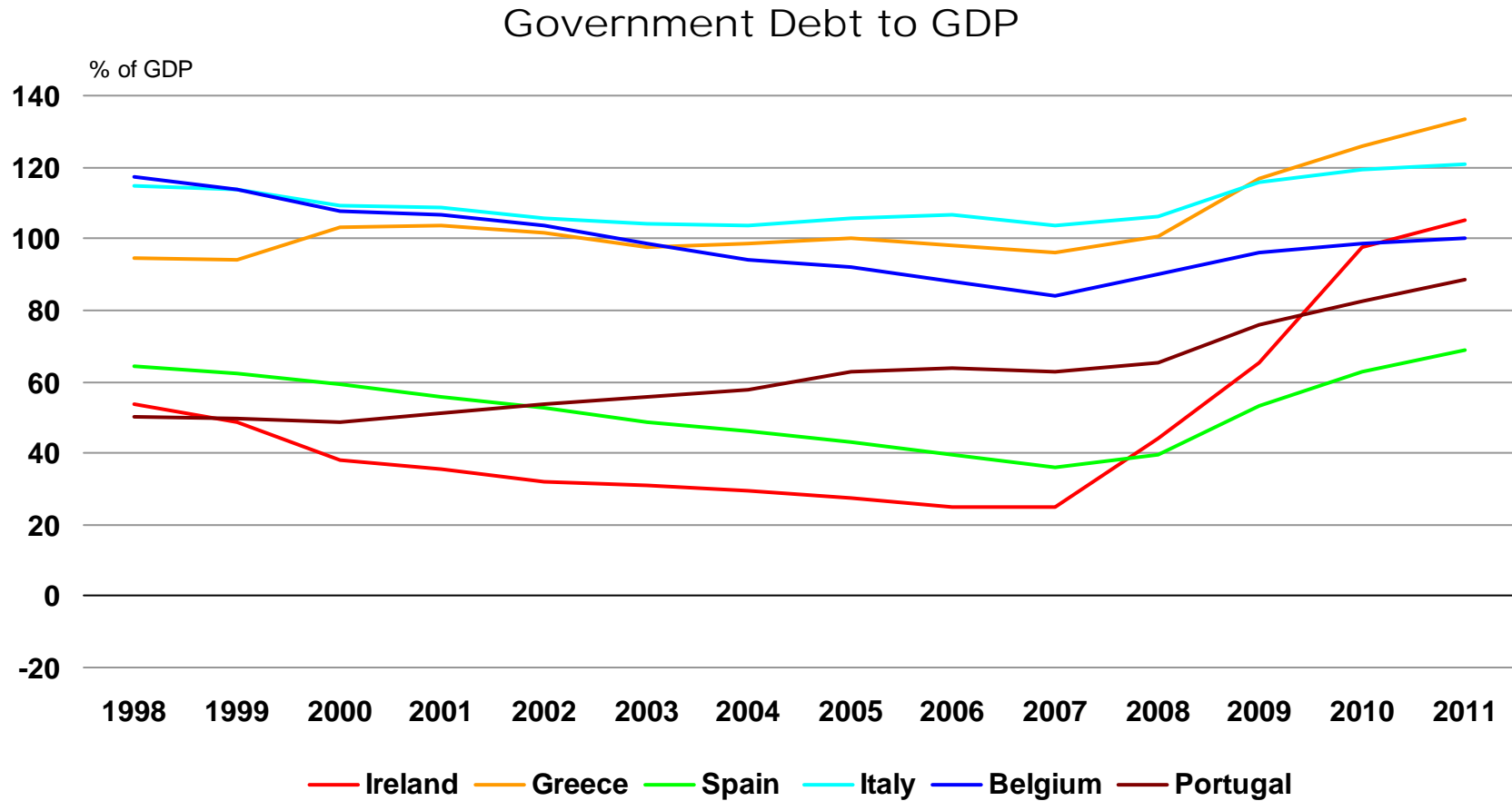
OKUN'S LAW FOR USA UNEMPLOYMENT



Business surveys point to upturn in core EU economies, driven by exports



Ongoing weakness in debt stressed peripheral, however, holding down EU growth

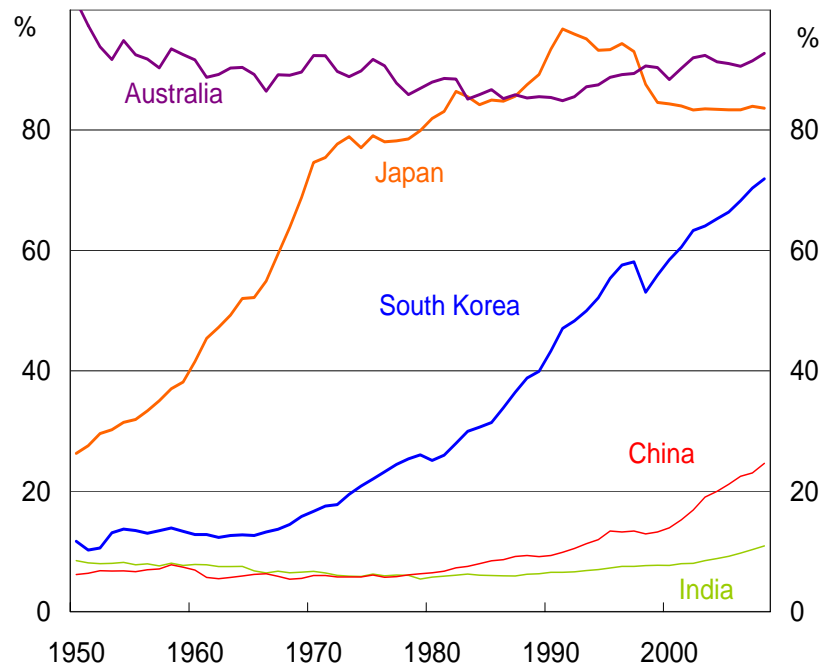


China matters because it is the swing player in commodity markets and will be very important given the stage of development it is at.



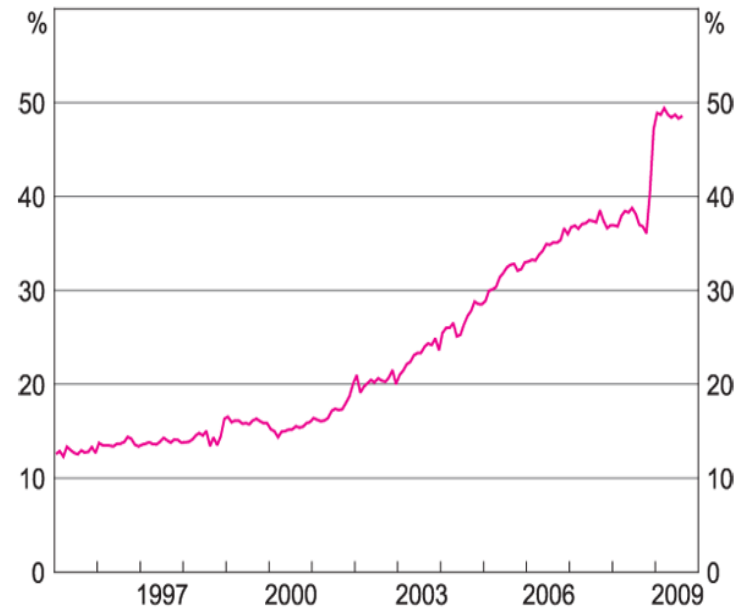
Relative Economic Development

GDP per capita relative to advanced economies, equivalent prices



Source: Maddison database

China – Share of World Steel Production

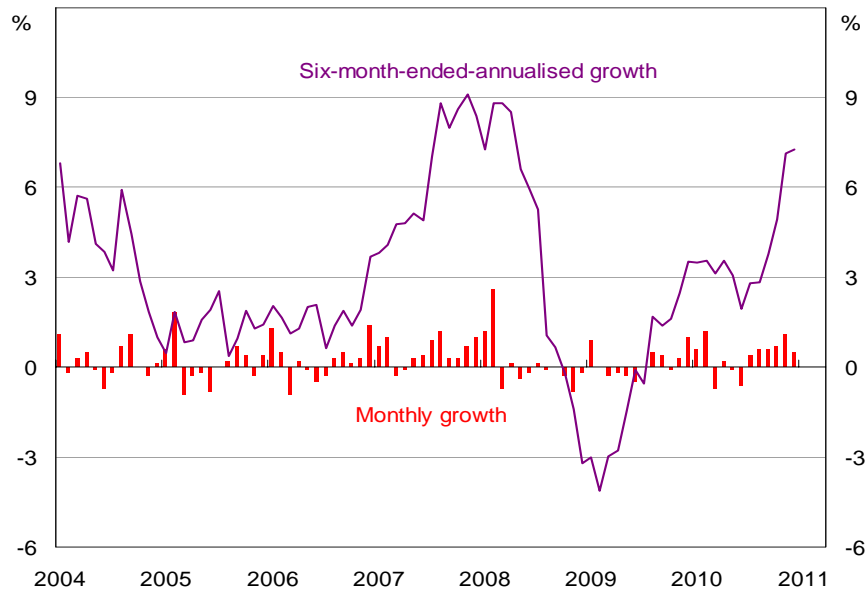


Sources: World Steel Association; RBA

Chinese growth picks up in Q4 2010, but inflation becoming major concern for authorities

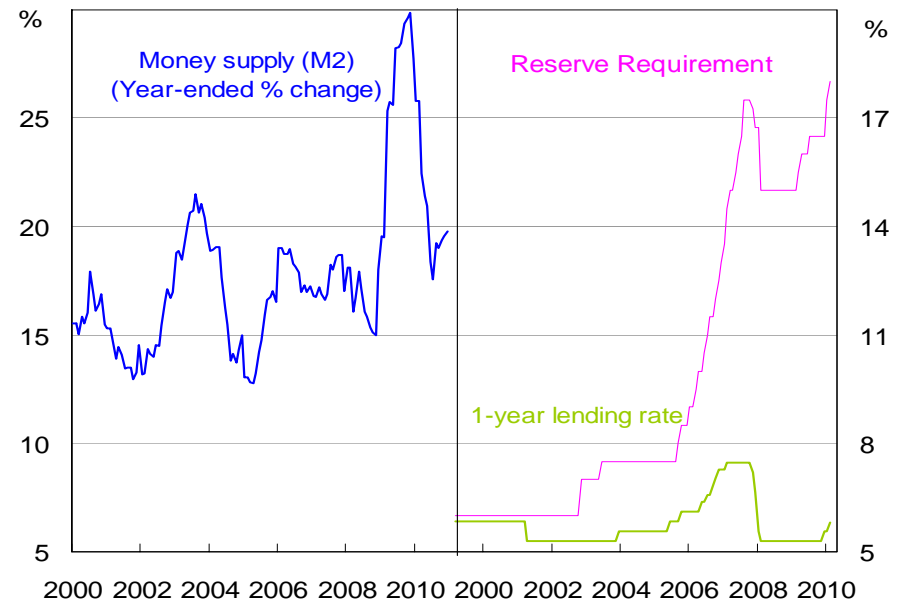


China - Consumer Prices



Source: CEIC Database, NAB

China - Monetary Policy

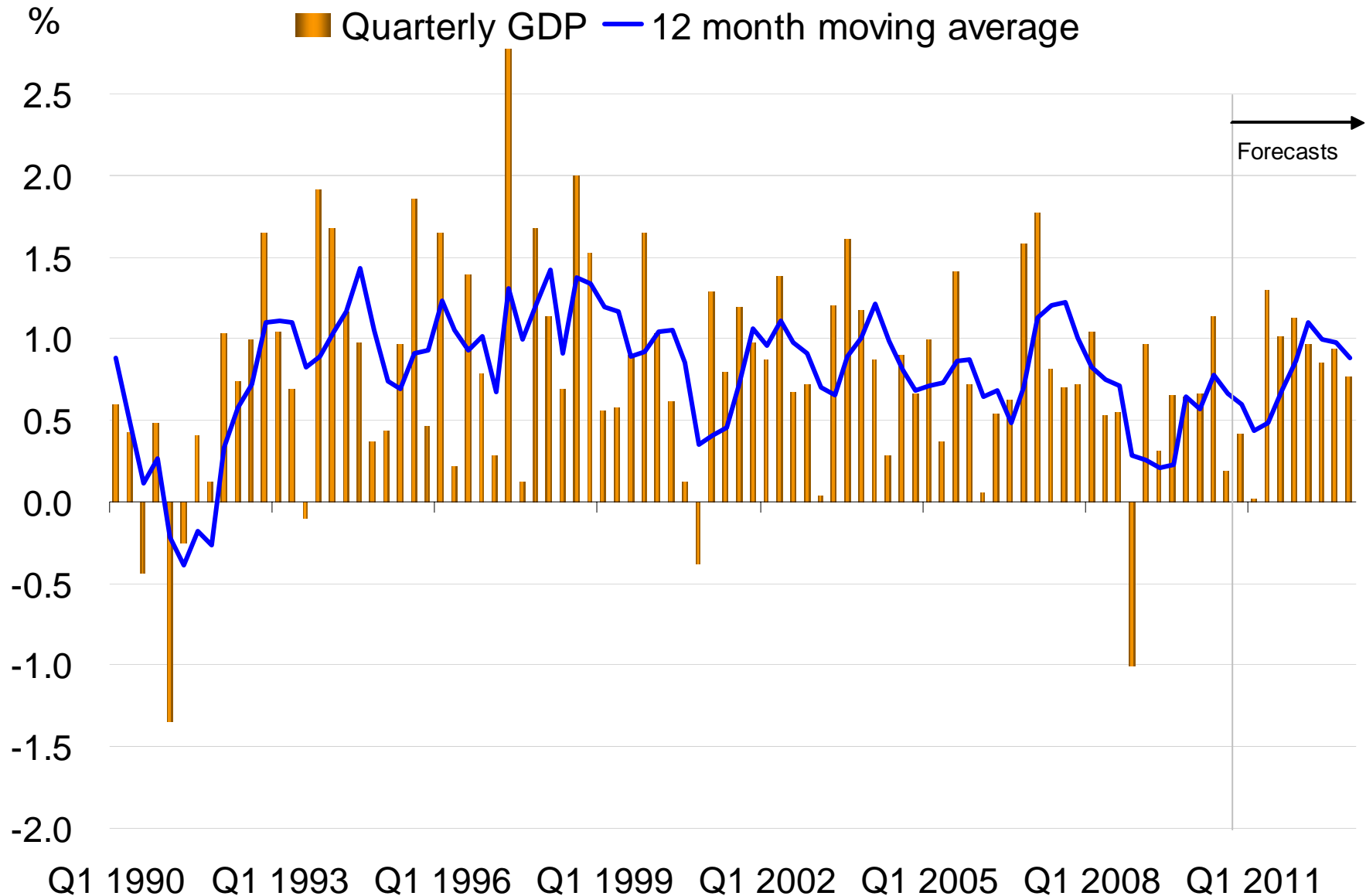


Global economic forecasts



	2009	2010(e)	2011(f)	2012(f)
United States	-2.6	2.9	3.2	3.3
Japan	-4.0	1.7	1.5	1.7
Euro-zone	-5.3	3.6	1.5	2.2
non-Japan Asia	0.5	7.0	5.5	5.0
China	9.1	10.3	9.1	8.0
India	6.8	9.0	8.2	7.4
World	-0.7	4.8	4.4	4.2
Australia's MTPs	0.2	5.8	4.7	4.5

Australian economy slows in 2H 2010, to weaken in wake of recent weather



Flood will likely redistribute growth instead of fundamentally change the outlook



- Gross domestic product (GDP) measures production, income and spending
 - Destruction of property has no direct impact on GDP
- Indirect negative effects operate through
 - Closures of businesses & lost production
 - These may arise from destruction of buildings & equipment, inability to access labour or materials (transport disruptions), utility outages (electricity, water, sewerage)
- Indirect positive effects through
 - Government relief payments
 - Reconstruction and repairs (flow on to domestic production & imports)

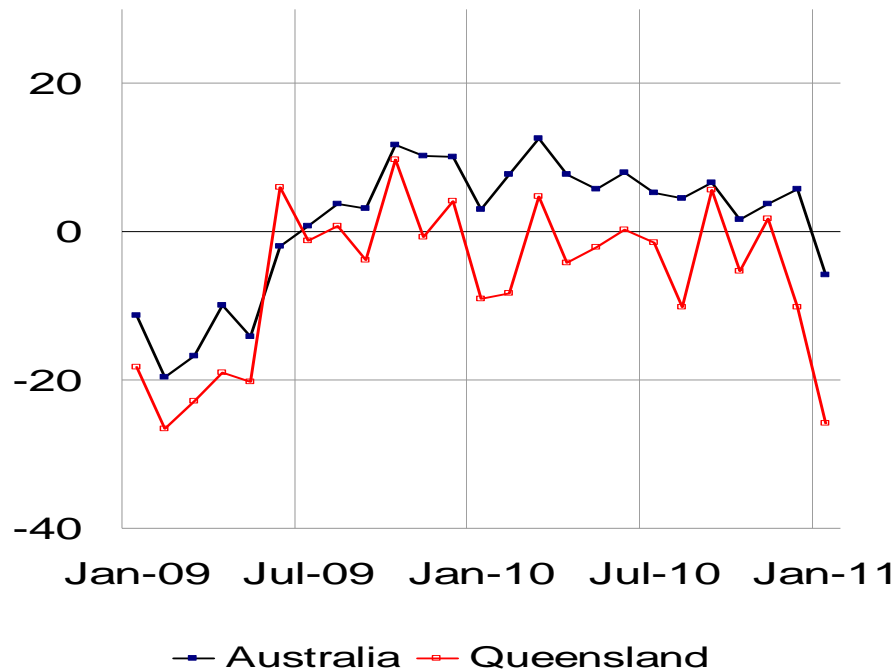
Flood impacts on GDP – estimate

- Coal production loss 15m tonnes: $-\frac{3}{4}\%$ GDP
 - 20% of one quarter's exports
 - But coal prices higher
- Horticulture, cotton, sugar, wheat, sorghum: $-\frac{1}{4}\%$ GDP
- Other industries: -1% GDP
 - Disruption from flooding, lack of labour & materials (transport).
 - Tourism impacts
- Offsets from government & private sector: $+\frac{1}{2}\%$ GDP
- Fruit & vegetable prices spike:
 - ? $+25\%$ Q1, $+10\%$ Q2
 - Unwound later in 2011

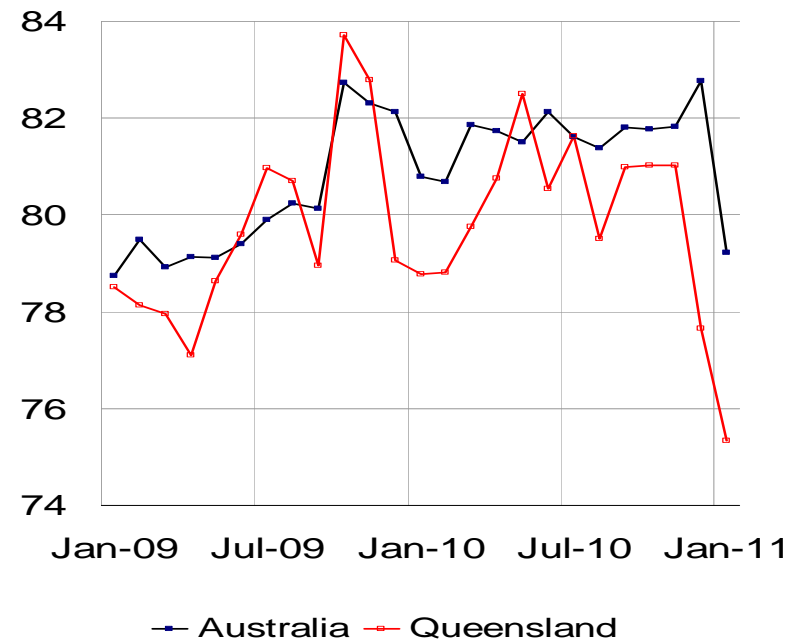
And the expected hit to activity arrived. Not just Qld – but clearly worse there



Business conditions (s.a. net balance)



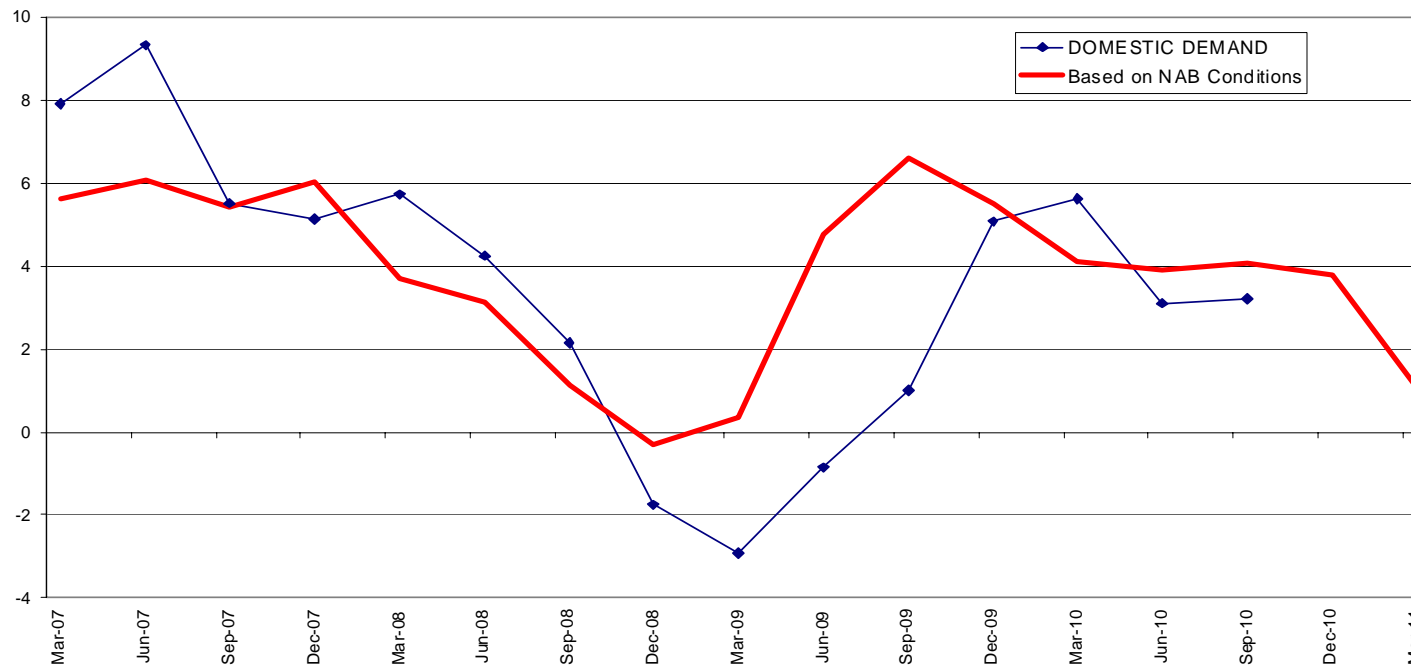
Capacity utilisation (n.s.a. per cent)



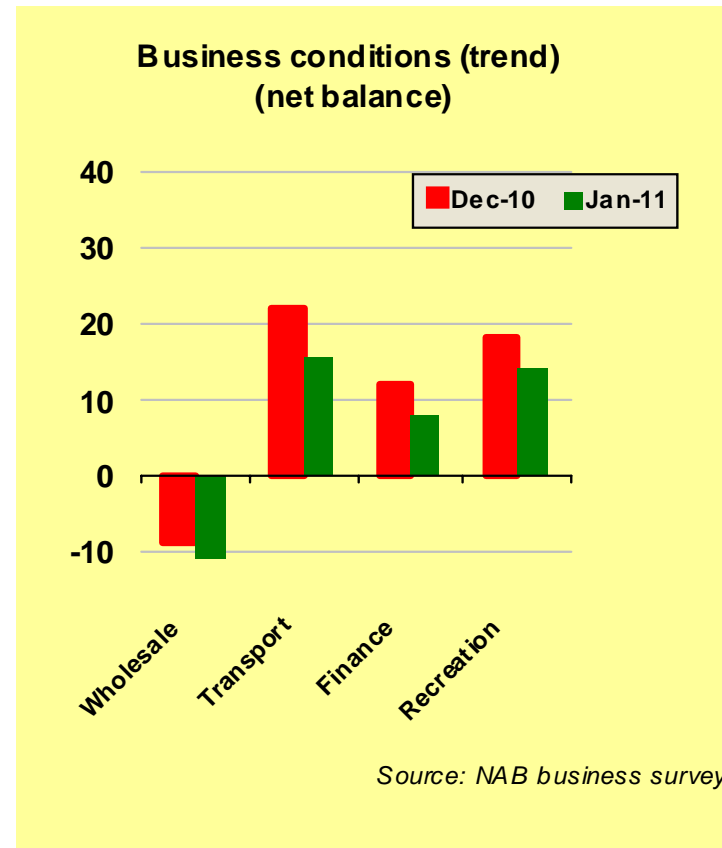
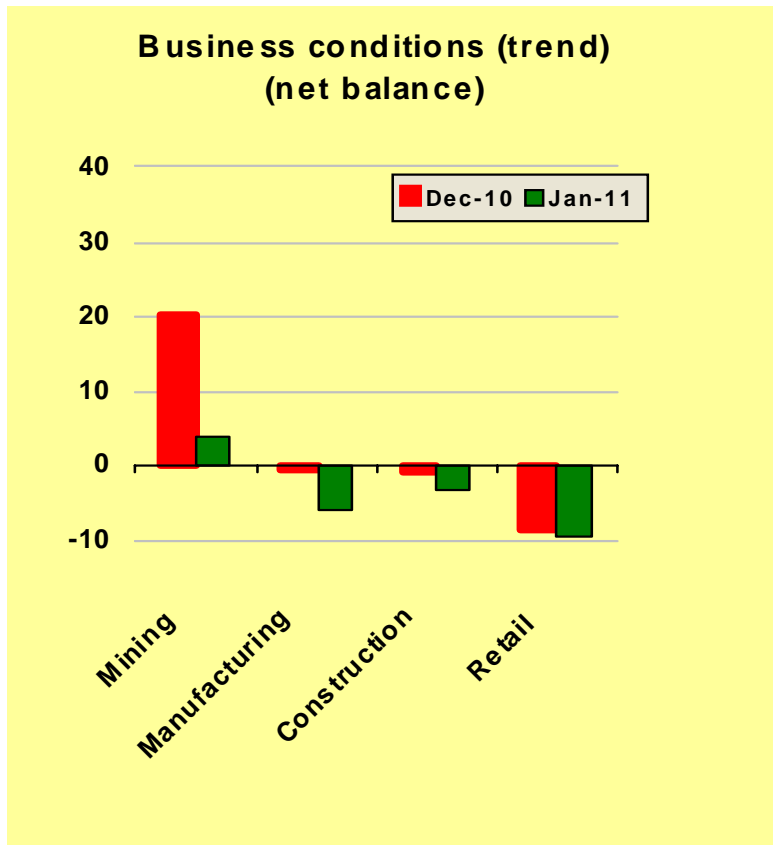
Overall survey suggests demand growth slowing in Q1 and possibly flat GDP growth



Business Conditions (Change & Level) as an Indicator of Domestic Demand
- 6 Mthly Annualised % in Demand

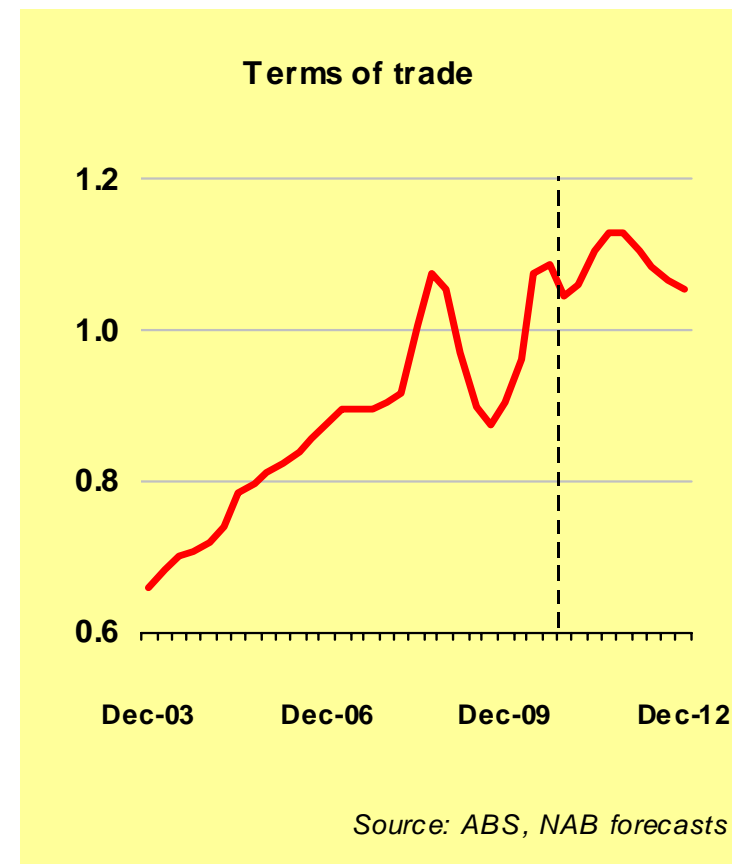
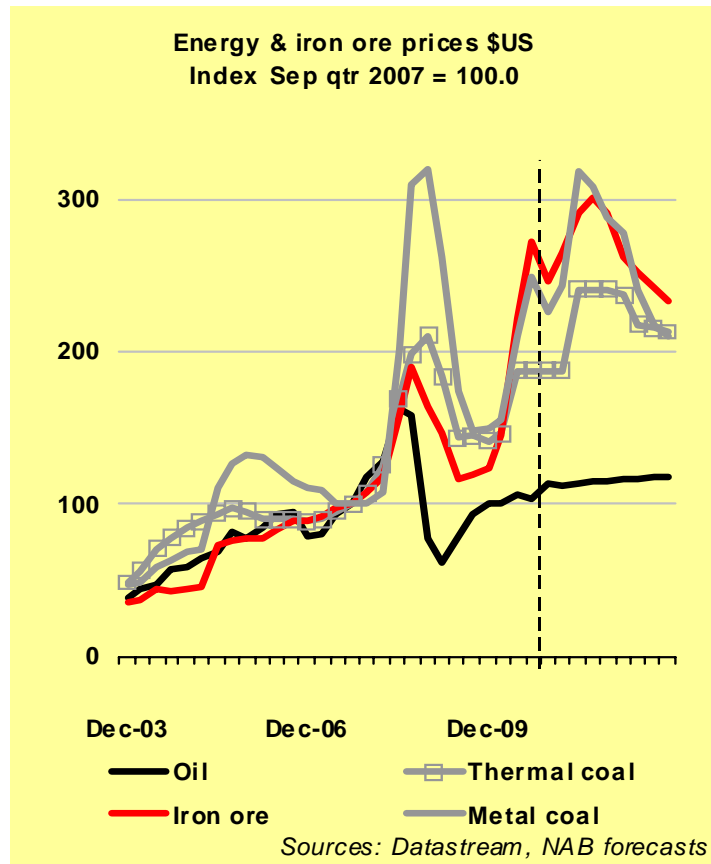


Retail, wholesale struggling. Mining was less impacted

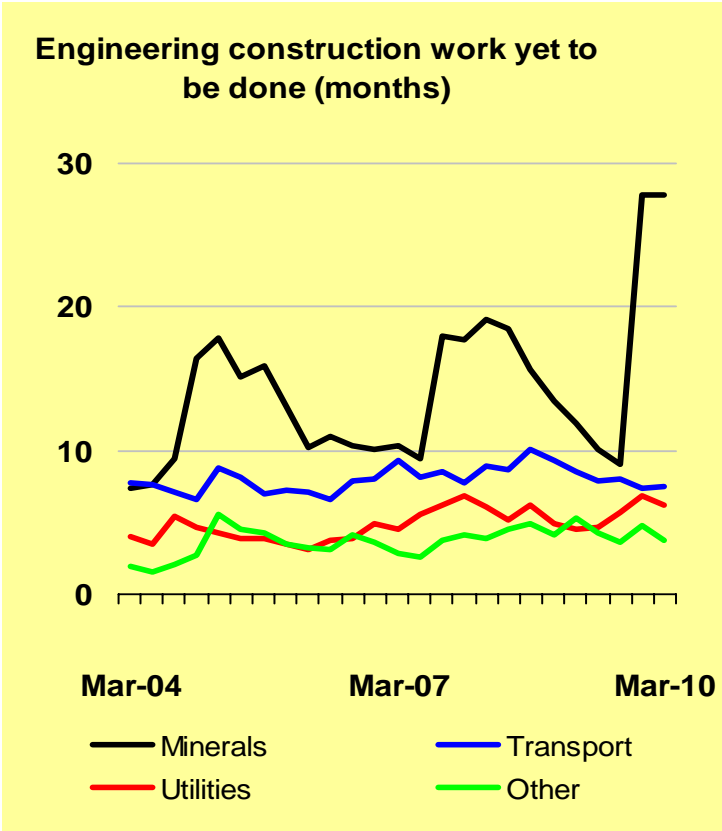
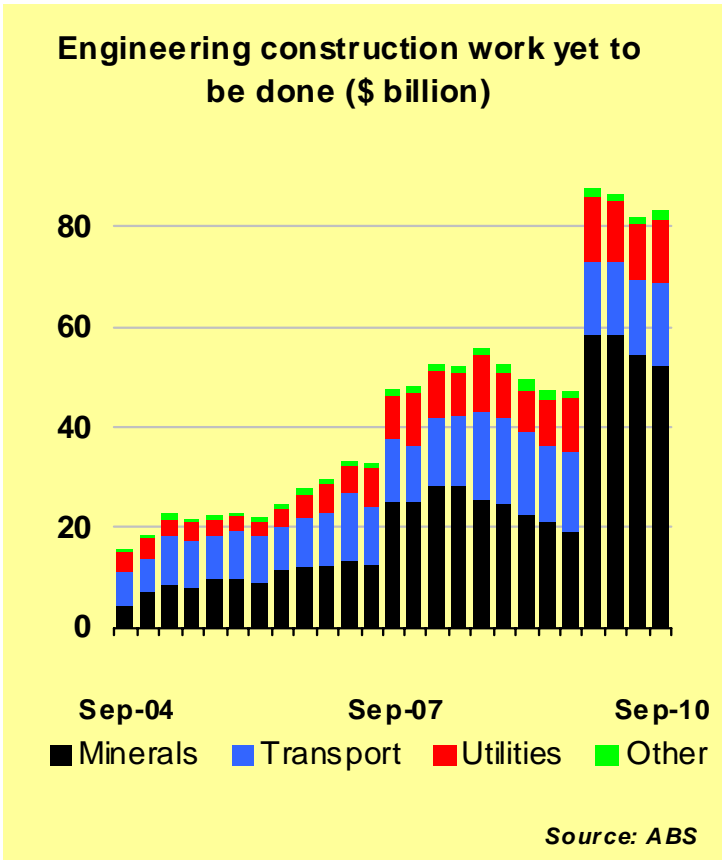


Source: NAB business survey

Hit only temporary, fundamentals still strong – solid terms of trade, incomes, MTP growth

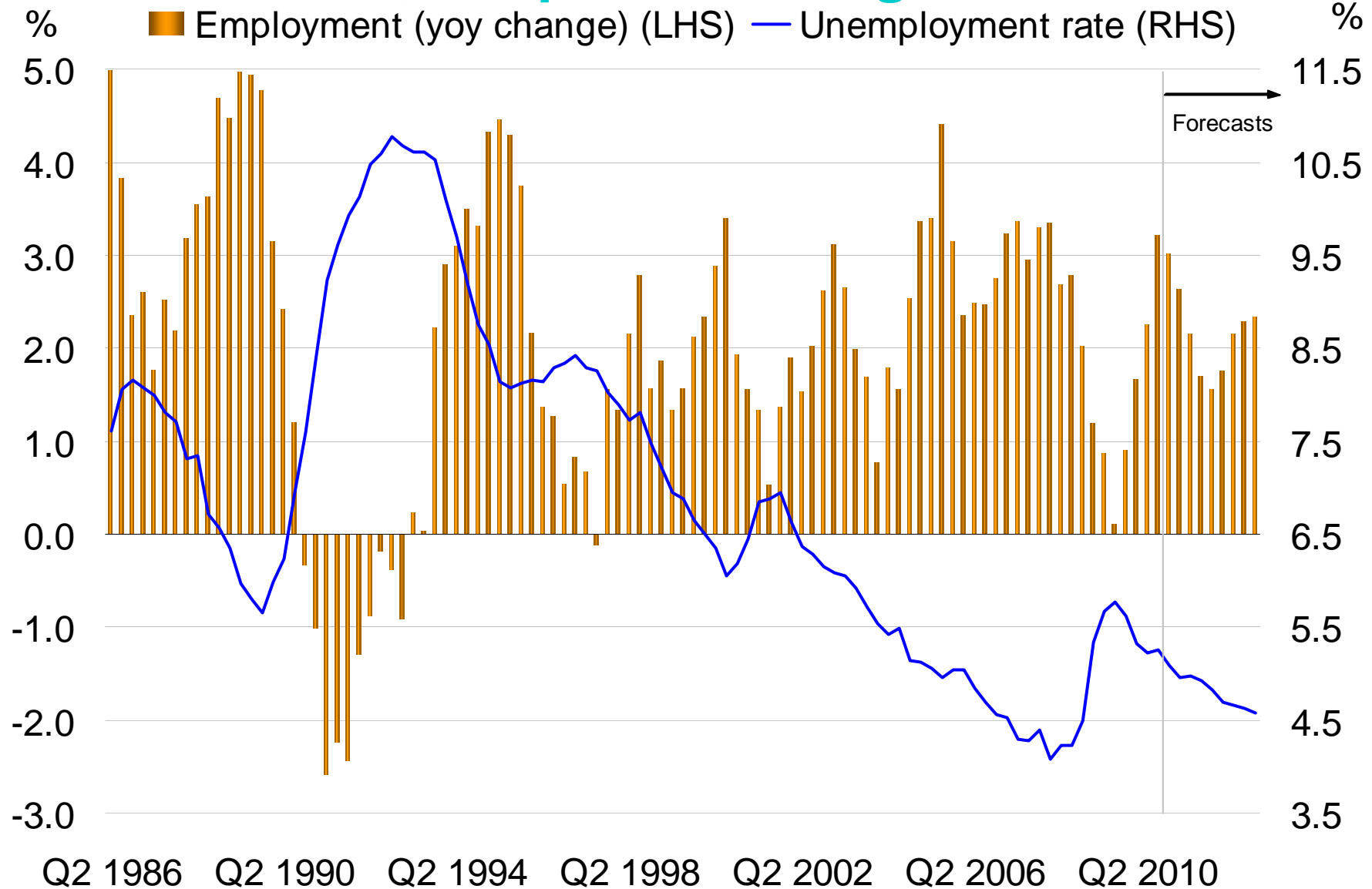


And a massive mining sector construction pipeline





Unemployment to stabilise for now but should fall in 2H 2011, will pressure wages

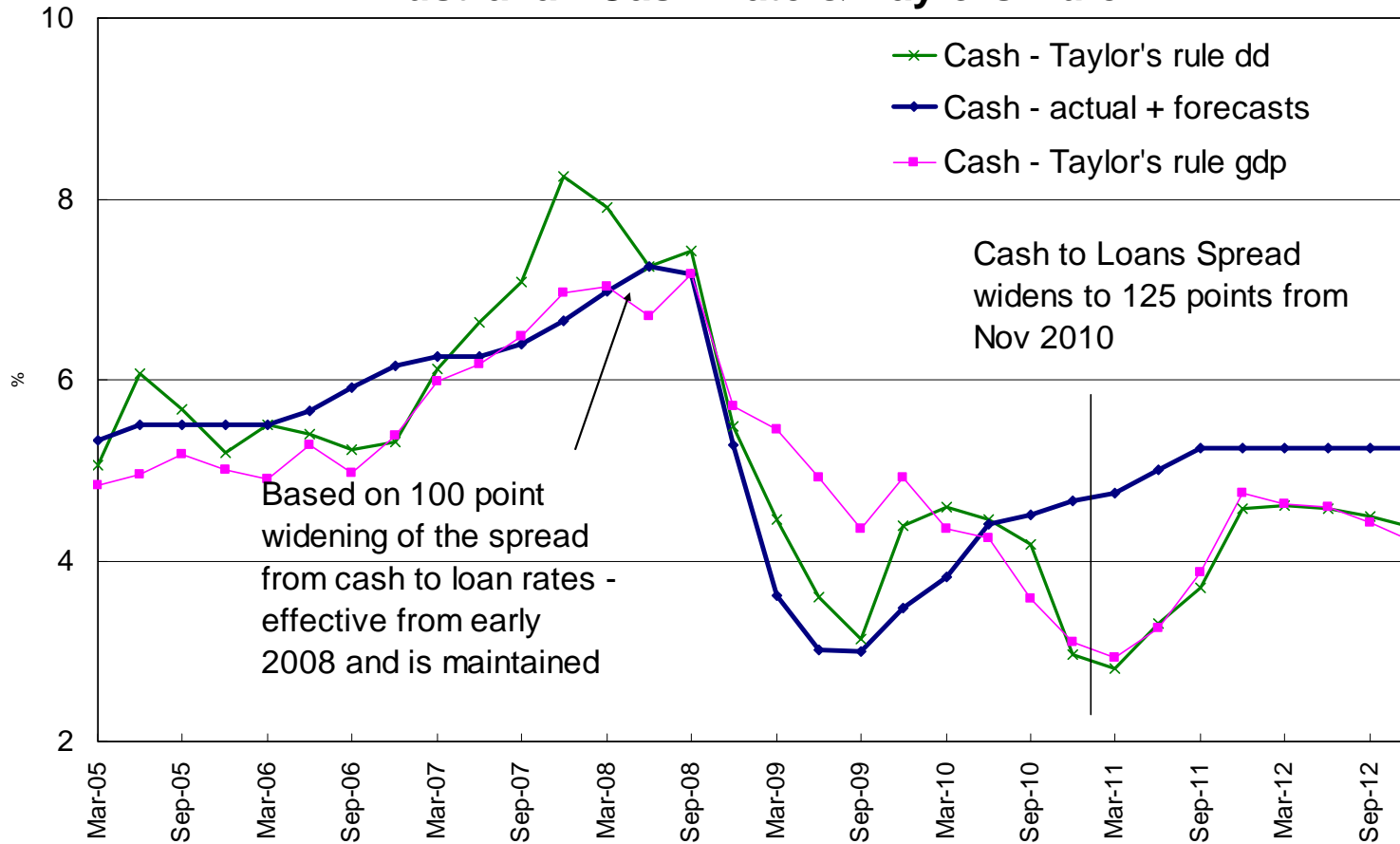


Source: ABS, NAB Economics

On rates, we expect 5.25% by August, RBA will aim to get to tighter side of neutral



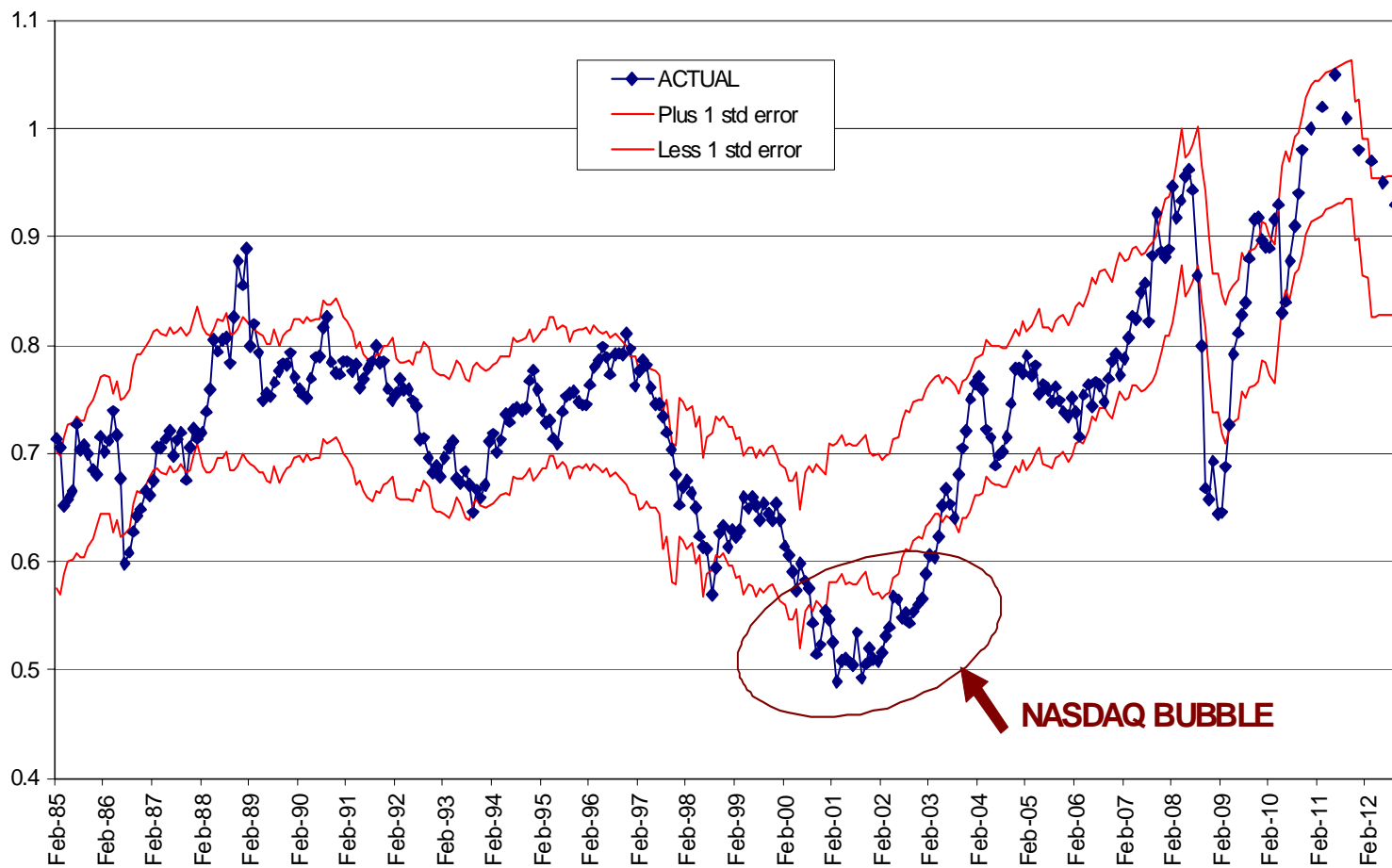
Australian Cash Rate & Taylors Rule



AUD good value around USD 95c (+/-5 c), could rise to USD 1.05 by mid 2011 based on fundamentals



Model AUD and Forecasts v Actuals



Australian Forecasts in Summary

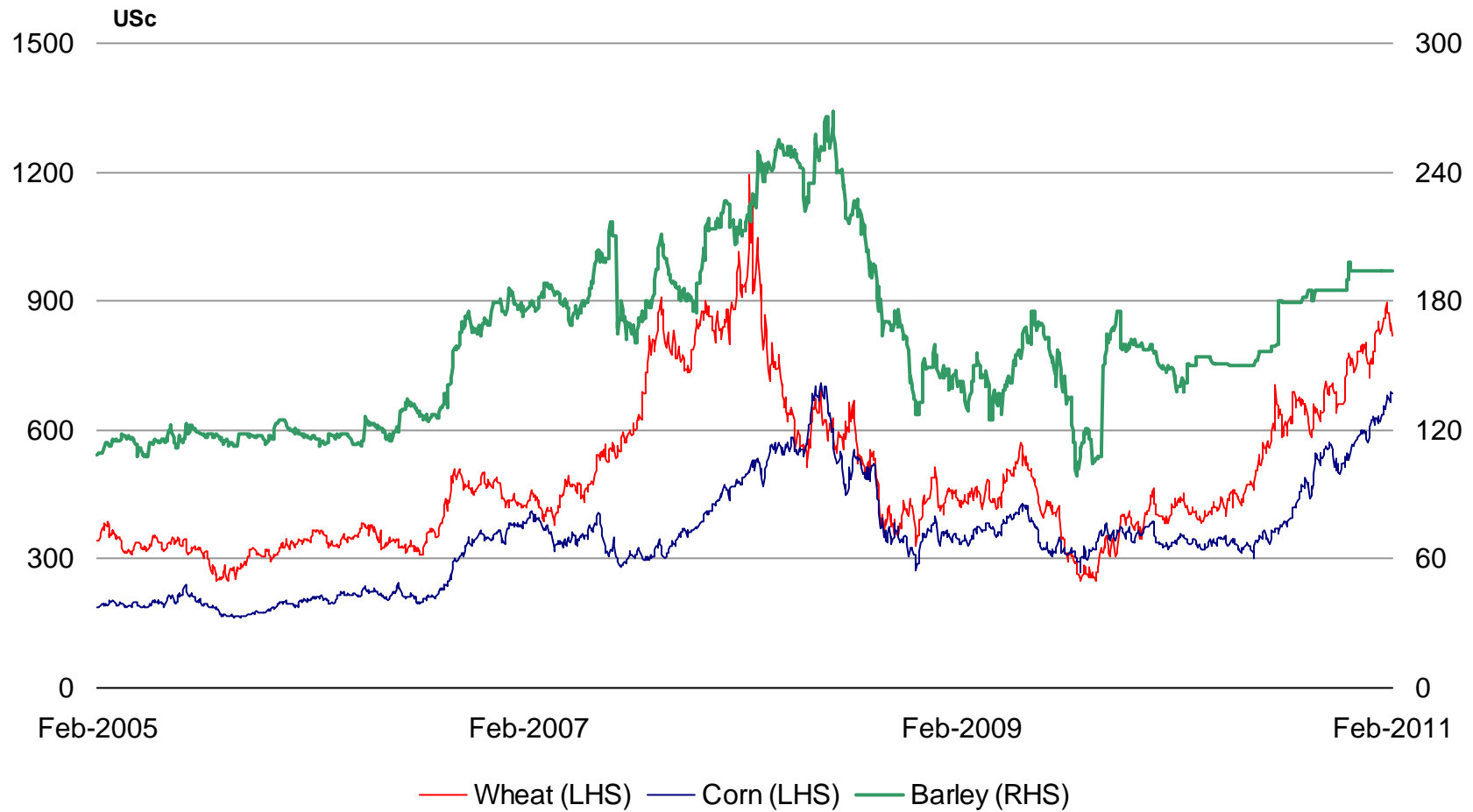
	2010-11	2011-12	2010	2011	2012
GDP	2.1	3.6	2.6	2.4	3.9
Employment	2.7	1.7	2.5	2.0	2.1
Unemployment rate*	5.0	4.7	5.1	4.9	4.6
Average earnings**	3.6	4.3	4.9	4.6	4.1
CPI underlying **	2.5	2.6	2.2	2.9	2.6
RBA cash rate*	5.0	5.25	4.75	5.25	5.25
\$US/\$A *	1.05	0.96	1.02	0.98	0.94

* At end of period

** Increase in year to Dec

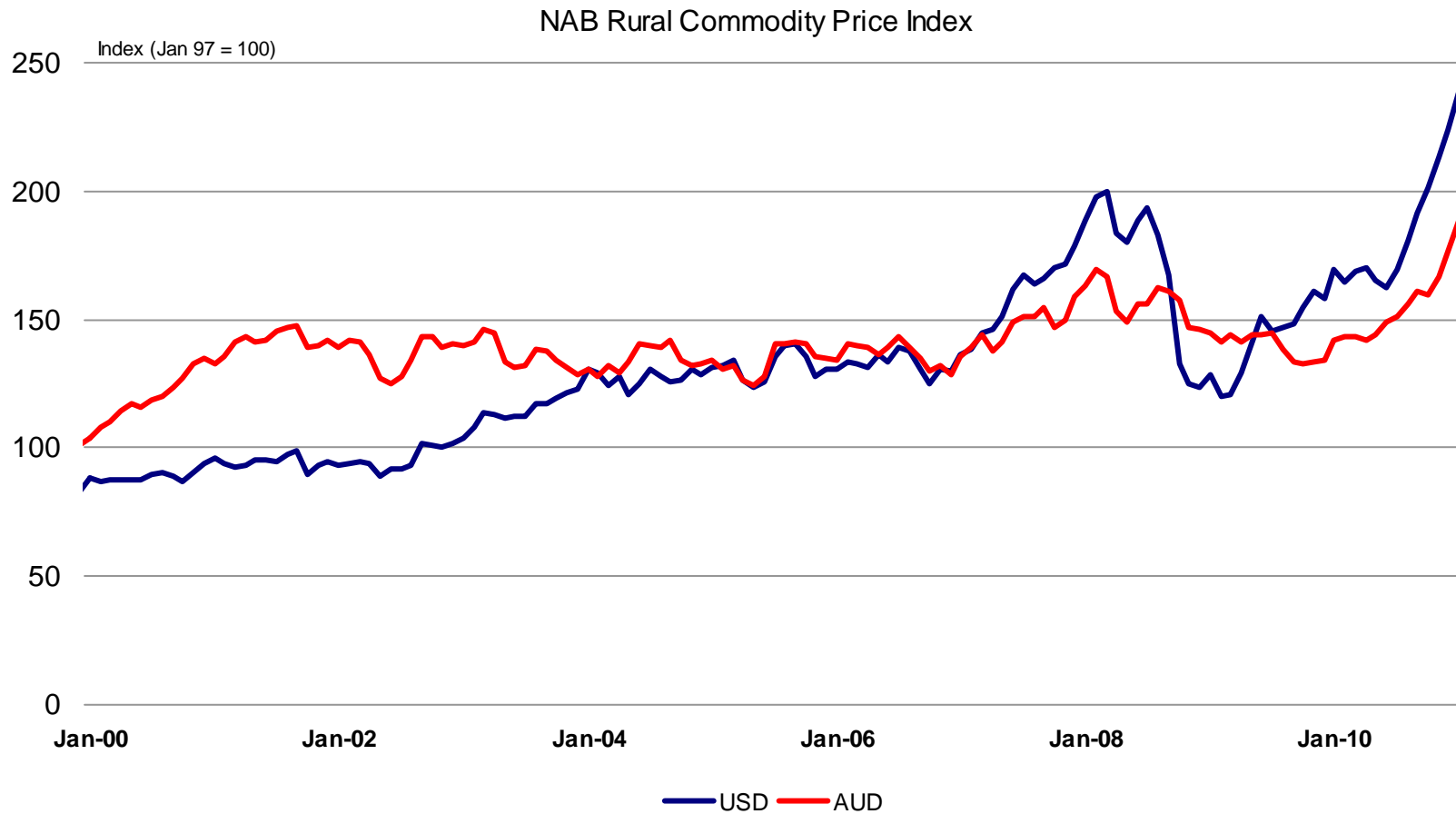


Global grains prices approaching 2008 levels



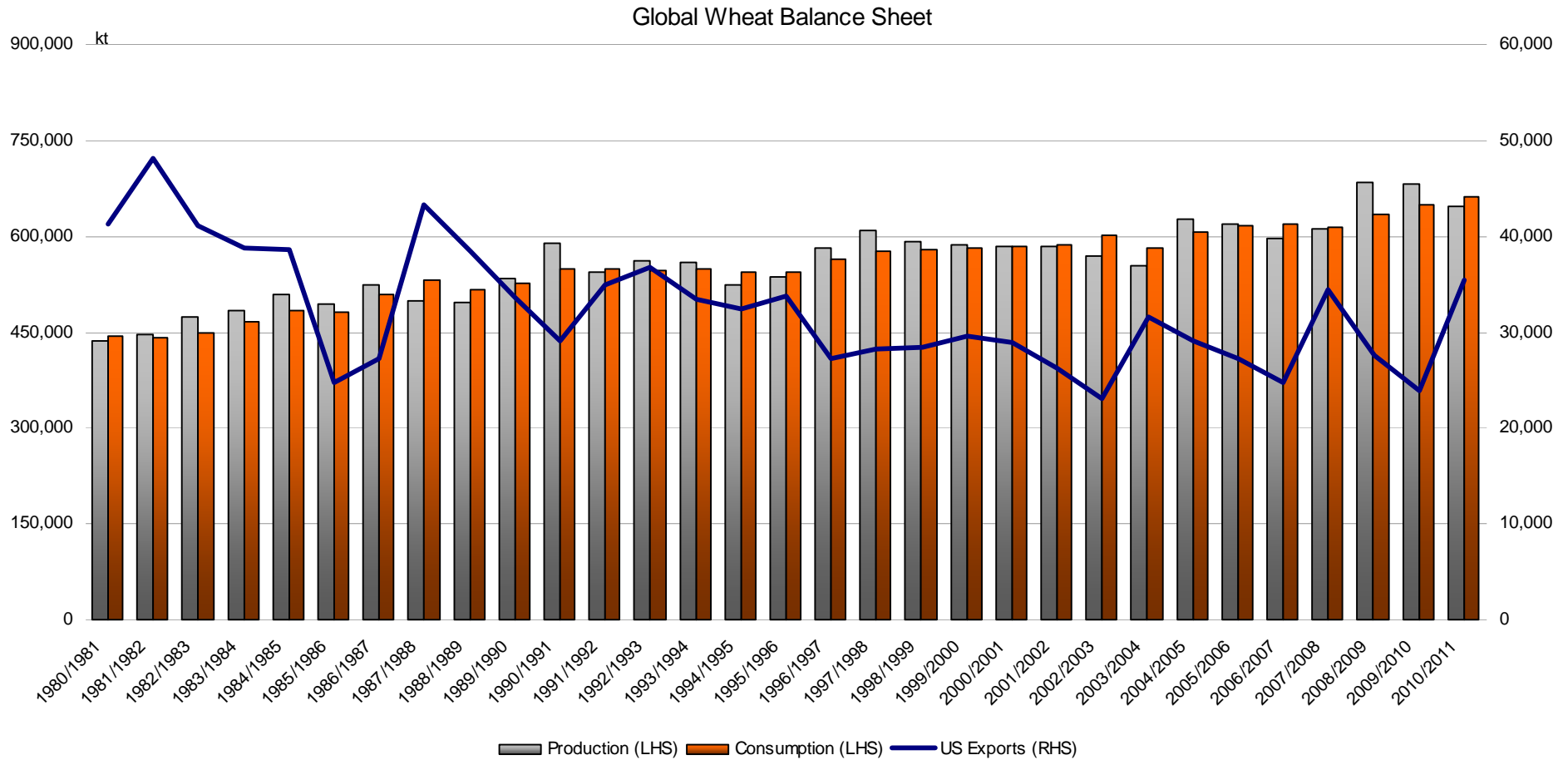
Source: Thomson Reuters Datastream

Part of a broader rise in agricultural commodity prices



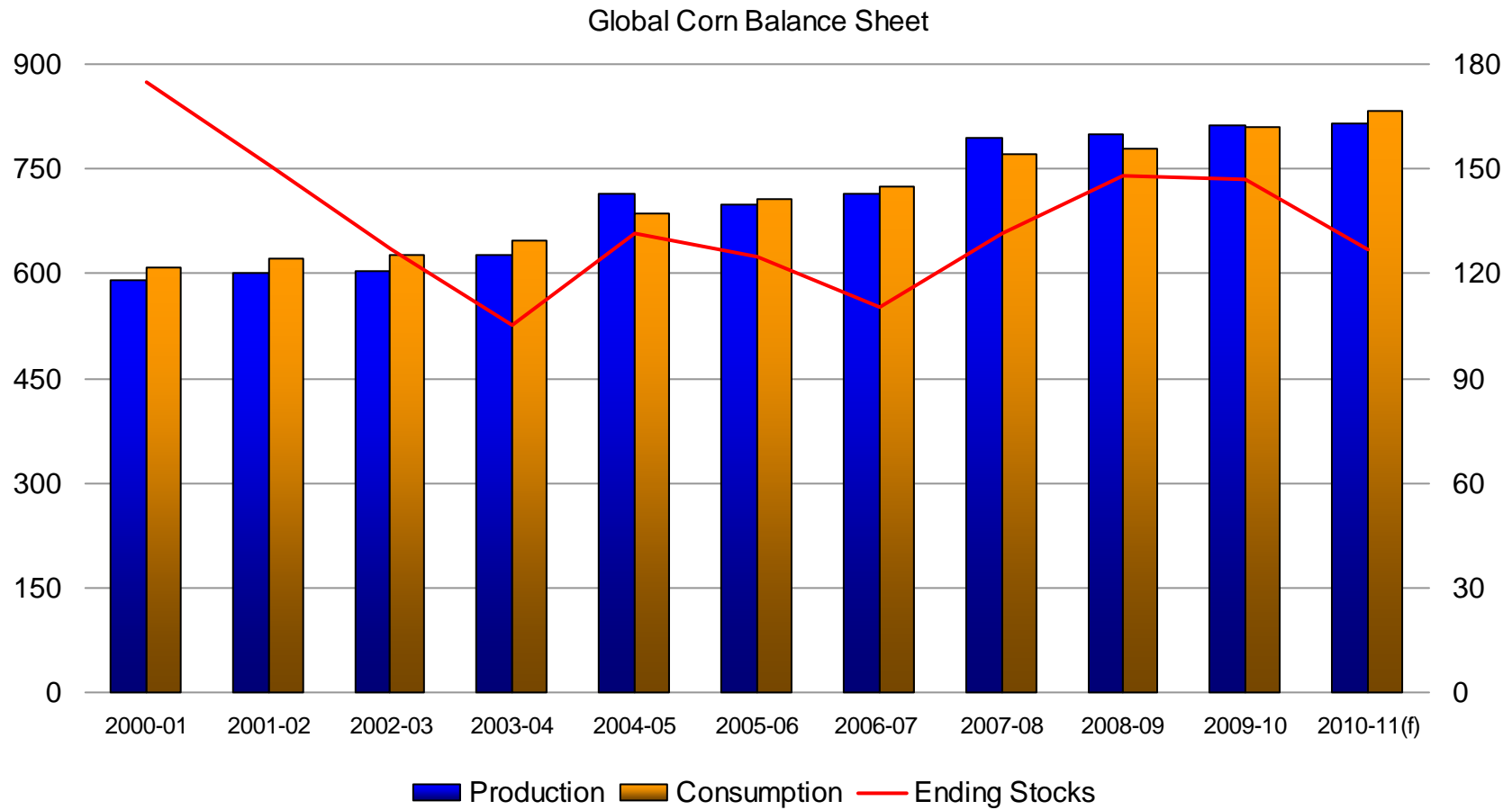
Source: NAB Group Economics

Wheat balance sheet not that tight, but fundamentals still supportive of high prices



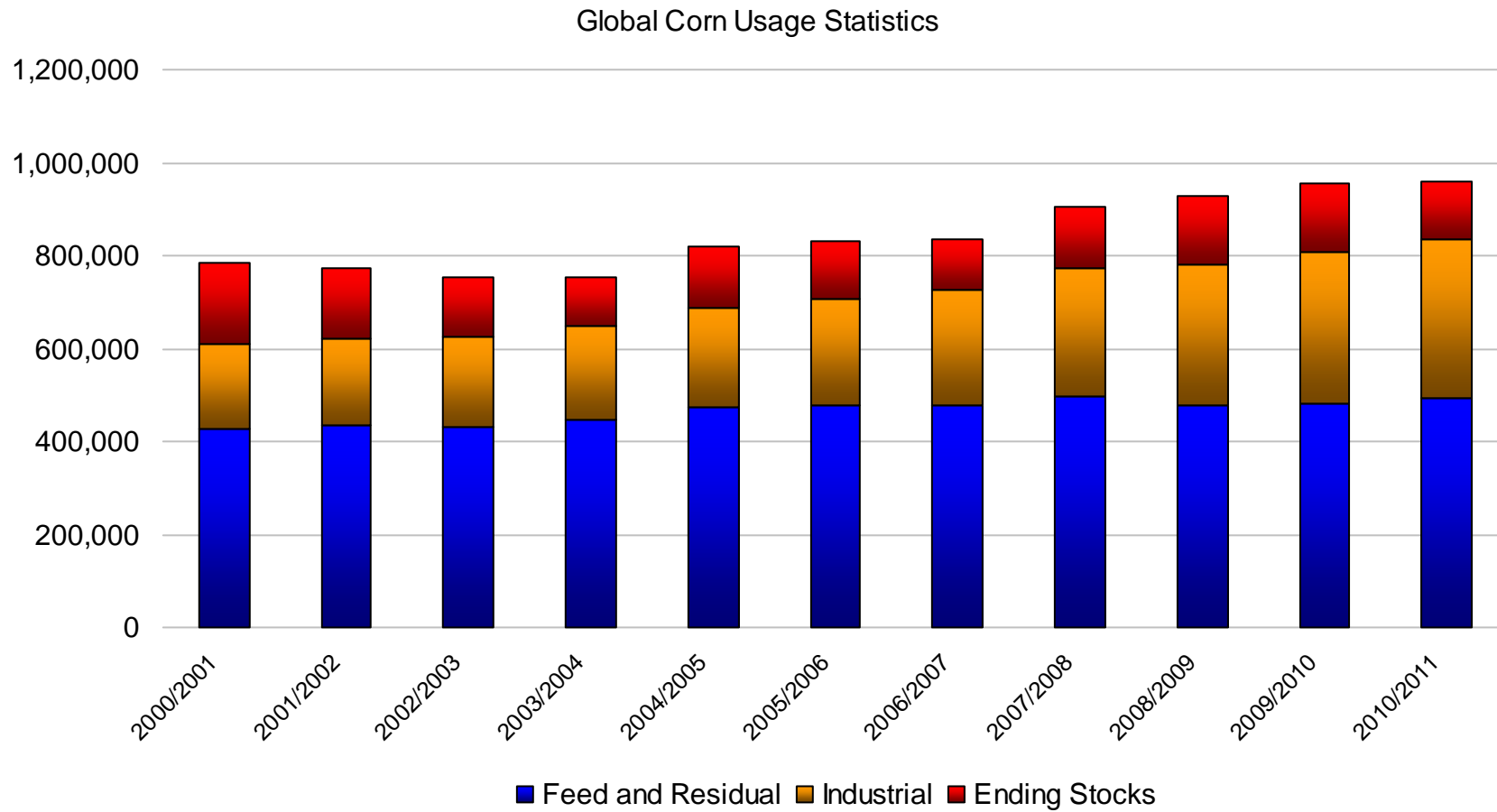
Source: USDA

Extremely tight corn stocks helping to push grains complex higher



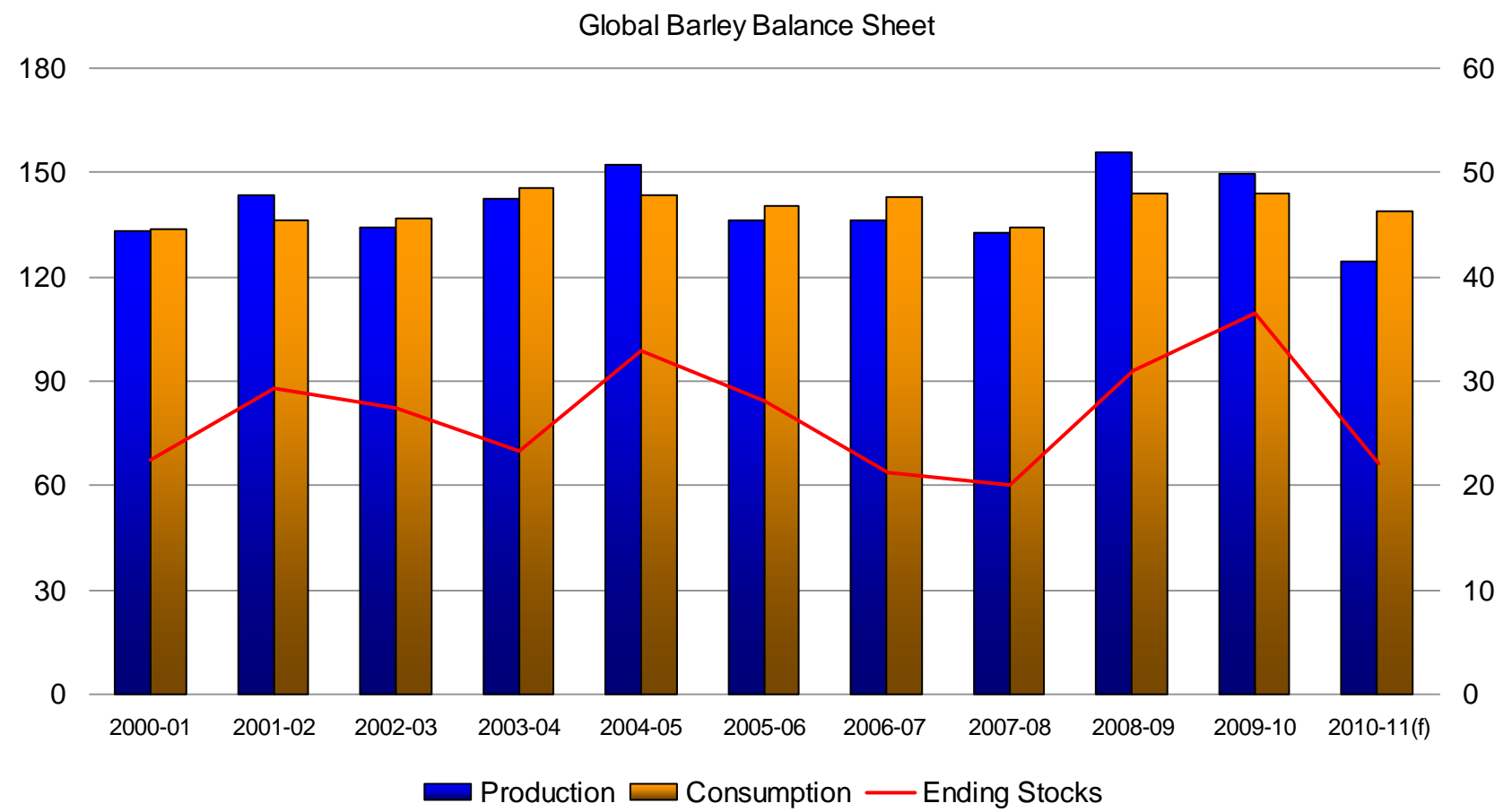
Source: USDA

Rising ethanol consumption over past decade has significantly tightened corn balance sheet



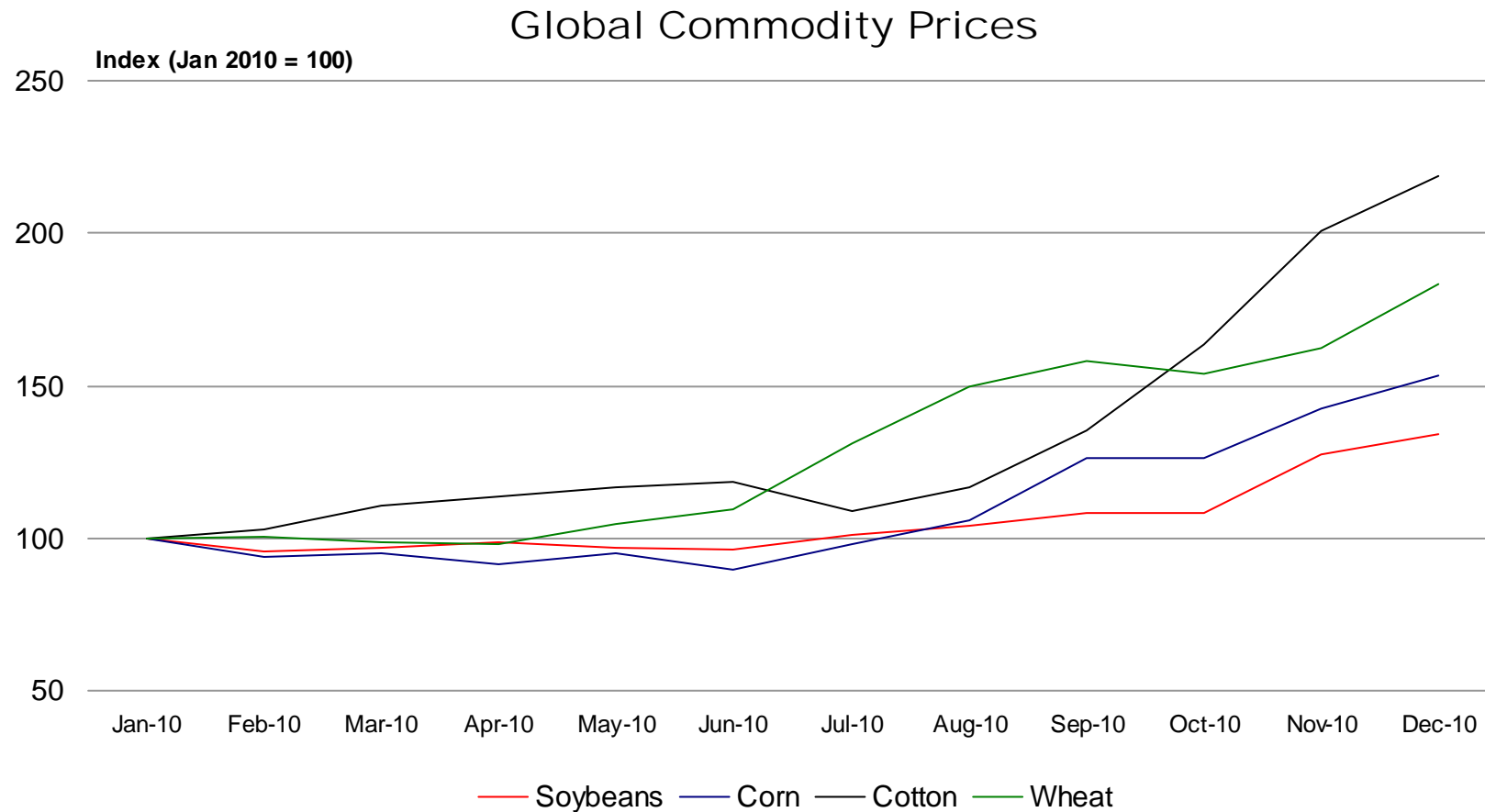
Source: USDA

Weak northern hemisphere crop sees tight barley balance sheet



Source: USDA

2011 spring planting program will be very interesting this year



Source: Bloomberg, Datastream, NAB Economics

Commodities complex will provide support to grains prices through 2011 but risks remain, should make for a volatile year



Supporting prices:

- Weak near term milling wheat supply
- Multiple crops competing for acreage in northern hemisphere spring planting program
- Possibility of further La Nina related disruptions
- Despite prices, demand is strong (global recovery, rising protein consumption, oil prices, etc.)
- Attempts to curb food price inflation

Possible downsides:

- High prices should ration demand (but how high?)
- Macroeconomic shock
- Risk taken back off the table (i.e. sovereign default)
- Solid northern hemisphere spring crop

Summary

- Global economic recovery under way, but key pockets of risk exist
- Australian economy slowing in late 2010 and early 2011, to pick up mid-2011 with solid investment pipeline
- Grains complex tight in 2011, should help support prices over the medium term



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