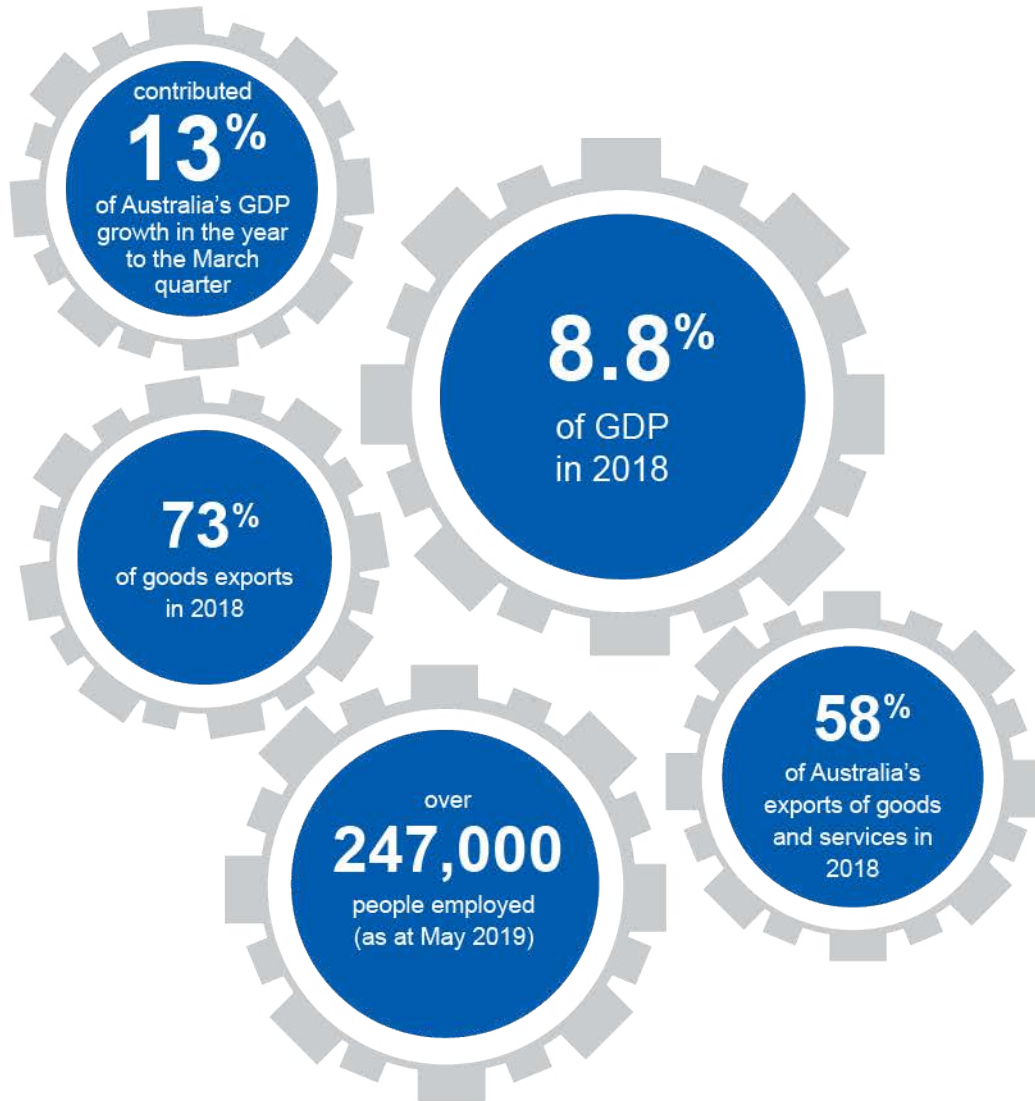


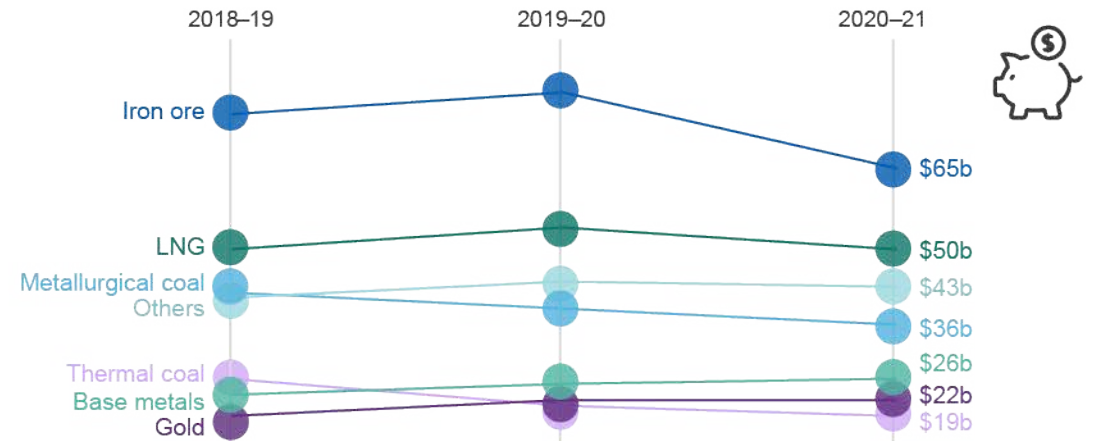
# Overview

Resources and Energy Quarterly June 2019

## Resources and energy sector



## Australia's resources and energy exports 2018–19, A\$billion



## Major markets for Australia's resources and energy exports, 2018 (A\$billion)



## 1.1 Summary

- The prices of Australia's major resource commodities have recently hit 7-year highs, but are likely to drift lower over the outlook period, due to softer demand and rising supply.
- Resource and energy commodity markets have been buffeted by the impact of both US-China trade tensions and supply changes in recent months. Combined with a weaker than expected exchange rate, Australia's resource and energy exports are set to hit a new record of \$285 billion in 2019–20, before falling back in 2020–21.
- The world industrial production cycle has continued to slow in recent months, and looks set to slow further. The extent of the likely down-cycle in resource commodities depends on whether China can maintain recent rates of economic growth, and the unfolding of trade disputes of the US with its trading partners.

## 1.2 Export values

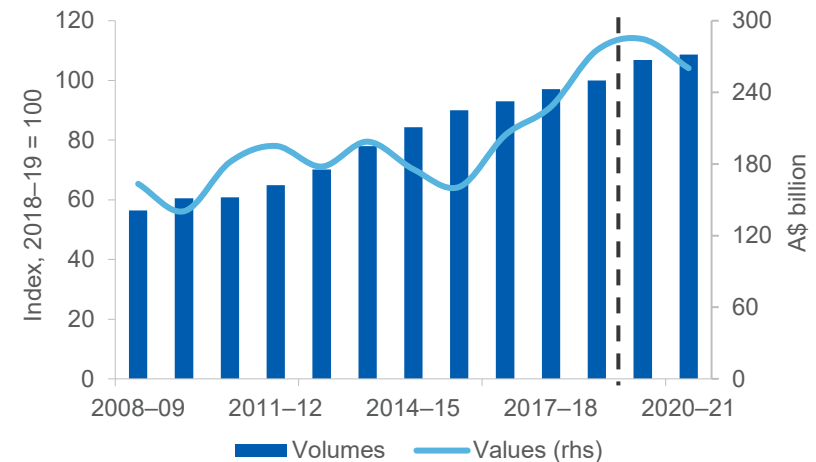
### Australia's export values expected to be \$285 billion in 2019–20

The Office of the Chief Economist's (OCE) Resources and Energy Export Values Index rose by 17.5 per cent in the year to the June quarter 2019. A 2.5 per cent rise in volumes added to a 15.3 per cent rise in prices. Figure 1.2 shows that in 2018–19, an estimated 18.4 per cent rise in prices added to the impact of a 3.0 per cent rise in export volumes. Resource export earnings are thus estimated to have risen by 20.7 per cent to a record \$275 billion. 2019–20 is forecast to see export values rise by 3.4 per cent to \$285 billion, as a 6.8 per cent rise in volumes more than offsets a 3.2 per cent fall in prices. In 2020–21, weaker prices and a forecast rise in the AUD/USD will drive an 8.6 percent fall in export earnings to \$260 billion.

### The ongoing weakness in the AUD/USD is boosting export earnings

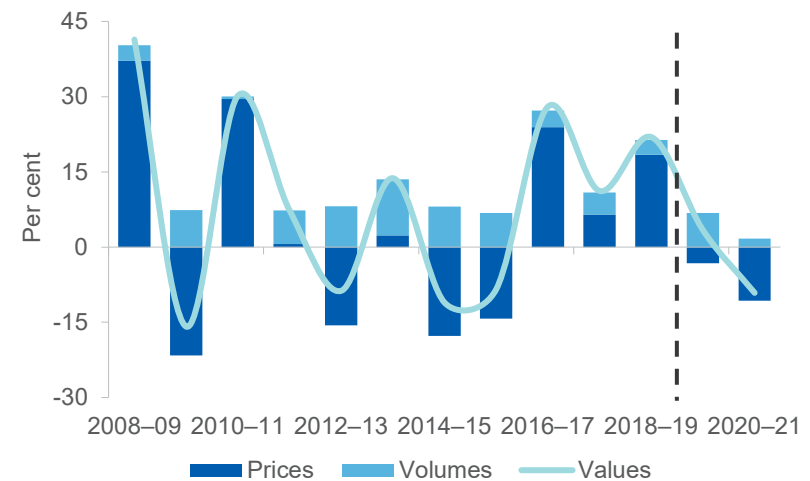
In Australian dollar terms, the OCE's Resources and Energy Commodity Price Index rose by 0.4 per cent (preliminary estimate) in the June quarter, to be 15.3 per cent higher than a year earlier. In US dollar terms, the index grew by 1.5 per cent in the quarter, to be 9.7 per cent higher than a year earlier. Figure 1.3 shows that Australian dollar prices for resource commodities rose by 12.1 per cent in the June quarter, while prices of energy commodities fell by 11.0 per cent in the quarter.

Figure 1.1: Australia's resource and energy export values/volumes



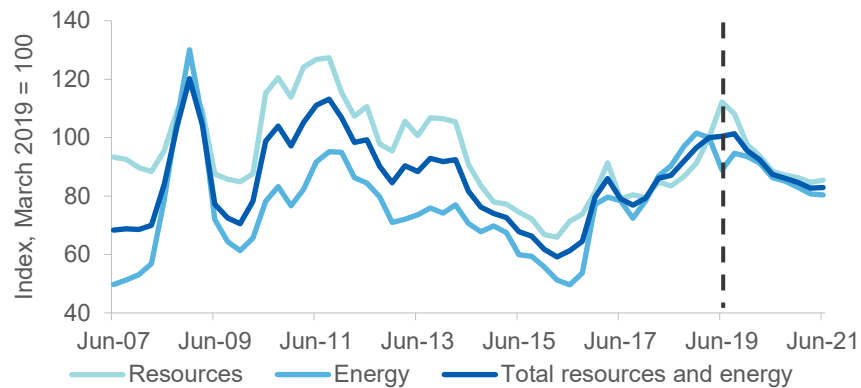
Source: ABS (2019) International Trade in Goods and Services, 5368.0; Department of Industry, Innovation and Science (2019)

Figure 1.2: Annual growth in Australia's resources and energy export values, contributions from prices and volumes



Source: Source: ABS (2019) International Trade in Goods and Services, 5368.0; Department of Industry, Innovation and Science (2019)

**Figure 1.3: Resource and energy export prices, AUD terms**



Notes: The export price index is based on Australian dollar export unit values (EUVs, export values divided by volumes); the export price index is a Fisher Price Index, which weights each commodity's EUV by its share of total export values.

Source: ABS (2019) International Trade in Goods and Services, 5368.0; Department of Industry, Innovation and Science (2019)

### 1.3 Trade tensions and macroeconomic factors

The past quarter has seen the world economy continue to slow, and the signs are that a further slowdown is likely during the second half of 2019. US-China trade tensions appear to have played a significant part in this slowdown, and the escalation of those tensions in May looks likely to trigger a further slowdown in world trade, as global supply chains adjust (further) to new tariff regimes. Resource commodity markets are likely to be impacted over 2019–20, as consumers react to higher prices before supply chains switch to cheaper alternatives. The extent of the world slowdown will depend on the dexterity of central banks and the scope of governments to act in a way to offset the impact of the disruption.

The Chinese economy appears to have steadied at a lower pace of growth in the June quarter, after the authorities implemented a number of stimulatory measures aimed at offsetting the impact of the institution and escalation of US tariffs on Chinese goods. Chinese exporters are likely to struggle if the rate/coverage of US tariffs is raised again in the coming months. Chinese stimulatory measures, particularly increased government spending on infrastructure, is likely to boost the demand for raw materials

used in the construction of railways, highways, bridges, schools, hospitals and electricity transmission networks. Iron ore, coal and base metals could thus benefit from rising Chinese usage over the outlook period.

The sustainability of US economic growth is under a cloud, as the US-China trade tensions impact: with the income/corporate tax cuts of 2018 having largely washed through, much now depends on the stance of the US Federal Reserve and whether the US Administration and Congress can agree on increased infrastructure spending to boost US productivity and economic growth to offset fragile business confidence. For now, the US President has ruled out negotiating any agreement on an infrastructure program while the Democrat-controlled House of Representatives persists in investigating his Administration.

The ability of the US Federal Reserve to stem any US economic slowdown may depend partly on whether the central bank chooses to look through the inflationary impact of the sharp US tariff hikes on imports of Chinese goods. Making such monetary judgements becomes more difficult when the US economy is virtually at full employment. If the US economy does manage to remain at full employment, there may be limited capacity to expand production significantly if the US Administration is highly successful in its efforts to bring production facilities back onshore.

Outside the US, governments and central banks in other major Western nations/regions have limited ability to stimulate activity, due to already low interest rates and high fiscal deficits and debt. Central banks could restart quantitative easing measures. Eurozone growth has remained subdued, mainly due to slower growth in Germany and Italy (where the government's fiscal and debt standing is causing concern). The European Central Bank is keen to keep monetary conditions loose to assist growth.

The major risk to world growth is an escalation of protectionist trade measures between China/Europe/Japan and the US. A 'no-deal' Brexit could also cause significant disruption to global supply chains — notably in Europe. The vagaries of the weather will impact on energy commodity usage over the outlook period, however, the ongoing push to lower carbon emissions will unambiguously impact thermal coal demand adversely.

## 1.4 Prices

The iron ore price has lifted steadily over the past few months, as the mine closures in Brazil and Western Australia's weather problems caused a scramble for available cargoes. The iron ore price is forecast to decline modestly over the next two years (Figure 1.4), as growth in Chinese steel output eases and world supply recovers. However, prices are likely to be at least US\$10-15 a tonne higher in 2019-20 than they otherwise would have been without the problems in Brazil.

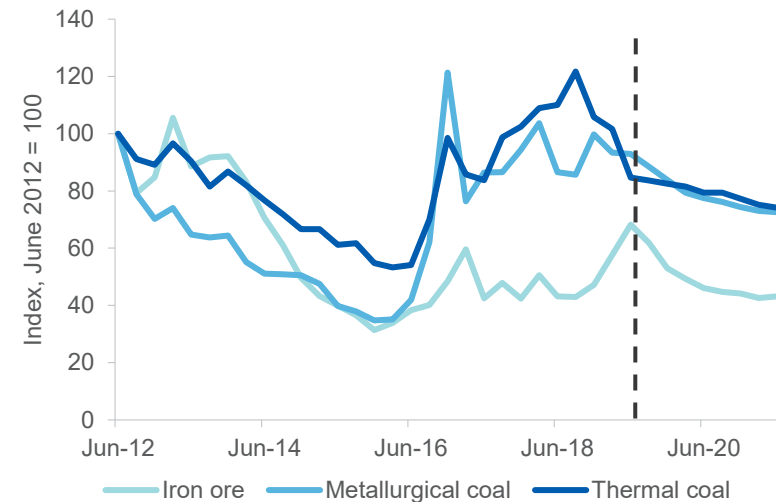
The price of metallurgical coal hovered around the US\$200 a tonne during the June quarter, as sluggish supply combined with strong demand — particularly from China. The price is likely to ease back over the outlook period. High energy thermal coal prices have declined much more sharply than low energy coal prices over the past quarter, pushing the spread back down towards 'normal' levels. Decade-low Asian gas prices are pushing thermal coal prices down. Thermal coal prices are forecast to ease further during the 2019–21 period, as supply rises and demand cools (Figure 1.4).

Oil prices have continued to swing around sharply but, despite recent weakness, remain above levels reached in late 2018. The market has been spooked by world slowdown concerns. With oil prices expected to hold above the US\$65 a barrel mark, Australia's growing oil, condensate and LNG exports (of which, around 90-95 percent are linked to oil prices) should result in record petroleum and LNG revenues.

Gold pushed above the US\$1,300 an ounce mark just as June began, propelled by safe-haven buying as equities fell and bonds rallied. Gold is forecast to benefit from strong central bank, investor and jewellery demand over the coming year or so. Base metal prices have ridden the US-China trade rollercoaster over the past quarter. With the exception of zinc, base metals are expected to rise over the outlook period (Figure 1.5), as the falling inventories more than overwhelm the impact of a world slowdown.

Rising resource and energy prices have driven a strong rebound in our terms of trade in the past three years, raising Australia's national income. The weaker Australian dollar continues to help cushion the economy from the impacts of the US-China trade war and the associated slowdown.

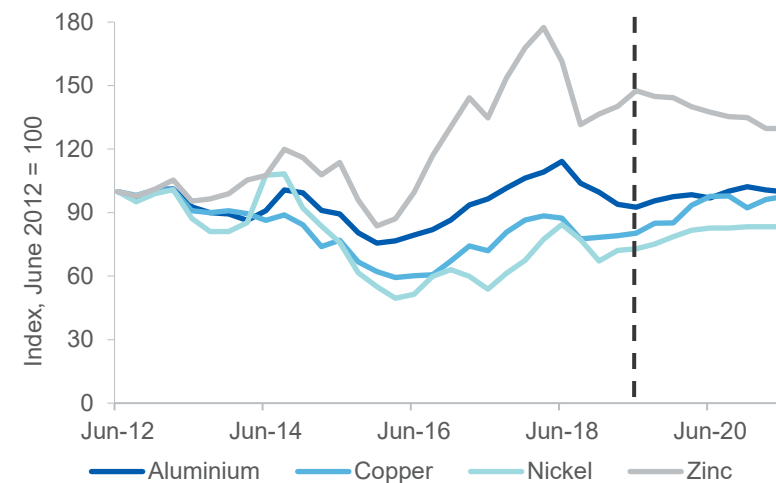
Figure 1.4: Bulk commodity prices



Notes: Prices are in US dollars, and are the international benchmark prices

Source: Bloomberg (2019)

Figure 1.5: Base metal prices



Notes: Prices are in US dollars, and are the international benchmark prices

Source: Bloomberg (2019)

## 1.5 Export volumes

### Export volumes to grow, driven by growing energy exports

Most energy and resource commodities recorded growth in the year to the June quarter. Cyclonic weather in the Pilbara region in Western Australia (just as the June quarter began) impacted on port operations and inhibited iron ore exports. The OCE's Resources and Energy Export Volumes Index (preliminary estimate) rose by 2.5 per cent in the June quarter 2019 year-on-year, taking the index to a record high. Energy commodity volumes rose by 11.1 per cent but resource commodity volumes fell by 5.9 per cent.

Volumes are expected to show further strong (largely across-the-board) growth in 2019–20, before moderating in 2020–21.

## 1.6 Contribution to growth and investment

### Mining industry continues to support overall economic growth

Australia's real Gross Domestic Product (GDP) grew by 0.4 per cent in the March quarter 2019 and by 1.8 per cent over the year. The mining industry directly accounted for 13 per cent of the growth in Australia's GDP in the year to the March quarter.

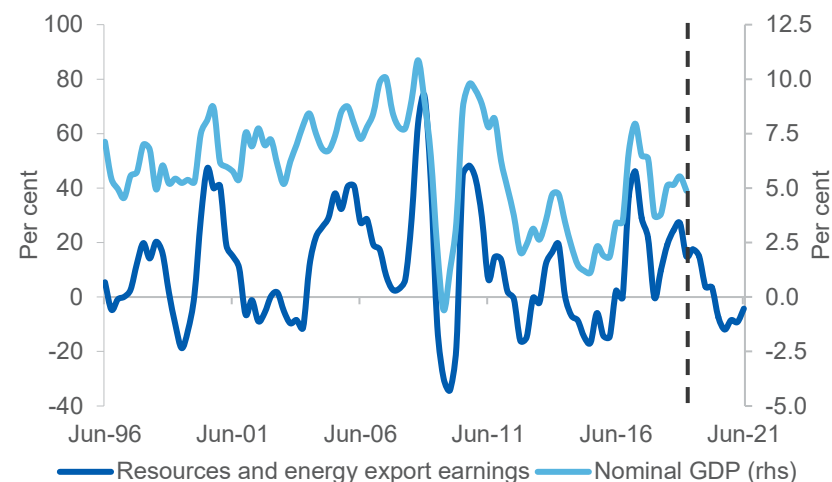
Mining output grew by 3.0 per cent in the year to the March quarter 2019. Mining value-added rose by 0.8 per cent in the March quarter, mostly driven by growth in oil and gas extraction.

Oil and gas extraction has been the largest contributor to mining industry value-added growth in the last few years, propelled by growing export volumes associated with the LNG export boom. In the coming few years, with ramp-up in the large LNG projects complete, lower export growth and relatively low investment in the oil and gas production sector are expected to provide a smaller contribution to Australia's GDP growth.

Since the global financial crisis, swings in Australian resource and energy export earnings have correlated very closely with swings in nominal GDP. Figure 1.6 suggests that, with growth in resource and energy export values likely having peaked in early 2019, if the correlation persists, nominal GDP

growth could weaken noticeably over the next year — though from a relatively high base.

**Figure 1.6: Australia's nominal GDP vs resource and energy commodity export earnings, annual per cent change**



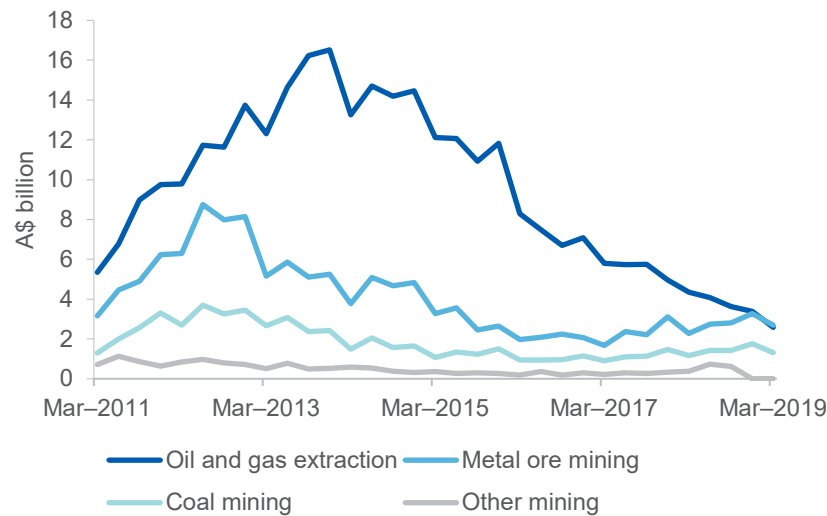
Source: Department of Industry, Innovation and Science (2019), ABS (2019)

### Mining investment is recovering after years of decline

Investment in Australia's mining industry fell sharply in the March quarter, retreating by almost 20 per cent from the December quarter level. Falls were recorded for coal, gas and metal mining (Figure 1.7).

Over 2018–19 as a whole, investment is expected to have fallen to \$24.7 billion — continuing a long cycle of declines from 2012–13 (see Figure 1.8). However, at this stage, provisional indications are that investment is hitting the lowest part of the cycle and mining investment could rise to around \$32 billion in 2019–20. While this is not locked in, it does suggest that sentiment has begun to turn, amidst high growth in iron ore export earnings, strong metallurgical coal prices and promising prospects for critical commodities such as lithium.

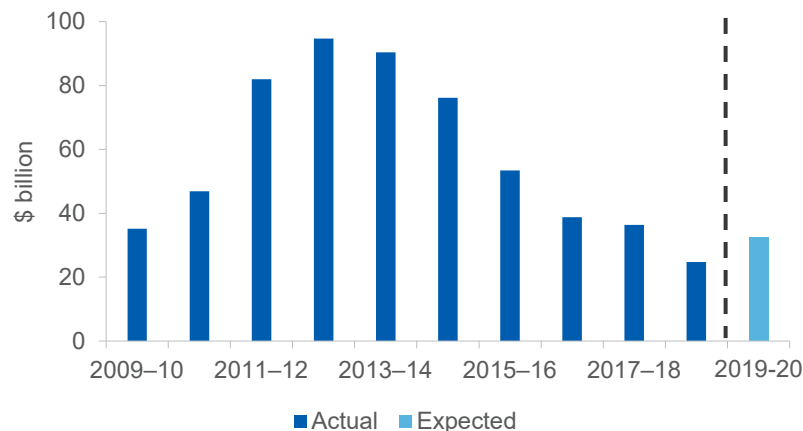
**Figure 1.7: Mining industry capital expenditure by commodity**



Notes: Other mining includes non-metallic mineral mining and quarrying and exploration and other mining support services; chart data is in nominal terms

Source: ABS (2019) Private New Capital Expenditure and Expected Expenditure, 5625.0

**Figure 1.8: Mining industry capital expenditure, fiscal year**



Notes: Chart data is in nominal terms

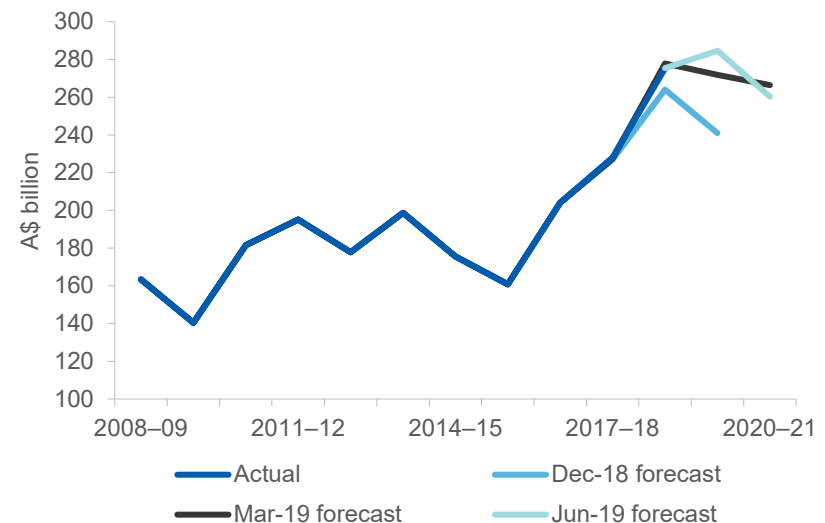
Source: ABS (2019) Private New Capital Expenditure and Expected Expenditure, 5625.0

## 1.7 Revisions to the outlook

At \$275 billion, the estimate for Australia’s resources and energy export earnings in 2018–19 is down slightly from the \$278 billion estimate in the March 2019 *Resources and Energy Quarterly*. However, we now expect 2019–20 to set a fresh record, largely as a result of a stronger than expected iron ore price and the modestly weaker AUD/USD exchange rate than in our March forecasts. Those two factors accounted for the majority of the \$12.9 billion of the upward revision to total resource and energy exports forecast to amount to \$285 billion in 2019–20.

In 2020–21, stronger metallurgical coal export revenues — deriving from upward revisions to prices — will be more than offset by downward revisions to exports of thermal coal and copper, where prices are expected to be weaker than previously forecast. Export earnings are now forecast to be \$260 billion, down from \$266 billion forecast in the March 2019 REQ.

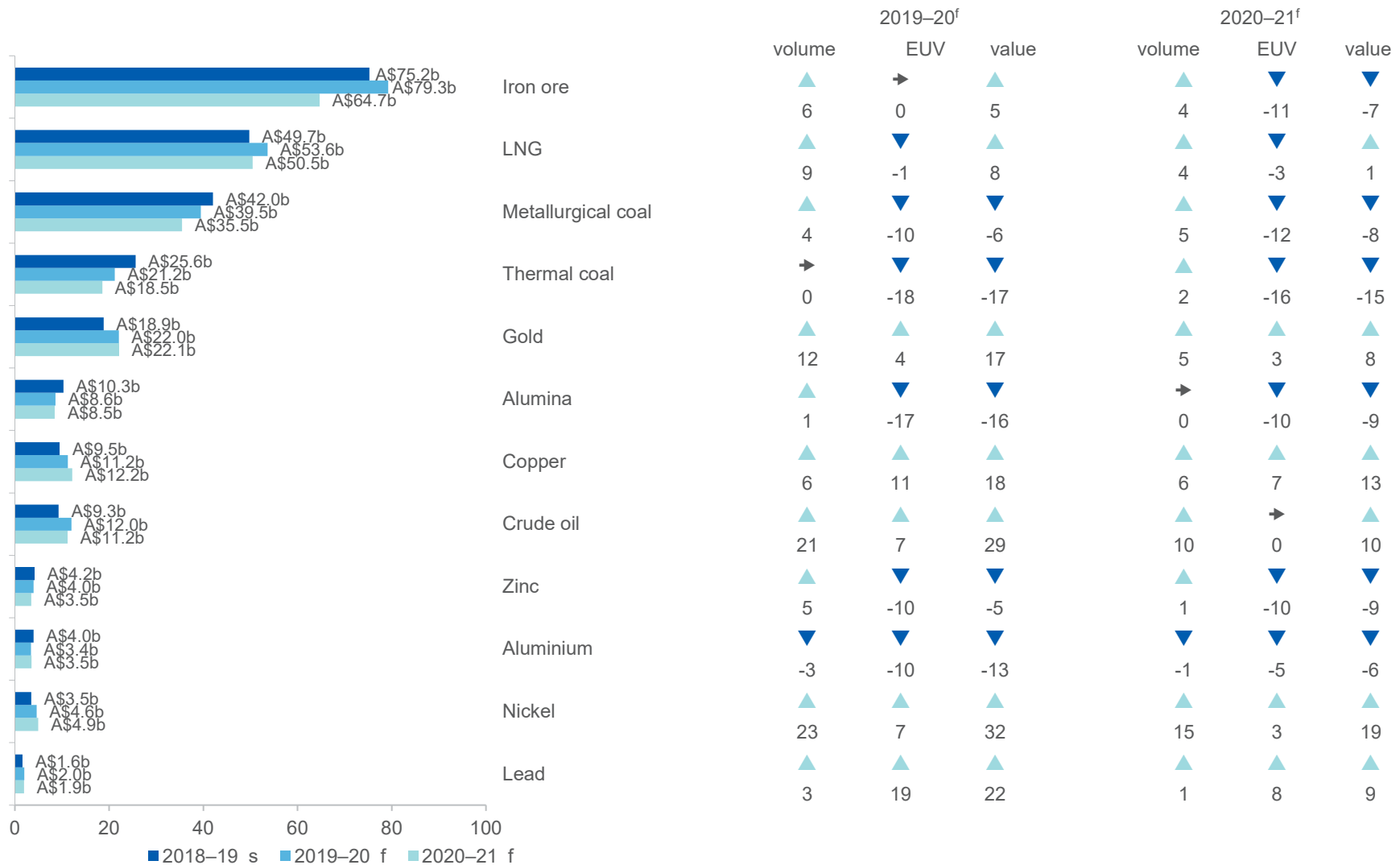
**Figure 1.9: Revisions to the outlook**



Notes: Chart data is in nominal terms

Source: Department of Industry, Innovation and Science (2019)

Figure 1.10: Australia's major resource & energy commodity exports



Notes: s estimate, f forecast.

Source: ABS (2019) International Trade in Goods and Services, 5368.0; Department of Industry, Innovation and Science (2019)

**Table 1.1: Outlook for Australia's resources and energy exports in nominal and real terms**

Exports (A\$m)				Annual percent change			
	2017–18	2018–19 <sup>s</sup>	2019–20 <sup>f</sup>	2020–21 <sup>f</sup>	2018–19 <sup>s</sup>	2019–20 <sup>f</sup>	2020–21 <sup>f</sup>
Resources and energy	228,027	275,294	284,588	260,920	20.7	3.4	–8.6
– real <sup>b</sup>	232,571	275,294	277,918	248,025	18.4	1.0	–10.8
Energy	101,958	131,102	132,207	121,217	28.6	0.8	–8.3
– real <sup>b</sup>	103,990	131,102	129,108	115,533	26.1	–1.5	–10.5
Resources	126,068	144,192	152,381	139,011	14.4	5.7	–8.8
– real <sup>b</sup>	128,581	144,192	148,810	132,492	12.1	3.2	–11.0

Notes: **b** In 2018–19 Australian dollars. **f** forecast. **s** estimate.

Source: ABS (2019) International Trade in Goods and Services, 5368.0; Department of Industry, Innovation and Science (2019)

**Table 1.2: Australia's resource and energy exports, selected commodities**

	Unit	Prices			Unit	Export volumes			Export values, A\$b		
		2018–19 <sup>s</sup>	2019–20 <sup>f</sup>	2020–21 <sup>f</sup>		2018–19 <sup>s</sup>	2019–20 <sup>f</sup>	2020–21 <sup>f</sup>	2018–19 <sup>s</sup>	2019–20 <sup>f</sup>	2020–21 <sup>f</sup>
Iron ore	US\$/t	72	70	58	Mt	806	852	869	75	79	65
Metallurgical coal	US\$/t	205	182	163	Mt	180	188	198	42	39	36
LNG	A\$/GJ	12.6	12	12	Mt	75	81	81	50	54	50
Thermal coal	US\$/t	98	77	72	Mt	209	210	216	26	21	19
Gold	US\$/oz	1,266	1,361	1,413	t	329	370	363	19	22	22
Alumina	US\$/t	438	367	363	kt	17,684	17,803	17,839	10	8.6	8.5
Copper	US\$/t	6,203	7,103	7,553	kt	927	983	1,037	9.5	11	12
Oil <sup>a</sup>	US\$/bbl	69	74	70	kb/d	257	311	311	9.3	12	11
Aluminium	US\$/t	1,930	1,922	1,992	kt	1,410	1,362	1,373	4.0	3.4	3.5
Zinc	US\$/t	10,715	10,924	10,208	kt	1,437	1,510	1,457	4.2	4.0	3.5
Nickel	US\$/t	12,413	13,650	14,275	kt	221	271	291	3.5	4.6	4.9
Lithium	US\$/t	672	630	540	kt	1,376	1,545	1,638	1.3	1.5	1.4
Uranium	US\$/lb	27	31	36	t	6,857	7,240	6,500	0.6	0.7	0.6

Notes: **a** Export data covers both crude oil and condensate. **f** forecast. **Price information:** Iron ore fob (free-on-board) at 62 per cent iron content estimated netback from Western Australia to Qingdao China; Metallurgical coal premium hard coking coal fob East Coast Australia; Thermal coal fob Newcastle 6000 kc (calorific content); LNG fob Australia's export unit values; Gold LBMA PM; Alumina fob Australia; Copper LME cash; Crude oil Brent; Aluminum LME cash; Zinc LME cash; Nickel LME cash; Lithium spodumene ore. **s** estimate.

Source: ABS (2019) International Trade in Goods and Services, Australia, Cat. No. 5368.0; LME; London Bullion Market Association; The Ux Consulting Company; US Department of Energy; Metal Bulletin; Japan Ministry of Economy, Trade and Industry; Department of Industry, Innovation and Science (2019)