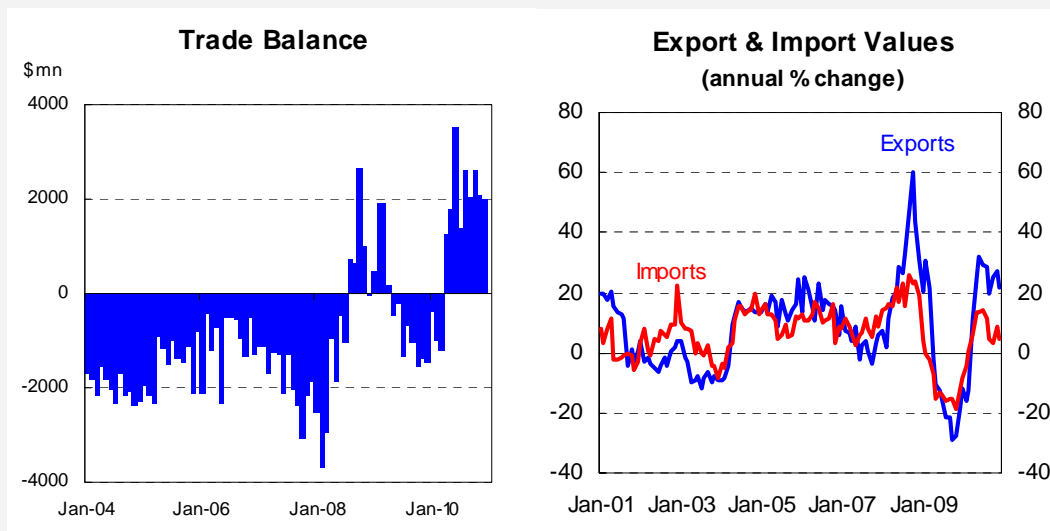


DATA SNAPSHOT

The really bad news is yet to come

Thursday, 3 February 2011

- December is the last healthy trade surplus before the storms begin to hit
- The dent to Australia's trade account from the Queensland floods is yet to come
- For now there has only been a marginal decline in hard coal exports due to the rains – this will be greatly exacerbated come January
- A recovery in coal exports to normal levels could be some time off



The dent to Australia's trade account from the Queensland floods is yet to come. The December numbers show a marginal slowdown in hard coal volumes. This is because most ports up to the end of 2010 had sufficient inventories to keep on loading even as a number of key coal mines called force majeure due to the un-seasonal weather. This changed in January with the floods halting large parts of the supply chain. This included the port of Gladstone, which came to a standstill for two weeks in January as it wore down stockpiles.

Just as the Queensland coalfields have started to recover Cyclone Yasi and Anthony has seen the closure of Queensland's three most northern ports – Abbot Point, Hay Point and Dalrymple Bay. For a number of mines production is unlikely to restart for a few months as their pits remain full of water. In addition it will take some time for key rail to be repaired. The coal hauler QR National believes volumes will be down some 20 million tonnes over the first three quarters of 2011.

This means following a probable sharp drop in exports in January, only a slow recovery should be expected. The upside is that while volumes may fall away for a while, prices received are spiking upwards. The benchmark contract price for thermal coal, which comes into effect in April this year, could be set at a record \$145 a tonne, surpassing its previous high of \$125 a tonne set in 2008-09. Hard and semi-soft coals, which are set quarterly, are also expected to move higher.

For now December's decline in hard coal exports from Queensland was offset by a rebound in thermal coal exports. This will not be repeated in the coming month as it reflects a return to more normal loading rates at Newcastle where throughput dropped by some 33% in November.

In total the trade surplus on goods and services narrowed by 4.7% (or \$97 million to \$1.981 billion). The export of goods and services expanded 0.3% (\$85 million to \$24.58 billion). Imports grew 0.8% (or a larger \$182 million to \$22.60 billion).

Non-rural exports - which is largely coal and iron ore - increased 1.4% (\$227 million to \$16.7 billion). Along with a jump in thermal coal exports, iron ore volumes also showed a healthy lift. Over the quarter prices for these two commodities have been relatively flat – although this is about to change. This is shown in the table below.

Rural exports increased 0.9% (\$21 million to \$2.4 billion). Meat and wool rose, while cereal declined. Non-monetary gold exports decreased \$118 million to \$1.1billion.

Meanwhile the import of consumption goods declined 0.9% (-\$49 million to \$5.3 billion). Consumption goods have trended lower over the last six months reflecting weaker retail volumes as well as the stronger Australian dollar.

Capital good imports fell 3.8% (-\$155 million to \$3.9 billion). At this stage there is no discernable upswing in business spending over the last twelve months - even with the significant appreciation in the exchange rate.

Of note is a spike up in intermediate and other merchandise good imports. This category expanded 8.5% (\$643 million to \$8.2billion). This largely reflects a rise in fuels and lubricants, which have been growing swiftly over the past year. Processed industrial supplies were also up strongly on the month.

Australia continues to run a deficit on its services balance although this narrowed in December. Service credits slowed by 1.0% (\$46 million to \$4.4 billion). Any Oprah effect is likely to be seen in the coming quarters. Service debits also decreased, albeit by a larger amount - down 1.2% (\$57 million to \$4.68 billion).

Selected Commodities – price and volume analysis

2010 %	Jul	Aug	Sep	Oct	Nov	Dec
IRON ORE						
Lump						
Volumes	2	-5	8	10	-11	13
Price	9	-2	-2	-12	-	1
Fines						
Volumes	-9	2	4	7	-6	13
Price	5	-3	-2	-11	1	1
COAL						
Hard coking						
Volumes	-27	36	-11	-4	10	-4
Price	2	3	-4	-6	-7	-1
Semi-soft						
Volumes	-3	-10	-8	8	-5	7
Price	1	2	-10	-	-6	-1
Bituminous						
Volumes	4	4	7	-1	-19	15
Price	-2	-2	-1	-6	-	2
np - not available for publication						

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