Asia economic update

Presentation to ANZ
Asia Network Monthly Meeting

Amy Auster
Senior Economist
ANZ Bank

30 June 2005

www.anz/com/go/economics

economics@ ANZ

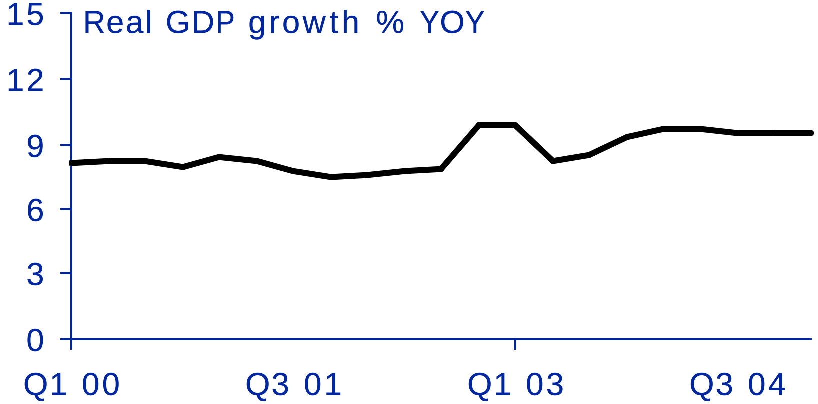
Regional growth forecasts still very strong, with China and Japan making big contribution

	2004	2005	2006	2007
Oil prices (US$ per barrel)	43.3	42.5	37.4	N/a
World GDP growth (%)*	5.2	4.3	4.2	4.2
China	9.5	8.8	8.2	7.8
Korea	4.6	3.8	4.6	4.2
Taiwan	5.7	3.8	4.5	4.2
Indonesia	5.1	6.0	6.5	5.7
Thailand	6.1	4.2	5.1	5.4
Hong Kong	8.2	4.5	3.2	3.3
Malaysia	7.1	4.4	4.7	6.2
Singapore	8.4	3.8	5.3	4.7
Philippines	6.1	3.8	3.0	4.1
Vietnam	7.7	7.5	7.0	7.0
Non-Japan East Asia*	8.2	7.3	7.0	6.7
Non-Japan East Asia excl. China*	5.8	4.5	4.9	4.9

*weighted GDP at PPP exchange rates

Growth patterns are diverging in emerging Asia

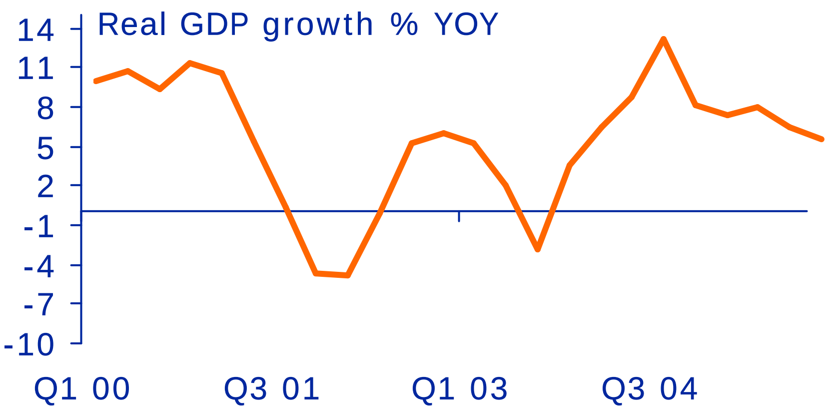
China



Indonesia

Korea

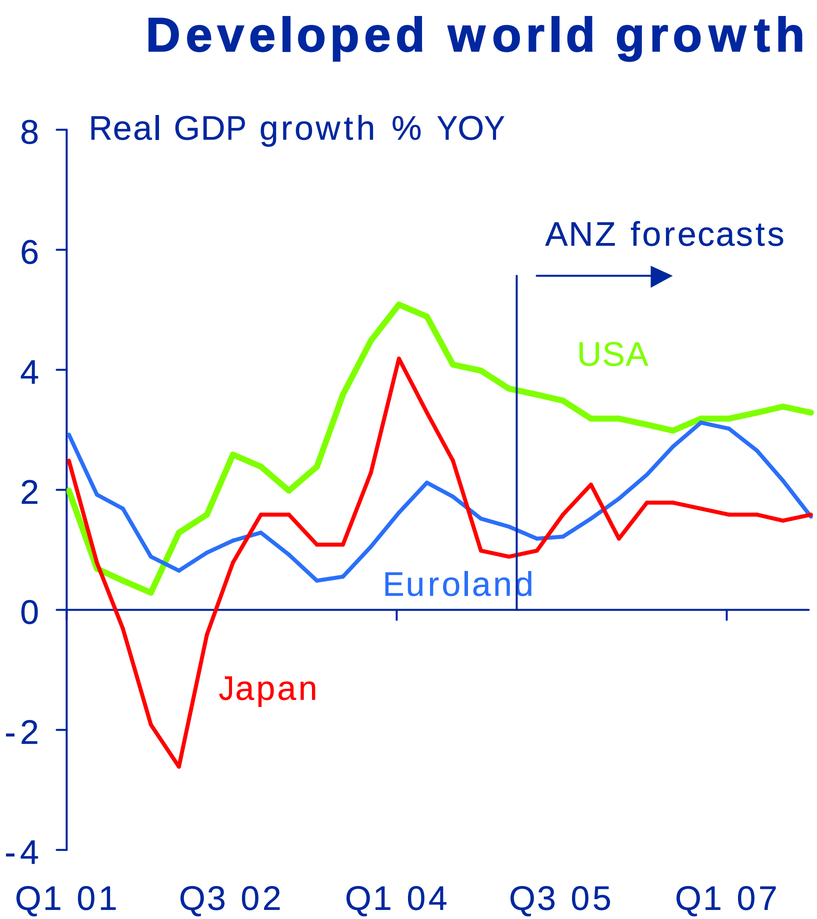
Singapore

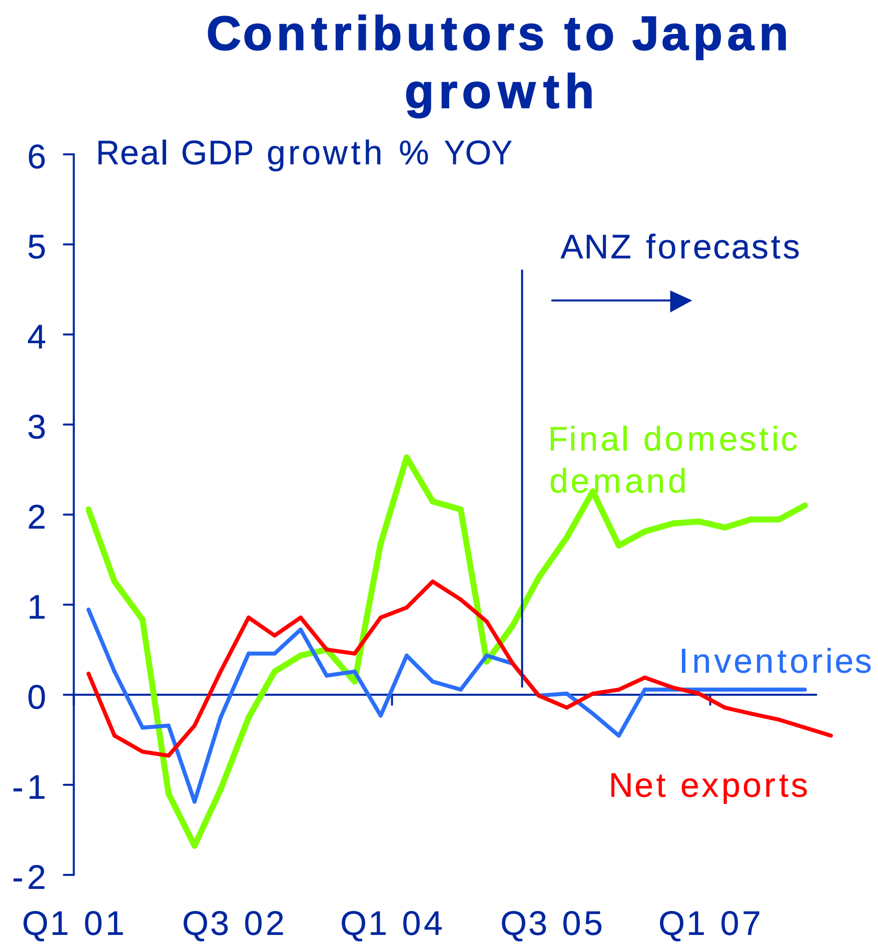


Sources: Datastream ; ABARE; Economics@ANZ

economics@ ANZ

Japan will be important for Australia

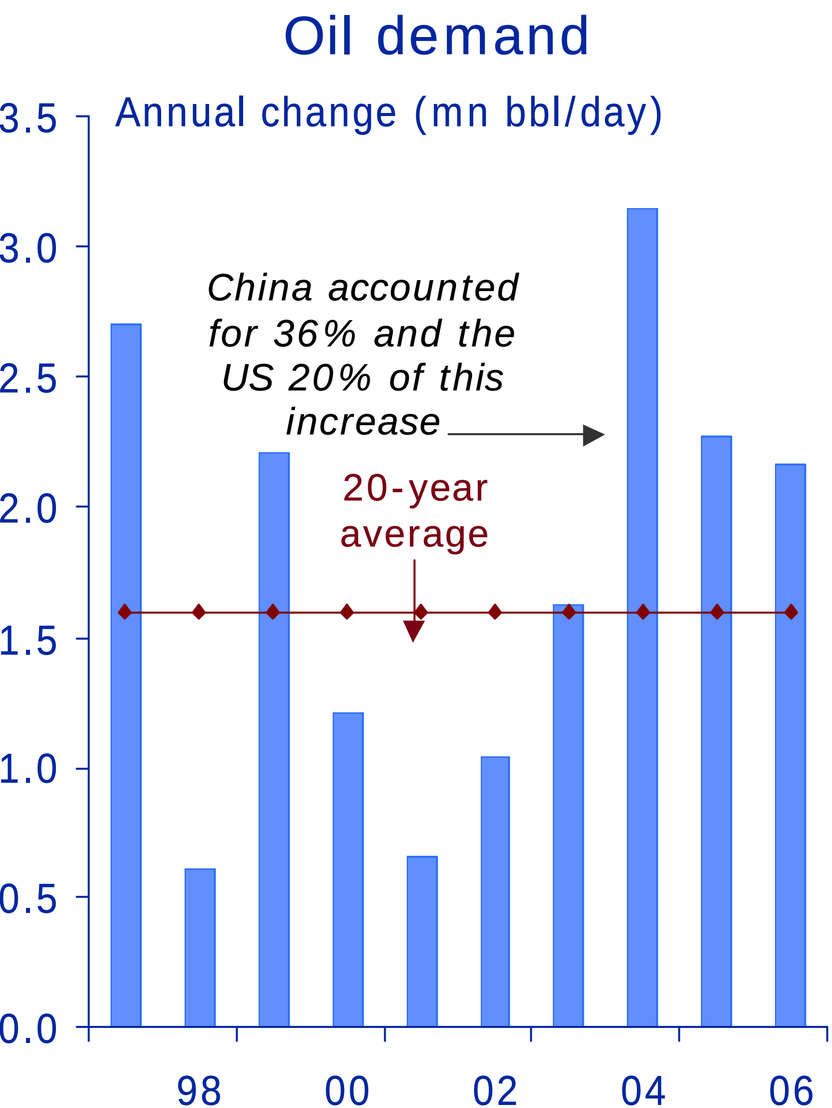


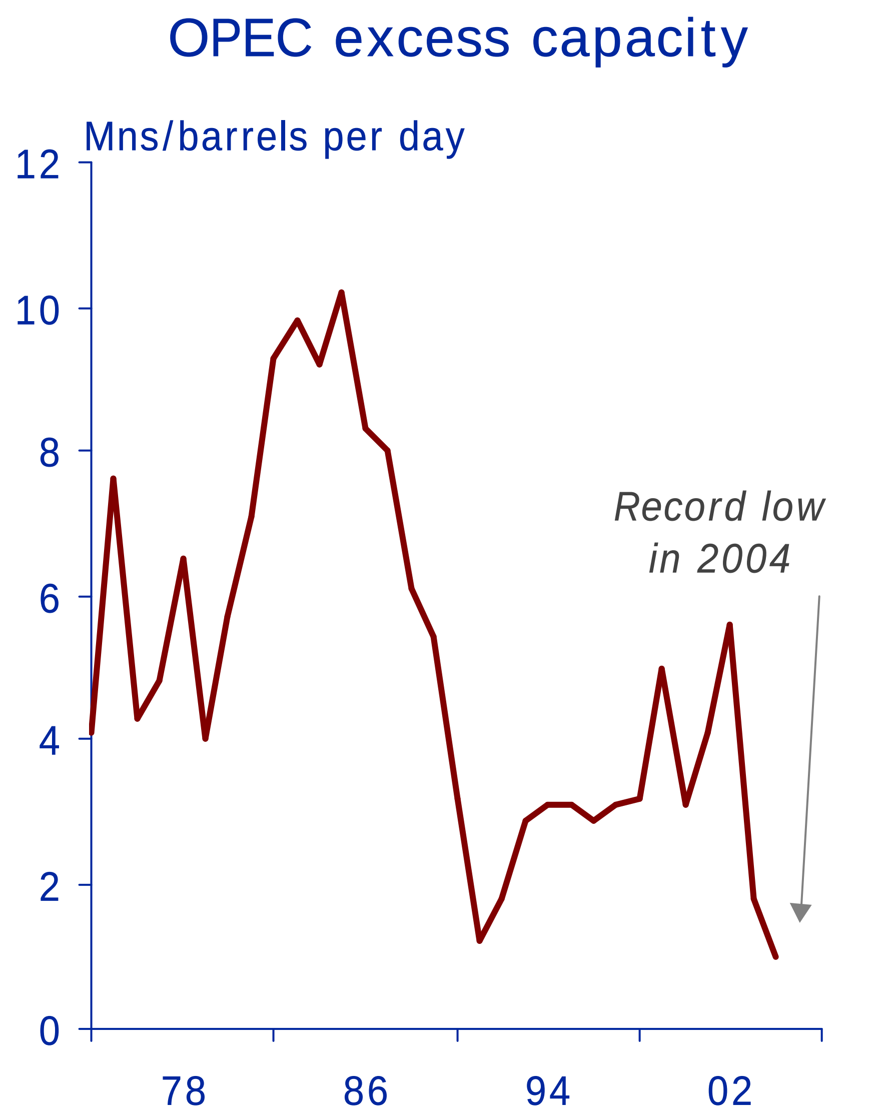


Sources: Bank of Japan

economics@ANZ

But the outlook for oil is a key question

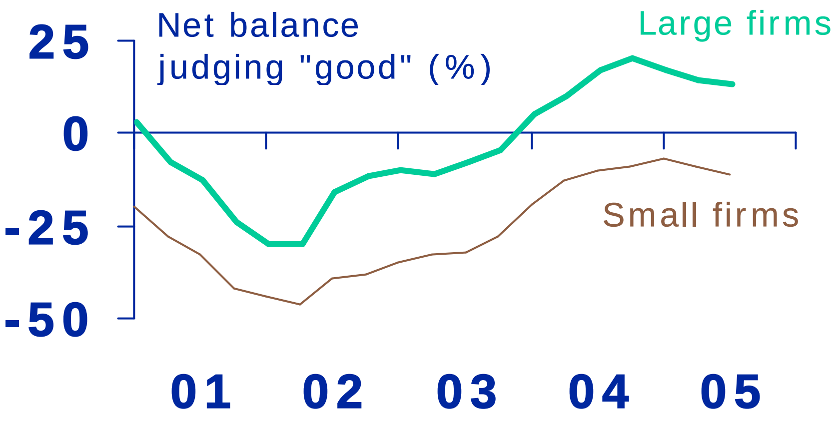




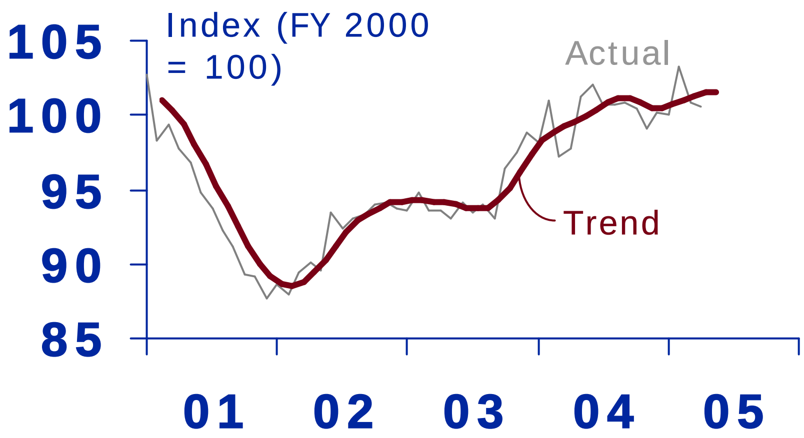
Sources: IMF, BP, OECD and Economics@ANZ.

Will high oil prices derail Japan's recovery?

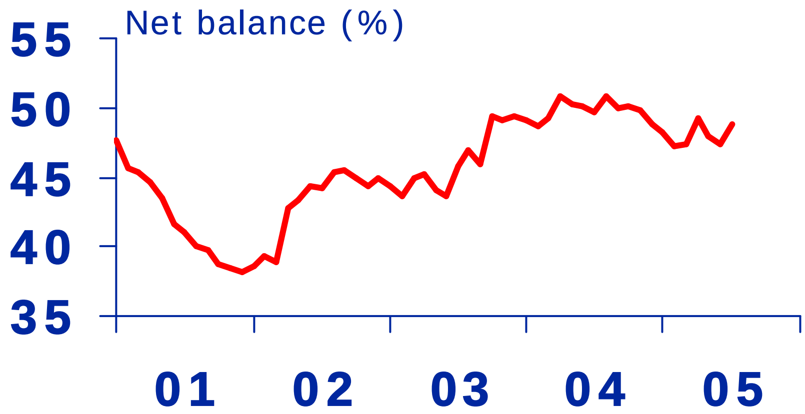
Tankan business conditions



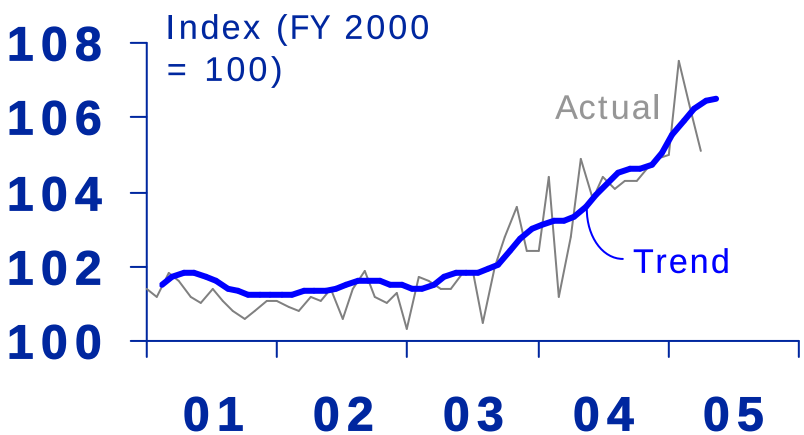
Industrial production



Shokochukin (SME) index



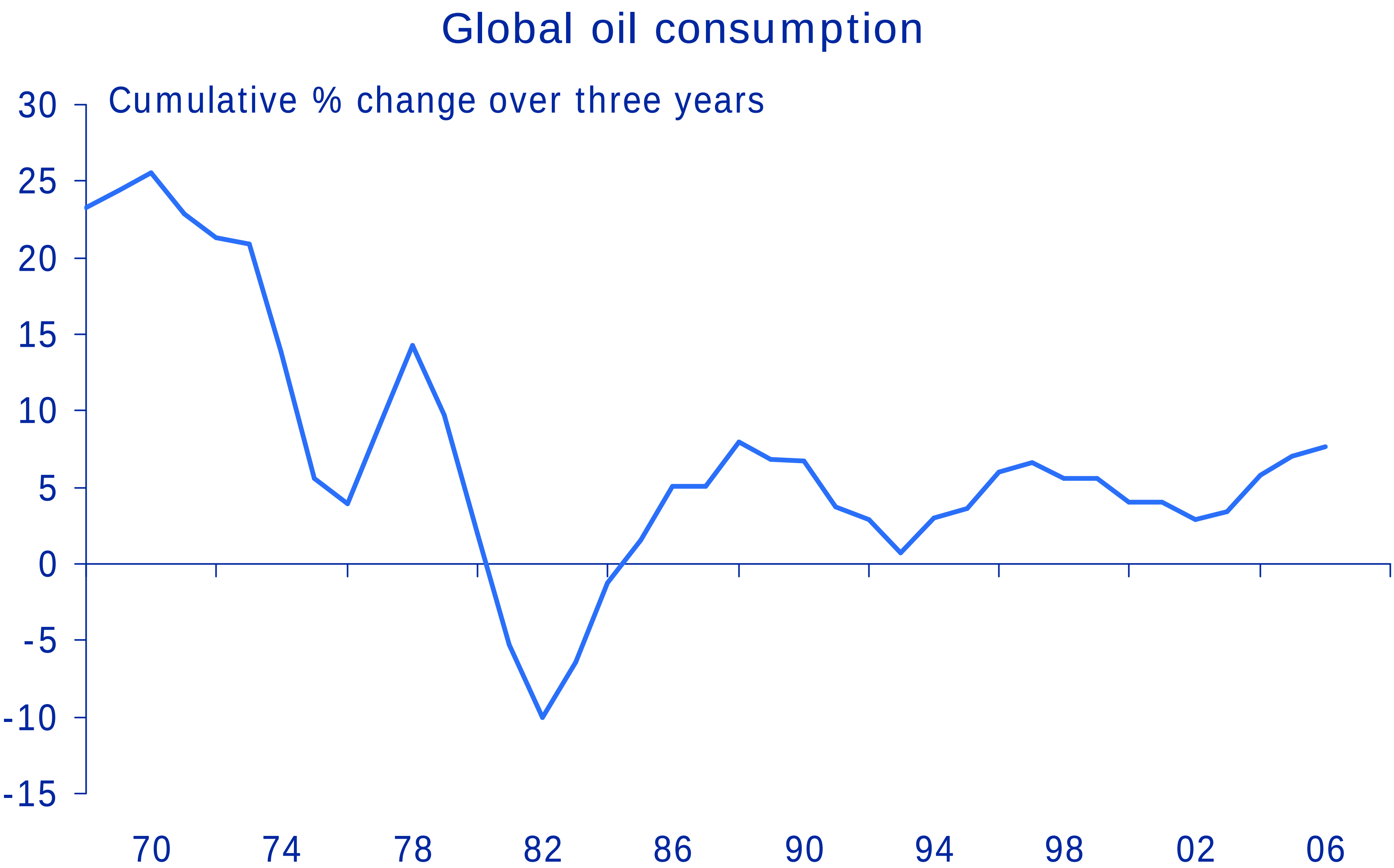
Tertiary sector activity



Sources: Bank of Japan; Shokochukin Bank; METI; Economics@ANZ.

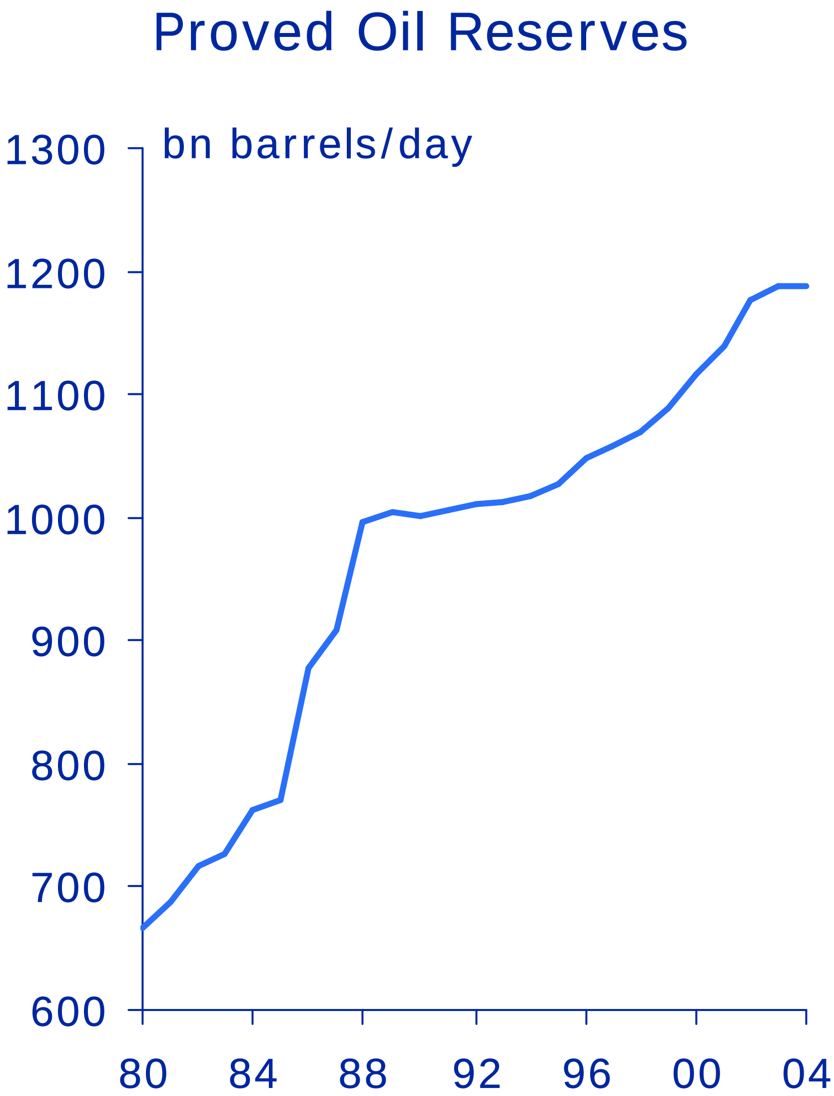
economics@ANZ

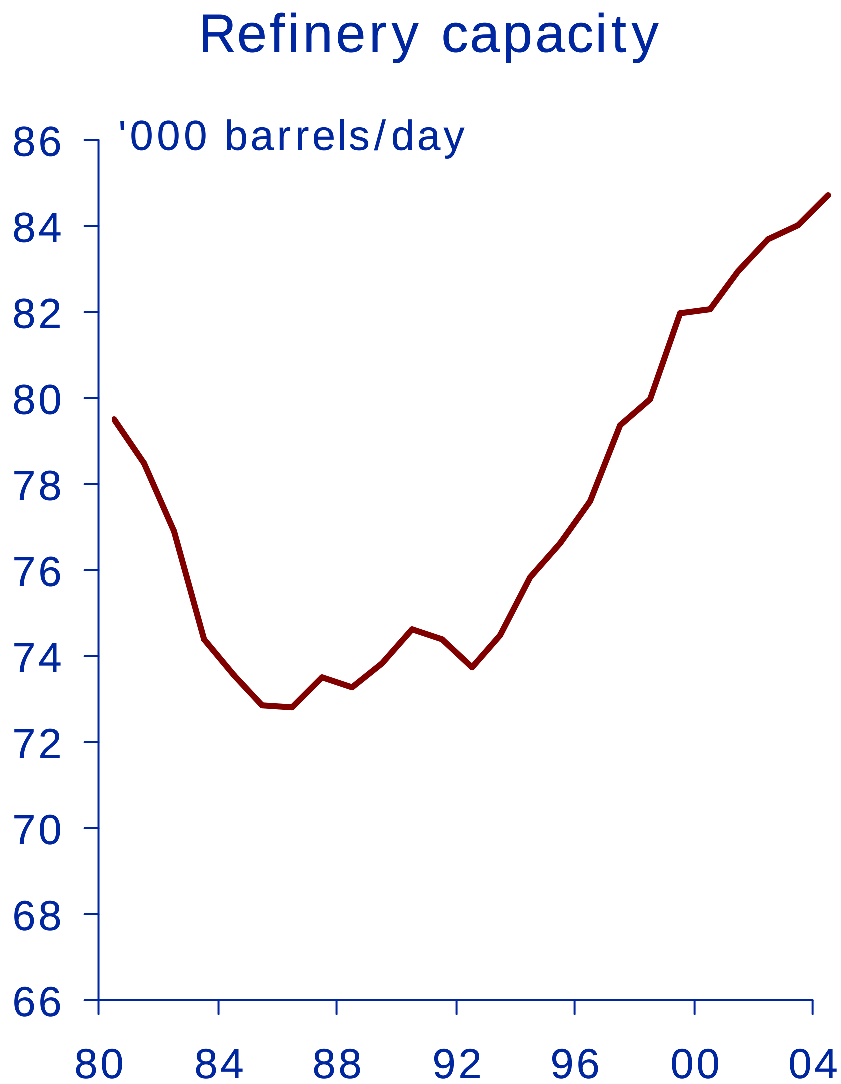
The increase in oil consumption is not exceptional by historical standards



Sources: BP, Economics@ANZ

The world isn't running out of oil (yet)





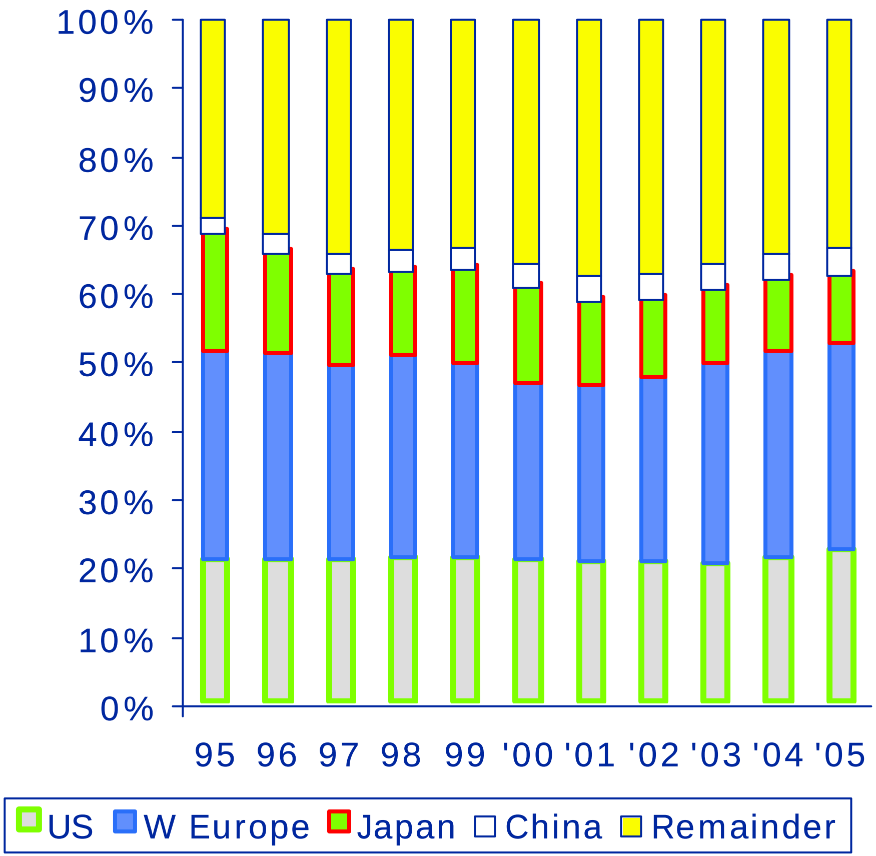
Sources: BP

economics@ANZ

G10 still dominates global demand but China is growing, particularly in commodities

Contribution to world growth

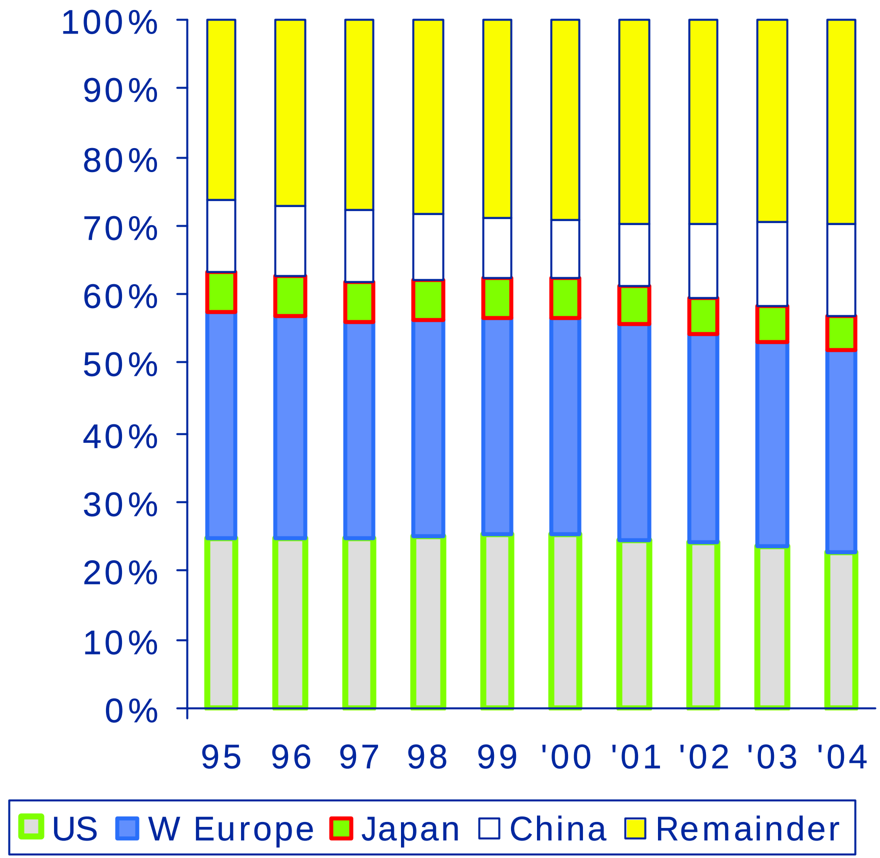
% of global economy in market rates



Source: *Datastream,*

Contribution to world energy consumption

% of global primary energy consumption

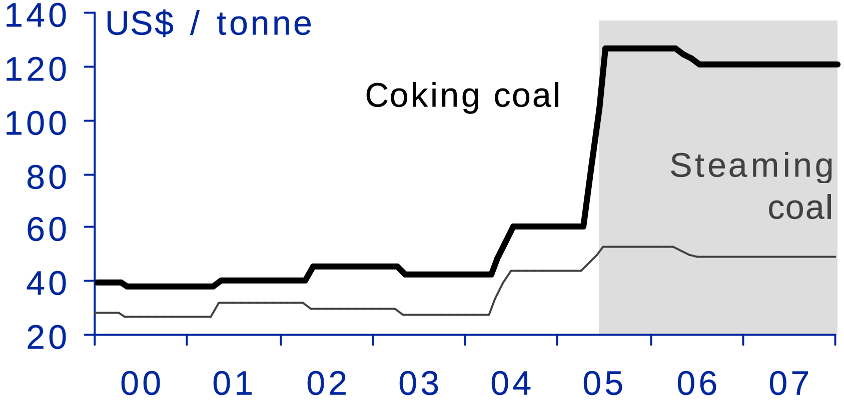


Source: *BP 2004 Statistical Yearbook*

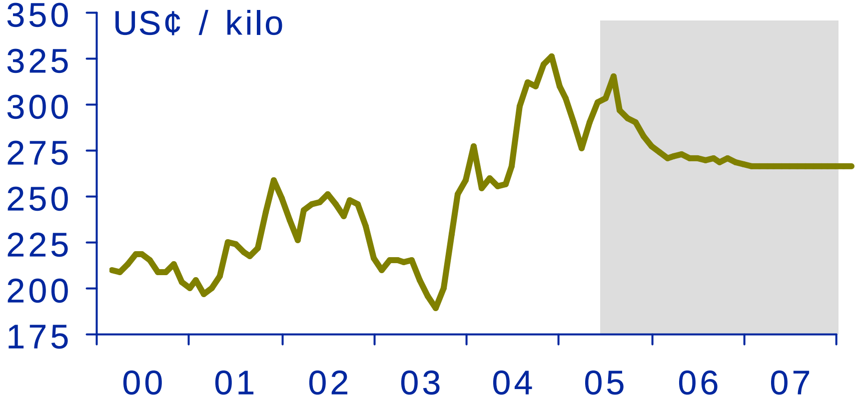
economics@ANZ

Commodity prices close to peaking but in most cases will remain strong by historical standards

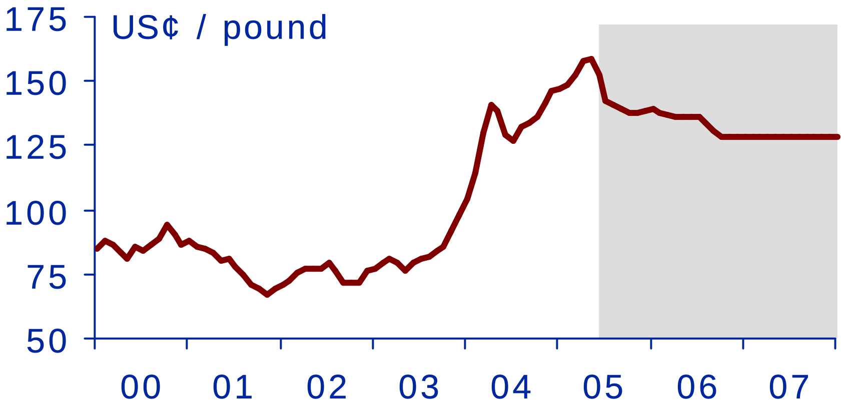
Coal



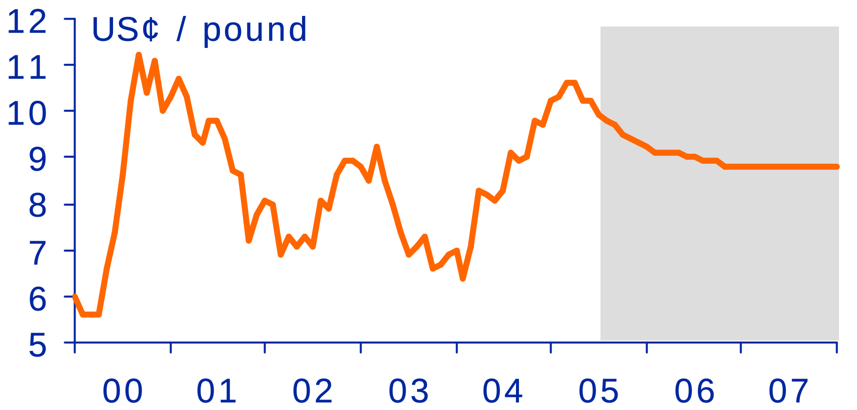
Beef



Copper



Sugar



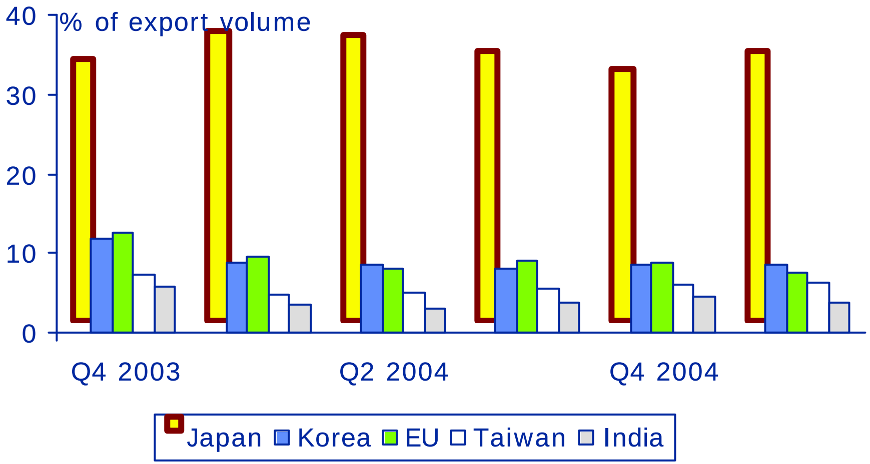
Sources: Datastream ; ABARE; Economics@ANZ

Australia's key minerals market is North Asia

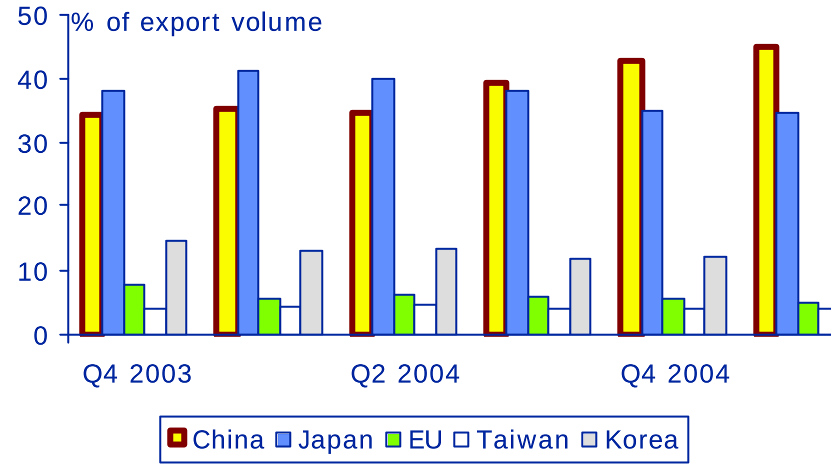
Australia's top commodities, by value, % of total exports (03/04)

Coal, black	20.7
Petroleum and products	16.7
Iron	13.9
Gold	10.5
Aluminum	7.1
Alumina	7.0
Copper	4.1
Nickel	6.0
Zinc	2.4

Coal



Iron

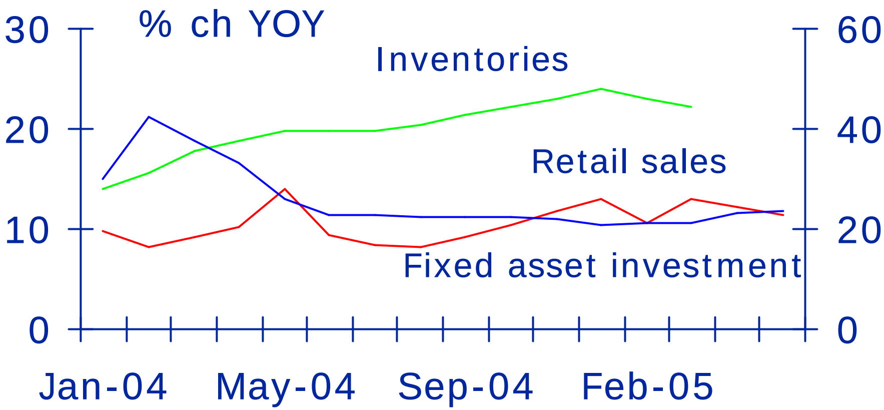


Sources: Datastream; ABARE; Economics@ANZ

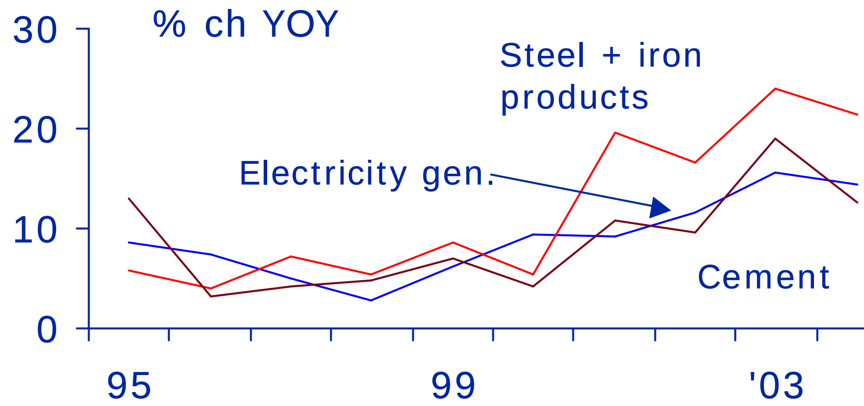
economics@ANZ

Investment in China is moderating but commodity demand will remain strong

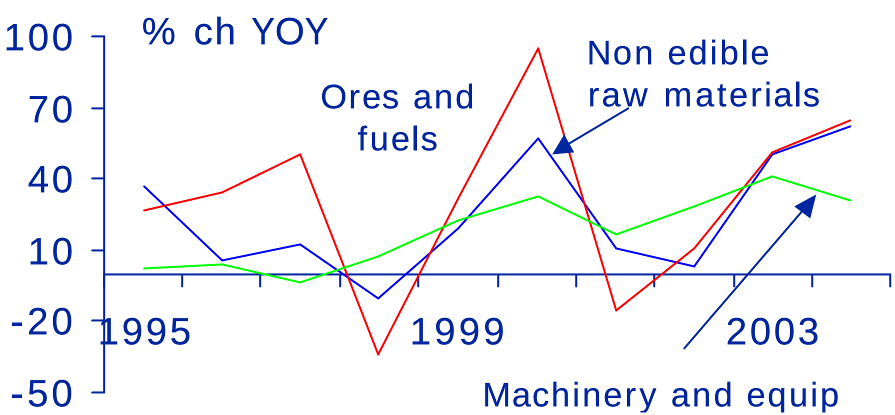
Monthly indicators



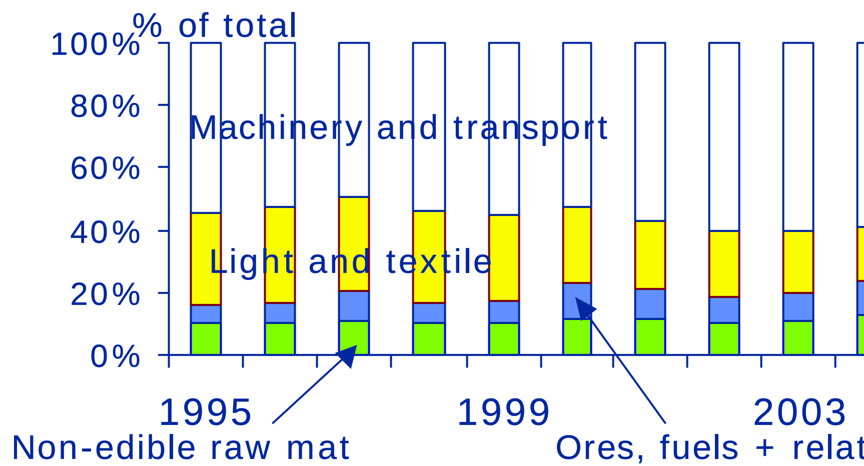
Major industrial products



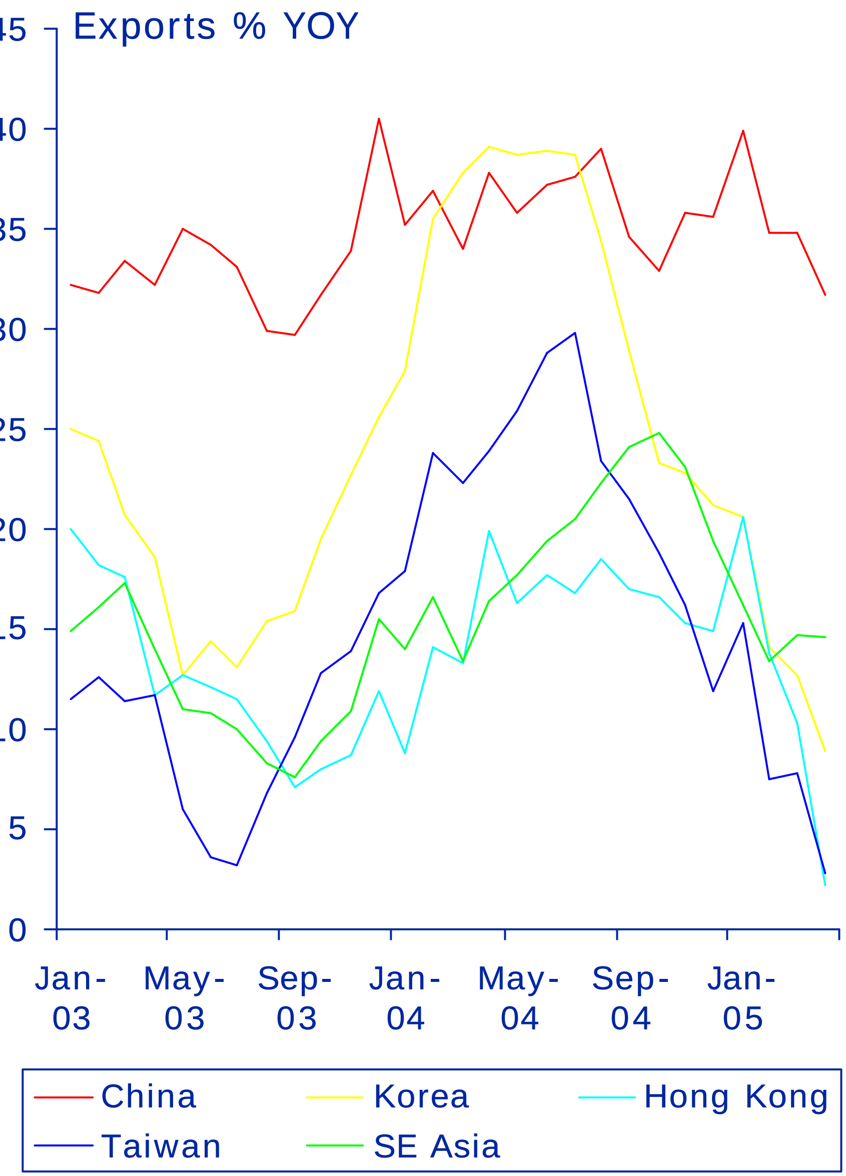
Growth of specific imports

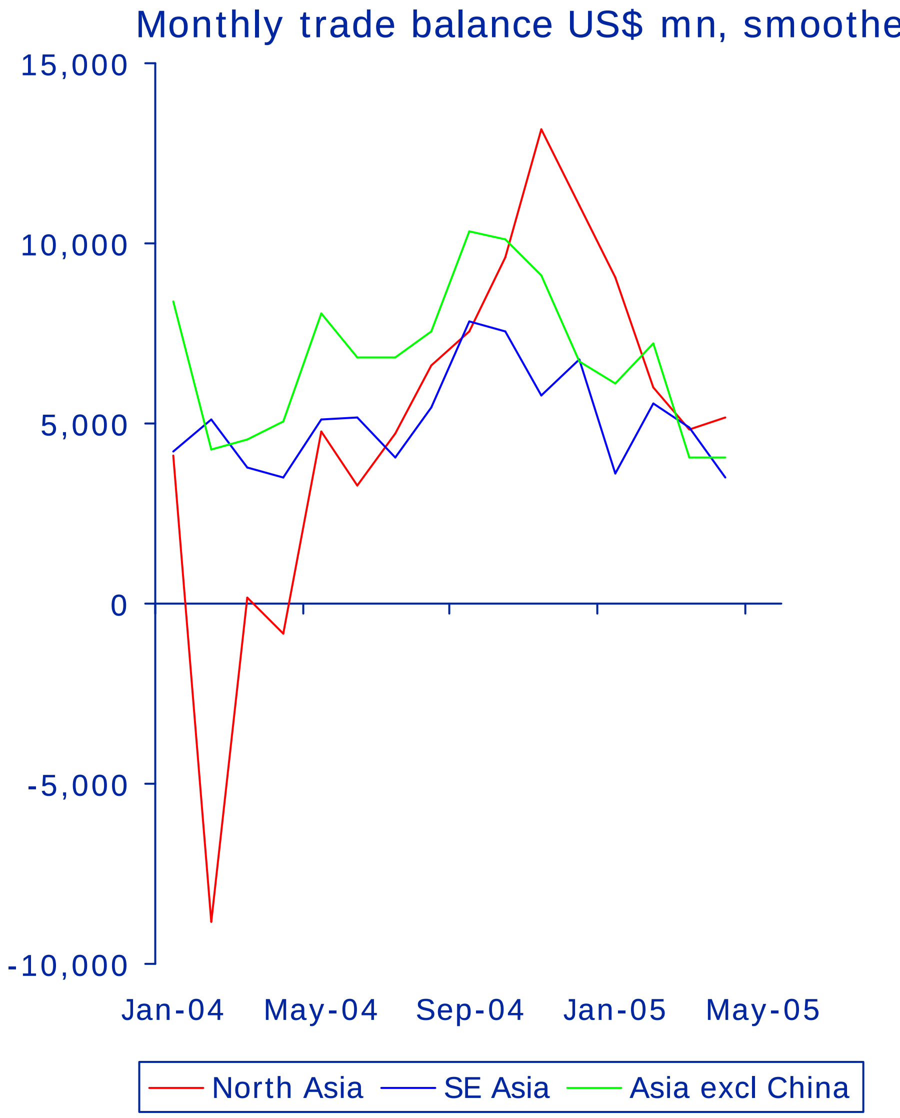


Composition of imports

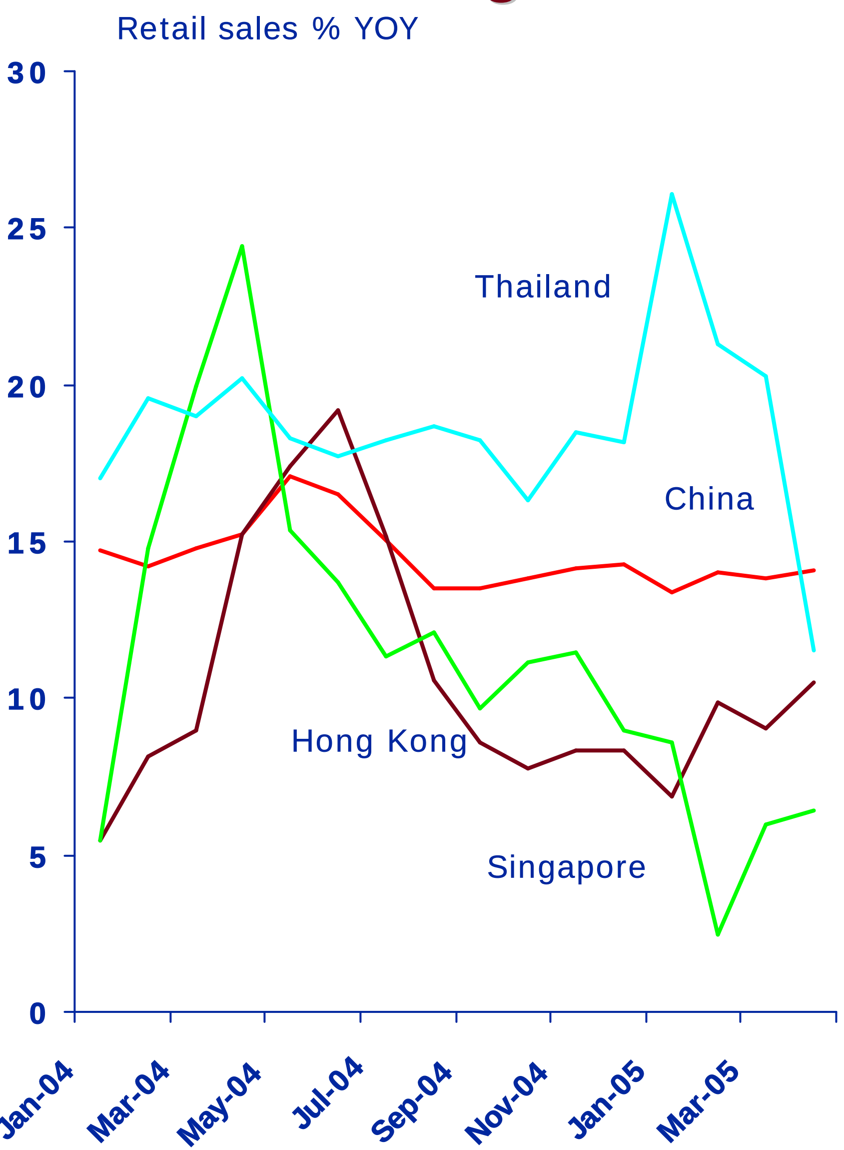


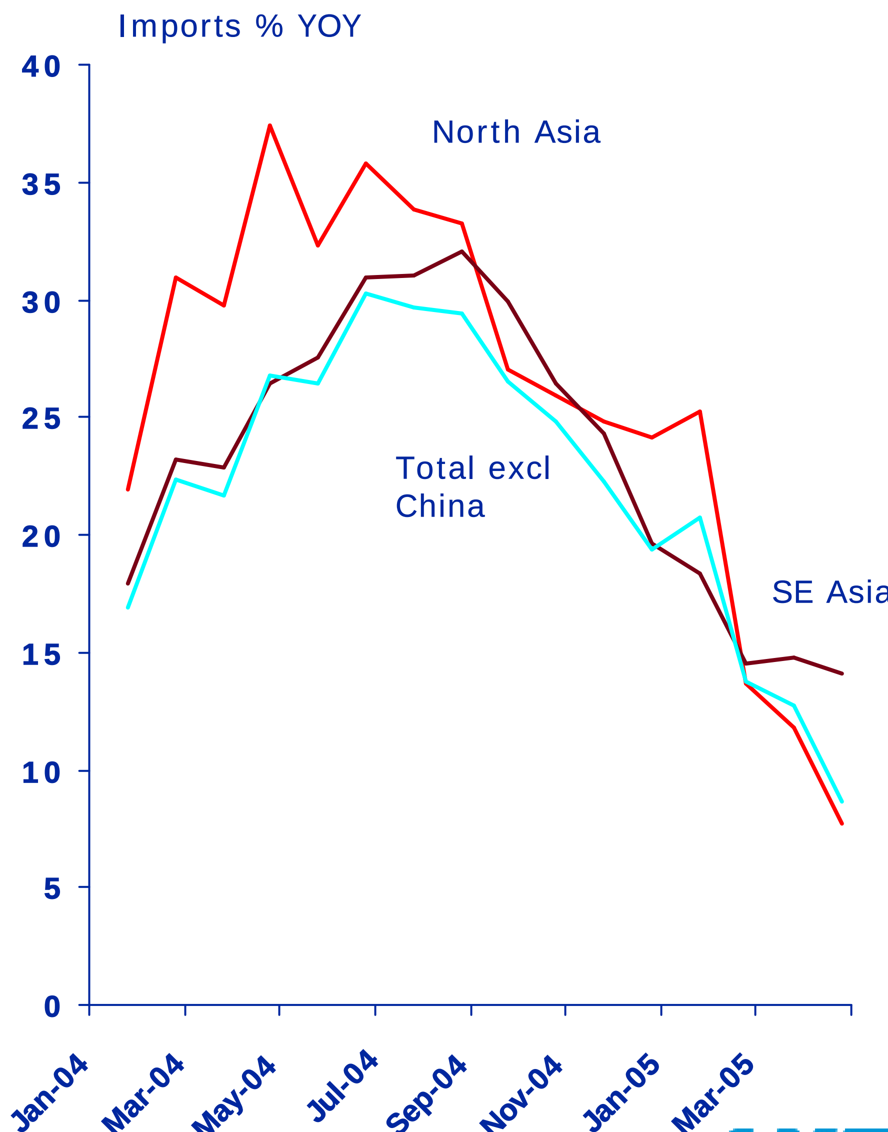
For other economies in north Asia, high oil prices are more problematic





Detail is scant, but domestic demand appears to be holding in for now



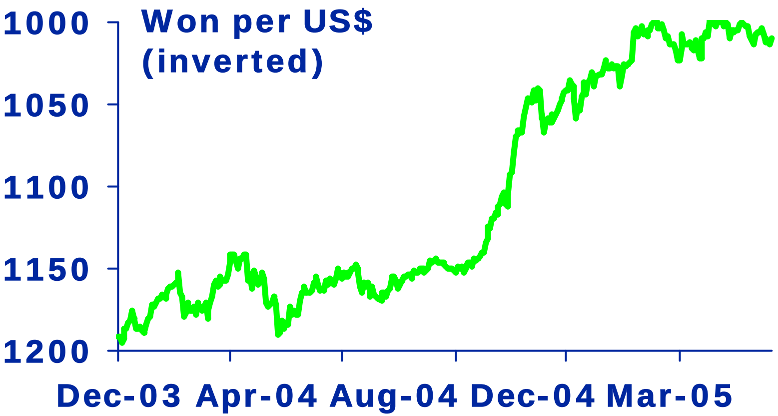


Source: Datastream

economics@ANZ

Decline of pressure on local currencies will support exports in 2006

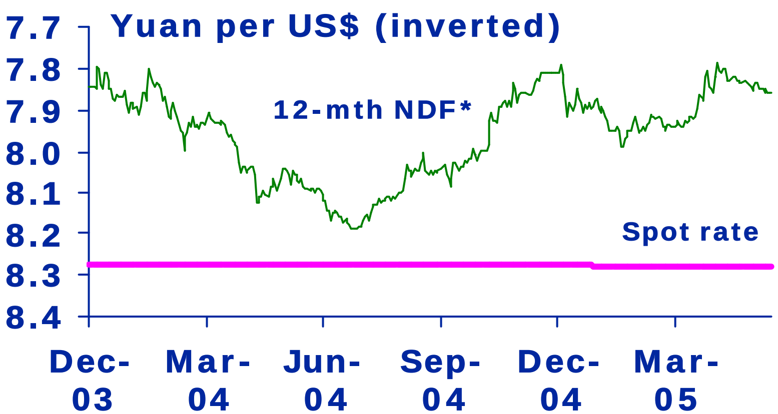
Korean won



Japanese Yen

Singapore dollar

Chinese yuan



Note: charts show daily data from 31 Dec 2003 onwards.
*'Non-deliverable forward' contract. *Source:* Datastream.

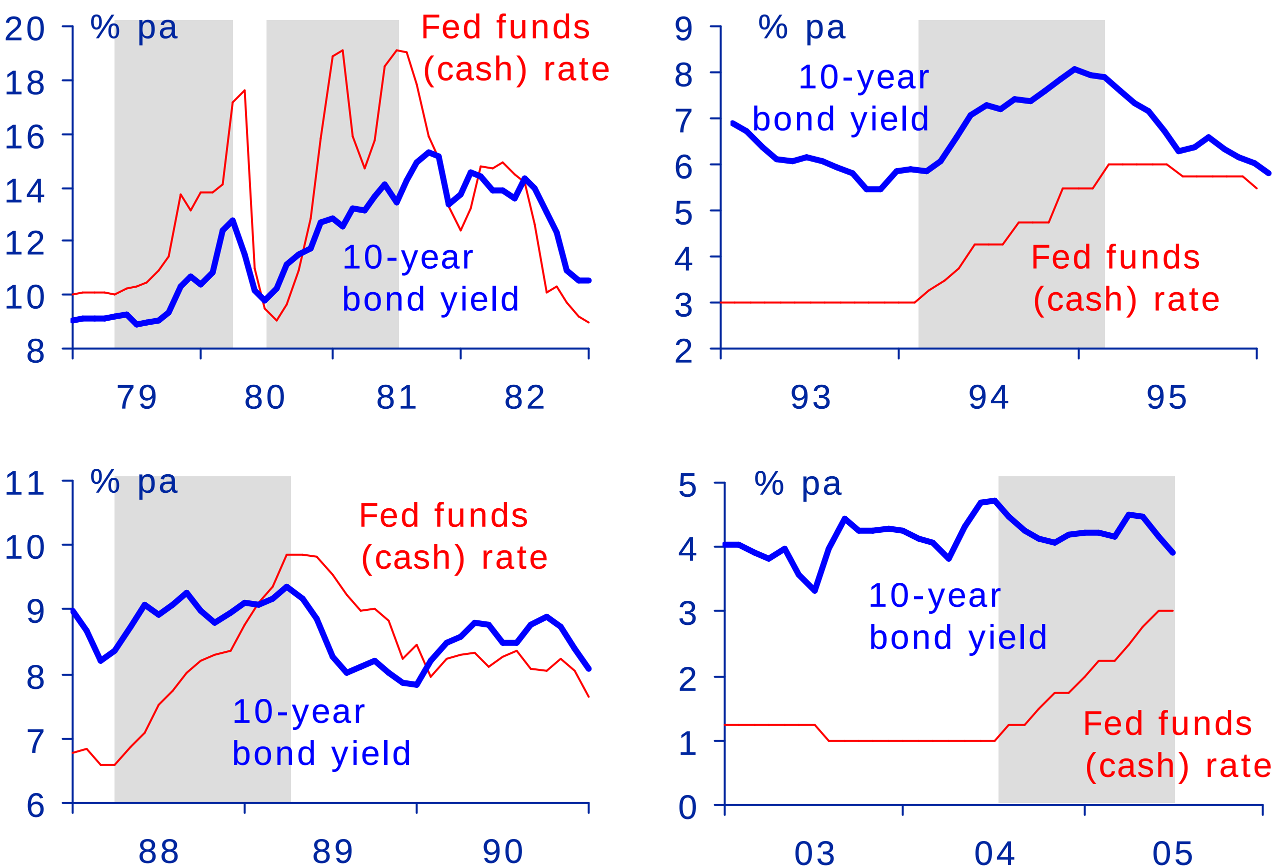
economics@ANZ

Some changes to our currency forecasts

	Dec 2004	Jun 2005	Dec 2005	Dec 2006
US$ - ¥	102.6	↑ 107	↑ 112	↑ 115
US$ - Yuan	8.28	8.28	8.28	8.28
US$ - Won	1 035	↓ 1 006	1 050	↓ 1 065
US$ - NT$	31.69	31.30	32.10	32.80
US$ - Rph	9 290	9 600	↑ 9 300	↑ 8 900
US$ - Bt	38.91	↑ 40.8	↑ 39.50	↑ 39.00
US$ - HK$	7.80	7.78	7.79	7.79
US$ - M$	3.80	3.80	3.80	3.60
US$ - S$	1.64	1.67	1.69	1.72
US$ - PP	56.05	↑ 55.00	↓ 54.5	↓ 55.5
US$ - Dong	15 768	15 850	16 100	16 400

Behaviour of US bond markets and Fed conundrum connected with Asia savings exports

Four episodes of rising interest rates



- **Unlike Australia, in the US most personal and business borrow-ing is done at fixed rates**
- **Thus, what happens to long-term rates is much more important**
- **Usually, long-term rates rise while the Fed is tightening monetary policy**
- **But in this latest episode, long-term rates have fallen**

Note: Shaded areas show periods when the Federal Reserve has been tightening monetary policy by raising the 'Federal funds' (cash) rate. *Sources:* Datastream; Federal Reserve

economics@ANZ

Cross rates with A$ forecasts

	Dec 2004	Jun 2005	Dec 2005	Dec 2006
A$ - ¥	79.9	82.2	72.6	73.5
A$ - Euro	0.57	0.63	0.56	0.59
A$ - Yuan	6.45	6.33	5.46	5.38
A$ - Won	806	770	693	692
A$ - NT$	24.68	24.1	21.2	21.3
A$ - Rph	7 236	7 351	6 138	5 785
A$ - Bt	30.31	31.1	26.1	25.4
A$ - M$	2.96	2.92	2.51	2.44
A$ - S$	1.27	1.27	1.12	1.12
A$ - PP	43.66	42.1	36.0	36.1
A$ - Dong	12 282	12 126	10 626	10 168

Consensus forecasts for the next 10 years

	Real GDP growth, % pa		GDP (2005 US$bn at PPP exchange rates)	
	1995-2005	2006-2015 (f)	2005	2015 (e)
United States	3.4	3.2	12,332	16,950
Japan	1.1	1.5	4,009	4,650
Euro area	2.0	2.0	9,000	11,000
United Kingdom	2.8	2.1	1,826	2,250
China	8.4	8.0	8,092	17,550
Korea	4.4	4.5	1,099	1,700
Indonesia	2.7	6.0	864	1,550
Thailand	2.8	5.6	560	950
Malaysia	4.7	5.4	290	500
India	6.0	6.0	3,603	7,015
Australia	3.7	3.4	639	900
New Zealand	3.2	2.9	102	150

Note: These are 'consensus forecasts'; the fact that they are presented here does not imply that they are endorsed by Economics@ANZ. *Sources:* IMF, *World Economic Outlook* April 2005; Consensus Economics, *Consensus Forecasts* April 2005; Economics@ANZ