ANZ Natural Resources

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Global Commodity Outlook

Metals demand remains robust but will investment sentiment stay?

China can no longer be considered just a chapter in the story of the world's commodity markets - it *is* the story. As China's GDP contributes an ever larger share of global output and more than any other country (bar the US) to world growth, it is fair to say that it is now the biggest importer of nearly everything. This has seen an explosion in demand for the raw materials needed for economic development – namely metals and energy - but unfortunately supply has lagged feebly. However this may not continue into the future.

Our concern at ANZ is that, despite the apparent health of the global economy and the much higher baseline for commodity demand, reality will not be able to keep up with expectations. This is the setup for a correction. Just as a fundamental view of supply and demand implies a price, so a price can also imply a view of demand and supply. Consider the case of the world economy or even a particular metal humming along nicely but "underperforming" relative to expectation. In this case, one would expect prices to adjust, and they could do so sharply.

As the commodity boom continues, so will the hunt for yield, causing the family of record breakers on the Periodic Table to grow. Especially hot has been uranium (hitting USD120/lb recently) and in the past few months rhodium, ruthenium, iridium, and selenium have all hit record highs. Even though global demand is expected to remain strong in 2007, increasing supplies of most commodities will likely result in a more balanced market with a corresponding reduction in metal prices.

Table 1 Commodity Price Forecasts

Year End December		2007	2008	2009	2010	Long Term
Aluminium	USD/lb	1.18	0.98	0.95	0.90	0.80
Copper	USD/lb	2.75	2.00	1.50	1.30	1.30
Nickel	USD/lb	17.75	12.50	9.00	6.25	5.50
Lead	USD/lb	0.78	0.53	0.40	0.35	0.35
Zinc	USD/lb	1.50	1.20	0.85	0.65	0.65
Tin	USD/lb	5.33	4.20	3.50	3.00	3.00
Gold	USD/oz	650	585	525	500	500
Silver	USD/oz	13.20	12.15	9.00	7.50	7.50
Platinum	USD/oz	1,100	950	900	850	850
Oil -WTI	USD/bbl	64.60	58.40	59.00	66.00	65.00
Iron Ore - Lump	USc/Fe unit	102.64	110.0	96.00	79.00	64.00
Iron Ore - Fines	USc/Fe unit	80.42	86.00	75.00	67.00	48.00
Thermal Coal	USD/t	55.65	57.00	51.00	47.00	44.00
Semi-Soft Coal	USD/t	65.00	66.00	60.00	55.00	52.00
PCI Coal	USD/t	72.00	67.00	62.00	58.00	58.00
Hard Coking Coal	USD/t	98.00	105.00	95.00	85.00	80.00

Our long-term prices remain well above historical averages

As in our previous Outlook, it should be noted that our long-term price forecasts are well above historical long-term averages. We believe that the marginal cost of production has significantly increased over the past three years and that higher prices will be required to provide incentives for the development of new resource projects.

China powers on, government tries to slow

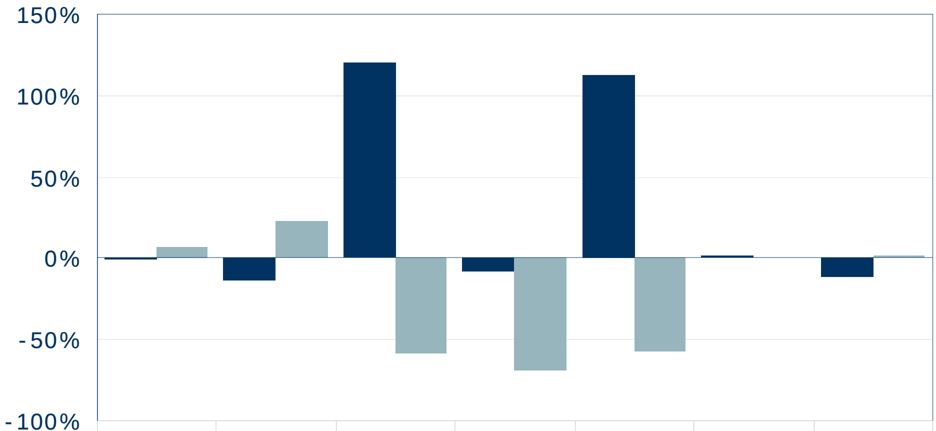
The Chinese economy continues to power along, GDP growth will probably exceed 10% in 2007. Fixed Asset investment has been over 25% in the first quarter and retail sales grew by 15% in the first two months of the year – the fastest rate in two years. Global financial markets are keenly aware that the government is trying to slow this rate of growth and have been very sensitive to recent announcements aimed at cooling the stock market and further loosening controls on the Yuan. Of particular interest to us is the reversal in taxation incentives for commodity exports.

China has removed export incentives and imposed duties on many commodities and commodity products

To paraphrase the Interfax new agency on May 22: The Chinese government will impose an export tax on steel products of between 5% and 10%, as well increase the export tax on billets, ferroalloy products, unwrought zinc and nickel ores to between 10 and 15% on June 1 this year., according to a Ministry of Finance announcement. The policy is aimed at further reducing exports of high energy-consuming and highly polluting products, while encouraging the import of raw energy materials and low-level resource products in an attempt to address China's trade imbalance, according to the document released by the MOF. A total of 83 types of steel products including wire, hot-rolled plate, and steel section will be levied between 5% and 10%. This move follows the cancellation of export tax rebates for those 83 types of steel products on April 15 this year. The export tax on billets, steel ingots and pig iron will be increased from a current 10% to 15% on June 1. Furthermore, the export of rare earth metals, refined lead, terbium oxide, dysprosium oxide, as well as nonferrous scrap metal will be levied at 10% from June 1. The export tax on the ores of nickel, chromium, tungsten, manganese, molybdenum, and rare earth will also be increased from 10% to 15%. Coal tar, various ferroalloy products, unwrought zinc, and calcium fluoride export taxes will also be increased from a current level of between 5% and 10% to between 10% and 15%. Ammonium parastungstate (APT), molybdenum oxide, ammonium molybdate, sodium molybdate, magnesite, and burned magnesium export taxes will range from 5% to 15% as of June 1.

Nickel and lead the standouts with over 100% growth in the past 12 months

Figure 1 Change in Metals and Oil prices and inventories (12mtd)



	Al	Cu	Ni	Zn	Pb	Au	Oil (WTI)
Price	-0.84%	-13.85%	119.67%	-8.35%	113.08%	1.26%	-11.86%
Stocks	7.21%	22.85%	-57.88%	-68.69%	-57.38%		1.85%

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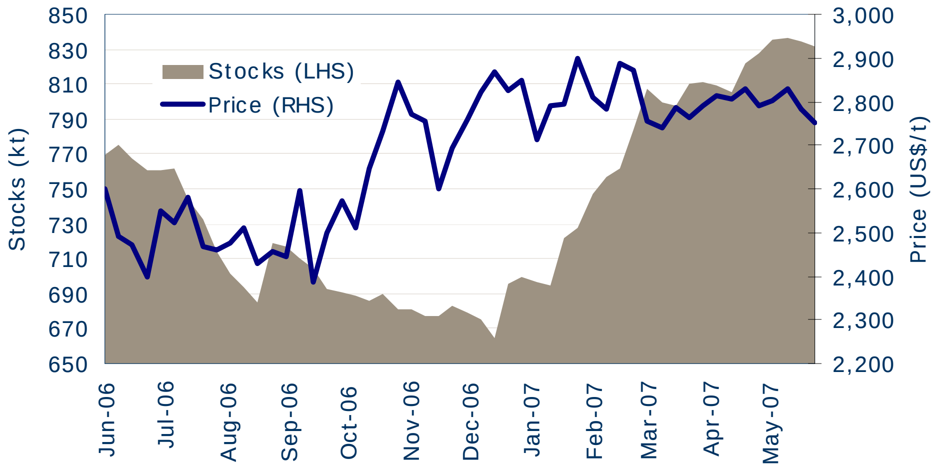
Aluminium holding up despite growth in inventories but still likely to fall

ALUMINIUM

Aluminium prices have been holding up remarkably well considering the growth in metal inventories at LME warehouses since the start of the year. Regardless we still expect prices to fall towards USD2200/t by the end of the year on much higher production, particularly from China. This increase is likely to outpace the growth in demand. Our forecast for 2007 is coloured by the strong start to the year and despite the expected price declines and has been upgraded to USD2600/t (USD1.18/lb).

Figure 2 Aluminium price and LME stocks



Tax changes cause surge in exports

The Chinese Government changed the tax regime for aluminium products, which led to a surge in exports. Primary metal exports have a 15% export tax, while semi exports carry an 8%-11% VAT rebate, meaning the producers want to qualify for VAT and avoid the tax by exporting aluminium in a non-primary form. Chinese aluminium product exports hit a record 138kt in April, taking the first 4 months to 381kt net exports of aluminium product, compared to 553kt in 2006. Also in record territory were aluminium scrap imports, which more than offset the rising metals (primary and product) exports, resulting in a negative net export figure that could add some pressure to global prices. The strength of the first quarter may not be durable and probably reflects a flurry of activity adjusting to the new tax landscape.

Strong production growth in Europe and US

In other parts of the world there is also additional supply coming on stream. Germany, Norway, Iceland, and Slovenia will be adding to global production. In North America several restarts are planned, with particular attention to locking in the plant economics by settling offtake and power contracts.

Alumina prices increasing despite strong growth in capacity in China

Alumina prices have recovered from their losses in the last half of 2006, showing the ongoing strength in aluminium production. China is doing more than anyone to meet demand by expanding alumina capacity very rapidly and now accounts for more than three quarters of new capacity globally. This in turn has necessitated imports of the ultimate raw material – bauxite.

Demand still robust but moderating to 4%pa

Demand for primary aluminium has increased by more than 5% in the past 5 years, with even stronger demand in 2006. Almost two thirds of the growth was from China, with moderate growth in Western and Central Europe, Japan and India, partly offset by a decline in the USA.

Consumption growth for 2007 is expected to be around 5.5% with relatively flat growth in Western Europe and the Americas, modest growth in East and Central Europe and the bulk of the growth again coming from China (estimated at 15%). Into 2008 and longer term we forecast aluminium demand will moderate gradually to around 4%pa growth.

Table 2 World Aluminium Supply and Demand Forecast

Year End December	2004A	2005A	2006A	2007E	2008E	2009E	2010E
Refined IAI Production (kt)	**22,592**	**23,463**	**23,979**	**24,890**	**25,861**	**26,637**	**27,436**
% Change	3.0%	3.9%	2.2%	3.8%	3.9%	3.0%	3.0%
Total Refined Production (kt)	**29,807**	**31,883**	**33,908**	**36,264**	**38,023**	**39,468**	**40,968**
% Change	8.5%	7.0%	6.4%	7.0%	4.9%	3.8%	3.8%
World Refined Consumption (kt)	**30,321**	**31,911**	**34,113**	**35,989**	**38,112**	**39,827**	**41,421**
% Change	10.0%	5.2%	6.9%	5.5%	5.9%	4.5%	4.0%
Balance (kt)	**-514**	**-28**	**-205**	**275**	**-89**	**-360**	**-453**
Reported Stocks (kt)	3,182	3,189	2,984	3,259	3,169	2,810	2,357
Weeks Consumption	5.5	5.2	4.5	4.7	4.3	3.7	3.0
LME Price (USD/lb)	0.78	0.86	1.17	1.18	0.98	0.95	0.90
LME Price (USD/t)	1,716	1,900	2,571	2,590	2,150	2,094	1,984

Source: International Aluminium Institute (IAI), AME, ANZ estimates

COPPER

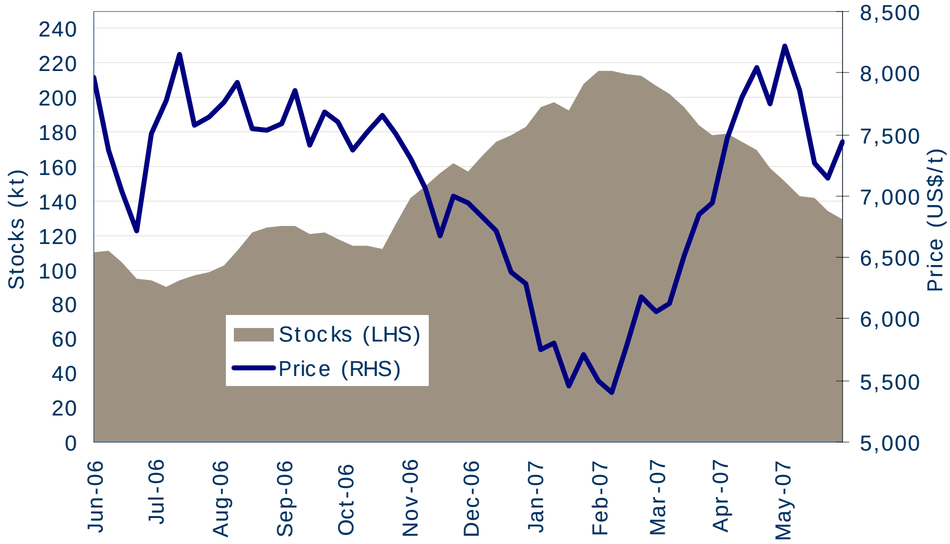
Huge price increase since the start of 2007

Copper prices have recovered strongly from the lows of around USD5,500/t during February to over USD8,000/t at the end of April. However, as May progressed, copper prices gave up some of those gains to approach USD7,000/t even as LME inventories continued to decline. The metal still has not surpassed the peak of May last year of USD8,800/t.

Forecast upgraded by 15% to USD6,063/t. Long term still below USD3,000/t

Going forward we have upgraded our 2007 price forecast by around 15% from USD5,291/t to USD6,063/t (USD2.75/lb) on the back of the very strong start to the year and the expected tightness in the market as discussed below. Price forecasts for 2008 and 2009 have been marginally increased but our long term price forecast of less than USD3,000/t (USD1.30/lb) remains unchanged.

Figure 3 Copper price and LME stocks



Big jump in copper imports so far in 2007, probably slowing in second half

There have been rising copper metal and alloy imports into China in the first few months of 2007. Copper consumption in China, now the largest consumer, exceeded production by about 51kt in February reports the International Copper Study Group. Changes in taxation, as discussed above in our introduction, complicate the trade picture by encouraging, at least in the short term, further imports. We have not yet adjusted our traded copper forecasts because we believe at least a few more months of observation are required to see how this evolving taxation picture will wash through the world's metals markets. Our general view is that this rate of growth is not here to last and will slow into the second half of 2007.

Inventories reflecting the re-alignment of global supply chains

We saw growth in Shanghai inventories cause a lot of concern regarding whether the surge in imports was in fact being consumed or not. Our view is that this signals a re-alignment of global supply chains towards servicing the new major consumer (China) and away from the old (Europe and America). The sheer scale of the shift probably demands more metal on stock just because of the logistics alone. Subsequently we saw Shanghai inventories decline and the earlier concerns about the build evaporated just as quickly.

We believe the danger of a major correction remains

The market has been jittery, affected by much news concerning changes in housing demand in the US, or possible slowing in China, or anticipated strike action in Chile. The fact is that prices corrected drastically in the second half of 2006 and the market is very alert to any signs that the subsequent price gains may be under threat. There remains a large speculative component in the metals and energy commodity markets (as was discussed in detail in our last Outlook) and much of these investments have very short time horizons, which could be withdrawn quickly, leading to big falls in price.

The best estimates from the International Copper Study Group show that global copper demand in the first two months of 2007 increased by a very robust 8.6% from the same period of 2006. Total world production of refined metal was estimated at 1,396kt, compared with consumption of 1,447kt – a deficit. Part of

China no longer has the option of de-stocking and market will remain tight

this equation is the 20% increase in China compared to the fall in apparent consumption last year of 4%. Last year that fall in apparent consumption was paid for with significant de-stocking (estimate range between 300kt-800kt) but that release valve is no longer available to the country - hence the surge in imports. However, barring an extended strike in Chile or some other serious disruption we expect refined copper production to slightly outpace consumption for the whole of 2007. This is not to say that copper supply will not be very tight. There will still only be about 4 weeks of global consumption on inventory and there is a strong likelihood that prices will jump on news of any disruption.

Futures market still expects big falls in prices

At the beginning of 2007 the net short position on Comex copper was the largest for six years and then shrank substantially in the first quarter as long positions started to build towards 15,000 contracts. Eventually the net short position fell to below half of its previous highs, but as can bee seen below it has since started to climb again. Obviously the market still largely believes that going forward copper is due to decline. We agree.

Figure 4 Comex Copper non-commercial net shorts

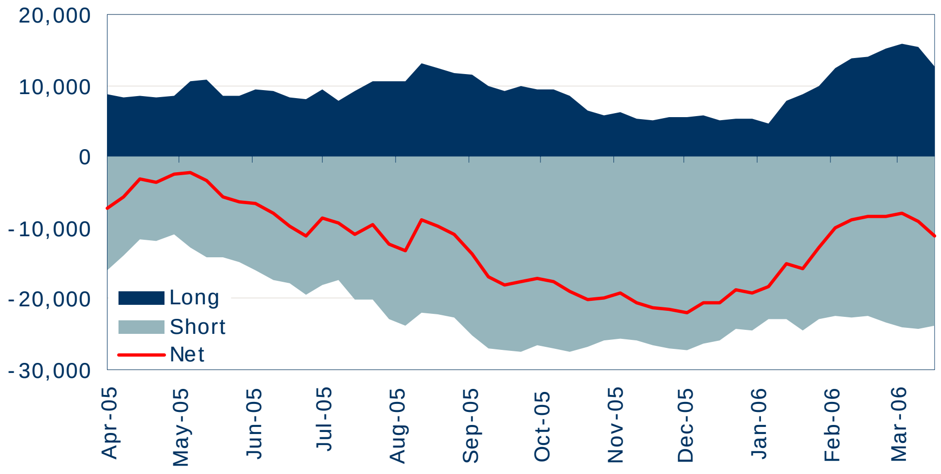


Table 3 World Copper Supply and Demand Forecast

Year End December	2004A	2005A	2006A	2007E	2008E	2009E	2010E
Total Refined Production (kt)	**15,865**	**16,512**	**17,437**	**18,134**	**18,769**	**19,332**	**19,912**
% Change	4.2%	4.1%	5.6%	4.0%	3.5%	3.0%	3.0%
World Refined Consumption (kt)	**16,770**	**16,614**	**17,162**	**17,866**	**18,625**	**19,128**	**19,645**
% Change	7.1%	-0.9%	3.3%	4.1%	4.3%	2.7%	2.7%
Balance (kt)	**-905**	**-102**	**274**	**268**	**144**	**204**	**267**
Reported Stocks (kt)	919	851	1,125	1,394	1,537	1,741	2,008
Weeks Consumption	2.8	2.7	3.4	4.1	4.3	4.7	5.3
LME Price (USD/lb)	1.30	1.67	3.06	2.75	2.00	1.50	1.30
LME Price (USD/t)	2,867	3,678	6,747	6,063	4,409	3,307	2,866

Source: International Copper Study Group (ICSG), AME, ANZ estimates

NICKEL

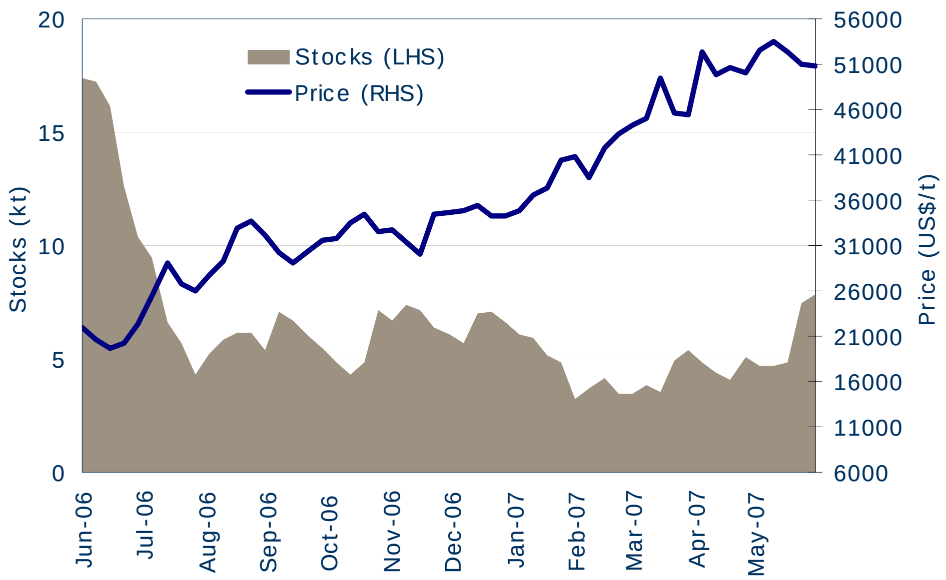
Nickel prices more than double in the last 12 months

Nickel has always been the most volatile of the metals and it has not disappointed this year. Twelve months ago the metal was at USD23,100/t - already an unprecedented level - and has since grown by a staggering 135% to peak at USD54,200/t and only recently falling to USD50,000/t.

Big upgrades to our forecast for 2007, 2008, and 2009, and long-term

We believe that at the moment mean-reverting models or fundamental models are of little use in the current environment and a larger dose of human intervention is required to formulate our view of the nickel market. With that proviso, for the remainder of the year we expect the second quarter to be the strongest of 2007, averaging around USD50,000/t but then falling quite severely, averaging around USD33,000/t (USD15/lb) for the second half of 2007. We have said it before, gravity is a physical constant and current prices are unsustainably high. Even with these falls, our current price forecast is significantly higher than our previous one where we had accepted the possibility of further rises and subsequent falls but we vastly underestimated the price run of the last 3 months. The forecast upgrade to around USD39,000/t (USD17.75/lb) for calendar 2007 is almost double that of our previous Outlook forecast. For both 2008 and 2009, price forecasts have also been significantly increased while our long term price has been increased from USD4.50/lb to USD5.50/lb.

Figure 5 Nickel price and LME stocks



If prices disappoint, then speculators primed for a correction

The market will continue to be very tight for the remainder of 2007, yet it is difficult to foresee another price rally strong enough to keep the investors with short time horizons interested in the metal. Broadly, stainless steel demand remains strong. However, except for Asia, there is some softening in stainless prices. Some of the stainless stock could be sold, a situation compounded by the concerns around holding stocks of nickel metal (because someone must be holding it) while an impending correction clouds the horizon.

New, but limited supply coming on from pig nickel

There has been an innovation in the industry that could have repercussions for nickel producers. While the cost of new nickel supply is still rising and the timing for some projects, in particular in New Caledonia keeps being pushed back, so-called pig nickel or nickel pig iron has emerged from the Philippines as an alternate feedstock for the stainless steel industry in China. The supply of this material has grown from virtually nothing in 2005 to about 32kt last year and as it continues to attract a lot of attention from Chinese consumers could more than double this year.

Steel makers are trying to reduce nickel usage

Besides this new source of supply, demand is also reacting to the stratospheric prices. Steelmakers are tweaking and experimenting with their stainless grades. Consumers of steel are being educated as to the properties of alternative steels in order to reduce reliance on nickel-heavy grades. This will be a slow process but it could lead to permanent changes in consumption patterns.

With such a small cushion, prices are very sensitive to movements in stocks

Official LME stock stand at 7,800t, or about 2 days of global consumption yet the latest estimates from consulting firm CRU speak of total inventories including producer, consumer, and traders at around 7 weeks worth of consumption. This is, by historical standards, a very low cushion yet the month of May saw an increase of 57% in LME stocks. The price picture will continue to be affected by this kind of volatility in the physical stocks.

Table 4 World Nickel Supply and Demand Forecast

Year End December	2004A	2005A	2006A	2007E	2008E	2009E	2010E
Total Refined Production (kt)	**1,256**	**1,289**	**1,350**	**1,449**	**1,535**	**1,596**	**1,644**
% Change	5.4%	2.6%	4.7%	7.4%	5.9%	4.0%	3.0%
World Refined Consumption (kt)	**1,253**	**1,246**	**1,369**	**1,449**	**1,501**	**1,546**	**1,593**
% Change	2.8%	-0.6%	9.9%	5.8%	3.6%	3.0%	3.0%
Balance (kt)	**3**	**43**	**-20**	**0**	**34**	**50**	**51**
Reported Stocks (kt)	259	200	180	180	214	264	316
Weeks Consumption	10.7	8.3	6.8	6.5	7.4	8.9	10.3
LME Price (USD/lb)	6.28	6.69	10.95	17.75	12.50	9.00	6.25
LME Price (USD/t)	13,836	14,758	24,141	39,132	27,558	19,842	13,779

Source: International Nickel Study Group (INSG), AME, ABARE, ANZ estimates

LEAD

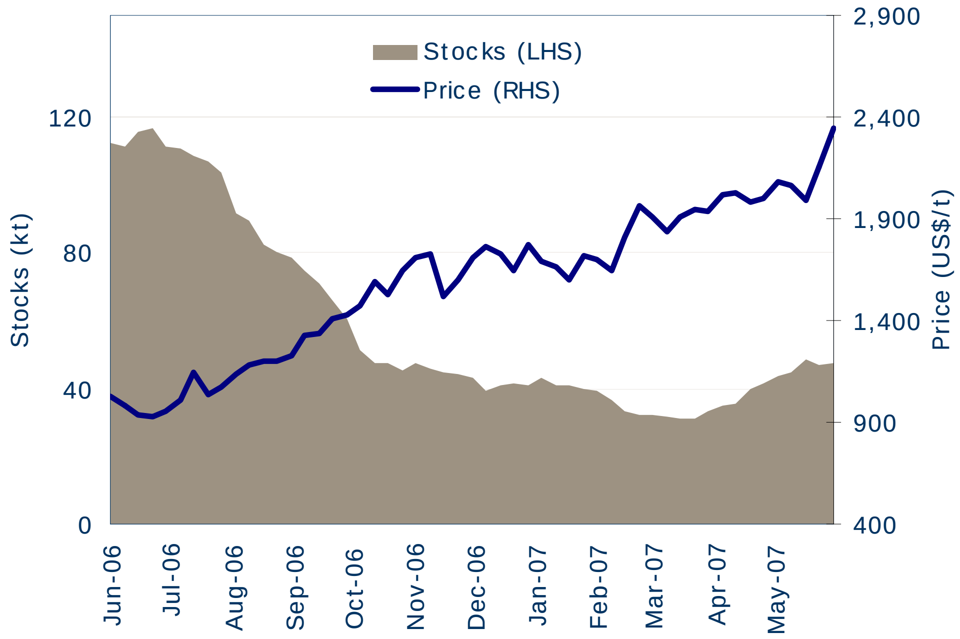
Lead has the strongest fundaments, hitting records…

Lead appears to have some of the strongest fundamentals of the LME metals. The metal hit yet another record high on the last day of May to close at USD2,349/t. Despite being replaced in solder by tin (because of European regulations) the main end-use, lead-acid batteries for automobiles, continues to grow strongly. We continue to predict a small deficit in 2007. In the past month alone prices have climbed by 17% even as LME stock have gained 15% or 7,900t.

…and gets a 50% upgrade to our price forecast

We have further upgraded our 2007 price forecast for lead by almost 50% to USD1,709/t and our 2008 forecast by around 40% to 1,168/t. These prices imply that we believe that some price correction is on the cards despite the strong fundamentals.

Figure 6 Lead prices and LME stock



Chinese tax changes had the fastest and biggest impact on lead metal

China plays a double role in the lead market. It is both the largest producer and consumer. The recent taxation change had the biggest immediate impact on the lead market because the incentives to export lead metal, concentrate, and even batteries have been removed and in some cases, we understand, reversed. This has curtailed exports from the country. It will likely remove some of the import demand for the concentrate but we believe this will be more than offset by the disruptions to supply that are already present.

Two important supply disruptions have added to the price pressures

The two main supply problems have been: firstly, the declaration of *force majeure* by Xstrata for output from its 160ktpa Northfleet refinery since February. At time of writing it was delivering only about three quarters of its contracted output. Secondly, another declaration of *force majeure* by Ivernia for its Magellan mine in Western Australia due to the closure of its export terminal at the Port of Esperance because of contamination concerns. On conservative estimates these two could see total lost production for the remainder of 2007 at around 30kt.

TCs falling, indicate the lack of available con

Falling treatment charges give a very strong indication of the tightness of the lead market. Spot TCs have been falling for the past 2 years and are now the lowest for more than 5 years.

Table 5 World Lead Supply and Demand Forecast

Year End December	2004A	2005A	2006A	2007E	2008E	2009E	2010E
Total Refined Production (kt)	**6,957**	**7,575**	**7,916**	**8,233**	**8,512**	**8,768**	**8,943**
% Change	2.9%	8.9%	4.5%	4.0%	3.4%	3.0%	2.0%
World Refined Consumption (kt)	**7,283**	**7,620**	**8,001**	**8,241**	**8,472**	**8,709**	**8,883**
% Change	6.4%	4.6%	5.0%	3.0%	2.8%	2.8%	2.0%
Balance (kt)	**-326**	**-45**	**-85**	**-9**	**41**	**59**	**60**
LME Price (USD/lb)	0.40	0.44	0.58	0.78	0.53	0.40	0.35
LME Price (USD/t)	887	975	1,285	1,709	1,168	882	772

Source: International Lead Zinc Study Group (ILZSG), AME, ANZ estimates

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ZINC

Falling stocks are not helping zinc prices yet

Zinc has been the laggard in the past 12 months. Despite inventory falls 0f 68% compared to a year ago and 21% in the past month alone, the price has been volatile but has hardly moved year-on-year in the period, falling by 5.7% and in the past month moving down a small fraction of a percent. With inventories at below 2 weeks worth of global consumption the market is primed for more volatility.

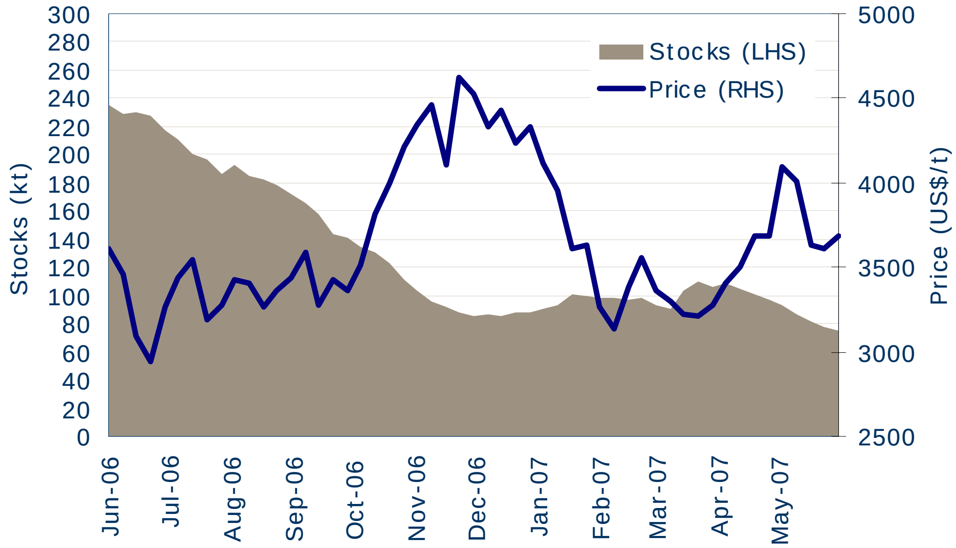
Chinese zinc production and exports boomed

As with almost everything else, it is the impact of changes in China that are to blame. The reason that the stock falls mentioned above had a negative impact was that Chinese zinc production and exports grew at unexpectedly high levels, keeping the market well supplied. Chinese producers and traders took advantage of the price differential with the export market and are likely to remain strong yet not as high at the start of 2007.

Production rising from US, India and Kazakhstan

Also helping to increase supply is the growth in mine production from the US, India, and Kazakhstan. We therefore expect the global metal deficit will likely disappear by the start of 2008. For the first quarter, the zinc price averaged USD3,460/t and the second quarter is likely to be of the same order of magnitude. With some weakening expected in the second half, we currently anticipate the price to average around USD3,300/t (USD1.50/lb) for 2007. Thereafter, prices are expected to gradually recede to our long term price forecast of USD1,430/t (USD0.65/lb) by 2010.

Figure 7 Zinc price and LME stocks



Strong steel production could see higher zinc usage in China

Chinese consumption of zinc in 2007 is forecast to increase by 11.0% from 2006. As always, China could surprise on the upside. CRU has reported that first quarter sheet steel production grew by 31% y-o-y, and based on historical galvanizing rates this could imply growth of zinc consumption closer to 15%, which would remove more zinc from the export market than we expect.

Some die-casting substitution taking place

The second most important end-use is in die-casting, and it is here that most of the weakness is being seen. When prices were at their USD4,000 peak the incentives to substitute with aluminium or magnesium were strong but we believe further substitution will be slow, and hampered if zinc prices soften further.

Table 6 World Zinc Supply and Demand Forecast

Year End December	2004A	2005A	2006A	2007E	2008E	2009E	2010E
Total Refined Production (kt)	**10,353**	**10,226**	**10,666**	**11,316**	**11,939**	**12,476**	**12,813**
% Change	4.9%	-1.2%	4.3%	6.1%	5.5%	4.5%	2.7%
World Refined Consumption (kt)	**10,646**	**10,616**	**11,051**	**11,394**	**11,793**	**12,123**	**12,438**
% Change	8.2%	-0.3%	4.1%	3.1%	3.5%	2.8%	2.6%
Balance (kt)	**-293**	**-390**	**-386**	**-78**	**146**	**353**	**375**
Reported Stocks (kt)	1,039	807	421	344	490	843	1,218
Weeks Consumption	5.1	4.0	2.0	1.6	2.2	3.6	5.1
LME Price (USD/lb)	0.48	0.63	1.48	1.50	1.20	0.85	0.65
LME Price (USD/t)	1,048	1,381	3,268	3,086	2,315	1,653	1,323

Source: International Lead Zinc Study Group (ILZSG), AME, ANZ estimates

GOLD

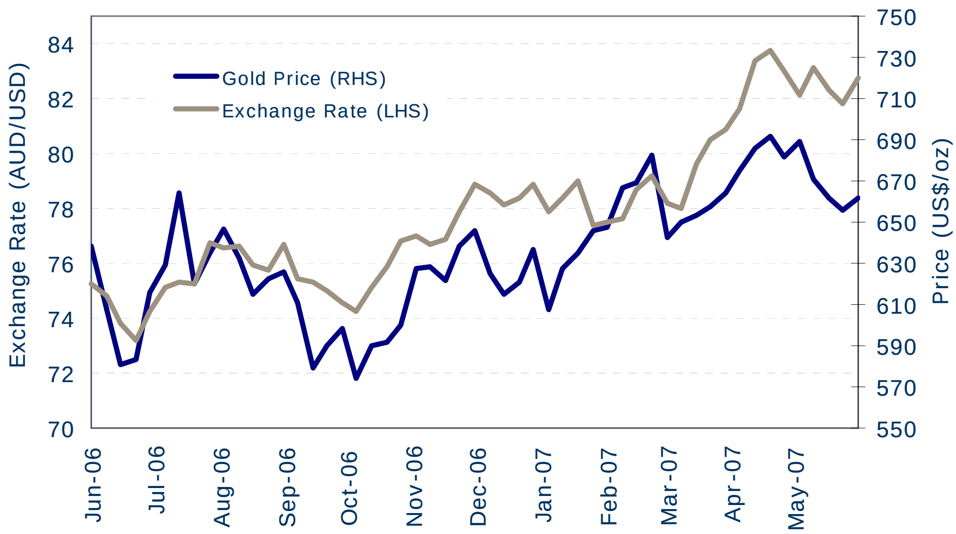
Demand has reacted to higher prices but other variables will dominate

Jewellery demand for gold reacted savagely in the first half of 2006, falling by 30% but recovered somewhat to be down 16% for the whole of the year. The question for 2007 has been whether continued prices above USD600/oz will leave consumers uninterested or accustomed, but going forward, it is the other actors on gold that will take the lead in moving prices. Though jewellery is the principal demand driver, geo-political events, macroeconomic concerns and central bank selling are now coming to the fore again.

2007 price forecast upgraded to USD650/oz

In the first quarter of 2007, prices have averaged USD650/oz and have failed to breach the psychological USD700/oz level causing some disappointment to the bulls that see long-term prices naturally over USD800/oz. In view of the strong first half, we have upgraded our price forecast for 2007 to USD650/oz, with a gradual decline going forward.

Figure 8 Gold price and AUD/USD



Markets have cruised through geo-political tensions

Of course, with geopolitics there is always the possibility of very bad surprises which can see investors flee to safety – i.e. to buy gold - but the globe seems increasingly able to live through a period of heightened terrorism, Middle Eastern wars, resources nationalism, and the re-emergence of populist dictators in some important countries. Markets have hardly noticed these events, treating them as momentary speed humps.

Inflation is nowhere to be seen in the OECD

The issue of inflation and the link with oil have also proved spurious for the past 3 or 4 years. In rich countries, despite many signs to the contrary, the stopper to the bottle of the inflation genie remains quite stuck. In poor countries, where energy is used much less efficiently and where price and labour inflation is in fact taking place, investors don't seem interested or numerous enough to impact on the gold price.

Central bank selling will be a drag on prices

The third actor, central bank selling, has re-emerged lately and this is a solid marker for pressure on the gold price. Spain and France have both been identified as big net sellers of gold. The European Central Bank is reported to have sold 37 tons over the past two months bringing their total sales to 60 tons, in this third year of the CBGA pact. According to the ECB, in the past three months up to three Eurosystem central banks have sold about 130 tons of gold - the ECB accounts for 37 tons, Spain 80 tons (40 tons each in March and April) and France - 13 tons (though this is not confirmed). The following central banks are now the only likely sellers, in the current year of the current agreement:

Austria, up to 15 tons; France, up to 50 tons; Portugal, up to 10 tons; Spain, up to 40 tons; and Sweden, 6 tons, or totally about a ton and a half of gold a day to be sold, every day, for the next 82 business days.

Mined output is still declining and costs rising

The main supportive element is the weakness in mined output, as production in the traditional exporters of South Africa, Australia, Canada, and the US continues its long falling trend of the past 10 years. Also, costs are rising quite strongly, indicating that the floor to prices may be rising. However some of the increased costs may be attributed to the fact that higher gold prices have been used in ore reserve estimation, resulting in lower cut-off grades and hence lower mine grades.

Table 7 World Gold Supply and Demand Forecast (tonnes)

Year End December	2004A	2005A	2006A	2007E	2008E	2009E	2010E
Mine Production	2,469	2,522	2,495	2,470	2,544	2,544	2,544
Net Producer Hedging	-427	-86	-390	-110	-50	-50	-50
Total Mine Supply	2,042	2,436	2,105	2,360	2,494	2,494	2,494
Official Sector Sales	470	659	384	452	510	515	510
Scrap Sales	849	888	1,035	1,000	850	800	700
Total Supply	**3,361**	**3,983**	**3,524**	**3,812**	**3,854**	**3,809**	**3,704**
Jewellery	2,613	2,709	2,299	2,368	2,439	2,537	2,638
Industrial	411	429	372	381	390	400	410
Fabrication Subtotal	3,024	3,138	2,671	2,749	2,830	2,937	3,049
Bar/Coin Retail Invst	397	412	381	400	400	400	400
Other Retail Invst	-57	-24	-24	-30	-24	-24	-24
Other	133	208	231	200	200	200	200
Total Demand	**3,497**	**3,734**	**3,259**	**3,319**	**3,406**	**3,514**	**3,625**
Basic Balance (1)	**-555**	**-616**	**-176**	**-279**	**-286**	**-393**	**-505**
Balance (2)	**337**	**845**	**853**	**1,063**	**1,024**	**872**	**655**
Price (USD/oz)	410	445	605	650	585	525	500

Source: World Gold Council, GFMS, ANZ estimates. (1) Difference between mine output and fabrication demand (2) Surplus (deficit) implies additional (dis) investment (supply) demand to balance the market

Crude Oil

Uncertainties keep prices above USD60/bbl

Oil demand is inelastic and consumption has grown despite higher prices

To underline just how inelastic gasoline demand in the US really is, the largest motoring body announced that during this past Memorial Day long weekend - which marks the beginning of the peak consumption period (the so-called “driving season”) - the number of drivers was 2% higher than the previous year. This is despite the fact that drivers were facing record prices of over USD3.20/gallon. Indeed, over the past 5 years, as Middle Eastern wars have been fought and storms have raged, consumption has grown in every year. With this backdrop, the price of crude oil has remained above USD60/bbl.

Oil price forecast upgraded to USD64.60/bbl

Since the end of last year oil prices have climbed steadily. After bottoming out at around USD51/bbl in January, prices averaged USD58.60/bbl in the first quarter of 2007. For the following 3 quarters we expect prices to remain strong, climbing to USD65 in 2Q07, USD69 in 3Q07 and then falling again to USD65 in the last quarter of the year. This means that we have upgraded our forecast for 2007 as a whole from USD56 to USD64.60/bbl. Remember, this is still below last year’s average.

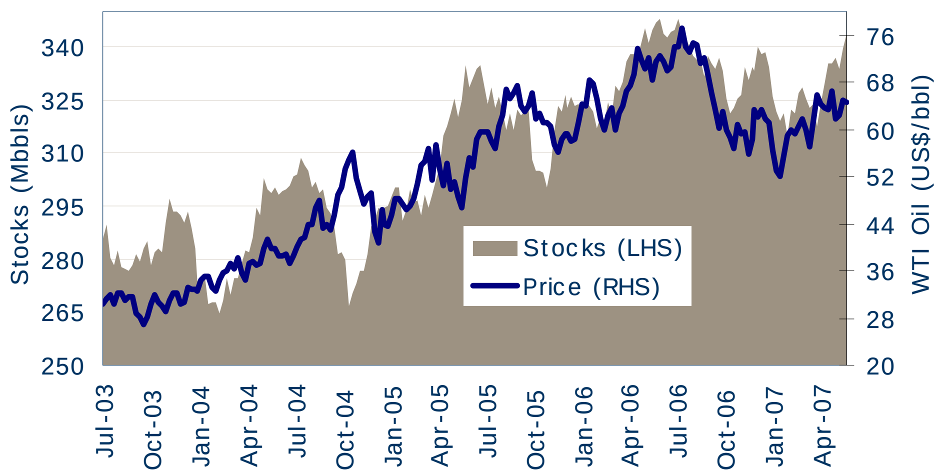
Table 8 Long Term Oil Price Forecast

WTI	2004	2005	2006	2007	2008	2009	2010	2011
Oil (USD/bbl)	**41.40**	**56.50**	**66.35**	**64.60**	**58.40**	**59.00**	**66.00**	**65.00**
Previously				*56.00*	*51.00*	*NoCh.*	*NoCh.*	*NoCh.*
Demand Mmbpd	82.5	83.9	85.2	86.2	87.6	89.1	90.6	92.2
Supply Mmbpd	83.1	84.2	85.6	86.8	87.9	89.1	90.3	91.8
Global Balance	**0.6**	**0.3**	**0.5**	**0.6**	**0.3**	**0.0**	**-0.3**	**-0.4**

World’s economies still growing and OPEC still holding to its quotas

The main reasons for this strength are the failure of the world’s economies to slow, as we had expected, and the active price management from OPEC to curtail supplies in order to defend their new un-stated floor of USD60/bbl. There have been other short-term events adding volatility to prices, such as violence and kidnapping in Nigeria and Iran’s refusal to cease nuclear research. Going forward there will also be concerns around hurricane activity in the Gulf of Mexico but it is the two features above that are the main drivers.

Figure 9 WTI Price and US Crude Stocks



There has been some adjustment around the margins of the global oil consumption picture, but the conclusion is the same; long run demand is growing and will probably be over 90Mmbbl/day by the end of this decade. At the same time, non-OPEC supply is going to grow mainly in Russia, leaving the world to depend on OPEC as the main supplier of crude.

Increasingly we depend on Saudi production and reserves for our safety buffer

The 12 nations that make up OPEC account for more than 40% of the world's supply. According to Bloomberg estimates they pumped 30 million barrels a day last month, with Saudi Arabia contributing 8.45 million barrels a day to the total. As the Saudi OPEC Minister has said, "the Kingdom will continue to be the largest and the most important oil producer and exporter during the 21st century, just as it has been over the past half century". The country plans to add 200 billion barrels of oil reserves to the 264 billion barrels it currently holds. Saudi Arabia and other OPEC members are investing in building spare production capacity to compensate for any supply disruptions. This holds some dangers, as the world comes to depend more and more heavily on the production and reserve cushion of the Middle East, but particularly just one country – Saudi Arabia.

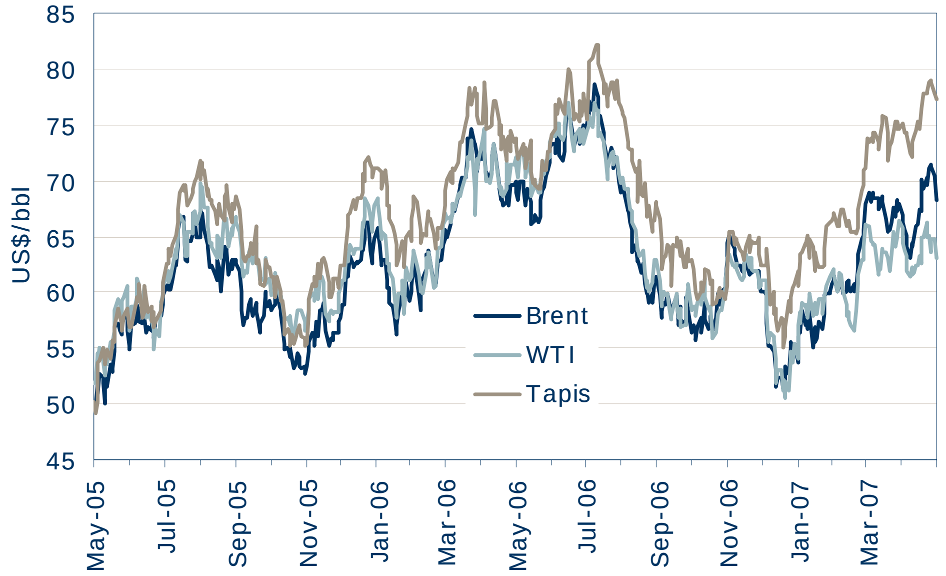
The market seems accustomed to greater levels of uncertainty

As nearly always with crude oil, the biggest risks to lower prices are geopolitical risks. The usual suspects will crop up again this year, countries like Iran, Iraq, Russia, Nigeria, and Venezuela. However, there is perhaps a more sanguine attitude from the oil market recently. It is almost as if the market has grown accustomed to the violence in many parts of the oil-producing globe. While last year was dominated by talk of the "fear premium", the global economy has sailed on and the crude continues to pump. Though it might be said that sentiments were overblown last year, it could equally be the case that this year they are complacent.

Iraq is pumping at an improved rate of 2Mmbpd

As we discussed in out last Outlook, the hoped-for increase in Iraqi oil output has come to pass. Production bottomed in January at 1.66Mmbpd and has since stabilised at what could now be considered the country's nominal capacity, 2Mmbpd for the 3 months ending in April. This is good news for Iraq and for the oil market because the country remains, while violence reigns, outside of the OPEC quota restriction. Note however, the US administrators and the Iraqi Government have spent a combined USD8.9 billion in trying to raise oil production (and electricity output) to 3Mmbpd.

Figure 10 Global Oil Prices



Nigeria still disrupted by violence

In Nigeria, violence against foreign and domestic oil workers and against oil infrastructure escalated in the run-up to the elections in April. This saw production decline about 25% below capacity and the country is pumping at around 2Mmbpd or around 600mbpd-700mbpd.

The US National Oceanic and Atmospheric Administration's National Hurricane Center says that as many as five major hurricanes may form in the Atlantic Ocean during the 2007 as warmer-than-normal sea temperatures provide energy for the storms. This season could have 13 to 17 named storms and as many as 10 of them may reach hurricane strength. The Atlantic Basin is in a 20-year period of above-average tropical activity as ocean and atmospheric

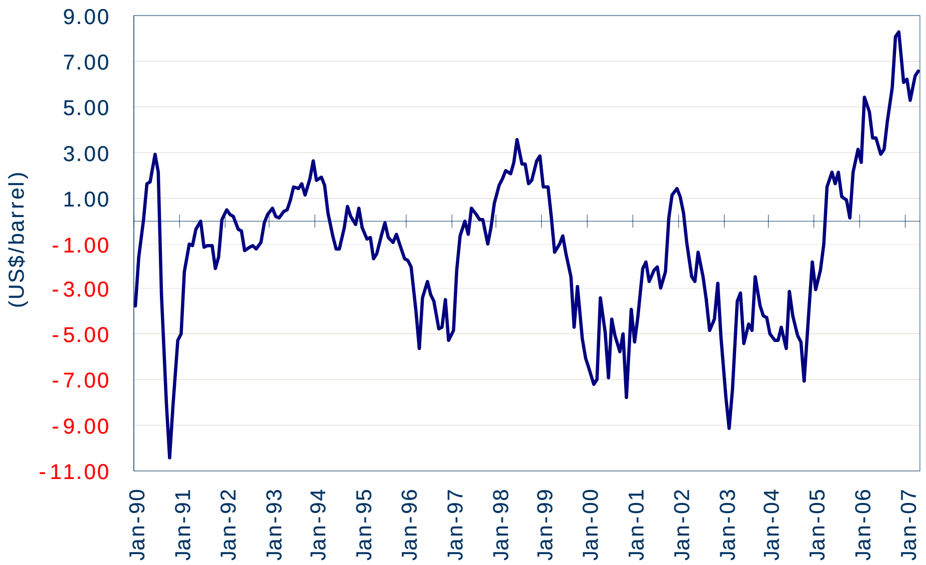
More Hurricanes predicted for the Gulf of Mexico

conditions spur storm formation. This year the hurricane season began early when Subtropical Storm Andrea formed on May 9, three weeks ahead of the official June 1 start. Last year, forecasters overestimated what ended up being a near-normal season, with 10 storms and five hurricanes, and significantly underestimated 2005's record-breaking season, which included Katrina. In our view the fears around storms are hard to quantify into the current oil price until there is a significant destructive event on the horizon, literally. If that is the case be prepared for a USD10-15/bbl jump in prices.

Oil is still in contango

We are now in the longest and highest period of oil market contango of the past 15 years. The Futures market continues to imply that 1-year oil will be more than USD5/bbl more expensive than spot barrels. In November 06 the Spot to 1-year futures contango peaked at the USD8.25/bbl mark and has since retreated to USD6.55/bbl.

Figure 11 WTI Vs NYMEX13 Contango



Brent now trades at a premium to WTI

Another unusual feature of the current market is the Brent Crude premium. Traditionally Brent has traded at a discount to WTI because it is of a lower quality than the West Texas grade. However, since the 12th of March it has traded at a premium that has reached as high as USD7.80/bbl.

Figure 12 Brent Discount – now a premium

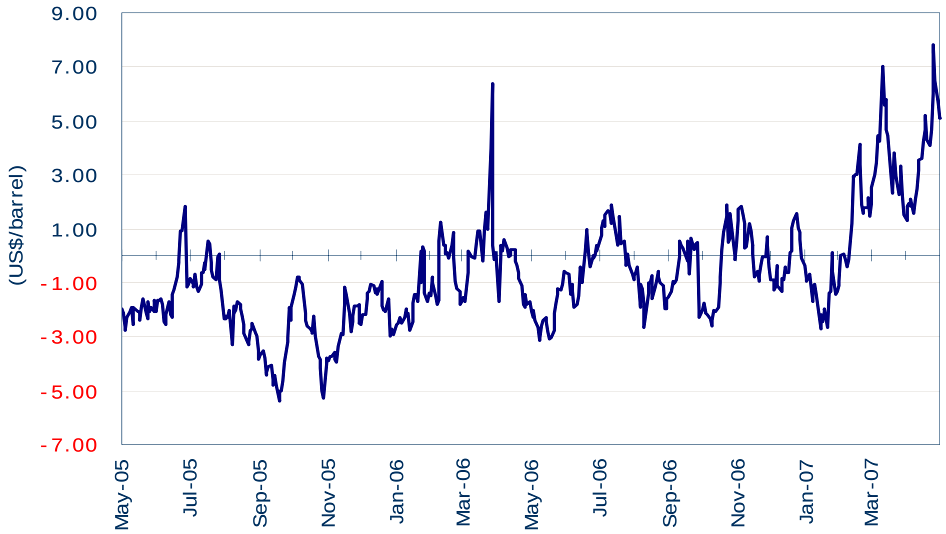


Table 9 World Oil Supply/Demand Balance (Mmbpd)

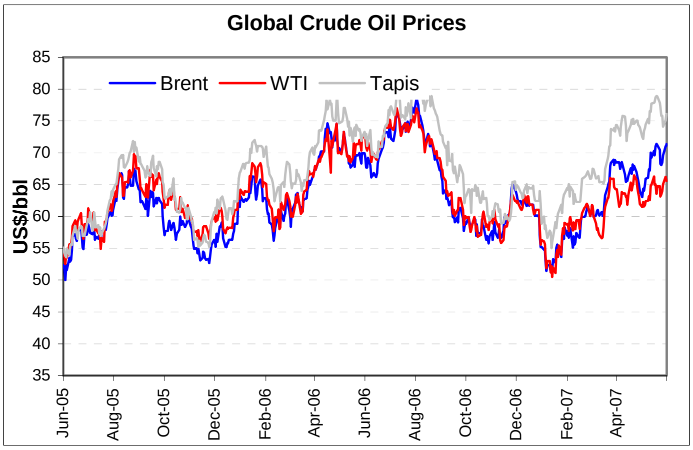
	2004	2005	2006	2007	2008	2009	2010	2011
Demand	**82.5**	**83.9**	**85.2**	**86.2**	**87.6**	**89.1**	**90.6**	**92.2**
% change y-o-y	*3.5*	*1.7*	*1.5*	*1.1*	*1.7*	*1.7*	*1.6*	*1.8*
OECD	*49.5*	*49.9*	*50.3*	*50.5*	*51.0*	*51.6*	*52.1*	*52.7*
North America	25.2	25.5	25.8	25.8	26.2	26.6	27.0	27.4
Europe	15.7	15.7	15.9	16.0	16.2	16.4	16.5	16.7
Pacific	8.6	8.6	8.6	8.6	8.6	8.6	8.6	8.6
Non-OECD	*33.0*	*34.0*	*34.9*	*35.7*	*36.6*	*37.5*	*38.4*	*39.5*
CIS	3.7	3.8	3.8	3.9	3.9	3.9	4.0	4.0
Europe	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
China	6.4	6.8	7.2	7.6	8.1	8.5	8.9	9.4
Other Asia	8.6	8.8	9.1	9.4	9.6	9.9	10.2	10.5
Latin America	4.9	5.0	5.1	5.1	5.2	5.2	5.3	5.4
Middle East	5.9	6.0	6.1	6.1	6.2	6.3	6.4	6.4
Africa	2.8	2.8	2.9	2.9	2.9	3.0	3.0	3.0
Production								
OECD	21.3	20.3	20.9	20.6	20.4	20.3	20.2	19.9
% change y-o-y	*-1.4*	*-4.7*	*3.0*	*-1.4*	*-1.0*	*-0.5*	*-0.5*	*-1.5*
Non-OECD	28.8	29.9	30.4	31.5	32.5	32.9	33.3	34.2
% change y-o-y	*5.1*	*3.8*	*1.7*	*3.6*	*3.2*	*1.2*	*1.2*	*2.6*
OPEC	33.0	34.0	34.3	34.7	35.0	35.9	36.8	37.7
% change y-o-y	*7.5*	*3.0*	*1.0*	*1.0*	*1.0*	*2.5*	*2.5*	*2.5*
Total Supply	**83.1**	**84.2**	**85.6**	**86.8**	**87.9**	**89.1**	**90.3**	**91.8**
% change y-o-y	*4.3*	*1.3*	*1.7*	*1.3*	*1.3*	*1.3*	*1.3*	*1.6*
Global Balance	**0.6**	**0.3**	**0.5**	**0.6**	**0.3**	**0.0**	**-0.3**	**-0.4**

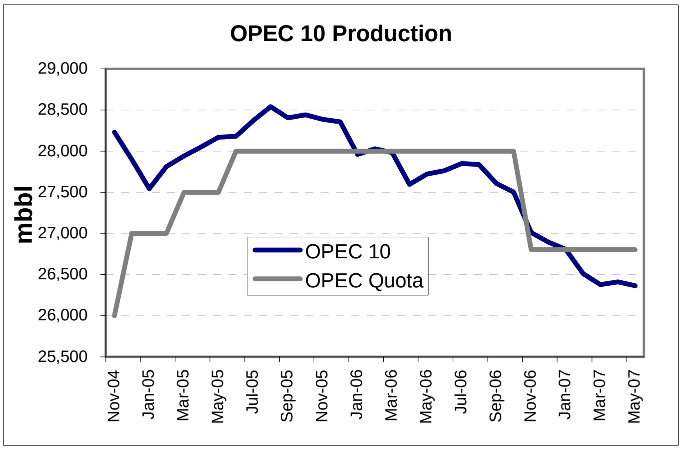
Source: OPEC, IEA, PIRA, ANZ estimates

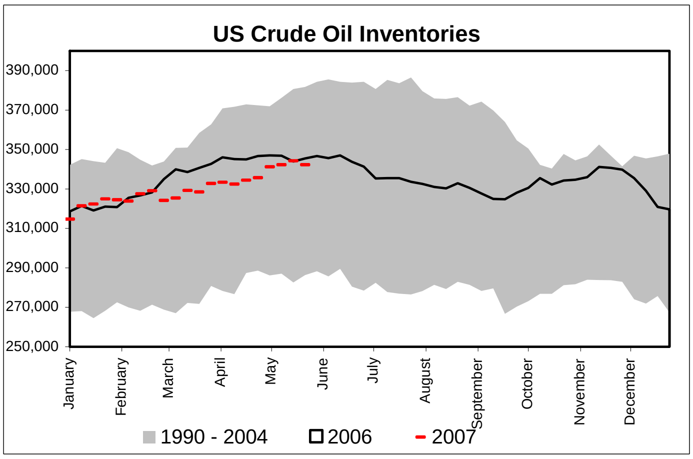
Figure 13 Oil Market Data

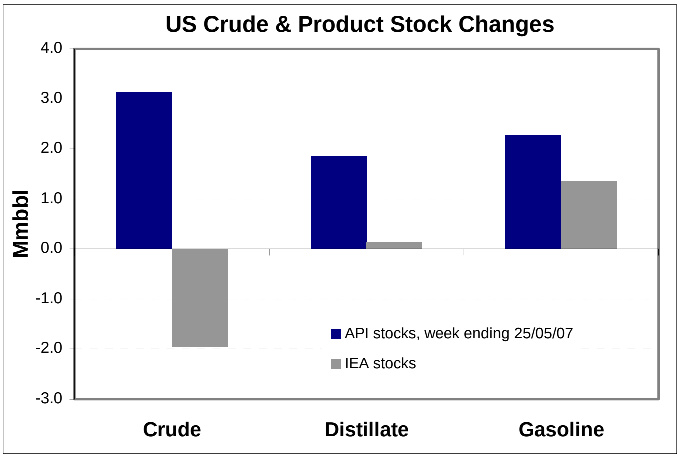
OIL MARKET DATA

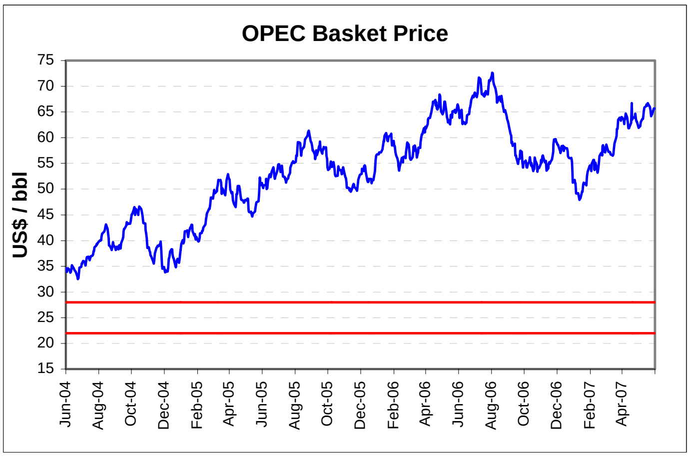
Tue, 05 June 2007	US$ / bbl 2007	US$ / bbl 2006	US$ / bbl % change	A$ / bbl 2007	A$ / bbl 2006	A$ / bbl % change
Daily Close	65.61	72.60	-9.6%	78.35	97.05	-19.3%
Weekly Average	65.62	71.99	-8.8%	78.51	95.95	-18.2%
Monthly Average - June	65.63	70.93	-7.5%	78.41	95.90	-18.2%
Year to Date Average	60.57	66.07	-8.3%	75.33	87.74	-14.1%

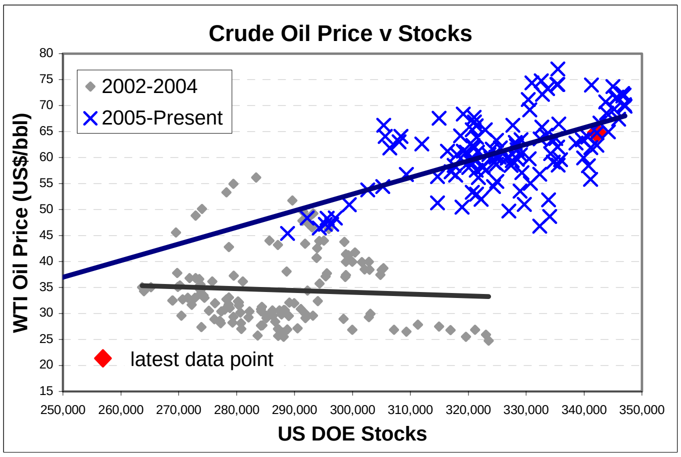












COAL

China becomes a Net Importer – changes everything. Steel market keeps Met strong

China is now a net importer of coal –signals stronger prices

The first quarter of 2007 could be a turning point in the world coal market. The transition of China, the world's biggest producer and consumer of coal, from a net exporter of thermal coal to net importer marks a significant change for the seaborne traded market. Our forecast from the start of the year of net exports of around 25Mt for 2007 now looks very ambitious. Similarly our view that prices would be falling in 2008 is not plausible. We have increased our forecasts for all grades of coal, but the major impacts are on thermal and hard coking, both increasing next year and subsequently declining more gradually than our earlier forecasts.

Table 10 Long Term Coal Price Forecasts

JFY USD/t	2004	2005	2006	2007 f	2008 f	2009 f	2010 f	2011 f
Hard Coking	58.00	125.0	115.0	98.00	105.00	95.00	85.00	80.00
Semi Soft	40.80	79.25	72.00	65.00	66.00	60.00	55.00	52.00
PCI	46.50	102.0	85.00	72.00	67.00	62.00	58.00	58.00
Thermal	42.00	53.00	52.50	55.65	57.00	51.00	47.00	44.00
Traded Coal Calendar Years (Mt)								
Metallurgical Exports	220	223	217	230	241	249	261	269
Thermal Exports	555	577	613	639	652	668	680	693
Total Coal Exports	**775**	**800**	**830**	**869**	**893**	**9177**	**941**	**9622**

Thermal prices upgraded to USD56/t

As the demand for thermal coal continues to increase, we expect prices to also remain very high by historical standards despite growing output. Since January we have increased our JFY 2008 forecast markedly from USD46/t to USD57/t. We still believe that long run prices will hover around the mid-USD40/t mark.

Coking coal also enjoying the benefits of the strong steel market in China

In the metallurgical market, which has been much more difficult to judge, hard coking brands are likely to enjoy an increase in prices as the strength in steel production rates and prices continues unabated, and bottlenecks in Queensland remain. For 2008 we had previously expected another fall in prices but the industry is indicating that producers will be pushing hard to reverse two years of price falls from the highs of 2005 and they may succeed. Long term prices are expected to fall towards USD80/t. Semi-soft is expected to remain flatter, in essence maintaining a premium to thermal of around USD10/t. PCI utilisation rates continue to grow and this demand will keep prices above USD60/t into the '09 negotiations.

China's 2007 net exports halved

China became a net coal importer in January and again in March, with imports exceeding exports by 2.89Mt in the first quarter. Coal exports slumped 32% to 11.4Mt while imports surged 61% to 14.3Mt, according to figures from China's General Administration of Customs. This compares to last year, when the country exported more coal than it imported by 7.89Mt in the first quarter and 26Mt for the whole year. We now expect this net export figure to be halved, to around 13Mt for all of 2007.

There two main causes for this very sudden shift - taxation and domestic strength. The government only recently removed tax incentives for energy exports and removed tariffs on imports, making the latter much more competitive. The dramatic shift in 1Q07 may be a reaction compounded with

Tax changes make Chinese exports uncompetitive…

trade delayed in anticipation of the changes. As such it could prove only a temporary transition to the new taxation regime. However, with domestic Chinese prices at around USD65/t it can still be competitive to import coal. It is possible that this situation could worsen as the nation's peak demand period changes rapidly from winter to summer - as has occurred over time in many rich countries - and as alternatives power sources like diesel, gas, hydro, and nuclear are either too slow or too expensive to keep up with demand.

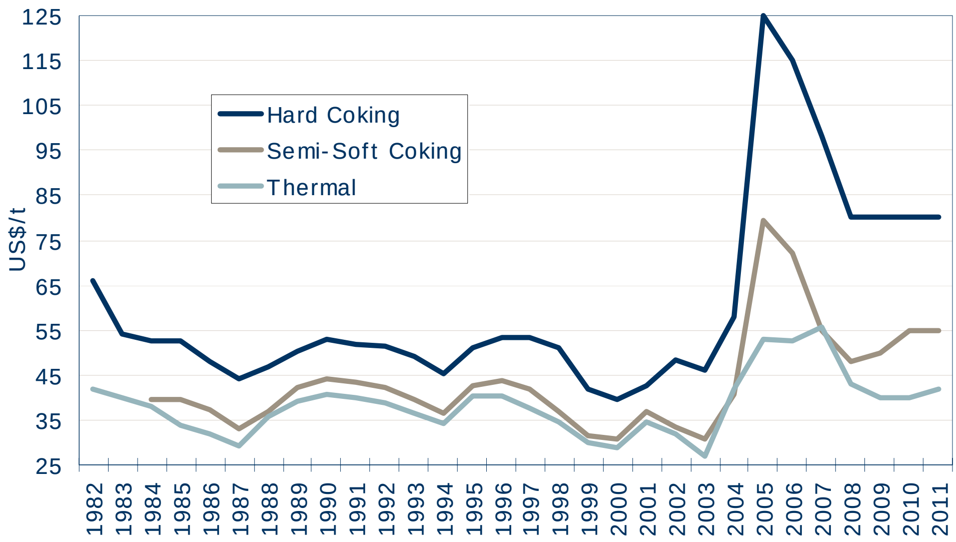
… and demand keeps domestic prices high

Power brownouts are an ongoing problem for Chinese cities and manufacturing centres like Guangdong. This is expected to be the fifth year of insufficient power supply in China - estimated at 4GW in April - despite an amazing rate of new power station construction in the country of about 500MW per week. Runaway demand, low water levels in hydroelectric stations, a shortage of natural gas, and the closure of some small oil and coal-fired plants exacerbate the situation.

US power station construction also strong

It is not just China that is building power stations. At last count, in the United States, more than 150 new coal-fired power stations are being planned, the most in recent history. Currently there are 12 plants under construction and another 6 close to breaking ground. Despite much talk of reducing greenhouse gas emissions it is interesting to note that not only are these *coal* plants, but not one of the plants is being designed to include carbon capture and sequestration equipment.

Figure 14 Australia Japan Benchmark Coal Prices (JFYs)



Australian bottlenecks hurting exports *and* production

The bottlenecks in the Australian coal industry from 2006 have continued in 2007. There are a record 74 vessels in the queue off Newcastle, the world's biggest coal port. And there are 50 vessels waiting off Dalrymple Bay. By some reckoning about 10% of the world's dry bulk vessel fleet is now floating off the east coast of Australia waiting to load coal. In the Hunter Valley, which exports through Newcastle, Rio Tinto's subsidiary, Coal & Allied has announced production cuts of 20% because of the backlog at the terminal.

Two new ports for Newcastle

In an attempt to address the problem two new port expansions are planned for Newcastle. The existing PWCS port facilities will be expanded to 120Mtpa from the current rated capacity of 95Mtpa and the New South Wales Government has approved the development of a new port at Newcastle by the BHP Billiton-led NCIG consortium. Initially it will have an annual capacity of 33Mt with a possibility of growing to 66Mtpa. First loadings from the AUD1 billion Phase 1 are not due until late 2009.

Expansion at DBCT

In Queensland, the Dalrymple Bay Coal Terminal (DBCT) plans to expand capacity from 55Mtpa to 68Mtpa by the end of 2007 and up to 85Mtpa by the end of 2008. Last year the port only loaded 51Mt and it has indicated that this year's loadings may be below 50Mt.

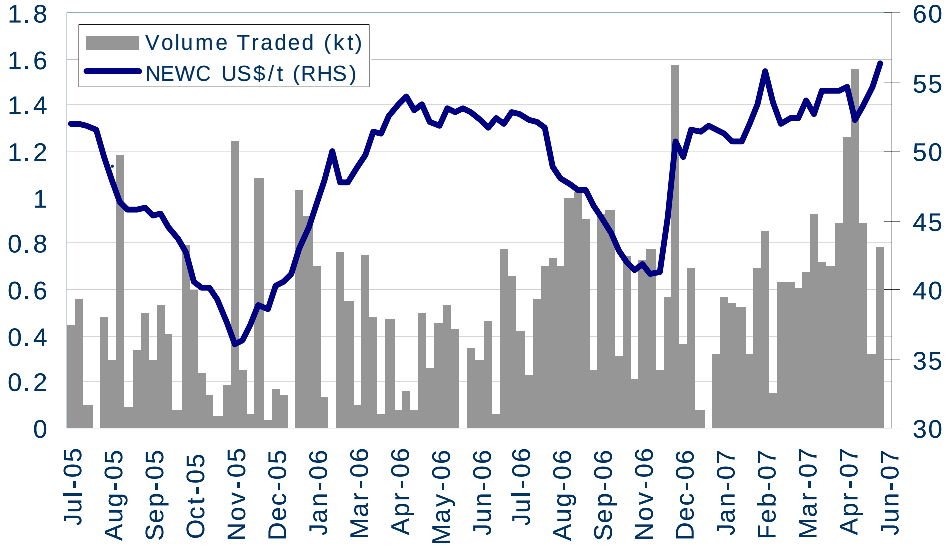
Freight rates have skyrocketed

In the Atlantic market coal prices have been climbing strongly, with high freight rates adding to delivered prices into Northwest Europe. At about USD75/t these are now the highest for around two years, up 10% since January. Forward prices are indicating a relatively flat outlook, hovering around the low USD70s for the remainder of the year. Coal freight rates from Richards Bay to Rotterdam climbed to USD31.17/t on May 2, the highest since December 2004 and a 29 percent increase in three weeks. Also during May, German forward power prices for 2008 hit EUR55.95/MWh (USD75.69) in intraday trading,

US coal supply could come to the rescue, it is the likeliest source

We see the US as the main increase in supplies due to the change in the global market - especially the shift of China to becoming a net importer. It has the mining capacity and the idle terminal capacity to increase its exports more readily than other major producers. It may again re-assert its traditional role as the so-called swing supplier now that the international prices are at high levels and climbing again.

Figure 15 Thermal Coal globalCOAL NEWC price and volume



NEWC prices have climbed strongly since Nov 06

On 25 May globalCOAL NEWC prices reached USD56.35/t, their highest since the peak of August 2004 at USD64/t. Prices recovered strongly from the lows of November 2006 and have continued to climb even after breaching the USD50/t level with weekly volumes consistently above 500kt.

Takeovers continue

There have been some interesting developments in corporate activity over the past few months. Firstly CVRD acquired the Australian coal interests of AMCI for USD790 million and subsequently AMCI acquired 19% of Felix Resources another coal miner. Xstrata then made a friendly bid for Gloucester Coal. All three transactions give some indication of the confidence in both the thermal and metallurgical markets that these established players have in the durability of the historically high prices that they are enjoying.

Table 11 World Traded Thermal Coal Supply / Demand Balance (Mt)

	2004	2005	2006	2007	2008	2009	2010	2011
Asia	**308**	**329**	**350**	**371**	**380**	**390**	**399**	**410**
Japan	115	118	115	115	115	115	115	115
South Korea	61	61	64	70	73	75	75	75
Taiwan	53	53	55	55	56	56	57	57
India	15	24	28	35	38	40	42	45
China	12	19	29	35	35	36	37	38
Other	53	54	59	61	63	68	73	80
Europe	**196**	**195**	**204**	**201**	**202**	**206**	**207**	**207**
UK	30	38	42	41	41	41	41	41
Germany	33	29	34	34	34	34	34	34
Russia	19	20	20	20	20	20	20	20
Italy	16	14	15	15	16	17	18	19
Spain	20	21	20	18	18	18	18	18
Other	79	74	74	73	73	76	76	75
North America	**41**	**43**	**49**	**55**	**58**	**60**	**62**	**64**
Others	**11**	**10**	**10**	**11**	**11**	**11**	**11**	**11**
Total Imports	**556**	**577**	**613**	**638**	**651**	**667**	**679**	**692**
Indonesia	103	125	161	172	178	183	184	185
Australia	108	109	110	120	125	133	136	140
South Africa	64	73	74	76	77	78	79	80
Russia	60	64	69	68	68	70	70	71
Colombia	50	54	53	59	62	66	68	70
China	75	63	55	48	45	45	45	45
Vietnam	11	14	17	17	19	18	23	26
Kazakhstan	22	23	28	25	25	24	24	24
United States	19	19	18	22	23	21	20	20
Poland	17	18	14	12	10	10	10	10
Venezuela	6	6	6	6	6	6	6	6
Canada	2	1	1	2	2	2	2	2
Other	20	10	8	12	12	12	13	14
Total Exports	**555**	**577**	**613**	**639**	**652**	**668**	**680**	**693**

Source: AME, Individual Country statistics, ANZ estimates

Table 12 World Traded Metallurgical Coal Supply / Demand Balance (Mt)

	2004	2005	2006	2007	2008	2009	2010	2011
Asia	**119**	**120**	**114**	**121**	**127**	**133**	**140**	**147**
Japan	65	63	62	64	65	66	66	66
India	17	21	21	23	25	28	32	36
South Korea	19	16	16	17	18	18	18	18
Taiwan	9	8	8	8	9	9	10	11
China	7	7	5	6	7	8	9	10
Other	3	5	2	3	3	4	5	6
Europe	**74**	**75**	**74**	**77**	**80**	**82**	**83**	**84**
EU 25	50	51	52	53	54	55	55	55
Other	24	24	21	24	26	27	28	29
Latin America	**17**	**16**	**17**	**20**	**20**	**21**	**23**	**25**
Brazil	15	14	15	18	18	19	21	23
Other	2	2	2	2	2	2	2	2
North America	**7**	**8**	**7**	**8**	**8**	**8**	**8**	**8**
Africa	**4**	**5**	**4**	**5**	**5**	**5**	**5**	**5**
Total Imports	**221**	**223**	**216**	**231**	**240**	**249**	**259**	**269**
Australia	117	125	123	132	136	142	148	152
Canada	24	26	25	27	28	28	29	30
United States	24	26	25	21	19	20	20	21
Russia	16	15	13	16	18	18	20	20
China	11	9	8	8	9	9	8	8
Indonesia	3	4	5	5	6	6	7	7
South Africa	4	3	2	3	4	4	4	5
Colombia	2	2	2	2	3	3	4	5
Poland	3	3	3	3	3	3	3	3
Others	16	11	12	13	15	16	18	18
Total Exports	**220**	**223**	**217**	**230**	**241**	**249**	**261**	**269**

Source: AME, Individual Country statistics, ANZ estimates

Iron Ore

China drives the market, India assists

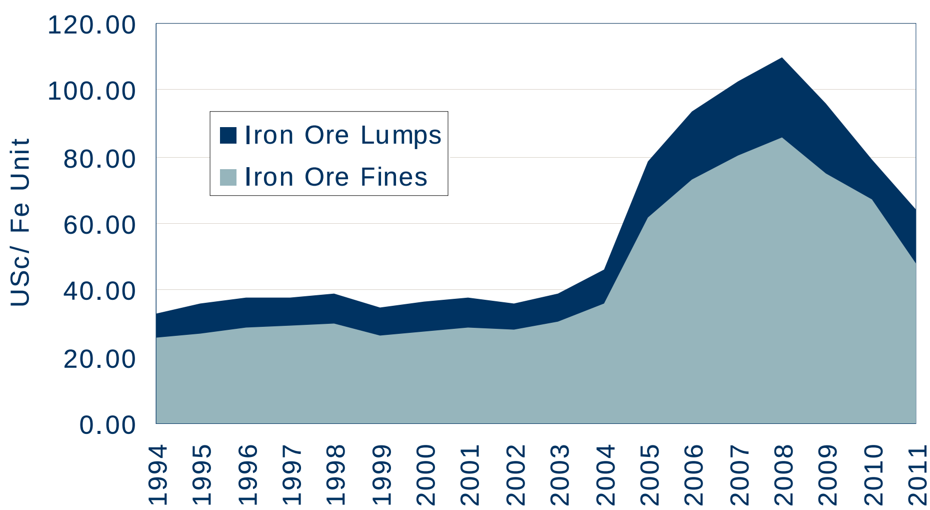
Higher prices are not slowing demand

Having settled the prices for benchmark iron ore earlier this year with Brazilian miner CVRD, with China's top steelmaker Baosteel agreeing to a 9.5% increase in the price of fine ore for 2007, China continues to drive the fundamentals of the market. Even though this marked the fifth successive year that contract prices have increased, demand seems unharmed and changes in Indian policies have added extra tension to an already tight market.

JFY2008 to see a 7% increase

Previously we forecast that prices would peak in 2007 and thereafter decline, but the ongoing strength means that we have shifted that peak further out into the future. Regardless, as we suggested before, the lower prices will still be higher than the ten preceding years. For next year we are suggesting a price increase of around 7% for both lump and fines.

Figure 16 Australia Japan Iron Ore Reference prices



Possibility that supply could disappoint and demand accelerate causing even higher prices

The iron ore market may be heading into a period of imbalance during the second half of 2007. We are concerned that supply expansions may not meet what has been announced by the major suppliers, and that Indian exports will fall more than expected. Further, Chinese demand – despite what has already been experienced - may continue to surprise with its strength. In combination this spells higher spot prices and contract prices. Specifically, the growth of steel production was a stunning 25% in the first quarter of 2007, much higher than the already strong forecast of 15% growth for the whole year.

Table 13 Long Term Iron Ore Price Forecast

Hammersley	2004	2005	2006	2007	2008	2009	2010	2011
Iron Ore Fines USc/Fe unit	35.99	61.72	73.45	80.42	86.00	75.00	67.00	48.00
Iron Ore Lump USc/Fe unit	45.93	78.77	93.74	102.64	110.0	96.00	79.00	64.00
Demand Mtpa	1360	1528	1720	1798	1878	1917	1967	2009
Supply Mtpa	1363	1536	1730	1810	1887	1917	1970	2020
Global Balance	**3**	**9**	**10**	**12**	**9**	**0**	**3**	**11**

India trying to limit exports...

The government of India has introduced a USD7/t (Rs300/t) duty on exports of iron ore. This surprised the market, despite much pressure from domestic steel mills and protectionist politicians, and upset the country's main customer – China. Both the government and steel companies announced that they would cease imports of Indian fines totalling around 50Mt last year. This is raising spot prices in the iron ore market and is increasing the likelihood of a price rise in next year's benchmark negotiations.

...upsets biggest customer

The official reason from the Indian Government for the export duty was that it serves as a means to slow the volume of high-grade exports to China because it has plans to significantly increase the domestic steel industry to around 75Mtpa by 2010. The problem for China is that in 2006, India provided about 20% of its imports, bridging the gap from the main suppliers from Australia and Brazil. In May, and after loud complaints from trading companies, the Indian Government reduced the duty for exports of less than 62% iron content to USD1.25/t (Rs50/t). This grade accounts for about a third of Indian exports and should assist the profitability of smaller traders. At this early stage it is difficult to determine how the Indian duty changes will impact the market. This is an ongoing situation and the overall impact on the India-China trade cannot yet be evaluated so we have not yet drastically changed our tonnage forecast. We have downgraded exports from 78Mt to 74Mt for 2007 but the following years continue in gradual decline as previously expected.

Iron ore smuggling?!

Regardless, there is the prospect for dramatic changes in tonnages. With reports of bans on imports from India and some commentators even raising the prospect of ore smuggling to avoid the duties, the situation demands attention.

China will be more than half of the traded market

The global traded market is expected to reach just under 1,000Mtpa by 2011, but it is the "China story" that continues to dominate all other consumers. Chinese iron imports have increased dramatically, and are now expected to account for 47% of the globally traded market, and may exceed 50% before too long. This is up from only 3.6% in 1990. Chinese steel production continues to grow and the nation has become a net exporter of steel since the beginning of 2006.

Figure 17 Global iron ore imports (Mt)

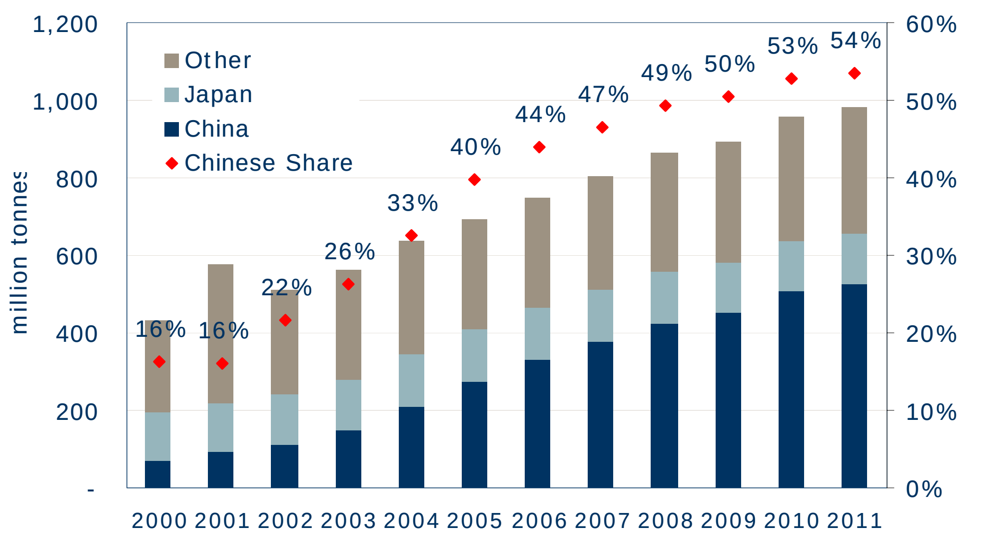


Table 14 World Iron Ore Supply Demand Balance (Mt)

	2004	2005	2006	2007	2008	2009	2010	2011
World Production	**1363**	**1536**	**1730**	**1810**	**1887**	**1917**	**1970**	**2020**
China	336	421	540	550	550	540	540	540
Brazil	255	278	313	345	370	385	390	410
Australia	238	265	291	310	350	360	395	410
CIS	181	182	183	185	185	185	185	185
India	121	146	146	150	150	155	160	164
South Africa	39	40	41	43	50	55	60	65
USA	56	55	57	58	58	58	58	58
Other	139	151	160	169	174	179	182	188
Apparent Consumption	**1360**	**1528**	**1720**	**1798**	**1878**	**1917**	**1967**	**2009**
China	544	696	880	925	975	1000	1025	1050
Europe	189	181	186	188	190	192	194	195
CIS	146	145	150	152	158	164	170	176
Japan	135	132	136	133	133	132	132	132
South America	69	87	94	105	110	110	110	110
India	55	66	69	73	78	85	93	98
USA	58	56	54	53	55	53	53	53
South Korea	44	44	44	45	47	47	48	50
Other	120	122	109	124	132	134	142	145
Global Balance	**3**	**9**	**10**	**12**	**9**	**0**	**3**	**11**
World Exports	**639**	**702**	**756**	**810**	**869**	**887**	**940**	**982**
Australia	211	239	277	298	334	351	387	410
Brazil	211	220	250	275	300	310	320	335
MidEast & Africa	39	40	41	45	50	55	60	65
India	70	81	76	74	73	68	67	65
North America	33	41	41	41	43	44	44	52
CIS	35	37	33	34	26	18	17	10
Other	41	43	38	39	43	41	45	45
World Imports	**638**	**691**	**750**	**805**	**864**	**893**	**957**	**981**
China	208	275	330	375	425	450	505	525
Europe	176	165	168	173	175	175	175	175
Japan	135	132	136	135	135	130	130	130
South Korea	44	43	44	45	46	48	48	50
MidEast & Africa	16	17	17	20	25	30	35	35
Other	60	59	55	57	58	60	64	66

Source: AME, ISSI, ANZ estimates

ANZ Natural Resources

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