

ANZ Research

Exploiting Australia's Economic Advantage

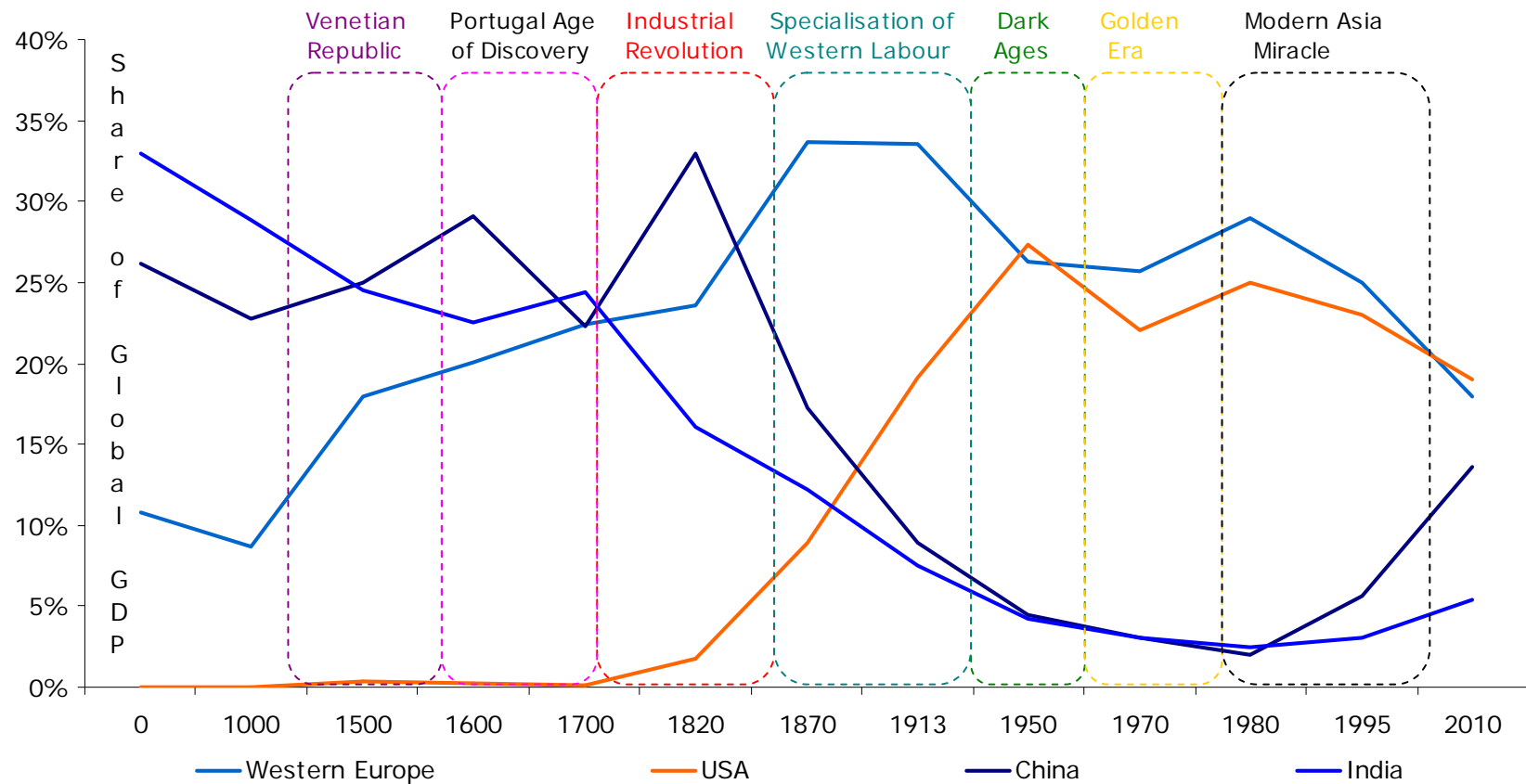
The Australian Grains Industry Conference
Melbourne, 31 July 2013

Warren Hogan
Chief Economist



A brief history of economic time

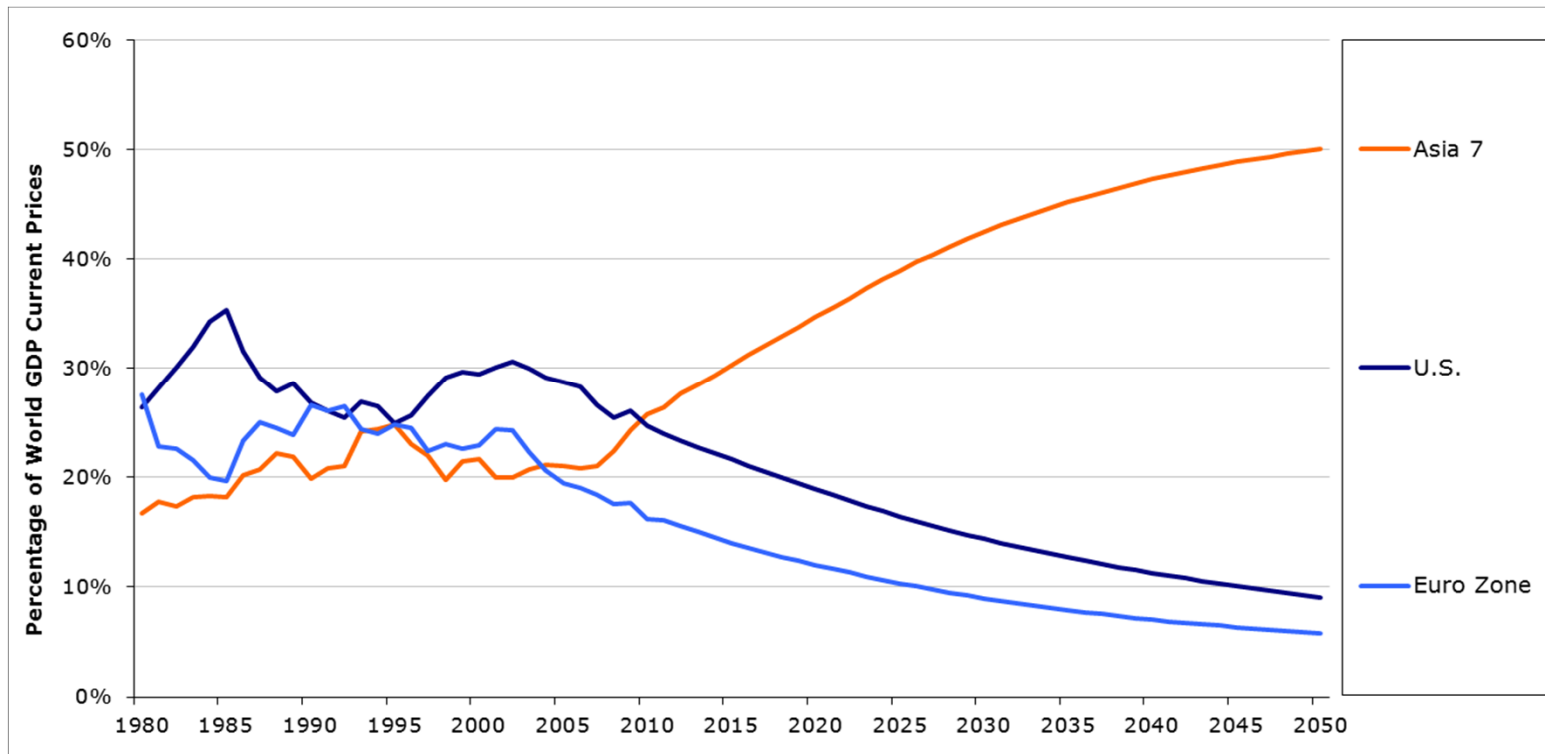
Asia is returning to her historical mantle as the worlds largest economic mass



The Asian Century.

A new G7 – the A7!

- Asia's renewed ascension will be led by 7 economies. China, India, Indonesia, Japan, South Korea, Malaysia and Thailand.
- These 7 economies are widely expected to account for 50% of Global GDP by 2050.



Source: MAGE Global 2050 Database, projections by ANZ

The 2000 year “Grand Tour” of the world economy

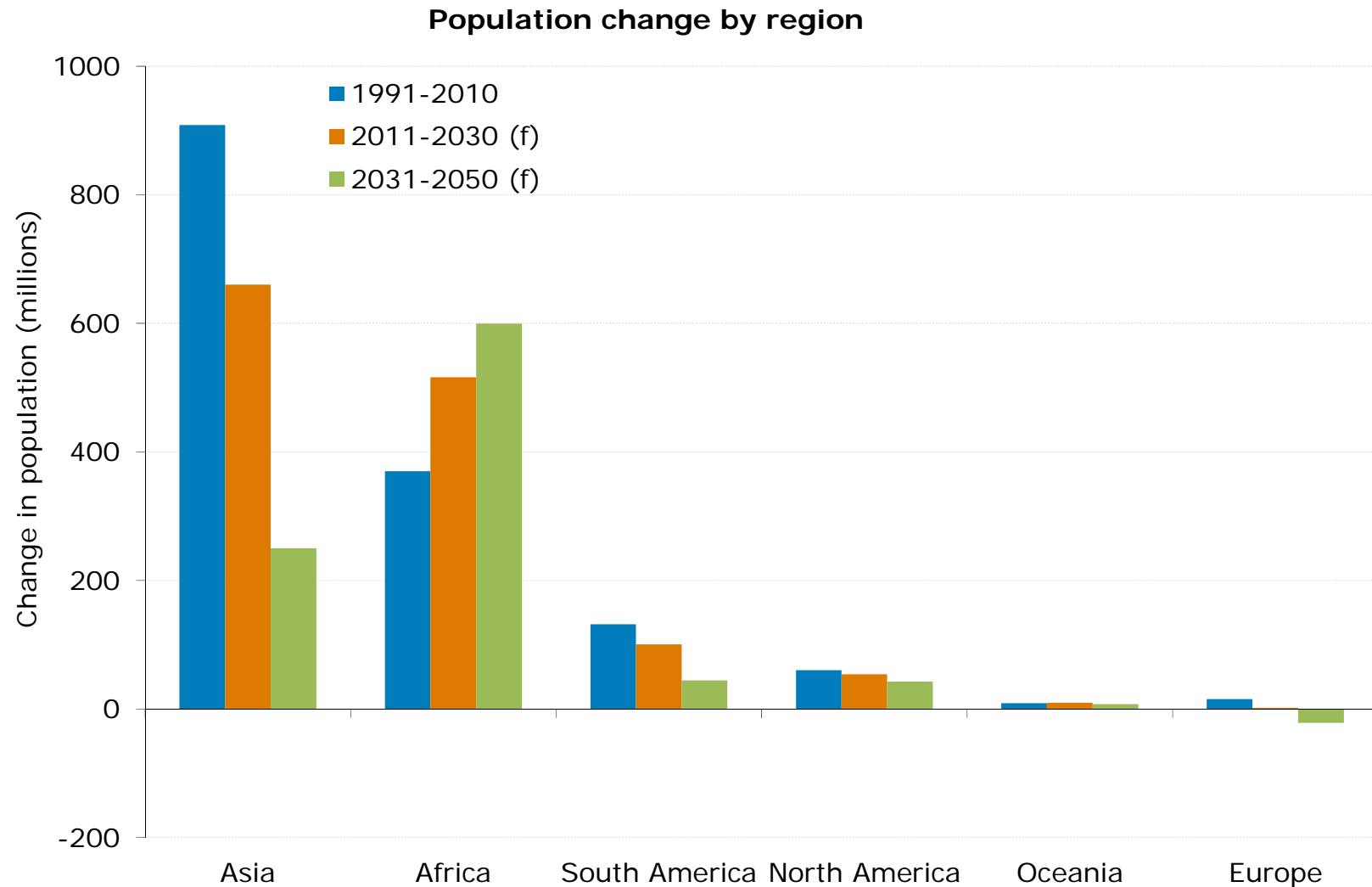
How the world’s economic epicentre¹ has moved



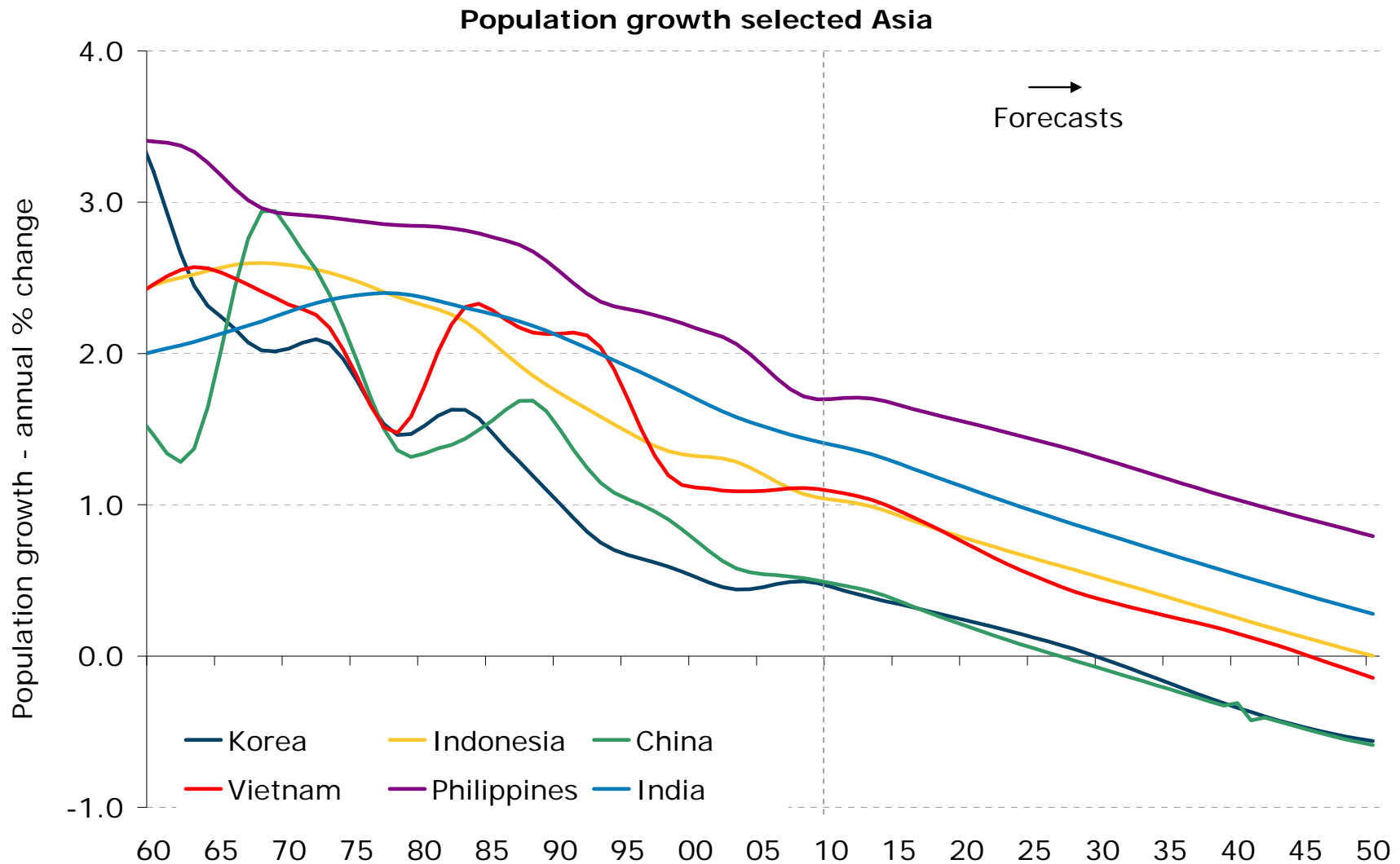
A “centre” is estimated for each country and then each country’s GDP weight is used to identify the world’s economic centre of gravity
Source: ANZ



Asia and Africa are expected to account for most of the world's new population over the next four decades. Asia will provide the biggest contribution in the next 15 years.

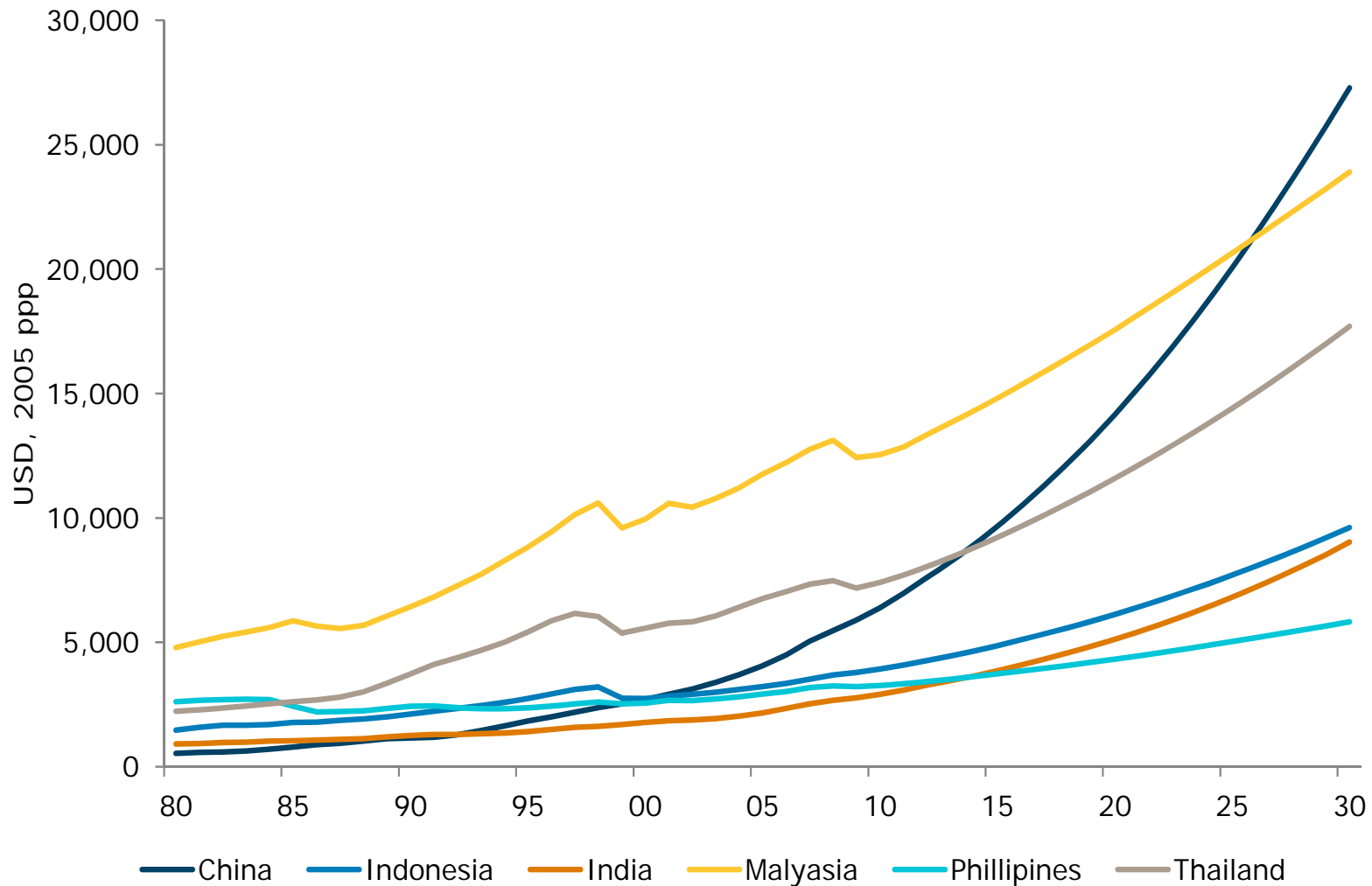


Within Asia it is the countries that are conveniently located on Australia's doorstep that will provide the fastest population growth.



Population growth will be complimented by rising incomes and wealth

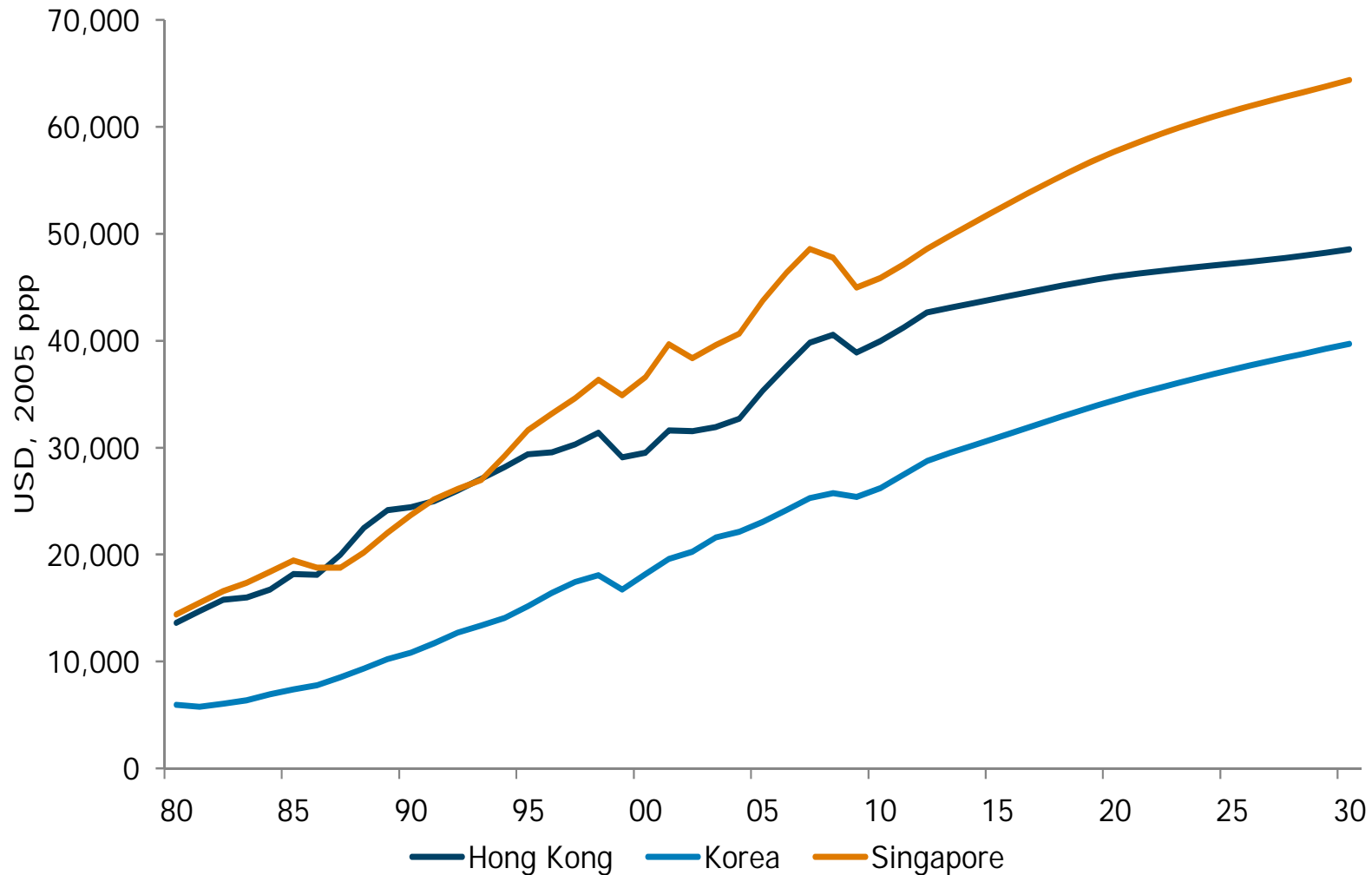
Asian per capita GDP



Source: IMF, CEPII Baseline 2050, ANZ

Even some of the well developed Asian economies will grow wealthier

Asian per capita GDP

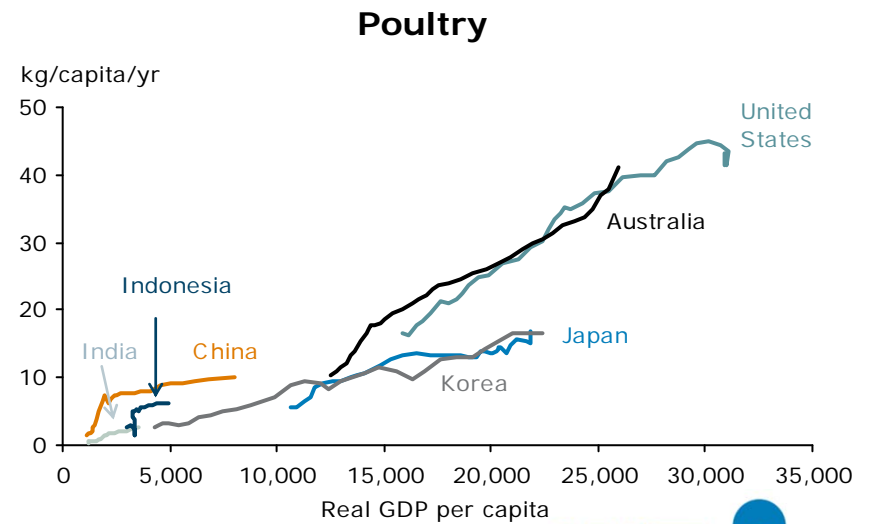
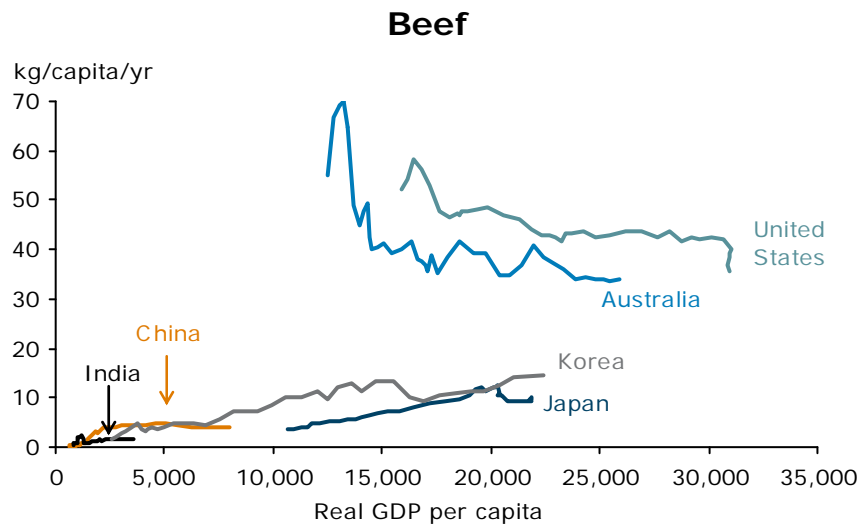
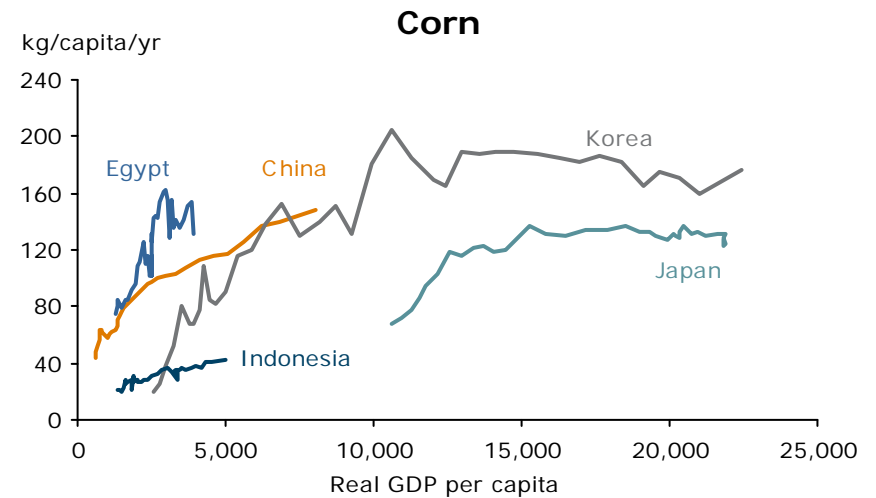
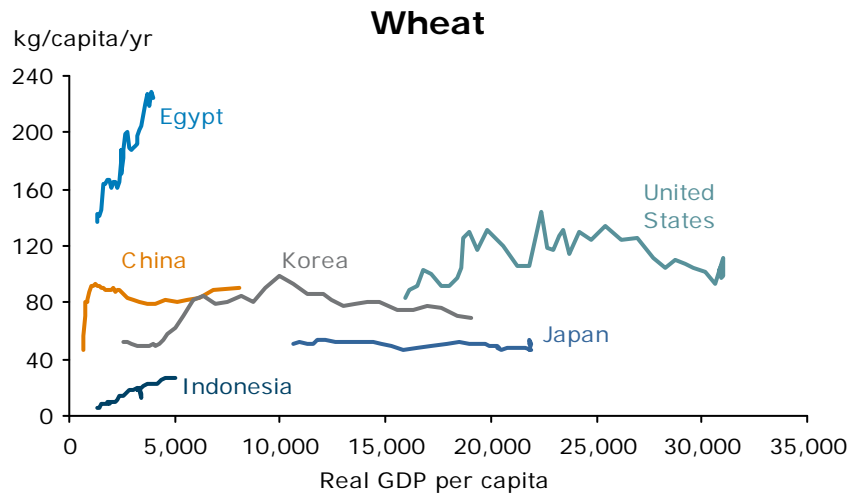


Source: IMF, CEPII Baseline 2050, ANZ



There is strong evidence to show demand for food rises with income

Per person, per year consumption of key agricultural commodities

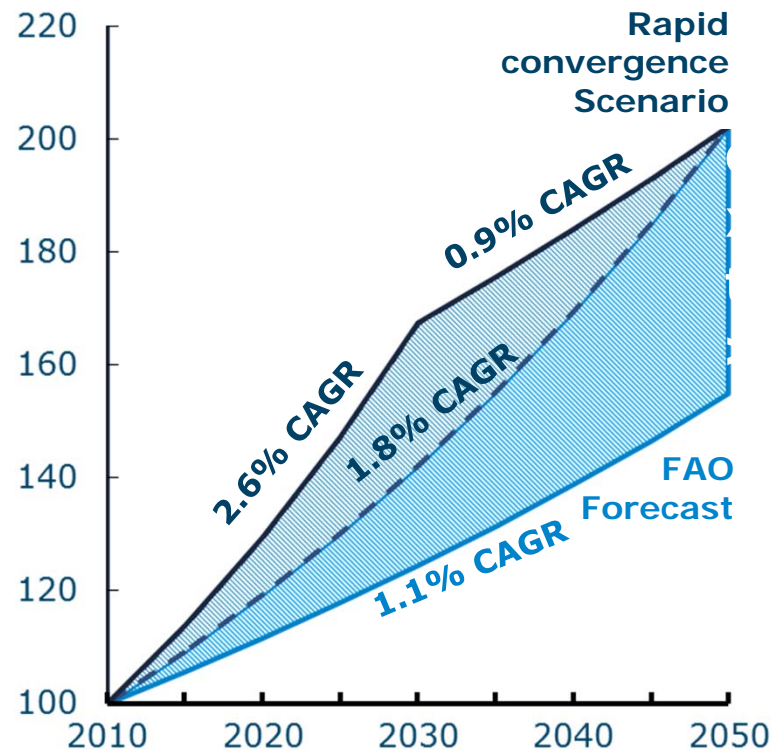


Source: The Conference Board, USDA, World Bank, ANZ Commodity Strategy.
Notes: Data smoothed, GDP per capita (1990GK\$)

All this adds up to strong demand for food across the world over the decades ahead

Global agricultural demand

Index



* Vegetables includes pulses, spices, roots and oil crops; Other Animal products includes milk, eggs, aquatic products and cheese and excludes meats

Source: FAO; UN; PJP Analysis

Growth drivers

① Rising incomes

- Lead to higher calorie diets
- Lead to more land and water resource intensive diets

② Population growth

- From 7 billion in 2011 to 9.3 billion in 2050

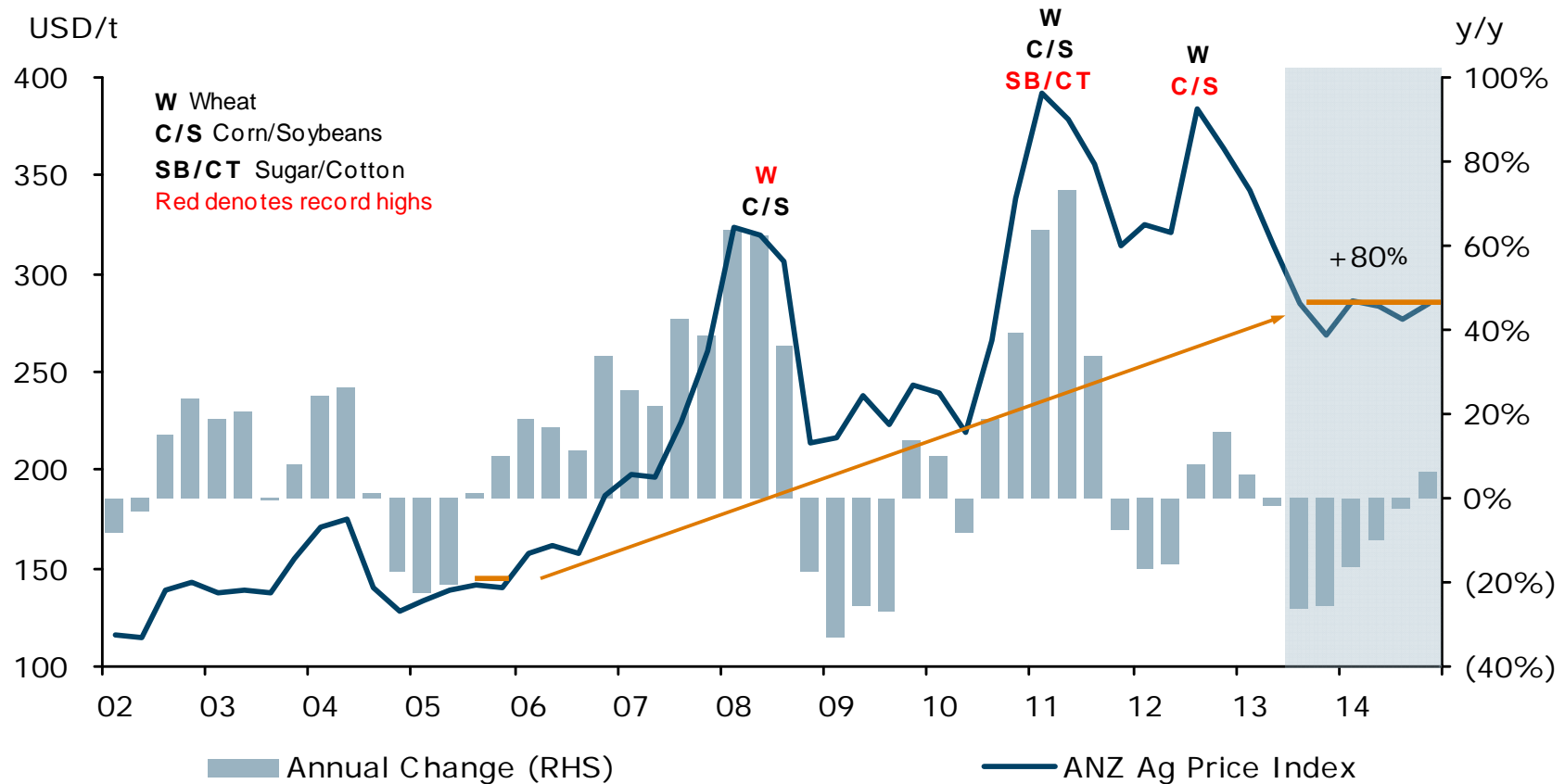
③ Increasing use for biofuels

- Could account for up to 7% of agricultural demand in 2050



As we move into a period of increasingly strong demand from Asia, prices are starting off from a solid base, with prices forecast to stabilise 80% higher

Quarterly Ag Price Index



Source: ANZ Research.

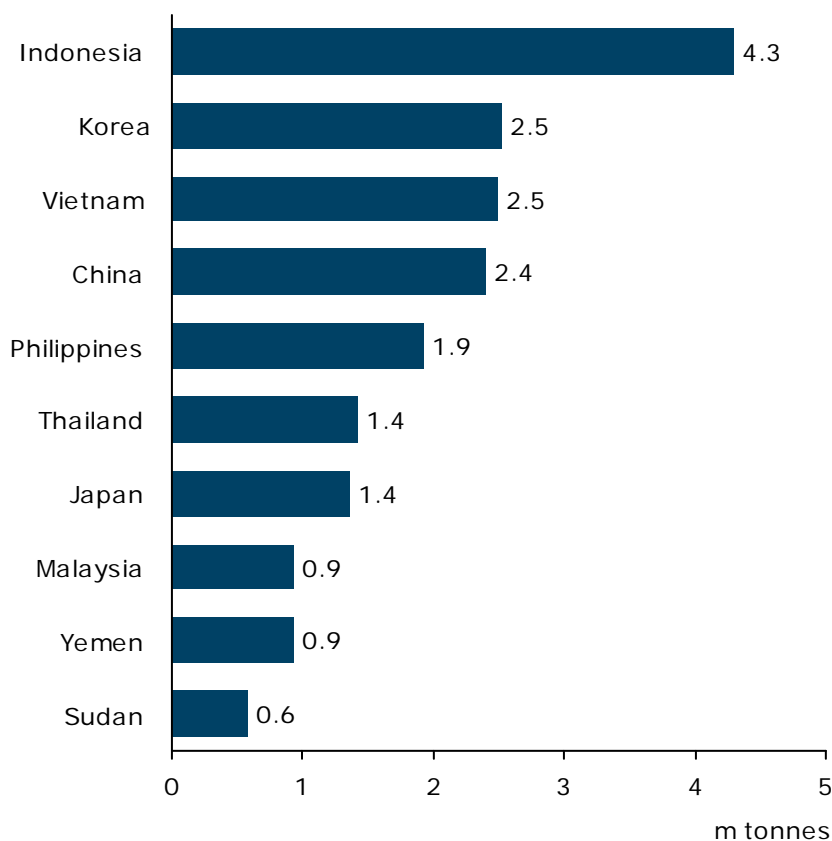


Last season the top 8 destinations for Australian wheat were all in Asia

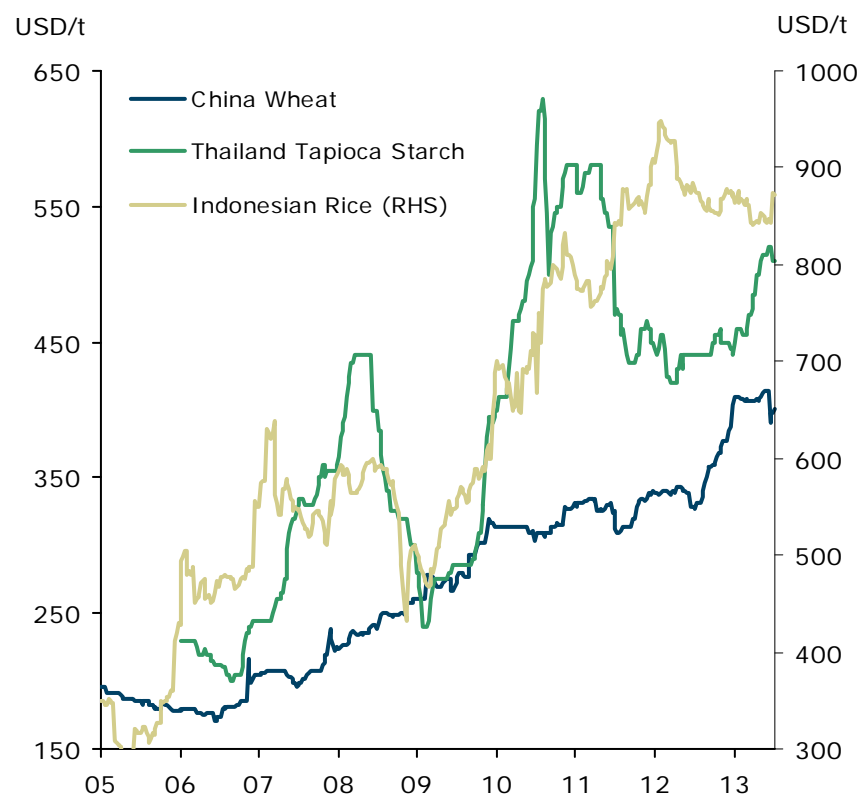
A region where a large gap is emerging in domestic prices versus supplier regions

Destinations for Australian Wheat

2011-12



Key Carbohydrate Prices in Asia

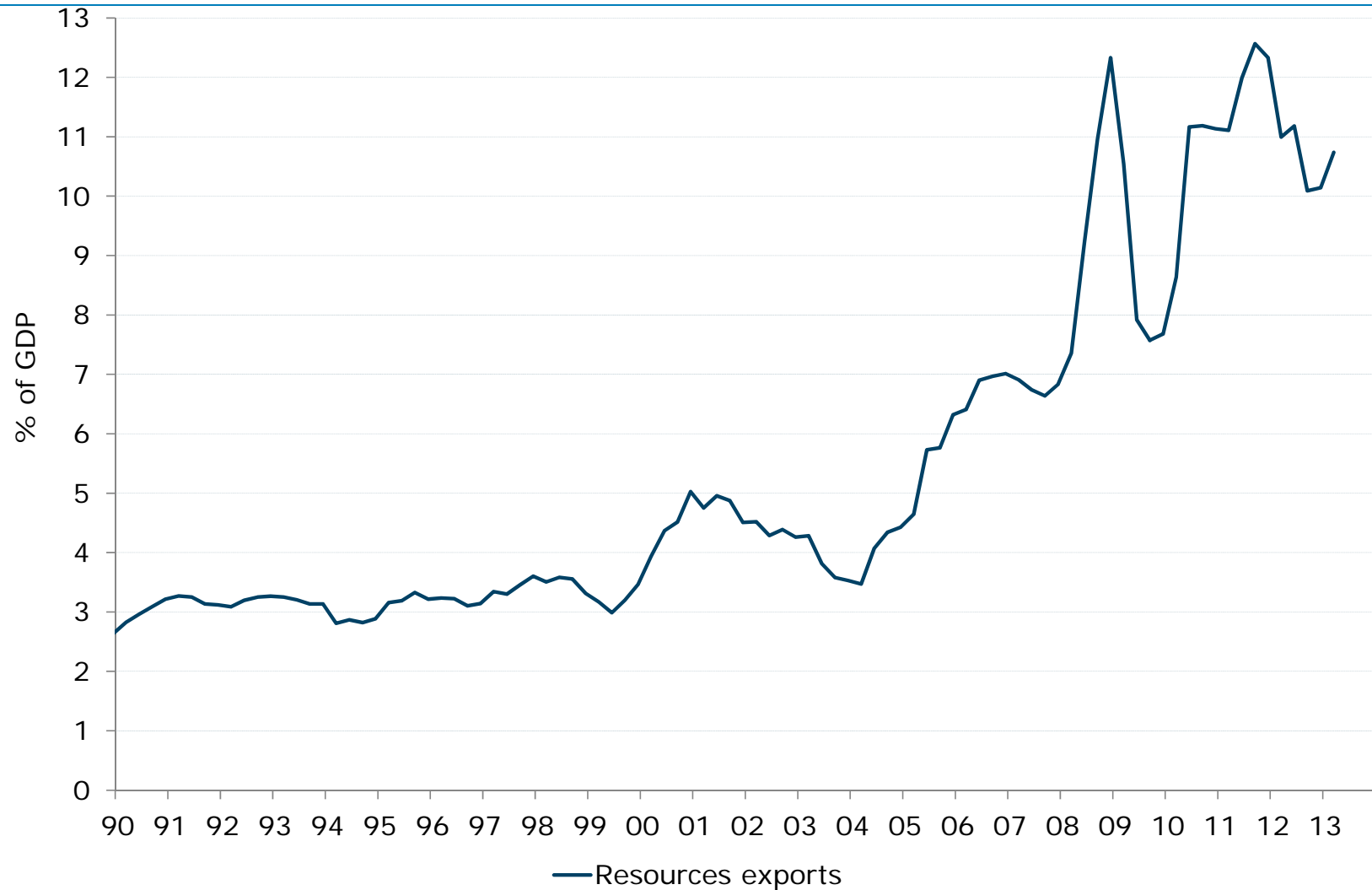


Source: ABS, Bloomberg, ANZ Research.



Australia has successfully 'tapped' into rising demand for natural resources in recent years

Resources exports as % of GDP



Source: ABS, ANZ

Future growth in resources export earnings requires investment

Resource investment as % of GDP

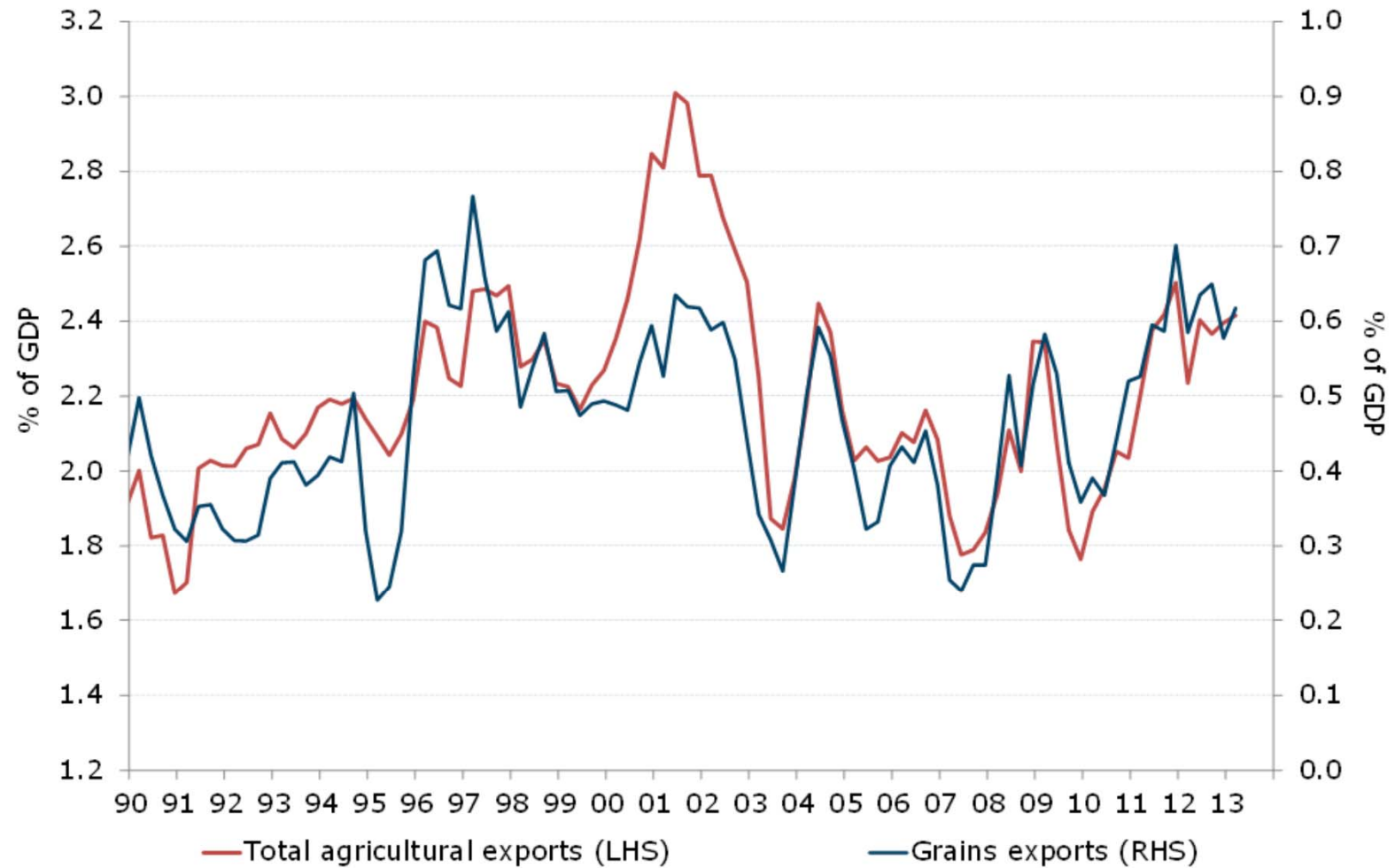


Source: ABS, ANZ



The next boom?

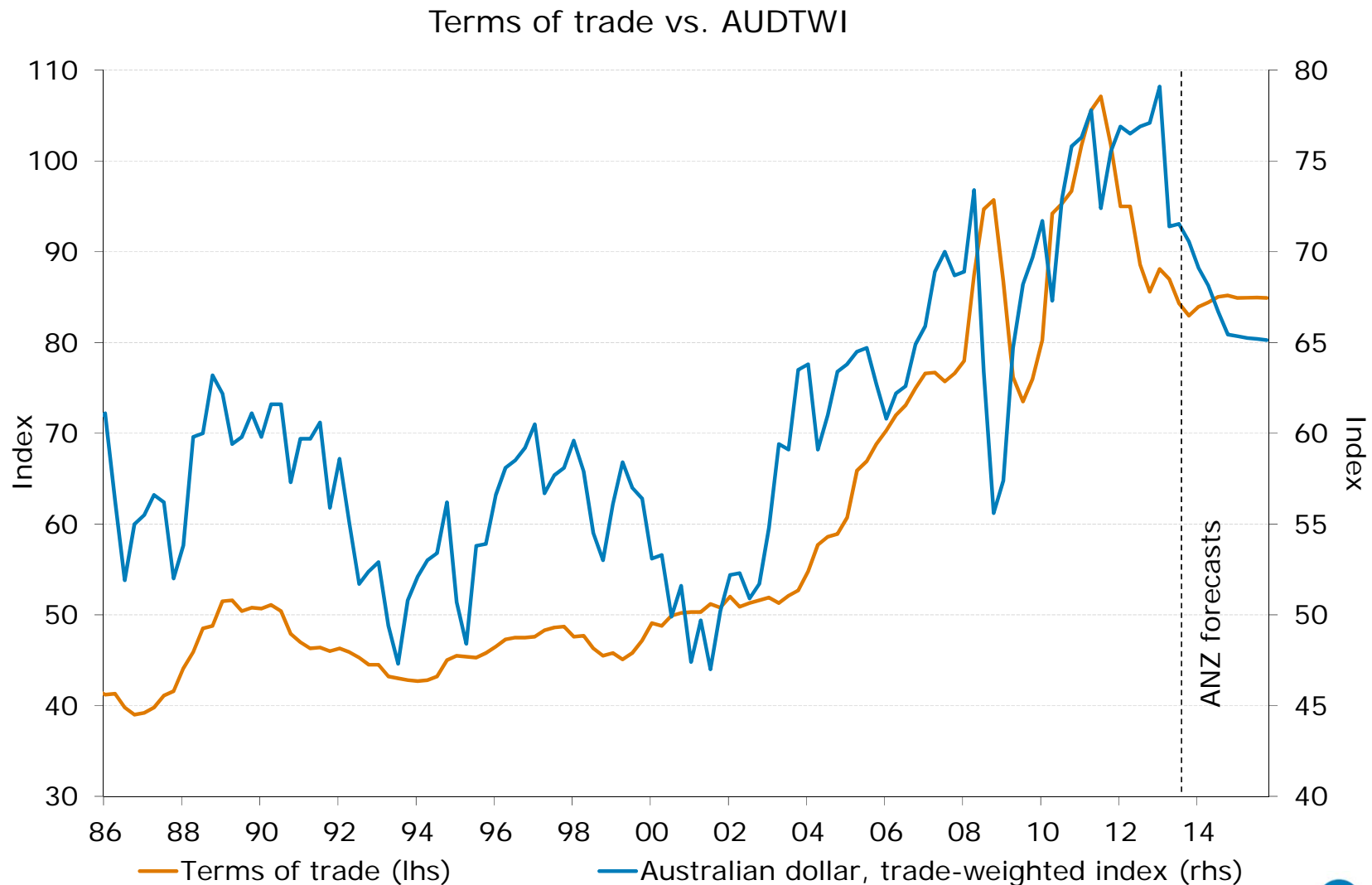
Agriculture exports as % of GDP



Source: ABS, ANZ

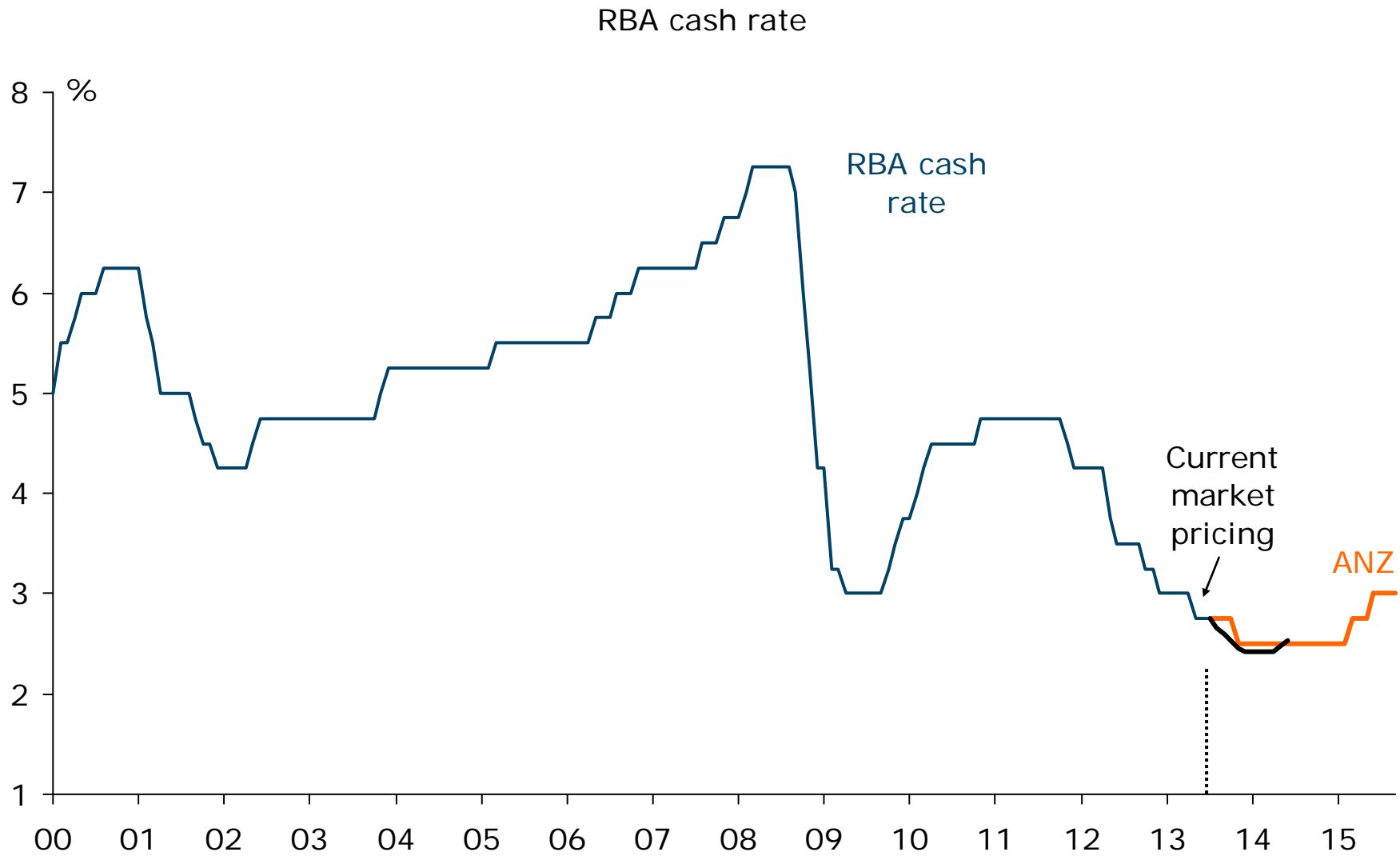


Commodity prices and the terms of trade have traditionally driven the AUD – currently the AUD appears stronger than suggested by the terms of trade.

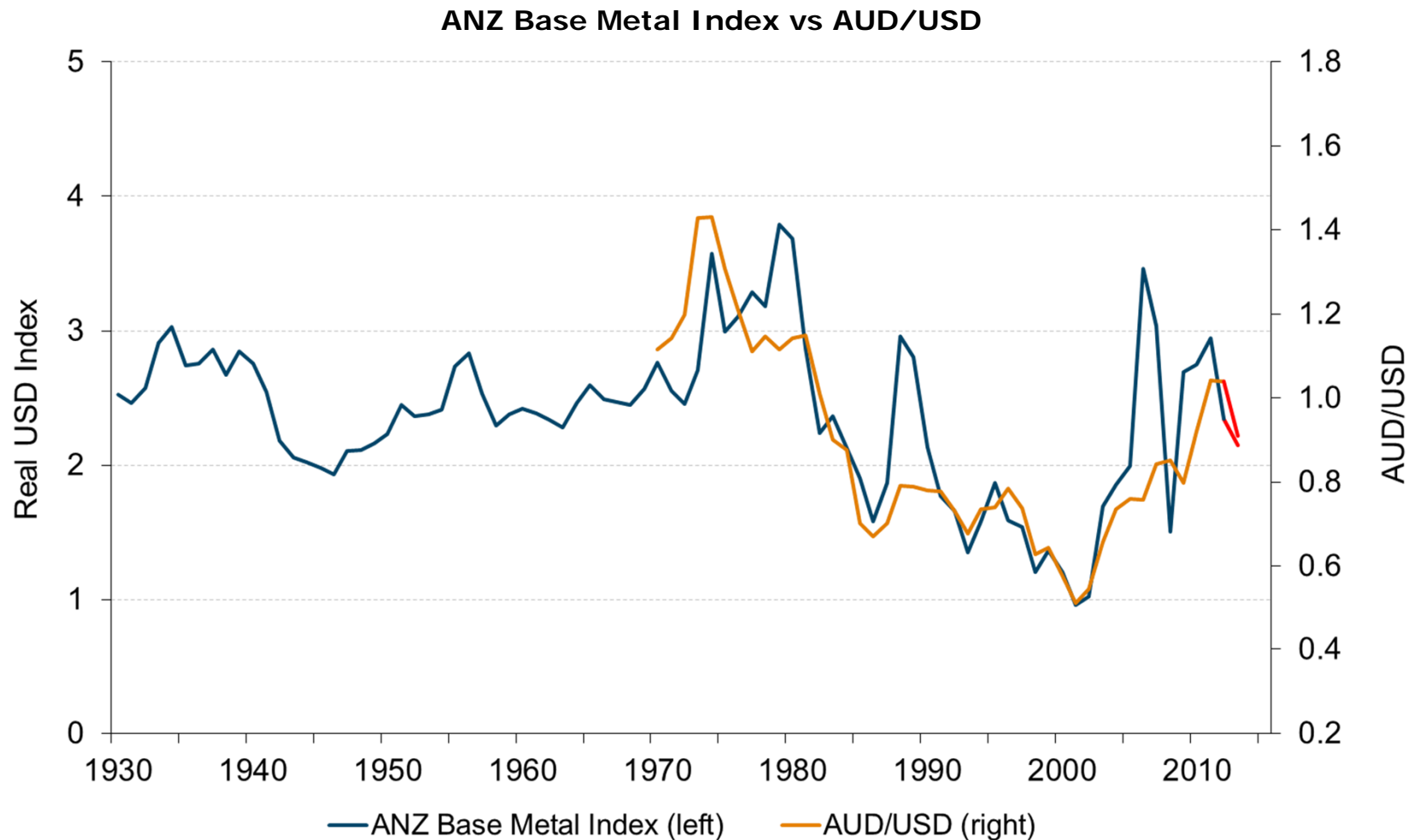


Sources: Bloomberg, ABS, ANZ

We expect some further lower of interest rates in Australia

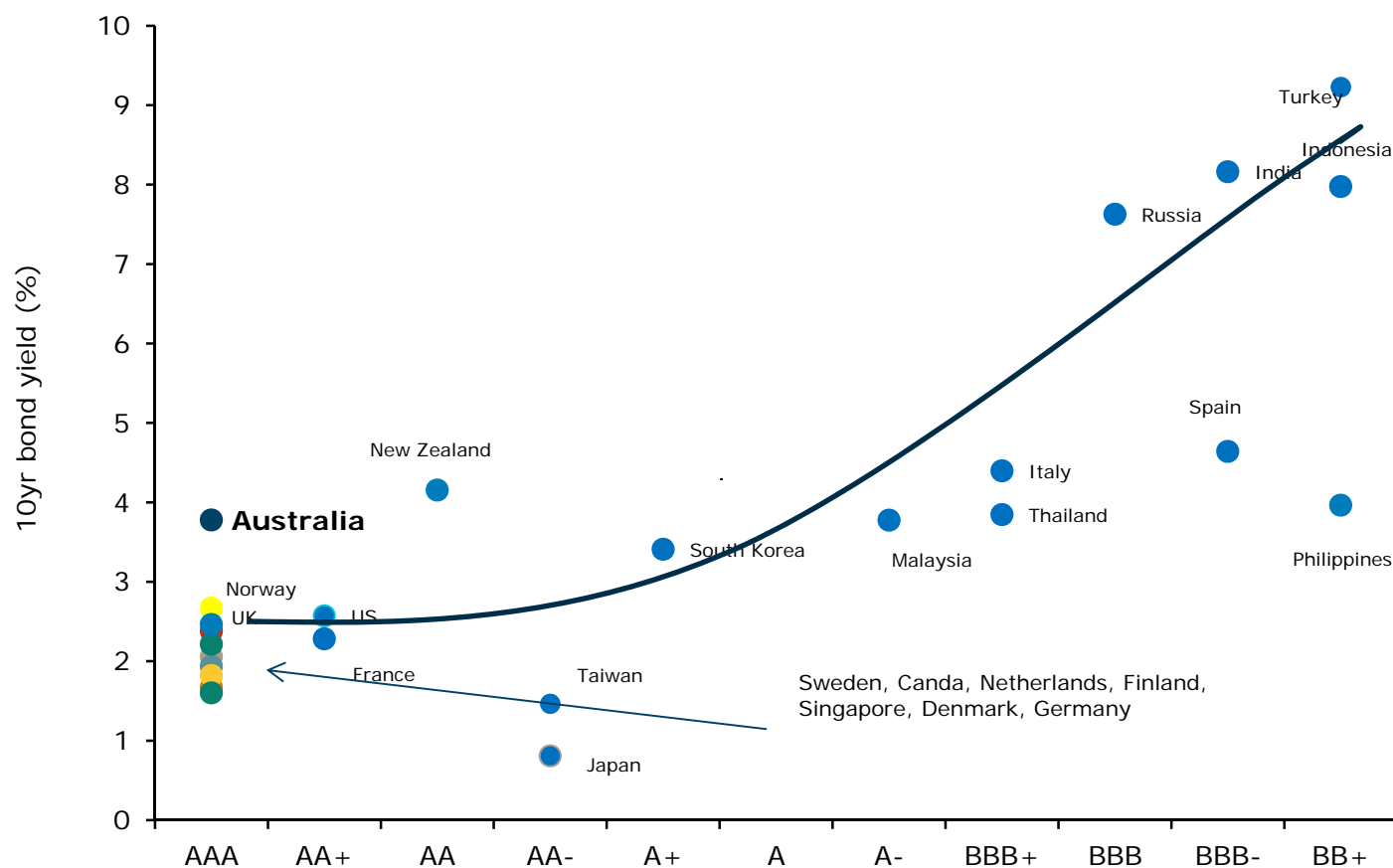


The AUD appears to be broadly in line with recent commodity price movements. We do not expect further significant falls in real commodity prices from here.



NB. ANZ Real Base Metal Index includes Copper, Aluminium, Nickel, Zinc, Lead and Tin deflated using US CPI.

Australia has a favourable mix of 'yield' and credit quality from a global investor perspective



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