

International Economy, Commodities And The Gold Price

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**Institutional
Banking & Markets**



CommonwealthBank

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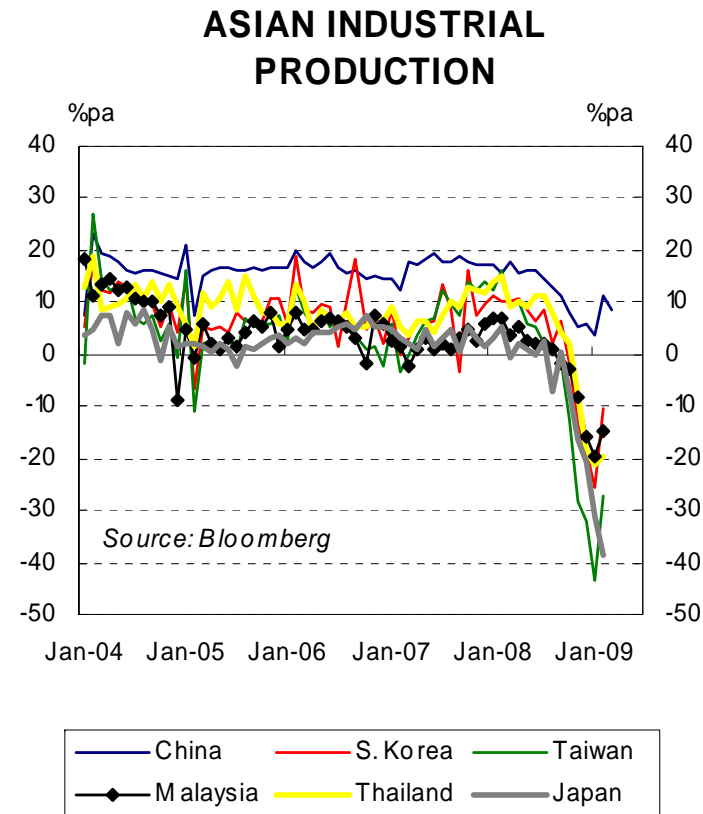
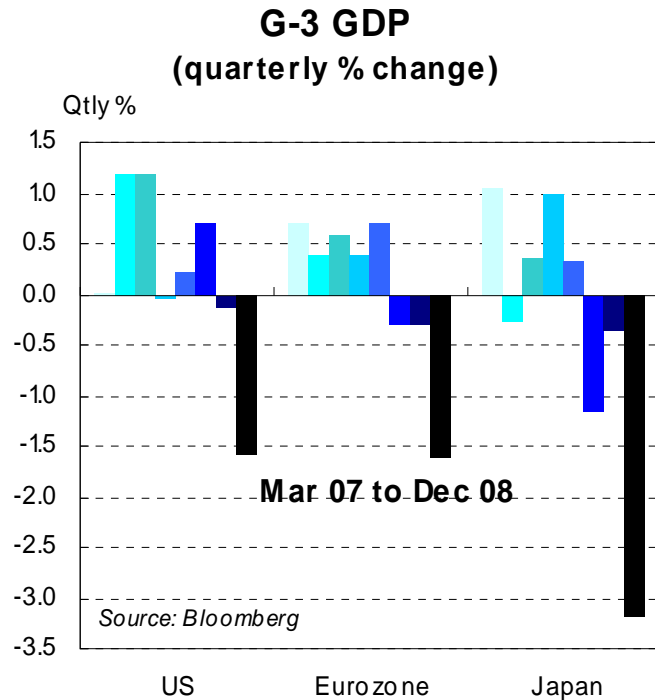
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Presentation Themes

- **The outlook for the international economy for the balance of 2009 and much of 2010 remains very weak.**
- **Base metals prices (USD terms) have rallied from earlier lows, perhaps prematurely.**
- **We expect the gold price (USD terms) to be volatile, possibly spiking higher at times in the June quarter but ultimately trending lower.**
- **We expect the AUD to appreciate against the USD, with the AUD forecast to be at around USD0.77 by end-2009.**

Where Are We Right Now?

In the red

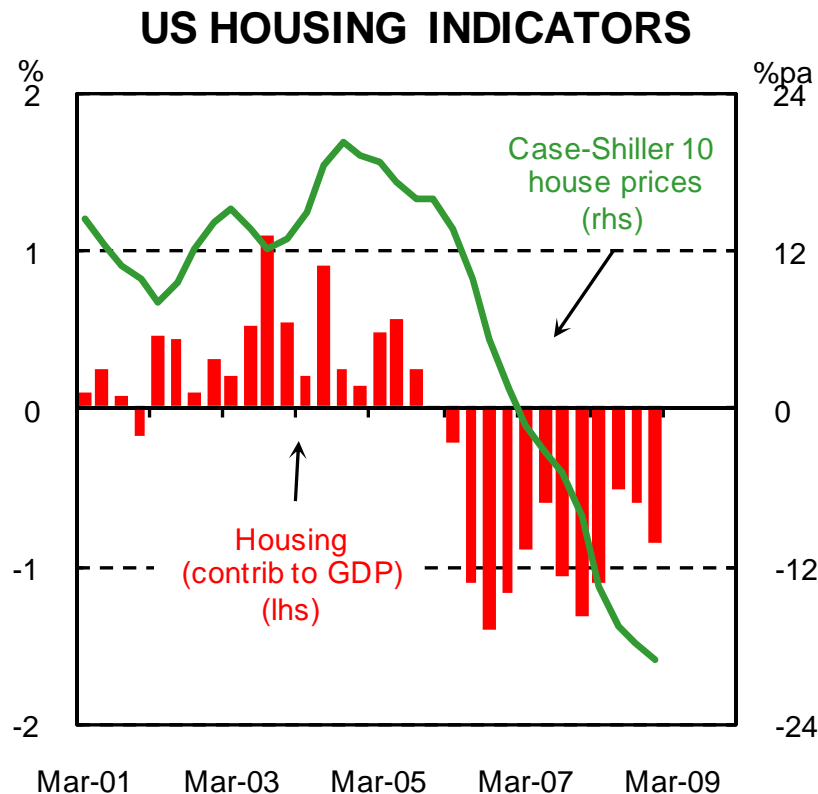


- Economic activity contracted dramatically in the developed economies.
- Industrial production has fallen sharply in a number of Asian economies.
- But industrial production in China has remained positive (year on year basis).



Why It Happened?

Sub-prime ripples create a financial and economic tsunami

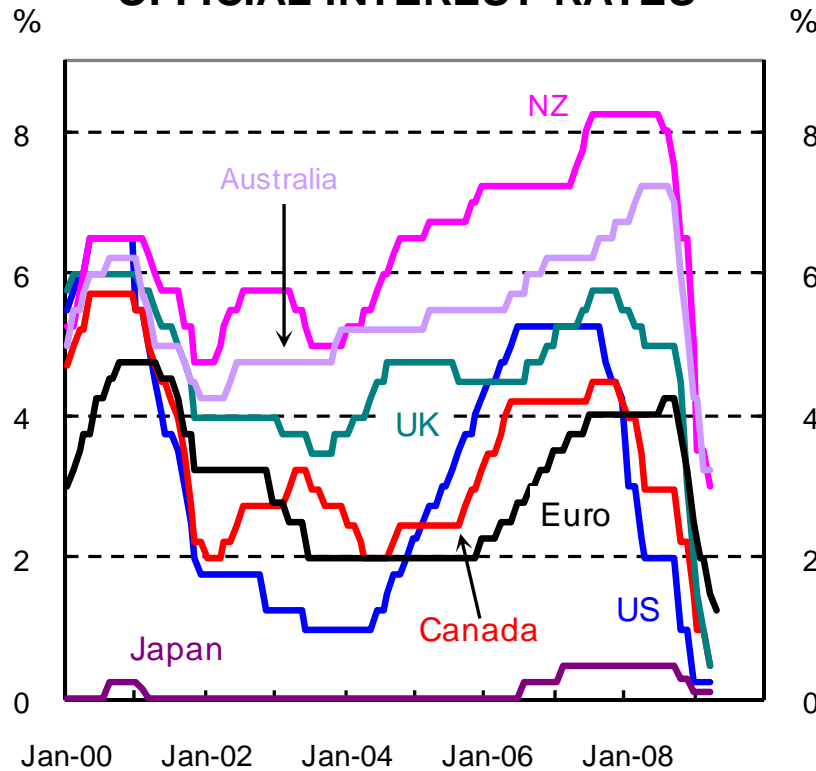


- Financial markets occasionally “set fire” to the real economy.
- Initially, reduced perception of risk encourages lending to ever more dubious borrowers, often fuelled by innovative financing techniques.
- Recognition of excesses can trigger a vicious downward spiral as bank capital weakened and lenders become more risk averse.

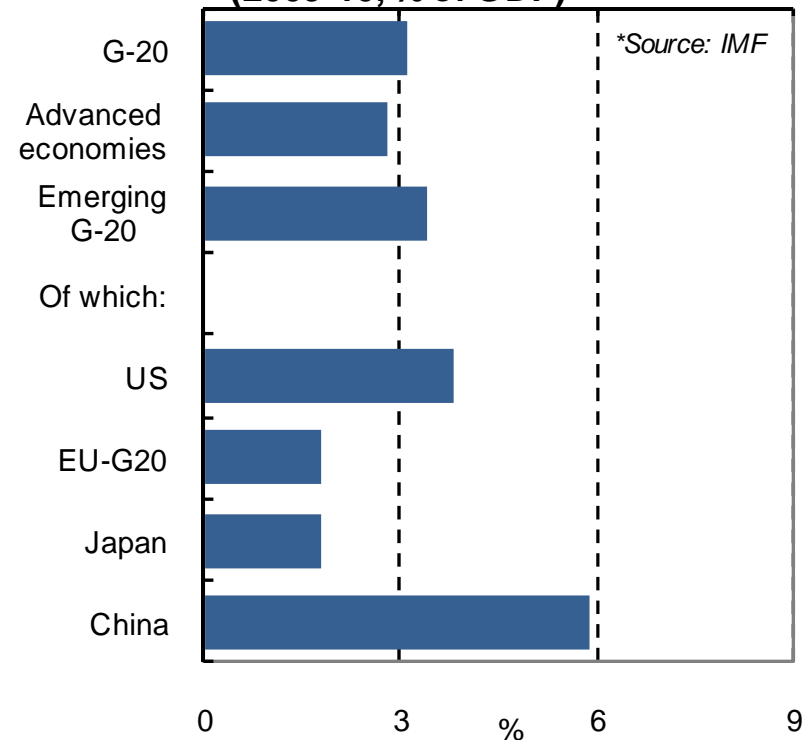
What's Happening?

All hands to the pump

OFFICIAL INTEREST RATES



G-20 DISCRETIONARY MEASURES (2009-10, % of GDP)

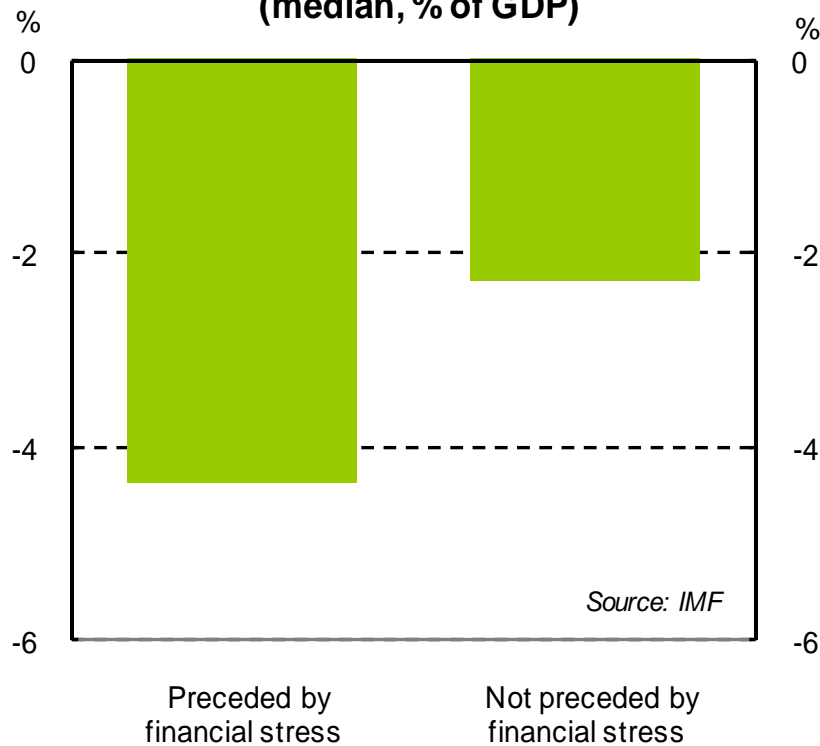


- Interest rate cuts have been large and rapid – quantitative easing underway.
- Fiscal policy measures significantly expanded.

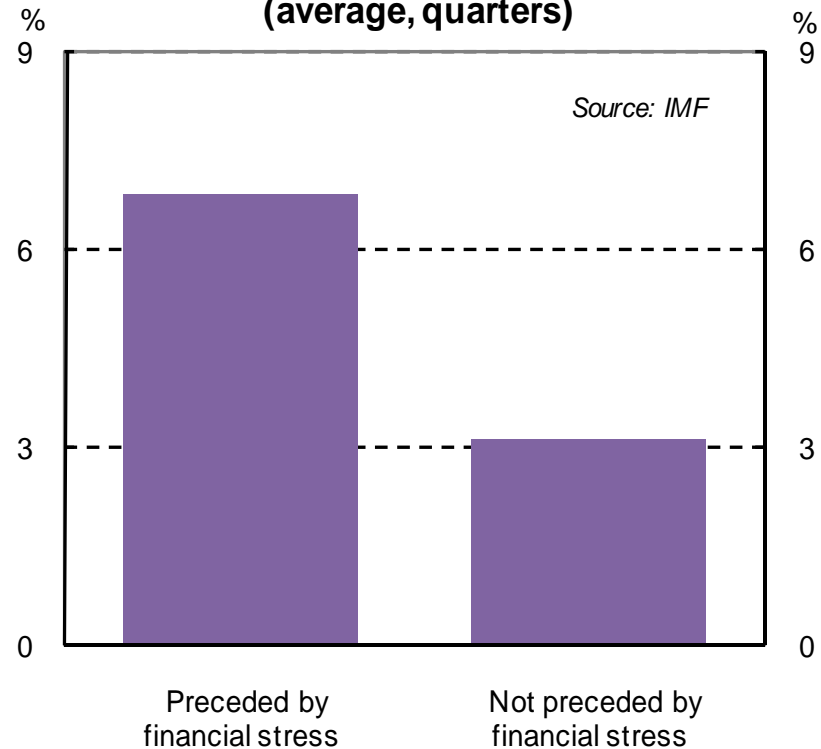
Is It Enough?

Deeper & longer

OUTPUT LOSS DURING RECESSIONS
(median, % of GDP)



RECESSION DURATION
(average, quarters)

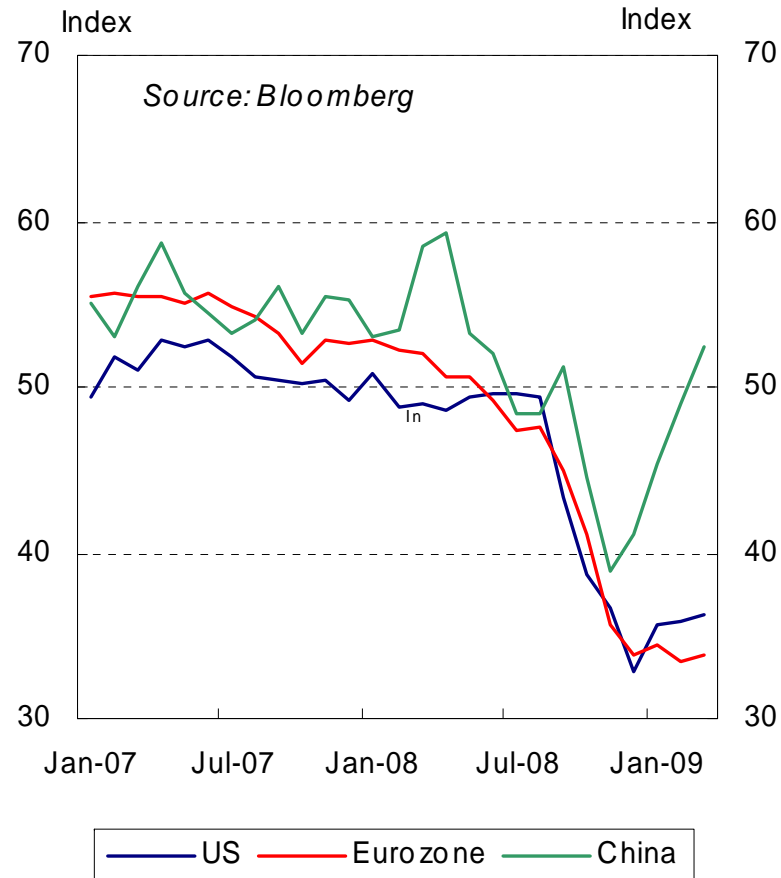


- **Output losses in recessions are greater when preceded by financial stress – partly because the downturn is typically longer.**

Where Are We Heading?

Green shoots?

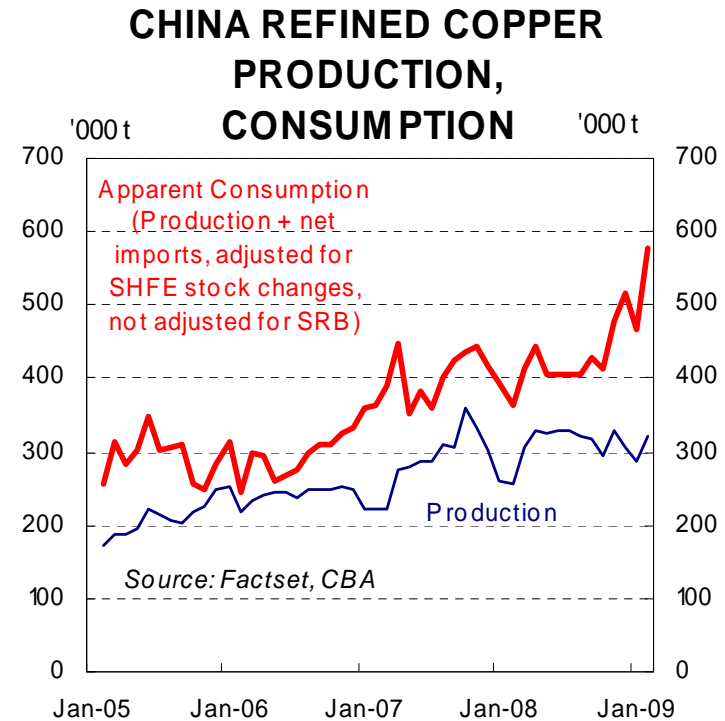
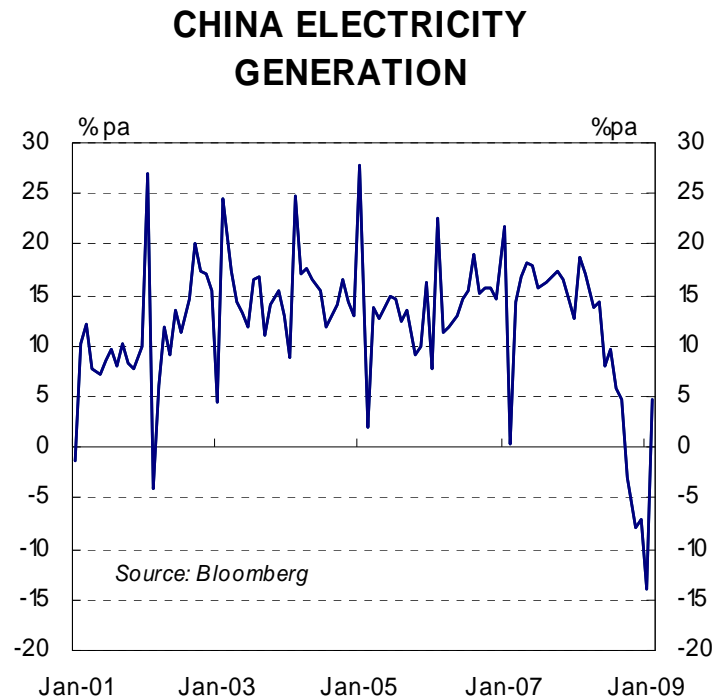
PMI



- There has been limited evidence of a turn around in the economic fortunes of the developed world.
- But there are signs of a return to stronger growth in China.

What About China?

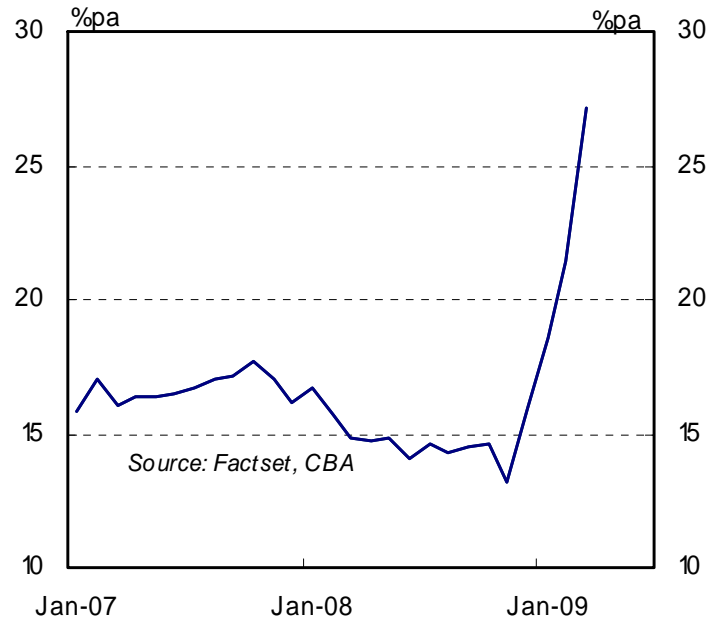
The data and what is really happening



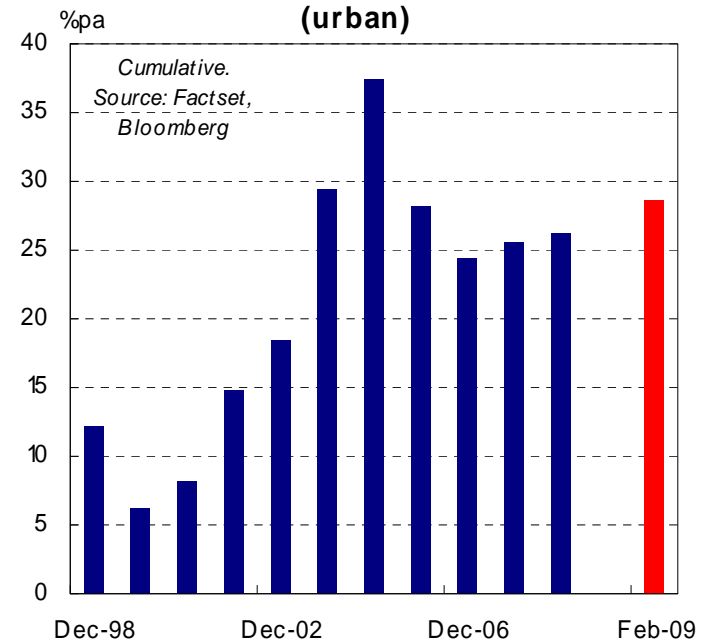
- Different indicators are providing conflicting signals on the current position of the Chinese economy.
- Most likely case is that there is some improvement in China's growth.

China's Economy Responding To Command

CHINA, LOANS OF FINANCIAL INSTITUTIONS



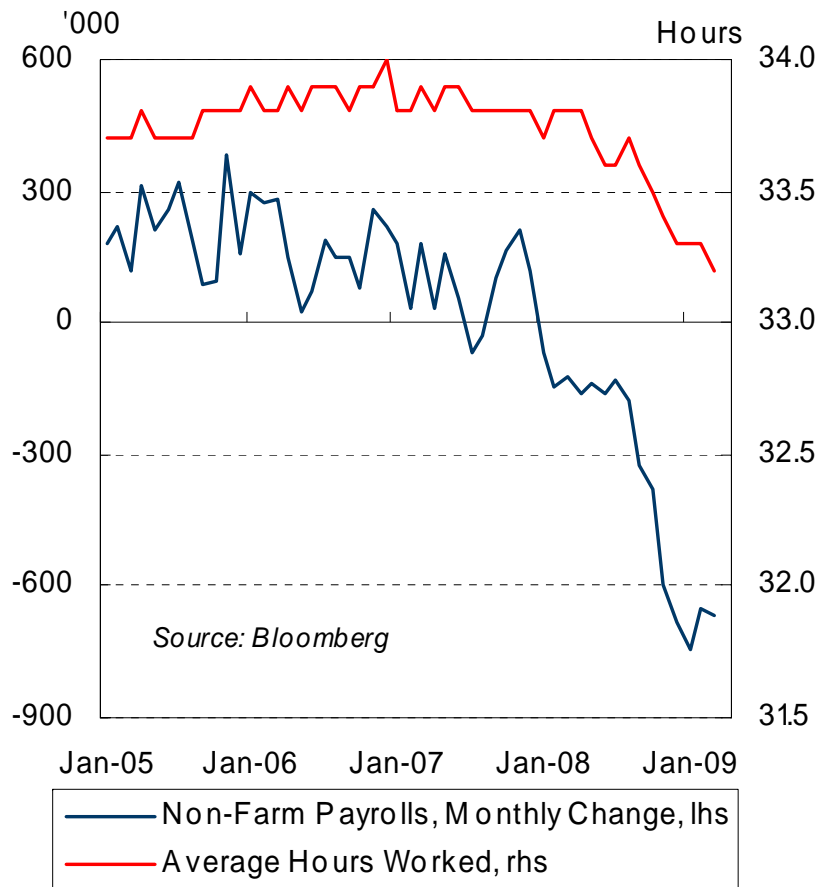
CHINA FIXED INVESTMENT



- There is evidence that China's policy stimulus is quickly flowing through the economic system.

Obstacles Still Remain

US NON-FARM PAYROLLS

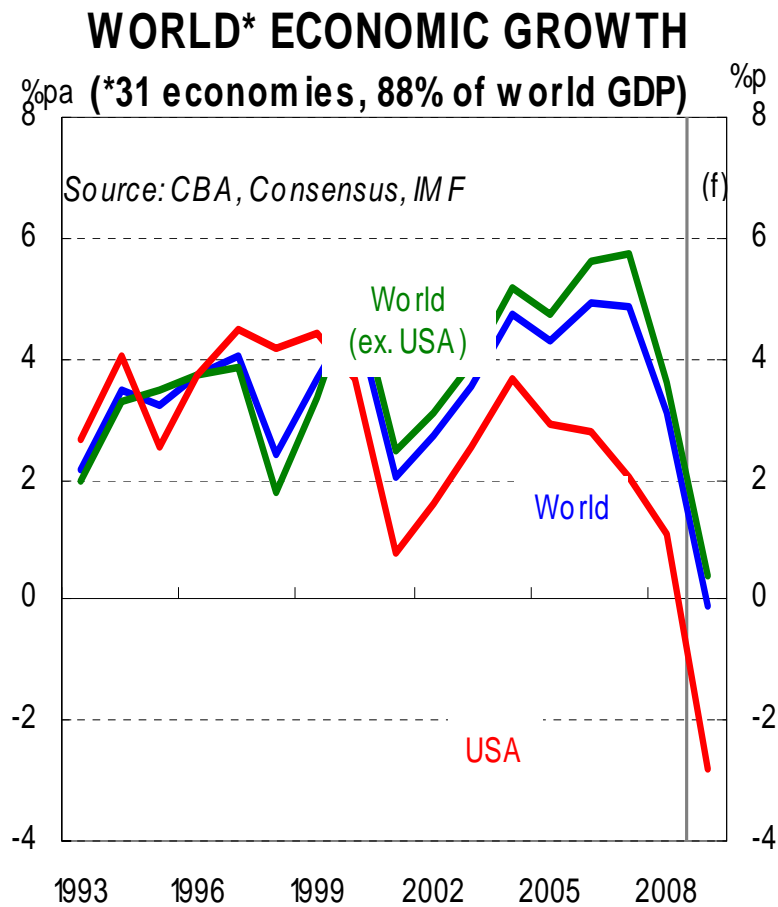


■ There remain a number of obstacles to US economic recovery:

- Weakness in US employment will impact on consumer spending and household finances.
- US recession will impact on corporate US profitability.
- Lenders remain cautious.

What Does It Mean For World Growth?

L,U, V, or W

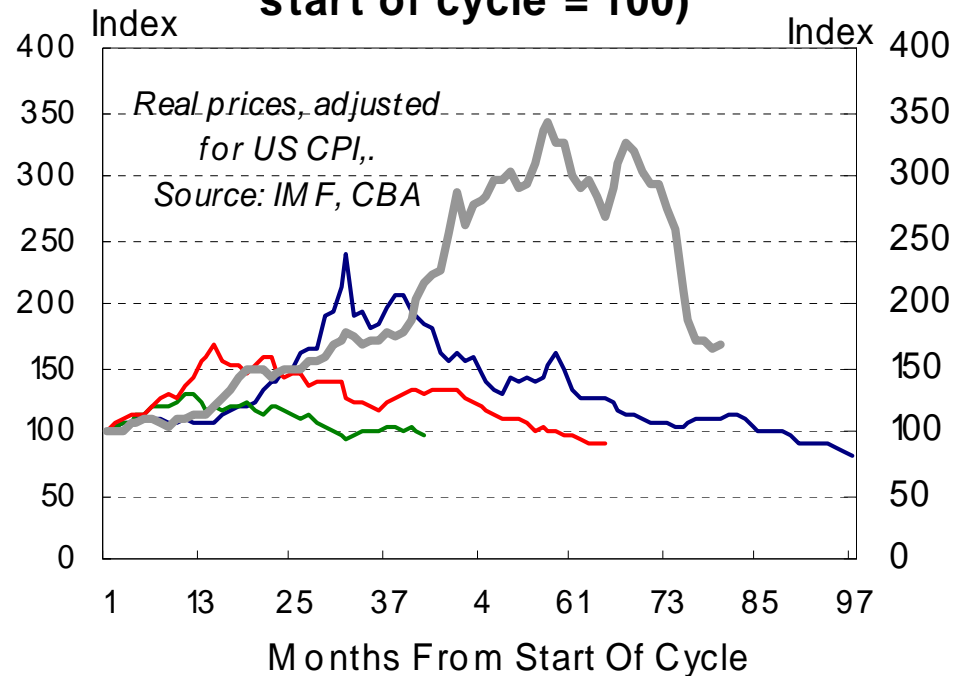


- International economy widely tipped to contract in 2009.
- Latest forecast from OECD is for world economy to contract by 2.7% in 2009.
- Recovery in 2010 expected to be slow. OECD is forecasting world GDP growth of 1.2% in 2010.

The last metals price cycle was long and strong, but turned sharply...

METAL PRICE CYCLES

(IMF metal price index, rebased, start of cycle = 100)

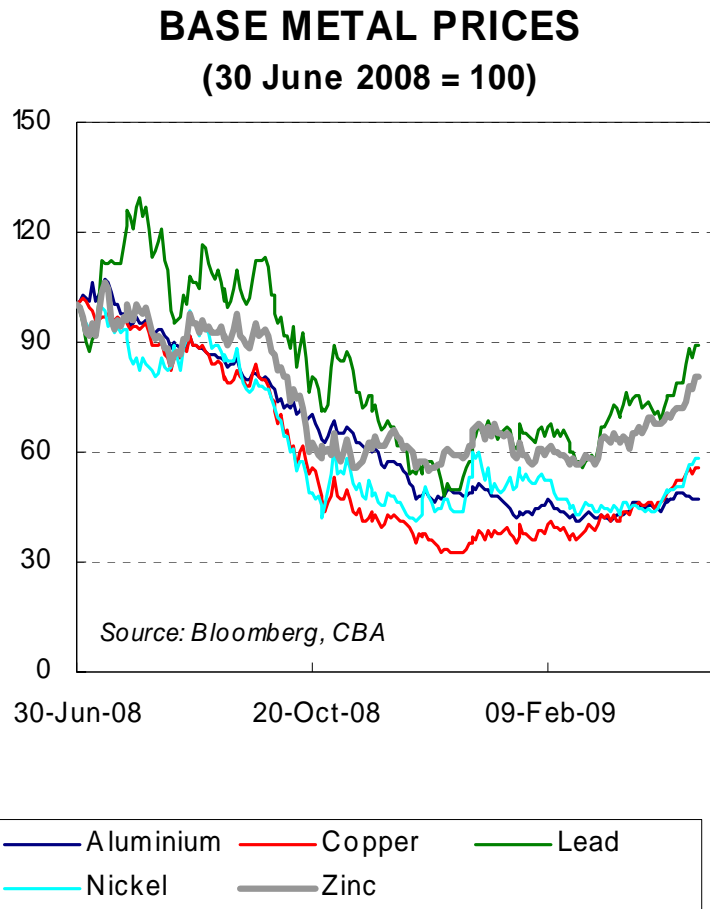


— Nov 85 to Nov 93 — Mar 99 to Aug 02
— Nov 93 to Mar 99 — Aug 02 -

- The last metals up price cycle was notable for its magnitude and duration, but finished abruptly.

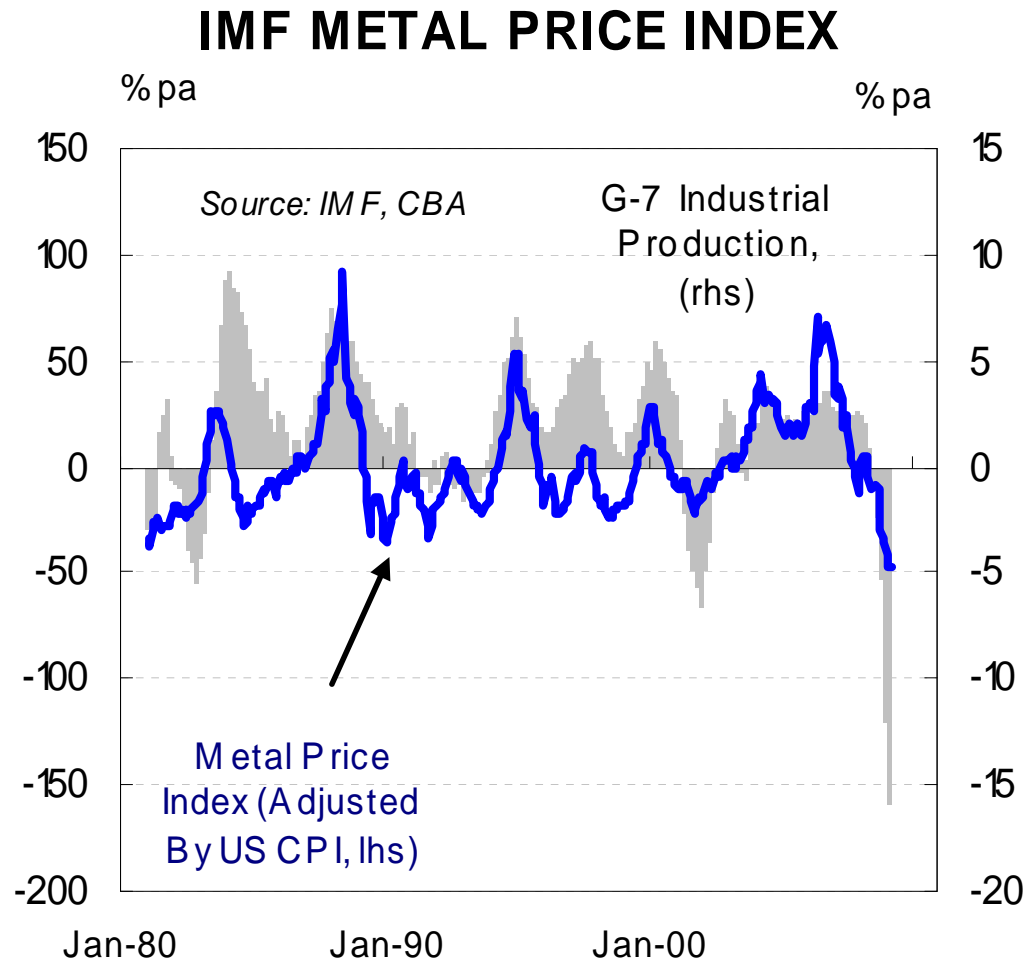
Are Commodity Markets Betting On A “V”?

Risks of short term disappointment

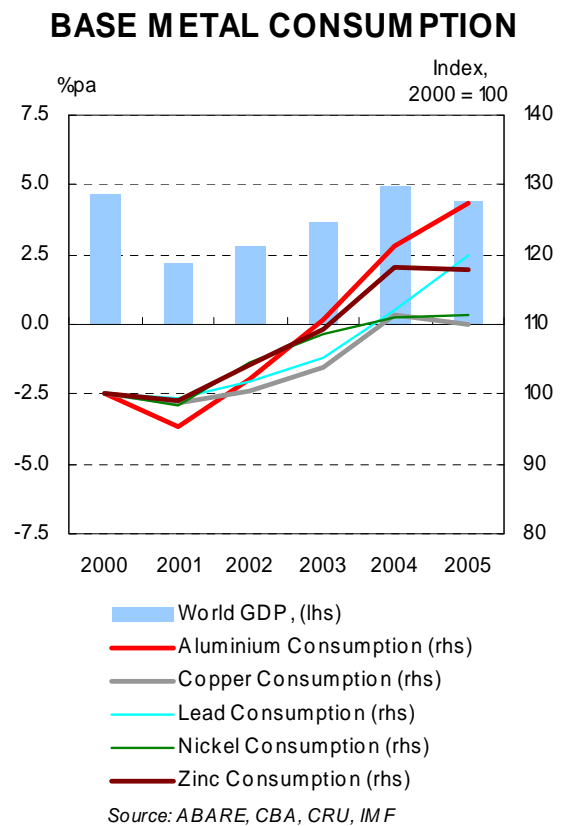
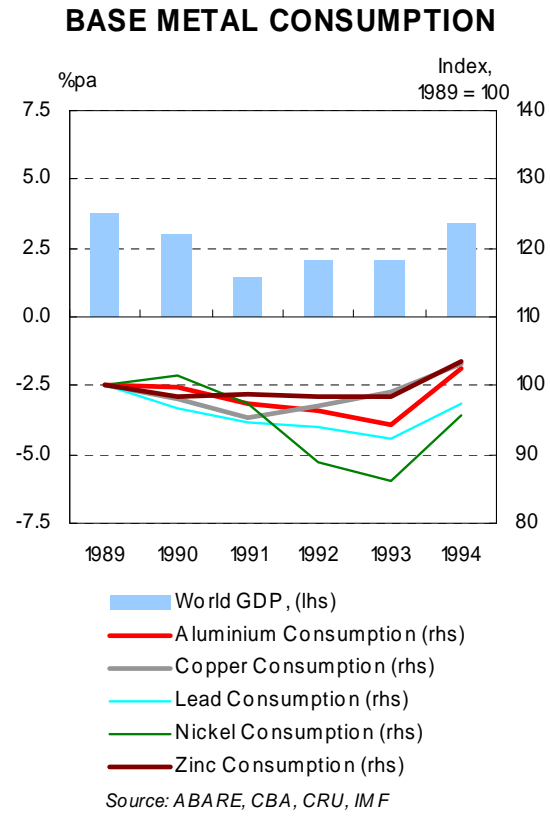
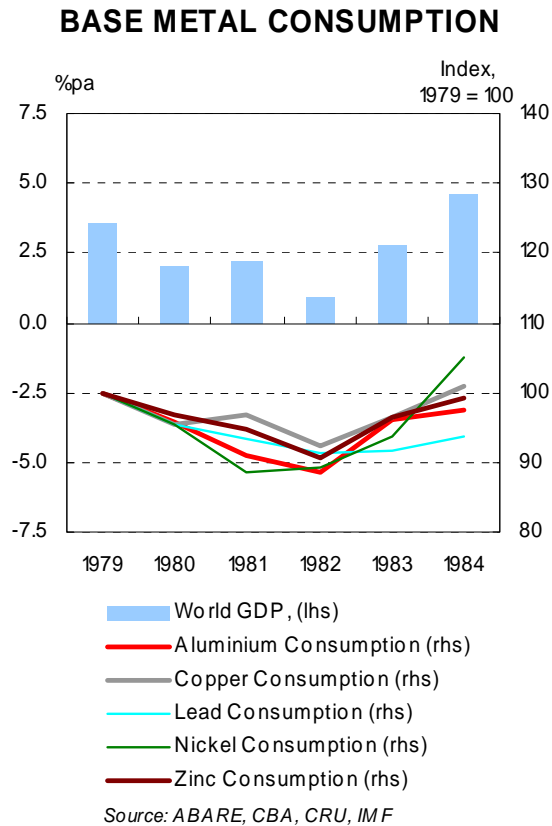


- Over second half of 2008 markets appeared to quickly ‘price in’ global recession .
- Most base metals prices (USD terms) bottomed back in late 2008.
- Markets became less sensitive to ‘bad’ economic news.
- But recent increases in some of the commodity prices have opened up two-way price risk.

Metals cycle linked to the economic cycle



Typically metal consumption recovers slowly.

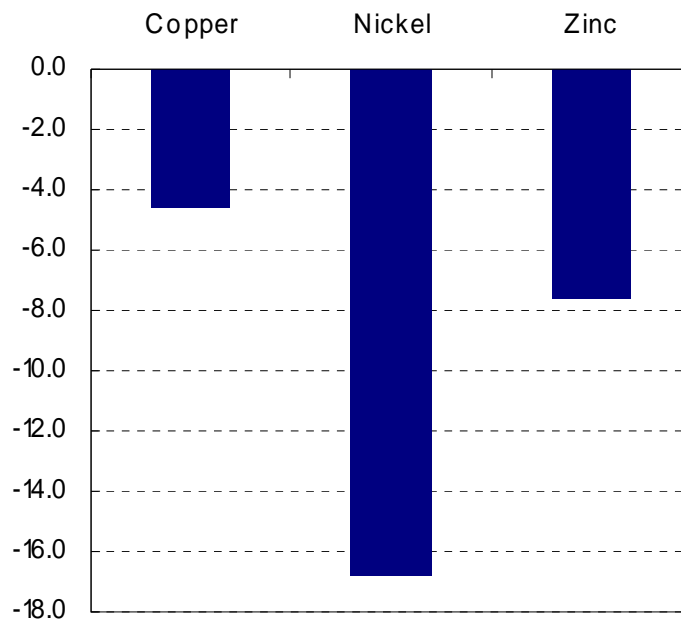


- In past severe economic cycles, it has taken several years for base metals consumption to recover to pre-recession levels.
- This time around, the China dynamic may speed the process.

Supply Side Adjustment

METAL PRODUCTION CUTS

(Mine, Full year effect, % of estimated 2008 production)

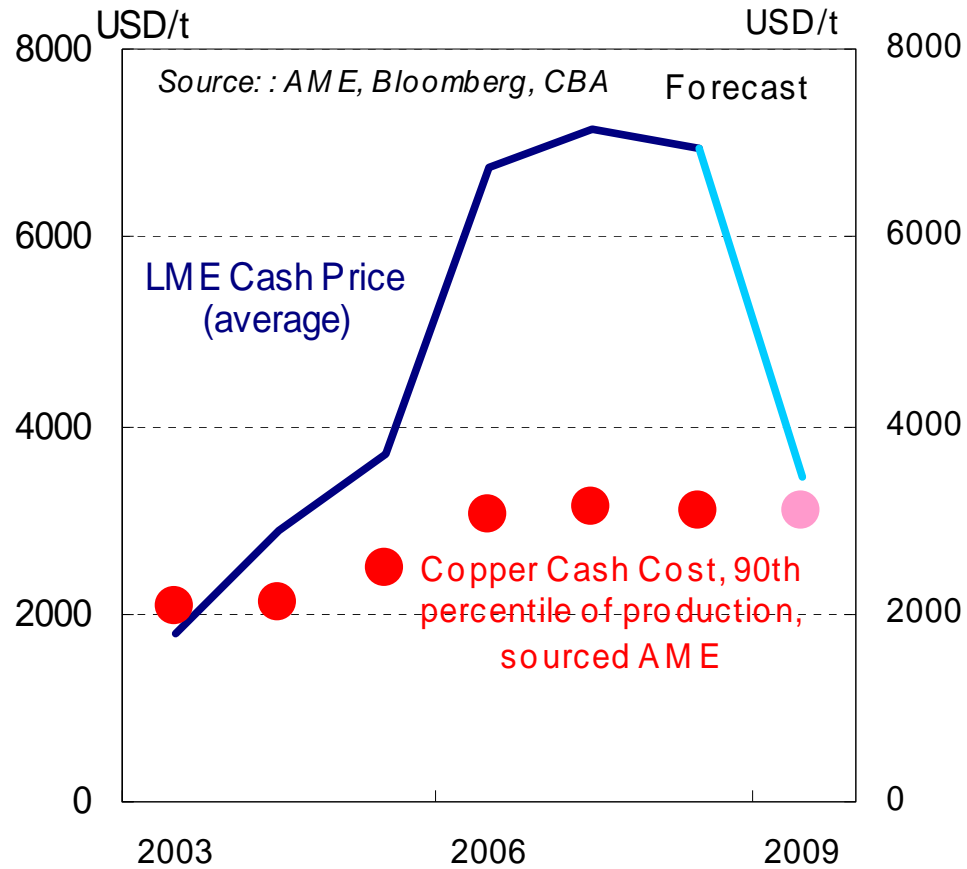


Source: CBA. Based on announced cuts to existing mine operations and cancellation/deferral of new operations on an annual basis. Assumes full year impact and assumed 2009 capacity. Excludes Chinese zinc mines.

- Metal production cuts came thick and fast over the second half of 2008 and early-2009.
- Lower production will significantly pare back anticipated metals markets surpluses.

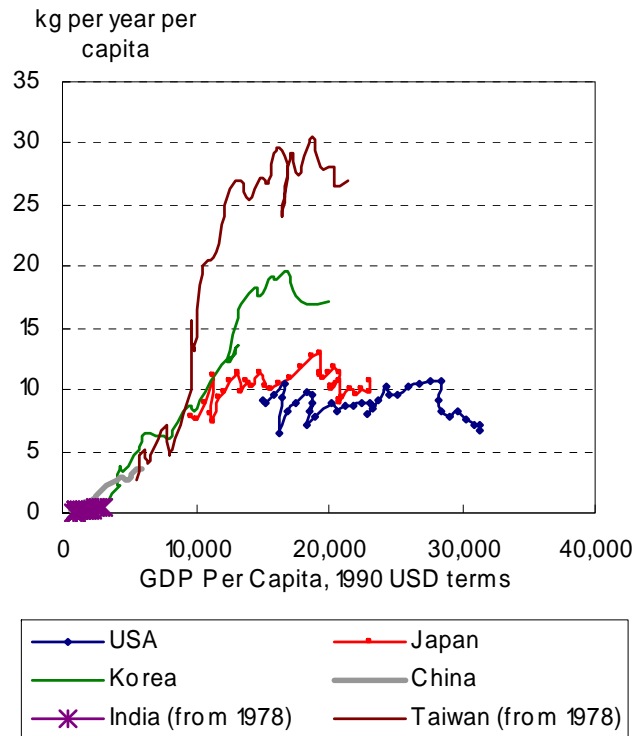
Copper Price Above Cash Cost

COPPER PRICE AND COSTS



Long Run Demand Driver

COPPER CONSUMPTION AND ECONOMIC DEVELOPMENT (1970 - 2008)



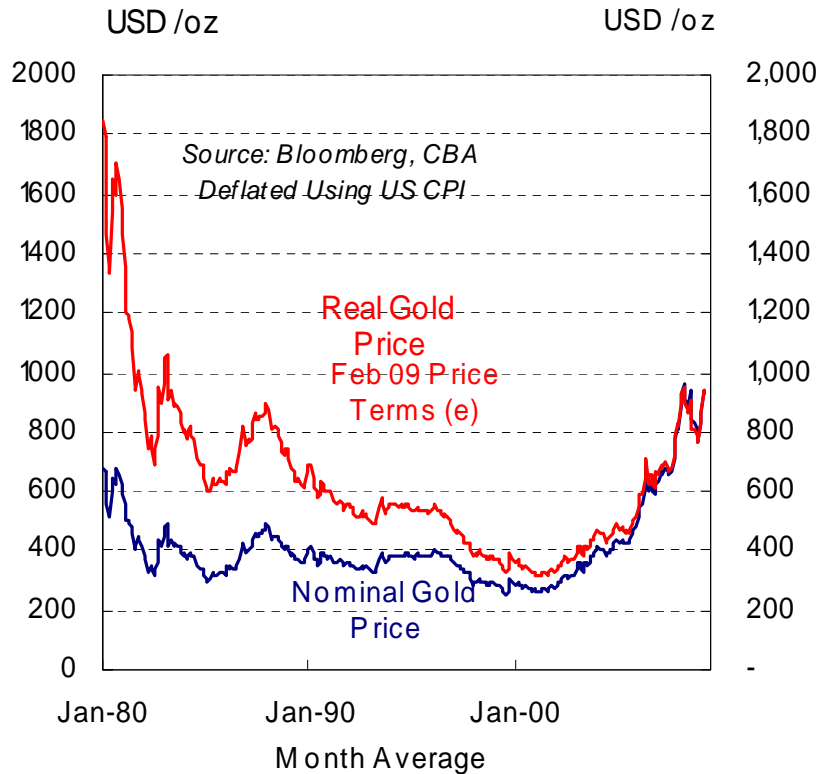
Source: A.M.E.

The Conference Board and Groningen Growth and Development Centre, Total Economy Database, January 2008, <http://www.conference-board.org/economics>

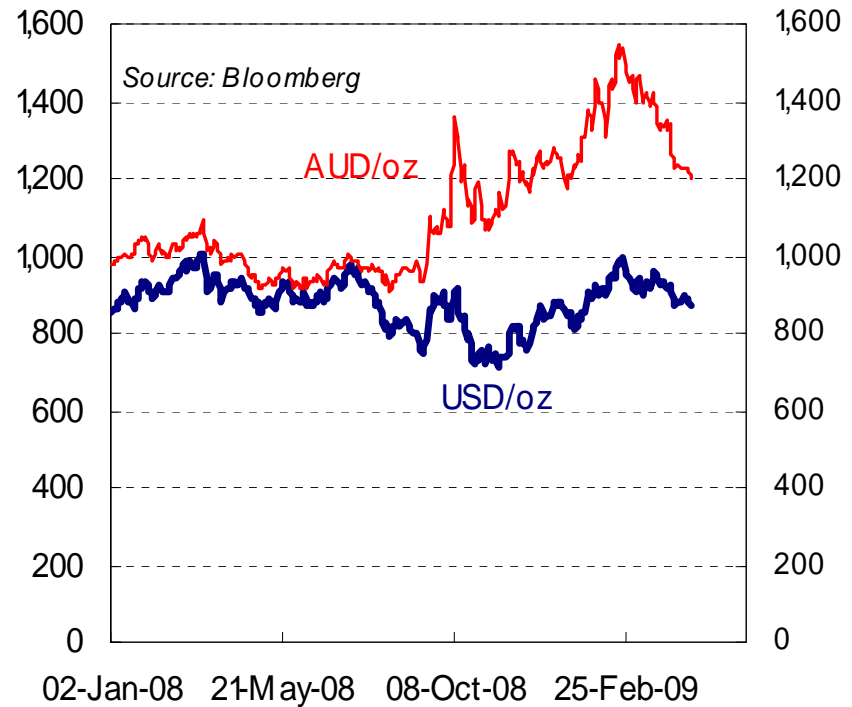
- The economic development process in China is likely to continue to add to metals demand over the next decade.

Gold Price

GOLD PRICES



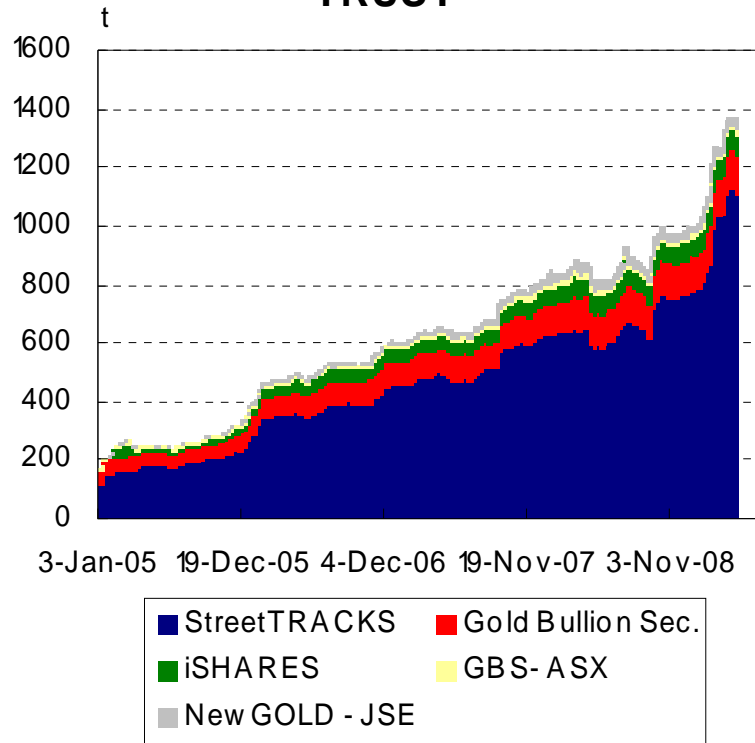
GOLD PRICE



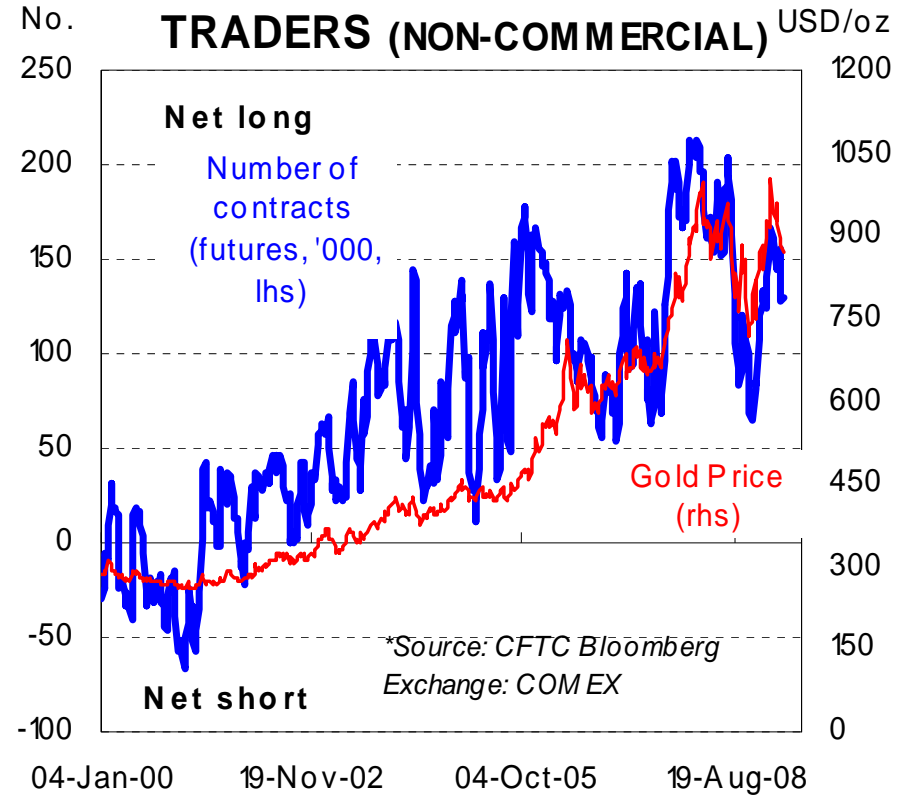
- Gold price was 'high' but volatile in 2008 and so far in 2009.
- But the gold price is still well below the levels that prevailed in early-1980 after adjustment for inflation.

Gold Price – Set By Investors

GOLD IN ETFS, INVESTMENT TRUST

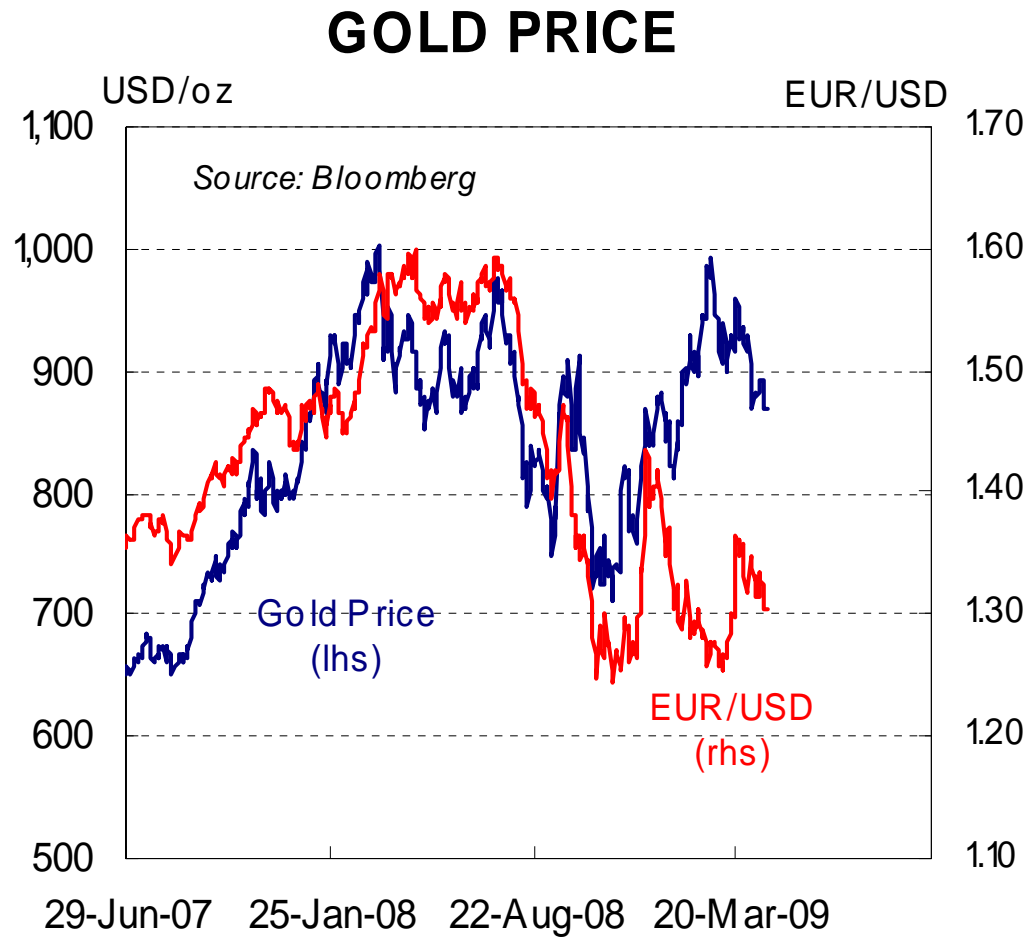


GOLD - COMMITMENT OF TRADERS (NON-COMMERCIAL)

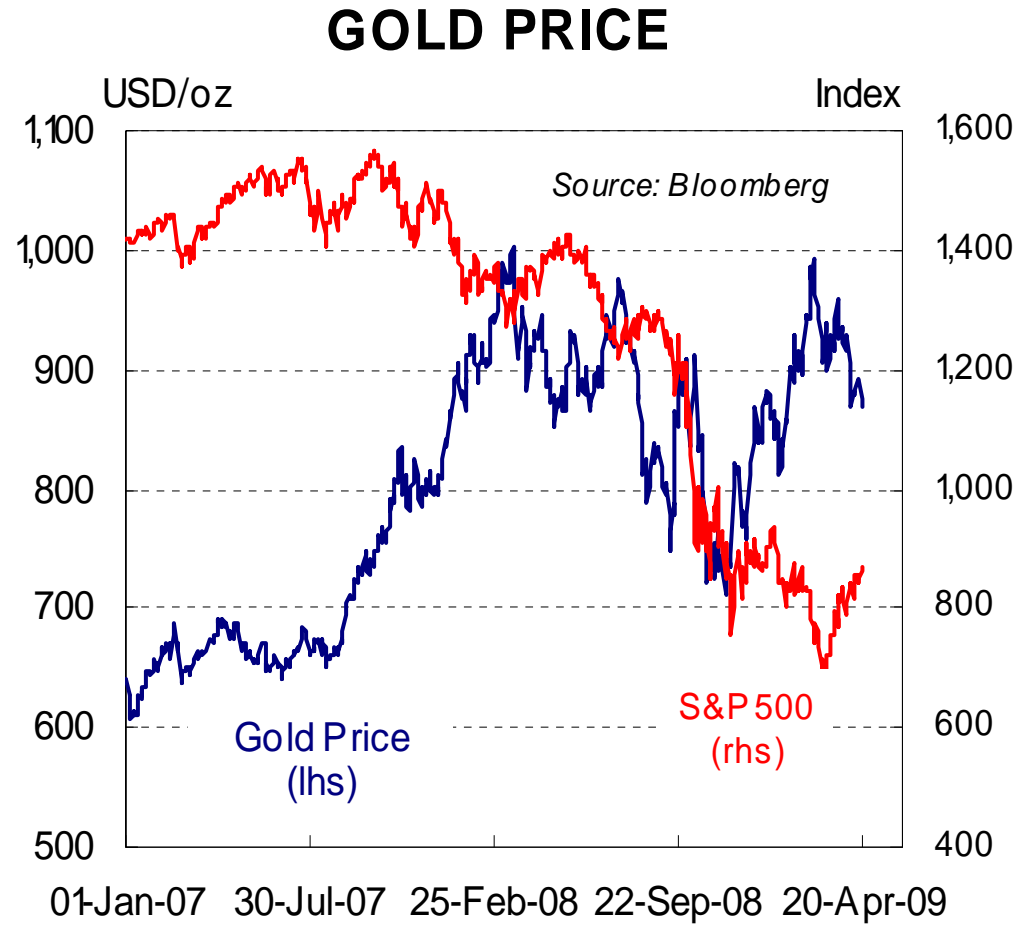


- Shifting investor interest in gold has been a key driver of movement in the gold price.
- The factors driving investor interest in gold have been changing with time.

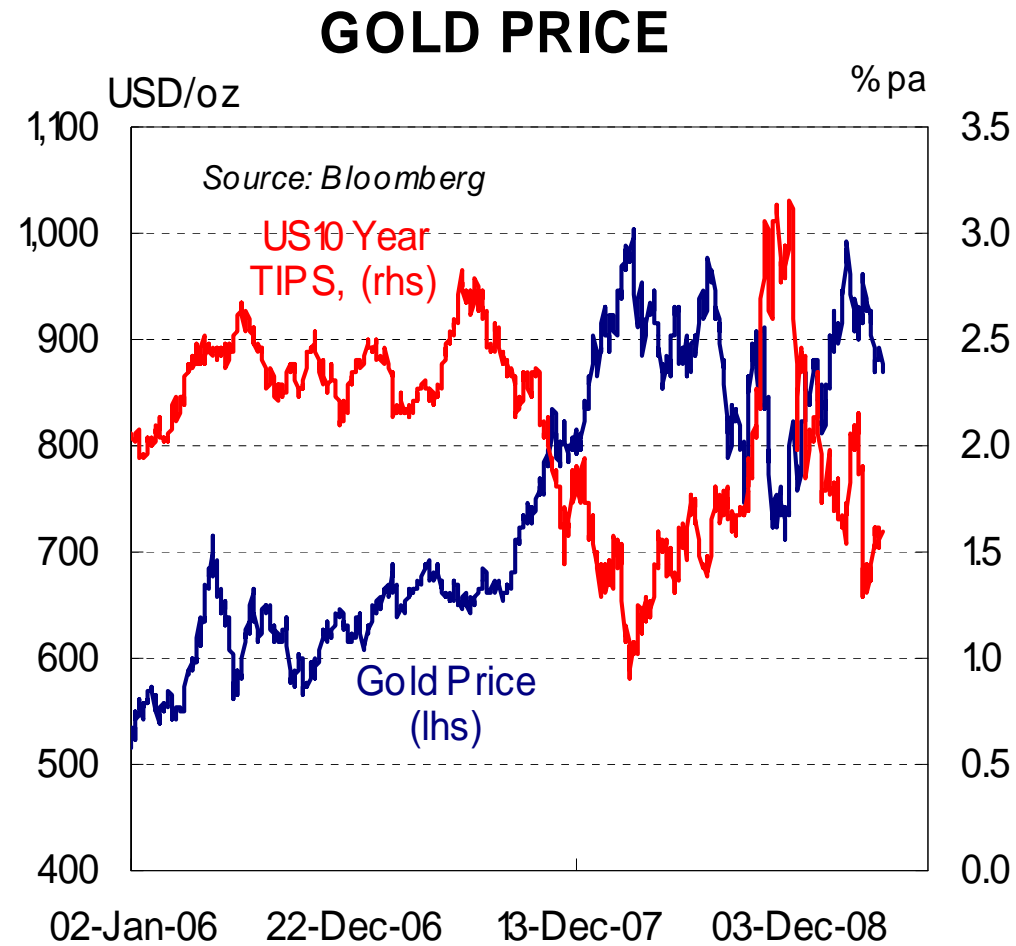
Gold As A Hedge Against USD Weakness



Gold As A Diversification...

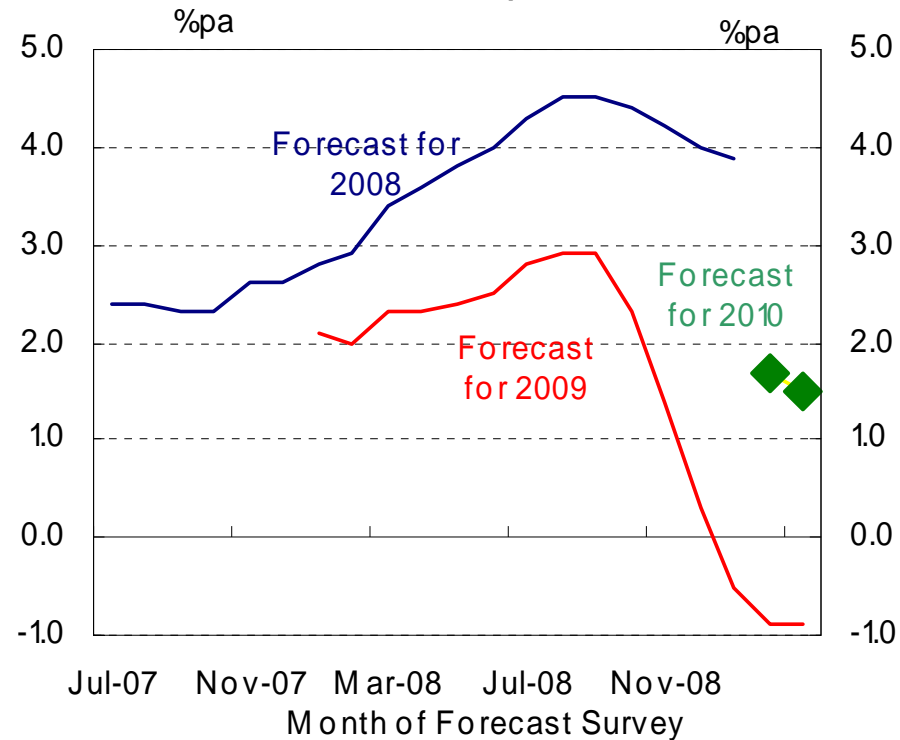


Gold As A Safe Haven...

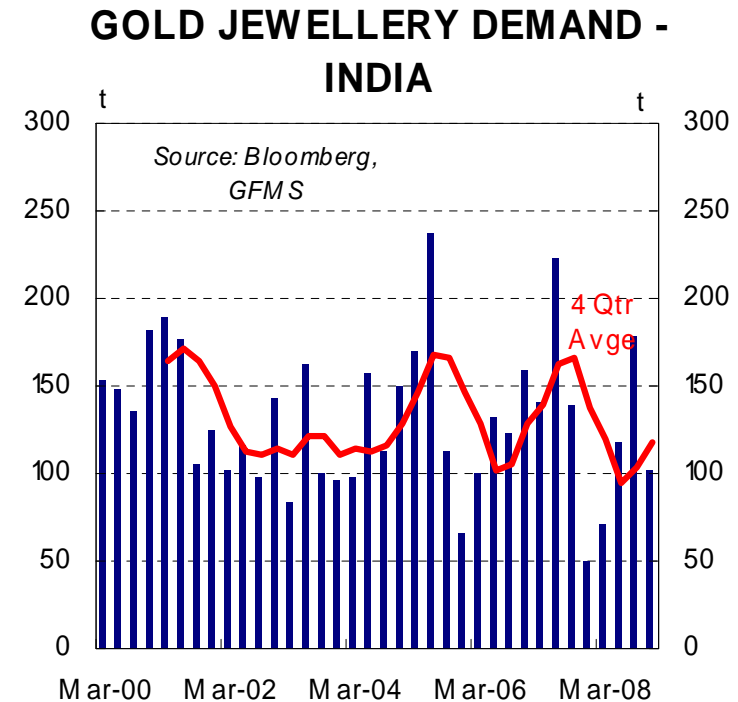
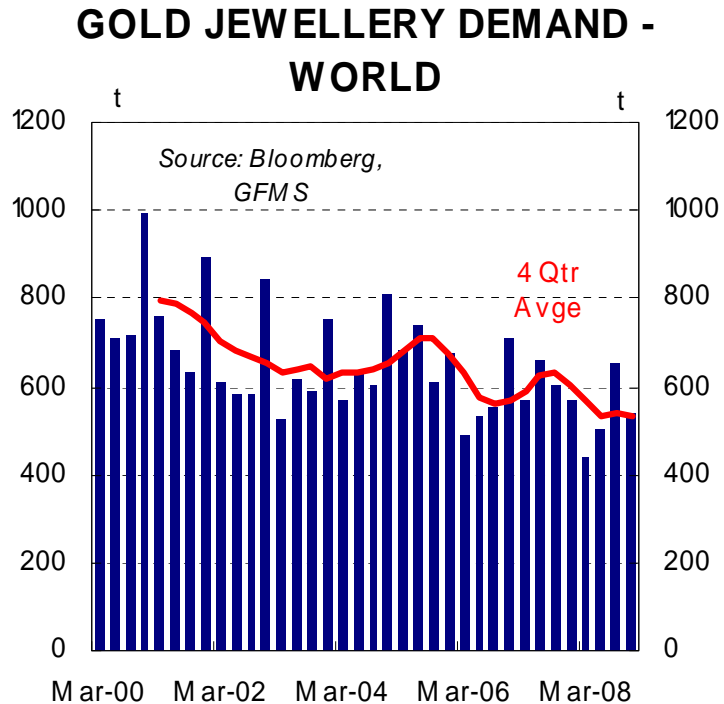


Gold as an inflation hedge?

US CPI FORECAST
(Consensus Economics, Survey Mean)



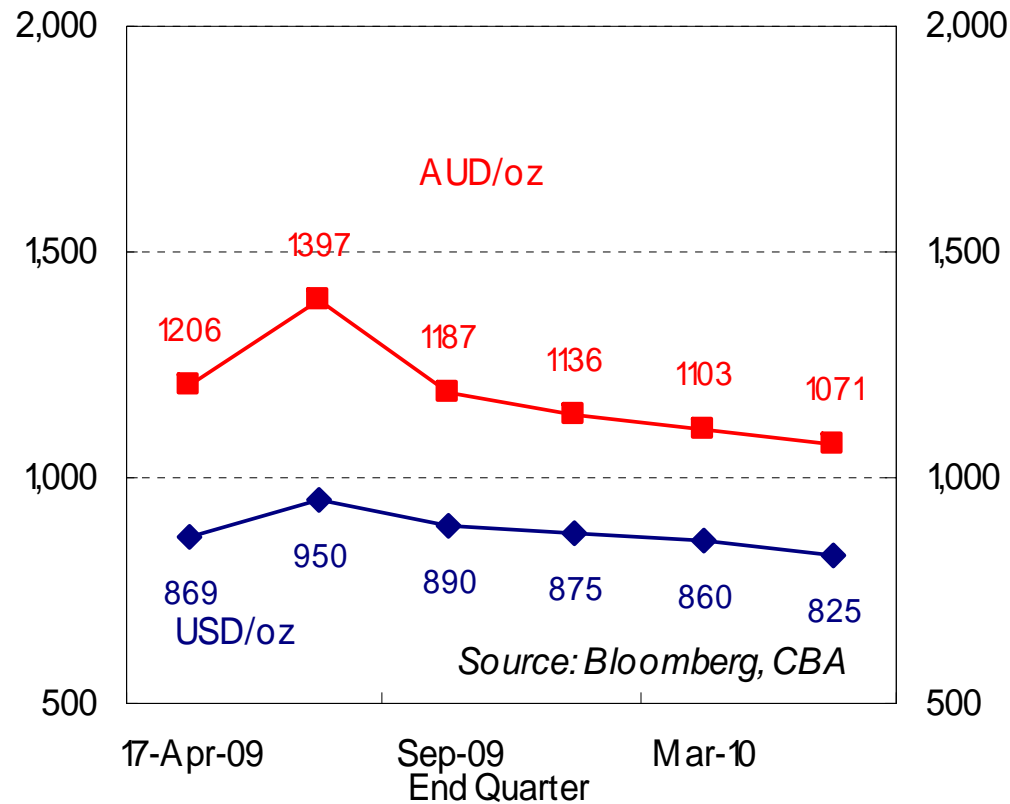
Gold – Consumer Demand Weakened



- The high and volatile gold price has depressed jewellery fabrication demand for gold, especially in India.
- Global recession may have damped jewellery gold demand in developed economies.

Gold Price Forecasts

GOLD FORECAST (spot price)



- We expect the gold price to be volatile over the balance of 2009 and into 2010.
- The gold price may be supported by renewed safe haven flows in the period to mid-2009.
- However, investor interest in gold is likely to wane by late-2009, early 2010, causing the gold price to fall again.
- Consumer demand for gold should help to create a floor for the gold price.

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