

AUSTRALIAN MARKETS WEEKLY

Up and about: feeling the mining tailwind



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- Mining industry staging a rebound with Mining “tailwind” more than just a statistical fact
- Focus remains on containing costs, but signs of increased “catch-up” spending in the resources sector appearing
- Commodity prices remain persistently high, for now at least
- Week ahead: RBA Minutes, light for local data; nine Fed speakers

Mining: from headwind to tailwind

From its peak in July 2011 to a trough some 4½ years later at the start of 2016, the RBA commodity price index fell by more than half (-57%) in SDR terms (or -45% in AUD terms). Together with the winding down of major project capital spending that peaked in the second half of 2012, there was a double squeeze on mining and resource sector activity and incomes, which became a significant headwind to the broader economy. Resource companies not only kept a tighter rein on the remaining spending on major projects, but they took the opportunity to wind back labour and other operational costs to preserve cash flow and profitability. From the most upbeat and optimistic industry in the second half of 2012, Mining industry confidence plunged to be sharply negative.

Fast forward another year and the tide has turned again. Thanks in part to a spate of reform in the Chinese coal industry last year that restricted domestic production to 276 days, an ensuing shortfall in the supply of coal led to a surge in world coal prices. Metallurgical coal prices (used in steel making and where Australia has the largest global share of seaborne trade) jumped from around \$US70/t early last year to a Q1 2017 benchmark price of \$US285/t. Spot prices jumped to peak of \$270/t by November last year, ending last week at \$US158.25/t. It’s been a similar price story in the iron ore market, where along with met coal, prices have been supported by a resurgence in Chinese steel production and prices. An effort to promote more efficient steel making, less efficient capacity has been closed, while demand for higher grade iron ore has risen. From a low of \$US38/t in mid December 2015, iron ore prices too made a smart recovery and even at the end of last week were still trading at \$92.34/t. Thermal coal are \$81.30/t having been as low as \$49/t in January 2016.

The early macroeconomic effects are becoming more apparent not only in the statistics but also on the ground. The purpose of this note is to calibrate some of these more apparent effects, including in terms of the impacts on domestic spending and the labour market. To trace these effects, we have marshalled both “top down” evidence from the likes of SEEK and BITRE airport traffic flows, together with anecdotes from multiple client meetings and contacts over recent weeks in Queensland and Western Australia.

To contact NAB’s market experts, please click on one of the following links:

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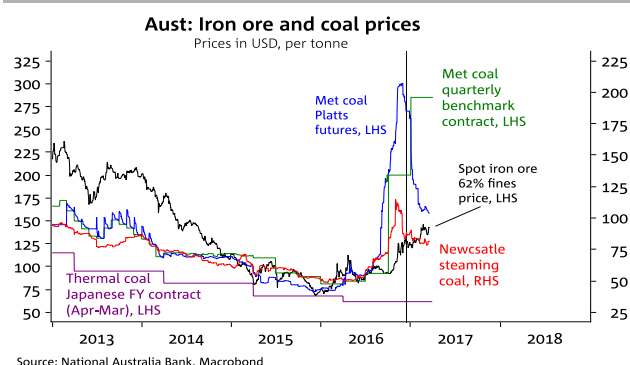
[Ask the Interest Rate Strategists](#)

Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7721	2.0	RBA cash	1.50	0
AUD/CNY	5.33	1.8	3y swap	2.15	-5
AUD/JPY	86.9	0.1	ASX 200	5,777	0.3
AUD/EUR	0.718	1.1	Iron ore	92.3	6.5
AUD/NZD	1.098	0.5	WTI oil	48.4	0.1

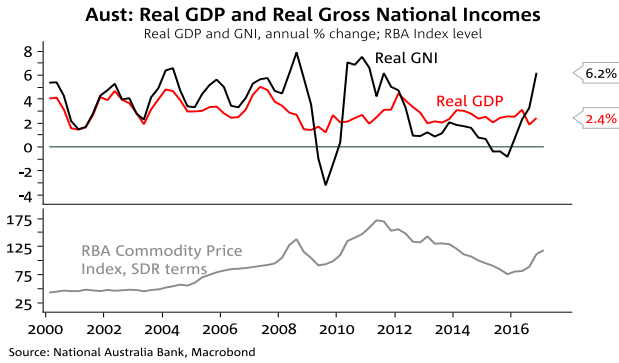
Source: Bloomberg

Chart 1: Bulk commodity prices remaining at high levels



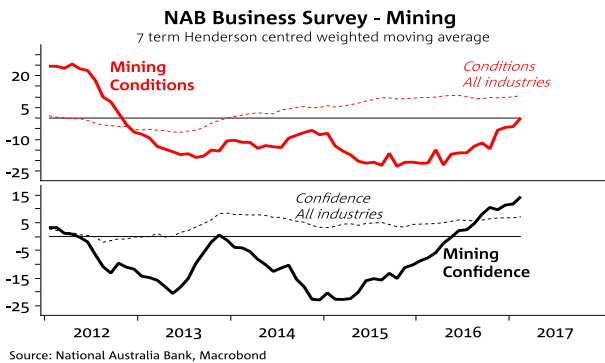
At the highest level, the income effects have already become measurable. The December quarter national accounts revealed that the most quoted measure of growth – real GDP – grew by 2.4% over the course of 2016, rebounding by 1.1% in the quarter after September quarter’s 0.5% decline.

Chart 2: Calibrating the growth from commodity prices



An alternative measure of growth that encompasses the terms of trade and also adjusts for net income payable overseas (e.g. dividends and labour income) is Real Gross National Income, growth depicted in Chart 2. Over the year to the December quarter, Real Gross National Income grew by 6.2% driven by the terms of trade which rose by 15.6% y/y. A further rise in the terms of trade is in store for the current half year based on where spot and contract prices are currently sitting and likely to sit in the near term.

Chart 3: Mining conditions and confidence rebound

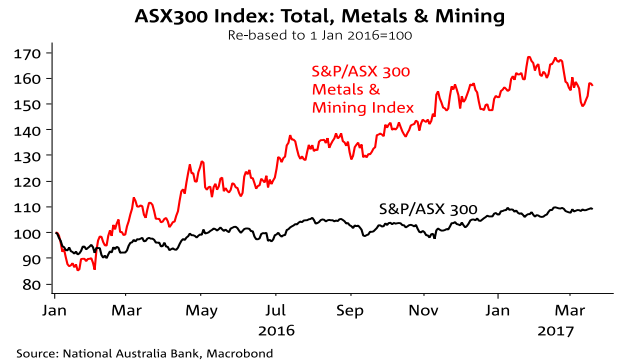


The NAB Survey depicts the improvement in the resources industry. From the lowest level of major industry categories in 2015, trend Business Conditions in Mining have risen to be close to zero in February 2017. Mining Business Confidence has had an even more stark upturn to the second highest level by February and above Confidence across other sectors. Not only has the Mining industry seen an unexpected material uplift in prices, but there has been a persistent focus on reducing costs in the industry. Mining companies have re-engineered the economics of their businesses to adapt, survive, and thrive in the then much lower commodity price environment.

Likewise, the ASX300 Metals and Mining index has outperformed the overall Index, investors reacting to the marked uplift in profits. Gross Operating Profits of the

Mining Industry have staged a notable recovery, rising 76.6% over the course of last year, according to the Statistician after declines evident since the first half of 2014.

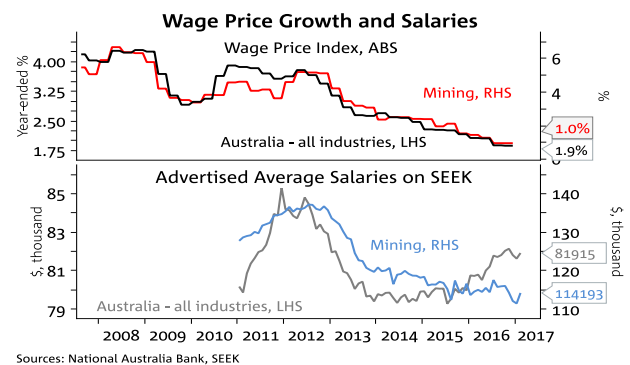
Chart 4: Mining stocks outperforming



Given that background, what economic effects of this Mining upturn are appearing on the ground?

Anecdotal evidence suggests that resource companies are retaining a tight control on costs. The heady out-of-control costs and spending that was a hallmark of the resources sector project boom times remains history. Mining industry wages growth has remained on a downward trend, flat-lining in the December quarter and growing by 1.0% through last year, the slowest growth recorded in the Wage Price Index data. Wages, salaries and supplements payments from the Mining Industry were down 8.8% y/y to the lowest level since the June quarter of 2011. SEEK Advertised Salaries in the Mining industry likewise have remained contained in a still evident soft trend with little apparent sign of a lift overall evident.

Chart 5: Wages in Mining vs the rest



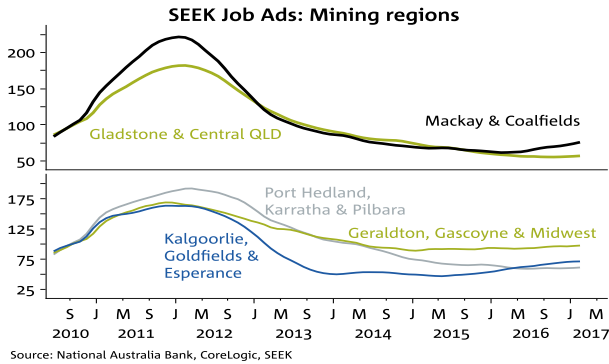
Mining “catch up” spending on the rise

While cost control remains a corporate strategic hallmark, there is evidence that there is a measure of "catch up" in spending by resource companies in operational expenditure that is likely to have been a victim of the times to cut deeply into costs when commodity prices were threatening corporate viability. Now that commodity prices are higher, that has provided a relief valve for companies to now spend on essentials that were suspended when times were especially tough. Cutting corners, reducing maintenance and not spending

according to what might be deemed best engineering practice now seems to have eased somewhat.

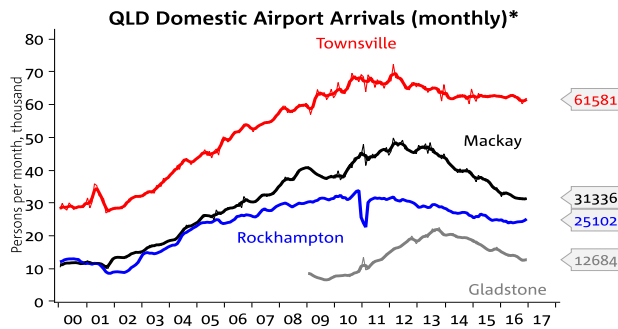
In the Queensland coal industry for example, SEEK Job Ads in the “Mackay and Coalfields” region have shown some signs of increasing in recent months (see Chart 6), while passenger traffic on the key QLD mining routes has stabilised and have tentatively picked up at some airports (see Chart 7).

Chart 6: Mining sector labour demand



Source: National Australia Bank, CoreLogic, SEEK

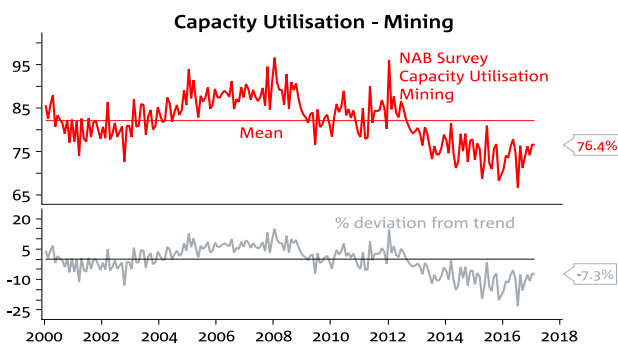
Chart 7: Airport arrivals into mining airports picking up



* Seasonally adjusted by NAB, solid lines are 3-month moving averages
Source: National Australia Bank, BITRE

This has come with anecdotal reports that labour hire firms are again becoming more active again, indicative that the the upturn in commodity price is producing some spinoff for some regions. Glencore announced late last year that it would be re-opening its Collinsville and Integra coal mines. It would not be a surprise if other companies were also seeking now to lift production – if at the margin – in response to higher prices.

Chart 8: Mining – some spare capacity still



Source: National Australia Bank, Macrobond

Mining services companies report that competition for new business remains intense, that domestic infrastructure projects provided something of a safety valve for business when mining work suddenly ground to a halt. More recently, resource industry customers have become more active again according to mining service companies, evident in a noticeable pick up in enquiry rate for prospective new orders. A major equipment supplier noted that resource companies were again buying new equipment, also noting these were replacements for depreciated/worn-out stock as well as increase spending on repairs and maintenance.

The outlook for commodity prices remains uncertain. Much will depend on the degree of vigour pursued by the Chinese authorities in seeking to further reform its coal and steel industry as well as growth in China and elsewhere. We do not see signs of a change in appetite among major resource companies to open the cheque book and spend up in a major way on capacity-expansion projects. There is some spare still available after a once in a generation lift in capacity (see Chart 8). Even so, there are emerging measurable signs that the tailwind is more than apparent in just the highest level of indicators and is beginning to become more apparent at the “coalface”.

The past week

The Fed raised rates as expected. NAB’s forecast is that the Fed will raise the Fed funds rate twice more this year, taking the Fed Funds rate from 0.75-1.00% to 1.25-1.50%. Market pricing is broadly consistent with that view, the market closing at the end of last week priced for a further 43bps of hikes by the 13 December FOMC meeting. With a pullback in the USD and in US Treasury yields in the aftermath of the FOMC meeting, it’s apparent that the market was hoping for more in terms of higher rate expectations, a classic case of “buy the rumour, sell the fact”.

The week ahead

There will be another opportunity for the Fed to confirm or re-set expectations with no less than nine Fed speeches this week. Six are from current FOMC voters with Fed Chair Yellen speaking on Thursday. Given the full update from the Fed last week, it looks a stretch to expect this week’s swathe of speakers to offer too much more.

Locally, it’s now quiet on the data front with only Tuesday’s Statistician’s House Price Index for the December quarter, mostly of historical interest. There will be more focus on the RBA with the March Minutes today after today’s speech from RBA Assistant Governor (Economic) Luci Ellis’s. The market will be especially interested in the Bank’s elevated concerns about the reflation of major capital city housing markets and increased borrowing for housing investment in Sydney and Melbourne.

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CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
Monday, 20 March 2017								
nZ	WMM Consumer Confidence	1Q				113.1	22.00	8.00
NZ	Performance Services Index	Feb				59.5	22.30	8.30
NZ	Accommodation Survey	Jan					22.45	8.45
UK	Rightmove House Prices MoM/YoY	Mar		/		2.0/2.3	1.10	11.10
AU	RBA's Ellis (Assistant Governor, Economic) Speech in Canberra						2.30	12.30
GE	PPI MoM/YoY	Feb		0.4/3.2		0.7/2.4	8.00	18.00
EC	Labour Costs YoY	4Q				1.5	11.00	21.00
CA	Wholesale Trade Sales MoM	Jan		0.5		0.7	13.30	23.30
US	Chicago Fed Nat Activity Index	Feb		0.03		-0.1	13.30	23.30
NZ	Westpac Consumer Confidence	1Q				113.1		
CA	Bloomberg Nanos Confidence	Mar 17				58.2	15.00	1.00
US	Fed's Evans Speaks on Economy and Policy in New York						18.10	4.10
Tuesday, 21 March 2017								
NZ	Net Migration SA	Feb				6460	22.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Mar 19				113.1	23.30	9.30
AU	House Price Index QoQ/YoY	4Q		2.5/6.3		1.5/3.5	1.30	11.30
AU	RBA March Rate Meeting Minutes						1.30	11.30
NZ	Credit Card Spending MoM/YoY	Feb		/		0.2/7.1	3.00	13.00
UK	CPI YoY	Feb		2.1		1.8	10.30	20.30
UK	CPI Core YoY	Feb		1.7		1.6	10.30	20.30
UK	PPI Input NSA MoM	Feb		0.1		1.7	10.30	20.30
UK	House Price Index YoY	Jan		6.3		7.2	10.30	20.30
UK	Public Finances (PSNCR)	Feb				-26.5	10.30	20.30
US	Fed's Dudley speaks at BoE Event on Bank Ethics in London						11.00	21.00
UK	CBI Trends Total Orders/Selling Prices	Mar		5/32		8.0/32.0	12.00	22.00
CA	Retail Sales MoM	Jan		1.5		-0.5	13.30	23.30
US	Current Account Balance	4Q		-128.05		-113.0	13.30	23.30
CA	Retail Sales Ex Auto MoM	Jan		1.3		-0.3	13.30	23.30
CH	Conference Board Leading Economic Index	Feb					14.00	0.00
US	Fed's George Speaks in Washington on U.S. Economy and the Fed						17.00	3.00
US	Fed's Mester Speaks at University of Richmond						23.00	9.00
NZ	Global Dairy Auction, GDT-weighted price index (early AM, NZT)					-6.3		
Wednesday, 22 March 2017								
NZ	Fonterra announces Half Year Results						<i>AM, NZT</i>	
NZ	Productivity Statistics (1978-2016, March years)						22.45	8.45
AU	Westpac Leading Index MoM	Feb				0.0	0.30	10.30
JN	BOJ Minutes of Jan. 30-31 Meeting						0.50	10.50
JN	Trade Balance Adjusted	Feb		551.9		155.5	0.50	10.50
AU	Skilled Vacancies MoM	Feb				1.0	1.00	11.00
JN	BOJ Funo speaks in Shizuoka						2.30	12.30
AU	RBA's Debelle Speech in Singapore at TradeTech FX Asia Conference						2.40	12.40
JN	All Industry Activity Index MoM	Jan		0		-0.3	5.30	15.30
EC	ECB Current Account SA	Jan				31.0	10.00	20.00
US	MBA Mortgage Applications	Mar 17				3.1	12.00	22.00
US	FHFA House Price Index MoM	Jan		0.4		0.4	14.00	0.00
US	Existing Home Sales, #/MoM	Feb		5.56/-2.37		5.7/3.3	15.00	1.00
CA	Bank of Canada Deputy Governor Lawrence Schembri Speech						16.00	2.00
Thursday, 23 March 2017								
NZ	RBNZ Official Cash Rate	Mar 23	1.75	1.75		1.75	21.00	7.00
GE	GfK Consumer Confidence	Apr		10		10.0	8.00	18.00
EC	ECB Publishes Economic Bulletin						10.00	20.00
UK	Retail Sales Ex Auto Fuel MoM	Feb		0.3		-0.2	10.30	20.30
UK	CBI Retailing/Total Distributive Reported Sales	Mar		4/		9.0/25.0	12.00	22.00
US	Fed's Yellen Speaks at Community Development Conference						13.00	23.00
US	Initial Jobless Claims	Mar 18		240		241.0	13.30	23.30
US	Bloomberg Consumer Comfort	Mar 19				51.0	14.45	0.45
US	New Home Sales, #/MoM	Feb		565/1.8		555.0/3.7	15.00	1.00
US	Kansas City Fed Manf. Activity	Mar		14		14.0	16.00	2.00
EC	Consumer Confidence	Mar A		-5.8		-6.2	16.00	2.00
US	Fed's Kashkari Speaks on US Education Outcomes in DC						17.30	3.30
Friday, 24 March 2017								
NZ	Trade Balance NZD	Feb		180		-285.0	22.45	8.45
US	Fed's Kaplan speaks on Economy in Chicago						0.00	10.00
JN	Nikkei Japan PMI Mfg	Mar P				53.3	1.30	11.30
JN	Leading Index CI	Jan F				105.5	6.00	16.00
GE	Markit/BME Germany Manufacturing PMI	Mar P		56.5		56.8	9.30	19.30
GE	Markit Germany Services/Composite PMI	Mar P		54.5/56		54.4/56.1	9.30	19.30
EC	Markit Eurozone Manufacturing PMI	Mar P		55.3		55.4	10.00	20.00
EC	Markit Eurozone Services/Composite PMI	Mar P		55.3/55.8		55.5/56.0	10.00	20.00
UK	BBA Loans for House Purchase	Feb		44900		44657.0	10.30	20.30
US	Fed's Evans Speaks at Community Development Event						13.00	23.00
US	Durable Goods Orders	Feb P		1.2		2.0	13.30	23.30
US	Cap Goods Orders Nondef Ex Air	Feb P		0.6		-0.1	13.30	23.30
CA	CPI/Core (Common) YoY	Feb		2.1/		2.1/1.3	13.30	23.30
US	Fed's Evans Speaks at Community Development Event						13.00	23.00
US	Markit US Manufacturing PMI	Mar P		54.7		54.2	14.45	0.45
US	Fed's Bullard to Speak to Economic Club of Memphis						14.05	0.05
Saturday, 25 March 2017								
CH	PBoC Governor speaks at opening of Boao Forum, Hainan							
Upcoming Central Bank Interest Rate Announcements								
New Zealand, RBNZ		23-Mar	1.75%	1.75%		1.75%		
Australia, RBA		4-Apr	1.50%	1.50%		1.50%		
Canada, BoC		12-Apr	0.5%	0.5%		0.5%		
Europe ECB		17-Apr	-0.4%	-0.4%		-0.4%		
Japan, BoJ		27-Apr	-0.1%	-0.1%		-0.1%		
US Federal Reserve		4-May				0.75-1.00%		
UK BOE		11-May	0.25%	0.25%		0.25%		

GMT: Greenwich Mean Time; AEDT: Australian Daylight Savings Time

FORECASTS

Economic Forecasts																
	Annual % change				Quarterly % change											
	2015	2016	2017	2018	2015				2016				2017			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Australia Forecasts	2015	2016	2017	2018	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Household Consumption	2.7	2.7	2.2	2.0	0.7	0.6	1.0	0.6	0.9	0.5	0.4	0.9	0.4	0.6	0.5	0.5
Underlying Business Investment	-10.1	-11.2	0.4	4.7	-3.2	-1.9	-5.5	-2.4	-3.4	-2.3	-5.3	2.1	0.4	1.1	1.2	1.1
Residential Construction	10.0	7.9	2.1	-0.9	4.8	-1.2	4.3	1.5	3.7	1.9	-1.3	1.2	0.6	0.6	0.4	0.0
Underlying Public Spending	2.4	4.6	3.2	2.8	1.2	1.8	-1.0	2.1	0.5	2.7	0.2	1.3	0.3	0.9	0.5	0.8
Exports	6.0	7.6	7.9	5.5	3.7	-2.9	4.6	-0.1	3.3	2.2	1.0	2.2	2.3	1.3	2.3	2.4
Imports	2.0	0.4	5.1	3.7	2.7	0.9	-1.3	0.0	-0.8	2.9	1.2	1.4	0.8	1.5	0.9	1.0
Net Exports (a)	0.7	1.4	0.6	0.4	0.2	-0.8	1.2	0.0	1.1	-0.1	0.0	0.2	0.3	0.0	0.3	0.3
Inventories (a)	0.1	0.1	-0.2	0.0	0.7	-0.3	-0.1	0.0	0.0	0.3	0.1	-0.2	-0.2	0.1	-0.1	0.0
Domestic Demand - qtr %					0.5	0.5	-0.2	0.5	0.1	0.7	-0.4	1.2	0.4	0.7	0.6	0.6
Dom Demand - ann %	1.3	1.6	2.2	2.3	1.1	1.4	1.2	1.3	1.4	1.6	1.4	2.1	1.9	1.9	2.9	2.3
Real GDP - qtr %					1.1	0.2	0.7	0.5	1.1	0.8	-0.5	1.1	0.6	0.8	0.7	0.9
Real GDP - ann %	2.4	2.5	2.6	2.6	2.5	2.0	2.4	2.5	2.5	3.1	1.9	2.4	2.0	2.0	3.3	3.1
CPI headline - qtr %					0.2	0.7	0.5	0.4	-0.2	0.4	0.7	0.5	0.5	0.5	0.5	0.6
CPI headline - ann %	1.5	1.3	2.2	2.1	1.3	1.5	1.5	1.7	1.3	1.0	1.3	1.5	2.2	2.3	2.1	2.2
CPI underlying - qtr %					0.6	0.5	0.4	0.4	0.2	0.5	0.4	0.5	0.4	0.5	0.4	0.4
CPI underlying - ann %	2.2	1.6	1.8	1.7	2.4	2.3	2.2	2.0	1.6	1.6	1.6	1.6	1.9	1.9	1.8	1.7
Wages (Pvte WPI - ann %)	2.1	1.9	1.9	1.6	2.2	2.2	2.1	2.0	2.0	2.0	1.9	1.8	2.0	2.0	1.9	1.8
Unemployment Rate (%)	6.1	5.7	5.7	5.8	6.2	6.0	6.2	6.0	5.9	5.7	5.6	5.7	5.7	5.6	5.7	5.7
Terms of trade	-11.6	0.0	16.6	-1.6	-2.5	-4.5	-2.1	-4.2	-1.9	2.1	5.2	9.0	9.4	-2.7	-2.2	-1.6
G&S trade balance, \$Abn	-36.8	-14.6	50.1	31.2	-4.7	-11.4	-8.6	-12.0	-8.4	-7.4	-3.5	4.7	14.8	12.1	11.6	11.6
% of GDP	-2.3	-0.9	2.8	1.7	-1.2	-2.8	-2.1	-2.9	-2.0	-1.8	-0.8	1.1	3.3	2.7	2.6	2.5
Current Account (% GDP)	-4.7	-2.6	0.2	-0.9	-3.3	-5.2	-4.8	-5.6	-3.6	-3.7	-2.4	-0.9	0.7	0.1	0.0	0.0

Source: NAB Group Economics; (a) Contributions to GDP growth

Exchange Rate Forecasts

	20-Mar	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Majors						
AUD/USD	0.7705	0.75	0.73	0.70	0.70	0.70
NZD/USD	0.7030	0.71	0.70	0.67	0.68	0.68
USD/JPY	112.62	114	116	118	120	120
EUR/USD	1.0753	1.05	1.04	1.04	1.05	1.06
GBP/USD	1.2384	1.25	1.24	1.22	1.20	1.21
USD/CNY	6.9034	6.92	7.05	7.04	7.03	7.01
USD/CAD	1.3336	1.33	1.35	1.37	1.37	1.38

Australian Cross Rates

	20-Mar	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
AUD/JPY	86.8	86	85	83	84	84
AUD/EUR	0.7165	0.71	0.70	0.67	0.67	0.66
AUD/GBP	0.6222	0.60	0.59	0.57	0.58	0.58
AUD/NZD	1.0960	1.06	1.04	1.04	1.03	1.03
AUD/CNY	5.3191	5.19	5.15	4.93	4.92	4.91
AUD/CAD	1.0275	1.00	0.99	0.96	0.96	0.97
AUD/CHF	0.7678	0.73	0.70	0.74	0.71	0.71

Interest Rate Forecasts

	20-Mar	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Aust rates						
RBA Cash rate	1.50	1.50	1.50	1.50	1.50	1.50
3 month bill rate	1.80	1.75	1.75	1.75	1.75	1.75
3 Year Swap Rate	2.15	2.2	2.1	2.4	2.4	2.7
10 Year Swap Rate	3.08	3.0	3.0	3.3	3.3	3.5
Offshore Policy Rates						
US Fed funds	1.00	1.00	1.00	1.25	1.50	1.50
ECB deposit rate	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
BoE repo rate	0.25	0.25	0.25	0.25	0.25	0.25
BoJ excess reserves rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
RBNZ OCR	1.75	1.75	1.75	1.75	1.75	1.75
China 1yr lending rate	4.35	4.35	4.10	4.10	4.10	4.10
China Reserve Ratio	17.0	17.0	16.5	16.5	16.5	16.5
10 Year Benchmark Bond Yields						
Australia	2.82	2.80	2.80	3.00	3.00	3.20
United States	2.50	2.50	2.50	2.75	2.75	3.00
New Zealand	3.24	3.25	3.30	3.35	3.30	3.30

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP

Dec year	2013	2014	2015	2016	2017	2018	20 Yr Avge
Australia	2.1	2.8	2.4	2.5	2.6	2.6	3.4
US	1.7	2.4	2.6	1.6	2.1	2.3	2.6
Eurozone	-0.3	1.1	1.9	1.7	1.9	1.8	1.5
UK	1.9	3.1	2.2	2.0	1.8	1.7	2.4
Japan	2.0	0.3	1.2	1.0	0.8	0.6	0.8
China	7.7	7.3	6.9	6.7	6.5	6.3	9.2
India	6.3	7.0	7.2	7.1	7.2	7.2	6.6
New Zealand	2.2	3.4	2.5	3.2	2.9	2.5	3.0
World	3.4	3.4	3.1	2.9	3.2	3.4	3.5
<i>MTP Top 5</i>	4.1	3.9	4.0	3.8	3.8	3.6	5.0

Commodity prices (\$US)

	20-Mar	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
WTI oil	48.33	53	54	56	58	59
Gold	1231	1210	1210	1220	1230	1240
Iron ore	92.3	87	85	80	75	73
Hard cok. coal	158	285	180	160	140	120
Thermal coal	81	62	65	65	65	65
Copper	5928	5840	5610	5550	5550	5550
Aust LNG (*)		7.3	7.9	8.3	8.5	8.9

(*) Implied Australian LNG export prices.

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