

Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

2016 - 2017

Department/Agency: Treasury

Question: BET99-103

Topic: Commodity Prices

Reference: Written - 5 May 2016

Senator: Penny Wong

Question:

"An Iron Ore price of US\$55 per tonne underpins forecasts in the 2016-17 Budget (3 May 2016); a price of US\$39 per tonne was used to forecast the 2015-16 MYEFO (15 December 2015), but the overall impact has been offset by an appreciation of the Australian dollar.

This US\$55 price has been questioned by several commentators.

- NAB is forecasting prices to fall to an average of US\$42 per tonne in 2016. In its post-Budget assessment: "short term supply disruptions have driven iron ore prices higher, but this trend is unlikely to be sustained – with weak steel demand and falling production in 2016.

This is forecast to drive both iron ore and metallurgical coal prices lower this year"

- AMP asserts that the current price appears to owe more to commodity price speculation in China rather than fundamental demand.

99. Are temporary factors responsible for the current price or is it returning to a long term average?
100. Have short term supply disruptions driven iron ore prices higher?
101. Does Treasury consider that the fundamental demand for iron ore will continue to sustain the current price?
102. What guidance did the Treasurer's office give about the projections for commodity ?
103. What assumptions underpin this strong increase?"

Answer:

For questions 99-103 please refer to page 43 and 44 of the Official Committee Hansard for the Senate Economics Legislation Committee Estimates on the 6 May 2016.