AMMA
Level 14, 55 Collins Street
Melbourne, VIC, 3000

1800 627 771

membership@amma.org.au
www.amma.org.au

AMMA RESOURCE INDUSTRY Market Outlook

Autumn 2016 edition

Contents

Tristan Menalda

Senior Industry Policy Advisor for AMMA

Tristan Menalda's portfolio at AMMA focuses on resource industry policy, advocacy and economics. Tristan has more than 10 years of domestic and international experience in the resource industry. He has held a number of roles focusing on government policy, strategy, international relations, stakeholder management, investment, economics, risk, governance, audit and accountancy. He was previously the senior advisor, corporate relations to the Managing Director of Rio Tinto Australia and prior to that was at Ernst & Young.

tristan.menalda@amma.org.au
(03) 9614 4777

Introduction

Welcome to the Autumn 2016 edition of the *AMMA Resource Industry Market Outlook*.

2016 started with a bang.

Carnage was unleashed on the ASX and world markets through a series of black swan (highly improbable or unexpected) financial announcements, revised forecasts (see Figure 1) and market comments by highly respected institutions, such as 'sell everything as crisis nears'.

In addition, due to depressed conditions, companies made notable and material impairment charges on assets, which meant that not only were top line 'revenue' and 'cashflow' numbers downgraded through suppressed trading prices and global conditions, profitability also fell as companies booked an impairment charge in their income statement as their carrying value of assets fell.

This created domino or flow-on impacts in other areas, including downgrades in company credit ratings, and fresh challenges in obtaining liquidity.

A major dent was created in investor confidence, resulting in more than $100 billion dollars being wiped off the ASX 200 in the first eight days of trading for 2016.

However, in the wake of such significant falls and reduced confidence, we subsequently saw all-time high bouyant daily market movements (i.e. the iron ore price rallying 18.6% in a day) and positive international announcements, such as China announcing a 6.5% growth target range for the next five years as part of their 13th five year plan.

The ASX 200 has now climbed back near 5,000 points, however, volatility remains remarkably high and the resource industry is still set to face turbulent times.

To assist resource companies in navigating the turbulent environment that will be with us for the foreseeable future, this quarterly report provides AMMA members with a dedicated, regular update on investment, economic and financial matters impacting the Australian resource industry.

Figure 1: Revised commodity prices, export volume and export value

* Source: Averaged prices from World Bank Commodity Markets Outlook, Office of the Chief Economist, Economist Intelligence Unit, AMMA analysis
** Source: UBS, LME, Reuters
*** Source: Office of the Chief Economist

2016 - Revised forecast commodity prices (USD), volume and value

	Copper ($/mt)	Iron ore 62% Fe, CFR China	Zinc ($/mt)	Crude oil avg, spot ($/bbl)	Aluminum ($/mt)	Gold ($/toz)	Natural gas Japan ($/mmbtu)	Thermal coal ($/t), 6,700 kcal/kg, FOB	Metallurgical coal ($/t), HCC, FOB
2016 revised forecast commodity prices *	$4,716	$41.65	$1,769	$43.50	$1,563	$1,043	$8.70	$55.00	$85.80
2016 original forecast commodity prices *	$5,588	$55.88	$2,201	$54.11	$1,761	$1,161	$11.40	$62.00	$96.50
% Difference	↓15.63%	↓25.46%	↓19.66%	↓19.60%	↓11.24%	↓10.16%	↓23.68%	↓11.29%	↓11.09%
Commodity prices as at 31 March 2016 **	$4,903	$54.18	$1,787	$38.40	$1,447	$1,228.60	$6.50	$54.25 ($/t), 6,300 kcal/kg, FOB	$80.50
Commodity prices as at 2 December 2015 **	$4,642	$42.42	$1,556	$41.50	$1,441	$1,067	$7.30	$52.75 ($/t), 6,300 kcal/kg, FOB	$72.00
% Difference	↑5.62%	↑27.72%	↑14.85%	↓19.60%	↑.42%	↑15.18%	↓23.68%	↑2.84%	↑11.81%
2016 revised biannual export volume forecast (June 2015 baseline) ***	↓6.41%	↑2.88%	↓33.96%	↓8.19%	↑7.28%	↓2.67%	↓4.83% (LNG)	↑2.48%	↑0.66%
2016 revised biannual export value forecast (June 2015 baseline) ***	↓13.90%	↓9.69%	↓7.65%	↓18.82%	↑18.57%	↓5.95%	↓15.06% (LNG)	↑10.76%	↑2.71%

Issue in Focus

The Australian resource industry is experiencing its highest ever levels of upside risk

Times of volatility can deliver the greatest opportunities. For companies with the financial means and/or with new or expansion projects that can be constructed in time to ride the current commodity wave, this may be an advantageous period to invest. Economic conditions and commodity prices are currently volatile, but like Rome, resource projects aren't built in a day. The longer-term fundamentals for growth remain sound, including:

- Strong growth targets and volumes for commodity imparts into emerging nations.
- Low interest rates.
- Depreciating Australian dollar (increasing foreign exchange gain opportunities on US-traded commodities).
- Capacity to secure an experienced and qualified workforce.
- Capacity to purchase or lease capital assets at basement level prices.
- Population growth, increasing urbanisation and a rising middle class globally that will demand commodities.

There are currently more than $220 billion worth of identified major tier one greenfield and expansion resource projects that are not proceeding, as they wait to get the green light to move into construction and then production. Many of these potential or stalled projects are located in Western Australia, which was recently voted by international mining leaders as the world's best place for resources investment[1].

With an abundance of world class resource deposits, untapped exploration potential and strong long-term fundamentals, the Australian resource sector currently has the highest levels ever of upside risk – that is, despite challenges in the immediate operating environment, Australia's resource industry still presents enormous medium and long term opportunities.

However with resource operations aging and being finite, Australia must develop its significant growth potential. Without efforts to increase exploration levels, identify new projects, and transition projects currently under consideration to the approval and construction phase, the resource industry will prematurely and unnecessarily come to a halt. This will detrimentally impact jobs, investment and royalties; with serious implications for procurement sectors as well as for the creation of necessary end-products.

The upside is that if we can tip the scales to a point where mid-to-long term investment attractiveness exceeds current investment risk (i.e. through improved investor confidence and/or more favourable economic conditions), Australia could capitalise on proven and probable future gains generated by ongoing development of the nation's many tier one resource deposits.

Complementing Australia's world class commodities with sustainable and balanced regulation, efficacy in incentives / concessions (R&D, tax, fuel, energy etc.), and encouraging investor patience (i.e. through taxation relief/changes) could be the turning point where the risk of inaction would be outweighed by opportunity and potential reward. Addressing this upside risk could once again inflate the construction and investment phase of the Australian resource industry and renew its productive capacity.

1. Fraser Institute: Annual Survey of Mining Companies: 2015

Commodity prices, volumes and values

Prices

As forecast in the previous AMMA Market Outlook, the first quarter of 2016 saw a slight overall market correction, albeit sporadic and turbulent in nature. Iron ore has been the stand out performer rising to $54.18 (up $11.76 or 27.72% as at 31 March 2016).

This is largely attributable to mill restocking as well optimism coming from China's 13th 5 year plan, which forecast a 6.5% growth range.

While most minerals and metallurgical commodities saw an uplift in commodity prices, oil and gas did not.

There are a number of reasons for this, including an excess of oil flooding an already oversatured market.

In July last year, a landmark deal was struck to halt Iran's nuclear program in exchange for billions of dollars in relief from international sanctions, including removing sanctions on Iran's oil exports. Iran is now forecast to produce an extra 3.1 million barrels of oil per day in 2016, and this is expected to grow by 500k barrels per day to 3.6 million barrels in 2017.

Iran is not the only producer increasing oil supply. With the ongoing fractious relationships between the 13 OPEC countries, it is unlikely the OPEC oil cartel will be controlling supply anytime soon.

Note however, that any fall in the USD later this year will likely to see the price of oil rise.

Figure 2: Revised commodity prices

* Source: Averaged prices from World Bank Commodity Markets Outlook, Office of the Chief Economist, Economist Intelligence Unit, AMMA analysis
** Source: UBS, LME, Reuters

2016 - Revised forecast commodity prices (USD)

	Copper ($/mt)	Iron ore 62% Fe, CFR China	Zinc ($/mt)	Crude oil avg, spot ($/bbl)	Aluminum ($/mt)	Gold ($/toz)	Natural gas Japan ($/mmbtu)	Thermal coal ($/t), 6,700 kcal/kg, FOB	Metallurgical coal ($/t), HCC, FOB
2016 revised forecast commodity prices *	$4,716	$41.65	$1,769	$43.50	$1,563	$1,043	$8.70	$55.00	$85.80
2016 original forecast commodity prices *	$5,588	$55.88	$2,201	$54.11	$1,761	$1,161	$11.40	$62.00	$96.50
% Difference	↓15.63%	↓25.46%	↓19.66%	↓19.60%	↓11.24%	↓10.16%	↓23.68%	↓11.29%	↓11.09%
Commodity prices as at 31 March 2016 **	$4,903	$54.18	$1,787	$38.40	$1,447	$1,228.60	$6.50	$54.25 ($/t), 6,300 kcal/kg, FOB	$80.50
Commodity prices as at 2 December 2015 **	$4,642	$42.42	$1,556	$41.50	$1,441	$1,067	$7.30	$52.75 ($/t), 6,300 kcal/kg, FOB	$72.00
% Difference	↑5.62%	↑27.72%	↑14.85%	↓7.47%	↑.42%	↑15.18%	↓10.96%	↑2.84%	↑11.81%

Commodity prices, volumes and values continued...

The fall in gas prices is largely due to movements in demand and supply. Various mega Australian LNG projects (e.g. Gorgon, APLNG) have recently transitioned from construction into production, thereby adding additional supply to key export markets, such as Japan.

In addition, for the first time since the 2011 Fukashima catastrophe, Japan has brought three nuclear reactors back online, reducing demand for gas as an energy source. Furthermore, US meterologists are expecting a warmer end to winter, which could reduce energy demand. Closer to home, with China's economy moving into the consumption phase of industrialisation, LNG demands and imports are forecast to subside moderately.

However, while the latest RBA Index of Commodity Prices (refer Figure 3) puts most commodity prices back in the black in 2016, the World Bank, Office of the Chief Economist and Economist Intelligence Unit expect double digit falls across all major Australian traded commodities.

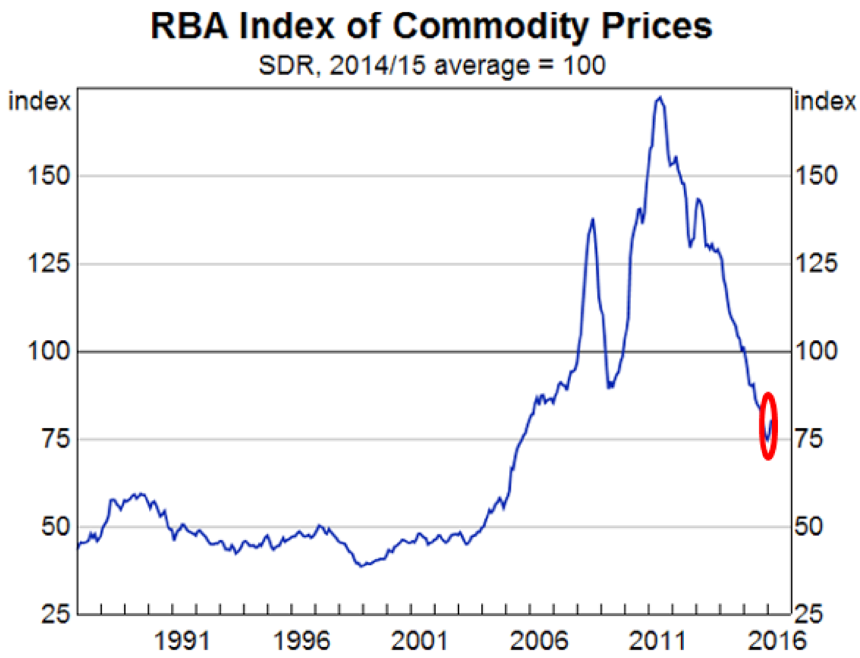
The most significantly written down commodity was iron ore, with expectations down $14.23 to an averaged 2016 forecast price of $41.65. Ironically three months into 2016, iron ore has been the flagship commodity for the Australian resource industry, and on 31 March was trading at US$54.18.

In late 2015, there was a significant downgrade of the forecast export volume for Australia's key export reliant commodities, such as copper, iron ore, nickel and LNG[2].

Furthermore, the 2016 outlook value of Australia's key resource exports was downgraded by $12 billion or 6.7% from $177.6 billion[2] in June 2015 to $165.6 in December 2015. It was recently downgraded by a further $5.5 billion to $160.1billion[2] in March 2016 (see Figure 4b next page) .

Figure 3: Slight recovery in the Index of Commodity Prices

Source: RBA



2. Source: Office of the Chief Economist | Resources and energy quarterly

Commodity prices, volumes and values continued...

Australian resource commodity export volumes & value

It not surprising to see forecast 2016 export values downgraded due to:

- Falling commodity prices in late 2015.
- Softening market conditions (shaken investor confidence – particularly late 2015 and early 2016).
- Correction of some bullish assumptions (for example, revaluation of key global 2016 macroeconomic assumptions – such as quarterly half percentage point drop in China's a forecast GDP – from 6.8% to 6.3%, or a 0.2% drop in OECD economic levels – from 2.4% to 2.2%).

There is anxiety that some assumptions have been overly corrected - specifically that the assumptions have reversed from over opportunistic to overly conservative. For example, China's growth target is 6.5%, yet the revised assumption is 6.3%. So, if China achieves its GDP target, and there is growth in the US, Latin America, Germany and Japanese economies above 2.6%, -0.3%, 1.7% and 1.0% respectively, it would be likely that current forecast Australian resource-exports volume (and therefore value) may be understated; noting that Australian resources and energy exports are key components in end products that the world uses and derives economic growth from.

Figure 4a: Biannual change of Australia's forecast 2016 exports - both volume and value by commodity

Source: http://www.industry.gov.au/Office-of-the-Chief-Economist/Publications/Pages/Resources-and-energy-quarterly.aspx#, AMMA analysis

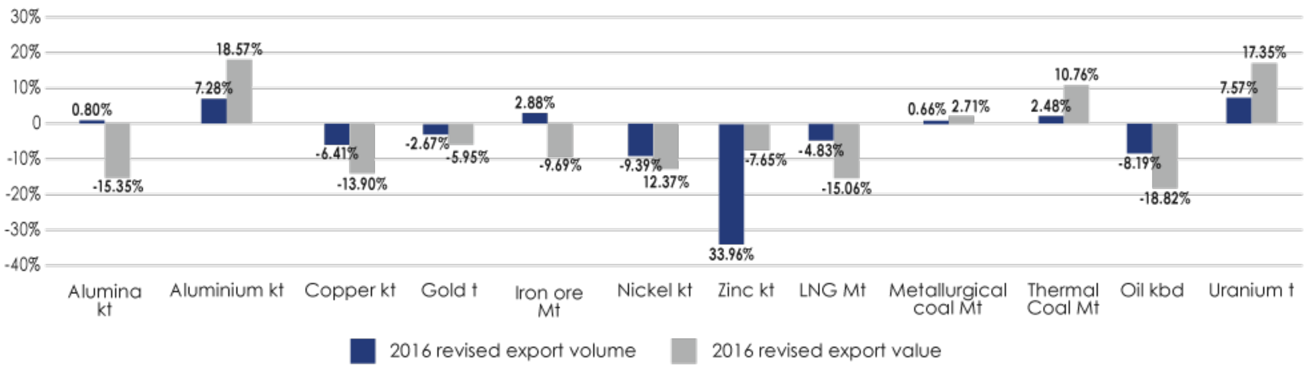


Figure 4b: 2016 revised forecast of Australian resource exports

Source: Office of the Chief Economist | Resources and energy quarterly

	VOLUME		VALUE (A$m)	
	June 2015-16f	**Dec 2015-16f**	**June 2015-16f**	**Dec 2015-16f**
Alumina kt	17 376	17 514	7 516	6 362
Aluminium kt	1 352	1 450	3 422	4 058
Copper kt	1 106	1 035	9 442	8 129
Gold t	289	282	14 628	13 757
Iron ore Mt	795	818	52 211	47 152
Nickel kt	264	239	3 828	3 354
Zinc kt	1 549	1 023	3 347	3 091
LNG Mt	38	36	24 416	20 739
Metallurgical coal Mt	191	193	20 095	20 639
Thermal coal Mt	202	207	14 631	16 205
Oil kbd	301	276	8 768	7 118
Uranium t	5 884	6 329	714	838

f=forecast

1&2 http://www.industry.gov.au/Office-of-the-Chief-Economist/Publications/Pages/Resources-and-energy-quarterly.aspx

Exploration

Quarterly analysis - Exploration levels falling short

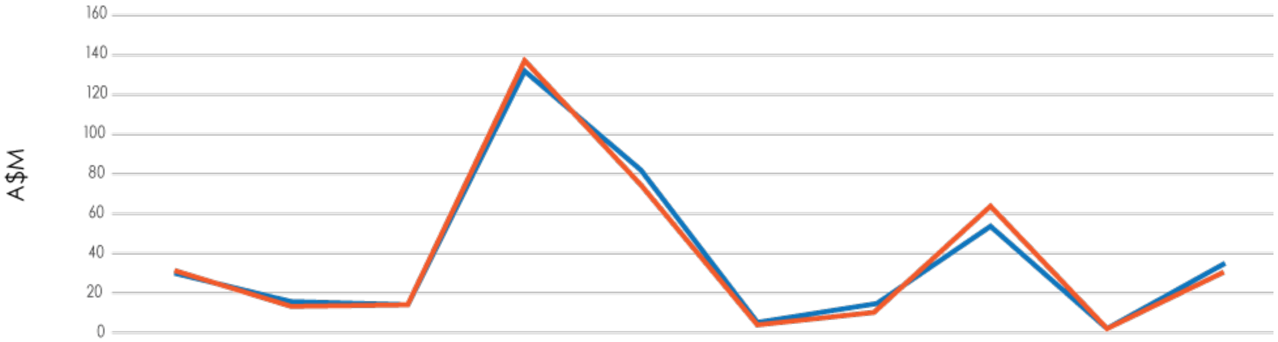
Exploration spend is a leading indicator on the future success and prosperity of the industry and the nation in general. According to the ABS[3], in original terms, mineral exploration expenditure reversed some of the ground made in the preceding quarter and fell by 3% (or $12m) to $382m in the December quarter 2015.

Exploration expenditure on existing deposits fell 7.8% (or $9m) and exploration for new deposits fell by 1.1% (or $3m).

The largest falls in exploration spending by commodity came from iron ore (down 9.4% or +$7.7m), followed by uranium (down 30.5% or +$4.7m). Offsetting some of the negative territory was coal (up 12.6% or $7.1m), gold (up 3.3% or $4.5m) and copper (up 3.9% or $1.2m).

Figure 5: Australia: Quarterly change in mineral and selected base metal exploration spend

Source: ABS cat. 8412, table 5



	Copper	Silver, lead, zinc	Nickel, cobalt	Gold	Iron ore	Mineral sands	Uranium	Coal	Diamonds	Other
Sep-2015	30.2	16.4	14.7	133.7	82.2	6.6	15.4	56.3	1.6	36.6
Dec-2015	31.4	12.3	14.6	138.2	74.5	5.3	10.7	63.4	1.5	29.5

However, the trend estimate (which smooths seasonal variations) for mineral exploration expenditure actually rose 2.7% (or $9.7m) to $364.1m in the December quarter 2015. The largest contributor was Western Australia, where exploration expenditure was up 3.1% or $6.5m (coincidentally offseting Western Australia's previous quarter fall of 3.1% or -$6.5m).

In addition to the above quarterly data on minerals and selected base metals, in original terms, onshore petroleum exploration fell by 20.1% (or $40.0m to $158.9m) in the past quarter, and offshore petroleum exploration fell by 15.9% (or $60.9m to $323.1m).

According to the ABS[3], "the trend estimate for total petroleum exploration expenditure fell 23.9% (-$139.9m) to $445.7m in the December quarter 2015. Exploration expenditure on production leases fell 5.4% (-$7.5m), while exploration expenditure in all other areas fell 24.3% (-$108.1m)". In terms of jurisdictions, Queensland and Western Australia dominated the falls in exploration expenditure.

3. Source: ABS cat 8412.0

Exploration continued...

Exploration spending ends the year on a sour note

In original terms, mineral exploration expenditure in the past calendar year has fallen by 17% (or $77m), by 30% (or $165.4m) compared to two years ago, by 54% (or $441.9m) compared to three years ago, escalating to 63% (or $650.4)[3] compared to four years ago.

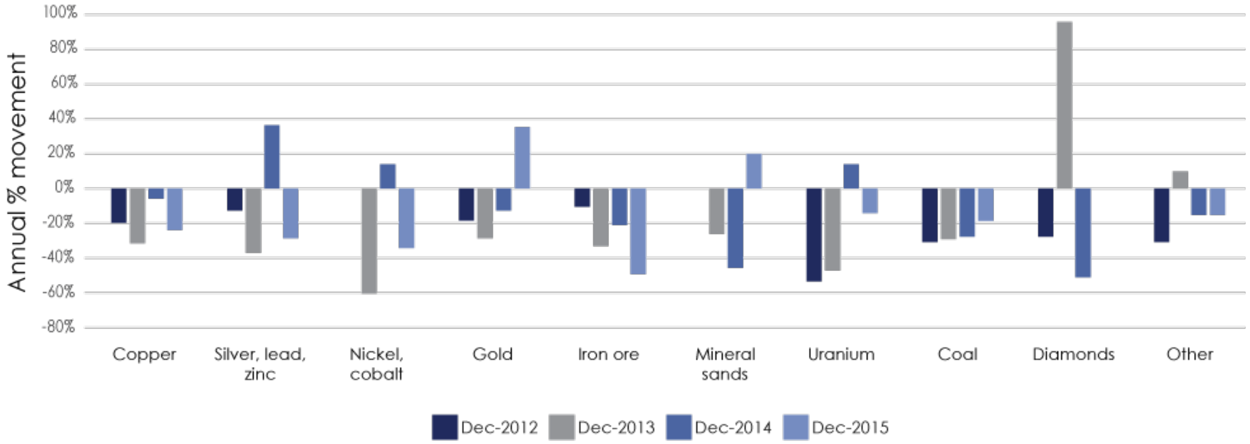
Absent from the graph is that in original terms, onshore petroleum exploration in the past year fell by 63% (or $272.5m to $158.9m) and offshore petroleum exploration fell by 55.2% (or $398.6m to $323.1m).

This is Australia's fourth consecutive year of significant year-on-year falls in exploration spend, which is going to have significant long term repercussions for Australia in terms of job losses, royalties, taxes and both living standards and what we can achieve as a community in the years ahead.

Today, exploration spend is trending 32.2% lower than the 10 year quarterly average. While the implications of falling exploration spending are not completely clear, if left unattended it is likely to become a significant drain on the resource industry in a decade's time.

Figure 6 : Australia: Annual mineral and selected base metal exploration spend

Source: ABS cat. 8412, table 5



While the industry and Australian economy starts to benefit from the realisation of mega operations that have recently shifted from construction into production, mines are finite, and so too are the economic and socioeconomic gains we obtain from them as a community. It is now vitally important that at both the state and national level, falling exploration spend is tackled head-on, and that we look to innovative measures such as taxation reform, positive government investment and lifting moratoriums on energy sources of the future (such as nuclear) to stimulate exploration activity.

3. Source: ABS cat 8412.0

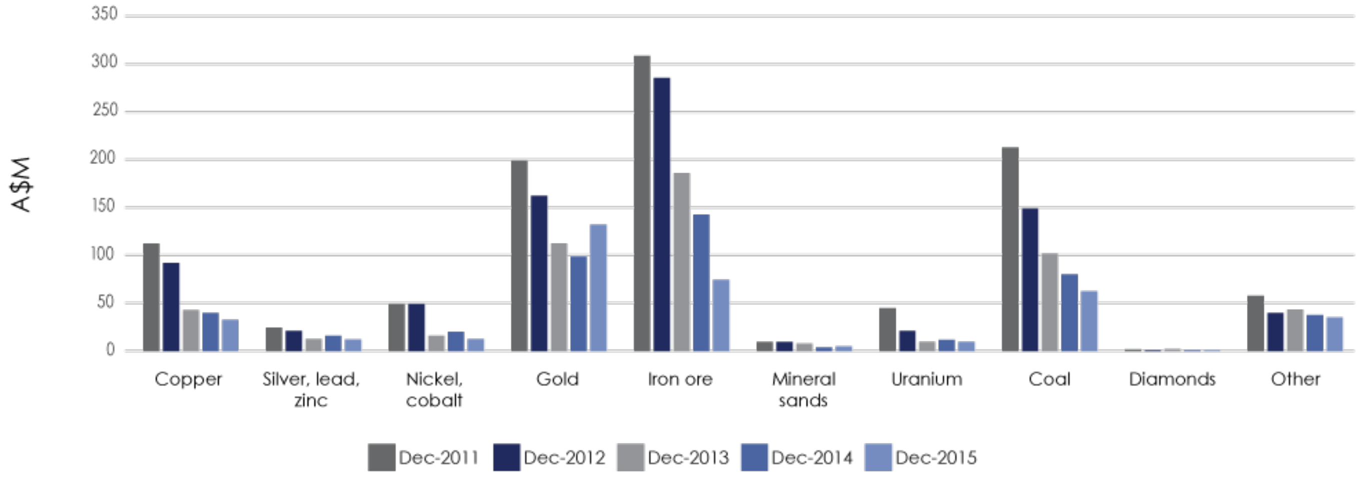
Exploration continued...

On a more positive note, exploration spend was higher year-on-year for gold and mineral sands.

There also appears to be some buoyancy in lesser known commodities, such as rare earths including lithium, which will likely be a key commodity in the future (noting lithium it is used in battery storage, renewable energies, electric vehicles, defence and aerospace).

Figure 7: Australia: Annual mineral and selected base metal exploration spend

Source: ABS cat. 8412, table 5



Investor confidence

Uncertainty persists

Tracking various events and developments that impact on sentiment and market realities, AMMA's Volatility Index (Figure 8) is a forward looking short-term tracker that gauges volatility and investor confidence in resource stocks.

This is a significant consideration as high volatility typically correlates to poor resource-related share market performance (with the exception of safe haven commodities) and can also have a close relationship with growth or contraction in the pipeline of future major resources and energy projects.

The period since the previous edition of the Market Outlook (December 2015) has seen significant movement on AMMA's volatility index. In early January 2016, the Index firstly swung into a more highly volatile position due to various concerning developments and announcements such as:

- Various resource companies considering placing operations into care & maintenance.
- Seven mining companies being delisted from the ASX in the first six days of 2016 (and 13 mining companies delisted to 31 March, see Figure 9).
- Worse-than-expected financial results.
- Speculation on changes to resource companies treatment of progressive dividend policies.
- Speculation on the implications of the climate change summit in Paris.
- Wider 'doom and gloom' economic and commodity specific forecasts.

Figure 8: AMMA's Volatility Index

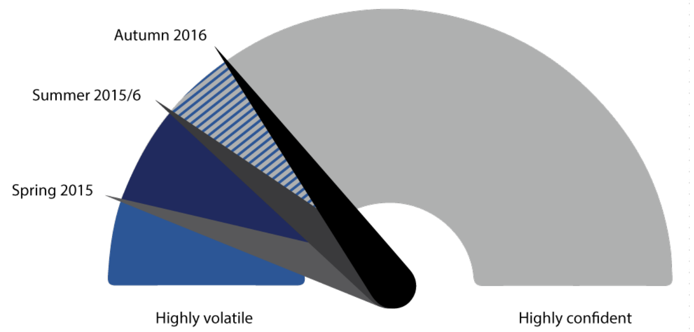


Figure 9: Delisted ASX Companies (1 January to 31 March 2016)

Source: ASX, AMMA analysis

Delisted ASX companies	ASX code	Date delisted
UXA RESOURCES	UXA	29/03/2016
FREEHILL MINING LIMITED	FHM	23/03/2016
DRILLSEARCH ENERGY LIMITED	DLS	02/03/2016
COFFEY INTERNATIONAL LIMITED	COF	26/02/2016
OCTAGONAL RESOURCES LIMITED	ORS	23/02/2016
ENDEAVOUR MINING CORPORATION	EVR	11/01/2016
PHOENIX GOLD LIMITED	PXG	06/01/2016
AED OIL LIMITED	AED	04/01/2016
AUSTRALIAN ZIRCON NL	AZC	04/01/2016
BOUNTY MINING LTD	BNT	04/01/2016
IDM INTERNATIONAL LTD	IDM	04/01/2016
LAND AND MINERAL EXPLORATION LIMITED	LDM	04/01/2016
MORNING STAR GOLD N.L.	MCO	04/01/2016

Investor confidence continued…

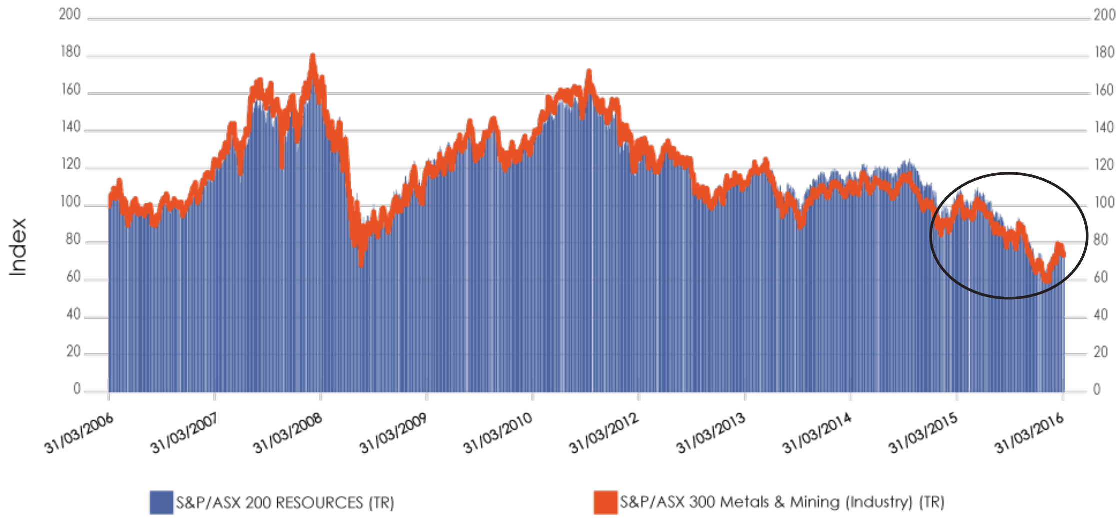
However, more recently the Volatility Index swung moderately back from the 'highly volatile' zone due to developments such as:

- Sound Chinese forecast growth targets.
- Improvement in the Chinese Purchasing Managers' Index to 50.2 for March – in excess of the 50-point mark that splits growth from contraction and the highest level since March 2015).
- Confidence in the US dollar.
- Strong US payroll and manufacturing data.
- Growing speculation that the US Federal Reserve will increase interest rates.
- Optimism around India's growth targets and development timetable.
- Lower oil prices stimulating growth.

Such forces (whether actual or perceived) are driving recovery in resource stocks on the ASX (see Figure 10).

Figure 10: Recovery in resources stocks

Source: S&P Dow Jones Indicies; AMMA analysis



Investor confidence continued...

A leading short-term metric to assess volatility and confidence, provided by resource organisations themselves, is expected capital resource expenditure.

In the past three months, expected capital expenditure for 2016 has fallen by 5.6% (or by $3.345bn to $56.76bn). However this is still in positive territory compared to the original 2016 estimate of $53.82bn.

Disturbingly, moving forward into 2017, capital resource expenditure is forecast to decline to five year lows of $34.351 billion.

This is 39.4% or $22.4bn below current 2016 expected capital resource expenditure levels, and $19.47bn or 36% below expected capital resource expenditure levels at the same time last year.

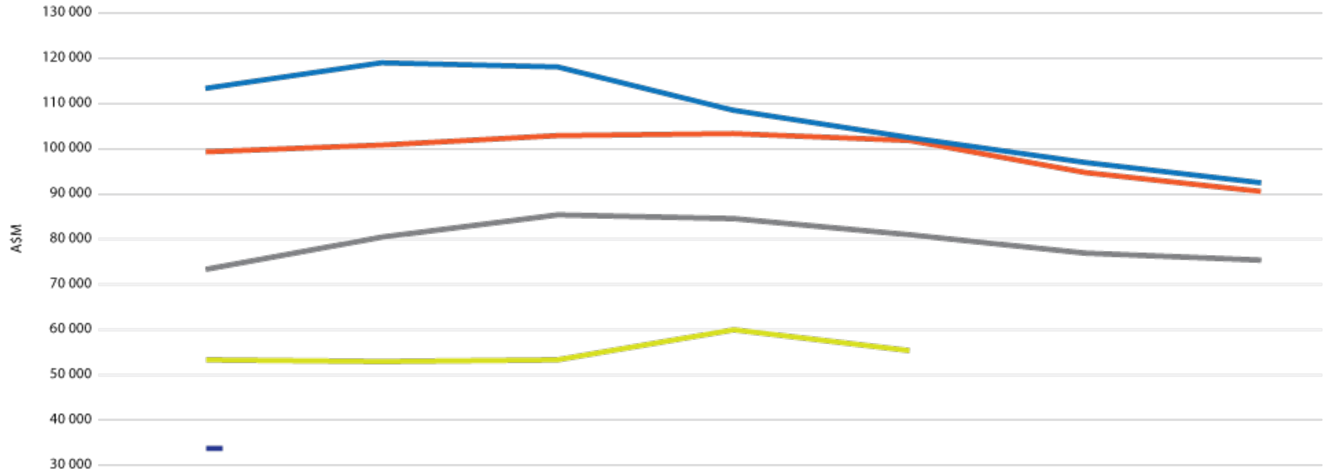
Even though there are signs of resource recovery and some optimism for capital expenditure, measured falls in expenditure intentions show that resource companies are sceptical regarding the current economic environment and foresee challenging times ahead.

Again, notwithstanding that they may be in part a product of short term fluctuations, the renewal of productive capacity also threatens to have long term, structural negative consequences for the Australian industry and for productivity and competitiveness globally.

Inaction on capital resource expenditure will likely create a situation where ageing capital assets decrease multi-factor productivity and production levels which will ultimately negatively impact on company profitability levels.

Figure 11: Expected capital resource expenditure

Source ABS. cat 5624, table 12A



	Estimate 1: 12 months expectation as reported in Jan-Feb of previous financial year	Estimate 2: 12 months expectation as reported in Apr-May of previous financial year	Estimate 3: 12 months expectation as reported in Jul-Aug	Estimate 4: 3 months actual and 9 months expectation as repoerted in Oct-Nov	Estimate 5: 6 months actual and 6 months expectation as repoerted in Jan-Feb	Estimate 5: 9 months actual and 9 months expectation as repoerted in Apr-May	Estimate 7: 12 months actual; Resource; Total
Jun-2013	113 396	119 290	118 984	108 065	103 622	97 587	94 710
Jun-2014	99 224	101 482	103 379	103 608	102 528	95 365	90 393
Jun-2015	74 199	80 201	85 927	85 327	80 752	77 832	76 133
Jun-2016	53 820	53 058	54 991	60 110	56 765		
Jun-2017	34 351						

Major economic parameters

Is the Australian economy in false-negative situation, where we think everything is ok, but it's not?

The Australian economy finished the 2015 calendar year above expectations.

Australia's GDP accelerated from an upwardly revised 2.7% in the September quarter, exceeding expectations. Unemployment finished the year at 6% below the previously forecast 6.25%, the cash rate sits at 2%, but both CPI and WPI came in below forecast, with the WPI exceeding the CPI by half a per cent.

GDP growth in the first quarter one of 2016 has decelerated from the preceding quarter. Economists are widely forecasting 2016 GDP growth for Australia at around 2.4% to 2.6%. However, even with slowing growth targets, economists are widely forecasting that the 2016 Federal Budget will see smaller write-downs compared to the $39bn write-down in the previous mid-year Budget update, and significantly below the prior year's $52bn Budget deficit.

This is largely a product of the slight recovery in iron ore prices (Budget projection at $39, compared to a >$50 trading price in February and March). This again underscores the importance of the resource industry for the performance of Australia's national economy.

While 2015 finished on a high, the RBA Board lowered the cash rate twice by 25 basis points (from 2.5% to 2.0%) during 2015, in attempt to stimulate the Australian economy. However, with the cash rate approaching zero, and unless Australia follows the Bank of Japan's trajectory and goes into negative interest rate territory, there are not too many more levers the RBA can manipulate. It is likely both monetary and fiscal policy reform will be needed, particularly if the Australian economy starts to waiver.

Figure 12: Major economic parameters

Source: 2014-15 Australian Budget, ABS Car. no. 5206.0, 6345.0, 6401.0, Treasury, Trading Exonomics, AMMA analysis

	2014-15	Actual	2015-16	Current
Real GDP	2.50%	3.00%	3.00%	0.6% quarter (annual extrapolation: 2.4%)
Unemployment rate	6.25%	6.00%	6.25%	5.80%
Consumer price index	2.25%	1.70%	2.50%	Next ABS quarter release due 27 April
Wage price index	3.00%	2.20%	3.00%	Next ABS quarter release due 18 May

Major economic parameters continued...

With cash rates the way they are, low interest rates, ease of access to borrow money, low inflation and low wage price growth, the economy is possibly at a point where it is 'as good as it is going to get' for some time, particularly if any of the following events occurs:

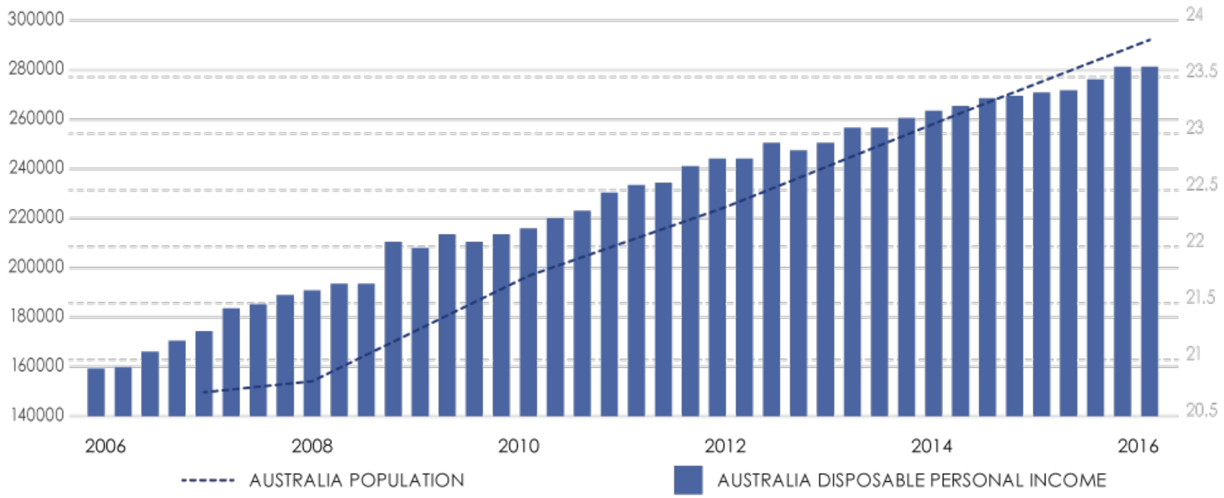
- China, economy falters.
- US economy declines.
- There is a rise in cash and/or interest rates.
- There is an increase in taxation to address Australia's escalating debt position (Australia's foreign debt is now over $1 trillion dollars).

As you can see in Figure 13, a concerning issue is that Australia is currently living in a period in which disposable incomes are falling and not keeping pace with population growth. Real net disposable income per capita is one of the best metrics to assess current and future national living standards.

Therefore if the Australian economy falls or stalls, living standards will fall even further, and this will impact a larger proportion of the Australian community.

Figure 13: Australia disposable personal income

Source: Tradingeconomics.com



Major economic parameters continued...

Australia's real net disposable income per capita can be compared to two of our key resource exports markets. As Figure 14 indicates there has been a significant and rapid rise in China's disposable income per capita, which is all the more impressive given China is the world's most populous country. India has also made phenomenal progress, (Figure 15) increasing disposable incomes for a 1.2 billion population.

Thus, while Australian living standards fall, we are seeing a rise in emerging economy living standards. This will hopefully be a positive sign for future Australian resource exports, given the rise of the global middle class and its demand for energy, housing, manufactured and consumable goods.

Figure 14: China disposable personal income

Source: Tradingeconomics.com

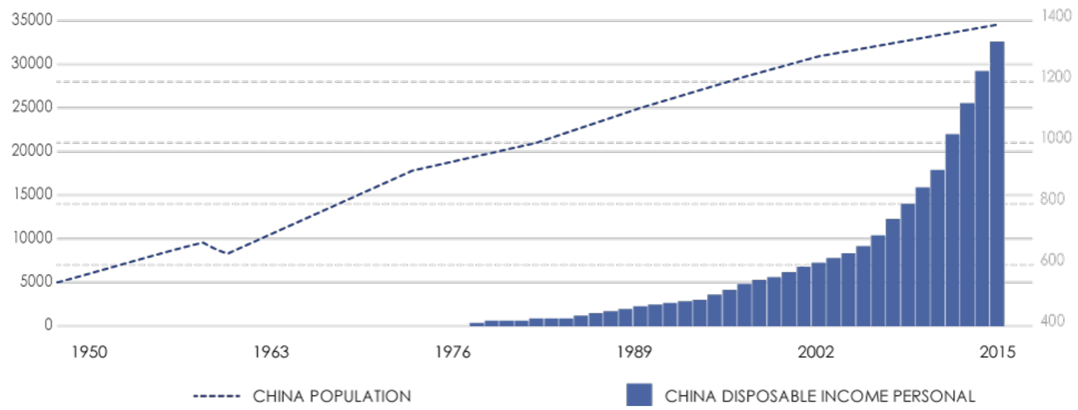
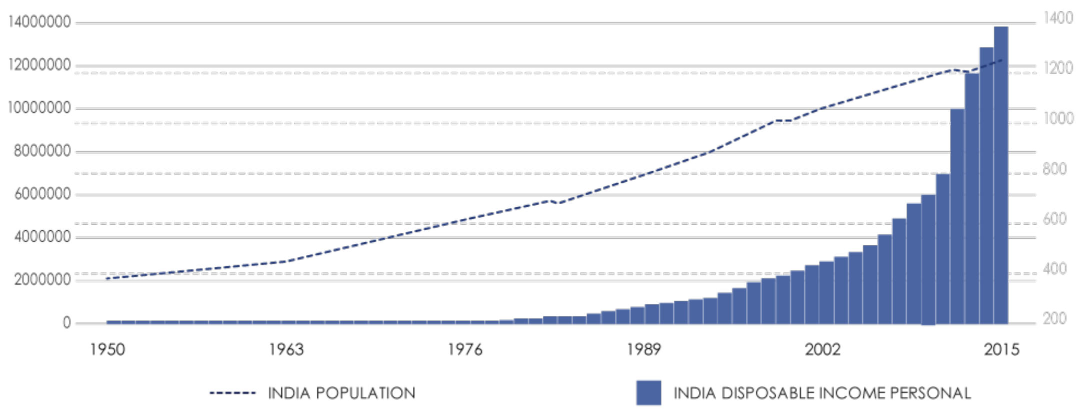


Figure 15: India disposable personal income

Source: Tradingeconomics.com



Major economic parameters continued...

Australian living standards can also be compared to competing resource-reliant trade exposed nations, Canada (Figure 16) and the US (Figure 17). While both have comparable living standards to Australia, their living standards are increasing, with growth in disposable incomes per capita exceeding population growth.

As a result, if the US and/or Canadian resource industries thrive and Australia's slows or declines (noting critically low exploration levels and projects stuck in-consideration) in Australia, and given the skill set, experience and education of many Australian resource employees, it would not be surprising to see more Australians seeking to work in the US and Canada, particularly given the comparative strength in their currencies.

Figure 16: Canada disposable personal income

Source: Tradingeconomics.com

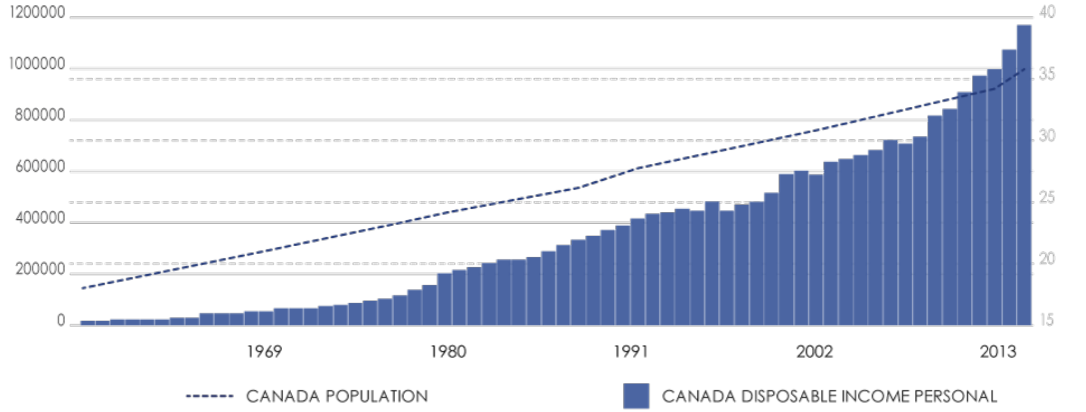
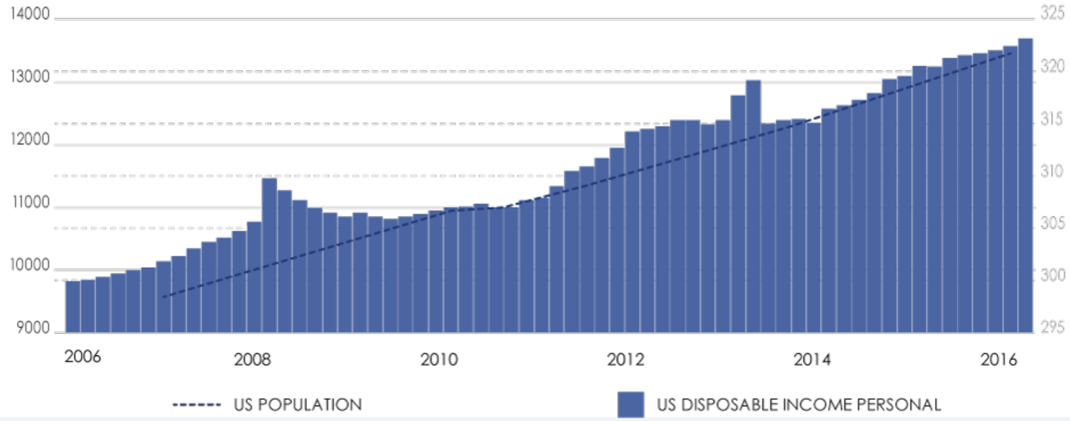


Figure 17: US disposable personal income

Source: Tradingeconomics.com



Governance and corruption

In January 2016 the international anti-corruption body, Transparency International, again downgraded Australia's ranking on its international Corruption Perception index. Of 168 nations, Australia lies a rather healthy 13th, however that's down six spots since 2012. Denmark was ranked as the 'cleanest' nation in which to do business. This is a key reason why the governance and corruption index has swung marginally towards a less 'principled' position, see Figure 18.

During the past three months the resource industry has seen a number of alleged international corruption scandals. It must be noted that these allegations are under investigation and are yet to be proved, disproved or classified as unproven (where there is not enough information to prove or disprove an allegation).

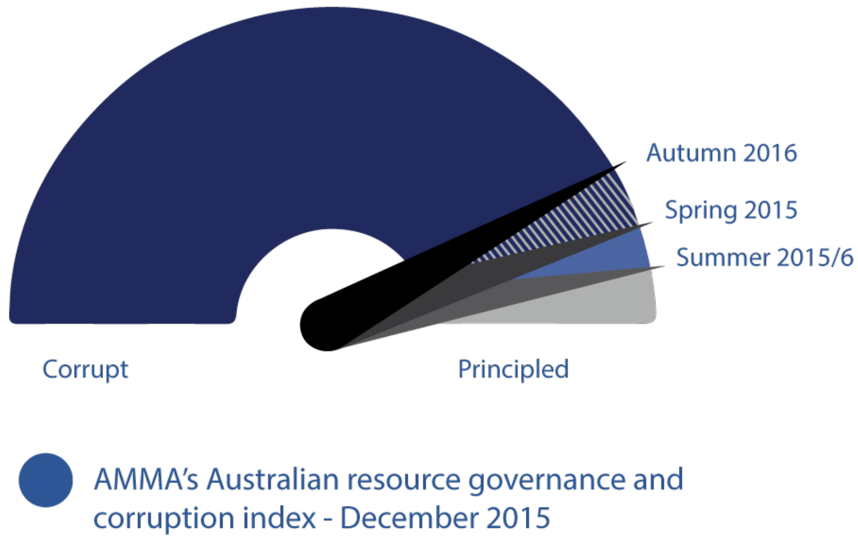
There is significant media speculation on allegations of bribery regarding Unaoil, a company based in Monaco. There are allegations that 'Unaoil and its subcontractors bribed foreign officials to help major multinational corporations win contracts in countries including Iraq, Kazakhstan, Iran, Libya, Syria, Tunisia, and many more countries in Africa, the Middle East, and the former Soviet Union…' .

There have been allegations of bribery against South African government leaders in the award of mining and energy related contracts.

Malaysia 'detained four government officials on suspicion of taking bribes as it expanded a crackdown on bauxite mining after the nation's anti-graft agency said it found "elements of corruption" in the sector '.

The common theme in these allegations is allegations of bribery/corruption against government officials. Notably, companies allegedly subject to these allegations saw their stock price decrease and/or questions raised about their governance and internal audit procedures.

Figure 18: Governance and corruption Index



As resource companies are truly international (nearly all import and export to different degrees, and many have transactions in/with countries that are classified as 'higher risk' for corruption), it is imperative that Australian resource companies have expertise, are familiar with and abide by all domestic and international anti-bribery and corruption laws (or to the highest standard if there are multiple overlapping regulations/legislation).

It is also important to have established 'know your customer' (KYC) policies and procedures, and have clear and transparent policies and controls on transactions (including political donations) with government officials.

4. http://www.valuewalk.com/2016/04/biggest-oil-bribery-scandal-unaoil/

5. http://blogs.wsj.com/riskandcompliance/2016/01/08/corruption-currents-malaysia-detains-officials-in-bauxite-mining-probe/

Conclusion

The resource industry today is in a less volatile place to do business than it was just a quarter of a year ago. However that is not to say that the Australian resource industry is immune from future domestic and global volatility.

Australia's resource sector is currently suffering the highest ever levels of upside risk. In times of volatility lie some of the greatest opportunities. For companies with the financial means and/or with projects that can be expanded or constructed in time to ride the current wave of commodity price cycles, this may be a very advantageous time to invest.

The Australian resource industry has significant growth potential. However, if we do not increase our critically low exploration levels, identify new resource projects, transition projects in-consideration into construction then production, then the resource sector will prematurely and unnecessarily come to a halt, particularly as mines are finite.

This would detrimentally impact jobs, investment, royalties etc. and will have significant negative implications, including disruptions to the procurement and creation of necessary end-products. This will likely be to start to become more evident in the next 18 to 24 months' unless there is significant and immediate action against trends to date.

Australians will go to the polls in 2016 in an election set to have significant implications not only for the Australian community and national economy, but also for investing and doing business in the resource industry. AMMA's lobbying and influence activities on behalf of members will again be critical in mid-2016, directed to federal and state governments, and variety of regulators on issues critical to the industry.

Australia must continuously strive to be a global resource exporter of choice and the premier resource nation in which to invest. With Australia ranked number one in the world for iron ore, uranium, gold, zinc and nickel reserves, second for copper and bauxite reserves, fifth for thermal coal reserves, sixth for shale oil reserves and seventh for shale gas reserves, it is precisely now, during a period of contraction, that Australia should prepare and position itself to capture future growth opportunities as the market, commodity and investment cycle changes.

Future updates

The next, winter 2016 edition of the AMMA Resource Industry Market Update will provide an update on movements and developments in commodity prices, exploration activity, pipeline of growth, confidence levels, volatility levels, as well as other notable developments impacting the resource industry and the economy.

Feedback

If there are any questions arising from this analysis or other resource economic or resource related public affairs issues that you would like AMMA to address, we would be pleased to hear from you. Additionally, if you would like to be added to our mailing list to receive this publication, please contact: tristan.menalda@amma.org.au

AMMA

RESOURCE INDUSTRY EMPLOYER GROUP