Australian exports jump most in 11 months underpinning growth

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Bloomberg reported that Australian exports rose in September by the most in almost a year, underpinning an economic rebound that prompted Ms Glenn Stevens governor of central bank Governor to lead the world in raising interest rates.

The Bureau of Statistics said that exports jumped 5% from August, driven by increased shipments of coal and gold. The gain helped offset rising imports that widened the trade deficit to AUD 1.85 billion less than the AUD 2.15 billion estimate in a Bloomberg survey of analysts.

According to analysts surveyed by Bloomberg, BHP Billiton Limited and Rio Tinto Group boosted iron ore production to a record in the Q3 to satisfy rebounding Chinese demand for steel. Mr Glenn Stevens will increase the benchmark interest rate December 1st 2009 by a quarter percentage point for a third straight month to 3.75%.

Mr Annette Beacher an economist at TD Securities Limited said that “This supports the long standing theme from the Reserve Bank that export growth exceeds expectations given the global trade slowdown. The odds still favor the central bank adding another quarter point next month.”

The Australian dollar traded at USD 90.79 cents at 1:04 PM in Sydney from 90.88 cents just before the report was released. The 2 year government bond yield fell 2 basis points to 4.57%.

Today’s report showed that a basis point is 0.01 percentage point. Exports rose to AUD 20.2 billion in September, the biggest increase since October 2008. Coal shipments gained 9% from August.

1. Gold Surges;

Gold exports surged 64%. Demand from investors seeking the precious metal as an alternative asset pushed up prices for immediate delivery to a record high of AUD 1,097.72 an ounce.

Australian resources exporters are also benefiting from a rebound in China’s economy, which Governor Ms Stevens this week described as very strong. China’s gross domestic product rose 8.9% in the Q3 from a year earlier, the fastest expansion in a year.

Rio Tinto said last month that iron ore production climbed 12% to a record 47.5 million tonnes in the 3 months to September 30. BHP Billiton said that its production of the steel making material also rose to a record. Brisbane based Macarthur Coal Limited last month reported a 22% gain in September quarter sales after demand from steelmakers rebounded.

2. Strong Demand;

Mr Ian McAleese executive manager of corporate development at Macarthur said that demand “was right across the board. We see the demand still quite strong, we are still quite encouraged by what we see.

Economic forecaster BIS Shrapnel said that investment in mining in Australia will rebound to record levels of more than AUD 50 billion by fiscal 2013 and more than AUD 60 billion the following year. Prices for commodities, as measured by the Reuters/Jefferies CRB Index of 19 commodities have gained more than 20% 2009.

Today’s report showed that imports rose 5% to AUD 22.1 billion in September driven by 2% increase in consumer goods shipments. Fuel imports surged 71%.

Higher imports add to evidence that Australia’s economy is growing faster and generating more jobs than Treasurer Mr Wayne Swan and Prime Minister Mr Kevin Rudd forecast 6 months ago, helped by AUD 20 billion in government cash handouts to consumers and Mr Stevens’s record interest rate cuts between September 2008 and April, when he slashed the benchmark rate by 4.25 percentage points to a half century low of 3%.

3. Rate Pressure;

Mr Swan told an Australian Industry Group breakfast in Melbourne today that government stimulus will help the economy grow 1.5% in the 12 months to June 30th 2010. In May, he predicted a 0.5% contraction. GDP will accelerate to 2.75% the following fiscal year. The economy grew 1% in the first 6 months of 2009.

Signs of a surge in export earnings may boost pressure on Ms Stevens, the first policy maker in the world to rise borrowing costs twice this year to increase the overnight cash rate target again in December. That could harm export earnings as rising interest rates push Australia's currency toward parity with the US dollar. Investors, attracted by the widening differential between the Reserve Bank's benchmark rate and those of its global counterparts, have driven up the so called Aussie by more than 30% in the past year, making it the best performing currency in the world. It touched 93.29 US cents on October 21st 2009.

4. Global Rates;

Australia's benchmark interest rate of 3.5% contrasts with the US Federal Reserve's rate of close to zero. The European Central Bank and Bank of England benchmark rates are at record lows of 1% and 0.5% respectively. The Bank of Japan's rate is also close to zero.

Data from the Washington based Commodity Futures Trading Commission show that Citigroup Inc, Calyon, Barclays Capital and National Australia Bank Limited forecast the Australian currency will trade at USD 1 in 2010 implying an additional 10% gain. Hedge funds and other large traders last month had more bets than at any time since July 15th 2008 that the rally will continue.

5. Support for Stevens;

According to Bloomberg calculations based on inter bank futures; Investors are betting there is a 54% chance Ms Stevens will raise the overnight cash rate target by a quarter points on December 1st 2009. The index was little changed from prior to today's report.

Ms Stevens, who said this week it would be prudent to raise interest rates gradually from an emergency low setting, was backed today by Mr Gail Kelly CEO of Westpac Banking Corporation.

He said that "Having seen that consumer confidence has improved and that business confidence has improved and house prices have improved, I think it's really important to move off those emergency lows but in a modest and staged way. So I actually think the approach that the Reserve Bank has taken has been appropriate."

(Sourced from Bloomberg)