SE Business

HD **Hard reality hits home for us all**

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Reality has arrived Down Under with a $50 **billion** thud.

Investors have been given a rude lesson that it's "not just about **iron ore**''. It's also about **oil** — and, ominously, gas. Arguably, it's also about commodities more generally.

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This is not a great time to be a **company** that, having made a huge multi-**billion**-dollar investment in a new gas export project, finally gets it into production — only to be getting the gas equivalent price of $US70. Or $US60. Or even $US40, as some forecast.

Now which companies could they possibly be? Why, perhaps companies like Origin and Woodside, both down more than 10 per cent over these two trading days wrapped around a weekend.

Just maybe Woodside shareholders outguessed their directors in knocking back the buyback of the Shell **stake** — those shares are now looking mighty pricey.

Then there's the daddy of them all, up to its gills in expensive — and increasingly, marginal — gas: Santos, which got whacked more than 20 per cent over the two days.

The Reserve Bank with its customary sense of timing dropped its monthly index of commodity prices into the market ferment.

It was both slightly reassuring and potentially ominous.

Commodity prices have been on a long slide since their peak in 2010. They have now dropped by more than a third from that peak.

That's the bad news. The slightly reassuring news is that they are still more than double the prices that prevailed through the 1990s and into the 2000s. The years before **China** really got going but which were still pretty good years for the companies and Australia.

This points to the absolutely fundamental question — for the future both of our resources companies from BHP Billiton and Rio Tinto down, and for Australia.

Was the "**China** period'', which sent prices doubling and then tripling, just a temporary deviation from commodity normality? Will we go back now to prices somewhere between where they are now and were through those years?

Or has **China** made such a fundamental and permanent shift in the global demand-supply relationship that what we were seeing over the last couple of years is more cyclical? And so once **China** steadies we would then go back to prices somewhere between where they are now and that 2010 peak?

Then you have to account the other seismic shift from left field — the explosion in US **oil** (and gas) production from shale just when the world was supposed to hit "peak **oil**''.

There's a significant difference between the two. Increased US domestic gas production is likely to be sustained, even with low prices. It's just too easy to feed the gas into the pervasive US reticulation system.

So, with the US not only shifting from **coal** to gas but also aiming to sell gas into the global market, we are likely to see a sustained — negative for us — shift in the global **energy coal** demand-supply equation.

The other big factor in our investment and economic future is the Aussie dollar. We are getting what we wished for. It is now clearly headed below US80c, on the way to who knows where.

This is bad news for the market. It means offshore investors lose twice — on the fall in the Aussie share price and then the fall in the Aussie dollar value of the share. But into the future it will make Aussie shares — indeed all Aussie assets — cheaper to offshore investors.For the economy a lower Aussie will provide some relief. But it will also push up prices.

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