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HD **REALITY TIME**
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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 and comprehensively.

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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, belatedly, gets it into production. Only to be getting the gas equivalent price of $US70 oil. Or $US60. Or even $US40, as some are now forecasting.

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 — 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 which 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 for Australia.

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

Was the "China period" that 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, so that what we were seeing over the last couple of years is more cyclical? And so once China steadied, 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. The 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 use 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.

But it's different for **oil**. Because **oil**-from-shale is very capital intensive — and its marginal cost is not far below $US70 — any further fall in the **oil** price could see US production fall suddenly and sharply. It would equally spring back just as quickly if the **oil** price rose sharply.

With the US as now the global swing producer — based on output very responsive to price — that suggests a relatively stable **oil** price, but at a level that would hurt our gas exporters.

And a sustained low **energy coal** price that would force most of them out of business or to operate at a loss.

With met **coal** and **iron ore** hostage to the riddle wrapped in a mystery inside an enigma, as Winston Churchill described Russia, but is now the total uncertainty of the **Chinese** economy.

Then there's David Murray and Wayne Byers. Next week we are going to find out just exactly what Murray advises for increased bank capital; and what the Government and APRA chief Byers consent to.

The four big banks are the absolute core of the eight stocks that comprise more than 60 per cent of the Aussie market.

More capital requirements must impact their future returns and so their current share prices. This is not a great time, following a commodity rout, to go there. Although there will be an upside of sorts.

As investors flee commodity stocks, more bank paper will provide a useful bolt hole. While the very process of having more bank paper in the market will underwrite the security and dividend stability, if not the performance of their existing bank holdings.

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 initially further 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; likely leading to offshore selling. 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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