Commodity Update – Minerals and Energy

National Australia Bank

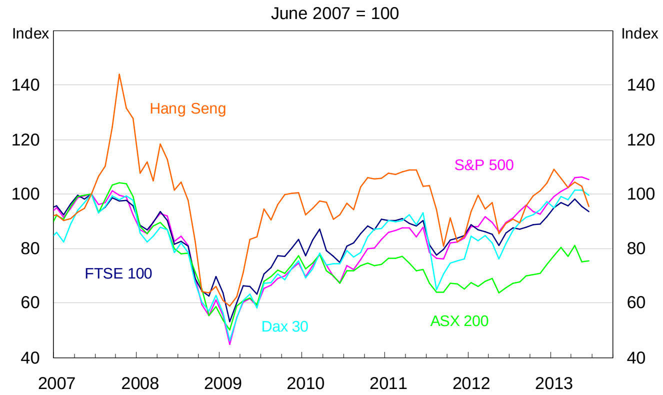
- **Overall, the heightened volatility in global financial markets associated with central bank decisions in the US and China has weighed on commodity prices. Bulk commodity prices remain under pressure from mounting concerns over China's growth outlook.**
- **Nevertheless, iron ore is receiving some support from tentative restocking activity, while a margin squeeze in the coal market could suggest that prices are approaching their bottom.**
- **In the last two months, the oil market remained mixed, with West Texas Intermediate (WTI) continuing to firm relative to Brent and Tapis, narrowing the gap between Brent and WTI to the lowest in 30 months.**
- **The loss of faith in gold as a store of value and the resultant falling investor demand have sent gold prices from around $1,600 an ounce just three months ago, to a recent trough of below $1,200 an ounce.**
- **Reflecting ongoing weakness in prices, we have lowered our near-term forecasts for some commodities. We are holding onto our expectation for a modest recovery in demand over the forecast horizon that will help to stabilise prices, but the recovery is likely to be more muted than previously thought.**

Monthly Commodity Prices

Over the past month, global financial and commodity markets have experienced some sharp volatility as investors' confidence was rocked by the prospects of the US Federal Reserve (the Fed) starting to scale back quantitative easing (QE) and China's recent credit crunch which sent inter-bank lending rates to record highs. Anticipation of QE tapering has fed into expectations of earlier tightening of interest rates, contributing to a correction in equity markets and placing further downward pressure on prices across commodities. The rally in equity markets since the end of last year appears to have ended and equities have been brought more into line with the trends in many commodities markets. In addition, the strengthening USD as a result of the Fed's announcements further dampened commodities prices (as prices are mostly denominated in USD). Notwithstanding the current slowing of the Chinese economy, recent falls in the Australian dollar could potentially provide some support to Australian commodities export volumes.

In June, we continued to see a gradual recovery in the US economy, with several economic indicators such as new goods orders, retail sales, housing and construction all exceeding expectations for the months of May and June. Unemployment claimant figures were also lower. However, the recent downward revision of its Q1 GDP results, which saw almost all categories with the exception of housing and government downgraded, indicates that the US economic recovery may not be as robust as previously thought. US growth is expected to continue to strengthen in the second half of this year as the effects of January's tax increases fade Hence, we are of the view that the tapering is still on track to begin towards the end of 2013.

Global Equity Markets



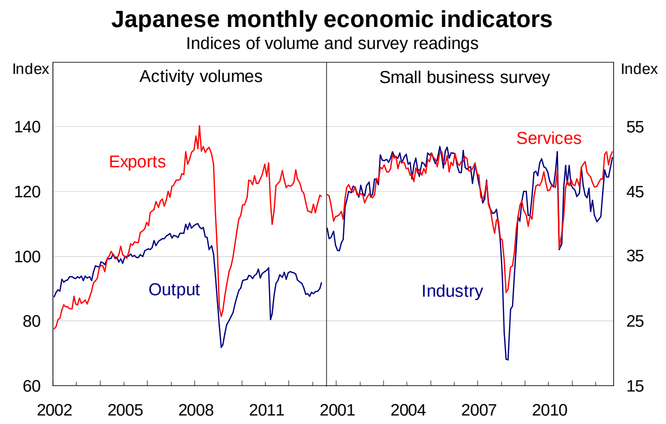
Source: Thomsons Datastream

In China, the main concern weighing on people's minds is the recent cash crunch, which saw inter-bank interest rates soaring to record highs on 20 June. There were a number of factors that came together to create the spike, but it was the apparent inaction by the central bank to address the liquidity squeeze that caused much of the panic in financial markets. While the central bank has subsequently taken actions to allay fears in the market, they appear to have taken the position that monetary conditions will need to remain tight to promote more prudent bank lending and encourage banks to address their liquidity management; consistent with the mantra of 'short term pain for long term gain'. Though inter-bank rates have eased significantly over the past few days, they still hover high above the prior average of 2-3%. Despite the spike, the PBOC acknowledges that liquidity in the financial system is at a 'reasonable level'. Hence, it is likely to not intervene too much, especially when new home prices continue to grow strongly across major cities. Commodity markets fell when the magnitude of the cash crunch became clear, with markets fearing the repercussions of a drop in lending to the private sector.

Partial indicators for the Chinese economy in recent months have confirmed that the Chinese economy has continued to slow. The Beige Book report, which surveyed 2,000 companies and banks on business conditions for the period from 13 May to 3 June, showed weakening conditions across the manufacturing sector, and previously resilient retail and services sectors. Consequently, we have revised our growth outlook for China lower, although a 'hard-landing' this year still looks unlikely.

In Japan, conditions continue to improve with the Japanese economy growing at an annualised rate of 4.1% in Q1, prompting the BoJ to raise its assessment of the Japanese economy for the 6th consecutive month. Much of the growth was lifted by strong household spending, a pick up in industrial production, an increase in exports and improving housing market. Developers are breaking ground with expectations of a hike in demand before Japan's consumption tax rises next April. Bank lending, which struggled to grow for years, saw a strong rise, pointing to growing investment. One consequence of Japan's growth and a devalued Yen is a heavy energy import bill, which hiked 10% yoy.

Japanese monthly economic indicators



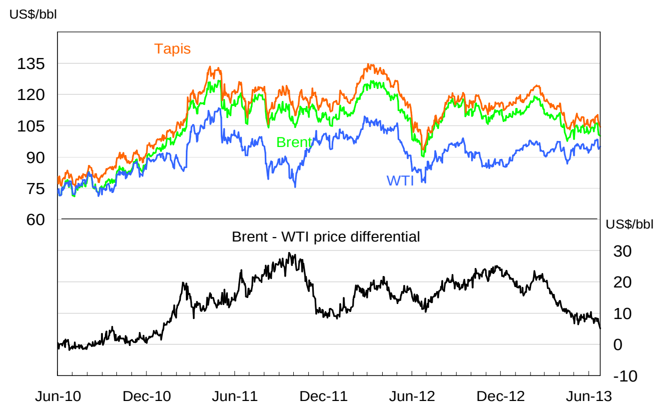
Overall, the heightened volatility in global financial markets associated with central bank decisions in the US and China has weighed on commodity prices. The slowdown in the Chinese economy is also gaining traction in markets and further weakens demand prospects. When combined with increasing global commodities production these factors pose very limited near-term upside to prices. Bulk commodity prices have been mixed with iron ore seeing some support from mill restocking, while coal prices have eased under the weight of global oversupply but prices may now be approaching their bottom. Energy price movements were mixed in the month. As economic activity in the US gains traction, the US-led West Texas Intermediate (WTI) oil price firmed relative to Brent over May and June, narrowing the gap between them to the lowest in 30 months. Henry Hub gas prices continued to be influenced by varying weather conditions throughout May and June, but overall prices were lower. While average base metals prices increased for some of the metals over June, there was a clear downshift in prices of all of the metals over the second half of the month in response to concerns about the outlook for China as well as Fed tapering. Gold prices have also come under renewed pressure for similar reasons.

Summary of Price Developments

Oil

In June, West Texas Intermediate (WTI) continued to firm relative to Brent and Tapis, as an improved outlook for the US economy and abundant cheap liquidity provided underlying support for the index. More generally, however, escalated geopolitical tensions in the Middle East contributed to a spike in oil prices on the third week of June, when the standoff between Russia, the US and France over the Syrian civil war intensified, raising fears of a spillover into the Middle East oil producing region. The decision of the US to supply arms to the rebels in Syria threatened to turn the civil war in Syria into a proxy war between the world powers, given that Russia is providing military support to the Assad regime. In the immediate aftermath, WTI rose to its highest level in nine months since September last year at USD 98.50 while the Brent index reached USD 110.20, the highest in more than a month. Prices took a sharp turn soon after, however, when the US Federal Reserve announced the potential scaling back of the QE program in the coming months and more recently, the fears of a liquidity crunch in China also dragged oil prices lower. Concerns of a premature liquidity tightening by central banks are dominating the markets' psyche at the moment, so it was somewhat paradoxical that oil prices actually rose when it was revealed that US first-quarter GDP was revised downwards in the last week of June which implies a slower withdrawal of QE.

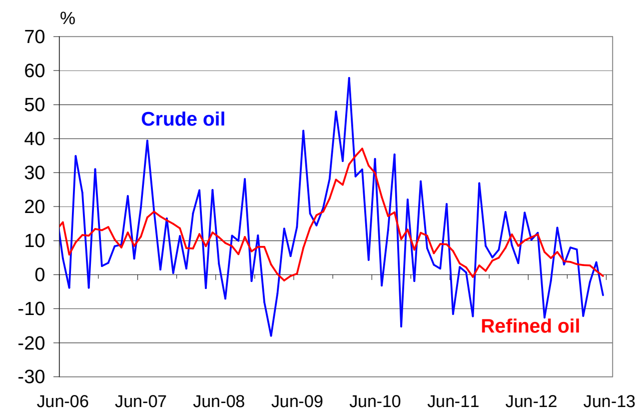
Oil Prices– Daily nominal terms



Source: Thomson Datastream

Average prices of WTI rose by around 1% in the month (with a few more days in June to go), followed by a 0.5% rise in Brent. Tapis fell marginally by 0.3%. Aside from once-off factors in the month, weighing on all indices in general has been an overhang of excessive inventory held by OECD country and projected increase in non-OPEC countries. The Energy Information Administration (EIA) projects liquid fuels production by non-OPEC countries will increase by 1.2 million bbl/d in 2013 and by 1.6 million bbl/d in 2014, largely arising from the oil and gas boom currently experienced by North America from US tight oil formations and Canadian oil sands. US crude production has surged as the combination of horizontal drilling and hydraulic fracturing, or fracking, has unlocked supplies trapped in shale formations, which spurred crude output to reach 7.4 million barrels a day in the week ending 3 May, the highest since 1992. EIA expects non-OPEC supply to also grow in Central and South America by an average of 160,000 bbl/d each year over the next two years, as Brazil and Colombia bring new production on line. As a response to the surge in non-OPEC supply, OPEC powerhouse Saudi Arabia has trimmed its production target this year and the next but overall the organisation has decided to retain its production target of 30 million bbl/d through the rest of 2013. The EIA now expects oil inventories to stay relatively steady in 2013, ending the year at 2.64 billion barrels (57.3 days of supply) before increasing to 2.68 billion barrels (58.3 days of supply) at the end of 2014.

Growth in Chinese crude and refined oil imports (year-on-year)



Source : CEIC Database

In the current environment, demand-side factors are unlikely to step up to soak up the excess supply in any meaningful way despite some traction in the pace of activity in the US and Japan. Non-OPEC Asia is expected to drive most of the projected growth in global oil consumption in the coming years but recent activity indicators have pointed to a slowing Chinese economy, driven by softer industrial and export performance should result in lower oil import growth.

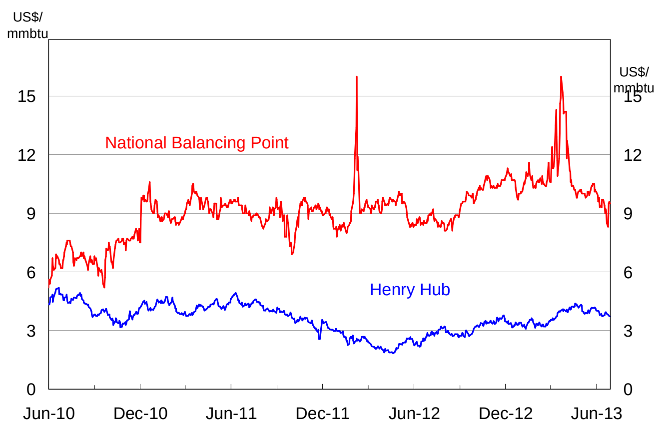
The WTI-Brent gap has continued to narrow in June to hit its lowest point since the beginning of 2011 to be around USD5. The steady progress in the expansion of the capacity to divert inventories away from the over-supplied distribution hub of Cushing, Oklahoma directly to the refineries in the Gulf Coast via a number of pipeline projects will reduce the cost of transporting crude oil to refiners and aid the closing of the gap. Most of these projects are expected to be operational by 2014. On the other hand, there continues to be very little impetus on Brent prices, with a fragile global economic recovery suppressing demand and comfortable supply-side conditions adding to downward price pressures. In addition, there remain significant downside geopolitical risks in the Middle East at the moment with no immediate resolution to the long-drawn Syrian conflict, which is likely to pose further volatility for oil prices.

EIA has revised up its global demand very modestly for 2013 and 2014 to 90.03 mb/d and 91.2mb/d respectively in its latest June short-term energy outlook report, while keeping its forecast of OECD commercial reserves for both years largely unchanged at 2.6 billion barrels for the two years respectively. In light of recent developments, we have become a bit more optimistic on WTI at the same time downgrading our forecasts for Brent. Overall, we see the price of WTI rising to around US$99/bbl over 2013, while the price of Brent is expected to lift to around US$105/bbl by the end of the year.

Natural Gas

US natural gas spot prices retreated from their recent highs in April as the weather turned milder from the unseasonably cold March and April weather. A delayed commencement of spring has resulted in cooler conditions in May and early June relative to previous years. Henry Hub spot price averaged $4.04 per MMBtu in May and $3.83 in June, compared to $4.17 in April. A lower demand for natural gas for cooling purposes has in turn contributed to sizeable net injections of inventory which topped the five-year average for the fourth consecutive week as of 21 June, exerting further downward pressure on prices. By the end of June, gas prices had slumped around 19% from a 21-month high of $4.44. The strengthening of the US dollar against most major currencies in May and June have had also dampened energy prices as the remarks by Ben Bernanke on US Federal Reserve's expectation to scale back QE earlier than later sparked a sell-off in the financial and commodity markets.

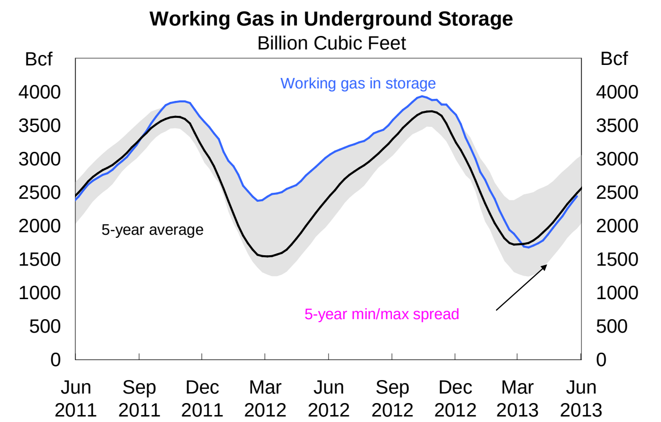
Henry Hub and National Balancing Point Prices



Sources: NAB; Thomson Reuters

In the coming months, the turnaround in the summer seasonal outlook for the US from being warmer-than-average to cooler-than-normal will weigh on natural gas prices. Underground storage inventory levels are approaching the five-year average, with the "deficit" to the five-year average narrowing to 1.2% in the week ending 21 June, compared to 1.9% in the week before. Marketed gas production will climb 1.2% to average a record 70.01 billion cubic feet a day this year as new wells come online at shale formations, such as the Marcellus in the Northeast, the EIA's monthly report showed. Nonetheless, offsetting some of the price impact from increased supply will be the rising export demand for gas and liquefied natural gas by neighbouring and Asian countries. Natural gas trade between Mexico and the US has been growing steadily, with daily net exports from the US to Mexico so far in 2013 (1 Jan to 6 May) estimated up almost 29% over the same period in 2012, although still at a reasonably low level of 1.6 Bcf a day.

Working gas in underground storage

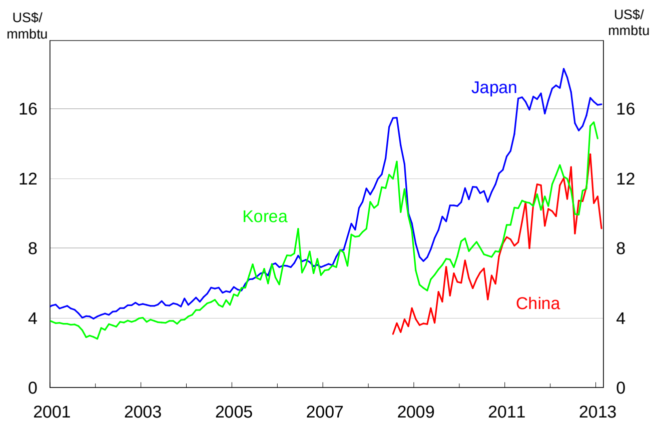


Sources: US EIA

In the UK, natural gas prices have tracked steadily lower in May and June from a surge in supply from the North Sea and milder conditions compared to the wintry conditions in March and April. The National Balancing Point reached the lowest in 10 months on 21 June after supplies from Norway spiked when demand was weak. The closure of the Interconnector pipeline, which carries natural gas exports from UK to Belgium, in the second week of June for two weeks served to trap more gas in the domestic market. Also driving prices lower had been the doubling in the estimate of shale gas reserves in the north of England, renewing hopes of the reduction of the UK's growing reliance on imports. The latest estimate indicates shale gas could transform the UK energy market, even though typically only 10 to 15% of shale gas in place is recoverable.

In April, the LNG markets in Asia, except for China, mostly took their cue from falling oil prices in the month and moderated. The latest available data on China nonetheless shows that China's LNG prices fell in the month of May. Weaker Brent oil prices in April and May have capped the upward potential in Japan's LNG prices, which are indexed to oil price benchmarks. However, historically high levels of LNG import bills, which sent Japan's trade balance to record deficits last year, have increasingly exerted pressure for the Japanese authorities to approve the reactivation of nuclear reactors. Korean LNG prices, which follow the lead of Japanese LNG prices, also fell in the month. Despite being notorious for high volatility, Chinese LNG import prices have exhibited a downward trajectory from a slowing industrial sector.

Japanese looking for cheaper natural gas for the long term



Sources: Thomsons Datastream; CEIC; NAB Economics

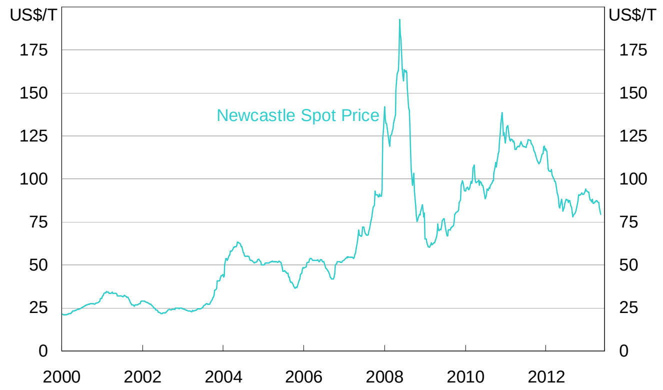
With technological advancements which have helped unlock natural gas reserves previously trapped in inaccessible regions, global supply of natural gas is currently undergoing a phenomenal increase, led by the shale gas revolution in North America. The increasing global supply will place the top LNG importers of Japan, Korea and China in more favourable positions in the medium term to negotiate lower prices for their LNG imports, as more natural gas mining and liquefaction projects commissioned by these countries become operational. A Japanese joint venture and Russia's state-owned gas company Gazprom signed a memorandum recently to build a liquefied natural gas production base in the suburbs of Vladivostok and jointly sell LNG in Japan. Production is expected to start in 2018 with an annual output estimated at around 15 million tonnes. This potentially poses some risks to Australia's prospective dominant LNG supply position, with several mega LNG projects such as the AUD 52 billion Gorgon and AUD 34 billion Ichthys projects currently dominating the domestic mining investment scene. Against the backdrop of sharply falling gas prices, we have downwardly revised our near-term forecasts this month (please see tables at the back for more details).

Coal

In line with other bulk commodities, prices for thermal coal have eased over the past month – largely unwinding the rally since late last year – with the global market remaining well supplied despite considerable margin squeeze. Persistently soft and slowing industrial activity in most major markets is contributing to the headwinds on energy demand. Growth in thermal power generation has remained muted, although there has been some improvement in recent months. In light of the soft conditions facing the market, spot prices for coal shipped from Newcastle dipped below US$80 per tonne (FOB) in late June, the first time since November of last year. Spot prices at these levels are well below the contract price for the Japanese fiscal year, which were settled at US$95 per tonne (FOB) earlier in the year.

Looking through the daily volatility, the average spot price of thermal coal shipped from Newcastle (FOB) fell by 4½% in June, following a moderate rise in average prices during the previous month. While current cost structures suggest that thermal coal prices are probably approaching their bottom, expectations for moderate economic growth to continue in China suggests that there is still very little upside to seaborne coal prices – despite seasonally stronger demand expected over summer. China's thermal power generation rose just 6% over the year to May, although this was an improvement from earlier in the year and utilities appear to be tentatively running down their coal stocks.

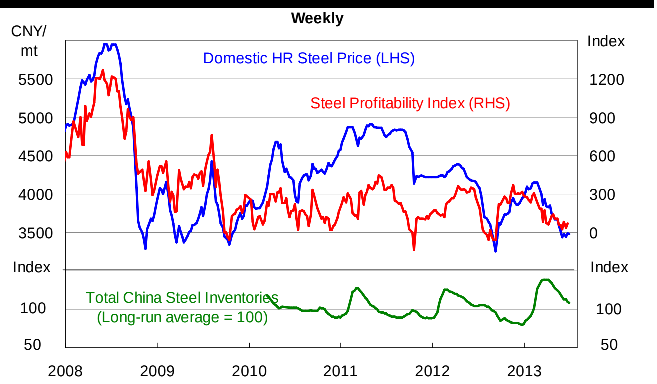
Coal Prices



Source: McCloskey's, ABARE, NAB

As it becomes increasingly apparent that Chinese authorities mean business with respect to addressing some of the overheating sectors of the economy, prospects for a meaningful acceleration in steel demand are fading further. Downstream demand for steel remains sluggish, and while there have been production cuts at some steel mills – helping to accelerate the recent de-stocking – there continues to be an oversupply in the market that is expected to persist for some time. Given these conditions, steel prices slumped further in the month. The price of Chinese rebar fell around 4% from the end of May and is now more than 20% below last years peak (recorded in April). Futures prices for steel have also shifted lower, although high inventory levels have kept the curve in relatively steep contango. Resilient prices for raw materials have exacerbated the tough conditions facing steel producers, stifling profitability which will likely lead to further cuts to steel production. This is consistent with the steel PMI for May, which despite showing a slight improvement on the previous month is still suggesting a contraction in the industry.

Conditions remain tight for Chinese mills



Sources: Bloomberg; NAB

Falling steel prices have forced producers to lower raw material costs. Consequently, it is not surprising then that coking coal prices continued to come under pressure in June. June also saw the commencement of negotiations for coking coal contract prices for the September quarter. It has been reported that Nippon Steel and BHP settled the Q3 contract price for premium coking coal at US$145 per tonne (FoB), slightly below our expectation of US$150 per tonne and 16% lower than the June quarter contract. The outcome from the negotiations can be seen in two lights. On the one hand, the difficult conditions facing the markets has seen reported quarterly contract prices plummet to their lowest ever levels (quarterly pricing commenced in 2010). Nevertheless, on a slightly more positive note, contract prices appear to have settled at a premium to prevailing spot prices. Average spot prices for premium hard coking coal fell by 5½% in June, following a 6% decline in May and are now 25% below the peaks achieved in

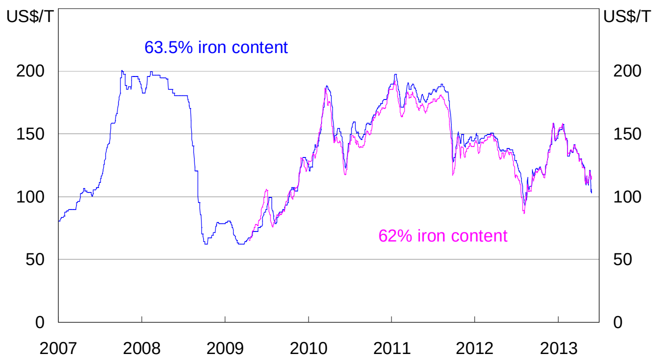
February. The current spot price of around US$130 per tonne (FoB) for premium coking coal is well below the contract price set for the September quarter (10% below), suggesting prices could dip even lower later in the year if conditions in steel markets fail to turn around.

Iron Ore

Iron ore markets have experienced large fluctuations in recent weeks as competing factors gain prominence. Spot prices are currently around US$116 per tonne (CFR, Tianjin), having ranged between US$111-121 per tonne during June, and down from a peak of US$159 per tonne recorded earlier in the year. After reaching a recent low of US$110.4 in late May, prices experienced a small rally as mills looked to re-enter the market to restock inventories, however after breaking through US$120 per tonne, the rally came to an abrupt end after turmoil in Chinese financial markets ignited fears of an imminent financial crisis. Subsequent actions have helped to allay some of those fears, but the intention of policymakers to keep monetary conditions tight (to necessitate a structural improvement in the financial system) presents a significant risk of policy error.

The average price for iron ore (62%) is estimated to have been around US$102 per tonne FOB for June, down from US$117 in May. We expect prices to remain relatively range bound as tentative restocking activity is offset by sluggish downstream demand for steel and likely cutbacks to steel production. We are likely to see spot prices ease during the September quarter, which is traditionally a soft period for iron ore, but a seasonal rebound in the final quarter could still be on the cards – albeit more moderate than previous years due to the more benign economic environment in China which is expected to persist.

Chinese Iron Ore Prices*



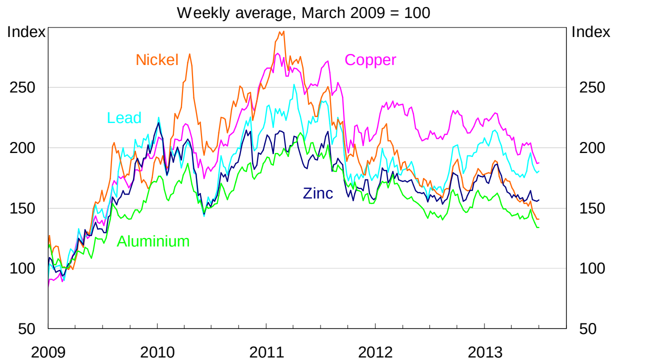
* Includes the cost of freight
Source: Bloomberg, Thomson Datastream

On the supply side, market conditions are expected to loosen considerably following the completion of new capacity by major iron ore exporters. In the latest quarterly report from Australia's Bureau of Resources and Energy Economics (BREE), iron ore exports from Australia were forecast to rise by 16% in both 2013 and 2014, driven largely by expansion undertaken by Australia's largest operators. Brazil's exports are expected to rise by a more modest 3% this year before picking up 10% in 2014. In contrast, BREE expects government bans on Indian mining to reduce exports further over the next two years, with India becoming a net importer in 2014. Overall, we expect to see new supply start to outstrip demand growth over the medium term which will see contract prices for iron ore average close to US$100 during 2014 (less than BREE's forecast of US$112 per tonne).

Base Metals

All of this talk about the US Fed tapering its asset purchase program has come at a time when Chinese growth signals have become more worrying. A number of factors have come together to create a liquidity squeeze in China, which has seen Chinese interest rates lift sharply. While the People's Bank of China intervened by providing liquidity to banks on a selective basis, authorities seem willing to allow tighter credit conditions to remain. Chinese demand is an important driver of base metals prices, so the emergence of credit concerns has directly impacted upon metals prices. While average prices over June increased for some of the metals, there was a clear downshift in prices of all of the metals over the second half of the month in response to concerns about China. In aggregate, base metals prices on the London Metals Exchange (LME) fell by 2% over June, consolidating a 1% decline over May, to be around 5% lower over the year.

Base Metals Prices



Sources: NAB; Thomson Reuters

	Avg Price (US$/tonne) Jun-13	Monthly % change Jun-13	Jun-12 - Jun-13 % change
Aluminium	1815	-1	-4
Copper	7000	-3	-6
Lead	2100	3	13
Nickel	14280	-4	-14
Zinc	1839	0	-1
Base Metals Index		-2	-5

* Prices on an LME cash basis. May to date.
Sources: LME; NAB

With Chinese growth worries intensifying, demand for commodities has fallen heavily over recent weeks. The average price of **nickel** for June was around 4½% lower than its May average. The sharp deterioration in price largely reflects the global supply glut that is forming as a result of a lack of demand from Japan – the metal's third-largest user. Furthermore, a surge in the production of nickel pig iron, a substitute for low-grade ore, has seen Chinese stainless steelmakers lower their consumption of nickel. The average price of **copper** was off 3% over the month, which could partly reflect increased supply projections following the reopening of Freeport's Grasberg mine in Indonesia following a tunnel collapse towards the end of May. **Aluminium** and **zinc** prices were little changed over the month. The price of **lead** actually strengthened – up 3% compared to its May average. While the supply of lead is currently in surplus, lack of available scrap metal is expected to tighten market balances over the forecast horizon, and this appears to be helping to support prices at current levels.

Stock levels on the London Metal Exchange (LME) remain very elevated for most of the industrial metals, largely reflecting a lack of physical demand from the industrial sector, which is causing a build up in inventories. LME stocks of nickel, aluminium and copper are very elevated compared to history, while lead and zinc stocks continue to be drawn down. While LME copper stocks continue to lift, the rate at which they have risen has slowed. Imports by China, which are attracting the highest premiums since

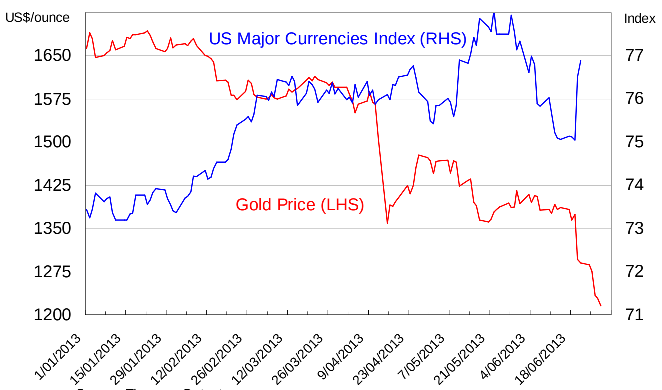
2009 in response to Chinese users demanding more of the metal as collateral for financing, have recently become profitable. As a result, an arbitrage opportunity has opened up, allowing traders to buy the metal in London for less than they can sell to China. This activity has prompted a resurgence in cancelled warrants for copper in June, which may reduce metal availability to consumers and provide some support to prices. However, high stock levels are limiting upside to physical prices.

The global economy has invested heavily in base metal mines over recent years and it is anticipated that the investment yield will rise, culminating in a surplus supply of metals this year. While global metals supply will continue to rise, as the advanced economies regain some growth momentum, global metals demand should rise. However, the overall increase in supply is expected to outweigh the gradual increase in demand, keeping prices relatively soft over the year ahead. We have generally revised our metals forecasts lower this month, largely reflecting the weaker growth outlook and increased concern about the strength of Chinese demand.

Gold

Expectations for the US Fed to begin tapering its $85 billion in monthly debt buying this year, a rising US dollar and a slowing Chinese economy have sent ripples through the gold market. The price of gold is now heading for its first annual decline since 2000. Investors appear to be losing faith in gold as a store of value, with falling investor demand sending prices from around $1,600 an ounce just three months ago, to a recent trough of below $1,200 an ounce. The Fed has indicated that if its expectations for the improved performance of the US economy hold, the tapering of QE will start later this year. All of this is helping to strengthen the US dollar, which has an inverse relationship with the price of gold. It is also becoming more evident that the copious amounts of money printing by central banks around the globe are failing to lift inflation and inflation expectations, which gold is used as a hedge against. Furthermore, weaker than expected activity data out of China over recent months are raising concerns about the outlook for the Chinese economy – the largest consumer of gold.

Gold Price and the US Dollar (Daily)



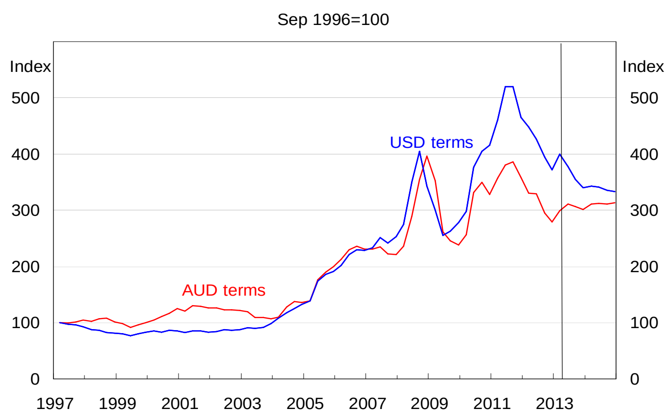
Source: Thomson Datastream

With prices falling rapidly over recent days, it appears that the urgency to purchase gold at lower prices has dissipated, with consumers perhaps looking to take a wait and see approach. This, combined with expectations for US stimulus to be unwound, is likely to keep the price of gold relatively low in the near term, though prices should remain volatile. Over-exuberance during the post-GFC period seems to have lifted prices to unsustainably high levels over recent years, which are now being unwound. We have built in a moderate correction to our gold price forecasts this month and expect gold to end the year at around US$1,210 an ounce, which is below levels recorded at the end of last year (gold averaged US$1,684 an ounce in December 2012). Looking further ahead, we generally expect the price to moderate to around US$1,100 an ounce by the end of 2014, as growth in the major advanced economies regains momentum and investors increase their demand for riskier assets

Outlook

While the prospects of US economic growth continue to improve, global commodities markets are still overcast by a negative sentiment, with a general oversupply of commodities providing very little upward potential on prices. Global financial markets appear unready to be weaned off cheap liquidity and easy monetary policy settings. However, major central banks around the world are gradually tugging in their reins on monetary policies, having to balance the risks of a premature tightening – which could hurt investors' confidence and impede the tentative growth in advanced economies -- against the dangers of oversized central banks' balance sheets and a prolonged low-interest environment potentially fuelling asset bubbles. This has led to heightened volatility in financial and commodities markets. As a result, prices of minerals and energy commodities have generally fallen in June. The slowing in the Chinese economy has become more apparent but is expected to be gradual over this year and next. The balance of risk remains to the downside, and we have revised some of our price forecasts for the industrial commodities lower this month. Potentially reducing some downside risks is the moderation in Chinese credit growth, which would lead to a lower likelihood of a sharp negative correction in the Chinese property market.

NAB Non-Rural Commodities Price Index



Sources: ABARES; ABS; Bloomberg; NAB; Thomson Reuters

In US dollar terms, the NAB non-rural commodity price index fell by around 20% over 2012. We are expecting another decline of around 8½% in 2013, before falling by 1.9% over 2014 (see Graph). Given our forecast for the AUD/USD to soften over the remainder of the forecast horizon, AUD prices are expected to rise by 8% through the year to December 2013, before increasing by a further 4% over 2014. In aggregating the index, iron ore, thermal coal and metallurgical coal have a combined weight of around 55%.

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Quarterly Price Profile

Oil Price Forecasts – Quarterly Average

	Actual	Forecasts							
	Jun-13	*Sep 13*	*Dec 13*	*Mar 14*	*Jun 14*	*Sep 14*	*Dec 14*	*Mar 15*	*Jun 15*
Brent US$/bbl	103	104	105	106	103	100	98	97	95
WTI US$/bbl	94	97	99	101	103	100	98	97	95
Tapis US$/bbl	108	109	110	110	108	104	102	102	100
Petrol AUc/L	133	138	139	142	143	143	142	137	142

Sources: NAB Economics; RACQ; Thomson Datastream

Natural Gas Price Forecasts – Quarterly Average

	Actual	Forecasts							
US$/mmbtu	Jun-13	*Sep 13*	*Dec 13*	*Mar 14*	*Jun 14*	*Sep 14*	*Dec 14*	*Mar 15*	*Jun 15*
Henry Hub	4.01	4.03	3.90	4.20	4.40	4.50	4.30	4.35	4.40
Japan LNG	NA	16.20	15.75	15.75	15.50	15.00	14.50	14.00	13.50
Brent Oil	103	103	104	105	103	103	102	101	101

Source: Datastream, CEIC, NAB Economics

Bulk Commodities and Coal Quarterly Contract Price Profile ($US/T)

	Actual	Forecasts							
	Jun-13	*Sep-13*	*Dec-13*	*Mar-14*	*Jun-14*	*Sep-14*	*Dec-14*	*Mar-15*	*Jun-15*
Iron Ore*	123	113	106	105	103	100	100	100	95
Hard Coking Coal	172	145	145	155	160	160	160	160	160
Semi-soft Coking Coal	121	100	95	105	105	105	105	105	105
Thermal Coal	95	95	95	95	95	95	95	95	100

Source: NAB

Base Metals Price Forecasts – Quarterly Average

	Actual	Forecasts							
US$/MT	Jun-13	*Sep-13*	*Dec-13*	*Mar-14*	*Jun-14*	*Sep-14*	*Dec-14*	*Mar-15*	*Jun-15*
Aluminium	1836	1850	1870	1900	1930	1960	1990	2030	2070
Copper	7161	7020	7050	7090	7120	7160	7200	7200	7200
Lead	2053	2060	2070	2090	2110	2120	2140	2150	2170
Nickel	14967	14520	14590	14630	14660	14740	14810	14920	15070
Zinc	1842	1840	1850	1870	1880	1900	1920	1940	1960
Base Metals Index	273	270	270	270	270	280	280	280	280

Sources: Thomson Reuters; NAB Economics

Gold Price Forecasts – Quarterly Average

	Actual	Forecasts							
	Jun 13	*Sep 13*	*Dec 13*	*Mar 14*	*Jun 14*	*Sep 14*	*Dec 14*	*Mar 15*	*Jun 15*
Gold - US$	1415	1240	1210	1180	1150	1120	1100	1090	1060
Gold - AU$	1425	1380	1370	1370	1350	1340	1320	1310	1300

Sources: Thomson Datastream; NAB

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