EMBARGOED UNTIL 11.30 AM 13 MARCH 2019

NAB MINERALS AND ENERGY OUTLOOK MARCH 2019

OVERVIEW

- In USD terms, NAB's Non-Rural Commodity Price Index is forecast to increase by 3.1% qoq in Q1 2019. This increase reflects the impact of higher iron ore prices (due to Brazilian supply issues), with other trends mixed.
- Our commodity price outlook is essentially unchanged – prices are expected to peak in Q1 and ease modestly going forward.
- In annual average terms, the USD index is forecast to rise by 1.3% in 2019, before declining by 3.3% in 2020. Iron ore and metallurgical coal are the main drivers of this fall.
- Reflecting NAB's currency forecasts, the commodity price movements in AUD terms are larger – with the index increasing by 5.1% in 2019 before falling by around 10% in 2020.

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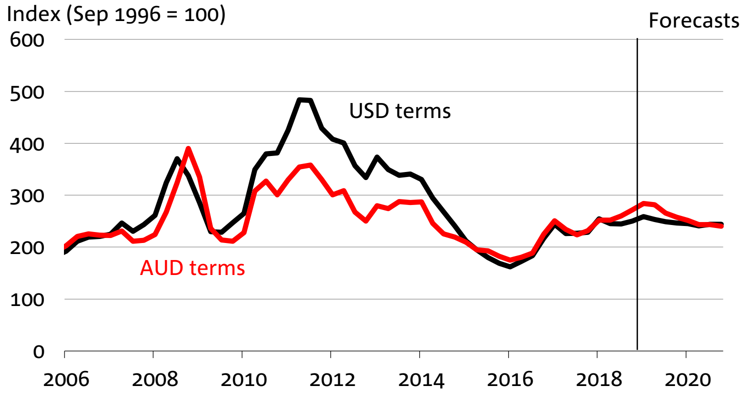
NAB NON-RURAL COMMODITY PRICE INDEX



Sources: ABS, Bloomberg, Refinitiv, NAB Economics

NAB COMMODITY PRICE FORECASTS

		Spot	Actual	Forecasts							
	Unit	11/03/2019	*Dec-18*	*Mar-19*	*Jun-19*	*Sep-19*	*Dec-19*	*Mar-20*	*Jun-20*	*Sep-20*	*Dec-20*
WTI oil	US$/bbl	57	66	54	59	59	64	64	69	69	69
Brent oil	US$/bbl	66	76	63	65	65	70	70	75	75	75
Tapis oil	US$/bbl	69	79	64	66	66	71	71	76	76	76
Gold	US$/ounce	1293	1230	1290	1300	1310	1350	1370	1370	1380	1390
Iron ore (spot)	US$/tonne	n.a.	72	84	82	78	76	72	68	71	69
Hard coking coal*	US$/tonne	n.a.	217	200	193	178	170	165	160	155	152
Thermal coal (spot)	US$/tonne	96	105	95	93	98	95	93	90	88	90
Aluminium	US$/tonne	1817	1964	1865	1850	1875	1900	1925	1935	1945	1950
Copper	US$/tonne	6435	6161	6100	6250	6400	6300	6225	6150	6125	6100
Lead	US$/tonne	2057	1966	2050	1950	1900	1850	1825	1800	1750	1725
Nickel	US$/tonne	12808	11485	12000	12250	12500	12750	12600	12500	12400	12500
Zinc	US$/tonne	2779	2627	2625	2575	2500	2470	2450	2475	2450	2425
Aus LNG**	AU$/GJ	n.a.	13.6	14.0	11.8	11.6	11.4	11.9	11.8	12.3	12.2

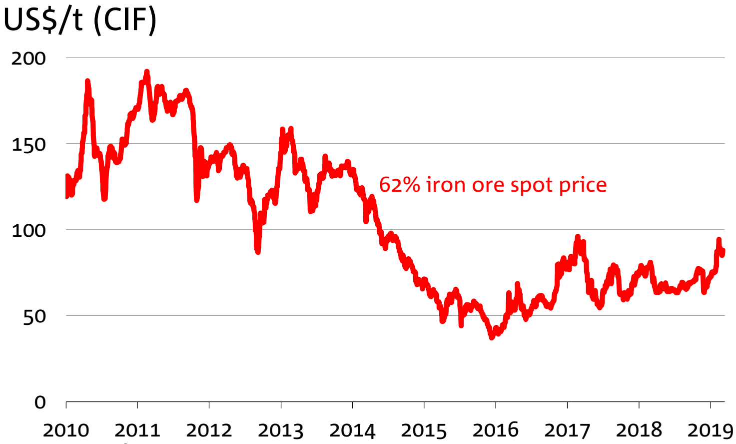
* Data reflect NAB estimates of US$/ tonne FOB quarterly contract prices. Actual data represent most recent final quarterly contract price.

** Implied Australian LNG export prices

IRON ORE

Spot prices have eased from recent peaks (albeit still high by recent standards), as the market continues to digest the impact of Brazilian mine closures on global supply. Resolving tailing dam safety concerns at Vale's Southern System mines could take as long as three years to complete. We expect a relatively balanced market in the short term – limiting downward pressure on prices – until output can be boosted from other sources (including Brazil) and Chinese demand eases. Our forecasts are unchanged – with spot prices easing across the year to average US$80 a tonne in 2019 and lower to US$70 a tonne in 2020.

IRON ORE EASING FROM RECENT PEAK

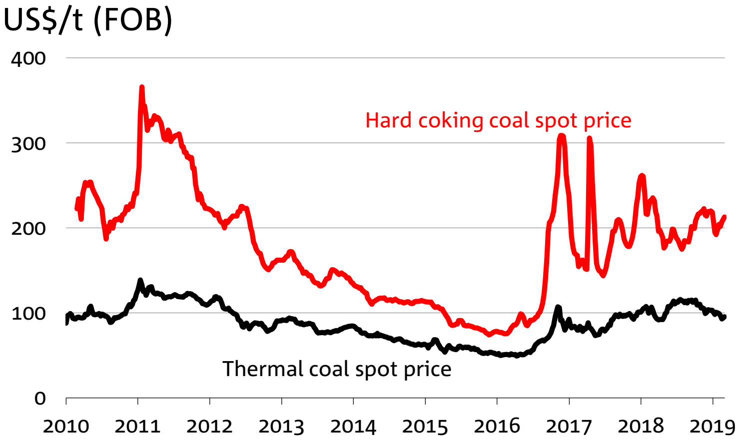


Sources: Refinitiv, NAB Economics

COAL

Chinese trade policy is the key uncertainty around coal markets at present, following reports (that were later denied) that Australian coal imports were banned from five northern ports. According to Platts, Chinese coal buyers are seeking greater volumes from Indonesia and Russia at present, which due to supply constraints, could lead to greater volatility in coal prices in the short term. Our broad view of demand remains unchanged – with weaker steel output in China going forward – meaning that hard coking coal prices should decline from around US$185 a tonne in 2019 to US$158 a tonne in 2020. Thermal coal prices are tipped to ease more gradually – from US$95 a tonne in 2019 to US$90 a tonne in 2020.

COAL PRICES DIVERGING



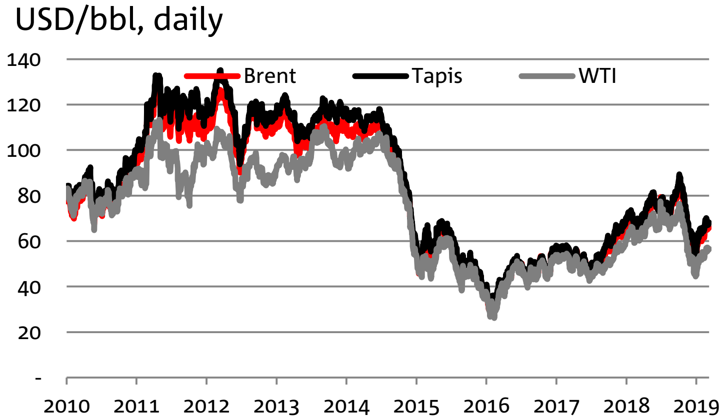
Sources: Bloomberg, NAB Economics

OIL

Oil prices have been somewhat stronger recently, with Brent trading in the in the mid-US$60s range since mid-February, while WTI is in the low-mid US$50s range.

The outlook for the oil market is clouded by a range of geopolitical risks, (notably US-China trade negotiations), combined with the emerging risk of global growth concerns. US supply is also strong, a trend which we see continuing this year. However, sanctions on Iran and Venezuela, combined with OPEC supply cuts, have taken oil out of the system. On balance, we see a very gradual uptrend for oil this year, with Brent forecast to reach US$70/bbl by the end of the year. We will be closely watching global growth however.

OIL WELL BELOW 6 MONTH AGO LEVELS



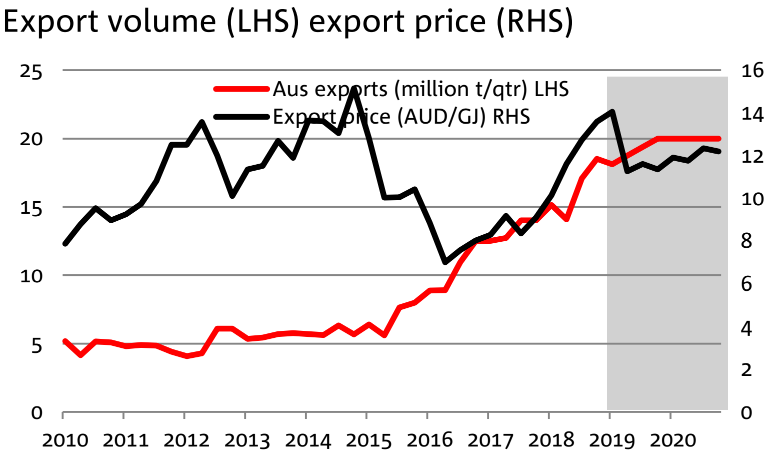
Sources: Refinitiv, NAB Economics

GAS

Oil prices have a knock-on effect for Australian LNG export prices, as many of our long-term export contracts are tied to oil prices. LNG prices are likely lower than their late 2018 – early 2019 levels this year – around AUD11-12/GJ from Q2. Natural gas prices for domestic users in eastern Australia will likely remain high by historic standards, which is already denting domestic demand in the electricity sector in the east.

LNG export volumes continue to grow, although this will ease as the two remaining projects come up to full capacity this year.

AUSTRALIAN LNG EXPORTS PERFORMING WELL



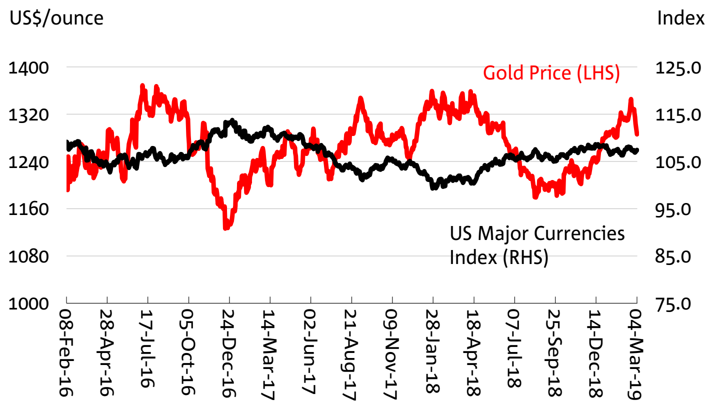
Sources: ABS, Poten & Partners, Bloomberg, NAB Economics

GOLD

After reaching a recent high of around US$1345/oz, gold fell to a 5-week low and was last trading near US$1290/oz. Rising optimism about a trade deal between the United States and China (possibly by end of March), an increasing preference for risk assets such as equities, and a stronger US$, in part driven by somewhat higher US Treasury yields, have dented gold's price. Hedge funds and money managers also cut their net long position in COMEX gold futures.

We have still maintained our year end target of US$1350/oz, although expect most of the improvement towards the latter part of 2019.

GOLD – RECENT EASING

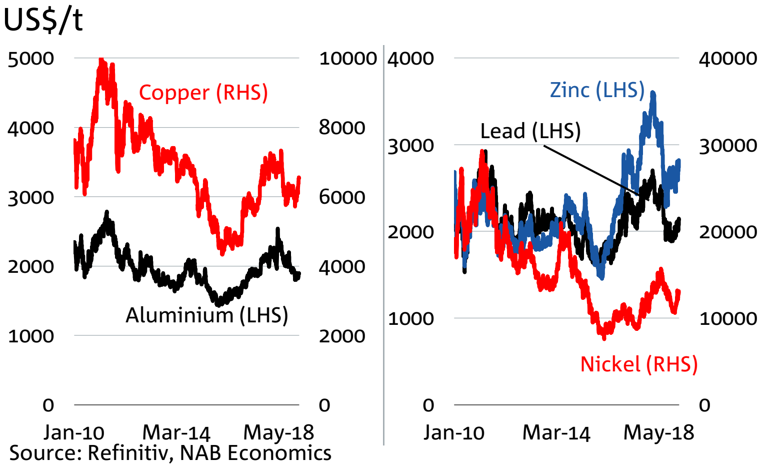


Source: Thomson Datastream, NAB

BASE METALS

Parts of the base metal complex have rallied since early February – with nickel and zinc up around 12% and 9% from their lows – as hopes of a US-China trade deal boosted confidence (given that China is the key consumer of base metals). That said, the outlook for Chinese manufacturing generally remains weak – constraining demand and presenting a limit to the upside potential of metals prices in 2019 and 2020. Markets are likely to remain volatile in coming months, with a range of labour negotiations at mines having the potential to disrupt short term supply, while weakening indicators of economic growth could pose concerns on the demand side.

CHINESE OUTLOOK LIMITS METAL UPSIDE RISK



Source: Refinitiv, NAB Economics

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