EMBARGOED UNTIL 11.30 AM 15 MAY 2019

NAB MINERALS AND ENERGY OUTLOOK MAY 2019

OVERVIEW

- Reflecting the sustained strength in iron ore prices, NAB's Non-Rural Commodity Price Index is forecast to increase by 0.4% qoq in Q2 2019 (having previously expected a modest decline).
- The outlook for commodities is essentially unchanged – with the profile of declines in iron ore prices (as supply recovers) pushed out by a quarter. That said, uncertainty has risen given the re-escalation in US-China trade tensions.
- In annual average terms, the USD index is forecast to rise by 2.2% in 2019, before declining by 5.4% in 2020. Iron ore and (to a lesser extent) metallurgical coal are the main contributors to this decline.
- The changes are larger in AUD terms, with the index rising by 6.0% in 2019 then falling by 12.0% in 2020.

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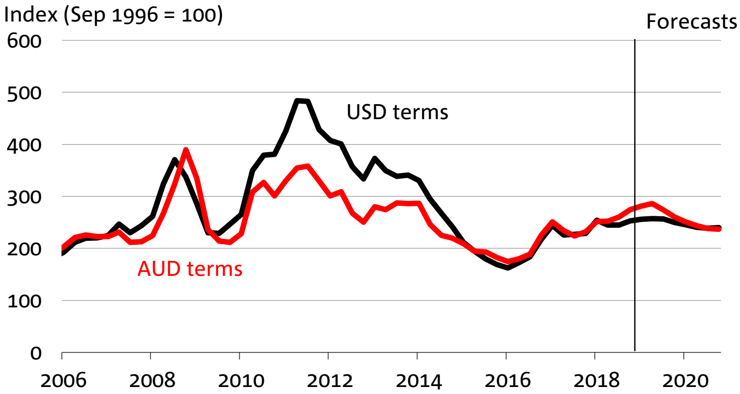
NAB NON-RURAL COMMODITY PRICE INDEX



Sources: ABS, Bloomberg, Refinitiv, NAB Economics

NAB COMMODITY PRICE FORECASTS

	Unit	Spot 13/05/2019	Actual Mar-19	Forecasts *Jun-19*	*Sep-19*	*Dec-19*	*Mar-20*	*Jun-20*	*Sep-20*	*Dec-20*
WTI oil	US$/bbl	61	54	63	64	64	64	69	69	69
Brent oil	US$/bbl	71	62	69	70	70	70	75	75	75
Tapis oil	US$/bbl	75	65	70	71	71	71	76	76	76
Gold	US$/ounce	1297	1300	1300	1310	1350	1370	1370	1380	1390
Iron ore (spot)	US$/tonne	n.a.	83	95	88	79	76	72	68	71
Hard coking coal*	US$/tonne	n.a.	202	193	178	170	165	160	155	152
Thermal coal (spot)	US$/tonne	95	95	82	85	90	93	90	88	90
Aluminium	US$/tonne	1778	1862	1850	1875	1900	1925	1935	1945	1950
Copper	US$/tonne	5987	6216	6250	6400	6300	6225	6150	6125	6100
Lead	US$/tonne	1769	2034	1950	1900	1850	1825	1800	1750	1725
Nickel	US$/tonne	11759	12365	12250	12500	12750	12600	12500	12400	12500
Zinc	US$/tonne	2708	2704	2850	2900	2850	2725	2600	2500	2400
Aus LNG**	AU$/GJ	n.a.	13.1	11.2	11.5	11.4	11.2	11.0	11.6	11.4

* Data reflect NAB estimates of US$/tonne FOB quarterly contract prices, based on quarterly average spot prices.

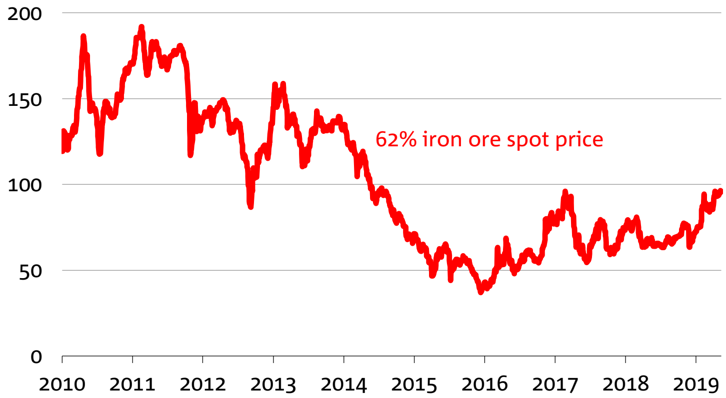
** Implied Australian LNG export prices

IRON ORE

Iron ore prices have remained at their elevated levels, reflecting the supply constraints in the market – both the medium term issues in Brazil (with first quarter sales falling by 30% yoy) and shorter term disruptions in Western Australia (due to cyclone activity). There remains some uncertainty around the resumption of Brazilian supply – with Vale suggesting that around half of the shuttered capacity could resume within a year, while some would be offline for two to three years. We have pushed out the profile of our forecast by one quarter – to reflect the current peaks, but allowing prices to ease as supply pressures wane. 62% ore is forecast to average US$86 a tonne in 2019, before easing to US$72 a tonne in 2020.

SUPPLY ISSUES KEEP IRON ORE ELEVATED

US$/t (CIF)



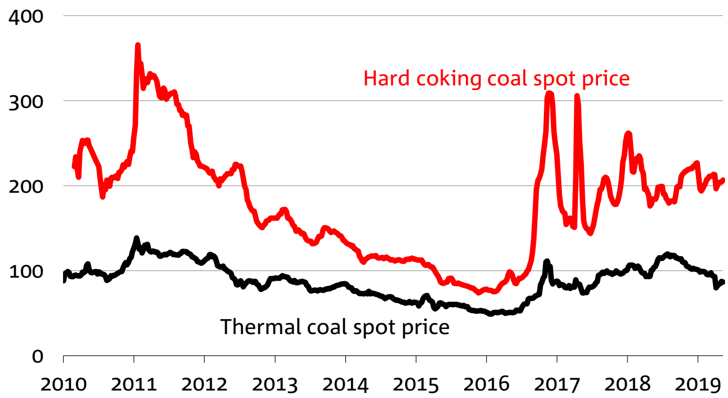
Sources: Refinitiv, NAB Economics

COAL

Trends in coal markets remain divergent, with prices for thermal coal prices having trended down since the middle of 2018, while hard coking coal prices trended higher. That said, thermal coal prices have edged higher since mid-April, as rumours that China's customs restrictions on Australian coal are set to end this month. This was evidenced by range of Chinese private sector power generators starting to purchase Australian volumes. Our forecast is unchanged – with thermal coal prices to average US$88 a tonne in 2019 and US$90 a tonne in 2020. Hard coking coal prices are forecast to average US$185 a tonne in 2019 and US$158 a tonne in 2020.

DIVERGENCE BETWEEN COAL MARKETS PERSIST

US$/t (FOB)



Sources: Bloomberg, NAB Economics

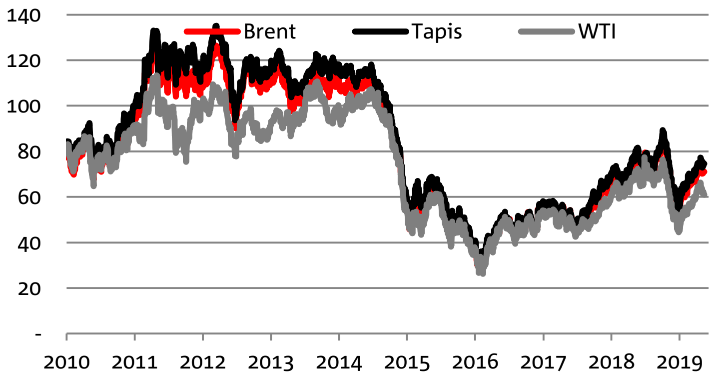
OIL

Oil prices have been generally flat to lower since a peak in late April, when Brent reached the mid 70s range. Brent has generally been in the low 70s range this month, although, the escalation in the US-China trade tensions looks to have taken a bite out of prices. Geopolitical tensions in the Strait of Hormuz have the potential to flare, providing a counterbalance to a market otherwise focussed on US-China tensions.

Our outlook for the oil market is for fairly limited further upside for prices this year, with Brent in the mid US$70s range in the second half of the year. However, US-China tensions present something of a downside risk to this forecast.

OIL FACES COMPETING FORCES

USD/bbl, daily



Sources: Refinitiv, NAB Economics

GAS

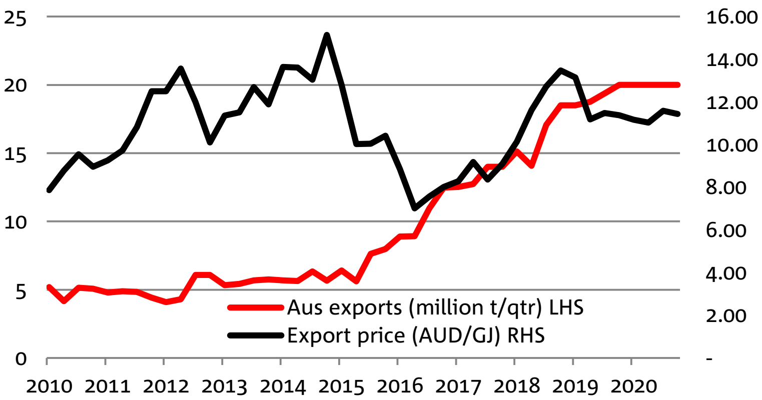
Australian LNG export volumes were close to flat on a q/q basis in Q1 and monthly data in April was a little weaker. This is consistent with our expectation that Australian export volumes will top out this year, as remaining projects come up to full operational capacity.

Our price expectations are tempered by our forecasts for an appreciating AUD this year. We see Australian LNG export prices at AUD11.38/GJ by Q4 this year, down from AUD13.14 in Q1.

China's imposition of increased tariffs on US LNG could see some upside for East Asian spot prices, although it is unclear whether a deal will ultimately be reached.

LNG EXPORT RAMP-UP CLOSE TO FINISHED

Export volume (LHS) export price (RHS)



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

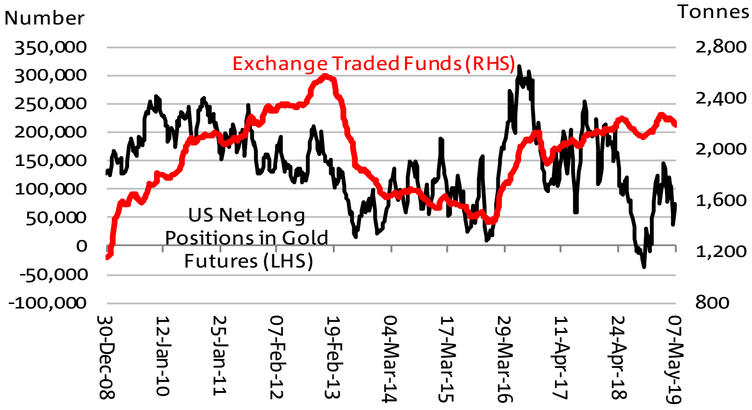
GOLD

An increase in trade-related tensions has lifted gold prices to around the US$1300 level.

The US decision to impose 25% tariffs (up from 10%) on US$200bn of Chinese imports, with the prospect of hiking tariffs on another US$300bn of imports (including smartphones & laptops), has rattled financial markets. The Chinese, for their part, have decided to impose additional tariffs on US$60bn of US imports. Financial speculators have also commenced increasing their net long exposure to gold, reversing earlier trends.

We remain broadly optimistic on gold, and have retained our year-end target of US$1350/oz.

GOLD – TRADE TENSIONS SUPPORTIVE

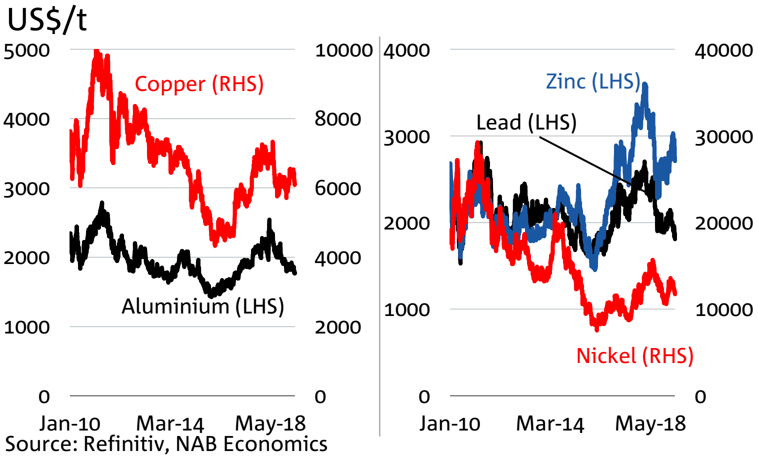


Sources: Bloomberg

BASE METALS

Prices across the base metals complex generally declined from early-to-mid April onwards. The generally deteriorating global manufacturing environment (according to PMI surveys) and the recent deterioration in the US-China trade relationship has impacted sentiment towards metals, putting downward pressure on prices in recent weeks. Our price forecasts are unchanged, however there remains the potential for some volatility in markets, particularly if labour disputes (primarily in South America) impact metal supply.

TRADE FEARS RETURN, HITTING METAL PRICES



Source: Refinitiv, NAB Economics

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