NAB MINERALS AND ENERGY OUTLOOK
JUNE 2019

OVERVIEW

- NAB's Non-Rural Commodity Price Index is expected to increase by 0.9% qoq in Q2 2019 (a little stronger than anticipated in May). Individual trends are highly mixed, with iron ore surging on supply constraints, while base metals have fallen on the deteriorating US-China trade relationship.
- The weaker global economic outlook is likely to impact demand for commodities – however uncertainty around iron ore supply and the global trade environment provides considerable risk.
- In annual average terms, the USD index is forecast to rise by 3.7% in 2019, before declining by 6.9% in 2020. Lower prices for iron ore and metallurgical coal are the main contributors to this trend.
- The changes are larger in AUD terms, with the index rising by 8.8% in 2019 then falling by 11.6% in 2020.

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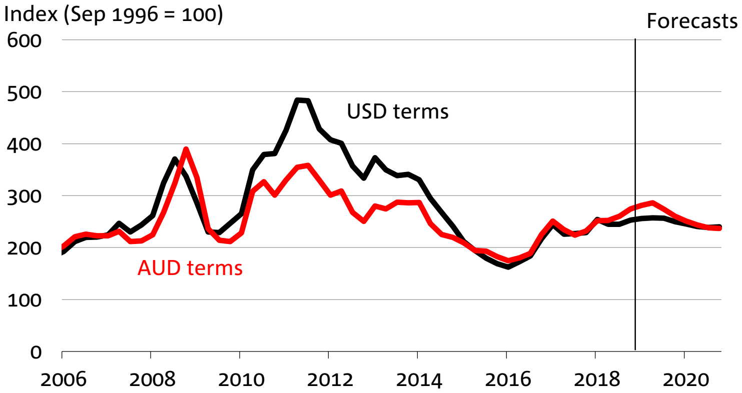
NAB NON-RURAL COMMODITY PRICE INDEX



Sources: ABS, Bloomberg, Refinitiv, NAB Economics

NAB COMMODITY PRICE FORECASTS

	Unit	Spot 19/06/2019	Actual Mar-19	Forecasts *Jun-19*	*Sep-19*	*Dec-19*	*Mar-20*	*Jun-20*	*Sep-20*	*Dec-20*	*Mar-21*	*Jun-21*	*Sep-21*	*Dec-21*
WTI oil	US$/bbl	54	54	60	62	64	64	69	69	69	69	69	69	69
Brent oil	US$/bbl	62	62	68	70	70	70	75	75	75	75	75	75	75
Tapis oil	US$/bbl	67	65	72	72	72	72	77	77	77	77	77	77	77
Gold	US$/ounce	1344	1300	1310	1330	1380	1390	1400	1410	1420	1440	1450	1480	1500
Iron ore (spot)	US$/tonne	n.a.	83	100	97	88	79	76	72	68	71	69	71	69
Hard coking coal*	US$/tonne	n.a.	202	201	185	170	165	160	155	152	155	153	151	150
Thermal coal (spot)	US$/tonne	85	95	78	68	72	74	76	78	76	74	72	71	70
Aluminium	US$/tonne	1757	1862	1795	1775	1825	1875	1925	1950	1975	2000	2025	2000	1975
Copper	US$/tonne	5897	6216	6105	6000	6150	6225	6150	6125	6100	6080	6060	6040	6020
Lead	US$/tonne	1893	2034	1880	1900	1850	1825	1800	1750	1725	1700	1725	1700	1675
Nickel	US$/tonne	12021	12365	12200	12000	12500	12600	12500	12400	12500	12250	12100	11900	11750
Zinc	US$/tonne	2595	2704	2760	2600	2650	2625	2575	2500	2400	2300	2200	2150	2150
Aus LNG**	AU$/GJ	n.a.	13.4	11.4	12.3	12.0	11.8	11.7	12.4	12.2	11.9	12.1	12.2	12.2

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

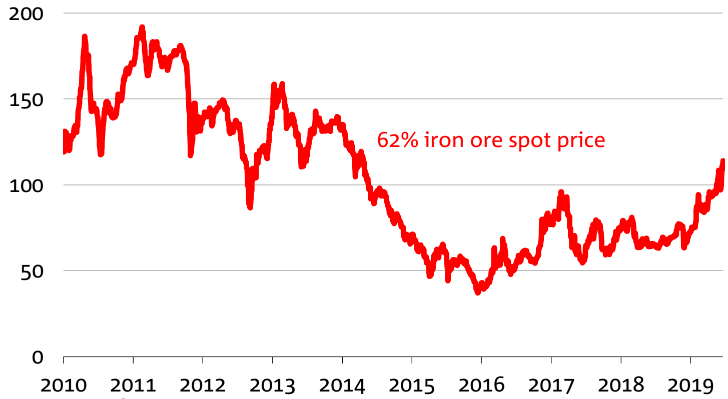
** Implied Australian LNG export prices

IRON ORE

Short term supply pressures have pushed iron ore spot prices above US$110 a tonne for the first time since April 2014. Brazilian iron ore exports have been constrained by mine closures (following the collapse of a tailings dam at a major operation), but production is recovering – with the mid-June approval for Vale to reopen one of its largest mine at Brucutu. The gradual resumption of Brazilian exports, and the recovery of Australian supplies following short term disruptions, should put downward pressure on prices (albeit the timing of Brazilian shipments adds uncertainty). We forecast 62% ore landed in China to average US$92 a tonne in 2019, before easing to US$74 a tonne in 2020.

SUPPLY CONSTRAINTS SEND IRON ORE HIGHER

US$/t (CIF)



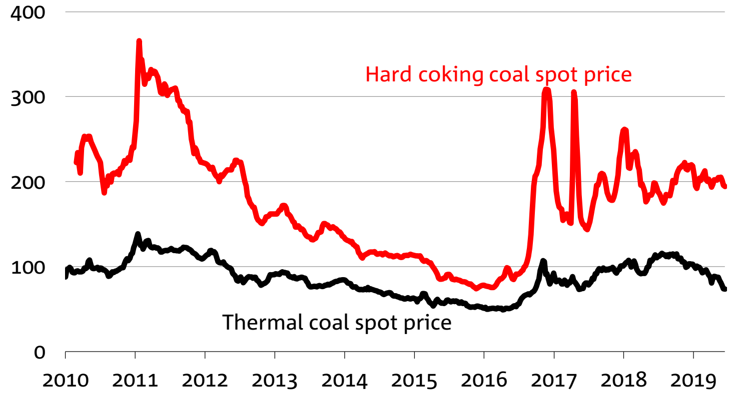
Sources: Refinitiv, NAB Economics

COAL

The downward trend in thermal coal prices – which commenced in mid-2018 – has continued, with prices dipping below US$70 a tonne in mid-June (the lowest levels since Q3 2016). Markets remain distorted by China's unofficial restrictions on Australian thermal coal imports, which will provide ongoing uncertainty to the outlook. We have lowered our near term forecast, but expect a modest price recovery (relative to current prices) on the expectation of easing import restrictions. Thermal coal is forecast to average US$78 a tonne in 2019 and US$76 a tonne in 2020. Hard coking coal prices are expected to ease as Chinese steel output slows from current record levels. Prices are forecast to fall from US$190 a tonne in 2019 to US$158 in 2020.

THERMAL COAL PRICES CONTINUE TO FALL

US$/t (FOB)



Sources: Bloomberg, NAB Economics

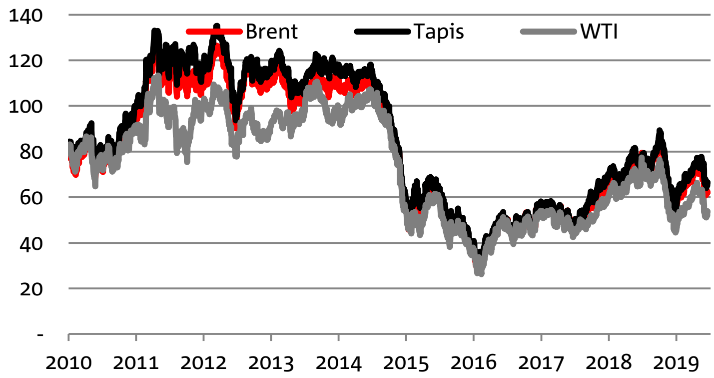
OIL

Oil prices have been generally subdued this month, although prices have been higher this week, particularly following Iran downing a US drone. Still, at around US$65/bbl, Brent remains below the 70+ levels seen a month ago. Global growth and trade concerns and a muted demand outlook have weighed on the market, although geopolitical tensions in the Strait of Hormuz are challenging this. OPEC may extend cuts further.

Our outlook for the oil market is for some upside for prices this year, with Brent reaching US$70 in Q3, however, tensions with Iran are the real wildcard.

OIL LOWER IN THE FACE OF MIXED DATA

USD/bbl, daily



Sources: Refinitiv, NAB Economics

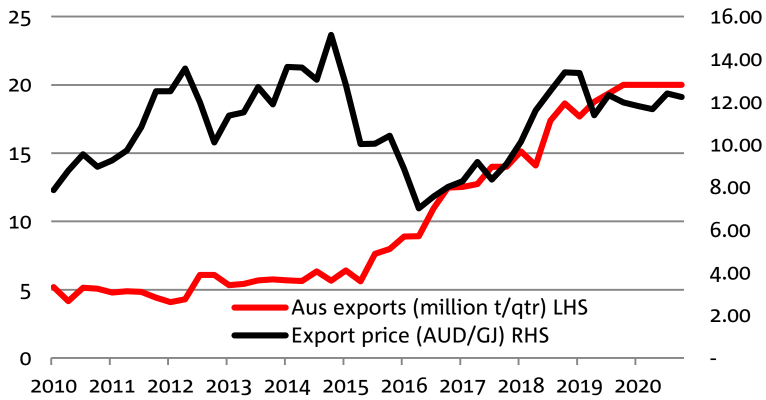
GAS

Australian LNG export volumes were close to flat on a q/q basis in Q1 and monthly data in April and May was a little weaker again. 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 remain fairly stable – we see average Australian LNG export prices in the order of AUD11-12/GJ range for the foreseeable future.

LNG EXPORT RAMP-UP CLOSE TO FINISHED

Export volume (LHS) export price (RHS)

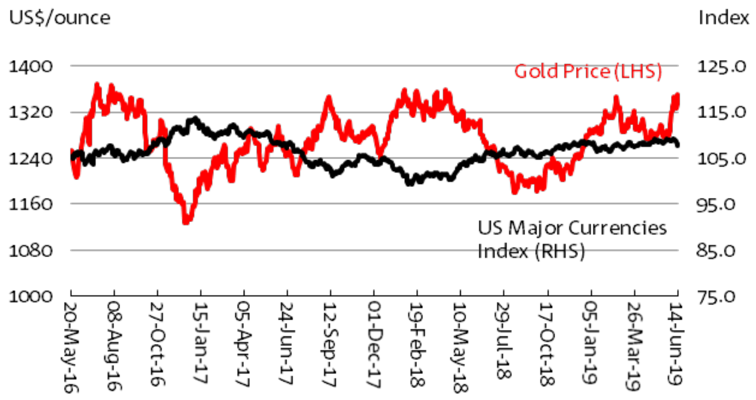


Sources: ABS, Poten & Partners, Bloomberg, NAB Economics

GOLD

Gold surged to US$1390/oz, the highest since August 2013, with the US Federal Reserve adopting a dovish monetary policy stance, highlighting 'uncertainties' posed by trade and the economy. NAB Economics is forecasting two rate cuts in the second half of 2019. Rising trade tensions and the prospect of further deterioration have led to increased levels of risk aversion, further supporting gold. Conversely, a possible trade deal between the US and China at the upcoming G-20 meeting in Osaka might lead to some easing in the gold price. We have upgraded our end-of-year gold forecasts to US$ 1380/oz, up from US$1350/oz, with the prospects of further increases ahead.

GOLD – TRADE TENSIONS LEAD TO UPSURGE

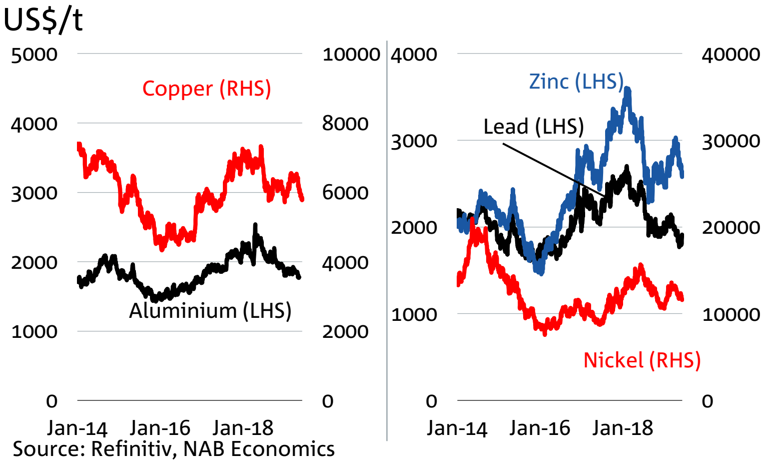


Source: Thomson Datastream, NAB

BASE METALS

Base metal prices have generally fallen since the recent deterioration of the US-China trade relationship. Weaker demand for Chinese consumer and capital goods as a result of the tariffs will likely lower demand for base metals – with indicators of Chinese manufacturing conditions particularly poor when compared with the past few years. NAB's global economic outlook anticipates below trend growth this year and next, even without a worsening in trade tensions – which implies some downside risk to base metals prices in the short term.

METALS LOWER SINCE TRADE ESCALATION



Source: Refinitiv, NAB Economics

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