EMBARGOED UNTIL 11.30 AM 10 JULY 2019

NAB MINERALS AND ENERGY OUTLOOK JULY 2019

OVERVIEW

- NAB's Non-Rural Commodity Price Index has been on the up in recent quarters, in large part due to iron ore prices, which have rallied on supply disruptions amid ongoing Chinese demand. Other commodities have been more mixed, with thermal coal and base metals lower, but gold rallying and oil facing competing forces.
- We see our Non-Rural Commodity Price Index contracting a little (0.7% q/q) in Q3 2019. Again, iron ore is a major driver of this change, reflecting expectations of a gradual recovery in Brazilian exports and an easing in Chinese demand. We also see thermal and coking coal prices falling somewhat.
- Global economic growth remains under pressure, with the latest manufacturing surveys weakening. While we expect growth to ease further this year – and remain below average. This is likely to impact demand for commodities, although stimulus measures may in some cases support commodity demand (for example in China).

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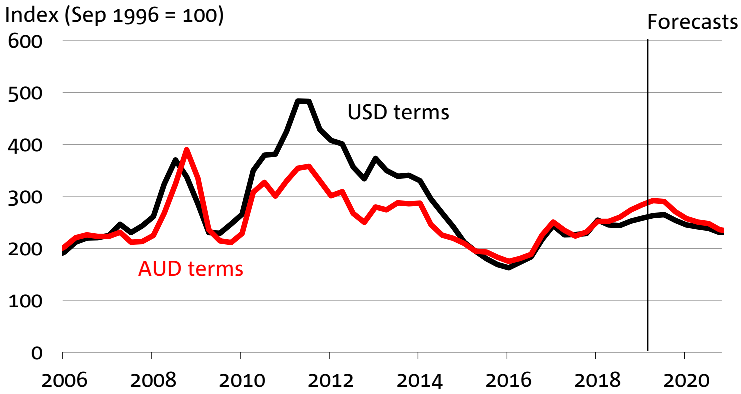
NAB NON-RURAL COMMODITY PRICE INDEX



Sources: ABS, Bloomberg, Refinitiv, NAB Economics

NAB COMMODITY PRICE FORECASTS

	Unit	Spot 8/07/2019	Actual Jun-19	Forecasts Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
WTI oil	US$/bbl	57	64	62	64	64	69	69	69	69	69	69	69
Brent oil	US$/bbl	65	73	70	70	70	75	75	75	75	75	75	75
Tapis oil	US$/bbl	67	76	72	72	72	77	77	77	77	77	77	77
Gold	US$/ounce	1398	1310	1360	1400	1410	1430	1340	1200	1250	1410	1480	1500
Iron ore (spot)	US$/tonne	n.a.	100	97	88	79	76	72	68	71	69	71	69
Hard coking coal*	US$/tonne	n.a.	199	185	170	165	160	155	152	155	153	151	150
Thermal coal (spot)	US$/tonne	72	78	68	72	74	76	78	76	74	72	71	70
Aluminium	US$/tonne	1790	1795	1775	1825	1875	1925	1950	1975	2000	2025	2000	1975
Copper	US$/tonne	5873	6121	6000	6150	6225	6150	6125	6100	6080	6060	6040	6020
Lead	US$/tonne	1873	1884	1900	1850	1825	1800	1750	1725	1700	1725	1700	1675
Nickel	US$/tonne	12676	12251	12000	12500	12600	12500	12400	12500	12250	12100	11900	11750
Zinc	US$/tonne	2370	2763	2600	2650	2625	2575	2500	2400	2300	2200	2150	2150
Aus LNG**	AU$/GJ	n.a.	11.3	12.9	12.0	11.8	11.6	12.4	12.2	11.9	12.0	12.2	12.2

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

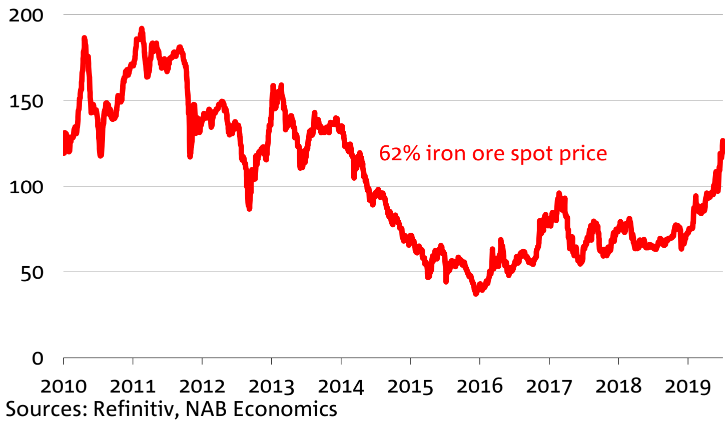
** Implied Australian LNG export prices

IRON ORE

The iron ore price rally continued into early July – rising above US$120 a tonne (the highest prices since February 2014) – as global markets remain constrained by supply disruptions in Brazil and Australia (the latter largely due to short term weather related issues). That said, Brazilian exports are gradually recovering, which combined with an easing in China's demand, should put downward pressure on spot iron ore prices. We forecast 62% ore landed in China to average US$92 a tonne in 2019, before easing to US$74 a tonne in 2020.

PRICES SURGE ON SUPPLY SHORTAGES

US$/t (CIF)



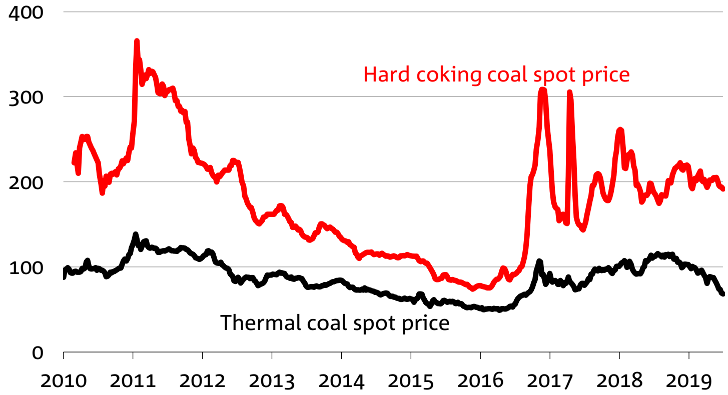
Sources: Refinitiv, NAB Economics

COAL

When compared with the rapid downturn in thermal coal spot prices, declines in hard coking coal have been more modest. This could change in coming months, should a reported Chinese import quota be implemented in September, which could place downward pressure on benchmark Asian market prices. It is worth noting that details around this proposal remain scarce. Informal Chinese import restrictions have contributed to the decline in Newcastle spot prices for thermal coal. Prices are forecast to fall from US$190 a tonne in 2019 to US$158 in 2020

COAL PRICES TRENDING LOWER

US$/t (FOB)



Sources: Bloomberg, NAB Economics

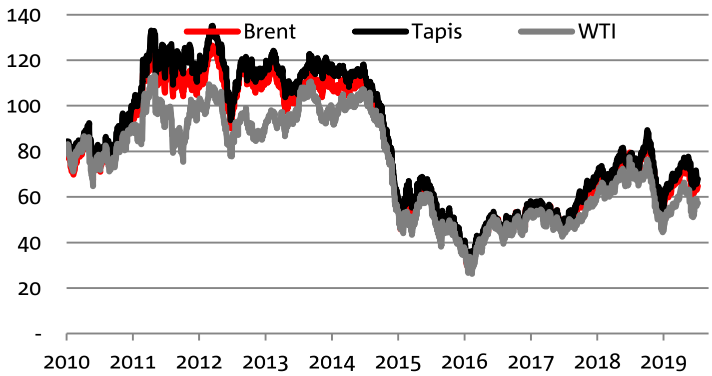
OIL

Oil prices continue to face competing forces. On one hand, OPEC has elected to continue output cuts and geopolitical tensions remain very elevated, putting upward pressure on prices. On the other, demand expectations remain fairly subdued, reflecting the impact of the trade war and broader concerns around global economic growth.

The net impact of these forces has seen Brent trading in the mid-60s range, up from a month ago, but below the mid-70s prices seen as recently as April. Overall, we see a moderate increase in prices from here, reaching US$70/bbl by the end of the year.

OIL RESPONDING TO MIXED DATA

USD/bbl, daily



Sources: Refinitiv, NAB Economics

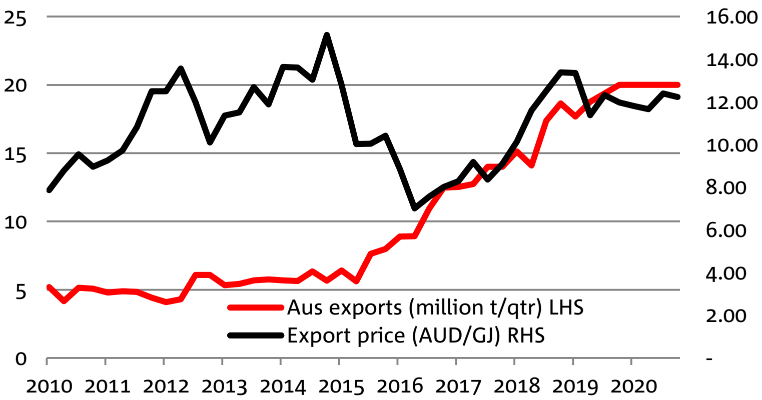
GAS

Australian LNG exports are nearing their peak. 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 AUD11-13/GJ range for the foreseeable future.

LNG EXPORT RAMP-UP CLOSE TO FINISHED

Export volume (LHS) export price (RHS)

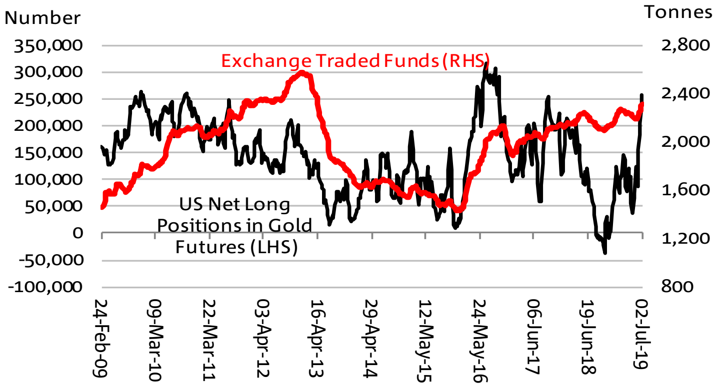


Sources: ABS, Poten & Partners, Bloomberg, NAB Economics

GOLD

Gold is hovering around US$1390/oz, down from the recent high of US$1438/oz due to a strong US jobs report in June. We still expect two rate cuts from the US Federal Reserve (in July and September), which should be supportive for gold. The G-20 meeting between Presidents Trump and Xi helped to somewhat ease trade-related concerns. That said, a comprehensive trade deal is still a long way off. Strong investment demand from financial market speculators and Central Banks (including China) continue to provide price support. We have upgraded our gold forecasts for 2019 to US$1400/oz (previously US$1380/oz).

GOLD – STRONG INVESTMENT DEMAND

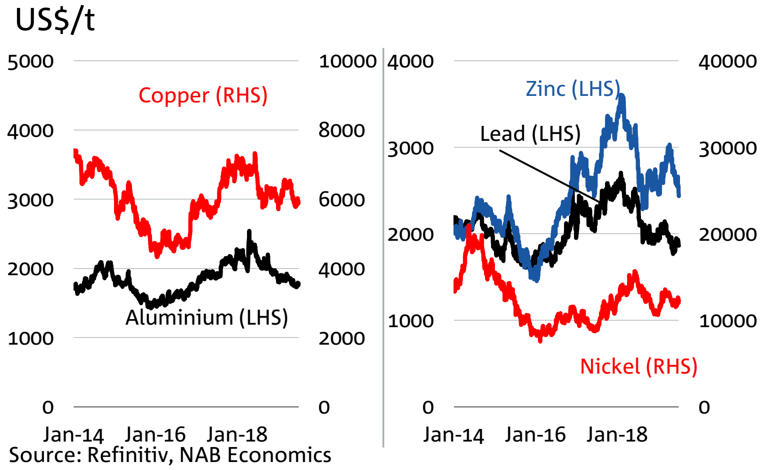


Sources: Bloomberg

BASE METALS

Base metal prices remain comparatively weak – having deteriorated over the past year as US-China trade tensions have escalated. This reflects the sizeable share of Chinese metals consumption – particularly in export oriented manufactured goods. Despite ongoing negotiations between the US and China, the prospect of a lasting trade deal remains remote, and our global economic outlook maintains all existing measures in place. Any worsening in the global trading environment could have a further negative effect on metal demand and prices.

TRADE TENSIONS CONSTRAIN METAL PRICES



Source: Refinitiv, NAB Economics

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