EMBARGOED UNTIL 11.30 AM 14 AUGUST 2019

NAB MINERALS AND ENERGY OUTLOOK AUGUST 2019

OVERVIEW

- We forecast the US dollar NAB's Non-Rural Commodity Price Index to increase by 2.1% yoy in Q3 2019, however underlying trends remain highly mixed. Higher export prices for LNG and iron ore (despite more recent spot price falls) are the key contributors, while both thermal and metallurgical coal are weaker, as are most base metals.
- Global economic trends have continued to deteriorate – with trade tensions between China (the largest consumer of most commodities) and the United States increasing once again. These trends are a negative for commodities demand – placing downward pressure on prices.
- In annual average terms, US dollar commodity prices are forecast to increase by 3.4% in 2019, before declining by 7.9% in 2020. Iron ore and metallurgical coal are the primary drivers of the decline next year, while gold is trending higher.

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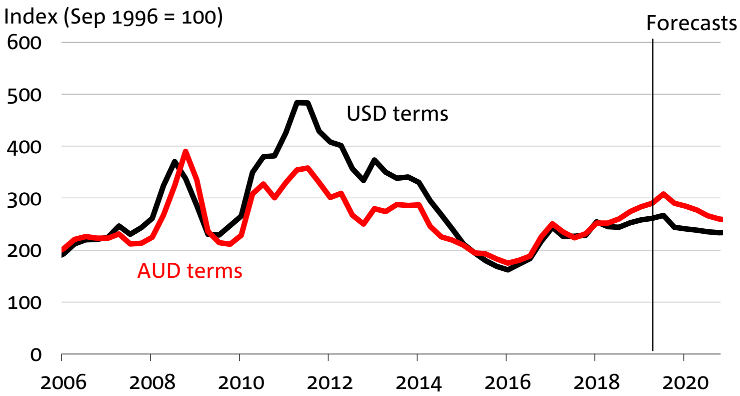
NAB NON-RURAL COMMODITY PRICE INDEX



Sources: ABS, Bloomberg, Refinitiv, NAB Economics

NAB COMMODITY PRICE FORECASTS

	Unit	Spot 12/08/2019	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$/bbl	55	64	56	63	65	65	65	70	70	70	70	70
Brent oil	US$/bbl	58	73	63	68	70	70	70	75	75	75	75	75
Tapis oil	US$/bbl	60	76	65	70	72	72	72	77	77	77	77	77
Gold	US$/ounce	1505	1310	1460	1450	1480	1520	1550	1570	1590	1600	1610	1630
Iron ore (spot)	US$/tonne	n.a.	99	101	88	79	76	72	68	71	69	71	69
Hard coking coal*	US$/tonne	n.a.	199	170	165	160	155	152	155	153	151	150	150
Thermal coal (spot)	US$/tonne	72	78	68	72	74	76	78	76	74	72	71	70
Aluminium	US$/tonne	1738	1795	1775	1750	1740	1750	1800	1850	1900	1950	2000	1975
Copper	US$/tonne	5716	6121	5875	5750	5700	5725	5750	6000	6080	6060	6040	6020
Lead	US$/tonne	2077	1884	2000	1900	1850	1800	1750	1725	1700	1725	1700	1675
Nickel	US$/tonne	15680	12251	14000	12500	12600	12500	12400	12500	12250	12100	11900	11750
Zinc	US$/tonne	2269	2763	2400	2350	2375	2400	2425	2450	2300	2200	2150	2150
Aus LNG**	AU$/GJ	n.a.	10.9	13.1	11.7	12.4	12.6	12.2	12.0	11.8	11.7	11.5	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

Spot prices for iron ore corrected sharply in early August – from in excess of US$120 a tonne at the end of July to the low-to-mid US$90s a tonne at the time of writing. Supply side pressures – led by disruptions to Brazilian output – are beginning to fade, as Brazil's exports continue to recover (up 17% mom in July). China's port stockpiles – which fell between mid-April and mid-July – have started to increase again, indicative of an easing in the underlying market balance. The recent ratcheting up of US-China trade tensions adds some concerns on the demand side, with signs that speculators may be exiting the market. We forecast 62% ore landed in China to average US$93 a tonne in 2019, before easing to US$74 a tonne in 2020.

COAL

Downward pressure on coal prices has continued, with spot prices for thermal coal dropping below US$70 a tonne in early August, while hard coking coal prices have fallen below US$160 a tonne. It is unclear how strict is a proposed quota on Chinese coal imports (limiting the full year total to 281.5 million tonnes, the same quantity as 2018) as this would result in a significant slowdown for the remainder of this year. India plans to cut coal imports by at least one-third over the next five years – which would significantly reduce global demand over this period. Prices for hard coking coal are forecast to fall to US$156/t in 2020 (from US$185/t in 2019), while thermal coal prices are forecast to ease to US$76 a tonne in 2020 (from US$79/t).

OIL

Oil prices have been generally lower over the past month, with Brent back in the $50s range for this first time since January. The market continues to face competing forces, with ongoing output cuts and simmering geopolitical tensions, against soft demand this year and a weakening global economy. IEA data shows that the first five months of 2019 saw the weakest consumption growth in a decade.

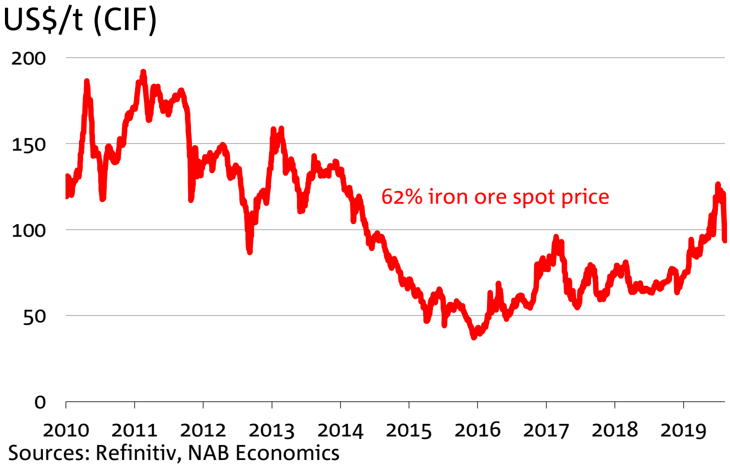
In response to these factors, we have cut our oil price forecasts, with Brent now forecast to be US$63/bbl in Q3 and US$68/bbl in Q4. The slowdown in global growth is currently our greatest concern for oil.

GAS

Australian LNG export volumes are nearing their peak. Bloomberg data shows Australian export volumes were higher in Q2, consistent with our expectation that Australian export volumes will top out this year, as remaining projects come up to full operational capacity. We expect a small increase in LNG prices in AUD terms, with our downward revision to AUD forecasts counterbalancing the downward revision to our oil price forecasts.

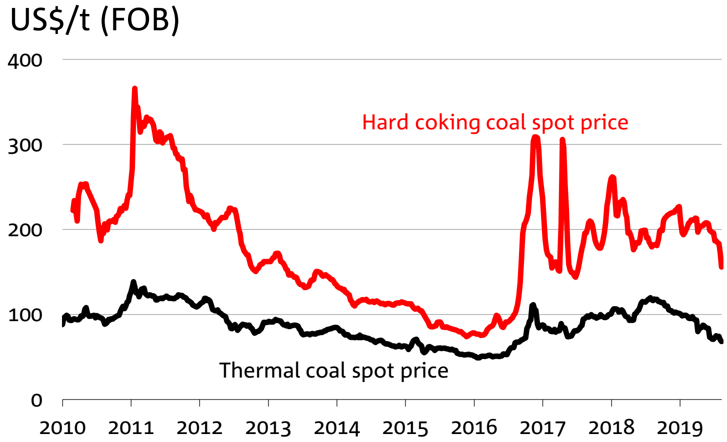
Domestic gas markets will remain under pressure from export parity and declining Bass Strait production. It is hard to see much downside for domestic prices in Eastern Australia.

PRICES DROP BELOW US$100 A TONNE



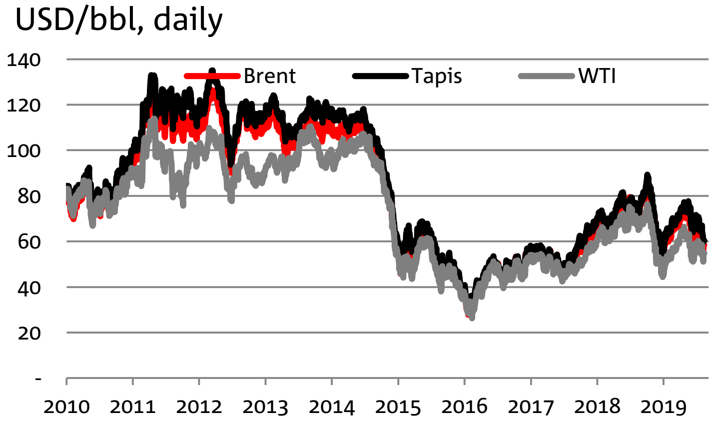
Sources: Refinitiv, NAB Economics

COAL PRICES TRENDING LOWER



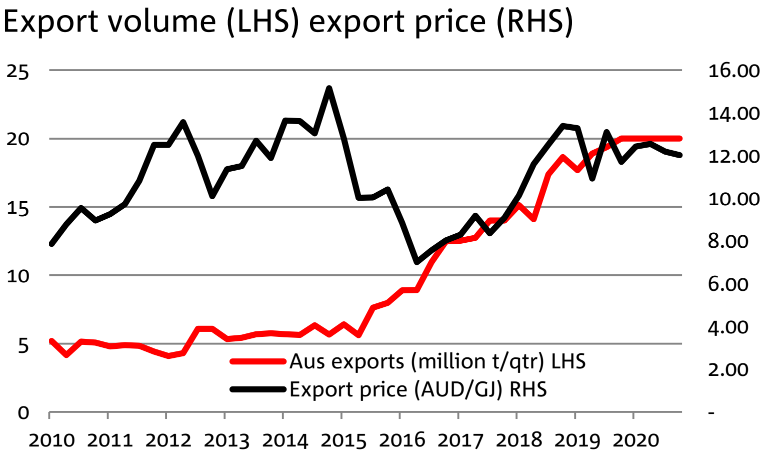
Sources: Bloomberg, NAB Economics

OIL RESPONDING TO MIXED DATA



Sources: Refinitiv, NAB Economics

LNG EXPORT RAMP-UP CLOSE TO FINISHED



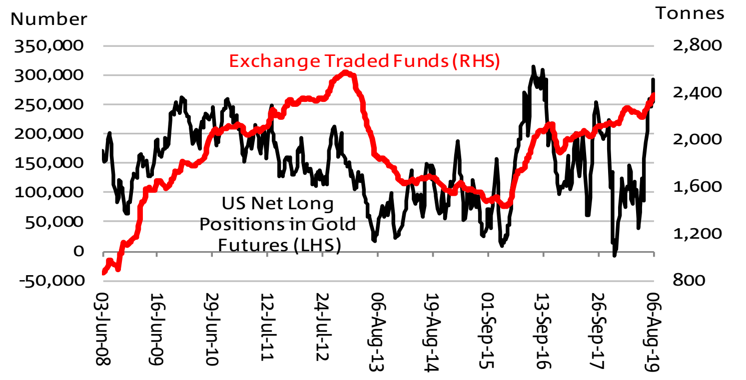
Sources: ABS, Poten & Partners, Bloomberg, NAB Economics

GOLD

Gold continues to rise strongly, with the precious metal breaching the US$1500/oz threshold. Gold's stellar performance can be attributed to a number of coalescing factors: a lack of any progress in the US-China trade dispute; a low yielding interest rate environment (German 10- year bonds are around -0.58%), which will be amplified by further Central bank easing, including by the US Federal Reserve; concerns about weakening global growth and over-extended equity markets. Investors (hedge funds) and ETFs have flocked to the market, increasing their gold holdings.

We have upgraded our end of year 2019 forecast for gold to US$1450/oz (previously US$1400).

GOLD – SURGING INVESTMENT DEMAND

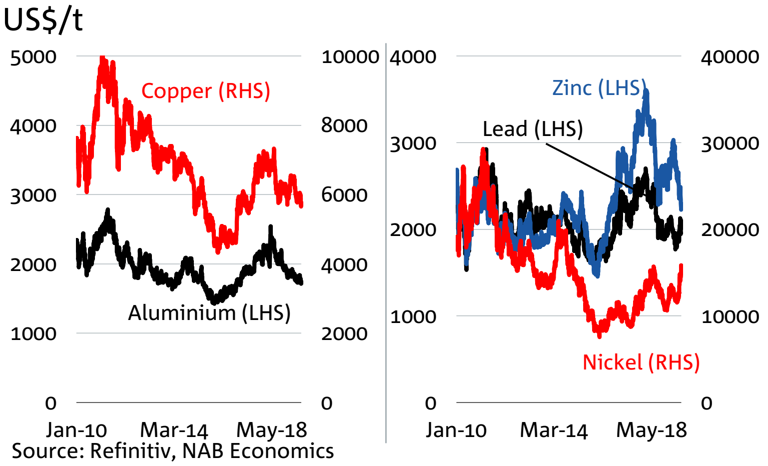


Sources: Bloomberg

BASE METALS

Trends in metal markets have diverged over the past month – with nickel surging on tight supply and falling stockpiles, while lead also trended higher. In contrast, the major traded metals, copper and aluminium, both eased further, while zinc has corrected sharply. The worsening trade relationship between the United States and China is a clear negative for metal demand going forward – along with a wider slowing in the global economy. As a result, we have revised down forecasts for the bulk of the complex – with all metals weaker in 2020 than this year.

GLOBAL TRADE ENVIRONMENT HITS METALS



Source: Refinitiv, NAB Economics

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