EMBARGOED UNTIL 11.30 AM 11 SEPTEMBER 2019

NAB MINERALS AND ENERGY OUTLOOK SEPTEMBER 2019

OVERVIEW

- In US dollar terms, NAB's Non-Rural Commodity Price Index is forecast to increase by 1.8% qoq in Q3 2019. Trends in individual commodities are highly mixed – with the increase led by a surge in LNG (up 15%) and gold (up almost 12%), while base metals and other energy (crude oil & thermal coal) are weaker.
- This quarter is expected to be the peak of the current commodity cycle – with demand set to weaken. Global economic growth has slowed and the trade war between the US and China has continued to escalate – impacting industrial consumers of commodities.
- In annual average terms, US dollar commodity prices are forecast to increase by 3.6% in 2019, before falling by 8.5% in 2020. The key contributors to this decline are iron ore and metallurgical coal while, in contrast, gold prices are forecast to rise next year.

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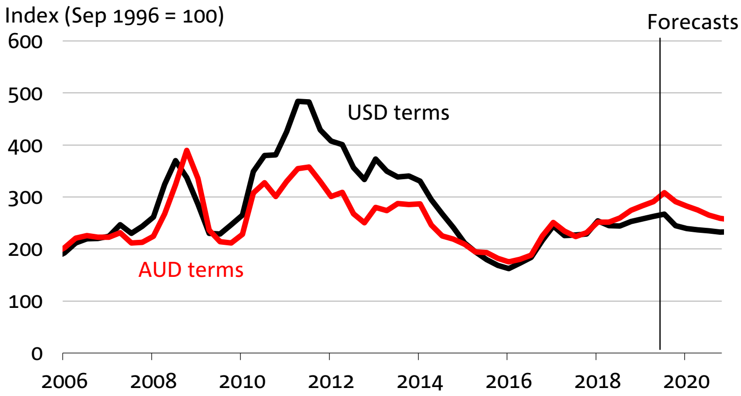
NAB NON-RURAL COMMODITY PRICE INDEX



Sources: ABS, Bloomberg, Refinitiv, NAB Economics

NAB COMMODITY PRICE FORECASTS

		Spot	Actual	Forecasts									
	Unit	9/09/2019	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$/bbl	58	64	56	60	62	63	64	65	65	65	70	70
Brent oil	US$/bbl	63	73	63	65	67	68	69	70	70	70	75	75
Tapis oil	US$/bbl	66	76	65	67	69	70	71	72	72	72	77	77
Gold	US$/ounce	1502	1310	1460	1470	1490	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$/tonne	67	80	68	72	74	76	78	76	74	72	71	70
Aluminium	US$/tonne	1774	1795	1775	1750	1740	1750	1800	1850	1900	1950	2000	1975
Copper	US$/tonne	5790	6121	5875	5750	5700	5725	5750	6000	6080	6060	6040	6020
Lead	US$/tonne	2109	1884	2000	1900	1850	1800	1750	1725	1700	1725	1700	1675
Nickel	US$/tonne	18102	12251	14000	12500	12600	12500	12400	12500	12250	12100	11900	11750
Zinc	US$/tonne	2314	2763	2400	2350	2375	2400	2425	2450	2300	2200	2150	2150
Aus LNG**	AU$/GJ	n.a.	11.1	13.3	11.9	12.1	12.3	12.1	12.1	11.9	11.7	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

Spot prices for iron ore plunged in August 2019 – averaging US$93 a tonne during the month (compared with US$120 a tonne in July). Supply side pressures (particularly from Brazilian mine closures) have started to ease (with Brazil's exports rising by 15% mom in August), while Chinese demand is expected to ease – with steel mill profit margins falling. The latter (in early August at its lowest levels since November 2016) has been largely driven by falling prices for key steel products in the domestic market. Our forecasts for 62% ore landed in China are unchanged – averaging US$93 a tonne in 2019, before easing back to around US$74 a tonne in 2020.

COAL

Coal spot prices continued to ease across much of August. Prices for thermal coal have fallen into the mid-US$60s range, while hard coking coal prices fell below US$150 a tonne in early September (from over US$200 a tonne in early June). Weaker prospects in key import markets such as China and India – both in terms of short term economic weakness and longer term structural changes – could constrain demand going forward (particularly Indian government plans to cut coal imports by one-third over the next five years). Hard coking coal prices are forecast to average US$156/t in 2020, while thermal coal prices are forecast to average US$76/t – however current prices below this mark highlight downside risk.

OIL

Oil prices have been mixed recently, with Brent in the high US$50s to low US$60s range. The market continues to face competing forces, with ongoing output cuts and simmering geopolitical tensions, against soft demand and ongoing concerns around the global economic outlook. The Saudi energy minister and head of Saudi Aramco were replaced this week, leading to somewhat higher prices.

We have again cut our oil price forecasts, with Brent now forecast to be US$65/bbl in Q4 (was US$68). The slowdown in global growth remains our greatest concern for the oil market.

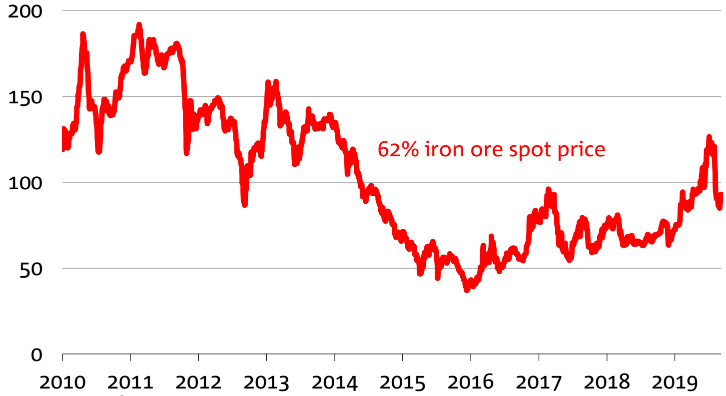
GAS

Strong Australian LNG export volumes have been a major support to GDP growth (as seen in last week's National Accounts data) but are now nearing their peak. We expect that Australian export volumes will top out this year, as remaining projects come up to full operational capacity. Our model forecasts the LNG export price to increase to AUD13.33/GJ in Q3 although this largely reflects AUD depreciation. We see prices mainly in the AUD11-12/GJ range going forward.

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, particularly if we see a hot summer.

SHARP CORRECTION IN IRON ORE PRICES

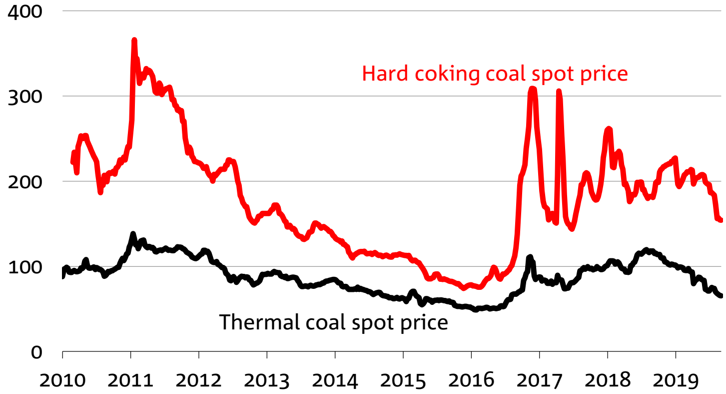
US$/t (CIF)



Sources: Refinitiv, NAB Economics

COAL PRICES HAVE CONTINUED TO EASE

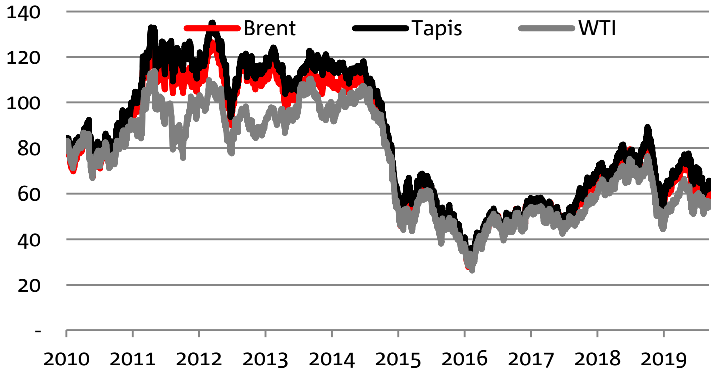
US$/t (FOB)



Sources: Bloomberg, NAB Economics

OIL RESPONDING TO MIXED DATA

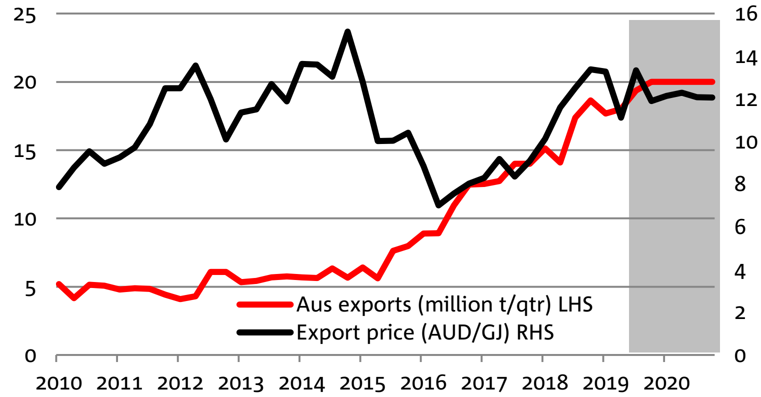
USD/bbl, daily



Sources: Refinitiv, NAB Economics

LNG EXPORT RAMP-UP CLOSE TO FINISHED

Export volume (LHS) export price (RHS)

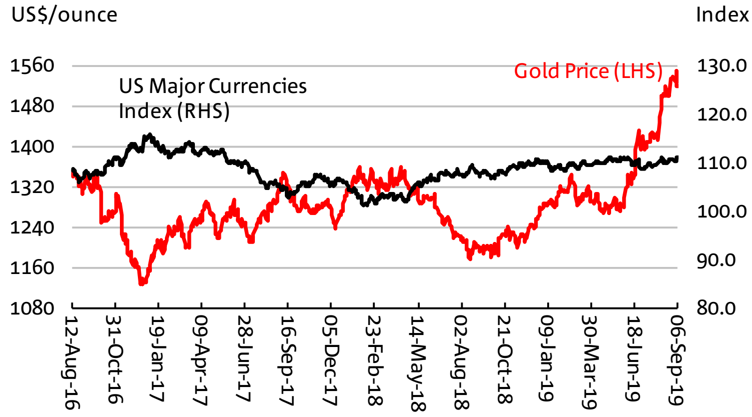


Sources: ABS, Poten & Partners, Bloomberg, NAB Economics

GOLD

After a stellar run, gold has settled below US$1500/oz (at the time of writing). Renewed market risk appetite and profit taking by investors contributed to the declines. Gold continues to be impacted by a number of cross-currents. Stronger equity markets and an expected resumption of US-China trade talks have generated downward pressure. Conversely, uncertainty about the global economy, the large stock of negative yielding bonds – bolstered by prospects of further rate cuts by the US Federal Reserve – and lingering doubts as to the success of the upcoming US-China trade talks will likely provide support for gold. We have upgraded our end of year 2019 forecast for gold to US$1470/oz (previously US$1450).

GOLD – PRICE CONTINUING TO HOLD UP WELL

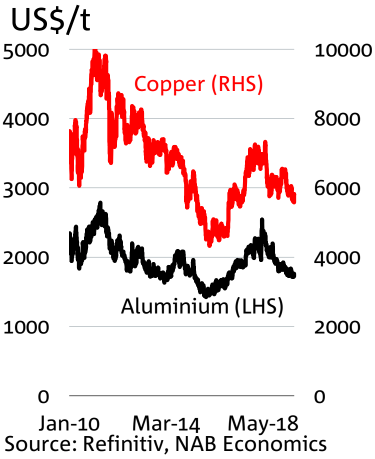


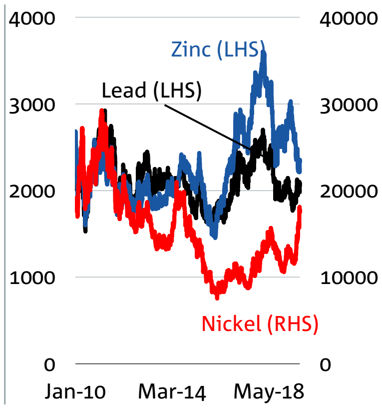
Source: Thomson Datastream, NAB

BASE METALS

Generally, metals prices have trended slightly higher in early September – suggesting that some of the sell-off in August may have been over done – albeit still below levels recorded in late July (with the exception of nickel, which is comparatively strong). That said, prospects for global metal demand remain poor in the short term, as the US-China trade relationship continues to worsen and trends in China's manufacturing sector (the key global metal consumer) soften. Our price forecasts are largely unchanged – with prices for the whole complex weaker in 2020 than the 2019 average.

MARGINAL PRICE PICKUP BUT WELL OFF PEAKS





Source: Refinitiv, NAB Economics

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