EMBARGOED UNTIL 11.30 AM 9 OCTOBER 2019

NAB MINERALS AND ENERGY OUTLOOK OCTOBER 2019

OVERVIEW

- NAB's Non-Rural Commodity Price Index is forecast to fall significantly in Q4 2019 – down by 8.2% qoq in US dollar terms. The key drivers of this downturn are iron ore (which fell rapidly across the third quarter) and LNG (reflecting the lagged impact of earlier falls in oil prices).
- The global economic outlook remains broadly negative for commodity markets – reflecting slowing activity as well as the impact of US-China trade tensions that have harmed industrial commodity consumers. The potential for trade measures to extend to Europe adds downside risk.
- In annual average terms, US dollar commodity prices are forecast to increase by 4.7% in 2019, before falling by 10.5% in 2020 and a further 1.0% in 2021. Iron ore and metallurgical coal are the main contributors to the overall fall in the index in 2020, while gold prices are expected to trend higher over the outlook period.

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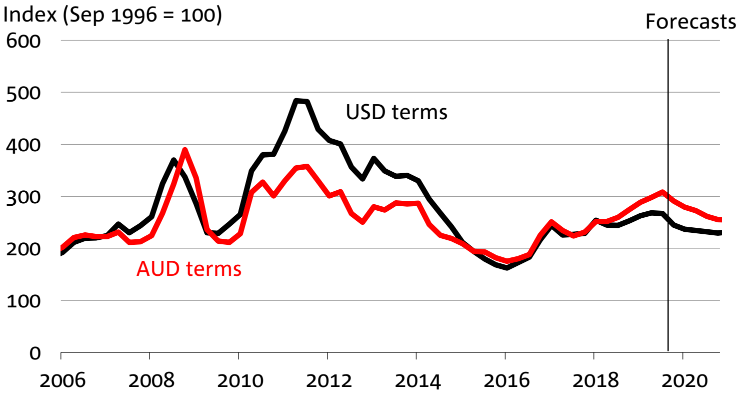
NAB NON-RURAL COMMODITY PRICE INDEX



Sources: ABS, Bloomberg, Refinitiv, NAB Economics

NAB COMMODITY PRICE FORECASTS

	Unit	Spot 4/10/2019	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$/bbl	53	64	58	60	62	63	64	65	65	65	67	67
Brent oil	US$/bbl	59	73	64	65	67	68	69	70	70	70	72	72
Tapis oil	US$/bbl	62	76	67	67	69	70	71	72	72	72	74	74
Gold	US$/ounce	1508	1310	1480	1480	1500	1520	1550	1570	1590	1600	1610	1630
Iron ore (spot)	US$/tonne	n.a.	99	102	88	79	76	72	68	71	69	71	69
Hard coking coal*	US$/tonne	n.a.	199	163	150	145	150	152	150	153	151	150	150
Thermal coal (spot)	US$/tonne	66	80	69	72	72	70	68	70	72	68	65	65
Aluminium	US$/tonne	1708	1795	1764	1750	1740	1750	1800	1825	1850	1870	1885	1900
Copper	US$/tonne	5608	6121	5814	5750	5700	5725	5750	5850	5900	5950	6000	6020
Lead	US$/tonne	2163	1884	2011	1950	1850	1800	1750	1725	1700	1725	1700	1675
Nickel	US$/tonne	17906	12251	14891	17500	16000	15000	14000	13000	12500	12100	11900	11750
Zinc	US$/tonne	2337	2763	2355	2350	2375	2400	2425	2450	2300	2200	2150	2150
Aus LNG**	AU$/GJ	n.a.	11.1	13.1	12.2	12.1	12.2	12.0	12.0	11.9	11.7	11.5	11.4

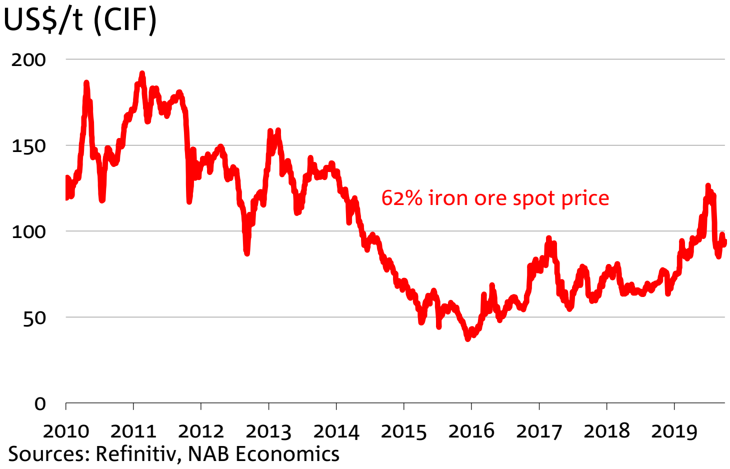
* Data reflect NAB estimates of US$/tonne FOB quarterly contract prices, based on quarterly average spot prices.

** Implied Australian LNG export prices

IRON ORE

Iron ore spot prices stabilised in September, settling in the low-to-mid US$90s range in the second half of the month, having fallen below US$90 a tonne in August. A likely speculative sell-off in August may have been overdone, however the fundamentals of the market have eased, with Brazilian supply continuing to recover – despite a month-on-month drop in exports in September. China's steel production is expected to ease, reflecting the weaker economic growth profile going forward. Our forecasts for 62% ore landed in China are unchanged – averaging US$93 a tonne in 2019, before declining to around US$74 a tonne in 2020.

IRON ORE STABILISED IN SEPTEMBER

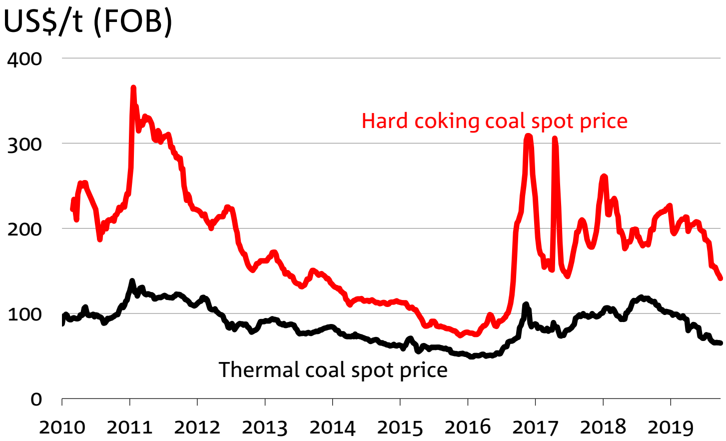


Sources: Refinitiv, NAB Economics

COAL

Spot prices for hard coking coal continued to ease in September – falling below US$150 a tonne – while thermal coal prices stabilised in the mid-US$60s range. In the near term there is some upside potential for thermal coal demand – reflecting heating demand in the northern hemisphere winter – however longer term demand prospects appear weaker (including in key import markets such as China and India). We've trimmed our forecast for thermal coal to US$70 a tonne in 2020 (from US$76 previously), and hard coking coal to US$150 a tonne (from US$156). Current softness in spot prices highlights the downside risk to these forecasts.

COKING COAL CONTINUES TO EASE

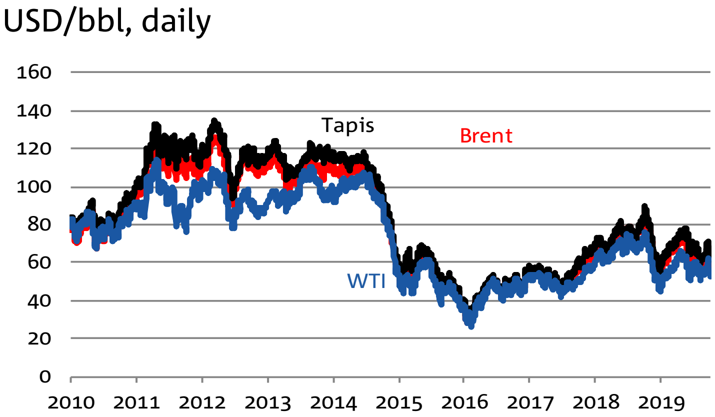


Sources: Bloomberg, NAB Economics

OIL

Oil prices have eased markedly since the attack on Saudi oil facilities in mid September, when the benchmark Brent rose above US$71/bbl. Since then, oil production facilities have largely been restored, according to Saudi authorities, with the Kingdom producing close to 10 million barrels per day. Additionally, there remains concerns about global demand, with the US ISM factory index falling to 47.8, the lowest since June 2009. We have maintained our 2019 oil price forecasts, with Brent at US$65/bbl in Q4, although there remain downside risks. Further out, we have slightly trimmed our year-end 2021 forecasts to US$72/bbl (previously US$75).

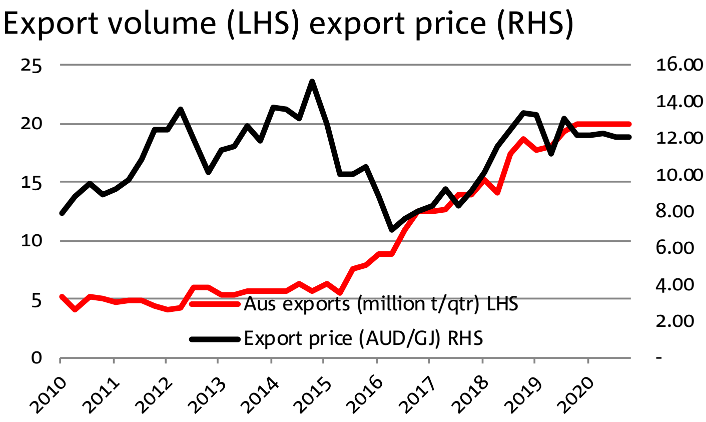
OIL: DOWNWARD PRESSURE



GAS

Australia had the second highest volume of LNG exports in 2018-19, according to Energy Quest. In fact, Australian exports overtook Qatari LNG exports in November 2018 and April 2019, according to the US EIA. The growth has emerged largely from INPEX's Icthys project and Chevron's Wheatstone project. We expect export volumes to largely flatten out this year. On prices, our model forecasts the LNG export price to increase to AUD13.33/GJ in Q3, largely reflecting AUD depreciation. Moreover, we see prices mainly in the AUD11-12/GJ range going forward. It is hard to see much downside for domestic prices in Eastern Australia, particularly if we see a hot summer.

LNG EXPORT RAMP-UP CLOSE TO FINISHED

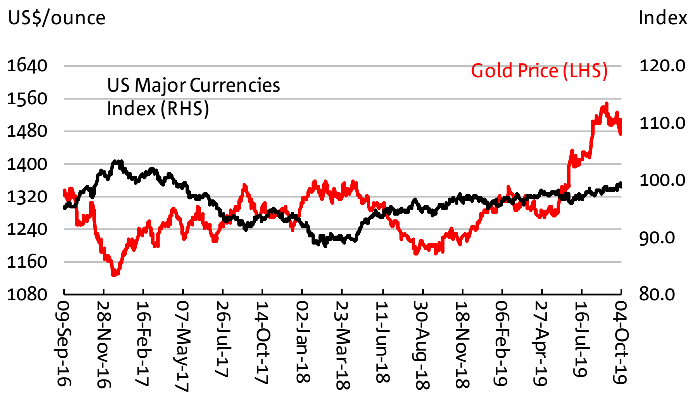


Sources: ABS, Poten & Partners, Bloomberg, NAB Economics

GOLD

Gold was last trading around US$1500/oz, reflecting cross-currents impacting the precious metal. The initiation of impeachment proceedings against President Trump led investors to seek refuge in the US dollar, causing prices to fall to around US$1472/oz. However, a set of weak readings in the US for both services and particularly, manufacturing, led to heightened concerns about the state of the economy – boosting gold's price. More recently, the US Nonfarm Payrolls report indicated a fall in the unemployment rate to a low of 3.5% - although this was tempered somewhat by subdued wage growth. We have slightly raised our 2019 price outlook for gold to US$1480/oz (previously US$1470/oz).

GOLD – STEADY ON MIXED CUES

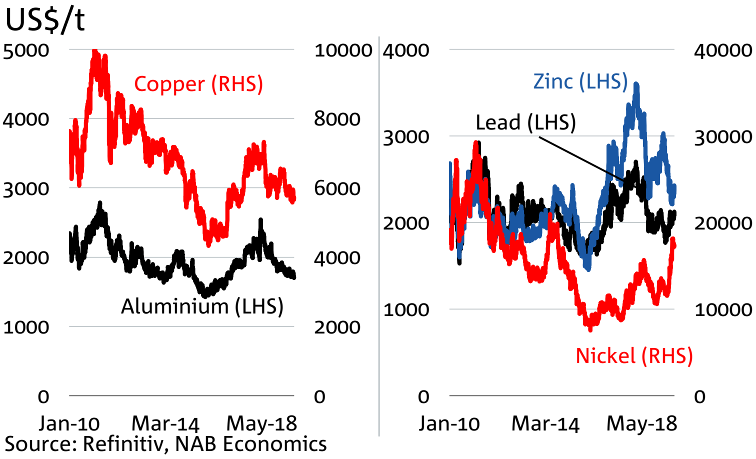


Source: Thomson Datastream, NAB

BASE METALS

Base metal price trends were mixed in September. Prices for aluminium and copper rose modestly in the first half of the month, before correcting to the levels recorded back at the start. Lead and zinc prices were relatively stable, while in contrast nickel continued to climb – having trended higher since the start of July. The outlook for metal demand remains poor – given the deterioration in the US-China trade relationship and the broader slowing in global economic growth. Our forecasts are largely unchanged – with the exception of an upgrade for nickel, which is expected to gradually unwind from its recent spike. Given speculative pressure, there is risk the nickel unwind could be faster than forecast.

NICKEL THE EXCEPTION AS IT RALLIED



Source: Refinitiv, NAB Economics

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