EMBARGOED UNTIL 11.30 AM 13 NOVEMBER 2019

NAB MINERALS AND ENERGY OUTLOOK NOVEMBER 2019

OVERVIEW

- In US dollar terms, NAB's Non-Rural Commodity Price Index is forecast to fall by 7.9% qoq in Q4 2019. Iron ore and LNG prices have fallen rapidly in recent months and these are the main contributors to the downturn.
- Broadly, the global economic outlook remains negative for commodity markets – NAB Economics expects minimal recovery in global growth in 2020 – however progress towards the "Phase One" trade deal between the US and China has provided some optimism for global financial markets. That said, there remains uncertainty around the contents of any deal and the future trade relationship between the two countries.
- In annual average terms, US dollar commodity prices are forecast to fall by 10.6% in 2020 – driven by declines in iron ore and metallurgical coal – and a further 0.7% in 2021.

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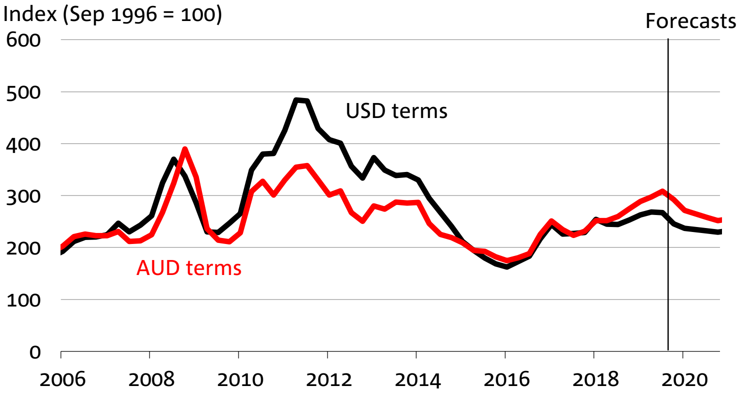
NAB NON-RURAL COMMODITY PRICE INDEX



Sources: ABS, Bloomberg, Refinitiv, NAB Economics

NAB COMMODITY PRICE FORECASTS

	Unit	Spot 8/11/2019	Actual Sep-19	Forecasts *Dec-19*	*Mar-20*	*Jun-20*	*Sep-20*	*Dec-20*	*Mar-21*	*Jun-21*	*Sep-21*	*Dec-21*
WTI oil	US$/bbl	57	58	60	62	63	64	65	65	65	67	67
Brent oil	US$/bbl	63	64	65	67	68	69	70	70	70	72	72
Tapis oil	US$/bbl	66	67	67	69	70	71	72	72	72	74	74
Gold	US$/ounce	1467	1480	1480	1500	1520	1550	1570	1590	1600	1610	1630
Iron ore (spot)	US$/tonne	82	102	89	79	76	72	68	71	69	71	69
Hard coking coal*	US$/tonne	n.a.	163	150	145	150	152	150	153	151	150	150
Thermal coal (spot)	US$/tonne	67	69	72	72	70	68	70	72	68	65	65
Aluminium	US$/tonne	1817	1764	1750	1740	1750	1800	1825	1850	1870	1885	1900
Copper	US$/tonne	5911	5814	5750	5700	5725	5750	5850	5900	5950	6000	6020
Lead	US$/tonne	2112	2011	2150	2000	1900	1750	1725	1700	1725	1700	1675
Nickel	US$/tonne	16189	14891	16500	16000	15000	14000	13000	12500	12100	11900	11750
Zinc	US$/tonne	2524	2355	2450	2400	2400	2425	2450	2300	2200	2150	2150
Aus LNG**	AU$/GJ	n.a.	13.1	12.2	12.1	12.2	12.0	12.0	12.0	11.8	11.7	11.6

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

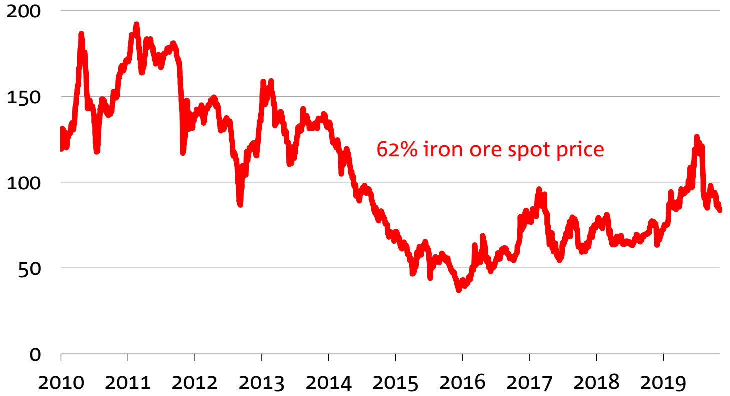
** Implied Australian LNG export prices

IRON ORE

Spot prices for iron ore trended lower in October – from around US$94 a tonne (for 62% ore landed in China) at the start of the month, to around US$84 a tonne in early November. Supply side pressures – which saw prices at elevated levels in early 2019 – are easing, with the market likely to be considerably weaker in 2020. This reflects the recovery in Brazilian supply and weaker Chinese steel production as the country's construction sector weakens. Our iron ore forecasts are unchanged – with Chinese landed spot prices averaging US$93 a tonne in 2019, before easing to around US$74 a tonne in 2020.

PRICES DOWN AS SUPPLY CONSTRAINTS EASE

US$/t (CIF)



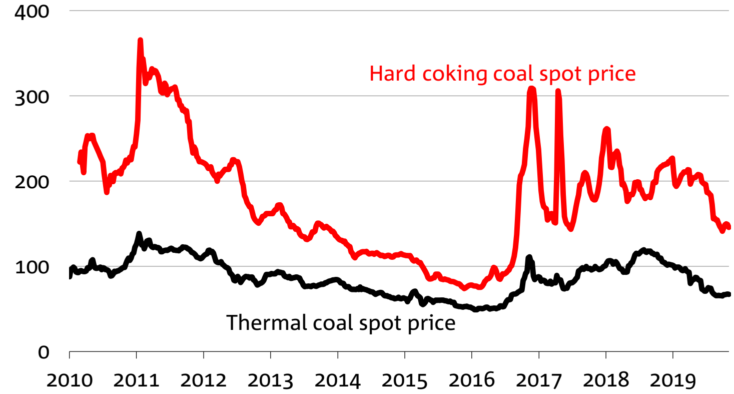
Sources: Refinitiv, NAB Economics

COAL

Spot prices for hard coking coal rallied briefly in mid-October, pushing back above US$150 a tonne, before correcting sharply as expiring futures contracts rolled over. Spot prices in early November dropped into the mid-US$130s range – the lowest levels since mid-2016. In contrast, thermal coal prices have been stable at relatively low levels – in the mid-US$60s a tonne. In the near term, restocking ahead of the northern winter could put some upward pressure on thermal coal prices, however beyond this we see coal markets generally being weaker. Hard coking coal is forecast to average US$150 a tonne in 2020, while thermal coal is forecast to average US$70 a tonne – with the current weakness highlighting downside risk to this view.

COAL PRICES LOWER AS DEMAND SOFTENS

US$/t (FOB)



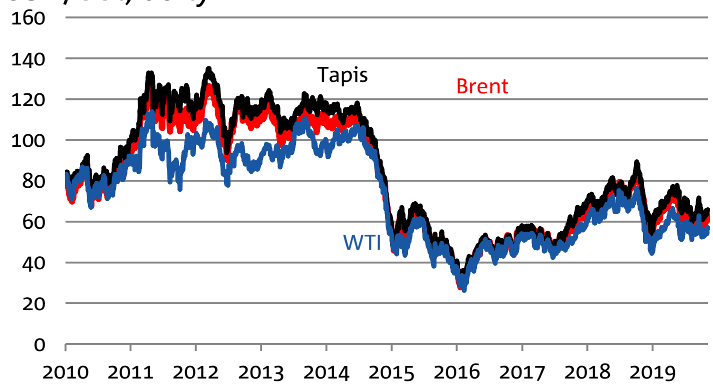
Sources: Bloomberg, NAB Economics

OIL

Oil has broadly trended sideways on mixed cues. Increasing prospects of a "Phase One" deal between the US and China have generally been favourable. Further, a weaker USD, the October rate cut by the US Federal Reserve and the positive October US labour market reading have also been supportive. Conversely, higher than expected US crude inventories have put the brakes on further increases. Separately, OPEC indicated it expects to account for a lower share of global supply over the next 5 years, highlighting growth from other supply sources, namely US shale producers. We have maintained our 2019 oil price forecasts, with Brent at US$65/bbl in Q4.

OIL: SIDEWAYS ON MIXED CUES

USD/bbl, daily



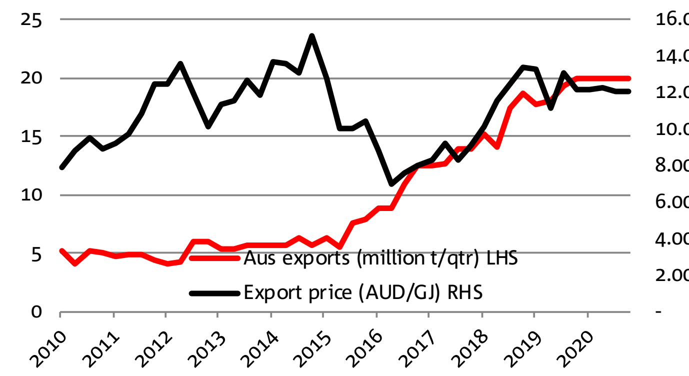
Source: Refinitiv, NAB Economics

GAS

With major gas projects having come on stream, gas export volumes are expected to largely flatten out at current levels. In terms of prices, they are anticipated to peak around September quarter this year (driven largely by a weaker AUD), and thereafter hover around the AUD11-12/GJ range going forward. Chinese LNG demand growth is anticipated to ease compared to 2018, according to analysts Wood Mckenzie. This is likely driven by the uncertain climate for growth and industrial activity. In the near term, there is likely to be some weakness in Asian LNG prices, as offshore vessels storing LNG commence discharging their cargoes into a generally oversupplied market.

LNG EXPORT PRICES HAVE PEAKED

Export volume (LHS) export price (RHS)

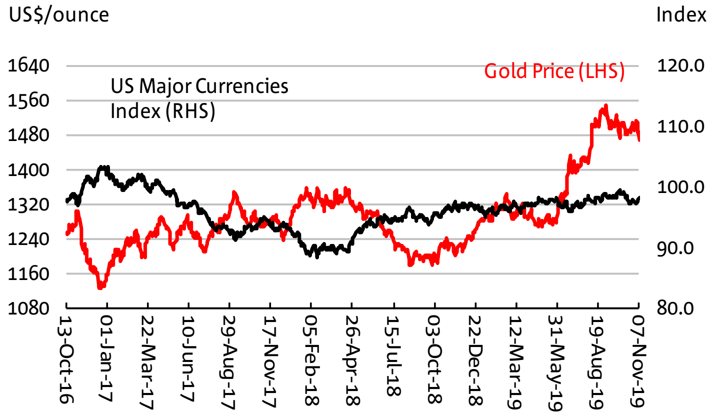


Sources: ABS, Poten & Partners, Bloomberg, NAB Economics

GOLD

Increasing optimism about a "Phase One" deal between the US and China has led to the gold price remaining below the critical US$1500/oz level. Moreover, a rise in bond yields and equities has also exerted pressure on gold, as have changing market expectations around future central bank monetary policy (with less easing anticipated than previously). The exact scope of any US-China trade deal is still unclear – with Chinese negotiators reportedly seeking a roll back of some existing tariffs, although this may not be accepted by the Trump Administration. Similarly, the longer term trade relationship, and negotiations around intellectual property and industrial policy, remain uncertain. We have maintained our year-end forecast of US$1480/oz.

GOLD: TRADE OPTIMISM DENTS ALLURE

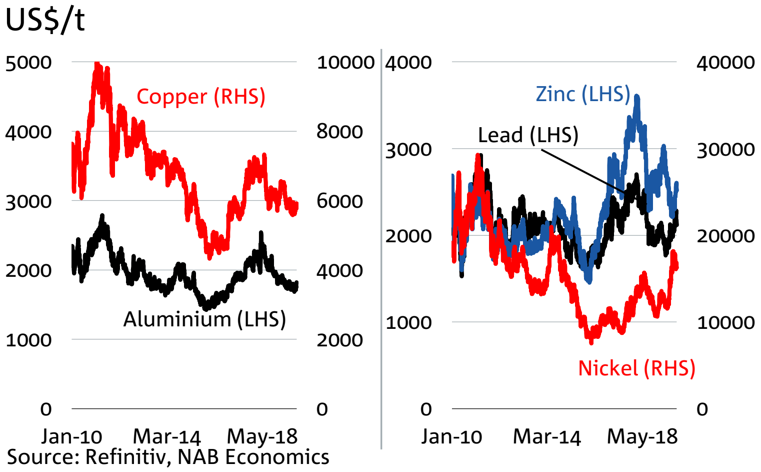


Source: Thomson Datastream, NAB

BASE METALS

Recent price trends for base metals have been mixed – with aluminium, copper and zinc tracking higher from levels at the start of October, while nickel has eased. That said, prices are generally well below those recorded in mid-2018 (with the exception of nickel). Weaker economic growth and uncertainty around global trade present a negative outlook for base metal demand in 2020, with prices falling across most of the complex. Given the recent upward spike in nickel, it remains the exception – forecast to increase by around 3.5% in 2020 – however a speculative unwind could see prices fall more rapidly than forecast.

PRICES GENERALLY BELOW MID-2018 PEAKS



Source: Refinitiv, NAB Economics

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