EMBARGOED UNTIL 11.30 AM 11 DECEMBER 2019

NAB MINERALS AND ENERGY OUTLOOK DECEMBER 2019

OVERVIEW

- In Q1 2020, NAB's Non-Rural Commodity Price Index is forecast to fall by around 3.9% qoq in US dollar terms, following on from a 8.4% qoq decline in Q4 2019. Falling prices for iron ore across both quarters is the key driver of this trend.
- Economic conditions in 2020 are expected to remain unfavourable for commodity markets – with global growth at sub-trend rates and uncertainty around the global trading environment persisting. At the time of writing, the "Phase One" trade deal between the US and China has not been concluded, and the US has introduced new trade measures against other countries.
- That said, Chinese infrastructure investment could provide some support to commodity markets next year – albeit not enough (in our view) to drive prices higher.
- In annual average terms, US dollar commodity prices are forecast to fall by 11.7% in 2020 – with lower iron ore, metallurgical coal and liquefied natural gas (LNG) prices the key drivers. In 2021, prices are forecast to fall by a further 0.7%.

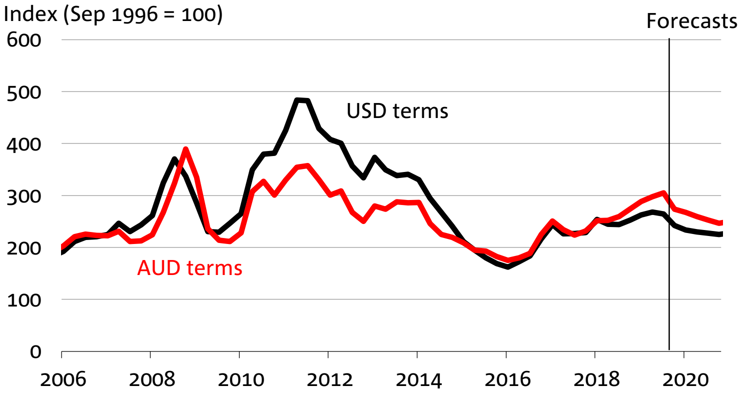
CONTACTS

Alan Oster, Group Chief Economist +(61 0) 414 444 652

Gerard Burg, Senior Economist +61(0) 477 723 768

John Sharma, Economist +61(0) 477 768 482

NAB NON-RURAL COMMODITY PRICE INDEX



Sources: ABS, Bloomberg, Refinitiv, NAB Economics

NAB COMMODITY PRICE FORECASTS

		Spot	Actual	Forecasts								
	Unit	6/12/2019	Sep-19	*Dec-19*	*Mar-20*	*Jun-20*	*Sep-20*	*Dec-20*	*Mar-21*	*Jun-21*	*Sep-21*	*Dec-21*
WTI oil	US$/bbl	59	58	60	60	61	62	63	63	64	64	65
Brent oil	US$/bbl	64	64	65	65	66	67	68	68	69	69	70
Tapis oil	US$/bbl	70	67	67	67	68	69	70	70	71	71	72
Gold	US$/ounce	1460	1480	1480	1490	1510	1520	1540	1550	1570	1580	1600
Iron ore (spot)	US$/tonne	90	102	88	79	76	72	68	71	69	71	69
Hard coking coal*	US$/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	1772	1764	1750	1740	1750	1765	1775	1800	1825	1850	1875
Copper	US$/tonne	5962	5814	5750	5700	5725	5750	5850	5900	5950	6000	6020
Lead	US$/tonne	1875	2011	2050	1900	1800	1750	1725	1700	1725	1700	1675
Nickel	US$/tonne	13423	14891	15250	12750	12500	12250	12100	12300	12500	12750	13000
Zinc	US$/tonne	2243	2355	2450	2400	2400	2425	2450	2300	2200	2150	2150
Aus LNG**	AU$/GJ	n.a.	12.5	11.0	11.2	11.0	11.0	11.0	11.2	11.0	11.0	10.7

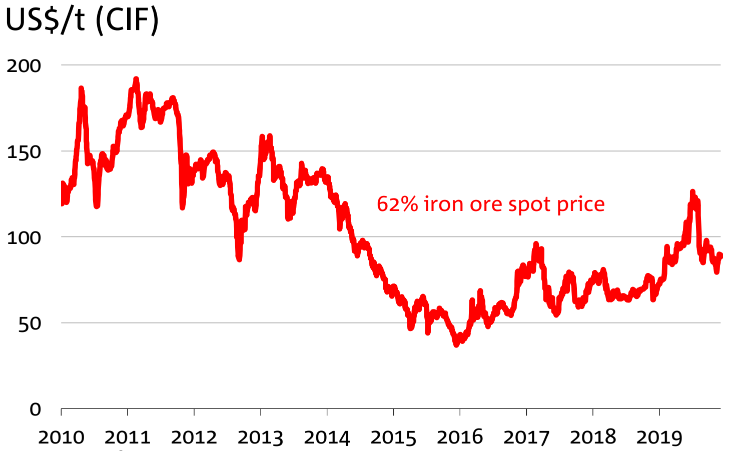
* Data reflect NAB estimates of US$/tonne FOB quarterly contract prices, based on quarterly average spot prices.

** Implied Australian LNG export prices

IRON ORE

Spot prices for iron ore fell in the first half of November – briefly dipping below US$80 a tonne – before strengthening in the second half, with prices back above US$90 a tonne at the time of writing. The price increase has been attributed to rising steel prices and expectations of infrastructure supported growth in China in 2020. That said, weaker iron ore demand (due to Chinese steel capacity closures over the northern winter) should begin to weigh on prices in the short term. Our forecasts for iron ore are unchanged, with the landed spot price in China to average US$93 a tonne in 2019 before easing to US$74 a tonne in 2020.

PRICES UP IN LATE NOV BUT WELL OFF PEAKS

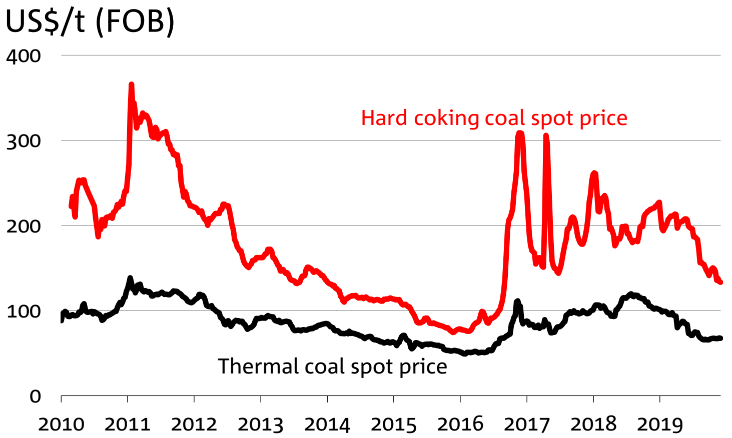


Sources: Refinitiv, NAB Economics

COAL

Spot prices for thermal coal have remained relatively stable since early October – with prices ranging between US$66 and US$68 a tonne. Similarly, prices for hard coking coal were fairly flat across November – in the low-to-mid US$130s range – but have risen back to around US$140 a tonne in early December. Weak demand – due to steel capacity closures over the northern winter – should limit upside pressure in the near term. Our forecasts for 2020 remain unchanged – with hard coking coal averaging US$150 a tonne and thermal coal averaging US$70 a tonne – however we note that with current spot prices below these levels, there is downside risk to this outlook.

COAL PRICES STABLE IN NOVEMBER

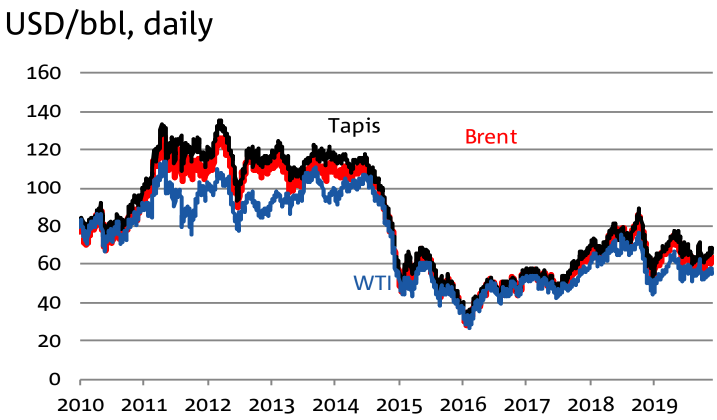


Sources: Bloomberg, NAB Economics

OIL

Oil prices briefly perked up after OPEC+ (OPEC & other major producers such as Russia) agreed to cut oil supplies by a further 500,000 barrels per day (bpd) in early 2020 – although weak Chinese merchandise export numbers limited these gains. These cuts are in addition to the 1.2 million bpd reductions agreed upon earlier. We have maintained our end of year forecasts for the benchmark Brent indicator at US$65/bbl for 2019. Further out, we have trimmed our forecasts – with our December 2021 forecasts down to US$70/bbl, previously (US$72/bbl).

OIL: SUPPLY RESTRICTIONS PROVIDE SUPPORT

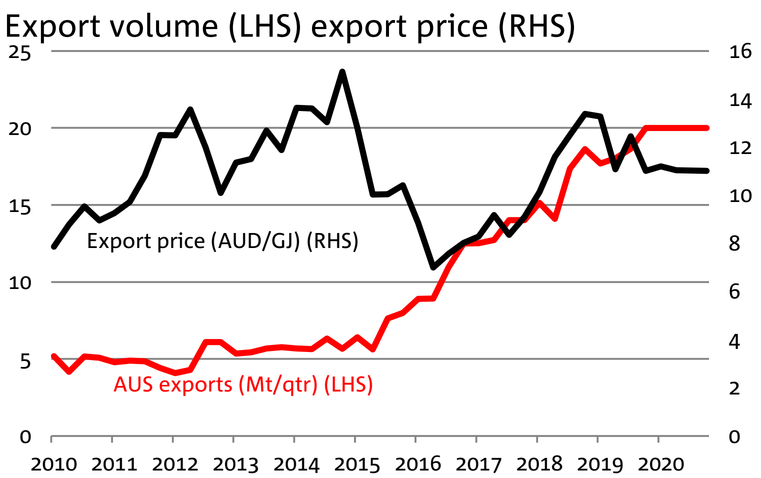


Source: Refinitiv, NAB Economics

GAS

Production and exports continue to remain strong in Australia, with Australia likely to have surpassed Qatar as the world's largest LNG exporter, according to EIA estimates. Increasing production and lower prices (relative to a year ago), suggest that the Australian Domestic Gas Supply Mechanism trigger will likely not be initiated this summer. However, Consultancy Wood McKenzie note that Victoria could face a shortfall as early as 2023, partly due to bans on onshore drilling. Further, export prices will be constrained to around AUD 11-12/GJ due to softer demand and more aggressive negotiation tactics from Asian buyers such as Korea Gas Corporation.

LNG EXPORT PRICES TO SOFTEN

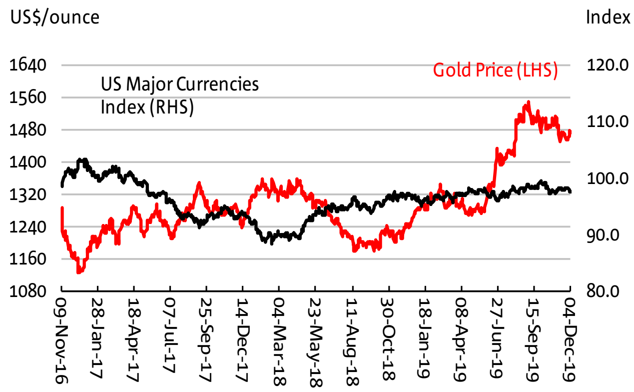


Sources: ABS, Poten & Partners, Bloomberg, NAB Economics

GOLD

Gold has generally been trading in a holding pattern between US$1450/oz and US$1490/oz. Trade and economic developments have tended to sway the gold price. The strong nonfarm payrolls result in November, which showed the US economy generated 266,000 jobs, lowered prospects for a near-term interest rate cut, denting gold's prospects. Trade talks between the US and China continue to be the focus of attention, although major sticking points like intellectual property will continue to persist. We have maintained our year-end 2019 forecasts at US$1480/oz, but slightly lowered our forecasts further out: December 2021 is now US$1600/oz (compared with US$1625 previously).

GOLD: BEHOLDEN TO 'TRADE TALKS'

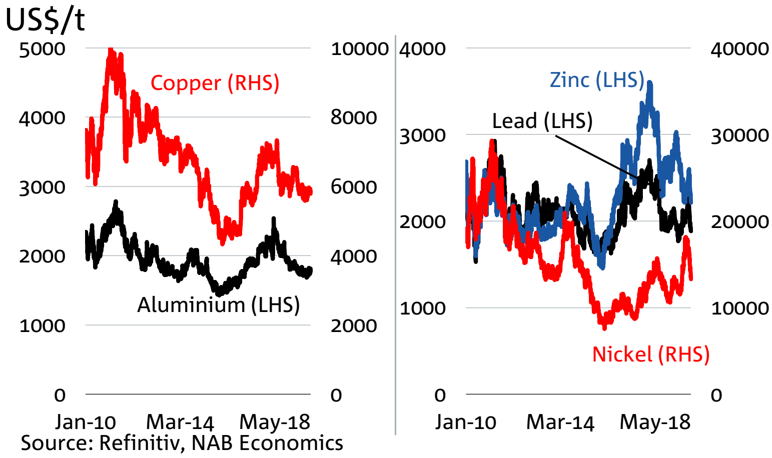


Source: Thomson Datastream, NAB

BASE METALS

Recent trends have been mixed across the base metals complex, with relatively stable prices for the major metals (copper and aluminium), while prices for nickel, lead and zinc have fallen rapidly since early November. The demand outlook for metals remains somewhat negative – given the ongoing trade concerns and slowing economic growth in China (the key consumer of base metals). Following the rapid fall in nickel prices (as speculative positions that drove the recent price spike were unwound), all metals are forecast to fall in annual average terms in 2020.

ECONOMIC TRENDS NEGATIVE FOR METALS



Source: Refinitiv, NAB Economics

Group Economics
Alan Oster
Group Chief Economist
+(61 3) 8634 2927

Jacqui Brand
Personal Assistant
+(61 3) 8634 2181

Australian Economics and Commodities

Tony Kelly
Senior Economist
+(61 3) 9208 5049

Gareth Spence
Senior Economist
+(61 0) 436 606 175

Phin Ziebell
Senior Economist
+(61 0) 475 940 662

Behavioural & Industry Economics
Dean Pearson
Head of Behavioural & Industry Economics
+(61 3) 8634 2331

Robert De Iure
Senior Economist
+(61 3) 8634 4611

Brien McDonald
Senior Economist
+(61 3) 8634 3837

Steven Wu
Economist
+(61 3) 9208 2929

International Economics
Gerard Burg
Senior Economist
+(61 3) 8634 2788

John Sharma
Economist
+(61 3) 8634 4514

Global Markets Research

Ivan Colhoun
Global Head of Research
+(61 2) 9237 1836