EMBARGOED UNTIL 11.30 AM 12 FEBRUARY 2020

NAB MINERALS AND ENERGY OUTLOOK FEBRUARY 2020

OVERVIEW

- Following on from relatively strong prices across most markets in the first half of January, commodity prices have generally retreated in early February in response to the Coronavirus outbreak in China.
- Markets are concerned that containment measures implemented by Chinese authorities will negatively impact demand for commodities from the manufacturing and construction sectors – placing downward pressure on prices.
- The scale and duration of the outbreak is highly uncertain. In line with our global economic forecasts we assume that the greatest impact will be felt in Q1, before gradually recovering in Q2 – however there is significant risk around this outlook.
- In annual average terms, US dollar commodity prices are forecast to fall by 13.8% in 2020 – driven by falling prices for iron ore, liquefied natural gas (LNG) and metallurgical coal – followed by a further 0.9% decline in 2021.

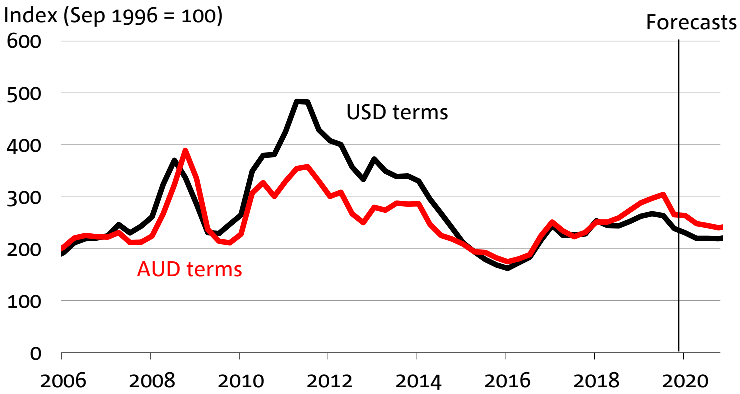
CONTACTS

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	5/02/2020	Dec-19	*Mar-20*	*Jun-20*	*Sep-20*	*Dec-20*	*Mar-21*	*Jun-21*	*Sep-21*	*Dec-21*
WTI oil	US$/bbl	51	55	50	53	55	57	57	57	58	60
Brent oil	US$/bbl	56	61	55	58	60	62	62	62	63	65
Tapis oil	US$/bbl	59	63	57	60	62	64	64	64	65	67
Gold	US$/ounce	1558	1480	1560	1540	1560	1580	1580	1590	1590	1600
Iron ore (spot)	US$/tonne	84	89	85	76	72	68	71	69	71	69
Hard coking coal*	US$/tonne	n.a.	140	135	152	150	148	151	147	145	140
Thermal coal (spot)	US$/tonne	69	67	68	68	65	70	70	66	63	61
Aluminium	US$/tonne	1691	1758	1700	1750	1765	1775	1800	1825	1850	1875
Copper	US$/tonne	5704	5900	5650	5725	5750	5850	5900	5950	6000	6020
Lead	US$/tonne	1826	2039	1850	1800	1750	1725	1700	1725	1700	1675
Nickel	US$/tonne	13080	15395	12750	12500	12250	12100	12300	12500	12750	13000
Zinc	US$/tonne	2215	2384	2200	2400	2425	2450	2300	2200	2150	2150
Aus LNG**	AU$/GJ	n.a.	10.7	10.2	10.4	10.9	10.9	11.0	10.9	10.9	10.5

* 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 higher across much of December 2019 and January 2020 – pushing up above US$95 a tonne prior to the Chinese new year market closures. However, fears around the impact of the Coronavirus on steel demand in China's construction and manufacturing sectors drove prices sharply lower in early February – back below US$85 a tonne at the time of writing. In the short term, this is likely to be a larger issue than potential supply disruptions in both Brazil and Western Australia (the easing of which should add additional downward pressure to prices later in the year). Iron ore is forecast to average US$75 a tonne in 2020, a decrease of 19% from the 2019 average.

COAL

Spot prices for metallurgical coal rose in early 2020 – in line with the strength in iron ore markets – up above US$150 a tonne in mid January. However, prices have dropped back below this level at the time of writing – reflecting steel sector demand fears related to the Coronavirus outbreak. In contrast, price movements in thermal coal markets have (to date) been more moderate – with prices just below US$70 a tonne. Coal prices are expected to fall in 2020 – hard coking coal is forecast to average US$146 a tonne (down around 18% from 2019), while thermal coal is forecast to average US$67.50 a tonne (a decrease of almost 14%).

OIL

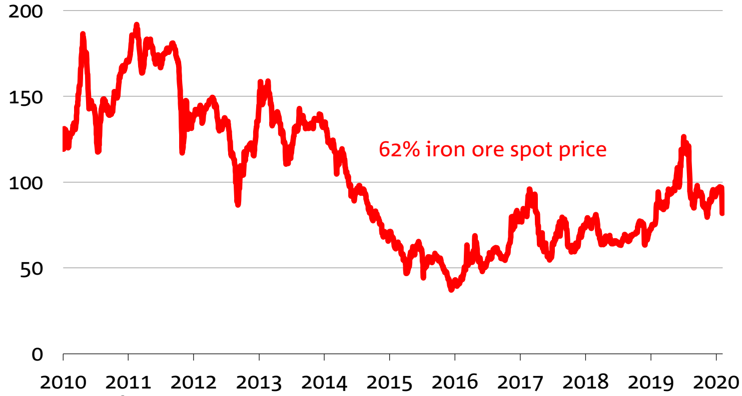
The outbreak of the Coronavirus in China, and subsequent restrictions on travel and activity, are expected to reduce oil demand and prices in the short term. The benchmark Brent fell to a low of around US$54/bbl (from US$65 in mid-January), before recovering modestly. On the supply side, OPEC+ (including Russia) are mulling extending their 1.7 million barrels/day cut in supply beyond March. Oil futures markets have reversed and are now in contango, with contracts further out dearer than near-terms ones. We are forecasting the Brent benchmark to be around US$54-58 in the first half of 2020, rising to US$62/bbl by end 2020.

GAS

The LNG market has been affected by a potential oversupply due to increased global production. Despite increased supply, a more pressing concern is the likely deterioration in Chinese demand stemming from the Coronavirus outbreak, with Chinese customer CNOOC adopting force majeure provisions to refuse LNG cargo shipments scheduled for February and March. We expect some weakness in both export volumes and prices, particularly in the March and June quarters of 2020. Overall, export prices are likely to hover around AUD10-11/GJ, with price weakness centred in the near-term. We are not ruling out even further near-term cuts to the export price.

VIRUS DRIVES DEMAND FEARS

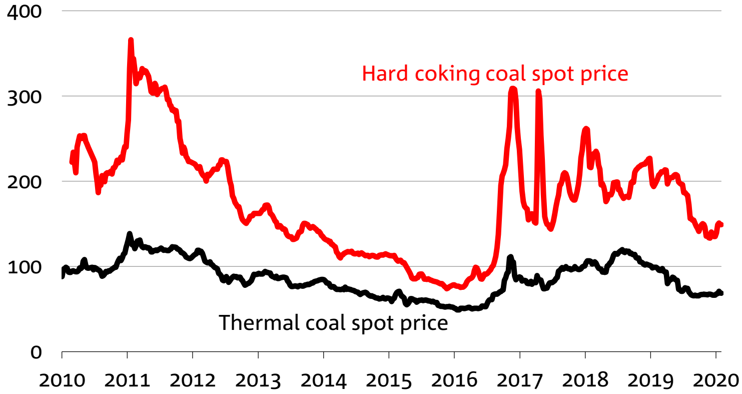
US$/t (CIF)



Sources: Refinitiv, NAB Economics

MET COAL PRICES LOWER ON STEEL WORRIES

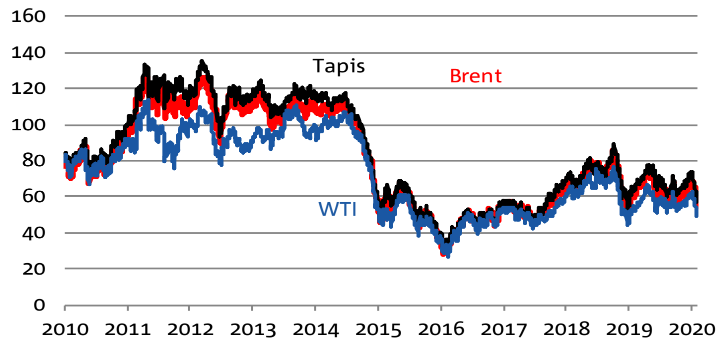
US$/t (FOB)



Sources: Bloomberg, NAB Economics

OIL: DEMAND AFFECTED BY VIRUS OUTBREAK

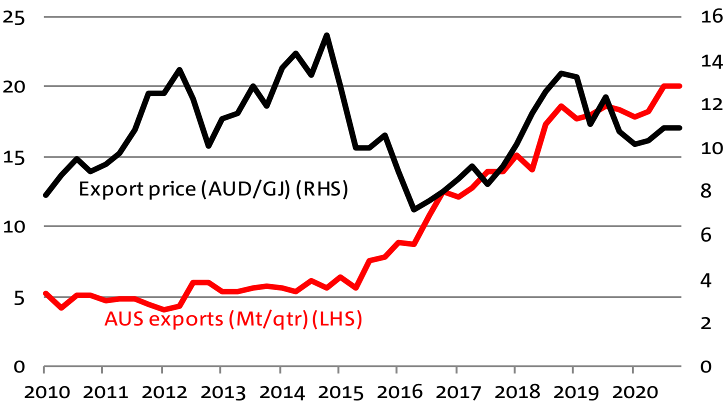
USD/bbl, daily



Source: Refinitiv, NAB Economics

LNG PRICES TO REMAIN WEAK IN NEAR TERM

Export volume (LHS) export price (RHS)

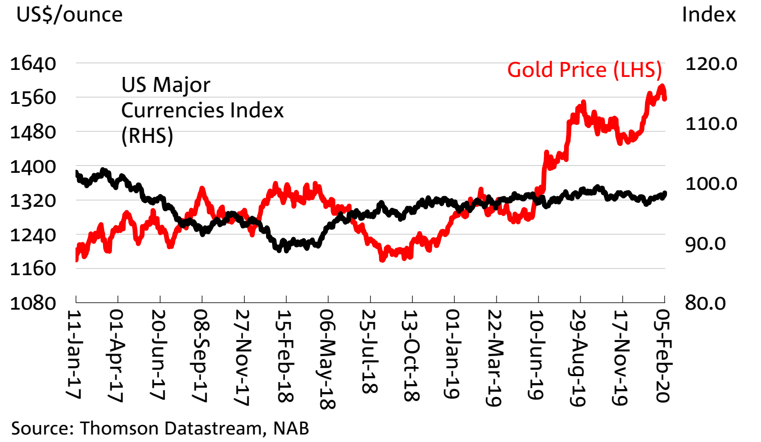


Sources: ABS, Poten & Partners, Bloomberg, NAB Economics

GOLD

While the Coronavirus has negatively impacted demand (and price activity) across a number of commodities, the reverse has been true for gold. Investors have flocked to the safety of the precious metal, due to concerns about the impact of the virus on growth. In fact, gold temporarily breached the US$1600/oz barrier, before settling around US$1555/oz. We have revised our forecasts in light of these developments. In the near term, we are forecasting gold to be around US$1540-1560/oz (previously US$1505/oz) , before rising to US$1580/oz by the end of the year. In other words, we are anticipating the impact of the Coronavirus to ease by the second half of the year, but demand for gold will persist in the low interest rate environment.

GOLD: VIRUS-INDUCED SAFE HAVEN FLOWS

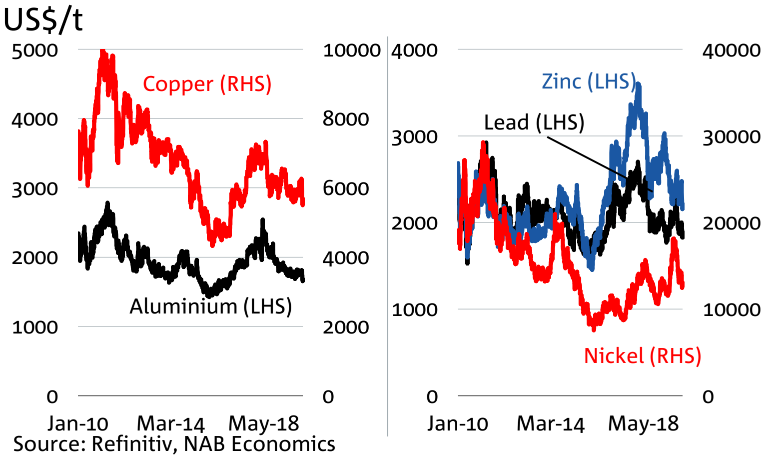


Source: Thomson Datastream, NAB

BASE METALS

Recent months have exhibited mixed trends across the base metals complex – with a strong increase in copper prices, along with a modest one in aluminium, before prices retreated rapidly following the Coronavirus outbreak. Prices at the time of writing were between 3% and 5% below the average level recorded in January. The outbreak is likely to limit economic activity across China and East Asia in the near term, before recovering later in the year – however the scale of the downturn and timing of the recovery is highly uncertain. Prices are expected to fall significantly in Q1 2020 – on weaker demand – before starting to recover in Q2, in line with our global economic forecasts.

METALS RETREATING ON VIRUS WORRIES



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