EMBARGOED UNTIL 11.30 AM 11 MARCH 2020

NAB MINERALS AND ENERGY OUTLOOK MARCH 2020

OVERVIEW

- Commodity markets generally remain volatile, reflecting the uncertainty presented by the Coronavirus (Covid-19) outbreak. The most liquid markets – such as crude oil and base metals – declined noticeably as the outbreak expanded beyond China in mid-to-late February.
- In addition, crude oil markets have plunged in March, as OPEC+ could not agree to production cuts, with Saudi Arabia planning to increase output. In contrast, gold has benefited from a flight to safety.
- The broader spread of the Coronavirus increases the risk of further supply chain disruptions, as well as weaker global final consumption – ultimately negatively impacting demand for commodities.
- In annual average terms, US dollar commodity prices are forecast to fall by 15.4% in 2020 – driven by liquefied natural gas (LNG), iron ore and (to a lesser extent) metallurgical coal. A recovery in LNG prices is expected to support a 2.6% increase in 2021.
- This view is predicated on a general recovery from the Coronavirus downturn in China in Q2 and other markets in Q3.

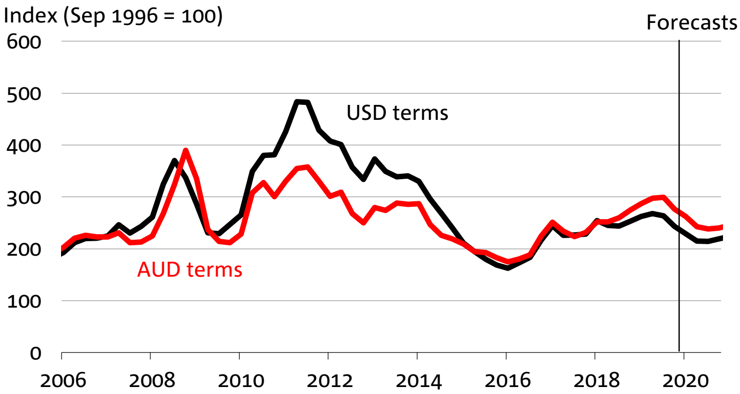
CONTACTS

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	9/03/2020	Dec-19	*Mar-20*	*Jun-20*	*Sep-20*	*Dec-20*	*Mar-21*	*Jun-21*	*Sep-21*	*Dec-21*
WTI oil	US$/bbl	46	55	37	40	50	53	57	57	58	60
Brent oil	US$/bbl	37	61	42	45	55	58	62	62	63	65
Tapis oil	US$/bbl	58	63	57	60	62	64	64	64	65	67
Gold	US$/ounce	1666	1480	1600	1590	1600	1610	1610	1620	1630	1630
Iron ore (spot)	US$/tonne	88	89	85	76	72	68	71	69	71	69
Hard coking coal*	US$/tonne	n.a.	140	135	152	150	148	151	147	145	140
Thermal coal (spot)	US$/tonne	68	67	68	68	65	70	70	66	63	61
Aluminium	US$/tonne	1668	1758	1700	1750	1765	1775	1800	1825	1850	1875
Copper	US$/tonne	5522	5900	5650	5725	5750	5850	5900	5950	6000	6020
Lead	US$/tonne	1830	2039	1850	1800	1750	1725	1700	1725	1700	1675
Nickel	US$/tonne	12603	15395	12750	12500	12250	12100	12300	12500	12750	13000
Zinc	US$/tonne	1962	2384	2200	2400	2425	2450	2300	2200	2150	2150
Aus LNG**	AU$/GJ	n.a.	12.0	9.7	10.0	10.4	10.6	11.0	10.9	11.0	11.1

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

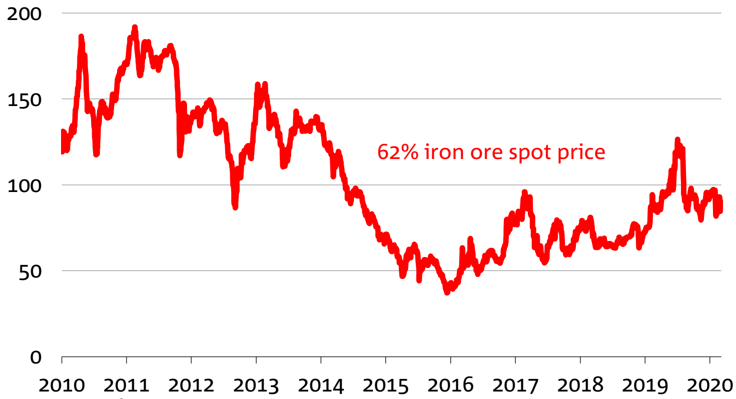
** Implied Australian LNG export prices

IRON ORE

Iron ore markets exhibited considerable volatility in recent weeks – with spot prices rising from just over US$80 a tonne in early February to over US$90 a tonne in the second half of the month before a modest subsequent retreat. That said, prices remain well below the recent peaks in 2019. Supply disruptions – including Tropical Cyclone Damien in Western Australia and heavy rains and regulatory constraints in Brazil – provided some short term upward pressure. The easing of these factors, along with prolonged demand weakness due to the Covid-19 impact globally, should add some downside pressure to iron ore prices. We forecast iron ore to average US$75 a tonne in 2020 and US$70 a tonne in 2021.

SPOT PRICES VOLATILE IN FEB, BUT OFF PEAKS

US$/t (CIF)



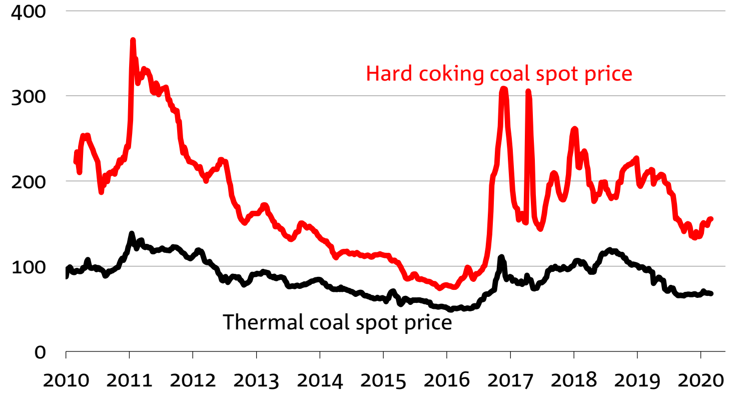
Sources: Refinitiv, NAB Economics

COAL

Spot prices for thermal coal have remained essentially flat in recent months – trading in an $8 range around the mid-to-high $60s level since August 2019. In contrast, hard coking coal prices edged higher in February, from below US$150 a tonne to over US$160 a tonne at the time of writing. This reflected domestic shortages of supply in China, with prices likely to ease as mining activity recovers in coming months. Weaker global economic growth in coming months – related to Covid-19 containment – is likely to be negative for steel demand, and by extension, coking coal consumption. Thermal coal prices are forecast to average US$67.50 a tonne in 2020, while hard coking coal is forecast to average US$146 a tonne.

MET COAL EDGED UP; THERMAL PRICES FLAT

US$/t (FOB)



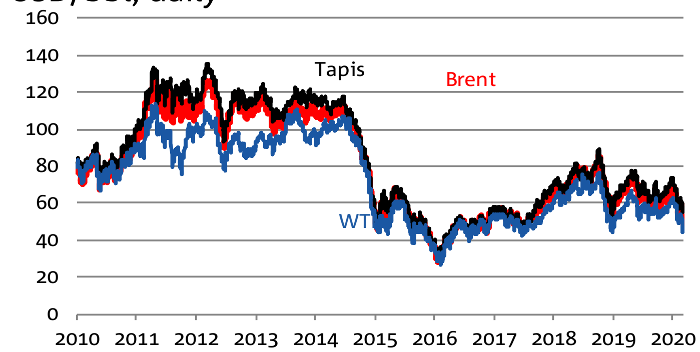
Sources: Bloomberg, NAB Economics

OIL

Oil prices plunged following Russia and Saudi Arabia failing to agree to production cuts. Benchmark Brent crude fell to US$36/bbl, the lowest level since Feb 2016. Following Russia's refusal to acquiesce to additional cuts demanded by Saudi Arabia, the Saudis decided to boost production, as well as to offer price discounts to gain market share – at the expense of Russia and US shale oil producers. This rise in production, combined with substantially weaker demand as a result of the Covid-19 outbreak drove the plunge in prices. In response, we have substantially downgraded our oil price forecasts, particularly for the first half, with Q1 2020 now forecast at US$42/bbl (previously US$55/bbl).

OIL: RISING SUPPLY & WEAK DEMAND

USD/bbl, daily



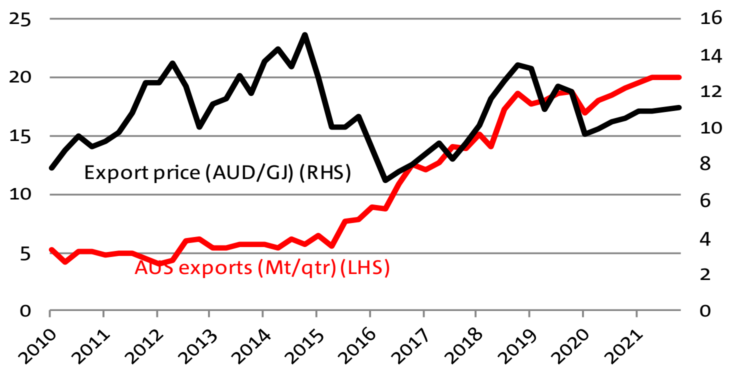
Source: Refinitiv, NAB Economics

GAS

The LNG market has been affected by rising supply and a slump in demand – particularly from China due to the Covid-19 virus. While there are some tentative signs of the virus' growth stabilising in China, it continues to spread across the world, leading to fears of a pandemic. In this environment, buyers – particularly from Asia – are seeking more competitive terms for their gas purchases, and increasingly resorting to purchasing gas on the lower cost spot market. Force majeure clauses have so far not been widely invoked, except for China's CNOOC purchase of a delivery from France's Total. We have further lowered our export price and volume forecasts, particularly for Q1 2020.

LNG VIRUS TO IMPACT NEAR-TERM PRICES

Export volume (LHS) export price (RHS)

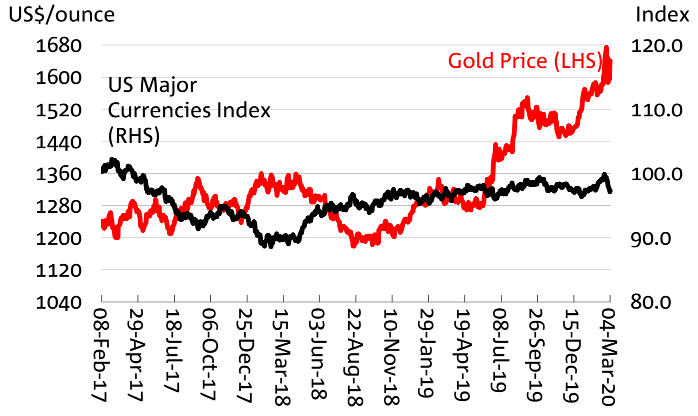


Sources: ABS, Poten & Partners, Bloomberg, NAB Economics

GOLD

The global spread of Covid-19, along with the recent 50bps cut to US Federal Funds rate, have led to investors seeking the refuge of the precious metal. Gold briefly reached US$1700/oz, before easing back to around US$1670/oz, in part due to investors selling the precious metal to cover margin calls on other commodities and asset classes. On interest rates, following the 50bps cut, NAB Economics is forecasting further cuts in the fed funds rate. Treasury yields have also fallen to record lows. Lower rates reduce the opportunity cost of holding gold, boosting its price. We have upgraded our forecasts for both Q1 2020, and beyond, with gold expected to be around US$1600/oz by the end of the year.

GOLD: FLIGHT TO SAFETY

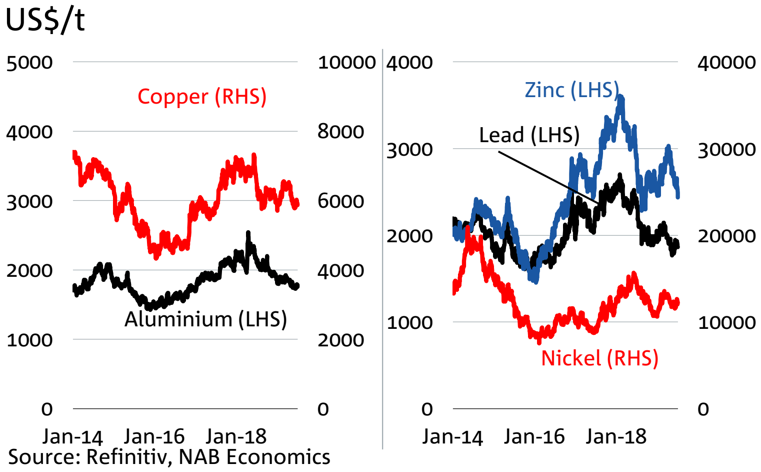


Source: Thomson Datastream, NAB

BASE METALS

Metals markets responded rapidly to the Covid-19 outbreak – falling in late January as the virus spread in China, and then again from late February as the outbreak spread to Italy and South Korea. Demand for base metals is closely related to economic activity – which is expected to be subdued in the short term due to efforts to contain the spread of the virus. Although we expect a recovery later in the year, there remains considerable uncertainty around the scale of the downturn and the timing of the subsequent rebound. Annual average prices are forecast to decline in 2020 across the base metals complex.

METAL MARKETS HIT AS VIRUS SPREADS



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

Important Notice
This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances.
NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.
Please click here to view our disclaimer and terms of use.