EMBARGOED UNTIL 11.30 AM AEST 15 APRIL 2020

NAB MINERALS AND ENERGY OUTLOOK APRIL 2020

OVERVIEW

- Commodity prices have generally fallen in recent weeks, as global containment measures intended to limit the spread of Covid-19 have weakened demand prospects, while the resumption of some activity in China has increased supply of some commodities (most notably coal).
- Overall, the global economic outlook has deteriorated since last month, with the downturn expected to far exceed the Global Financial Crisis. This presents a very negative picture for commodity demand in the near term. However, the scale and duration of the downturn is also highly uncertain – our expectation is that a global recovery commences in Q3 2020, however there is downside risk to this outlook.
- In annual average terms, US dollar denominated commodity prices are forecast to fall by 16.2% in 2020, driven by a drop in liquefied natural gas (LNG) along with iron ore and metallurgical coal.
- A modest recovery is expected in 2021, with commodity prices forecast to increase by 0.5%.

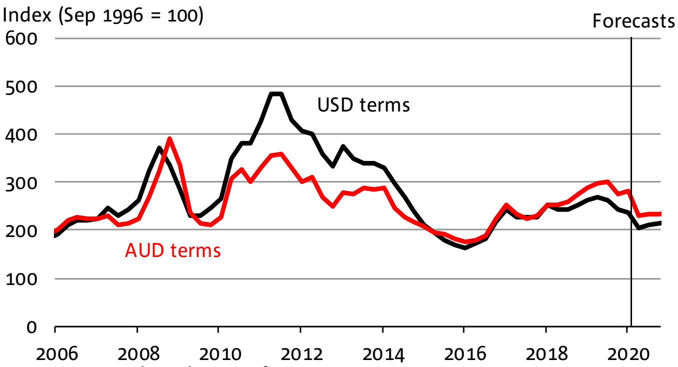
CONTACTS

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

	Unit	Spot 13/04/2020	Actual Dec-19	Forecasts *Mar-20*	*Jun-20*	*Sep-20*	*Dec-20*	*Mar-21*	*Jun-21*	*Sep-21*	*Dec-21*
WTI oil	US$/bbl	25	55	52	27	33	41	47	51	55	56
Brent oil	US$/bbl	32	61	59	35	40	46	52	56	60	61
Tapis oil	US$/bbl	29	63	62	34	40	48	54	58	62	63
Gold	US$/ounce	1682	1480	1580	1610	1620	1630	1640	1650	1650	1660
Iron ore (spot)	US$/tonne	85	89	91	78	74	72	71	69	71	69
Hard coking coal*	US$/tonne	n.a.	140	154	130	145	148	151	147	145	140
Thermal coal (spot)	US$/tonne	68	67	68	55	62	65	67	63	61	59
Aluminium	US$/tonne	1441	1758	1692	1375	1765	1775	1800	1825	1850	1875
Copper	US$/tonne	4993	5900	5640	4750	5750	5850	5900	5950	6000	6020
Lead	US$/tonne	1703	2039	1844	1625	1750	1725	1700	1725	1700	1675
Nickel	US$/tonne	11600	15395	12708	10500	12250	12100	12300	12500	12750	13000
Zinc	US$/tonne	1887	2384	2126	1875	2425	2450	2300	2200	2150	2150
Aus LNG**	AU$/GJ	n.a.	11.7	9.4	9.2	9.3	9.5	9.6	9.8	10.0	10.5

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

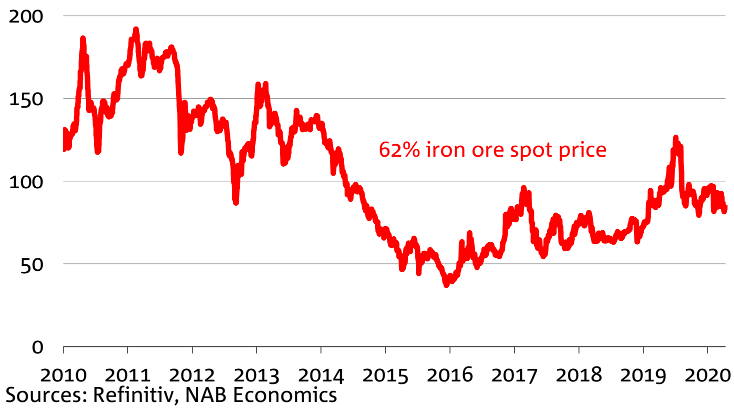
** Implied Australian LNG export prices

IRON ORE

Iron ore prices were relatively elevated across the first half of March – with prices around US$90 a tonne. In the latter part of the month and early April, spot prices retreated back towards US$80 a tonne. The downturn driven by Covid-19 containment measures has weakened global demand prospects and weighed on commodity markets generally – despite the gradual reopening of China's economy and the prospect of steel intensive infrastructure activity as part of the country's stimulus. Prices were above our forecast for Q1, meaning we have raised our 2020 forecast to US$78.7 a tonne (previously US$75), while our forecast for 2021 is unchanged at US$70 a tonne.

IRON ORE HAS RETREATED TOWARDS US$80

US$/t (CIF)



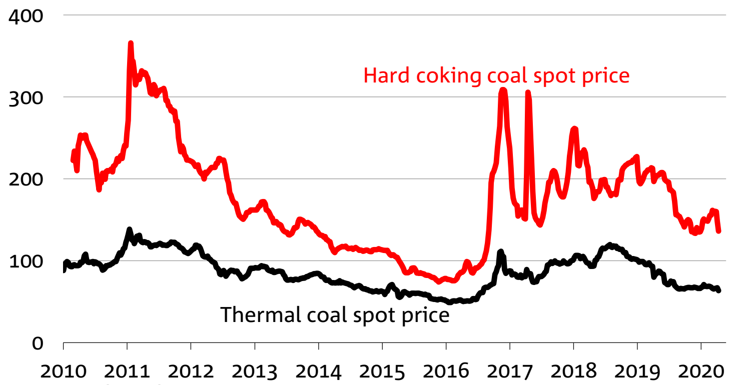
Sources: Refinitiv, NAB Economics

COAL

Coal prices were comparatively elevated in March, as China's Covid-19 containment measures restricted domestic supply. As China has commenced its process of reopening (including its mining sector), prices for both coking and thermal coal have fallen – with hard coking coal dropping from over US$160 a tonne in late March to almost US$130 a tonne in early April. Weakness in global manufacturing and electricity demand – due to efforts to contain the spread of Covid-19 – are likely to see further softness in coal prices in the near term. We forecast hard coking coal to average US$144 a tonne in 2020, while thermal coal is forecast to average US$62.5 a tonne.

PRICES LOWER AS CHINA'S OUTPUT RECOVERS

US$/t (FOB)



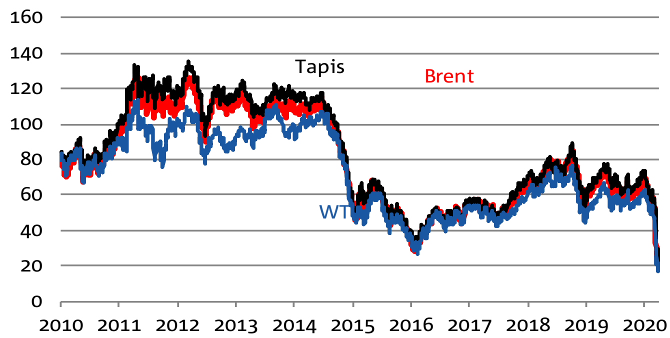
Sources: Bloomberg, NAB Economics

OIL

With pressure from President Trump, OPEC+ (including Russia) committed to cut 10 million bpd till June, with a gradual easing in production cuts up until April 2022. This has helped offset some of the demand destruction due to Covid-19. Besides, OPEC+, other countries (e.g. Norway and Canada) are also likely to cut production. The fall in demand has led increasingly to fuel being stored offshore on tankers, although further storage capacity is limited. Concomitantly, refiners have cut their production runs. Even if there is an agreement, it might not be sufficient to compensate for falling demand of around 30millon bpd. We have further lowered our forecasts with Brent at US$35/bbl in the June quarter, rising to US$46/bbl by year end (previously US$58/bbl).

OIL: AGREEMENT HELPS CONTAIN THE PLUNGE

USD/bbl, daily



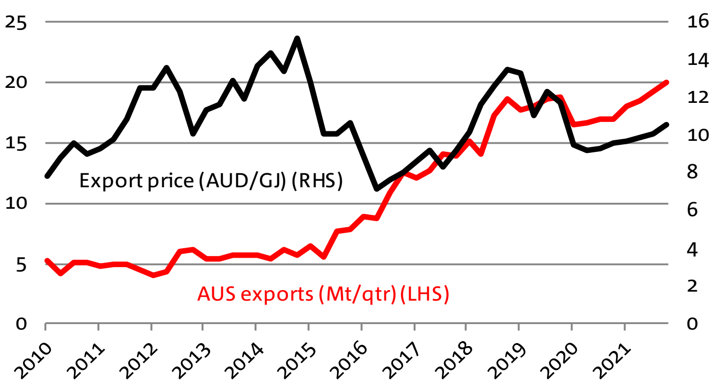
Source: Refinitiv, NAB Economics

GAS

Covid-19 continues to crimp LNG demand. India's Petronet recently invoked a Force Majeure on its LNG imports, citing India's lockdowns. Moreover, a number of buyers are exercising a Discount Quantity Tolerance clause which allows them to cut purchases by as much as 10%. Major purchasers, such as those in North East Asia are benefitting from both weaker contract (linked to oil) and spot prices. Moreover, the LNG market had issues of excess supply prior to Covid-19. A number of projects such as Woodside Petroleum's Scarborough and Browse projects have been put on hold. We have further lowered our export volume and, more so price forecasts, although a weaker AUD should help.

LNG : ONGOING WEAKNESS

Export volume (LHS) export price (RHS)

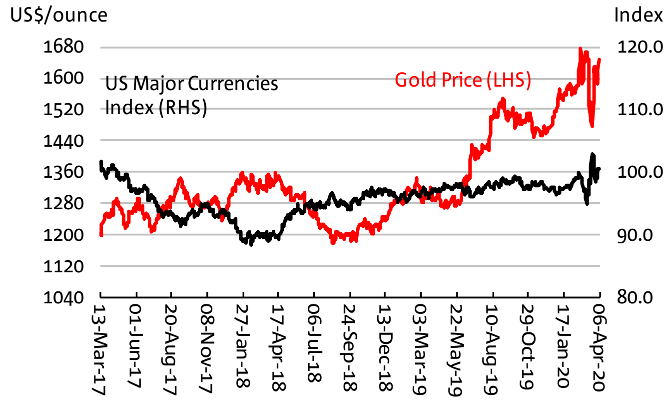


Sources: ABS, Poten & Partners, Bloomberg, NAB Economics

GOLD

The economic downturn, and the attendant monetary and fiscal support packages have led investors to seek sanctuary in the precious metal. Very weak payroll data, as well as supportive measures from the US Federal Reserve – including provision of support for SMEs and Municipalities – have led to a surge in the price of gold. However, gold has been extremely volatile, even falling as low as US$1470 during March. It seems that a strong US dollar and investors liquidating their gold holdings to pay margin calls on other assets might have played a part during the declines. We have slightly raised our forecasts, with December 2020 now anticipated at US$1630/oz, (previously US$1610/oz).

GOLD: RISING, BUT VOLATILE

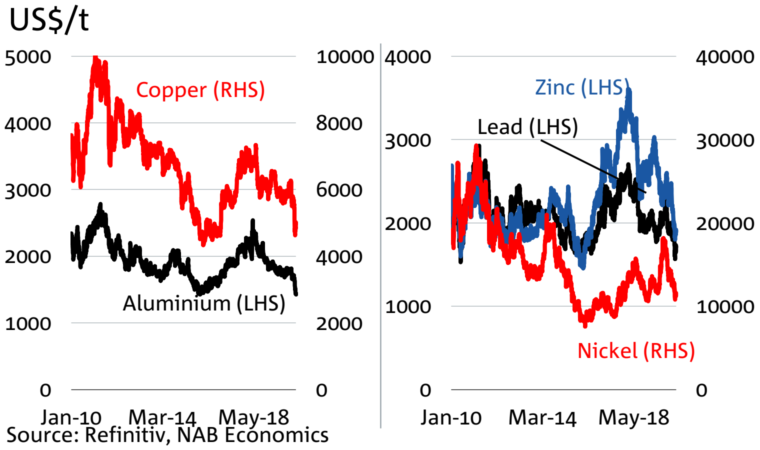


Source: Thomson Datastream, NAB

BASE METALS

Base metal prices plunged from mid-March – with most of the complex dropping to levels last seen in 2016 (during fears about the sustainability of China's growth) – with aluminium down around 13% and copper 8% over this period. This downturn reflected the growing global containment measures in response to the spread of Covid-19 which will limit metal demand in the near term. There remains considerable uncertainty around the duration of these measures – although we expect a recovery in prices in the latter months of 2020.

METAL PRICES PLUNGED ON WEAK DEMAND



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