EMBARGOED UNTIL 11.30 AM AEST 13 MAY 2020

NAB MINERALS AND ENERGY OUTLOOK MAY 2020

OVERVIEW

- Commodity prices generally fell in April – with particularly steep falls in oil and Liquefied Natural Gas (LNG) markets, along with declines in iron ore and coal.
- The global economic outlook has continued to deteriorate – with a wider range of economies impacted by countermeasures to control the spread of COVID-19. Although China has commenced its recovery phase, consumers remain cautious and industry has not reached its pre-virus level. A second-wave of infections that led to the lockdown of the city of Harbin highlight the risks around recovery.
- In annual average terms, US dollar denominated commodity prices are forecast to fall by 16.6% in 2020 – driven by LNG, iron ore and metallurgical coal. We expect prices to stabilise in 2021 at levels marginally higher than mid-2020, however this will result in no change in year average terms.

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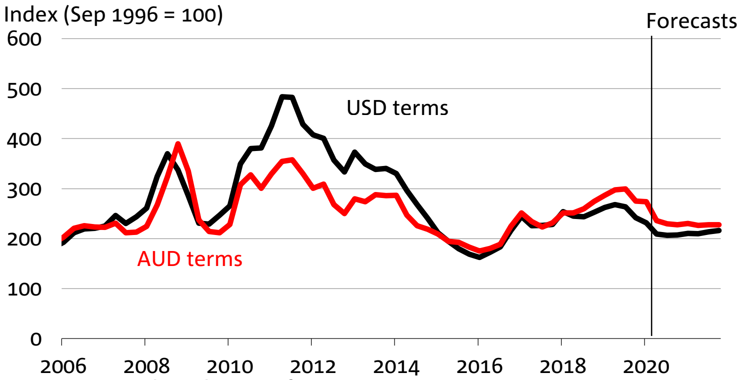
NAB NON-RURAL COMMODITY PRICE INDEX



Sources: ABS, Bloomberg, Refinitiv, NAB Economics

NAB COMMODITY PRICE FORECASTS

	Unit	Spot 11/05/2020	Actual Jun-20	Forecasts Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
WTI oil	US$/bbl	24	27	31	36	41	45	51	53
Brent oil	US$/bbl	26	34	38	43	48	52	58	60
Tapis oil	US$/bbl	28	36	40	45	50	54	60	62
Gold	US$/ounce	1696	1680	1690	1700	1710	1710	1720	1720
Iron ore (spot)	US$/tonne	89	84	81	80	78	75	73	70
Hard coking coal*	US$/tonne	n.a.	130	145	148	151	147	145	140
Thermal coal (spot)	US$/tonne	61	55	62	65	67	63	61	59
Aluminium	US$/tonne	1461	1425	1525	1600	1700	1725	1750	1775
Copper	US$/tonne	5224	4950	5100	5300	5400	5500	5750	6000
Lead	US$/tonne	1652	1625	1750	1725	1700	1725	1700	1675
Nickel	US$/tonne	12290	11500	12250	12100	12300	12500	12750	13000
Zinc	US$/tonne	2027	1875	1850	1900	2000	2200	2150	2150
Aus LNG**	AU$/GJ	n.a.	8.2	6.8	7.2	7.5	8.0	8.4	9.2

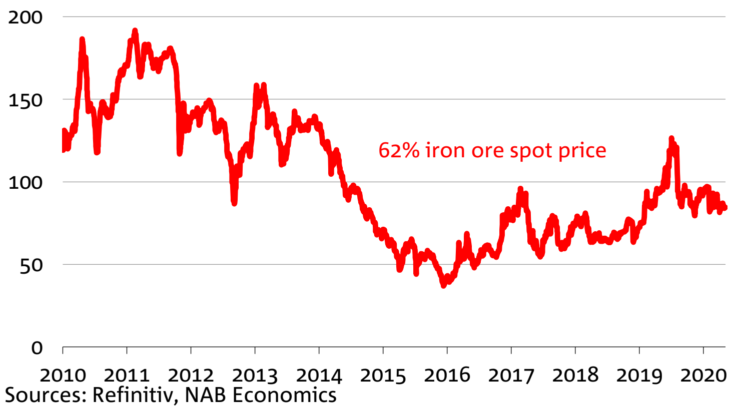
* Data reflect NAB estimates of US$/tonne FOB quarterly contract prices, based on quarterly average spot prices.

** Implied Australian LNG export prices

IRON ORE

Spot prices eased between late March and early April, but have subsequently remained range bound in the mid-US$80s. Demand prospects for steel remain mixed – with hopes of a boost to Chinese infrastructure development countered by weakness in manufacturing. However, concerns around Brazilian iron ore supply have risen, as parts of the country's key production regions have entered COVID-19 lockdowns. We have raised our forecast for the next twelve months, averaging US$84 a tonne in 2020 (with recent strength in prices presenting some upside risk) and US$74 a tonne in 2021.

IRON ORE STABILISED IN APRIL

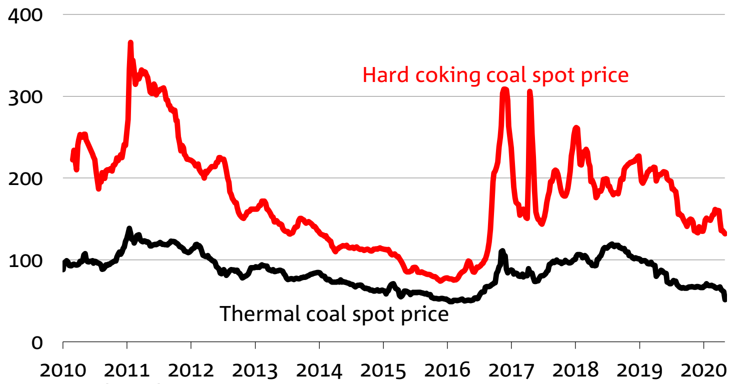


Sources: Refinitiv, NAB Economics

COAL

Weakness in global electricity consumption – due to widespread global countermeasures to COVID-19 – has severely impacted thermal coal demand. This also coincided with a ramp up in Chinese coal production (as COVID-19 constraints have been removed). This led to benchmark Newcastle coal dropping close to US$50 a tonne in early May, while hard coking coal prices dropped below US$110 a tonne. We have trimmed our hard coking coal forecast to US$138 a tonne in 2020, while the thermal coal forecast is unchanged at US$62 a tonne – however current weak prices highlight downside risk.

COAL PRICES HAVE FALLEN RAPIDLY

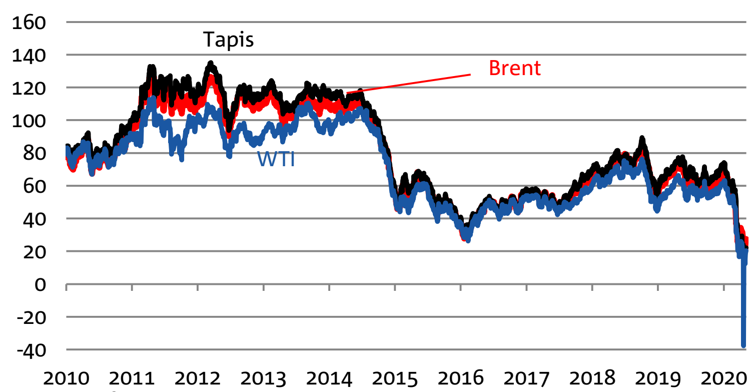


Sources: Bloomberg, NAB Economics

OIL

During late April, the May WTI contract fell deep into negative territory, due to demand destruction and lack of storage. Consequently, a number of ETFs have rolled over their near-month contracts to a few months further out. However, conditions in the oil market have since stabilised somewhat, albeit at low levels. A re-opening of the Chinese economy, an easing in the lockdown in parts of the United States and Europe is raising demand. Supply too is being restricted due to the OPEC+ deal kicking in, and lower production in the United States. Also, concerns about the lack of US storage space have lessened. We have trimmed our forecasts, with Brent at US$43/bl in the December quarter (previously US$46/bl). A further outbreak of the virus might pose downside risks to our forecasts.

OIL: SPOT PRICES WEAK, BUT STABILISING

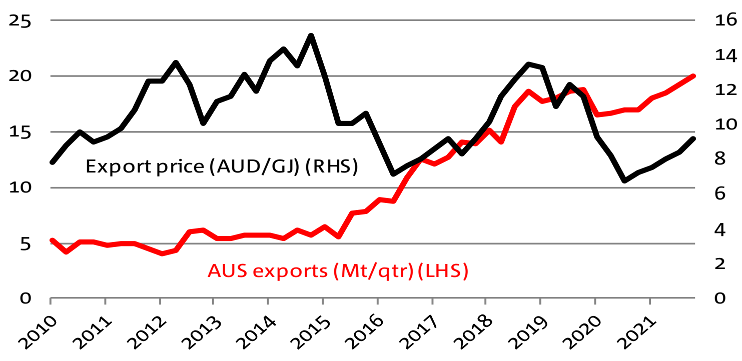


Source: Refinitiv, NAB Economics

GAS

The demand destruction wrought by the ongoing COVID-19 pandemic has prompted some buyers to cancel their LNG cargoes. This led to an increase in LNG tenders flooding the spot market. The Japan Korea Marker, a North Asian benchmark maintained by Platt's, is currently tracking around US$2/million Btu. It was trading around US$7/million Btu as recently as October, 2019. Weak conditions have led to cancellations or deferrals of projects, both in Australia and overseas. We have sharply revised down our LNG export price forecasts, and expect a trough of 6.8 AUD/Gj in the September, quarter, 2020. It typically takes a quarter for oil prices to feed into LNG prices.

LNG : SHARP DECLINE IN NEAR-TERM PRICES

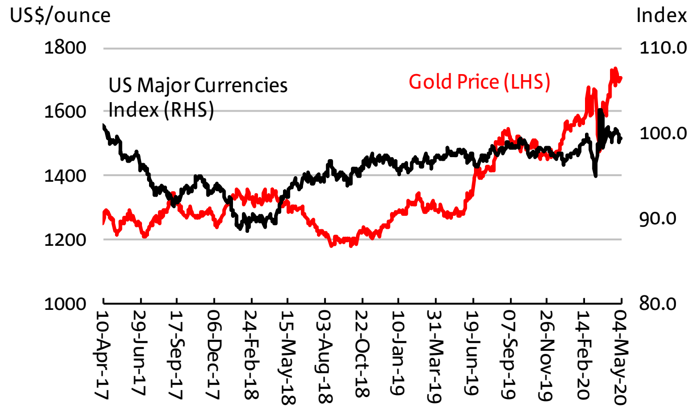


Sources: ABS, Poten & Partners, Bloomberg, NAB Economics

GOLD

Gold continues to retain its allure as a safe haven asset, with investors piling into the precious metal. Steep declines in economic activity, combined with massive fiscal and monetary stimulus have been largely supportive of gold. Gold has also benefitted from rising geopolitical risks due to heightened tensions between the US and China over the origins of this virus. The increase in demand has primarily been through products such as Exchange Traded Funds, with demand for jewellery remaining weak. Gold has also experienced periodic declines, particularly during 'risk-on' sentiment. We have upgraded our price forecasts, with the June quarter price raised to US$1680/oz (previously US$1650/oz).

GOLD: RISING, BUT VOLATILE

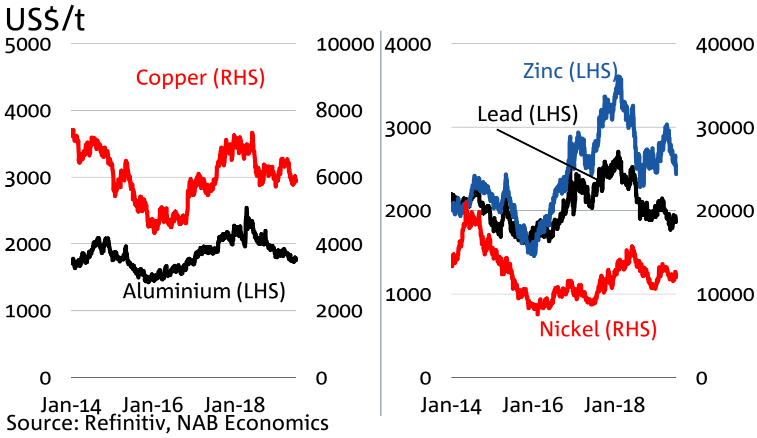


Source: Thomson Datastream, NAB

BASE METALS

Recent trends have varied across the base metals complex, with copper and nickel edging higher (albeit well below pre-COVID-19 levels), while aluminium and zinc stabilised – following on from sharp plunges from mid-March. Weakness in household consumption (particularly in advanced economies) could flow through into weaker industrial metal demand – particularly in China, albeit infrastructure developments could provide some support. We expect metals prices to remain weak until a broad based global recovery commences – most likely Q3 2020 at the earliest.

METALS MIXED SEARCHING FOR DIRECTION



Source: Refinitiv, NAB Economics

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