EMBARGOED UNTIL 11.30 AM AEST 10 JUNE 2020

NAB MINERALS AND ENERGY OUTLOOK JUNE 2020

OVERVIEW

- Trends across commodity markets were mixed in May – with iron ore, base metals and oil markets tracking higher, while hard coking coal was notably weaker. In the case of iron ore, supply side fears (due to the COVID-19 outbreak in Brazil) could keep prices elevated in the near term. Most other prices are below pre-COVID-19 levels.
- The global economic environment remains weak – although a broad range of countries have started to ease restrictions, with activity indicators starting to recover. Global growth is expected to contract sharply in 2020, resulting in the largest downturn on record since the early 1950s (and likely since the Great Depression).
- In annual average terms, US dollar denominated commodity prices are forecast to fall by 13.8% in 2020 – driven largely by falls in Liquefied Natural Gas (LNG) and hard coking coal prices. We forecast a modest increase in prices in 2021 – up by 1.1%.

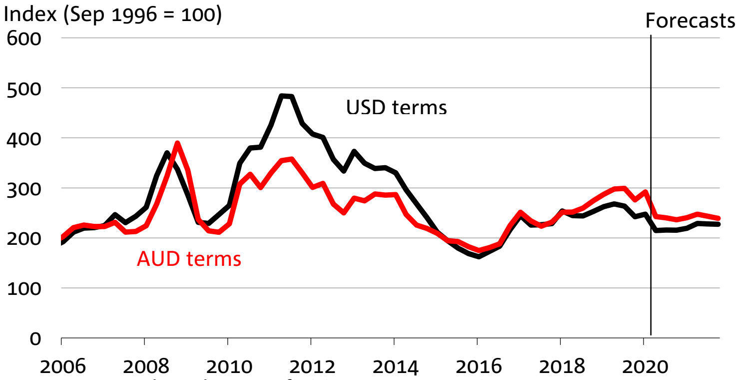
CONTACTS

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

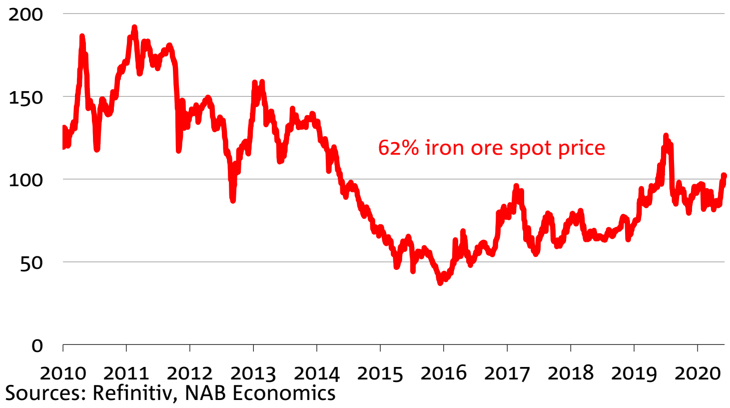
		Spot	Actual	Forecasts						
	Unit	8/06/2020	Mar-20	Jun-20	*Sep-20*	*Dec-20*	*Mar-21*	*Jun-21*	*Sep-21*	*Dec-21*
WTI oil	US$/bbl	38	52	26	37	42	43	44	45	46
Brent oil	US$/bbl	41	59	33	40	45	47	48	49	50
Tapis oil	US$/bbl	44	62	35	42	47	49	50	51	52
Gold	US$/ounce	1690	1580	1710	1730	1730	1750	1780	1800	1850
Iron ore (spot)	US$/tonne	106	91	91	93	85	85	90	80	75
Hard coking coal*	US$/tonne	n.a.	154	118	113	118	123	138	133	138
Thermal coal (spot)	US$/tonne	52	68	56	55	59	59	61	62	65
Aluminium	US$/tonne	1566	1692	1480	1510	1530	1550	1560	1570	1580
Copper	US$/tonne	5669	5640	5250	5750	6000	6250	6500	7000	6000
Lead	US$/tonne	1758	1844	1625	1750	1725	1700	1725	1700	1675
Nickel	US$/tonne	12920	12708	12200	13000	13500	13900	14100	14200	14300
Zinc	US$/tonne	2048	2126	1875	1850	1900	2000	2200	2150	2150
Aus LNG**	AU$/GJ	n.a.	12.2	8.8	6.9	7.3	7.8	8.1	8.8	9.6

IRON ORE

Spot prices for iron ore rose across May, pushing up from the mid-US$80s a tonne, to over US$100 a tonne by the end of the month. Supply side concerns have been a key driver – particularly as the COVID-19 outbreak has worsened in Brazil. The duration and severity of such a supply disruption is inherently uncertain, however this will add upside pressure in the short term. On the demand side, weakness in global demand for manufactured goods – given the global recession – is likely to constrain the upside for prices. Reflecting the supply pressures, we have revised our forecasts higher, with 62% ore landed in China forecast to average US$90 a tonne in 2020 (from US$84 a tonne previously) and US$83 a tonne in 2021 (from US$74).

PRICES HIGHER ON BRAZIL SUPPLY FEARS

US$/t (CIF)



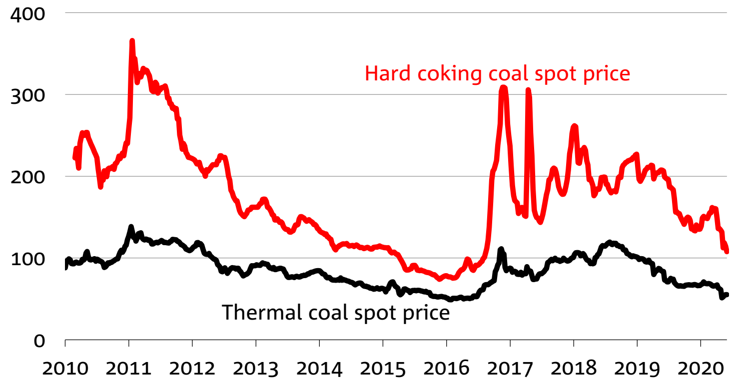
Sources: Refinitiv, NAB Economics

COAL

Weakness in coal markets has persisted – with prices for hard coking coal continuing to fall to under US$110 a tonne in early June. In contrast, thermal coal prices have stabilised at around US$55 a tonne – having dropped from over US$70 a tonne in January. Supply pressures have eased in recent months – as Chinese coal production resumed following COVID-19 constraints – while demand across Asia has weakened, due to the impact of COVID-19 countermeasures. Our hard coking coal forecast is US$126 a tonne in 2020, before edging up to US$133 a tonne in 2021, while thermal coal prices are forecast to average US$60 a tonne in 2020 and US$62 a tonne in 2021.

COKING COAL DOWN AS SUPPLY EASES

US$/t (FOB)



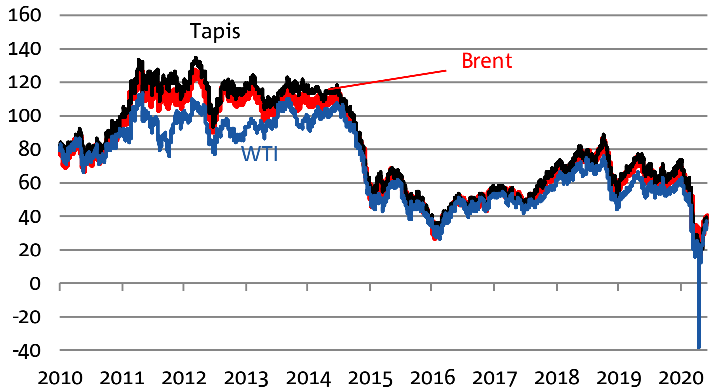
Sources: Bloomberg, NAB Economics

OIL

From sub-US$20/bbl during April, the benchmark Brent has risen to around US$40/bbl. May saw OPEC+ initiate a 9.7m bbl/day cut in supply. This level of reduction will be extended into July, after Saudi Arabia and Russia secured commitments from countries such as Iraq to curb their output. It remains to be seen how long these reductions can be sustained. Russian oil producers have indicated these cuts crimp their ability to supply to their regular customers on long-term contracts. Also, there are indications that this price level is inducing key shale producers to reverse their production cuts and increase supply, something OPEC+ would be wary of. We expect the benchmark Brent indicator to rise to US$45/bbl by the end of 2020.

OIL: SUPPLY CUTS PROVIDE SUPPORT

US$/bbl



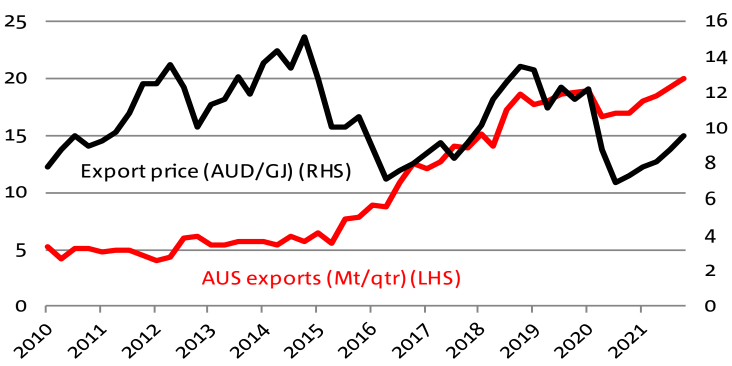
Source: Refinitiv, NAB Economics

GAS

Weak demand due to COVID-19, and solid supply have negatively impacted the LNG sector. Asian and European importers have cancelled over 20 US cargoes for June and July, with more cancellations anticipated. Demand in key Asian markets remains subdued. Even in China, which is showing early signs of recovery, LNG imports are expected to show a very modest increase in 2020, according to consultancy Rystad Energy. Japan and South Korea are expected to record moderate declines in LNG imports. Further, with the exception of Qatar Petroleum, new orders for LNG ships have plummeted due to low charter rates for LNG cargoes. We expect continued downward pressure on Australian LNG export prices, with a gradual recovery in 2021.

LNG : SHARP DECLINE IN NEAR-TERM PRICES

Export volume (LHS) export price (RHS)

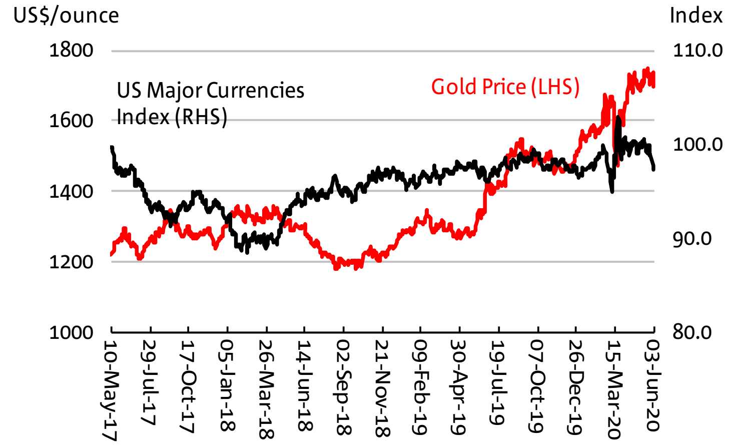


Sources: ABS, Poten & Partners, Bloomberg, NAB Economics

GOLD

Gold has broadly trended higher in a stop-start manner. Stronger than expected US May employment numbers were overshadowed by growth concerns from April's weak trade data. In general, optimism regarding lockdowns easing and progress on vaccine developments have restricted the gold price. Conversely, trade and geopolitical tensions (including Hong Kong) between the US and China, and a very weak global economic backdrop with supportive monetary and fiscal policy has supported the precious metal. Interestingly, April saw the US import 111.7 tonnes of gold from Switzerland, a monthly record, reflecting strong investor interest in the current turmoil. We expect gold to end 2020 around US$1,725/oz, before rising above US$1,800/oz during the latter part of 2021.

GOLD: RISING IN AN UNEVEN FASHION



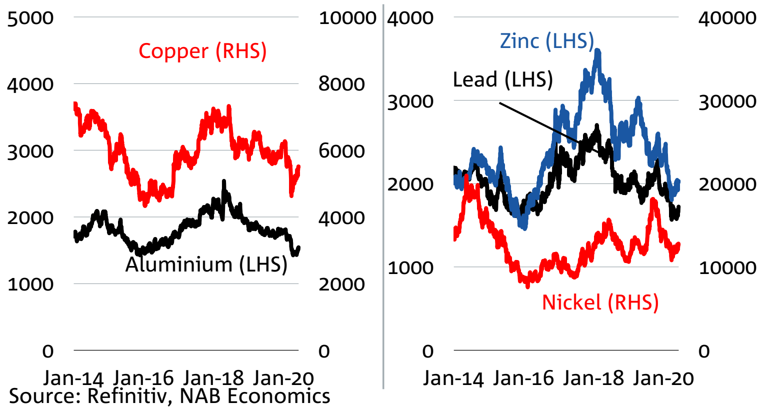
Source: Thomson Datastream, NAB

BASE METALS

Metals prices generally tracked higher in May and into early June, largely on hopes that recovering activity in China will result in stronger demand, along with the potential for supply disruptions – particularly from South America. That said, it is worth noting that prices remain well below typical pre-COVID-19 levels, and that weakness in demand – both for end-user products and manufacturing – in non-Chinese markets is likely to persist. Prices are generally forecast to increase across 2021 – which will see the year average price exceed that of 2020.

METALS BELOW PRE-COVID-19 LEVELS

US$/t



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