EMBARGOED UNTIL 11.30 AM AEST 12 AUGUST 2020

NAB MINERALS AND ENERGY OUTLOOK AUGUST 2020

OVERVIEW

- Commodity markets have continue to display differing trends. Gold markets have surged in recent months, rising to record highs, while iron ore, liquefied natural gas (LNG) and base metals were somewhat stronger. In contrast, coal prices have been relatively stable.
- Global PMI surveys continue to point to a recovery in manufacturing conditions, however there remain some significant risks around the global economy – particularly given second wave COVID-19 outbreaks in a range of regions.
- In annual average terms, US dollar denominated commodity prices (as measured by our non-rural commodity price index) are forecast to fall by around 12.0% –this decline is largely driven by falls in LNG and hard coking coal. Prices for iron ore have risen above our quarterly forecasts, suggesting some upside risk to our overall index. In 2021, our index is forecast to increase by 2.5%.

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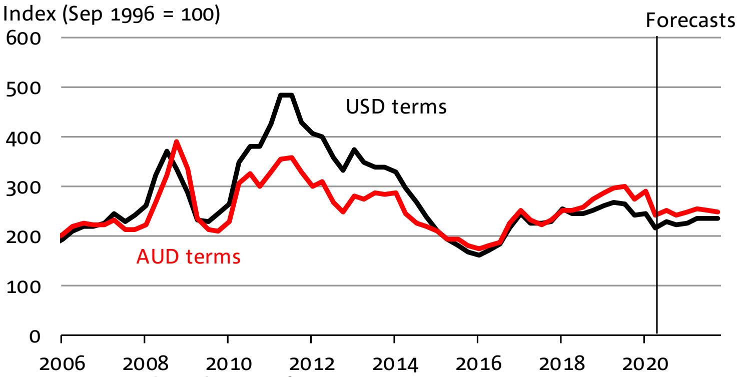
NAB NON-RURAL COMMODITY PRICE INDEX



Sources: ABS, Bloomberg, Refinitiv, NAB Economics

NAB COMMODITY PRICE FORECASTS

		Spot	Actual	Forecasts							
	Unit	7/08/2020	Jun-20	*Sep-20*	*Dec-20*	*Mar-21*	*Jun-21*	*Sep-21*	*Dec-21*	*Mar-22*	*Jun-22*
WTI oil	US$/bbl	42	26	37	42	43	44	45	46	46	47
Brent oil	US$/bbl	44	33	40	45	47	48	49	50	50	51
Tapis oil	US$/bbl	48	35	42	47	49	50	51	52	52	53
Gold	US$/ounce	2039	1710	1960	2030	2050	2100	2200	2300	2300	2200
Iron ore (spot)	US$/tonne	119	92	93	87	85	90	80	75	80	75
Hard coking coal*	US$/tonne	n.a.	118	113	118	123	138	133	138	148	153
Thermal coal (spot)	US$/tonne	52	56	55	59	59	61	62	65	66	64
Aluminium	US$/tonne	1664	1498	1620	1680	1740	1760	1770	1780	1790	1800
Copper	US$/tonne	6570	5351	5750	6000	6250	6500	6750	7000	7100	7000
Lead	US$/tonne	1807	1678	1800	1875	1950	2025	2025	2048	2072	2095
Nickel	US$/tonne	13651	12233	13000	13500	13900	14100	14200	14300	14400	14400
Zinc	US$/tonne	2235	1968	2100	2125	2150	2175	2175	2200	2225	2250
Aus LNG**	AU$/GJ	n.a.	8.8	6.9	7.3	7.8	8.1	8.5	9.2	9.3	9.4

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

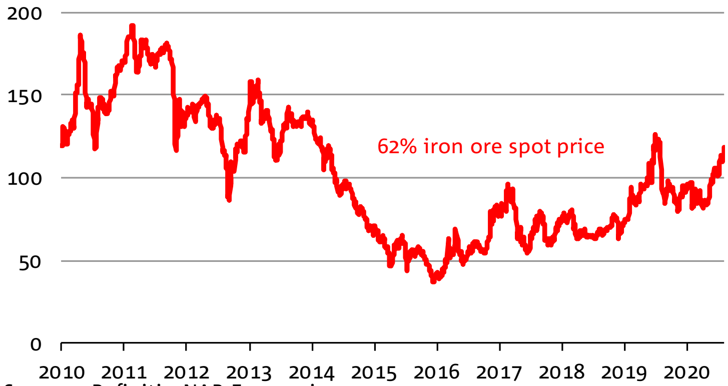
** Implied Australian LNG export prices

IRON ORE

Spot prices for iron ore trended higher in early August, pushing close to US$120 a tonne, having previously been range bound between US$100-US$110 a tonne. Chinese steel mills have ramped up purchases in recent weeks – anticipating strong steel demand in coming months – while the spread of COVID-19 in Brazil continues to present some supply side concerns. That said, Brazilian producer Vale argues that the COVID-19 impact to its workforce peaked in April. Current strength in spot prices suggest upside risk to our forecasts, which have iron ore averaging US$90 a tonne in 2020 before easing to US$83 a tonne in 2021.

IRON ORE PUSHED ABOVE RECENT RANGE

US$/t (CIF)



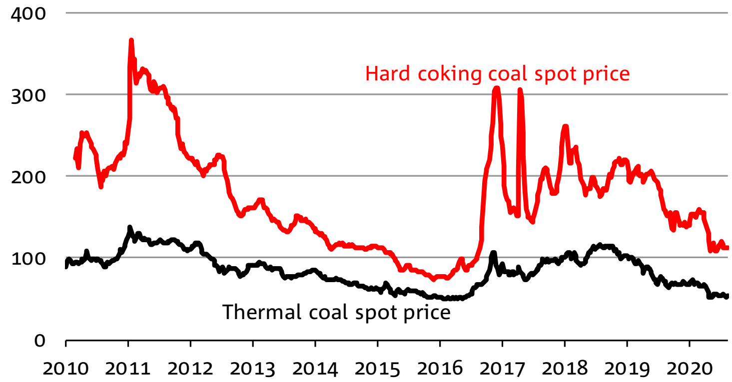
Sources: Refinitiv, NAB Economics

COAL

Coal prices have remained subdued in recent months, largely as a consequence of weak demand due to COVID-19 countermeasures (particularly outside China). In addition, excess supply of alternative fuels in the energy sector, such as Liquefied Natural Gas (LNG), have weighed on markets – prompting some coal producers to cut output. Similarly, demand from steel mills outside of China has been muted. Our forecasts are unchanged, with hard coking coal forecast to average 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.

COAL PRICES REMAIN STABLE

US$/t (FOB)



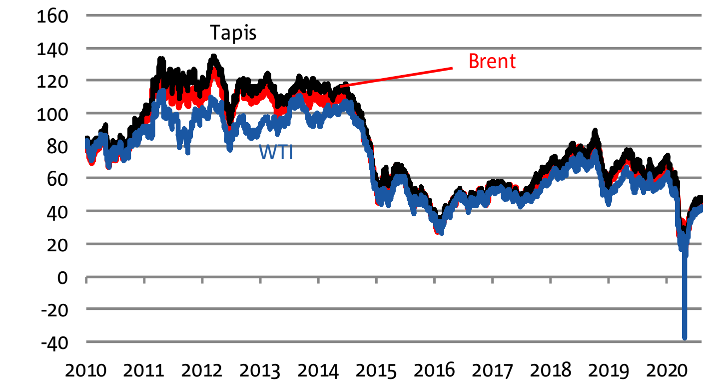
Sources: Bloomberg, NAB Economics

OIL

Benchmark Brent has been trading around the mid US$40s/bbl in recent weeks, with oil largely rangebound on mixed cues. In the US, Department of Energy data showed declines in crude and gasoline inventories, but increases in inventories of middle distillates (such as diesel). Demand has been hit by the resurgence of COVID-19 cases across the United States. Elsewhere, the market will be closely observing the impacts on oil prices from both a rise in US production (up to 11 million bb/d) and OPEC+ boosting supply from August. That said, the decision by Iraq to cut production by 400,00 bb/d, might be somewhat of a mitigant. Clearly, the impact on oil demand from this pandemic bears close scrutiny.

OIL: REMAINING RANGEBOUND

US$/bbl



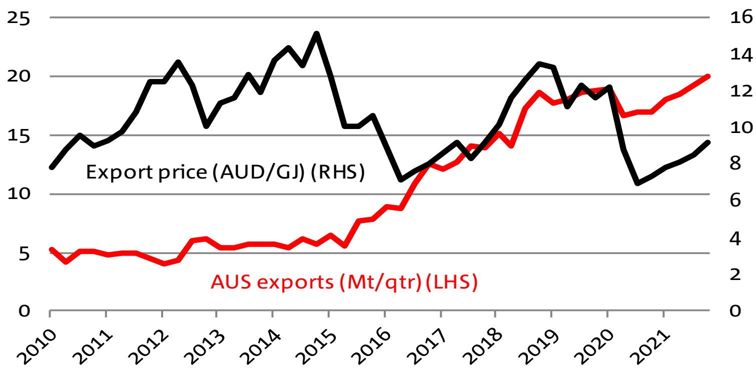
Source: Refinitiv, NAB Economics

GAS

Prices in Asia have shown a steady improvement, with the benchmark Japan Korea Marker (JKM) improving to US$2.8/mbtu, the highest since mid-April but well below year ago levels (~40%). While LNG exporters will no doubt welcome this modest improvement in the spot market, they will likely bear the brunt of weaker gas prices from oil-linked contracts in the September quarter. Separately, the International Gas Union estimates that the volume of LNG production globally will decline by 4.2% in 2020, following a sharp 13% jump in 2019. Here in Australia, major producers in the LNG sector have written off more than AUD20bn worth of assets. Weak demand, low oil and gas prices and high construction costs were key factors cited.

LNG : MODEST IMPROVEMENT POST SEP-QTR

Export volume (LHS) export price (RHS)

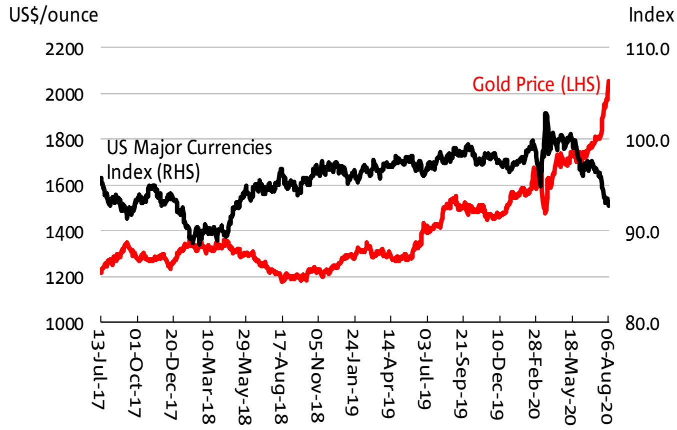


Sources: ABS, Poten & Partners, Bloomberg, NAB Economics

GOLD

Gold breached the US$2000/oz threshold in early August, and remains in very high demand, particularly from investors. An increase in new COVID-19 infections across the globe, massive fiscal and monetary stimulus, a weakening US dollar, global economic weakness and rising geopolitical tensions have propelled the precious metals to these lofty heights. Exchange traded funds (ETFs), which store gold on behalf of investors, acquired almost 900 tonnes of gold during the 7 months to July, a record high. Gold's rise is not a one-way bet; the July US nonfarm payrolls data (recording 1.76 million new jobs) did slightly dampen the gold price reflecting outcomes better than expectations. We have upgraded our forecasts, with year-end gold expected at US$2030/oz (previously US$1725).

GOLD: ONWARDS AND UPWARDS

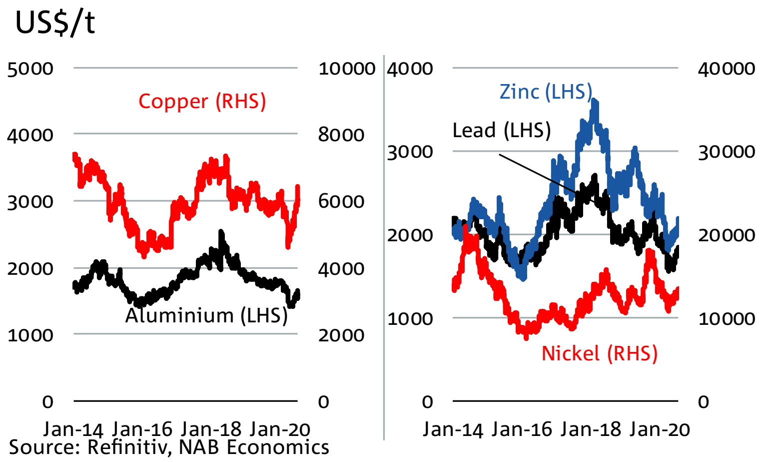


Source: Thomson Datastream, NAB

BASE METALS

Prices for base metals generally trended upwards across July, in line with the global strengthening in manufacturing conditions in PMI surveys. That said, there remain a range of risks – on both the supply and demand side – related to COVID-19 outbreaks. In particular, there are risks related to mine supply of metals from South America, which has underperformed in efforts to control the spread of the virus. There is some upside risk to our quarterly forecasts – most notably copper, which currently sits above our average for Q3.

METAL PRICES EDGE UP ON MFG RECOVERY



Source: Refinitiv, NAB Economics

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