EMBARGOED UNTIL 11.30 AM AEST 9 SEPTEMBER 2020

# NAB MINERALS AND ENERGY OUTLOOK SEPTEMBER 2020

## OVERVIEW

- At a high level, commodity prices broadly strengthened in August (with coal and gold the notable exceptions). A range of commodities – notably iron ore and base metals – saw improved demand prospects as infrastructure and housing construction in China appears to be ramping up.
- Global economic conditions have improved across the third quarter, as a broad range of countries have reduced COVID-19 countermeasures, however the virus presents considerable risk – highlighted by consumer and government responses to second wave outbreaks.
- In annual average terms, US dollar denominated commodity prices (measured by our non-rural commodity price index) are forecast to fall by 6.0%, with this decline largely driven by falls in prices for Liquefied Natural Gas (LNG) and hard coking coal. In 2021, the index is forecast to increase by 3.8%.

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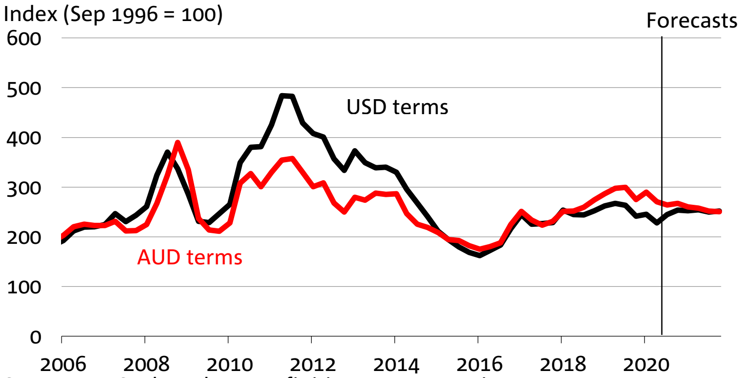
## NAB NON-RURAL COMMODITY PRICE INDEX




Sources: ABS, Bloomberg, Refinitiv, NAB Economics

## NAB COMMODITY PRICE FORECASTS

| | Unit | Spot 7/09/2020 | Actual Jun-20 | Forecasts *Sep-20* | *Dec-20* | *Mar-21* | *Jun-21* | *Sep-21* | *Dec-21* | *Mar-22* | *Jun-22* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| WTI oil | US$/bbl | 41 | 19 | 42 | 46 | 49 | 51 | 51 | 52 | 52 | 53 |
| Brent oil | US$/bbl | 42 | 26 | 45 | 49 | 53 | 55 | 55 | 56 | 56 | 57 |
| Tapis oil | US$/bbl | 46 | 20 | 47 | 51 | 55 | 57 | 57 | 58 | 58 | 59 |
| Gold | US$/ounce | 1929 | 1710 | 1960 | 2030 | 2050 | 2100 | 2200 | 2300 | 2300 | 2200 |
| Iron ore (spot) | US$/tonne | 128 | 93 | 118 | 110 | 105 | 100 | 90 | 85 | 80 | 75 |
| Hard coking coal* | US$/tonne | n.a. | 118 | 113 | 118 | 123 | 138 | 133 | 138 | 148 | 153 |
| Thermal coal (spot) | US$/tonne | 50 | 56 | 55 | 59 | 59 | 61 | 62 | 65 | 66 | 64 |
| Aluminium | US$/tonne | 1760 | 1498 | 1620 | 1680 | 1740 | 1760 | 1770 | 1780 | 1790 | 1800 |
| Copper | US$/tonne | 6811 | 5351 | 5750 | 6000 | 6250 | 6500 | 6750 | 7000 | 7100 | 7000 |
| Lead | US$/tonne | 1946 | 1678 | 1800 | 1875 | 1950 | 2025 | 2025 | 2048 | 2072 | 2095 |
| Nickel | US$/tonne | 15142 | 12233 | 13000 | 13500 | 13900 | 14100 | 14200 | 14300 | 14400 | 14400 |
| Zinc | US$/tonne | 2479 | 1968 | 2100 | 2125 | 2150 | 2175 | 2175 | 2200 | 2225 | 2250 |
| Aus LNG** | AU$/GJ | n.a. | 11.6 | 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.

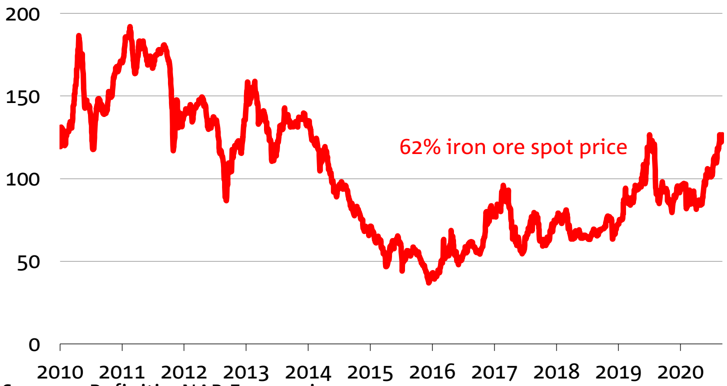
** Implied Australian LNG export prices

# IRON ORE

Spot prices for iron ore continued to climb higher across August, rising up to around US$130 a tonne at the time of writing. This was the highest price since January 2014. China's crude steel production rose to a record level in July, with strong investment in the country's housing and infrastructure construction sectors helping to underpin demand. On the supply side, the spread of COVID-19 in Brazil presents risk for the country's exports, adding some upward pressure. Reflecting the recent strength in spot prices, we have made some preliminary revisions to our forecasts, with iron ore averaging US$103 a tonne in 2020, before easing to US$95 a tonne in 2021 (a more comprehensive forecast will be available next month).

# SPOT PRICES UP TO SIX YEAR HIGH

US$/t (CIF)



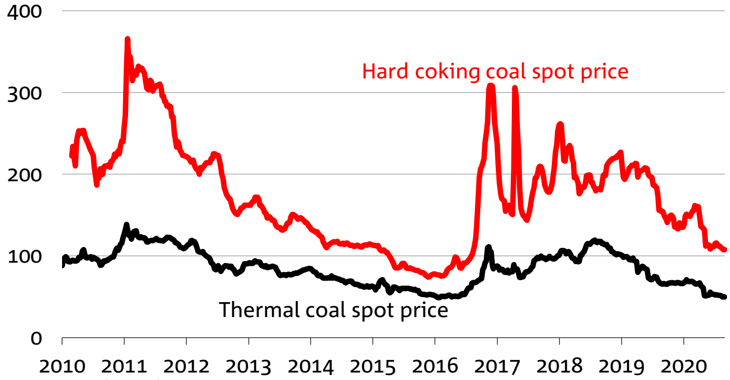

Sources: Refinitiv, NAB Economics

# COAL

Coal markets have remained subdued in recent months, with spot prices drifting gradually lower on weak demand. This is particularly the case for thermal coal, where weaker demand and ready supply of Liquefied Natural Gas (LNG) in Asian markets has put downward pressure on energy markets. Thermal coal prices recently dropped to their lowest level since January 2016. Demand for coking coal has been constrained by weak steel output outside China – with Indian and Japanese production well below pre-COVID-19 level. Thermal coal prices are forecast to average US$60 a tonne in 2020 and US$62 in 2021, while hard coking coal prices are forecast to average US$126 a tonne in 2020 and US$133 in 2021.

# SUBDUED DEMAND LEADS TO PRICE DRIFT

US$/t (FOB)



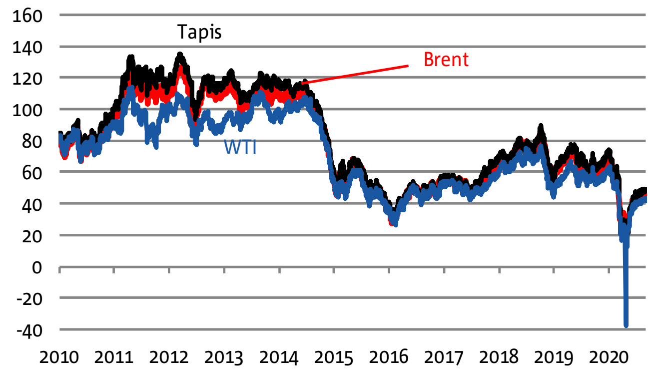

Sources: Bloomberg, NAB Economics

# OIL

While oil prices have partially recovered from recent COVID-19 related weakness, benchmark Brent crude has remained around US$42/bbl (well below pre-COVID levels) due to continued weak demand, lower prices from Saudi Arabia offered to Asian buyers and a slowdown in imports from China (following a high level of imports in prior months). The upcoming refinery maintenance season in the US will limit also demand. On the supply side, OPEC+ is reducing its production cuts to 7.7 million barrels per day (previously 9 million), with increased compliance from countries such as Iraq. This will increase global supply, although US oil production has been negatively impacted by Hurricane Laura.

# OIL: MODEST DEMAND & SAUDI DISCOUNTING

US$/bbl



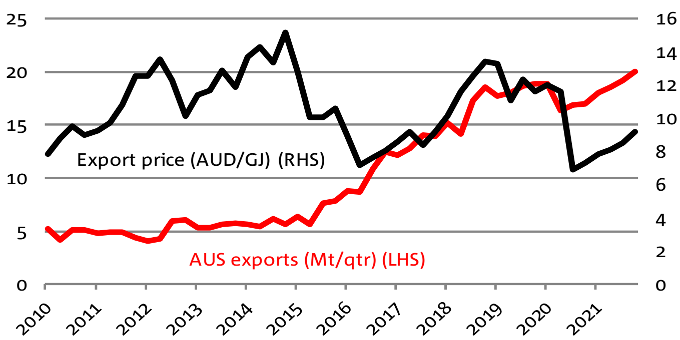

Source: Refinitiv, NAB Economics

# GAS

Spot prices in Asia continue to gain traction, with the benchmark Japan Korea Marker (JKM) improving to US$4.2/mbtu, close to its highest since mid-January. This reflects increasing demand in Japan, China and South Korea, delays at Chevron's Gorgon Train 2 LNG unit in WA, and supply disruptions in the US due to Hurricane Laura. The improvement in the spot prices should be supportive for Australian export earnings. However, this should be more apparent towards the end of 2020 and into 2021. Separately, the ACCC has found that domestic consumers were paying well above the netback (export price net of transport, liquefaction) price of AUD6/GJ, with negative implications for Australian industry, and the ACCC has called for continued Government intervention & monitoring.

# LNG : MODEST RECOVERY POST SEP-QTR

Export volume (LHS) export price (RHS)

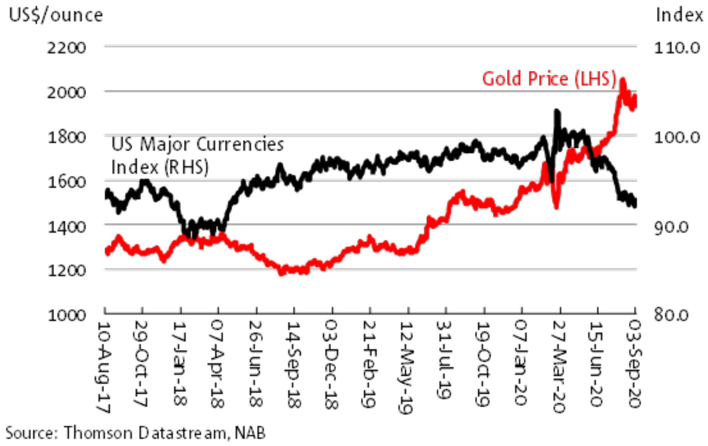



Sources: ABS, Poten & Partners, Bloomberg, NAB Economics

# GOLD

After breaching the US$2000/oz level in early August, gold has given up some of its gains, but is still trading around US$1,950/oz. Encouraging data from the US relating to new orders and manufacturing did take the shine off gold somewhat. Further, the US economy added 1.37 million jobs in August, lifting the US dollar index and weakening the gold price. That said, the continued need for economic and monetary stimulus will ensure a favourable outlook for gold. The US Federal Reserve's decision to move to an average inflation target will likely see interest rates lower than they would have been otherwise, supporting gold. We expect a continued uptrend in the gold price, although gold's fortunes will seesaw depending on economic, financial, geopolitical and COVID-19 developments.

## GOLD: SOLID, BUT NOT A ONE-WAY BET



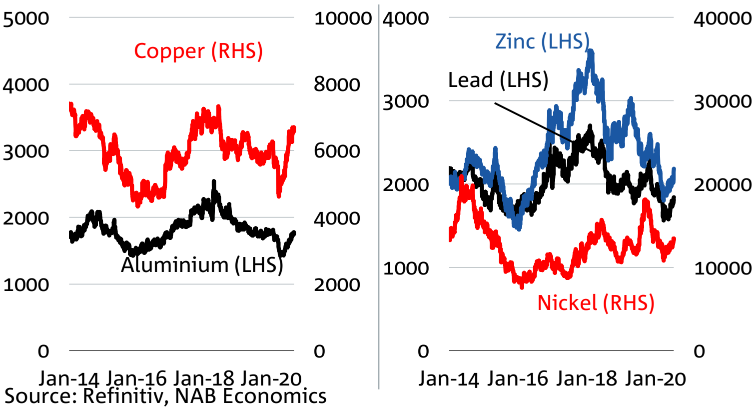

Source: Thomson Datastream, NAB

# BASE METALS

Base metals prices have continued to trend higher, following the downturn between late January and late March. This is particularly the case for copper, where spot prices have risen above its pre-COVID-19 levels. In a large part, this improvement seems driven by the strength of demand from China, where industrial activity and investment has rebounded in recent months. A range of metals could see supply disruptions – primarily at the mine level – reflecting the spread of COVID-19 across South America. Our forecasts are unchanged this month, however we note the upside risk to the forecasts given the current relative strength of spot prices.

## BASE METALS UP ON STRONG CHINA DEMAND

US$/t




Source: Refinitiv, NAB Economics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