NAB MINERALS AND ENERGY OUTLOOK OCTOBER 2020

OVERVIEW

- Trends in global commodity prices remain mixed – with metals generally easing down from recent, early September, peaks – potentially related to Chinese buyers leaving the market due to the early October Golden Week holidays – while coal prices have risen from recent cyclical lows. Oil prices remain volatile, with global demand likely to remain weak for the foreseeable future.
- Although the global economy appears to be gradually recovering from lows in Q2, COVID-19 remains a considerable risk to the near term outlook – with fresh outbreaks in a number of regions raising the potential for additional restrictions and consumer caution to negatively impact growth.
- In annual average terms, US dollar denominated commodity prices (as measured by our non-rural commodity price index) are forecast to fall by 4.2% in 2020 – with this decline largely driven by declines in Liquefied Natural Gas (LNG) and hard coking coal prices. In 2021, the index is forecast to increase by 6.7%.

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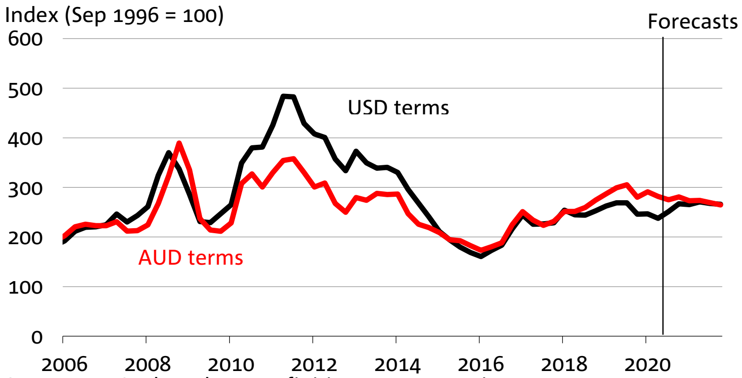
NAB NON-RURAL COMMODITY PRICE INDEX



Sources: ABS, Bloomberg, Refinitiv, NAB Economics

NAB COMMODITY PRICE FORECASTS

	Unit	Spot 12/10/2020	Actual Jun-20	Forecasts Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
WTI oil	US$/bbl	39	28	40	39	42	46	48	51	52	53
Brent oil	US$/bbl	42	33	43	42	45	49	52	55	56	57
Tapis oil	US$/bbl	45	32	47	44	47	51	54	57	58	59
Gold	US$/ounce	1922	1710	1910	2000	2050	2100	2200	2300	2200	2250
Iron ore (spot)	US$/tonne	125	93	118	120	110	110	100	90	85	90
Hard coking coal*	US$/tonne	n.a.	120	114	125	130	140	135	140	148	153
Thermal coal (spot)	US$/tonne	50	55	52	53	57	60	62	68	69	70
Aluminium	US$/tonne	1843	1498	1706	1775	1825	1850	1875	1925	1975	1925
Copper	US$/tonne	6728	5351	6530	6850	7000	7200	7400	7600	7650	7550
Lead	US$/tonne	1836	1678	1873	1925	1950	2025	2100	2200	2250	2100
Nickel	US$/tonne	15116	12233	14250	15100	15500	16000	16250	16500	15500	14500
Zinc	US$/tonne	2424	1968	2339	2500	2550	2600	2650	2700	2800	2650
LNG spot **	US$/mmbtu	n.a.	2.7	3.8	4.8	5.2	5.6	6.0	6.5	6.6	6.7

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

** Japan/Korea

IRON ORE

Iron ore spot prices peaked in the early part of September – near US$130 a tonne – before retreating back towards US$120 a tonne, a level still high in recent history. Demand remains strong – driven by a Chinese steel sector that has produced a record monthly volume in three out of the past four months. China's infrastructure and housing construction activity continues to fuel this demand. Although Brazilian iron ore exports have remained relatively strong, there have been reports of absenteeism from workers – due largely to the COVID-19 spread – highlighting risks to supply. Iron ore spot prices are forecast to average US$105 a tonne in 2020, before easing marginally in 2021 to US$103 a tonne – pointing to declines across the year.

COAL

Demand for metallurgical coal appears to be gradually recovering – with steel output mostly recovered in India and South Korea and picking up in Japan, providing support for hard coking coal. Meanwhile supply cuts in thermal coal markets has stemmed the downward pressure on prices while demand has started to pick up again. As a result, coal spot prices have trended higher in recent weeks – with hard coking coal reaching SU$140 a tonne in early October (from US$107 a tonne in mid August), while thermal coal rose more modestly. Hard coking coal prices are forecast to average US$128 a tonne in 2020 and US$136 a tonne in 2021, while thermal coal is forecast to average US$59 a tonne in 2020 and US$62 in 2021.

OIL

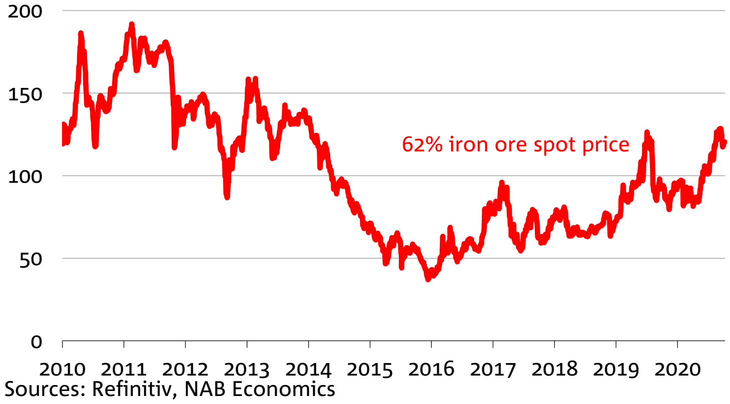
Oil markets continue to look for direction, with spot prices relatively volatile across September and early October and below levels recorded in August (under US$45 a barrel for Brent crude). Global demand remains weak – reflecting the impact of COVID-19 measures on transport usage, with international air travel unlikely to recover in the near term. Prospects for longer term oil demand have been called into question recently, with oil firm BP arguing that demand may have peaked in 2019. In contrast, oil supply remains plentiful, with a strike in Norway called off, Libya expanding output and OPEC+ struggling to maintain compliance with its production cuts. We forecast Brent crude to average US$42.3 a barrel in 2020 and US$50 a barrel in 2021.

GAS

NAB's forecasts point to further increases in major domestic gas and export LNG benchmarks over the coming year. LNG demand in East Asia has generally been bubbling along at a good pace, with signs of a further lift in Q4 2020. Supply diversification in the region may pose a longer term challenge for any (likely high cost) Australian expansion schemes. Australian domestic prices have responded to international developments this year, particularly in Queensland. Domestic gas affordability is an ongoing challenge and our forecasts offer little relief on this front. The Federal Government's recently announced technology investment roadmap may provide some long term incentives to repurpose natural gas and LNG infrastructure to produce green hydrogen for export.

SPOT PRICES HIGH FOR RECENT HISTORY

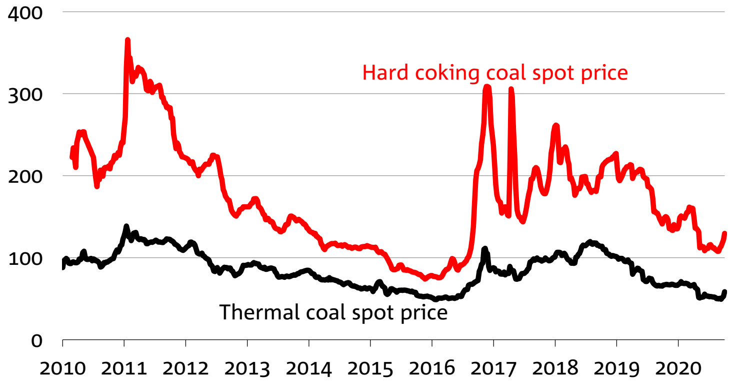
US$/t (CIF)



Sources: Refinitiv, NAB Economics

COAL PRICES EDGING UP FROM RECENT LOWS

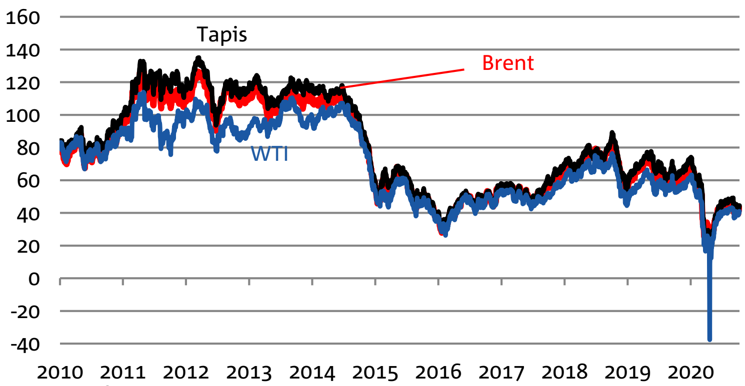
US$/t (FOB)



Sources: Bloomberg, NAB Economics

PRICES REMAIN WEAK ON SUBDUED DEMAND

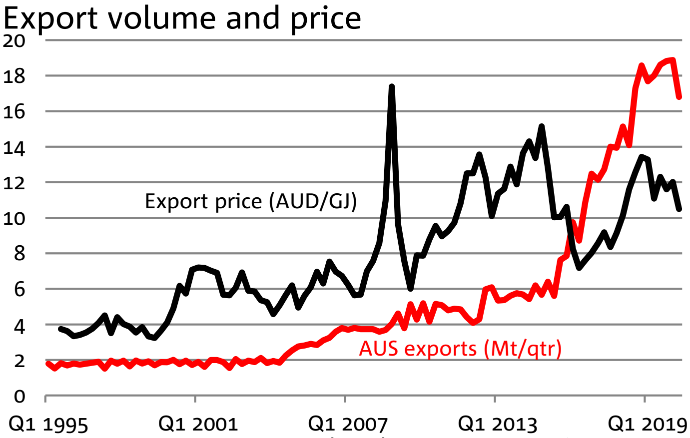
US$/bbl



Source: Refinitiv, NAB Economics

PRICES TO RECOVER FROM COVID-19 DIP

Export volume and price

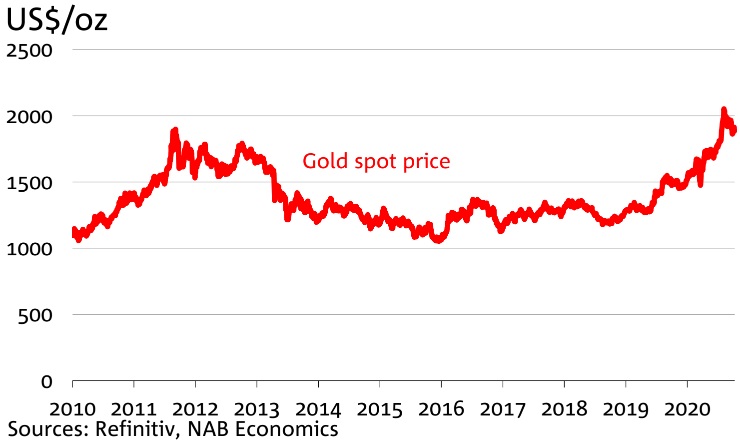


Sources: ABS, Poten & Partners, Bloomberg, NAB Economics

GOLD

Spot prices pushed above US$2000 an ounce in early August, before subsequently easing back towards US$1900 at the time of writing. Since the start of the year, gold has benefited from the uncertainty around the global economic environment and the COVID-19 pandemic. However, further signs of a global economic recovery more recently has added some downward pressure. In the near term, we anticipate a relatively balanced market – with inflation likely to remain low but uncertainty (such as the US Presidential election, the path of global COVID-19 cases, the pace of economic recovery and volatility in other asset markets) having the potential to support gold demand.

GOLD PULLS BACK FROM RECORD HIGH

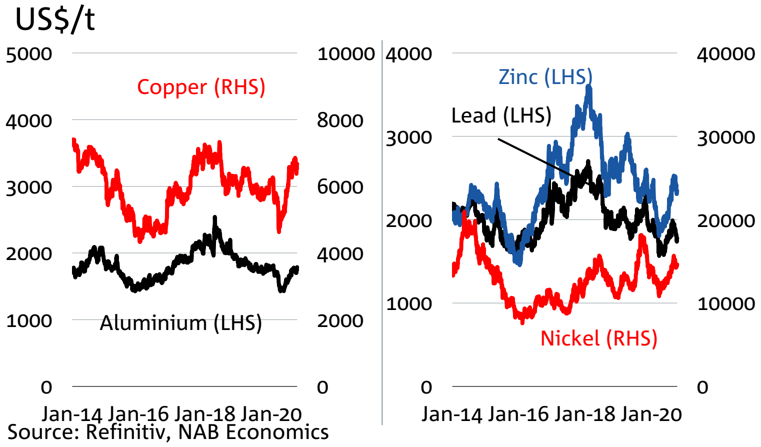


Sources: Refinitiv, NAB Economics

BASE METALS

Recent price trends in metals markets have been mixed. Most markets rose from multi-year lows in April until early September, before easing – with lead recording the largest falls. Aluminium was the exception – with prices remaining around pre-COVID-19 levels at the time of writing. Demand for metals remains driven by China, with various metals consumed in infrastructure and housing construction (to differing degrees), while concerns around the spread of COVID-19 in South America could impact supply. Reflecting this, the entire base metals complex is forecast to record stronger prices in 2021 than 2020 – led by copper, nickel and zinc.

CHINA DEMAND DRIVING METALS PRICES



Source: Refinitiv, NAB Economics

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