EMBARGOED UNTIL 11.30 AM AEDT 11 NOVEMBER 2020

NAB MINERALS AND ENERGY OUTLOOK NOVEMBER 2020

OVERVIEW

- October was another mixed month in commodity markets – with largely sideways movements in iron ore, oil and gold, while LNG and base metals prices were generally stronger.
- There remains considerable uncertainty around the near term outlook – with growing trade tensions between Australian and China impacting coal and copper, newly introduced COVID-19 restrictions impacting economic activity in Europe and the potential for weather and/or COVID-19 impacting supply across a range of commodities.
- Hopes have been raised that an effective COVID-19 vaccine will soon be available, following highly successful initial testing. While there is still some way to go, oil prices rose and gold fell in response to reports of vaccine progress.
- In annual average terms, US dollar denominated commodity prices – measured by our non-rural commodity price index – are forecast to fall by 4.2% in 2020. The index is forecast to increase by 6.7% in 2021, with gold, metallurgical coal and copper the main drivers of this increase.

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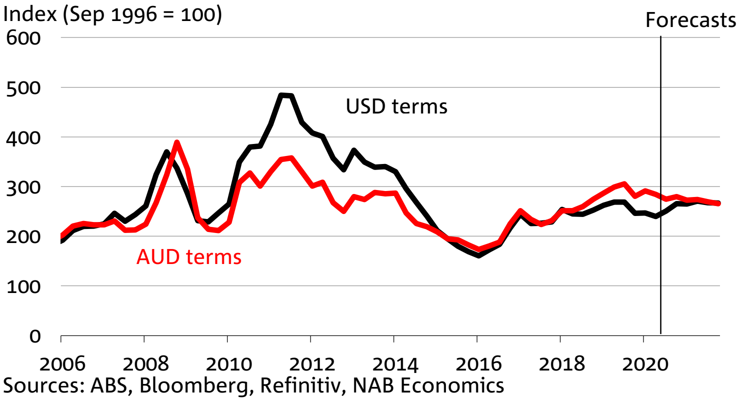
NAB NON-RURAL COMMODITY PRICE INDEX



Sources: ABS, Bloomberg, Refinitiv, NAB Economics

NAB COMMODITY PRICE FORECASTS

		Spot	Actual	Forecasts							
	Unit	5/11/2020	Sep-20	*Dec-20*	Mar-21	*Jun-21*	Sep-21	*Dec-21*	Mar-22	*Jun-22*	Sep-22
WTI oil	US$/bbl	39	40	39	42	46	48	51	52	53	53
Brent oil	US$/bbl	41	43	42	45	49	52	55	56	57	57
Tapis oil	US$/bbl	42	47	44	47	51	54	57	58	59	54
Gold	US$/ounce	1949	1710	1910	2000	2050	2100	2200	2300	2200	2250
Iron ore (spot)	US$/tonne	119	118	120	110	110	100	90	85	90	85
Hard coking coal*	US$/tonne	n.a.	114	125	130	140	135	140	148	153	148
Thermal coal (spot)	US$/tonne	57	52	53	57	60	62	68	69	70	69
Aluminium	US$/tonne	1886	1706	1775	1825	1850	1875	1925	1975	1925	1875
Copper	US$/tonne	6843	6530	6850	7000	7200	7400	7600	7650	7550	7300
Lead	US$/tonne	1834	1873	1925	1950	2025	2100	2200	2250	2100	2000
Nickel	US$/tonne	15519	14250	15100	15500	16000	16250	16500	15500	14500	14250
Zinc	US$/tonne	2605	2339	2500	2550	2600	2650	2700	2800	2650	2450
LNG spot **	US$/mmbtu	n.a.	3.8	4.8	5.2	5.6	6.0	6.5	6.6	6.7	6.8

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

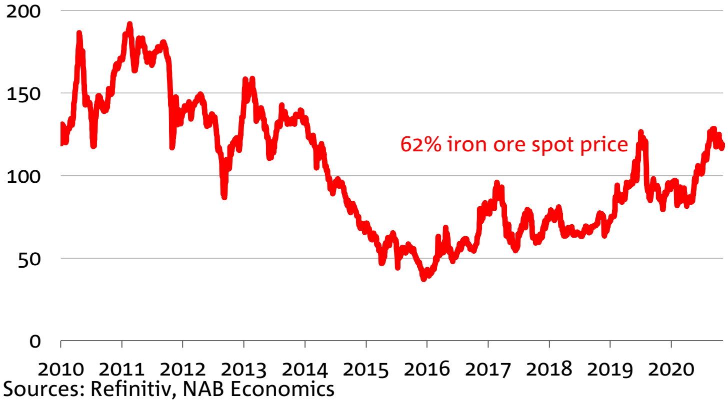
** Japan/Korea

IRON ORE

Spot prices for iron ore tracked broadly sideways near US$120 a tonne in October, off the peaks recorded in early September. Markets appear to be reasonably balanced – with Chinese steel production remaining strong, albeit marginally softer in September from its record levels in August. Similarly, iron ore production and exports have remained strong, with Brazilian shipments continuing despite fears of COVID-19 disruptions. China's economic recovery remains heavily driven by the steel consuming construction sector. Spot prices are forecast to average around US$105 a tonne in 2020, before easing across 2021, to average US$103 a tonne.

BALANCED MARKET KEPT PRICES STABLE

US$/t (CIF)



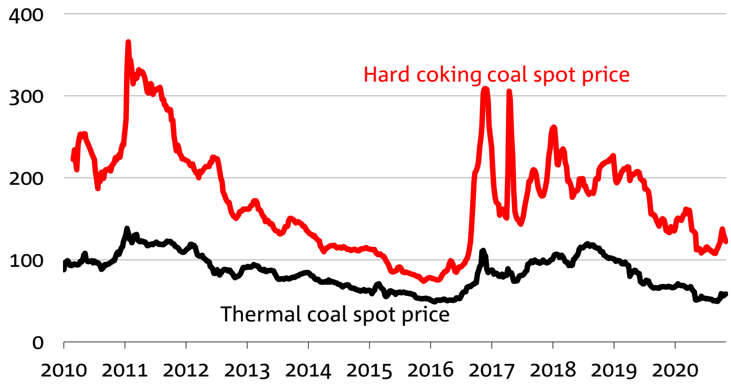
Sources: Refinitiv, NAB Economics

COAL

Trends in coal markets have diverged in recent weeks – with thermal coal prices rising across the second half of October (up above US$60 a tonne at the time of writing) bolstered by restocking ahead of an anticipated colder Northern winter, while hard coking coal prices declined across the month (dropping below US$120 a tonne in early November). The apparent ban on Australian coal imposed by Chinese authorities is creating considerable uncertainty in these markets – with diverging prices between Australian and non-Australian coal. The future trade relationship is highly uncertain. There may be some downside risk to our hard coking coal forecast of US$136 a tonne in 2021, while thermal coal is forecast to average US$62 a tonne.

CHINA UNCERTAINTY IMPACTS COAL

US$/t (FOB)



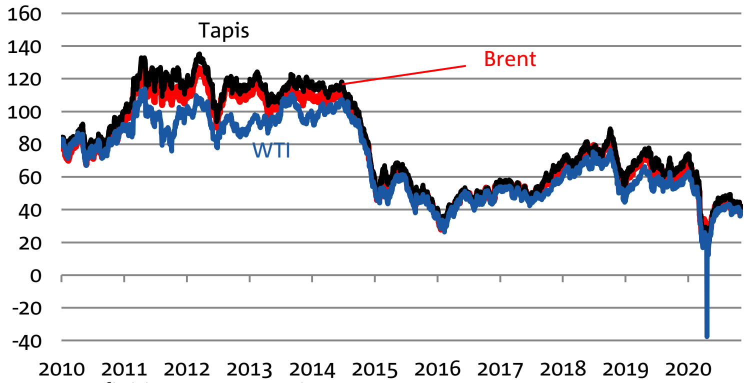
Sources: Bloomberg, NAB Economics

OIL

Oil markets continued to track sideways across most of October, before dipping marginally in early November. Near term demand prospects remain weak – particularly given a range of European countries implemented COVID-19 restrictions (albeit to varying degrees) which will negatively impact consumption. Beyond these measures, demand will take a considerable time to recover – as international travel remains constrained. Plentiful supply has OPEC+ members considering extending its production cuts (which had been scheduled to taper in coming months) and potentially implementing further cuts to support prices. Our forecast for Brent in 2021 of US$50 a barrel is predicated on an anticipated economic recovery in 2021.

WEAK DEMAND PERSISTS IN THE NEAR TERM

US$/bbl



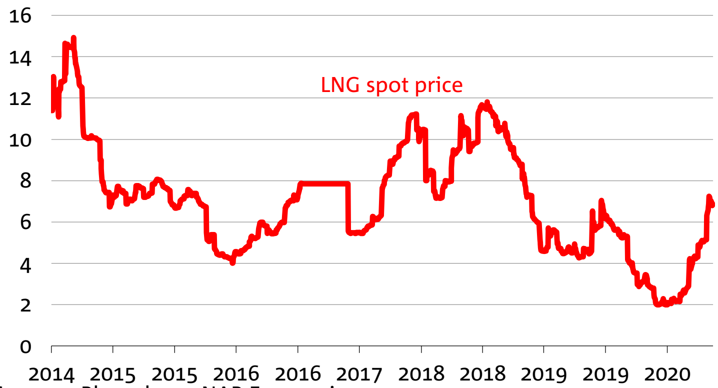
Source: Refinitiv, NAB Economics

GAS

Economic recovery in East Asia and stronger seasonal demand – as an anticipated colder Northern winter approaches – has seen a pickup in LNG spot prices, near to US$7/mmbtu. This suggests that there is upside risk to our near term price forecasts (which will be reviewed next month), however we don't anticipate this trend to continue in coming years. Over the medium term, an increasing share of regional LNG demand is set to switch from long term contracts to the spot market – highlighting the modest growth of key consumers such as Japan and Korea and the strength of global supply. Over this period, spot prices are expected to remain below the levels recorded across 2018.

SPOT PRICES RISE ON NEAR TERM DEMAND

US$/mmbtu



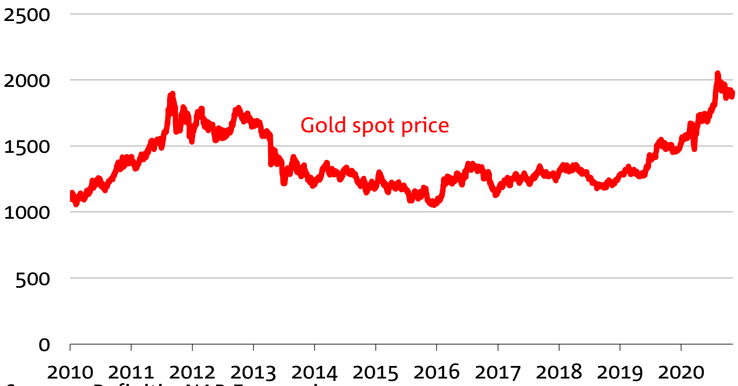
Sources: Bloomberg, NAB Economics

GOLD

Gold spot prices traded in a relatively narrow band in near US$1900 an ounce in October. Demand for the precious metal remains influenced by a wide range of uncertainty – including the impact of newly introduced COVID-19 restrictions in Europe, which could derail the global economic recovery. While it appears Joe Biden has won the US Presidential election, Biden's policy agenda could be stymied by the Republican controlled Senate. This could impact US fiscal policy decisions and with it the demand for different asset classes, including gold. In the near term, we see upside risk for gold prices.

LITTLE MOVEMENT IN GOLD IN OCTOBER

US$/oz



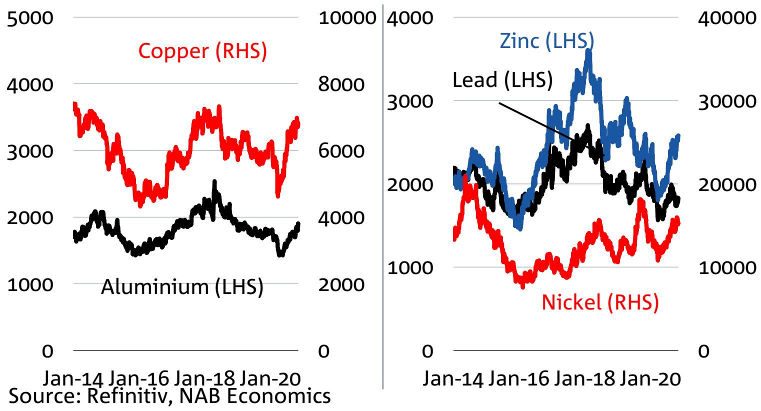
Sources: Refinitiv, NAB Economics

BASE METALS

The broad upward trend in metals markets – from the multi-year lows recorded in late March – continued across much of October. Prices for aluminium, copper, nickel and zinc are now above the typical pre-COVID019 trend. China's role as the world's largest consumer of base metals and its industrial-led recovery from COVID-19 has contributed to this trend. There remains a risk that the spread of COVID-19 in South America could impact mine supply for a range of metals. Stronger global economic conditions in 2021 should support an increase in average metals prices next year.

PRICES UP ON CHINA'S STRENGTH

US$/t



Source: Refinitiv, NAB Economics

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