



NAB MINERALS AND ENERGY OUTLOOK DECEMBER 2020

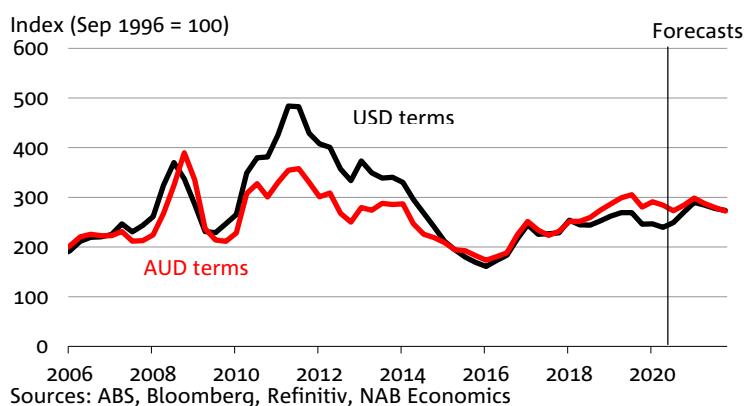
OVERVIEW

- November saw a strong upturn in most metals markets – with gold the exception, as positive vaccine news boosted equities markets and hit the precious metal. In contrast, energy markets were mixed, with LNG higher, oil still well below pre-COVID-19 levels, and coal impacted by Australia-China tensions.
- The trade relationship between Australia and China remains fraught, with tensions continuing to rise. Coal has been the main resource commodity impacted (along with copper), however we can not rule out further restrictions.
- More generally, markets have been buoyed by positive COVID-19 vaccine news, which could correspond with stronger economic activity and demand for commodities next year.
- In annual average terms, our US dollar non-rural commodity price index is forecast to fall by 4.0% in 2020, before increasing strongly in 2021 – up by 12.0% – driven by a recovery in LNG prices, stronger average prices for iron ore and (to a lesser extent) the pickup in thermal coal and copper prices – however all commodity markets are forecast to see higher prices next year.

CONTACTS

Alan Oster, Group Chief Economist +(61 0) 414 444 652
Gerard Burg, Senior Economist +(61 0) 477 723 768

NAB NON-RURAL COMMODITY PRICE INDEX



NAB COMMODITY PRICE FORECASTS

	Unit	Spot	Actual	Forecasts							
		7/12/2020	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
WTI oil	US\$/bbl	46	41	42	46	50	52	53	54	52	55
Brent oil	US\$/bbl	49	43	45	49	53	55	56	57	55	58
Tapis oil	US\$/bbl	52	46	47	51	55	57	58	59	57	54
Gold	US\$/ounce	1866	1910	1880	1800	1750	1850	1950	2000	1900	1800
Iron ore (spot)	US\$/tonne	144	118	130	130	120	110	100	95	90	85
Hard coking coal*	US\$/tonne	n.a.	114	110	115	130	140	140	150	155	150
Thermal coal (spot)	US\$/tonne	63	60	65	75	72	74	79	81	74	81
Aluminium	US\$/tonne	1995	1706	1920	2025	2125	2200	2250	2275	2225	2075
Copper	US\$/tonne	7695	6530	7150	7650	7750	7850	7950	8000	7900	7700
Lead	US\$/tonne	2063	1873	1900	2000	2025	2100	2200	2250	2150	2000
Nickel	US\$/tonne	16319	14250	15800	16000	16000	16250	16500	15500	14500	14250
Zinc	US\$/tonne	2760	2339	2600	2700	2750	2800	2850	2750	2600	2450
LNG spot **	US\$/mmbtu	n.a.	5.3	6.7	7.4	6.9	7.2	7.8	7.1	6.9	7.5

* 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 trended higher across November, pushing up above US\$140 a tonne in early December (from just below US\$120 a tonne a month earlier). Demand from China's steel industry remains strong – with output expected to exceed 1 billion tonnes in 2020 – as construction remains a key driver of the country's economic recovery. Iron ore supplies have been impacted by infrastructure maintenance in Western Australia, while Brazil's Vale lowered its short term production guidance, adding some near term upward pressure to prices that should soon fade. Reflecting the recent strength, we have revised our forecasts higher – with spot prices averaging US\$115 a tonne in 2021 (from US\$107 this year).

COAL

Trends in coal markets continued to diverge in November. Spot prices for thermal coal edged higher – pushing up above US\$70 a tonne in early December (from around US\$60 in early November), in part due supply disruptions out of Newcastle that could persist for the next few months. In contrast, hard coking coal prices from Australia fell below US\$110 a tonne, as Chinese steel mills sought volumes from other suppliers. Diplomatic tensions between Australia and China have continued to worsen, which could impact coal exports for some time. Hard coking coal is forecast to average US\$131 a tonne in 2021 (lower than our previous view) while thermal coal is forecast to average US\$75 a tonne (a stronger outlook).

OIL

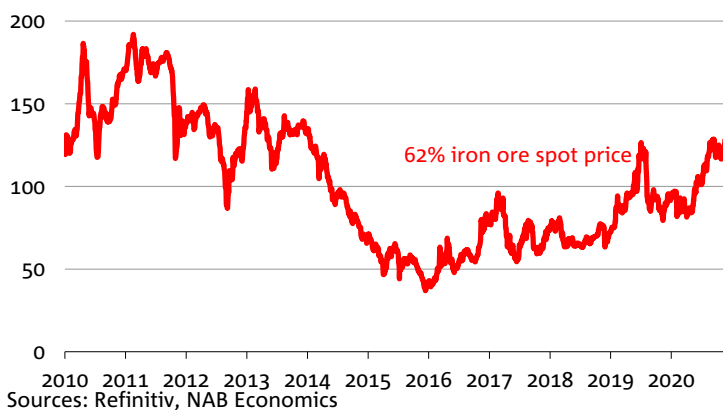
Oil prices picked up in November – with benchmark Brent crude just under US\$50 a barrel at the time of writing (compared with around US\$40 a barrel in early November). Prices remain well below pre-COVID-19 levels, reflecting the weakness in global transportation demand – with recently introduced measures to control the spread of COVID-19 in Europe likely to further impact consumption. Overall, oil supply remains plentiful, with OPEC+ members attempting to negotiate steeper production cuts to support prices. A stronger economic outlook – with potential upside due to progress on vaccines – supports a pickup in oil prices in 2021, with Brent to average US\$53 a barrel, from US\$43 a barrel this year.

GAS

Spot price trends for Liquefied Natural Gas (LNG) were mixed over November – initially falling from around US\$7/mmbtu to the low US\$6 range on strong US exports and weaker Chinese purchases, before climbing to US\$7.5/mmbtu at the time of writing – driven in part by outages in Malaysia and maintenance reducing output from Gorgon in Australia impacting supply. The demand outlook in the near term is looking weaker – with the potential for warmer than average winter conditions in Japan, Korea and Northern China – which could limit LNG consumption. We see limited upside potential to LNG going forward, with spot prices forecast to average US\$7.3/mmbtu in 2021.

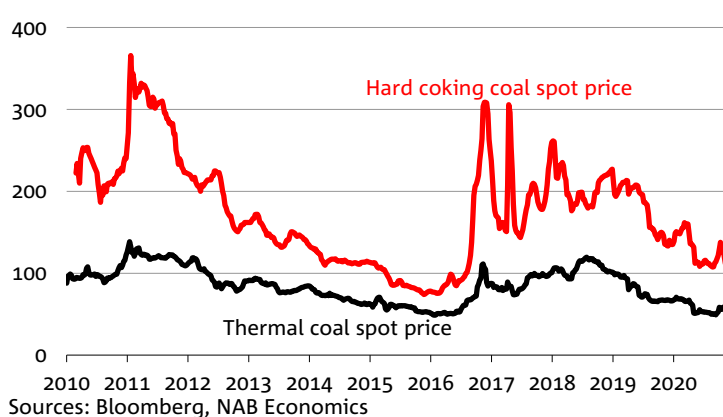
SPOT PRICES NEAR 7 YEAR HIGH

US\$/t (CIF)



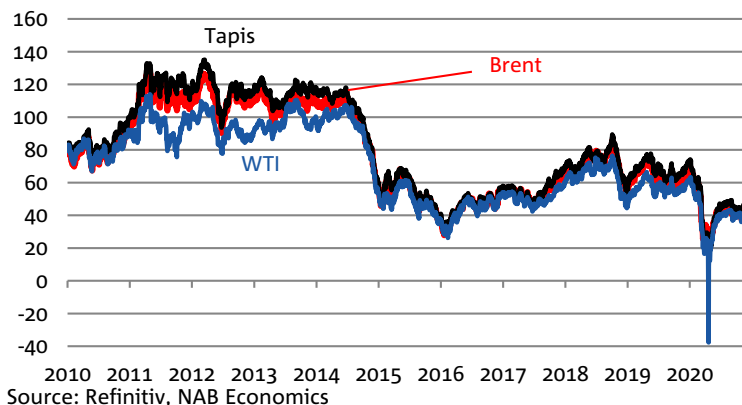
COAL DIVERGING AS TENSIONS REMAIN

US\$/t (FOB)



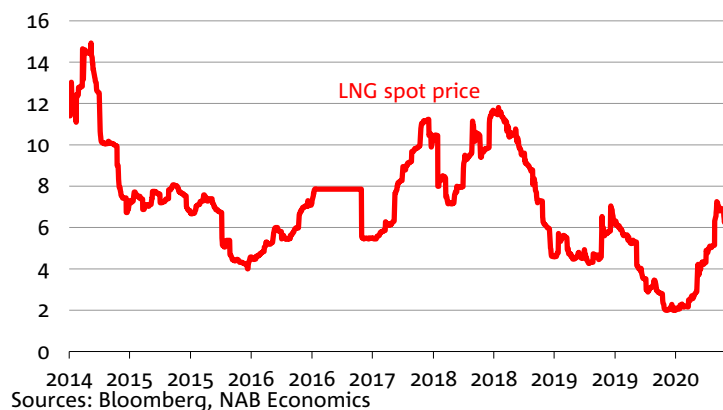
OIL STILL WELL BELOW PRE-COVID LEVELS

US\$/bbl



LNG HAS RECOVERED, BUT LIMITED UPSIDE

US\$/mmbtu



GOLD

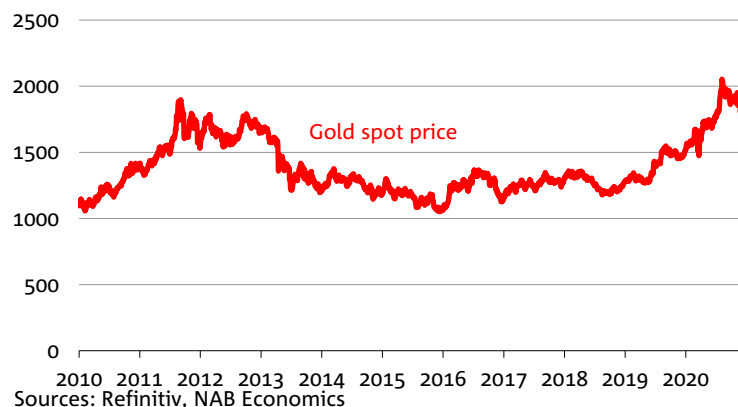
From early November, gold spot prices trended lower, as clarity around the US election outcome, strong gains in US and (to a lesser extent) global equity markets and several positive results for COVID-19 vaccine tests saw less support for gold. Prices drifted below US\$1800 an ounce in late November, before settling just above this level in early December – well below the peaks seen in September. That said, volatility in the US dollar in the near term – partly related to negotiations around a COVID-19 fiscal relief package – could see greater fluctuations in spot prices. We have lowered our forecasts for gold in 2021 – with prices set to average US\$1838 an ounce, up from around US\$1770 this year.

BASE METALS

Base metals prices rose across the complex in November – with demand from China's industrial led recovery a key factor. In particular, zinc and copper prices rose strongly – the latter to its highest levels in around seven years, with potential supply disruptions due to a labour dispute in Chile building on existing concerns from limited inventories. COVID-19 remains a risk factor for supply, particularly in South America, in the near term. More generally, the stronger economic climate in 2021 – particularly if COVID-19 vaccines are widely available – should provide support for metals markets next year. Copper and aluminium are the metals expected to see the strongest growth in prices in 2021.

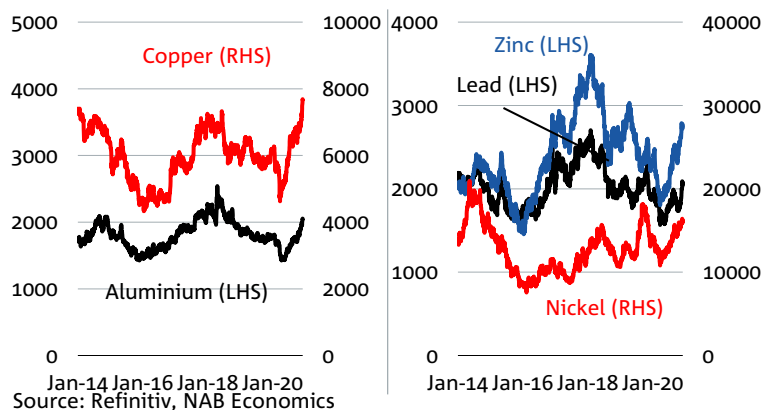
GOLD DRIFTS ON VACCINE OPTIMISM

US\$/oz



CHINA'S DEMAND UNDERPINS METAL PRICES

US\$/t



Group Economics

Alan Oster
Group Chief Economist
+(61 0) 414 444 652

Jacqui Brand
Personal Assistant
+(61 0) 477 716 540

Dean Pearson
Head of Behavioural &
Industry Economics
+(61 0) 457 517 342

Australian Economics and Commodities

Gareth Spence
Senior Economist
+(61 0) 436 606 175

Kaixin Owyong
Senior Economist
+(61 0) 436 679 908

Phin Ziebell
Senior Economist
+(61 0) 475 940 662

Behavioural & Industry Economics

Robert De Iure
Senior Economist
+(61 0) 477 723 769

Brien McDonald
Senior Economist
+(61 0) 455 052 520

Steven Wu
Economist
+(61 0) 472 808 952

International Economics

Gerard Burg
Senior Economist
+(61 0) 477 723 768

Tony Kelly
Senior Economist
+(61 0) 477 746 237

Global Markets Research

Ivan Colhoun
Global Head of Research
+(61 2) 9237 1836

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