EMBARGOED UNTIL 11.30 AM AEDT 10 FEBRUARY 2021

NAB MINERALS AND ENERGY OUTLOOK FEBRUARY 2021

OVERVIEW

- Prices for a range of key commodities rose in January, led by iron ore, hard coking coal and (briefly) liquefied natural gas (LNG). Supply side issues contributed to this increase, with COVID-19 remaining a demand constraint.
- The rollout of COVID-19 vaccines (primarily in advanced economies) has run behind schedule, increasing the risk of continued economic disruption in the near term.
- There remains considerable uncertainty around the trade relationship between Australia and China, resulting in a realignment in Asian coal trade – with other suppliers filling previous Australian volumes, which have gone instead to other consumers.
- The upturn in various commodities presents some upside to our price forecasts for 2021 – which will be subject to revision next month. However, our broad expectations around markets are largely unchanged – with supply constraints in many markets set to unwind, while the removal of policy support in China should lead to weaker demand going forward.

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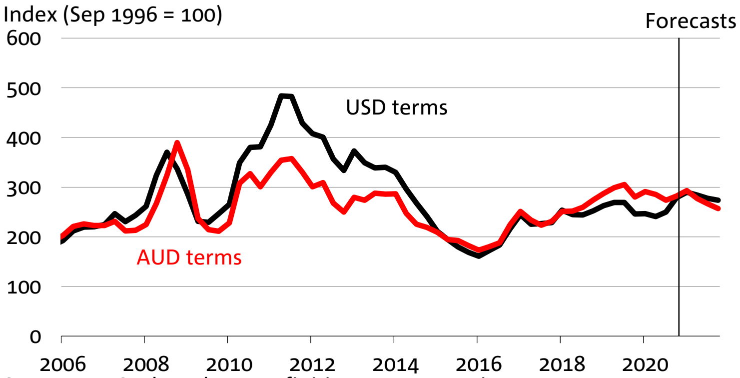
NAB NON-RURAL COMMODITY PRICE INDEX



Sources: ABS, Bloomberg, Refinitiv, NAB Economics

NAB COMMODITY PRICE FORECASTS

		Spot	Actual	Forecasts							
	Unit	5/02/2021	*Dec-20*	Mar-21	*Jun-21*	Sep-21	*Dec-21*	Mar-22	*Jun-22*	Sep-22	Dec-22
WTI oil	US$/bbl	56	43	46	50	52	53	54	52	55	57
Brent oil	US$/bbl	59	45	49	53	55	56	57	55	58	60
Tapis oil	US$/bbl	62	47	51	55	57	58	59	57	60	62
Gold	US$/ounce	1808	1876	1800	1750	1850	1950	2000	1900	1800	1750
Iron ore (spot)	US$/tonne	157	134	130	120	110	100	95	90	85	80
Hard coking coal*	US$/tonne	n.a.	113	115	130	140	140	150	155	150	150
Thermal coal (spot)	US$/tonne	85	66	75	72	74	79	81	74	81	88
Aluminium	US$/tonne	2012	1920	2025	2125	2200	2250	2275	2225	2075	1975
Copper	US$/tonne	7927	7196	7650	7750	7850	7950	8000	7900	7700	7400
Lead	US$/tonne	2039	1904	2000	2025	2100	2200	2250	2150	2000	1950
Nickel	US$/tonne	17987	15975	16000	16000	16250	16500	15500	14500	14250	14000
Zinc	US$/tonne	2647	2633	2700	2750	2800	2850	2750	2600	2450	2300
LNG spot **	US$/mmbtu	n.a.	7.5	7.4	6.9	7.2	7.8	7.1	6.9	7.5	8.4

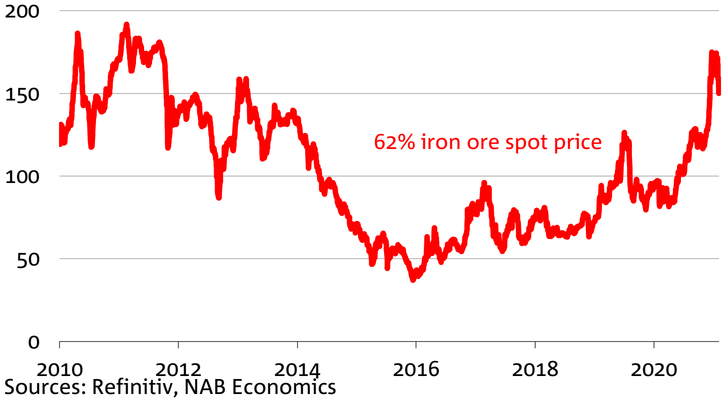
* Data reflect NAB estimates of US$/tonne FOB quarterly contract prices, based on quarterly average spot prices.

IRON ORE

Spot prices for iron ore continued to climb in early 2021, pushing up above US$170 a tonne in mid-January – the highest levels seen since 2011 – before easing back below US$160 at the time of writing. China's steel production remained strong in December (counter to the common trend of northern winter capacity closures) but has reportedly slowed in January. On the supply side, concerns around Brazil's capacity to boost output have risen, with miner Vale lowering its production guidance for the next two years. The recent strength in spot prices adds upside risk to our forecasts (US$115 in 2021), however prices are still expected to ease on stronger supply and weakening demand from China (as monetary and fiscal support eases).

PRICES EASE BACK FROM MULTI-YEAR HIGH

US$/t (CIF)



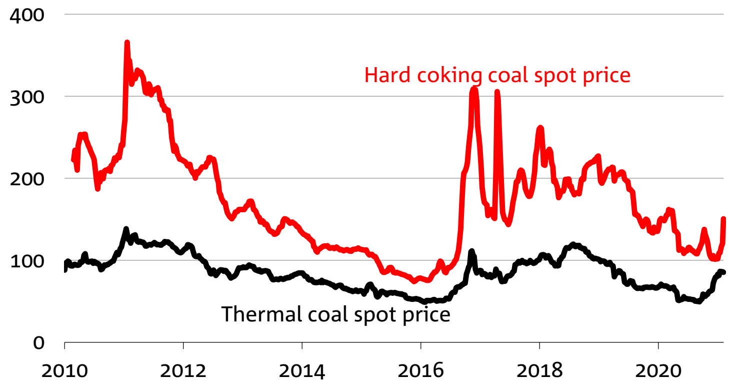
Sources: Refinitiv, NAB Economics

COAL

Coal spot prices have been trending higher in recent weeks, with thermal coal prices at Newcastle in the mid-US$80s a tonne at the time of writing (from mid-US$50s in mid-October), while hard coking coal prices pushed up to US$150 a tonne (from US$100/t in early December). Chinese authorities moves to block imports from Australia is resulting in a realignment of trade, with China purchasing from other suppliers, and Australian volumes moving to other buyers. As with iron ore, current high spot prices present some upside risk to our forecasts – currently hard coking coal at US$131 a tonne in 2021, and thermal coal averaging US$75 a tonne.

PRICES RISE AS TRADE REALIGNS

US$/t (FOB)



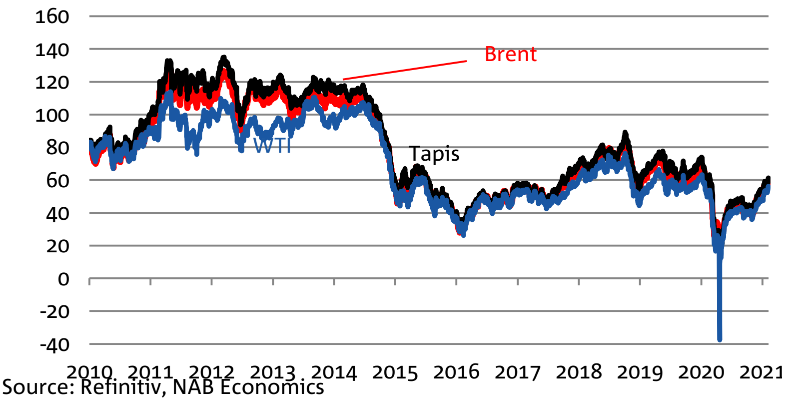
Sources: Bloomberg, NAB Economics

OIL

The recovery in oil prices has lagged many other resource commodities – reflecting the impact of COVID-19 travel restrictions on oil demand. That said, spot prices have moved higher – to the mid-US$50s range for benchmark Brent crude, from around US$50 a tonne in December. In the near term, demand is unlikely to strongly recover – reflecting in part the weaker than hoped rollout of COVID-19 vaccines in most major economies. Supply remains plentiful, despite OPEC+ rolling over its production cuts in early January (with these to extend until at least March). Greater discipline from OPEC+ and prospects for stronger demand once vaccination rates accelerate present some upside risk to our year average forecast of US$53 a barrel for Brent.

OIL STILL LIMITED BY WEAK GLOBAL DEMAND

US$/bbl



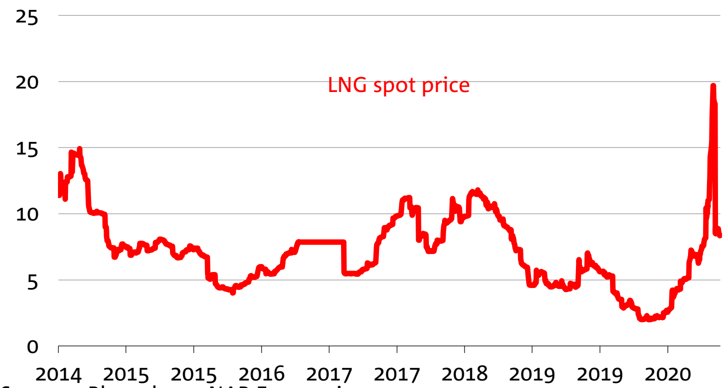
Source: Refinitiv, NAB Economics

GAS

Earlier expectations of a warmer than average winter in North Asia appeared inaccurate, with a cold snap boosting demand for LNG in the region. This coincided with disruptions in Malaysian production and shipping issues in the Panama Canal, impacting Asian supply. This sent the Japan Korea Marker surging – up to almost US$20/mmbtu in mid-January, from less than US$10/mmbtu a month earlier. Prices subsequently retreated back below US$10/mmbtu later in the month, with Platts noting that trade volumes during the peak were extremely small. We see prices remaining around in this level (below US$10/mmbtu) over the outlook period.

PRICES RETREAT FOLLOWING SHARP SPIKE

US$/mmbtu

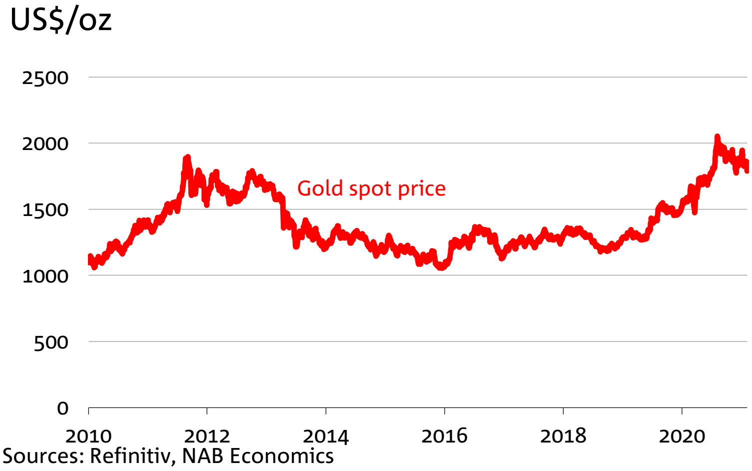


Sources: Bloomberg, NAB Economics

GOLD

Spot prices for gold have broadly tracked sideways since mid-November 2020, briefly spiking close to US$1950 an ounce in early January, before trending back around US$1850 an ounce. Greater certainty in the United States, following the inauguration of President Biden, along with stimulus, is likely to support stronger economic growth, while inflation and the Fed funds rate are expected to remain low – with these factors providing little positive influence on gold prices. Our forecast of US$1838 for 2021 is consistent with this limited upside pressure on prices.

GOLD TRACKING SIDEWAYS

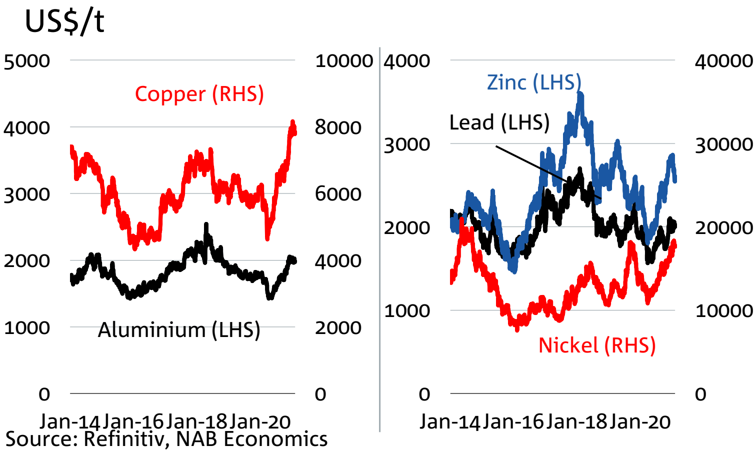


Sources: Refinitiv, NAB Economics

BASE METALS

Trends in individual base metal markets have been highly divergent in recent weeks. Both copper and nickel trended higher – with the former rising above US$8000 a tonne for the first time since early 2013. In contrast, both aluminium and lead have tracked sideways since late November while zinc has fallen since the start of the year. In the near term, shutdowns related to Chinese new year will impact demand, while there remain a number of risks around supply – including the impact of COVID-19 in South America.

COPPER BACK ABOVE US$8000/T



Source: Refinitiv, NAB Economics

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