EMBARGOED UNTIL 11.30 AM AEDT 10 MARCH 2021

# NAB MINERALS AND ENERGY OUTLOOK MARCH 2021

## OVERVIEW

- A range of key commodities have trended higher in recent months, including iron ore, crude oil and base metals, supported by the global economic recovery and expectations of further stimulus.
- That said, COVID-19 continues to present some uncertainty around the outlook, particularly with the rollout of vaccines to emerging markets lagging that of advanced economies. This could negatively impact the supply of a number of commodities.
- We have revised several forecasts higher, meaning that our non-rural commodity price index is forecast to increase by over 11% in 2021 in US dollar terms. That said, NAB also forecasts a sizeable strengthening in the Australian dollar, which results in a 3.8% fall in the index in AUD terms this year.
- Weaker policy support (particularly in China) and the unwinding of some supply constraints means we see commodity prices broadly falling in 2022 – down by 9.8% in US dollar terms.

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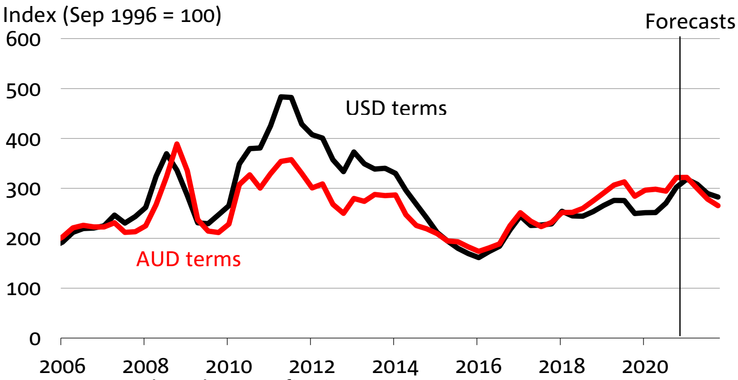
## NAB NON-RURAL COMMODITY PRICE INDEX




Sources: ABS, Bloomberg, Refinitiv, NAB Economics

## NAB COMMODITY PRICE FORECASTS

| | Unit | Spot 5/03/2021 | Actual *Dec-20* | Forecasts Mar-21 | *Jun-21* | Sep-21 | *Dec-21* | Mar-22 | *Jun-22* | Sep-22 | Dec-22 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| WTI oil | US$/bbl | 66 | 43 | 58 | 59 | 63 | 67 | 70 | 68 | 71 | 70 |
| Brent oil | US$/bbl | 70 | 45 | 61 | 63 | 67 | 71 | 74 | 72 | 75 | 74 |
| Tapis oil | US$/bbl | 68 | 47 | 63 | 65 | 69 | 73 | 76 | 74 | 77 | 76 |
| Gold | US$/ounce | 1696 | 1877 | 1800 | 1725 | 1800 | 1900 | 2000 | 1850 | 1750 | 1750 |
| Iron ore (spot) | US$/tonne | 176 | 134 | 170 | 170 | 140 | 120 | 110 | 100 | 90 | 85 |
| Hard coking coal* | US$/tonne | n.a. | 109 | 131 | 130 | 140 | 140 | 155 | 160 | 155 | 150 |
| Thermal coal (spot) | US$/tonne | 86 | 65 | 85 | 81 | 79 | 85 | 95 | 85 | 83 | 88 |
| Aluminium | US$/tonne | 2178 | 1920 | 2070 | 2125 | 2200 | 2250 | 2275 | 2250 | 2175 | 2100 |
| Copper | US$/tonne | 8913 | 7196 | 8500 | 8850 | 9000 | 8750 | 9000 | 9250 | 9000 | 8600 |
| Lead | US$/tonne | 1984 | 1904 | 2065 | 2075 | 2100 | 2200 | 2250 | 2150 | 2000 | 1950 |
| Nickel | US$/tonne | 16393 | 15975 | 18575 | 19000 | 18750 | 18500 | 19000 | 19500 | 19000 | 18000 |
| Zinc | US$/tonne | 2754 | 2633 | 2770 | 2850 | 2800 | 2700 | 2750 | 2600 | 2450 | 2300 |
| LNG spot ** | US$/mmbtu | n.a. | 6.2 | 9.0 | 6.3 | 6.7 | 8.5 | 9.3 | 6.8 | 7.9 | 9.6 |

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

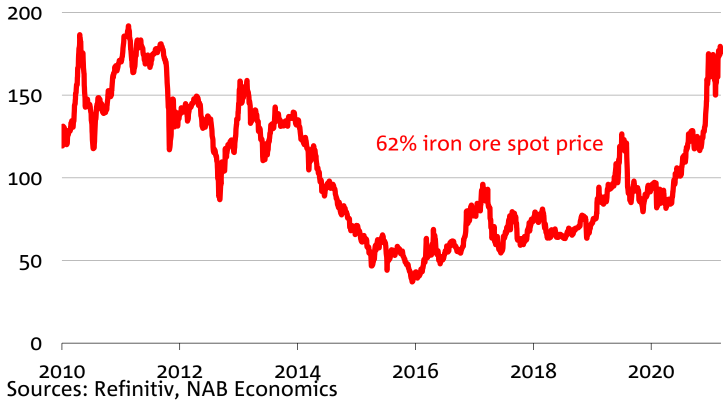
** Japan/Korea

# IRON ORE

Spot prices for iron ore trended higher from mid-February – pushing up to the mid-US$170s a tonne in early March. This was the highest price recorded since late 2011. Constrained supplies and strong Chinese demand following the new year holidays has supported prices, however this strength is not expected to persist. We expect the unwinding of monetary and fiscal policy support to reduce China's steel demand later in the year, while Brazilian and Australian export volumes could rise from current levels, following through to weaker iron ore prices. Spot prices are forecast to average US$150 a tonne in 2021 and US$96 a tonne in 2022.

## PRICES TO DECLINE FROM CURRENT PEAKS

US$/t (CIF)



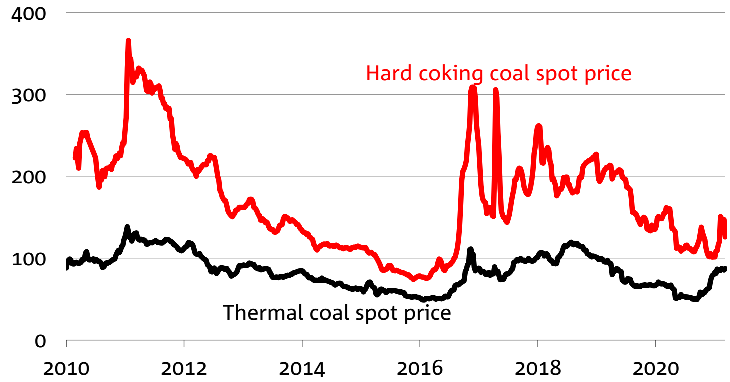

Sources: Refinitiv, NAB Economics

# COAL

Trends in coal markets diverged in February. Spot prices for thermal coal were relatively stable – remaining in the mid-to-high US$80s range seen since mid-January. In contrast, hard coking coal prices fell from peaks above US$150 a tonne in early February to around US$120 in early March. Asian markets continue to adjust to the realignment of trade – with China seeking non-Australian supplies, which are being diverted to other buyers. We forecast hard coking coal to average US$135 a tonne in 2021 and US$155 a tonne in 2022, while thermal coal is forecast at US$83 a tonne in 2021 and US$88 a tonne in 2022.

## PRICES VOLATILE AS TRADE REALIGNS

US$/t (FOB)



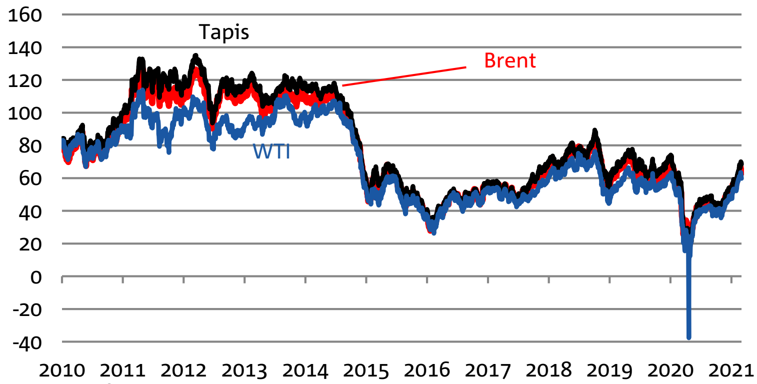

Sources: Bloomberg, NAB Economics

# OIL

Crude oil prices continued to recover in February – with benchmark Brent crude pushing up to almost US$70 a barrel in early March, up around US$15 a barrel from the start of February. On the supply side, OPEC+ members have maintained discipline with regards to production cuts – keeping the market from excess supply – with the potential for these measures to remain in place through April. Demand expectations appear to have strengthened, as global COVID-19 vaccination programs ramp up. Brent crude is forecast to average US$66 a barrel in 2021, before increasing to US$74 a barrel in 2022.

## OIL RECOVERY CONTINUES

US$/bbl



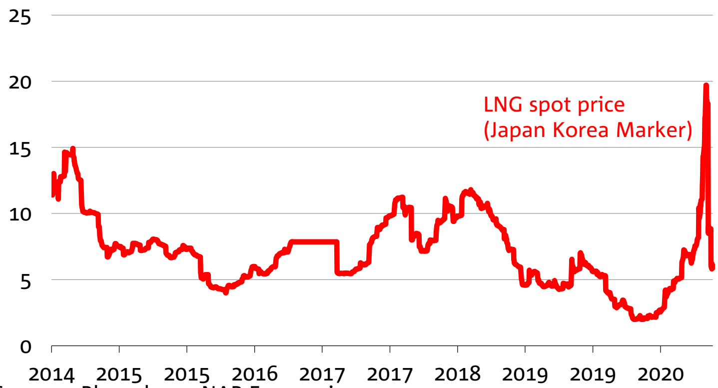

Source: Refinitiv, NAB Economics

# GAS

Spot prices for liquefied natural gas (LNG) eased across February, with the Japan Korea Marker (JKM) dropping below US$6/mmbtu in early March (from over US$8/mmbtu at the start of February). This was largely seasonal, following the end of the peak northern winter demand period. Over the next two years we see a gradual increase in average gas prices, as stronger economic growth supports demand, along with the transition towards gas-fired electricity generation (at the expense of more polluting coal based generation), particularly in Asia. We see the JKM averaging US$7.6/mmbtu in 2021 before edging higher to US$8.4/mmbtu in 2022.

## LNG DOWN ON WEAKER SEASONAL DEMAND

US$/mmbtu

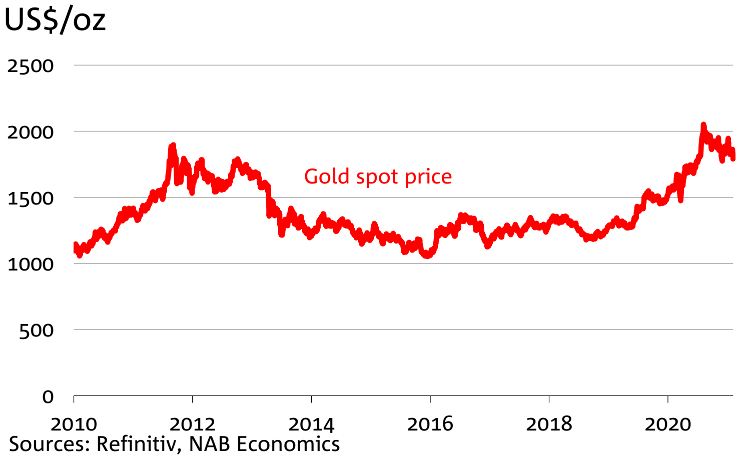



Sources: Bloomberg, NAB Economics

# GOLD

Gold prices continued to drift lower in February, trending towards US$1700 an ounce. In the near term there appears to be limited upside pressure on gold – given an improving economic climate, and low interest rates that are likely to persist. The key uncertainty is inflation, with fears that large scale stimulus could drive inflation higher, increasing the appeal of precious metals. That said, there remains spare capacity in a range of major economies, which could constrain this pressure. We see only limited upside to gold over the next two years – with gold prices averaging US$1806 a tonne in 2021 and US$1838 a tonne in 2022.

# GOLD CONTINUES TO DRIFT LOWER

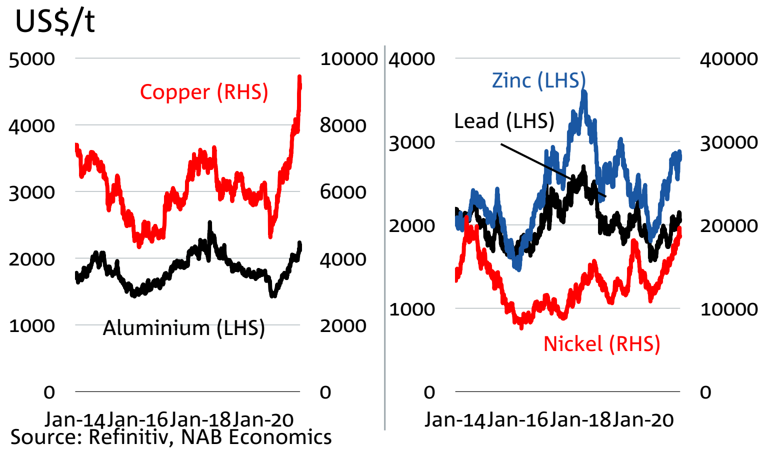



Sources: Refinitiv, NAB Economics

# BASE METALS

Metals prices have generally trended higher over the past few months – as global economic conditions have continued to improve along with the potential for stimulatory support for metals demand. Copper in particular has led the increases – rising above US$9000 a tonne in late February, the highest levels seen since late 2011. In contrast, there was less upward momentum in lead and zinc markets. In the near term, there remain a number of risks around metals supply – including labour disputes and the impact of COVID-19 in South America.

# COPPER LEADS METALS HIGHER




Source: Refinitiv, NAB Economics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