NAB Minerals & Energy Outlook

February 2024

NAB Group Economics

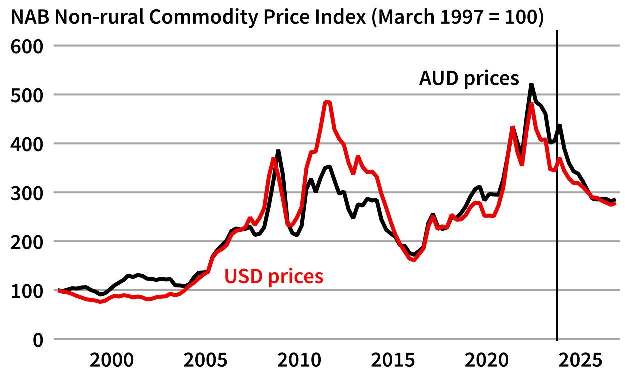
Overview

- Following a sharp increase in US dollar prices in Q4 2023 (when they rose by 14% qoq), NAB's Non-rural Commodity Price Index is expected to ease in Q1 2024 – down by 4.9% qoq. Weaker prices for thermal coal and liquefied natural gas (LNG) are key drivers of this downturn.

- Global economic growth is set to slow in 2024 – which should translate into more modest commodity demand conditions and downward pressure on prices. Despite markets anticipating large-scale Chinese stimulus, we believe such an outcome is unlikely, given concerns around the country's debt levels. In particular, weak conditions in China's property sector look likely to persist, a trend that could last multiple years.

- In annual average terms, our USD index is forecast to fall by around 9.8% in 2024, led by falling prices for thermal coal, iron ore and LNG, away from current elevated levels. The expected strengthening in the Australian dollar means a larger decline in AUD terms, down by around 15.0%.

Commodity prices to resume downward trend in 2024



NAB Commodity Price Forecasts

		Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025
WTI oil	US$/bbl	82.1	78.5	79.0	77.0	75.0	77.0	78.0	79.0	80.0	81.0
Brent oil	US$/bbl	86.6	83.9	83.4	81.4	79.4	81.4	82.4	83.4	84.4	85.4
Gold	US$/ounce	1928.3	1976.4	2025.0	2050.0	2025.0	2000.0	2025.0	2075.0	2000.0	2020.0
Iron ore (spot)	US$/tonne	113	127	122	110	106	102	95	92	88	85
Hard coking coal (spot)	US$/tonne	257	335	320	275	255	250	240	230	210	200
Thermal coal (spot)	US$/tonne	147	136	115	112	108	105	100	98	93	90
Aluminium	US$/tonne	2154	2192	2200	2000	1900	1920	1950	2000	2050	2000
Copper	US$/tonne	8356	8169	8350	8100	8000	8050	8250	8500	8750	9000
Lead	US$/tonne	2170	2121	2050	2000	1900	1920	1940	1960	2000	2020
Nickel	US$/tonne	20353	17220	16500	16000	15500	15000	15250	15500	15600	15800
Zinc	US$/tonne	2427	2500	2525	2350	2250	2175	2200	2300	2350	2400
LNG spot (JKM)	US$/mmbtu	12.6	15.8	11.0	12.0	10.0	15.0	13.0	9.0	8.0	12.0

Gerard Burg, Senior Economist - International | Alan Oster, Chief Economist

Economic overview: weaker global growth in 2024 to drive modest commodity demand

Although the **global economy** has remained resilient in 2023, growth is set to slow in 2024, largely reflecting the lagged impact of tightening monetary policy on demand – particularly in the advanced economies. We expect global growth of 2.7% in 2024 – which outside the extreme outliers of the Global Financial Crisis and initial impact of COVID-19 would represent the weakest rate of growth since 2001. We see a modest recovery to 3.0% in 2025. Growth over this period would be weaker than the long-term average of 3.4% (which was recorded between 1980 and 2022).

Inflation in advanced economies has slowed to 3.1% yoy in November 2023 and is closing in on central bank targets. This has increased the likelihood of central bank policy rate cuts in 2024, despite central bank officials attempting to downplay these expectations. We expect both the Fed and ECB to cut rates of 100 basis points or more this year, while markets currently price addition cuts.

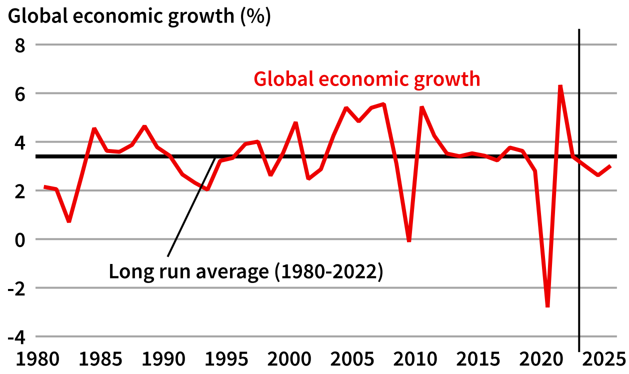
Weaker global growth should translate into more modest demand conditions for most commodities, with **China** the key economy – reflecting its dominance in commodity consumption. We forecast China's growth to slow to 4.5% in 2024, reflecting the continued softness of domestic consumption, combined with headwinds presented by the slump in the property sector and deteriorating demand for its exports in advanced economies.

A key uncertainty for China's commodity demand is the direction of the **property sector**. Since the implementation of the Three Red Lines policies in mid-2020 – aimed to address excessive leverage among property developers – the sector has slumped, with new construction starts and property sales falling substantially. Despite easing policy restrictions, property demand has (so far) remained subdued, and this could be a trend lasting multiple years.

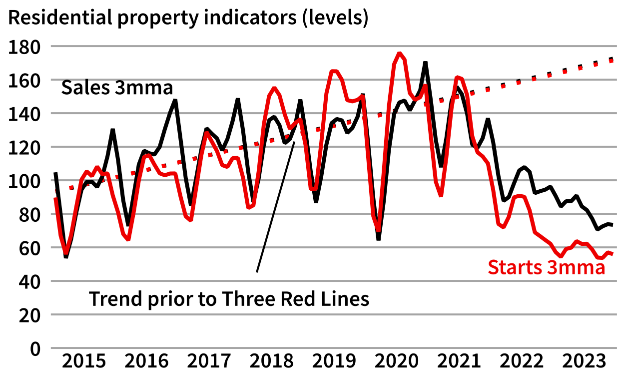
Weaker construction has led to a reduction in China's **steel consumption**. China's apparent steel consumption averaged around 78 million tonnes a month in the first eleven months of 2023 (compared with a peak of around 90 million tonnes in mid-2021) – before dropping in December (albeit there are doubts around the accuracy of December's steel production data). Despite this, iron ore prices have remained elevated, likely reflecting anticipated large scale stimulus to support a recovery in China's activity – something we think is unlikely, given the concerns around the country's debt levels.

Emerging markets – including China – are generally facing a challenging **global trading** environment, which is a major negative given EMs are more trade dependent than advanced economies. That said, recent months have seen an uptick in China's export volumes, with exporters aggressively cutting prices to attract purchases.

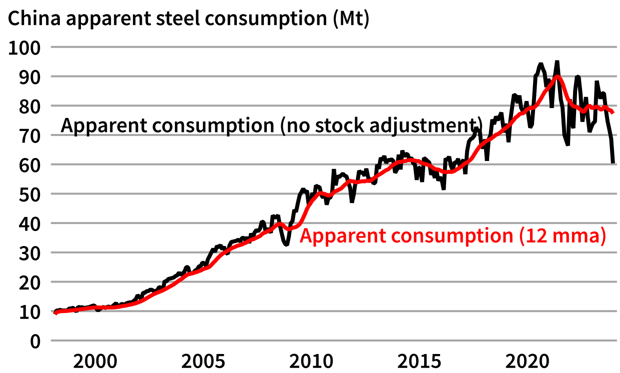
Sub-trend global growth in 2024 and 2025



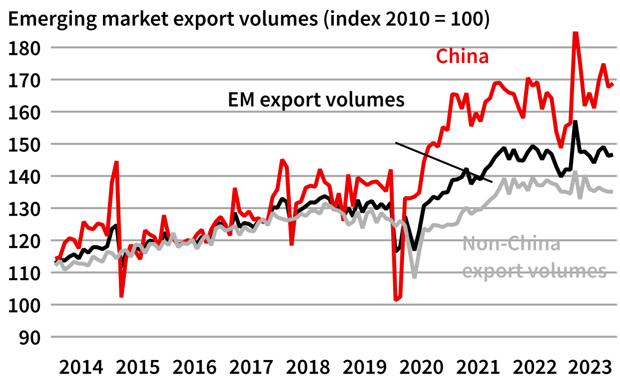
China's property sector continues to slump



China's steel consumption well off peaks



Despite recent spike, export demand set to slow



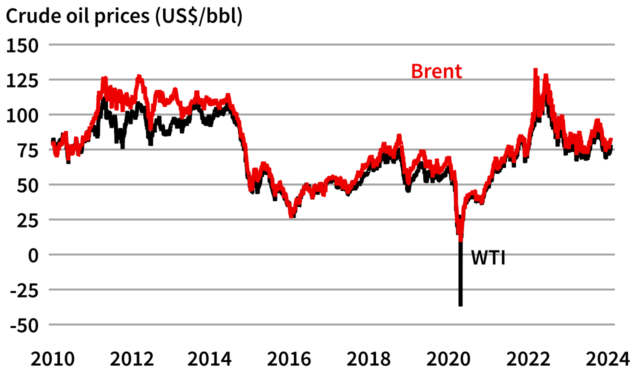
Energy: weaker global economic activity – and with it energy demand – the key driver in 2024

Crude oil prices have edged higher since the start of 2024 – back above US$80 a barrel for Brent crude – having tracked broadly sideways at relatively low levels across November and December. Broadly the global market remains relatively balanced. While OPEC+ have attempted to underpin crude prices by constraining supply, growth in output from non-OPEC producers (primarily the United States) has largely offset these measures. Overall, global demand growth is likely to soften in 2024, reflecting weaker economic activity – with the International Energy Agency anticipating a small surplus in oil markets this year. We expect Brent crude to average US$81 a barrel in 2024, before edging up to US$84 a barrel in 2025.

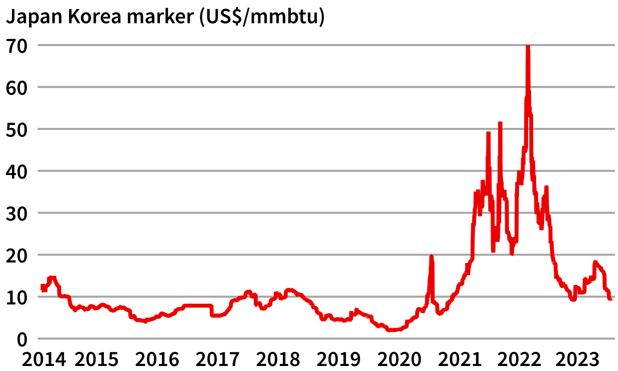
From recent cycle peaks in late-October (at around US$18.6/mmbtu), spot prices for **liquefied natural gas (LNG)** have continued to drift lower, falling below US$10/mmbtu in mid-January. Mild winter weather conditions in both Europe and North Asia that limited natural gas demand, combined with high stock levels, placed downward pressure on LNG prices during a peak demand period. While there has been a cold snap across China and South Korea in the past week, meteorologists do not expect this to continue. The conflict between Russia and Ukraine continues to provide uncertainty around natural gas supply in Europe. We see the JKM averaging US$12/mmbtu in 2024 – although much will depend on weather conditions in the 2024-25 Northern winter.

A wide margin has emerged between **metallurgical** and **thermal coal** spot prices since September 2023. Thermal coal prices plunged in early 2023, as energy markets normalised following the impacts of the Russia-Ukraine war, trending in a range around US$130/t from June onwards. A mild northern winter (so far) has limited thermal coal demand, leading to spot prices easing below these levels at the time of writing. In contrast, metallurgical coal prices rose strongly between July and October 2023 – reflecting a tighter supply and demand balance, particularly a ramp up in Indian imports – and have subsequently remained above US$300/t. Metallurgical coal prices could fall rapidly if global steel output slows substantially. We forecast thermal coal to average US$110/t in 2024, and spot prices for hard coking coal to average US$275/t.

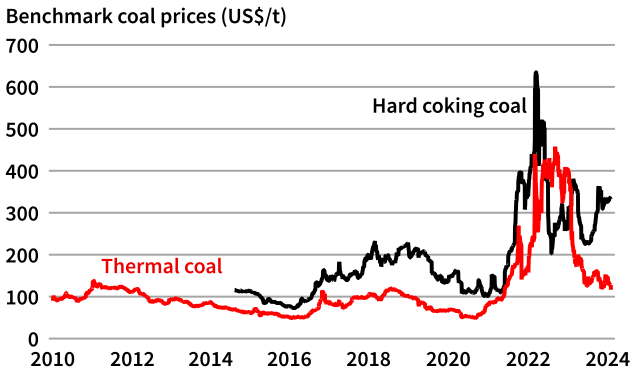
Oil drifting lower with demand set to soften



Mild northern winter has seen LNG retreat



Wide divergence between coal prices



Metals: strength in iron ore & copper may reflect China stimulus expectations that we don't hold

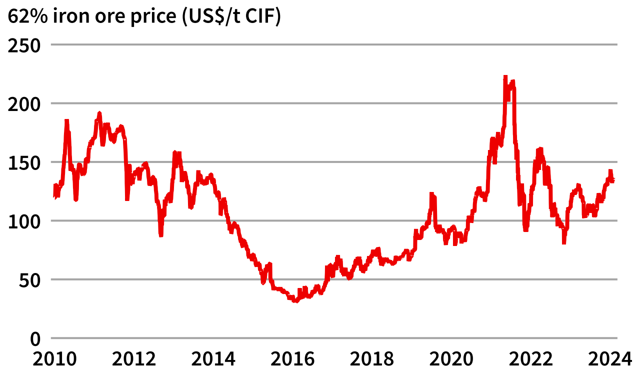
Spot prices for **iron ore** have trended higher since early August, pushing up from around US$100/t to over US$140/t in early January – the highest levels since mid-2022. That said, there are some question marks around the sustainability of this rally, given the weakness in steel fundamentals – particularly China's property construction slump. China's apparent steel consumption has been trending lower and mills have been increasingly dependent on exports. Much of the strength in iron ore markets appears built on speculation around Chinese stimulus boosting steel demand – something we are yet to see any evidence to support. We expect iron ore prices to drift lower in 2024 – down to US$110 a tonne, from US$119 a tonne in 2023.

Trends across the **base metals** complex have been relatively stable since mid-2023, having tracked lower in the early months of last year. The key exception is nickel, which continued to drift lower into the start of 2024 (with prices around half the level they were in early 2023). When compared with other metals, copper is notably stronger, with prices remaining above US$8000/t at the time of writing. This may reflect expectations of Chinese stimulus underpinning construction demand going forward, similar to the strength in iron ore prices (an outcome we do not forecast), although demand from green technologies (including electric vehicles) may persist.

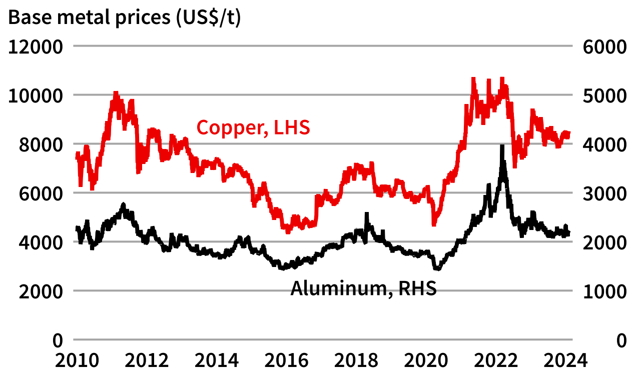
Weaker trends in global industrial production (reflecting the softer global goods demand environment) and the ongoing slump in China's property sector is likely to limit base metal demand in 2024. Copper demand in the electric vehicle manufacturing sector could be one bright spot. Consistent with the softer demand outlook, the various international study groups forecast market surpluses in 2024, which should add downward pressure to spot prices. We expect copper prices to average US$8125/t in 2024 (down from around US$8475/t this year), while aluminium prices are expected to drift lower – to US$2000/t (from US$2250/t in 2023).

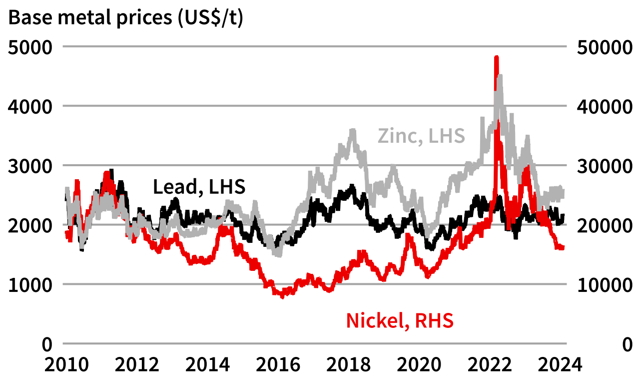
Spot prices for **gold** pushed up above US$2000/oz in late November 2023, before hitting an all-time high (in nominal terms) in late December. That said, prices have largely trended sideways since this time. At face value, this appears somewhat counter to the improving economic data – with inflation in the advanced economies tracking closer to target in late 2023, which spurred a rally in both equity and bond markets. Reports suggest that central bank purchases of gold have been ramping up in recent times – most notably China and Russia – underpinning global demand. We forecast gold prices to average US$2025/oz in 2024, up from around US$1942/oz in 2023.

Iron ore prices higher on China stimulus hope

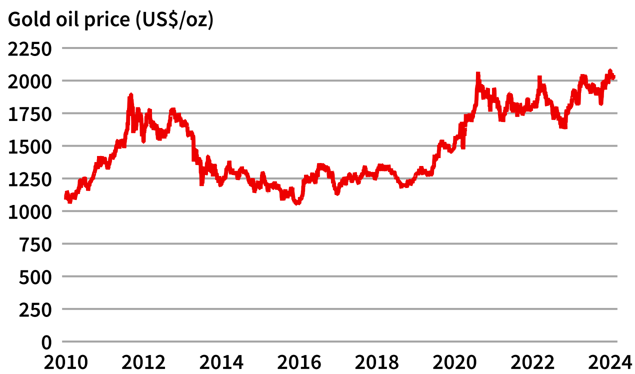


Mixed trends in recent base metal prices





Gold prices holding up on central bank purchases



Sources: Macrobond, Refinitiv, Bloomberg, NAB Group Economics

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