NAB Minerals & Energy Outlook
March 2024
NAB Group Economics

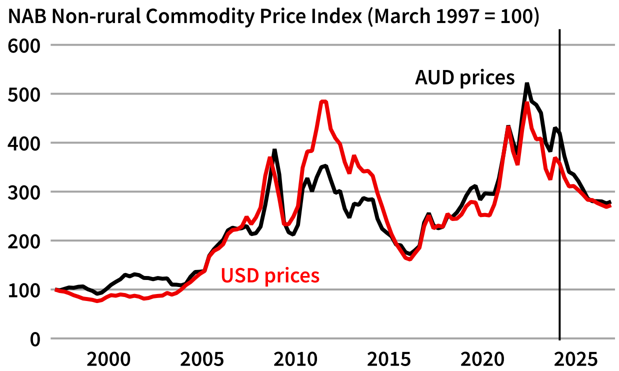
Overview

- NAB's Non-rural Commodity Price Index is expected to ease in Q1 2024 – down by around 3.3%. The key contributor to this downturn is liquefied natural gas (LNG), where a mild northern winter limited gas demand, allowing European storages to remain above its five-year average in late February.

- The impact of restrictive monetary policy in advanced economies and various headwinds to China's economy should slow global economic growth to 2.8% in 2024. Outside the extreme outliers of the global financial crisis and the initial wave of COVID-19, this would be the weakest rate of growth since 2002. This is expected to negatively impact a broad range of commodities in 2024.

- In annual average terms, our USD index is forecast to fall by around 9.7% in 2024. This reflects falling prices for thermal coal along with iron ore and LNG. We forecast the Australian dollar to strengthen across 2024, meaning that there is a slightly larger decline in annual average AUD denominated commodity prices – down by 12.3%.

Stronger Aussie dollar sees slightly larger falls in AUD commodity prices 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$/bbl	82.1	78.5	76.0	77.0	75.0	77.0	78.0	79.0	80.0	81.0
Brent oil	US$/bbl	86.6	83.9	82.0	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	130	114	104	100	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	9.5	9.0	10.0	13.6	13.0	9.0	8.0	12.0

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

Economic overview: slowing global and Chinese economies to impact commodity demand in 2024

Our **global economic forecast** for 2024 has been revised slightly higher this month. This reflects the stronger than anticipated growth in the United States in Q4 2023, providing a higher base for growth this year. Overall, we expect the global economy to expand by 2.8% in 2024 (compared with 2.7% previously). Despite this revision, this would still be the weakest rate of growth since 2002 (excluding the extreme outliers of the Global Financial Crisis and the initial wave of COVID-19). We anticipate growth at 3.0% – but growth remaining below its long-term average (3.4% between 1980-2022).

Reports from **China's** Economic Work Conference in December suggested that its growth target would be unchanged at "around 5%" in 2024, but there have been recent rumours that a cut to "around 4.5%" could be announced in March – in line with our forecast for 2024. China continues to face substantial headwinds to growth – including ongoing weakness in domestic consumption, the severe downturn in the property sector and deteriorating demand for goods exports in advanced economies – which will negatively impact demand for a range of commodities.

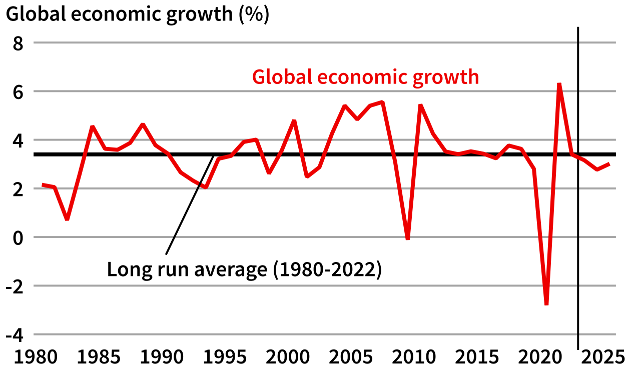
In particular, the downturn in China's **property sector** is a key factor for commodity demand, especially steel. Prior to the downturn, property construction accounted for around one-third of China's steel consumption, however total building (resdiential and non-residential) construction starts were down by around two-thirds from their 2020 peak in December 2023. This downturn could persist for multiple years.

In the absence of large scale stimulus (which we believe is unlikely), prospects for China's domestic steel demand remain subdued. Exports provide a limited opportunity to offset domestic weakness, having already risen sharply in 2022 – raising trade tensions with a range of countries. Given this climate, **steel maker profits** have trended down. In late 2023, they were at their lowest levels since the downturn of late 2015-early 2016. China's steel output fell by 6.9% yoy in January and could trend lower across the year. This adds downside risk to iron ore prices.

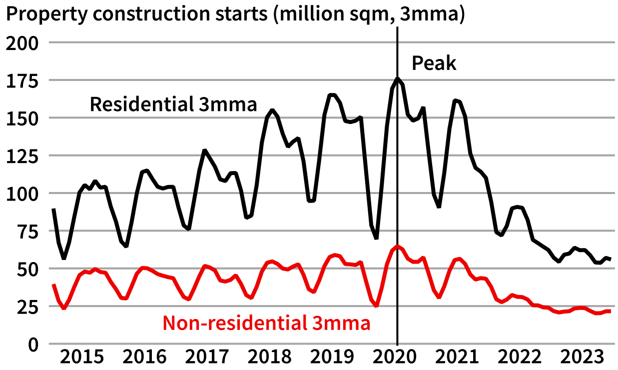
The slowing in **global inflation** stalled at the end of 2023, with global consumer prices increasing by 5.3% yoy in December (having edged up from 5.2% yoy in November). Inflation has persisted at higher rates among emerging market economies – at 6.7% yoy in December – albeit there remain highly divergent trends between individual countries in this grouping.

The path of inflation (particularly in advanced economies) remains a key uncertainty to the global outlook. Should the pause in disinflation seen in late 2023 continue, this could delay the start of **central bank policy rate cuts** in 2024, impacting growth, particularly next year. For the US we expect 125bps of rate cuts this year, while market pricing is around 90bps but has been volatile of late.

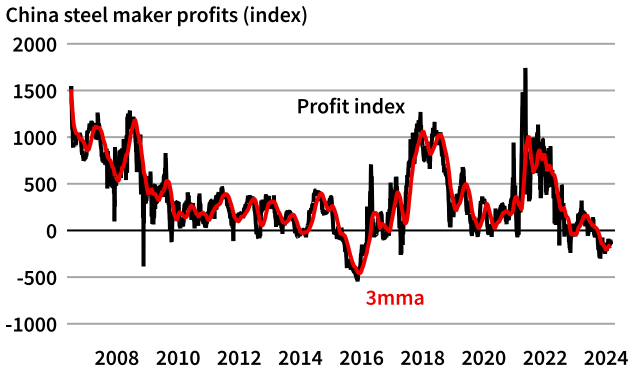
Global growth to fall below trend in 2024 and 2025



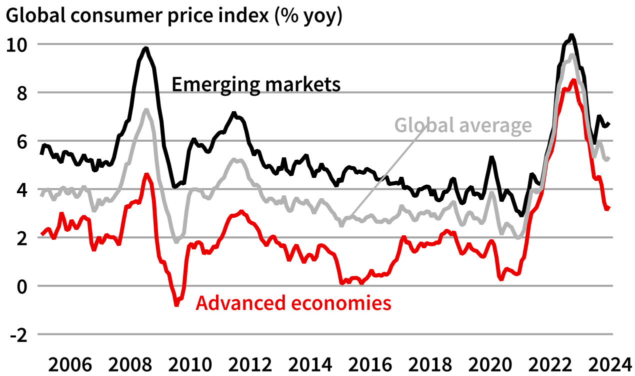
China's property downturn more than just residential



China's steel profitability comparatively weak



Path of inflation could influence policy rate setting



Sources: Macrobond, NAB Group Economics

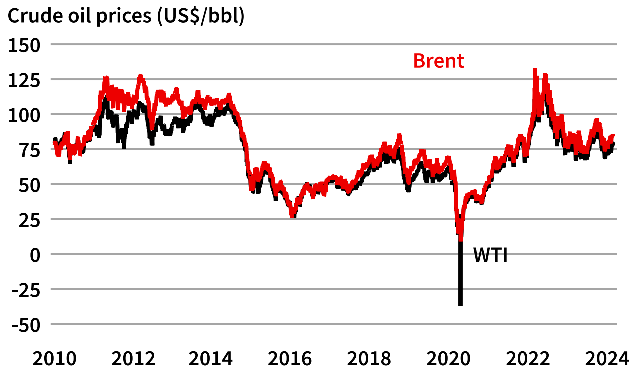
Energy: energy prices expected to ease as supply growth meets softening demand

Crude oil prices continued to edge higher across February – with benchmark Brent prices moving from around US$80 a barrel at the start of the month to US$84 a barrel by the end. While slower global growth is expected to negatively impact crude oil demand in 2024, OPEC+ producers have attempted to restrict supply to limit the downside pressure on prices. While oil tankers have not yet been targeted by Houthi rebels, potential disruption to Red Sea traffic (critical for supplies from the Middle East to Europe and from Russia to Asia) likely contributed to recent upside movements. Our forecasts are unchanged – we expect Brent crude to average US$81 a barrel in 2024, before edging up to US$84 a barrel in 2025.

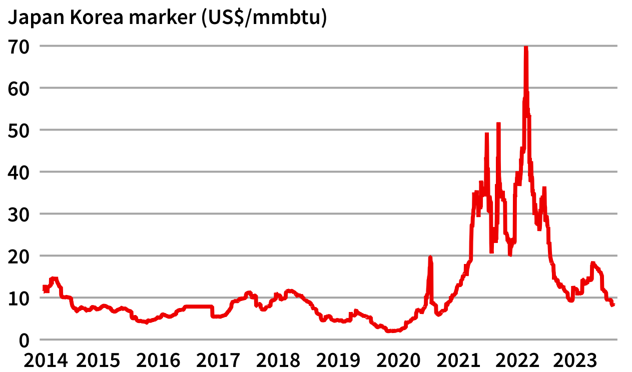
Having been relatively stable between mid-January and mid-February (at around US$9.4/mmbtu), spot prices for **liquefied natural gas** (LNG) dropped sharply in late February, down to US$8.1/mmbtu. Comparatively mild winter weather in both North Asia and Europe limited demand during the peak consumption period, leaving European storage volumes above their five-year range in late February. In the case of the European Union, natural gas consumption in all forms fell by 13.5% in 2022 and Bruegel data suggests a further 4.6% fall in 2023 albeit the share of LNG in total gas consumption has risen from around one-quarter to over half. New LNG production capacity is expected in both 2024 and 2025 – largely in Qatar and the United States – which should ease supply pressures (including those related to the Russia-Ukraine war). Reflecting recent price weakness, additional supply and likely weak demand growth in Europe this year, we have revised our JKM forecast down to US$10.5/mmbtu (from US$12/mmbtu previously).

Spot prices for both **thermal** and **metallurgical coal** stepped down marginally at the start of February, before essentially tracking sideways across the month. There remains a wide margin between these benchmarks, which started to emerge in early 2023, with met coal prices trending around US$315/t compared with around US$120/t for thermal. For the latter, increased demand from both India and China was offset by higher exports from Australia and Indonesia – keeping markets well balanced. Expanded metallurgical coal supply from Queensland is expected to boost exports but place downward pressure on prices. We forecast thermal coal to average US$110/t in 2024, and spot prices for hard coking coal to average US$275/t.

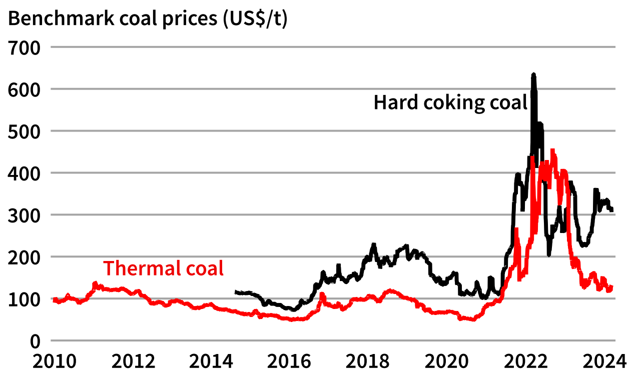
Middle East tensions holding oil up, despite soft demand



LNG dips to its lowest level since early 2021



Coal prices remain divergent but expected to fall



Sources: Macrobond, Refinitiv, Bloomberg, NAB Group Economics

Metals: weaker global activity to slow metal demand in 2024

Iron ore spot prices trended higher across much of the second half of 2023, peaking in early January just above US$140/t. We argued that this rally was largely built on speculation, with prices subsequently retreating – as expectations of many market participants of large-scale Chinese stimulus have failed to eventuate – below US$125/t in late February. China's steel demand in 2024 looks uncertain. Prior to the real estate downturn, property construction accounted for around one-third of China's steel consumption, with demand from other sectors insufficient to offset the weakness. While Chinese exports of steel have increased, this will raise trade tensions, with India applying anti-dumping tariffs in late 2023. This should result in weaker iron ore demand, seeing prices drift lower in 2024 – down to US$112 a tonne, from US$119 a tonne in 2023.

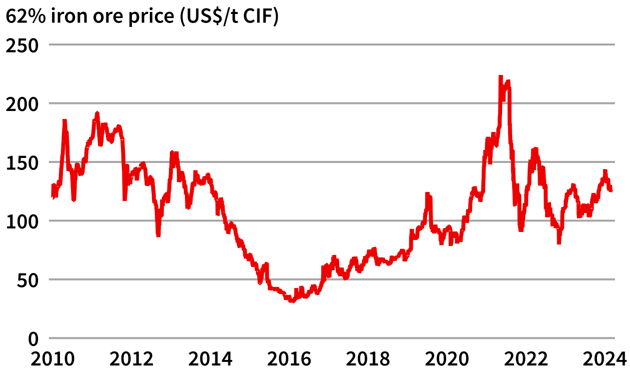
Broadly, the **base metals** complex continues to search for direction. The LME index fell by almost 5% peak to trough in early February, before partially recovering some of these losses across the middle of the month. That said, from a longer-term perspective, the index has tracked sideways within a relatively narrow band since May 2023.

Within the complex, zinc, lead and copper saw the largest drops in early February, while aluminium was comparatively stable. Nickel was an exception in that its rally saw prices push to the highest level since November 2023 (albeit prices are well down from recent cycle peaks from early 2023).

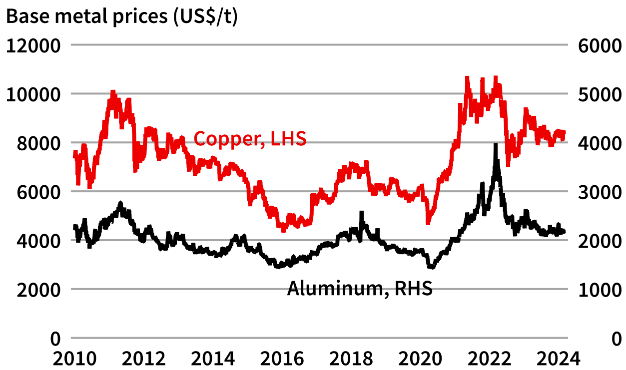
We expect global industrial production to soften in coming months – given weaker demand for goods, particularly in advanced economies due to the impact of restrictive monetary policy. Similarly, the downturn in China's property sector is likely to persist – limiting demand for a range of metals. The various international metal study groups anticipate market surpluses in 2024, which should add downward pressure to prices. There are no changes to our forecasts this month, with year-average metal prices tipped to drift lower in 2024.

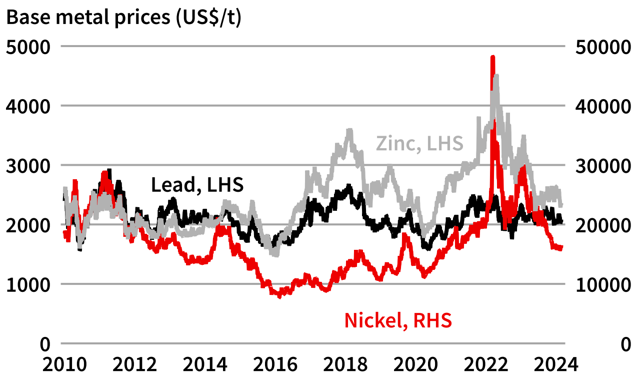
The spot price of **gold** has essentially tracked sideways since mid-December 2023, trending just above US$2000/oz. Given gold's perceived value as a hedge against inflation, the downward trend in global inflation since late 2022, along with recent equity rallies, would generally been seen as negative pressures on gold prices. However central bank purchases of gold have exceeded 1000 tonnes a year in both 2022 and 2023 – led by China and Poland – while consumer demand in China has been strong (reflecting domestic economic uncertainty). We forecast gold prices to average US$2025/oz in 2024, up from around US$1942/oz in 2023.

Iron ore easing as stimulus fails to appear

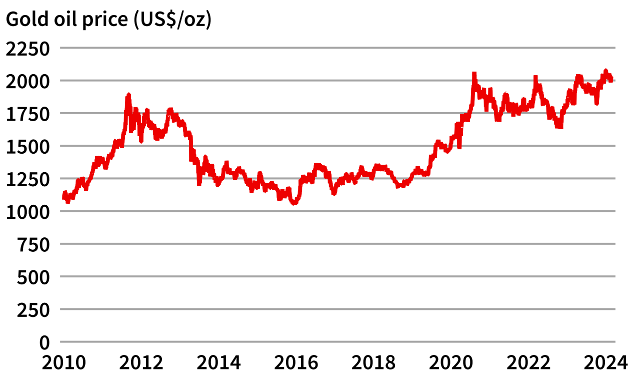


Metal prices search for direction





Central bank purchases hold gold near US$2000/oz



Sources: Macrobond, Refinitiv, Bloomberg, NAB Group Economics

Group Economics

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

Jacqui Brand
Executive 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) 422 081 046

Brody Viney
Senior Economist
+(61 0) 452 673 400

Behavioural & Industry Economics

Robert De Iure
Senior Economist – Behavioural & Industry Economics
+(61 0) 477 723 769

Brien McDonald
Senior Economist – Behavioural & Industry Economics
+(61 0) 455 052 520

International Economics

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

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

Global Markets Research

Skye Masters
Head of Research
Markets, Corporate & Institutional Banking
+(61 2) 9295 1196

Important notice