NAB Minerals & Energy Outlook

April 2024

NAB Group Economics

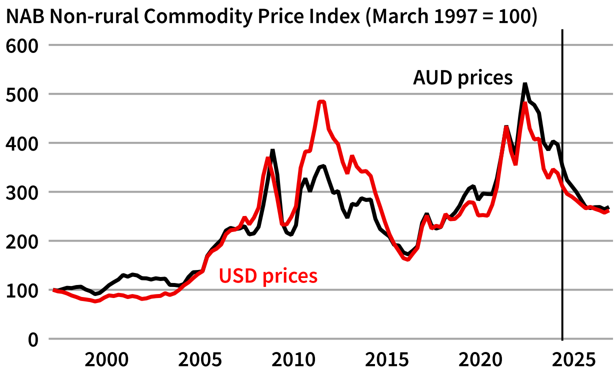
Overview

- Preliminary data suggests that NAB's Non-rural Commodity Price Index eased by around 2.3% qoq in Q1 2024. This was almost entirely driven by the steep downturn in liquefied natural gas (LNG) – where reduced usage and ample supply calmed markets (notwithstanding a modest uptick in March).

- Global economic growth is set to fall below its long-run trend in 2024 and 2025 – reflecting the impact of restrictive monetary policy in advanced economies (with uncertainty around when policy begins to ease) as well as headwinds to China's economy. This is likely to negatively impact commodity demand.

- Price forecasts for a number of commodities have been revised this month – both up and down – however, the sizeable weight of iron ore and LNG in our commodity index means that we now anticipate a 13.6% fall in USD terms in 2024 (compared with 9.7% previously). The anticipated strengthening in the Australian dollar means a larger decline in average AUD commodity prices – down by 16.0%.

Weaker global growth set to see commodity prices trending lower across 2024 and 2025



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$/bbl	82.1	78.5	77.5	77.0	75.0	77.0	78.0	79.0	80.0	81.0
Brent oil	US$/bbl	86.6	83.9	82.9	81.4	79.4	81.4	82.4	83.4	84.4	85.4
Gold	US$/ounce	1928.3	1976.4	2072.2	2175.0	2100.0	2055.0	2025.0	2075.0	2000.0	2020.0
Iron ore (spot)	US$/tonne	113	127	126	104	100	95	92	88	85	84
Hard coking coal (spot)	US$/tonne	257	335	312	250	235	225	210	200	190	190
Thermal coal (spot)	US$/tonne	147	136	127	125	115	110	100	98	93	90
Aluminium	US$/tonne	2154	2192	2202	2150	2005	1945	1950	2000	2050	2000
Copper	US$/tonne	8356	8169	8443	8505	8200	8050	8250	8500	8750	9000
Lead	US$/tonne	2170	2121	2074	2000	1900	1920	1940	1960	2000	2020
Nickel	US$/tonne	20353	17220	16584	16500	15500	15000	15250	15500	15600	15800
Zinc	US$/tonne	2427	2500	2452	2350	2250	2175	2200	2300	2350	2400
LNG spot (JKM)	US$/mmbtu	12.6	15.8	9.4	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: slower growth in 2024 and 2025 set to constrain commodity demand

Stronger than expected growth in India and Russia (despite some doubts around the accuracy of these data) drove an upward revision to our **global economic forecasts** in March. We expect the global economy to expand by 2.9% in 2024 before edging up to 3.0% in 2025. Given relatively weak growth in 2023, should this forecast eventuate it would be the first time that the global economy has recorded three consecutive years of growth below its long-term average (3.4% recorded between 1980 and 2022) since the early-to-mid 1990s.

Despite **China's** growth target remaining unchanged in 2024 (at "around 5%"), our forecast for China's growth remains below this mark, at 4.5%. As the largest consumer of most commodities (with the noatble exception of oil), weaker growth in 2024 – the slowest since 1990 excluding the COVID-19 pandemic – should negatively impact global commodity demand. China's economy continues to face various headwinds – including weak domestic consumption (in part due to a lack of policy support), the sharp downturn in its property sector and weak prospects for goods exports in advanced economies (despite an acceleration in export volumes in the latter part of 2023).

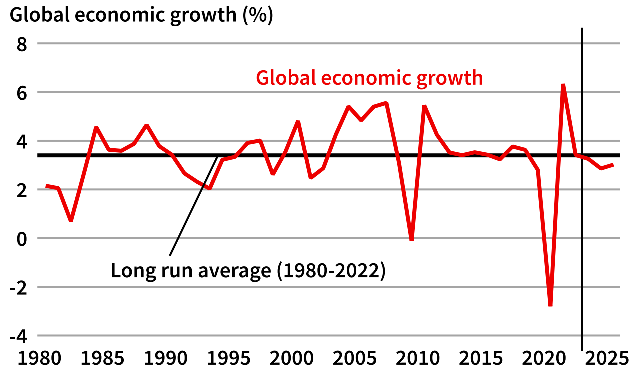
China's **property sector** has been a major consumer of commodities in the past – accounting for around one-third of domestic steel consumption prior to the severe downturn following the implementation of the Three Red Lines policy. Residential construction starts (smoothed over three months due to a high degree of volatility) in February were less than a quarter of the peak in 2020 – representing a substantial drop in steel demand. Reported steel inventories in China jumped during February.

The path of **inflation** back towards typical levels remains volatile. Our estimate of global inflation eased slightly in January (following an uptick in December 2023) – dipping below 5% yoy for the first time since October 2021 (when inflation was still accelerating.

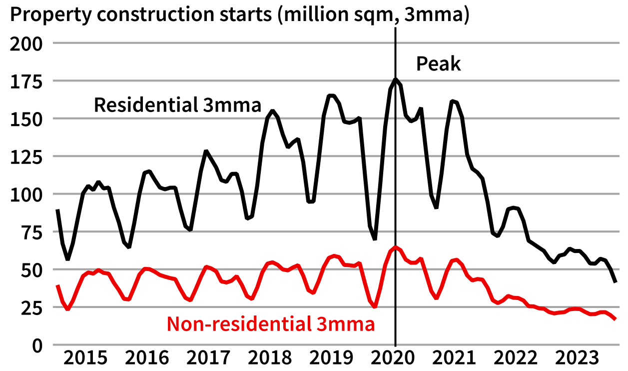
Some recent high monthly inflation reads have shifted market expectations of **central bank rate cuts** in 2024. At the start of 2024, markets priced around 150 basis points of cuts from the Fed this year, however this had been reduced to around 70 basis points at the time of writing. Similarly, market expectations around cuts from the ECB have also been pared back. Delays to rate cuts, or a less aggressive profile when cuts commence, could negatively impact growth, particularly in 2025, constraining end-user demand for commodity-intensive manufactured goods.

The weak growth outlook should negatively impact **global trade**, however export volumes accelerated in January 2024, recovering from steep declines in late 2023. This was driven by a surge in China's export volumes (up 12.5% yoy 3mma), which reflected steep cuts in export prices. In contrast, exports volumes from the rest of the world contracted.

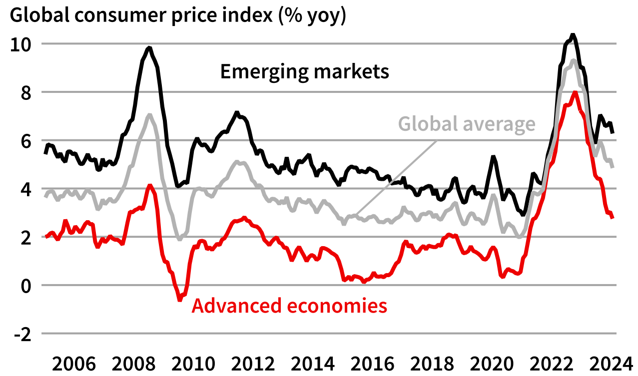
Sub-trend growth in 2024 and 2025



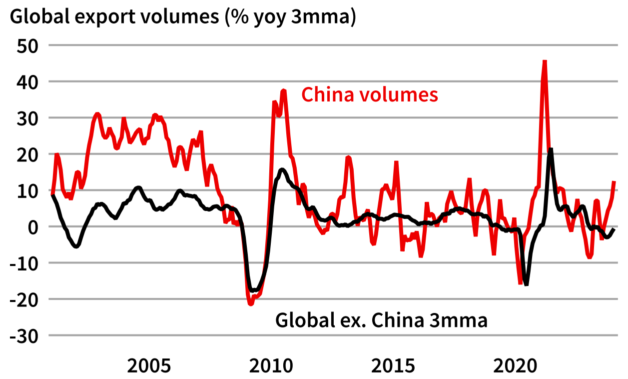
China's property downturn a drag on economic growth



Inflation slowing, but central banks not yet cutting rates



China the driver of growing global exports in early 2024



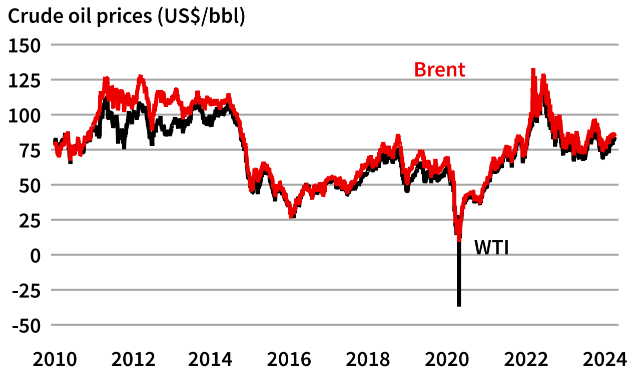
Energy: liquid fuels tracked sideways In March, while met coal crashed on weaker steel prospects

On average, **crude oil** prices rose in March, to around US$85.4/barrel for benchmark Brent crude (compared with US$83.5/barrel in February) – albeit prices largely tracked sideways across March, following the uptick during February, with tensions in the Middle East persisting. Oil markets remain relatively balanced – with OPEC+ extending its production cuts (totalling around 5.3 million barrels a day) through to at least the start of July, while weaker global economic activity should continue to constrain demand. It is worth noting that production discipline from OPEC+ has been partially offset by growth elsewhere (most notably the US). We continue to expect Brent crude to average around US$81/barrel in 2024, before moving up to around US$84/barrel in 2025.

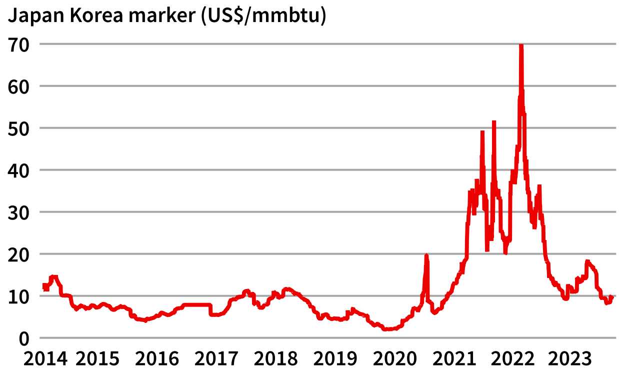
Spot prices for **liquefied natural gas** (LNG) tracked sideways at near-three year lows in the first half of March (at US$8.1/mmbtu), before moving closer to US$10/mmbtu in the second half of the month. Russian attacks to Ukrainian gas storage facilities, along with brief disruptions to Australian LNG exports due to Tropical Cyclone Megan (which did not damage LNG infrastructure) appeared to drive the modest uptick in prices. Demand prospects are likely to be subdued in the near term, reflecting weak global economic activity and the shifts in the European fuel mix (following Russia's invasion of Ukraine). In contrast, new LNG production capacity is expected in 2024 and 2025, which should further ease supply pressures. We forecast the JKM to average US$10.5/mmbtu in 2024 (assuming an uptick in prices on stronger demand at the end of the year) and remain around this level in 2025.

There were divergent trends in coal markets in March. Having edged up at the end of February, **thermal coal** prices tracked broadly sideways across the month – ending March just under US$130/t (despite weakness in China's domestic market). In contrast, **metallurgical coal** moved down in March – from over US$300/t at the start of the month – to around US$275/t at the end, before plunging sharply at the start of April. In part, this reflected a loss of confidence in markets following China's National People's Congress – where stimulus anticipated by some observers (though not including NAB) failed to eventuate. Reflecting the steep decline in metallurgical coal prices, we have lowered our forecast for hard coking coal to US$255/t (previously US$275/t), while we have revised thermal coal higher, to US$120/t (previously US$110/t).

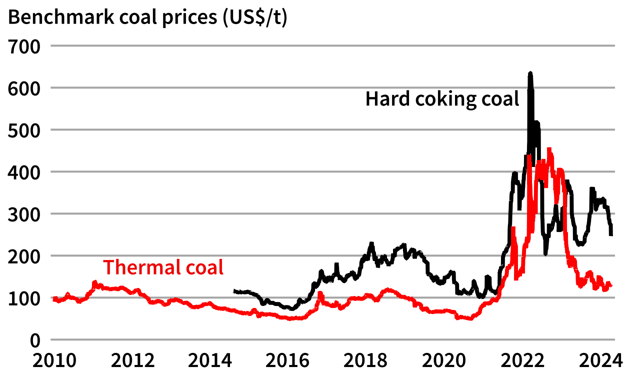
Crude oil held the February rise through March



Supply concerns paused LNG's downturn



Met coal plunged as China resisted large-scale stimulus



Sources: Macrobond, Refinitiv, Bloomberg, NAB Group Economics

Metals: stimulus reality sees iron ore plunge, while tight supply drives base metals higher

Iron ore spot prices retreated from mid-March onwards, down from around US$125/t at the end of February to around US$110/t at the end of March, before dropping close to US$100/t in early April. We felt for some time that market fundamentals – particularly the weakness of demand due to the steep downturn in China's construction sector – did not justify such high iron ore prices, and the National People's Congress in mid-March finally ended hopes of some market participants of large-scale stimulus that would boost steel demand. Reflecting the steep fall in prices in March (below what we had previously anticipated for Q2), we have lowered our forecast for iron ore – to US$106/t (from US$112 previously) – with potential downside risk to this forecast. We expect prices to ease further, to US$87/t in 2025.

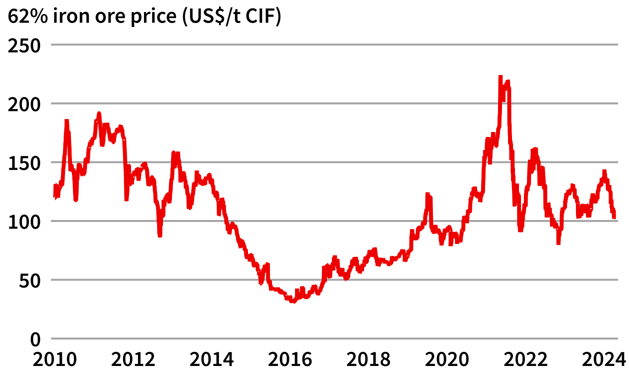
In contrast, **base metals** prices rose in the first half of March, with the LME index increasing by 5.4% from the start of the month to its peak. This largely reflected an increase in copper prices, following the announcement of coordinated production cuts at Chinese smelters – as a shortage of copper concentrate has severely reduced their profit margins.

Similarly, zinc prices also rallied in March, in part related to output cuts from a South Korean smelter. Other metals prices also increased from the start of the month, albeit these increases were comparatively modest.

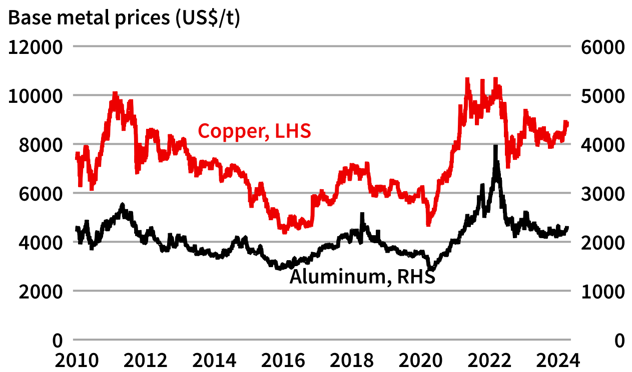
Fundamentally, supply side pressures appear to be largely originating from mining related issues – including geological constraints on output as well as labour disputes. These impacts to metal supply could limit the downside pressure on metals prices – despite the impact of weaker economic activity (particularly end-user demand in advanced economies) on global metal consumption. Reflecting the recent uptick, we have revised our forecasts for copper and zinc higher, albeit we still average prices to be lower in 2024 than 2023.

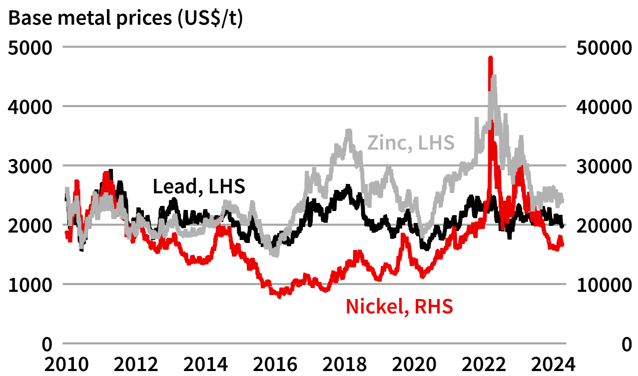
The spot price of **gold** accelerated rapidly in March – rising above US$2250/oz for the first time in early April, easily surpassing the previous record set in late December. A range of factors have supported gold demand – including physical purchases by central banks (led by Türkiye, China and India in early 2024), along with investment demand, reflecting shifting market expectations around inflation and monetary policy settings as well as growing geopolitical tensions. Purchases by Chinese investors were also reportedly strong during Chinese New Year (according to the World Gold Council). The recent spike in gold has pushed spot prices well above our previous forecasts for 2024. As a result, we have revised this higher – to US$2100/oz, before easing to US$2030/oz in 2025.

Iron ore retreats as stimulus hopes were dashed

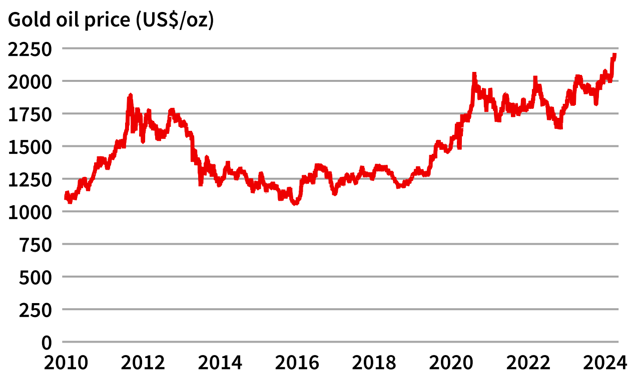


Copper and zinc rise on supply side constraints





Gold prices surge to fresh record highs



Sources: Macrobond, Refinitiv, Bloomberg, NAB Group Economics

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