NAB Minerals & Energy Outlook
May 2024
NAB Group Economics

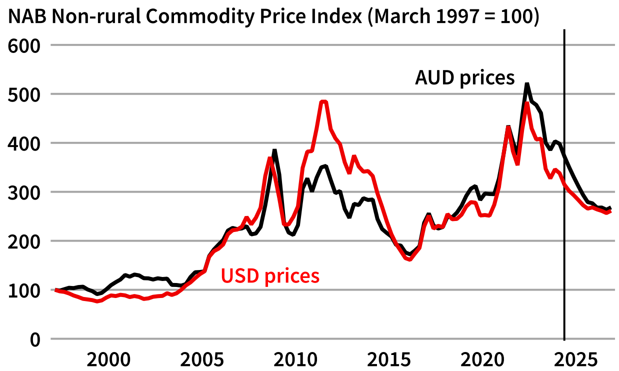
Overview

- Recent commodity price trends have been highly mixed, with base metals and gold increasing sharply, a more modest upward trend for crude oil and steeper declines for bulk commodities. NAB's Non-rural Commodity Price Index is weighted towards the composition of Australian resources exports, meaning that large falls in steel making commodities – led by iron ore – will drive the index lower in Q2 – currently estimated at -6.8% qoq.

- The global outlook remains subdued, including for China – the leading consumer of most commodities. Soft domestic consumption and increasing trade tensions (due to the surge in the country's exports) offer limited growth opportunities.

- While we have revised our forecasts higher for base metals and gold, we still see our commodity index falling substantially in 2024 – down on average by 12.6%. The change to the outlook for central bank policy rates means a weaker than previously forecast profile for the Australian dollar, meaning that the fall in AUD terms is now 12.0%.

Bulk commodities more than offset stronger base metals to drive our index lower in the outlook period



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$/bbl	82.1	78.5	77.5	83.1	80.6	80.1	78.0	79.0	80.0	81.0
Brent oil	US$/bbl	86.6	83.9	82.9	87.5	85.0	84.5	83.0	83.4	84.4	85.4
Gold	US$/ounce	1928.3	1976.4	2072.2	2275.0	2300.0	2175.0	2100.0	2075.0	2025.0	2020.0
Iron ore (spot)	US$/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$/tonne	2154	2192	2202	2500	2400	2250	2000	2000	2050	2000
Copper	US$/tonne	8356	8169	8443	9600	9500	9000	8500	8250	8600	9000
Lead	US$/tonne	2170	2121	2074	2100	2000	1980	1970	1960	2000	2020
Nickel	US$/tonne	20353	17220	16584	18500	18000	17500	17000	17000	17200	17400
Zinc	US$/tonne	2427	2500	2452	2750	2250	2175	2200	2300	2350	2400
LNG spot (JKM)	US$/mmbtu	12.6	15.8	9.4	9.5	10.0	13.1	13.0	9.0	8.0	12.0

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

Economic overview: global growth outlook subdued; policy rate cuts look set to be delayed

We expect **global economic growth** to slow to 2.9% in 2024, reflecting the lagged impacts of restrictive monetary policy, before growth edges higher to 3.0% in 2025. This modest recovery is expected to continue in 2026 – with growth increasing to just 3.1%. Should this outcome eventuate, this would be the first four year period that global growth has remained below its long term average (3.4% between 1980 and 2022) since 1992-1995.

A major contributor to the comparatively subdued outlook in 2026 is weak growth in **China**. Demographic pressures on China's economy are intensifying – its total population started falling in 2022, but its working age population has been declining since 2014 – reducing the country's potential rate of growth. This factor contributes to the prolonged downturn in the property sector, which is likely to remain a multi-year drag on growth. We expect growth to fall short of this year's target ("around 5%"), and remain below this level going forward.

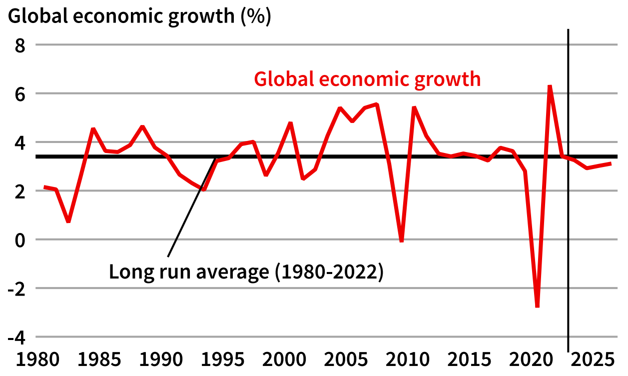
Chinese authorities are yet to implement any substantial policies to address weakness in **domestic consumption**, and the export led growth appears unstainable. The US and various European Union governments have accused Chinese producers of attempting to address its industrial overcapacity by dumping its goods in global markets. Weakness in China's domestic consumption, growth in industrial output and rising export volumes and falling prices make a reasonable case for accusations of overcapacity and potentially dumping (with the latter having a higher burden of proof). Failure to effectively address these concerns could trigger a fresh trade war.

As the largest consumer of most commodities (with the notable exception of oil), soft domestic consumption and the potential constraints on export demand are a negative pressure on commodity markets going forward.

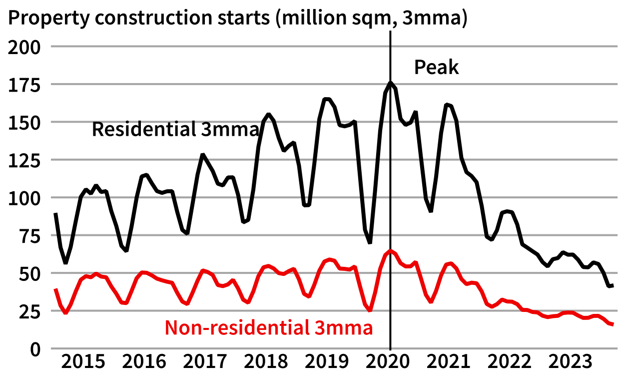
Inflation in advanced economies (AEs) remained essentially unchanged for the third straight month at 2.7% in March. Trends within individual consumption categories remain divergent – in the US, for example, goods prices rose by 0.1% yoy (reflecting steep falls in durable goods prices, while other goods prices rose more rapidly), while services prices rose by 4.0% yoy (with housing expenses remaining stubbornly high).

While the major AE **central banks** (excluding Japan) are flagging the possibility of future rate cuts, upside surprises to inflation data this year – particularly for the US – and resilient labour markets has seen a considerable reduction in financial market pricing. Early in 2024, markets priced around 150 basis points of cuts from both the US Fed and European Central Bank. At the time of writing, these expectations have been pared back to around 45 and 80 bps respectively. We expect the Fed to start cutting in September, but this will require an improvement on recent inflation readings.

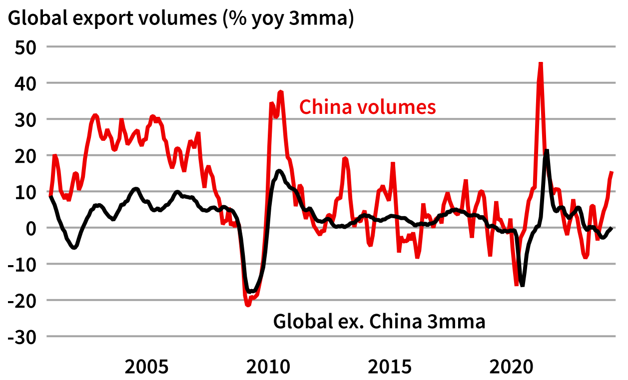
Outlook sees four years of sub-trend growth



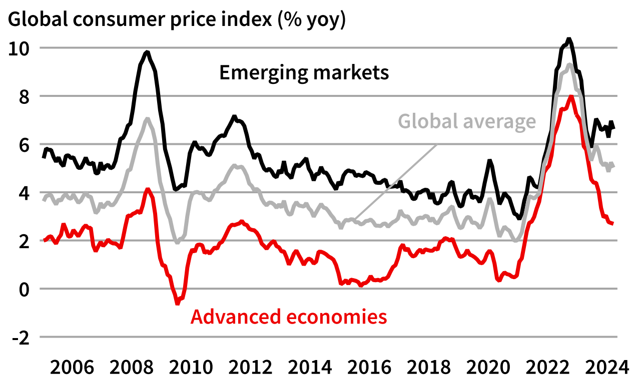
China's property sector continues to decline



Surge in China's exports has raised trade tension



Advanced economy inflation stable in March



Sources: Macrobond, NAB Group Economics

Energy: Middle East supply fears help keep prices elevated, despite weaker demand prospects

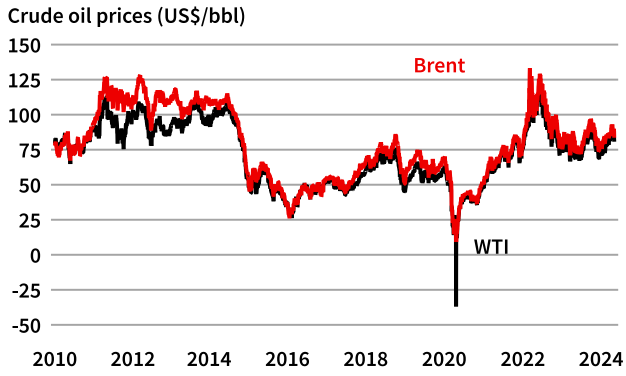
Crude oil prices have continued to trend higher, with benchmark Brent crude pushing back above US$90/barrel in the first half of the month, before easing back slightly. Upward pressure on prices in part reflected supply side fears, particularly the recent escalation in Middle East tensions between Israel and Iran. In addition, OPEC+ members have maintained production discipline, with output cuts of just under 6 million barrels a day set to continue through the current quarter. On the demand side, the International Energy Agency suggest that global oil consumption slowed in Q1, and full year growth is expected to fall below the pre-COVID-19 trend. Reflecting the strength of prices through April – well above earlier expectations – we have revised our full year forecast higher to US$85/barrel in 2024, before edging marginally lower to US$84/barrel in 2025.

Spot prices for **liquefied natural gas** (LNG) moved marginally higher in April – with the Japan-Korea marker pushing back above US$10/mmbtu – with the month's peak coming after Iran launched a missile and drone attack against Israel. Prices subsequently retreated back towards US$10/mmbtu as this crisis deescalated. Recent supply fears related to the Middle East and Ukraine have coincided with the seasonal low point in demand, limiting the upside to prices. This could change in coming months, as initial forecasts for a hot summer in Asia may boost gas-fired electricity demand. New production capacity in the second half of 2024 and 2025 should ease some of the supply side pressures going forward. Our forecast for the JKM is unchanged, we expect it to average US$10.5/mmbtu in 2024, and remain around this level in 2025, before the fresh supply starts to put more downward pressure in 2026.

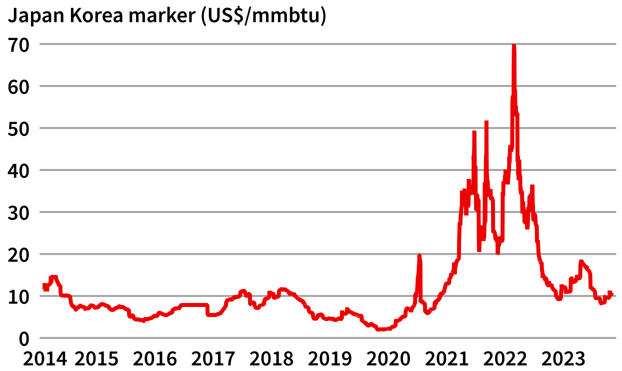
The downward drift in **metallurgical coal** prices slowed in early April, with spot prices essentially tracking sideways (within a US$15 range) across the rest of the month – with prices now well below the levels seen between late-2023 and early-2024. Weakness in Chinese steel demand, and growing tensions around the country's steel exports, should start to limit blast furnace production (and with it demand for metallurgical coal). The price range for **thermal coal** during April was even more narrow – just over US$10/t – and this reflected a short term spike at the end of the month.

Our coal forecasts are unchanged this month, we expect hard coking to average US$255/t this year, before drifting lower to around US$200/t in 2025. Similarly, thermal coal is tipped to average US$120/t in 2024 and US$95/t in 2025.

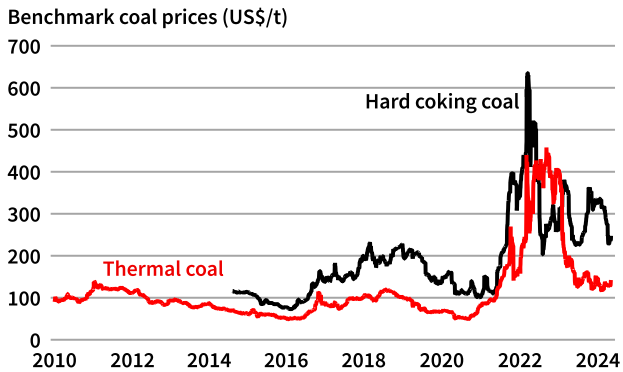
Middle East tensions have elevated crude prices



Limited demand curtailed upside supply pressure



Coal traded within narrow bands in April



Sources: Macrobond, Refinitiv, Bloomberg, NAB Group Economics

Metals: tighter than expected supply drives a rapid spike in base metals

Iron ore prices briefly dropped below US$100/t in early April, before moving back to around US$110/t by the end of the month – roughly in line with its position at the end of March. Reports suggest that Chinese steel mills may have expanded purchases in recent times to restock ahead of the May Day holiday, however underlying steel consumption still appears weak – in a large part reflecting the downturn in property construction (a key end use consumer). Combined with increased scrutiny around steel exports – amid accusations of dumping – we expect iron ore demand to remain subdued in the near term. Our forecasts are unchanged this month – we expect iron ore to average US$106/t in 2024 and ease further in 2025 to US$87/t.

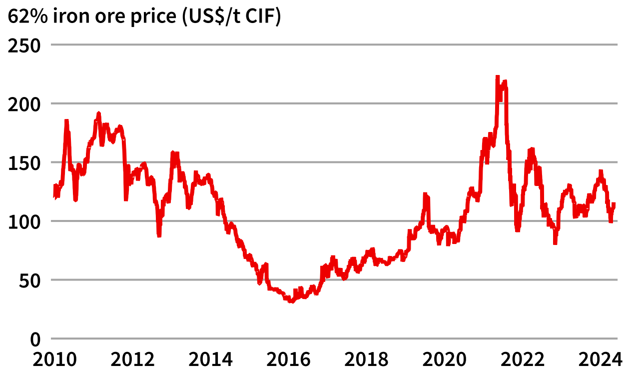
Base metals prices surged in April, with the aggregate LME index almost 15% higher at the end of the month than the start. Prices for zinc, nickel and copper led the increases across the complex – albeit for zinc and nickel, these increases were coming off comparatively weaker levels, whereas copper was already strong, with the copper price approaching US$10000/t by the end of April.

The latest outlook from the International Copper Study Group has substantially cut its projected market surplus for 2024, with mine production growing more slowly due to weaker than expected ramp-ups from existing projects and delays in commissioning new mines. Similarly, the International Nickel Study Group also cut its expected surplus, however lower supply reflects production being curtailed due to the steep fall in the metal's price in 2023.

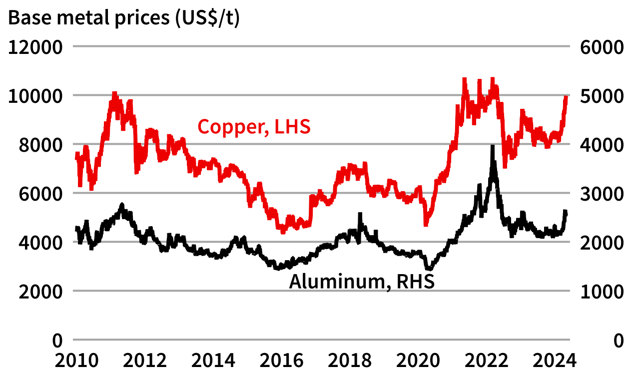
Reflecting the much tighter supply-demand balance for metals now anticipated, we have revised our forecasts for the base metals complex higher in the near term.

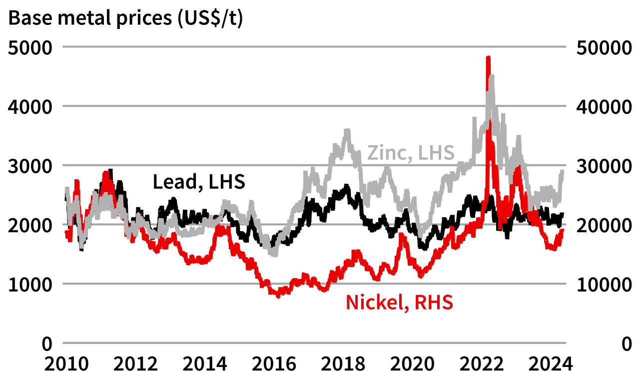
Spot prices for **gold** also accelerated in early April, rising from just over US$2200/oz at the end of March to over US$2400/oz mid-month, a new record high. Inflation in advanced economies has not retreated as rapidly as anticipated – pushing back expectations around when major central banks will begin to cut rates – underpinning some of the demand for gold (given its perceived advantages as an inflation hedge). In addition, the World Gold Council noted strong investment demand in both China and India in Q1. Central bank purchases remain a key driver, with Türkiye, China and India the leading buyers in Q1. The jump in gold prices in April pushed them well above our 2024 forecast, and we have revised our fed funds rate profile (pushing rate cuts back). This means we expect gold to average around US$2200 in 2024 before easing back to US$2050 in 2025.

Restocking supports modest rebound, but trend is down

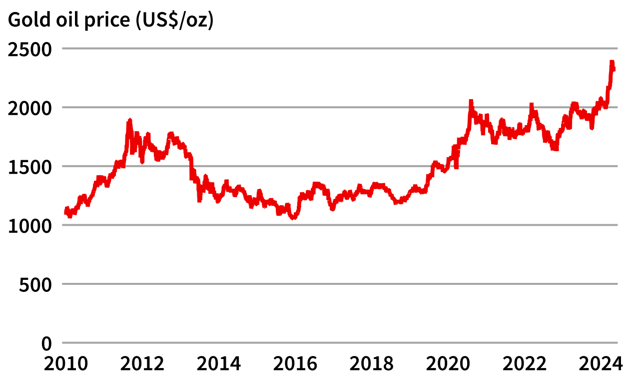


Mine shortages support uptick in base metal prices





Gold surges to yet another record high



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

Gareth Spence
Senior Economist
+(61 0) 422 081 046

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

Lea Jurkovic
Economist – Agribusiness
+(61 0) 452 090 770

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

Thao Nguyen
Economist – Data & Analytics
+(61 0) 451 203 008

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

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