NAB Minerals & Energy Outlook

June 2024

NAB Group Economics

Overview

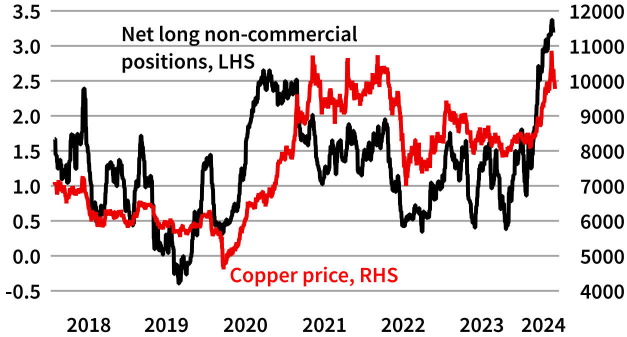
- The recent divergence in commodity markets continued in May, with relatively subdued trends across the energy and steel materials sector in stark contrast to surging prices for base metals and gold. In the case of base metals, some of the recent surge has been driven by speculators – with the chart to the right highlighting a considerable increase in speculative net long positions to the LME and COMEX copper markets over recent months.

- The global economic environment remains relatively unfavourable for commodities. Consumption in advanced economies should remain subdued in the near term given still restrictive monetary policy, while trade tensions could start to impact commodity consumption in China (noting its own domestic demand is weak).

- We have modestly revised our forecasts for coal and the quarterly profile for LNG this month. NAB's Non-rural Commodity Price Index is forecast to fall by 12.3% in 2024 and a further 12.6% in 2025 – led by softer prices for bulk commodities (iron ore and coal). While there is upside risk to our forecasts for base metals, they only have a low weight in our aggregate price measure.

Surge in copper prices (to record highs) has coincided with increased speculative pressure in futures markets

Net long non-commercial positions (Mt) and copper price (US$/t)



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$/tonne	257	335	312	242	235	225	210	200	190	190
Thermal coal (spot)	US$/tonne	147	136	127	136	125	115	110	100	98	93
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	11.1	10.0	11.7	13.0	9.0	8.0	12.0

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

Economic overview: China's surging exports drive trade tensions with other economies

At a high level, our **global economic outlook** is essentially unchanged – with slightly stronger conditions for both the Euro-zone and United Kingdom in 2024 offset by a weaker forecast for Japan. Restrictive monetary policy is set to slow global growth to 2.9% in 2024, before growth edges marginally higher in both 2025 and 2026 – to 3.0% and 3.1% respectively. If this outcome eventuates, it would be the first time since the first half of the 1990s that there was a four-year period of global growth below its long-term average (3.4% between 1980 and 2022).

The path of **inflation** remains a key uncertainty to our outlook. Inflation in advanced economies edged slightly lower in April, to 2.6% yoy, having been stable at 2.7% yoy for three straight months.

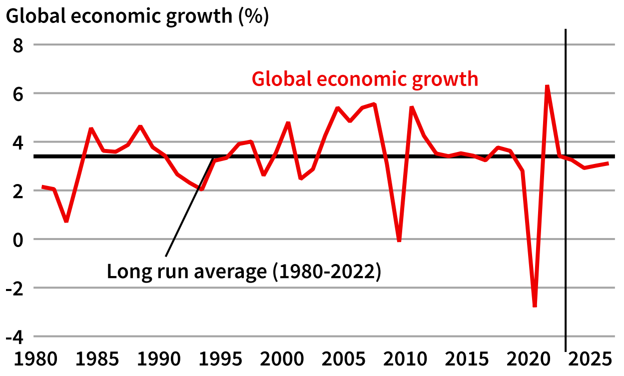
The stickiness of advanced economy inflation has reduced the likelihood of rapid **policy rate cuts** by central banks in 2024. In early January, markets were pricing six rate cuts (150 basis points) by both the US Federal Reserve and European Central Bank in 2024. At the time of writing, less than two cuts from the Fed and two-to-three cuts from the ECB are priced in by December (but with a June cut seen as highly probable). As monetary policy typically comes with a sizeable lag, further delays to policy rate cuts could negatively impact growth rates in 2025 and 2026.

Recent months have seen a surge in **China's export volumes** – in stark contrast to the trends for the rest of the world – which has fuelled trade tensions with the United States, European Union and India (among others) – given concerns around industrial overcapacity and allegations of dumping by Chinese producers. While advanced economies have focussed primarily on higher value added green technology products (such as electric vehicles, solar panels and batteries), the steepest falls observed in export prices in recent months has tended to be in lower value added products (chemicals, basic metal products and textiles, clothing and footwear).

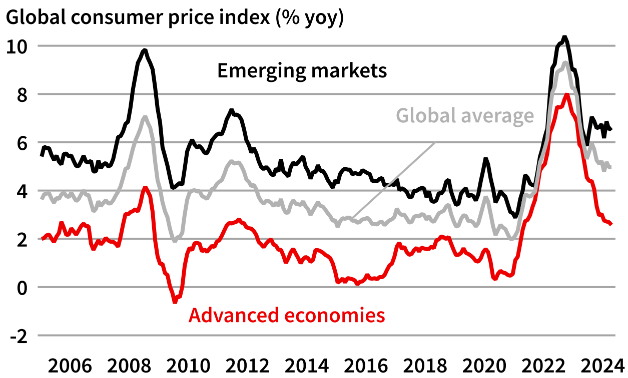
In mid-May, the Biden Administration announced a range of **tariff increases** on Chinese imports, most notably a quadrupling of the tariff on electric vehicles (EVs) (from 25% to 100%) while tariffs on solar panels doubled (to 50%). Overall, the scope of the tariff increases is relatively small – according to the White House, they will impact US$18 billion worth of imports (compared with total imports of US$427 billion from China in 2023).

A key question is what (if any) action the European Union take and how **China responds** to both regions. The EU investigation into China's EV subsidies is due to be completed by early July, with expectations that countervailing duties (currently 10%) will be raised. Tit-for-tat tariff increases in 2018 (in response to the Trump Administration's measures) triggered an economically damaging trade war.

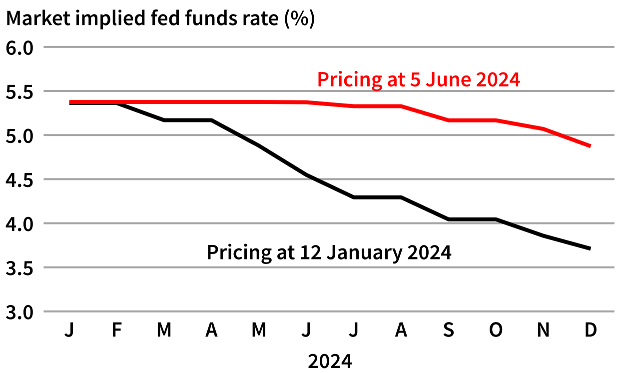
Sub-trend growth set to continue through 2026



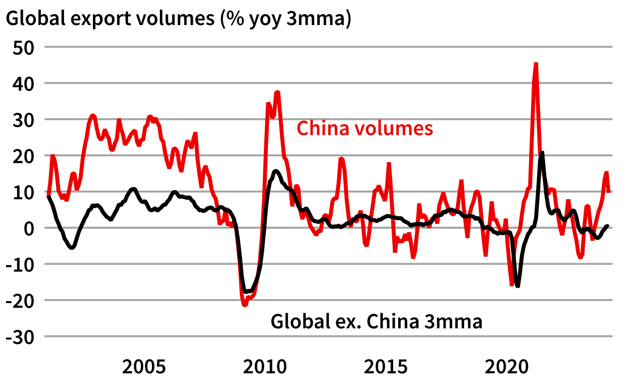
AE inflation edged lower in April, following stable Q1



Market policy rate expectations reined in



Trade tensions on the rise following China's export surge



Energy: above average temperatures in Asia drove modest upticks in LNG and thermal coal

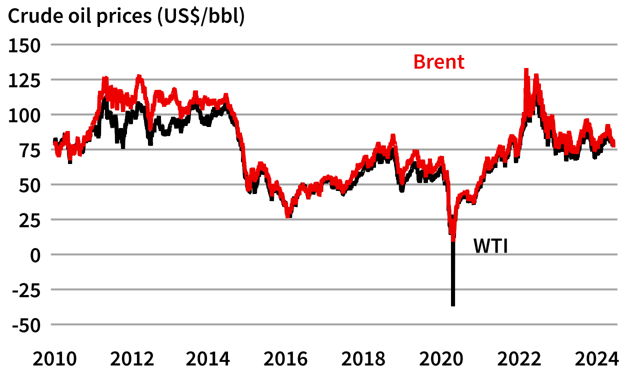
Crude oil prices drifted slightly lower across May, with benchmark Brent crude near US$80/barrel at the end of the month (compared with US$88/barrel at the end of April). Tensions in the Middle East eased marginally – as fears of direct conflict between Israel and Iran eroded – reducing some of the risks to global supply. OPEC+ negotiated an extension of its production cuts – with 3.66 million barrels a day (mbd) cuts by all members set to run through into 2025, while voluntary cuts of 2.2 mbd by some members (which were set to expire at the end of June) continuing in Q3. The global economic picture is unchanged, meaning demand should remain subdued. Our forecasts for crude oil prices are unchanged this month, we expect Brent crude to average US$85/barrel in 2024 and US$84/barrel in 2025.

Liquefied natural gas (LNG) prices moved higher again in May, with the Japan-Korea marker pushing back to around US$12/mmbtu at the end of the month (compared with US$10.2/mmbtu at the start). Heatwave conditions across much of Asia – particularly notably India in May – appeared to boost demand for LNG for electricity generation, with import estimates for India during the month rising to its highest level since October 2020. The prospect of above average summer temperatures in Asia could add some upside pressure to our outlook, however we still anticipate additional supply in the latter part of 2024 and across 2025 which should see downward pressure build. We have altered our forecast profile slightly this month, raising the Q2 average and lowering Q4, keeping our year average forecast unchanged at US$10.5/mmbtu, however the hot weather implies some upside risk. We expect prices to remain around this level in 2025, before the additional supply adds downward pressure.

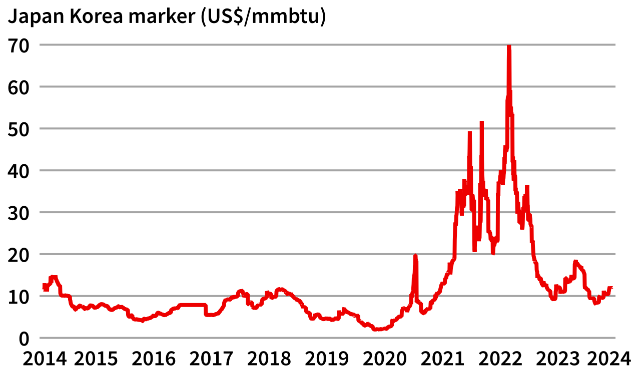
Similarly, the heatwave conditions have supported demand for **thermal coal**, with spot prices rising sharply at the end of April and early May (up almost US$20/tonne) before drifting a little lower across the rest of the month. This could continue to underpin demand in the near term, supporting prices. In contrast, **metallurgical coal** prices were comparatively stable. We expect that trade tensions around China's steel exports will start to impact domestic steel production, and with it demand for coking coal.

We have slightly revised our forecasts this month – with thermal coal marginally higher and hard coking coal marginally lower, reflecting recent trends. Met coal is forecast to average US$254/t in 2024 before dropping below US$200/t in 2025. Thermal coal is expected to average US$126/t in 2024 and around US$95/t in 2025.

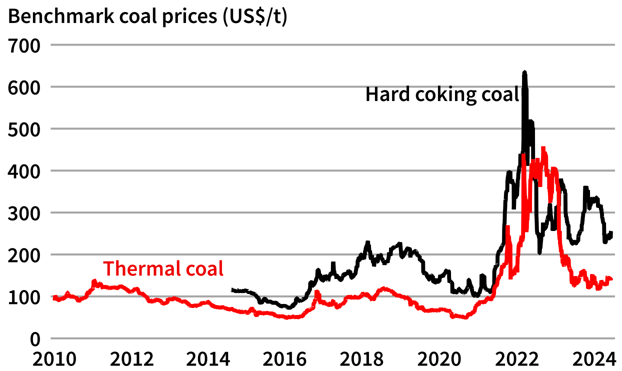
Easing Middle East tensions saw crude oil soften in May



Asian heatwave in May supported stronger LNG demand



Coal edged slightly higher in May, particularly thermal



Sources: Macrobond, Refinitiv, Bloomberg, NAB Group Economics

Metals: surge in base metal prices driven in part by speculative pressures in futures markets

Iron ore prices pushed a little higher in early May, continuing the modest recovery that commenced in the second half of April (from earlier lows), with prices settling around US$120/t for most of the month. That said, there was a noticeable dip in early June, back towards US$110/t. Underlying demand conditions are not particularly favourable – China's apparent steel consumption continues to trend lower, with the downturn in property construction activity a key contributor. Exports have been a key support for China's steel producers – net steel exports rose by 47% in 2023 and have increased by 28% yoy in the first four months – however this may prove unsustainable due to growing trade tensions. We have kept our forecasts unchanged this month – we expect iron ore to average US$106/t in 2024 and ease further in 2025 to US$87/t.

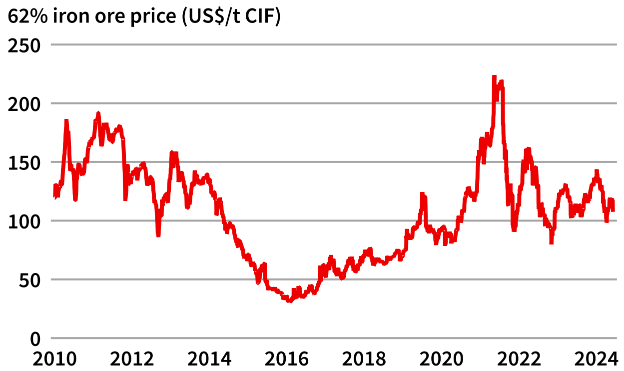
Base metals prices continued to trend higher across the first two-thirds of May, with the LME index climbing by 9.3% from the start of the month to its peak on 21 May – the highest level recorded since May 2022. This was driven by stronger prices for zinc, nickel and copper.

Copper prices began accelerating in February, as shortages of concentrate – primarily from Latin American mines – became more apparent (counter to expectations of sufficient supply to produce a refined surplus in 2024). However, there has also been a rapid acceleration in futures market open interest on both the London Metals Exchange and the COMEX – with speculative money betting on price increases. There are similar trends across other metals as well.

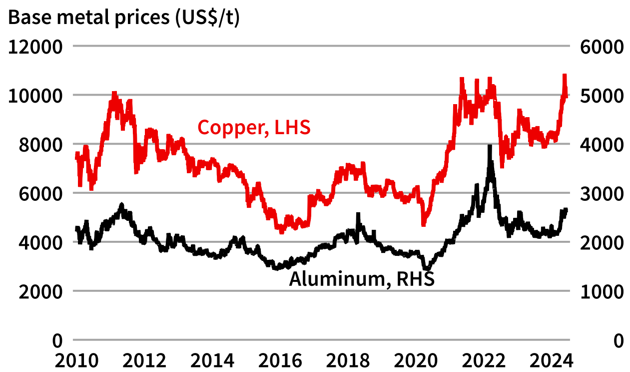
While spot prices are typically above our current forecasts, the potential for a sharp correction should speculative pressures reverse gives us pause in lifting these projections. That said, we highlight some upside risk in the near term.

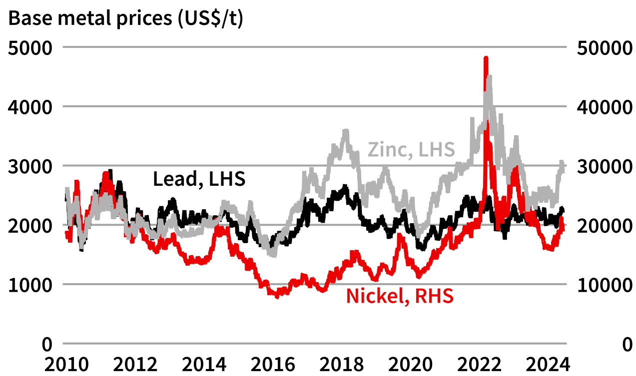
The spot price for **gold** trended higher across the first half of May – pushing up to a new record high of US$2427/oz – before retreating back to around US$2350/oz by the end of the month. Central bank purchases have been a key driver of gold demand this year – with the World Gold Council noting that the strength of Q1 – led by Türkiye, China and India – continued into April. The comparative stickiness of inflation may also support investment in gold, given the metal's perception as an inflation hedge – albeit the World Gold Council notes strong investment demand in China (where inflation has remained comparatively muted). We continue to forecast gold to average around US$2200/oz in 2024 (although there is some upside risk to this forecast), before easing to US$2050/oz in 2025.

Iron ore sustained modest recovery in May

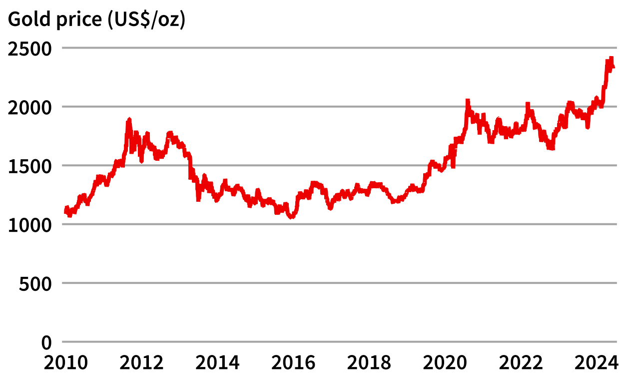


Speculators drove metals higher in May





Gold to fresh record high in mid-May before pull back



Sources: Macrobond, Refinitiv, Bloomberg, NAB Group Economics

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