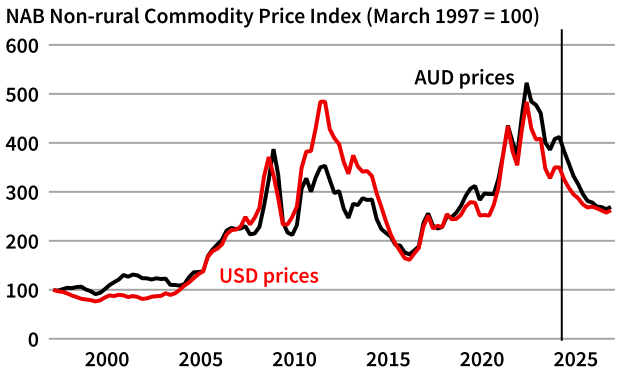
NAB Minerals & Energy Outlook
July 2024
NAB Group Economics

Overview

- Volatility in commodity markets continued in June, with a sharp correction in base metals, following the speculative surge recorded in May.
- NAB's Non-rural Commodity Price Index declined in Q2 – down by around 7.0% qoq in US dollar terms – as weaker trends for steel making commodities more than offset stronger gold, base metal and energy prices.
- We continue to see a broadly unfavourable economic environment for commodity markets. China's domestic demand remains subdued, advanced economy activity is constrained by restrictive monetary policy and trade tensions are rising.
- We have made modest upward revisions to the forecasts for LNG and zinc this month – resulting in a slightly smaller annual decline in our index. NAB's Non-rural Commodity Price Index is forecast to fall by 10.8% in 2024 in US dollar terms, and a further 14.0% in 2025 – led by coal and iron ore.

US dollar denominated commodity prices fell in Q2, with further declines anticipated in the rest of 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$/bbl	82.1	78.5	77.5	81.7	81.6	80.1	78.0	79.0	80.0	81.0
Brent oil	US$/bbl	86.6	83.9	82.9	84.6	86.0	84.5	83.0	83.4	84.4	85.4
Gold	US$/ounce	1928.3	1976.4	2072.2	2335.7	2300.0	2175.0	2100.0	2075.0	2025.0	2020.0
Iron ore (spot)	US$/tonne	113	127	126	111	100	95	92	88	85	84
Hard coking coal (spot)	US$/tonne	257	335	312	243	235	225	210	200	190	190
Thermal coal (spot)	US$/tonne	147	136	127	136	125	115	110	100	98	93
Aluminium	US$/tonne	2154	2192	2202	2517	2400	2250	2000	2000	2050	2000
Copper	US$/tonne	8356	8169	8443	9745	9500	9000	8500	8250	8600	9000
Lead	US$/tonne	2170	2121	2074	2165	2000	1980	1970	1960	2000	2020
Nickel	US$/tonne	20353	17220	16584	18415	18000	17500	17000	17000	17200	17400
Zinc	US$/tonne	2427	2500	2452	2830	2700	2500	2400	2300	2350	2400
LNG spot (JKM)	US$/mmbtu	12.6	15.8	9.4	11.1	12.0	11.7	13.0	9.0	8.0	12.0

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

Economic overview: policy rate cuts begin, but path of inflation and further cuts is uncertain

Last month, we made a marginal upward revision to **our global economic forecast** for 2024, with the main driver being a stronger near-term outlook for Russia – despite our doubts around the veracity of its official data. We now expect global growth of 3.0% in both 2024 and 2025, before edging higher to 3.1% in 2026. These rates of growth fall below the long term trend (3.4%).

Our forecasts for **China**, the largest consumer of most commodities (with the notable exception of crude oil) have remained unchanged. Facing the significant headwinds of its property downturn and subdued domestic demand, we expect China's economy to grow below its "around 5%" target in 2024 and remain below this level going forward. Growing trade tensions between China and major trading partners presents a further risk to growth and commodity demand within the manufacturing sector.

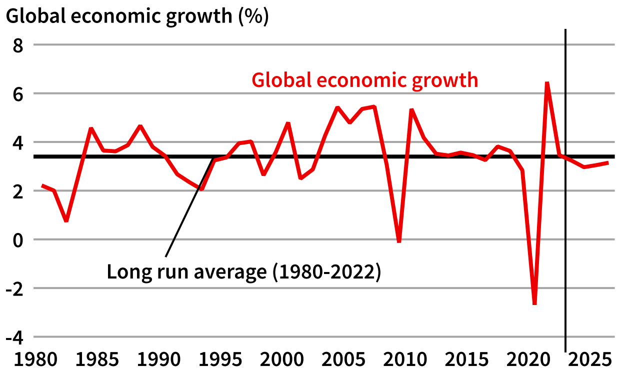
The path of **inflation** in advanced economies remains uncertain. Inflation was stable across Q1 at around 2.7% yoy, before edging down to 2.6% yoy in April and May. Although inflation has fallen considerably from its peaks in late 2021, the final stretch back to central bank targets has been prolonged – with services price growth outpacing goods prices in North America and Europe, although this trend is not evident in Japan due to significant currency depreciation.

In early June, the Bank of Canada and the European Central Bank cut their respective policy rates by 25 basis points, the first **major central banks** to begin an easing cycle. That said, the path of future rate cuts is unclear, with ECB President Lagarde noting that policy rate decisions would "depend on the data that we receive".

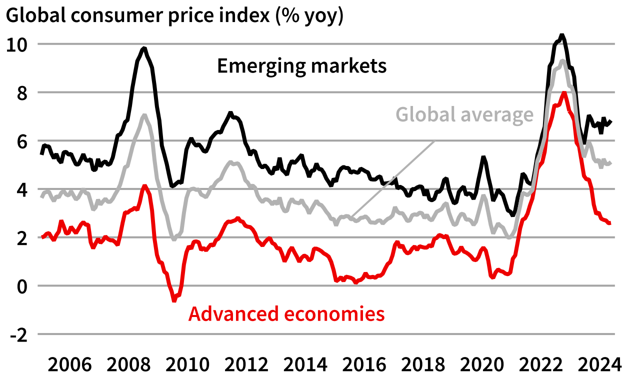
As expected, the **US Fed** remained on hold in June, with Fed Chair Powell noting that recent inflation readings represent 'modest further progress' and more 'good data' are needed. With the FOMC median projections factor in a single cut by the end of 2024, 8 out of the 19 Fed members expect two and Powell saw either outcome as plausible. We continue to expect two 25 bp cuts towards the end of 2024, and a further 125 bps of cuts in 2025. Japan is alone amongst major AEs in moving to tighter policy – the Bank of Japan raised rates in March and flagged a substantial reduction in its bond purchase program.

Trade policy also remains uncertain, following the EU's announced tariffs on Chinese electric vehicles in June and the measures announced by the US in May. Indonesia is the latest to propose tariffs – albeit in this case on lower value added products to protect domestic manufacturers – with other emerging markets potentially following (Indian steel mills have called for protection). The US Presidential election could further disrupt global trade, with Republican Donald Trump threatening sweeping tariff increases if he is elected How China responds may determine whether there is full blown trade war.

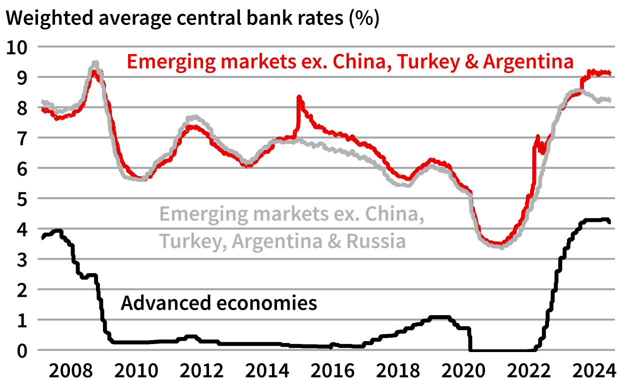
Global growth to remain subdued in coming years



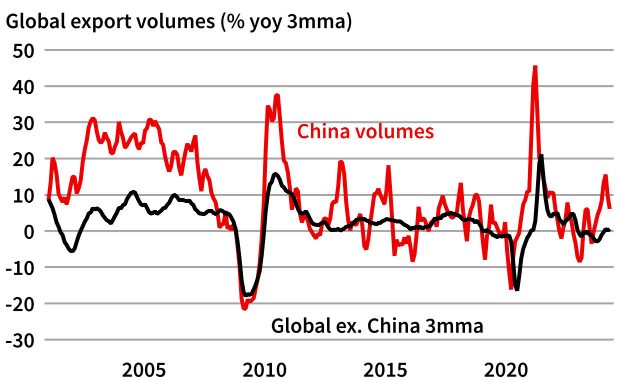
AE inflation only edging lower, path remains uncertain



Rate cutting cycle commences with BoC and ECB



Protectionism rising in response to China export surge



Sources: Macrobond, CPB, NAB Group Economics

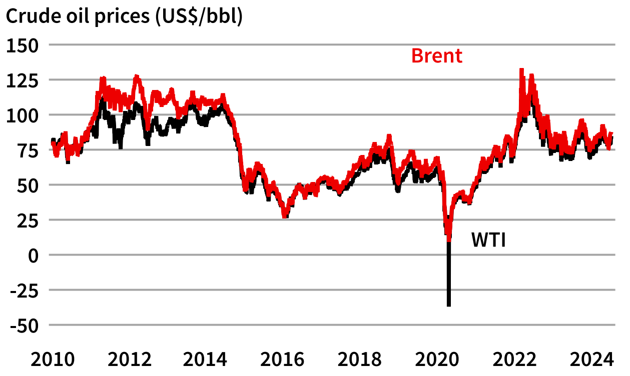
Energy: Volatile crude oil prices in June, while other energy commodities largely moved sideways

Volatile conditions in **crude oil** markets continued in June. Prices dipped early in the month – dropping close to US$75/barrel for benchmark Brent crude (its lowest level this year) – before accelerating once again – back above US$85/barrel in the second half. Seasonal peak demand associated with the northern summer may explain some of the pickup, along with fresh concerns in the Middle East – with the risk of all-out conflict between Israel and Iranian backed Hezbollah in Lebanon. In terms of physical oil supply, OPEC+ extended its two stage production cuts in May, with 2.2 mbd of voluntary cuts by some members running through Q3, while the 3.66 mbd cuts by all members will continue into 2025. 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.

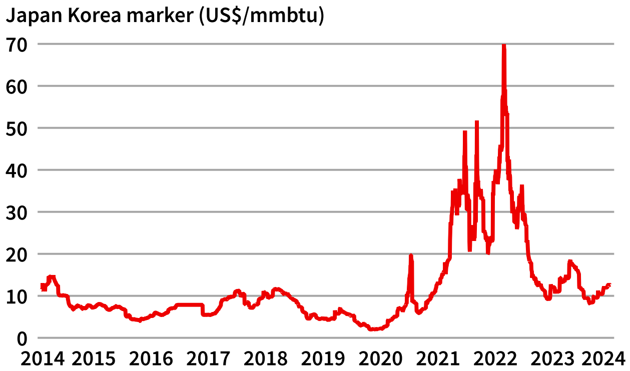
Spot prices for **liquefied natural gas** (LNG) tracked sideways across most of June – at around US$12/mmbtu – before edging marginally higher at the end of the month. While prices have ticked higher during a key demand period – including heatwave conditions across parts of Asia (most notably India) that have accelerated electricity consumption – they remain below the peaks recorded in late 2023 (and far below the extremes of 2022 following the start of the Russia-Ukraine war). The potential for extreme heat adds some upside risk to prices in the short term, however expansions to global supply in the second half of 2024 and 2025 should begin to place downside pressure to LNG markets. Reflecting this, we have marginally raised our forecast for the second half of 2024, bringing the full year average to US$11.0/mmbtu. We see a modest easing in 2025 – down to US$10.5/mmbtu as supply pressures gradually begin to ease.

Coal spot prices generally tracked sideways across most of June, albeit trends diverged at the start of the month. Prices for **thermal coal** edged down around US$10/t before trading in a narrow band in the low US$130s range. While heatwave conditions in India have supported coal demand, a ramp up in domestic supply appeared to limit the need for imports in June, while North Asian buyers also likely completed summer stockpiling. In contrast, **metallurgical coal** prices moved slightly higher at the start of the month, before tracking sideways around the US$250/t mark. Our forecasts remain unchanged this month, we expect met coal to average US$254/t in 2024 before dropping below US$200/t in 2025, while thermal coal is expected to average US$126/t in 2024 and around US$95/t in 2025.

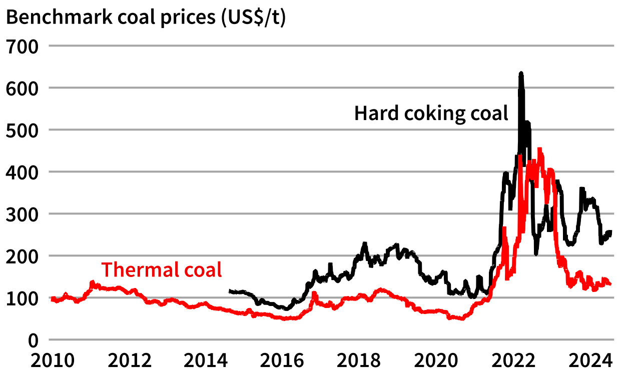
Crude prices were volatile in June



LNG prices tracking sideways during key demand period



Coal prices largely sideways across June



Sources: Macrobond, Refinitiv, Bloomberg, NAB Group Economics

Metals: Base metals corrected in June, following the speculative spike in May

Spot prices for **iron ore** dropped in early June, down by almost US$10/t to trend around US$107/t for the rest of the month. As we have noted in recent months, key drivers of demand remain relatively weak – most notably the prolonged (and likely to continue) downturn in China's residential property construction sector – although the strength of China's manufacturing sector may be providing some offsetting support. That said, growing trade tensions – and the potential for expanded tariffs in major export markets – could begin to limit China's steel production. Steel exports accelerated rapidly in 2023 (up by 47%), however the growth has started to slow – up by 23% yoy in the first five months. Our forecasts are unchanged – we expect iron ore to average US$108/t in 2024 and ease further in 2025 to US$87/t.

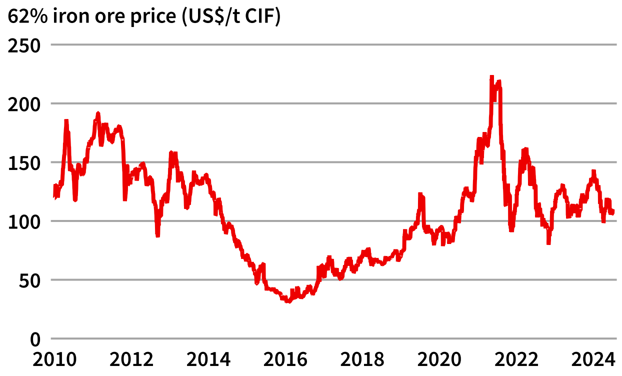
Base metal prices corrected sharply in June, following the surge in May. The LME Index fell almost 11% from its mid-May peak to its late June lows, bringing the index back to the levels recorded in mid-April. The downturn was led by nickel, copper and zinc (the three metals that were the main drivers of the spike in May).

High prices saw a ramp up in deliveries of many metals from China to LME warehouses in Asia – with copper in particular noteworthy given the metal's rise to record highs in May. Anecdotal reports suggest at the high prices in May, there was limited purchasing by Chinese copper fabricators – pointing to these levels being unsustainable based on market fundamentals.

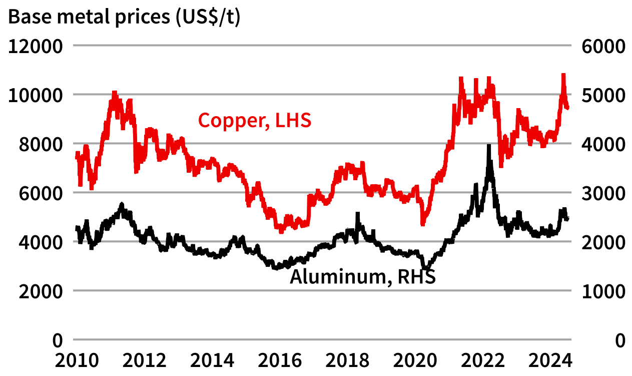
Recent extreme volatility in metals prices makes us cautious around revisions to the forecasts. This month though we have pushed our zinc price higher, while keeping other forecasts unchanged. That said, we see risks weighed more to the upside in the near term.

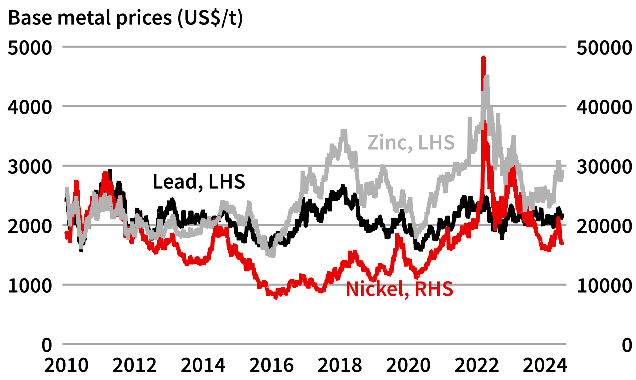
The spot price of **gold** eased from its record high in mid-May (at US$2427/oz), pulling back closer to US$2300/oz by the end of June. It is worth noting that these levels remain historically high – with prices exceeding this mark for the first time in April 2024. In the short term, there doesn't appear to be much downward pressure on gold prices, with the recent easing in part attributed to profit taking following the early price gains. Gold demand in early 2024 has been underpinned by central bank purchases – with a key priority of these institutions appearing to be the diversification of assets within their reserves. Our gold price forecast is unchanged – we expect the precious metal to average around US$2200/oz in 2024, before easing to US$2050/oz in 2025.

Iron ore dropped back in early June

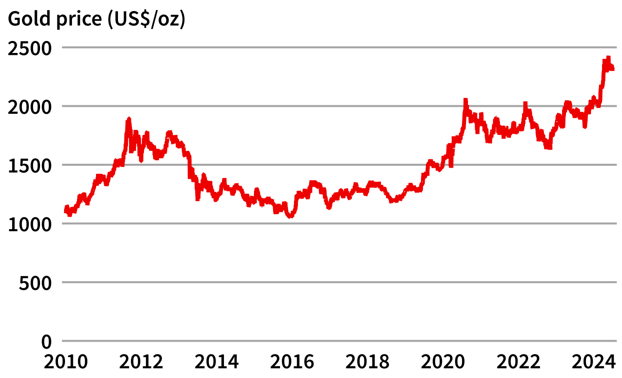


Base metals retreated from speculative peak in May





Gold prices ease back from record high



Sources: Macrobond, Refinitiv, Bloomberg, NAB Group Economics

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