NAB Minerals & Energy Outlook

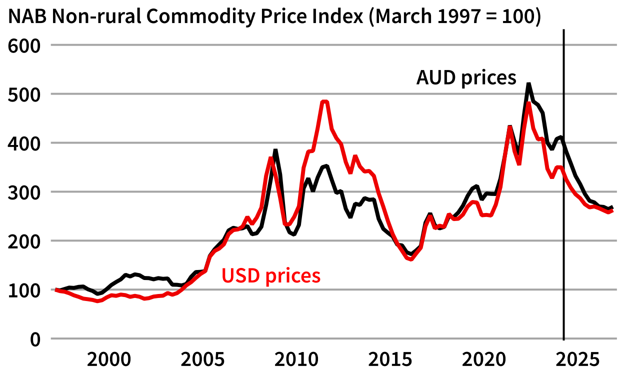
August 2024

NAB Group Economics

Overview

- While most other commodity markets tracked either sideways or drifted slightly lower in July, base metal markets continued their sharp correction – following the speculative inflow that saw prices surge in May. The exception to this trend was gold, that set yet another record high in mid-July.
- In US dollar terms, NAB's Non-rural Commodity Price Index fell by around 7.0% qoq in Q2, and we anticipate a further 5.3% qoq decline in Q3. Bulk commodities – iron ore and coal – are the key drivers of this trend.
- At a high level, global economic conditions do not provide much support for commodity demand in the short term – given below trend economic growth forecast through to 2026, along with weak domestic demand in China and growing trade tensions with its major trading partners.
- Our commodity price forecasts are unchanged this month. NAB's Non-rural Commodity Price Index (denominated in US dollar terms) is forecast to fall by 10.8% in 2024, and a further 14.0% in 2025 – led by coal and iron ore.

Commodity prices set to decline in a sub-trend economic environment



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$/bbl	82.1	78.5	77.5	81.8	81.6	80.1	78.0	79.0	80.0	81.0
Brent oil	US$/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: fundamentals are not providing considerable support for commodity demand

At a high level, our **global forecasts** remain unchanged – with an upward revision to China's growth in 2024 cancelled out by weaker forecasts for the UK and Canada. We expect growth of 3.0% in both 2024 and 2025 before improving slightly to 3.1% in 2026. This outlook sees growth remaining below the long term average (of 3.4% between 1980 and 2022).

We modestly revised our full year forecasts for **China's economy** last month – given that our previous view for 2024 was on the low side. We see growth at 4.7% this year (from 4.5% previously) –but still below the target of "around 5%". We have revised the forecast for 2025 lower to 4.6% (previously 4.8%). There was a larger slowdown in China's services sector in Q2 than in its manufacturing & construction industry – with weak domestic demand negatively impacting the former, while the surge in export volumes has helped to underpin the latter.

Advanced economy **inflation** has remained comparatively stable in 2024 – edging down to 2.5% yoy in June, compared with 2.6% yoy in both April and May and 2.7% yoy in Q1. In most of these economies, growth in goods prices has been relatively subdued, while services prices have continued to climb at a faster pace.

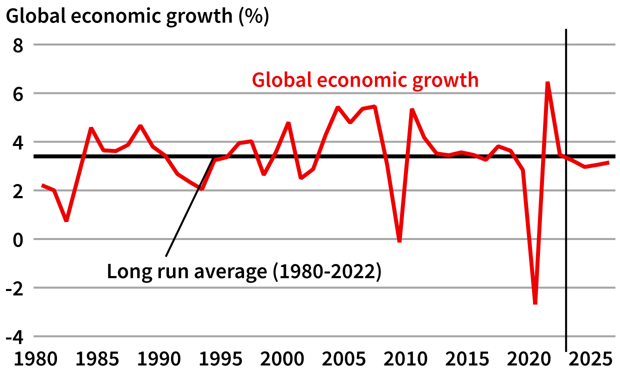
The slow retreat of inflation means that there remains uncertainty around **monetary policy** in major economies although, outside of Japan, the bias is to ease policy. The Bank of Canada, the European Central Bank and the Bank of England have cut policy rates recently, and further cuts are expected, although the timing may be sensitive to incoming data. In contrast, improved recent inflation readings in the US, as well as a better balanced labour market, have increased the likelihood of the Fed starting its easing cycle in September – barring material upside surprises in upcoming inflation reports.

Trade has been a key source of China's growth in recent quarters, with export volumes expanding rapidly between August 2023 and February 2024 before some subsequent volatiliy. This has allowed growth in industrial output despite ongoing weakness domestic demand.

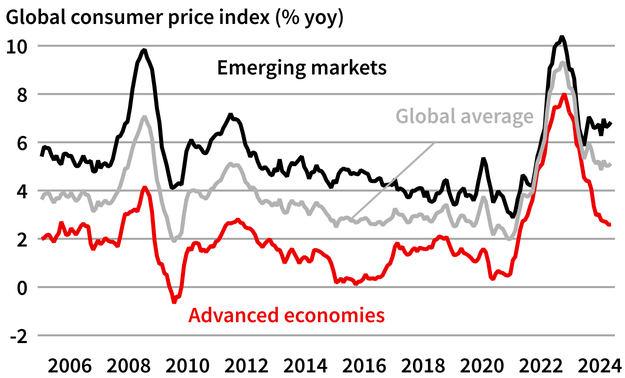
Revised export volume figures from CPB suggest that China's trend growth has moderated – increasing by 1.2% yoy in May (on a three month moving average basis) – albeit this reflected a steep decline in March, a relatively neutral outcome in April before strong growth (9.6% yoy) in May. Other emerging markets recorded no growth in export volumes in May (in 3mma terms).

Trade policy remains a key uncertainty going forward, with various countries having already recently implemented new tariffs on Chinese imports (including the United States, European Union and Indonesia), while industry lobbies in others (most notably steel in India) have sought similar trade protection.

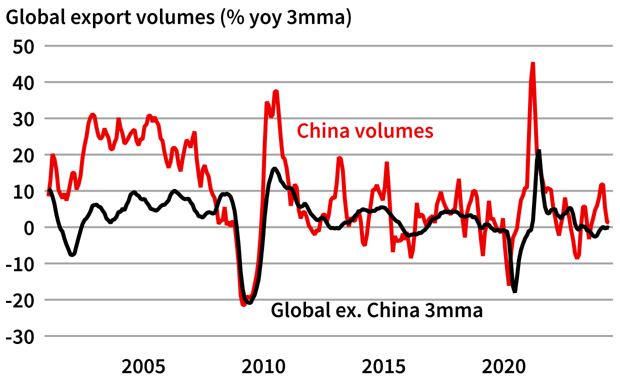
Sub-trend global growth through to 2026



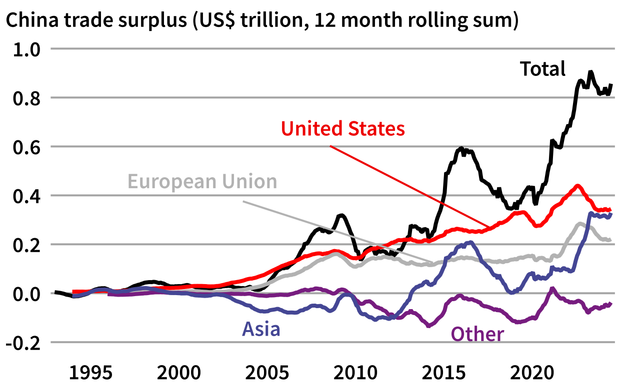
Inflation in advanced economies still edging lower



Surge in China's export volumes drove trade tensions



Tariffs a response to China's increased trade imbalance



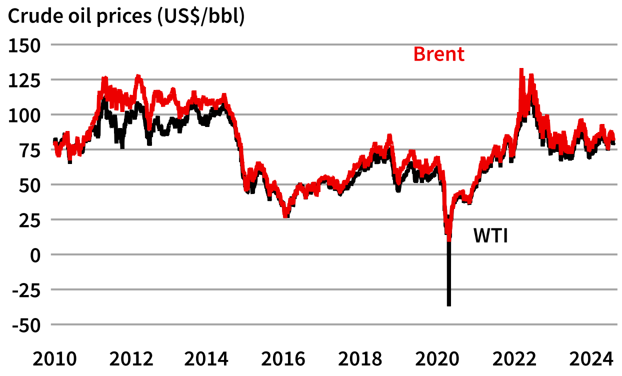
Energy: energy prices generally sideways to lower during a period of peak demand

Having trended higher across June, **crude oil** prices peaked in early July (at around US$88/barrel for benchmark Brent crude) before trending down across the rest of the month. In line with subdued global economic conditions, the International Energy Agency noted that oil consumption grew comparatively modestly in Q2 2024 – up by around 710kb/d from Q1 – with Chinese consumption falling year-on-year during this period. Growth in supply outpaced consumption – increasing by 910kb/d – led by higher production in the United States and coming despite ongoing restrictions on supply from OPEC+. Recent volatility in crude prices largely reflects supply side fears, such as concerns of an escalation of conflicts in the Middle East negatively impacting output in the region. Our forecasts are unchanged this month, with Brent crude expected to average US$85/barrel in 2024 and US$84/barrel in 2025.

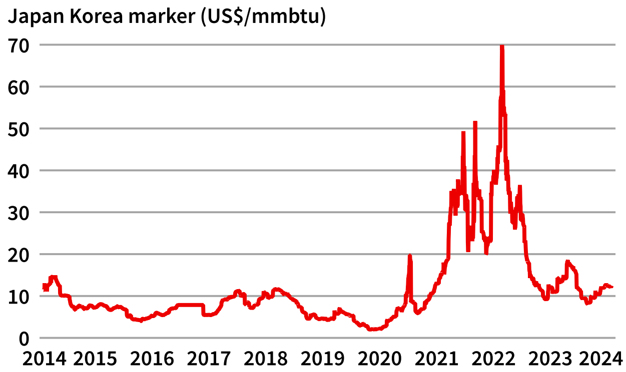
There was relatively little movement in **liquefied natural gas** (LNG) prices in July – with the Japan Korea marker trading in a US 55 cent range above US$12/mmbtu over the course of the month, marginally above the levels recorded during the same period in 2023. LNG markets have seen strong demand in recent months (compounding peak demand during the northern summer), as heatwave conditions across much of South and South-east Asia bolstered electricity consumption, while LNG supply saw some unanticipated disruptions. LNG supply is expected to expand in the second half of 2024 and across 2025. Our forecasts for LNG spot prices are unchanged this month – we expect prices to average US$11.0/mmbtu in 2024 before edging down to US$10.5/mmbtu in 2025.

Prices for **thermal coal** tracked broadly sideways across July – remaining in the low US$130/t range across most of the month before edging higher at the end. In contrast, the spot price for hard coking (**metallurgical**) coal drifted lower – down from around US$260/t early in July to around US$235/t by month end. Year-on-year growth in coal consumption was primarily driven by India and, to a lesser extent, China in the first half of the 2024, while usage in advanced economies declined (driven mainly by Europe). We forecast metallurgical coal to average US$254/t in 2024 and US$200/t in 2025, while thermal coal is expected to average US$126/t in 2024 and around US$95/t in 2025. These forecasts are unchanged this month.

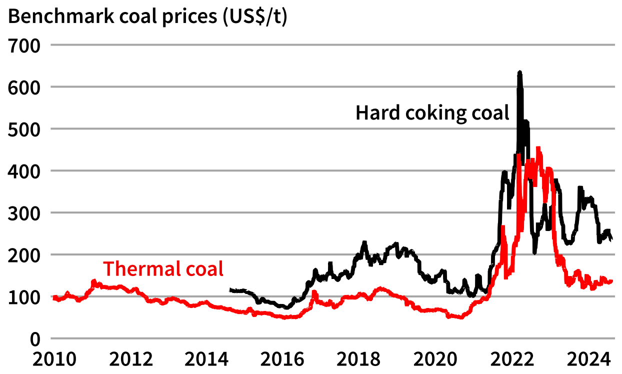
Volatility in crude prices reflects supply side fears



LNG prices have remained relatively stable



Thermal coal sideways as met coal drifted lower



Metals: base metals continue the correction from speculative peaks in May

Iron ore spot prices moved marginally higher in early July – up to around US$113/t – before drifting back lower across the remainder of the month, to around US$106/t at the end of July (around the level at the end of June). Demand for steel in China – the world's largest consumer – has been weak, with apparent consumption falling by 4.7% yoy in the first half of 2024 (in part reflecting the ongoing weakness in the property sector). In contrast, China's steel production fell by just 2.3% yoy over this period, with an acceleration in exports providing some support to producers (while contributing to trade tensions with other countries). Our forecasts are unchanged – we expect iron ore to average US$108/t in 2024 and ease further in 2025 to US$87/t.

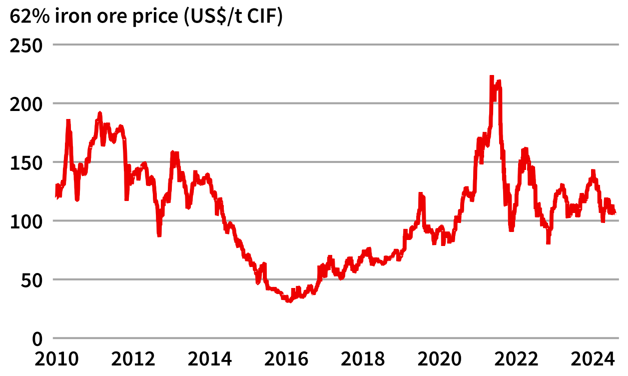
The correction in **base metal** prices continued through July (from the speculative driven peaks of May). By late July, the LME index had fallen by almost 18% from its peak – with nickel and copper recording the largest declines.

According to the International Copper Study Group, there was a sizeable surplus in refined copper markets in the first five months in 2024 – totalling around 416 kt (as compared with a 154 kt surplus for the same period in 2023). In part this reflects relative weakness in apparent consumption in China, with usage growing by 2.5% yoy in the first five months of the year.

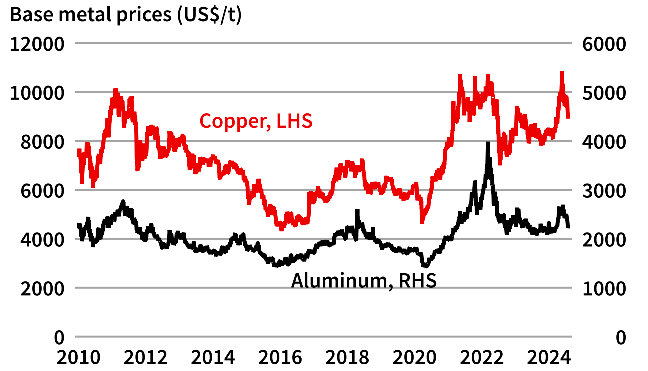
The extreme volatility in base metal prices highlights the high degree of uncertainty around these forecasts at present. Previous revisions (made when prices were accelerating in May) appear somewhat high for copper and nickel in Q3, however we would prefer to have greater clarity around underlying market trends before making further changes – meaning that for now our forecasts remain unchanged.

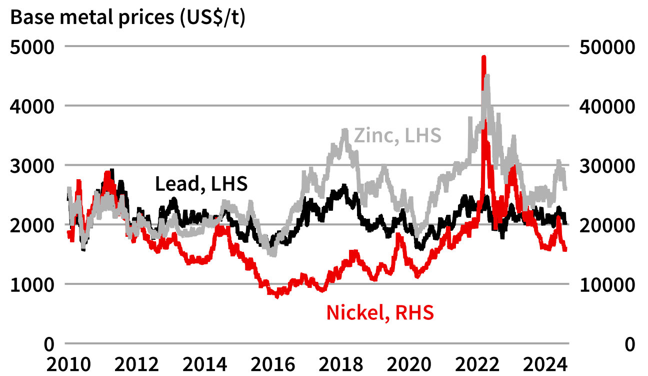
Spot prices for **gold** rose again in the first half of July – up to a new record high of US$2480/oz (exceeding the previous record set in mid-May), before subsequently pulling back below US$2400/oz by the end of the month. According to the World Gold Council, gold demand rose quarter-on-quarter to the fourth highest level on record (albeit softer than the all time high in Q4 2023). That said, the key driver of the upturn was largely unobservable over-the-counter investment demand, while central bank purchases remained comparatively strong – albeit weaker than in the previous three quarters – with Poland, India and Türkiye leading purchases. Our gold price forecast is unchanged – we expect the precious metal to average around US$2200/oz in 2024 (although it is worth noting that this assumes some softening in prices in the second half of the year), before easing to US$2050/oz in 2025.

Iron ore drifted lower following modest rally in early July

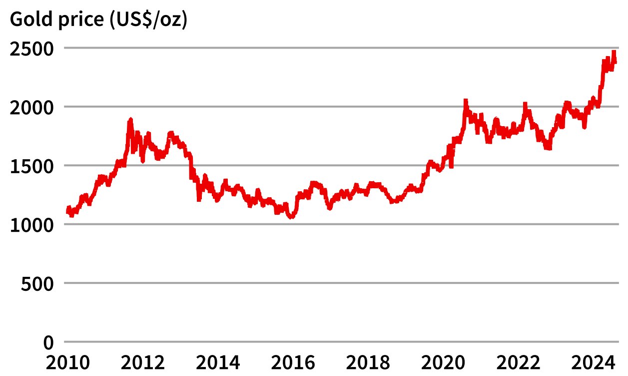


Nickel and copper led declines from speculative peak





Gold hit a fresh record high in July



Sources: Macrobond, Refinitiv, Bloomberg, NAB Group Economics

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