NAB Minerals & Energy Outlook
October 2024

NAB Group Economics

Overview

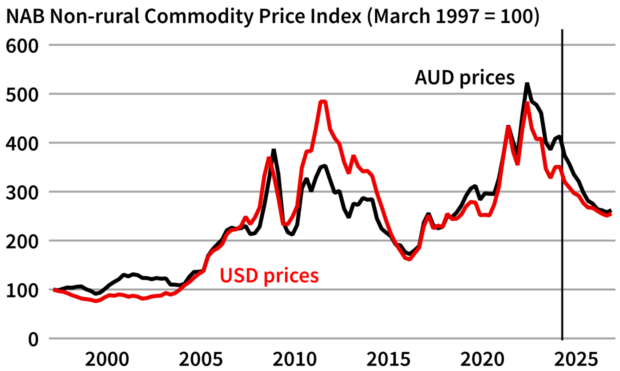
- The NAB Non-rural Commodity Price Index fell by around 3.6% qoq in Q3, with this downturn largely driven by metallurgical coal and iron ore. We expect a similar decline in Q4.

- The recent focus of commodity markets has been the announced monetary stimulus in China and expectations that this will be followed by fiscal support. This has seen a broad range of commodities – most notably iron ore, base metals and metallurgical coal – spike higher in early October.

- We argue that the measures implemented so far, along with the rumoured fiscal package, are somewhat underwhelming, when compared with China's economic headwinds. This means that the recent commodity price increases are closer to irrational exuberance than a signal of shifting market conditions.

- As a result, we expect that our commodity price index will fall by 11.0% in 2024 and a further 13.6% in 2025, with iron ore and coal the main contributors to this trend.

Iron ore and coal the main contributors to weaker aggregate commodity prices



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$/bbl	82.1	78.5	77.5	81.8	76.5	74.0	78.0	75.0	74.0	75.5
Brent oil	US$/bbl	86.6	83.9	82.9	84.6	80.0	78.0	81.0	77.0	76.0	78.0
Gold	US$/ounce	1928.3	1976.4	2072.2	2335.7	2474.9	2550.0	2450.0	2350.0	2300.0	2250.0
Iron ore (spot)	US$/tonne	113	127	126	111	100	95	92	88	85	84
Hard coking coal (spot)	US$/tonne	257	335	312	243	212	190	200	190	185	183
Thermal coal (spot)	US$/tonne	147	136	127	136	140	135	120	110	100	90
Aluminium	US$/tonne	2154	2192	2202	2517	2384	2400	2200	2100	2000	2100
Copper	US$/tonne	8356	8169	8443	9745	9208	9100	8700	8500	8400	8200
Lead	US$/tonne	2170	2121	2074	2165	2044	1980	1970	1960	2000	2020
Nickel	US$/tonne	20353	17220	16584	18415	16261	16500	16000	16500	17000	16000
Zinc	US$/tonne	2427	2500	2452	2830	2780	2800	2700	2600	2300	2400
LNG spot (JKM)	US$/mmbtu	12.6	15.8	9.4	11.1	13.0	12.5	13.0	9.0	8.0	12.0

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Economic overview: markets rally on China's stimulus, but could it be irrational exuberance?

At a high level, our **global economic forecasts** remain unchanged (despite some changes to some individual forecasts in September). We expect the global economy to grow by 3.1% in 2024 and 2025 before moving slightly higher to 3.2% in 2026. Should these forecasts eventuate, it would be the first four period of sub-trend (below 3.4%) growth since the first half of the 1990s.

Much of the recent focus in the global economy and commodity markets has been on **China**. Following a general downward trend in the early part of September, most commodity markets started to rebound in the second half of the month, particularly following the announcement of stimulus measures in China.

The **People's Bank of China** (PBoC) announced a modest cut to its main policy rate, steeper cuts to mortgage rates, boosted liquidity to financial markets and provided support for the property and equity markets.

We would argue that **the measures announced so far are unlikely to drive a strong rebound** in Chinese economic activity and with it commodity consumption. In a large part, this reflects the extremely weak loan demand from both households and businesses that rate cuts alone are unlikely to reverse. As such, we see the recent commodity price increases are closer to **irrational exuberance** than a signal of shifting market conditions.

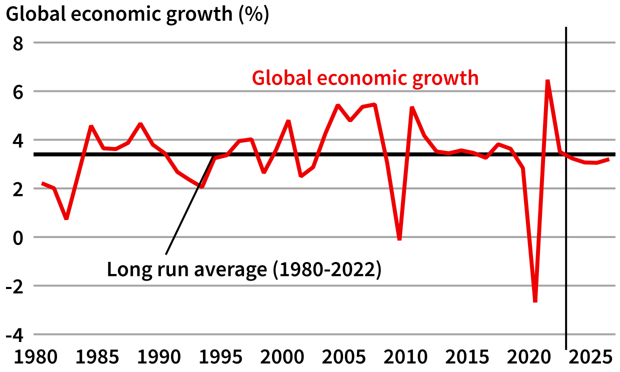
Despite China's Politburo stating that it seeks to stabilise the **property market**, sales and new construction starts remain weak. Property prices continue to fall – as the fallout from the real estate bubble bursting goes on – and this may have some time to come, negatively impacting demand for a range of commodities, including steel and base metals.

Rumours persist that this monetary program will be supported by a **fiscal stimulus** package – albeit nothing has been formally announced at the time of writing. Reports by Reuters of a RMB 2 trillion package focused on an extension of the consumer goods trade in and business equipment upgrade program, payments to larger families and local government debt easing were, in our assessment, somewhat underwhelming.

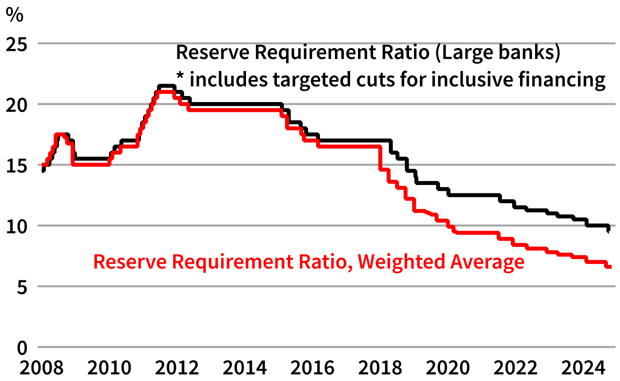
The fundamental issue facing Chinese authorities is a **prolonged weakness in domestic demand**, while the most policy measures since the start of the COVID-19 pandemic have been directed towards the supply side of the economy. This has increased existing imbalances, contributing to the surge in China's export volumes.

An increasing number of countries have announced **tariffs on Chinese exports** – most recently Canada's 100% tariff on electric vehicles and 25% tariff on steel and aluminium unveiled in late August. This has followed a range of announcements from advanced economies and emerging markets seeking to address the impact of China's export surge.

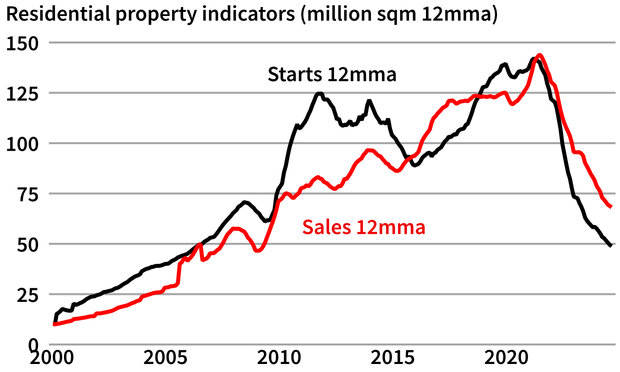
Global growth to remain below its long term trend



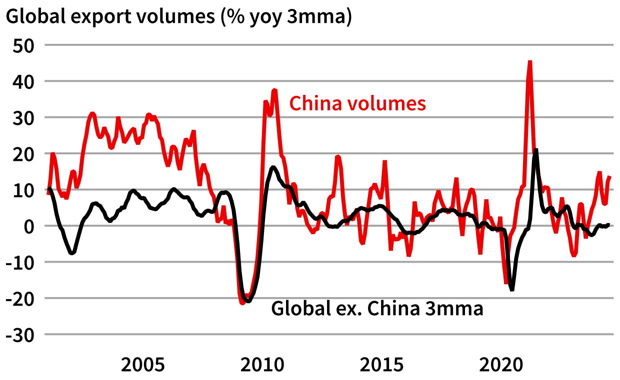
PBoC boosts liquidity, but loan demand remains weak



China's property construction continues to contract



China's exports continue to grow, fuelling trade tensions



Energy: oil prices down on weak demand, but could Middle East escalation limit the downside?

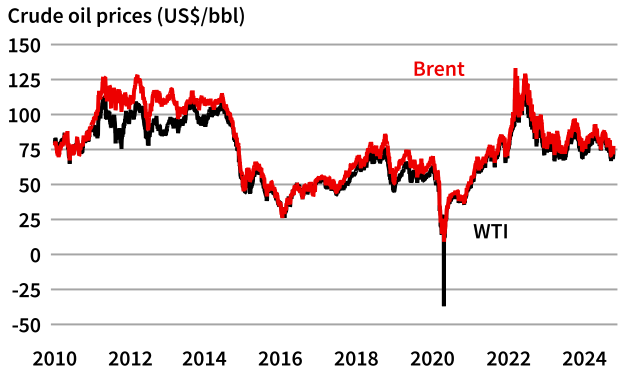
Crude oil prices dropped rapidly in early September, with benchmark Brent crude falling to US$70/barrel early in the month (compared with over US$80/barrel in late August). This downturn came as the International Energy Agency announced weak consumption growth in the first half of 2024 – the lowest increase since 2020 – with China's apparent consumption particularly notable, falling in the four months to July. The IEA expect this weak consumption trend to continue in 2025. On the supply side, the extension of the voluntary OPEC+ production cuts (that were previously set to expire at the end of September) through November provides some limit to the downside for prices, while the escalation in Middle East conflict could see an increased risk premium in prices in the near term. We forecast Brent crude to average US$81.4/barrel in 2024 and US$78/barrel in 2025.

Spot prices for **liquefied natural gas** (LNG) jumped around US$2/mmbtu in the second half of August, with the JKM rising to US$14.5/mmbtu, before subsequently drifting lower – down to US$13/mmbtu by the end of September. Supplies of LNG were disrupted in Q2, reflecting issues with feed gas and unexpected outages at production facilities, however near term gas usage should soften as northern hemisphere temperatures ease. New LNG supply is set to be commissioned across the remainder of 2024 and 2025 and this should add some downward pressure to prices. Our forecasts are unchanged this month, we see the JKM averaging US$11.5/mmbtu, before easing to US$10.5/mmbtu in 2025.

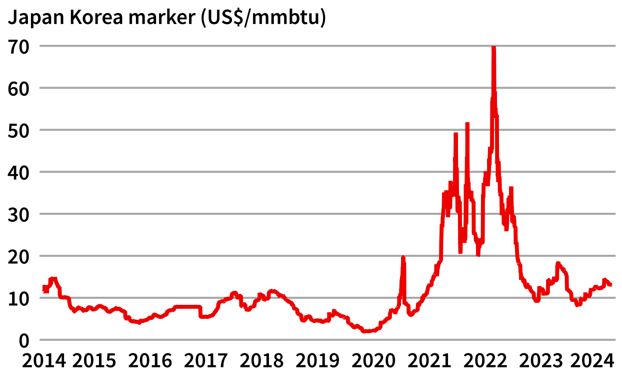
Spot prices for **hard coking coal** fell further in early September (continuing the downward trend exhibited across August) – dropping below US$180/t for the first time since mid-2021 – before moving a little higher across the remainder of the month and spiking in early October. As noted, the stimulus measures announced so far by China are unlikely to drive a rebound in steel activity, so we expect prices to fall back. Hard coking coal is forecast to average US$239/t in 2024 and drop below US$190/t in 2025.

Prices for **thermal coal** also drifted lower in early September, before (much like metallurgical coal) moving higher for the remainder of the month. However, despite the early month downturn, thermal coal prices remain elevated when compared with the levels mid-year. We forecast thermal coal to average US$135/t in 2024 and US$105/t in 2025.

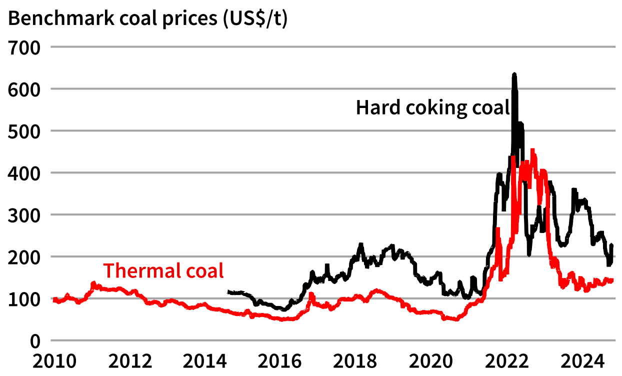
Crude oil prices lower on weaker demand



LNG prices drifted lower across September



Hard coking coal spiked on stimulus announcement



Metals: metal prices jump on China stimulus expectations

Iron ore spot prices dropped into the low US$90s range in early September, with prices tracking broadly sideways across most of the rest of the month, before climbing considerably in early October on stronger sentiment following the Chinese stimulus announcement. We argue that the measures announced so far are insufficient to generate a rebound in China's apparent steel consumption – with the property downturn (and impact on construction activity) still not complete, while demand for steel in manufactured goods and Chinese steel exports to global markets increasingly facing tariffs. Our forecasts are unchanged – we expect iron ore to average US$108/t in 2024 and ease further in 2025 to US$87/t.

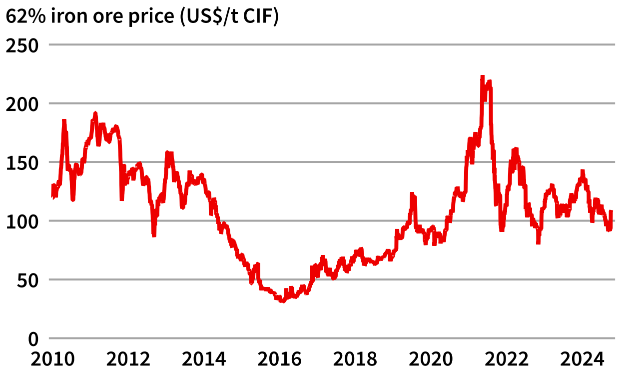
Base metal prices drifted lower between late August and early September – in line with the broader financial market downturn of this period – before surging across the second half of the month, particularly following the stimulus announcement in China.

Copper prices climbed considerably – pushing close to US$10000/tonne in early October, having dropped below US$9000/tonne in early September. Prices in 2024 have generally been elevated above 2023 levels, despite global metal markets showing a growing surplus this year – at 610 kt in the first seven months of 2024, compared with just 105 kt in the same period in 2023.

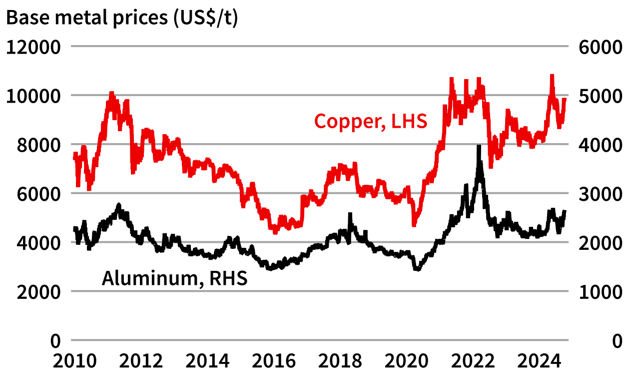
On average, we expect the LME index to increase by 4.5% in 2024, before falling by around 8.1% in 2025.

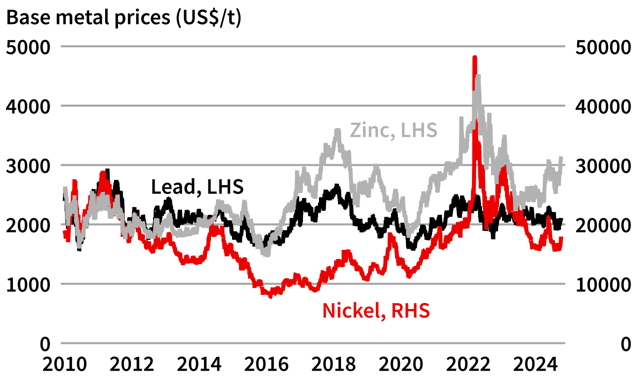
Spot prices for **gold** continued to climb across September, hitting yet another record high at the start of October. Gold demand likely benefited from ongoing central bank purchases, uncertainty in financial markets – particularly around monetary policy settings in key economies – as well as geopolitical factors, including increased conflict in the Middle East and uncertainty around the US Presidential election (given the precious metal's perceived status as a safe haven asset). We see gold averaging US$2360/oz in 2024 before edging marginally lower to US$2340/oz in 2025.

Stimulus announcement drove iron ore above US$100…

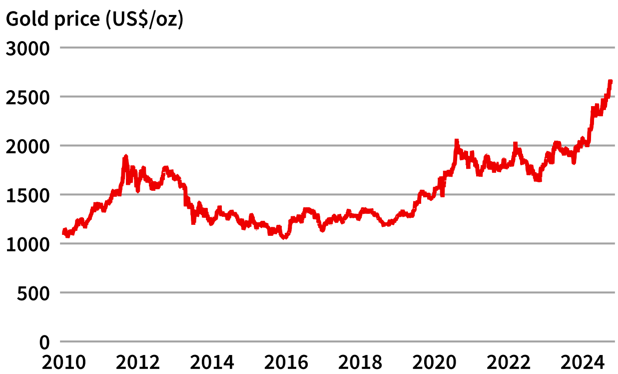


…and base metal prices higher again





Gold climbs to fresh record high in early October



Sources: Macrobond, Refinitiv, Bloomberg, NAB Group Economics

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