

**Department of Resources  
MINISTER'S BRIEFING NOTE – Scott Stewart MP**

**SUBJECT:** Resources and Energy Quarterly Report

**TIMING:** Routine – Embargoed until 9am 28 June 2021

**RECOMMENDATION:**

It is recommended that you:

- a. **Note** the contents of the attached summary of the June 2021 Resources and Energy Quarterly released by the Australian Department of Industry, Science, Energy and Resources (**Attachment 1**).

Policy Advisor.....	OK
Chief of Staff .....	OK
<b>Approved / Not approved / Noted</b>	
<b>Minister</b> .....	
<b>Dated</b> .....	...../...../.....

**KEY ISSUES:**

1. Despite the COVID–19 global pandemic, the report anticipates Australia's resource and energy export earnings will reach a record \$310 Billion in 2020–21 and rise further to \$334 Billion in 2021–22 before easing back to \$304 Billion in 2022–23.
2. However, growth in export earnings during the current and next financial year is driven largely by iron ore earnings, which have surged nearly 50 per cent this financial year but are dominated by Western Australia, which accounts for around 99 per cent of Australia's iron ore production.
3. Relevant to Queensland's export earnings, surging demand from steel producers has driven a recovery in Australian metallurgical coal prices, which have more than recovered from the fall caused by China's informal import restrictions. Prices are expected to be firm in 2021–22, ex-Chinese usage recovers further. Australia's metallurgical coal export values are forecast to increase from \$22 Billion in 2020–21 to \$32 Billion by 2022–23, still down on the \$34 Billion in export earnings generated by metallurgical coal in 2019–20.
4. Thermal coal prices have risen, with premium Australian coal hitting its highest level in almost three years in June 2021, as Asian power utilities look to rebuild stocks ahead of the demand for power for cooling peaks in summer. Prices are likely to drift downwards during the outlook period, as supply catches up with demand.
5. Oil prices have regained ground after the sharp declines of the COVID–19 pandemic, with prices averaging US\$68 a barrel in May 2021 and US\$71 a barrel in June 2021. Prices are expected to remain around US\$70 a barrel for the remainder of 2021, before stabilising at a slightly lower level.
6. Spot LNG prices are forecast to be flat, as new supply enters the market.
7. Base metal prices have recovered to reach levels higher than just before the COVID–19 pandemic.
8. Copper has benefited from both infrastructure-focused stimulus spending and 'green' stimulus spending. Prices reached an all-time high of US\$10 720 per tonne in May and are expected to average US\$8840 per tonne across 2021 (up 43 per cent year-on-year).
9. Australia's bauxite production is estimated to have fallen by 3.8 per cent to 103 Million tonnes in 2020–21. This fall was related to the suspension of operations at Metro Mining's 6.0 Million tonnes a year Bauxite Hills mine in Queensland from September 2020 to March 2021, due to a prolonged wet season shutdown and planned maintenance.

**RISK:**

- 10. N/A.

**CONSISTENCY WITH ELECTION COMMITMENTS AND GOVERNMENT OBJECTIVES:**

- 11. N/A.

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**RESOURCE IMPLICATIONS:**

12. N/A.

**COMMUNICATION:**

13. N/A.

**BACKGROUND:**

14. The Resources and Energy Quarterly contains forecasts from the Office of the Chief Economist of the Australian Department of Industry, Science, Energy and Resources. The forecasts include the value, volume and price of Australia's major resources and energy commodity exports.
15. The June quarter edition features a two-year outlook for Australia's major exports.

**HUMAN RIGHTS IMPACT ASSESSMENT**

16. There are no implications for human rights under the *Human Rights Act 2019*.

**ATTACHMENTS:**

17. **Attachment 1** – Resources and Energy Quarterly June 2021 summary.

Published on Resources Disclosure Log  
RTI Act 2009

# Summary – Resources and Energy Quarterly

## June 2021

Embargoed until 9:00am Monday 28 June 2021

### About the *Resources and Energy Quarterly* report

- On 28 June 2021, the Australian Department of Industry, Science, Energy and Resources released its June edition of the *Resources and Energy Quarterly*. The report updates the five-year outlook published in March, with revisions for the next two years based on recent market developments, and particularly new information on the impact of COVID-19 on Australia's resources and energy sectors.
- The *Resources and Energy Quarterly* is a regular report produced by Australia's Department of Industry, Science, Energy and Resources. It provides a detailed assessment of factors affecting world markets for resources, as well as forecasts for Australian production and exports.
- Five-year forecasts are typically provided in the March edition, while the June, September and December editions provide revisions to those forecasts over the short term (two years) based on the latest observed market trends.
- This document summarises key findings of the report for Australia as a whole, and for the following key Queensland resource exports: metallurgical coal, thermal coal, gas (LNG), aluminium, copper, and zinc. For each of these resources we provide the summary points from the report and highlight recent trends and the main features of the report's two-year outlook.
- Access the published document: <https://www.industry.gov.au/data-and-publications/resources-and-energy-quarterly-all>

### Key findings

#### Overview for Australia

- The outlook for Australia's resource and energy export earnings has improved overall since March 2021 – up \$14 billion in 2020–21 and \$41 billion in 2021–22 in nominal terms, compared to previous forecasts.
- Despite the COVID-19 global pandemic, the report anticipates Australia's resource and energy export earnings will reach a record \$310 billion in 2020–21 and rise further to \$334 billion in 2021–22 before easing back to \$304 billion in 2022–23.
- However, growth in export earnings during the current and next financial year is driven largely by iron ore earnings, which have surged nearly 50% this financial year but are dominated by Western Australia, which accounts for around 99% of Australia's iron ore production.
- Relevant to Queensland's export earnings, surging demand from steel producers has driven a recovery in Australian metallurgical coal prices, which have more than recovered from the fall caused by China's informal import restrictions. Prices are expected to be firm in 2021–22, ex-Chinese usage recovers further. Australia's metallurgical coal export values are forecast to increase from \$22 billion in 2020–21 to \$32 billion by 2022–23, still down on the \$34 billion in export earnings generated by metallurgical coal in 2019–20.
- Thermal coal prices have risen, with premium Australian coal hitting its highest level in almost three years in June 2021, as Asian power utilities look to rebuild stocks ahead of the demand for power for cooling peaks in summer. Prices are likely to drift downwards during the outlook period, as supply catches up with demand.
- Oil prices have regained ground after the sharp declines of the COVID-19 pandemic, with prices averaging US\$68 a barrel in May 2021 and US\$71 a barrel in June 2021. Prices are expected to

remain around US\$70 a barrel for the remainder of 2021, before stabilising at a slightly lower level.

- Spot LNG prices are forecast to be flat, as new supply enters the market.
- Base metal prices have recovered to reach levels higher than just before the COVID-19 pandemic.
- Copper has benefited from both infrastructure-focused stimulus spending and 'green' stimulus spending. Prices reached an all-time high of US\$10,720 per tonne in May and are expected to average US\$8,840 per tonne across 2021 (up 43% year-on-year).
- The outlook for copper, lithium and nickel is improving off the back of rising expectations of demand for new energy technologies. All three commodities are forecast to have significant growth in export value over the outlook period, supported by sustained higher prices and increased production and investment.
- The strong export earnings forecast in this report might not be realised if there are further disruptions of trade with China, delays in the rollout and take-up of COVID-19 vaccines, or a sharper than expected tightening of monetary policy by the major central banks (which could result if inflation grows faster than expected).

## **Metallurgical coal**

### **Summary**

- Metallurgical coal prices have recovered moderately, in line with improving global industrial production and economic activity. The Australian premium hard coking coal (HCC) price is forecast to increase from an average US\$143 per tonne in 2021 to around US\$157 by 2023.
- Australia's exports of metallurgical coal are forecast to rise from a 2020–21 low of 171 million tonnes to reach 186 million tonnes by 2022–23. Supply chains disrupted by China's informal import restrictions have largely reorganised, albeit with some loss of revenue.

### **Recent trends**

- India has announced that it will seek to diversify its metallurgical coal import sources in the future, prioritising imports from Russia, Mongolia and the USA. India's policy reflects a desire to reduce potential vulnerability in its supply chains, which have sometimes been exposed by flooding in Queensland.
- Australian metallurgical coal exporters have succeeded in diversifying their own supply chains, building new markets in South Korea, Vietnam and Brazil. These new supply chains are expected to hold over the outlook period.
- European steelmakers have previously responded slowly to Australian metallurgical coal price reductions, but now appear to be shifting as long-term contracts come up for renewal and opportunities grow for mills to switch their coal blends.

### **Two-year outlook**

- Metallurgical coal export earnings are expected to be around \$22 billion in 2020–21, down from \$34 billion in 2019–20, impacted by China's import restrictions and by the subsequent lowering in prices for Australian coal.
- Recovery is expected through the outlook period, as mines resume operations and newly formed supply chains strengthen amidst a broader global economic recovery. Export volumes are forecast to rise back to 186 million tonnes, with export earnings reaching \$32 billion by 2022–23.

## Thermal coal

### Summary

- Thermal coal spot prices have generally recovered over the past quarter, as Asian economies continue to emerge from the 2020 downturn. The Newcastle 6000 benchmark price is forecast to average US\$90 per tonne in 2021, easing slowly to US\$68 per tonne by 2023.
- The COVID-19 pandemic and informal import restrictions imposed by China have led to a decline in Australian thermal coal exports, from 213 million tonnes in 2019-20 to a forecast 194 million tonnes in 2020–21. Exports are expected to recover to 212 million tonnes by 2022–23, as Asian economies return to normal conditions.
- Australia's thermal coal exports are expected to be around \$17 billion in 2021-22, down compared to 2019-20 earnings of \$20 billion.

### Recent trends

- Thermal coal prices have picked up over recent quarters, as global supply conditions tightened; utilities restocked after the cold winter, and production cuts among price-sensitive miners further reduced supply.
- Prices for the benchmark Australian thermal coal spot price (Newcastle 6,000 kcal) have lifted from around US\$80 per tonne at the end of 2020 to more than US\$100 per tonne during the latter part of the June 2021 quarter.

### Two-year outlook

- The recent rally in prices is expected to partly unwind over the remainder of 2021. Prices are forecast to ease to around US\$80 per tonne by the end of 2021, and then to US\$67 per tonne by the final quarter of 2022-23.
- Prices across the Asia-Pacific market are expected to remain more favourable than in the Atlantic market, which will provide some relief to Australian exporters.

## Gas

### Summary

- Asian LNG spot prices and oil-linked contract prices are expected to remain relatively flat over the outlook period, as the LNG market remains well supplied and oil prices stabilise above US\$60 a barrel.
- Australian export volumes are forecast to increase by 5.3% to 83 million tonnes in 2021–22, as technical issues are resolved at the Prelude and Gorgon LNG plants (Western Australia). Export volumes are forecast to be relatively flat in 2022–23.
- Australia's LNG exports earnings are forecast to increase from an estimated \$32 billion in 2020–21 to \$49 billion in 2021–22, as oil-linked contract prices rise sharply.

### Recent trends

- Global LNG trade growth picked up in the first half of 2021, as the economic impacts of COVID-19 eased, and as a cold northern hemisphere winter raised heating demand. The cold northern hemisphere winter also reduced gas storage in major importing nations, which lifted restocking demand in the following months.
- Australia's LNG export volumes have been relatively resilient throughout the pandemic. In 2020-21, Australian LNG export volumes are estimated to fall marginally to 79 million tonnes, reflecting technical issues at the Gorgon and Prelude LNG plants in Western Australia.

### **Two-year outlook**

- LNG trade is expected to rise by 2.5% in 2021, as the energy demand impacts of the COVID-19 pandemic impact fade. Trade is then expected to increase by 7.7% in 2022 and 1.6% in 2023.
- Given the large-scale expansion of global LNG capacity in recent years, import demand is expected to remain short of export capacity throughout the outlook period.
- Beyond 2023, the global LNG market may tighten, due to the April 2021 decision to indefinitely suspend the Mozambique LNG project, in response to rising security issues. This project has an annual nameplate capacity of 13 million tonnes and was previously expected to start exporting LNG in 2024.
- LNG imports are expected to fall further to 72 million tonnes in 2023, due to energy efficiency improvements and higher nuclear output.

## **Aluminium**

### **Summary**

- Strong demand from China for primary aluminium helped drive a 22% rise in aluminium prices in the first half of 2021. World demand is expected to remain strong in the second half of 2021 and is likely to push primary aluminium prices to an average US\$2,130 per tonne, up 25% from 2020.
- The total value of Australian exports of aluminium, alumina and bauxite is forecast to increase at an annual average rate of 2.0% between 2021–22 and 2022–23, to reach nearly \$13 billion by the end of the outlook period (similar to 2019-20 export values).

### **Recent trends**

- Australia's bauxite production is estimated to have fallen by 3.8% to 103 million tonnes in 2020–21. This fall was related to the suspension of operations at Metro Mining's 6.0 million tonnes a year Bauxite Hills mine in Queensland from September 2020 to March 2021, due to the wet season shutdown and planned maintenance.
- Australia's aluminium, alumina and bauxite export earnings are estimated to have fallen by 4.6% to \$12.2 billion in 2020–21 (an improvement of \$218 million from the forecast in the March 2021 *Resources and Energy Quarterly*).
- World alumina demand is estimated to increase by 1.7% to nearly 131 million tonnes in 2021. An expected 1.1% rise in global primary aluminium production in 2021 is likely to lift global alumina demand.
- World bauxite consumption is forecast to grow by 4.7% to 322 million tonnes in 2021. The gains are expected to be driven by higher alumina output from existing refinery capacities in China and Brazil.

### **Two-year outlook**

- Annual Australian output of aluminium and alumina are expected to be broadly steady over the outlook period, at 1.6 million tonnes and 20 million tonnes, respectively.
- Bauxite output is forecast to rise at an average annual rate of 3.0% in 2021–22 and 2022–23, reaching 109 million tonnes in 2022–23.

## Copper

### Summary

- After reaching a record high in May, the copper price is expected to moderate over the outlook period. Economic recovery and expanding use in low-emissions technologies is expected to see prices average US\$8,840 per tonne in 2021 and US\$7,890 per tonne in 2023.
- Australia's copper export volumes are expected to be moderate over the outlook period, from 924,000 tonnes in 2020–21 to around 909,000 tonnes in 2022–23 (in metal content terms).
- Australia's copper export earnings are expected to increase in line with higher prices. Export earnings are forecast to reach \$13 billion in 2021–22, up from \$10 billion in 2019–20.

### Recent trends

- Copper has benefited from both infrastructure-focused stimulus spending and 'green' stimulus spending.
- Stimulus spending, including policies to subsidise EVs, renewable energy generation and transmission, are expected to influence consumption over the medium term due to copper's use in EVs, batteries and grid infrastructure.
- Prices are expected to retreat from current high levels, although remain high in 2021, supported by a market deficit. The copper spot price is forecast to average US\$8,840 a tonne in 2021 (up 43% year-on-year), as returning economic activity continues to support consumption growth.
- In 2020–21, export earnings are estimated to be \$12 billion, 17% higher year-on-year. After this rapid rise, export earnings are expected to stabilise, around \$12-13 million tonnes to 2022–23, supported by healthy price growth.

## Zinc

### Summary

- The London Metal Exchange (LME) zinc spot price is forecast to average US\$2,820 per tonne in 2021 (up from US\$2,263 per tonne in 2020), with increased infrastructure programs in some major nations supporting prices.
- Prices are expected to fall to around US\$2,425 per tonne in 2022 and 2023 as world production increases, and trade begins to normalise.
- Australia's zinc production is forecast to increase from an estimated 1.4 million tonnes (in metallic content terms) in 2020–21 to 1.6 million tonnes in 2022–23, driven by expansions at major operations in Queensland and the Northern Territory, with most of this growth occurring by mid-2022.
- Australia's zinc export earnings are forecast to increase from \$3.3 billion in 2020–21 to around \$3.6 and \$3.5 billion in 2021–22 and 2022–23 respectively. Rising production is expected to offset falling prices.

### Recent trends

- Forecasts of strong GDP growth over the second half of 2021 are positive for zinc. Part of this growth will derive from infrastructure spending.
- Glencore's Australia production decreased by 3.2% year-on-year in March quarter 2021. Production from the Mt Isa operations in Queensland was steady.
- Production from Century mine in Queensland, as a result of tailings reprocessing, increased by 7.6% year-on-year for the March quarter. Operational improvements in the plant are being undertaken with a possible 20% increase in throughput.