

OPEC+ Expected to Hold Course in Vienna, Canadian Commodities Briefly Idled By CN Rail Strike

- We anticipate that OPEC+ will agree to a 3-month extension of the group’s 1.2 MMbpd supply reduction agreement, which began in January 2019 and was set to expire in the spring.
- Global forecasting agencies expect a sizable supply surplus in the first half of 2020 before conditions tighten from the third quarter onward and OPEC+ is likely to maintain discipline for this final stretch.
- Oil prices are expected to remain subdued through the 1H20 speedbump and gradually rise from 3Q20 forward.
- A week-long CN rail strike threatened to further bog down Canadian commodity producers looking to ship their products to world markets before an agreement was reached quicker than many anticipated.

OPEC+ LOOKS SET TO EXTEND CUTS IN VIENNA GIVEN 1H2020 GLUT

OPEC members meet with allied producers including Russia (aka OPEC+) in Vienna on December 5–6th to decide how to proceed with the group’s production deal heading into 2020. The 21 allied producers represent nearly half of global oil supply and have held back roughly 1.2 MMbpd (0.8 MMbpd OPEC, 0.4 MMbpd non-OPEC) of crude off the market since the deal took effect in January. The current agreement expires in March 2020 and the group will decide whether to extend those output curbs to June or wait until early 2020 to see how the ever-volatile oil market has evolved over the next few months.

OPEC+ faces a challenging stretch through the first half of 2020 with all major forecasting agencies foreseeing sizeable supply surpluses on the back of gains in Brazil, Norway, and Guyana, in addition to the slowing yet still market-leading growth in the US shale patch (chart 2). Canada, too, is poised to add to the glut if the Alberta government continues to lift curtailment restrictions as incremental pipeline and rail space is made available. But then the oil market is expected to turn tighter in the second half of 2020 onward as those mostly one-off gains pass and the reality of contacting US oilfield activity further slows the pace of shale growth. **We expect that OPEC+ will agree to extend the 1.2 MMbpd cuts until June 2020, projecting potentially an even firmer sense of control before conditions finally turn favourable and producers can begin lifting production in a tightening market.**

The deal thus far has been anything but an even effort. Total compliance has averaged 110% year-to-date but Saudi compliance has averaged 271% compared to a meagre 73% for next-largest producer Russia, and even that factors in Moscow’s largest-ever export disruption due to the contamination of the Druzhba pipeline in May–June. Worse still is third-largest committed producer Iraq at -28% compliance, meaning it actually lifted output over the agreement period.

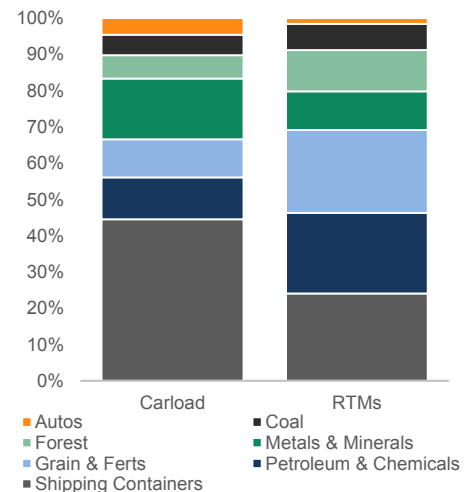
There have also been reports that Russia will seek to have its condensate production—an ultra-light petroleum liquid sometimes derived from natural gas

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Chart 1

CN Rail By Freight Segment: Containers Dominate Carloads, But Commodities Are Heavier & Travel Further



Sources: Scotiabank Economics, CN Rail.
Note: RTM = Revenue tonne mile, a function of weight and distance travelled.

Scotiabank Commodity Price Index

	October 2019 (% change)		
	MM	Y/Y	YTD
All Commodity*	-4.2	2.9	-3.4
Industrials	-5.5	4.2	-3.0
Oil & Gas	-8.7	20.9	-1.3
Metal & Minerals	-4.2	0.2	2.5
Forest Products	-2.2	-9.5	-14.2
Agriculture	1.9	-2.8	-5.4
January 2007 = 100			
2019			
	Oct	Sep	YTD avg.
All Commodity	107.6	112.4	113.9
Industrials	104.3	110.3	111.7
Oil & Gas	80.1	87.8	89.9
Metal & Minerals	122.3	127.6	126.5
Forest Products	133.2	136.1	140.3
Agriculture	125.9	123.5	126.5

* Weights: Oil & Gas (39.9%), Metal & Minerals (30.1%), Forest Products (14.7%), Agriculture (15.3%); Full technical note on page 6.

processes, as it is in this case—exempted under the renewed deal. Moscow argues that it shouldn't be counted because it is not exported, and it should be noted that OPEC has long excluded other petroleum liquids production from quota consideration and focuses exclusively on crude production—OPEC produces about 30 MMbpd of crude and another 5.5 MMbpd of other liquids. The dispute is ongoing but is not expected to derail the extension of the otherwise mutually beneficial agreement.

WEEK-LONG CN RAIL STRIKE ENSNARLS CANADIAN COMMODITY SHIPMENTS

A week-long strike by CN Rail workers disrupted the shipment of most Canadian commodities including key exports like crops, cars, chemicals, containers, and crude (chart 1, front page). The standoff ended quicker than many expected given generally negative prior communication but will likely continue to ripple through Canada's rail-intensive supply chain for at least another month. The backlog of cargo not shipped over the past week will be difficult to clear with little in the way of spare capacity in the system, which means more inventory that producers will be challenged to sell later if ever.

Roughly 3,200 Canadian National Railway Co. (CN Rail) workers, mostly conductors and yard operators, began striking and walked off their jobs on Tuesday Nov 19th after negotiations broke down over disagreements related to safety, pharmaceutical coverage, and scheduling. CN management and the Teamsters Canada Rail Conference, the union that represent CN workers, had been without a contract since July. Prior rail sector strikes have typically only lasted a few days and the Federal government had in the past been quick to pass back-to-work legislation for the systemically-essential sector—an option not easily accessible in this case given that Parliament is not set to reconvene until December 5th. Concern mounted over the course of the strike with many signs pointing to protected negotiations until at least early-December when Parliament was back in session, but an agreement was reached on November 26th averting what would have been a worsening, non-linear drag on Canadian industry.

Even this week of delays resulted in layoffs and the idling of facility capacity for want of storage space or egress according to media reports, highlighting how much Canada's export and commodities-heavy economy relies on thin, marginal, just-in-time logistics in regular operation. Some facilities were able to make use of the downtime to conduct maintenance but this was only able to marginally offset the disruption. Farmers were cut off from consumers adding to an already difficult year between trade wars, Chinese diplomatic retaliation, and generally meagre prices. Shipping by rail is the primary and only real economically viable transportation method for many Canadian commodities, most notably agricultural goods produced across the Prairies in addition to other bulk goods like potash. CN services all of Canada's nine metal smelters and supplies critical fuels like propane to eastern provinces that began running critically low in the absence of CN trains.

Rail has also risen in importance for the western Canadian oil sector amidst bottlenecked pipeline infrastructure (chart 3), and about 8% of exported crude crosses the border on tracks rather than by pipe. Oil-by-rail capacity won't resume at prior levels as operations would on a temporarily-idled pipeline and producers of many commodities will be vying for space on the track to make up for time lost over the past week. CN Rail had been exporting roughly 180 kbpd of crude prior to the strike, or nearly two-thirds of Western Canadian crude exported by rail.

Chart 2

Oil Market Set To Tighten Following 1H2020 Glut

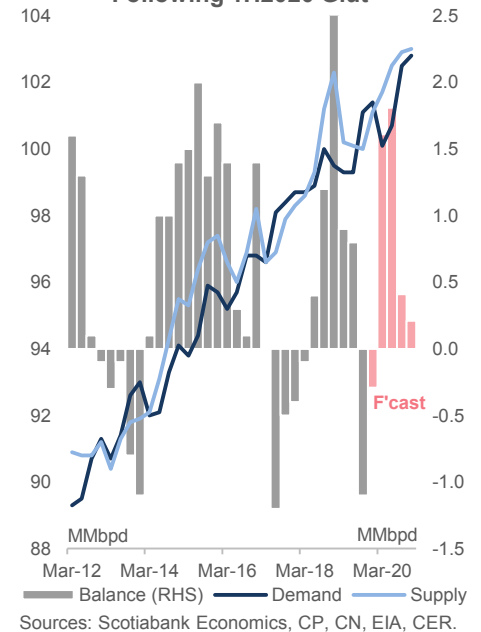
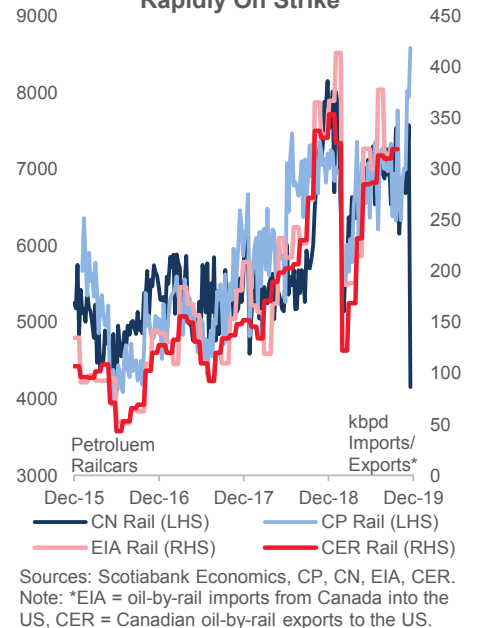


Chart 3

CN Crude Shipments Fall Rapidly On Strike



Price Outlook		2000–2018			2019ytd	2019F	2020F	2021F
		Low	Period Avg.	High				
Oil & Gas								
Crude Oils								
West Texas Intermediate	USD/bbl	17.45	62.20	145.29	56.79	57	55	62
North Sea Brent Blend	USD/bbl	17.68	65.29	146.08	64.08	64	59	65
WCS - WTI Discount*	USD/bbl	-50.00	-17.35	-5.50	-12.92	-13	-19	-24
Natural Gas								
Nymex Henry Hub	USD/MMBtu	1.64	4.74	15.38	2.55	2.61	2.64	2.75
Metals & Minerals								
Base Metals								
Copper	USD/lb	0.60	2.41	4.60	2.72	2.70	2.75	3.00
Nickel	USD/lb	2.00	7.06	24.58	6.33	6.50	7.50	8.00
Zinc	USD/lb	0.33	0.87	2.10	1.17	1.15	1.08	1.05
Aluminium	USD/lb	0.56	0.87	1.49	0.81	0.90	0.90	0.90
Bulk Commodities								
Iron Ore	USD/t	39	101	194	94	90	72	65
Metallurgical Coal	USD/t	39	135	330	181	184	150	150
Precious Metals								
Gold	USD/toz	256	910	1,895	1,385	1,400	1,550	1,475

* 2008-17 average.

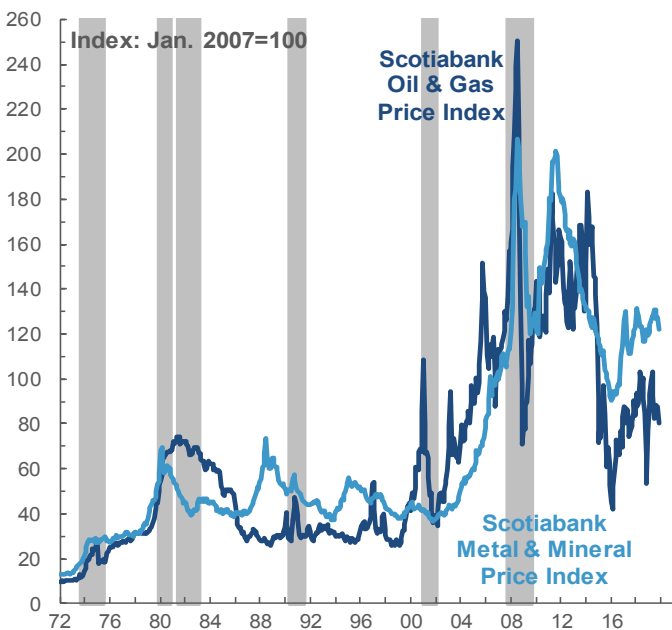
Scotiabank All Commodity Price Index



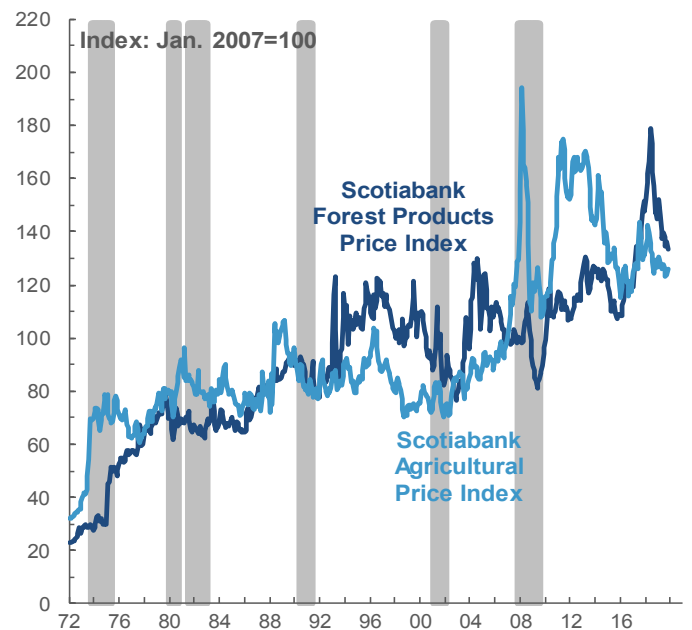
Canadian Dollar vs. Commodity Prices



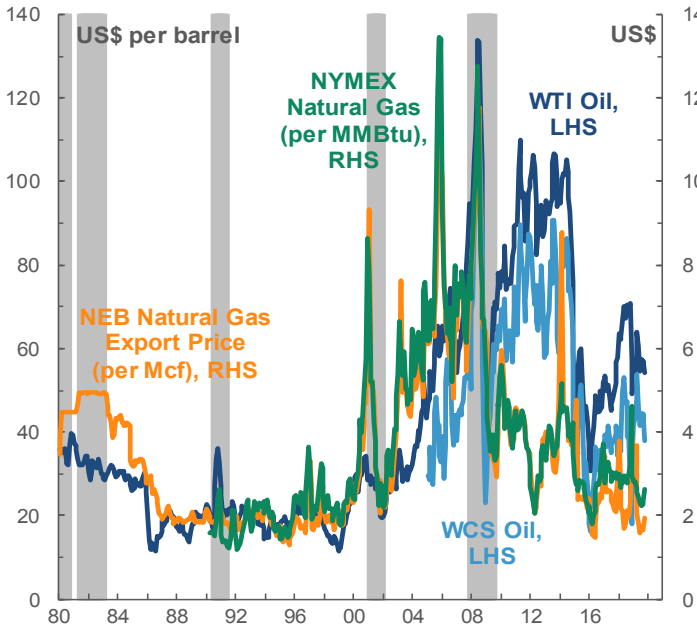
Scotiabank Oil & Gas and Metal & Mineral Indices



Scotiabank Forest Products & Agricultural Indices



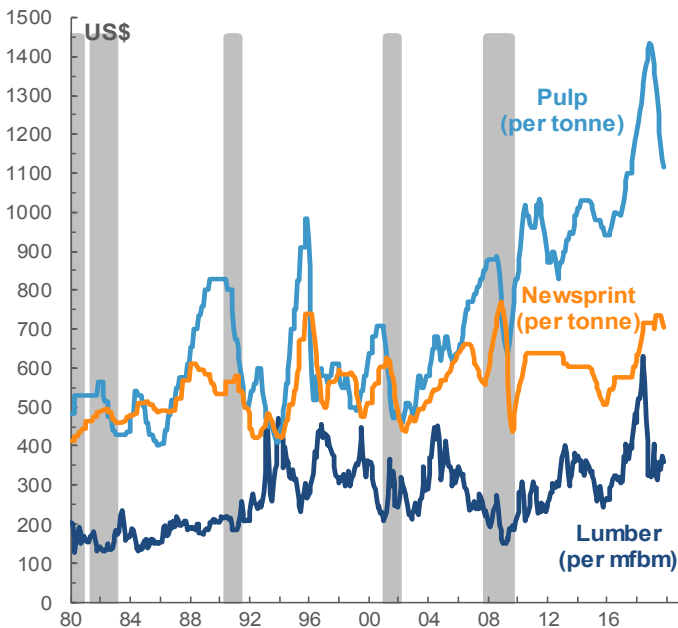
Oil & Gas Prices



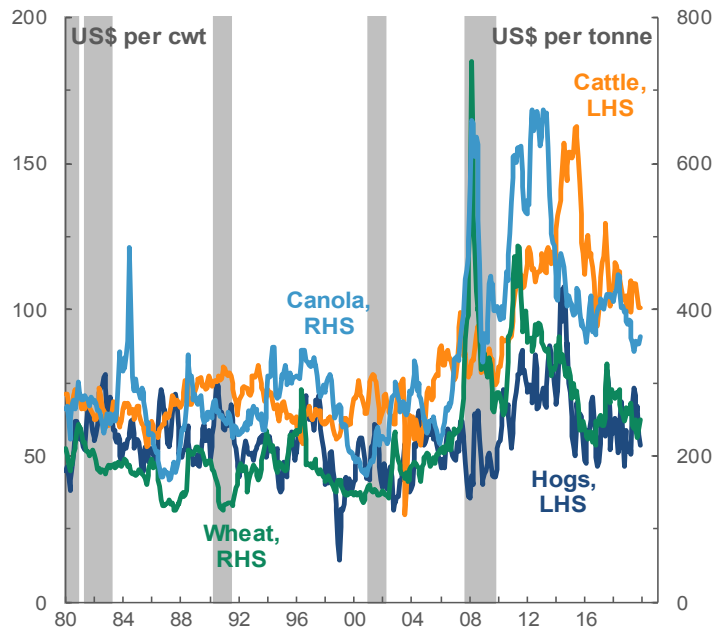
Metals Prices



Forest Products Prices



Agricultural Prices



Technical Note
Scotiabank Commodity Price Index — Principal Canadian Exports
January 2007 = 100

This Index has been designed to track the spot or transactions prices paid in U.S. dollars for key Canadian commodities and resource-based manufactured goods in export markets. The weight of each component is based upon its net export value in 2010. Prior to January 2007, the weight of each component was based on its export value in 1995-97, except for crude oil & refined petroleum products, uncoated freesheet paper and linerboard, where net exports were used. Canada imports a significant quantity of these products, and use of their export value alone would have overstated the importance in Canada's trade performance.

The following prices are included:

OIL & GAS

Crude Oil & Refined Petroleum Products (US\$ per bbl) MSW light sweet crude oil at Edmonton (previously Edmonton Par crude) and Western Canadian Select heavy oil at Hardisty, Alberta; price differentials off WTI near-by futures from Bloomberg.

Natural Gas (US\$ per mcf) Average export price quoted by the National Energy Board.

Natural Gas Liquids (NGLs – Propane, Butane, Ethane & Pentanes-Plus) (US\$ per bbl), Propane at Edmonton & Sarnia.

METALS & MINERALS

Copper & Products (US\$ per lb) LME official cash settlement price for grade A copper.

Zinc (US\$ per lb) LME SHG cash settlement: prior to Sept 1990, U.S. producers' price for high-grade zinc delivered.

Lead (US\$ per lb) LME official cash settlement price; prior to Jan. 1991, U.S. producers' price for common grade delivered.

Aluminium & Products (US\$ per lb) since 1979, LME official cash settlement price.

Nickel (US\$ per lb) since 1980, LME official cash settlement price.

Gold (US\$ per oz) 'LBMA Gold Price PM' as of March 20, 2015.

Potash (US\$ per tonne) Standard potassium chloride, spot price, FOB Vancouver.

Sulphur (US\$ per tonne) Solid, spot price, FOB Vancouver.

Metallurgical Coal (US\$ per tonne) Contract price for premium-grade hard coking coal, FOB Vancouver.

Iron Ore (US cents per dmtu) Spot price fines 62% Fe, CFR Qingdao, China; prior to Jan 2011, term-contract price for concentrates 66% Fe from Labrador/Quebec to Northern Europe (FOB Sept-Iles).

Uranium (US\$ per lb) U₃O₈ near-by-futures from Bloomberg.

Molybdenum (US\$ per lb) since March 1992, MW dealer oxide.

Cobalt (US\$ per lb) MW dealer price.

FOREST PRODUCTS

Lumber & Wood Products, Western Spruce-Pine-Fir 2x4 No.2 & Btr (US\$ per mfbm) FOB mill.

Oriented Strandboard (US\$ per thousand sq. ft.), U.S. North Central region, 7/16 inch.

Pulp, Bleached Northern Softwood Kraft (US\$ per tonne) Transactions price, delivery USA.

Newsprint (US\$ per tonne) Average transactions price, 45 grams, delivery Eastern USA.

Groundwood Specialty Papers (US\$ per ton) Supercalendered-A paper, 35 lb., delivery USA.

Linerboard (US\$ per ton), delivery Eastern USA with zone discounts.

AGRICULTURE

Wheat & Flour (US\$ per tonne), DNS No 1 14% protein Duluth, Minn; prior to April 2011 No.1 CWRS, 13.5% protein at St. Lawrence.

Barley (US\$ per tonne), Saskatchewan aggregate spot price; historical data No. 1 at Lethbridge, Alberta.

Canola & Oilseeds (US\$ per tonne) No.1 Canada, in store Vancouver.

Cattle & Beef (US\$ per cwt) Steers over 1,051 pounds at Toronto; from Jan 1993, Ontario average.

Hogs & Pork (US\$ per cwt) 100 Index Hogs at Toronto; from Jan 1993, Ontario average.

Fish & Seafood (US\$ per lb) West Coast silver coho salmon; Atlantic lobster prices; prior to 1986 cod fillets & blocks.

Scotiabank Commodity Price Index —
Components And Weights

Index Components	Net Export Value In 2010 (millions of dollars)	Index Weight (per cent)
OIL & GAS INDEX	46,537	39.90
Crude Oil & Refined Products	33,231	28.49
Natural Gas & LNG	11,741	10.07
NGLs	1,565	1.34
METAL & MINERAL INDEX	35,109	30.10
Copper	3,160	2.71
Zinc	1,255	1.08
Lead	579	0.50
Aluminium	6,045	5.18
Nickel	4,246	3.64
Gold	4,678	4.01
Coal	4,757	4.08
Iron Ore	3,346	2.87
Potash	5,161	4.42
Sulphur	457	0.39
Uranium	891	0.76
Cobalt	288	0.25
Molybdenum	246	0.21
FOREST PRODUCTS INDEX	17,081	14.66
Lumber & Wood Products	4,673	4.01
OSB	812	0.70
Pulp	6,818	5.85
Newsprint	2,734	2.34
Groundwood Spec. Papers	1,971	1.69
Linerboard	87	0.07
AGRICULTURAL INDEX	17,901	15.35
Wheat & Flour	4,693	4.02
Barley & Feedgrains	1,088	0.93
Canola & Oilseeds	5,398	4.63
Cattle & Beef	1,640	1.41
Hogs & Pork	2,378	2.04
Fish & Seafood	2,704	2.32
TOTAL INDEX	116,643	100.00

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