

## Virus and Trade Give Commodity Markets Pause

- With further easing of COVID-19 lockdowns, commodity pricing has generally continued to improve alongside the global economy, but signs of a second wave of contagion are increasingly causing apprehension.
- Renewed trade and diplomatic tensions between the United States and China look to be escalating; this could further jeopardize the recovery and contribute to price volatility in the coming months.
- The rally in oil prices largely persisted through June amid continued economic re-openings, but conditions have since turned more bearish.
- Industrial metals continue to follow demand-side signals from China, and to price in fears of supply disruptions in Latin America.

### VIRUS, SINO-US SPAT REVIVALS UNDERMINE RECOVERY

COVID-19 containment measures continue to be lifted around the world, supporting overall economic activity and commodity prices; however, the two principal downside risks to the outlook remain very much in play.

Fears of a second wave of COVID-19 have become more widespread after the virus' resurgence in a number of areas thought to have stabilized infection rates. Reopening in US states that had previously seen more modest case loads has been met with a spike in infections; some regions now report new pressures on hospital capacity and are pausing plans to ease restrictions. South Korea and Beijing also experienced new outbreaks, and the virus' initial surge has yet to subside in Latin America (chart 1). Any new containment efforts will depend on the virulence of secondary infection waves, but we suspect that ancillary measures will be more targeted and less harmful to economic growth. Still, further rises in caseloads may induce more market volatility in the coming months.

Against that backdrop, tensions between the world's two largest economies are flaring up again. What began as a spat over proposed national security rules for Hong Kong has quickly deteriorated into boisterous posturing between China and the US on issues ranging from trade to technology to COVID-19's origins. Presidents Trump and Xi are responding to virus-led political pressures by laying the blame at each other's feet, and the incentive to do so will only intensify as the 2020 US presidential election contest begins in earnest. That does not bode well for faith in the global international order, let alone business and consumer confidence and commodities demand as the world reopens—trade uncertainty weighed heavily on industrial sector activity last year (chart 2).

### GOLD UP ON INVESTOR APPREHENSION, SILVER'S CLIMB CONTINUES

Bullion's recent climb above USD 1,760/oz—some of its highest levels in almost eight years—is a consequence of a higher-risk environment. The market for the safe-haven asset initially appeared to shrug off rising caseloads across the southern US but prices proceeded to rise by about USD 40/oz (over 2%) just last week. As a bellwether of risk sentiment, gold is likely to see further

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Chart 1

### COVID-19 Cases Surging in US, South America

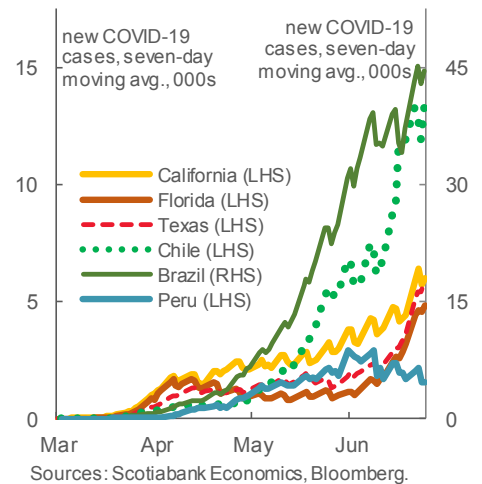
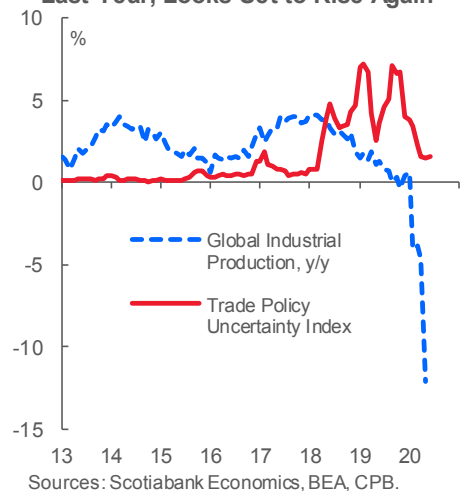


Chart 2

### Uncertainty Hurt Economic Activity Last Year, Looks Set to Rise Again



price advances so long as investor apprehension remains elevated. As a commodity, it could weaken if softer demand weighs on jewellery consumption.

**Silver prices have held up, hovering above USD 17.50/oz for most of June.** Used in a range of industrial applications, it has benefited from rising industrial activity during the last two months. To the extent that secondary virus waves result in fresh lockdowns, those gains could be undermined.

**OIL'S RECENT STRENGTH LIKELY TO EASE**

**Though rallying oil prices persisted through June as re-openings proceeded, conditions have since become more bearish.** Brent's forward curve backwardated last week (chart 3), though it has begun to shift lower. A second virus wave could soften the demand side of the market, and a number of analysts now expect Chinese oil imports to moderate in Q3 from recent highs. On the supply side, US field production rose last week for the first time since early March—influenced by unwinding of Tropical Storm Cristobal-related shut-ins, but nevertheless suggesting that drillers have responded to recent price gains. More production may be around the corner: extension of OPEC+ quotas beyond July is not assured, and a Libyan ceasefire pact could bring more than 1 mn bpd of output online.

**WCS prices hovered near 30 USD/bbl in June, with their discount to WTI widening to about 9 USD/bbl following last month's record narrow gap.**

Indicators from May were particularly weak: wells drilled in Alberta plunged to another record low and output was estimated to have been reduced by 1 mn bpd (about 25% of normal levels). That production retreat has helped support Western Canadian crude prices alongside the demand revival south of the border. Gulf Coast Refinery activity is generally improving, alongside crack spreads and US imports of Canadian crude. In the near-term, downward pressure on WTI will likely compress its premium to WCS, but the differential should eventually widen to a level in the USD 15–17/bbl range consistent with quality and transportation costs as re-openings proceed.

**We noted last month that Alberta oil patch jobs and hours worked initially held up well versus other sectors and provinces; as expected, that trend showed signs of reversing in May** (chart 4). One interpretation of the early resilience is that the timing of the most significant output cuts is consistent with job losses being recorded last month rather than earlier. In any case, near-term downward pressure on crude values would not be good for employment and local incomes in the coming months. However, we hope that more firms can benefit from price gains in May and early June and build on the smattering of production restart announcements.

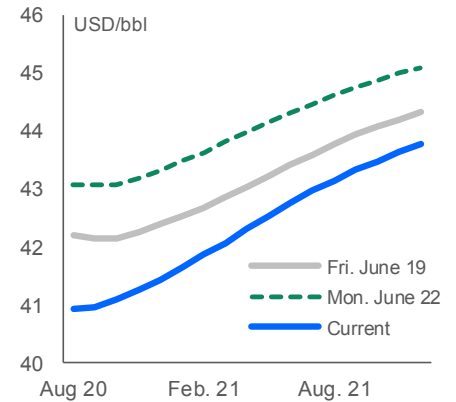
**SUPPLY CONCERNS, CHINESE DEMAND STILL BUOYING METALS PRICES**

**Factory activity in the world's largest metals consumer remains robust, and Beijing's new stimulus package—though smaller than the one offered during the 2008–09 recession—should offer further support in the coming months.** The downward trend in Chinese inventories has persisted, lending a further boost to pricing.

**The concentration of new COVID-19 cases in Latin American metals producers such as Brazil, Peru, and Chile, while clearly negative for economic growth, is also lifting prices.** The prospect of mine closures to control the virus' spread has spurred expectations of related supply disruptions, especially for copper and iron ore.

Chart 3

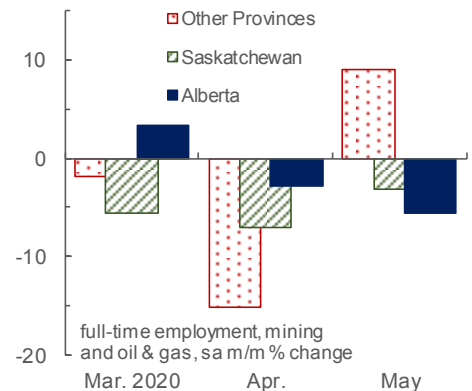
**Brent Forward Curve Backwardates**



Sources: Scotiabank Economics, Bloomberg.

Chart 4

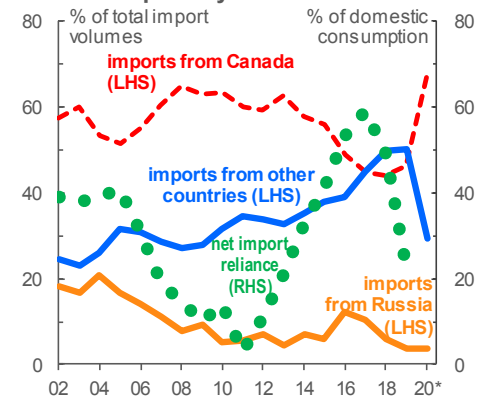
**Production Cuts Felt in Alberta Labour Market**



Sources: Scotiabank Economics, Statistics Canada.

Chart 5

**The US Relies on Aluminum Imports, Especially from Canada**



\* Jan.–Mar. Sources: Scotiabank Economics, US Census Bureau, USGS.

These fears are unlikely to be allayed so long as coronavirus cases and deaths continue to climb, and may continue to offer pricing support even if second waves erode demand elsewhere in the world.

**For Canadian aluminum, which once again became a target of the White House's protectionist ire in June, tariffs still look unlikely to put a significant dent in export volumes.** The United States has historically relied heavily on imported aluminum to fulfill its domestic consumption needs. Though the US's net import reliance has fallen in recent years and domestic production has picked up, Canada remains the primary source of foreign aluminum (chart 5, p.2) and its import volumes have held reasonably steady. As such, we expect that fees applied to imports will likely result in higher prices for consumers, with little of the desired impact on producers abroad.

| <b>Price Outlook</b>         |           | <b>2010–2018</b> |             |       | <b>2019</b> | <b>2020F</b> | <b>2021F</b> |
|------------------------------|-----------|------------------|-------------|-------|-------------|--------------|--------------|
|                              |           | Low              | Period Avg. | High  |             |              |              |
| <b>Oil &amp; Gas</b>         |           |                  |             |       |             |              |              |
| <b>Crude Oils</b>            |           |                  |             |       |             |              |              |
| West Texas Intermediate      | USD/bbl   | 26               | 74          | 114   | 57          | 37           | 44           |
| North Sea Brent Blend        | USD/bbl   | 28               | 82          | 127   | 64          | 41           | 47           |
| WCS - WTI Discount           | USD/bbl   | -50              | -18         | -7    | -14         | -10          | -16          |
| <b>Natural Gas</b>           |           |                  |             |       |             |              |              |
| Nymex Henry Hub              | USD/MMBtu | 1.64             | 3.39        | 6.15  | 2.53        | 1.95         | 2.40         |
| <b>Metals &amp; Minerals</b> |           |                  |             |       |             |              |              |
| <b>Base Metals</b>           |           |                  |             |       |             |              |              |
| Copper                       | USD/lb    | 1.96             | 3.10        | 4.60  | 2.72        | 2.25         | 2.75         |
| Nickel                       | USD/lb    | 3.50             | 7.00        | 13.17 | 6.32        | 5.40         | 6.00         |
| Zinc                         | USD/lb    | 0.66             | 1.02        | 1.64  | 1.16        | 0.90         | 1.00         |
| Aluminium                    | USD/lb    | 0.65             | 0.89        | 1.26  | 0.81        | 0.90         | 0.90         |
| <b>Bulk Commodities</b>      |           |                  |             |       |             |              |              |
| Iron Ore                     | USD/t     | 39               | 101         | 194   | 94          | 77           | 70           |
| Metallurgical Coal           | USD/t     | 81               | 179         | 330   | 177         | 134          | 140          |
| <b>Precious Metals</b>       |           |                  |             |       |             |              |              |
| Gold                         | USD/toz   | 1,049            | 1,342       | 1,895 | 1,393       | 1,650        | 1,700        |

Scotiabank All Commodity Price Index



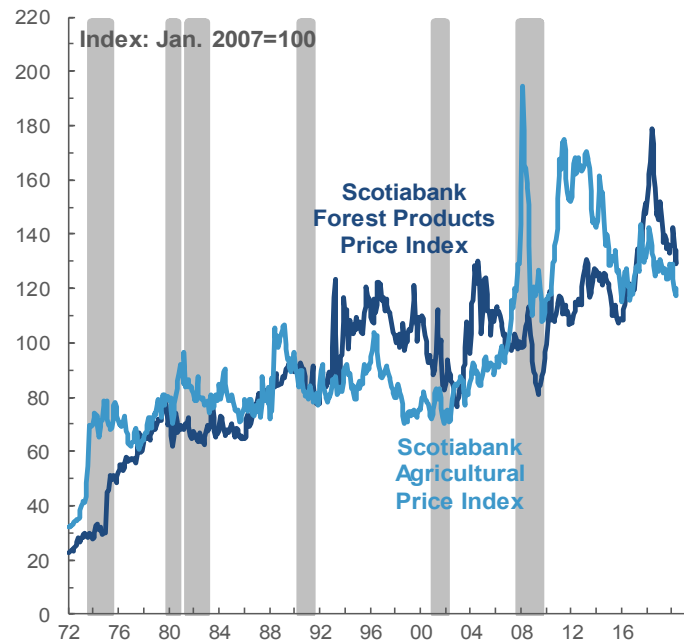
Canadian Dollar vs. Commodity Prices



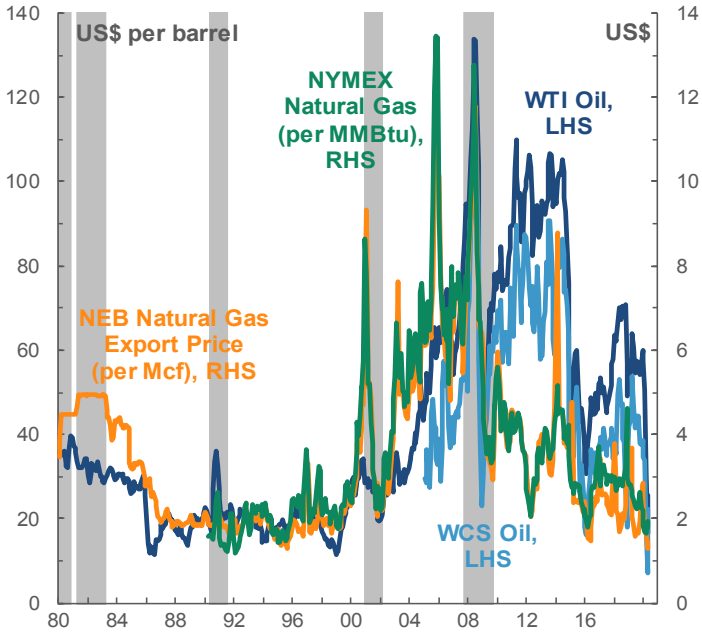
Scotiabank Oil & Gas and Metal & Mineral Indices



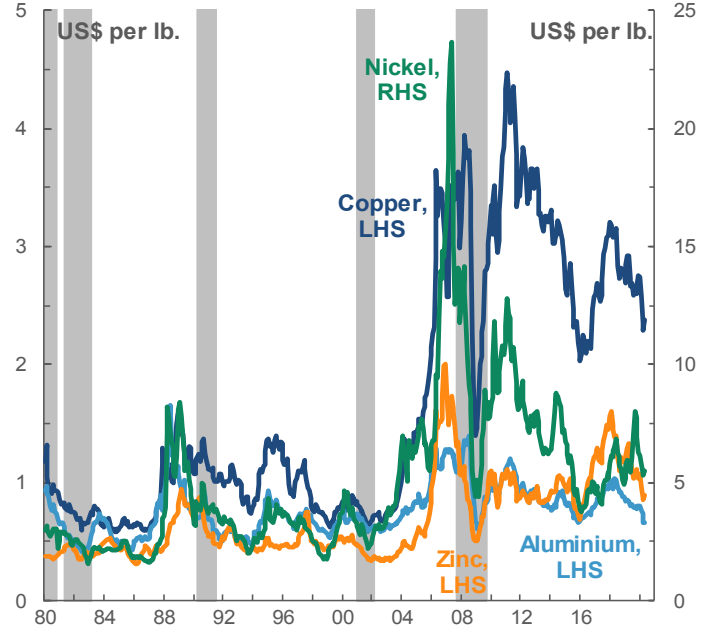
Scotiabank Forest Products & Agricultural Indices



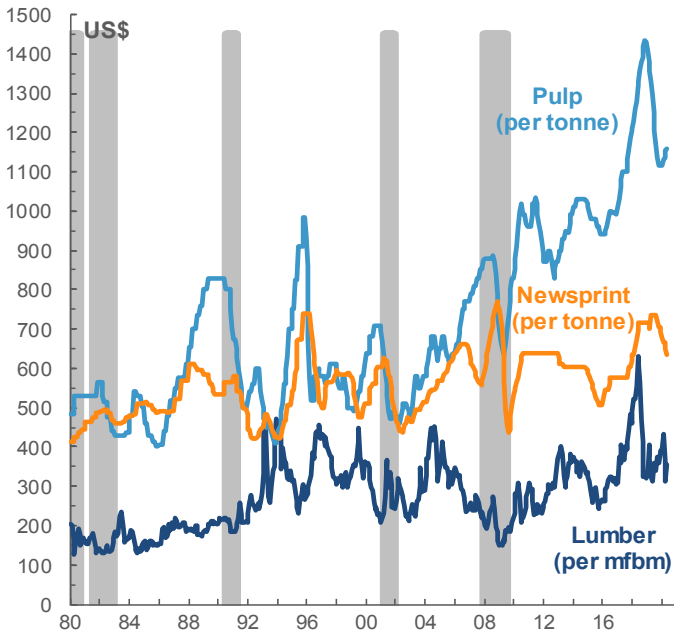
**Oil & Gas Prices**



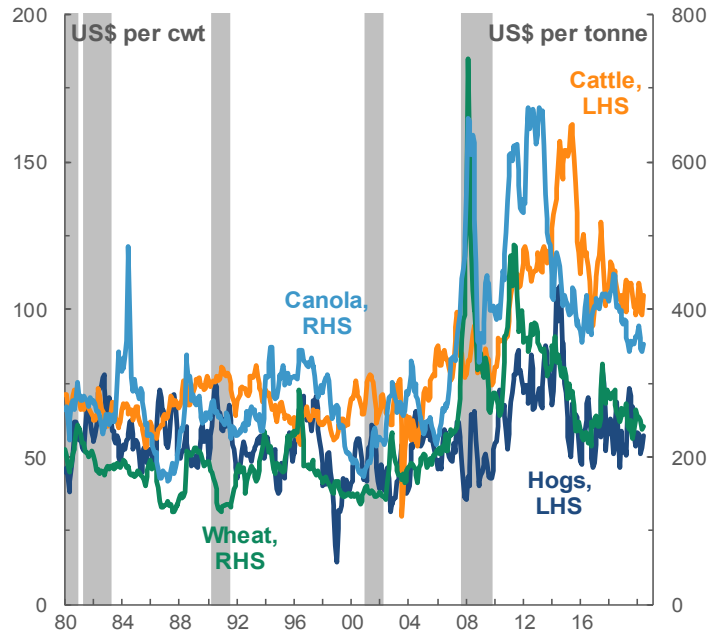
**Metals Prices**



**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) U<sub>3</sub>O<sub>8</sub> 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), Manitoba Agriculture and Food No. 1 Canadian western barley 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<br>(millions of dollars) | Index Weight<br>(per cent) |
|----------------------------------|---|----------------------------|
| <b>OIL &amp; GAS INDEX</b>       | <b>46,537</b>                                     | <b>39.90</b>               |
| Crude Oil & Refined Products     | 33,231  | 28.49                      |
| Natural Gas & LNG                | 11,741  | 10.07                      |
| NGLs                             | 1,565   | 1.34                       |
| <b>METAL &amp; MINERAL INDEX</b> | <b>35,109</b>                                     | <b>30.10</b>               |
| 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                       |
| <b>FOREST PRODUCTS INDEX</b>     | <b>17,081</b>                                     | <b>14.66</b>               |
| 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                       |
| <b>AGRICULTURAL INDEX</b>        | <b>17,901</b>                                     | <b>15.35</b>               |
| 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                       |
| <b>TOTAL INDEX</b>               | <b>116,643</b>                                    | <b>100.00</b>              |

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