

Commodity Price Recovery Continues

- Broadly speaking, commodity prices have continued to gain despite COVID-19 flare-ups and paused reopening plans in some jurisdictions.
- Healthy price appreciation is persisting for industrial metals in particular amid rallying manufacturing and construction activity and regional supply concerns.
- Crude oil markets continue on their long rebalancing process.

GLOBAL RECOVERY PROGRESSING

Global economic activity is still broadly improving from the depths reached amid early-year lockdowns (chart 1), despite a rise in COVID-19 cases and paused plans to further ease restrictions in a number of jurisdictions. That remains a factor lending support for most commodity prices. From a growth rate perspective, our forecast trajectories for most jurisdictions most closely resemble the classic “V-shaped” recovery pattern. However, the rebound is expected to be a gradual one in which recuperation of H1-2020 losses takes up to two years for many countries.

Although we do not anticipate that the rapid spread of the virus in the US will undermine the global economy’s overall trajectory, it has influenced risk sentiment and further failure to get it under control could change our view. Putting on hold of some reopening plans may also result in some incremental mark-downs to growth in some countries.

Sino-US trade and diplomatic tensions remain high. Last week, both countries closed overseas consulates. Uncertainty generated by an extended spat between the world’s two largest economies significantly held back growth and weighed on commodity pricing last year. Now rearing its ugly head once again in 2020, it threatens an already delicate recovery from COVID-19.

METALS: GOLD AND COPPER CONTINUE TO CLIMB IN TANDEM

The dual rise in gold and copper prices has been a peculiar feature of the commodities landscape this year. The value of one metal tends to move higher as the other dips. Typically, gold is sought out as a safe haven asset during turbulent economic times, while the “Dr. Copper” moniker reflects perceptions of the red metal as a bellwether of global construction and manufacturing activity.

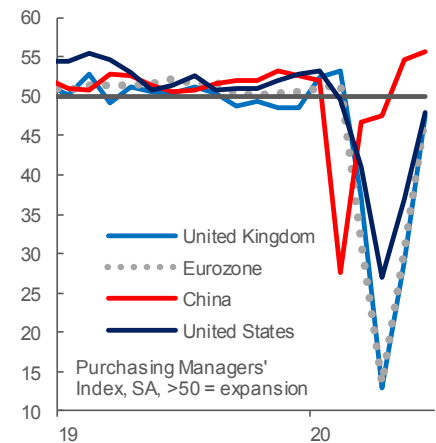
An uncertain—albeit improving—economic environment has broadly boosted bullion prices. Investors flocked to the yellow metal in 2019 during the Sino-US trade war, lifting its price significantly higher, and have continued to do so this year amid the most uncertain economic environment since the Great Depression. Gold’s more recent jump above USD 1,900/oz mirrors substantial depreciation of the US dollar (chart 2). We argue that this reflects a shift away from the safe harbour offered by the greenback rather than the inflation pickup that some dread. Still, the drivers of recent bullion price growth should remain in place in the coming months.

CONTACTS

Marc Desormeaux, Senior Economist
 416.866.4733
 Scotiabank Economics
marc.desormeaux@scotiabank.com

Chart 1

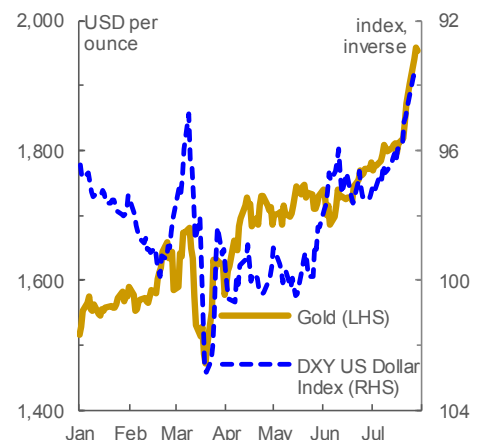
Global Economic Activity Continues to Improve



Sources: Scotiabank Economics, IHS Markit.

Chart 2

Greenback Depreciation Boosts Gold Price



Sources: Scotiabank Economics, Bloomberg.

Hovering near 3.00 USD/t, copper is up more than 35% since its March nadir, having blown through pre-pandemic price levels in the process (chart 3). Two fundamental factors explain these jumps. Just as early lockdowns in China—responsible for about half of global copper consumption—hammered industrial activity and demand, so too have a better-than-expected rebound and a sizeable stimulus package bolstered the red metal’s climb. Meanwhile, the persistent spread of COVID-19 in key producers Chile and Peru has engendered acute supply concerns, putting more upward pressure on prices. With both factors likely to persist into the next few months, we have revised our near-term copper forecasts upward.

Other industrial metals prices have also trended higher, but their outlooks are less sanguine. Iron ore continues to benefit from robust Chinese steel production, weak inventories at Chinese ports, and uncertainty about supply given that COVID-19 is running rampant in Brazil’s principal mining region. However, anxiety on the latter item may ease with output guidance thus far intact. Nickel has also climbed, but unlike copper, its market began 2020 in a surplus position; Indonesia’s nickel pig iron export ban will likely support strong production for the next few years. Zinc prices, while out of their pandemic doldrums, will have to grapple with the arrival of new production capacity initiated before the pandemic as well as particularly weak demand related to the metal’s use in the transportation and auto sectors.

FIRST SIGNS OF OIL PRODUCTION INCREASES BEGIN TO EMERGE

Crude markets are continuing the long process of rebalancing. Bolstered by WTI prices in the USD 35–40/bbl range for the last two months, American drillers have begun to notch production higher (chart 4). That, in turn, is beginning to slowly eat into the massive crude inventory balance built up during the simultaneous demand and supply shocks experienced early this year. Further increases in COVID-19 cases and any related restrictions in the US continue to present downside risk.

Alberta crude production declines may also be easing, and we anticipate a narrower-than-previously projected WCS-WTI differential over the next several years. A strong production pullback following the COVID-19 oil price crash has left excess capacity on export pipelines, an acute deficit of which hamstrung Western oil producers for the last few years. Heavy oil availability has also likely been limited due to OPEC+ and Venezuelan supply reductions. The spread is now hovering nearer 10 USD/bbl, but we foresee a more sustainable average spread of in the 15 USD/bbl range over the next few years. Longer-run, prospects for Western producers were bolstered this month by the Supreme Court of Canada’s dismissal of an appeal of the TransMountain Expansion pipeline, which effectively ends a years-long legal battle.

Newfoundland and Labrador’s economic and fiscal update released last Friday offered a reminder of the challenges that lie ahead for oil and gas-intensive jurisdictions. As we highlighted in our [note](#), the province appears on pace to avoid an historic real output contraction in part because of climbing production at the long lead-time Hebron offshore oil field; however, it faces a near-record nominal fiscal deficit this year. As in Saskatchewan, The Rock will likely grapple with long-run financial sustainability concerns and the need to support a hard-hit, resource-based economy. Alberta is expected to publish an official financial update in August, but the provincial government has already indicated that this year’s fiscal shortfall will be at least CAD 20 bn (6–7% of nominal GDP, according to our latest forecasts) (chart 5).

Chart 3

The Doctor Is In Session

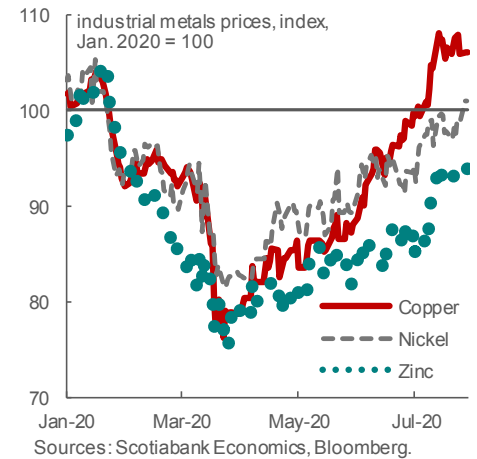


Chart 4

North American Oil Production Shows Signs of Picking Up

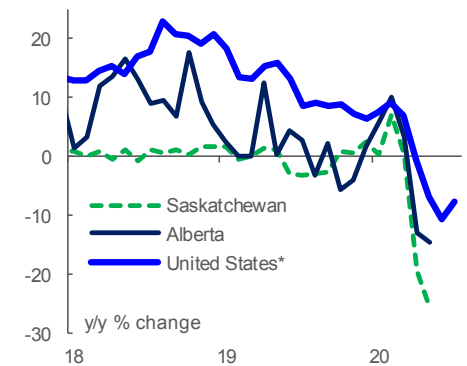
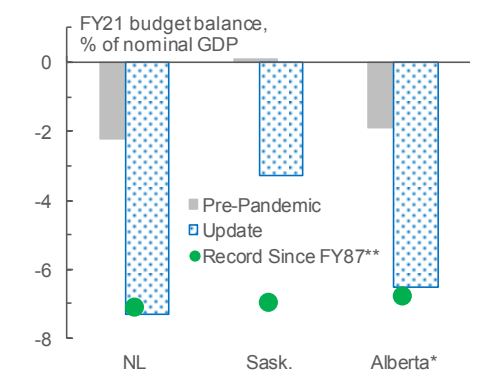


Chart 5

Pandemic Hits Oil-Producing Provinces’ Finances

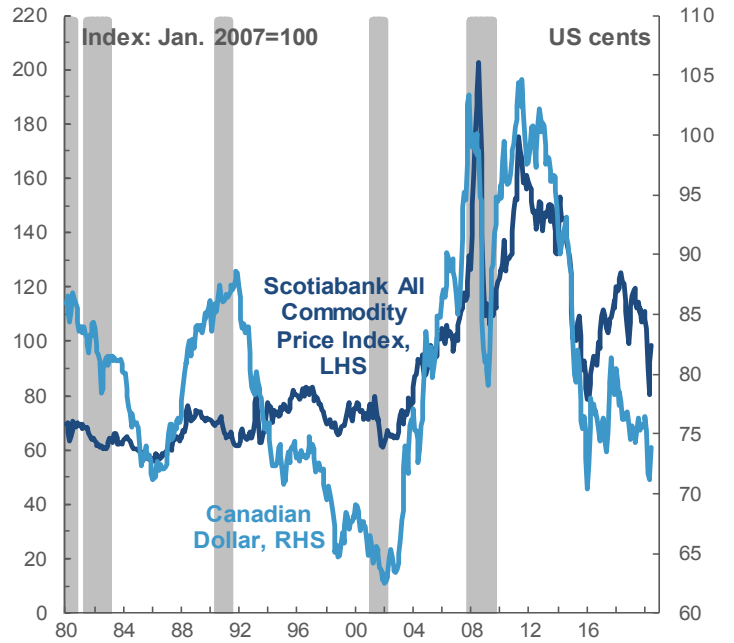


Price Outlook		2010–2018			2019	2020F	2021F
		Low	Period Avg.	High			
Oil & Gas							
Crude Oils							
West Texas Intermediate	USD/bbl	26	74	114	57	37	44
North Sea Brent Blend	USD/bbl	28	82	127	64	41	46
WCS - WTI Discount	USD/bbl	-50	-18	-7	-14	-14	-15
Natural Gas							
Nymex Henry Hub	USD/MMBtu	1.64	3.39	6.15	2.53	1.93	2.50
Metals & Minerals							
Base Metals							
Copper	USD/lb	1.96	3.10	4.60	2.72	2.50	2.75
Nickel	USD/lb	3.50	7.00	13.17	6.32	5.70	6.00
Zinc	USD/lb	0.66	1.02	1.64	1.16	0.92	1.00
Aluminium	USD/lb	0.65	0.89	1.26	0.81	0.90	0.90
Bulk Commodities							
Iron Ore	USD/t	39	101	194	94	87	70
Metallurgical Coal	USD/t	81	179	330	177	130	140
Precious Metals							
Gold	USD/toz	1,049	1,342	1,895	1,393	1,650	1,700

Scotiabank All Commodity Price Index



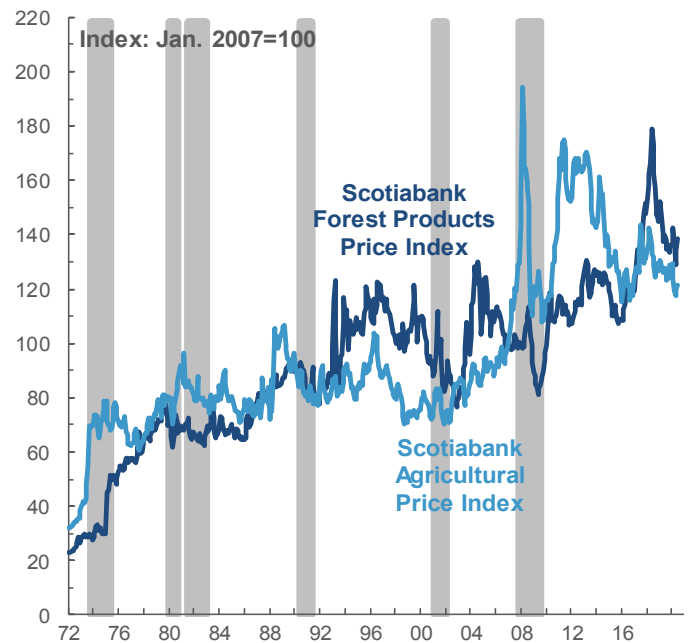
Canadian Dollar vs. Commodity Prices



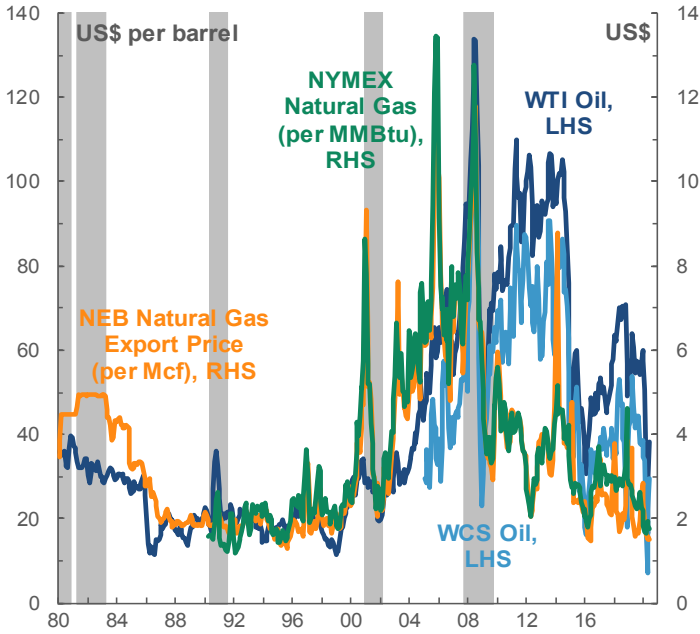
Scotiabank Oil & Gas and Metal & Mineral Indices



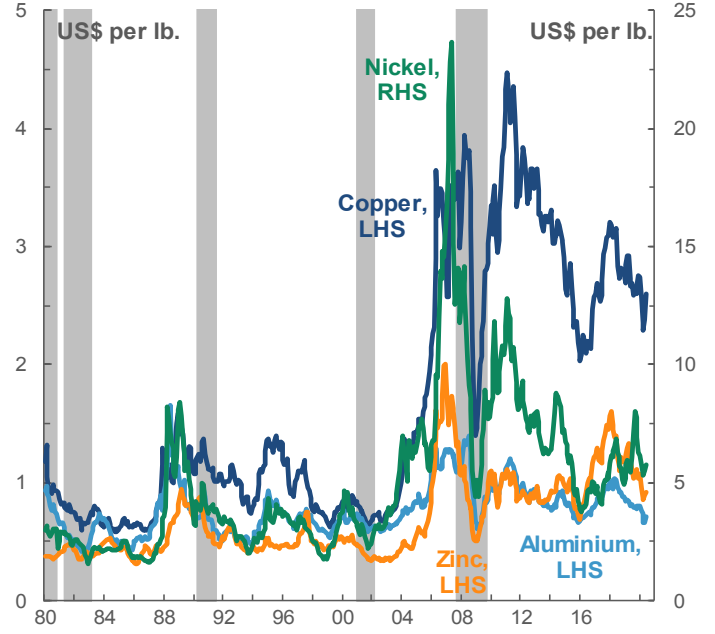
Scotiabank Forest Products & Agricultural Indices



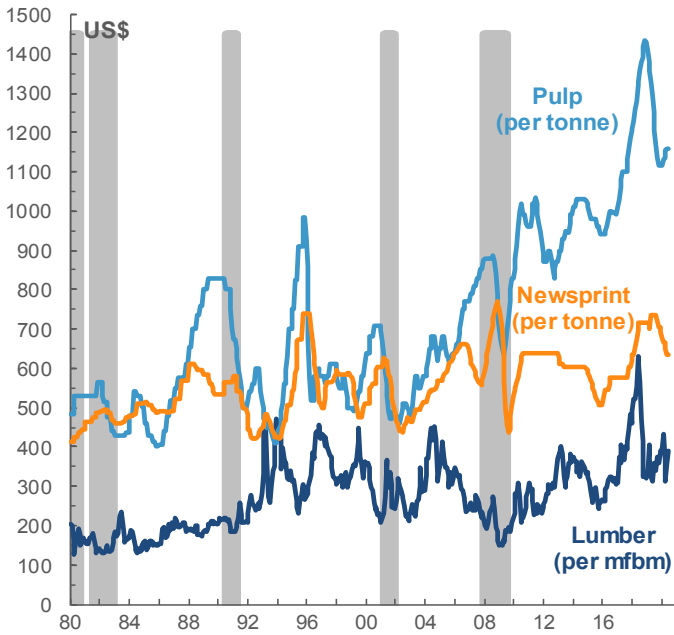
Oil & Gas Prices



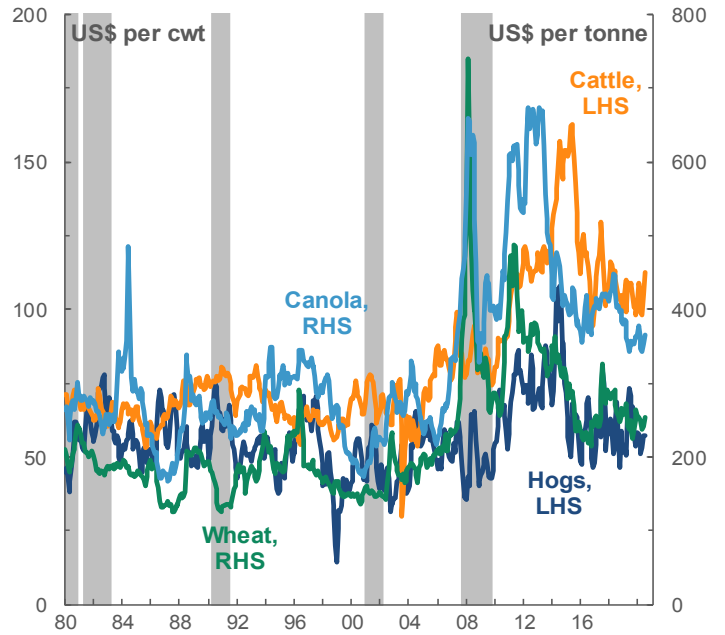
Metals Prices



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) 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), 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 (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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