

## Recovery Continues to Buoy Commodity Prices

### SUMMARY

- Prices for most major commodities continue to trend higher, in line with economic data that increasingly point to a V-shaped global recovery from COVID-19 lockdowns and travel restrictions.
- Industrial metals continue to witness strong gains, supported by robust Chinese demand and supply restrictions in key mining regions.
- Energy infrastructure in the US Gulf Coast (USGC) appears to have been spared the worst of Hurricane Laura; we continue to anticipate that oil prices will climb back to pre-virus heights gradually.

### STRONG GLOBAL REBOUND PERSISTS

Control of COVID-19's spread has enabled an easing of physical distancing restrictions in many countries; cases remain on the rise in some nations, but economic data suggest that a V-shaped recovery is underway (chart 1). A number of jurisdictions have now recouped significant portions of the consumer and business activity lost over the period of more severe lockdowns. Markets have naturally responded positively to these developments, as well as to news of progress with respect to COVID-19 vaccine development and virus treatment, and commodity prices broadly continue to rise.

**Yet we are not out of the woods.** The recovery still looks to be in an early phase: the reopening process is largely complete among countries thus far driving the largest economic gains. As such, it is unlikely that the torrid pace of economic growth experienced of late will be sustained in the coming months. The US—where contagion has not been brought under control, the current administration is again embracing confrontational protectionist vitriol, and there is a risk of premature policy support withdrawal—remains a question mark. In all, we continue to anticipate that levels of economic activity in most jurisdictions will remain below pre-pandemic levels for some time.

### METALS: INDUSTRIALS, GOLD STILL STRONG

**Copper prices continue to rise.** This month, it cleared the 3 USD/lb threshold for the first time since 2018, and is now more than 40% higher than the nadir reached in late March. Chinese demand continued to drive the complex higher, as reflected in a number of reports of surging metals imports that are naturally invoking comparisons to the post-GFC commodities boom. Tight metals inventories at Chinese ports continue to add price pressures (chart 2). Supply concerns also remain in place, notably in Latin America, still grappling with elevated COVID-19 caseloads.

**The story is much the same for the broader industrial metals complex.** Aluminum, zinc, nickel, and iron ore all rose last month and sit more than 20% from their early-year lows, supported by the global industrial sector rally.

### CONTACTS

Marc Desormeaux, Senior Economist  
 416.866.4733  
 Scotiabank Economics  
[marc.desormeaux@scotiabank.com](mailto:marc.desormeaux@scotiabank.com)

Chart 1

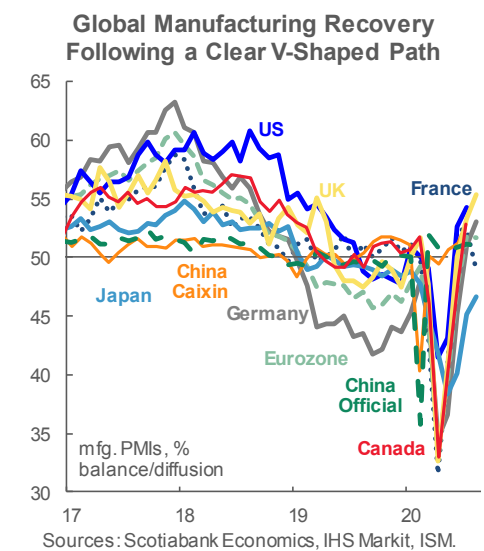
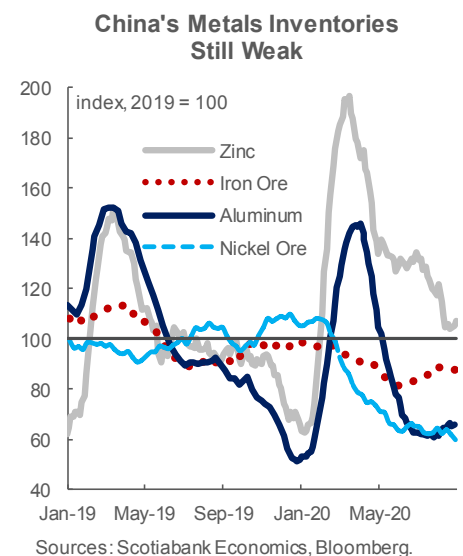


Chart 2



**For gold, the key development this month was the Federal Reserve’s shift in tone.** The US central bank’s apparent tolerance for inflation above the traditional 2% target, alongside already low interest rates—at least for now—are being interpreted by markets as potentially softer US real rates over the medium-term. However, this effect might unwind over the longer-run as implementation is put to the test.

**OIL: HURRICANE, PANDEMIC IMPACTS TAKE SHAPE**

**Oil industry headlines have been dominated of late by Hurricane Laura, whose top wind speed of 150 mph put it among the strongest storms on record in the US.** As firms braced for storm surges and gale force winds, the USGC saw numerous platform evacuations and production shut-ins. Those supply reductions nudged WTI above 43 USD/bbl late last week, with price gains limited by ongoing fears of demand-side weakness related to COVID-19. Hurricane Harvey and its severe 2017 market disruptions and shutdowns are naturally being invoked, but that storm’s outsized impact was largely a product of the flooding and rains that resulted when it stalled over the Houston Area. At this stage, flooding at inland plants looks to have been avoided, reducing the likelihood of a sustained Laura-related impact.

**Western Canadian oil producers will be breathing a sigh of relief with refinery infrastructure at their marginal barrels’ primary destination looking to have been spared the worst of the storm.** The WCS benchmark held steady in August, while its discount to WTI widened to the 11–12 USD/bbl range (chart 3). Spot prices remain below pre-pandemic heights, but their differential to WTI has been unsustainably narrow this year as a result of temporary excess egress capacity and reduced Venezuelan heavy oil output. Convergence towards the equilibrium 15–17 USD/bbl range reflects the heavy oil market’s ongoing rebalancing process as fuel demand and production continue to recover. Still, durable long-run balance cannot be achieved until fuel consumption normalizes and new pipelines enter service.

**Alberta’s first fiscal update since COVID-19 reached Canadian shores (see our note)—the last such report among Canada’s provinces—allows for further stock-taking on the pandemic’s oil and gas sector impact.** Record or near-record economic contractions, job losses, budget deficits, and debt loads are now expected across the net oil-producing provinces this year. Alberta will also incur further costs associated with its crude-by-rail program—contracts for which have now been sold to the private sector—with weaker pricing and this year’s narrowing of the WCS-WTI discount eroding related revenues. Also of note, Alberta anticipates that even after a strong growth bounce-back next year, real GDP will sit more than 6% below its 2014 peak, which would extend the downturn that began in 2015 to at least eight years.

**SOFTWOOD LUMBER RULING A MORAL VICTORY FOR GREAT WHITE NORTH**

**This month’s WTO statement that the US Department of Commerce erred in 2017 when it imposed countervailing duties on Canadian softwood lumber exports was the latest chapter in a multi-decade cross-border spat.** The US is the primary destination of Canada’s softwood lumber exports, and contends that its neighbour’s stumpage fees constitute a *de facto* subsidy system that justifies the use of countervailing duties on shipments from the Great White North. Policy changes are uncertain, but the decision has nonetheless been cheered by Canadian producers following the US’ move to restore aluminum import tariffs.

Chart 3

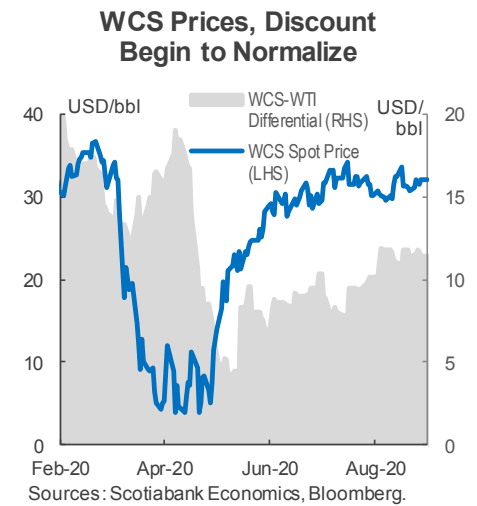


Chart 4

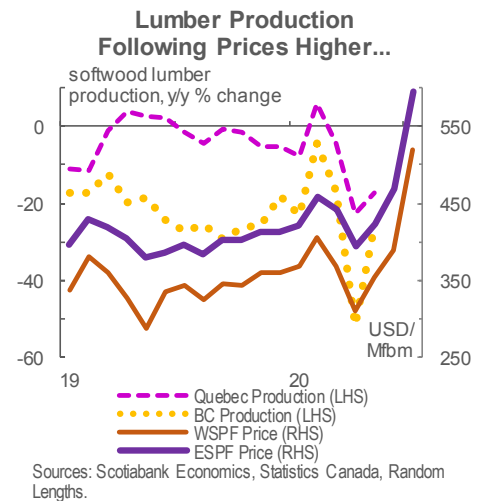
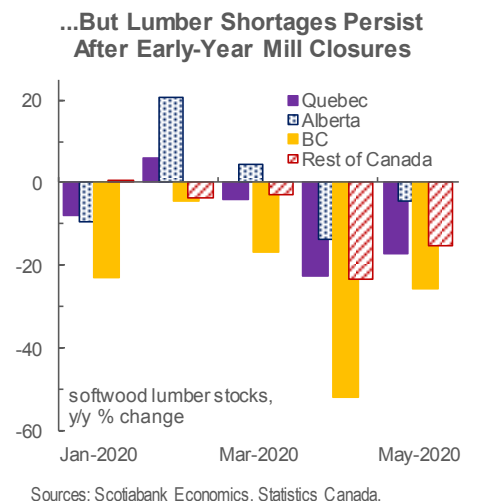


Chart 5



**Against that backdrop, Canadian lumber producers are in the midst of hefty price gains.** Expecting a pandemic-induced plunge in demand, the industry cut back production in March and April. Yet, with US home building recovering, tariffs on American lumber imports still in place, and output only beginning to ramp up, prices for Western and Eastern Spruce Pine Fir (WSPF, ESPF) 2x4s in July surged above 500 USD/Mfbm (chart 4, p.2). More recent futures prices indicate prices in the 900–1,000 USD/Mfbm range—all-time highs for both. Lumber prices are known to be volatile and the US’s recovery is uncertain given its failure to contain COVID-19’s spread. Still, shortages that have developed across Canada in the early months of the year (chart 5, p.2) may continue to put upward pressure on prices in the next few months.

<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	46
WCS - WTI Discount	USD/bbl	-50	-18	-7	-14	-14	-15
<b>Natural Gas</b>							
Nymex Henry Hub	USD/MMBtu	1.64	3.39	6.15	2.53	1.93	2.50
<b>Metals &amp; Minerals</b>							
<b>Base Metals</b>							
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
<b>Bulk Commodities</b>							
Iron Ore	USD/t	39	101	194	94	87	70
Metallurgical Coal	USD/t	81	179	330	177	130	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



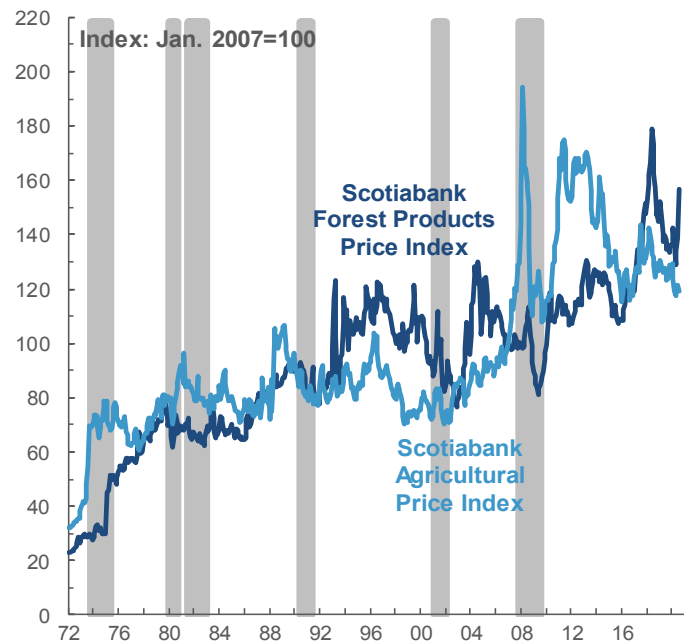
Canadian Dollar vs. Commodity Prices



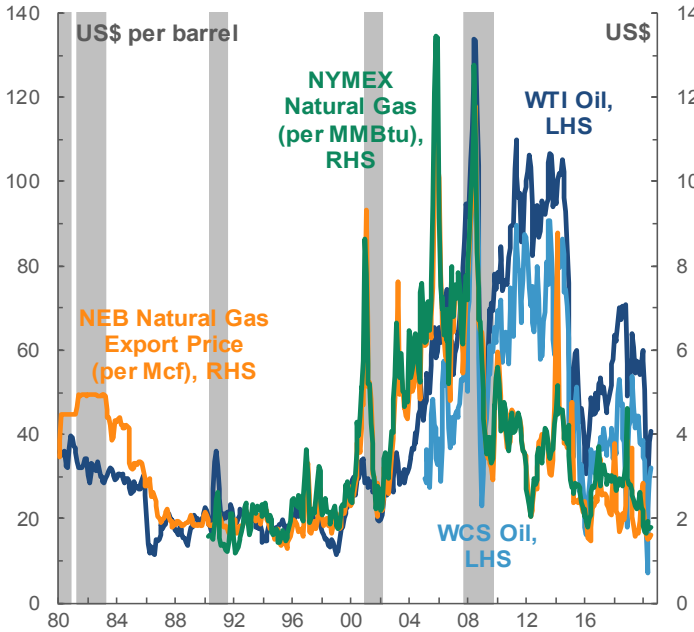
Scotiabank Oil & Gas and Metal & Mineral Indices



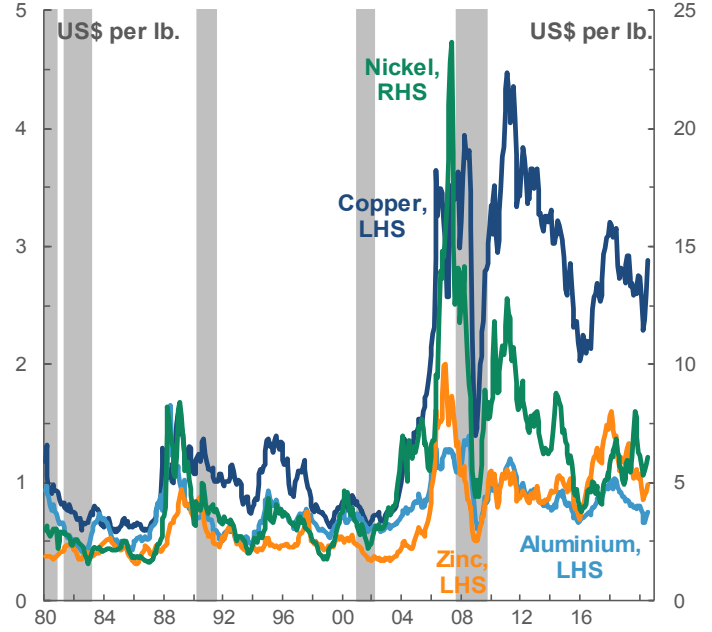
Scotiabank Forest Products & Agricultural Indices



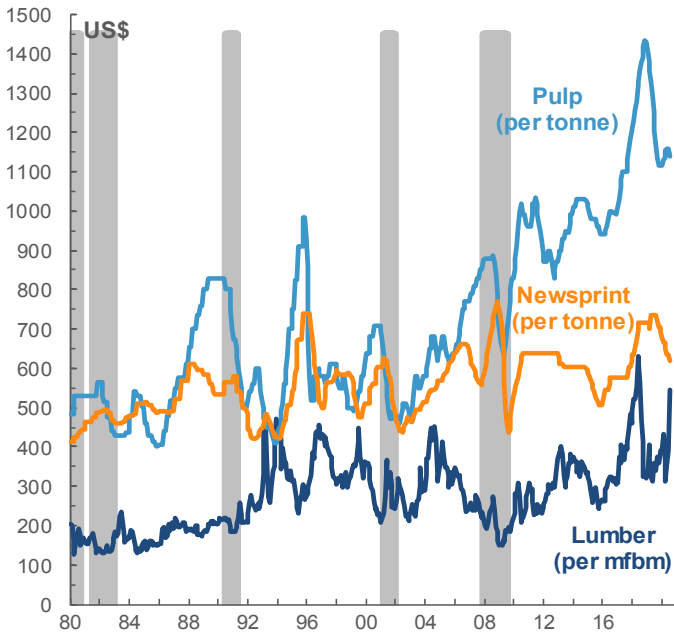
**Oil & Gas Prices**



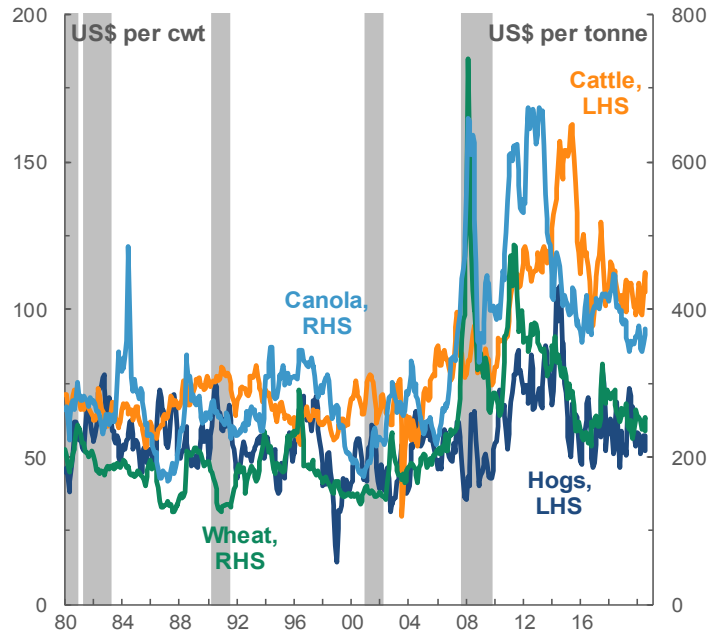
**Metals Prices**



**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 (millions of dollars)	Index Weight (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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