

Commodity Prices Steady To Begin Second Wave

SUMMARY

- Many countries are in the midst of second COVID-19 waves; the virus' evolution and the outcome of the US presidential election represent the principal risks to global growth and commodities demand at this time.
- Industrial metals prices remain well-supported, largely due to the strength of China's ongoing post-lockdown economic recovery.
- The severe glut of US oil inventories that built up during the economic meltdown earlier this year is diminishing, which should provide support for prices entering 2021; the WCS-WTI differential remains tight.

GLOBAL ECONOMY: SECOND WAVES AND THE US ELECTION

Our latest forecast update incrementally marked down global growth projections in respect of rising COVID-19 caseloads and related restrictions. Canada's two largest provinces have embraced a new round of targeted restrictions, and several European nations also continue to report record numbers of infections and have instituted new lockdown measures. Meanwhile, the US may be in the midst of its third wave (chart 1). Offering a partial offset is China's buoyant recovery; notwithstanding a somewhat disappointing Q3 GDP read, the world's largest metals consumer is on track for hefty gains in Q4 and into next year.

The implications of the US presidential contest for global growth are myriad. Current polls suggest a Biden victory is likely, but passage of a fiscal stimulus bill—needed to bolster a waning recovery—depends fundamentally on the political makeup of the US Senate. With Democratic control of the upper chamber, the generous stimulus package likely to be pushed by a President Biden could generate a significant boost to US growth and commodities demand. By the same token, Senate opposition could impede presidential plans and the US recovery. More conventional trade policy making could be expected under a Biden administration, but some degree of "America First" sentiment will likely persist.

There are more implications still for Canadian energy. A Biden presidency would reduce the likelihood that the Keystone XL pipeline—necessary to bring greater egress capacity and eventual market balance in the Western Canadian oil patch—is completed. Longer-run, US participation in the Joint Committee Plan of Action (JCPOA)—which Biden has stated his intent to do—is bearish for crude to the extent that easing sanctions bring more Iranian barrels online.

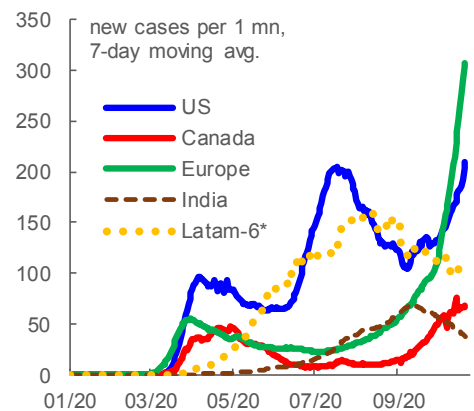
GOLD FLAT, INDUSTRIAL METALS STILL STRONG

With gold currently trading in the 1,900 USD/oz range, we have revised higher our bullion price projections through 2023. As with the broader economic forecast, we have not yet incorporated potential uncertainty or stimulus impacts related to the US election. Of particular import to the new forecast is the Federal Reserve's stated tolerance for stronger inflation, which, though it will be subject to implementation challenges, has the potential to weigh on US real rates and support bullion values throughout the medium-term. Broadly, ongoing

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Chart 1
Second Waves Rage in Europe and North America



* Argentina, Brazil, Chile, Colombia, Mexico, Peru.
Sources: Scotiabank Economics. ECDC.

Scotiabank Commodity Price Index

	September 2020			(% change)		
	M/M	Y/Y	YTD	M/M	Y/Y	YTD
All Commodity*	2.2	1.3	-12.4			
Industrials	1.6	0.6	-14.3			
Oil & Gas	-4.1	-29.8	-37.7			
Metal & Minerals	0.0	1.2	-4.1			
Forest Products	8.9	52.8	8.0			
Agriculture	5.2	4.9	-3.2			
	January 2007 = 100					
	2020					
	Sep	Aug	YTD avg.			
All Commodity	113.8	111.4	100.4			
Industrials	111.0	109.3	96.4			
Oil & Gas	61.7	64.3	56.7			
Metal & Minerals	129.2	129.1	121.7			
Forest Products	208.0	190.9	152.4			
Agriculture	129.6	123.2	122.5			

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

pandemic impacts should continue to contribute to appetite for the safe-haven metal, keeping prices at 1,850 USD/oz over the next two years.

October copper price movements were a microcosm of the trend in recent months. While the 4.9% (q/q annualized) rate of economic growth reported in China in Q3 came in just shy of consensus projections, signs of broad-based momentum towards the end of the quarter drove the red metal as high as 3.20 USD/lb last week. That represented the highest level for copper since June 2018, and followed some modest downward price pressure earlier in the month amid signs of a slowing global recovery. Also lifting copper prices are rumours that the Chinese government will soon step up purchases and stockpile a range of commodities to support its ongoing stimulus plans.

Chinese industrial activity continues to lift prices for other industrial metals such as nickel and aluminum. Both have witnessed solid gains in October, and averaged more than 25% higher than the lows reached earlier this year during the peak first wave lockdown period, and continue to hover well above pre-pandemic levels (chart 2). Iron ore prices remain well-supported by Chinese demand and fears of supply-side disruptions in Brazil, the second-largest producer in the world as well as the third-most COVID-19-infected country in the world. We expect the latter factor to persist to some degree into next year—even with exports recovering—and we have upgraded our iron ore price forecast through 2022.

OIL: INVENTORIES FALLING, LIGHT-HEAVY DISCOUNT TIGHT

North American crude markets continue to adjust. Though demand faces a more downcast outlook than a few months ago with second waves intensifying and new lockdown measures in place, it has been improving since Q2-2020. Alongside throttled back production and drilling activity, this has helped to drain the severe glut that built up in H1 (chart 3). Expectations that the trend persists in the coming months—while phase two pandemic restrictions remain less severe than during the first wave—anchor our latest commodity price forecast update that has WTI reaching 52 USD/bbl by end-2021.

The WCS discount to WTI remains narrow, in the 9–11 USD/bbl range. Limited heavy crude availability in the key US Gulf Coast refinery region via sanctions on Venezuela plus significantly reduced oil sands production are keeping upward pressure on prices. That is occurring with a sizeable overhang of refined products inventory that is weighing on crack spreads and petroleum upgrading activity (chart 4). Availability constraints should persist so long as OPEC supply caps remain, while new egress capacity is expected in H1 of next year as Line 3 pipeline expansions come online. Those factors should help keep the differential stable in the 13–14 USD/bbl range for the next several years.

Last month, we discussed anxieties about oil and gas sector fortunes in Newfoundland and Labrador; since then, a deal to keep the Come By Chance refinery in operation collapsed—adding fuel to the fire. It is the only refinery in NL, and last year, petroleum refinery shipments made up over 20% of nominal exports. It employs some 400 full-time workers, many of whom earn more than \$100k per year versus the all-industry provincial mean near \$50k. Activity at the facility also supports a range of transportation, wholesale, and gas station jobs. Longer-term, shutdown would likely mean that fuel would have to be imported rather than produced domestically. Still, it is reasonable to expect negotiations to continue given the significant potential impacts of permanent closure.

Chart 2

Industrial Metals Prices Continue to Climb

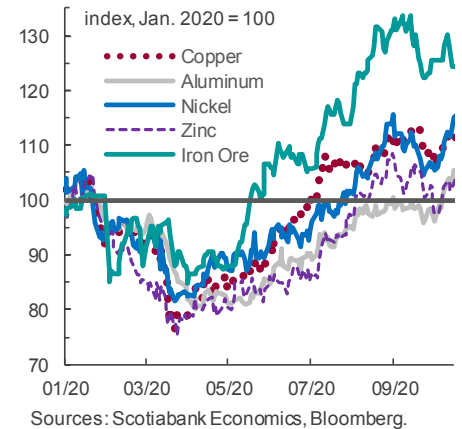


Chart 3

Petroleum Inventories Draining

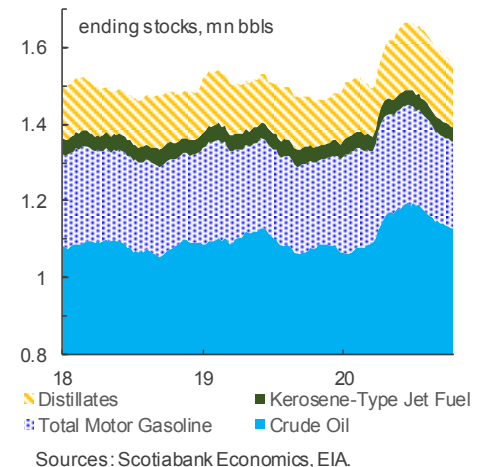
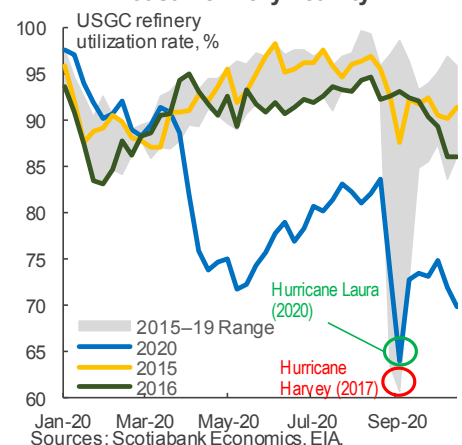


Chart 4

Weak Year for Gulf Coast Refinery Activity



Price Outlook		2010–2019			2019	2020F	2021F	2022F
		Low	Period Avg.	High				
Oil & Gas								
Crude Oils								
West Texas Intermediate	USD/bbl	26	72	114	57	39	48	52
North Sea Brent Blend	USD/bbl	28	80	127	64	43	50	55
WCS - WTI Discount	USD/bbl	-50	-18	-7	-14	-12	-14	-13
Natural Gas								
Nymex Henry Hub	USD/MMBtu	1.64	3.30	6.15	2.53	2.12	2.70	2.55
Metals & Minerals								
Base Metals								
Copper	USD/lb	1.96	3.06	4.60	2.72	2.74	3.00	3.10
Nickel	USD/lb	3.50	6.93	13.17	6.32	6.07	6.50	6.35
Zinc	USD/lb	0.66	1.03	1.64	1.16	1.00	1.10	1.05
Aluminium	USD/lb	0.65	0.88	1.26	0.81	0.90	0.90	0.90
Bulk Commodities								
Iron Ore	USD/t	39	100	194	94	100	85	75
Metallurgical Coal	USD/t	81	180	330	177	130	140	150
Precious Metals								
Gold	USD/toz	1,049	1,347	1,895	1,393	1,775	1,850	1,850

Scotiabank All Commodity Price Index



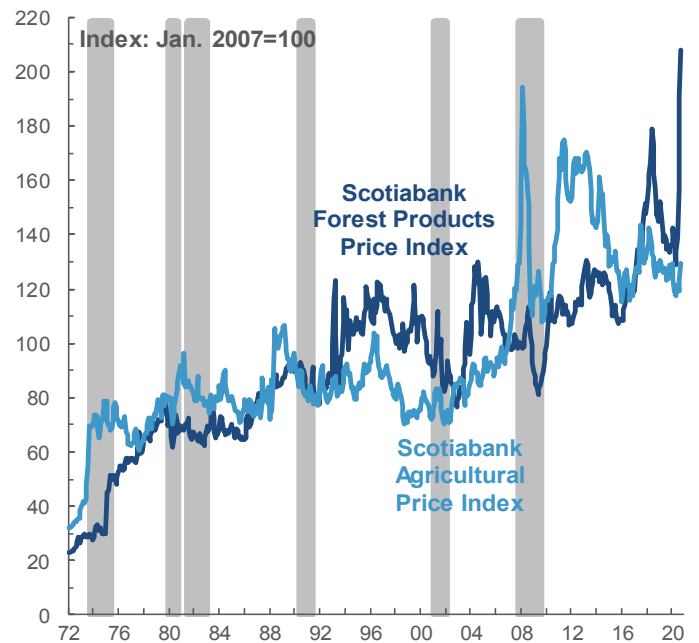
Canadian Dollar vs. Commodity Prices



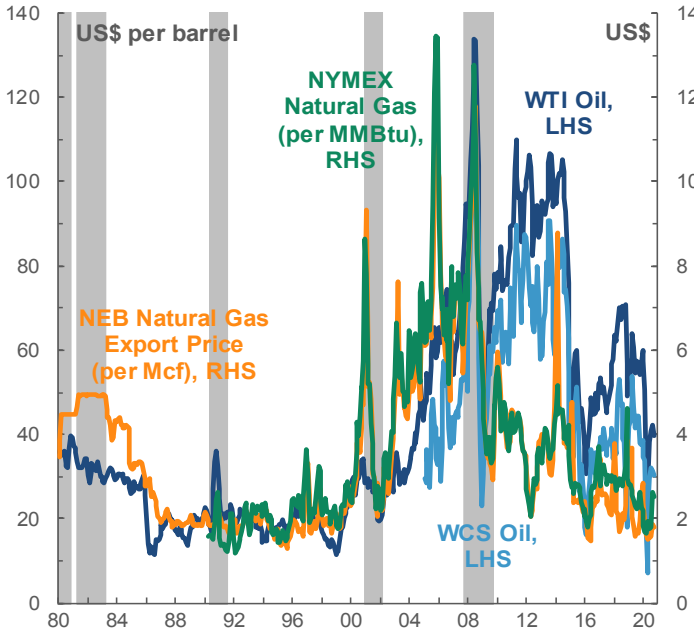
Scotiabank Oil & Gas and Metal & Mineral Indices



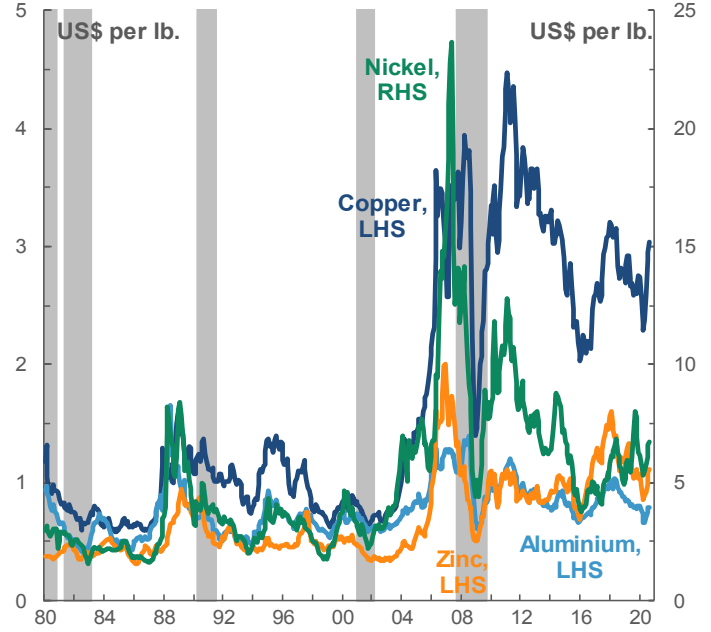
Scotiabank Forest Products & Agricultural Indices



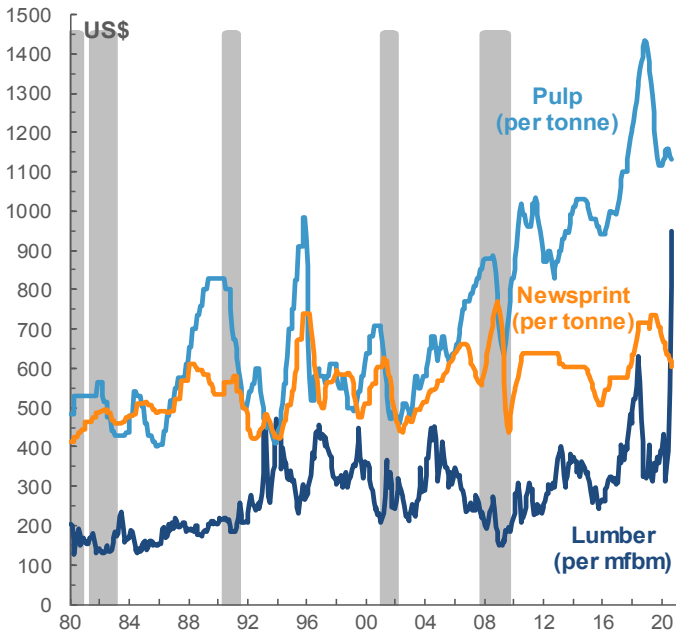
Oil & Gas Prices



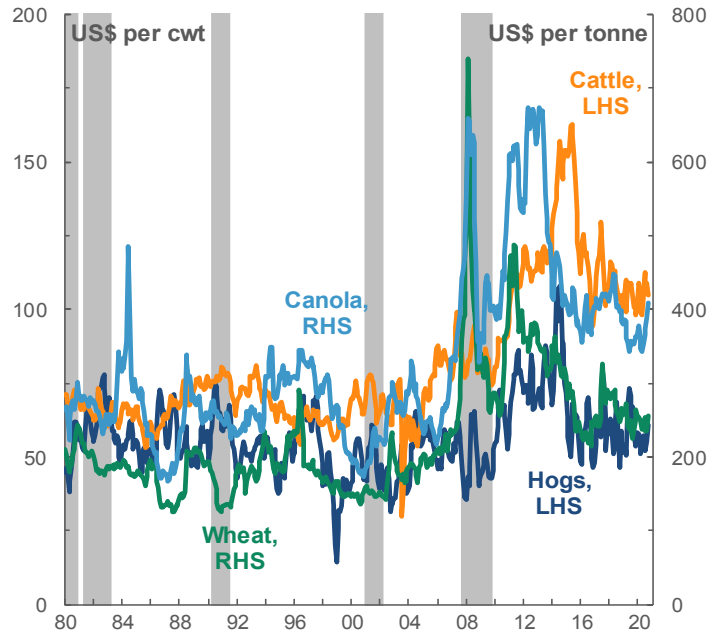
Metals Prices



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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