

## Commodities: Forecasts Revised Higher

### SUMMARY

- Despite severe third waves of COVID-19 in many countries, strong incoming economic data and details of the proposed US infrastructure plan have led us to again revise our global growth projections higher.
- In light of these developments and early-year momentum, we have also upgraded forecasts for the prices of most commodities in our coverage.
- The risk of stronger inflation continues to weigh on precious metals values, but uncertainty and US dollar effects have been supportive.
- Iron ore values recently reached all-time highs and we would not be surprised to see copper follow suit.
- Our latest global oil price projections assume that crude values will hold reasonably steady this quarter before rising more convincingly in the second half of the year.

### GLOBAL OUTLOOK LIFTED AGAIN DESPITE VIRUS SURGE

While steep increases in COVID-19 infection rates across a number of countries have prompted even stricter lockdowns over the last month, we have once again revised our global economic forecast higher. This largely reflects the strength of incoming indicators in the US and Canada that suggest economic resilience to second- and third-wave lockdowns (chart 1), but we have now included about half of the proposed Biden infrastructure plan as well. We also assess China's recovery to be broadening beyond the industrial sector, though fiscal policy continues to provide strong underlying support for commodity prices. Tighter mobility restrictions will no doubt weigh on the expansions of countries that have imposed them, but we believe that upside risks dominate the outlook.

### PRECIOUS METALS BENEFIT FROM TAX PLAN, INFLATION READINGS

Gold drifted toward the 1,800 USD/oz range near the end of April, influenced in part by a response to details of the White House's new tax plan. Investors view the prospect of higher capital gains tax rates as negative for the US dollar; that, in turn, lifted the greenback-priced bullion. The safe-haven yellow metal also benefited from the negative volatility associated with a large bitcoin selloff. Expectations of accelerating prices—often linked to fiscal stimulus and reinforced by the surge in US CPI reported for March—and loose monetary policy continue to anchor values for the classic inflation hedge, gold. This week's March 2021 report on personal consumption expenditures inflation—the Federal Reserve's preferred metric of price pressures—will likely reveal further above-trend price growth.

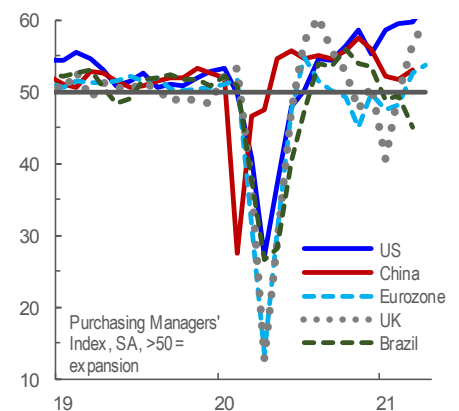
Silver prices have also seen some late-month momentum, climbing back above 26 USD/oz after closing as low as 24 USD/oz in late March. The precious metal's value is affected by many of the same forces as those affecting

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Chart 1

Major World Economies Look to Have Expanded in Second Wave



Sources: Scotiabank Economics, IHS Markit.

### Scotiabank Commodity Price Index

	March 2021		
	(% change)		
	M/M	Y/Y	YTD
<b>All Commodity*</b>	1.2	61.4	38.4
<b>Industrials</b>	0.3	66.9	41.0
Oil & Gas	-4.0	148.6	51.3
Metal & Minerals	0.5	23.7	21.4
Forest Products	5.8	76.2	62.9
<b>Agriculture</b>	5.5	39.8	27.2
	<b>January 2007 = 100</b>		
	2021 2021		
	Mar	Feb	YTD avg.
<b>All Commodity</b>	146.0	144.3	140.0
<b>Industrials</b>	142.3	141.8	136.8
Oil & Gas	103.1	107.4	97.5
Metal & Minerals	146.5	145.8	145.8
Forest Products	240.2	227.1	225.1
<b>Agriculture</b>	166.8	158.1	157.8

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

gold; ongoing shortages in the physical market continue to lend support for prices. The robust infrastructure spending expected as reopening from lockdowns proceeds should put a floor under silver prices given the metal's wide range of industrial uses.

**INDUSTRIAL METALS SUPERCYCLE**

**Another month, another new high for copper prices.** For the last year, values of the bellwether metal have been lifted by hefty industrial demand in China (chart 2)—which accounts for over 50% of global consumption; more recently, prices have gained from signs of recovery elsewhere in the world. This week, port workers in Chile—the world's largest copper producer—called a strike, giving rise to fears of supply disruptions and driving the red metal to its highest level since 2011. We have also raised our copper price forecasts for 2021–25 to reflect our expectations of a strong stimulus-led global recovery, as well as limited new mining capacity and healthy decarbonization-related demand in the medium-term. In all, we would not be surprised if copper prices reached new record highs this cycle.

**Iron ore prices also continued their upward trend—this month breaching the 190 USD/t mark and exceeding the all-time record set in 2011—and we have likewise revised our price projections higher.** An important input for steel production, the metal remains at the confluence of hefty Chinese stimulus and limited output and shipments from Latin America. We expect prices to remain well-supported near-term but ease as the year progresses—fundamentals are strong, but we still see evidence of speculative activity in the market that should abate. However, factors such as Sino-Australian trade tensions and the limited number of major mining capacity upgrades currently planned may keep prices elevated.

**Prices for nickel and zinc face more muted prospects.** We expect Indonesian nickel pig iron (NPI) output to continue to climb and Tsingshan Holdings' recent technological breakthrough should increase the amount of nickel matte available for battery use. For zinc, we anticipate that production will finally ramp up following pre-pandemic capacity upgrades outside of China, keeping the global market oversupplied for the next three years despite an improving demand outlook.

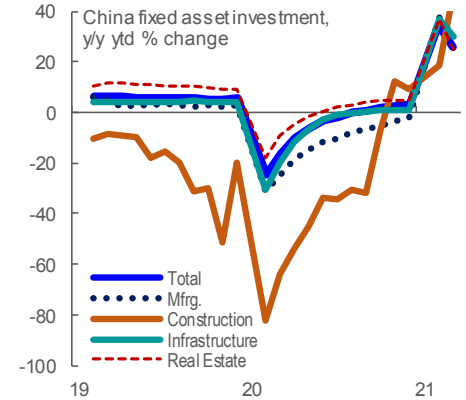
**OIL PRICE FORECASTS RAISED**

**Our latest global oil price projections assume that crude values will hold steady this quarter and rise more convincingly in H2-2021.** That forecast corresponds to our view that global fuel consumption will improve with more widespread vaccination and the eventual easing of third-wave lockdown measures. Near-term, we expect US producers to stay cautious with respect to new capital outlays and OPEC+ looks likely to remain nimble on production decisions. Yet the latter group recently raised its demand outlook and appears set to ease production cuts next month, and if American shale patch spending discipline is maintained, it should reduce spare capacity and inventories, and eventually push prices higher. Futures curves for Brent and WTI are depicted in chart 3.

**Over time, we expect the WCS differential to WTI to widen to a range more in line with refining and transportation costs.** Pricing for Western Canadian barrels continues to benefit from diminished heavy oil availability in the US Gulf Coast related to OPEC+ output cuts; as those quotas are gradually eased, the discount to WTI should normalize. Assisted by the end of the province's curtailment program late last

Chart 2

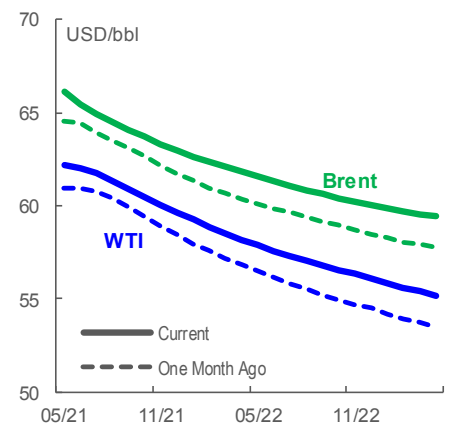
**Chinese Industrial Activity Anchors Copper, Iron Ore Price Strength**



Sources: Scotiabank Economics, China National Bureau of Statistics.

Chart 3

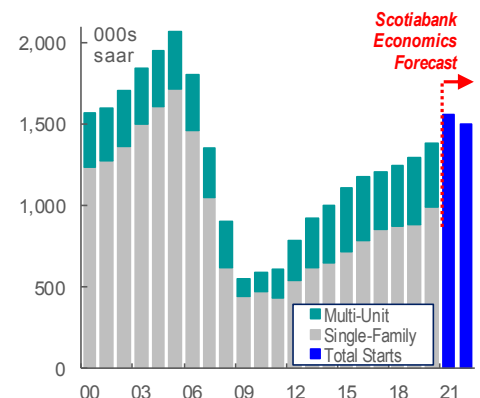
**Oil Futures Curves**



Sources: Scotiabank Economics, Bloomberg.

Chart 4

**Strong US Homebuilding Should Continue to Support Lumber Prices**



Sources: Scotiabank Economics, US Census Bureau.

year, Alberta crude production is also trending generally higher—though it fell back in February. Those additional barrels should be absorbed by added egress capacity via the Line 3 pipeline, expected to enter service later this year.

### DON'T KNOCK ON WOOD

**The surge in lumber prices witnessed over the last year has been nothing short of remarkable.** North American benchmarks are setting new records every week; the composite framing index's climb to almost 1,200 USD/Mfbm in the week of April 23 followed reports that US housing starts reached their highest level since 2006 (chart 4, p.2). The demand side of the market looks promising—we anticipate that total US starts will reach a post-GFC high in 2021, with gains concentrated in lumber-intensive single-family units. Home repair and renovation activity should also remain elevated so long as lockdowns are in force. North American mills continue to grapple with tight inventories and strong sales orders.

**Prices for many other forest products are also at or near record highs.** OSB values were more than triple year-earlier levels in the week of April 23, 2021. The price of Kraft Pulp—used in tissues, packaging, and various other consumer paper products—continues to benefit from strong demand vis-à-vis the pandemic-induced shift to e-commerce.

<b>Price Outlook</b>		<b>2010–2020</b>			<b>2020</b>	<b>2021F</b>	<b>2022F</b>
		Low	Period Avg.	High			
<b>Oil &amp; Gas</b>							
<b>Crude Oils</b>							
West Texas Intermediate	USD/bbl	-38	69	114	39	59	62
North Sea Brent Blend	USD/bbl	19	77	127	43	62	65
WCS - WTI Discount	USD/bbl	-50	-17	-3	-12	-13	-15
<b>Natural Gas</b>							
Nymex Henry Hub	USD/MMBtu	1.48	3.20	6.15	2.13	2.85	2.70
<b>Metals &amp; Minerals</b>							
<b>Base Metals</b>							
Copper	USD/lb	1.96	3.04	4.60	2.80	3.80	4.00
Nickel	USD/lb	3.50	6.87	13.17	6.25	7.50	7.25
Zinc	USD/lb	0.66	1.03	1.64	1.03	1.25	1.20
<b>Bulk Commodities</b>							
Iron Ore	USD/t	39	101	194	110	142	100
Metallurgical Coal	USD/t	81	174	330	125	125	140
<b>Precious Metals</b>							
Gold	USD/toz	1,049	1,386	2,067	1,770	1,837	1,850

Scotiabank All Commodity Price Index



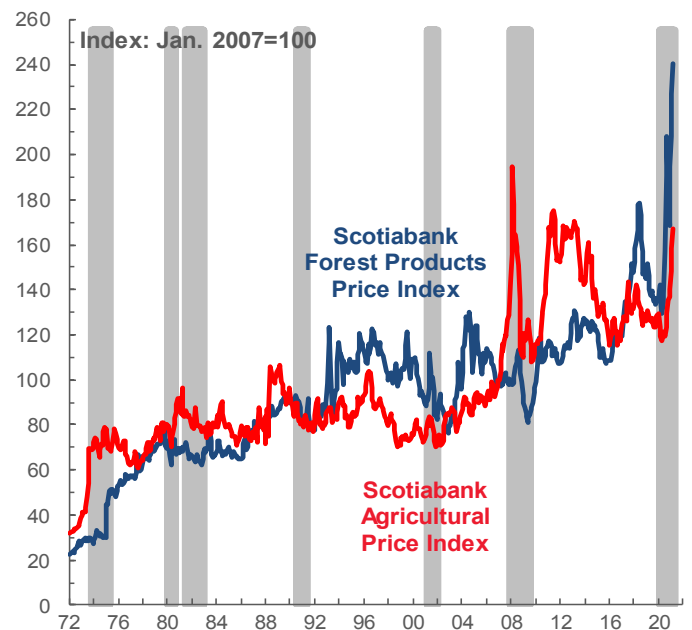
Canadian Dollar vs. Commodity Prices



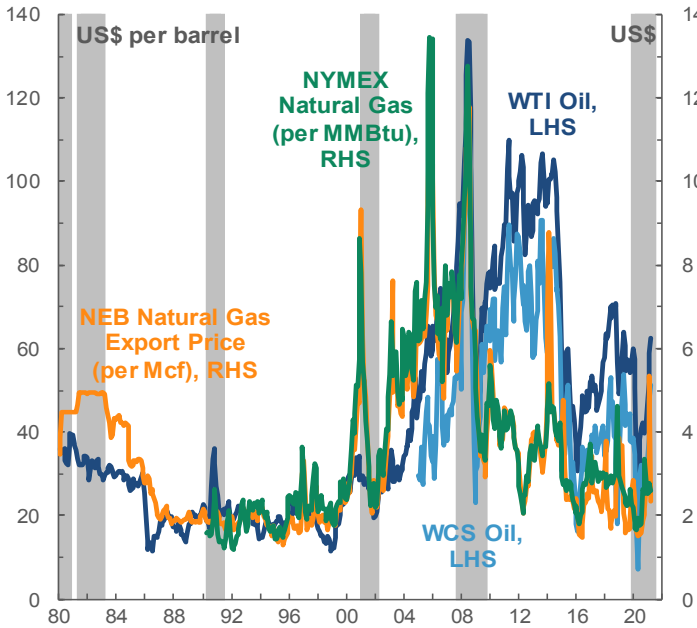
Scotiabank Oil & Gas and Metal & Mineral Indices



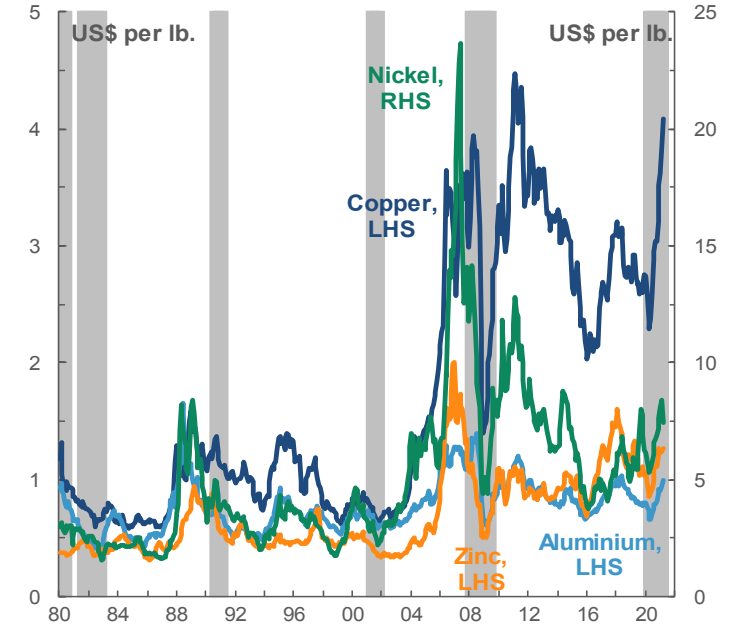
Scotiabank Forest Products & Agricultural Indices



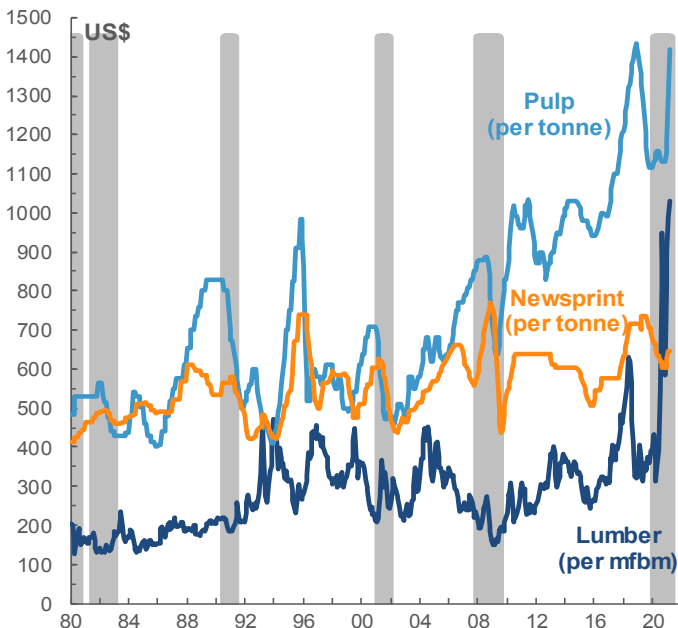
**Oil & Gas Prices**



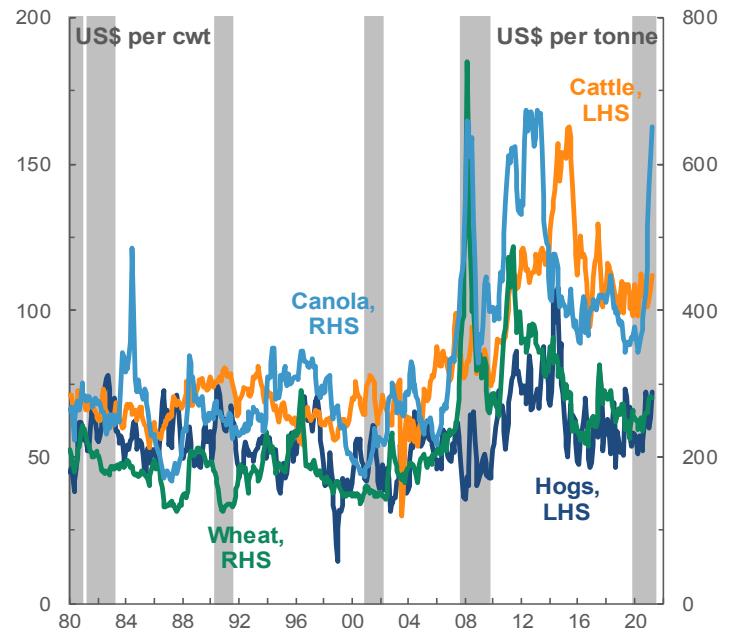
**Metals Prices**



**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) 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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