

Commodity Prices: Setting (More) New Records

SUMMARY

- The global economy generally continues to strengthen and remains constructive for most commodities.
- Inflationary signals and US dollar weakness pushed gold to its highest levels since early January.
- Copper prices finally broke the record established in 2011 after more than a year of strong gains; iron ore values beat the all-time highs set last month.
- Thus far in May, average Brent and WTI prices are the highest since 2018, lifted by broadly improving crude demand and market tightness.
- North American lumber prices continue to establish new highs.

RECOVERY, INOCULATION PROCEED; INFLATION REARS ITS HEAD

Broadly speaking, the global economy continues to strengthen and remains constructive for commodity pricing gains. COVID-19 vaccination rates are climbing around the world; Canada in particular has seen its pace improve significantly during the last month. Flash purchasing managers' indices (PMIs)—broad measures of the prevailing economic trend—are at their highest levels since before the pandemic in the US, the UK, and the Eurozone (chart 1), and still elevated in China. While restrictions remain in place and Japan and India are grappling with recent surges in cases, there is a renewed sense of optimism with reopening plans announced in several Western countries.

Against that strengthening backdrop, the past month saw several data releases suggestive of stronger inflation. US core CPI witnessed the strongest y/y gain since 2008 in April, but minutes from the latest FOMC meeting continued to point to dovish policy (read Derek Holt's analyses [here](#) and [here](#)). Our April forecast assumes peak US inflation near 3% by end-2021, and that the Fed will delay monetary stimulus withdrawal until 2023. Yet, potential additional fiscal spending signalled by the Biden Administration presents upside risk for the labour market recovery and, by extension, the possibility of a faster tightening schedule.

INFLATION, USD WEAKNESS CONTINUE TO LIFT GOLD

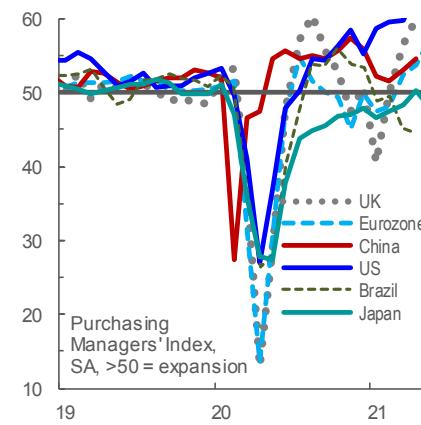
Bullion climbed into the 1,900 USD/oz range by the end of May—nearly 10% higher than early-April levels—the gain driven primarily by US dollar weakness. The greenback has depreciated in response to inflation fears, the Fed's continued dovish policy stance, and expectations of accelerating economic growth in much of the rest of the world. Accordingly, the DXY index is down about 3% since late March and net bets against the US currency have been steadily increasing in recent weeks, benefiting USD-priced bullion (chart 2, p.2). Volatility via the recent cryptocurrency selloff also contributed to gold's desirability as a safe-haven asset.

CONTACTS

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

Chart 1

Global Economic Momentum Persists, with Some Exceptions



Sources: Scotiabank Economics, IHS Markit.

Scotiabank Commodity Price Index

April 2021 (% change)

	MM	Y/Y	YTD
All Commodity*	4.3	90.2	49.4
Industrials	4.0	101.7	53.5
Oil & Gas	-4.3	379.0	84.2
Metal & Minerals	2.1	28.0	23.0
Forest Products	16.2	116.2	75.5
Agriculture	5.8	50.5	32.8

January 2007 = 100

	2021		
	Apr	Mar	YTD avg.
All Commodity	153.0	146.7	143.4
Industrials	148.8	143.1	140.0
Oil & Gas	100.3	104.9	98.7
Metal & Minerals	149.6	146.5	146.7
Forest Products	279.1	240.2	238.6
Agriculture	176.4	166.8	162.4

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

CRUDE CONTINUES TO CLIMB

The generally improving macroeconomic backdrop was at the heart of gains for Brent and WTI this month. Thus far in May, WTI has averaged 65 USD/bbl—the highest monthly mean price since October 2018—and Brent's mean near 68 USD is the best during the same period. OPEC+'s recent demand forecast update and reports of the strongest US traveller throughput since before the pandemic were auspicious from a fuel consumption perspective. The most significant demand-side wrinkle at this time may be India's ongoing surge in COVID-19 infections, lockdowns related to which led the IEA to downgrade its consumption projections for the current quarter.

Though crude output is rising in a number of major oil-producing nations, the supply side is also contributing to bullish sentiment. OPEC+ production is set to rise only gradually in line with previously announced targets—though spare capacity remains and ministers from the bloc are scheduled to meet in early June. In the US, a material drawdown in crude reserves leaves inventories below the trailing five-year average and a wide June–July WTI time-spread suggests expectations of tight market balances. The possibility of a new nuclear deal—which would see US sanctions on Iran lifted and could prompt a flood of new Iranian barrels to return to the global crude market—hangs over these developments. Rumours of progress on this front resulted in a short-lived crude price dip this month.

WCS also gained in May, and its differential to WTI widened to average about 13 USD/bbl. Capacity utilization at US Gulf Coast refineries—the top destination of marginal Canadian barrels—has risen towards its 2015–19 average, having plunged to a record low 41% in February at the height of that month's winter storm (chart 3).

IRON ORE SETS ANOTHER NEW RECORD, COPPER FOLLOWS SUIT

We stated in our last forecast update that copper prices could well reach all-time highs this cycle—that prediction came to pass in early May (chart 4). It was the culmination of more than a year of nearly uninterrupted upward movement related to hefty Chinese industrial activity and tight supply from Latin America. Labour tensions at two large copper mines in Chile add to the latter effect. We expect prices of the bellwether red metal to remain elevated throughout our forecast horizon as a global stimulus-led recovery finds its footing this year, and a broader copper-intensive green transition takes hold over the medium-term. As well, there is little additional production capacity in the pipeline.

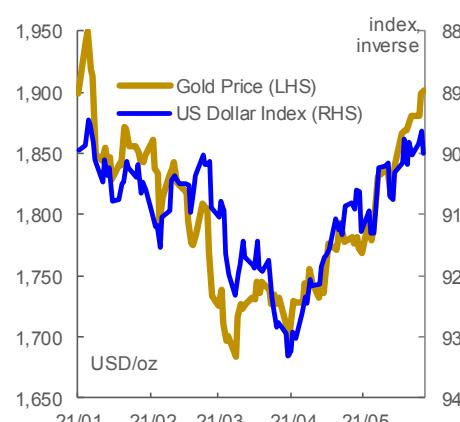
Market values for iron ore also reached a new peak in May, having previously done so just last month. A key ingredient in steelmaking, the metal has benefited from the same factors as copper has. Last month, unexpectedly high steel production figures in China drove a surge to north of 230 USD/t; prices have since fallen back below the 200 USD/t mark. We suspect that current levels of speculative activity in the market will ease over the course of this year as Brazilian iron ore output eventually ramps up, curbing price gains over the medium-term.

SOFT HOUSING STARTS, TARIFF NEWS CAN'T STOP LUMBER PRICE GAINS

Although the pace of growth eased last week, lumber prices continue to set new records. The North American Framing Lumber Composite Index breached 1,500 USD/Mfbm in the seven days to April 21, 2021 while WSPF held at 1,630 USD/Mfbm—both marks represented all-time highs. Robust US housing construction has anchored

Chart 2

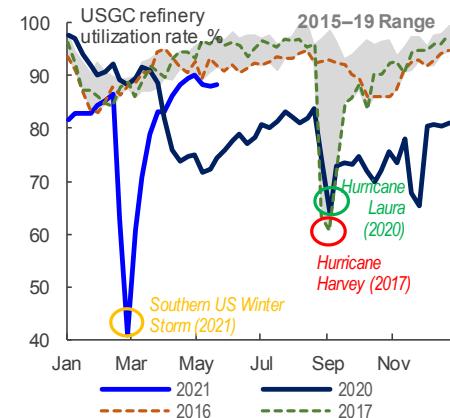
Gold Tracking USD Closely in 2021



Sources: Scotiabank Economics, Bloomberg.

Chart 3

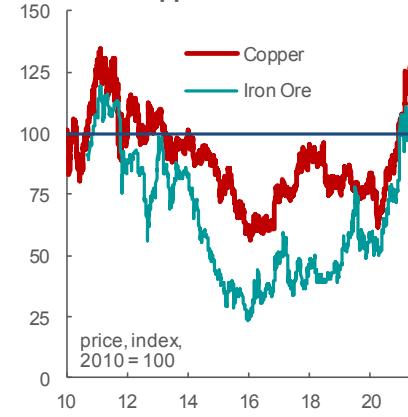
USGC Refinery Activity Almost Recovered from Winter Storm



Sources: Scotiabank Economics, EIA.

Chart 4

New Record Prices for Copper and Iron Ore



Sources: Scotiabank Economics, Bloomberg.

lumber demand, though price growth paused after the last housing starts print reported a modest decline. Yet, a rise in building permits suggests that demand remains healthy, and we anticipate that homebuilding activity will offer further pricing support as the year progresses. Mills continue to report light inventories and limited additional production capacity, both of which should contribute to additional demand-supply tightness.

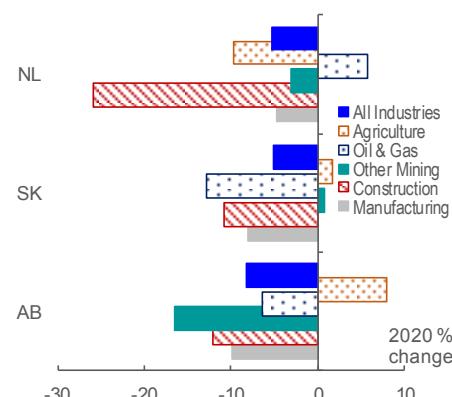
The US Department of Commerce's (DoC) proposed tariff rate increase for imports of Canadian softwood lumber is less positive for the industry, but would not take effect until November 2021 if implemented. It is the latest development in the Canada-US softwood lumber dispute that began in the 1980s, and follows the Trump Administration's retreat from a similar proposal after a Canada-favourable WTO ruling and threats of retaliatory measures late last year. The DoC will likely publish its final duty rate decision in November; the Canadian government has pledged to challenge the proposed duties in the interim. From a fundamentals perspective, we note again that US lumber production is insufficient to meet domestic demand.

SNAPSHOT OF COVID-19'S IMPACTS ON CANADA'S OIL-PRODUCING PROVINCES

Preliminary 2020 estimates of GDP by industry in Canada's provinces—released in early May—offer new insight into the broader economic impacts of the last year's commodity price movements. Alberta saw the deepest contraction of any province last year—unsurprising given its status as the capital of Canada's oil and gas industry—though construction and manufacturing experienced steeper drops. This speaks to oil and gas's linkages to other industries in the province, which we noted in our last [Alberta Provincial Outlook](#). Saskatchewan also saw spillovers, but was helped by its smaller industrial sector output share plus gains in potash mining and agriculture. Newfoundland and Labrador's oil and gas sector grew in 2020 as Hebron offshore field output continued to climb, but major project stoppages look to have weighed on other industries (chart 5).

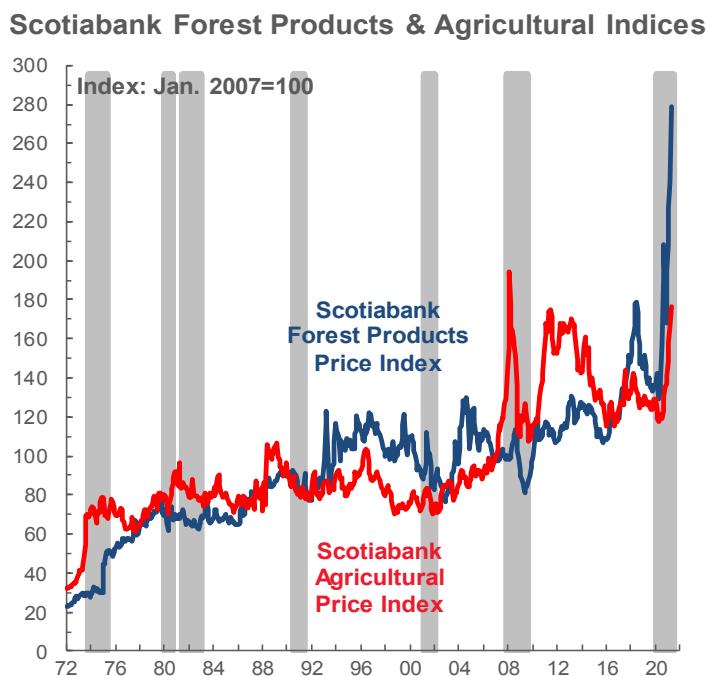
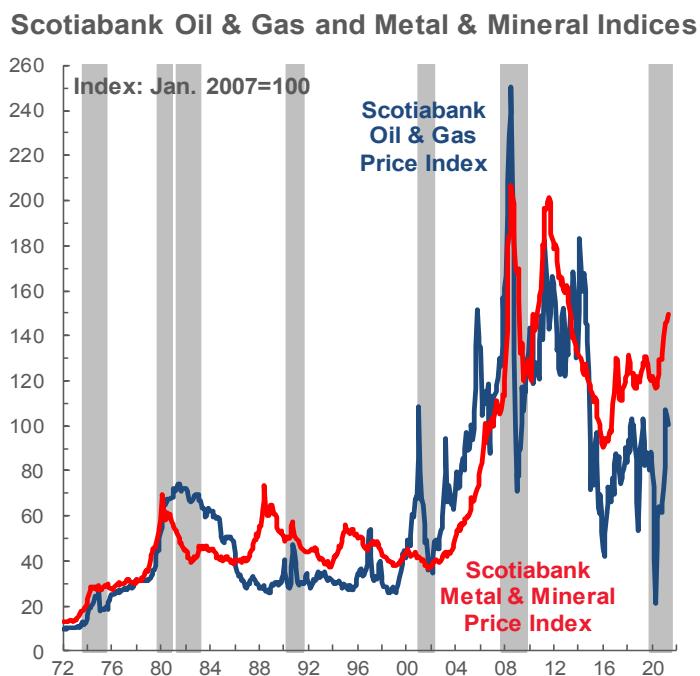
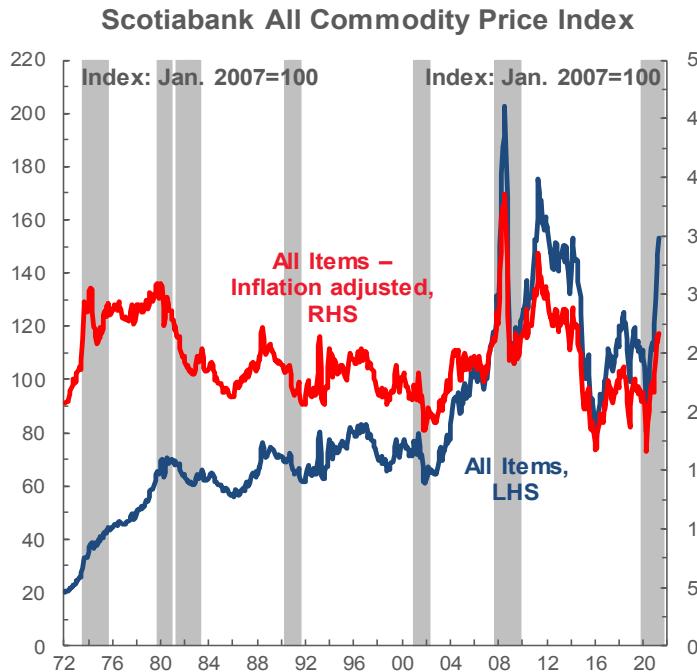
Chart 5

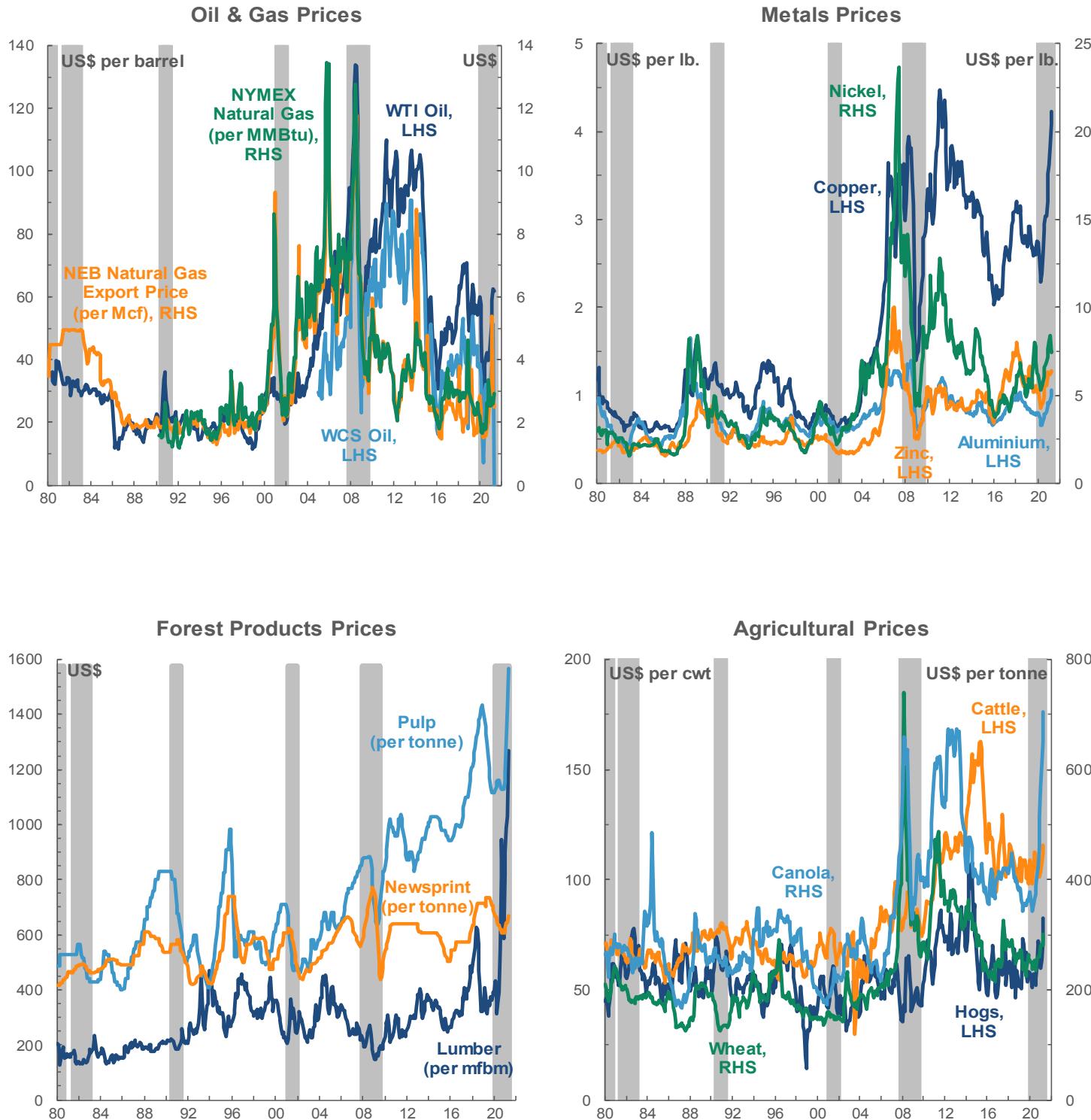
Real GDP by Industry in Canada's Oil-Producing Provinces



Sources: Scotiabank Economics, Statistics Canada.

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





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

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not construed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a "call to action" or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including; Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.