



COMMODITY TRENDS

Optimism Is Benefiting Commodities

HIGHLIGHTS

- ▶ Optimism has taken over the commodity market as the Chinese economy rebounds and the latest economic indicators in the West appear encouraging. The prices of several commodities—especially industrial metals and energy—have benefited from this positive demand sentiment. But it's not all good news. The risk of a recession hasn't disappeared and remains the most likely scenario, although it may come later than previously anticipated. In addition, geopolitical instability threatens to reignite energy and commodity price volatility.
- ▶ While the Chinese manufacturing sector will benefit from the reopening of the economy, we don't think it will expand as much as the services sector, given how resilient industrial activity was during lockdowns. This hasn't stopped the LME (London Metal Exchange) Index from rising 2.7% year-to-date. However, the economic outlook is more restricted beyond the post-COVID rebound. China's housing market is still mired in a liquidity crisis, and the manufacturing sector is contending with weakening global goods demand. As such, industrial metal prices are expected to remain high in the first half of the year, but with limited upside potential. The expected rebound in global economic activity later in 2023 is likely to lead to further price growth.
- ▶ On February 10, Russia announced that it would cut its daily oil production by 0.5 million barrels per day—equivalent to 0.5% of global oil production—in retaliation against sanctions imposed by the West. This time, the fragmentation of the energy market—and in many respects the economy in general—mitigated the effects of Russia's reprisal. On the demand side, China's economic reopening—especially for services—should lead to a recovery in regional travel and tourism. Combined with better-than-expected performance by the European and US economies, WTI returned to the US\$80 per barrel range. However, we continue to forecast a deteriorating economic outlook, which should lead to lower oil prices. Natural gas prices continued to benefit from mild temperatures. These should rise again with the return of more normal weather.
- ▶ The price of gold has fallen back again to around US\$1,850 per ounce. Historically, there has been a strong relationship between the price of gold and the yield on 10-year inflation-linked bonds. However, this relationship broke down in 2022. If it were to re-establish itself, gold would lose some of its lustre. However, uncertainty may act as a counterbalance and limit the downturn.
- ▶ Lumber prices have risen in recent weeks following the announcement of mill closures in British Columbia. The tension is palpable, as this represents only a 1.4% drop in output from the North American market, amid slower residential construction but tight inventories at retailers. Risks are increasing. Grain prices—including wheat and corn—are closely linked to how the war in Ukraine develops. We likely won't see sustained price declines if the conflict continues.

MAIN FACTORS TO WATCH

- ▶ While the global economy has held up well against rising interest rates and high inflation until now, we'll have to keep a close eye on future trends. In addition, China will have a new cabinet in March, which is likely to lead to a series of measures to address the country's major economic challenges.

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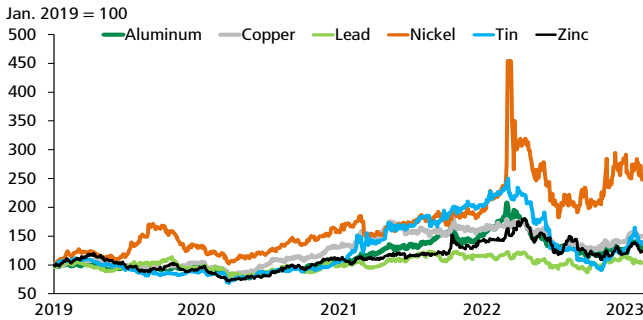
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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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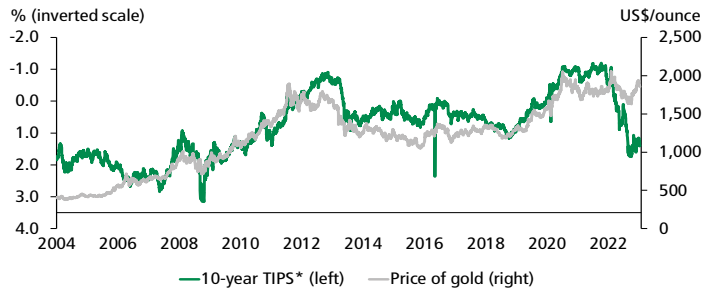
Main Commodity Trends

GRAPH 1
China's reopening is benefiting industrial metals



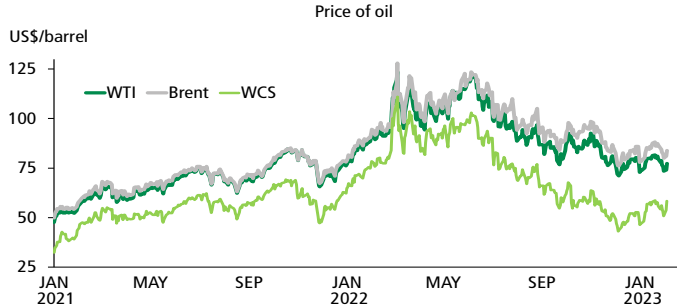
Sources: Datastream and Desjardins Economic Studies

GRAPH 4
Gold fundamentals point to lower prices



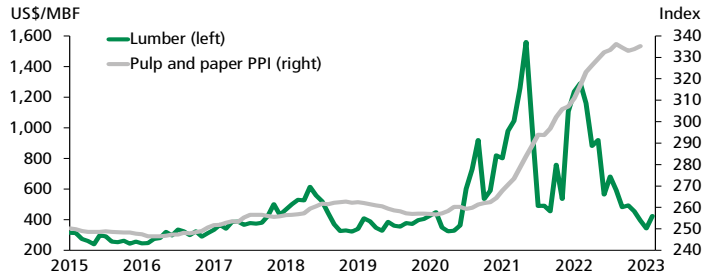
* 10-year inflation-linked bonds.
Sources: Datastream and Desjardins Economic Studies

GRAPH 2
Small rebound in oil prices



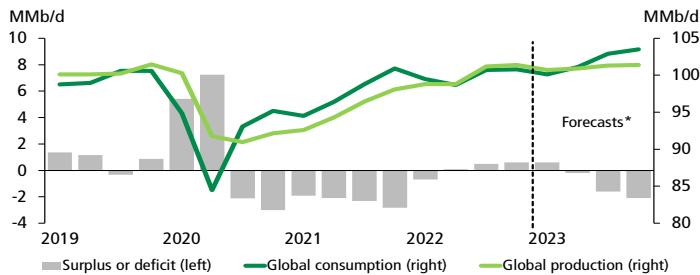
WTI: West Texas Intermediate; WCS: Western Canadian Select
Sources: Datastream, Bloomberg and Desjardins Economic Studies

GRAPH 5
Lumber prices bottomed out at the end of 2022, but there have been signs of improvement in early 2023



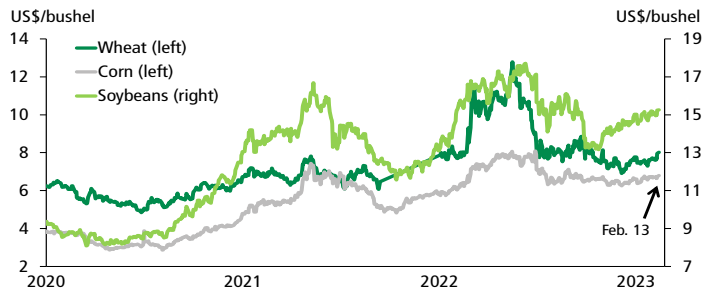
MBF: thousand board feet; PPI: Producer Price Index
Sources: Datastream and Desjardins Economic Studies

GRAPH 3
Oil demand is expected to fall early in the year



* International Energy Agency (IEA) outlook assuming members adhere to the production agreement.
Sources: IEA and Desjardins Economic Studies

GRAPH 6
Grain and oilseed prices remain volatile



Sources: Datastream and Desjardins Economic Studies

TABLE 1
Commodities

	SPOT PRICE	% CHANGE				LAST 52 WEEKS		
	Feb 20	1-month	3-month	6-month	1-year	High	Average	Low
Index								
Reuters/Jefferies CRB	267.6	-3.9	-3.2	-8.4	1.5	329.6	287.6	263.6
Bloomberg Commodity Index	106.5	-5.0	-7.2	-12.9	-4.6	136.6	119.3	106.5
Bank of Canada	615.1	0.8	-7.3	-16.9	-20.4	906.4	738.5	581.6
Energy								
Brent oil (US\$/barrel)	83.0	-5.3	-5.3	-14.3	-11.0	128.2	98.5	76.3
WTI oil (US\$/barrel)	78.5	-2.6	-2.0	-16.1	-13.8	123.7	93.7	70.9
Gasoline (US\$/gallon)	3.39	2.4	-9.9	-13.9	-2.8	5.01	3.95	3.09
Natural gas (US\$/MMBTU)	2.28	-28.3	-63.9	-75.6	-48.7	9.68	6.37	2.28
Base metals								
LME Index	4,071	-6.4	6.1	5.7	-15.4	5,506	4,185	3,453
Aluminum (US\$/tonne)	2,347	-9.1	-2.5	-2.0	-28.9	3,878	2,626	2,092
Copper (US\$/tonne)	8,950	-3.8	11.3	10.5	-10.6	10,702	8,711	7,160
Nickel (US\$/tonne)	25,571	-10.4	1.3	15.3	3.9	48,241	26,917	19,333
Zinc (US\$/tonne)	3,086	-10.2	2.1	-13.0	-14.3	4,563	3,438	2,736
Precious metals								
Gold (US\$/ounce)	1,837	-4.7	4.7	5.0	-3.1	2,056	1,811	1,628
Silver (US\$/ounce)	21.2	-11.1	0.6	10.3	-10.7	26.2	21.8	17.8
Platinum (US\$/ounce)	913	-10.8	-7.4	1.0	-16.3	1,151	962	831
Palladium (US\$/ounce)	1,481	-14.4	-24.7	-30.3	-37.2	3,015	2,047	1,448
Other commodities								
Lumber (US\$/MBF)	384	-10.2	-10.1	-25.8	-69.7	1,464	644	344
Wheat (US\$/bushel)	7.66	3.2	-4.6	1.7	-3.9	14.25	8.98	7.06
Corn (US\$/bushel)	6.67	0.2	2.9	1.4	4.1	8.09	6.95	6.25
Soybean (US\$/bushel)	15.11	1.7	7.7	-1.1	-4.5	17.70	15.42	13.16

CRB: Commodity Research Bureau; WTI: West Texas Intermediate; MMBTU: Million British Thermal Units; LME: London Metal Exchange; MBF: thousand board feet

NOTE: Commodity table based on previous day's close.

TABLE 2
Commodity prices: History and forecasts

ANNUAL AVERAGE	2021	2022f	2023f	2024f
WTI oil (US\$/barrel)	68	95	Target: 77 (range: 55 to 100)	Target: 85 (range: 50 to 100)
Henry Hub natural gas (US\$/MMBTU)	3.72	6.60	Target: 4.00 (range: 2.00 to 7.50)	Target: 4.60 (range: 2.00 to 7.00)
Gold (US\$/ounce)	1,790	1,795	Target: 1,810 (range: 1,500 to 2,000)	Target: 1,645 (range: 1,200 to 1,800)
LME Index – Base metals	4,090	4,230	Target: 3,630 (range: 3,000 to 4,000)	Target: 3,675 (range: 2,900 to 4,000)

f: forecast; WTI: West Texas Intermediate; MMBTU: Million British Thermal Units; LME: London Metal Exchange

Sources: Datastream and Desjardins Economic Studies