

COMMODITY TRENDS

Monthly Update: Energy Prices Fall despite Production Cut Announcement

HIGHLIGHTS

- ▶ The Organization of the Petroleum Exporting Countries and its partners (OPEC+) announced it will cut production by 1.6 million barrels per day (MMb/d) starting in May. The announcement sent crude prices briefly higher, but otherwise had a minimal impact. After trading above US\$80 per barrel for a time, WTI (West Texas Intermediate) is now back around US\$72. But the announcement put a floor under prices and exacerbated expected shortages, especially towards the end of the year when demand growth is likely to accelerate.
- ▶ The International Energy Agency sees demand growing by 2.4 MMb/d in 2023, with 50% of that coming from China. Lingering concerns about oil demand continue to weigh on prices, however. And ongoing recession risk could lead to a price correction if oil consumption drops off sharply.
- ▶ Natural gas has been the biggest surprise in recent months, with warm weather and strong production, especially in the US, pushing Henry Hub back down to around \$2.20/MMBTU, a level not seen since September 2020. It's remarkable how resilient US production has been to falling prices. History suggests lower prices would mean lower production. Yet the active rig count and extraction volumes are up 1.2% and 3.0% respectively so far this year. But there's ongoing uncertainty surrounding Europe's energy supply, and prices are expected to rise again.
- ▶ Aluminum, copper and nickel prices all rebounded in the past month as US financial turmoil abated. The risk of recession could mean lower prices, though low inventories could limit any price declines. Iron prices continue to fall due in part to China's latest round of steel production cuts. But iron prices remain historically high. And the iron supply should continue to grow in the medium term, with the restart of the Simandou mining project in Guinea, the world's largest iron deposit.
- ▶ Gold is back above \$2,000 per ounce, a level not seen since March 2022. It continues to benefit from its safe haven status amid ongoing market uncertainty. The price of gold is expected to remain high in the near term, but fundamentals suggest it could decline in 2024.

CHANGES TO THE FORECASTS

- ▶ **Energy:** Oil prices revised slightly higher for 2024 to reflect tighter market conditions. Natural gas prices revised downward.
- ▶ **Industrial metals:** No change.
- ▶ **Precious metals:** Gold prices revised up for 2023 to reflect financial market uncertainty.

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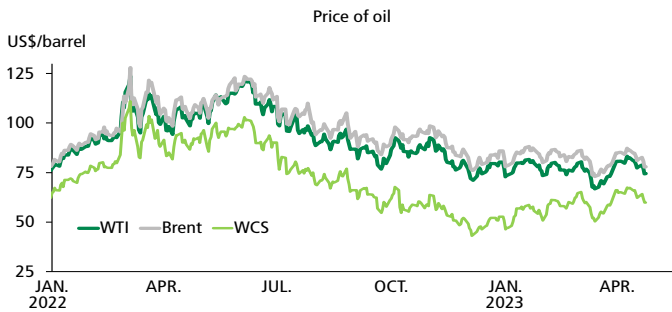
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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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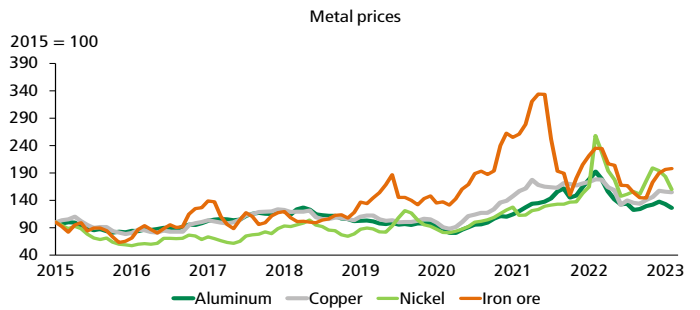
Main Commodity Trends

GRAPH 1
Oil Prices Are Already Trending Lower Again



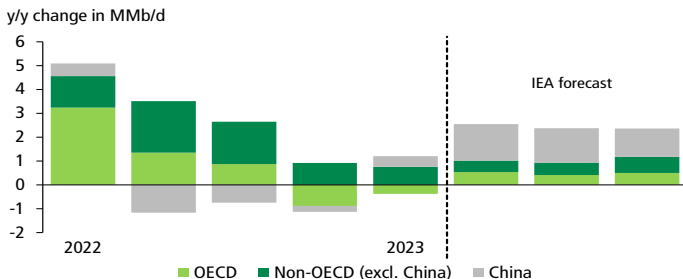
WTI: West Texas Intermediate; WCS: Western Canadian Select
Sources: Datastream, Bloomberg and Desjardins Economic Studies

GRAPH 4
The Global Economic Slowdown Will Likely Weigh on Industrial Metals Prices



Sources: Datastream, Bloomberg and Desjardins Economic Studies

GRAPH 2
China Is behind Most of the Growth in Oil Demand



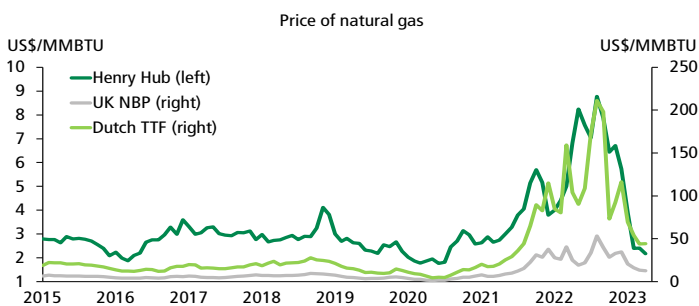
MMb/d: Million barrels per day; IEA: International Energy Agency; OECD: Organisation for Economic Co-operation and Development
Sources: International Energy Agency and Desjardins Economic Studies

GRAPH 5
Precious Metal Prices Are Up Sharply



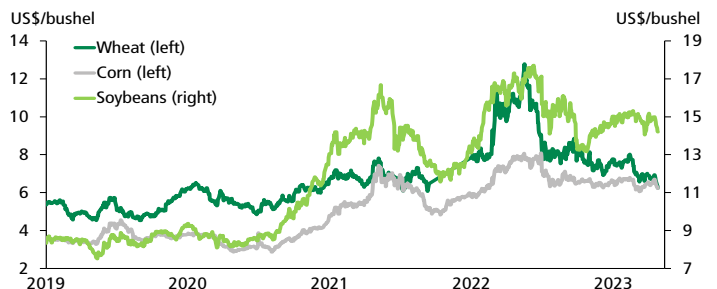
Sources: Datastream and Desjardins Economic Studies

GRAPH 3
Prices Are Expected to Go Up Again, but the Worst Seems to Be behind Us



MMBTU: Million British Thermal Units
Sources: Bloomberg and Desjardins Economic Studies

GRAPH 6
Grain and Oilseed Prices Are Down Slightly amid Crop Yield Uncertainty



Sources: Datastream and Desjardins Economic Studies

TABLE 1
Commodities

	SPOT PRICE	% CHANGE				LAST 52 WEEKS		
	Dec. 31	1-month	3-month	6-month	1-year	High	Average	Low
Index								
Reuters/Jefferies CRB	266.3	-0.5	-2.0	-5.1	-13.9	329.6	282.4	254.0
Bloomberg Commodity Index	103.7	-1.7	-5.3	-9.9	-19.6	136.6	115.5	102.2
Bank of Canada	622.0	4.3	-1.3	-6.8	-27.5	896.7	700.4	584.6
Energy								
Brent oil (US\$/barrel)	79.5	-0.3	-3.3	-16.8	-26.3	123.7	93.4	72.6
WTI oil (US\$/barrel)	75.7	-5.1	-0.3	-15.9	-28.1	122.1	88.4	66.6
WCS oil (US\$/barrel)	61.0	-0.6	15.4	3.4	-34.2	103.0	66.7	43.0
Gasoline (CAN\$/litre)	1.61	4.4	4.2	-8.3	-12.9	2.15	1.69	1.41
Gasoline (US\$/gallon)	3.60	5.2	3.2	-3.8	-13.9	5.01	3.84	3.09
Natural gas (US\$/MMBTU)	2.32	4.6	-5.6	-63.0	-69.0	9.68	5.72	1.99
Base metals								
LME Index	3,908	-3.2	-9.0	9.1	-19.1	4,831	3,969	3,453
Aluminum (US\$/tonne)	2,368	-0.4	-8.3	5.8	-21.9	3,033	2,422	2,092
Copper (US\$/tonne)	8,577	-4.7	-5.0	11.9	-12.2	9,771	8,458	7,160
Nickel (US\$/tonne)	24,211	2.4	-18.2	0.6	-23.7	31,722	24,945	19,333
Zinc (US\$/tonne)	2,651	-10.1	-22.3	-4.1	-36.2	4,151	3,210	2,593
Iron ore (US\$/tonne)	106.7	-16.5	-14.3	29.8	-27.0	147	113	79
Precious metals								
Gold (US\$/ounce)	1,983	0.3	3.1	20.4	6.6	2,037	1,811	1,628
Silver (US\$/ounce)	24.8	3.7	1.4	25.2	5.6	26.0	21.5	17.8
Platinum (US\$/ounce)	1,074	9.5	4.1	12.1	15.2	1,128	959	831
Palladium (US\$/ounce)	1,497	0.5	-10.9	-19.4	-35.3	2,315	1,854	1,361
Other commodities								
Lumber (US\$/MBF)	340	-8.2	-33.4	-24.4	-67.1	1,047	502	337
Wheat (US\$/bushel)	6.04	-12.7	-20.6	-28.6	-42.1	12.78	8.25	6.04
Corn (US\$/bushel)	6.05	-7.9	-9.4	-8.9	-23.0	8.09	6.76	6.03
Soybeans (US\$/bushel)	14.38	-4.3	-5.1	2.6	-13.2	17.70	15.09	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 AVERAGES	2021	2022	2023f	2024f
Energy				
WTI oil (US\$/barrel)	68	95	76	84
Brent oil (US\$/barrel)	71	98	79	87
WCS spread (US\$/barrel)	54	75	57	66
Henry Hub natural gas (US\$/MMBTU)	3.72	6.51	3.15	4.05
Base Metals				
Aluminum (US\$/tonne)	2,473	2,706	2,410	2,570
Copper (US\$/tonne)	9,312	8,832	8,420	8,225
Nickel (US\$/tonne)	18,460	26,263	23,410	21,550
Iron ore (US\$/tonne)	160	120	111	92
Precious metals				
Gold (US\$/ounce)	1,800	1,803	1,915	1,740

f: forecasts; WTI: West Texas Intermediate; MMBTU: Million British Thermal Units; WCS: Western Canadian Select
 Sources: Datastream and Desjardins, Economic Studies