Commodity Trends

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Still waiting for sunnier skies

While stock indexes continue to advance at an impressive pace, most commodity prices have pulled back again in recent weeks (graph 1). Unsurprisingly, North American oil prices have dropped below US$100 per barrel, but the lack of an upswing in metal prices is a disappointment, as the latest economic statistics released in the United States and China were fairly encouraging.

The year 2014 should be better for commodities, as global economic growth should go from 2.8% to 3.6% (graph 2). Even so, it seems increasingly evident that 2013 will have been a turning point for numerous commodities prices. First of all, after more than a decade, gold fever seems to have ended, and we have once again downgraded our forecasts for this metal's prices. Second, while oil prices remain relatively high, the U.S. production boom is now fundamentally changing the dynamics of the global energy market. Lastly, record harvests this year, combined with the fact that the surge in U.S. ethanol production is winding down, suggest that cereal prices will remain well below the peaks reached in recent years.

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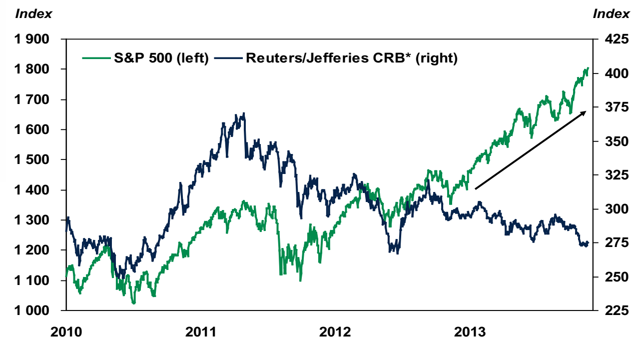
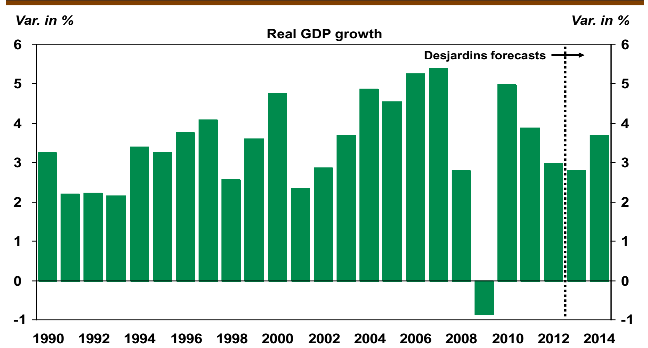
Graph 1 – Commodities are especially disappointing when compared with stock market performance



* Commodity Research Bureau.
Sources: Datastream and Desjardins, Economic Studies

Graph 2 – Global growth should accelerate in 2014



Sources: World Bank and Desjardins, Economic Studies

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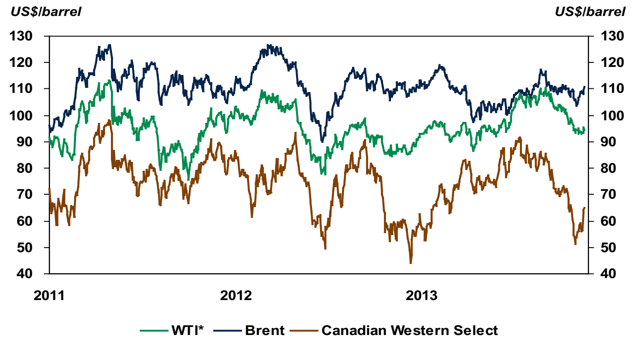
ENERGY

Prices are falling

OIL

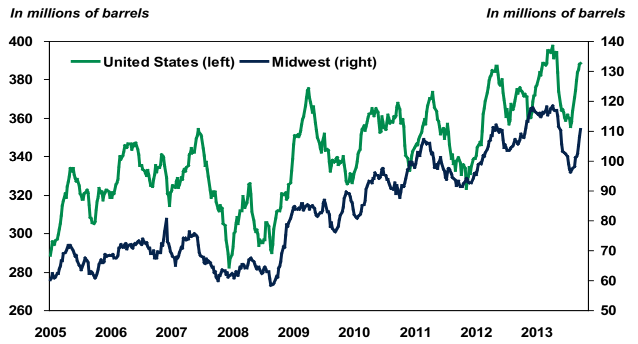
- West Texas Intermediate (WTI) prices have continued to slide in recent weeks, returning below US$95 per barrel (graph 3). They are down more than US$15 per barrel from mid-August, when fears of a worsening situation in the Middle East caused prices to soar.
- Brent prices have not fallen as far. They reacted a lot to negotiations on Iran's nuclear program. The limited deal finally reached won't bring Iranian oil back into the international market. The spread between WTI and Brent prices therefore went from less than US$5 in mid-September to around US$15. In addition to the negotiations with Iran, two other factors helped to widen this gap. First, U.S. crude oil inventories climbed sharply (graph 4), as refiners slowed their activities after a very busy summer. Second, the chaos in Libya continues to have a major impact on oil production, thereby supporting Brent prices. The North American market's return to surplus is also severely affecting prices paid to producers in Western Canada.
- Despite the problems in Libya, the global oil market remains very well stocked, thanks to the thrust by unconventional North American production methods. The International Energy Agency (IEA) estimates that production by countries that do not belong to the Organization of the Petroleum Exporting Countries (OPEC) jumped to a historic peak in October. This trend should accelerate in 2014, as the IEA is anticipating a solid 1.8 million barrel rise in non-OPEC production. This should be more than enough to meet increased demand, even in a context of stronger global growth.
- The new edition of the IEA's World Energy Outlook confirms that the global energy market is undergoing a revolution that will have major consequences. Long the biggest energy importer, the United States is poised to become an exporter, with energy demand growth clearly shifting to emerging nations, especially China, India and countries in the Middle East (graph 5).

Graph 3 – The gap between Brent prices and North American oil prices widened recently



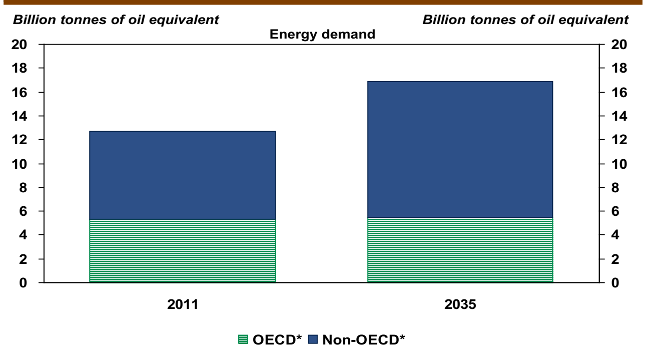
* West Texas Intermediate.
Sources: Datastream and Desjardins, Economic Studies

Graph 4 – Commercial crude oil inventories have climbed over the last few weeks



Sources: Energy Information Administration and Desjardins, Economic Studies

Graph 5 – Energy demand will primarily grow outside of advanced nations



* Organisation for Economic Co-operation and Development.
Sources: International Energy Agency and Desjardins, Economic Studies

GASOLINE

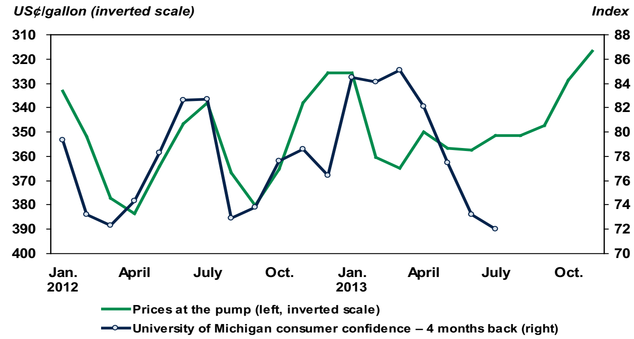
- U.S. gas prices pulled back even more sharply than crude prices, which could help boost consumer confidence (graph 6)—it has been trending down since the temporary U.S. government shutdown in October. The average price of gas recently dropped below US$3.20 per gallon, its lowest level since February 2011; it has dropped nearly US$0.50 since mid-July.
- In addition to moderating crude prices, other factors are behind the lower prices at the pump. Firstly, seasonal factors favour lower gas prices in the fall. Secondly, the easing of requirements for ethanol use has caused some refinery costs to go down (graph 7). Thirdly, refinery production remains relatively high, as maintenance outages have been fewer than usual. Moreover, growing access to shale oil and the possibility of exporting diesel to Europe at a high price helps refineries remain profitable, despite the marked drop by gas prices in the United States.

NATURAL GAS

- After hitting US$3.85 per MMBTU (Million British Thermal Unit) in mid-October, natural gas prices quickly returned to around US$3.50 (graph 8). A relatively warm fall, which limited demand for residential heating, allowed gas inventories to climb steadily over the last few weeks. Signs of a cold spell, however, have given natural gas prices a bit of a boost in the last few days. In the short term, weather conditions will remain decisive for natural gas prices. The potential for lasting gains will be limited, however, as the uptrend by North American production is substantially reducing the chances of a shortage. As natural gas production has skyrocketed in the Northeastern United States over the last few years, producers on the rest of the continent, including Canadian producers, will have to find other outlets for their gas. In the medium term, exports of North American natural gas to Asia and Europe could be a very attractive opportunity, as several port projects to export gas in liquid form are currently under study or construction.

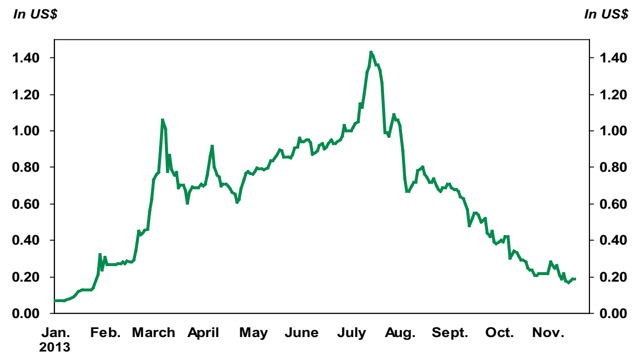
Forecasts: Ongoing non-traditional North American oil and gas production growth will sharply limit potential for energy price gains in the coming quarters, especially in North America. Despite stronger global demand, WTI oil prices should generally remain below US$100 per barrel next year, while the average price for natural gas should be around US$4.00 per MMBTU.

Graph 6 – Weak gas prices could help raise household confidence



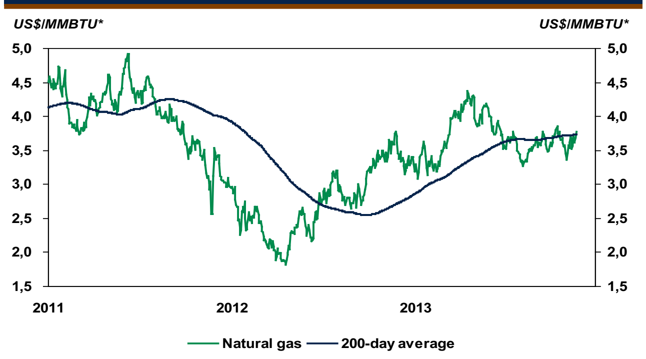
Sources: University of Michigan, Energy Information Administration and Desjardins, Economic Studies

Graph 7 – Price of credits that refiners not using enough ethanol must purchase



Sources: Bloomberg and Desjardins, Economic Studies

Graph 8 – Price of natural gas



* Million British Thermal Unit.
Sources: Datastream and Desjardins, Economic Studies

BASE METALS

Outlooks start to improve

The slight upswing in industrial metals prices at the end of the summer rapidly gave way to another soft patch. The London Metal Exchange (LME) base metal index, which had neared 3,200 in mid-October, recently dropped back below 3,050 (graph 9). Steel prices are the exception, though, as they have continued their recent uptrend.

The weakness of industrial metal prices is a fairly accurate reflection of the production surpluses and high inventories that currently exist on the global market for most metals. The LME recently announced substantial measures to force those holding metal stocks to make then available to purchasers more quickly, which has also hurt prices. Base metal prices seem to have been unaffected by some positive developments, however. In particular, economic growth accelerated in the third quarter in the United States (graph 10) and China, which means we can continue to hope for significantly higher demand for metals next year. In the medium and long terms, the important reforms announced by China's government to sustain growth and further open its economy to market forces, such as relaxing its one-child policy, could also benefit metal prices.

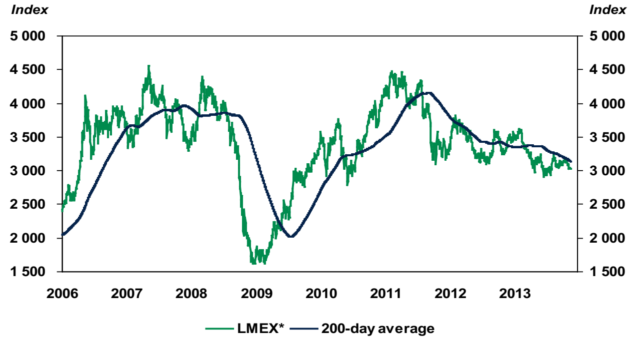
ALUMINUM

- Aluminium prices ticked down over the last few weeks, returning to around US$1,750 per tonne. The extended soft patch for aluminium prices continues, which is a major problem for companies and regions that depend on the production of this metal. The LME's decision to tighten the rules to keep warehouse owners from manipulating metal prices by restricting consumer access to inventories could have a substantial effect on aluminium prices, given this metal's particularly high inventories (graph 11). Prices paid by the end users of aluminium could be more affected, however, than the LME's international reference price.

COPPER

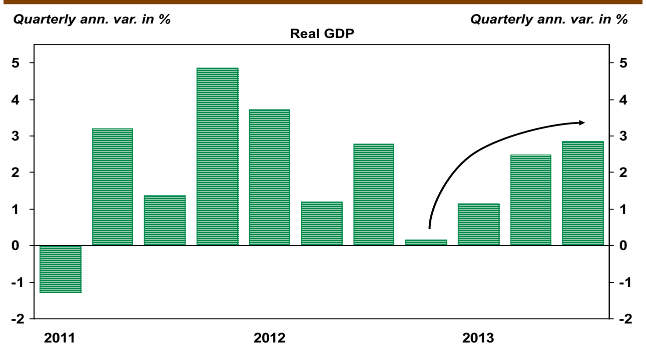
- Copper prices recently fell back to around US$7,000 per tonne, a drop of around 4% since the end of September (graph 12 on page 5). The downtrend in copper inventories recorded by the LME continues, as Chinese copper imports remain high. However, investors seem to be primarily focusing on the fact that everything suggests copper production will grow more quickly than demand over the coming quarters. In this context, it would be surprising for copper prices to come back to the peaks reached in recent years, when investors feared a shortage of this metal.

Graph 9 – Industrial metals prices remain weak



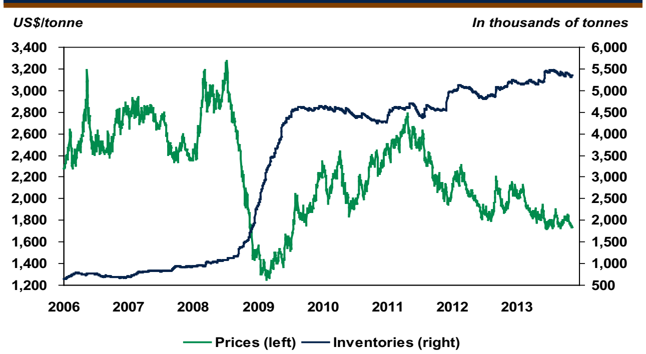
* London Metal Exchange base metals price index.
Sources: Energy Information Administration and Desjardins, Economic Studies

Graph 10 – U.S. real GDP growth has been accelerating since the beginning of the year



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Graph 11 – Aluminum prices and inventories



Sources: Datastream and Desjardins, Economic Studies

NICKEL

- After rising in October, nickel prices recently fell to around US$13,500 per tonne. Nickel prices remain depressed, off by more than 20% since the start of 2013 and down nearly 75% from their historic peaks reached in 2007 (graph 13). A surge of nickel pig iron production in China, which grew over 30% in 2013, is making the surplus in the global nickel market larger. Nickel inventories may therefore continue their uptrend.

ZINC

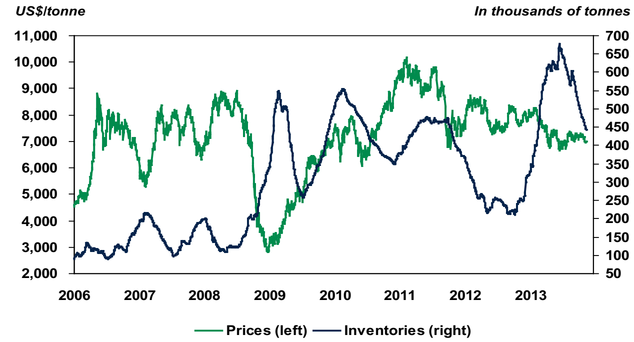
- Zinc prices edged down over the last few weeks, and are now fluctuating around US$1,865 per tonne. Zinc inventories recorded by the LME remain volatile. The latest forecasts from the International Lead and Zinc Study Group are fairly encouraging, as they estimate that zinc demand will grow by 4.8% in 2013 and 5.0% in 2014, with supply growing 3.4% and 4.9% respectively. This should help reduce the global zinc market surplus substantially.

STEEL

- After a disastrous start to the year which saw its LME price plunge below US$100 a tonne in mid-July, steel prices rebounded at summer's end and have been edging up since the end of September, returning to around US$230 a tonne (graph 14). Despite the substantial recovery made since the summer, steel prices remain quite low, this reflects the sizable overcapacity problem still plaguing this sector.

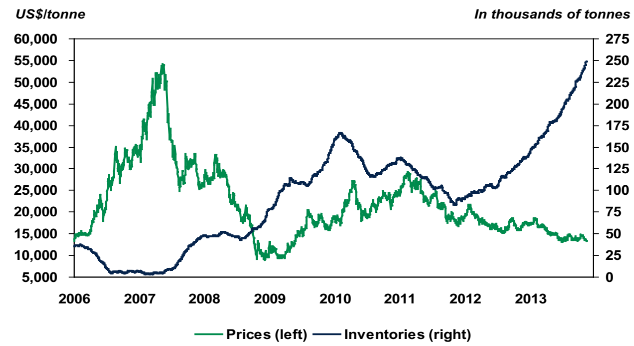
Forecasts: Despite high inventories and considerable excess production capacity, we still expect industrial metal prices to climb gradually over the coming quarters, as accelerating global growth should stimulate demand for these resources.

Graph 12 – Copper prices and inventories



Sources: Datastream and Desjardins, Economic Studies

Graph 13 – Nickel prices and inventories



Sources: Datastream and Desjardins, Economic Studies

Graph 14 – Steel prices

Sources: Datastream and Desjardins, Economic Studies

PRECIOUS METALS

Gold prices may continue to retreat in 2014

Gold prices resumed their downtrend over the last few weeks, and 2014 promises to be difficult, as the Federal Reserve (Fed) should begin to taper its securities purchases. The outlooks remain better for platinum and palladium.

GOLD AND SILVER

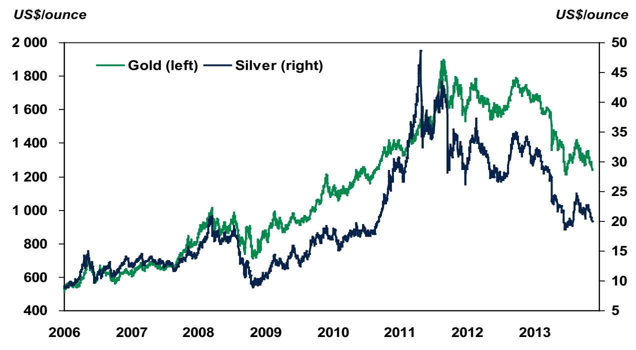
- Gold prices climbed to around US$1,350 per ounce near the end of October, despite the end of the budget impasse in the United States. Then, the publication of relatively encouraging U.S. statistics, which increase the likelihood that the Fed will reduce its securities purchases in the coming months, caused gold prices to drop back to around US$1,250 per ounce (graph 15). Silver prices followed the same trend. The latest statistics published by the World Gold Council illustrate the problems for this yellow metal. Despite strong consumer demand in the third quarter, the total demand for gold posted a 21% pullback from last year, as investors have turned their back on this metal (graph 16). Some investors who previously saw gold as the best protection against the collapse of paper currencies now seem to look at other options, including digital currencies like the Bitcoin.

PLATINUM AND PALLADIUM

- After climbing to over US$1,475 per tonne at the end of October, platinum prices recently dropped to around US$1,400 per tonne. The price of this metal is therefore down 7% since the start of the year, despite the fact that most analysts believe that demand for platinum will have exceeded supply in 2013 and that this situation should recur next year. After an excellent performance in recent months, palladium prices recently pulled back, as financial demand for this metal seems to be flagging.

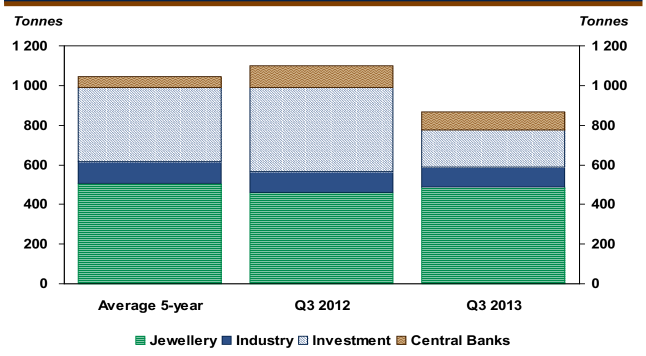
Forecasts: The difficulty that gold prices have holding above US$1,300 per ounce, despite an economic and financial environment that should favour them, has caused us to downgrade our forecasts for this year and next year. As economic activity will accelerate, the Fed will reduce its securities purchases, and bond yields will increase gradually, average gold prices should be around US$1,250 in 2014.

Graph 15 – Gold and silver prices



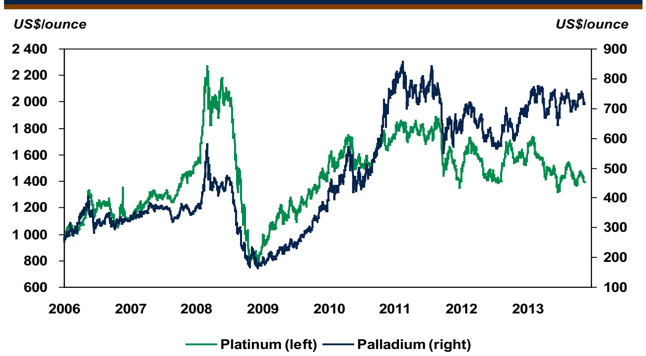
Sources: Datastream and Desjardins, Economic Studies

Graph 16 – Demand for gold fell 21% in Q3 2013



Sources: World Gold Council and Desjardins, Economic Studies

Graph 17 – Platinum and palladium prices



Sources: Datastream and Desjardins, Economic Studies

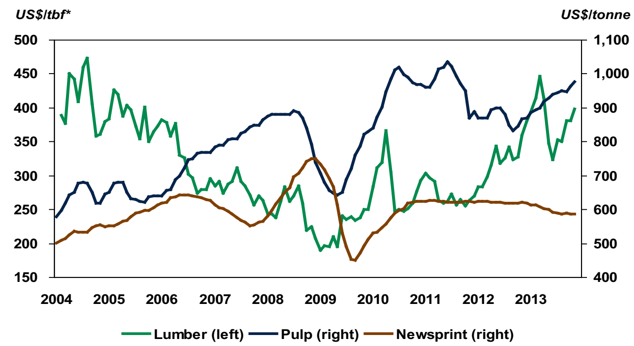
OTHER COMMODITIES

Another heavy blow to corn

FOREST PRODUCTS

- Lumber prices remain high, even climbing close to US$400 per thousand board feet (tbf) (graph 18). Encouraging economic data recently published in the United States, especially another solid rise by residential investment in the third quarter (graph 19), has eased fears that the mortgage rate increase would hinder the real estate recovery and limit demand for wood. In addition to benefiting from the U.S. real estate recovery, demand for lumber has been inflated by a marked increase in exports to Asia and Mexico. Low lumber inventories also justify high prices. **Lumber prices should remain high, as demand will continue to grow and some lumber mills will be closed in British Columbia over the coming quarters.** Pulp prices have edged up, now posting gains of over 11% since the beginning of the year, while newsprint prices are down somewhat.

Graph 18 – Forest product prices

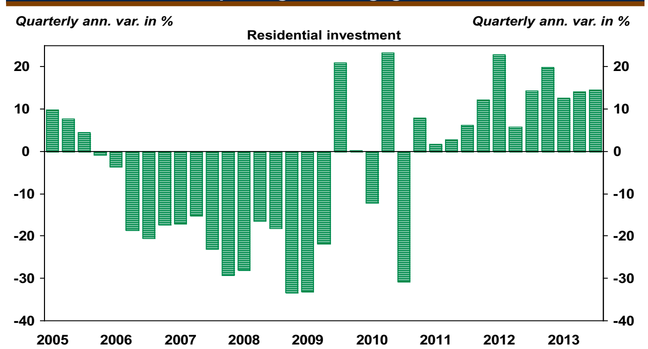


* Thousands of board feet.
Sources: Datastream and Desjardins, Economic Studies

AGRICULTURAL COMMODITIES

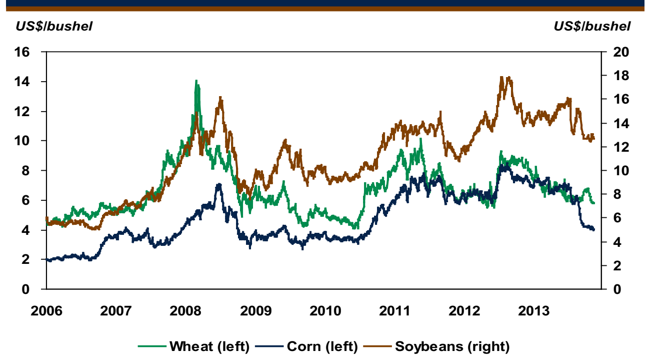
- Wheat and corn prices continued to tumble in recent weeks, while soybean prices fluctuated without a clear trend (graph 20). Wheat prices have pulled back more than 10% since the end of September, dropping below US$5.80 per bushel, its lowest point since June 2012. Wheat prices were pushed down not only by the abundant harvest, but also by downgraded demand for the cereal, as well as less favourable outlooks for corn prices.
- Already quite low, corn prices have recently fallen further, even hitting US$3.99 per bushel, their lowest point in over three years. A new upward revision to corn inventories and harvests by the U.S. Department of Agriculture contributed to the retreat in corn prices. Environmental Protection Agency's proposition to cut the 2014 federal mandate for using ethanol dealt an additional blow. This confirmed that the ethanol production boom, which had contributed significantly to soaring cereal prices in the last decade, is coming to an end. **Setting aside extreme weather events that will continue to prompt a severe response from cereal prices, the uptrend in cereal prices could well be over.**

Graph 19 – U.S. residential investment growth remains strong despite higher mortgage rates



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Graph 20 – Cereal prices



Sources: Datastream and Desjardins, Economic Studies

Table 1
Commodities

	Spot price	*Percentage return since*				*Last 52 weeks*		
	Nov. 24	**1 month**	**3 months**	**6 months**	**1 year**	**High**	**Average**	**Low**
Index								
Reuter-CRB[1] (CCI[2])	505.7	-2.1	-3.0	-4.6	-11.9	575.2	535.1	500.4
Reuters/Jefferies CRB[1]	275.2	-2.3	-5.4	-3.4	-8.0	305.1	289.3	272.5
Dow Jones AIG[3]	123.8	-2.7	-4.9	-6.2	-14.1	144.1	132.7	122.0
Bank of Canada	592.1	-5.1	-10.6	-7.9	-1.7	671.4	636.0	587.3
Energy								
Brent oil (US$/barrel)	110.8	2.8	-1.2	8.6	-1.2	119.2	108.8	97.6
WTI[4] oil (US$/barrel)	94.5	-2.2	-11.2	0.7	8.6	110.6	97.0	85.1
Gasoline (US$/gallon)	3.22	-4.2	-9.3	-12.4	-6.1	3.78	3.51	3.19
Natural gas (US$/MMBTU[5])	3.77	3.3	7.7	-9.2	5.0	4.38	3.65	3.08
Base metals								
LMEX[6]	3,063	-2.1	-3.8	-1.8	-8.4	3,614	3,221	2,911
Aluminium (US$/tonne)	1,738	-4.3	-5.9	-3.8	-11.8	2,150	1,881	1,721
Copper (US$/tonne)	7,098	-0.9	-3.2	-2.4	-8.5	8,267	7,407	6,638
Nickel (US$/tonne)	13,492	-7.6	-6.7	-8.4	-18.5	18,662	15,386	13,232
Zinc (US$/tonne)	1,882	-1.0	-3.5	3.3	-3.1	2,185	1,917	1,785
Steel (US$/tonne)	230.5	4.8	59.0	56.3	-24.7	322.5	204.6	99.3
Precious metals								
Gold (US$/ounce)	1,245	-7.6	-10.8	-10.2	-28.8	1,748	1,460	1,215
Silver (US$/ounce)	19.9	-12.1	-13.6	-10.9	-40.3	34.3	25.1	18.6
Platinum (US$/ounce)	1,396	-3.5	-9.2	-4.1	-11.9	1,736	1,509	1,317
Palladium (US$/ounce)	721.0	-3.7	-4.1	-1.1	9.7	774.0	721.4	643.0
Other commodities								
Lumber (US$/tbf[7])	399.0	4.2	13.4	10.5	12.4	451.0	380.4	322.0
Pulp (US$/tonne)	978.2	1.7	3.0	5.3	13.2	978.2	921.3	864.2
Newsprint (US$/tonne)	585.8	-0.4	-0.5	-2.4	-5.6	620.5	601.8	585.8
Wheat (US$/bushel)	5.86	-11.7	-2.3	-11.5	-28.5	8.76	6.75	5.79
Corn (US$/bushel)	4.11	-3.3	-34.9	-40.4	-44.5	7.62	6.31	3.99
Soybean (US$/bushel)	13.12	1.6	-9.9	-13.2	-6.2	16.10	14.32	12.43

[1] Commodity Research Bureau; [2] Continuous Commodity Index; [3] American International Group; [4] West Texas Intermediate; [5] Million British Thermal Unit; [6] London Metal Exchange Index; [7] Thousand of board feet.
Note: Currency table base on previous day closure.

Table 2
Commodities prices: history and forecasts

Annual average	*2011*	*2012*	*2013f*	*2014f*
WTI* oil (US$/barrel)	95	94	Target: 98 (range: 95 to 101)	Target: 97 (range: 90 to 105)
Natural gas Henry Hub (US$/MMBTU**)	3.99	2.76	Target: 3.70 (range: 3.65 to 3.75)	Target: 4.00 (range: 3.25 to 4.75)
Gold (US$/ounce)	1,572	1,669	Target: 1,420 (range: 1,410 to 1,430)	Target: 1,250 (range: 1,100 to 1,450)
LMEX*** index—base metals	3,927	3,416	Target: 3,180 (range: 3,160 to 3,200)	Target: 3,500 (range: 3,100 to 4,000)

f: forecasts; * West Texas Intermediate; ** Million British Thermal Unit; *** London Metal Exchange Index.
Sources: Datastream and Desjardins, Economic Studies