COMMODITY TRENDS

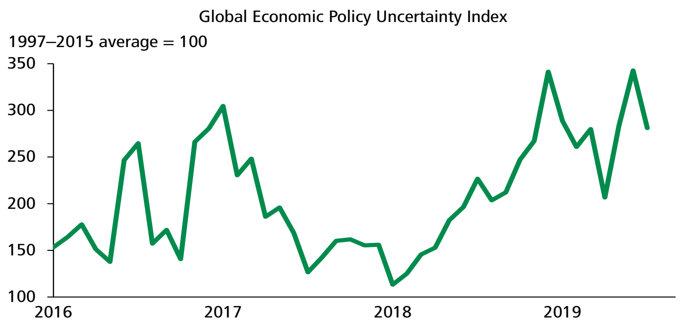
Gold Shines amidst the Uncertainty

This summer, the disappointing data for some economies pointed to signs of weakness, especially in the manufacturing sector. The protectionist policies introduced since 2018 appear to be hurting countries that are more dependent on foreign trade. The issue seems far from settled, as President Donald Trump has threatened several times—without necessarily making good on his threats—to impose measures against trading partners such as Mexico, China and the European Union. Moreover, he recently announced new rounds of tariffs against China, with the first one having already come into effect September 1, 2019. The strained international climate against the backdrop of an industrial slowdown caused uncertainty and fears of a global recession to resurface (graph 1). In response, the major central banks embarked on the path of monetary policy easing, putting downward pressure on bond yields. Commodities suffered, whereas gold prices benefited, reaching their highest level since 2013 (graph 2).

For now, economies appear to be holding up fairly well in the face of the industrial slowdown, and news on foreign trade policies swing from positive to negative from one day to the next. A degree of market volatility and a relatively high level of uncertainty can therefore be expected. Economic growth worldwide should nonetheless be healthy, but downward risks are more present. The trade dispute between China and the United States could tip the balance.

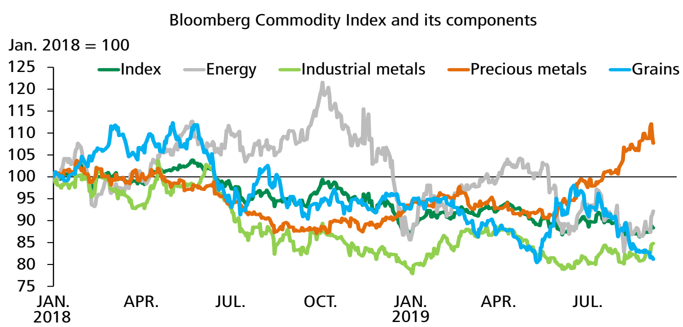
François Dupuis, Vice-President and Chief Economist
Carine Bergevin-Chammah, Economist

GRAPH 1
Uncertainty surged in the summer



Sources: Economic Policy Uncertainty and Desjardins, Economic Studies

GRAPH 2
Precious metal prices are trending against the current



Sources: Datastream and Desjardins, Economic Studies

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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.

Energy

Moderate Prices in Light of an Uncertain Outlook and Strong U.S. Supply

FORECASTS

The demand for energy products has weakened in 2019 but remains strong nevertheless. On the supply side, U.S. production is still rising quickly, whereas the Organization of the Petroleum Exporting Countries (OPEC) has cut back its production to maintain balance on the market and avoid a plunge in oil prices. Oil prices proved to be resilient in the face of a new wave of tariffs between China and the United States and renewed fears of a recession. The geopolitical tensions in the Middle East and in Venezuela appear to be supporting prices. Given this situation, we anticipate that the price of WTI (West Texas Intermediate) will fluctuate around its current level for the rest of the year, reaching US$57 per barrel in 2019 and US$52 in 2020 on average. Henry Hub prices have generally been falling since early 2019. It is currently sitting at around US$2.50/MMBTU (Million British Thermal Units), and we expect it to climb back up closer to US$3.00/MMBTU in the coming months.

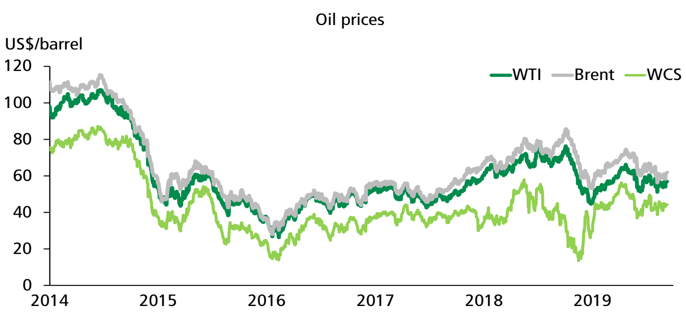
OIL

Oil prices lost the gains made in the first half of 2019 and have dropped back to their level at the beginning of the year, with the price of WTI hovering around US$55 per barrel (graph 3). The rate at which oil production in the United States is growing slowed in 2019, although the United States still get the title of biggest producer worldwide (graph 4), at 12.3 mbd (million of barrels per day). The Energy Information Administration still expects U.S. production to reach 13.0 mbd by the end of 2019, but the decline in drilling activities could be a sign of a future slowdown. As U.S. oil occupies a larger slice of international markets, OPEC has significantly reduced its output to prevent prices from falling too low. The heightened tensions in the Middle East following the attacks on petroleum infrastructures in the region and the ongoing sanctions against Iran and Venezuela are keeping a certain amount of upward pressure on oil prices.

A new escalation in the Sino-U.S. trade dispute and some disappointing economic data have caused concerns about the health of the global economy to resurface. U.S. crude oil was targeted during the last round of Chinese tariffs against the United States and has been hit with a 5% tariff since September 1, 2019. That said, China had already started to reduce imports of U.S. oil in 2019 (graph 5 on page 3). Therefore, this latest measure is not likely to have a significant impact on the markets. Nevertheless, protectionism still represents a real and present threat to global demand, keeping oil prices tempered. If all the tariffs announced by China and the United States are implemented and maintained, global demand may fall even more.

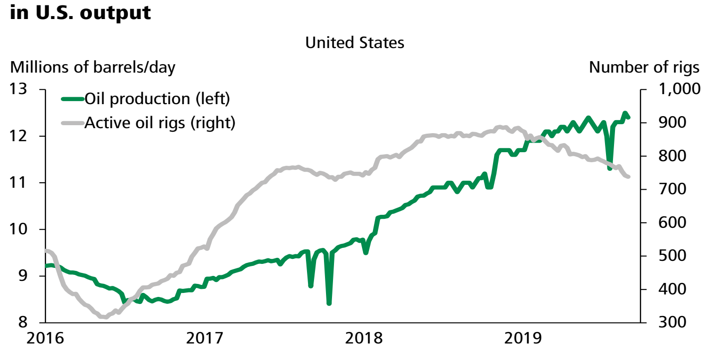
The economic situation has also had an effect on the Canadian market, where supply is still restricted by the limited capacity of the infrastructure to transport oil. The risk to demand, along with delays in pipeline projects, led the Alberta government to extend the production caps on the province's major producers for 2020. In this case, the spread between the price of a barrel of WTI and a barrel of WCS (Western Canadian Select) could remain sufficiently high to cover the cost of shipping by rail.

GRAPH 3
Oil prices remain relatively high despite a more pessimistic economic outlook



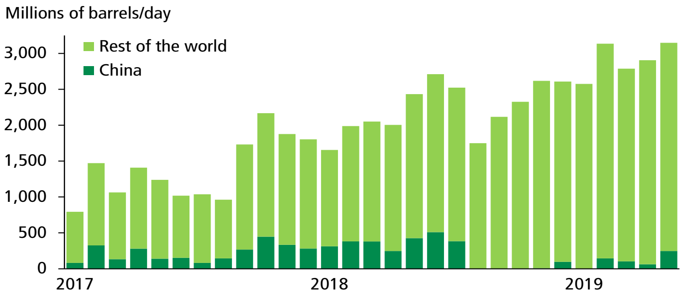
WTI: West Texas Intermediate; WCS: Western Canadian Select
Sources: Datastream, Bloomberg and Desjardins, Economic Studies

GRAPH 4
The major drop in the number of oil rigs could imply a slowdown in U.S. output



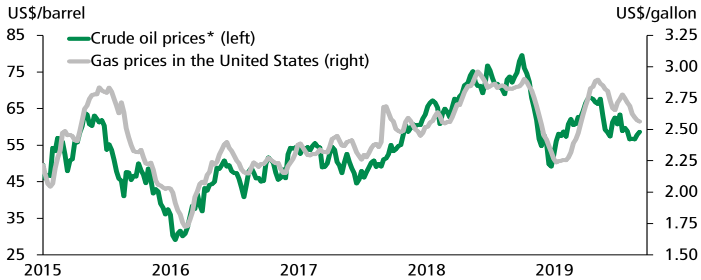
Sources: Baker Hughes, Energy Information Administration and Desjardins, Economic Studies

GRAPH 5
U.S. crude oil exports to China fell compared to 2018



Sources: Energy Information Administration and Desjardins, Economic Studies

GRAPH 6
U.S. gas prices have followed the fall of oil prices



* Average WTI (West Texas Intermediate) and Brent prices.
Sources: Datastream and Desjardins, Economic Studies

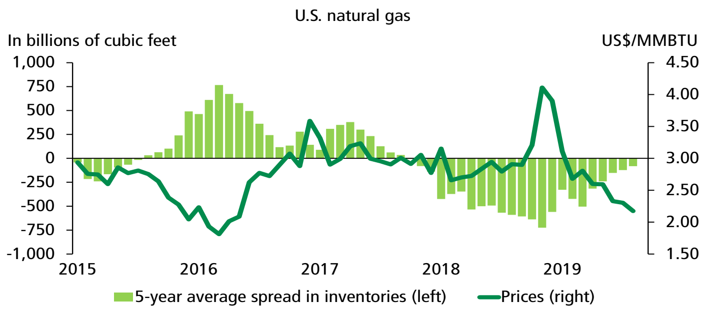
GASOLINE

Gasoline prices in the United States fell over the course of summer 2019 and are currently hovering around US$2.60 per gallon (graph 6). They have been shadowing oil prices, which have been losing ground since May 2019. Since we anticipate that oil prices will remain stable in the coming months, there should not be a significant increase in gasoline prices.

NATURAL GAS

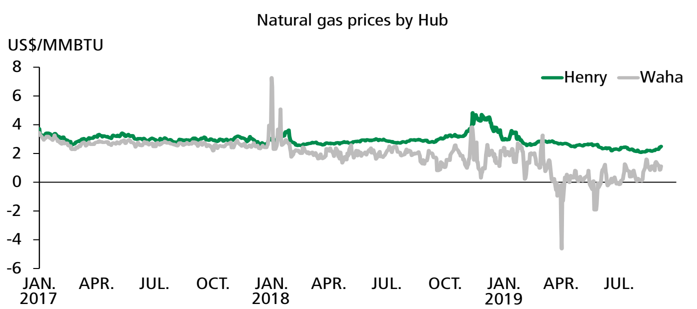
The Henry Hub natural gas price is currently sitting at around US$2.50/MMBTU (graph 7), which is higher than its average for the month of August 2019. Still, the price is around US$0.45/MMBTU below its level at the beginning of 2019. Strong U.S. output helped inventories reduce the significant gap with the five-year average that appeared in 2018. However, inventories remain low compared to previous years. Nonetheless, this did not prevent prices in the United States from continuing their downward trend. U.S. liquefied natural gas exports rose sharply in response to the abundant output, causing prices on the Asian and European markets to converge somewhat towards the lower level in the United States. The congestion in the natural gas transportation infrastructure in the Permian Basin had caused negative prices to appear in the region, but the expectation of a pipeline planned to enter in service in October has narrowed the gap between Henry Hub and Waha Hub prices (graph 8). Given these developments and the approach of winter, the price of natural gas could slightly climb back up.

GRAPH 7
Natural gas prices remain low



MMBTU: Million British Thermal Units
Sources: Datastream, Energy Information Administration and Desjardins, Economic Studies

GRAPH 8
The price spread between Henry Hub and Waha Hub narrows



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

Base Metals

The Struggles of the Manufacturing Sector Continue to Weigh on the Metal Market

FORECASTS

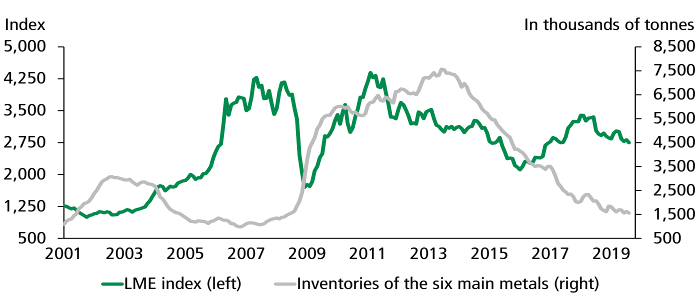
Prices of the main base metals have remained fairly stable since spring 2019. Despite relatively low inventories, prices cannot rise as the industrial sector is slowing and protectionism remains an ongoing issue. With no concrete progress in the trade negotiations between China and the United States, the industrial metals market could stay soft in the short term. Nevertheless, it would not be altogether surprising if prices were to rise, with production shortfalls for some base metals expected. We anticipate that prices will go up as our base scenario includes easing recession fears. To better reflect the current situation, however, we lowered our forecasts for the LME (London Metal Exchange) index, which could end 2019 with an average of about 2,860.

The LME index has been holding at between 2,700 and 2,900 since May 2019 and is currently near 2,800, its level at the beginning of 2019 (graph 9). Low inventories do not appear to be providing much stimulus to industrial metal prices amidst stronger concerns in the market about protectionism and the health of the global economy. Since 2018, protectionist measures have been on the rise, especially between China and the United States, depressing investor sentiment and manufacturing activity. Moreover, global industrial production has been posting a marked slowdown since last year (graph 10). Other sectors of the economy have been performing relatively well until now, but the additional tariffs between China and the United States could hurt demand further and reverberate throughout the global economy generally. The escalation of the Sino-U.S. dispute and some signs of economic weakness worldwide have reignited fears that a recession may be on the way. This situation is certainly detrimental for industrial metal prices, but these could rapidly climb back up if the uncertainty were to ease, as inventories are already low and the level of prices in recent months is failing to spur investment in mining.

ALUMINIUM

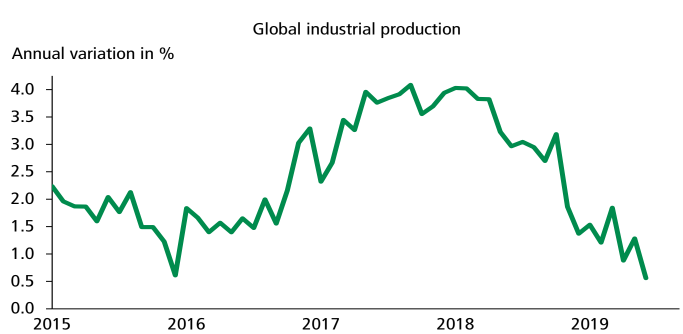
The LME price for aluminum is now around US$1,750 per metric tonne: down roughly 5% since the beginning of 2019 (graph 11 on page 5). The inventories registered by the LME remain at low levels despite the slowing demand for metals, illustrating the production shortfall estimated by some analysts. Chinese output slowed in 2019, restricted by environmental regulations and the restructuring of aluminum smelters. More recently, flooding in China disrupted production. Still, the LME price failed to react to Chinese supply at a time when the international backdrop remains uncertain and global demand has slowed. With Chinese production slated to pick up in the second half of 2019 and trade tensions still high, the outlook for aluminum is negative, and its price could remain stuck at current levels.

GRAPH 9
Low metal price levels unlikely to encourage investment



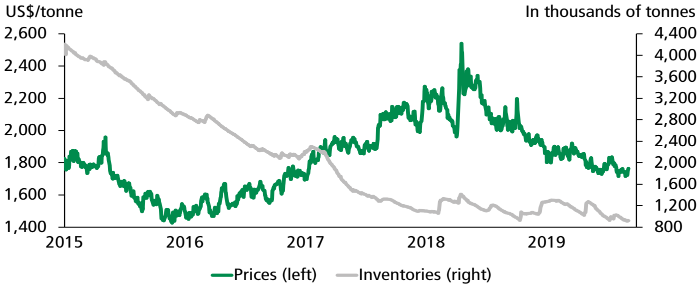
LME: London Metal Exchange
Sources: Datastream and Desjardins, Economic Studies

GRAPH 10
The manufacturing sector continues to slow



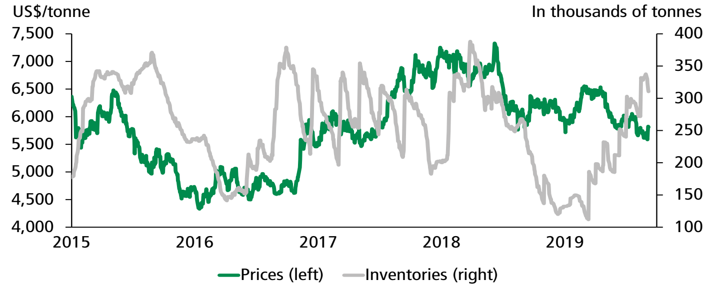
Sources: CPB Netherlands Bureau for Economic Policy Analysis and Desjardins, Economic Studies

GRAPH 11
Aluminum prices and inventories



Sources: Datastream and Desjardins, Economic Studies

GRAPH 12
Copper prices and inventories

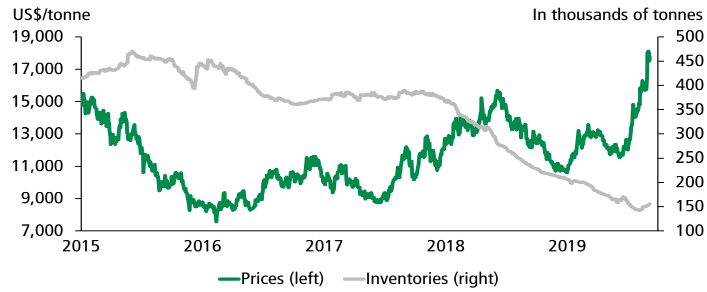


Sources: Datastream and Desjardins, Economic Studies

COPPER

To this point, 2019 has not been a good year for copper. The inventories registered by the LME have more than doubled since the beginning of 2019, and the price has fallen approximately 4% over the same period. It is currently sitting at around US$5,700 per metric tonne (graph 12). Despite the sharp increase in inventories, they are at the level seen in early 2018. Some experts attribute this phenomenon to temporary factors as a production shortfall is expected in 2020. Nonetheless, the sentiment of the financial markets weighs heavily on this metal, which tends to be more speculative. Stabilized trade tensions and fewer concerns about the health of the global economy could help lift the price of copper. Nonetheless, we do not expect a return to 2017 and 2018 levels in the coming months.

GRAPH 13
Nickel prices and inventories

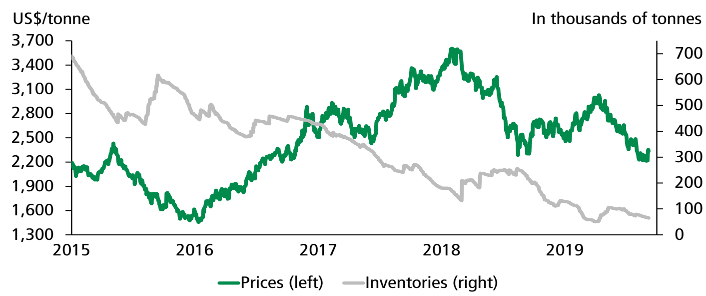


Sources: Datastream and Desjardins, Economic Studies

NICKEL

Nickel is one of the few metals to have seen its price surge recently. The metal is currently selling above US$17,400 per metric tonne, a 64% jump compared to the beginning of 2019 (graph 13). In spite of the industrial slowdown, demand for nickel has remained solid, especially in the production of electric batteries. In addition, some temporary production disruptions recently limited supply. Investors are also betting that a major production shortfall could hit the market as Indonesia is putting a ban on its nickel exports starting the end of this year. Should this policy be maintained, prices of nickel could remain high relative to other industrial metals.

GRAPH 14
Zinc prices and inventories



Sources: Datastream and Desjardins, Economic Studies

ZINC

The price of zinc is continuing to follow a downward trend in light of the problems of the manufacturing sector and the trade dispute between China and the United States, which are undermining confidence. The price is currently around US$2,300 per metric tonne, or down roughly 10% compared to January 2019. The zinc market was experiencing an output deficit in the first half of 2019, but the latest data from the International Lead and Zinc Study Group points to a return to balance in June. Industry analysts seem fairly divided as to zinc's short-term outlook. However, should the current economic situation persist, the price could be negatively impacted.

Precious Metals

Gold Climbs Back to 2013 Levels

FORECASTS

The bleaker economic outlook has led the major central banks to adopt a more conciliatory tone and even to embark on a path of monetary easing. At the same time, trade tensions flared up again in June and August, creating even more market uncertainty. This situation was advantageous for precious metals, especially gold, which served as a safe haven. We have revised our scenario upwards but we nonetheless anticipate that prices will drop back to an annual average of approximately US$1,390 per ounce in 2019.

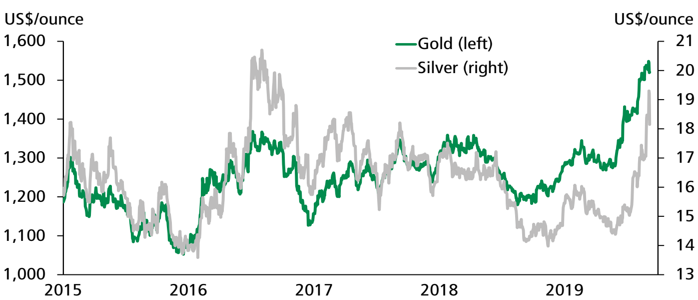
GOLD & SILVER

Gold and silver have posted major gains since the spring as the trade disputes between the United States and its trading partners have led to more market volatility and uncertainty. Gold is currently trading above US$1,500 per ounce, its highest level in six years, and silver surpassed US$18 per ounce (graph 15). The central banks' more conciliatory tone and the drop in key interest rates in some countries, along with the increasingly uncertain economic situation, caused bond yields to decline significantly (graph 16), reviving investor interest in gold and silver. We nonetheless anticipate a recovery in bond yields, which should move the price of gold below US$1,500 per ounce by the end of the year, for an average of approximately US$1,390 per ounce in 2019.

PLATINUM & PALLADIUM

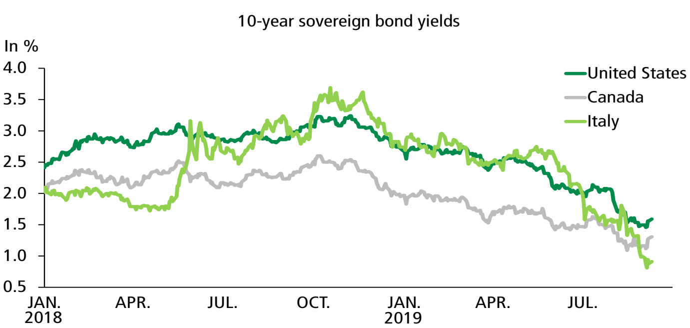
At around US$1,500 per ounce, the price of palladium is holding at elevated levels. This is up from May 2019 but below the peak reached in March (graph 17). Despite the limited supply and strong demand, further increases in the price of palladium would be difficult to obtain given their level and the possibility of replacing this metal with platinum in automotive manufacturing. Moreover, the price of platinum has risen approximately 20% since the beginning of 2019, above US$900 per ounce. The significant price spread between platinum and palladium seems to have turned investor attention back to the former. The rise in demand for precious metals has also supported the price of platinum.

GRAPH 15
Gold and silver prices



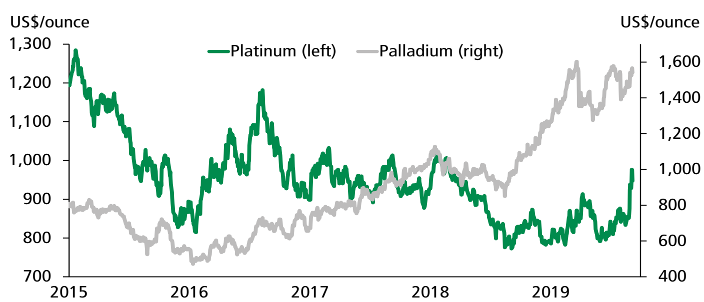
Sources: Datastream and Desjardins, Economic Studies

GRAPH 16
Bond yields are down considerably



Sources: Bloomberg and Desjardins, Economic Studies

GRAPH 17
Platinum and palladium prices



Sources: Datastream and Desjardins, Economic Studies

Other Commodities

Stability in the Forestry Sector, Tension in Agriculture

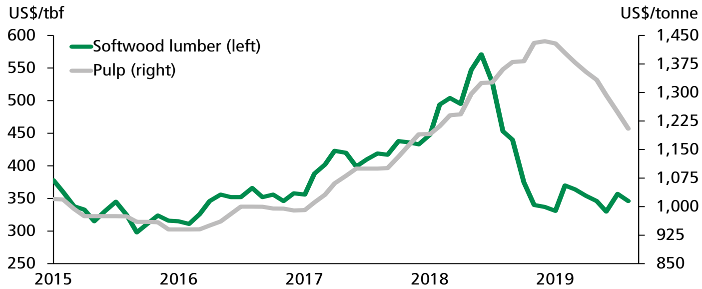
FOREST PRODUCTS

The summer of 2019 is unfolding in a completely different way from that of 2018. Last year, softwood lumber prices reached record levels at the end of June before posting their biggest quarterly decline ever. This year, prices have remained relatively stable, with a slight increase in July followed by a decrease that saw prices return to those noted in 2016 (graph 18). Housing starts on the North American continent were contained, and the start of the hurricane season was relatively calm compared to previous years, which could have otherwise put pressure on demand. Also, there were no devastating forest fires that would have limited the supply of wood on the market. Prices have stayed relatively low. Under these circumstances, British Columbia sawmills were forced to close some plants, helping to support prices. There was little movement on the pulp and paper side. **If there are no other major hurricanes in the coming weeks, and forest fires are contained as they have been to this point, fall should be uneventful apart from the seasonal variations.**

AGRICULTURAL COMMODITIES

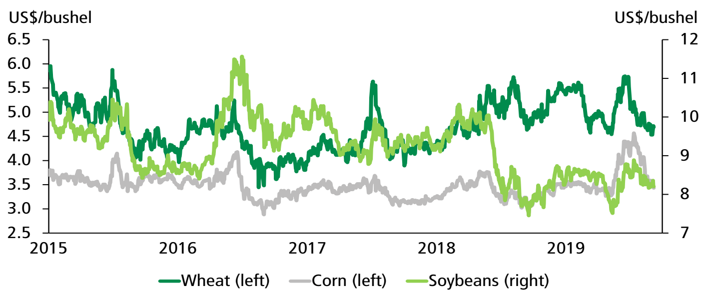
The prices of wheat, corn and soybeans are down somewhat since June (graph 19). On the supply side, the expected yields in the United States may not be spectacular, but they are not disastrous either. As for demand, the Sino-U.S. trade tensions are forcing China to buy from South American producers (graph 20). The use of corn for ethanol production is down in the United States, helping to relieve some of the pressure. It is becoming harder to imagine firm prices unless the growing conditions deteriorate and purchases of U.S. corn increase. As for wheat, it is getting late in the season and the weather should have less of an impact. The harvest was good and the outlook is fairly positive as Japan showed interest in buying some products in the coming months. The supply of soybeans is hampered by the challenging weather conditions. Despite this, the market is not overly tense, since China added another tax on U.S. soybeans in September, making soybeans even less attractive. **Inventories are not a concern at this time, although the demand side calls for a closer look. Unless trade relations between China and the United States improve, it is difficult to imagine prices rising in the near future.**

GRAPH 18
Forest product prices



tbf: thousand board feet
Sources: Datastream and Desjardins, Economic Studies

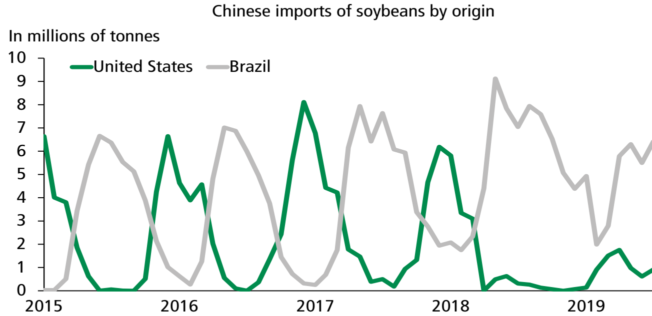
GRAPH 19
Grain prices



Sources: Datastream and Desjardins, Economic Studies

GRAPH 20
Brazilian soybeans offset the drop in Chinese imports from the United States

Chinese imports of soybeans by origin



Sources: Bloomberg and Desjardins, Economic Studies

TABLE 1
Commodities

	SPOT PRICE	VARIATION (%)				LAST 52 WEEKS		
	Sep. 6	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
Index								
Reuter-CRB (CCI)	386.2	0.8	-1.5	-3.4	-3.5	421.3	400.5	375.6
Reuters/Jefferies CRB	172.6	1.2	-0.7	-4.7	-9.0	201.2	182.1	167.9
Bloomberg Commodity Index	77.9	1.9	1.0	-3.5	-5.5	87.7	80.8	76.0
Bank of Canada	424.3	-0.3	4.4	-2.9	-8.5	465.4	423.5	361.2
Energy								
Brent oil (US$/barrel)	60.8	1.5	0.0	-7.5	-20.6	85.8	66.8	53.1
WTI oil (US$/barrel)	56.5	5.4	7.5	0.5	-16.6	76.4	58.3	44.4
Gasoline (US$/gallon)	2.56	-4.7	-8.7	5.8	-9.2	2.90	2.63	2.24
Natural gas (US$/MMBTU)	2.50	18.2	7.4	-12.1	-10.0	4.84	2.88	2.07
Base metals								
LME index	2,829	3.7	2.8	-6.7	-1.4	3,058	2,888	2,718
Aluminium (US$/tonne)	1,765	2.0	1.1	-4.2	-11.9	2,198	1,864	1,715
Copper (US$/tonne)	5,809	2.7	0.3	-10.6	-1.6	6,556	6,093	5,585
Nickel (US$/tonne)	17,743	18.7	53.0	31.4	43.6	18,118	12,618	10,605
Zinc (US$/tonne)	2,333	1.3	-11.7	-16.7	-4.7	3,031	2,615	2,212
Precious metals								
Gold (US$/ounce)	1,521	3.2	13.9	18.2	26.8	1,549	1,310	1,182
Silver (US$/ounce)	18.1	10.7	21.3	20.2	27.2	19.3	15.3	14.0
Platinum (US$/ounce)	947	11.2	18.1	14.4	19.9	977	834	776
Palladium (US$/ounce)	1,541	6.7	14.9	2.1	57.6	1,604	1,337	972
Other commodities								
Lumber (US$/tbf)	345	-0.3	6.2	-7.0	-23.8	453	355	319
Pulp (US$/tonne)	1,205	0.0	-6.9	-12.7	-12.7	1,435	1,352	1,205
Wheat (US$/bushel)	4.69	-3.5	-13.1	-1.7	-1.9	6.77	5.09	4.53
Corn (US$/bushel)	3.43	-14.5	-13.6	0.0	5.9	4.57	3.58	2.91
Soybean (US$/bushel)	8.20	-0.7	-0.2	-3.2	5.3	8.89	8.30	7.45

CRB: Commodity Research Bureau; CCI: Continuous Commodity Index; WTI: West Texas Intermediate; MMBTU: Million British Thermal Units; LME: London Metal Exchange; tbf: thousand of board feet
NOTE: Currency table base on previous day closure.

TABLE 2
Commodities prices: History and forecasts

ANNUAL AVERAGE	2017	2018	2019f	2020f
WTI oil (US$/barrel)	51	65	Target: 57 (range: 45 to 65)	Target: 52 (range: 40 to 75)
Natural gas Henry Hub (US$/MMBTU)	3.02	3.07	Target: 2.60 (range: 2.50 to 2.90)	Target: 2.75 (range: 2.00 to 3.80)
Gold (US$/ounce)	1,259	1,269	Target: 1,390 (range: 1,350 to 1,425)	Target: 1,365 (range: 1,225 to 1,450)
LME index—base metals	2,969	3,141	Target: 2,860 (range: 2,800 to 3,000)	Target: 2,900 (range: 2,400 to 3,300)

f: forecasts; WTI: West Texas Intermediate; MMBTU: Million British Thermal Units; LME: London Metal Exchange
Sources: Datastream and Desjardins, Economic Studies