COMMODITY TRENDS

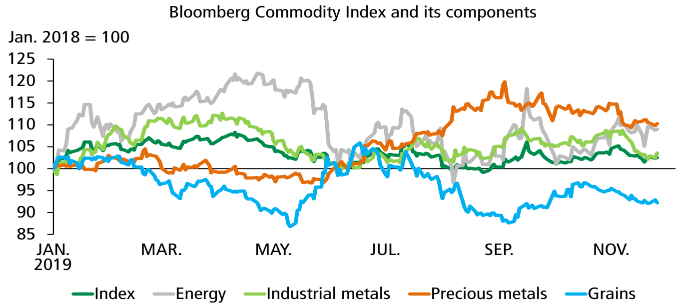
Trade Tensions Weigh Heavily on Industrial Metals

Commodity prices were fairly volatile in the fall of 2019 (graph 1). Mixed economic data and news about international trade have had a significant impact on the commodities market. Industrial metal prices were affected particularly by the slowdown in the industrial sector and global trade (graph 2). China and the United States are still negotiating and, even if the tone is generally positive for the moment, the outcome of their discussions remains uncertain. An agreement between the two countries could boost commodity prices, except for precious metals, but the impact could be limited, as some tariffs already imposed may remain in effect. For now, gold and other precious metal prices generally continue to benefit from the uncertainty. Despite the recent drop, their prices remain high. The price of oil has shown a certain resilience in spite of the fears concerning the health of the global economy, as other factors have come into play.

Our macroeconomic forecasts leave little room for commodities to perform spectacularly next year, as the economic slowdown is expected to continue in most countries. That said, the global economy should still post a reasonable rate of growth. The recent drop in the price of gold should continue in 2019 and 2020, as investors appear to have overestimated the Federal Reserve's monetary easing and uncertainty could ease.

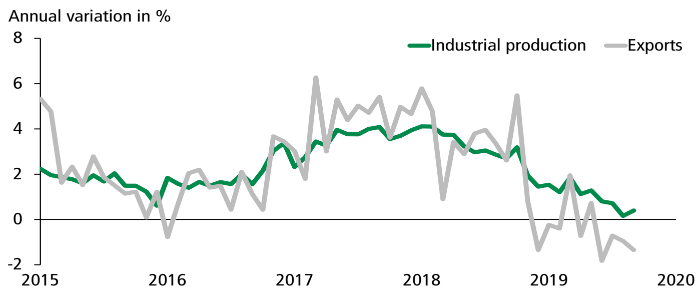
François Dupuis, Vice-President and Chief Economist
Carine Bergevin-Chammah, Economist

GRAPH 1
Commodity prices generally posted some gains in 2019 despite some volatility



Sources: Datastream and Desjardins, Economic Studies

GRAPH 2
The global slowdown in the manufacturing and export sectors is significant



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

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Energy

The Price of Oil Is Expected to Decrease Again

FORECASTS

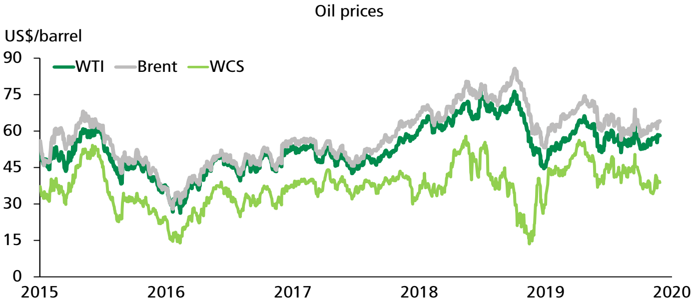
Global demand for oil had slowed in the first half of 2019, but recent figures reveal that it has risen again, especially in China. The supply is still relatively plentiful in spite of the efforts of the Organization of the Petroleum Exporting Countries (OPEC). While the economic slowdown is expected to continue into 2020, and non-OPEC oil production threatens to remain high, the price of a barrel of WTI (West Texas Intermediate) could fall in 2020. We are now anticipating an average of US$57 a barrel in 2019 and US$53 in 2020. Still, elevated geopolitical tensions may cause oil prices to rise unexpectedly. Natural gas production in the United States remains strong and is putting downward pressure on the price. It could generally trend below US$3.00/MMBTU (Million British Thermal Units) in 2019 and 2020, but a few jolts due to unusual temperatures are possible.

OIL

The price of oil has demonstrated resilience in light of the economic problems of several countries and the uncertainty hanging over the markets (graph 3). A major slowdown in global industrial output in 2019, as well as the economic challenges faced by some major oil consumers, such as China and India, reduced the demand for petroleum products in the first half of 2019 (graph 4). Nonetheless, the situation did improve in the third quarter, and the International Energy Agency (IEA) is expecting this improvement to hold until the end of the year. On the supply side, U.S. crude oil output continues to expand, although at a slower pace relative to the previous year. U.S. petroleum exports have exceeded imports several times in 2019, increasingly consolidating the country's role as an oil exporter. Given the United States's growing share of the global oil market, OPEC and a few other oil producers have had to maintain their agreement to control production. This agreement expires in March 2020, but the parties will be meeting in December 2019 to discuss a possible extension. For now, compliance with this agreement has been uneven (graph 5), which could jeopardize its continued existence. Some countries, including Russia, exceeded their allocated output on average in 2019, whereas Saudi Arabia has consistently limited its production by more than it agreed to.

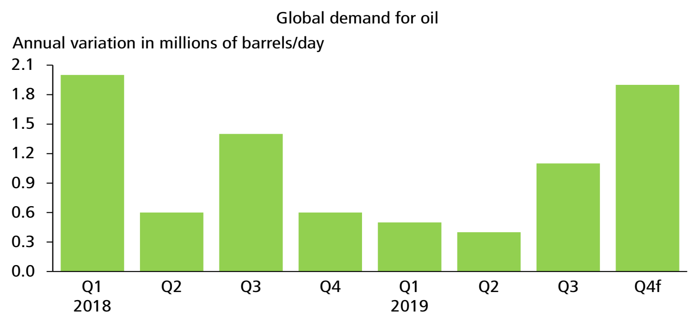
In Canada, WCS (Western Canadian Select) oil is running into problems, as the spread with the WTI price has grown relative to its average for 2019. The transportation difficulties facing Western Canadian oil are not going away any time soon,

GRAPH 3
Oil prices remain relatively high despite the economic situation



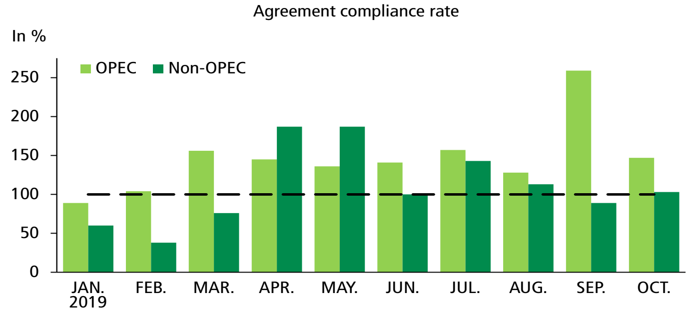
WTI: West Texas Intermediate; WCS: Western Canadian Select
Sources: Datastream, Bloomberg and Desjardins, Economic Studies

GRAPH 4
The demand for oil improved in the third quarter of 2019



f: Forecasts from the International Energy Agency (IEA)
Sources: IEA and Desjardins, Economic Studies

GRAPH 5
Some parties to the OPEC's agreement to restrict oil supply are failing to limit their production



OPEC: Organization of the Petroleum Exporting Countries
Sources: Bloomberg and Desjardins, Economic Studies

but more recent problems have temporarily increased the downward pressure on the price of a barrel of WCS. A leak in the Keystone pipeline in North Dakota, which was transporting oil from Alberta to the United States, forced a shutdown between October 30 and November 10. More recently, a strike at Canadian National (CN) has further limited the ability to ship Canadian oil. These issues were temporary, yet they illustrate the vulnerability of the Canadian oil industry.

The economic weaknesses noted recently should continue. The economic indicators are not yet pointing to a recession, but it may be difficult to see the global economy accelerate in the short term without international trade improving and the associated uncertainty easing. Additionally, no considerable slowdown in supply is expected. Still, a dark cloud hangs over supply, as persistently high geopolitical tensions continue due to the attacks in the Middle East and the U.S. sanctions against Iran and Venezuela still in effect. Under these circumstances, the price of oil risks shedding a few dollars in 2020, for an average of US$53 a barrel of WTI, or $4 less than the forecast for 2019.

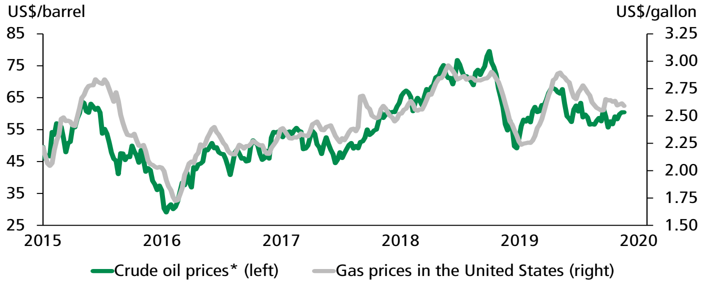
GASOLINE

The price of gasoline in the United States did not follow the oil price drop at the beginning of October and has remained stable at around US$2.60 a gallon (graph 6). Relatively low U.S. gasoline inventories and maintenance work—both scheduled and unscheduled—in California have limited the impact of a lower price for oil. Given that the situation in California appears to have returned to normal, inventories could start to climb again, which would take the pressure off the price of gasoline. Our forecasts for the price of oil also suggest that the price of gasoline could fall in the months to come.

NATURAL GAS

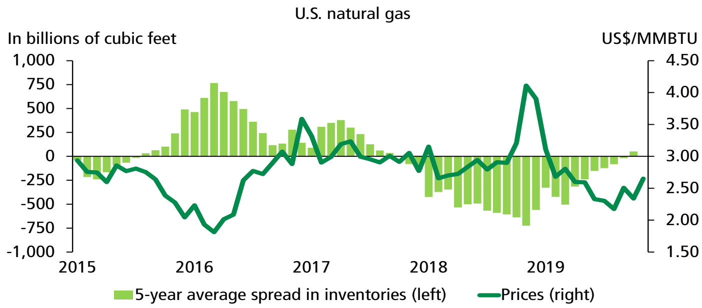
The price of natural gas in the United States is currently around US$2.50/MMBTU (graph 7), up from last month. The first few weeks of November were colder than expected in the United States, which caused natural gas prices to climb, but they have eased slightly more recently, as the thermometer rises and inventories surpassed the 5-year average for the first time in two years. U.S. output remains strong, which has helped record the highest inventory injection during the refill season since 2014 (graph 8). In spite of the high demand, the market should remain well supplied. The price of natural gas may struggle to post solid gains under these circumstances, although the weather could give rise to some volatility. We anticipate an average price of US$2.60/MMBTU in 2019 and US$2.75/MMBTU in 2020.

GRAPH 6
Gasoline prices in the United States remain high



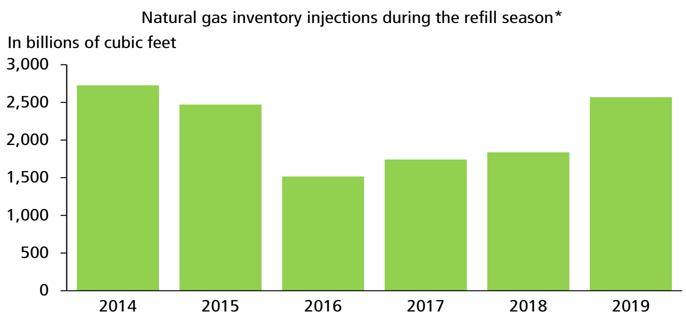
* Average WTI (West Texas Intermediate) and Brent prices.
Sources: Datastream and Desjardins, Economic Studies

GRAPH 7
Cold temperatures caused natural gas prices to climb despite inventory consolidation



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

GRAPH 8
The United States saw the strongest inventory refill season since 2014



* Between early April and late October.
Sources: Datastream and Desjardins, Economic Studies

Base Metals

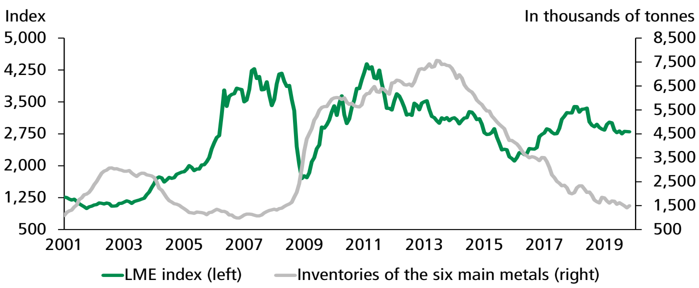
Things May Not Be Getting Worse, but They're Not Getting Better Either

FORECASTS

The prices of the main base metals have continuously been below our expectations, which led us to downgrade our forecasts for the LME (London Metal Exchange) index. International trade and global industrial output have entered negative territory in several countries, and the Global Economic Policy Uncertainty index has reached historic heights. These factors were the main reason for the weakness in industrial metals and are unlikely to be completely resolved in the short term. Progress made in the China–U.S. trade dispute could still boost base metal prices. Therefore, we expect the LME index to improve slightly in 2020, but with the continued economic slowdown limiting gains. Our forecasts place the LME index near 2,855 on average in 2019 and 2,860 in 2020.

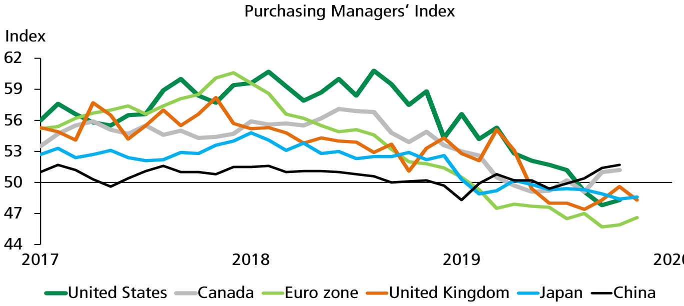
Little has changed on the industrial metals market, causing prices to remain depressed. The LME index is currently sitting below 2,800 (graph 9), at levels seen in May 2019. The industrial sector and international trade contracted in several countries in 2019 (graph 10), which has hurt the demand for base metals. The economic slowdown and trade disputes have also fuelled the uncertainty, which potentially slowed investments in the market. The Chinese economy's struggles, which include the slowdown of its economy and the trade war with the United States, have hit prices especially hard, as China is the biggest consumer of industrial metals. Chinese government efforts to stimulate the economy have failed to produce any significant results for the time being, and the outlook remains gloomy. The trade negotiations with the United States are ongoing, but what the final outcome will be is still not clear. A preliminary agreement may be reached eventually, but some existing tariffs could remain in effect. In this case, the metals market could strengthen, but, without a clear hike in demand, pricing trends are expected to remain unchanged.

GRAPH 9
Base metal prices remain anemic



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

GRAPH 10
The manufacturing sector of the major economies suggests a lukewarm base metals market

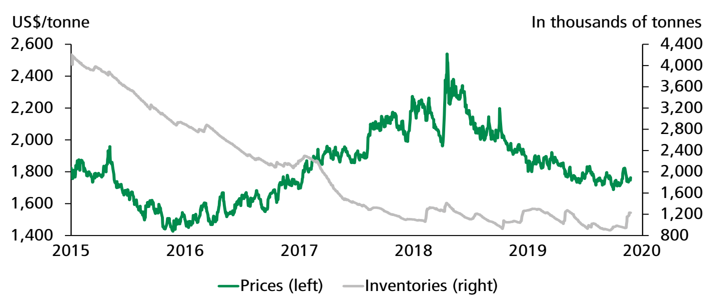


Sources: Bloomberg and Desjardins, Economic Studies

ALUMINIUM

The price for aluminum is now around US$1,750 per tonne, down roughly 6% since early January 2019 (graph 11). The price has continuously slid since mid-2018 and has been trending below US$2,000 in 2019. Some smelters faced with high production costs are beginning to consider production cuts and closures, as the demand for aluminum has been disappointing. The possibility of a drop in supply and some good news out of the China–U.S. trade negotiations temporarily boosted aluminum prices at the beginning of November 2019. They then quickly fell, as some

GRAPH 11
Aluminum prices and inventories



Sources: Datastream and Desjardins, Economic Studies

developments renewed doubts about the possibility of a China–U.S. agreement. It's difficult to imagine the price of aluminum rising significantly, as the aluminum market is expected to shift from an output deficit in 2019 to a surplus in 2020 according to a Reuters survey, and the economic slowdown should continue next year. An easing of the trade tensions could still provide some support.

COPPER

The price of copper has been fluctuating around US$5,800 per tonne since June 2019 (graph 12). It seems to be following the ups and downs of the relationship between China and the United States, as investors attempt to anticipate the direction the global economy will take. Like other industrial metals, copper has been severely penalized by the uncertainty associated with the trade tensions and the contraction of the industrial sector. China's economic struggles also negatively impacted this metal, as the country represents around half of all the demand. An upturn in China's manufacturing sector and a preliminary agreement with the United States could boost copper prices.

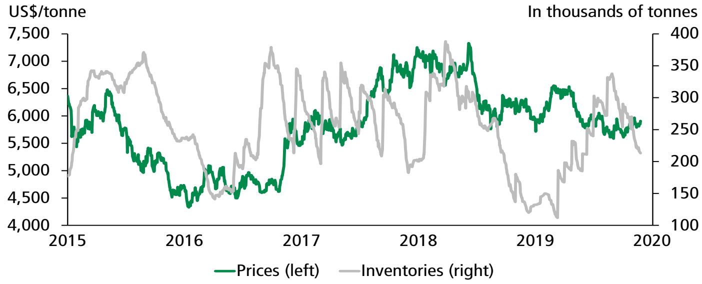
NICKEL

After a dramatic hike in the summer, the price of nickel fell back to around US$14,000 per tonne (graph 13), which still represents a 35% increase in relation to early 2019. The Indonesian government's announcement concerning the export ban on nickel had caused investors to react strongly. Still, the global economic fears and trade tensions have moderated gains on the nickel market. The increased use of nickel in electric vehicle batteries points to a bright long-term outlook, but, for now, nickel is still mostly used to produce steel. Given the high price for nickel currently, the risk of additional declines is highly likely.

ZINC

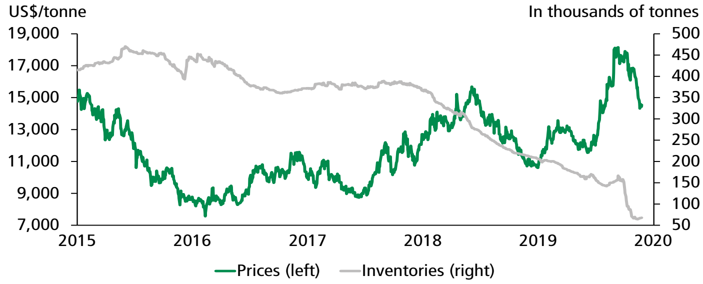
The price of zinc is currently sitting around US$2,300 per tonne, or approximately 8% less than the price in January 2019 (graph 14). It seemed to be regaining strength last fall, as market sentiment improved generally and LME inventory counts continued to fall. The tide turned once again when a trade agreement between China and the United States seemed less likely.

GRAPH 12
Copper prices and inventories



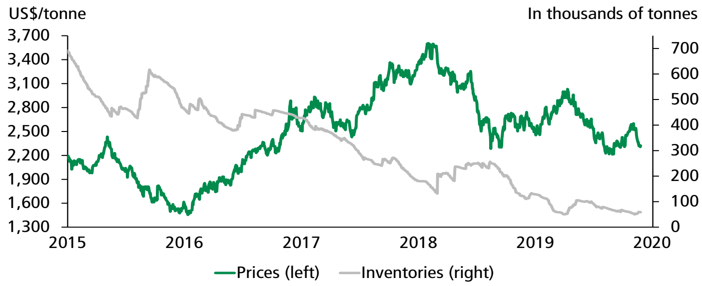
Sources: Datastream and Desjardins, Economic Studies

GRAPH 13
Nickel prices and inventories



Sources: Datastream and Desjardins, Economic Studies

GRAPH 14
Zinc prices and inventories



Sources: Datastream and Desjardins, Economic Studies

Precious Metals

Gold Is Benefiting from the Uncertainty

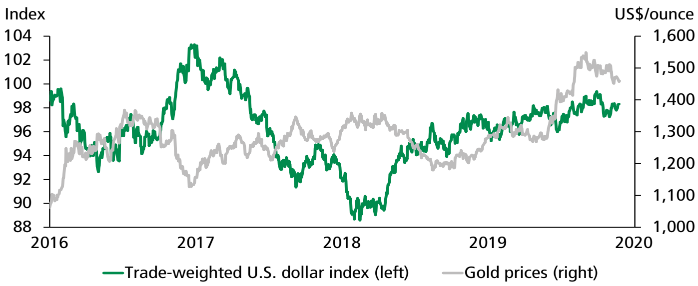
FORECASTS

The monetary policy easing by the major central banks and the heightened uncertainty have helped gold to post major gains. Although its price recently dropped, it is still relatively high. With trade tensions expected to ease in 2020 and the Federal Reserve (Fed) expected to maintain the status quo during that time, the price of gold could continue to slide to reach an average of US$1,390 per ounce in 2019 and US$1,365 in 2020.

GOLD & SILVER

The price of gold usually moves in the opposite direction to the U.S. dollar, but the high degree of market uncertainty has helped both assets to record major gains this year (graph 15). Gold is currently sitting at roughly US$1,450 per ounce, and the price of silver is just above US$17 per ounce. The Fed's key rate cuts benefited precious metals, and the uncertain economic climate caused by the trade tensions has provided additional support, as investors seek safe-haven assets (graph 16). Still, it would appear that investors may have overestimated the extent of the Fed's monetary easing. Since we don't anticipate any further intervention and that the uncertainty associated with global trade could ease, the price of gold could fall to US$1,350 per ounce in late 2020 for an annual average of around US$1,390 in 2019 and US$1,365 in 2020.

GRAPH 15
Gold is posting gains despite the rise of the U.S. dollar

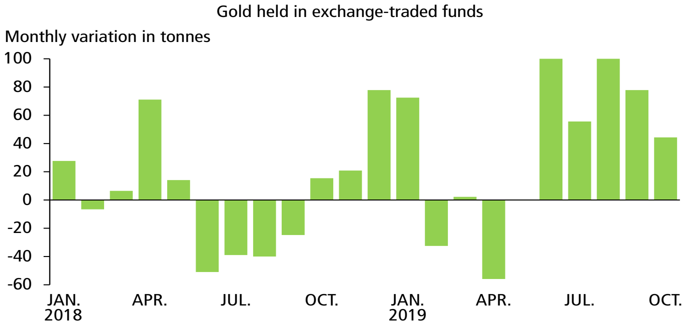


Sources: Datastream and Desjardins, Economic Studies

PLATINUM & PALLADIUM

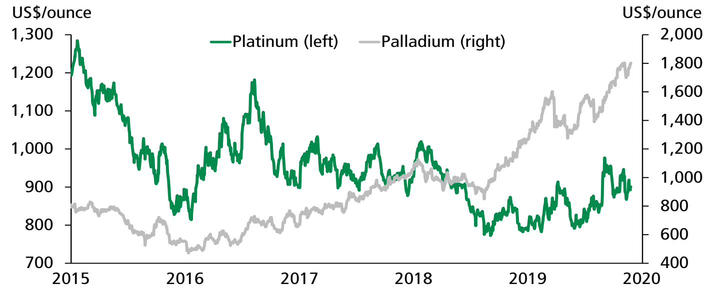
The price of palladium continues to beat records, recently reaching a historic high of US$1,804 per ounce in early November 2019 (graph 17). It has fallen slightly since then but is still high, as the market is in a production deficit. The price of platinum is also notching gains, but these are more moderate than palladium's. At the time of writing, the price of platinum was around US$900 per ounce. The renewed interest in safe-haven currencies in the current climate of heightened uncertainty has definitely benefited these two precious metals.

GRAPH 16
The heightened uncertainty has turned investor attention to gold



Sources: World Gold Council and Desjardins, Economic Studies

GRAPH 17
Platinum and palladium prices



Sources: Datastream and Desjardins, Economic Studies

Other Commodities

Lackluster Period for Forestry and Agriculture

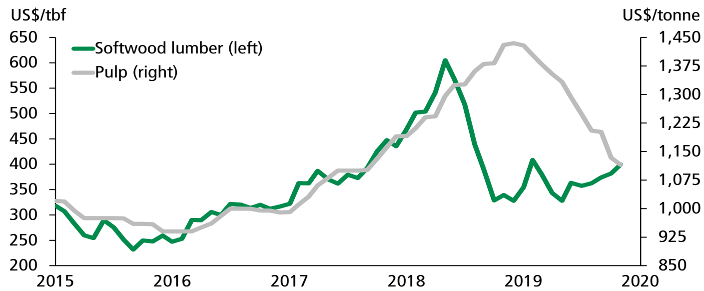
FOREST PRODUCTS

There have been no abrupt changes on the forest products market—just the opposite, in fact (graph 18). The slide in softwood pulp prices that began more than a year ago is ongoing, and there are no signs of a reversal any time soon. The weak demand is contributing to the anemic prices. The need for newsprint is falling across North America. This dynamic has existed for a number of years, and there doesn't appear to be any way to contain it, which is also weighing on prices. All eyes are now focused on hygienic paper, with a growing and aging population, and paper packaging, with specific environmental properties increasingly sought after. **As for softwood lumber, North American prices went up ever so slightly this fall. Demand, while not urgent, isn't anemic either. However, sawmill closures, especially in British Columbia, haven't boosted softwood prices. Next year shows few indications of a change in this regard.**

AGRICULTURAL COMMODITIES

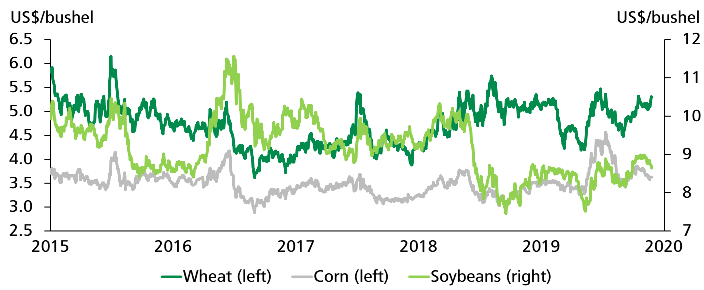
Grain and oilseed prices rose in September after a difficult August (graph 19). Still, the hike ended in October and prices have come down since then. The wheat supply is still plentiful. Poor harvests in Australia and Argentina, as well as the end of a difficult season on the U.S. plains and Canadian prairies, have so far failed to halt the slide in prices. Things are not looking up for wheat in 2020. As for corn, despite the fact that harvesting has not yet ended in North America, it is understood that the abundant supply and weak U.S. demand are keeping prices low for now. On the other hand, the recent hike in U.S. exports and the increased need for ethanol will require more and more corn. Therefore, prices should rise in 2020, as global demand is expected to firm up and supply fall. Soy has followed a path similar to that of wheat and corn, but with prices trending up in September, then down in the fall, which continues to be the case for now. **Like corn, U.S. soy exports are doing better than at the beginning of year** (graph 20)**, and a price hike is shaping up for 2020, especially if the United States and China reach a trade agreement.**

GRAPH 18
Forest product prices



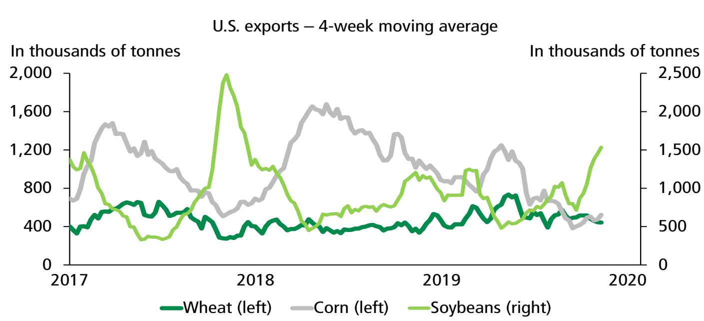
tbf: Thousand board feet
Sources: Datastream and Desjardins, Economic Studies

GRAPH 19
Grain prices



Sources: Datastream and Desjardins, Economic Studies

GRAPH 20
U.S. soybeans and corn exports are up



Sources: U.S. Department of Agriculture and Desjardins, Economic Studies

TABLE 1
Commodities

	SPOT PRICE	VARIATION (%)				LAST 52 WEEKS		
	Nov. 27	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
Index								
Reuter-CRB (CCI)	403.4	0.2	6.2	3.1	0.0	412.4	398.1	375.6
Reuters/Jefferies CRB	180.3	1.1	6.3	1.0	0.2	189.7	178.7	167.9
Bloomberg Commodity Index	78.3	-1.5	2.3	-0.5	-3.5	83.5	79.6	76.0
Bank of Canada	417.3	1.9	-1.0	-6.2	13.0	469.5	424.8	361.2
Energy								
Brent oil (US$/barrel)	63.7	3.1	8.4	-6.0	5.0	75.2	63.5	53.1
WTI oil (US$/barrel)	58.1	2.9	5.8	-0.5	12.7	66.4	56.0	44.4
Gasoline (US$/gallon)	2.58	-2.2	0.2	-8.6	1.6	2.90	2.59	2.24
Natural gas (US$/MMBTU)	2.50	8.7	13.6	-3.7	-41.3	4.72	2.69	2.07
Base metals								
LME index	2,780	-2.4	1.6	-1.1	-2.6	3,058	2,858	2,718
Aluminium (US$/tonne)	1,775	3.0	2.4	0.2	-7.6	1,973	1,808	1,686
Copper (US$/tonne)	5,926	0.3	4.7	-0.1	-3.7	6,556	6,011	5,585
Nickel (US$/tonne)	14,335	-14.6	-9.2	16.1	34.0	18,153	13,628	10,605
Zinc (US$/tonne)	2,324	-9.0	2.0	-14.6	-7.6	3,031	2,579	2,212
Precious metals								
Gold (US$/ounce)	1,454	-3.6	-5.5	13.1	19.9	1,549	1,371	1,213
Silver (US$/ounce)	17.1	-5.9	-3.8	17.2	19.5	19.3	16.0	14.2
Platinum (US$/ounce)	901	-3.2	4.6	12.6	6.9	977	852	782
Palladium (US$/ounce)	1,803	1.4	21.5	35.7	57.7	1,804	1,477	1,143
Other commodities								
Lumber (US$/tbf)	413	2.4	12.1	26.5	19.3	440	364	302
Pulp (US$/tonne)	1,115	-1.8	-7.5	-16.5	-22.0	1,435	1,297	1,115
Wheat (US$/bushel)	5.29	2.1	11.6	8.0	6.2	5.48	4.92	4.19
Corn (US$/bushel)	3.58	-5.3	1.4	-6.3	9.1	4.57	3.68	3.26
Soybean (US$/bushel)	8.63	-2.8	5.5	10.9	4.6	8.99	8.47	7.51

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$/barrel)	51	65	Target: 57 (range: 55 to 58)	Target: 53 (range: 40 to 75)
Natural gas Henry Hub (US$/MMBTU)	3.02	3.07	Target: 2.60 (range: 2.50 to 2.80)	Target: 2.75 (range: 2.00 to 3.80)
Gold (US$/ounce)	1,259	1,269	Target: 1,390 (range: 1,380 to 1,400)	Target: 1,365 (range: 1,225 to 1,450)
LME index—base metals	2,969	3,141	Target: 2,855 (range: 2,830 to 2,870)	Target: 2,860 (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