

# COMMODITY TRENDS

## Commodities Posted Positive Returns in 2019

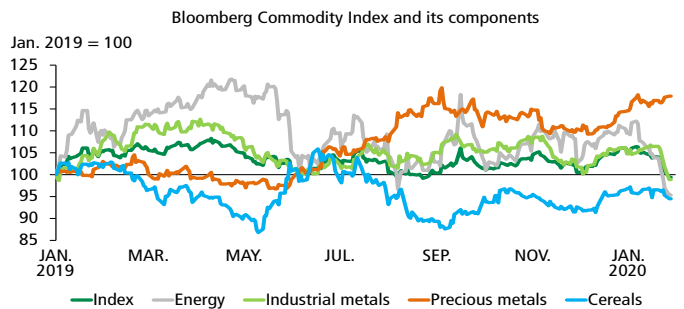
Despite a fairly volatile year, commodity prices generally recorded gains in 2019 (graph 1). At the turn of 2020, only cereal prices were below their January 2019 level. The preliminary trade agreement between China and the United States provided some support for commodities. However, several tariffs remain in place and negotiations are expected to continue, which could limit gains in the commodity market. In addition, China’s promised purchases of U.S. products under the agreement represent a huge increase from their 2017 level (graph 2). However, the likelihood that China will not comply with these demands is high.

Geopolitical tensions, particularly in the Middle East, have led to volatility in oil prices amid a heightened risk of disruption to oil production within members of the Organization of the Petroleum Exporting Countries (OPEC). More recently, the coronavirus has made oil prices fall, as the market worries about a possible pandemic. Despite the increased turmoil, oil prices are expected to hover below their end of 2019 level in 2020 while supply remains more than sufficient to meet demand.

Increased international risks and low bond yields have pushed up demand for precious metals, which are considered safe havens. Global economic conditions are likely to be more or less stable in 2020, which would rein in potential gains in the commodity market.

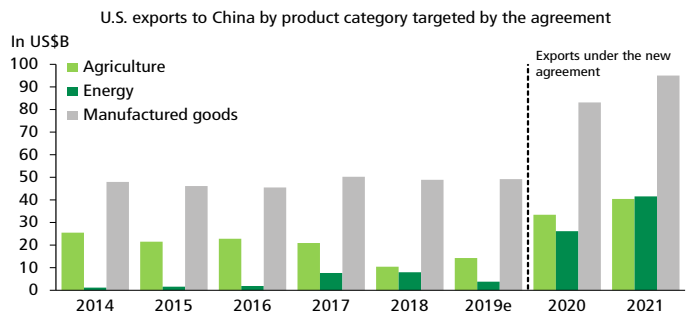
**François Dupuis**, Vice-President and Chief Economist  
**Carine Bergevin-Chammah**, Economist

**GRAPH 1**  
**Commodity prices generally posted gains in 2019**



Sources: Datastream and Desjardins, Economic Studies

**GRAPH 2**  
**U.S. product purchase requirements may be difficult for China to meet**



e: Estimates for 2019  
 Sources: U.S. Census Bureau and Desjardins, Economic Studies

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# Energy

## Geopolitical Tensions in the Middle East Intensify

### FORECASTS

The conflict between Iran and the United States sent oil prices soaring at the turn of 2020. Although the risk of a war erupting is now much less likely, tensions remain high between the two countries. Instability in the Middle East continues to cause oil prices to fluctuate. However, supply is expected to be plentiful in 2020. The price of a barrel of WTI (West Texas Intermediate) could gradually weaken over the course of the year, reaching an average of about US\$53. However, it looks like the volatility is here to stay. The prospects aren't any rosier for natural gas prices, as the market should continue to see production surpluses. Colder winter temperatures could lead to temporary price increases, but natural gas prices are generally expected to remain low. An average of approximately US\$2.20/MMBTU (Million British Thermal Units) is forecast for 2020.

### OIL

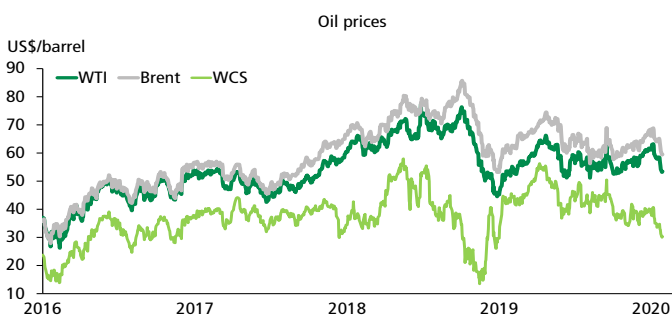
WTI and Brent oil prices had been rising since October 2019 (graph 3) as a recovery in demand had lowered inventories. However, the escalation of the Iran–U.S. conflict, which began in December, drove the price of WTI oil up to US\$63 a barrel. It weakened after both countries said they wanted to avoid a full-blown war. However, other countries in the Middle East, such as Iraq and Libya, have seen disruptions to their oil production. Geopolitical tensions in the region are likely to persist throughout the year and bring volatility to the oil market. Despite this, the oil supply remains more than sufficient. In fact, OPEC agreed in December 2019 to limit production until the end of March 2020. The agreement could continue beyond that date unless there is a strong recovery in demand. Fears surrounding the coronavirus and a possible pandemic recently brought the WTI price under US\$55 a barrel. It remains to be seen how the situation will evolve.

In Canada, oil did not benefit from higher benchmark prices, causing the spread between a barrel of WTI and WCS

(Western Canadian Select) to widen. With Alberta production limits gradually easing, transportation capacity constraints are being felt again. Producers are increasingly relying on rail transportation for their exports, which is a more expensive method than pipelines. Some capacity has recently been added to the pipeline system, but the problems facing the Canadian oil industry are expected to persist in 2020.

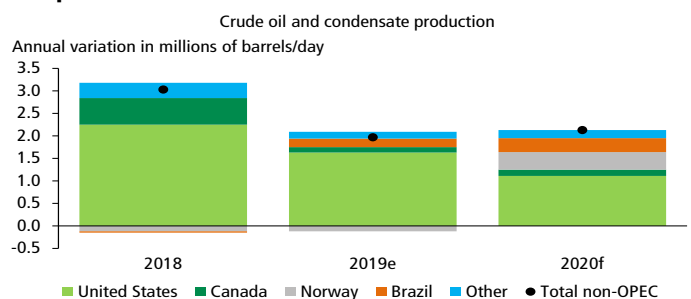
U.S. output growth is anticipated to slow in 2020, but the International Energy Agency expects other non-OPEC producers, including Canada, Norway and Brazil, to offset the slowdown in the United States (graph 4). While global economic growth should remain relatively stable in 2020, production surpluses could appear on the market despite the OPEC agreement (graph 5 on page 3). Given the strong production growth and disappointing demand forecast in our scenario, we expect WTI oil prices to be lower on average in 2020 than in 2019, at US\$53 a barrel.

**GRAPH 3**  
Oil prices gained ground in 2019



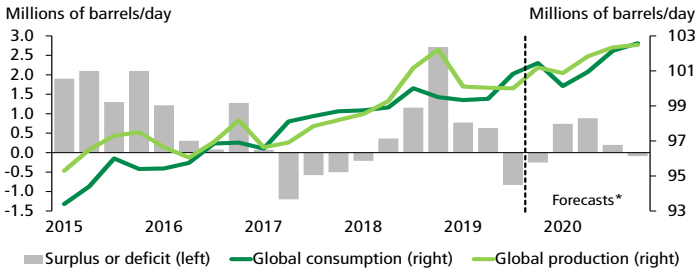
WTI: West Texas Intermediate; WCS: Western Canadian Select  
Sources: Datastream, Bloomberg and Desjardins, Economic Studies

**GRAPH 4**  
Other non-OPEC producers are expected to offset slowing U.S. production



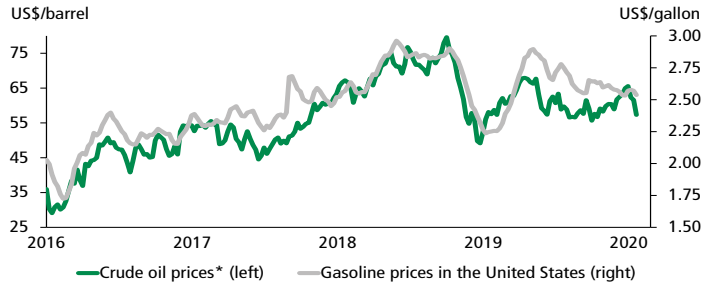
OPEC: Organization of Petroleum Exporting Countries;  
e: International Energy Agency (IEA) estimates; f: IEA forecasts  
Sources: IEA and Desjardins, Economic Studies

**GRAPH 5**  
Market surplus anticipated in 2020, despite OPEC agreement



OPEC: Organization of Petroleum Exporting Countries; \* International Energy Agency (IEA) outlook assuming members' compliance with the OPEC agreement on production cuts.  
Sources: IEA and Desjardins, Economic Studies

**GRAPH 6**  
Gasoline prices did not keep pace with oil price increases in late 2019



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

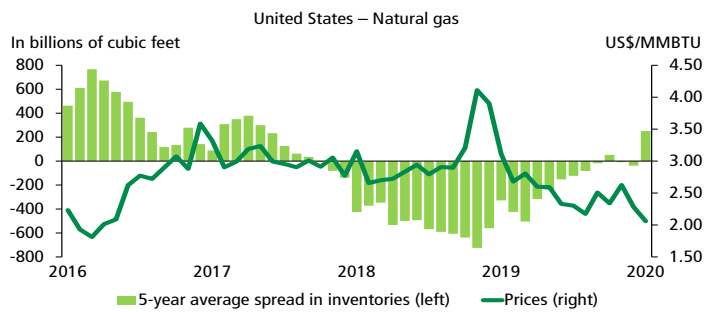
**GASOLINE**

The price of gasoline in the United States has generally moved in the opposite direction of oil prices since October 2019, as it was on a downward trend (graph 6). This seems to be correcting the fact that gasoline prices previously appeared to be a little too high relative to oil prices due to temporary factors. The price of gasoline has regained some momentum since early 2020, recently reaching approximately US\$2.55 per gallon. However, according to our oil forecasts, the increase isn't expected to last for long, and gasoline prices could remain relatively low.

**NATURAL GAS**

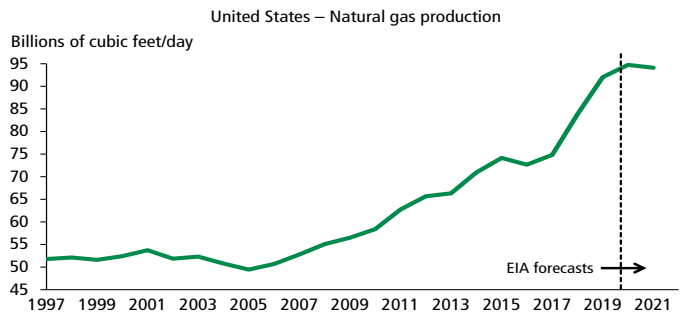
Natural gas prices in the United States have declined since the start of 2020 (graph 7), as temperatures are above seasonal averages and production is in full swing. Despite a significant increase in U.S. natural gas exports, inventories in the United States surpassed their 5-year average again. However, the Energy Information Administration expects U.S. production to decline in 2021 (graph 8) as abundant supply and growing exports keep international and U.S. prices low. The weakness in prices is increasingly challenging the viability of new liquefied natural gas export terminal projects. This has led us to downgrade our forecasts for 2020 to an average of approximately US\$2.20/MMBTU.

**GRAPH 7**  
A milder-than-usual winter and high production is putting downward pressure on natural gas prices



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

**GRAPH 8**  
U.S. natural gas production expected to slow in 2021 according to the EIA



EIA: Energy Information Administration  
Sources: EIA and Desjardins, Economic Studies

# Base Metals

## Slight Recovery in Base Metal Prices in 2019

### FORECASTS

The industrial metals market has welcomed the easing of the trade dispute between China and the United States, but worries surrounding the coronavirus lowered the LME (London Metal Exchange) index under 2,700 again. The difficulties facing world trade haven't been fully resolved, while several tariffs remain in place after the signing of the preliminary agreement between China and the United States. In addition, the manufacturing sector in several major economies is still contracting. As trade negotiations are expected to continue in 2020, further news on this front could cause volatility on the industrial metals market. In general, we don't anticipate a significant economic rebound in 2020, which means that base metal price growth could remain subdued. Our forecast puts the LME index at an average of 2,855 in 2020.

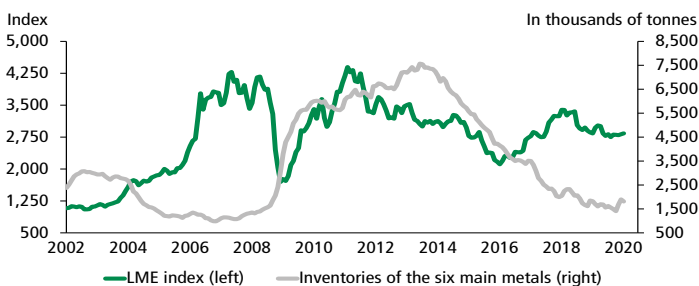
The new trade agreement between China and the United States generated a bit of optimism on the industrial metals market, with the LME index rising to 2,900 (graph 9). It quickly dropped back below 2,700 as the spread of the coronavirus brings investors to compare the situation with SARS in 2003. It is still too early, however, to evaluate the real economic effect this new virus could have. Trade barriers between China and the United States are still high. In addition, the new agreement requires China to dramatically increase its purchases of U.S. products over the next two years. The effect on the global economy and international base metal prices is likely to be negative, but its magnitude remains unclear. China's compliance with this promise is also uncertain, as these purchases will be a significant burden on the Chinese economy and U.S. producers. These distortions could also penalize China's other trading partners. Problems experienced by the global manufacturing sector have also taken a toll on base metal prices, and the situation doesn't seem to be improving in most of the major economies (graph 10). Our baseline scenario anticipates fairly stable growth in the global economy in 2020, which will hinder the LME index's ability to recover significantly. The latter is expected to post an average of

about 2,855 this year, but it could surprise on the upside if the European and U.S. economies see stronger growth.

### ALUMINIUM

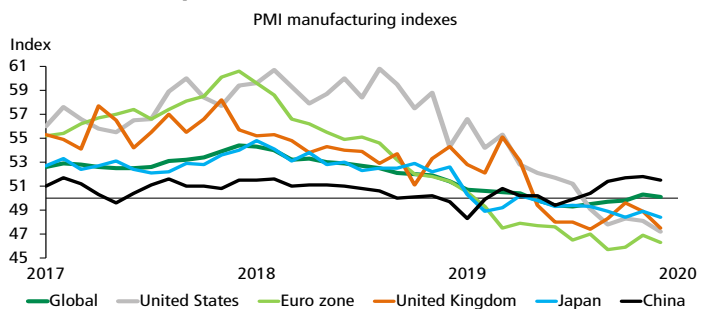
The price of aluminum is currently around US\$1,700 per metric tonne, posting an annual decrease of approximately 6% (graph 11 on page 5). It had recently regained some lost ground as more favourable news regarding global trade revived some optimism. However, difficulties with industrial output, particularly in the automotive sector, have severely hindered demand for aluminum, tempering the increased enthusiasm felt on the market. Although China's industrial sector appears to be sending some positive signals, it may run into a few obstacles with the U.S. product purchases promised under the new trade agreement with the United States. In addition, the China Association of Automobile Manufacturers expects auto sales to decline by 2% in 2020, which would result in a negative annual variation for the third consecutive year. Gains in aluminum prices could remain minimal this year.

**GRAPH 9**  
Base metal prices remain cautious following the signing of the China-U.S. trade agreement



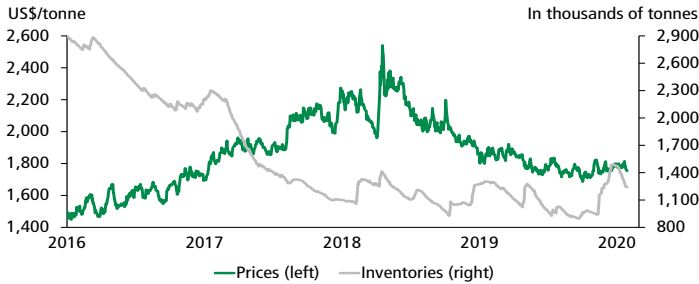
LME: London Metal Exchange  
Sources: Datastream and Desjardins, Economic Studies

**GRAPH 10**  
Manufacturing sector continues to contract in the major economies, except China



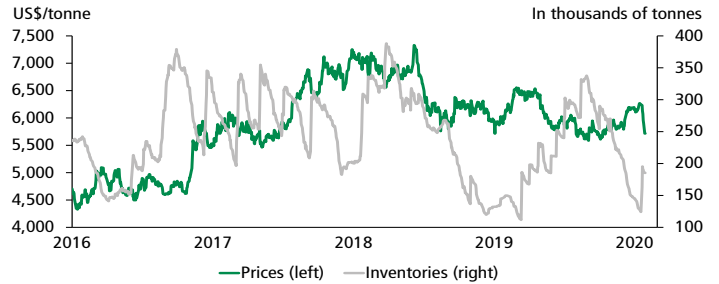
Sources: Bloomberg and Desjardins, Economic Studies

**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

Renewed optimism was clearly reflected in the price of copper, which rose as soon as it was announced in December 2019 that an agreement between China and the United States would be reached. It now stands at over US\$5,600 per metric tonne, an annual decrease of nearly 5% (graph 12). Gains on the U.S. stock market at the beginning of 2020 have certainly bolstered the price of copper, which tends to be more closely tied to the financial markets than other base metals. However, the higher uncertainty in markets has weakened the price of copper again. The moderate growth forecast for the global economy in 2020 isn't expected to give much support to copper prices, suggesting that they may not grow significantly.

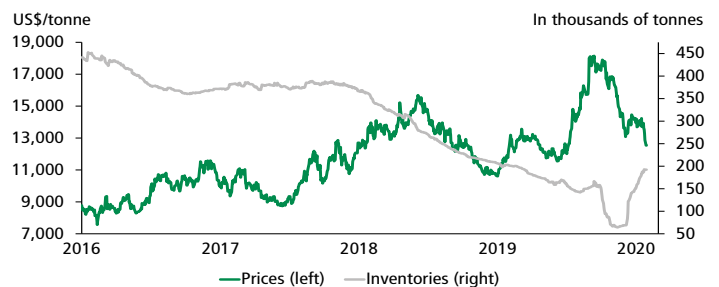
## NICKEL

Nickel prices plunged below US\$13,000 per metric tonne, after reaching more than US\$18,000 in the fall of 2019 (graph 13). Despite this significant drop, nickel prices are close to 6% above their level a year earlier. Adjusted investor expectations after Indonesia banned exports of the metal largely explains the recent drop.

## ZINC

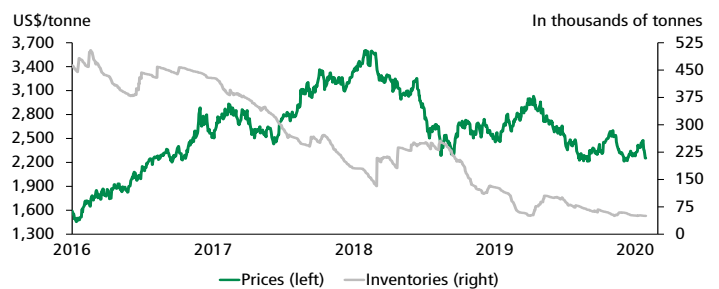
The price of zinc is still experiencing some difficulties despite the continued downward trend in inventories. It is currently below US\$2,300 per metric tonne, an annual decline of about 16% (graph 14). Its rise since the beginning of the year has not yet recouped losses recorded at the end of 2019. There is no indication that 2020 will be more conducive to a considerable appreciation of the price of zinc.

**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 Maintains 2019 Gains

### FORECASTS

Heightened risks and low bond yields have turned investors' attention to precious metals. Given the dichotomy between movements on the stock and bond markets, we expect bond yields to rise, which could weaken the price of gold over the course of 2020. However, it may remain higher than our previous forecasts, leading us to anticipate an average price of US\$1,480 per ounce in 2020.

### GOLD & SILVER

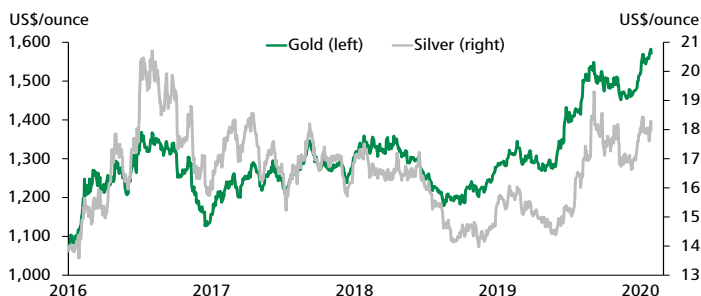
After a slight dip at the end of 2019, the price of gold quickly returned to above US\$1,500 per ounce (graph 15). The appetite for safe havens has also benefited silver, which currently stands at around US\$18 per ounce. The elevated uncertainty in 2019 resulted in a high annual return for gold (graph 16). However, given the high level of gold prices and the waning of certain risks, it would be difficult to achieve such a strong performance in 2020. On the contrary, it's expected to lose some value during the year. Rising tensions in the Middle East and the generally

low bond yields are expected to keep the price of gold above US\$1,400 per ounce in 2020, with an average of US\$1,480. A change in tone by the central banks, however, is a risk to this scenario.

### PLATINUM & PALLADIUM

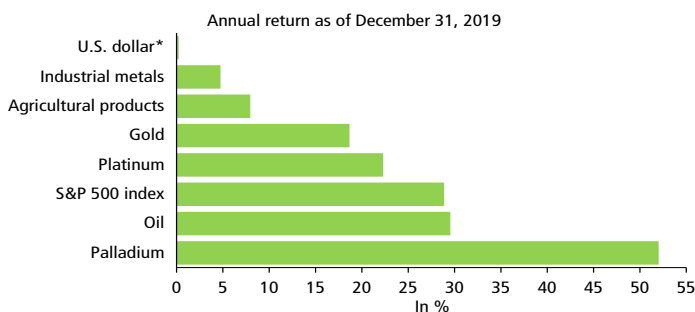
The price of palladium does not appear to be running out of steam, recently hitting US\$2,500 per ounce (graph 17). It has weakened since then, but remains just below this level, posting an annual increase of more than 70%. Platinum, meanwhile, has also seen a significant increase recently, but it has merely erased losses recorded since 2018. Its price is currently around US\$1,000 per ounce, with an annual gain of close to 25%. Investors' interest in safe havens has certainly benefited these two precious metals. The large deficit in palladium production is not likely to improve in the short term, which could lead to further gains for the metal. However, as platinum is used as a substitute for palladium in many products, it may become more popular if the price of palladium remains too high.

**GRAPH 15**  
Gold and silver prices



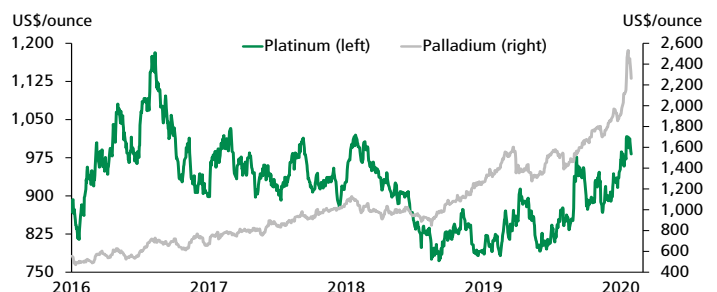
Sources: Datastream and Desjardins, Economic Studies

**GRAPH 16**  
Precious metals performed well in 2019



\* Trade-weighted U.S. dollar index (DXY).  
Sources: Datastream and Desjardins, Economic Studies

**GRAPH 17**  
Platinum and palladium prices



Sources: Datastream and Desjardins, Economic Studies

## Other Commodities

### Positive Outlook for Softwood Lumber, Uncertainty for Cereals

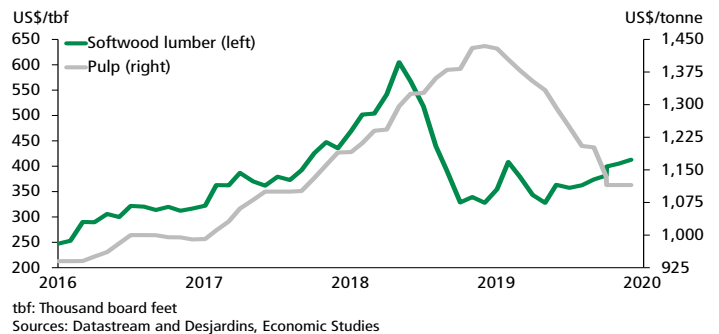
#### FOREST PRODUCTS

The prospects for paper in 2020 are less than positive due to a surplus in supply at a time when demand is slowing for traditional paper (e.g., newspapers, writing, printing). For pulp, prices could rise modestly in 2020, but the average is expected to be below that of 2019. The slight rebound in softwood lumber prices observed last fall has continued (graph 18). The North American lumber industry found itself in a surplus last year, which limited in any significant price appreciation. The outlook is brighter for 2020, although production is rebalancing itself due to numerous mill closures across the continent, particularly in British Columbia. **The U.S. housing market is expected to be stronger in 2020 than in 2019, supported by low interest rates and an economy that continues to create jobs. This will put some pressure on demand, while supply will not necessarily adjust at the same pace.** One remaining unknown, however, is the effect on export markets of the large supply of wood from Central Europe, which is experiencing an infestation of insect pests. We will need to keep an eye on the situation to see whether it causes prices to go down.

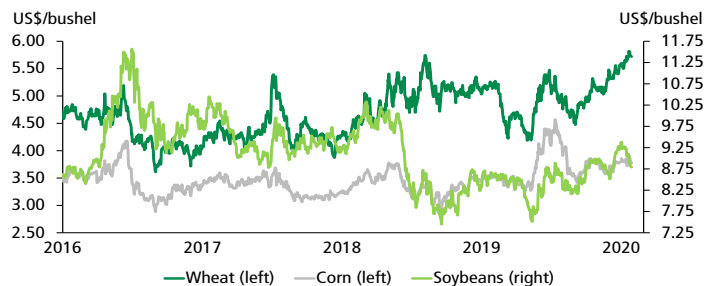
#### AGRICULTURAL COMMODITIES

Trade tensions between China and the United States created a great deal of uncertainty and fuelled both fears and hopes. Cereal prices also saw some volatility in 2019 (graph 19). However, the signing of the first phase of a China–U.S. agreement didn't shake up the markets. We should point out that China's massive potential purchases of U.S. agricultural products come with provisions that may not be met. U.S. soybean exports could be favoured based on market conditions. If other producers' prices are lower than U.S. prices, the Chinese could decide to turn elsewhere for supplies. In addition, the emergence of the coronavirus in the Chinese population and the African swine fever, which has decimated pig herds in China, could reduce the country's demand. Lastly, the tariffs in effect at the time the agreement was signed have not been abolished. **Nevertheless, the outlook for 2020 would suggest an increase in global demand, a decline in global inventories (graph 20) and, eventually, a slight firming up of prices. The severity and scale of the coronavirus could thwart this scenario.**

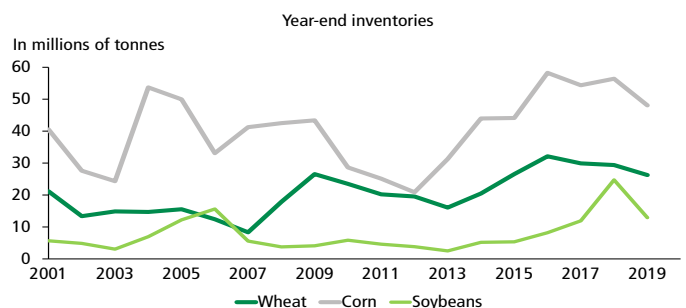
**GRAPH 18**  
Forest product prices



**GRAPH 19**  
Cereal prices



**GRAPH 20**  
U.S. cereal inventories fall from relatively high levels



**TABLE 1**  
**Commodities**

	SPOT PRICE	VARIATION (%)				LAST 52 WEEKS		
	Jan. 28	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
<b>Index</b>								
Reuter-CRB (CCI)	405.6	-3.6	0.8	2.3	1.3	422.5	400.3	375.6
Reuters/Jefferies CRB	173.8	-7.1	-2.5	-1.9	-2.1	189.7	179.5	167.9
Bloomberg Commodity Index	76.3	-6.2	-4.0	-3.1	-4.4	83.1	79.4	76.0
Bank of Canada	414.1	-3.4	1.1	-1.9	-1.8	469.3	430.2	404.9
<b>Energy</b>								
Brent oil (US\$/barrel)	60.0	-12.1	-2.1	-5.2	0.3	75.2	64.6	56.2
WTI oil (US\$/barrel)	53.4	-13.5	-4.0	-5.0	3.1	66.4	57.5	51.1
Gasoline (US\$/gallon)	2.51	-1.0	-3.5	-8.9	11.1	2.90	2.62	2.25
Natural gas (US\$/MMBTU)	1.93	-10.4	-20.9	-10.8	-33.6	2.95	2.45	1.89
<b>Base metals</b>								
LME index	2,673	-6.8	-6.3	-5.4	-7.0	3,058	2,855	2,673
Aluminium (US\$/tonne)	1,738	-3.4	0.5	-2.2	-5.9	1,922	1,789	1,686
Copper (US\$/tonne)	5,675	-8.3	-3.6	-4.5	-5.1	6,556	6,023	5,585
Nickel (US\$/tonne)	12,465	-11.8	-25.2	-11.4	6.0	18,153	14,085	11,542
Zinc (US\$/tonne)	2,244	-2.9	-13.3	-8.3	-16.6	3,031	2,536	2,212
<b>Precious metals</b>								
Gold (US\$/ounce)	1,571	3.8	5.3	10.7	20.6	1,583	1,413	1,268
Silver (US\$/ounce)	18.0	0.8	-0.4	9.3	14.6	19.3	16.4	14.4
Platinum (US\$/ounce)	982	3.8	6.6	13.5	21.1	1,017	878	782
Palladium (US\$/ounce)	2,261	18.9	26.3	47.7	68.5	2,533	1,606	1,274
<b>Other commodities</b>								
Lumber (US\$/tbf)	427	4.4	7.0	28.0	9.6	440	376	302
Pulp (US\$/tonne)	1,115	0.0	-1.8	-10.8	-22.0	1,430	1,244	1,115
Wheat (US\$/bushel)	5.70	2.5	11.3	14.9	9.8	5.82	4.98	4.19
Corn (US\$/bushel)	3.83	1.1	2.1	-7.5	8.5	4.57	3.72	3.26
Soybean (US\$/bushel)	8.77	-4.7	-1.3	2.1	1.4	9.38	8.56	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	2018	2019	2020f	2021f
WTI oil (US\$/barrel)	65	57	Target: 53 (range: 40 to 75)	Target: 46 (range: 30 to 70)
Natural gas Henry Hub (US\$/MMBTU)	3.07	2.53	Target: 2.20 (range: 1.80 to 3.80)	Target: 2.65 (range: 1.80 to 4.00)
Gold (US\$/ounce)	1,269	1,393	Target: 1,480 (range: 1,225 to 1,700)	Target: 1,490 (range: 1,225 to 1,700)
LME index—base metals	3,141	2,854	Target: 2,855 (range: 2,400 to 3,300)	Target: 2,525 (range: 2,300 to 3,300)

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