

COMMODITY TRENDS

An Unprecedented Oil Price Collapse

HIGHLIGHTS

- ▶ The health measures announced across the globe to stop the spread of COVID-19 have caused a sudden drop in economic activity. As a result, new International Monetary Fund (IMF) forecasts call for a 3% contraction in global GDP in 2020, a much steeper decline than the one that followed the 2008 financial crisis. Unsurprisingly, such a drop in activity has major negative impacts on industrial commodity prices and demand.
- ▶ Oil prices are particularly hard hit. The pause in worldwide activity, severely affecting transportation, caused demand for petroleum products to nosedive dramatically. The International Energy Agency thus estimates that global demand for oil plunged by 29 mbd (million barrels per day) in April 2020, compared to the same month a year earlier, to its lowest level since 1995.
- ▶ A new agreement between the major producers was finally reached recently, which should mean close to a 10 mbd reduction in the global oil supply. These production cuts hold the promise of a rebalancing of the market and a gradual rise in prices once the containment measures are lifted. In the near term, however, they will not prevent a significant surplus in supply and an increase in oil inventories. This latter point in particular has caught the eye of investors. Fears of insufficient storage capacity and the imminent expiration of futures contracts even drove down the price of WTI (West Texas Intermediate) to -US\$37.63 a barrel at the beginning of the week. However, futures prices signal a fairly quick rebound toward US\$20 a barrel.
- ▶ The pause in global economic activity is also very bad news for demand for industrial metals. After sliding following the onset of the COVID-19 epidemic in China, however, the LME (London Metal Exchange) index recently showed a certain degree of resilience. Signs of a pickup in activity in China, and the prospect of a broader recovery in global activity in the second half of the year, supported by infrastructure spending, among other things, appear to be feeding hope of better days ahead for industrial metals.
- ▶ While most commodities are depressed, gold is having a rather euphoric run as it beautifully plays its role as a safe haven. The price of the yellow metal has jumped more than 10% since the beginning of 2020 to highs that have not been seen since 2012. Gold's appeal is also amplified by governments' and central banks' very aggressive actions, which in addition to driving bond yields down, are causing some to call the stability of the monetary system into question. The other precious metals, used more extensively in industrial processes, are less favoured.
- ▶ The prices of most other commodities, including natural gas, lumber and cereals, are also subject to downward pressure, notably since mid-February.

MAIN FACTORS TO WATCH

- ▶ Like economic activity, developments in commodity prices in the coming months will depend, first and foremost, on the success of the fight against COVID-19. A quick and sustainable flattening of the pandemic curve would permit to restart activity and significantly raise industrial commodity prices in the second half of 2020. There are some encouraging signs that this will happen, but scenarios of a longer shutdown are still possible. We will also have to keep an eye on how oil producers will respond to the price collapse.

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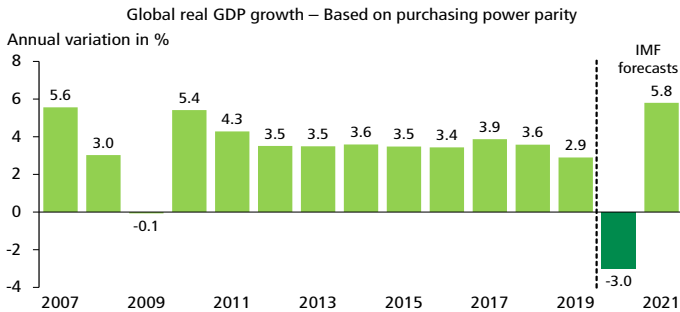
NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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Main Commodity Trends

GLOBAL ECONOMY

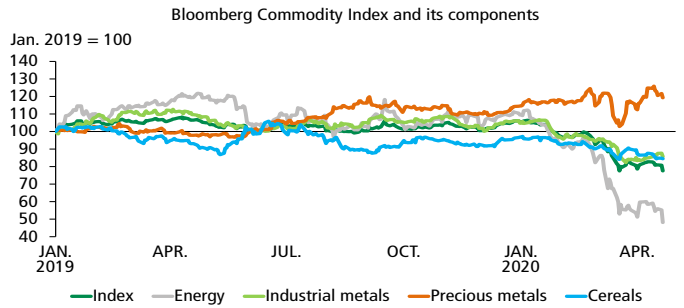
According to the IMF, the contraction in the global economy will be much worse than in 2009



IMF: International Monetary Fund
Sources: IMF and Desjardins, Economic Studies

COMMODITIES

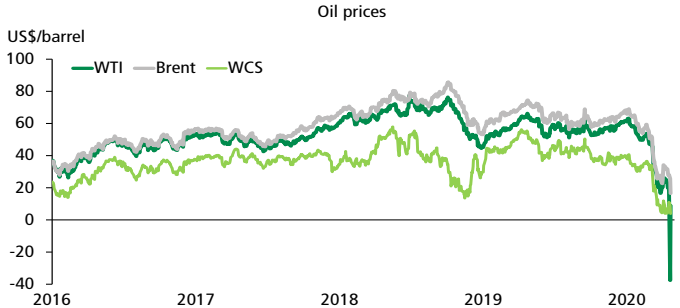
The fall in energy prices was dramatic, as gold benefits from the crisis



Sources: Datastream and Desjardins, Economic Studies

OIL

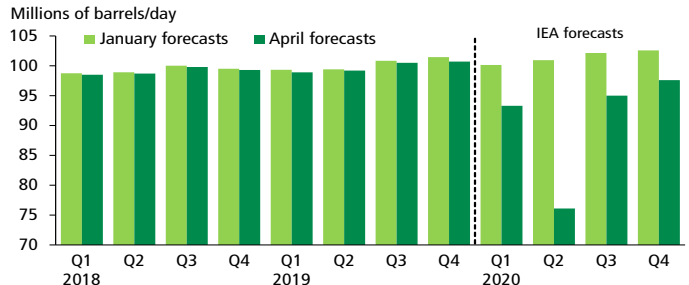
Negative oil prices in North America!



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

OIL

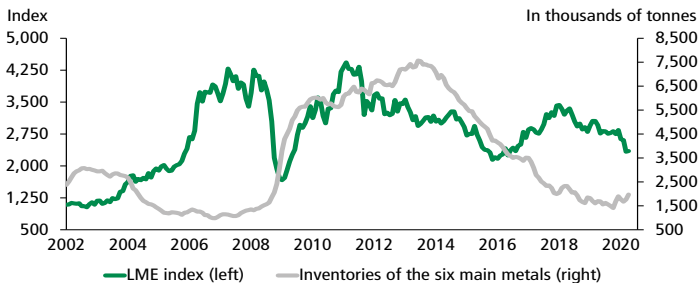
Global demand has been hammered



IEA: International Energy Agency
Sources: IEA and Desjardins, Economic Studies

INDUSTRIAL METALS

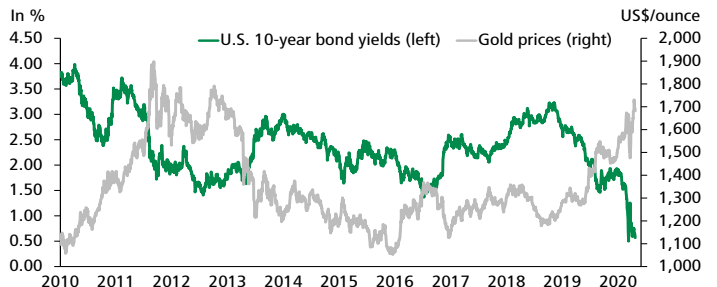
Base metal prices fall, without collapsing



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

GOLD

COVID-19 and central banks' response benefit gold



Sources: Datastream and Desjardins, Economic Studies

TABLE 1
Commodities

	SPOT PRICE	VARIATION (%)				LAST 52 WEEKS		
	April 21	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
Index								
Reuter-CRB (CCI)	320.6	-2.2	-23.1	-19.8	-21.3	422.5	391.7	317.5
Reuters/Jefferies CRB	106.3	-14.2	-41.5	-39.2	-43.2	187.9	171.3	106.3
Bloomberg Commodity Index	59.5	-2.6	-24.9	-23.9	-27.2	82.0	76.5	59.5
Bank of Canada	240.3	-20.7	-42.7	-41.2	-48.4	465.5	407.0	240.3
Energy								
Brent oil (US\$/barrel)	16.5	-40.2	-74.5	-71.9	-77.1	75.2	58.8	16.5
WTI oil (US\$/barrel)	8.9	-65.6	-84.7	-83.3	-86.1	66.4	52.2	-37.6
Gasoline (US\$/gallon)	1.81	-19.4	-28.6	-31.3	-35.9	2.90	2.57	1.81
Natural gas (US\$/MMBTU)	1.82	13.5	-3.9	-18.6	-26.9	2.86	2.23	1.55
Base metals								
LME index	2,349	2.0	-18.1	-16.4	-21.7	3,001	2,741	2,232
Aluminium (US\$/tonne)	1,451	-6.9	-20.0	-15.7	-21.7	1,857	1,730	1,426
Copper (US\$/tonne)	5,001	4.1	-18.4	-13.8	-22.6	6,461	5,786	4,625
Nickel (US\$/tonne)	12,128	8.7	-10.7	-24.6	-3.7	18,153	13,914	10,806
Zinc (US\$/tonne)	1,903	3.1	-23.2	-24.0	-33.6	2,960	2,348	1,803
Precious metals								
Gold (US\$/ounce)	1,681	13.1	7.9	13.2	31.8	1,731	1,483	1,268
Silver (US\$/ounce)	15.0	18.5	-16.8	-15.5	0.1	19.3	16.5	12.0
Platinum (US\$/ounce)	715	16.4	-28.1	-20.1	-19.7	1,017	875	593
Palladium (US\$/ounce)	1,850	13.1	-23.6	4.5	32.6	2,781	1,790	1,274
Other commodities								
Lumber (US\$/tbf)	316	-1.2	-25.7	-20.6	-6.0	463	373	263
Pulp (US\$/tonne)	1,135	0.4	1.8	0.0	-16.2	1,355	1,185	1,115
Wheat (US\$/bushel)	5.47	1.5	-6.0	4.4	23.2	5.82	5.14	4.19
Corn (US\$/bushel)	2.93	-10.9	-23.7	-22.5	-13.3	4.57	3.73	2.93
Soybean (US\$/bushel)	8.19	-3.6	-9.1	-8.4	-1.4	9.38	8.58	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: 32 (range: 24 to 38)	Target: 45 (range: 25 to 55)
Natural gas Henry Hub (US\$/MMBTU)	3.07	2.53	Target: 2.00 (range: 1.70 to 2.25)	Target: 2.65 (range: 1.80 to 3.50)
Gold (US\$/ounce)	1,269	1,393	Target: 1,620 (range: 1,500 to 1,850)	Target: 1,535 (range: 1,300 to 1,900)
LME index—base metals	3,141	2,854	Target: 2,500 (range: 2,000 to 2,700)	Target: 2,725 (range: 2,200 to 3,100)

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