

COMMODITY TRENDS

The Oil Price Rally Seems to Have Gone a Little Too Far

HIGHLIGHTS

- ▶ After a spectacular drop, economic activity is picking up again as lockdown measures are gradually lifted. The unexpected job growth in North America in May was particularly welcomed by investors. These developments supported an increase in industrial commodity prices.
- ▶ It bears remembering that WTI (West Texas Intermediate) prices plunged far into negative territory on April 20. The sharp drop in oil production and an improvement of the situation at Cushing, Oklahoma, have since significantly reduced concerns about storage capacity. The agreement between Organization of the Petroleum Exporting Countries (OPEC) countries and their partners to reduce their production by close to 10 mbd (million barrels per day) was recently extended to the end of July.
- ▶ North American producers also quickly adjusted to the drop in prices and demand. Weekly data show that U.S. crude production decreased from 13 mbd in early March to about 11 mbd today. This drop in supply combined with the first signs of a recovery in demand for gasoline allowed WTI prices to return to almost US\$40 per barrel. The price of Western Canadian oil has also done well since the end of April, coming back up to about US\$30 per barrel.
- ▶ The easing of lockdown measures and the return of a certain degree of optimism also boosted industrial metals. The LME (London Metal Exchange) index is up a little over 10% since mid-April, returning close to the levels observed at the beginning of the year. Note that sectors using a lot of base metals, such as construction and manufacturing, could bounce back quite quickly as lockdowns are lifted. In China, industrial production for April 2020 had already exceeded that of April 2019, while retail sales are still showing a decline.
- ▶ In theory, renewed optimism could have played against a safe haven like gold. However, gold prices have managed to stay around US\$1,700 an ounce, up more than 10% since the beginning of 2020. The central banks' clear signal that they would continue to inject massive amounts of liquidity as long as required, and will hold their key rates at their floor levels for a very long time, suggests sustainable support for gold prices.
- ▶ As for forest products, lumber is doing the best, with prices up since late April and a housing market that appears resilient. On the grain side, there are numerous hesitations and prices have been relatively contained up to now. However, the arrival of summer in the northern hemisphere will bring the weather to the forefront again, which will add to the markets' already palpable skittishness.

MAIN FACTORS TO WATCH

- ▶ While the worst COVID-19 scenarios appear less likely, it will take time for economic activity to return to pre-crisis levels. Producers of industrial commodities, especially oil, will have to continue to limit supply to prevent the return of large surpluses. Under these circumstances, the price of WTI oil could soon drop back down to close to US\$30 a barrel. The return of worries about the pandemic in recent days has already brought back some downward pressure on commodity prices.

François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist • Joëlle Noreau, Senior Economist

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

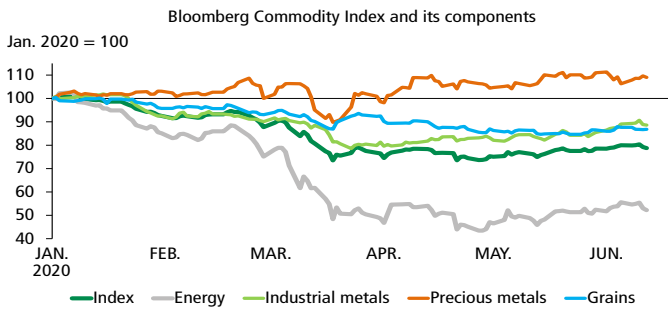
NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2020, Desjardins Group. All rights reserved.

Main Commodity Trends

COMMODITIES

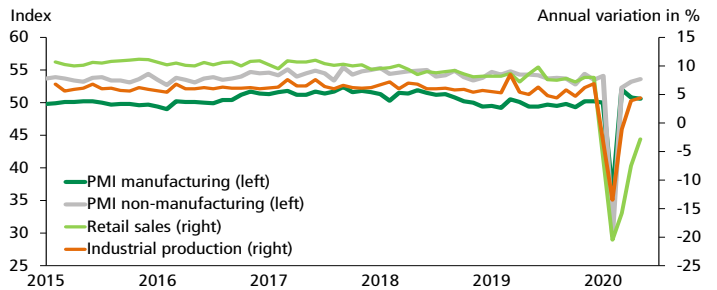
After a significant drop, commodity prices edged up



Sources: Datastream and Desjardins, Economic Studies

CHINA

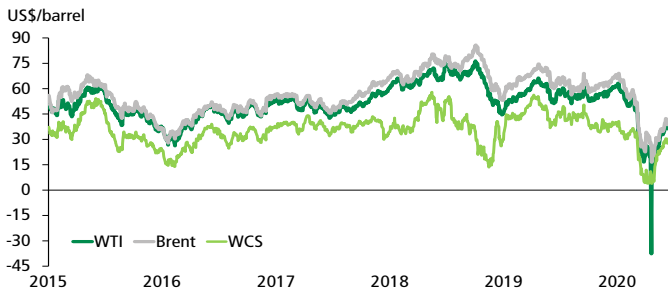
The quick recovery of purchasing manager indexes (PMI) and of industrial production is encouraging



Sources: Office of National Statistics and Desjardins, Economic Studies

OIL

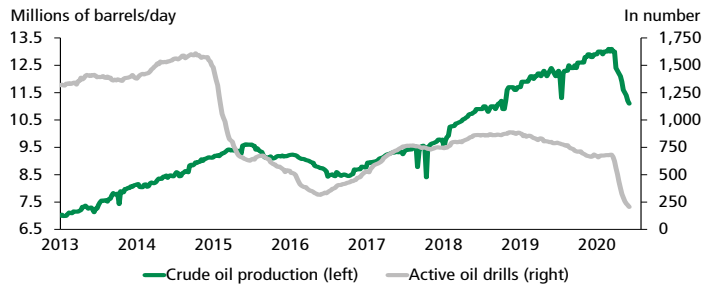
After a spectacular meltdown, oil prices bounced back



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

OIL

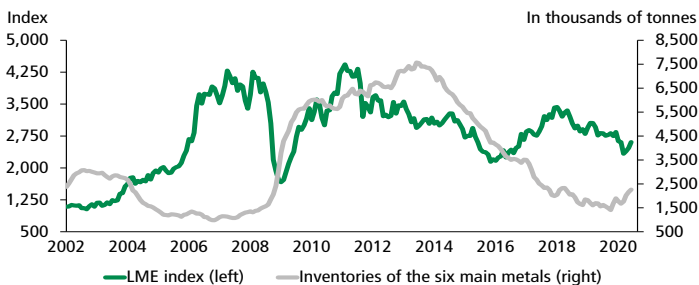
U.S. production and drilling reacted quickly to the drop in prices



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

INDUSTRIAL METALS

Base metal prices are going up again



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

GOLD

Low interest rates should continue to benefit gold



Sources: Datastream and Desjardins, Economic Studies

TABLE 1
Commodities

	SPOT PRICE	VARIATION (%)				LAST 52 WEEKS		
	June 12	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
Index								
Reuter-CRB (CCI)	357.9	4.6	0.2	-13.1	-8.6	422.5	385.1	317.5
Reuters/Jefferies CRB	134.3	9.5	-5.4	-26.6	-22.5	187.4	163.5	106.3
Bloomberg Commodity Index	63.7	3.5	-3.7	-19.4	-17.4	81.6	74.0	59.5
Bank of Canada	367.3	24.9	4.3	-12.8	-10.4	440.7	386.5	217.5
Energy								
Brent oil (US\$/barrel)	38.9	29.2	18.6	-39.7	-36.3	69.1	53.5	16.5
WTI oil (US\$/barrel)	36.3	41.0	15.4	-38.6	-28.9	63.3	47.6	-37.6
Gasoline (US\$/gallon)	2.04	10.0	-14.3	-20.5	-25.5	2.78	2.43	1.77
Natural gas (US\$/MMBTU)	1.73	0.6	-6.0	-25.6	-27.5	2.86	2.12	1.55
Base metals								
LME index	2,606	8.1	3.3	-7.9	-5.9	2,894	2,684	2,232
Aluminium (US\$/tonne)	1,561	8.4	-4.8	-11.4	-11.3	1,836	1,687	1,426
Copper (US\$/tonne)	5,762	10.2	6.2	-6.0	-1.1	6,270	5,679	4,625
Nickel (US\$/tonne)	12,598	2.7	7.0	-10.3	7.2	18,153	13,957	10,806
Zinc (US\$/tonne)	1,966	-1.8	2.2	-13.1	-25.2	2,660	2,236	1,803
Precious metals								
Gold (US\$/ounce)	1,734	1.5	10.4	18.3	29.9	1,746	1,545	1,335
Silver (US\$/ounce)	17.6	13.8	6.7	4.5	19.2	19.3	16.8	12.0
Platinum (US\$/ounce)	822	7.2	1.6	-12.9	1.2	1,017	870	593
Palladium (US\$/ounce)	1,935	5.4	-5.1	-0.1	37.9	2,781	1,872	1,389
Other commodities								
Lumber (US\$/tbf)	353	3.3	7.0	-11.2	-0.4	463	376	263
Pulp (US\$/tonne)	1,165	1.1	3.1	4.5	-10.0	1,295	1,159	1,115
Wheat (US\$/bushel)	5.02	-3.8	-1.2	-6.9	-4.6	5.82	5.22	4.47
Corn (US\$/bushel)	3.16	5.0	-12.9	-13.9	-23.5	4.57	3.65	2.87
Soybean (US\$/bushel)	8.58	2.3	1.3	-2.8	2.6	9.38	8.63	8.09

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: 34 (range: 26 to 40)	Target: 45 (range: 25 to 55)
Natural gas Henry Hub (US\$/MMBTU)	3.07	2.53	Target: 2.00 (range: 1.70 to 2.15)	Target: 2.65 (range: 1.80 to 3.25)
Gold (US\$/ounce)	1,269	1,393	Target: 1,680 (range: 1,600 to 1,730)	Target: 1,700 (range: 1,400 to 2,000)
LME index—base metals	3,141	2,854	Target: 2,550 (range: 2,300 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