

COMMODITY TRENDS

The Rebound in Prices Has Exceeded All Expectations

HIGHLIGHTS

- ▶ The statistics published in recent months have confirmed a rapid, albeit incomplete, rebound in economic activity following the lockdown period. Despite this rapid resumption of activity, 2020 will end with the worst drop in global GDP since World War II at least.
- ▶ Movement in industrial commodity prices is generally tied very closely to the economic situation. It could therefore be thought that a record drop in economic activity would go hand in hand with a collapse in resource prices. After an initial fall, prices for most industrial commodities nevertheless rebounded quickly in recent months. The Bank of Canada commodity price index rose 90% since its low in the spring to very close to the level it reached at the start of the year. The fact that the COVID-19 crisis is having the greatest impact on the service sectors, including tourism, food services and arts and entertainment, partly explains the strong performance of commodity prices. The outlook for demand for industrial metals is thus far from disastrous, as the consumption of goods has quickly topped pre-pandemic levels in advanced countries and the Chinese economy has rebounded on the strength of its industrial sector.
- ▶ The situation is more difficult for the oil sector, as the pandemic threatens to continue limiting travel, and air travel in particular, for a number of months still. Signs that a second wave was starting in a number of countries reignited investors' concerns in September and exerted downward pressure on the stock markets. This temporarily brought down the price of WTI (West Texas Intermediate) oil to less than US\$37 and led some organizations to downgrade their outlooks for oil demand. In a context in which crude supply remains limited, on the U.S. side in particular, it should nonetheless be possible to avoid a return of a large surplus on the global market.
- ▶ After setting new records in early summer, the price of gold is more hesitant, having failed to take advantage of the recent increase in investors' concerns. That said, the financial environment is still favourable for gold as the Federal Reserve confirmed that it was prepared to tolerate higher inflation after a period of weak inflation.
- ▶ Regarding grain and oilseed prices, the increases of the past few months stem mainly from massive purchases by China in the United States. At the same time, softwood prices beat the records set in 2018. Renovation needs, the increase in the number of housing starts to pre-pandemic levels and depleted inventories are behind this movement. The prices hit recently are nevertheless unsustainable and they seem to be on the way towards diminishing already.

MAIN FACTORS TO WATCH

- ▶ As concern over COVID-19 remains very high and the initial phase of the reopening of economies seems to be paving the way for a much more gradual resumption of activity, the potential for additional industrial commodity price increases appears to be very low in the near future. A consolidation period is therefore to be anticipated, and decreases could arise if governments are forced to reintroduce strong lockdown measures.

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

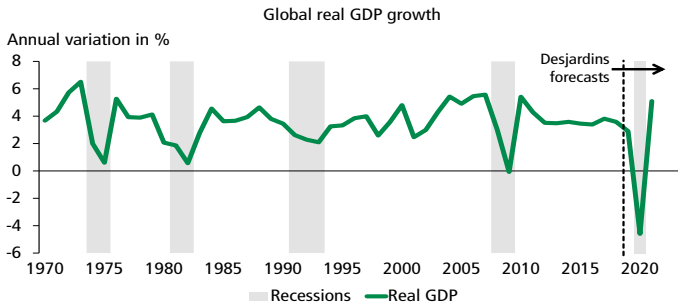
NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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Main Commodity Trends

WORLD

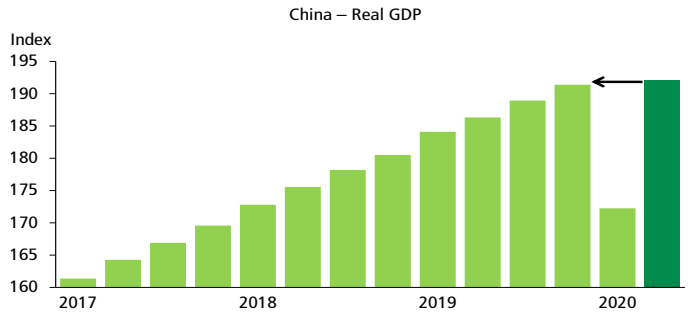
The worst contraction of the economy in over 70 years



Sources: International Monetary Fund and Desjardins, Economic Studies

CHINA

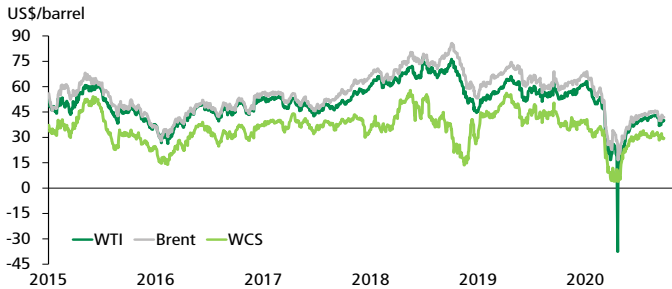
China's real GDP has already completely recovered from the drop caused by COVID-19



Sources: Office of National Statistics of China and Desjardins, Economic Studies

OIL

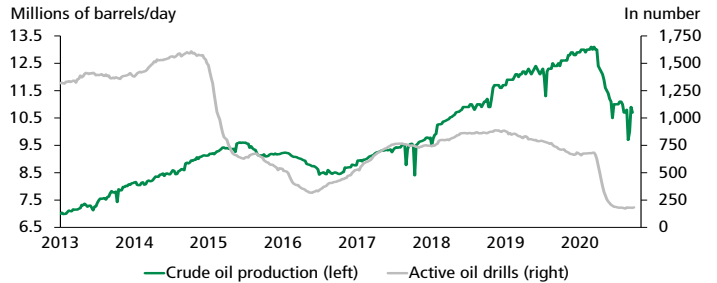
Oil prices ticked down in September



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

OIL

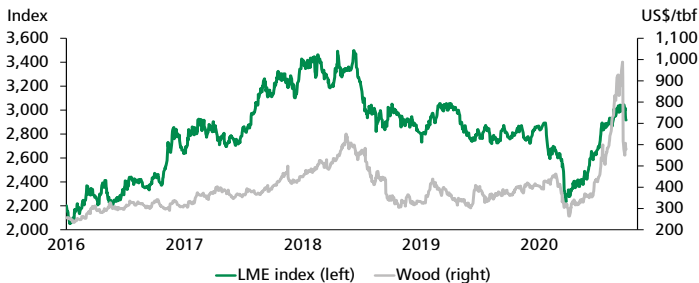
U.S. oil patch problems are not over



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

COMMODITIES

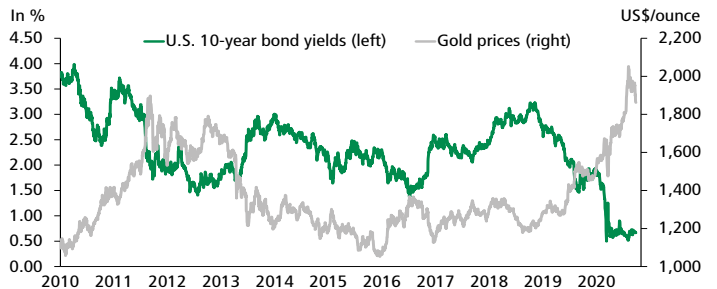
The rebound in industrial metal and wood prices has been especially impressive



tbf: Thousand board feet; 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		
	Sep. 28	-1 month	-3 months	-6 months	-1 year	High	Average	Low
Index								
Reuter-CRB (CCI)	405.4	-1.9	14.9	18.7	2.7	422.5	384.9	317.5
Reuters/Jefferies CRB	148.7	-3.1	10.7	20.1	-15.4	187.4	154.5	106.3
Bloomberg Commodity Index	71.0	-2.9	12.3	13.2	-9.4	81.6	71.3	59.5
Bank of Canada	405.8	-2.2	11.2	52.3	-4.9	426.7	372.1	213.3
Energy								
Brent oil (US\$/barrel)	42.5	-5.8	3.5	70.6	-31.9	69.1	47.8	16.5
WTI oil (US\$/barrel)	40.5	-6.0	4.5	143.7	-27.7	63.3	43.1	-37.6
Gasoline (US\$/gallon)	2.17	-0.6	1.9	2.3	-18.3	2.65	2.29	1.77
Natural gas (US\$/MMBTU)	2.10	-20.9	40.5	28.6	-12.6	2.86	2.04	1.48
Base metals								
LME index	2,949	-2.3	10.8	28.6	6.1	3,046	2,707	2,232
Aluminium (US\$/tonne)	1,744	-1.2	9.9	15.0	1.6	1,824	1,664	1,426
Copper (US\$/tonne)	6,560	-2.1	10.2	37.2	14.4	6,853	5,851	4,625
Nickel (US\$/tonne)	14,462	-5.7	14.4	28.0	-16.6	17,906	13,676	10,806
Zinc (US\$/tonne)	2,421	-2.8	19.3	29.6	3.1	2,601	2,205	1,803
Precious metals								
Gold (US\$/ounce)	1,870	-4.9	6.2	15.0	25.3	2,053	1,669	1,451
Silver (US\$/ounce)	22.9	-16.3	28.4	59.9	30.7	28.9	18.7	12.0
Platinum (US\$/ounce)	862	-7.3	7.9	16.2	-6.8	1,017	876	593
Palladium (US\$/ounce)	2,257	3.7	22.2	0.2	35.1	2,781	2,048	1,557
Other commodities								
Lumber (US\$/tbf)	579	-36.9	34.6	87.9	55.7	989	452	263
Pulp (US\$/tonne)	1,130	-0.9	-3.0	0.0	-6.2	1,205	1,134	1,115
Wheat (US\$/bushel)	5.50	2.0	16.0	-3.7	12.9	5.82	5.29	4.74
Corn (US\$/bushel)	3.47	3.6	13.8	5.5	-3.6	3.90	3.44	2.87
Soybean (US\$/bushel)	9.65	3.0	13.8	10.9	14.5	10.17	8.79	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: 39 (range: 36 to 42)	Target: 47 (range: 30 to 55)
Natural gas Henry Hub (US\$/MMBTU)	3.07	2.53	Target: 2.05 (range: 1.85 to 2.30)	Target: 2.65 (range: 1.80 to 3.25)
Gold (US\$/ounce)	1,269	1,393	Target: 1,785 (range: 1,740 to 1,825)	Target: 1,835 (range: 1,550 to 2,200)
LME index—base metals	3,141	2,854	Target: 2,720 (range: 2,665 to 2,790)	Target: 2,870 (range: 2,300 to 3,200)

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