

## COMMODITY TRENDS

# More Price Hikes Are Expected Next Year

### HIGHLIGHTS

- ▶ The economic recovery remains uneven as the resurgence of COVID-19 in North America and Europe has forced the reintroduction of health measures. However, financial markets appear to be more resilient this time due to lighter lockdowns compared to the spring and the upbeat news about vaccines.
- ▶ Renewed optimism and strong demand on the Asian markets have helped boost base metal prices. The LME (London Metal Exchange) index is up a little over 40% since mid-April, exceeding the levels seen at the beginning of the year. China continues to be driving most of the demand, with its economic recovery plan focused on infrastructure projects and its manufacturing sector, which is already beating pre-pandemic levels. At a time when extracting metal ores is slowed because of the health measures, especially copper, and demand remains high, the short- and medium-term outlook for industrial metals points to a price increase.
- ▶ Despite the impact of the second wave on economic activity in advanced economies, oil's situation has improved since the summer. While stock markets set new records and the media carried more and more articles that spoke favourably about vaccines, the price of WTI (West Texas Intermediate) surged 26% in November to reach the US\$45 per barrel threshold. The Organization of the Petroleum Exporting Countries and its partners (OPEC+) trimmed the planned increase in output for January 2021 from 1.9 mbd (millions barrels per day) to 0.5 mbd and will meet on a monthly basis to adjust, if needed, its output to better follow demand. While a return to significant surpluses or deficits on the global oil market should be avoided, the black gold isn't completely out of the woods yet. Several countries continue to enforce travel restrictions, especially concerning flights, and lockdown measures, which are limiting the outlook for demand growth in the short term.
- ▶ Slightly higher bond yields and the financial markets' excellent performance have hurt the price of gold, which has fallen 5% since early September. The financial environment should however remain favorable to the yellow metal in the medium term, since the central banks are signalling their desire to maintain their accommodating monetary policy for a long time to come.
- ▶ Softwood lumber prices fell in October after hitting new heights. Strong demand for materials (construction and renovation) has boosted prices since November and suggests that other hikes could be on the way in early 2021. As for corn, soybean and wheat prices, they continued to climb this fall until early December. Corn and soybeans are particularly under pressure, with inventory levels extremely low.

### MAIN FACTORS TO WATCH

- ▶ The uncertainty surrounding oil continues as the United States posts record numbers of daily COVID-19 cases and several countries remain partial lockdown while awaiting a vaccine. The mass distribution of the doses may take time and the increase in economic activity resulting from a lifting of the health measures is therefore unlikely to occur during winter 2021. As a result, a period of consolidation is expected in the short term. Nonetheless, the outlook should brighten in the medium term as the distribution of an effective vaccine could help the global oil demand to recover more of the ground lost during the pandemic and push the WTI price toward US\$53 in late 2021.

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

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • [desjardins.economics@desjardins.com](mailto:desjardins.economics@desjardins.com) • [desjardins.com/economics](https://desjardins.com/economics)

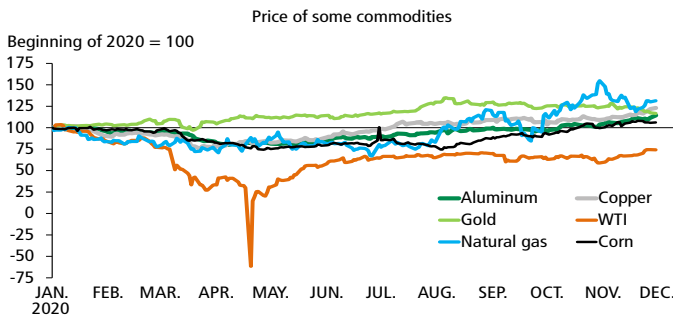
NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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# Main Commodity Trends

## COMMODITIES

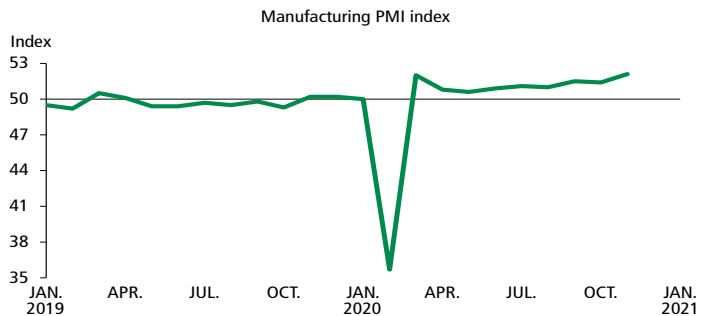
**Most commodity prices increased in the past year**



WTI: West Texas Intermediate  
Sources: Datastream and Desjardins, Economic Studies

## CHINA

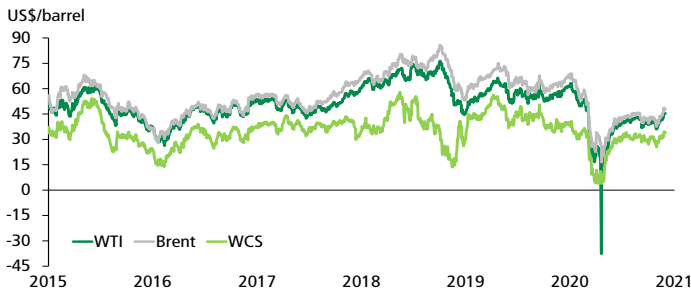
**China's industrial sector continues to grow**



Sources: Datastream and Desjardins, Economic Studies

## OIL

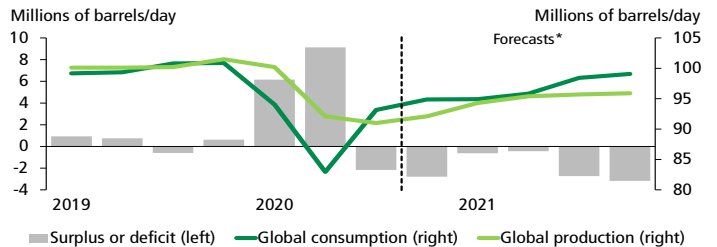
**Encouraging news about a vaccine drives up oil prices**



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

## OIL

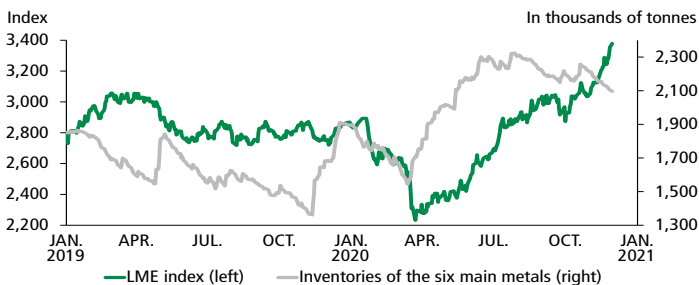
**OPEC seeks to stabilise the market in 2021**



OPEC: Organization of Petroleum Exporting Countries  
\* International Energy Agency (IEA) outlook assuming members' compliance with the production output agreement and a 1.9 million barrels per day increase by April 1, 2021.  
Sources: IEA and Desjardins, Economic Studies

## INDUSTRIAL METALS

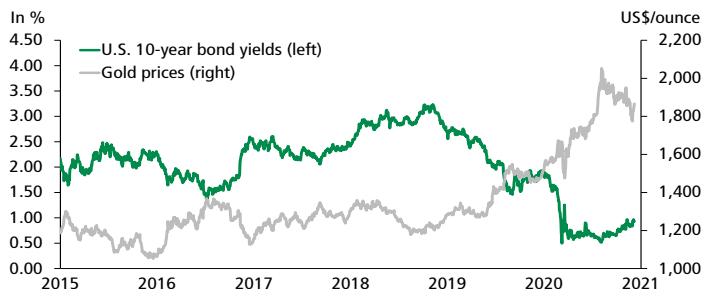
**Strong global demand causes base metal prices to rise**



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		
	Dec. 11	-1 month	-3 months	-6 months	-1 year	High	Average	Low
<b>Index</b>								
Reuter-CRB (CCI)	438.1	3.5	6.3	21.7	7.1	438.2	389.4	317.5
Reuters/Jefferies CRB	161.2	4.9	10.1	19.5	-11.2	187.4	149.5	106.3
Bloomberg Commodity Index	74.9	1.2	4.6	16.8	-4.4	81.6	70.2	59.5
Bank of Canada	425.2	4.5	3.7	17.5	2.7	427.1	372.1	214.3
<b>Energy</b>								
Brent oil (US\$/barrel)	50.1	14.2	25.6	29.4	-21.1	69.1	44.3	16.5
WTI oil (US\$/barrel)	46.8	13.4	25.4	28.7	-20.4	63.3	40.2	-37.6
Gasoline (US\$/gallon)	2.16	2.9	-2.4	5.9	-15.8	2.58	2.19	1.77
Natural gas (US\$/MMBTU)	2.59	-14.5	14.2	42.9	15.5	3.35	2.11	1.48
<b>Base metals</b>								
LME index	3,443	10.2	14.2	32.0	22.4	3,494	2,781	2,232
Aluminium (US\$/tonne)	2,007	5.7	15.5	27.3	14.6	2,055	1,693	1,426
Copper (US\$/tonne)	7,755	12.9	14.5	35.1	26.6	7,861	6,097	4,625
Nickel (US\$/tonne)	17,231	8.2	14.5	36.9	25.0	17,374	13,647	10,806
Zinc (US\$/tonne)	2,761	5.9	12.8	38.3	24.4	2,837	2,242	1,803
<b>Precious metals</b>								
Gold (US\$/ounce)	1,846	-1.1	-5.2	6.0	25.4	2,053	1,750	1,466
Silver (US\$/ounce)	23.8	-1.6	-11.4	33.2	42.9	28.9	20.1	12.0
Platinum (US\$/ounce)	1,009	16.5	8.6	23.0	9.0	1,060	879	593
Palladium (US\$/ounce)	2,332	-1.1	1.3	21.8	22.0	2,781	2,168	1,557
<b>Other commodities</b>								
Lumber (US\$/tbf)	787	38.1	-17.0	122.8	98.3	989	493	263
Pulp (US\$/tonne)	1,130	0.0	0.0	-3.0	1.3	1,165	1,135	1,115
Wheat (US\$/bushel)	6.08	1.7	13.9	21.8	14.5	6.33	5.46	4.74
Corn (US\$/bushel)	4.13	0.5	17.3	31.5	14.4	4.19	3.49	2.87
Soybean (US\$/bushel)	11.44	2.3	17.5	34.1	30.3	11.83	9.21	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: 38 to 40)	Target: 48 (range: 35 to 55)
Natural gas Henry Hub (US\$/MMBTU)	3.07	2.53	Target: 2.10 (range: 2.00 to 2.20)	Target: 2.65 (range: 1.80 to 3.10)
Gold (US\$/ounce)	1,269	1,393	Target: 1,770 (range: 1,760 to 1,780)	Target: 1,830 (range: 1,550 to 2,100)
LME index—base metals	3,141	2,854	Target: 2,810 (range: 2,800 to 2,820)	Target: 3,335 (range: 2,700 to 3,800)

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