COMMODITY TRENDS

Strong Demand for Commodities

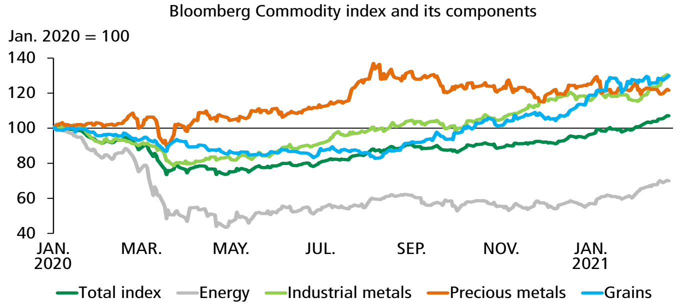
Despite a fairly volatile 2020, commodity prices generally recorded gains (graph 1). Only the energy index has started 2021 below where it began in 2020. The economic fallout from the second wave and tighter public health measures has not been as drastic as last spring. Therefore, the 2021 economic outlooks remain favourable, with vaccination campaigns and economies gradually reopening over the coming quarters (graph 2). However, the speed at which vaccines are distributed and their effectiveness against new variants of the virus could limit potential commodity price gains.

Although global oil demand is still lower than it was before the pandemic, the latest adjustments to production made by members of the Organization of Petroleum Exporting Countries and its allies (OPEC+), mainly Saudi Arabia, have fuelled the recent rise in oil prices. The potential for oil prices to rise could be limited, however, as they have already priced in the future acceleration in economic activity. Moreover, the return of higher prices and optimism about the future are stimulating the U.S. oil industry, which has been notching up production since November.

The uncertainty surrounding the COVID-19 pandemic seems to be waning a little, as shown by the rise in bond yields. The financial environment could therefore be less favourable to precious metals, although they could stay relatively pricey in 2021.

François Dupuis, Vice-President and Chief Economist
Marc-Antoine Dumont, Economist

GRAPH 1
Despite the initial shock from the pandemic, commodity prices generally made gains in 2020



Sources: Datastream and Desjardins, Economic Studies

GRAPH 2
The growing global industrial production is benefiting the commodity market

Sources: Oxford Economics, Datastream and Desjardins, Economic Studies

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Energy

Oil Prices Strengthen

FORECASTS

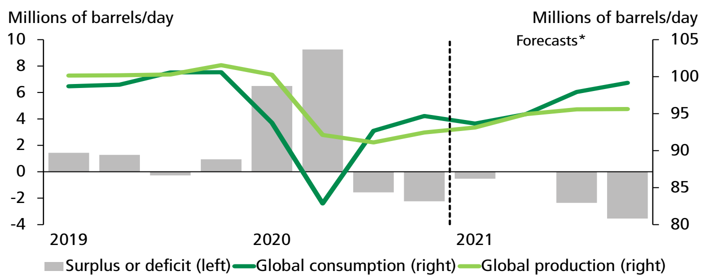
As the vaccination campaigns advance and the planet emerges from lockdown, oil demand should gradually increase in 2021, especially in the second half of the year. The supply could be limited however, as large reserves will prompt producers to be cautious in raising production levels to avoid creating big surpluses. There is therefore a strong possibility of slight deficits in the market until stocks return to more normal levels. The fundamentals are favourable to a rise by oil prices in 2021. We think that WTI (West Texas Intermediate) will end the year at around US$60. However, these gains could be curbed by a weaker than anticipated economic recovery, as well as by vaccines that are not as effective as hoped for. In the United States, natural gas production remains weak and is putting upside pressure on the price. Strong demand from Asian markets and the weak supply will help gas prices, which could end the year above US$3/MMBTU (Million British Thermal Units).

OIL

Oil price showed resilience against the second wave of COVID-19, and to the slowdown in oil demand (graph 3). While most petroleum products have recouped much of the lost ground, kerosene demand, primarily from air transportation, is still at 50% of its prepandemic level (graph 4). It is hard to see the aviation industry's recovering shortly, as the International Civil Aviation Organization predicts that airlines will be offering 31% to 42% fewer seats in the first half of 2021 than they did in 2019. The offering from air carriers may only increase once the international travel restrictions are lifted and travellers regain confidence. It is therefore hard to picture global oil demand recovering completely prior to 2022–2023, according to the International Energy Agency (IEA). In the last few months, demand for petroleum products has primarily been coming from emerging nations like China and India, which have not seen a second wave so far. In 2021, while emerging countries' energy needs are likely to remain substantial, the reopening of the advanced economies and accelerating global economic activity as a result of vaccination will boost oil consumption. The gradual return to normal and demand growth in the second half of the year are, however, highly dependent on the effectiveness of the vaccines, and strength of the economic recovery.

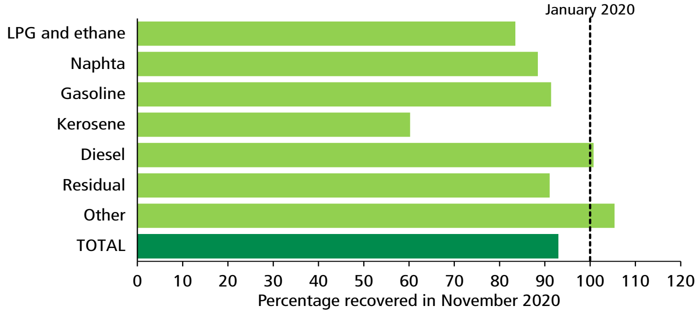
In Canada, WCS (Western Canadian Select) has been struggling, increasing its negative spread with WTI compared with the 2020 average. While WTI and Brent were going up sharply, the gains by WCS were limited (graph 5 on page 3). The surge in Canadian output, cancellation of the Keystone XL pipeline and risk of closure facing Enbridge's Line 5 pipeline slowed the rise in the Canadian price per barrel. Despite the recent problems with oil transportation in Canada, the situation is much better than it was in 2018, when Alberta's government had to introduce mandatory cuts to the province's production. Substantial work has been done on the pipeline network since then, adding nearly 1.5 mbd (million barrels per day) to transportation capacity.

GRAPH 3
Oil producers will remain cautious



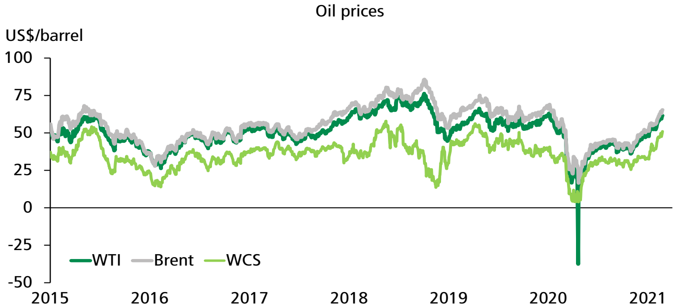
* Outlooks of the International Energy Agency (IEA) assuming members comply with the February 3, 2021 production agreement.
Sources: IEA and Desjardins, Economic Studies

GRAPH 4
The slowdown in air transportation is dragging down demand for kerosene



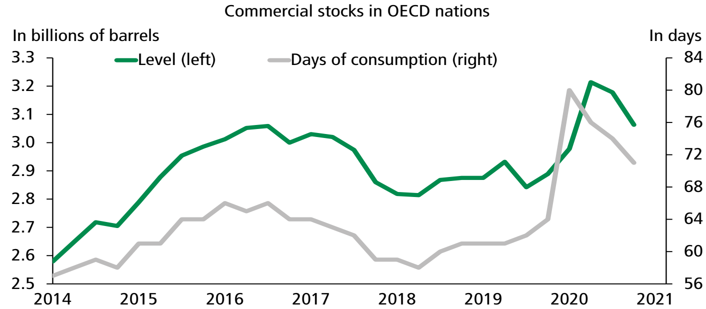
Sources: International Energy Agency and Desjardins, Economic Studies

GRAPH 5
The rise by oil prices accelerated at the start of the year



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

GRAPH 6
Global oil stocks remain high



OECD: Organisation for Economic Co-operation and Development
Sources: International Energy Agency and Desjardins, Economic Studies

However, the Canadian oil industry's production potential could be limited until the new pipelines come on line, scheduled for the end of 2021 and end of 2022.

U.S. crude production fell 30% in response to the harsh weather battering the southern United States. Despite this temporary negative shock, the U.S. supply, which is being stimulated by high prices and market optimism, could increase this year. U.S. producers may opt to be cautious with their increases until their commercial reserves decline to more normal levels (graph 6). As for the Organization of Petroleum Exporting Countries and its allies (OPEC+), their production level is holding up, despite Saudi Arabia's 1-mbd cut outside the production agreement for February and March. OPEC+ has consistently respected its production agreements and refused to bring supply up too quickly, which reassured the markets early in the year and fuelled price growth. Like the United States, OPEC+ could gradually increase output to target oil demand and keep from building substantial inventories.

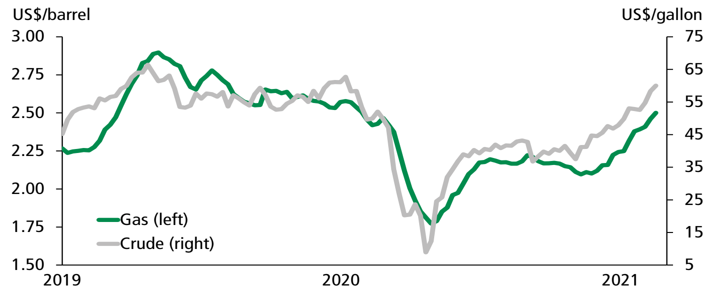
GASOLINE

Like crude oil, gas prices benefited from market optimism and demand growth, rising 13% since last September (graph 7). The snowstorm battering the southern United States could limit supply and put upside pressure on prices. The fundamentals are pointing toward a potential rise by gas prices in the near term.

NATURAL GAS

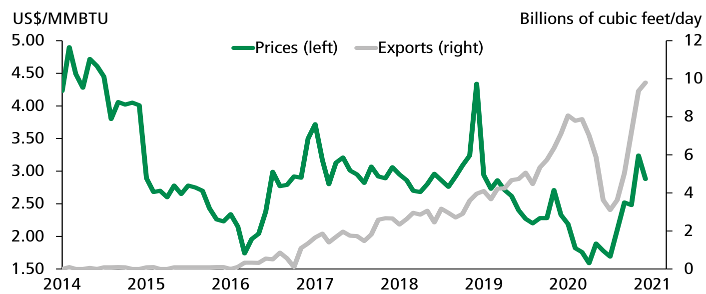
The cold weather and demand from Asian markets supported natural gas prices, taking them over the US$3/MMBTU mark last Tuesday. Natural gas exports have more than doubled from July to December 2020 to meet Asia's energy needs (graph 8). The price could go up further in the near term due to the upside pressures generated by the strong demand and the U.S. industry's relatively low output, caused by the recent weather.

GRAPH 7
In the United States, gas prices are following crude's rise



Sources: Datastream and Desjardins, Economic Studies

GRAPH 8
Surge in U.S. natural gas exports



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

Base Metals

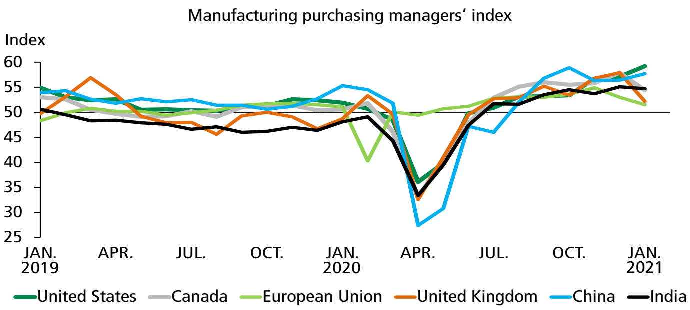
Industrial Metals Start the Year Strong

FORECASTS

Despite the slowing demand from the leading consumer of base metals, China, the LME (London Metal Exchange) index continued its sustained growth as it reached 3,900 in February 2021. The economic outlooks remain favourable: the reopening of advanced economies in the coming months and post-pandemic economic stimulus plans will support the industrial metals market in 2021. The gains could be subdued if vaccination campaigns lag or the economic recovery is weaker than anticipated. Global demand for base metals is expected to increase in 2021, putting the LME index at an annual average of 4,000.

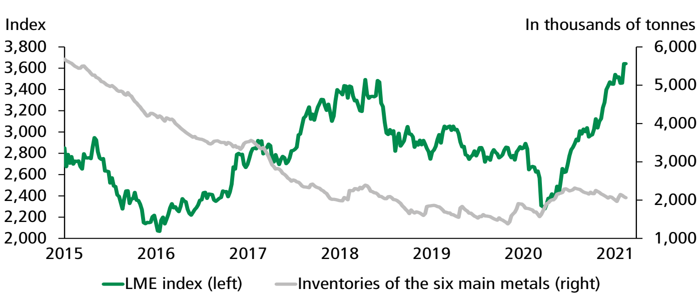
To cope with the pandemic's economic and financial fallout, China rolled out a substantial program to invest in infrastructure and support the industrial sector. Following a short contraction period, China's industrial production rebounded in response to foreign demand from countries that were locked down in 2020 (graph 9). This V-shaped recovery resulted in a surge in Chinese demand for base metals, and price appreciation. At a time when the global economy was sluggish, the LME index, buoyed by the Chinese recovery, posted 57% growth from mid-March to the start of January 2021 (graph 10). Although Chinese demand can be expected to consolidate somewhat due to the growth carryover and Chinese New Year, the economic outlooks favour an increase in global demand in 2021 (graph 11). In the rest of the world, industrial production continues to rise; several countries, like the United States and members of the European Union, are announcing infrastructure-rich post-pandemic economic stimulus plans in the coming months.

GRAPH 9
The manufacturing sector is expanding, despite the second wave of COVID-19



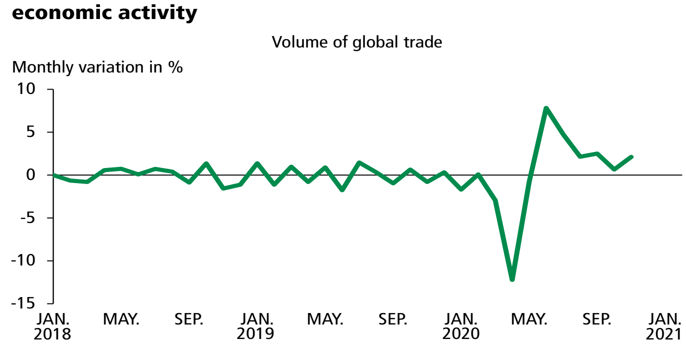
Sources: Datastream and Desjardins, Economic Studies

GRAPH 10
Strong global demand drives base metals prices up



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

GRAPH 11
Growth in global trade is another sign of more vigorous economic activity



Sources: CPB - Netherlands Bureau for Economic Policy Analysis and Desjardins, Economic Studies

ALUMINIUM

Although the market surpluses and low prices had raised concerns about smelter profitability in the pass, aluminium prices rose more than 10% in 2020, reassuring producers (graph 12 on page 5). As with several other base metals, Chinese demand was the main factor driving price growth. It will be hard to repeat 2020's gains this year, given the supply's capacity to expand. The high price will encourage smelters to increase production, and slowing Chinese demand could curb potential gains in the aluminium market. All in all, the resumption of manufacturing and automotive production, and the improvement in the economic situation point to a favourable environment for aluminium in 2021.

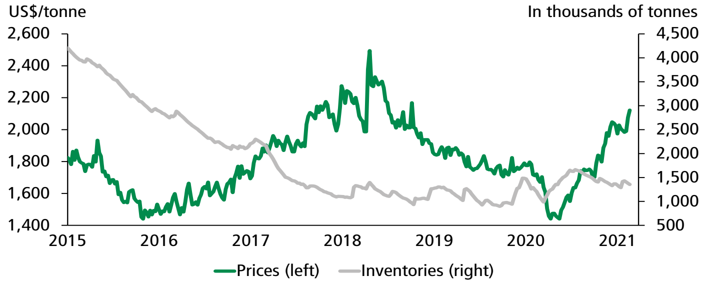
COPPER

Copper prices benefited from President Joe Biden's announcement of U.S. fiscal stimulus and the optimism in the industrial metals market, jumping US$450 in less than a month, a 9-year high (graph 13). As electrification to combat climate change should support demand for several years, the supply could remain limited. Underinvestment in developing new mines in recent years puts the copper market in a deficit situation until new mines come on line in 2024. Low inventories and growing demand indicate an environment propitious to rising copper prices over the short and medium term.

NICKEL

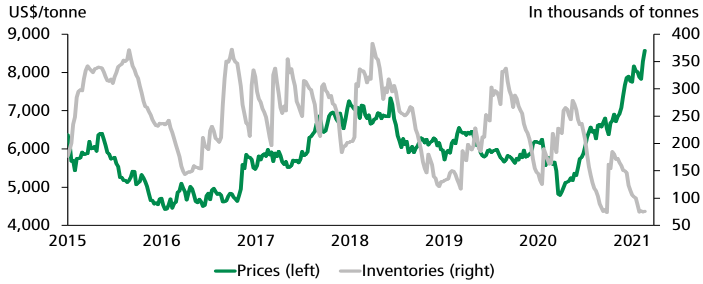
Nickel prices are currently sitting at around US$18,000 per metric tonne (graph 14). As with other industrial metals, accelerating economic activity as the global economy reopens and more intense use of this metal in industrial production suggest a favourable outlook for demand growth. Its increasing use comes from the electrification of transportation, since nickel is needed to produce batteries. Despite market conditions favorable to an appreciation of the nickel price, a period of consolidation could be expected due to its very high level.

GRAPH 12
Aluminium prices and inventories



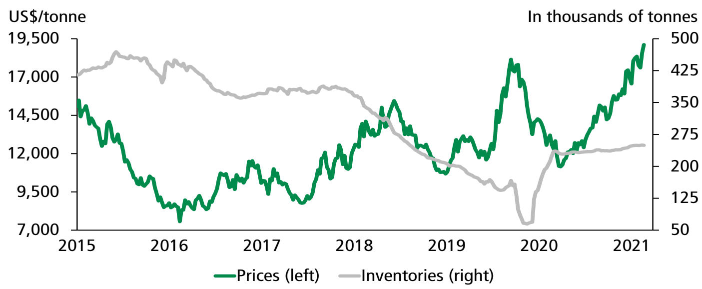
Sources: Datastream and Desjardins, Economic Studies

GRAPH 13
Copper prices and inventories



Sources: Datastream and Desjardins, Economic Studies

GRAPH 14
Nickel prices and inventories



Sources: Datastream and Desjardins, Economic Studies

Precious Metals

Gold Fell at the Start of the Year

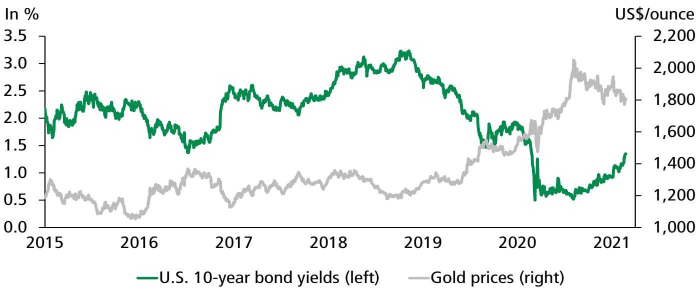
FORECASTS

The rise by bond yields and excellent financial market performance have been hurting gold prices since mid-August 2020. Although the Federal Reserve should maintain its accommodative monetary policy, we expect gold's price per ounce to edge up in 2021, while bond yields should keep going up. We put the average annual price of gold at around US$1,790 an ounce.

GOLD & SILVER

Gold prices increased about 25% in 2020, buoyed by the uncertainty surrounding the pandemic and accommodative monetary policies from central banks. Gold's performance was more disappointing at the start of 2021; stock market gains and the recent rise in bond yields took it down a few notches from US$1,897 to US$1,808 per ounce (graph 15). Although our scenario includes a drop in gold prices, growing inflation expectations and central bank support policies should allow it to stay relatively high. Silver also did well in 2020, rising 46%; unlike gold, it did not lose value early on, with its price at around US$27 (graph 16). Silver has benefited from the recent stock market speculation, which favoured it over gold.

GRAPH 15
Low interest rates should continue to benefit gold

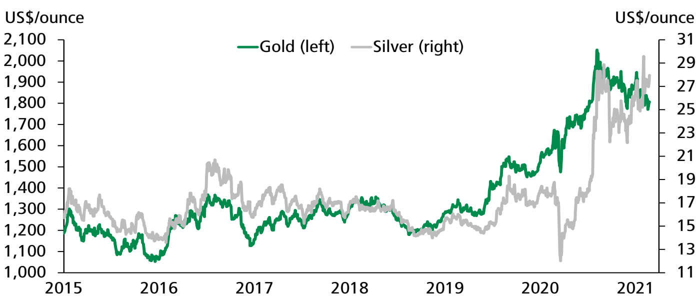


Sources: Datastream and Desjardins, Economic Studies

PLATINUM & PALLADIUM

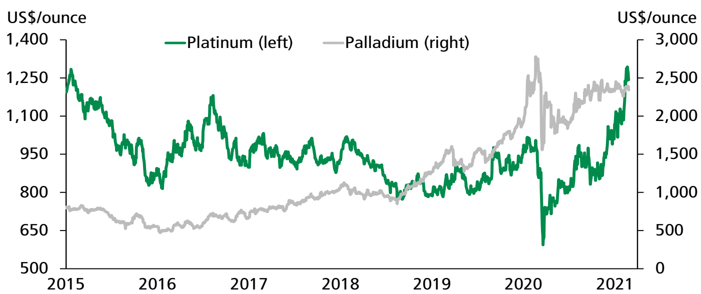
Platinum prices have been trending up since March 2020, hitting levels last seen in 2015, at about US$1,200 an ounce. Platinum's price could keep rising as demand from the auto industry is increasingly steadily; the metal is used in catalytic converters for gas-powered vehicles. Palladium prices are having a hard time hanging onto their gains. Prices recently stabilized at around US$2,400 an ounce (graph 17). Given the possibility of using palladium rather than platinum in catalytic converters, the economic environment could be favorable to both metals in 2021.

GRAPH 16
Gold and silver prices



Sources: Datastream and Desjardins, Economic Studies

GRAPH 17
Platinum and palladium prices



Sources: Datastream and Desjardins, Economic Studies

Other Commodities

Pressing Demand Boosts Forestry and Agriculture Prices

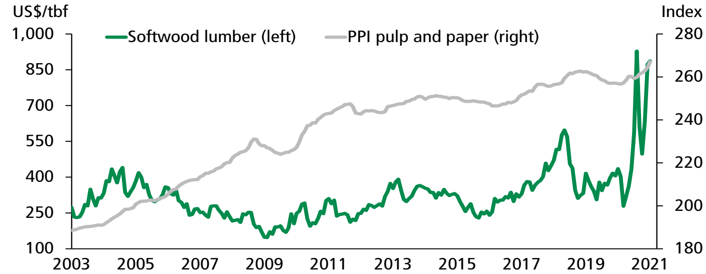
FOREST PRODUCTS

Pulp and paper prices have held up in recent months. The underlying trends are here to stay: a drop in interest in graphic papers (newspapers, magazines, printing, and writing) and an increase in personal use paper. Little movement is anticipated in the near future. The focus is on lumber and panels. Recently, prices caught fire again, returning to the peaks seen at the end of last summer (graph 18). Pressure from the construction sector is not letting up in North America. The very low interest rates are making the housing market accessible, and demand is up for new construction, particularly single-family homes, which take more wood. Moreover, renovation is going strong, as the COVID-19 pandemic forced people back into their homes, where they identified repair and extension needs. Sales of existing homes also drove the purchase of materials to adapt spaces to the new occupants' needs. **Prices have started to climb again at a time of year when they are usually sliding, which signals strong demand. Moreover, they do not seem poised to flag. The frenzy cannot be solely due to the fact that some sites have been moved up** (graph 19). **The outlooks for a resurgence by the economy and employment in 2021 will stimulate the purchase of materials and keep pressure on prices through much of the year.**

AGRICULTURAL COMMODITIES

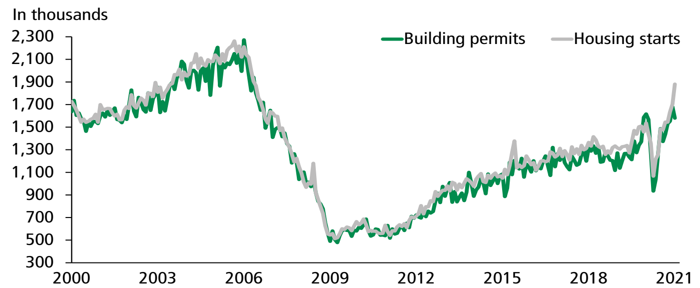
Corn, soybean, and wheat prices have gone up substantially since August (graph 20). China's heavy imports have spurred prices for cereals and oilseeds. A few pullbacks have been noted more recently, but prices are not collapsing. For corn, global stocks are below the average for the last five years, which is keeping some pressure on prices. Soybeans face the same dynamic for prices and stocks. As for wheat, the global stocks are not a worry, but Russia, a major producer, wants to curb exports by levying taxes, which could limit the global supply and support current prices. **Global demand for cereals and oilseeds remains strong, auguring sustained prices for the coming year. U.S. producers' seeding intentions will be published at the end of March and could disrupt these projections somewhat.**

GRAPH 18
Forest product prices



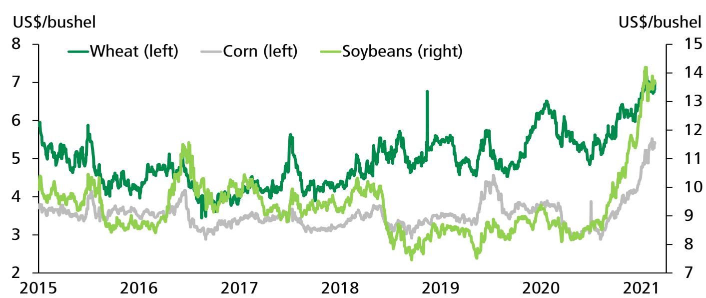
tbf: thousand board feet
Sources: U.S. Bureau of Labor Statistics, Datastream and Desjardins, Economic Studies

GRAPH 19
The level of building permits suggests that housing starts will remain high in the United States



Sources: U.S. Census Bureau and Desjardins, Economic Studies

GRAPH 20
Cereal prices



Sources: Datastream and Desjardins, Economic Studies

TABLE 1
Commodities

	SPOT PRICE	VARIATION (%)				LAST 52 WEEKS		
	Dec. 31	-1 month	-3 months	-6 months	-1 year	High	Average	Low
Index								
Reuter-CRB (CCI)	506.5	8.8	15.9	24.9	26.3	506.5	401.4	317.5
Reuters/Jefferies CRB	195.1	12.9	22.1	29.0	14.4	195.1	148.7	106.3
Bloomberg Commodity Index	87.6	10.7	17.2	22.2	16.9	87.6	70.7	59.5
Bank of Canada	509.9	8.0	22.9	23.6	28.7	509.9	387.5	221.7
Energy								
Brent oil (US$/barrel)	67.2	20.8	40.1	48.7	20.5	67.2	43.1	16.5
WTI oil (US$/barrel)	63.2	20.9	41.2	48.8	23.1	63.2	39.4	-37.6
Gasoline (US$/gallon)	2.63	10.7	25.3	20.7	6.8	2.63	2.16	1.77
Natural gas (US$/MMBTU)	2.85	16.7	2.8	13.6	56.2	3.35	2.25	1.48
Base metals								
LME index	3,986	13.4	21.3	35.0	51.8	3,986	2,936	2,232
Aluminium (US$/tonne)	2,172	8.8	10.2	25.5	29.6	2,172	1,748	1,426
Copper (US$/tonne)	9,340	16.8	28.3	43.0	64.9	9,340	6,516	4,625
Nickel (US$/tonne)	19,661	7.9	21.4	32.1	59.3	19,661	14,528	10,806
Zinc (US$/tonne)	2,834	5.2	3.3	17.1	39.8	2,884	2,335	1,803
Precious metals								
Gold (US$/ounce)	1,795	-3.2	-0.6	-7.1	7.2	2,053	1,811	1,475
Silver (US$/ounce)	27.7	9.6	19.8	3.2	47.8	29.6	21.8	12.0
Platinum (US$/ounce)	1,242	13.6	32.7	33.5	28.8	1,294	908	593
Palladium (US$/ounce)	2,339	-0.7	0.4	6.6	-12.2	2,755	2,197	1,557
Other commodities								
Lumber (US$/tbf)	1,009	26.8	68.0	25.0	127.7	1,022	586	263
Wheat (US$/bushel)	6.80	7.1	11.3	30.5	26.9	6.80	5.64	4.74
Corn (US$/bushel)	5.47	12.1	31.5	71.5	48.2	5.53	3.73	2.87
Soybean (US$/bushel)	14.13	8.5	19.6	58.4	63.5	14.20	10.08	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	2019	2020	2021f	2022f
WTI oil (US$/barrel)	57	39	Target: 60 (range: 45 to 70)	Target: 63 (range: 40 to 80)
Natural gas Henry Hub (US$/MMBTU)	2.53	2.14	Target: 2.70 (range: 2.40 to 3.20)	Target: 3.00 (range: 2.10 to 3.50)
Gold (US$/ounce)	1,393	1,771	Target: 1,790 (range: 1,500 to 2,100)	Target: 1,665 (range: 1,400 to 2,000)
LME index—base metals	2,854	2,814	Target: 4,020 (range: 3,400 to 4,400)	Target: 3,850 (range: 3,150 to 4,550)

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