COMMODITY TRENDS

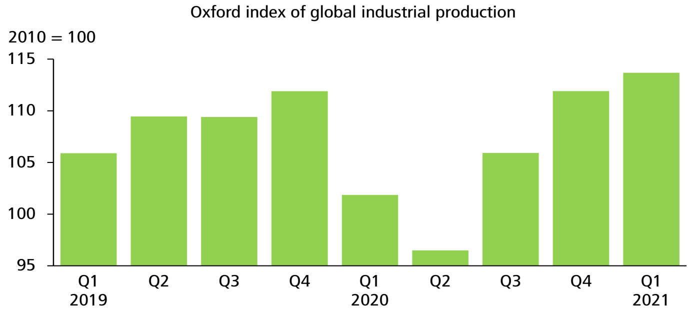
The Price Uptrend Continues

While the vaccination campaign is gaining steam around the world, and the virus's spread seems under control, except in a few countries like India, main economic indicators are performing well, such as global industrial production which surpassed its pre-pandemic level in the first quarter (graph 1). The total Bloomberg Commodity index has appreciated 17% since January 2021 (graph 2), mainly thanks to gains made by cereals, precious metals and energy. However, risks inherent to the pandemic persist and could harm economic outlooks in the event of a low vaccine's effectiveness against some variants or a new wave of COVID-19. Conversely, populations in advanced economies reaching a certain level of immunity thanks to speedy vaccination campaigns could increase economic growth forecasts. The pandemic's evolution is therefore still the main risk factor that could affect our commodity scenarios.

The Organization of Petroleum Exporting Countries and its partners (OPEC+) have stringently respected their output agreements, allowing global oil stocks to fall and return to more normal levels. Demand growth and sound supply targeting have therefore put upside pressure on prices per barrel. Although prices this high pay off for producers, they are also an incentive for countries like Russia and the United States to boost oil production. The potential for oil prices to increase further thus seems limited.

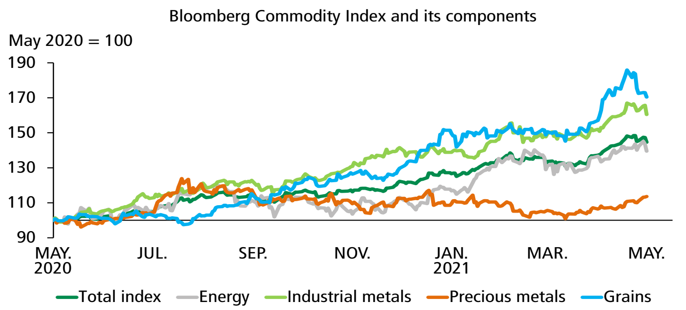
In terms of forest products, lumber prices continue to topple records. Until very recently, they were rising under huge pressure from North American demand. Both renovation and construction are going strong, and sawmills can't keep up with the demand. For now, it is hard to predict when the real estate market will flag, but its current frenzy can't last forever.

GRAPH 1
Industrial production exceeds its pre-pandemic level



Sources: Oxford Economics, Datastream and Desjardins, Economic Studies

GRAPH 2
Commodity prices continued to rise



Sources: Datastream and Desjardins, Economic Studies

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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.

Energy

High Oil Prices Stimulate Supply

FORECASTS

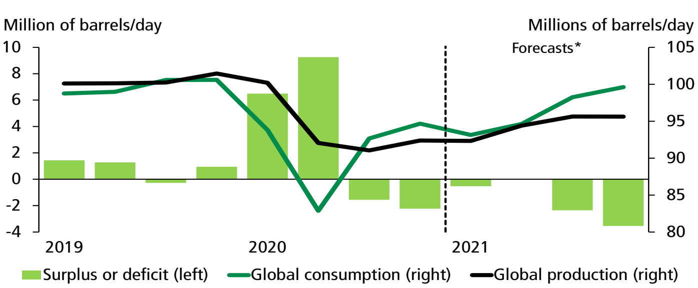
The improving economic outlook and growth in demand for oil should continue as more and more countries lift their lockdowns in the second half of 2021. Oil stocks return to more normal levels should encourage producers to turn on the taps, but they may remain cautious to avoid throwing the market out of equilibrium. The Organization of Petroleum Exporting Countries and its partners (OPEC+) is still signalling its intention to keep prices per barrel stable to maintain investor and consumer confidence. Therefore, we estimate WTI (West Texas Intermediate) price to be around US$65 per barrel at the end of the year. However, an overly strong response from the supply side or an over-lasting pandemic could put downside pressure on prices. For natural gas, international demand and a limited supply are keeping upward pressure on prices. Our scenario puts the year-end price for natural gas above the US$3.00/MMBTU (Million British Thermal Units) mark, with an annual average of US$2.82/MMBTU.

OIL

Although restrictive public health measures were tightened over the winter in response to the surging virus, the global oil demand proved resilient (graph 3). The International Energy Agency (IEA) expects demand growth to accelerate from the second to third quarters, gaining 3.6 mbd (million barrels per day) due to the gradual lifting of lockdowns. This demand growth is occurring as oil stocks decline from their peak of 3.2 billion barrels at the start of the pandemic to 2.9 billion barrels in the first quarter of 2021 (graph 4). The return of oil stocks to more normal levels and prospects of stronger demand are encouraging producers to increase their output. At its meeting on June 1, OPEC+ proved patient and decided to maintain the planned 2.1 mbd increase in production from April to July. Although the supply has increased, the gap between supply and demand will widen in the coming quarters under the current OPEC+ agreement. Member nations could revise production upward at the July 1 meeting to keep pace with demand. However, an inadequate response from the supply or a stronger than expected economic recovery could put upside or downside pressure on prices.

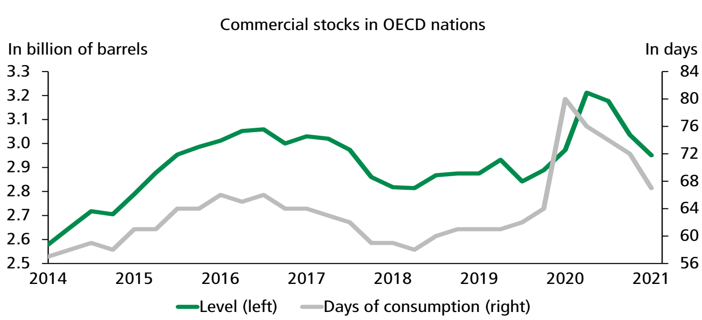
As the spread between WCS (Western Canadian Select) and WTI has widened a little in recent weeks, the Canadian price per barrel has done very well since the start of the year, posting a 56% gain (graph 5 on page 3). Canadian producers have also performed well in recent months according to estimates from the Canada Energy Regulator, the country's output closed in on record levels in December 2020 and January 2021, at 4.9 mbd and 4.8 mbd respectively. Production then declined somewhat, according to preliminary estimates, due to equipment maintenance that should soon be completed. The Enbridge Line 5 pipeline remains a risk factor for the industry, since it represents 66% of the crude supply for Quebec and 50% of the oil used by Ontario refineries. Although a shutdown has been avoided for now, the dispute between Enbridge and the Governor of Michigan continues. The federal government has signalled it is ready to intervene if the situation requires it. A pipeline shutdown could limit Alberta's producers' ability to transport crude, which could weaken WCS and Canadian oil production until alternative means of transportation can be deployed.

GRAPH 3
Demand growth is expected to accelerate in the third quarter



* International Energy Agency (IEA) outlook assuming members' compliance with the June 2021 production agreement.
Sources: IEA and Desjardins, Economic Studies

GRAPH 4
The drop in stocks reassures the market



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

U.S. producers are sticking with their commitment to be cautious about increasing output. Since the production cut in response to collapsing demand at the start of the pandemic, U.S. production has, on average, held at around 10.8 mbd, which is 1.5 mbd below the average output of 2019. However, WTI prices, which are fluctuating around US$69 per barrel, the drop in stocks and favourable economic outlooks all point to a gradual increase in U.S. production. Also, keep an eye out for Iran's reaction, as it has the capacity to add 1 mbd to 2 mbd. Tehran and Washington are currently in negotiations over the 2015 nuclear accord, and the economic sanctions could be lifted if an agreement is reached. Iran's potential return to the international oil market could curb production gains by the United States and OPEC+ due to Iran's large stocks and production capacity.

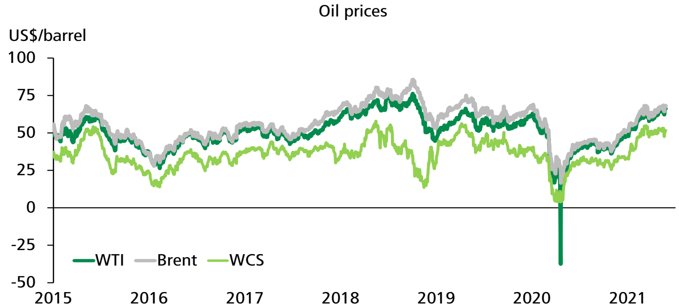
GASOLINE

Gasoline prices have been on a solid uptrend since the start of the year, rising 35% (graph 6). While demand for gasoline was rising, February's harsh weather and the temporary shutdown of the Colonial pipeline due to a cyberattack disrupted the supply, putting upward pressure on prices. To offset the limited production, gasoline retailers dug further into their reserves, which have declined by a substantial 28 million barrels since last February. The frenzy surrounding gasoline prices should ebb over the summer, as crude production increases gradually and U.S. refineries resume operations.

NATURAL GAS

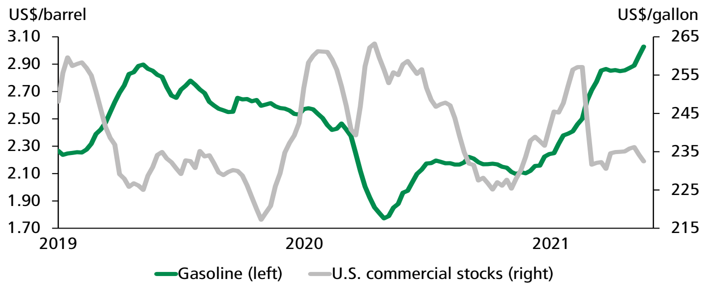
U.S. natural gas exports set a new record in March, hitting 10.5 billion cubic feet per day (graph 7). Buoyed by strong U.S. domestic demand and exports, the price has posted a solid 16% increase since January 2021. The milder spring weather should, however, allow prices to consolidate somewhat before energy needs start to rise again during summer. The increase in demand and more limited supply indicate an economic outlook favourable for natural gas prices to rise in 2021. However, the higher prices could lead to increased production at the end of the year and in 2022, according to the U.S. Energy Information Administration.

GRAPH 5
The rise by oil prices accelerated



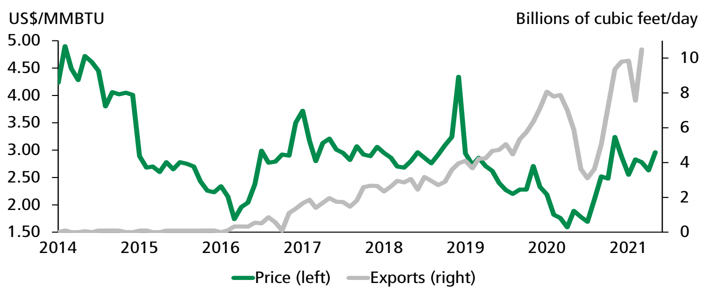
WTI: West Texas Intermediate; WCS: Western Canadian Select
Sources: Datastream, Bloomberg and Desjardins, Economic Studies

GRAPH 6
Major decline in commercial gasoline stocks in the United States



Sources: Datastream and Desjardins, Economic Studies

GRAPH 7
New record for U.S. natural gas exports



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

Base Metals

Several Metals Face Supply Limitations

FORECASTS

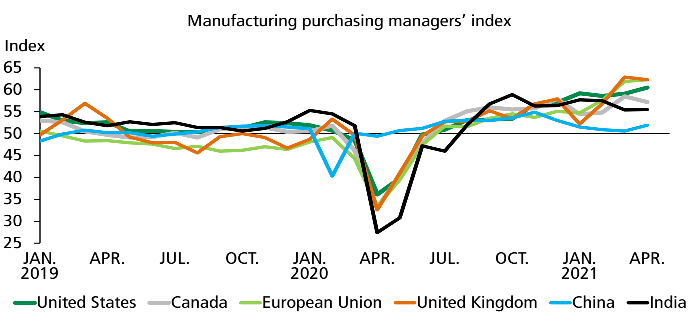
Prices of the main metals in the LME (London Metal Exchange) index have moved slightly higher than we expected in recent months. As the economic recovery continues, with advanced economies slowly reopening, Chinese demand for industrial metals remains strong and should stay that way until the end of 2021, pointing to favourable economic outlooks for the base metal markets. The recent surge in prices is, however, drawing the attention of a number of government institutions, some of them in China, due to the resulting inflationary pressures. Potential gains of the LME index could be curbed in the event of a reaction from the government of the world's most important consumer of metal, China. We are putting the LME index at an annual average of 4,080 in 2021.

While long-term economic outlooks are positive for the industrial metal market due to increasing utilization intensity, particularly in green technologies, over the short and medium range, demand and production of Chinese industrial metals will be the main factors influencing prices. China's economy continued to do well at the start of the year with an expanding manufacturing sector (graph 8), fuelling demand for base metals and putting upward pressure on prices. As China is by far the most important consumer and producer of base metals, a drop in its industrial production or infrastructure and construction spending could cool prices. China has also signalled it wants to stabilize industrial metal prices, saying it is ready to step in (in the event of malicious price inflation), to limit inflationary pressure from commodities. In the rest of the world, the industrial metal market is benefiting from the accelerating economic activity and solid growth in the volume of global exports (graph 9). The strong demand and limited supply for certain metals, like copper, have pushed the LME index up 18% since the beginning of the year (graph 10).

GRAPH 9
Strong global exports benefit the industrial metals market

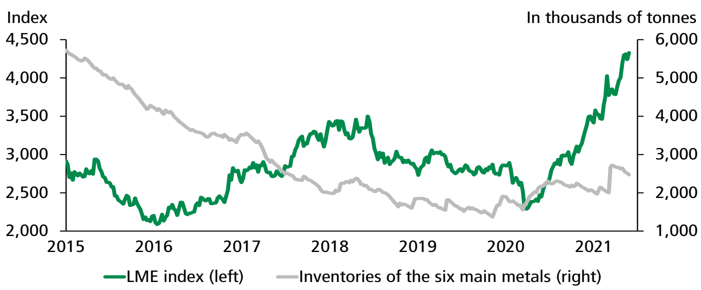
Sources: CPB - Netherlands Bureau for Economic Policy Analysis and Desjardins, Economic Studies

GRAPH 8
The expanding manufacturing sector stimulates demand for industrial metals



Sources: Datastream and Desjardins, Economic Studies

GRAPH 10
Limited supply of some metals puts upward pressure on prices

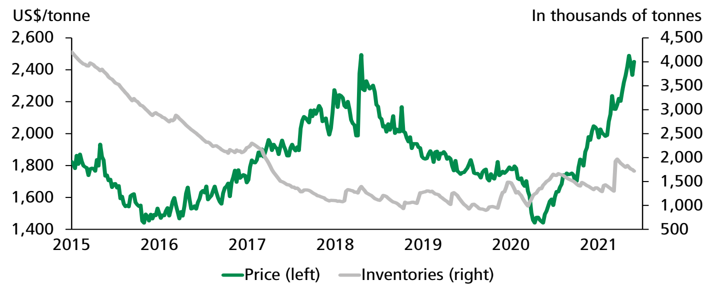


LME: London Metal Exchange
Sources: Datastream and Desjardins, Economic Studies

ALUMINIUM

Heavy Chinese aluminum imports supported the price of this metal, which has appreciated by 17% since January 2021 exceeding US$2,500 per tonne in early May (graph 11). As mentioned earlier, the major increases in aluminum prices have attracted the Chinese government's attention, which is starting to be concerned about inflationary pressure generated by increases in commodity prices. To combat rising prices, China's government curbed production restrictions, initially introduced to decrease pollution, leading to a record level of primary aluminum's production of 3,330 thousand metric tonnes in March. While potential gains in aluminum prices could be limited if the Chinese government intervenes further, fundamentals suggest the favourable economic backdrop to the aluminum market will persist.

GRAPH 11
Aluminum prices and inventories

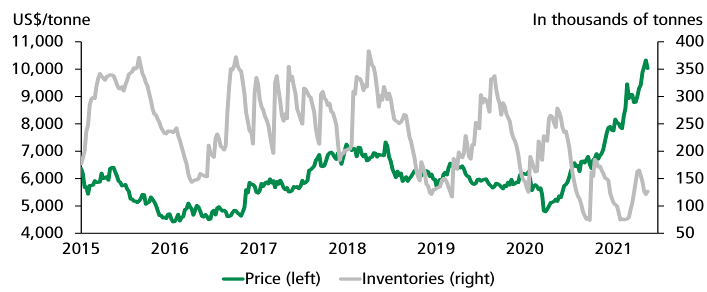


Sources: Datastream and Desjardins, Economic Studies

COPPER

Copper continues to perform well, rising about 14% since last March and setting a new record of US$10,433 a ton (graph 12). With the copper supply already hampered by insufficient investment in new mine developments in recent years, a labour strike at two of the most important Chilean mines, Escondida and Spence, could further limit global copper production and put upside pressure on prices in the near term. Copper could then lose a little altitude, given its high and fairly unsustainable price. However, the economic environment will remain favourable to copper due to its growing utilization in various spheres of economic activity, such as renewable energy, electric vehicles, and construction.

GRAPH 12
Copper prices and inventories

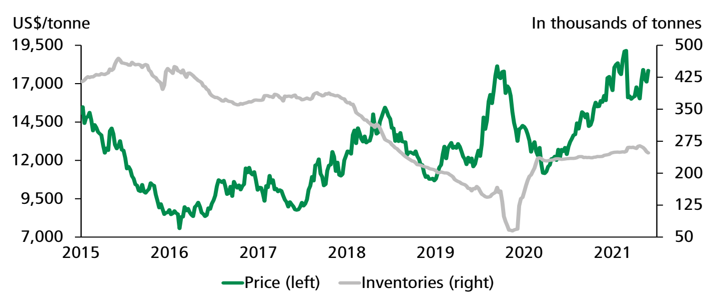


Sources: Datastream and Desjardins, Economic Studies

NICKEL

Nickel has started to trend up again following March's tumble, triggered by Tsingshan Holding Group Co announcing a potentially revolutionary project to expand the company's production capacity, which could substantially increase global nickel supply. As the metal's price growth partially stems from limited supply combined with strong demand growth, particularly in the electric vehicle sector, investors re-evaluated their price expectations, causing the price to drop more than 16% (graph 13). Despite that, nickel should be able to partially consolidate its 25% gain since the start of 2020 due to economic outlooks more favourable to higher prices.

GRAPH 13
Nickel prices and inventories



Sources: Datastream and Desjardins, Economic Studies

Precious Metals

A Rebound in Gold Erases Its Poor Performance of the Start of the Year

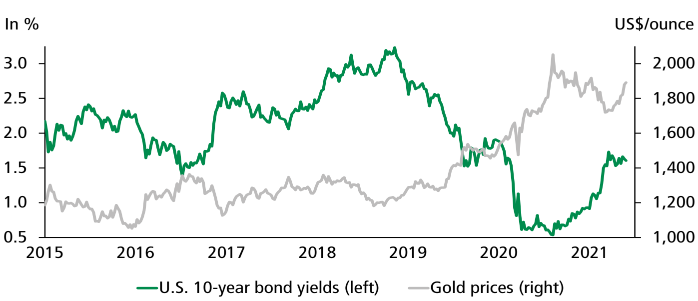
FORECASTS

We expect the price of gold per ounce to slide slightly in 2021, as bond yields should continue rising and the economic situation slowly improves. However, inflationary pressures or an ongoing pandemic could put upside pressure on the price. The price of gold could therefore maintain a higher price level in 2021. We put its annual average at around US$1,785 per ounce.

GOLD & SILVER

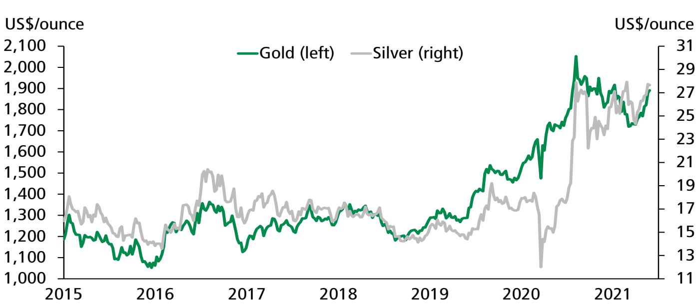
Gold's initial drop at the start of the year was erased by the recent price rebound. The gold's return to prices in the neighbourhood of US$1,900 per ounce (graph 14) is due to rising inflation expectations, drops in bond yields and the U.S. dollar, and the abrupt drop in prices for some cryptocurrencies, like Bitcoin. Although its good upward momentum should allow it to gain a little more altitude in the near term, the economic outlooks are still favourable for prices to gradually depreciate in the coming months. The gold price should, however, remain relatively high. Like gold, silver prices have rebounded to where they were at the start of the year, around US$27 per ounce (graph 15). As the improved economic situation puts downside pressure on its price, the same inflationary expectations influencing the gold price are putting upside pressures on the silver's price per ounce. Demand for the metal is also benefiting from the increased use of silver in energy technologies. The silver price could therefore remain relatively high over the short term.

GRAPH 14
The bond yield level benefits gold



Sources: Datastream and Desjardins, Economic Studies

GRAPH 15
Gold and silver prices

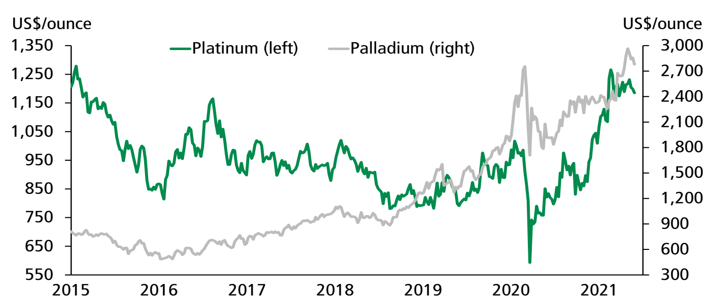


Sources: Datastream and Desjardins, Economic Studies

PLATINUM & PALLADIUM

After hitting a 6-year peak of US$1,300 per ounce in February, platinum prices has edged down, but remain at historically high levels. Palladium, for its part, jumped a substantial 30% from early February to the end of March (graph 16) due to disruptions in Russian palladium production as supply was already limited. The demand from the auto industry should allow platinum and palladium to maintain their higher prices until the supply adjusts.

GRAPH 16
Platinum and palladium prices



Sources: Datastream and Desjardins, Economic Studies

Other Commodities

Forest Product Prices Surge While Cereals Retreat

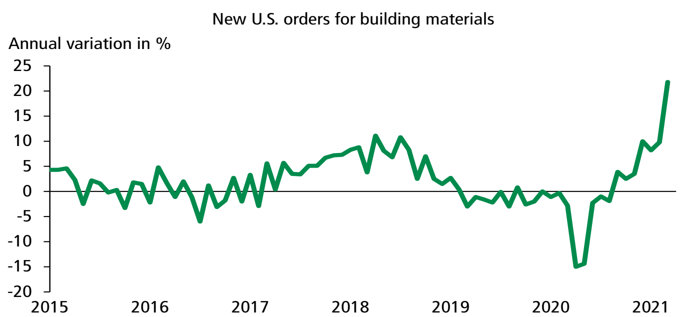
FOREST PRODUCTS

The demand for lumber has skyrocketed. New construction and renovation are going flat out across the continent (graph 17). The boom is explained by very low interest rates, telework and stay-at-home orders, the resulting need for more space, a relative scarcity of homes for sale, and the greater spending capacity of some households, to name a few factors. At the end of May, lumber prices had more than tripled from their level at the same time in 2020. This frenetic rise has been going on for over a year. In terms of supply, inventories have been cleaned out since the pandemic began. Sawmills are already running at full capacity. We can't look to new facilities to pick up the pace. **Lumber prices this high combined with the increases in other materials (gypsum, panels, steel) will slow demand sooner or later, and lumber prices are therefore expected to decline. For now, it is hard to predict when the real estate market will flag, but its current frenzy can't last forever.** Pulp prices are also increasing. Additional pressure is coming from the heavy demand for sanitary products and wrapping papers, particularly for merchandise delivered to homes. Prices are rising for papers whose production costs are also increasing (pulp, energy, chemicals). There again, the price euphoria should wane, but not in the immediate future (graph 18).

AGRICULTURAL COMMODITIES

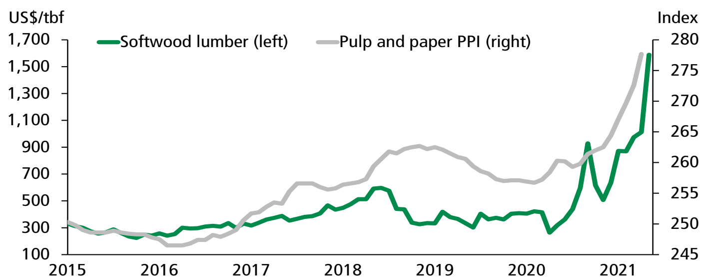
After rising for several quarters, the increase in cereal and oilseed prices ended at the start of May. The escalation was powered by pressing demand from China, among other things. Speculator profit-taking, conditions conducive to sowing earlier than usual in the United States, and the condition of crops and harvests in other continents (less for corn) helped push down prices for corn, soybeans and wheat (graph 19). Although they have come down, they are still high compared with where they were at the end of May 2020 (about +90%, +85% and +25%, respectively). **The next few weeks will be critical. In terms of supply, the level of U.S. stocks and the weather could change the situation and shatter optimism about the ability to meet needs (human and animal feed and energy), which would send prices rising again. Anything is still possible.**

GRAPH 17
The need for building materials is growing



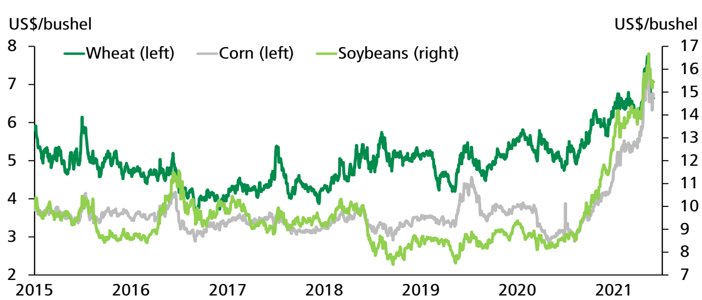
Sources: Datastream and Desjardins, Economic Studies

GRAPH 18
Forest product prices



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

GRAPH 19
Cereal prices



Sources: Datastream and Desjardins, Economic Studies

TABLE 1
Commodities

	SPOT PRICE	VARIATION (%)				LAST 52 WEEKS		
	June 4	-1 month	-3 months	-6 months	-1 year	High	Average	Low
Index								
Reuters/Jefferies CRB	210.3	3.9	10.2	31.5	54.9	210.3	166.5	134.3
Bloomberg Commodity Index	94.7	3.3	11.7	27.4	47.1	94.7	77.3	63.2
Bank of Canada	577.8	4.7	10.5	35.8	64.3	577.8	449.9	351.6
Energy								
Brent oil (US$/barrel)	72.0	4.3	7.7	45.9	79.5	72.0	52.4	37.5
WTI oil (US$/barrel)	69.6	6.0	9.1	50.5	86.1	69.6	49.4	35.6
Gasoline (US$/gallon)	3.03	4.7	11.7	42.8	53.3	3.03	2.39	1.97
Natural gas (US$/MMBTU)	3.10	4.4	12.8	20.3	70.0	3.35	2.53	1.48
Base metals								
LME index	4,257	0.6	12.8	24.4	67.8	4,402	3,379	2,537
Aluminium (US$/tonne)	2,445	0.6	13.5	20.4	58.2	2,530	1,965	1,545
Copper (US$/tonne)	9,940	-0.3	11.3	28.2	80.3	10,449	7,696	5,512
Nickel (US$/tonne)	17,993	2.0	11.8	10.0	41.6	19,661	15,897	12,395
Zinc (US$/tonne)	2,990	1.3	9.6	9.5	47.2	3,061	2,592	1,966
Precious metals								
Gold (US$/ounce)	1,894	6.6	10.2	3.3	10.6	2,053	1,844	1,681
Silver (US$/ounce)	27.4	2.0	5.4	13.0	54.2	29.6	24.7	17.1
Platinum (US$/ounce)	1,160	-7.1	-0.2	9.4	39.1	1,294	1,023	796
Palladium (US$/ounce)	2,840	-5.3	20.2	20.9	48.3	3,000	2,370	1,836
Other commodities								
Lumber (US$/tbf)	1,284	-20.2	30.9	89.2	259.5	1,686	827	353
Wheat (US$/bushel)	6.88	-6.6	5.8	21.3	31.3	7.74	6.02	4.74
Corn (US$/bushel)	6.91	-2.8	31.4	67.7	120.8	7.44	4.52	2.88
Soybean (US$/bushel)	15.96	2.6	13.2	38.4	86.9	16.69	11.84	8.46

CRB: Commodity Research Bureau; 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$/barrel)	57	39	Target: 64 (range: 55 to 70)	Target: 66 (range: 40 to 80)
Natural gas Henry Hub (US$/MMBTU)	2.53	2.13	Target: 2.80 (range: 2.50 to 3.20)	Target: 3.00 (range: 2.10 to 3.50)
Gold (US$/ounce)	1,393	1,771	Target: 1,785 (range: 1,550 to 2,050)	Target: 1,665 (range: 1,400 to 2,000)
LME index—base metals	2,854	2,810	Target: 4,080 (range: 3,600 to 4,400)	Target: 3,775 (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