

Commodity Price Gains Take a Breather Despite Generally Improving Macro Backdrop

SUMMARY

- Additional US fiscal stimulus has led us to revise our economic forecasts higher and adds to a generally supportive pricing backdrop; additional policy support could drive commodity prices even higher.
- A third pandemic wave—which has prompted fresh restrictions in some jurisdictions—presents downside risk and has already impacted some commodity prices.
- Precious metals continued to ease on the back of broadly improving economic conditions and US dollar appreciation.
- Industrial metals remain very well-supported, but saw momentum stall somewhat this month.
- A volatile month for crude included blockage of the Suez Canal and a Supreme Court decision.

RECOVERY'S MOMENTUM CONTINUES

We have once more revised our global economic growth forecasts higher, building on the significant increase outlined last month. That reflects additional fiscal stimulus announced in the US that brings the total included in our projections to 1.9 tn USD. Consequently, our latest forecasts assume that the global economy will witness its fastest pace of expansion in at least 40 years in 2021. Under our base case forecast, the US economy will record its strongest annual advance since 1984 in 2021, and climb beyond the level predicted before COVID-19 by next year. Such a surge would have important growth impacts for many countries, including Canada.

The third pandemic wave—believed to have begun in some countries (chart 1) and having prompted new restrictions in others—remains pertinent, but we believe that the balance of risks is tilted to the upside. Incoming data suggest that economic growth has been fairly resilient to second wave restrictions in a number of jurisdictions. Our projections assume economic multipliers below the historical norm for US stimulus plans, and President Biden intends to announce an ambitious infrastructure plan very shortly. To the extent that our predictions come to fruition, there is potential for accelerating inflationary pressures and earlier-than-indicated withdrawal of global monetary stimulus.

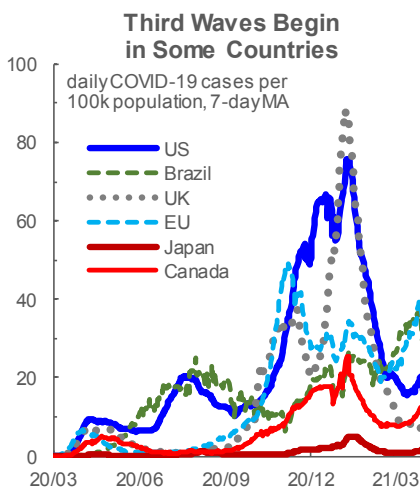
PRECIOUS METALS AGAIN TREND LOWER

Bullion's average close in March was just north of 1,720 USD/oz—about 90 USD/oz. lower than in the prior month and tracking the first quarterly decline since 2018. Some of the slide related to appreciation of the US dollar—sought out as a safe haven in response to a spike in US treasury yields. Going

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Chart 1



Sources: Scotiabank Economics, Bloomberg.

Scotiabank Commodity Price Index

	February 2021			(% change)		
	M/M	Y/Y	YTD			
All Commodity*	9.1	34.7	27.3			
Industrials	9.6	36.2	28.6			
Oil & Gas	22.2	37.4	20.0			
Metal & Minerals	0.5	21.7	20.2			
Forest Products	9.1	59.6	56.4			
Agriculture	6.6	28.0	21.3			
	January 2007 = 100					
	2021 2021					
	Feb	Jan	YTD avg			
All Commodity	141.4	129.7	135.5			
Industrials	138.4	126.3	132.3			
Oil & Gas	100.2	82.0	91.1			
Metal & Minerals	145.8	145.1	145.5			
Forest Products	227.1	208.1	217.6			
Agriculture	158.1	148.4	153.3			

* Weights: Oil & Gas (39.9%), Metal & Minerals (30.1%), Forest Products (14.7%), Agriculture (15.3%); Full technical note on page 6.

forward, inflationary fears related to President Biden’s stimulus package may engender new investor preference for gold as an inflation hedge.

Silver values have also been negatively impacted by a rising greenback and treasury yields. Prices for the metal have traded below 25 USD/oz in several recent sessions after consistently eclipsing the 27 USD/oz mark earlier this year. Unlike gold, however, silver has a wide range of industrial uses and is therefore poised to benefit so long as global construction and manufacturing activity gain as the global economic recovery progresses.

INDUSTRIAL METALS’ CLIMB STALLS

Though copper prices remain very well-supported, closing values of the red metal have fallen back somewhat since climbing north of 4.20 USD/lb in late February and early March. Strength in the US dollar and fears related to a third pandemic wave in Europe drove some of that retreat. Investors are also said to be weighing the possibility of demand-sapping tax hikes in the US, even with that country’s forthcoming infrastructure plan likely to offer a significant economic boost. From a fundamentals perspective, China—responsible for half of global copper consumption—is more important. We expect this week’s Chinese manufacturing PMI to show strong post-Lunar Holiday gains, and that industrial-sector-led growth in the Middle Kingdom to continue to support copper prices this year.

Like copper, iron ore’s price trajectory will depend in large part on the course of Chinese industrial activity, especially as it pertains to steel production. The release of Beijing’s latest Five-Year Plan—which called for reductions in carbon emissions intensity, of which steelmaking is a major source—caused some apprehension about the durability of the recent strength in iron ore values. While adaptation to climate targets will clearly be important for steel producers over the medium-term, we continue to anticipate that China’s stimulus measures will remain supportive of iron ore prices this year alongside reduced Brazilian output.

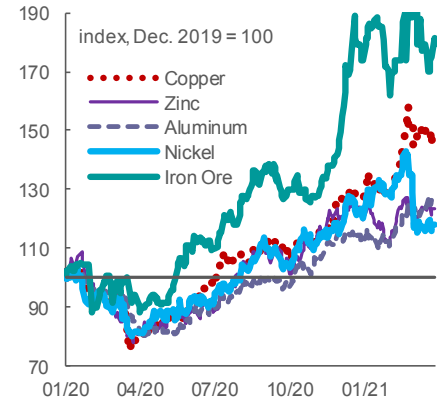
Nickel saw the steepest price contraction of the major industrial metals (chart 2) last month on the back of news that Chinese nickel and steel giant Tsingshan Holding Group would help boost supply of the metal for battery production. Alongside strong industrial sector activity, pricing had benefited from anxiety that output capacity would not be sufficient to meet the demand surge expected to come from widespread adoption of electric vehicles—batteries for which require nickel as a key component.

VOLATILE MONTH FOR CRUDE OIL

While WTI increased on average relative to February, its gains fell off towards the end of the month, and the key North American benchmark closed between 58 and 66 USD/bbl. A good deal of that volatility relates to uncertainty caused by the Ever Given container ship’s six-day blockage of the Suez Canal—through which about 10% of global seaborne crude is estimated to pass. The ship has been freed but backlogs and delivery delays are likely. However, before that incident, global crude values had already been under pressure as lockdowns in Europe to combat the third wave of the pandemic ignited fears of weaker fuel consumption. US oil stocks have also increased in recent weeks, in part due to lingering impacts from the cold spell that hammered Texas in February.

Chart 2

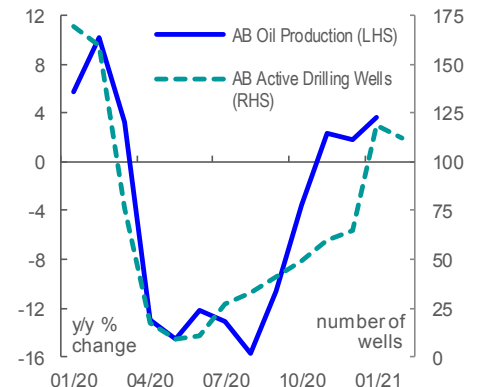
Industrial Metals Momentum Pauses



Sources: Scotiabank Economics, Bloomberg.

Chart 3

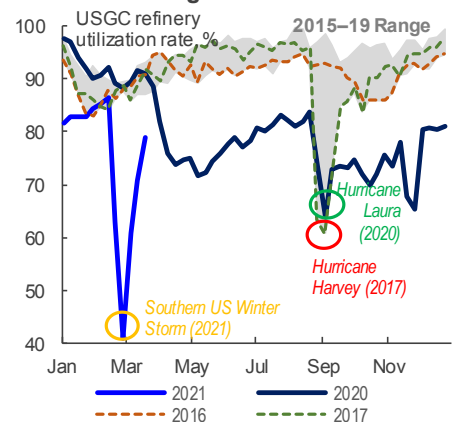
Oil Production, Drilling Continue to Rise



Sources: Scotiabank Economics, Alberta Energy Regulator, Canadian Association of Oilwell Drilling Contractors.

Chart 4

USGC Refinery Activity Still Recovering from Winter Storm



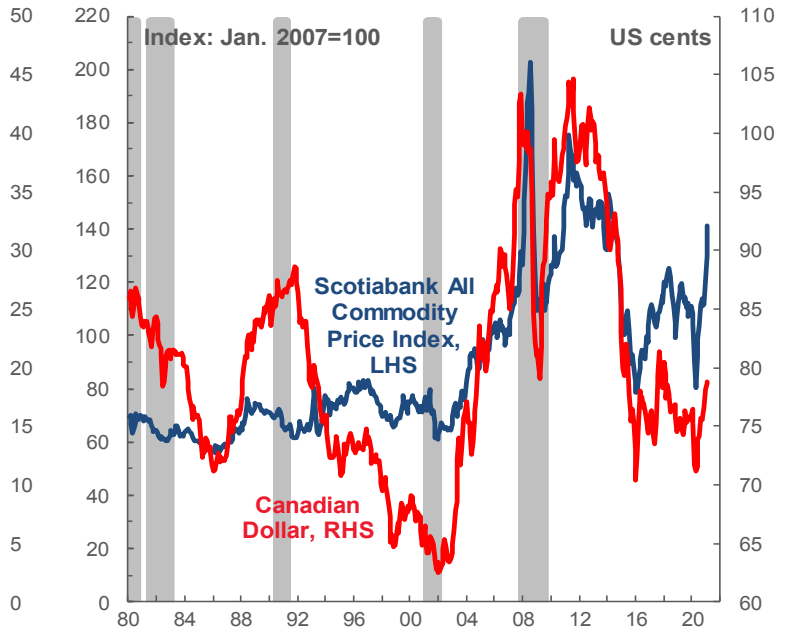
Sources: Scotiabank Economics, EIA.

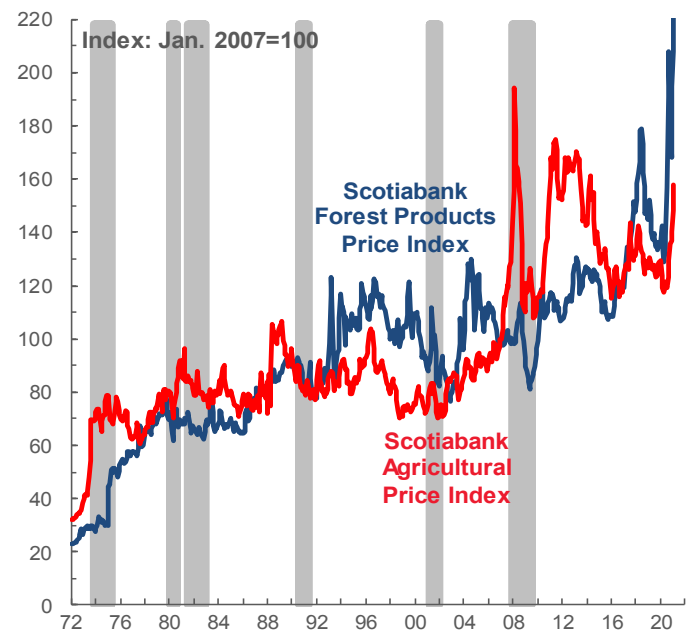
WCS largely followed WTI's lead this month, but conditions in the Western Canadian oil patch generally continue to improve. Crude production is accelerating, having increased versus year-earlier levels in each of the three months to January 2021 and returned to pre-pandemic levels; wells drilled are also trending generally higher (chart 3, p.2). Though limited pipeline capacity has prompted some shipment by rail, construction of the Line 3 conduit—needed for long-run supply-demand balance and stable WCS pricing—is progressing on schedule and expected to come into service later this year. Activity at USGC refineries—the marginal consumers of Western Canadian crude barrels—is improving but still well below seasonal levels following last month's Southern US storm (chart 4, p.2).

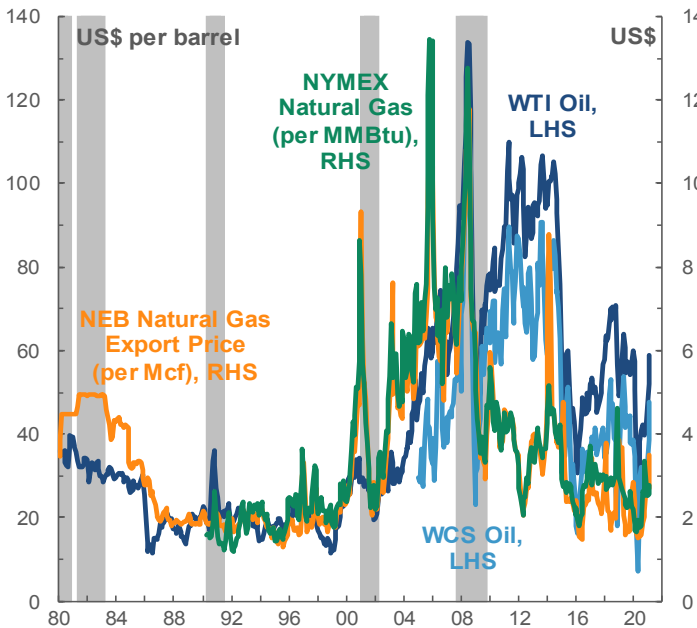
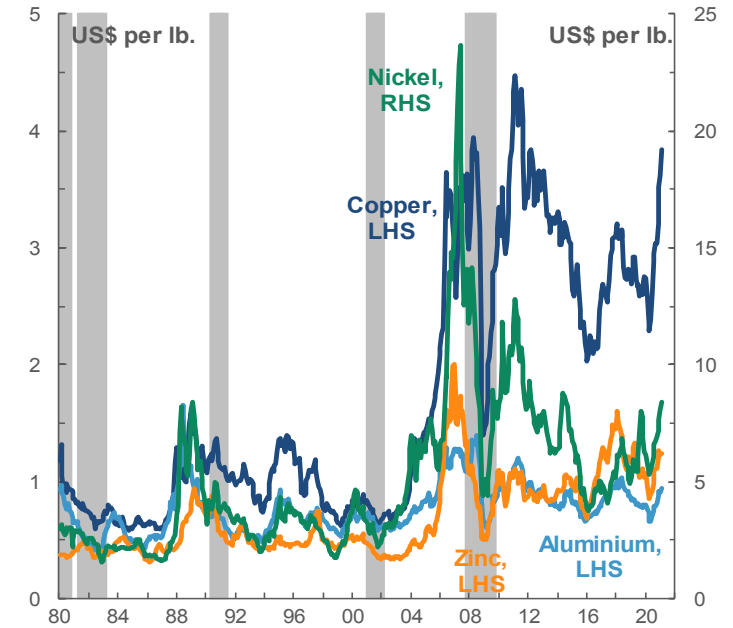
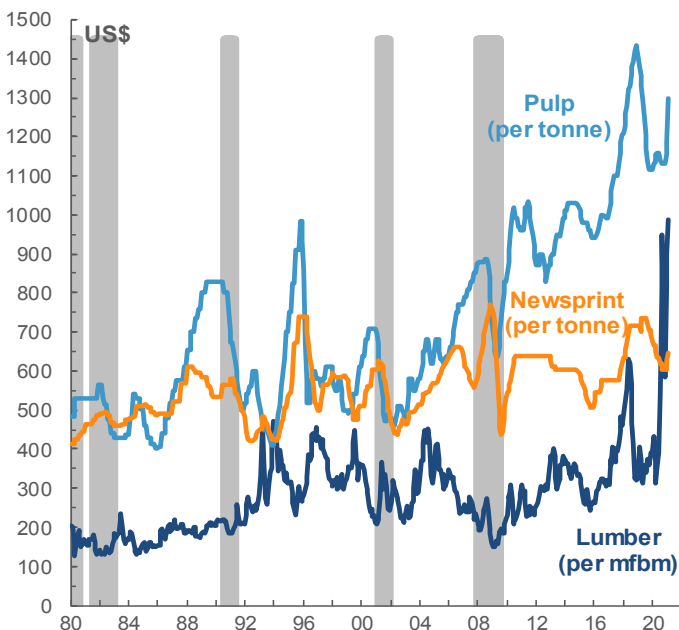
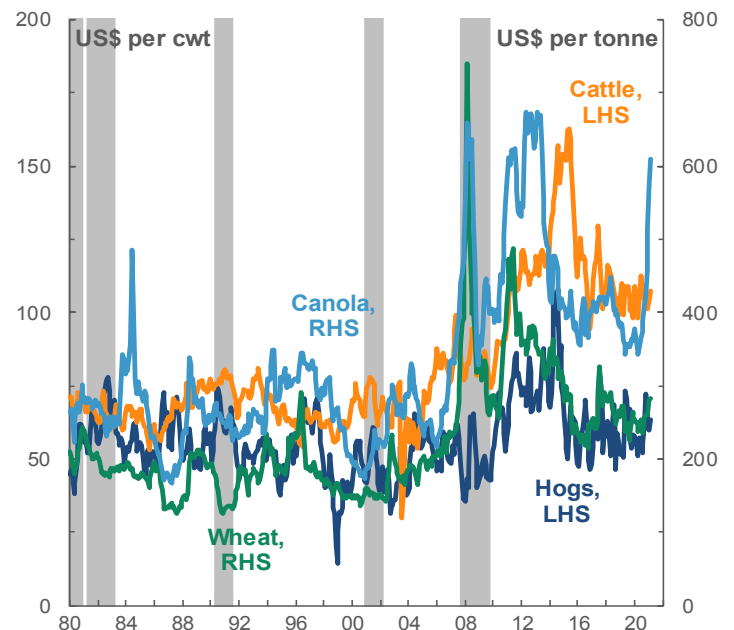
The Supreme Court of Canada's affirmation of the constitutionality of the Federal Carbon Tax is less optimistic for Western Canadian producers, though the decision and its effects were likely already expected in the market. The ruling brings to an end a years long legal battle between the Federal Government and some provinces. Broadly, we anticipate that higher carbon taxes will weigh on oil sands and conventional producers' bottom lines. Markets may see the ruling as supportive of renewables and of low carbon and zero-emission technologies.

Price Outlook		2010–2020			2020	2021F	2022F
		Low	Period Avg.	High			
Oil & Gas							
Crude Oils							
West Texas Intermediate	USD/bbl	-38	69	114	39	61	65
North Sea Brent Blend	USD/bbl	19	77	127	43	64	68
WCS - WTI Discount	USD/bbl	-50	-17	-3	-12	-14	-15
Natural Gas							
Nymex Henry Hub	USD/MMBtu	1.48	3.20	6.15	2.13	2.80	2.65
Metals & Minerals							
Base Metals							
Copper	USD/lb	1.96	3.04	4.60	2.80	3.40	3.50
Nickel	USD/lb	3.50	6.87	13.17	6.25	7.50	7.25
Zinc	USD/lb	0.66	1.03	1.64	1.03	1.20	1.15
Bulk Commodities							
Iron Ore	USD/t	39	101	194	110	115	85
Metallurgical Coal	USD/t	81	174	330	125	125	140
Precious Metals							
Gold	USD/toz	1,049	1,386	2,067	1,770	1,850	1,850

Scotiabank All Commodity Price Index

Canadian Dollar vs. Commodity Prices

Scotiabank Oil & Gas and Metal & Mineral Indices

Scotiabank Forest Products & Agricultural Indices


Oil & Gas Prices

Metals Prices

Forest Products Prices

Agricultural Prices


Technical Note
**Scotiabank Commodity Price Index — Principal Canadian Exports
January 2007 = 100**

This Index has been designed to track the spot or transactions prices paid in U.S. dollars for key Canadian commodities and resource-based manufactured goods in export markets. The weight of each component is based upon its net export value in 2010. Prior to January 2007, the weight of each component was based on its export value in 1995-97, except for crude oil & refined petroleum products, uncoated freesheet paper and linerboard, where net exports were used. Canada imports a significant quantity of these products, and use of their export value alone would have overstated the importance in Canada's trade performance.

The following prices are included:
OIL & GAS

Crude Oil & Refined Petroleum Products (US\$ per bbl) MSW light sweet crude oil at Edmonton (previously Edmonton Par crude) and Western Canadian Select heavy oil at Hardisty, Alberta; price differentials off WTI near-by futures from Bloomberg.

Natural Gas (US\$ per mcf) Average export price quoted by the National Energy Board.

Natural Gas Liquids (NGLs – Propane, Butane, Ethane & Pentanes-Plus) (US\$ per bbl), Propane at Edmonton & Sarnia.

METALS & MINERALS

Copper & Products (US\$ per lb) LME official cash settlement price for grade A copper.

Zinc (US\$ per lb) LME SHG cash settlement: prior to Sept 1990, U.S. producers' price for high-grade zinc delivered.

Lead (US\$ per lb) LME official cash settlement price; prior to Jan. 1991, U.S. producers' price for common grade delivered.

Aluminium & Products (US\$ per lb) since 1979, LME official cash settlement price.

Nickel (US\$ per lb) since 1980, LME official cash settlement price.

Gold (US\$ per oz) 'LBMA Gold Price PM' as of March 20, 2015.

Potash (US\$ per tonne) Standard potassium chloride, spot price, FOB Vancouver.

Sulphur (US\$ per tonne) Solid, spot price, FOB Vancouver.

Metallurgical Coal (US\$ per tonne) Contract price for premium-grade hard coking coal, FOB Vancouver.

Iron Ore (US cents per dmtu) Spot price fines 62% Fe, CFR Qingdao, China; prior to Jan 2011, term-contract price for concentrates 66% Fe from Labrador/Quebec to Northern Europe (FOB Sept-Iles).

Uranium (US\$ per lb) U₃O₈ near-by-futures from Bloomberg.

Molybdenum (US\$ per lb) since March 1992, MW dealer oxide.

Cobalt (US\$ per lb) MW dealer price.

FOREST PRODUCTS

Lumber & Wood Products, Western Spruce-Pine-Fir 2x4 No.2 & Btr (US\$ per mfbm) FOB mill.

Oriented Strandboard (US\$ per thousand sq. ft.), U.S. North Central region, 7/16 inch.

Pulp, Bleached Northern Softwood Kraft (US\$ per tonne) Transactions price, delivery USA.

Newsprint (US\$ per tonne) Average transactions price, 45 grams, delivery Eastern USA.

Groundwood Specialty Papers (US\$ per ton) Supercalendered-A paper, 35 lb., delivery USA.

Linerboard (US\$ per ton), delivery Eastern USA with zone discounts.

AGRICULTURE

Wheat & Flour (US\$ per tonne), DNS No 1 14% protein Duluth, Minn; prior to April 2011 No.1 CWRS, 13.5% protein at St. Lawrence.

Barley (US\$ per tonne), Manitoba Agriculture and Food No. 1 Canadian western barley aggregate spot price; historical data No. 1 at Lethbridge, Alberta.

Canola & Oilseeds (US\$ per tonne) No.1 Canada, in store Vancouver.

Cattle & Beef (US\$ per cwt) Steers over 1,051 pounds at Toronto; from Jan 1993, Ontario average.

Hogs & Pork (US\$ per cwt) 100 Index Hogs at Toronto; from Jan 1993, Ontario average.

Fish & Seafood (US\$ per lb) West Coast silver coho salmon; Atlantic lobster prices; prior to 1986 cod fillets & blocks.

**Scotiabank Commodity Price Index —
Components And Weights**

Index Components	Net Export Value In 2010 (millions of dollars)	Index Weight (per cent)
OIL & GAS INDEX	46,537	39.90
Crude Oil & Refined Products	33,231	28.49
Natural Gas & LNG	11,741	10.07
NGLs	1,565	1.34
METAL & MINERAL INDEX	35,109	30.10
Copper	3,160	2.71
Zinc	1,255	1.08
Lead	579	0.50
Aluminium	6,045	5.18
Nickel	4,246	3.64
Gold	4,678	4.01
Coal	4,757	4.08
Iron Ore	3,346	2.87
Potash	5,161	4.42
Sulphur	457	0.39
Uranium	891	0.76
Cobalt	288	0.25
Molybdenum	246	0.21
FOREST PRODUCTS INDEX	17,081	14.66
Lumber & Wood Products	4,673	4.01
OSB	812	0.70
Pulp	6,818	5.85
Newsprint	2,734	2.34
Groundwood Spec. Papers	1,971	1.69
Linerboard	87	0.07
AGRICULTURAL INDEX	17,901	15.35
Wheat & Flour	4,693	4.02
Barley & Feedgrains	1,088	0.93
Canola & Oilseeds	5,398	4.63
Cattle & Beef	1,640	1.41
Hogs & Pork	2,378	2.04
Fish & Seafood	2,704	2.32
TOTAL INDEX	116,643	100.00

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