

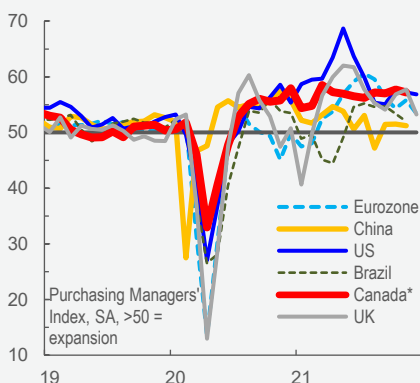
#### Contributors

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Chart 1

#### Latest PMI Readings Still Point to Robust Global Economic Growth



\* Manufacturing only.  
Sources: Scotiabank Economics, IHS Markit.

#### Scotiabank Commodity Price Index

November 2021	(% change)		
	M/M	Y/Y	YTD
All Commodity*	-3.5	46.9	51.2
Industrials	-4.8	45.9	52.1
Oil & Gas	-7.2	98.0	93.9
Metal & Minerals	-4.6	32.0	30.7
Forest Products	-0.2	12.7	44.6
Agriculture	2.0	51.2	47.1
<b>January 2007 = 100</b>			
2021			
	Nov	Oct	YTD avg.
All Commodity	163.6	169.6	154.6
Industrials	155.7	163.5	149.5
Oil & Gas	130.0	140.1	112.5
Metal & Minerals	173.4	181.8	161.1
Forest Products	189.4	189.9	226.3
Agriculture	206.9	202.9	182.9

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

## Omicron Variant Clouds Commodity Price Outlook

### SUMMARY

- Fear that restrictions related to the new Omicron variant of COVID-19 will weaken commodity demand dominated markets; we have included a small uncertainty-related impact in our economic forecast.
- Inflation readings continued to breach multi-decade highs around the world; following a marked shift in Federal Reserve communications, we now forecast a more aggressive monetary tightening path in the US.
- Gold prices have so far held steady in the 1,765–1,800 USD/oz range this month, at the confluence of strong safe-haven demand amid Omicron’s proliferation and the dampening effects of more hawkish monetary policy expectations.
- The new variant laid a beating on oil prices as virus spread and fresh containment measures were seen to weaken the fuel demand outlook; related news flow will no doubt continue to drive crude values going forward.
- WCS’s discount to WTI narrowed as US Gulf Coast (USGC) refinery activity rallied and energy costs eased.
- Industrial metals prices reacted to COVID-19 developments, but also benefited from an upbeat Federal Reserve outlook and factors such as production disruptions in Latin America and expectations of stronger Chinese steel output .
- In the first five weeks since severe flooding and mudslides hit British Columbia, supply constraints plus continued robust demand have driven WSPF lumber prices more than 400 USD/thousand board-foot higher.
- This is the final Scotiabank Commodity Price Index article; beginning in January 2022, we will release a new monthly report on commodity price developments.

### NEW VARIANT SPREADS ALONGSIDE PRICE PRESSURES

Economic growth remains robust around much of the world as the global economy continues to reopen and recover from COVID-19 (chart 1), and that is still contributing to supply-demand imbalances and broad price pressures. Inflation readings continued to breach multi-decade highs this past month.

With rising inflation and a marked shift in Federal Reserve communications in recent weeks, we now expect the Fed to raise interest rates by 25 bps in June 2022 followed by another 75 bps of tightening by year-end. For several quarters, our models have suggested that interest rates in the US should rise in early 2022, but Fed messaging indicated that that was unrealistic. The central bank is now more concerned about inflation and has begun unwinding stimulative bond purchases. Moreover, while employment is well below pre-pandemic levels—which argues for a supportive rate environment—weak labour force participation suggests that the US is closer to full-employment levels than implied by the jobs data alone.

Our outlook incorporates a small negative growth impact this quarter and next related to the newly discovered Omicron variant of COVID-19. That effect largely reflected the idea that the variant’s spread will create uncertainty that weighs on consumer spending and business activity, not expectations of a return to full-fledged lockdowns. We will re-assess our growth and rate forecasts next month with new restrictions now in place and more data available. Omicron appears to be more transmissible than previous virus iterations (chart 2, p.3). Regardless, variant news flow dominated financial markets this month, as investors feared that it would prompt new lockdowns and sap commodity demand.

## OMICRON HITS CRUDE VALUES HARD

**The new variant laid a beating on oil prices.** On the day that the World Health Organization declared Omicron a variant of concern, the Brent global crude benchmark plunged by 10 USD/bbl (11.5%) (chart 3, p.3); though that drop did coincide with the front-month futures contract expiry date, it also clearly reflects expectations of weaker fuel consumption in the coming months. Evidently, we did not predict the speed with which Omicron has spread or the magnitude of the price drop, but we did project in the most recent update to our commodity price forecasts that news flow related to the pandemic would cause volatility in crude values. Developments related to virus proliferation and containment measures will surely continue to weigh on crude values going forward. Still, we note that at the time of writing, the physical market is tight. For instance, US oil storage at the Cushing, Oklahoma hub has risen in three straight weeks but remains low relative to recent history.

**As Omicron spread, OPEC+ opted to maintain planned production increases.** The decision likely reflects: the need for producers to generate funds for the global green energy transition, expectations of market tightness given plans for capital discipline in the industry, a desire to compensate for below-quota production levels reported in November, and political pressure to stabilize consumer prices from major crude-consuming countries—particularly the US. All these forces will likely remain in place at the cartel's January 4th, 2022 meeting, though further proliferation of the new COVID-19 variant or additional restrictions could mean further pressure to freeze output.

**WCS's discount to WTI narrowed from a high of more than 20 USD/bbl last month to about 15 USD/bbl by late December.** Capacity use at USGC refineries—a key source of demand for marginal Western Canadian barrels—continues to recover from Hurricane Ida-related shutdowns. Moreover, North American natural gas prices—which influence operating costs at fuel upgrading facilities—have fallen significantly amid warmer weather and strategic reserve releases. The Line 3 pipeline expansion now in operation should offer further support for Western Canadian oil prices via increased transportation capacity, though we continue to suspect that OPEC+ output growth will offset some of that boost to the extent that they increase heavy sour crude availability in the USGC.

## GOLD: A TUG OF WAR BETWEEN FED POLICY AND SAFE HAVEN DEMAND

**Gold prices have held steady in the 1,765–1,800 USD/oz range so far in December.** Recall that they surged in early November on a strong US inflation print and questions about whether US president Biden would entrench more dovish monetary policy at the top of the Federal Reserve. They then fell back below the 1,800 USD/oz mark when it was confirmed that Jerome Powell would remain Fed Chair. On the one hand, risk aversion was evident in financial markets this month as Omicron spread rapidly, and that naturally supports bullion as a safe haven asset. On the other, markets and economic forecasters now expect more and earlier rate hikes next year than they did just a few months ago, which reduce the metal's draw as a hedge against inflation.

## SUPPLY CONSTRAINTS MITIGATE OMICRON LOSSES FOR COPPER AND NICKEL, IRON ORE REGAINS SOME GROUND

**Copper prices have been rangebound thus far in December.** Optimistically, red metal values gained following last week's Federal Reserve communications as investors appear to have largely taken an apparently accelerated tightening path as a sign of strengthening economic activity. US dollar weakness related to stimulus package negotiation uncertainty also buoyed greenback-denominated commodities, and there remain concerns about supply coming out of Peru—the world's second-largest copper producer—amid road blockages. However, Omicron proliferation and associated fears about industrial demand weakness likely held back further gains.

**Nickel largely followed the same path as copper this month.** Prices generally fell in response to negative COVID-19 news but regained ground on signs of strong economic activity in China and the US. Weak inventories at the London Metals Exchange likely limited more serious declines.

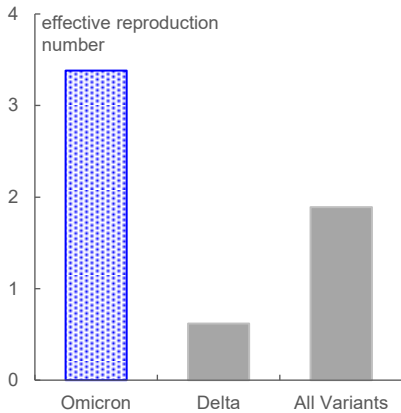
**Iron ore climbed back above 120 USD/t for the first time since late October.** The metal continues to be bolstered by softening Chinese steel production. Though steelmaking is the primary source of iron ore demand and China is by far the world's largest steel producer, recent softness suggests that there is now scope for mills to ramp up production following restrictions imposed to rein in carbon emissions before next year's Winter Olympics. Elevated inventories of iron ore at Chinese ports may undermine further gains to the extent that they loosen domestic supply-demand balances.

**LUMBER PRICES SOARING AGAIN**

In the week before floods and mudslides hammered British Columbia, WSPF prices averaged 555 USD/thousand board feet; last week, the per-unit value hit 985 USD. Many mills remain cut off from forests and customers in the aftermath of the storm, which has reinforced the price gains that tends to occur in the winter months (chart 4) as builders purchase product in preparation for spring construction. Abnormally warm autumn weather may have also contributed to a longer-than-usual building season. The fundamental outlook remains strong. We expect US housing starts to exceed 1.5 mn units again next year—in November, they approached 1.7 mn units on a seasonally adjusted, annualized basis, the second-highest monthly level since 2006. A doubling of US duty rates on Canadian lumber as of December 2 should add to price pressures.

Chart 2

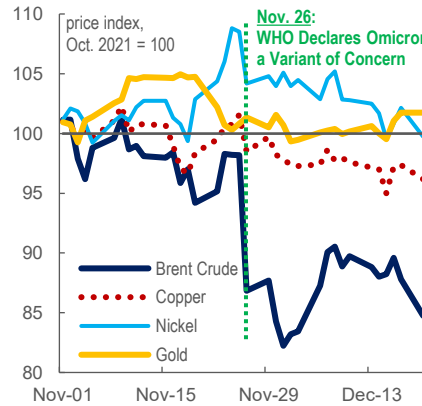
**Omicron Variant's Transmissibility is its Greatest Risk**



Sources: Scotiabank Economics, Ontario Science Table.

Chart 3

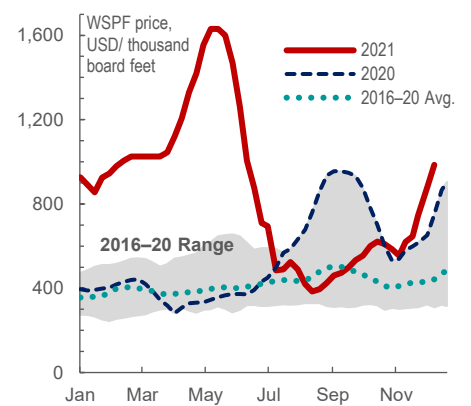
**Crude Fell Particularly Far as Omicron Spread**



Sources: Scotiabank Economics, Bloomberg.

Chart 4

**Lumber Prices Rise Well Beyond Seasonal Norms Following BC Storm**

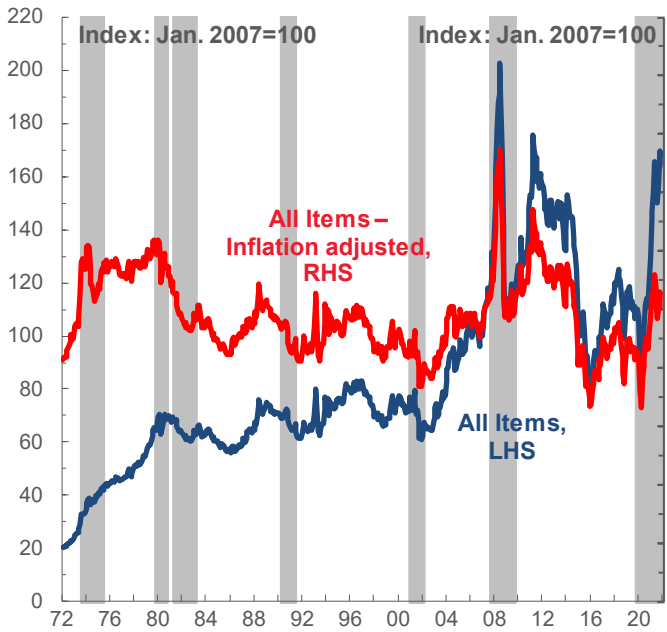


Sources: Scotiabank Economics, Bloomberg.

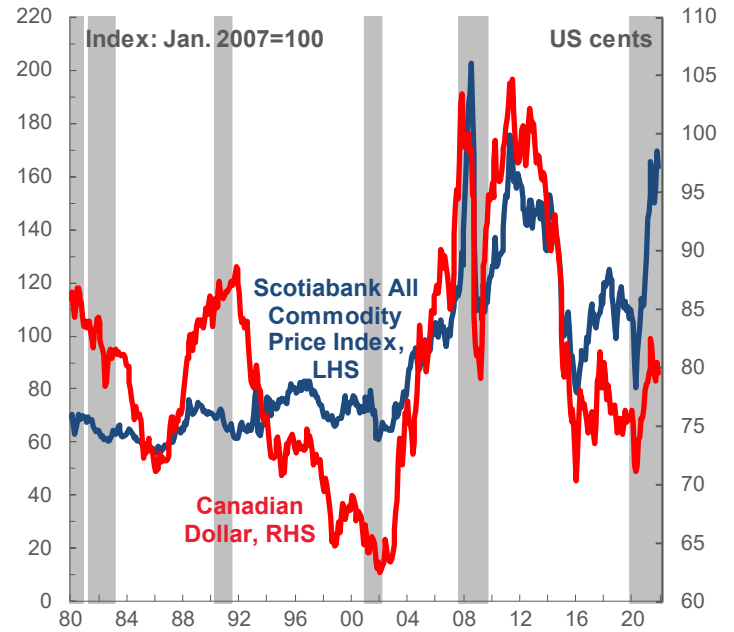
**Price Outlook**

		2010-2020			2020	2021F	2022F	2023F
		Period						
		Low	Avg.	High				
<b>Oil &amp; Gas</b>								
<b>Crude Oils</b>								
West Texas Intermediate	USD/bbl	-38	69	114	39	67	69	72
North Sea Brent Blend	USD/bbl	19	77	127	43	69	72	75
WCS - WTI Discount	USD/bbl	-50	-17	-3	-12	-13	-15	-16
<b>Natural Gas</b>								
Nymex Henry Hub	USD/MMBtu	1.48	3.20	6.15	2.13	3.76	4.70	3.28
<b>Metals &amp; Minerals</b>								
<b>Base Metals</b>								
Copper	USD/lb	1.96	3.04	4.60	2.80	4.15	4.25	4.25
Nickel	USD/lb	3.50	6.87	13.17	6.25	8.20	8.00	7.50
Zinc	USD/lb	0.66	1.03	1.64	1.03	1.32	1.30	1.25
<b>Bulk Commodities</b>								
Iron Ore	USD/t	39	101	194	110	160	110	90
Metallurgical Coal	USD/t	81	174	330	125	186	200	150
<b>Precious Metals</b>								
Gold	USD/toz	1,049	1,386	2,067	1,770	1,799	1,850	1,700

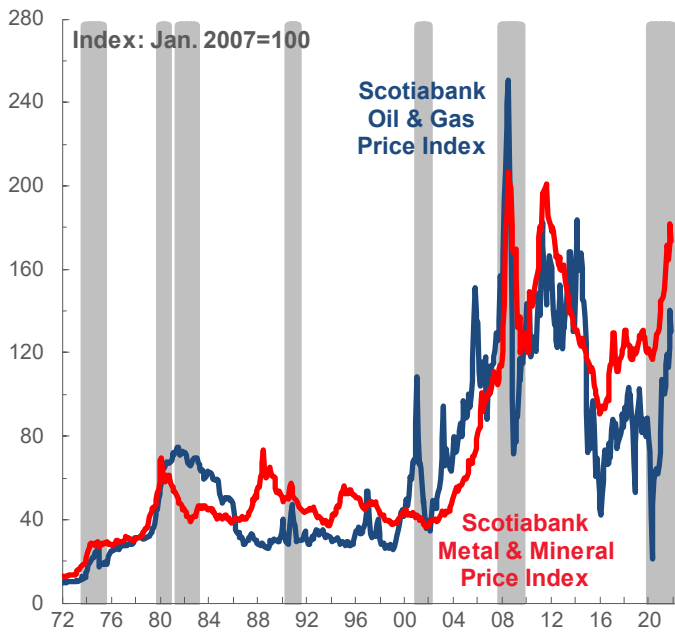
Scotiabank All Commodity Price Index



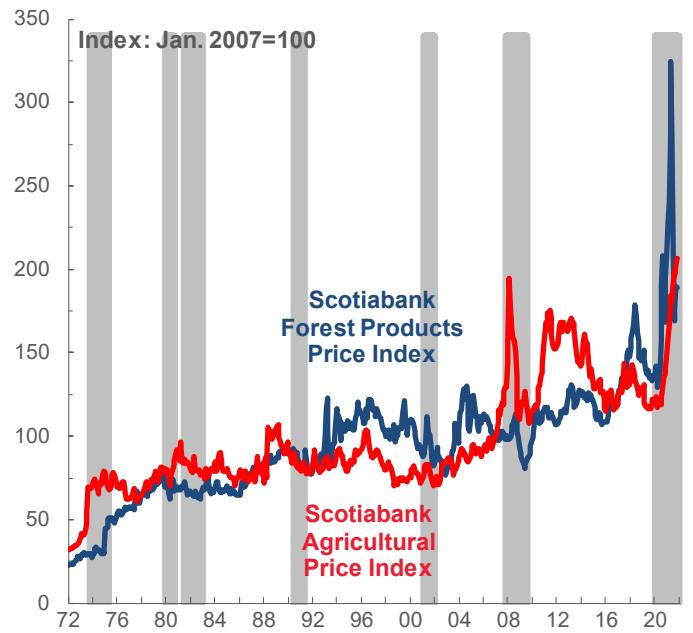
Canadian Dollar vs. Commodity Prices



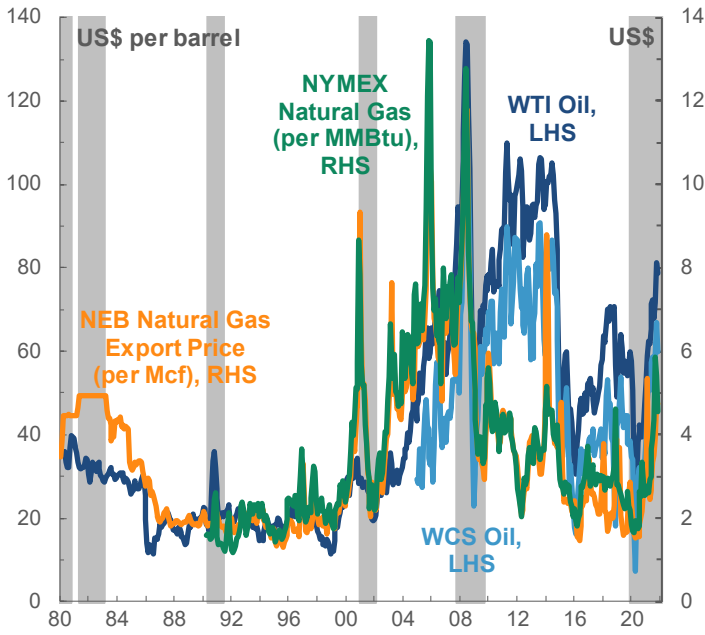
Scotiabank Oil & Gas and Metal & Mineral Indices



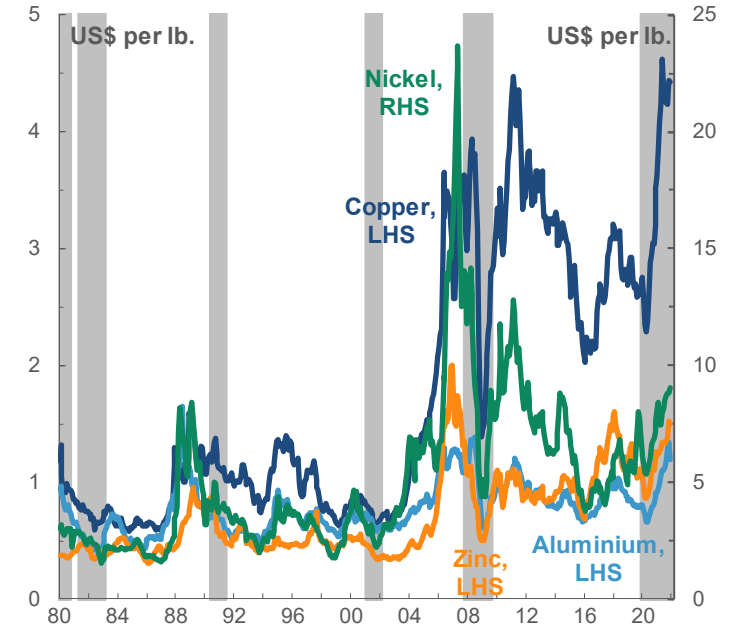
Scotiabank Forest Products & Agricultural Indices



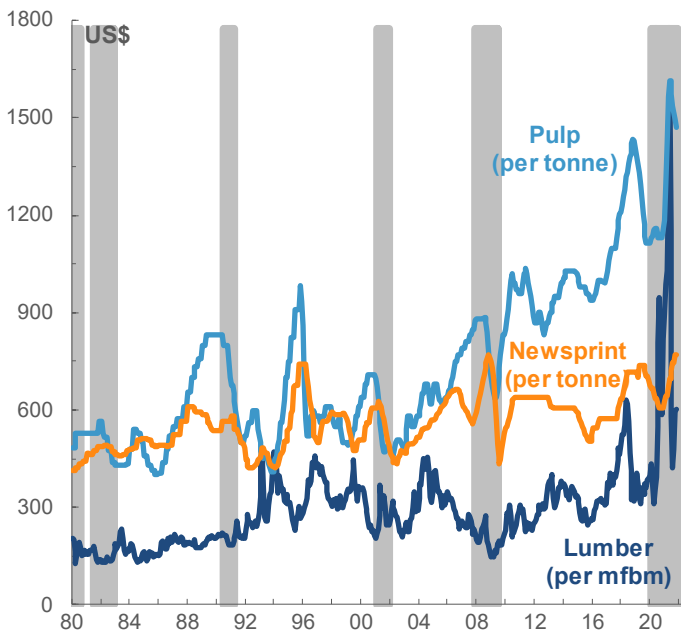
Oil & Gas Prices



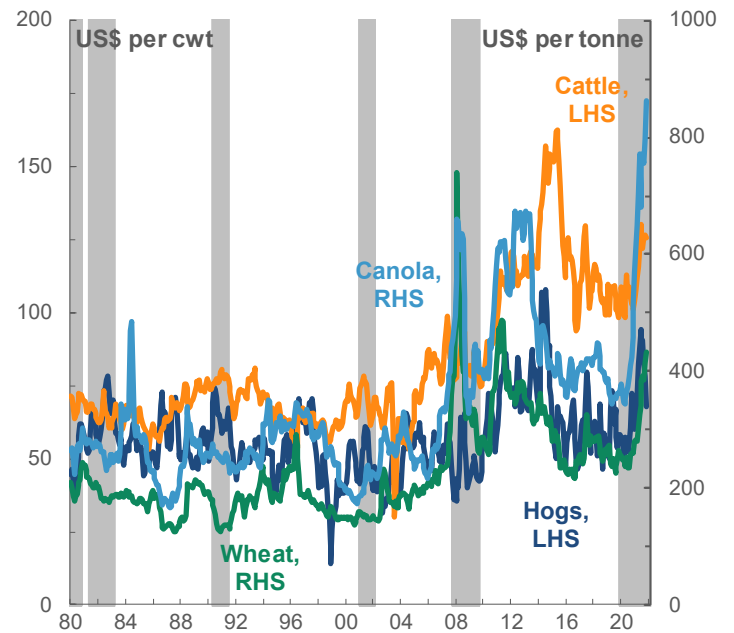
Metals Prices



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) U<sub>3</sub>O<sub>8</sub> 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.

<b>Scotiabank Commodity Price Index — Components And Weights</b>		
Index Components	Net Export Value In 2010 (millions of dollars)	Index Weight (per cent)
<b>OIL &amp; GAS INDEX</b>	<b>46,537</b>	<b>39.90</b>
Crude Oil & Refined Products	33,231	28.49
Natural Gas & LNG	11,741	10.07
NGLs	1,565	1.34
<b>METAL &amp; MINERAL INDEX</b>	<b>35,109</b>	<b>30.10</b>
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
<b>FOREST PRODUCTS INDEX</b>	<b>17,081</b>	<b>14.66</b>
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
<b>AGRICULTURAL INDEX</b>	<b>17,901</b>	<b>15.35</b>
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
<b>TOTAL INDEX</b>	<b>116,643</b>	<b>100.00</b>

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