HEDGING IN THE NEW COMMODITIES REALITY

REPOSITIONING COMMODITIES IN A VOLATILE NEW NORMAL

Scotiabank™

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Volatility was the defining macroeconomic characteristic for most markets in 2018, including commodities. Global commodity prices reacted to a backdrop of uncertainty around global growth and central bank policy, an increase in global trade tensions and growing geopolitical risks.

Due to the confluence of these macroeconomic drivers, base metals and energy experienced broad-based and sharp declines in the second half of 2018 that were somewhat unexpected and also associated with an increase in short-term price volatility. The underlying defining contributor to commodities volatility in 2018 was the uncertainty around global growth profiles – especially a European and/or Chinese slowdown – that was compounded by renewed trade disputes and the threat of a hard Brexit. The ongoing trade war between China and the United States, the implementation of U.S. sanctions on both countries and companies, and the rewriting of trade agreements was reflected in the movements of the price of copper, which recalibrated over 20% lower within a three-month period. Meanwhile, aluminum prices varied within a range of approximately 40% within weeks, and oil plummeted 40% in the fourth quarter of 2018. Gold, on the contrary, attempted to break out of its four year cycle in the fourth quarter of 2018, given its respected trait as a hedge against geopolitical, currency, inflation and recession risks.

The global synchronized growth period of 2017–2018, in part helped by U.S. tax cuts, has peaked, so markets are contending with whether these growth slowdowns will be successfully managed with a renewed accommodative stance, led by the U.S. Federal Reserve Board's ("Fed's") high-conviction decision to pause rates in 2019. Overall, the global trade regime is now being rewritten, which is being complicated by monetary and fiscal authorities considering and entering into new and alternative policies.

With the business cycle entering its very late stage – which is traditionally associated with a drawdown in known base metal and energy inventories – the battle between a macro slowdown (and subsequent monetary policy loosening) versus the tightening fundamentals of individual commodities, is further complicated. These conditions ultimately ensure that commodities prices will continue to respond to major policy initiatives and continue with bouts of volatility in 2019.

These economic conditions and macroeconomic and geopolitical uncertainties are expected to persist, exposing corporates and individual investors to both risks and opportunities. In this environment, it is particularly important to be aware of the causes and drivers of ongoing volatility. And it is perhaps critical to work with a team of professionals that provides comprehensive expertise across the commodities complex, as well as the tools to hedge these risks and/or capitalize on these opportunities.

Scotiabank's Commodity Derivative product offering provides the Bank's clients with the ability to mitigate their exposure to volatility in commodity prices, and allows them to focus on managing their day-to-day business operations.

REALIGNING SCOTIABANK'S COMMODITY PRODUCT OFFERING

To better meet the evolving needs of the Bank's global client base, Scotiabank Global Banking and Markets integrated the Bank's metal trading business into its broader commodities platform. This integration was designed to streamline the Bank's metals business from its historical focus as a leading physical precious metals dealer to an integrated commodity product offering providing a full suite of risk management products across precious metals, base metals and energy for the Bank's global client base.

While the Bank continues to be a global leader in physical precious metals, the consolidation of the Scotiabank Commodities team ultimately increases the product offering Scotiabank is able to offer its clients, as well as the Bank's ability to develop customized solutions that cover multiple commodity market risks.

The Scotiabank Commodities team works with its clients to:

- **Quantify exposures** across different commodity markets
- **Assess product needs and formulate customized solutions** that take into account factors such as the requirement to hedge, current market outlook and risk appetite, as well as the associated credit implications of a hedging strategy
- **Execute the desired hedging strategy** in an efficient and seamless manner to optimize the price and effectiveness of the desired hedging strategy

GLOBAL LEADERSHIP IN COMMODITIES AND RISK MANAGEMENT

Scotiabank's market-leading commodity derivatives capabilities complement the Bank's footprint as a leading lender and provider of investment banking advisory services to commodity-focused industries (e.g., mining and oil and gas).

LEADERSHIP IN CANADIAN MINING M&A[1]

(Announced 2015 to 2018)

Rank	Advisor	Value (US$M)
1.	**Scotiabank**	**$12,595**
2.	CIBC Capital Markets	$12,093
3.	BMO Capital Markets	$11,919
4.	Morgan Stanley	$8,485
5.	Maxit Capital	$6,395
6.	M. Klein	$6,389
7.	TD Securites	$5,944
8.	GMP Securities	$5,649
9.	Barclays	$5,384
10.	Citibank	$3,714

Source: Bloomberg adjusted for streaming M&A transactions
(1) Target / acquisition being a mining & Metals company in Canada announced or completed deals

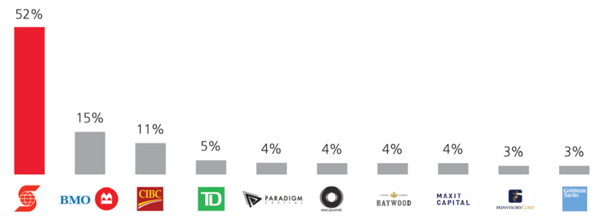
SCOTIABANK IS THE GLOBAL LEADER IN STREAMING TRANSACTION ADVISORY

#1 advisor by both value and number of transactions

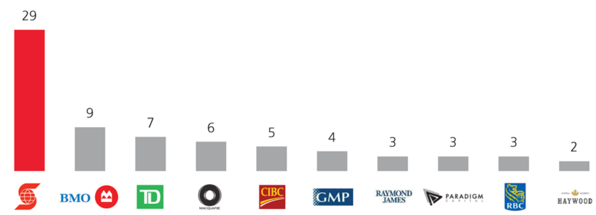
SCOTIABANK'S LEADER IN STREAMING

Rank	Advisor	Value (US$M)	Market Share	# of Deals
1.	**Scotiabank**	**$11,256**	**52%**	**29**
2.	BMO Capital Markets	$3,317	15%	9
3.	CIBC Capital Markets	$2,404	11%	4
4.	TD	$1,117	5%	7
5.	Paradigm	$974	4%	3
6.	Macquarie	$950	4%	6
7.	Haywood	$849	4%	2
8.	Maxit	$834	4%	1
9.	Minvisory	$750	3%	1
10.	Goldman Sachs	$744	3%	1

Market Share by Value



Rank by Number of Deals

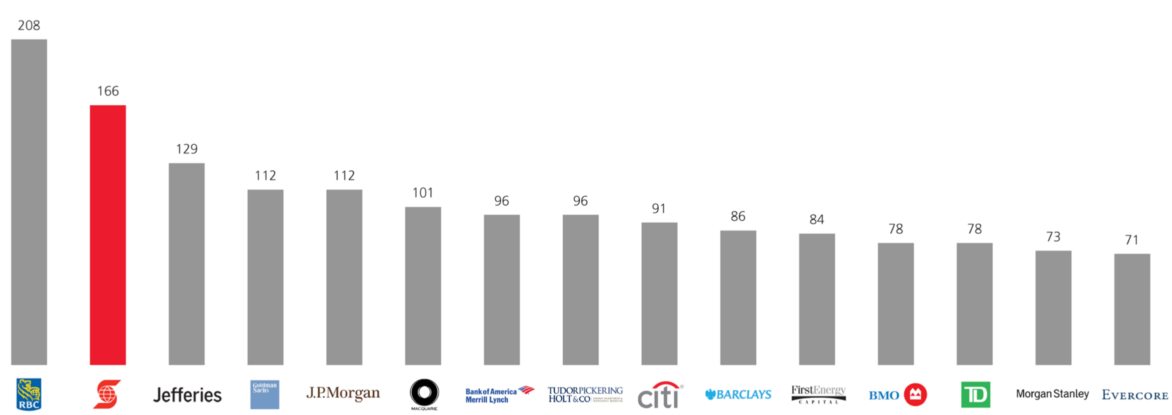


Source: Company filings, Bloomberg
Note: Market share includes all stream transactions from 2004 to date including those without named advisors

LEADING GLOBAL ENERGY M&A ADVISOR

Providing clients with superior M&A advisory services over the last decade

Global Upstream Ranking by Number of Deals
Number of Transactions | 2008 – 2018 YTD[1]



(1) Source: Bloomberg. Based on announced Global E&P and Integrated M&A&D (excludes pipelines, refining/marketing, chemicals and utilities)
(2) Transactions are less than US$15 billion
(3) Figures are based on the period January 1, 2008 to April 30, 2018

For example, market risks take many different forms in the mining industry – there are risks that stem from interest rates, currencies and commodities, plus other factors. Scotiabank works with mining clients to manage commodity price risk across precious metals, base metals and energy. These price risks can be event driven and can emerge as a result of acquiring new production through mergers-and-acquisitions processes. Scotiabank's risk management expertise can help mining clients lock in the economics of an acquisition and associated financing needs.

Alternatively, a risk management program can help support a client's capital program, locking in margins through hedging production price risk and managing the associated fuel costs associated with running mining operations. In all instances, Scotiabank is equipped with a full suite of risk management tools across fixed-price and options-based hedging instruments.

For more information about the commodities derivatives team or to learn about our full suite of risk management capabilities please contact **scotiabankcommodities-metals@scotiabank.com**.

gbm.scotiabank.com