Commodity Price Roller Coaster Ride Continues

- **Developments related to COVID-19 and the resulting global recession continue to dominate commodity price movements.**
- **The West Texas Intermediate (WTI) oil price benchmark's shocking negative market close on April 20th has reversed, but virus-led demand destruction and crude storage constraints remain acute.**
- **Western Canadian oil prices are under pressure as well, but got some modest good news in the form of US refinery data released this week.**
- **News of lockdown loosening eased early-April gold price gains and supported industrial metals values towards the end of the month.**

FORECAST UPDATE: GLOBAL DEVASTATION

Data released this month confirm that the global economy is in a deep recession as a result of the COVID-19 pandemic and containment efforts. Our latest forecast calls for 30–50% real GDP declines (in annualized terms) across most countries during the second quarter of 2020, with the 2.8% plunge in global output expected this year (chart 1) representing the worst result since the Great Depression.

The pandemic continued to weigh heavily on commodity values this month, though markets also appear to be pricing in news of initial business re-openings across the globe. Indeed, we anticipate that many global economies will begin to re-open in the latter half of the second quarter—in line with signs of stabilizing virus infection rates in a host of countries. But we are not out of the woods yet. The lightening of lockdown measures will surely be slow and cautious as the risk of a reactivation remains, and social distancing—whether government-mandated or not—will likely crimp business activity even as lockdowns are lifted.

SAFE HAVEN GOLD SETTLES HIGHER

Where liquidity concerns made for a volatile March for gold, pricing for the safe harbour trended generally higher in April as more negative economic data were released. Bullion has hovered near 1,700 USD/oz for much of the past two weeks, having dipped below $1,500 USD/oz last month at the height of market volatility (chart 2). News of economies re-opening has limited further gains.

Our current forecast assumes a mean bullion price of 1,650 USD/oz this year, and an annual average of 1,700 USD/oz in both 2021 and 2022. The dominant factor in our outlook remains the unprecedented pace of global stimulus to respond to the pandemic, which is filtering into US real rates. Re-opening timelines among key consumers—notably India, still in lockdown—remain risks.

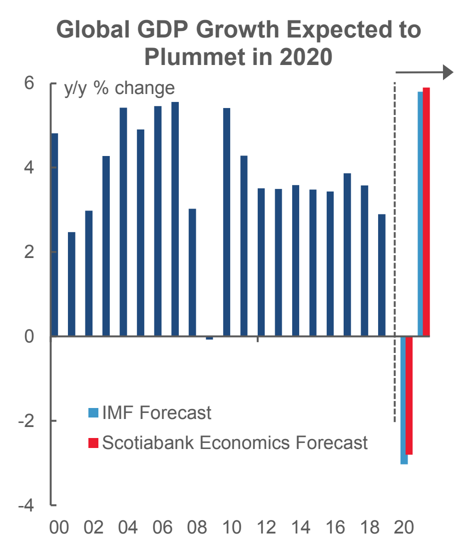
MARKETS SET NO STORE BY OIL STORAGE

In perhaps the most stunning collapse of any economic indicator since the beginning of the COVID-19 pandemic, WTI closed out Monday, April 20th below zero. See our note for commentary on the drivers.

CONTACTS

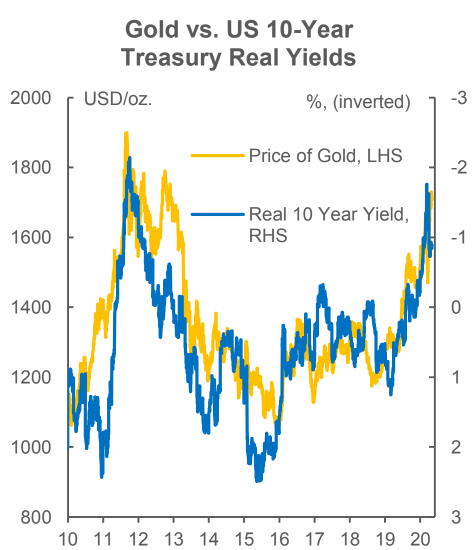
Marc Desormeaux, Senior Economist
416.866.4733
Scotiabank Economics
marc.desormeaux@scotiabank.com

Chart 1



Sources: Scotiabank Economics, IMF.

Chart 2



Sources: Scotiabank Economics, Bloomberg.

Lockdowns and travel restrictions still in place across the globe have kept demand for petroleum products depressed since that fateful day, but signs of a floor may be emerging. In the US, declines in consumption of gasoline (-36% y/y in the week to April 24) have moderated in two consecutive weeks, while the slide for jet fuel (-58%) has eased in the last three. Still, those figures represent the fourth- and third-worst-ever results, respectively, since at least 1992, and demand for crude will remain very weak so long as COVID-19 containment measures remain in force.

The principal concern in the oil market, however, remains the lack of storage. Tanks at the key Cushing hub were approaching the weekly all-time high capacity utilization rates reached in 2016 as of last week, having filled up far more quickly than at that time, which followed nearly two years of oversupply (chart 3). Tanks exceeded 80% capacity, and some of the remaining storage has likely already been leased, which limits the space available for financial contract holders without pre-existing arrangements. With repositories on land stretched, floating storage continues to balloon across the globe, last week breaching 140 mn bbls. The OPEC+ supply cuts begin in May, but these inventories will need to be absorbed before prices can recover longer-term.

Unsustainable negative WTI pricing has reversed, but weakness has filtered into later months due to lingering fears of insufficient storage capacity. WTI contracts for June delivery have softened to 18–19 USD/bbl from levels in the range of 25 USD/bbl prior to that historic date in April, and could face pricing pressures again in May as we come around to rollover deadlines. Brent, though not priced according to the same physical delivery constraints, has also seen its curve shift lower (chart 4).

WESTERN CANADIAN CRUDE REMAINS UNDER PRESSURE

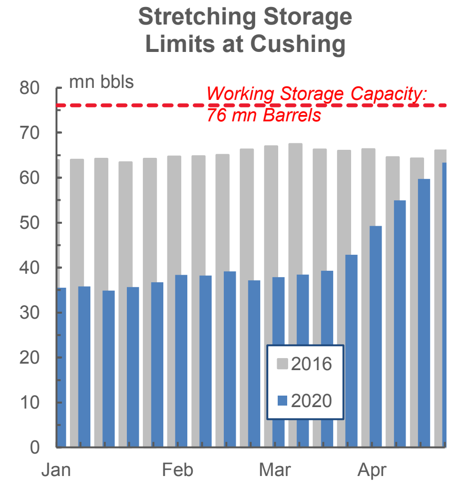
From a fundamentals point of view, the environment remains challenging for Western Canada's oil patch. Western producers have higher break-evens than those in the US shale patch, and are grappling with almost full storage tanks—oil inventories exceeded 70 mn bbls in March, close to the record—resulting from adjustments to Alberta's curtailment program. Alberta oil production had yet to fall back materially in March—though the month's 3% y/y gain was considerably slower than February's 10% y/y climb—but more recent declines in US oil imports suggest a retreat in April.

Although Western Canada Select pricing remains weak, hovering near 7 USD/bbl over the last two weeks, discounts to WTI have stayed far narrower than their longer-run average in the range of 17–18 USD/bbl (chart 5)**.** That mirrors some firming of refinery margins in the US Gulf Coast that suggests a shift away from gasoline production in the height of the COVID-19 crisis. Plunging activity at Midwest and Gulf Coast refineries may also have bottomed out last week. Again, the near-term environment is likely to remain exceedingly challenging, but momentum on this front could offer further support for WCS pricing.

BASE METALS STAGE MINI-LATE-MONTH RALLY

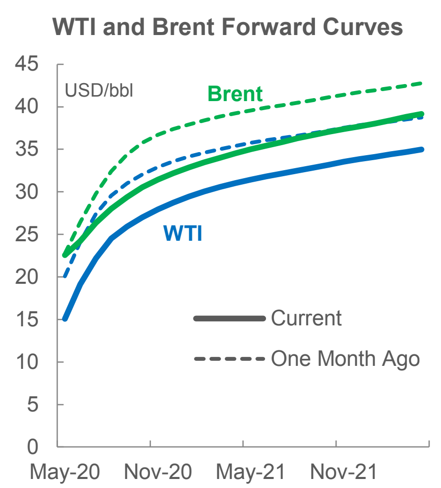
WTI's shocking nosedive extended beyond oil markets. Investors eschewed riskier assets across financial markets following the April 20 result, and copper prices fell more than 3% the following day, with nickel (-2.9% at their trough) and zinc (-4.4%) ensuing. Yet, the complex has since largely recovered, on the hopes that easing of lockdowns and a restart of industrial activity will spur demand for base metals. Copper in particular responded positively to new stimulus from Japan and lending rate cuts in China.

Chart 3



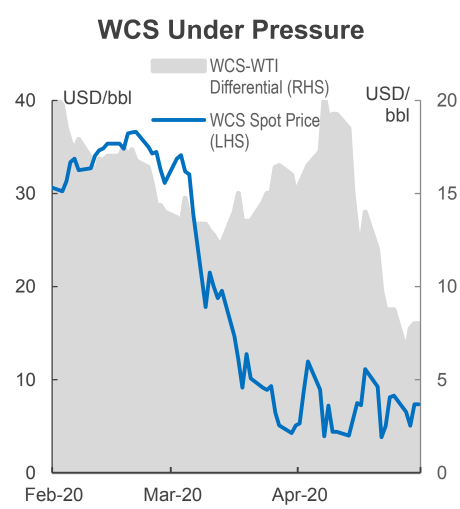
Sources: Scotiabank Economics, EIA.

Chart 4



Sources: Scotiabank Economics, Bloomberg.

Chart 5



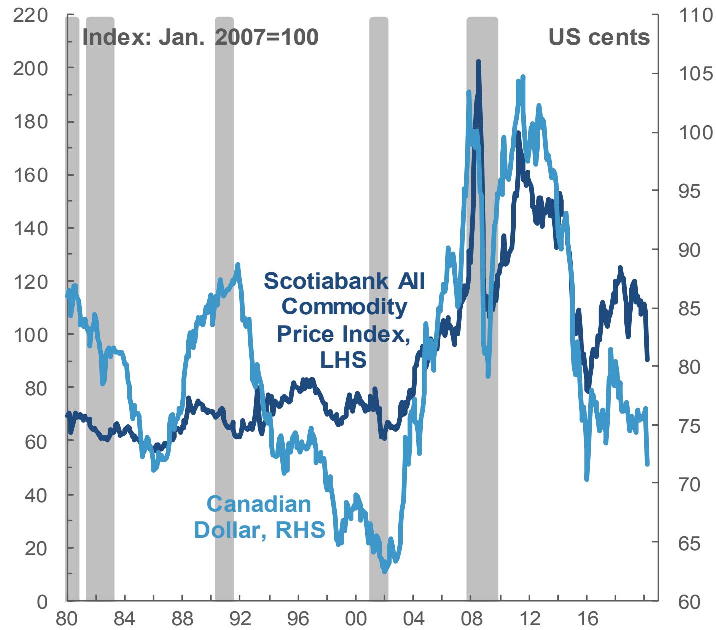
Sources: Scotiabank Economics, Bloomberg.

Given China's status as the world's largest base metals consumer, much will depend on its COVID-19 stimulus package likely to be unveiled next month. Signs of quick post-lockdown restarts in the construction and manufacturing industries already bode well for industrial metals pricing, though copper, nickel, zinc, and iron ore sit 15–25% below January peaks at the time of writing. Beijing is thought to be weighing the need for pro-growth measures against concerns about rising deficits and debt.

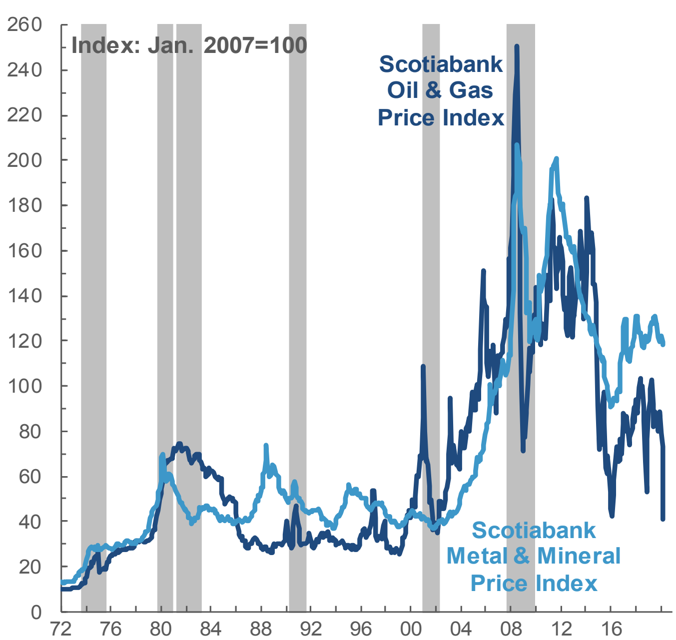
Price Outlook		2010–2018			2019	2020F	2021F
			Period				
Oil & Gas		Low	Avg.	High			
Crude Oils							
West Texas Intermediate	USD/bbl	26	74	114	57	30	40
North Sea Brent Blend	USD/bbl	28	82	127	64	33	42
WCS - WTI Discount	USD/bbl	-50	-18	-7	-14	-16	-21
Natural Gas							
Nymex Henry Hub	USD/MMBtu	1.64	3.39	6.15	2.53	1.95	2.40
Metals & Minerals							
Base Metals							
Copper	USD/lb	1.96	3.10	4.60	2.72	2.25	2.75
Nickel	USD/lb	3.50	7.00	13.17	6.32	5.40	6.00
Zinc	USD/lb	0.66	1.02	1.64	1.16	0.90	1.00
Aluminium	USD/lb	0.65	0.89	1.26	0.81	0.90	0.90
Bulk Commodities							
Iron Ore	USD/t	39	101	194	94	77	70
Metallurgical Coal	USD/t	81	179	330	177	134	140
Precious Metals							
Gold	USD/toz	1,049	1,342	1,895	1,393	1,650	1,700

Scotiabank All Commodity Price Index

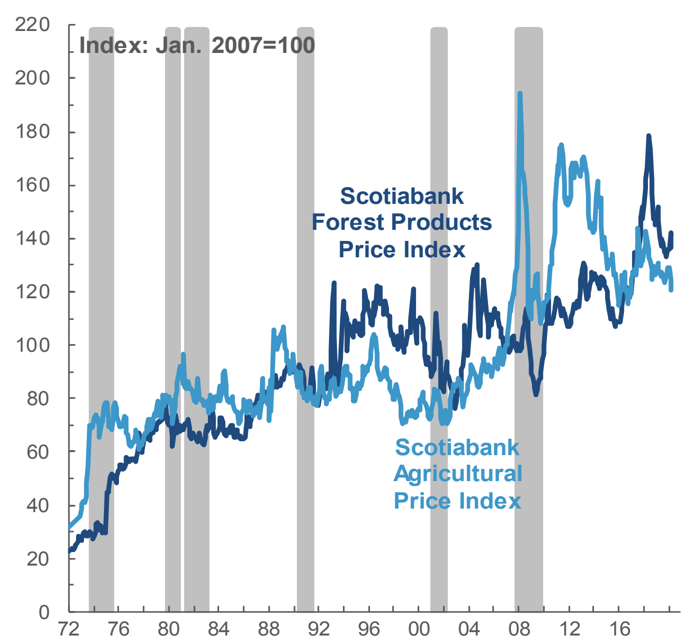
Canadian Dollar vs. Commodity Prices

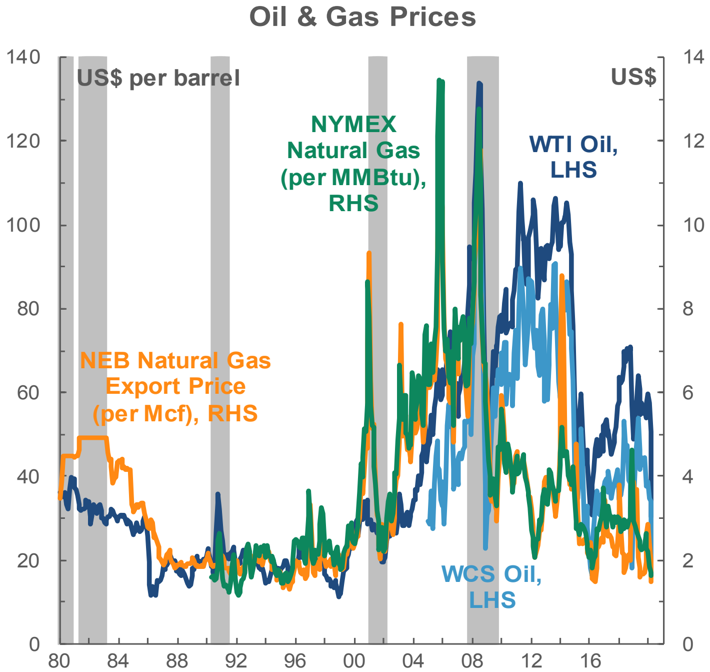


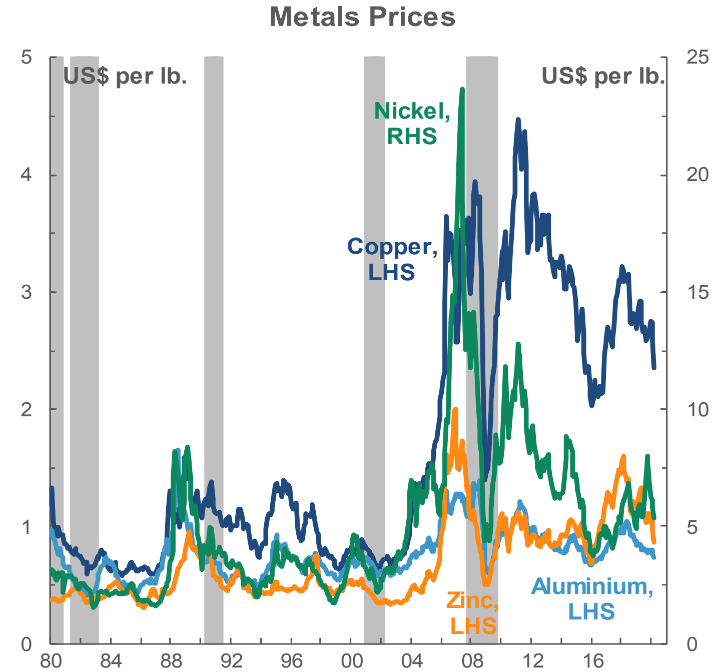
Scotiabank Oil & Gas and Metal & Mineral Indices

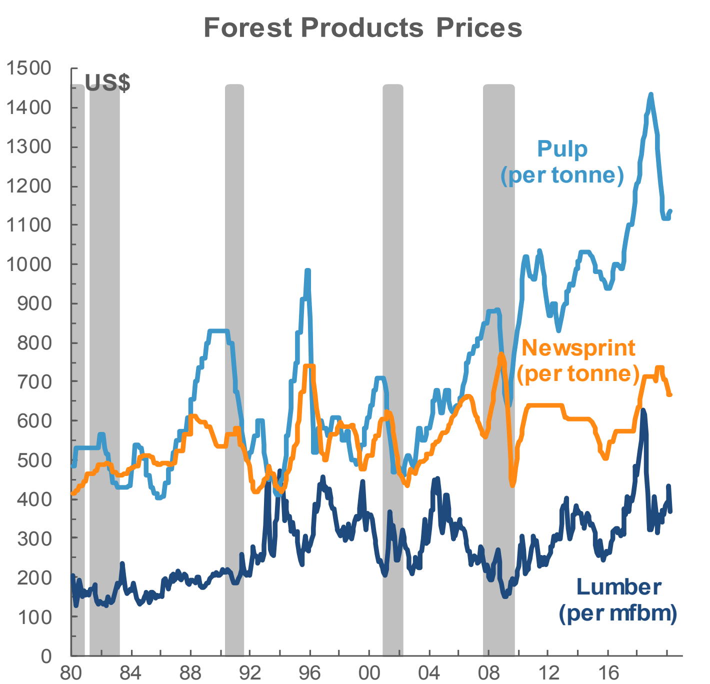


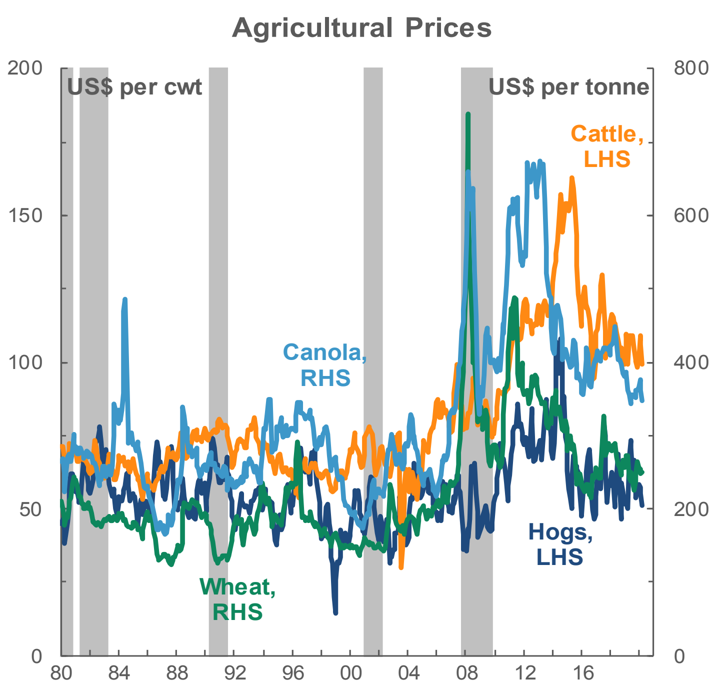
Scotiabank Forest Products & Agricultural Indices




Oil & Gas Prices
US$ per barrel
US$
NYMEX Natural Gas (per MMBtu), RHS
WTI Oil, LHS
NEB Natural Gas Export Price (per Mcf), RHS
WCS Oil, LHS
140
120
100
80
60
40
20
0
14
12
10
8
6
4
2
0
80 84 88 92 96 00 04 08 12 16


Metals Prices
US$ per lb.
US$ per lb.
Nickel, RHS
Copper, LHS
Zinc, LHS
Aluminium, LHS
5
4
3
2
1
0
25
20
15
10
5
0
80 84 88 92 96 00 04 08 12 16


Forest Products Prices
US$
Pulp (per tonne)
Newsprint (per tonne)
Lumber (per mfbm)
1500
1400
1300
1200
1100
1000
900
800
700
600
500
400
300
200
100
0
80 84 88 92 96 00 04 08 12 16


Agricultural Prices
US$ per cwt
US$ per tonne
Cattle, LHS
Canola, RHS
Hogs, LHS
Wheat, RHS
200
150
100
50
0
800
600
400
200
0
80 84 88 92 96 00 04 08 12 16

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_3O_8 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), Saskatchewan 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**