

## 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](mailto:marc.desormeaux@scotiabank.com)

Chart 1

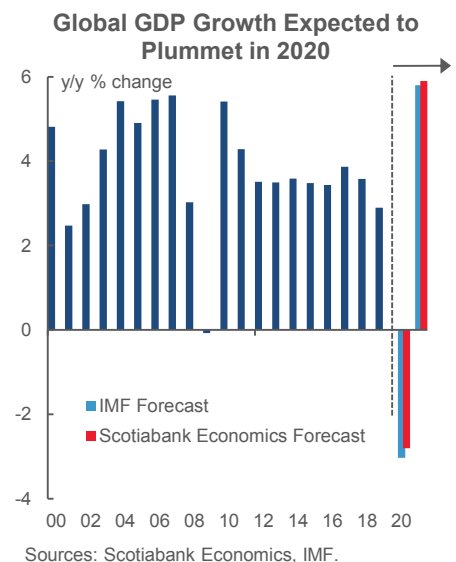
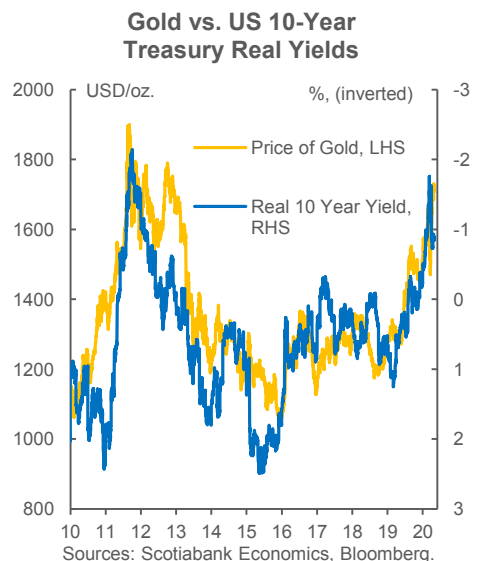


Chart 2



**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

### Stretching Storage Limits at Cushing

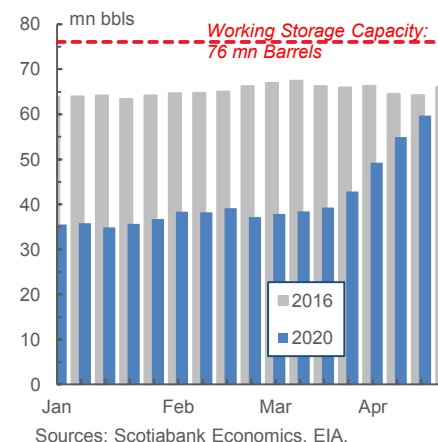


Chart 4

### WTI and Brent Forward Curves

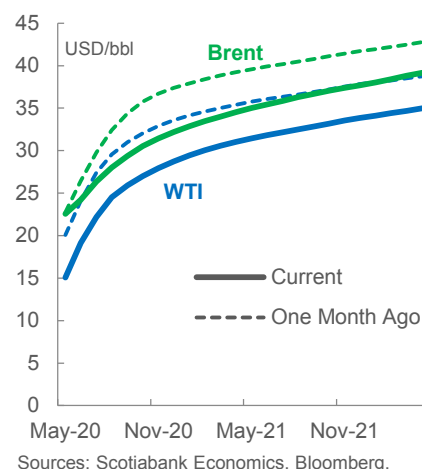
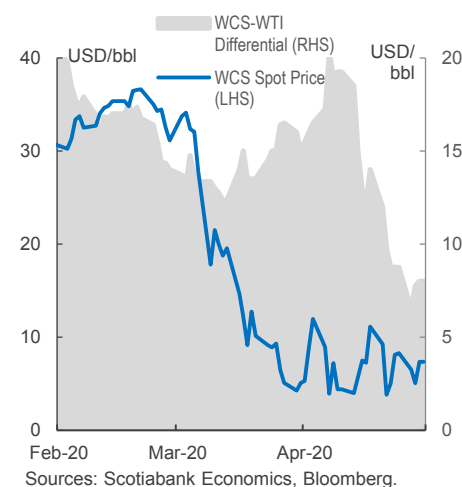


Chart 5

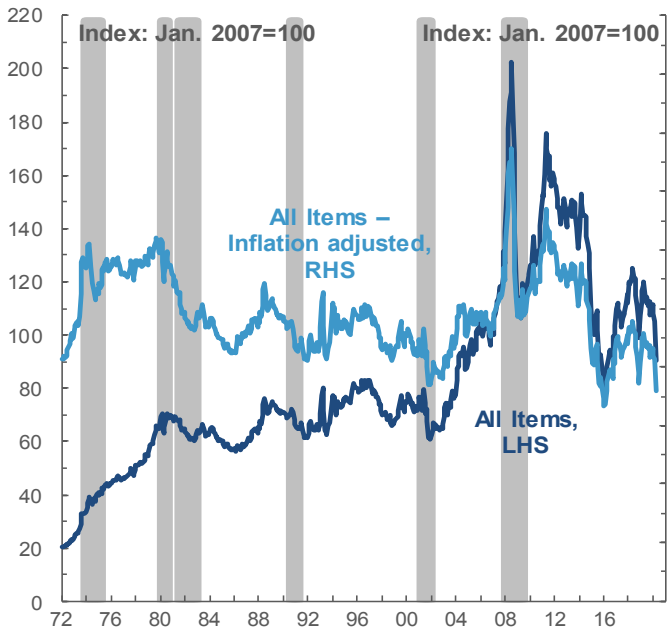
### WCS Under Pressure



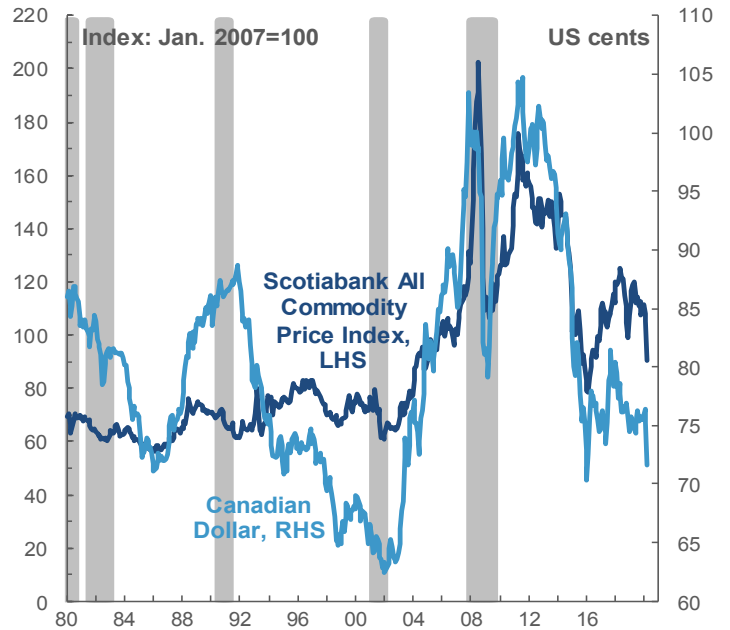
Given China's status as the world's largest base metals consumer, much will depend on its COVID-19 stimulus package likely to be unveiled next month. Signs of quick post-lockdown restarts in the construction and manufacturing industries already bode well for industrial metals pricing, though copper, 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
		Low	Period Avg.	High			
<b>Oil &amp; Gas</b>							
<b>Crude Oils</b>							
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
<b>Natural Gas</b>							
Nymex Henry Hub	USD/MMBtu	1.64	3.39	6.15	2.53	1.95	2.40
<b>Metals &amp; Minerals</b>							
<b>Base Metals</b>							
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
<b>Bulk Commodities</b>							
Iron Ore	USD/t	39	101	194	94	77	70
Metallurgical Coal	USD/t	81	179	330	177	134	140
<b>Precious Metals</b>							
Gold	USD/toz	1,049	1,342	1,895	1,393	1,650	1,700

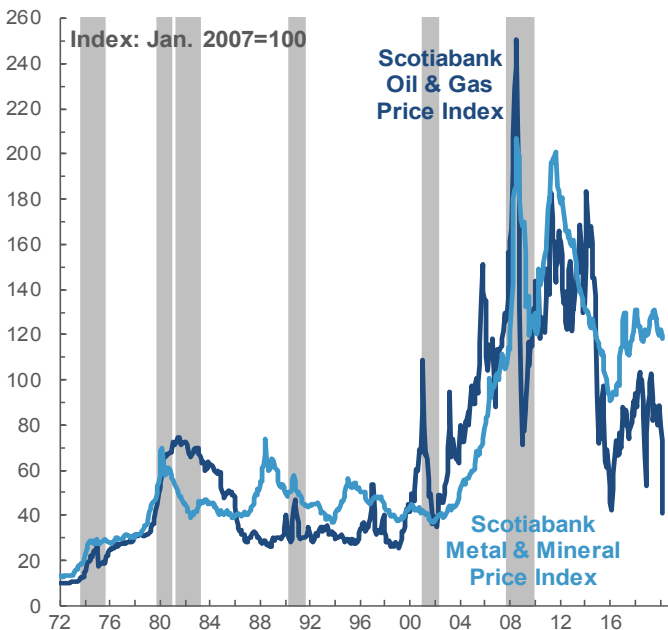
Scotiabank All Commodity Price Index



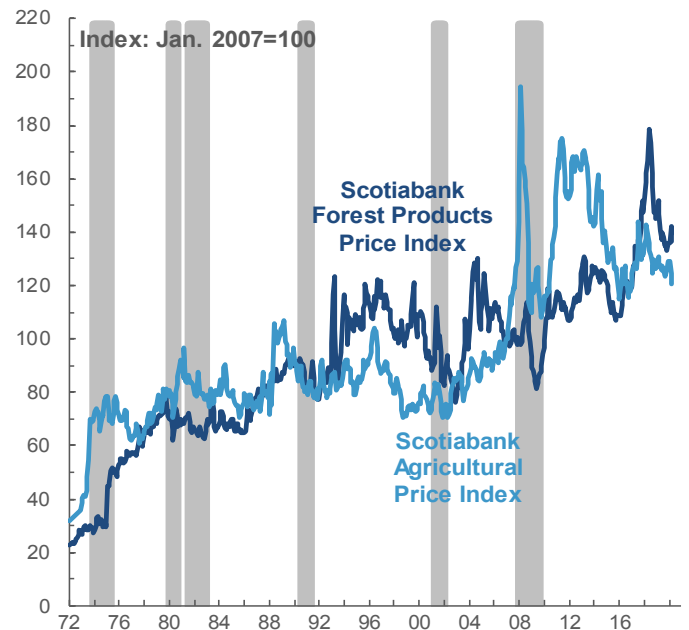
Canadian Dollar vs. Commodity Prices



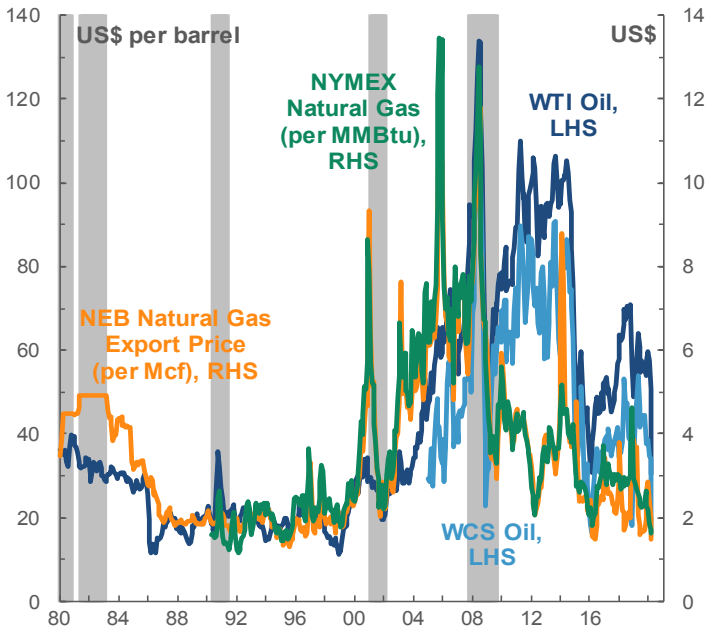
Scotiabank Oil & Gas and Metal & Mineral Indices



Scotiabank Forest Products & Agricultural Indices



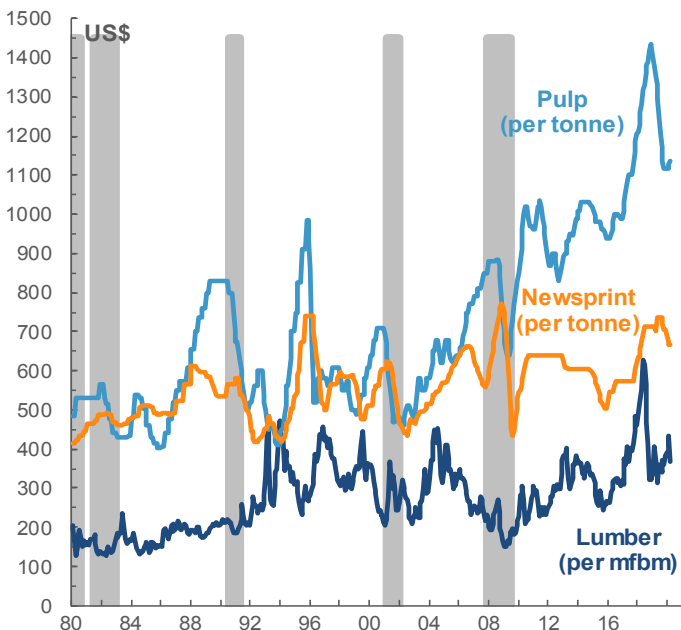
Oil & Gas Prices



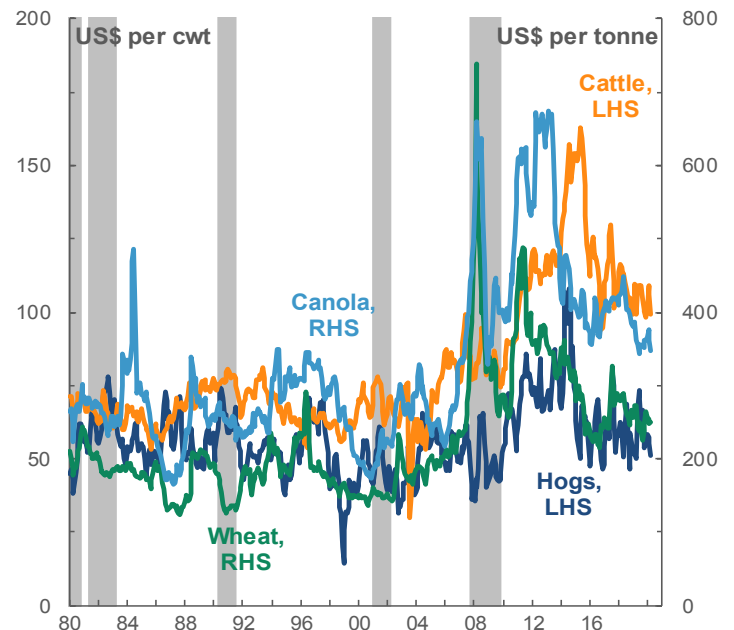
Metals Prices



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), 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)
<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>



This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

**This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.**

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.