

COMMODITY TRENDS



Commodity Prices at a Crossroads

HIGHLIGHTS

- ▶ Although a global recession still appears to be the most likely scenario, it should be acknowledged that many economies have so far managed to withstand rising interest rates and high inflation. In this matter, the worst seems to have been avoided in Europe where mild temperatures have allowed natural gas prices to come down. The latest economic indicators suggest that the recession will be shallower than expected.
- ▶ Industrial metal prices are usually closely linked to the economic cycle. As such, a recession ought to bring on a steep decline in commodity prices. Yet the available supply of base metals remains limited. In Europe, high energy costs and economic uncertainty are still significant headwinds, especially for aluminum production. Moreover, the end of China's zero-COVID policy and the depreciation of the US dollar have boosted sentiment among investors, who are expecting demand to bounce back. Against this backdrop, prices rebounded in December with the Bank of Canada's metals index rising 3.4% during the month. That said, the worsening economic cycle is likely to continue to depress prices in the first half of 2023.
- ▶ Faced with declining demand and adequate oil supply so far, the price of WTI (West Texas Intermediate) temporarily slid below US\$75/barrel. However, the oil production and consumption balance is delicate. And it's hard to say with accuracy how deep the recession will be, or how consumers and producers will react when it hits. Several Middle Eastern oil producers have already indicated they're prepared to cut production quickly if prices drop. On the demand side, however, the International Energy Agency is pricing in a strong rebound in the second quarter of 2023, due mainly to China abandoning its zero-COVID policy. As such, the situation is still uncertain, and crude prices threaten to remain volatile.
- ▶ The price of gold has surged in recent weeks, while inflationary pressures seem to have eased and bond yields have fallen back. At the time of writing, gold was nearing US\$1,915 an ounce. While this is relatively high compared to fundamentals and there's a risk of a short-term correction, gold prices are likely to continue rising as the worsening economic environment pushes investors toward safe havens.
- ▶ Lumber prices continue to fall and are nearing their April 2020 low. The economic cycle is applying downward pressure, but prices could rise again in the second half of 2023. Grain prices—including wheat and corn—remain volatile and subject to uncertainty amid the war in Ukraine. The rise in grain and soybean prices (with lower US corn and soybean production and drought in Argentina affecting the same two commodities) could be tempered by the global economic downturn.

MAIN FACTORS TO WATCH

- ▶ Depending on how severe the recession is, how long inflation sticks around and how well China's economy bounces back, prices could move in either direction. Commodities are truly at a crossroads. Some economic indicators have been encouraging, but our scenario still calls for a global recession. We'll also need to keep an eye on the economic environment.

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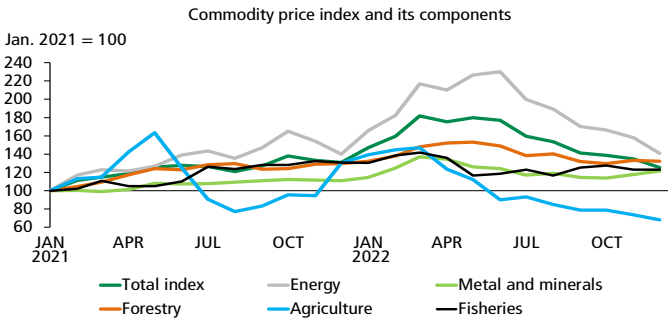
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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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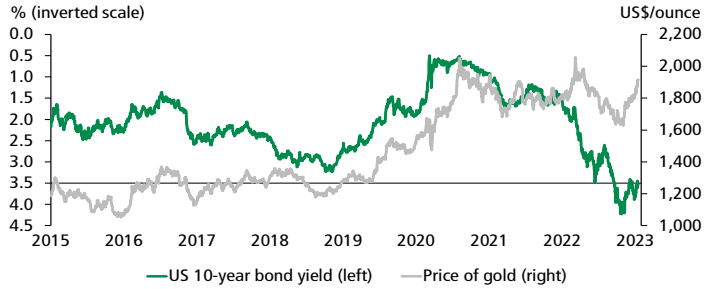
Main Commodity Trends

GRAPH 1
Industrial metal prices rebounded in December



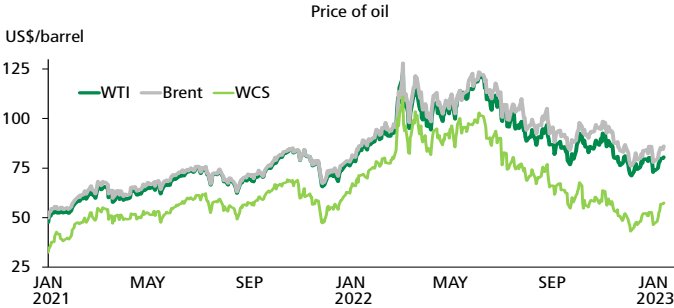
Sources: Bank of Canada and Desjardins Economic Studies

GRAPH 4
Gold prices have risen



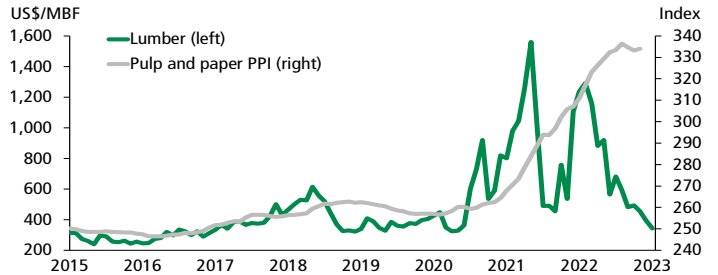
Sources: Datastream and Desjardins Economic Studies

GRAPH 2
Oil prices continue to decline



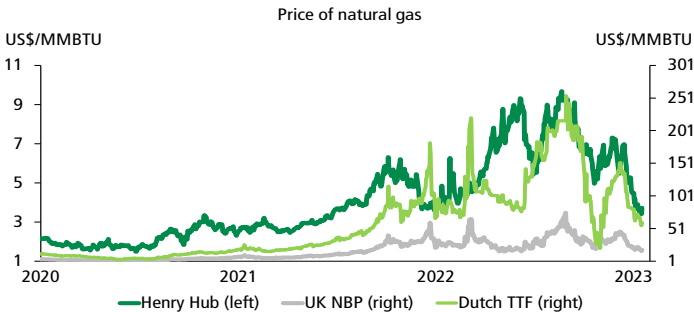
WTI: West Texas Intermediate; WCS: Western Canadian Select
Sources: Datastream, Bloomberg and Desjardins Economic Studies

GRAPH 5
Lumber prices continue to fall and are nearing their April 2020 low



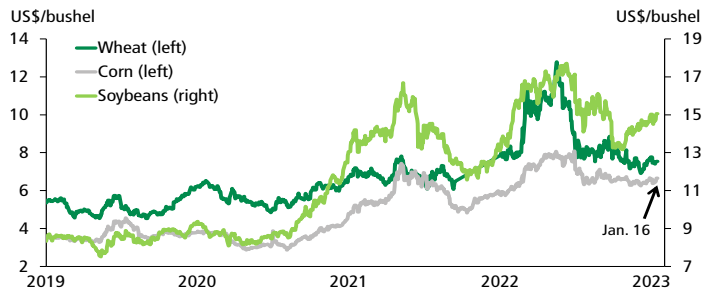
MBF: thousand board feet; PPI: Producer Price Index
Sources: Datastream and Desjardins Economic Studies

GRAPH 3
Mild temperatures are driving down natural gas prices



Sources: Bloomberg and Desjardins Economic Studies

GRAPH 6
Grain and oilseed prices remain volatile



Sources: Datastream and Desjardins Economic Studies

TABLE 1
Commodities

	SPOT PRICE	% CHANGE				LAST 52 WEEKS		
	Jan 19	1-month	3-month	6-month	1-year	High	Average	Low
Index								
Reuters/Jefferies CRB	276.1	2.1	1.8	-3.3	10.5	329.6	286.1	245.6
Bloomberg Commodity Index	111.6	0.0	0.4	-3.8	5.8	136.6	119.1	104.1
Bank of Canada	572.2	-3.4	-13.2	-25.4	-19.8	907.4	745.5	572.2
Energy								
Brent oil (US\$/barrel)	85.1	6.6	-8.0	-20.8	-3.7	128.2	99.0	76.3
WTI oil (US\$/barrel)	79.5	5.8	-7.6	-25.1	-8.6	123.7	94.6	70.9
Gasoline (US\$/gallon)	3.31	6.1	-14.5	-26.3	0.1	5.01	3.94	3.09
Natural gas (US\$/MMBTU)	3.31	-43.4	-39.4	-54.4	-17.9	9.68	6.50	3.31
Base metals								
LME Index	4,346	11.3	24.5	22.2	-7.3	5,506	4,227	3,453
Aluminum (US\$/tonne)	2,612	12.4	21.2	9.8	-14.6	3,878	2,681	2,092
Copper (US\$/tonne)	9,326	12.3	25.1	28.6	-5.5	10,702	8,784	7,160
Nickel (US\$/tonne)	27,651	2.1	26.7	34.6	17.7	48,241	26,515	19,333
Zinc (US\$/tonne)	3,423	12.2	17.1	12.9	-5.0	4,563	3,467	2,736
Precious metals								
Gold (US\$/ounce)	1,912	7.1	17.0	11.6	3.9	2,056	1,806	1,628
Silver (US\$/ounce)	24.2	4.1	31.2	28.0	1.7	26.2	21.8	17.8
Platinum (US\$/ounce)	1,068	7.7	19.5	21.2	5.3	1,151	966	831
Palladium (US\$/ounce)	1,778	3.0	-9.7	-5.0	-10.0	3,015	2,099	1,675
Other commodities								
Lumber (US\$/MBF)	428	14.3	-20.0	-33.6	-65.3	1,464	703	344
Wheat (US\$/bushel)	7.43	-0.8	-11.7	-8.5	-6.8	14.25	9.00	7.06
Corn (US\$/bushel)	6.72	5.5	2.4	1.4	12.6	8.09	6.90	5.88
Soybean (US\$/bushel)	15.02	4.2	13.8	0.4	10.1	17.70	15.40	13.16

CRB: Commodity Research Bureau; WTI: West Texas Intermediate; MMBTU: Million British Thermal Units; LME: London Metal Exchange; MBF: thousand board feet

NOTE: Commodity table based on previous day's close.

TABLE 2
Commodity prices: History and forecasts

ANNUAL AVERAGE	2021	2022f	2023f	2024f
WTI oil (US\$/barrel)	68	95	Target: 75 (range: 50 to 100)	Target: 85 (range: 50 to 100)
Henry Hub natural gas (US\$/MMBTU)	3.72	6.60	Target: 4.40 (range: 2.00 to 8.00)	Target: 4.70 (range: 2.00 to 7.00)
Gold (US\$/ounce)	1,790	1,795	Target: 1,805 (range: 1,400 to 2,000)	Target: 1,645 (range: 1,200 to 1,800)
LME Index – Base metals	4,090	4,230	Target: 3,540 (range: 2,600 to 4,000)	Target: 3,675 (range: 2,900 to 4,000)

f: forecast; WTI: West Texas Intermediate; MMBTU: Million British Thermal Units; LME: London Metal Exchange

Sources: Datastream and Desjardins Economic Studies