

COMMODITY TRENDS

Monthly Update: The Oil Market Strikes a Delicate Balance between Economic Uncertainty and Production Cuts

HIGHLIGHTS

- ▶ We're still expecting West Texas Intermediate (WTI) to end the year at around US\$74, but many risks remain, especially as a recession is expected. Saudi Arabia is extending its voluntary million-barrel-per-day production cut until August, while Russia is slashing oil exports by 0.5 MMb/d. The market has tightened, and major deficits are expected in the coming quarters that could put upward pressure on prices. However, OPEC+ has pulled back production three times in less than a year for a total of 5.2 MMb/d or 5% of global supply, and WTI prices are down 20% year-over-year. Demand has clearly been weaker than expected, and it isn't looking much better for the next few quarters. Interest rate hikes will increasingly weigh on global activity, possibly offsetting upward price pressures.
- ▶ Despite the recent rise in natural gas prices, growth potential is more limited on this side as an uptick in production—especially in the US—has stabilized global supply. After several months of mild weather, El Niño has arrived in the United States, bringing with it sweltering temperatures and increased demand for air conditioning, sending natural gas prices higher. But natural gas prices typically go up in the summer.
- ▶ We don't expect industrial metal prices to rebound significantly until after the recession. Manufacturing activity and global trade are down, and the economic outlook is worsening for China, the world's largest consumer of base metals. Add it all up, and prices are likely to keep trending lower for a few more quarters. But the Chinese central government is expected to announce an economic recovery plan shortly that should provide some support for prices. That said, the fiscal stimulus probably won't be as generous as it was in recent years given the newfound focus on keeping economic policy stable in the medium to long term.
- ▶ Although the price of gold is off its recent peak of US\$2,026 per ounce, it's still historically high. Economic and financial uncertainty could keep upward pressure on prices for a few more quarters. But a return to growth in 2024 and the strength of the US dollar should bring it back to around US\$1,750 per ounce by the end of next year.

MAIN FACTORS TO WATCH

- ▶ **Energy:** No change.
- ▶ **Industrial metals:** We've revised our forecast for the second half of the year lower to reflect the faster-than-anticipated decline in prices.
- ▶ **Precious metals:** No change.

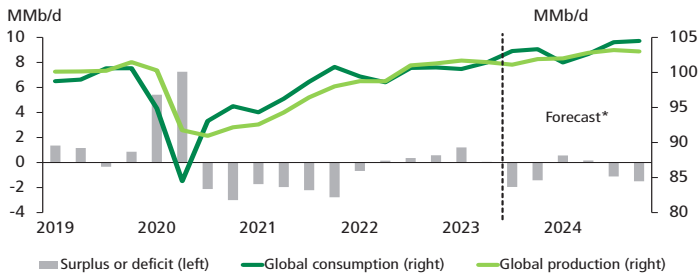
Benoit P. Durocher, Director and Principal Economist • Marc-Antoine Dumont, Economist

Desjardins Economic Studies: 514-281-2336 or 1-866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.
IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. Data on prices and margins is provided for information purposes and may be modified at any time based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. Unless otherwise indicated, the opinions and forecasts contained herein are those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2023, Desjardins Group. All rights reserved.

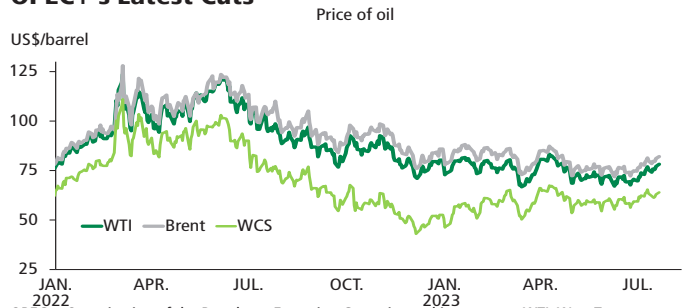
Main Commodity Trends

GRAPH 1
Significant Oil Market Deficits Are Still Expected in the Second Half of the Year



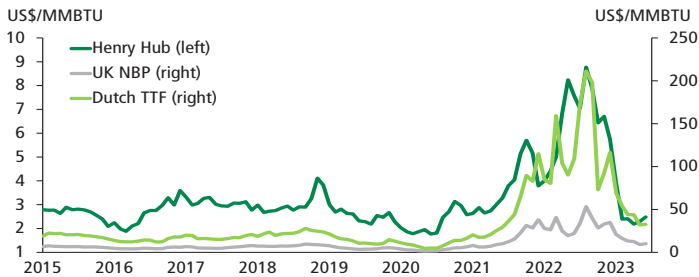
* International Energy Agency (IEA) outlook assuming members adhere to the production agreement.
 Sources: IEA and Desjardins Economic Studies

GRAPH 2
The Oil Market Is Delicately Balanced Following OPEC+'s Latest Cuts



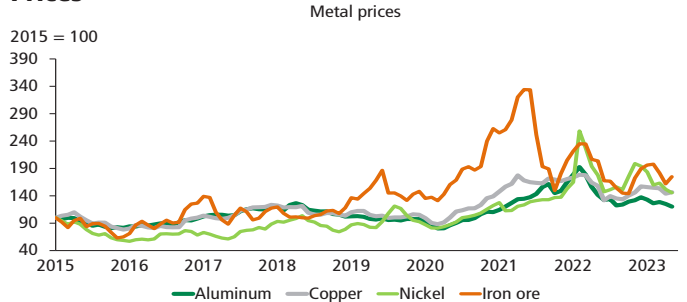
OPEC+: Organization of the Petroleum Exporting Countries and its partners; WTI: West Texas Intermediate; WCS: Western Canadian Select.
 Sources: Datastream, Bloomberg and Desjardins Economic Studies

GRAPH 3
Sweltering Temperatures Have Driven Up Natural Gas Prices, but Increased Production Has Limited Price Gains



MMBTU: Million British Thermal Units
 Sources: Bloomberg and Desjardins Economic Studies

GRAPH 4
Economic Conditions Are Weighing on Industrial Metal Prices



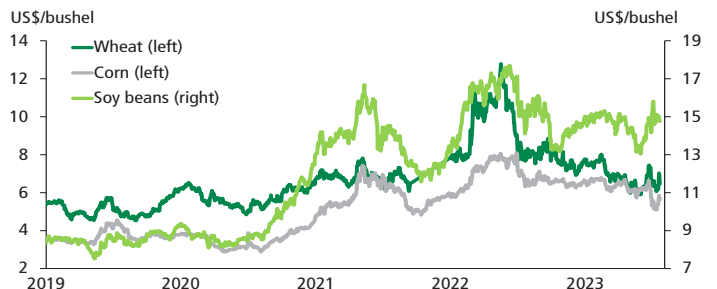
Sources: Datastream, Bloomberg and Desjardins Economic Studies

GRAPH 5
Uncertainty Should Support Precious Metal Prices for a Few More Months



Sources: Datastream and Desjardins Economic Studies

GRAPH 6
Russia's Withdrawal from the Black Sea Grain Initiative Has Prompted Concern and Sent Grain Prices Higher



Sources: Datastream and Desjardins Economic Studies

TABLE 1
Commodities

	SPOT PRICE	% CHANGE				LAST 52 WEEKS		
	July 25	1-month	3-month	6-month	1-year	High	Average	Low
Index								
Reuters/Jefferies CRB	280.1	6.5	4.2	1.0	-1.6	301.8	272.9	253.8
Bloomberg Commodity Index	107.7	5.2	2.9	-3.7	-8.8	125.6	110.0	98.0
Bank of Canada	622.9	3.7	-2.9	-1.7	-20.2	780.9	640.9	582.6
Energy								
Brent oil (US\$/barrel)	82.7	11.9	2.4	-4.1	-21.4	110.1	85.1	71.9
WTI oil (US\$/barrel)	78.9	6.7	2.3	-1.1	-20.7	101.4	79.7	66.6
WCS oil (US\$/barrel)	64.0	10.0	3.0	12.1	-16.1	77.2	59.6	43.0
Gasoline (CAN\$/litre)	1.69	1.81	3.68	5.96	-7.50	1.86	1.61	1.41
Gasoline (US\$/gallon)	3.60	0.5	-1.6	5.3	-17.0	4.49	3.59	3.09
Natural gas (US\$/MMBTU)	2.69	-1.6	16.4	-12.5	-69.2	9.68	4.56	1.99
Base metals								
LME Index	3,784	1.7	-1.9	-13.7	3.7	4,404	3,857	3,453
Aluminum (US\$/tonne)	2,165	1.4	-6.8	-17.5	-10.1	2,624	2,325	2,084
Copper (US\$/tonne)	8,488	0.9	-0.2	-8.6	13.7	9,331	8,350	7,422
Nickel (US\$/tonne)	21,199	0.4	-8.9	-26.8	-4.4	31,281	23,974	19,856
Zinc (US\$/tonne)	2,405	2.3	-7.2	-30.6	-21.4	3,782	2,948	2,230
Iron ore (US\$/tonne)	115.5	3.1	6.5	-4.9	17.9	133.5	109.5	80.0
Precious metals								
Gold (US\$/ounce)	1,961	1.9	-1.4	1.6	14.2	2,047	1,844	1,628
Silver (US\$/ounce)	24.6	10.1	-1.2	5.0	31.1	26.0	22.1	17.8
Platinum (US\$/ounce)	962	4.1	-10.9	-7.4	9.2	1,128	974	838
Palladium (US\$/ounce)	1,287	0.6	-13.9	-25.7	-35.7	2,315	1,715	1,200
Other commodities								
Wheat (US\$/bushel)	7.58	3.4	18.6	2.3	-1.6	9.38	7.41	5.91
Corn (US\$/bushel)	5.97	-6.3	-5.1	-10.1	-7.6	7.13	6.39	5.08
Soybeans (US\$/bushel)	14.92	1.9	4.8	0.3	3.3	16.10	14.57	13.04

CRB: Commodity Research Bureau; WTI: West Texas Intermediate; WCS: Western Canadian Select; MMBTU: Million British Thermal Units; LME: London Metal Exchange
 NOTE: Commodity table based on previous day's close.

TABLE 2
Commodity prices: History and forecasts

ANNUAL AVERAGES	2021	2022	2023f	2024f
Energy				
WTI oil (US\$/barrel)	68	95	74	82
Brent oil (US\$/barrel)	71	98	77	85
WCS spread (US\$/barrel)	54	75	59	69
Henry Hub natural gas (US\$/MMBTU)	3.72	6.51	2.90	4.05
Base metals				
Aluminum (US\$/tonne)	2,473	2,706	2,255	2,365
Copper (US\$/tonne)	9,312	8,832	8,400	8,325
Nickel (US\$/tonne)	18,460	26,263	22,590	21,550
Iron ore (US\$/tonne)	160	120	110	96
Precious metals				
Gold (US\$/ounce)	1,800	1,803	1,920	1,740

f: forecasts; WTI: West Texas Intermediate; WCS: Western Canadian Select; MMBTU: Million British Thermal Units
 Sources: Datastream and Desjardins Economic Studies