

Commodity Rally Loses Energy

A Publication of BMO Capital Markets Economic Research · Douglas Porter, CFA, Chief Economist, BMO Financial Group

Macroeconomic Developments:

- Following a hot summer run, the commodity rally tapped the brakes in early September as the elevated rate in new COVID-19 cases worldwide cast some doubt on the speed of the global economic rebound.
- Energy is leading the reversal amid concerns over the recovery in global oil demand, while lumber continues its record run, albeit at a slower pace.
- Still, recent data have shown the global industrial recovery remains on track, which combined with continued US dollar weakness and a more accommodative inflation-targeting framework from the Fed, should provide some cushion as prices pull back from recent highs.
- BMO Economics estimates the global economy will contract 3.9% in 2020, followed by a 5.6% rebound in 2021.

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Commodity Forecast Updates:

- The **BMO Capital Markets Commodity Price Index** rose 8.8% in August, the fourth consecutive gain.
- **Energy: WTI** is likely to remain subdued due to concerns over both OPEC+ compliance and the short-term outlook for global demand given the still-high rate of new COVID-19 cases around the world.
- **Metals:** near-term outlook for base metals has improved on signs that the industrial recovery is spreading beyond China, while gold has backed off record highs.
- **Forest Products:** housing market resiliency and still-tight inventories have bolstered the outlook for lumber prices, though demand is expected to ebb after a record run, reflected in tumbling futures prices.
- **Agriculture:** the near-term outlook for **crop** prices has been lifted moderately in light of strengthening demand from China and expectations of lower yields and production in some regions.

Commodity Price Outlook

Commodity		2019	2020f	2021f	Commodity		2019	2020f	2021f
Energy					Metals				
Crude Oil ^a	US\$/bbl	56.99	38.00	45.00	Gold	US\$/oz	1,393	1,775	1,750
Natural Gas ^b	US\$/mmbtu	2.57	1.90	2.25	Silver	US\$/oz	16.20	19.25 ↑	19.00
Agriculture					Aluminum				
Wheat	US\$/bushel	4.94	5.40 ↑	5.60 ↑	Copper	US\$/lb	2.72	2.65 ↑	2.70
Canola	US\$/tonne	344	360 ↑	390 ↑	Nickel	US\$/lb	6.31	6.00 ↑	6.75
Cattle	US\$/cwt	116	107 ↑	118	Zinc	US\$/lb	1.16	0.94 ↑	0.93
Hogs	US\$/cwt	70	57 ↑	77	Forest Products				
					Lumber	US\$/mbf	360	490 ↑	360 ↑

Sources: BMO Economics, Haver Analytics

f = forecast; ↑, ↓ = forecast changes from last month; ^a WTI; ^b Henry Hub

Energy, Materials and Agriculture

	Crude Oil (US\$/bbl)	Natural Gas		Lumber (US\$/mbf)	Wheat (US\$/bushel)	Canola (US\$/tonne)	Cattle (US\$/cwt)	Hogs	
		Henry Hub (US\$/mmbtu)	AECO						
2007	72.36	6.98	6.02	245	6.38	378	93.92	65.56	
2008	99.57	8.86	7.78	215	7.98	527	93.60	66.05	
2009	61.69	3.95	3.51	177	5.30	371	83.85	58.11	
2010	79.43	4.39	3.89	255	5.81	429	94.95	75.60	
2011	95.08	4.00	3.67	255	7.10	566	114.54	90.34	
2012	94.20	2.75	2.39	299	7.50	601	122.65	84.93	
2013	97.93	3.73	3.08	356	6.84	545	126.40	89.33	
2014	93.26	4.39	4.08	349	5.88	400	151.50	105.83	
2015	48.69	2.63	2.12	277	5.08	371	146.49	69.40	
2016	43.21	2.52	1.64	305	4.36	366	118.61	65.60	
2017	50.91	2.99	1.67	401	4.36	393	117.90	69.87	
2018	64.84	3.17	1.19	480	4.95	389	114.64	65.26	
2019	56.99	2.57	1.36	360	4.94	344	115.84	69.92	
y-t-d 2020	37.96	1.87	1.55	464	5.30	347	103.94	56.01	
2019	Sep	56.96	2.56	0.53	373	4.79	338	99.66	63.58
	Oct	53.98	2.33	1.71	367	5.08	346	109.98	64.88
	Nov	56.95	2.65	2.11	384	5.16	346	119.49	62.92
	Dec	59.81	2.22	1.82	390	5.42	350	121.72	66.08
2020	Jan	57.53	2.02	1.75	396	5.65	360	125.18	66.80
	Feb	50.53	1.91	1.39	433	5.49	345	118.90	60.59
	Mar	29.46	1.79	1.39	367	5.35	331	102.30	61.31
	Apr	16.61	1.74	1.42	317	5.41	327	90.38	46.62
	May	28.55	1.75	1.51	361	5.15	334	95.43	62.68
	Jun	38.32	1.63	1.41	392	4.97	346	95.23	48.38
	Jul	40.72	1.76	1.49	547	5.24	354	100.76	49.56
	Aug	42.35	2.30	1.90	808	5.14	370	104.86	52.97
	m-t-d Sep	41.35	2.23	2.06	955	5.47	384	104.59	57.63
Forecast 2020 avg.	38.00	1.90	1.60 ↑	490 ↑	5.40 ↑	360 ↑	107.00 ↑	57.00 ↑	
2021 avg.	45.00	2.25	1.75 ↑	360 ↑	5.60 ↑	390 ↑	118.00	77.00	

Commodity price forecasts are by BMO Economics and are independent of those used by BMO Capital Markets Equity Research

↑ and ↓ indicate annual forecast changes from last month

Base and Precious Metals

		Copper	Aluminum (US\$/lb)	Zinc	Nickel	Gold (US\$/oz)	Silver
	2007	3.23	1.20	1.47	16.89	697	13.40
	2008	3.15	1.17	0.85	9.57	872	15.01
	2009	2.34	0.75	0.75	6.64	973	14.67
	2010	3.42	0.99	0.98	9.89	1225	20.16
	2011	4.00	1.09	0.99	10.38	1570	35.11
	2012	3.61	0.92	0.88	7.96	1668	31.15
	2013	3.32	0.84	0.87	6.81	1411	23.83
	2014	3.11	0.85	0.98	7.65	1266	19.08
	2015	2.50	0.75	0.88	5.37	1160	15.70
	2016	2.21	0.73	0.95	4.35	1248	17.10
	2017	2.80	0.89	1.31	4.72	1258	17.06
	2018	2.96	0.96	1.33	5.95	1270	15.71
	2019	2.72	0.81	1.16	6.31	1393	16.20
	y-t-d 2020	2.61	0.74	0.96	5.85	1717	18.60
2019	Sep	2.61	0.79	1.05	8.01	1510	18.18
	Oct	2.60	0.78	1.11	7.76	1495	17.66
	Nov	2.66	0.80	1.10	6.89	1472	17.18
	Dec	2.75	0.80	1.03	6.26	1480	17.10
2020	Jan	2.74	0.80	1.07	6.15	1561	17.97
	Feb	2.58	0.76	0.96	5.78	1599	17.91
	Mar	2.35	0.73	0.86	5.38	1594	14.90
	Apr	2.29	0.66	0.86	5.33	1680	15.04
	May	2.37	0.66	0.89	5.50	1716	16.22
	Jun	2.60	0.71	0.92	5.76	1734	17.73
	Jul	2.88	0.74	0.98	6.05	1841	20.44
	Aug	2.95	0.79	1.09	6.57	1971	26.90
	m-t-d Sep	3.04	0.80	1.14	6.99	1957	27.54
Forecast	2020 avg.	2.65 ↑	0.73 ↑	0.94 ↑	6.00 ↑	1775	19.25 ↑
	2021 avg.	2.70	0.77	0.93	6.75	1750	19.00

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Commodity Indices and Forecasts (US\$-terms : 2003 = 100)

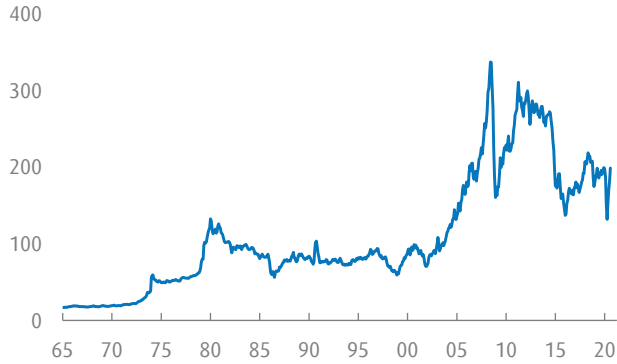
		All Commodities	Oil & Gas	Metals & Minerals	Forest Products	Agricultural Products	All Commodities (C\$-terms)
	2011	283.7	275.6	364.8	90.1	205.3	200.3
	2012	279.7	270.2	353.8	108.4	216.9	199.5
	2013	271.7	283.0	304.1	128.6	200.1	199.6
	2014	252.1	271.4	270.5	121.3	170.0	198.4
	2015	170.9	142.5	244.8	98.3	151.3	155.5
	2016	160.7	126.9	241.1	110.3	135.9	151.8
	2017	178.1	149.6	249.4	144.8	139.8	165.0
	2018	204.3	189.0	257.5	169.5	147.2	188.8
	2019	191.0	165.6	267.4	124.4	141.3	180.9
Forecast	2020	174.8	110.9	300.0	175.0	148.4	167.5
	2021	185.4	131.3	305.5	126.9	158.1	173.2
	2018 Q4	189.4	173.8	247.3	115.6	146.3	178.4
	2019 Q1	185.4	160.4	256.6	128.3	143.2	176.0
	Q2	191.7	173.4	258.3	114.5	138.3	182.9
	Q3	192.3	163.5	276.8	123.5	137.9	181.2
	Q4	194.7	165.0	278.0	131.3	145.7	183.5
	2020 Q1	178.4	132.8	279.2	139.8	149.2	170.5
	Q2	150.8	81.9	285.9	126.5	139.5	149.0
Forecast	Q3	189.5	116.0	323.6	250.8	147.1	180.2
	Q4	180.5	112.6	311.3	182.9	157.6	170.2
	2021 Q1	183.8	124.4	309.5	139.4	160.5	172.8
	2019 Aug	189.7	158.7	278.3	118.4	136.2	179.6
	Sep	195.5	165.5	283.3	128.8	135.5	184.7
	Oct	190.3	156.6	280.4	126.9	142.4	179.4
	Nov	194.8	165.7	277.0	132.7	144.9	183.8
	Dec	199.1	172.7	276.6	134.4	149.9	187.3
	2020 Jan	197.7	165.8	282.6	136.5	155.1	184.6
	Feb	187.0	146.0	281.6	151.1	149.5	177.4
	Mar	150.4	86.7	273.3	131.9	143.2	149.5
	Apr	131.6	50.6	281.2	112.5	140.9	132.3
	May	151.9	84.0	285.2	128.2	139.7	151.5
	Jun	169.0	111.1	291.3	138.6	138.0	163.4
	Jul	182.2	118.2	309.0	193.0	143.7	175.8
	Aug	198.3	124.0	331.5	286.3	145.4	187.4

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All-Commodity Index

Nominal US\$-Terms

(2003 = 100)

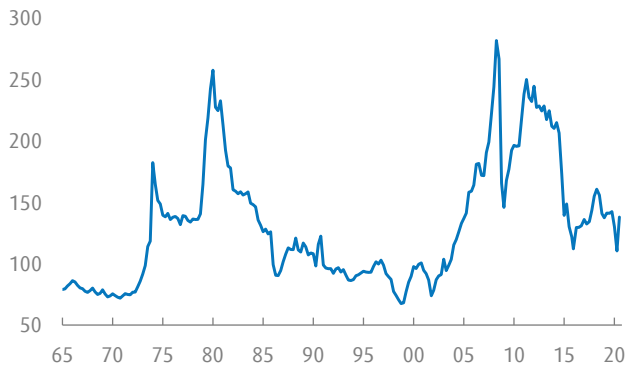


Source: BMO Economics

All-Commodity Index

Real US\$-Terms

(2003 = 100)

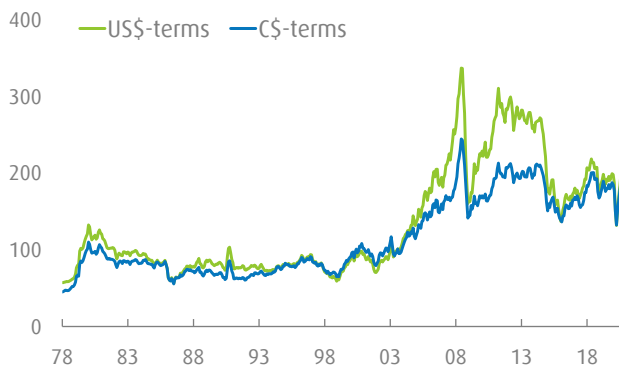


Source: BMO Economics

All-Commodity Index

Nominal

(2003 = 100)



Source: BMO Economics

Technical Note

The BMO Capital Markets Commodity Price Index is a fixed-weight, export-based index that encompasses the price movement of 16 commodities key to Canadian exports. Weights are each commodity's average share of the total value of exports of the 16 commodities during the period 2012-16. Similarly, weights of sub-index components reflect the relative importance of commodities within their respective product group.

The all-commodities index and sub-indices consist of the following:

(percent)	Weight in All-Commodities Index	Weight in Sub-Index
Metals & Minerals	29.8	100.0
Gold	10.6	35.4
Silver	1.4	4.6
Aluminum	6.4	21.4
Copper	2.3	7.8
Nickel	3.2	10.8
Zinc	0.9	3.0
Uranium	1.3	4.4
Potash	3.8	12.6
Oil and Gas	54.6	100.0
Crude Oil	47.6	87.2
Canadian Natural Gas	7.0	12.8
Forest Products	6.5	100.0
Lumber	5.5	84.1
OSB	1.0	15.9
Agricultural Products	9.1	100.0
Wheat	4.5	49.5
Canola	3.3	36.6
Hogs	0.3	3.0
Beef Cattle	1.0	10.9
All Commodities	100.0	—

Source: BMO Economics

Unless otherwise specified, all indices reported in this publication correspond to prices in U.S. dollars.

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