

## Oil Drives Commodity Gain in April

Dollar strength providing stiff headwind as U.S./China trade tensions return to the forefront

The **BMO Capital Markets Commodity Price Index** increased 3.8% in April, the fourth-straight monthly gain, though performance was mixed across segments. Rising crude oil prices packed the largest punch, while weakness in natural gas and lumber provided some offset. Meantime, simmering U.S./China trade tensions have boiled back to the surface, resulting in bouts of increased risk aversion and further U.S. dollar strength, which present challenges across the commodity spectrum.

The **Oil & Gas Index** rose in April for the fourth consecutive month, jumping 9% as a sharp increase in oil prices more than offset a weakening in natural gas. Oil received support in April from expectations, subsequently realized in May, that the United States would eliminate waivers on sanctions on purchases of Iranian oil. This will tighten a market already facing reduced supply from Venezuela and Libya.

The **Metals & Minerals Index** edged down 0.1% in April amid broad-based weakness. Still, gold found support in early May as heightened risk aversion was stoked by tit-for-tat tariff hikes between the U.S. and China. Base metals prices bounced modestly as financial market volatility calmed by mid-May (supported by an agreement by USMCA partners to lift steel and aluminum tariffs), though relentless U.S. dollar strength and the prospect of a further trade-war escalation continue to provide substantial headwinds.

The **Forest Products Index** slumped 11.6% in April, with weakness across all grades. February's lumber inventory accumulation clearly overshot the market and was still in the midst of unwinding in April amid soft housing activity. Spruce-Pine-Fir prices were shaved 12%, as buyers tapped wholesalers' ample inventories rather than meet mill prices. Oriented Strand Board prices sagged below an earlier steady trading range to their lowest level since March 2015, as the market remains oversupplied.

The **Agriculture Index** edged down 0.5% in April for a third straight monthly decline. Crop products continued to weigh on the index, with canola down 1.7% as China restricted imports from Canada (the world's foremost producer) and wheat prices lower due to a generally strong U.S. winter crop. On the other side of the ledger, hog prices continued to soar amid the outbreak of African Swine Fever in China, which has resulted in widespread culling. Hog prices were up 22% during the month and 37% on a year-over-year basis.

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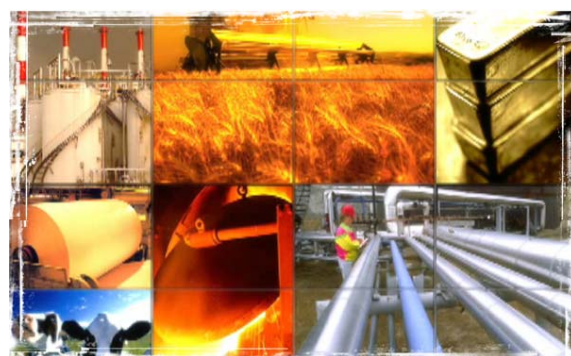
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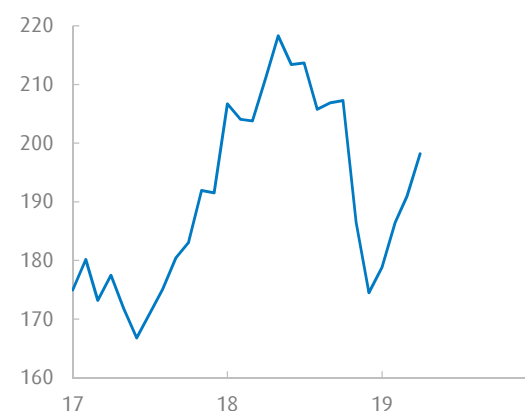
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**BMO CAPITAL MARKETS  
COMMODITY PRICE INDEX  
(2003 = 100)**

### All Commodities Index



	Apr. Level (2003=100)	% Change from Mth. Ago	Yr. Ago
All Commodities	198.2	3.8	-6.1
Oil & Gas	185.0	9.0	-3.7
Metals & Minerals	260.1	-0.1	-3.1
Forest Products	112.5	-11.6	-42.3
Agriculture	136.0	-0.5	-8.2



## Commodity Focus: Lumber Slumber

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There is such a thing as too much action, even for traders. In that respect, 2019 will likely offer some welcome respite following a year that saw wood products challenge crypto currencies for the volatility crown (Chart 1). If anything, the market has been marked by a lack of action in recent months, with Oriented Strand Board prices, the most mercurial of grades, posting their most consistent results on record (trading within a \$14 band until recently), albeit at relatively weak pricing. The same applies for last year's main culprit, lumber, which has largely synched with underlying market fundamentals (to the degree that can be expected for a volatile commodity). **The sleepy start to the season reinforces our outlook for soft market conditions, with the lukewarm performance of the North American housing market acting as a key impediment to constructive price appreciation.**

We've noted for some time that the **wood product markets faced some downside risk given the divergence in expectations of producers and our macro outlook for housing activity.** Most of the industry had hoped that the Tax Cuts and Jobs Act in the U.S. would spur growth and boost housing starts to a 1.35-to-1.4 million unit pace; estimates that landed well above our assessment of the prevailing market conditions. Though 2018's white-knuckle ride blew a hole through our quarterly forecasts, the annual figure landed quite close to the mark, as transitory supply-side factors washed out and cyclical factors seized the rudder. Indeed, it now appears as if U.S. housing starts are firmly pinned below the 1.3 million unit mark (Chart 2), with only a muted recovery expected after a harsh winter. This owes to both supply-side issues (zoning, permitting, and labour shortages) and demand-side pressures (decreasing affordability, lower first-time buyer activity), neither of which show signs of abating.

In Canada, starts continue to outperform, thanks in large part to demographics; population growth in 2018 was the fastest in a generation at 1.4%. However, single-family starts are on a multi-year downtrend, owing largely to zoning issues in some of the country's tightest markets, as well as reduced affordability. Multi-family construction accounted for 70% starts in Q1 2019, the highest level on record (Chart 3). This compositional shift will temper demand for wood products in the domestic market, as multi-family units use less than a third of the wood as a single-family home.

CHART 1: WOOD PRODUCT PRICES OUTLOOK

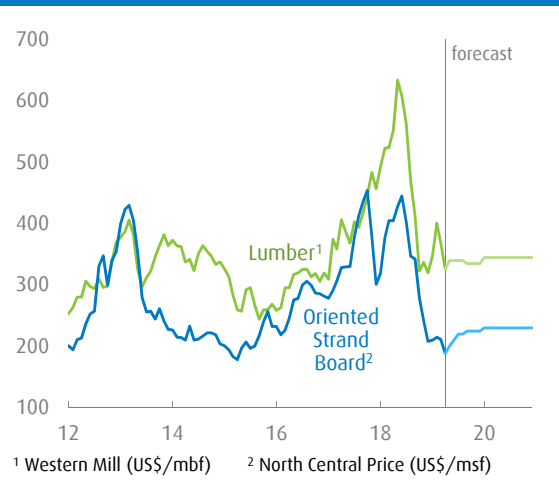


CHART 2: U.S. HOUSING STARTS

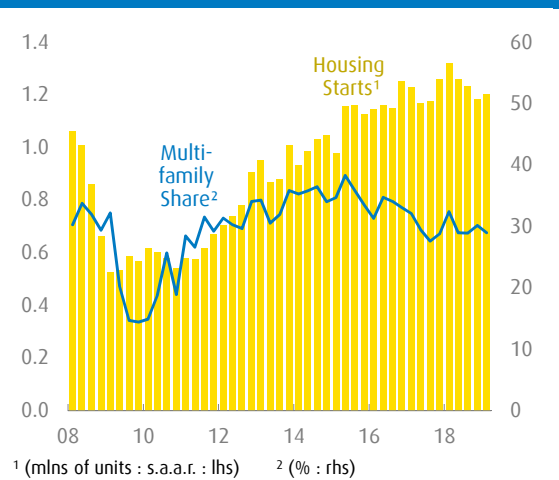
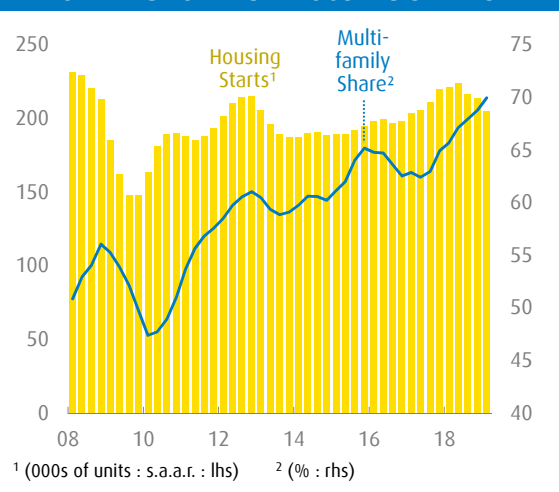


CHART 3: CANADA HOUSING STARTS



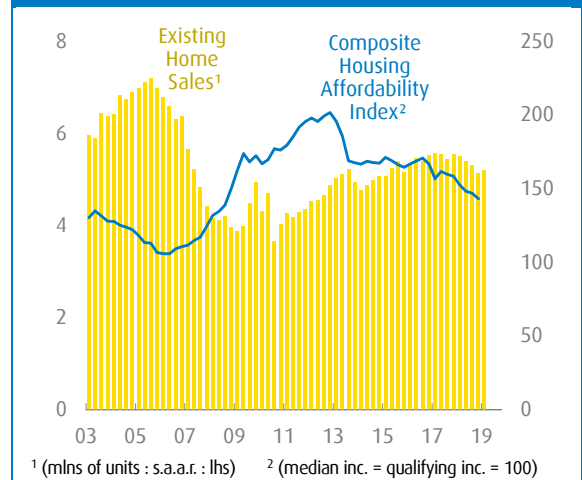
**A nexus of languid housing starts and increasing industry capacity will keep prices of Oriented Strand Board, which are nearly entirely dependent on home building, pinned down.** It remains to be seen whether supply from capacity additions can be absorbed at current prices, but any further weakness would entail some closures. We remain fairly conservative, with our forecast calling for **OSB to average \$215/msft in 2019 (vs. \$350 in 2018) and \$230/msft in 2020 as supply is absorbed gradually.**

Lumber markets, though heavily influenced by home building, are almost equally as dependent on renovation activity (30%, compared to 45% for building, 10% for manufacturing and 15% for other uses). Existing home sales are an important indicator in this regard; renovation projects are often started with the intention of increasing the value of a home for future sale. However, there are few signs of support on this front, as existing home sales have decelerated in recent months amid eroding affordability (Chart 4) and poor weather. Though these issues are expected to abate somewhat, as nature takes its course and increased dovishness from the Federal Reserve steers mortgage rates lower, sales are nevertheless expected to trend below their cyclical peak.

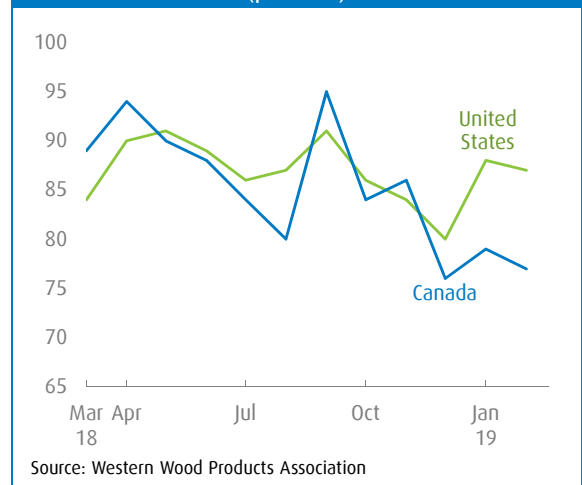
**In this context, supply dynamics will play a crucial role in determining lumber pricing.** Further capacity closures will be required to return to profitability, with mills in both the U.S. and Canada operating at or below break-even rates (Chart 5). Though a reduction of British Columbia's annual allowable cut is providing a natural drag on output, inventories remain somewhat elevated, a concern amid soft demand conditions. **Given these dynamics, our forecast is for Spruce-Pine-Fir to average \$345/mbf in 2019-2020 (vs. \$480 in 2018), with some bouts of volatility as demand and supply grind their way closer to equilibrium.**

**Bottom Line:** Though we can never discount the potential price-positive effects of climate events (wildfires) or logistical jams (all too frequent this cycle), market fundamentals portend a relatively soft outlook for wood products in 2019-2020.

**CHART 4: U.S. EXISTING HOME SALES**



**CHART 5: SOFTWOOD SAWMILL CAPACITY UTILIZATION (percent)**



## Energy and Materials

	Crude Oil (WTI) US\$/bbl	Natural Gas (Henry Hub) US\$/mmbtu	(AECO)	Lumber US\$/mbf
2006	66.10	6.74	5.76	290
2007	72.36	6.98	6.02	245
2008	99.57	8.86	7.79	215
2009	61.69	3.95	3.48	177
2010	79.43	4.39	3.89	255
2011	95.08	4.00	3.67	255
2012	94.20	2.75	2.39	299
2013	97.93	3.73	3.09	356
2014	93.26	4.39	4.08	349
2015	48.69	2.63	2.12	277
2016	43.21	2.52	1.63	305
2017	50.91	2.99	1.67	401
2018	64.84	3.17	1.19	480
y-t-d 2019	57.88	2.82	1.59	358
<b>2018</b>				
May	69.99	2.80	0.86	634
June	67.33	2.97	0.91	609
July	70.97	2.83	1.04	564
August	67.99	2.96	0.82	468
September	70.20	3.00	1.04	414
October	70.76	3.28	1.10	323
November	57.00	4.09	1.29	337
December	48.95	4.04	1.25	320
<b>2019</b>				
January	51.45	3.11	1.48	347
February	54.96	2.69	2.55	401
March	58.14	2.95	1.81	369
April	63.86	2.65	0.74	326
m-t-d May	62.15	2.62	0.87	329
<b>Forecast</b>				
2019 Avg.	<b>62.00</b>	<b>2.85</b>	<b>1.35</b> ↑	<b>345</b> ↓
2020 Avg.	<b>62.00</b>	<b>3.00</b>	<b>1.60</b>	<b>345</b> ↑

Commodity price forecasts are by BMO Capital Markets 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	Zinc	Nickel	Gold	Silver
	US\$/lb			US\$/oz		
2006	3.05	1.17	1.48	11.00	605	11.58
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
y-t-d 2019	2.83	0.84	1.25	5.63	1298	15.35
<b>2018</b>						
May	3.09	1.04	1.39	6.51	1304	16.45
June	3.15	1.02	1.40	6.85	1282	16.51
July	2.83	0.95	1.21	6.25	1238	15.71
August	2.74	0.93	1.14	6.09	1202	15.00
September	2.73	0.92	1.10	5.68	1199	14.27
October	2.82	0.92	1.21	5.59	1215	14.58
November	2.81	0.88	1.18	5.10	1221	14.36
December	2.76	0.88	1.19	4.91	1250	14.67
<b>2019</b>						
January	2.69	0.84	1.16	5.19	1292	15.61
February	2.85	0.84	1.23	5.74	1320	15.81
March	2.93	0.85	1.29	5.92	1302	15.32
April	2.92	0.84	1.33	5.81	1288	15.03
m-t-d May	2.77	0.81	1.26	5.43	1284	14.72
<b>Forecast</b>						
2019 Avg.	<b>3.05</b> ↓	<b>0.88</b> ↓	<b>1.22</b>	<b>5.65</b> ↓	<b>1285</b>	<b>15.45</b> ↓
2020 Avg.	<b>3.25</b> ↓	<b>0.96</b> ↓	<b>1.23</b>	<b>5.85</b> ↓	<b>1260</b>	<b>16.25</b> ↓

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## Agriculture

		Wheat	Canola	Cattle	Hogs
		US\$/bushel	US\$/tonne		US\$/cwt
	2006	4.02	257	86.23	64.08
	2007	6.38	378	93.92	65.56
	2008	7.98	527	93.60	66.05
	2009	5.30	371	83.85	58.11
	2010	5.81	429	94.95	75.60
	2011	7.10	566	114.54	90.34
	2012	7.50	601	122.65	84.93
	2013	6.84	545	126.40	89.33
	2014	5.88	400	151.50	105.83
	2015	5.08	371	146.49	69.40
	2016	4.36	366	118.61	65.60
	2017	4.36	393	117.90	69.87
	2018	4.95	389	114.64	65.26
	y-t-d 2019	4.74	347	124.59	70.23
<b>2018</b>	May	5.17	414	104.96	71.13
	June	5.01	398	107.63	80.01
	July	5.07	379	107.13	72.90
	August	5.38	384	108.63	54.74
	September	5.04	378	111.77	57.80
	October	5.11	378	113.36	61.13
	November	5.05	361	116.04	57.61
	December	5.17	357	119.83	58.44
<b>2019</b>	January	5.17	362	125.31	60.78
	February	4.99	361	127.44	55.71
	March	4.53	342	128.22	68.57
	April	4.51	337	126.27	83.66
	m-t-d May	4.39	324	111.65	86.45
<b>Forecast</b>	2019 Avg.	<b>4.80</b>	<b>340</b> ↓	<b>120.00</b>	<b>78.00</b>
	2020 Avg.	<b>5.40</b>	<b>390</b>	<b>122.00</b>	<b>79.00</b>

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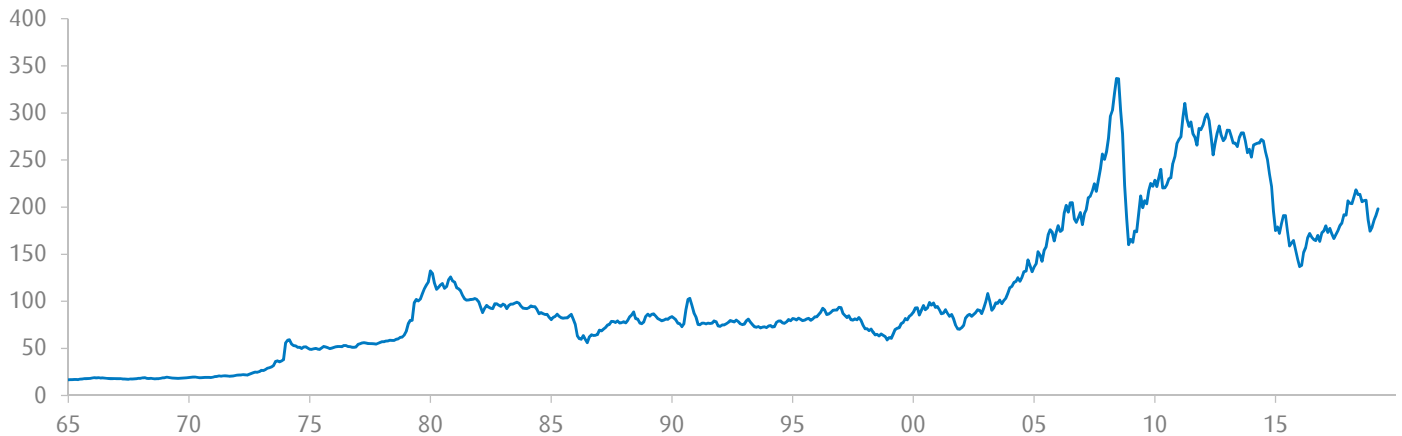
## Commodity Indices and Forecasts

US\$-terms : 2003 = 100		All Commodities	Oil & Gas	Metals & Minerals	Forest Products	Agricultural Products	All Commodities C\$-terms	
<b>Annual</b>								
	2010	234.6	232.7	291.1	92.0	163.4	172.5	
	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	
Forecast	2019	<b>197.0</b>	<b>180.3</b>	<b>262.0</b>	<b>119.9</b>	<b>139.6</b>	<b>187.6</b>	
	2020	<b>201.0</b>	<b>180.6</b>	<b>269.5</b>	<b>120.7</b>	<b>155.8</b>	<b>188.1</b>	
<b>Quarterly</b>								
2017	Q3	175.5	141.8	252.6	149.3	143.8	157.1	
	Q4	188.8	161.9	258.8	165.5	138.0	171.2	
2018	Q1	204.8	183.3	268.2	180.9	144.2	184.6	
	Q2	214.2	196.7	266.8	210.7	150.1	197.2	
	Q3	208.8	202.1	247.8	170.9	148.3	194.9	
	Q4	189.4	173.8	247.3	115.6	146.3	178.4	
Forecast	2019 Q1	185.4	160.4	256.6	128.3	143.2	176.0	
	Q2	<b>197.4</b>	<b>184.5</b>	<b>257.9</b>	<b>116.0</b>	<b>135.2</b>	<b>189.0</b>	
	Q3	<b>202.6</b>	<b>190.1</b>	<b>264.1</b>	<b>118.1</b>	<b>137.3</b>	<b>193.3</b>	
	Q4	<b>202.5</b>	<b>186.1</b>	<b>269.5</b>	<b>117.3</b>	<b>142.6</b>	<b>192.0</b>	
<b>Monthly</b>								
2018	Apr	211.0	192.1	268.4	195.0	148.2	191.7	
	May	218.3	202.6	266.4	222.2	153.0	200.3	
	Jun	213.4	195.5	265.6	214.9	149.2	199.6	
	Jul	213.7	205.4	252.5	198.8	147.1	200.4	
	Aug	205.8	197.3	246.6	165.6	151.6	191.5	
	Sep	206.9	203.6	244.4	148.3	146.2	192.6	
	Oct	207.3	205.8	248.0	116.3	147.8	192.2	
	Nov	186.5	169.2	245.9	118.9	144.6	175.6	
	Dec	174.5	146.5	248.0	111.7	146.5	167.4	
	2019	Jan	178.9	151.3	251.5	120.3	147.9	170.4
		Feb	186.5	160.2	257.9	137.3	145.2	175.9
		Mar	190.9	169.7	260.4	127.2	136.6	181.8
Apr		198.2	185.0	260.1	112.5	136.0	189.2	

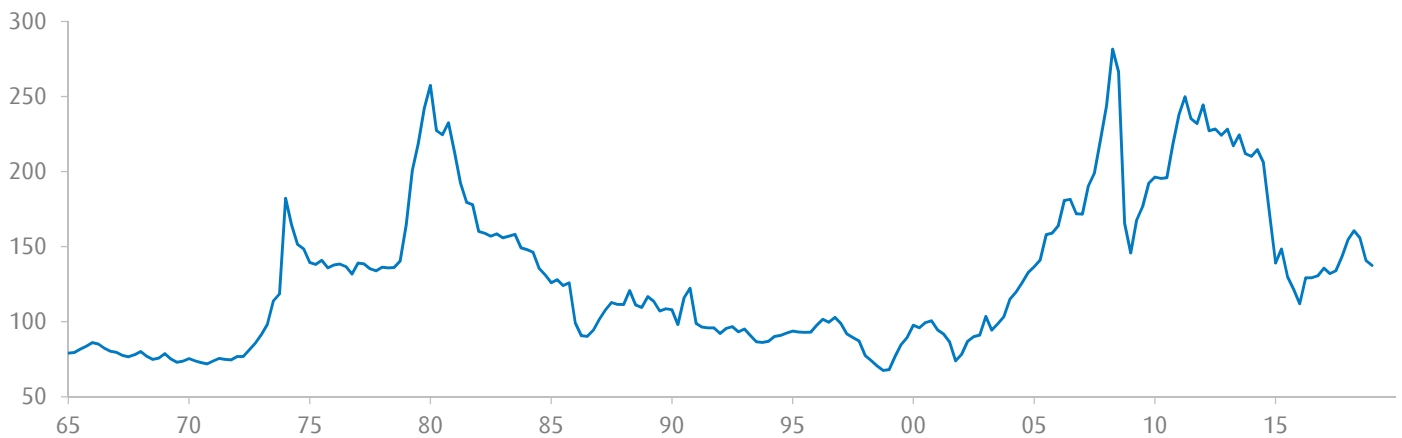
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## Historical Charts: All-Commodity Index

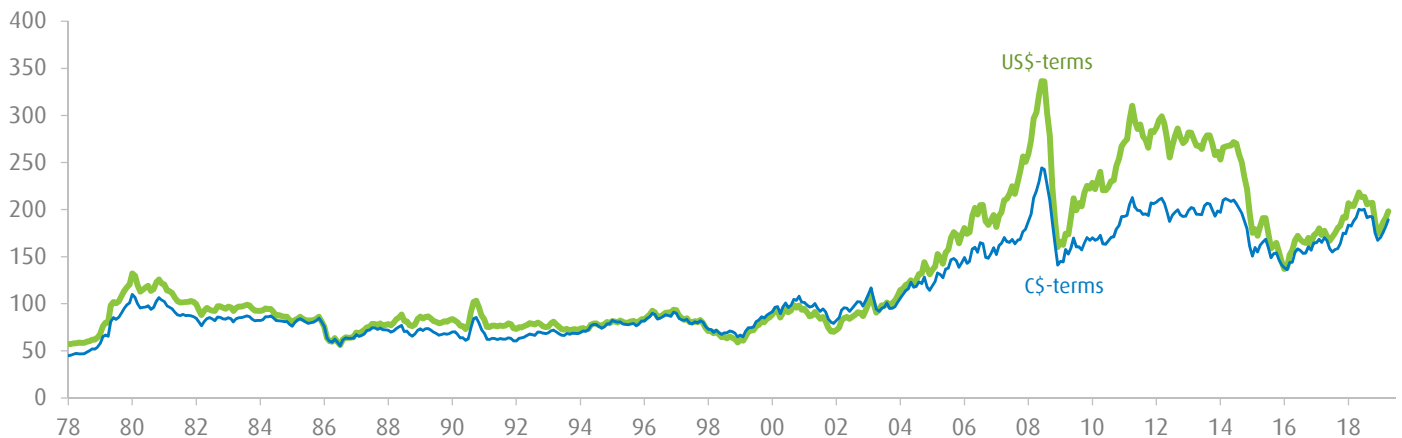
Nominal US\$-Terms (2003 = 100)



Real US\$-Terms (2003 = 100)



Nominal (2003 = 100)





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

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

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