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## Scotiabank's Commodity Price Index Edges Up in March

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## Context

TORONTO, Apr 22, 2010 (Canada NewsWire via COMTEX) ---- Strong coking coal prices spur mine restarts and capacity expansion in Western Canada by Teck Resources, Western Coal and Grande Cache Coal.

Scotiabank's Commodity Price Index, which measures price trends in 32 of Canada's major exports, rose slightly in March - up 0.3 per cent month-over-month (m/m) - to a level 25.1 per cent above the cyclical low in April 2009.

"Month-to-month fluctuations have recently reflected the ebb and tide of investor sentiment for a broad-based global economic recovery, with risk appetite for commodities returning in March," said Patricia Mohr, Vice-President, Economics and Commodity Market Specialist at Scotiabank. "The release of U.S. employment data showing a 162,000 gain in payrolls in March, the first significant employment increase since November 2007, boosted commodity prices significantly the week of April 6 - especially base metals and oil."

## Metals &amp; Minerals

The Metal & Mineral Index posted a strong advance in March, rising 5.6 per cent m/m, with widespread strength in base and precious metals.

"Higher prices for premium-grade hard coking coal (FOB Vancouver), following annual contract negotiations with Japanese steel mills, will significantly lift the Metal & Mineral Index in April, with prices jumping from US\$128 per tonne to US\$200 per tonne for JFY2010:Q1," said Ms. Mohr. "Current spot prices for Australian coal at US\$240 per tonne suggest another increase in contract prices in the second quarter."

According to the report, lucrative prices for coking coal are spurring mine expansion in Western Canada. Teck Resources intends to boost its production from 20 million tonnes (mt) last year to 24 mt in 2011 and 28.5 mt in 2012 and is considering the feasibility of restarting the Quintette mine in B.C. Western Coal will expand output from Brule and restart mining at Willow Creek, while Grande Cache Coal will develop a new surface pit.

Following annual contract negotiations for iron ore, the price of Hamersley fines into Asian markets has increased from 97 US cents per dmtu (dry metric tonne unit) to 184 cents (FOB loading port in Australia) or almost 90 per cent for the first quarter of JFY2010. Scotia Economics continues to expect that tight international markets for iron ore and lucrative prices will attract investment capital for development of a number of iron ore projects in Nunavut (Baffinland Iron Mines) and in northern Quebec (Adriana Resources).

"Extraordinarily, world steel production in March at 120.3 million tonnes (+30.6 per cent year-over-year) surpassed the previous peak in March 2008 at 119.9 million tonnes," said Ms. Mohr. "This is a testament to the growing dominance of China as well as the beginning of a recovery in steel production across the G7 - partly boosted by government infrastructure spending."

LME nickel prices have recently been a standout - rising from US\$8.60 per pound in February to US\$10.18 in March and just below US\$12 in mid-April - yielding a lucrative 61 per cent profit margin over average world break-even costs including depreciation. Prices have been bolstered by the beginning of a pick-up in G7 stainless steel orders - as steel service centres restock depleted inventories - in the face of ongoing strikes at Vale's Canadian operations in Sudbury and Voisey's Bay.

"Spot potash prices (FOB Vancouver) bottomed in February at US\$342.50 per tonne and edged up to US\$347.50 in March - reflecting higher priced sales into Southeast Asia. India may represent the largest market for potash suppliers in 2010, having already concluded 3.74 million tonnes of firm contracts and may buy in excess of five million tonnes this fertilizer year," noted Ms. Mohr. "We continue to view 2010 as a transition year to much firmer prices by 2011."

## Oil &amp; Gas

The Oil & Gas Index fell by 6.5 per cent m/m, though this sub-index has still outperformed other sectors over the past year (+45.5 per cent). Stronger light and heavy oil prices in Alberta were more than offset by a sharp decline in natural gas export prices and propane prices in Edmonton and Sarnia. Weak natural gas prices have held back the overall advance in commodity prices since January. China is expanding its investment in the Alberta oil sands, with China Petroleum & Chemical Corp. (Sinopec) recently agreeing to acquire ConocoPhillips nine per cent stake in Syncrude Canada.

## Forest Products

The Forest Products Index posted a 1.4 per cent m/m increase in March. Northern bleached softwood kraft pulp prices in the United States rose by US\$30 per tonne to US\$910 per tonne in March in the aftermath of the earthquake in Chile and have climbed further to US\$960 in April. Prices are likely to surpass previous record highs in May-June.

Lumber prices eased back temporarily to US\$175 per mfbm in March, after dealer restocking in early 2010, but surged again to US\$308 in mid-April - buoyed by stepped-up demand for the U.S. spring building season and very low inventories in the distribution system. Lumber mills are starting to be re-opened (e.g. Interfor's Castelgar mill in B.C.).

"Lumber prices are at genuinely profitable levels," stated Ms. Mohr. "OSB prices have climbed even more and are quite profitable, a welcome development for Canadian producers who account for one-third of U.S. and Canadian production."

## Agriculture

The Agricultural Index eased by 0.3 per cent m/m in March, as lower wheat and Atlantic Coast lobster prices countered stronger canola, barley and livestock prices.

Scotia Economics provides clients with in-depth research into the factors shaping the outlook for Canada and the global economy, including macroeconomic developments, currency and capital market trends, commodity and industry performance, as well as monetary, fiscal and public policy issues.

SOURCE: Scotiabank - Economic Reports

SOURCE: Scotiabank

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