February 9, 2017

COMMODITY PRICES UP, BUT FURTHER GAINS LIMITED

A recovery appears to be underway across the commodity complex, with prices of most bottoming in the first half of the year and trending up thereafter. Agricultural commodity prices are the exception, with prices falling over the same period. Looking ahead, while prices for several commodities – particularly those within energy and base metals – are on track to record significant increases on an annual average basis, the upside from current levels remains limited. Indeed, with the exception of zinc and lumber, commodity prices will remain well-below their post-recession norms throughout 2017 and 2018.

Oil to remain range-bound despite OPEC cutbacks

Crude oil prices have been hovering just above the US$50 per barrel mark since OPEC and some non-OPEC countries, including Russia, agreed to specific production cuts at the end of last year. Price increases since then suggest that the market expects these cutbacks to materialize, although any indication that these targets are not being met could result in a price correction. Meanwhile, with prices above US$50 per barrel, production in the U.S. has been on the rise, with rig counts increasing in 9 of the last 10 weeks and now sit 14% above year ago levels. Rising non-OPEC production – particularly from the U.S. – will continue to limit the upside for prices. So long as OPEC and the select non-OPEC countries make good on their commitment to scale back production, prices are likely to hover around current levels. Once the massive inventory overhang begins to be worked down towards the end of the year and in 2018, prices will move closer to US$60 per barrel, but will continue to be bound by rising U.S. output.

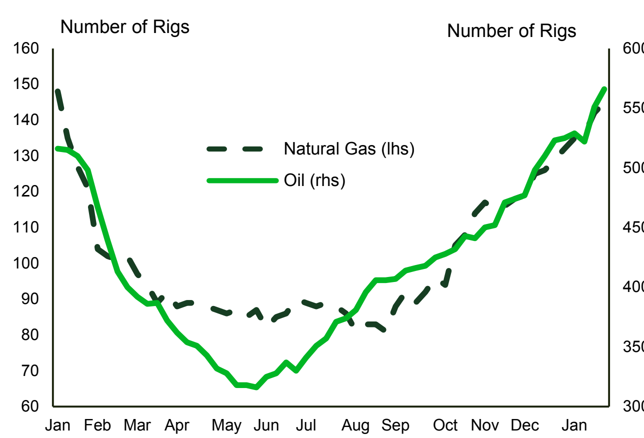
Upside limited for natural gas prices

Natural gas prices shot up to a 2-year high of US$3.80 MMBtu in late-2016 thanks to a cold snap that boosted demand for heating. The rally, however, was short-lived, with prices falling back to US$3.15 MMBtu by February on forecasts for warmer weather. With storage levels hovering close to the 5-year average, rig counts on the rise, and demand expected to remain relatively flat, there won't be much impetus to push prices higher. We expect prices to remain below US$3.50 over the next two years.

Gold price volatility to reflect heightened global uncertainty

Increased risk appetite and the appreciation of the US dollar following the presidential election stateside weighed heavily on prices for precious metals. Gold sank by 13% in the last two months of 2016 to US$1125/oz before climbing back to over US$1200/oz in January. Looking ahead, the yellow metal could be faced with more near-term weakness, as market optimism surrounding US economic growth could drive expectations for faster Fed tightening and thus a firmer US dollar which could push prices lower. However, we expect the Fed's rate hiking cycle to be very gradual and that the US dollar has reached its peak. Moreover, recent US optimism could fade as markets question Trump's ability to deliver his fiscal plan. All told, a firming global inflation outlook, combined with the great

CHART 1: U.S. RIG COUNTS



Source: Baker Hughes

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deal of uncertainty surrounding the political landscape in Europe and President Trump's forthcoming policies, could see investors look to gold as a hedge, pushing prices to US$1300/oz by 2018.

Infrastructure spending to bode well for base metals

Increased manufacturing activity in the US and Europe, expected infrastructure spending in the US in light of the Trump Presidency, and stable demand in China have helped to buoy base metals prices in recent months. While the rally may be overdone and some pullback is likely in store in the near term, these factors will continue to be supportive of demand going forward. However, the supply situation differs across metals. Zinc is poised to outperform, with the supply deficit expected to grow through 2017, tightening the market further. The nickel market is also in a supply deficit position, but has massive above ground stocks that will limit the upside for prices. The copper and aluminum markets are well supplied, and demand is unlikely to be strong enough to threaten excess inventories. That said, copper could fall into a supply deficit position later in 2017, especially if the labour strike in Chile persists. Combined with a possible export freeze in Indonesia, copper prices have some upside potential, while aluminum prices may lag behind.

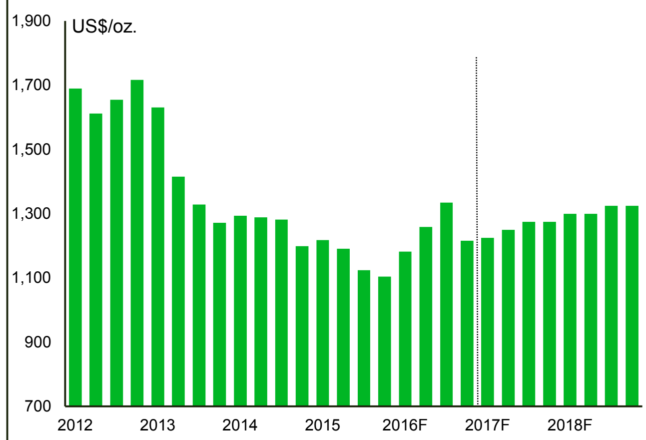
Ample supply to keep ag prices moving sideways

2016 marked the fourth consecutive year of falling crop prices and the second year of declining livestock prices. Rising supply was the key culprit behind the price correction in both cases, and elevated stocks will continue to contain prices going forward. Meanwhile, demand is expected to remain quite strong, putting a floor under prices. All told, abundant supply and strong demand should keep most agricultural prices moving sideways over the forecast horizon.

US homebuilding activity to support lumber prices

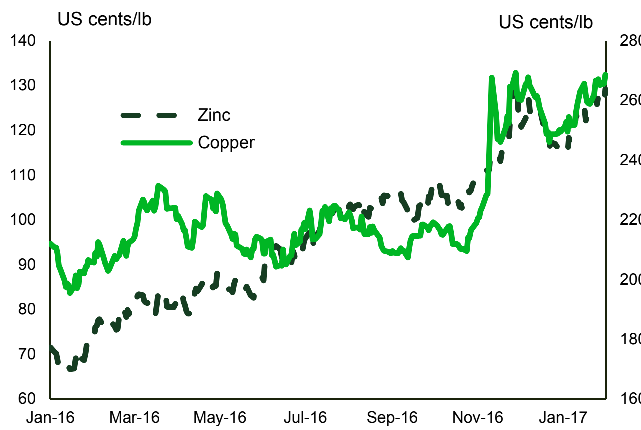
Lumber prices were fairly choppy last year, but managed to regain some of the ground lost previously. The outlook for the sector remains bright, with rising employment, wages and household formation rates expected to keep demand from the U.S. homebuilding market running at a solid pace. We expect prices to continue rising over the next two years, reaching US$400/1000 BdFt by 2018. Having said that, the expiration of the Softwood Lumber Agreement in the absence of a new deal poses a downside risk to the outlook for Canadian lumber producers. With President Trump looking to renegotiate NAFTA, this is one area that he may try to gain some concessions on.

CHART 2: GOLD PRICE FORECAST



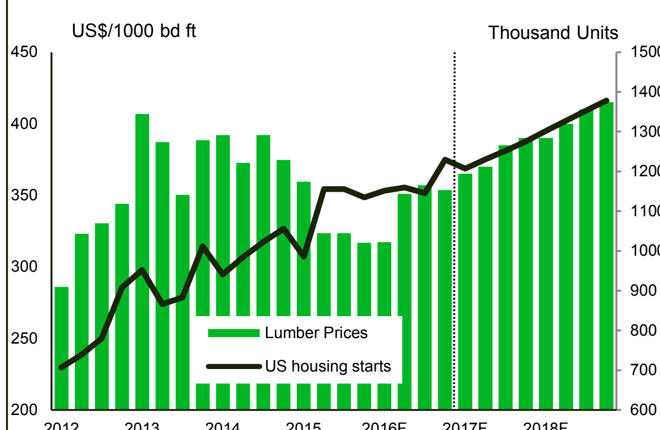
Source: Haver Analytics, TD Securities

CHART 3: BASE METALS PRICES



Source: Haver Analytics

CHART 4: LUMBER PRICE FORECAST



Source: Haver Analytics

COMMODITY PRICE FORECAST SUMMARY							
	Spot Price Feb 8	Q4			Annual Average		
		2016F	2017F	2018F	2016F	2017F	2018F
FORESTRY							
LUMBER	366.00	353.61	390.00	415.00	344.72	377.50	403.75
PULP	1007.00	993.43	1030.00	1000.00	975.89	1023.75	1013.75
NEWSPRINT	575.00	575.00	575.00	610.00	559.58	568.75	597.50
ENERGY							
OIL	52.34	49.23	55.00	57.00	43.27	53.50	56.50
NAT GAS	3.05	3.02	3.25	3.30	2.49	3.20	3.30
COAL	79.40	93.95	80.00	85.00	65.62	81.25	85.00
PRECIOUS METALS							
GOLD	1242.10	1216.33	1275.00	1325.00	1248.02	1256.25	1312.50
SILVER	17.83	17.14	17.75	19.50	17.13	17.31	19.13
NON-PRECIOUS METALS & MINERALS							
ALUMINUM	82.59	77.58	76.00	78.00	72.74	75.50	78.00
COPPER	266.01	239.63	254.00	265.00	220.75	254.00	262.50
NICKEL	4.73	4.90	4.75	5.25	4.35	4.90	5.13
ZINC	128.15	114.22	134.00	140.00	94.89	127.75	138.50
URANIUM	26.50	19.80	45.00	45.00	26.41	40.00	45.00
AGRICULTURE							
WHEAT	6.60	6.48	6.60	6.75	6.04	6.56	6.70
BARLEY	119.63	125.29	135.00	150.00	142.62	130.00	142.50
CANOLA	418.34	396.51	400.00	425.00	385.20	397.50	421.25
CATTLE	117.65	106.21	120.00	120.00	118.67	120.50	122.50
HOGS	72.60	51.64	66.00	70.00	65.79	68.00	70.00

COMMODITY PRICE FORECAST SUMMARY: % CHANGE	Q4			Annual Average		
	2016F	2017F	2018F	2016F	2017F	2018F
FORESTRY						
LUMBER	11.6%	10.3%	6.4%	4.2%	9.5%	7.0%
PULP	4.6%	3.7%	-2.9%	0.0%	4.9%	-1.0%
NEWSPRINT	13.9%	0.0%	6.1%	3.9%	1.6%	5.1%
ENERGY						
OIL	17.4%	11.7%	3.6%	-11.7%	23.6%	5.6%
NATURAL GAS	44.2%	7.6%	1.5%	-5.0%	28.4%	3.1%
COAL	78.4%	-14.8%	6.3%	10.9%	23.8%	4.6%
PRECIOUS METALS						
GOLD	10.1%	4.8%	3.9%	7.6%	0.7%	4.5%
SILVER	15.9%	3.6%	9.9%	9.0%	1.0%	10.5%
NON-PRECIOUS METALS & MINERALS						
ALUMINUM	14.4%	-2.0%	2.6%	-3.3%	3.8%	3.3%
COPPER	8.1%	6.0%	4.3%	-11.6%	15.1%	3.3%
NICKEL	14.6%	-3.0%	10.5%	-19.0%	12.6%	4.6%
ZINC	56.3%	17.3%	4.5%	8.3%	34.6%	8.4%
URANIUM	-45.1%	127.3%	0.0%	-28.1%	51.5%	12.5%
AGRICULTURE						
WHEAT	1.8%	1.9%	2.3%	-12.3%	8.7%	2.1%
BARLEY	-21.8%	7.7%	11.1%	-14.7%	-8.8%	9.6%
CANOLA	5.0%	0.9%	6.3%	-3.2%	3.2%	6.0%
CATTLE	-18.5%	13.0%	0.0%	-18.8%	1.5%	1.7%
HOGS	-15.4%	27.8%	6.1%	-6.4%	3.4%	2.9%

MEASURES & QUOTED PRICES ($ is US$ unless stated otherwise; C$ prices converted to US$ using daily C$/US$ exchange rate).
FORESTRY*
Lumber: Random Lengths' Framing Lumber Composite ($/1000 Bd Ft)
Pulp: NBSK, delivered in east U.S. ($/mt)
Newsprint: New York ($/mt)
ENERGY**
Oil: Domestic Spot Market Price: West Texas Intermediate, Cushing ($/Barrel)
Natural Gas: Henry Hub, LA ($/mmbtu)
Coal: Austr. Therm ($/mt)
PRECIOUS METALS**
Silver: Cash price: Silver, Troy Oz, Handy & Harman Base Price ($/Troy oz)
Gold: Cash Price: London Gold Bullion, PM Fix ($/Troy oz)
NON-PRECIOUS METALS & MINERALS**
Aluminum: LME Aluminum, 99.7% Purity: Closing Cash Price (Cents/lb)
Copper: LME Copper, Grade A: Closing Cash Price (Cents/lb)
Nickel: LME Nickel: Closing Cash Price ($/lb)
Zinc: LME Zinc: Closing Cash Price (Cents/lb)
Uranium: Ux U308 ($/lb)
AGRICULTURE*
Wheat: Spring,14%Protein: Minneapolis ($/bu)
Barley: Canada: Cash Prices: Feed Barley: Lethbridge: Grade 1 CW (C$/mt)
Canola: Canada: Cash Pr: Canola: Instore Vancouver: Grade 1 Canada NCC (C$/mt)
Cattle: Live Cattle Futures Price: 1st Expiring Contract Open (Cents/lb)
Hogs: Lean Hogs Futures Price: 1st Expiring Contract Open (Cents/lb)
Sources: WSJ, FT, Ux Weekly, Random Lenghts, Pulp & Paper Weekly, GlobalCoal, Comtex, WCE, FRBNY / Haver Analytics. * Forecasts by TD Economics; ** Forecasts by TD Securities