

Economic & Commodity Market Outlook

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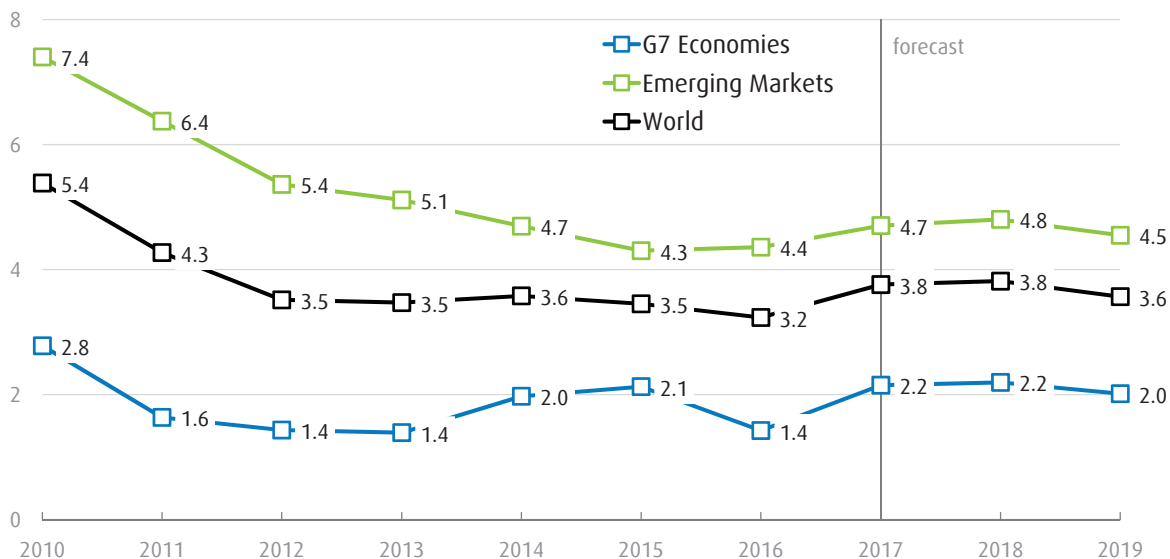
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Global Economic Growth: Strong and Synchronized... For Now

(% change)

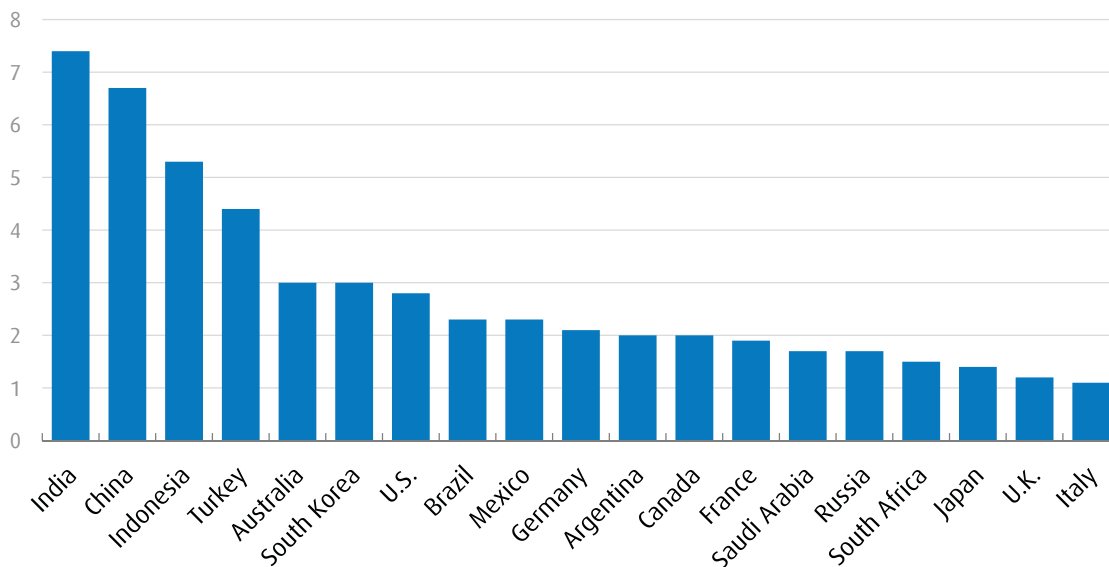
Real GDP Growth



Emerging Asian Economies Lead; Europe & Japan Slowing

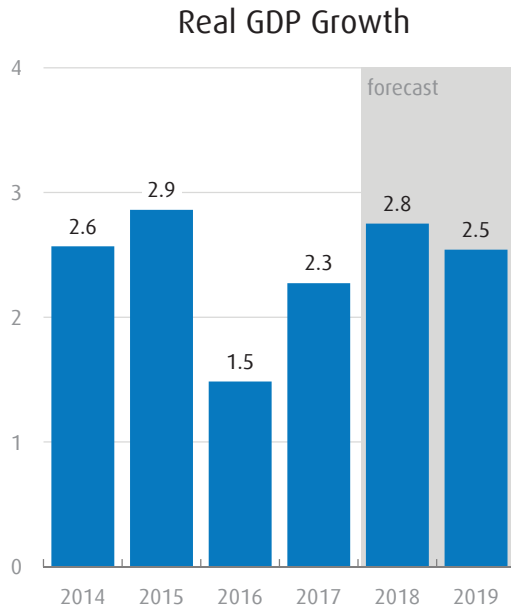
G20 Economies (% change)

Real GDP Growth, 2018 Forecast



U.S. Economy Firing on All Cylinders, But...

(% change)



Current expansion now 2nd-longest in post-war period

Unemployment at 48-year low

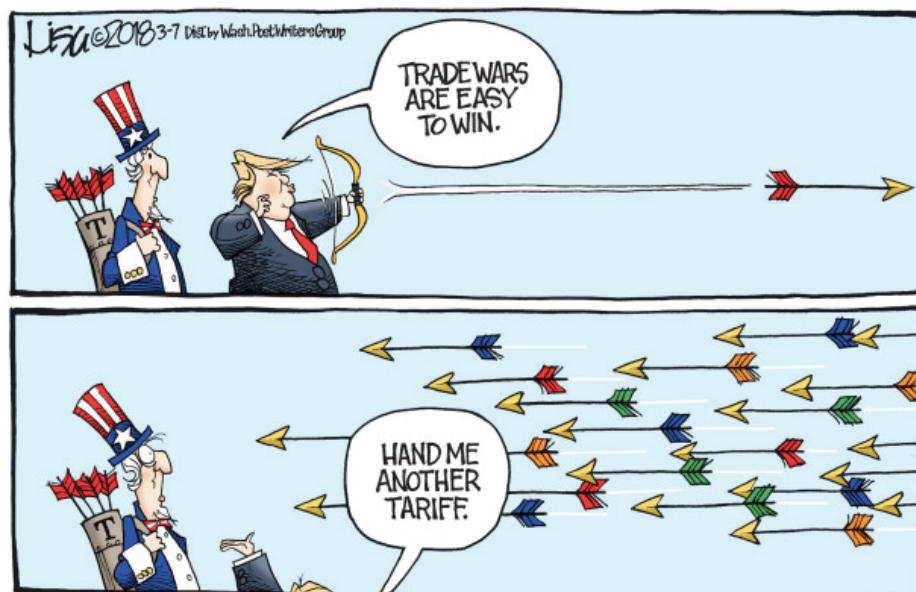
Massive fiscal stimulus (1 ppt GDP)

- Tax cuts: \$1.5 trillion
- Spending boost: \$300 billion

Trade policy risks:

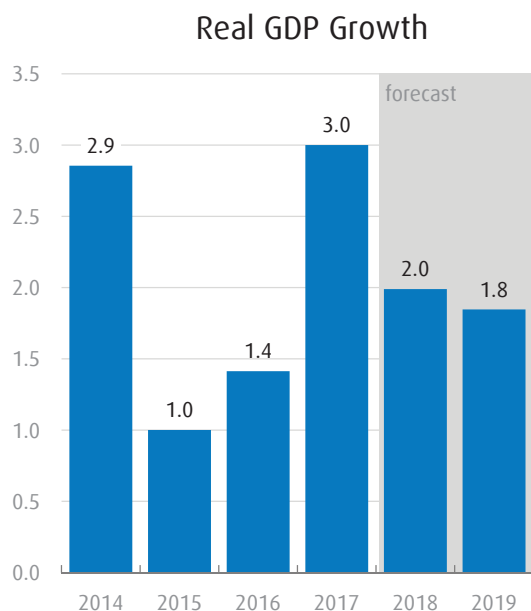
- NAFTA
- Steel/aluminum tariffs
- China trade war

Trump's Protectionist Agenda Could Backfire on U.S. Jobs, Prices



Canadian Economy Softer in 2018 After Leading G7 in 2017

(% change)



Growth slowing toward 'potential' rate as earlier supports fade

Unemployment at 40-year low

Business investment rebound, but...

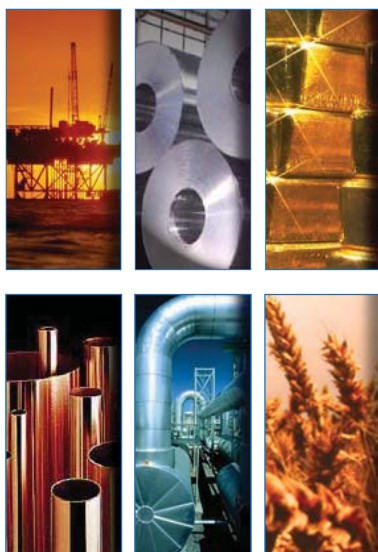
- NAFTA/tariff uncertainties
- Tax, minimum wage changes

Housing markets cooling

Household debt leveling off

Trans Mountain saga continues

Generally Positive Outlook for Base Metals, But Risks Abound



Commodity Market Drivers:

China

Fed policy (interest rates, U.S. dollar)

U.S. trade policy

Oil (OPEC+ output cuts)

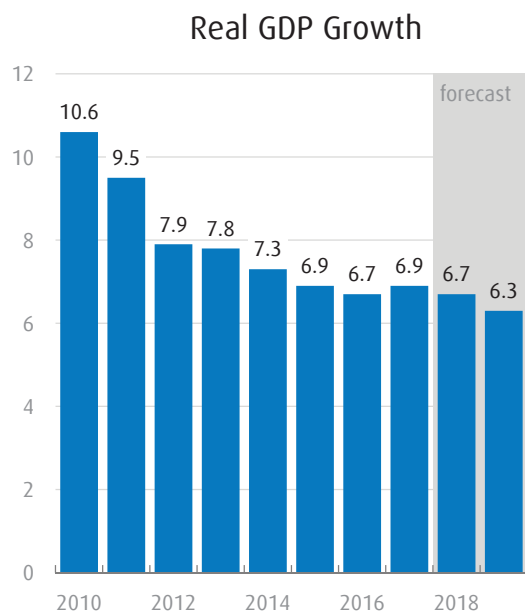
Mine supply adjustments (declining inventories)

Geopolitics (Middle East, North Korea)

Longer-term trends (EVs, renewable energy)

China's Economy in Controlled Deceleration

(% change)



Government Policy Priorities:

- Environmental crackdown
- Improving living standards
- More efficient infrastructure spending
- SOE debt reduction/consolidation
- Property market as fiscal lever
- Bolster China's influence globally
- Navigate trade frictions

Metals Piggyback on Recent Oil Price Gains

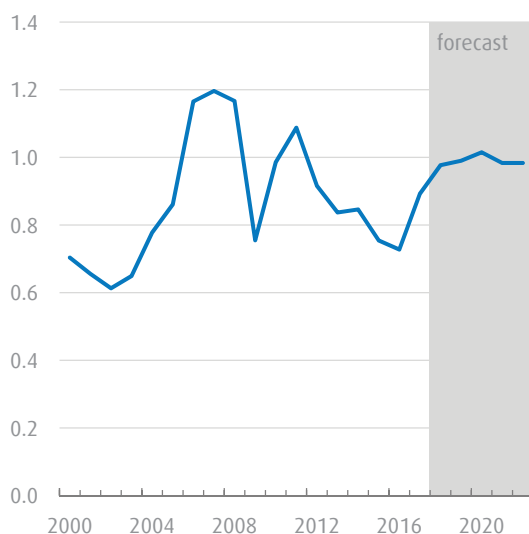
(U.S. dollars per barrel)



- May WTI price highest since late-2014
- Balanced global oil market in 2018
- Still ample supply through 2020 (record output from non-OPEC producers)
- Deficit to emerge over medium term
- Geopolitical risks prevalent (Venezuela, Iran, North Korea)
- Higher operating/shipping costs for miners (esp. for low grades)

Aluminum Getting a Lift from China's Supply-Side Reform

(US\$/lb)



Inventories to fall below long-term average in 2018-19.

U.S. tariffs (10%) to raise Midwest premium – Canada is main supplier.

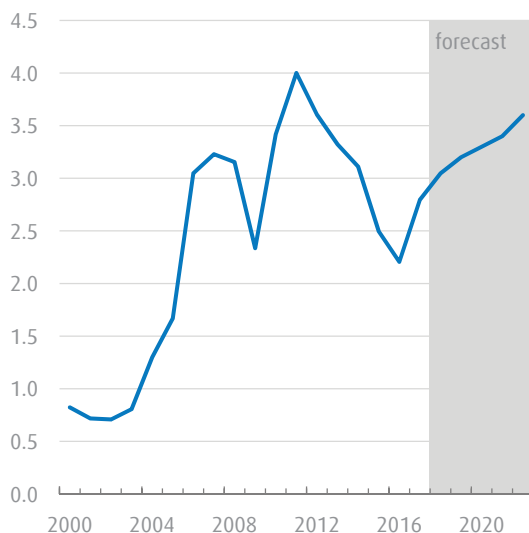
Threat of U.S. sanctions on Russia triggered sharp, though temporary, price increase.

Chinese capacity cuts starting to be felt, but will discipline be sustained? Capacity to shift abroad?

Potential added demand from copper substitution.

Copper to Rise Above Long-Term Price as Market Moves into Deficit

(US\$/lb)



Historically thin project pipeline; last 'megaproject' coming online this year (Cobre Panama) → base case mine supply to peak in 2020.

China's ban on scrap imports a short-term story.

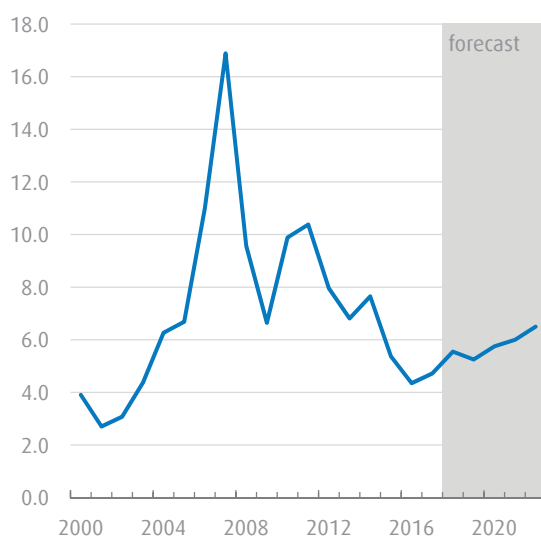
Labour-related supply disruptions a big factor in the last year.

Renewable energy, EVs represent huge sources of demand growth.

Demand destruction and aluminum substitution (e.g., in construction) will likely cap price upside.

Nickel Prices Volatile, Likely Overvalued at Current Levels

(US\$/lb)



Inventories slowing being depleted as demand exceeds mine supply, but substantial overhang persists.

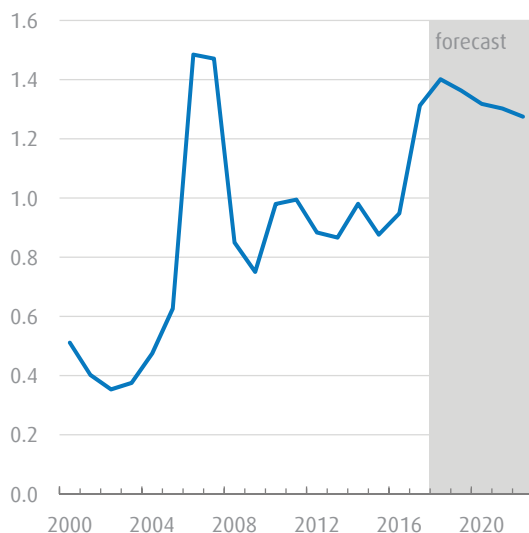
Use in EVs/energy storage positive for demand (over long term), but battery chemistry subject to change.

Price up strongly over last year, but to remain below long-term price (~\$7.50/lb) over next five years.

For now, prices tied to marginal cost of Chinese NPI production.

Zinc Sentiment Starting to Shift Though Physical Market Still Tight

(US\$/lb)



Average price fell below \$1.40/lb in May – lowest since last August.

Mine production starting to rebound (restarts, greenfield projects), expected to expand ~5% in 2018, surpassing 2015 levels.

Approaching the low-point for concentrate stocks, refined stocks to follow.

Demand destruction/ thrifting a big risk in major end-use markets if prices continue to rise (e.g., brass substitution, automotive lightweighting).