



THE Goods

A MONTHLY COMMODITY WATCH



BMO  Capital Markets

Commodities Edge Higher in July

Risk appetite perked up on diminished sovereign risk; double-dip risk may weigh on the August numbers

The **BMO Capital Markets Commodity Price Index** edged up 0.7% to 165.5 (2003 = 100) in July as investor appetite for risk perked up as concerns about European sovereign debt problems and their ramifications for global economic growth abated. Positive data on manufacturing in Europe were also supportive. Metals & Minerals, Forest Products and Agriculture advanced. The Oil & Gas sub-index was the exception.

While commodity prices entered August on a strong note, they have since eased amid a slew of disappointing data and fresh concerns about the global economy with rising double-dip and deflation chatter. This, along with seasonal demand weakness in some instances and increasing supplies in others, is expected to limit any gains in the near term. However, markets will likely remain quite volatile as they sift news with any bearing on the economic outlook. Further out, we expect to see prices strengthen over the next year as the global economic recovery becomes entrenched and supply growth remains sluggish for a number of commodities.

The **Oil & Gas Index** remained essentially unchanged in July, as a moderate increase in oil prices almost fully offset a decline in natgas. As European sovereign debt concerns diminished, oil underwent a relief rally that lasted through much of the first half of August. However, a run of disappointing U.S. economic data subsequently led to some indigestion and a retreat in oil. Although natgas has been languishing, demand-supply fundamentals continue to improve, setting the stage for moderately higher pricing.

The **Metals & Minerals Index** advanced last month as diminished European sovereign risk concerns and a weaker tone to the U.S. dollar encouraged a bit more risk-taking and supported industrial metals. However, the increase in risk appetite worked against gold. So far in August, this story is flipped with base metals tempering on fresh concerns about the global economy while gold shines.

The **Forest Products Index** strengthened in July on gains in lumber and newsprint. Offshore exports of these two commodities have posted strong growth and will continue to support prices. Pulp remained flat but is expected to decline through the rest of the year as major producers have started to reduce quotes.

The **Agricultural Index** rose in July as grains and oilseeds were buoyed by adverse weather in key growing regions (e.g., drought in Russia), which raised the spectre of large production shortfalls. Livestock gained as tight supplies lifted cattle. Grains have pulled back lately on the recognition that supplies remain adequate.

OIL AND GAS

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FOREST PRODUCTS

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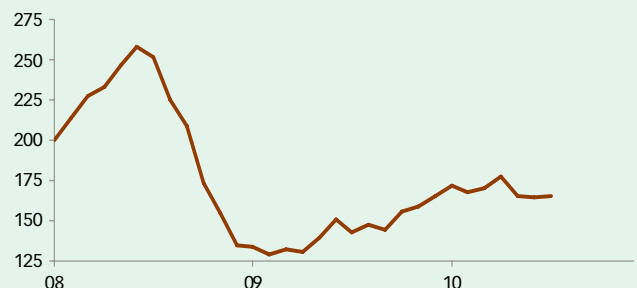
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BMO Capital Markets Commodity Price Index

All Commodities Index (2003 = 100)



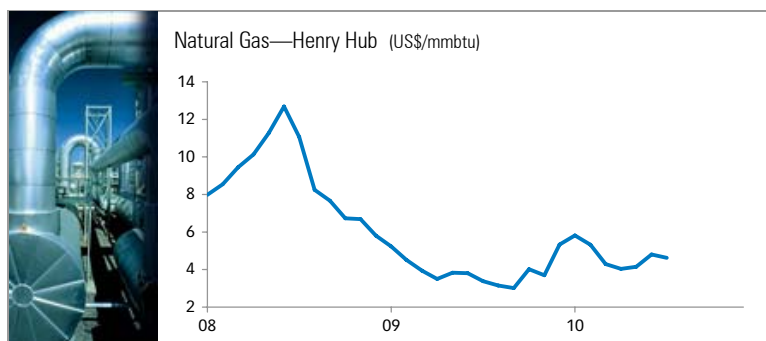
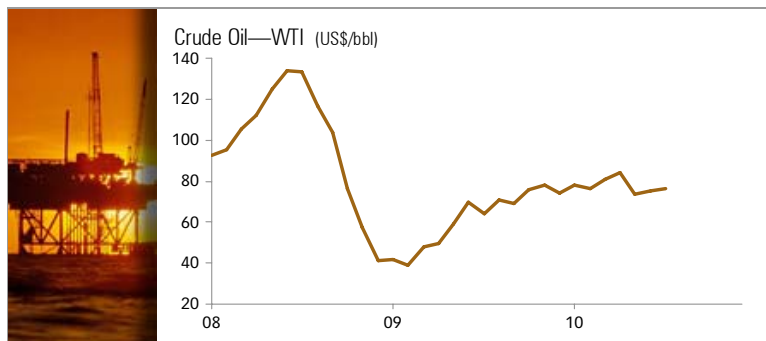
	Jul. Level (2003=100)	% Change from Mth. Ago	% Change from Yr. Ago
All Commodities	165.5	0.7	15.8
Oil & Gas	163.2	-0.1	23.3
Metals & Minerals	235.0	1.1	1.8
Forest Products	116.3	2.1	28.3
Agriculture	148.2	1.0	7.4



Oil and Gas

Crude Oil In July, West Texas Intermediate (WTI) rose 1.4% to an average of US\$76.37/barrel, 19.2% higher than a year earlier. Prices trended upward through the month as measures in Europe to deal with the sovereign debt issue helped settle credit markets and reduce risk aversion. Oil rose further during the first ten days of August, reaching \$81.50 before a spate of discouraging U.S. data on employment, personal income, retail sales, and housing fanned fears of a double-dip and led to a decline in risk assets such as commodities and equities. U.S. oil inventories are still high, with crude and products 12.7% above the five-year average. The price of Brent, a European benchmark for oil outside of the United States and in the Far East, has historically run at a discount to WTI, which is sweeter and lighter. From 1985 to 2008, this discount averaged US\$1.35/barrel. In 2009, it eroded to just \$0.15 and since April of this year, it has inverted, with Brent higher by an average of about \$0.40. This reflects elevated storage levels at the Cushing hub – a settlement point for WTI on the NYMEX – and stronger economic growth in Asia, which has provided a lift to Brent. Although there has been some concern that China’s growth is sputtering, this is misplaced. Indeed, continued growth at its earlier break-neck pace and resulting asset bubbles would have posed greater risk to the global economy. Based on robust expansion in emerging markets, the International Energy Agency recently raised its forecast for global oil demand. If OPEC maintains its production restraint – and, it likely will – then global demand should outpace supply, reducing excess global inventories and setting the stage for moderately higher prices. Overall, we are maintaining our forecast that WTI will average \$78/barrel in 2010 and \$85 in 2011, although there could be considerable volatility around those averages as investors struggle to assess the sustainability of the recovery. Our view is that the current U.S. slowdown largely reflects the termination of earlier fiscal programs supporting the housing and auto markets, that private sector job creation will begin to improve in a few months, and that the recovery should shift onto a firmer footing in 2011.

Natural Gas With its June rally losing steam, U.S. benchmark Henry Hub slipped 3.8% in July to an average of US\$4.62/mmbtu. While inventories are still relatively high, their surplus to their five-year average is diminishing. Warmer-than-normal weather has raised the demand for gas-fired power generation for air conditioning. During

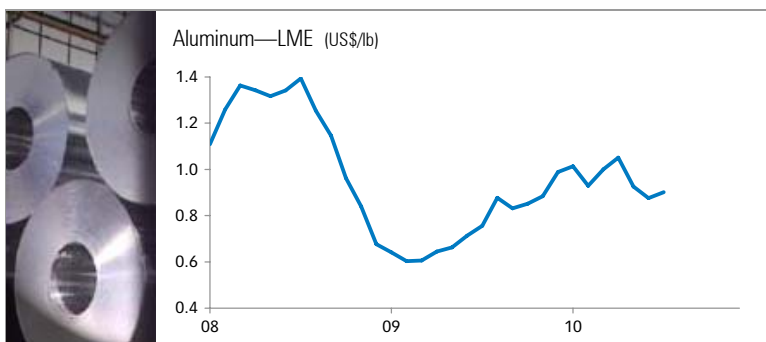
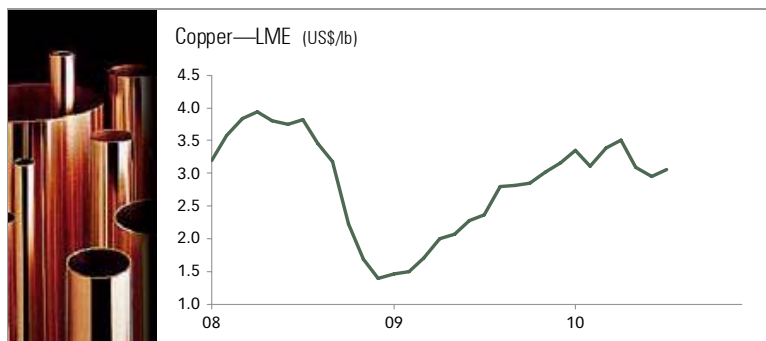
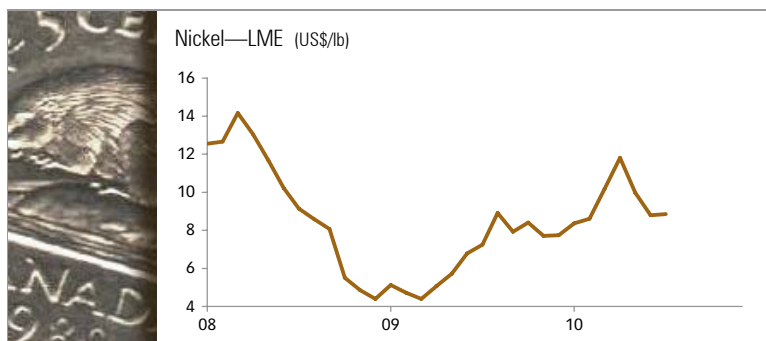


the May-June interval, the index for “cooling degree days”, a measure of the demand for energy required to cool homes and businesses, stood 27% higher than the same period a year earlier and 15% above its five-year average. Further, the rebounding manufacturing sector has boosted the industrial use of natgas. Together, industry and utilities account for roughly 65% of total U.S. natgas consumption and, combined, have grown 6.9% on a year-to-date basis following a 2.2% decline in 2009. Meanwhile, U.S. production of the commodity has slowed, rising 1.3% through May, compared to 3.3% in 2009. The hurricane season, with its potential disruption to production and transportation infrastructure in the Gulf, is always a wildcard. Although predictions of above-average activity this season have not yet materialized, the period for the most intense storms is fast approaching. Overall, we are maintaining our forecast that Henry Hub will average \$4.75/mmbtu in 2010 and \$5.75 in 2011. However, above-average hurricane disruption could raise prices later in the year and in 2011.



Metals and Minerals

Nickel After tracking largely sideways during the first half of July, nickel moved sharply higher later in the month to average US\$8.85/lb. At 0.7%, the monthly increase was the smallest among the base metals. While nickel received support from a further decline in LME inventories as well as increased investor appetite for risk as European sovereign debt worries abated, the advance was checked by continuing concerns about the strength of demand and new supplies coming on stream over the next several months. As a result of last month's gain, average prices stood 22% higher than a year ago, reflecting a pick-up in use by stainless steel producers and an influx of investment funds into the market. Nickel began August on a strong note but has since retreated on renewed fears about the global economic recovery. Through mid-month, prices have averaged US\$ 9.91/lb. Over the rest of the year, nickel is likely to edge lower amid growing supplies. Further out, however, prices should strengthen as the global recovery becomes more entrenched, though gains would be limited by ample supplies. We still look for nickel to average \$9.50 in 2010 and \$9.85 in 2011.



Copper While improved investor sentiment was important, improving fundamentals played a major role in copper's 3.6% advance in July to an average of US\$3.06/lb. Specifically, demand has been strong as reflected by the quickening pace of decline in LME inventories – down 8.3% in July for the fifth straight monthly drop – and copper concentrate remains tight. Compared with a year ago, average prices were up 29%, with the gains reflecting a recovery in global industrial production, which has been especially robust in emerging markets. Copper began August strongly but has since slipped through mid-month for an average of \$3.33/lb. While seasonal demand weakness is expected to act as a brake in the near term, copper should strengthen over the next couple of years as sustained global economic growth promotes industrial and construction demand against a backdrop of constricted supply. We continue to see copper rising from an average of \$2.34/lb. in 2009 to \$3.30 in 2010 and \$3.50 in 2011.

Aluminum advanced 2.9% in July to US\$0.90/lb., driven by continuing declines in LME inventories, positive data on European manufacturing, and less risk aversion at that time. The increase took the monthly average price 19% higher than a year ago. Aluminum climbed sharply after mid-July and hit a daily high of \$1.01/lb. on August 4th. Although prices have since tempered, they have remained firm through the middle of August for an average of \$0.90, 11.5% higher than at the same time in July. We expect seasonal weakness and economic uncertainty to keep a lid on aluminum in the near term. Further out, however, prices should strengthen as demand picks up amid sustained global economic recovery. We look for aluminum to rise from an average of \$0.75/lb. in 2009 to \$0.98 in 2010 and \$1.05 in 2011.

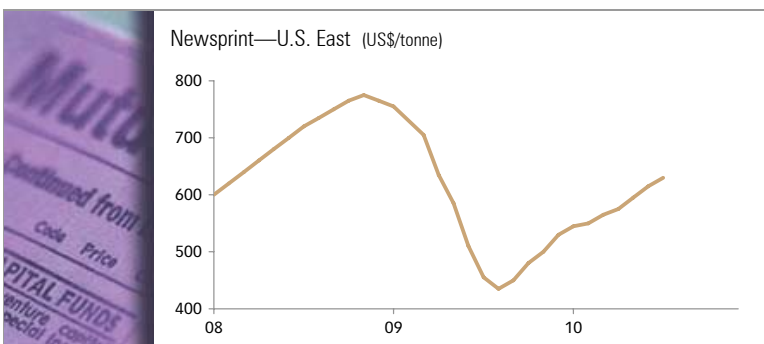
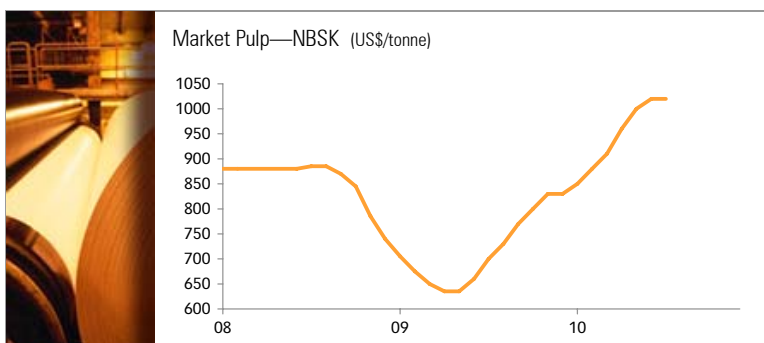
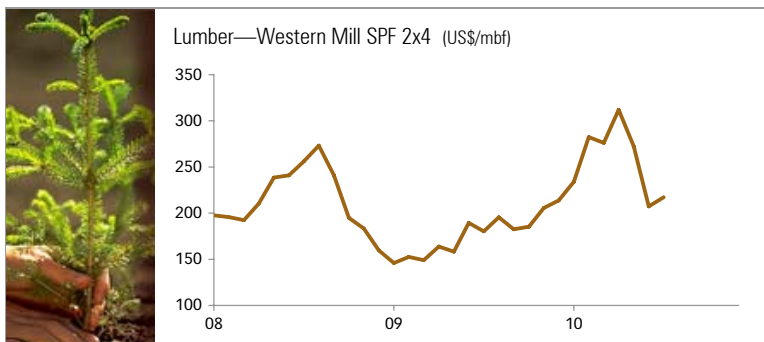


Forest Products

Lumber Western SPF2x4 rose \$10 to US\$217/mbf in July. However, prices are still relatively low by historical standards. Lumber demand in North America remains weak as the pace of economic recovery in the United States has slowed and home construction has stalled at a very low level. Meanwhile, the demand for housing in Canada, after strengthening substantially during the first half of this year, has recently cooled. Although exports to offshore markets have continued to rise, the volumes, amounting to roughly 9% of total shipments, are unlikely to be large enough to significantly drive up North American softwood lumber demand in 2010. Producers are managing capacity and output to levels consistent with demand, which should keep the market in balance and prevent prices from falling sharply. However, with the operating rate of the industry likely to remain below 70%, prices will remain comparatively weak. The annual average price of SPF2x4 is slated to increase from \$177/mbf in 2009 to \$242 in 2010, before slipping to \$240 in 2011.

Market Pulp NBSK remained flat at US\$1020/tonne in July. However, several major producers have reduced their quotes to \$990 in early August, suggesting that the rapid run-up in pulp prices since last April likely will end soon. Buyers appear reluctant to restock with expensive pulp, with price declines expected to fall during the next few months. In China, pulp imports continued to slide, down 34% on a year-over-year basis in June. Yet, demand in North America and Europe has been improving as paper production rises after freefalling during the recession. Although some idled mills have reopened and pulp capacity is rising gradually, the market has remained tight as global producer inventories dropped to 25 days of supply in June, compared to the long-term average of 33 days. Overall, after an unprecedented surge during the past twelve months, NBSK is projected to jump from an average of \$718/tonne in 2009 to \$940 in 2010, even though prices are expected to decline through the rest of this year. However, given steady demand and low inventories, we expect NBSK to remain relatively firm in 2011, averaging \$810.

Newsprint The U.S. East Coast benchmark continued its upward trend, rising \$15 to US\$630/tonne in July. Price increases were supported by strong demand in offshore markets, with exports from North America rising 56% on a year-to-date basis through the first six months. In the United States, after falling continuously for several years, newsprint consumption recorded a rare, although small, year-over-year increase in June. Strong exports and stabilizing demand in North America have lifted the shipments-capacity ratio to 102%, up substantially from an average of 78% during 2009. Inventories held by mills and consumers also dropped to 31 days of supply, 22% lower than a year earlier. Looking ahead, newsprint prices are expected to strengthen from an average of \$564/tonne in 2009 to \$610 in 2010 and \$685 in 2011.



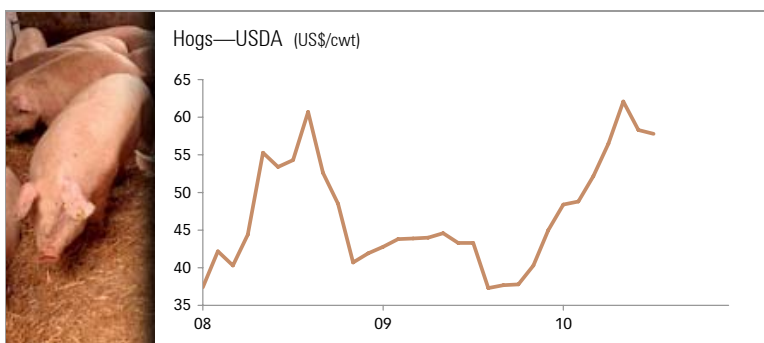
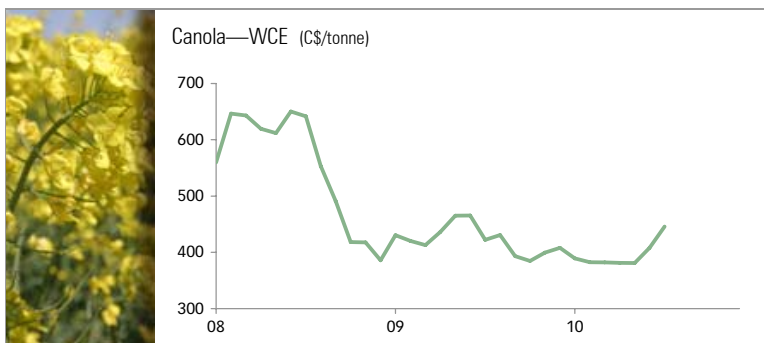
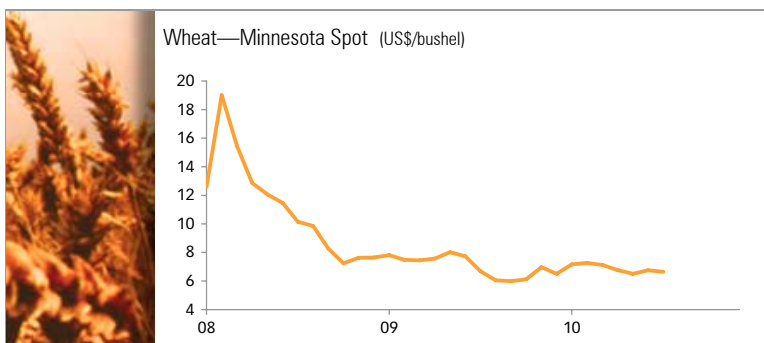


Agricultural Products

Wheat Supply concerns ignited a strong rally in wheat in July, particularly during the latter part of the month. While the impact of very wet weather in western Canada was not trivial, the spotlight was primarily on severe drought in Russia, another major exporter to the global market, which raised the spectre of a significant production shortfall. While the average price of Minneapolis spring wheat (the benchmark used in the agricultural sub-index) slipped 1.5% to US\$6.65/bu. due to weakness at the start of the month, other types of wheat jumped as much as 20%. Compared with last year at the same time, the monthly average was largely flat in July, down a mere 0.4%. Prices continued to rise sharply in early August as the announcement of a ban on exports by Russia compounded the impact of the drought. However, wheat has since retreated on the recognition that global supplies remain ample, with the ratio of stocks to consumption expected to hold above longer-term averages. Still, we nudged our price forecasts for the next several months upward in light of recent downgrades in the outlook for global production and ending stocks. We now see wheat averaging \$7.15/bu. in 2010, up from \$7.03 last year, with a further increase to \$7.40 in 2011 on lower output and steady demand.

Canola followed last month's increase with a 9.2% gain in July to C\$446/tonne. Prices got a boost from: the combined impact of very wet weather in western Canada, which significantly reduced planted area; tight 'old-crop' soybean supplies; and brisk demand for oilseeds. Last month's advance left average prices 5.6% higher than a year ago, the first year-over-year gain since September 2008. Prices had previously been falling as a result of a favourable outlook for overall global oilseed supplies. While adverse weather conditions have reduced forecasts of canola production and economic recovery is boosting demand, high canola ending stocks and ample oilseed supplies in general are expected to limit any gains over the remainder of the year. A tighter market balance should push prices higher in 2011. From an average of C\$422/tonne in 2009, canola is projected to ease to C\$416 in 2010 before recovering to C\$444 in 2011.

Hog prices slipped 0.9% in July to US\$57.80/cwt. amid weaker demand from pork processors in the United States. Earlier, hog prices had risen for nine straight months amid tightening supplies as a result of shrinking herds, lower imports of live animals, and a pick-up in domestic and foreign demand for pork. Demand was lifted by improving economic conditions and, in some markets, the removal of import restrictions that were imposed in view of H1N1 fears. Even with last month's pull-back, average prices remained 34% higher than a year earlier. While pricing may sag during the next few months as a result of a customary increase in the number of hogs available for slaughter, hog prices should remain firm over the next two years on tight supplies and continued solid demand. Prices are projected to rise from an average of \$42/cwt. in 2009 to \$54 in 2010 and \$55 in 2011.





Energy and Materials

		Crude Oil	Natural Gas		Lumber	Pulp	Newsprint
		(WTI)	(Henry Hub)	(Alta. Empress)			
		US\$/bbl	US\$/mmbtu		US\$/mbf	US\$/tonne	
1997		20.58	2.50	1.41	379	590	555
1998		14.37	2.08	1.53	312	543	596
1999		19.25	2.27	2.04	368	541	509
2000		30.30	4.31	3.81	282	685	564
2001		25.92	3.96	3.48	275	558	585
2002		26.10	3.36	2.63	262	490	465
2003		31.14	5.50	4.82	268	553	503
2004		41.44	5.91	5.25	386	640	550
2005		56.46	8.81	7.51	347	647	610
2006		66.10	6.74	5.92	290	722	667
2007		72.36	6.98	6.32	245	824	593
2008		99.57	8.86	8.09	215	858	701
2009		61.69	3.95	3.46	177	718	564
y-t-d 2010		78.16	4.69	3.85	253	949	582
2009	August	71.06	3.15	2.45	196	730	435
	September	69.46	3.01	2.56	183	770	450
	October	75.82	4.02	3.80	185	800	480
	November	78.08	3.70	3.30	206	830	500
	December	74.30	5.33	4.77	214	830	530
2010	January	78.22	5.81	5.02	234	850	545
	February	76.42	5.33	4.63	282	880	550
	March	81.24	4.29	3.62	276	910	565
	April	84.48	4.03	3.40	312	960	575
	May	73.84	4.15	3.48	273	1000	595
	June	75.35	4.81	3.30	207	1020	615
	July	76.37	4.62	3.57	217	1020	630
	m-t-d August	79.30	4.54	3.22	218	n.a.	n.a.
Forecast	2010 Avg.	78.00	4.75	3.95	242	940	610
	2011 Avg.	85.00	5.75	5.15	240	810	685

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



Base and Precious Metals

		Copper	Aluminum	Zinc	Nickel	Gold	Silver
		US\$/lb				US\$/oz	
	1997	1.03	0.73	0.60	3.15	331	4.91
	1998	0.75	0.62	0.46	2.10	294	5.55
	1999	0.71	0.62	0.49	2.73	279	5.22
	2000	0.82	0.70	0.51	3.91	279	4.96
	2001	0.72	0.66	0.40	2.71	271	4.37
	2002	0.71	0.61	0.35	3.08	310	4.60
	2003	0.81	0.65	0.38	4.37	364	4.88
	2004	1.30	0.78	0.48	6.27	409	6.65
	2005	1.67	0.86	0.63	6.69	445	7.31
	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
	y-t-d 2010	3.22	0.96	0.95	9.53	1162	17.72
2009	August	2.80	0.88	0.83	8.91	950	14.41
	September	2.81	0.83	0.85	7.92	997	16.37
	October	2.85	0.85	0.94	8.40	1044	17.24
	November	3.03	0.88	0.99	7.71	1126	17.84
	December	3.17	0.99	1.08	7.74	1134	17.66
2010	January	3.35	1.01	1.10	8.36	1120	17.78
	February	3.11	0.93	0.98	8.60	1096	15.87
	March	3.38	1.00	1.03	10.18	1116	17.12
	April	3.51	1.05	1.07	11.80	1147	18.12
	May	3.10	0.93	0.89	9.98	1204	18.42
	June	2.95	0.88	0.79	8.79	1232	18.45
	July	3.05	0.90	0.84	8.85	1196	17.98
	m-t-d August	3.31	0.98	0.94	9.86	1203	18.27
Forecast	2010 Avg.	3.30	0.98	0.94	9.50	1160	17.90
	2011 Avg.	3.50	1.05	1.00	9.85	1200	19.00

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Agriculture

		Wheat	Canola	Cattle	Hogs
		US\$/bushel	US\$/tonne		US\$/cwt
	1997	4.48	284	63.34	52.03
	1998	4.02	264	59.73	32.50
	1999	3.69	204	63.28	32.33
	2000	3.62	176	68.37	42.89
	2001	3.69	201	71.20	44.08
	2002	4.14	242	66.61	33.28
	2003	4.24	261	79.97	37.55
	2004	4.56	271	85.58	51.21
	2005	4.78	224	89.55	49.62
	2006	5.19	257	87.08	46.25
	2007	7.10	379	90.02	46.66
	2008	11.19	528	89.23	47.64
	2009	7.03	371	80.36	41.98
	y-t-d 2010	6.95	388	89.93	54.87
2009	August	6.05	396	80.40	37.30
	September	5.99	363	80.50	37.70
	October	6.12	363	79.20	37.80
	November	6.97	377	79.60	40.30
	December	6.49	386	78.50	45.00
2010	January	7.16	373	82.10	48.40
	February	7.26	362	85.50	48.80
	March	7.12	373	90.50	52.20
	April	6.77	378	95.70	56.50
	May	6.50	366	94.80	62.10
	June	6.75	393	90.30	58.30
	July	6.65	427	90.60	57.80
	m-t-d August	7.65	450	n.a.	n.a.
Forecast	2010 Avg.	7.15	395	91	54
	2011 Avg.	7.40	440	94	55

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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	
Annual								
	2001	87.1	77.5	89.2	101.9	88.4	96.1	
	2002	81.7	72.2	89.0	90.0	92.5	91.6	
	2003	100.0	100.0	100.0	100.0	100.0	100.0	
	2004	122.4	120.0	128.4	124.7	109.5	113.7	
	2005	149.8	170.6	150.3	121.7	109.0	129.3	
	2006	163.7	166.7	229.6	115.6	114.5	132.6	
	2007	181.0	178.8	284.0	108.2	146.5	138.5	
	2008	210.9	239.0	272.4	112.5	204.2	158.4	
	2009	144.2	133.9	227.1	95.2	141.2	117.1	
Forecast	2010	170.5	167.0	249.7	116.4	150.5	126.8	
	2011	185.2	187.3	274.4	114.5	157.8	133.4	
Quarterly								
	2009	Q1	131.6	110.0	216.9	96.9	145.0	116.9
		Q2	140.2	128.3	221.9	91.5	152.1	117.0
		Q3	145.0	137.0	229.5	92.6	132.3	113.7
		Q4	160.1	160.2	240.1	99.8	135.3	120.9
	2010	Q1	170.2	171.6	243.3	113.4	146.3	126.6
		Q2	168.9	162.9	244.7	122.5	145.9	124.0
Forecast		Q3	167.9	162.3	246.1	116.6	154.6	124.8
		Q4	175.1	171.2	264.9	113.1	155.2	131.9
	2011	Q1	184.4	188.4	271.4	112.1	157.7	136.7
		Q2	183.5	183.7	276.6	112.2	159.0	132.5
Monthly								
	2009	Jul	142.9	132.4	230.8	90.7	138.0	114.9
		Aug	147.4	141.2	231.2	93.5	130.9	114.5
		Sep	144.5	137.4	226.6	93.6	127.8	111.7
		Oct	155.8	156.8	234.6	95.6	128.9	117.7
		Nov	159.2	157.4	239.9	100.7	140.3	120.4
		Dec	165.2	166.5	246.0	103.2	136.6	124.6
	2010	Jan	172.1	177.2	247.6	107.3	144.9	128.3
		Feb	168.1	169.8	234.7	115.6	146.2	126.7
		Mar	170.5	167.8	247.4	117.3	147.9	124.6
		Apr	177.4	170.6	260.2	128.6	146.8	127.6
		May	165.0	154.8	241.4	125.2	144.0	122.7
		Jun	164.2	163.3	232.4	113.9	146.8	121.7
		Jul	165.5	163.2	235.0	116.3	148.2	123.4

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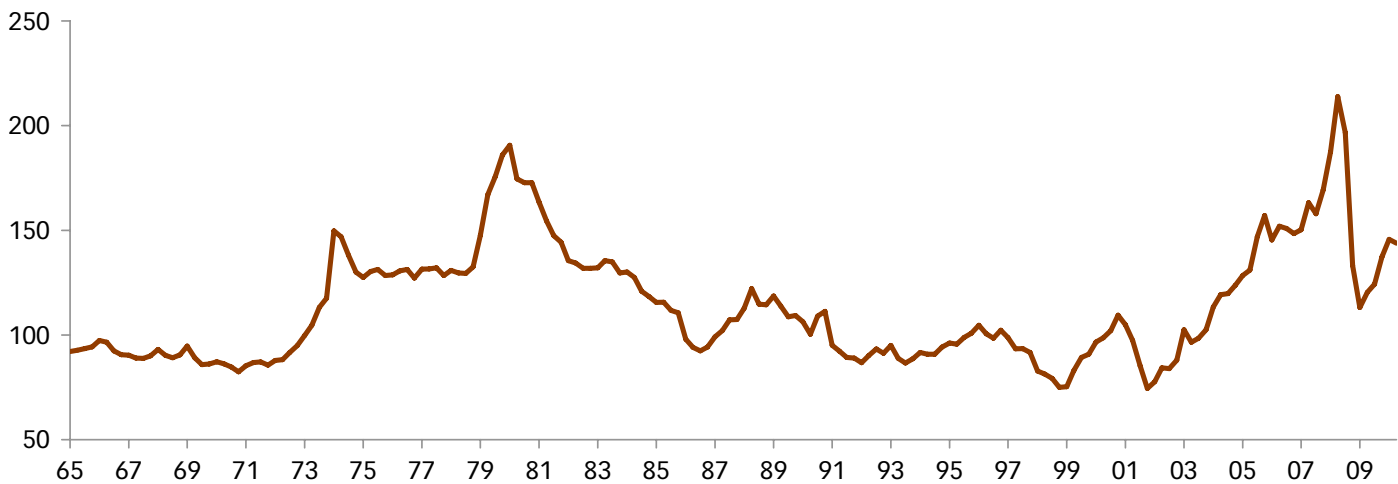


Historical Charts: All-Commodity Index

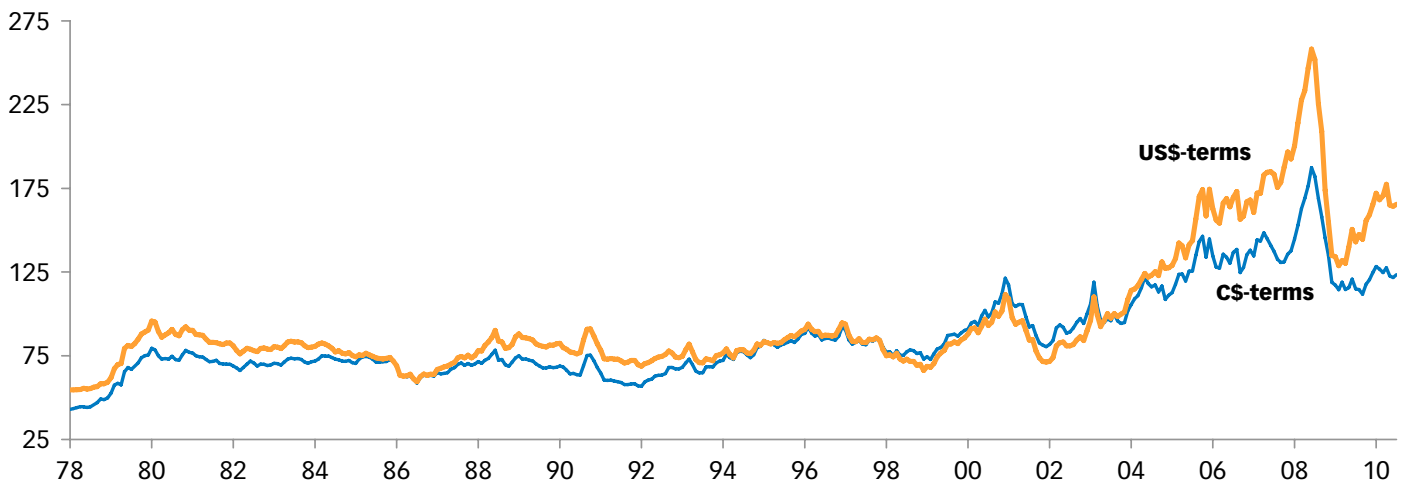
Nominal US\$-Terms (2003 = 100)



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 19 commodities key to Canadian exports. Weights are each commodity's average share of export values during the period 2002-06. 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
Metals & Minerals	21.5	100.0	Forest Products	26.3
Gold	3.1	14.5	Newsprint	5.0
Silver	0.4	1.9	Market Pulp	5.9
Aluminum	8.3	38.7	Supercalendered Paper	3.4
Copper	2.3	10.4	Lumber	9.3
Nickel	3.3	15.2	OSB	2.7
Zinc	1.0	4.4		
Uranium	1.1	5.0	Agricultural Products	5.9
Potash	2.1	9.8	Wheat	2.8
			Canola	1.2
Oil and Gas	46.3	100.0	Hogs	0.6
Crude Oil	22.7	49.1	Beef Cattle	1.3
Canadian Natural Gas	23.6	50.9		
			All Commodities	100.0

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

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