THE Goods
A MONTHLY COMMODITY WATCH

ECONOMIC RESEARCH

BMO Capital Markets

BMO's Commodity Index Dips at Year-End

Some Upside Seen for 2012 Second Half

The **BMO Capital Markets Commodity Price Index** slipped 0.5% to 187.9 (2003 = 100) in December amid retreating prices for metals and agricultural products. Concern about global economic growth, persistent European sovereign debt anxieties, and fears of broader financial market contagion continued to weigh on most commodity markets, especially during the first half of the month. In the case of agriculture, the prospect of increased supply also contributed to weakness. In the second half of December and so far in January, a more sanguine economic data flow and announcements of production cuts for some commodities have provided support.

Although performance will be mixed among commodities, the broad index, while likely volatile, is projected to end 2012 moderately higher than its year-end 2011 level. With demand prospects reduced by expectations of weaker global economic growth and limited investor risk appetite, prices for a significant number of commodities, especially those closely linked to industrial production, will struggle to forge ahead during the first half of this year. However, price support will be provided by restrained supply for a number of commodities and an expected strengthening in global economic growth during the second half. Certainly, a clear sense that Europe is on a path to resolving its debt and banking issues would provide a lift to market sentiment. In 2013, prices are expected to generally move higher amid a pick-up in global economic activity, which would spur increased emerging-market demand for commodities.

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The **Oil & Gas Index** rose moderately in December, as an increase in oil more than offset a sixth consecutive monthly decline in the price of natural gas. Although oil market fundamentals are softening along with the pace of global economic growth, increased tensions in the Middle East have maintained an elevated risk premium. Meanwhile, natural gas prices remain under downward pressure from sharply rising production in U.S. shale fields, an unusually warm winter that has reduced heating demand, and inventories that may test capacity limits by next winter.

The **Metals & Minerals Index** retreated in December. Base metals firmed amid improving economic data, announcements of production cuts, and strikes at major mines. Only aluminum bucked the trend. Gold lost ground as more encouraging economic data spurred a flight to higher-yielding assets.

The **Forest Products Index** edged up in December. Lumber gained on improved housing data although a sustained increase in prices is not likely to come until next year. Pulp continued its downward trend while newsprint remained subdued on softening exports.

The **Agriculture Index** declined in December on weaker grain and oilseed prices. Wheat and canola fell amid upward revisions to global production and stocks and expectations of increased export competition. Hogs slipped on weaker sales while cattle prices nudged higher on healthy demand and tight supplies.

BMO Capital Markets Commodity Price Index

All Commodities Index (2003 = 100)

	Dec. Level (2003=100)	% Change from Mth. Ago	Yr. Ago
All Commodities	187.9	-0.5	-1.2
Oil & Gas	184.7	0.8	2.8
Metals & Minerals	280.0	-2.0	-4.2
Forest Products	115.8	0.8	-6.4
Agriculture	198.0	-5.2	1.5

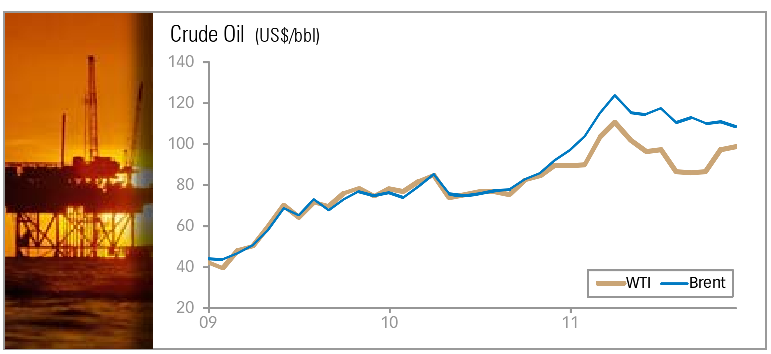
Oil and Gas

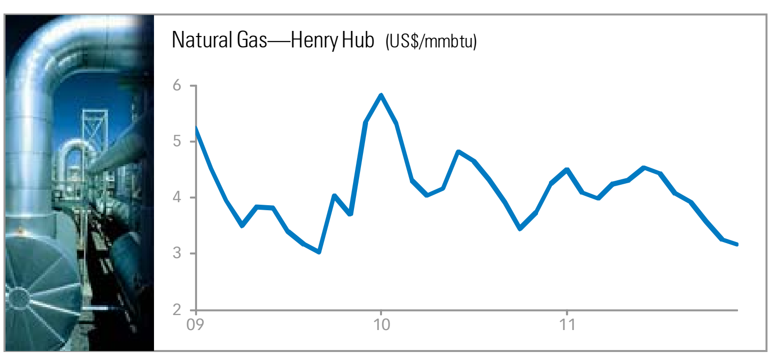
Crude Oil

prices have continued to rise despite economic risks in Europe and slowing growth in China and other emerging markets. In December, West Texas Intermediate (WTI) increased 1.4% to an average of US$98.57/barrel. It continued its upward drift in January, averaging just over $100/barrel during the first three weeks, 18% above its recent monthly low of $85.60 last September. Though a final decision on TransCanada's Keystone project has been delayed until after the U.S. election, the increase in WTI since September partly reflects other initiatives, by Enbridge and TransCanada, to expand pipeline capacity to take crude from Cushing, Oklahoma to large refineries on the Gulf Coast, some of which could be in place by midyear. This has narrowed the 'discount' of WTI from much higher Brent – a benchmark used for transactions in Europe and much of Asia – from $27 in September to $9.60 in December. However, the spread of Brent over WTI widened moderately in January, reflecting political/social tensions in the Middle East, the EU ban on Iranian oil exports, and threats by Iran to close the Strait of Hormuz. If there were an interruption to Middle East oil flows, that would have a larger impact on oil prices in Europe, which depends more heavily on that region for its supply, although prices would also rise sharply globally. Looking ahead, world demand growth will remain sluggish in 2012 amid recession in Europe and slowing economic expansion in Asia. We expect global economic growth to ease from an average annual increase of 4.4% during the past two years to 3.2% in 2012 and then strengthen to 4% in 2013. Although fundamentals might argue for a price reduction in 2012, the likelihood of continued social and political stresses in the Middle East will likely sustain a fairly high risk premium. Thus, we continue to expect WTI to average of $95 in 2012 and then rise to $98 in 2013, as strengthening global growth boosts demand and tightens oil markets.

Natural Gas

North American gas markets, already reeling from a supply glut due to accelerated U.S. shale gas output, are now facing an additional challenge on the demand side of the economic scissors from a no-show winter in major heating markets. In the United States, heating requirements in November and December were 17% lower than a year ago and 10% below the five-year average. Henry Hub fell 2.5% to an average of $3.16/mmbtu in December. And heating demand remained unusually weak in January. In contrast, U.S. natgas output growth accelerated from 3.4% in 2010 to 7.9% on a year-to-date basis through October 2011. Although the number of rigs targeting dry gas has declined, the rising productivity of drilling and the increased focus on liquids-rich fields and oil, which have increased the supply of associated gas, have kept output growth strong. Though showing fairly brisk growth of 3.4% year-to-date through October, U.S. natgas consumption significantly lagged production. Over the longer term, demand growth will be buoyed by increased switching from coal to natural gas by power generators and rising demand by industry, for which low prices are providing a competitive edge. Chesapeake's recent announcement that it will significantly cut dry gas output shows that low prices are influencing production decisions. However, given very high inventories, prices will have to remain weak to slow dry gas output further and accelerate switching from other fuels. Thus, we have substantially reduced our forecast for Henry Hub to US$2.90/mmbtu in 2012 (from $3.80) and $4.00 in 2013 (from $4.25).





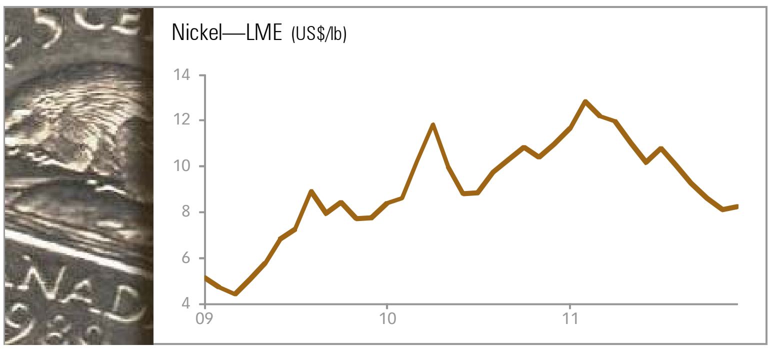
Metals and Minerals

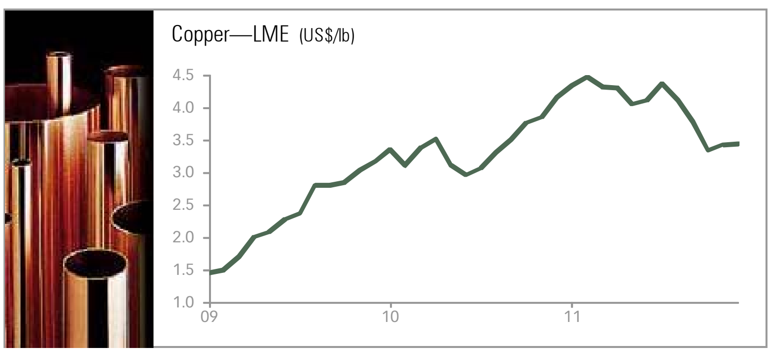
Nickel

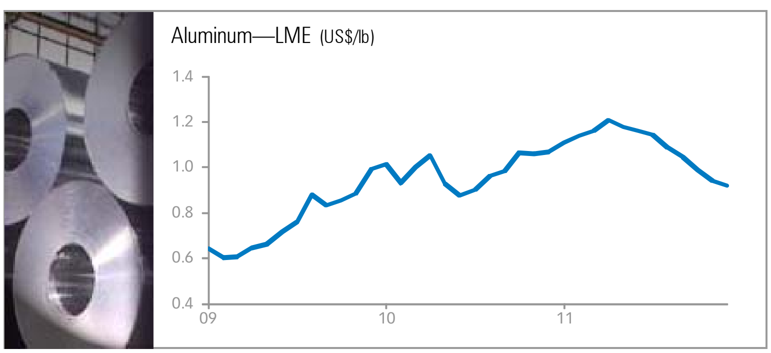
After falling for four months in a row, nickel advanced 1.5% in December to an average of US$8.23/lb. on improving U.S. economic data and monetary easing in China. Coordinated action by central banks to provide liquidity to European banks also supported nickel. Over the past 12 months, nickel prices tumbled by close to 25% as the market balance loosened. More recently, prices have continued to strengthen in January as the U.S. economic outlook improved and a soft-landing in China seems likely. Through the first three weeks, prices averaged US$8.83/lb., 6.6% higher than during the corresponding period in December. With demand from the stainless steel sector expected to firm and the recent price weakness prompting production cuts, nickel should nudge higher over the next few months. Further out, although more settled financial conditions and firming global economic activity should provide support, rising supplies as new projects ramp up production are expected to limit gains. From an average of US$10.38 in 2011, nickel prices are projected to decline to $9.00 in 2012 amid a softer demand outlook. We see nickel increasing to $10.00 in 2013 as global economic activity strengthens.

Copper

remained largely flat in December, gaining just 0.2% to average US$3.43/lb. However, despite this surface calm, prices were quite volatile. Through the middle of the month, European sovereign debt concerns and mixed data pushed prices lower. Later, some positive economic results, easier Chinese monetary policy amid ebbing inflationary pressure, and mine strikes helped to lift copper. Over the past 12 months, prices fell about 17% as global economic concerns caused investors to flee risk assets. However, market fundamentals remain healthy. Recent data from the International Copper Study Group suggest a market deficit. Prices have firmed further in January, averaging US$3.53/lb. through the first three weeks, 4.6% higher than during the same period in December. Although economic uncertainty will likely weigh on the market over the next several months, improving global industrial production and sluggish supply growth are expected to push prices higher. We see copper prices averaging $3.75 in 2012 before moving higher to $4.00 in 2013.







Aluminum

fell 2.5% in December to US$0.92/lb. – its eighth straight monthly decline – amid fresh concerns that Europe's sovereign debt problems could escalate. Most of the losses occurred during the first half of the month. In the second half, prices stabilized as worries about Europe ebbed and the tenor of the economic data flow improved. Over the past 12 months, aluminum prices fell 14%. Prices have perked up in January, as market sentiment was buoyed by announcements of production cuts. Aluminum is likely to trade in a narrow range over the next few months, with the fragile global economy and high inventories limiting any upside. Further out, prices should receive support from strengthening demand and restrained output growth. We see prices averaging $1.02 in 2012 and $1.05 in 2013.

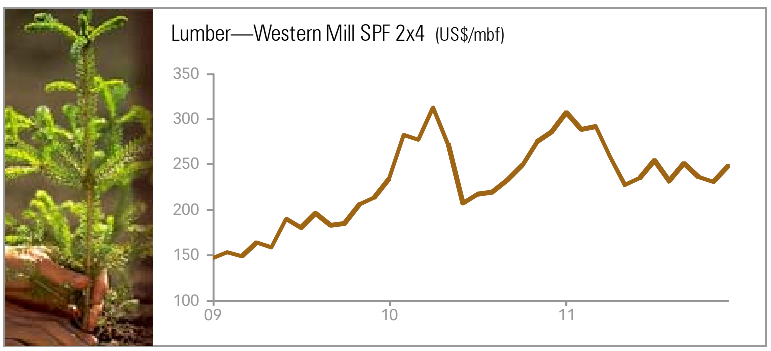
Forest Products

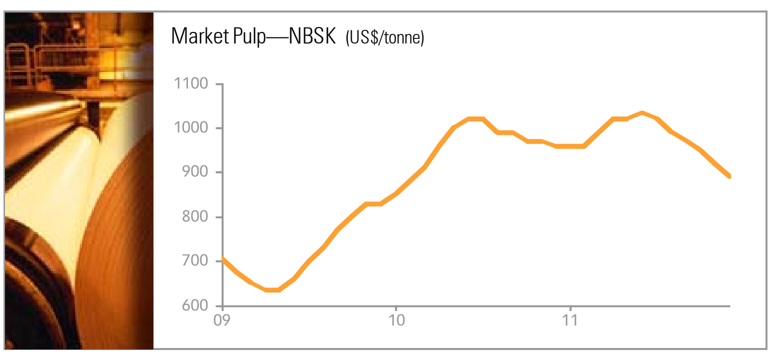
Lumber

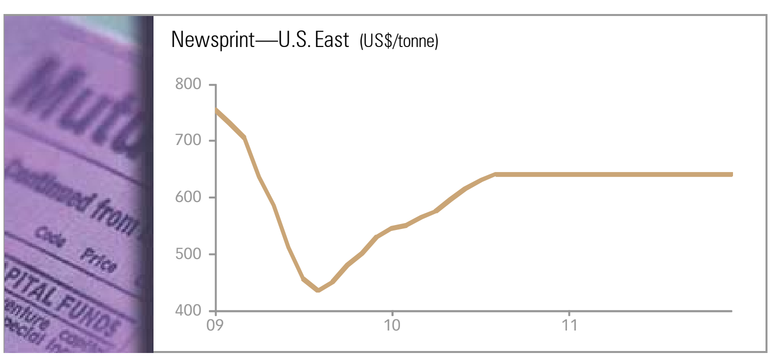
Western SPF 2x4 gained $18 to US$248/mbf in December, after shedding 8.4% of its value over the previous two months and 25% since January. The U.S. housing market has shown tentative signs of beginning to recover, with housing starts and existing home sales improving slightly in recent months. Yet, the U.S. housing sector is still under significant downward pressure from the massive overhang of distressed properties. At the same time, Canada's lumber exports to China, which soared over the past two years and currently account for more than 20% of total exports, are likely to lose steam as the property market in China cools this year as a result of a series of tough government measures. Overall, we look for Western SPF 2x4 to rise modestly from $255 in 2011 to $264 in 2012 and to strengthen further to $290 in 2013 as the U.S. housing recovery gains momentum.

Market Pulp

NBSK fell $30 to US$890/tonne in December, marking a six-month decline of $145 from their peak last June. However, there are signs that low prices are beginning to stimulate sales. Shipments rebounded in late 2011 and producer inventories of market pulp slipped from 39.9 days of supply in October to 36.3 days in November. Prices should remain subdued in the coming months, as the sovereign debt crisis in Europe continues to weigh on demand for printing and writing paper in that region, while consumption in China could see a temporary pull-back in January and February due to the Spring Festival. Given the recent large losses, we have revised our price forecast for 2012 downward. From $977/tonne in 2011, we now see NBSK averaging $890 in 2012 (compared with $975 previously). Stronger demand, along with capacity reduction due to this year's price weakness, is expected to raise NBSK to $935 in 2013.







Newsprint

The U.S. East Coast benchmark finished the year flat at US$640/tonne in December (unchanged since August 2010) even though exports slipped for the second month in a row due to a significant slowdown in shipments to India. With the rupee falling sharply in recent months, demand weakness in India could linger. In North America, a long-term downward trend in newsprint consumption continues. Softening demand has pulled down the shipment-capacity ratio. This should force producers to continue capacity curtailments in 2012. Tightening supply and a likely recovery in market demand during the second half of this year amid better global economic prospects should cause newsprint prices to improve modestly from US$640/tonne in 2011 to an average of $661 in 2012 and then to strengthen further to $700 in 2013.

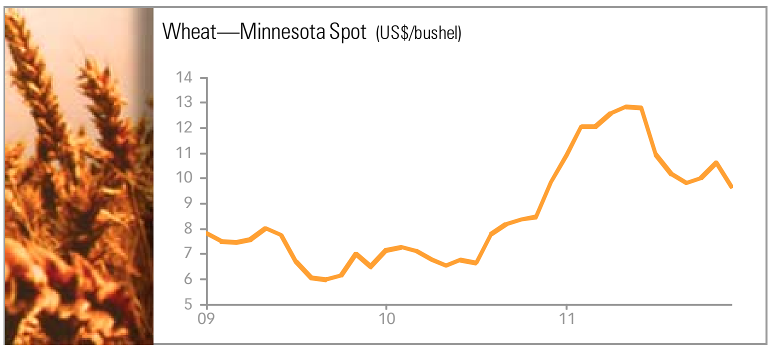
Agricultural Products

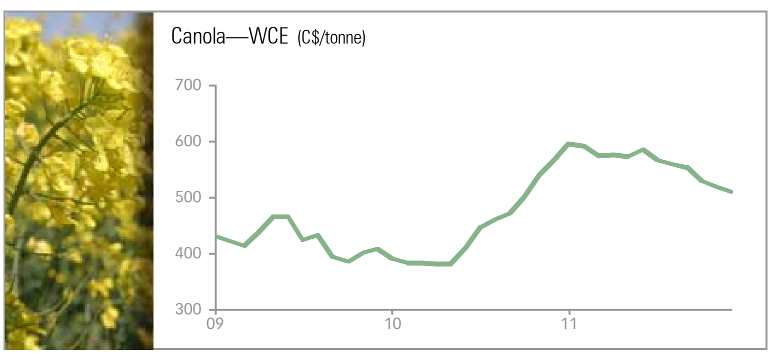
Wheat

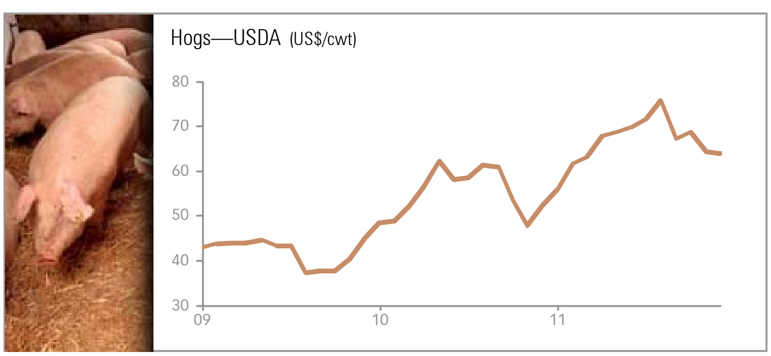
Minneapolis spring wheat tumbled 8.6% in December to average US$9.69/bu. as a USDA report indicated that U.S. farmers had significantly boosted the area planted to winter wheat. Negative sentiment due to worsening global economic prospects and heightened uncertainty in financial markets also played a role. The setback left average prices slightly lower than a year ago. Wheat has eased further in January, averaging $9.36 through the first three weeks, 2.2% lower than during the same period in December. Forecasters are calling for adequate and increasing global supplies, with the ratio of stocks to consumption slated to hold above longer-term levels. For instance, the USDA has recently upped its expectations of global production and stocks for the 2011-12 crop year and is anticipating intense competition in export markets. Some major exporting countries – e.g., Australia, Canada and Argentina – are expected to have substantially larger supplies. Against this backdrop, prices are projected to retreat over the next two years. We look for the annual average wheat price to decline from $11.20 in 2011 to $8.60 in 2012 and $8.00 in 2013.

Canola

fell a further 1.6% in December to average C$509/tonne. The decline reflected a large Canadian canola crop and weakness in the soybean market due to an upwardly revised production forecast. The 2011-12 Canadian canola output is slated to rise 11% from the previous year. Prices have been trending downward since January from C$594/tonne, as global oilseed supplies have increased. After last month's losses, canola stood 9.9% lower than a year ago in Canadian dollar terms. Nevertheless, USDA projections still point to a tight market balance for canola, with the ratio of global stocks to consumption remaining below its five-year average in the 2011-12 crop year. Stretched supplies and continued strong demand should support prices for the oilseed through the year even though increased competition from soybeans is likely to limit any gains. From C$560 in 2011, we look for canola to average C$580 in 2012. Increased production is expected to push prices down to C$535 in 2013.







Hog

prices slipped 0.6% in December to average US$64.00/cwt., as U.S. supplies increased modestly and Asian demand cooled. Over the past year, hogs gained 22.4% on lean animal inventories and buoyant foreign demand. Cumulative U.S. pork exports through November were more than 20% higher than a year ago, with especially strong sales to China and South Korea, both of which suffered disease-related production shortfalls. Hog prices should continue to receive support from limited supply growth and healthy demand. While elevated prices are an incentive to boost production, high and variable feed costs have so far limited producers' response. Ultimately, though, we expect the U.S. hog herd to expand moderately in 2012 while exports to Asia ease further on increasing production in that region. This will help to push the annual average hog price down from $67/cwt in 2011 to $65 this year and $60 in 2013.

Energy and Materials

		Crude Oil (WTI)	Natural Gas (Henry Hub)	Natural Gas (Alta. Empress)	Lumber	Pulp	Newsprint
		US$/bbl	US$/mmbtu		US$/mbf	US$/tonne	
	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
	2010	79.43	4.39	3.59	255	960	606
	2011	95.08	4.00	3.28	255	977	640
	y-t-d 2012	100.59	2.68	2.15	261	n.a.	n.a.
2011	January	89.42	4.49	3.67	307	960	640
	February	89.58	4.09	3.51	289	960	640
	March	102.94	3.97	3.43	292	990	640
	April	110.04	4.24	3.50	258	1020	640
	May	101.33	4.30	3.65	227	1020	640
	June	96.29	4.53	3.75	235	1035	640
	July	97.19	4.42	3.47	255	1020	640
	August	86.33	4.05	3.28	232	990	640
	September	85.61	3.89	3.21	251	970	640
	October	86.41	3.57	2.85	236	950	640
	November	97.21	3.24	2.61	230	920	640
	December	98.57	3.16	2.39	248	890	640
	m-t-d January	100.59	2.68	2.15	261	n.a.	n.a.
Forecast	2012 Avg.	**95.00**	**2.90**	**2.35**	**264**	**890**	**661**
	2013 Avg.	**98.00**	**4.00**	**3.40**	**290**	**935**	**700**

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
	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
	2010	3.42	0.99	0.98	9.89	1225	20.16
	2011	4.00	1.09	0.99	10.38	1570	35.11
	y-t-d 2012	3.59	0.96	0.88	8.79	1639	30.07
2011	January	4.33	1.11	1.08	11.63	1360	28.44
	February	4.48	1.14	1.12	12.81	1371	30.79
	March	4.32	1.16	1.07	12.16	1423	35.79
	April	4.30	1.21	1.08	11.94	1474	41.99
	May	4.05	1.18	0.98	10.98	1512	36.73
	June	4.10	1.16	1.01	10.14	1528	35.80
	July	4.36	1.14	1.08	10.76	1569	37.99
	August	4.10	1.09	1.00	10.02	1760	40.26
	September	3.77	1.04	0.94	9.25	1781	38.08
	October	3.33	0.99	0.84	8.57	1668	32.02
	November	3.43	0.94	0.87	8.11	1736	33.06
	December	3.43	0.92	0.87	8.23	1653	30.36
	m-t-d January	3.59	0.96	0.88	8.79	1639	30.07
Forecast	2012 Avg.	**3.75**	**1.02**	**0.96**	**9.00**	**1695**	**34.00**
	2013 Avg.	**4.00**	**1.05**	**1.00**	**10.00**	**1600**	**35.00**

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Agriculture

		Wheat	Canola	Cattle	Hogs
		US$/bushel	US$/tonne	US$/cwt	
	1999	3.69	204	63.28	32.33
	2000	3.62	176	68.39	42.88
	2001	3.69	201	71.21	44.08
	2002	4.14	242	66.61	33.28
	2003	4.24	261	79.97	37.54
	2004	4.56	271	85.54	51.20
	2005	4.78	224	89.55	49.61
	2006	5.19	257	87.09	46.25
	2007	7.10	379	90.02	46.68
	2008	11.19	528	89.23	47.65
	2009	7.03	371	80.36	41.99
	2010	7.57	429	91.97	55.04
	2011	11.20	567	113.33	66.52
	y-t-d 2012	9.39	516	n.a.	n.a.
2011	January	10.94	598	107.00	55.80
	February	12.05	598	108.00	61.60
	March	12.07	588	115.00	63.10
	April	12.58	600	119.00	67.70
	May	12.83	591	112.00	68.60
	June	12.77	597	107.00	69.70
	July	10.94	588	111.00	71.70
	August	10.14	568	111.00	75.80
	September	9.80	553	112.00	67.10
	October	9.98	517	117.00	68.70
	November	10.61	506	120.00	64.40
	December	9.69	497	121.00	64.00
	m-t-d January	9.39	516	n.a.	n.a.
Forecast	2012 Avg.	**8.60**	**560**	**118**	**65**
	2013 Avg.	**8.00**	**540**	**112**	**60**

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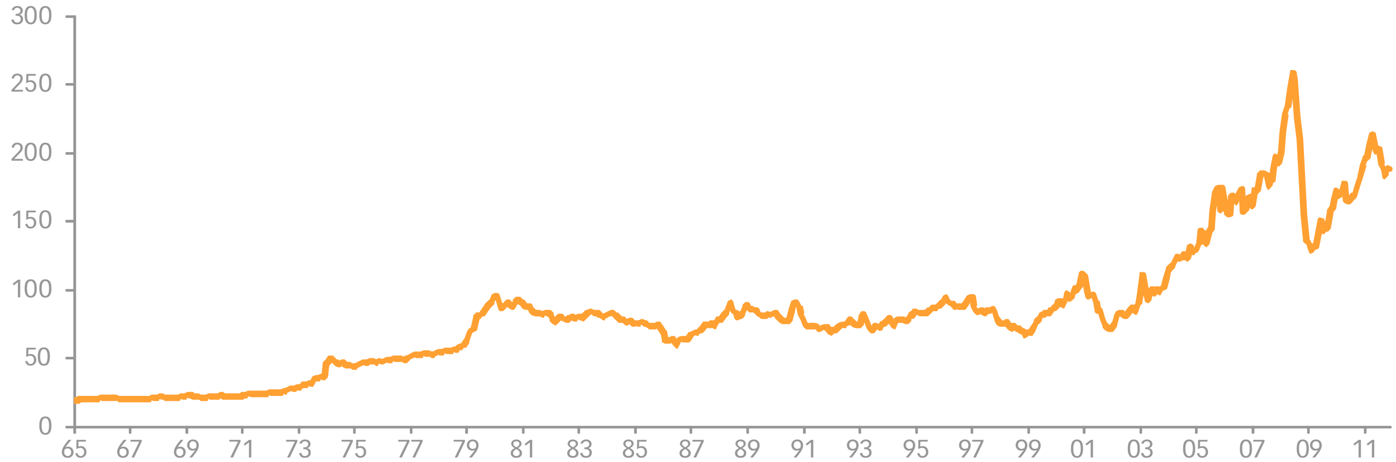
Commodity Indices and Forecasts

US$-terms : 2003 = 100			All Commodities	Oil & Gas	Metals & Minerals	Forest Products	Agricultural Products	All Commodities C$-terms
Annual								
		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	283.9	108.2	146.5	138.5
		2008	210.9	239.0	272.4	112.5	204.2	158.4
		2009	144.2	133.9	227.2	95.2	141.2	117.1
		2010	172.1	165.9	254.9	118.4	158.4	126.6
		2011	196.4	186.9	303.5	120.2	218.9	138.6
Forecast		2012	**189.3**	**176.7**	**301.7**	**119.2**	**190.0**	**139.9**
		2013	**200.9**	**191.6**	**316.6**	**127.5**	**178.6**	**142.0**
Quarterly								
	2010	Q2	168.9	162.9	244.7	122.5	145.9	124.0
		Q3	167.4	159.7	248.4	116.1	160.5	124.3
		Q4	181.9	169.3	283.0	121.8	180.8	131.6
	2011	Q1	199.0	186.9	308.1	125.5	223.9	140.2
		Q2	206.0	202.0	311.1	119.6	238.7	142.4
		Q3	194.0	179.6	311.3	119.9	209.6	135.7
		Q4	186.4	179.1	283.5	116.0	203.2	136.1
Forecast	**2012**	Q1	**187.7**	**179.1**	**293.5**	**114.6**	**194.1**	**138.5**
		Q2	**186.5**	**169.8**	**305.8**	**117.5**	**189.4**	**141.1**
		Q3	**188.3**	**173.1**	**300.2**	**123.6**	**187.5**	**139.8**
Monthly								
	2010	Dec	190.1	179.6	292.2	123.8	195.0	136.8
	2011	Jan	195.5	182.6	300.8	127.7	213.9	138.7
		Feb	195.9	179.1	311.6	123.5	228.1	138.3
		Mar	205.7	199.1	311.7	125.2	229.9	143.5
		Apr	213.0	212.7	318.6	121.3	238.8	146.0
		May	203.7	199.6	308.0	117.6	239.2	140.8
		Jun	201.2	193.8	306.7	119.8	238.0	140.4
		Jul	202.6	194.1	315.4	121.6	218.2	138.8
		Aug	191.5	173.7	314.6	118.3	208.8	134.3
		Sep	188.0	171.0	303.9	119.8	201.8	134.1
		Oct	182.4	169.3	284.7	117.2	202.8	132.8
		Nov	188.9	183.3	285.7	115.0	208.8	138.0
		Dec	187.9	184.7	280.0	115.8	198.0	137.4

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

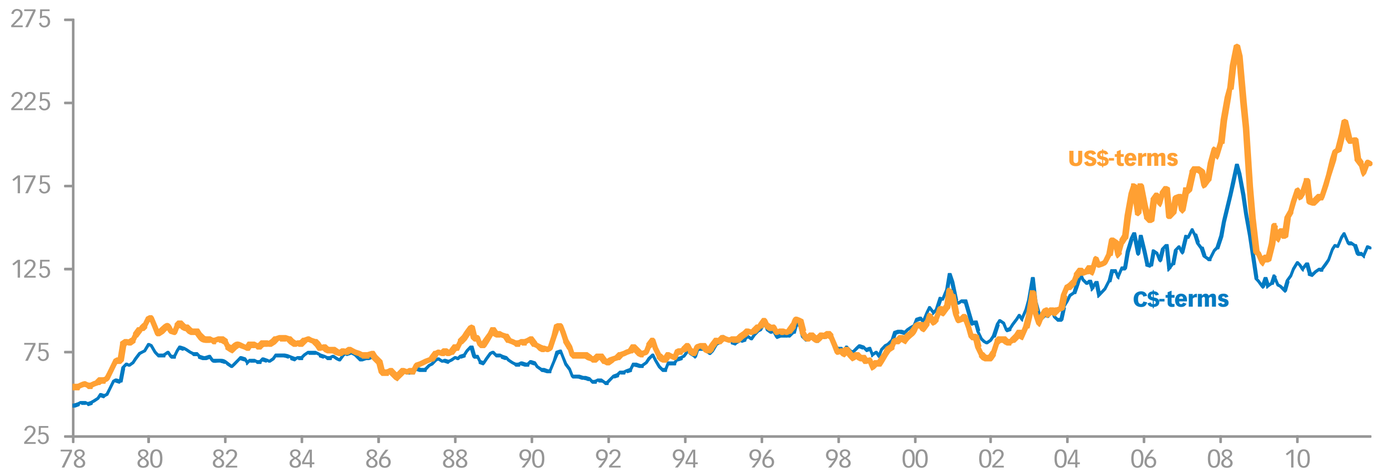
Historical Charts: All-Commodity Index

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**	**100.0**
Gold	3.1	14.5	Newsprint	5.0	18.8
Silver	0.4	1.9	Market Pulp	5.9	22.6
Aluminum	8.3	38.7	Supercalendered Paper	3.4	13.1
Copper	2.3	10.4	Lumber	9.3	35.3
Nickel	3.3	15.2	OSB	2.7	10.3
Zinc	1.0	4.4			
Uranium	1.1	5.0	**Agricultural Products**	**5.9**	**100.0**
Potash	2.1	9.8	Wheat	2.8	47.8
			Canola	1.2	20.3
Oil and Gas	**46.3**	**100.0**	Hogs	0.6	9.7
Crude Oil	22.7	49.1	Beef Cattle	1.3	22.3
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.