



THE Goods

A REPORT ON COMMODITIES



Commodities Fly Another Day

After reaching a speculative peak last May, industrial commodities are down sharply—but they are set to bounce to historically high levels from the current over-sold position (*Chart 1*). The performance will be mixed, with gold, nickel and zinc outperforming. In our previous report, we stated that commodities would drop for longer than just a short spell and that energy and metals would rebound in the latter part of 2007. Well, we are not exactly deep into 2007 and there are already signs of rising demand and supply pressures, as the U.S. economy perks up and the rest of the world stays firm.

And while there are fewer concerns about supply shortfalls and geopolitical risk of late, these remain supportive factors. Riding robust employment and income growth along with lower energy costs and a cash-rich corporate sector, the U.S. economy is well-positioned to stay near potential growth for most of 2007 (*Chart 2*). Combine that with strong economic underpinnings in China and the rest of the developing world, and it looks like demand for everything from oil to base metals should move higher this year. While Chinese industrial production growth slowed to 14.8% y/y in Q4 from 16.7% earlier in the year and monetary tightening measures and a rising currency could further cool conditions, the economy will still grow an impressive 9%-plus this year. Europe also grew at a solid 2.7% in 2006—the best performance in six years, with strength from industry-heavy and metal intensive Germany buoying the whole region (*Chart 3*). And Europe still looks good in 2007.

Since supply did not roar higher for most “goods”, the stresses that caused shortage concerns and sky-rocketing prices back in May will also help support prices as demand shifts into higher gear later

Bart Melek,
Senior Economist

1-800-613-0205
www.bmonesbittburns.com/economics

Chart 1
Better Times Ahead
(6-mnth % chng a.r.)

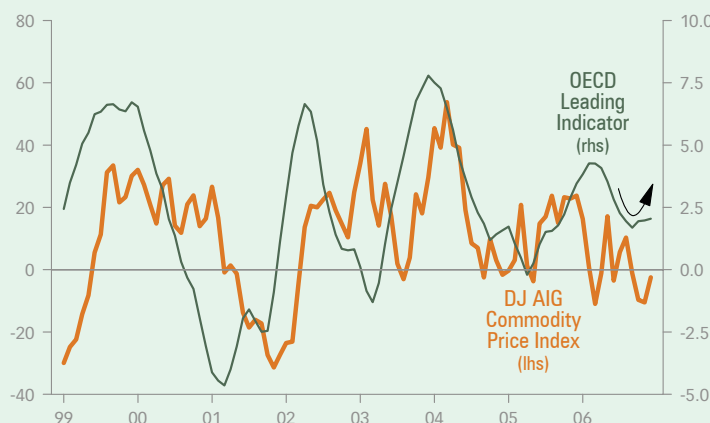


Chart 2
Growth Strong Where Demand High
Real GDP (ann % chng)



Developing World Leading the Way

Ranked by '06

this year. Recall that concerns over U.S. economic prospects in the first place were predicted to melt the “wax” on the wings, lifting commodities to record levels back last spring. Better U.S. economic news should alone buoy near-month prices and pull funds into commodities. A steepened contango (*Chart 4*) worked to move funds away from commodity-based investments in recent months, magnifying the negative impact of physical fundamentals on prices. With industrial commodity inventories headed lower and spot prices up, contangos will get gentler and commodity indices should generate cash again. As a result, we will likely see more “hot” money flowing towards commodity-based assets as well, especially with the U.S. dollar softening again.

There is energy in oil and gas. After a December and early-January heat wave (*Chart 5*) that cut oil prices below the \$50 mark last month for the first time in a year and a half, oil has turned a corner as the weather turned cold and OPEC reaffirmed its commitment to cut. With oil at \$58, we reassert that there still is a bright future for energy, even though the steep contango and the upcoming seasonal demand decline in Q2 are preventing a wholesale inflow of funds into energy. When the heating season comes to an end, relatively large U.S. oil and fuel inventories will weigh on prices. But the supply-demand balance will tighten after that (Q3-Q4). While slow to deliver the promised deep cuts initially, OPEC is committed to balancing the market and it eventually will do what is required. As a testimonial to the cartel’s muster, Saudi Arabia committed to an additional 158,000 bpd cut recently as part of a larger 500,000 reduction which started at the beginning of February. In December 2001, the cartel committed to a 1.5 million bpd cut, and by April 2002, 1.7 million bpd worth of cuts were delivered. This lifted crude to \$30, from \$20 when the formal commitment was made (*Chart 6*). Like in 2002, the U.S. economy is set to turn the corner, with growth trending towards potential after a slow Q1 and

Chart 3
German Employment Helping European Economy

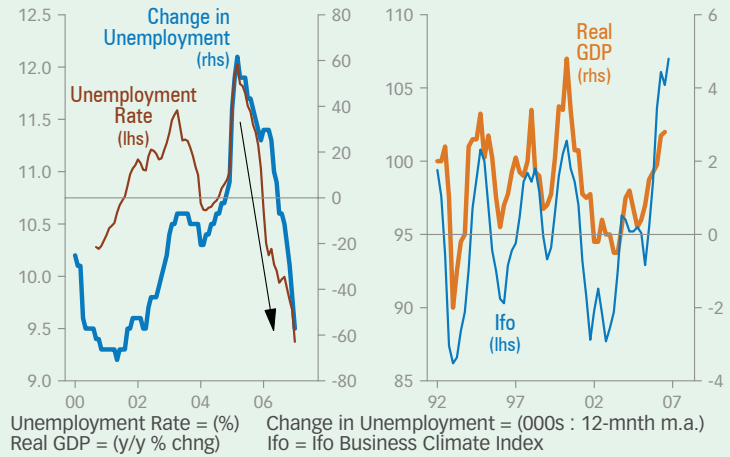


Chart 4
Still Hard to Make Money in Commodities

Contract Prices by Months Ahead

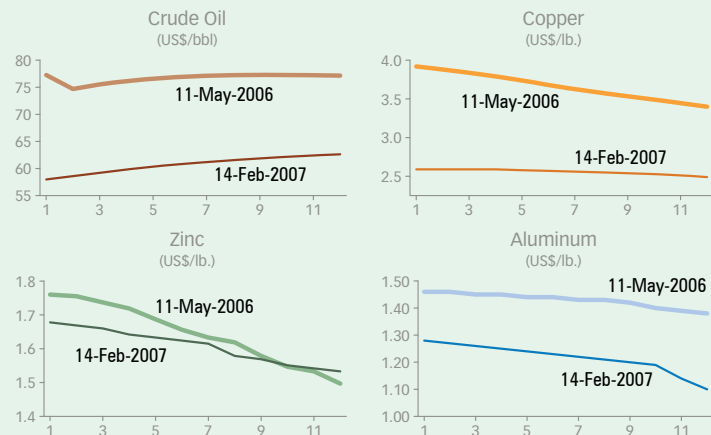
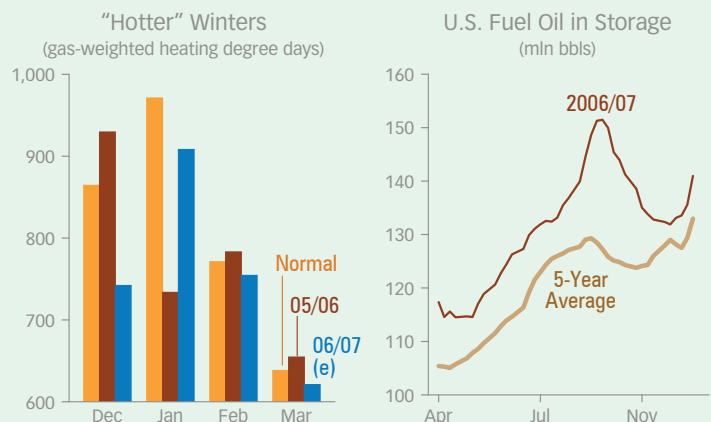


Chart 5
Weather-Related Inventory Overhang Here for a While



Source: DOE

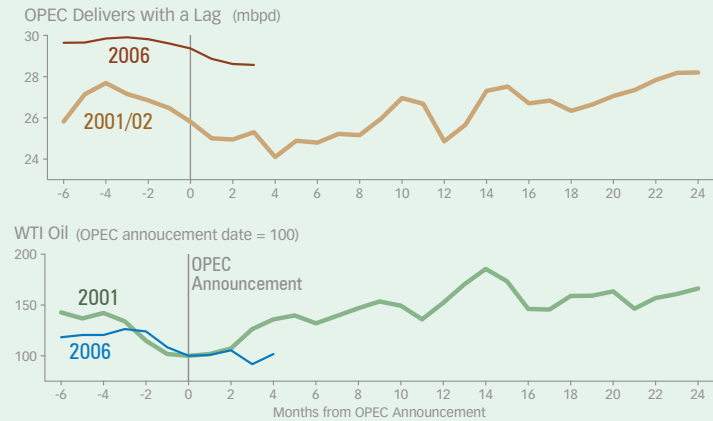
Q2. The combination of solid economic growth, dramatically colder weather and production cuts should tighten the market considerably this year. Periodic eruptions of the ever-present geopolitical tensions in the Middle East (Iran's nuclear ambitions and continued turmoil in the region) will again add a risk premium to oil prices.

Better times are also ahead for natural gas, but it will likely follow a somewhat flattish trajectory owing to very high storage levels that will suppress injection demand later in the year. The warmest January in more than a century last year, a very warm December and an above-normal January this year kept natural gas demand relatively subdued, allowing inventories to surge to their highest on record. Even the recent arctic blast will not dramatically unwind this overhang, leaving over 1.4 tcf of gas-in-storage by the end of the heating season (Chart 7). This compares to a normal level of about 1 tcf.

Shining up the metals. As the housing fog covering the U.S. economic landscape lifts and the winter fades into memory, demand for all base metals will also perk up, unwinding the inventories (still very low) accumulated through the winter lull (Chart 8). Tighter supplies should turn investor sentiment further towards metals, especially since rising spot prices will further erode contango conditions for copper and steepen the backwardations for other metals. We see aggregate base metal demand growing at 5.6% in 2007, with supply growing only slightly faster. In the next few months, however, consumption will outpace supply for virtually every major metal, boosting prices.

Rebalancing of global growth and demand away from the U.S. towards China and other fast-growing emerging industrial nations (Chart 9), such as Russia and India, also means that there are only a few possible factors capable of forcing prices lower. While the sector will do well overall, individual

Chart 6
Oil Prices Surge Once Market Sees Evidence of Cuts



OPEC Announcement = December 28/01 (\$20.41) and October 19/06 (\$58.50)

Chart 7
Gas Prices to Follow Flattish Path...Inventories High

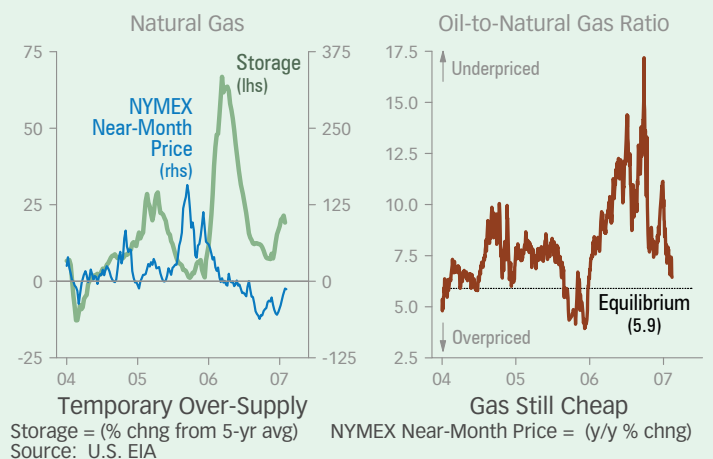
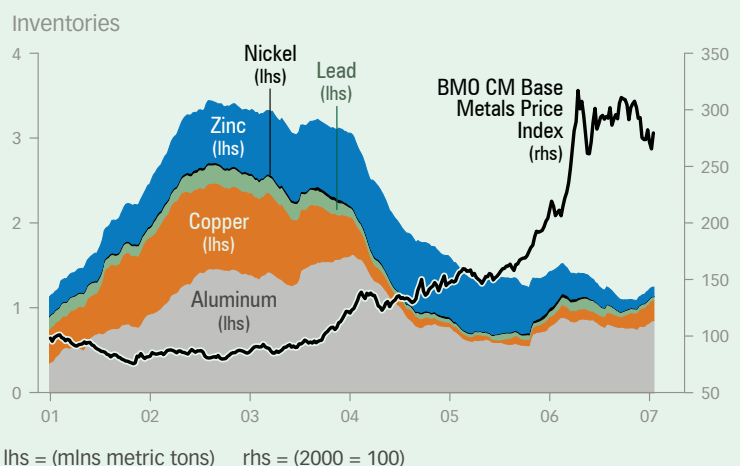


Chart 8
Low Inventories Helping Metals Prices

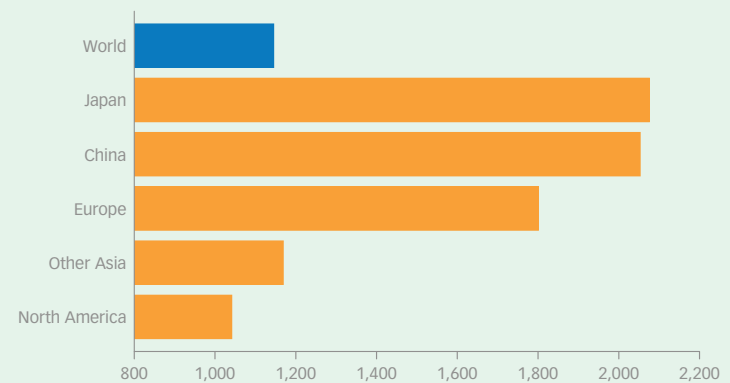


performances will be mixed in the latter part of 2007 owing to the fact that nickel and zinc will be in a deficit, while copper and aluminium markets will turn towards a surplus. Still, physical markets will be relatively tight even for copper and aluminium as the impact of earlier deficits will take quite a while to be unwound. The corollary of this: metals and metal-based assets are the place to be.

Gold: Upward Bound. After a stellar performance last year and outperforming U.S. stocks, bonds and oil, the yellow metal climbed to its highest since last July in recent days. Surging investment demand is the driving force behind this year's rise, as portfolio managers fret over possible dollar weakness and rebounding energy/commodity prices rekindle inflation concerns—at least in the gold market. With the ECB increasing rates at least one more time in March (and likely again in June, too) and the Fed more likely to cut than hike this year, the downside risk to the greenback will continue to be considerable as the year unfolds (*Chart 10*). This will help the yellow metal to shine in the coming months. In addition, with the U.S. economy surprising on the upside and concern in some quarters that energy, grain and wages are fuelling price pressures, core inflation may become stuck at high levels for some time. And gold bugs around the world are taking that bet, creating upward momentum for the precious metal. Add to that a bearish tone resonating through the U.S. bond market and there is every reason to believe that funds previously destined for other markets seek out golden opportunities too.

Chart 9
Metal Use Intensity

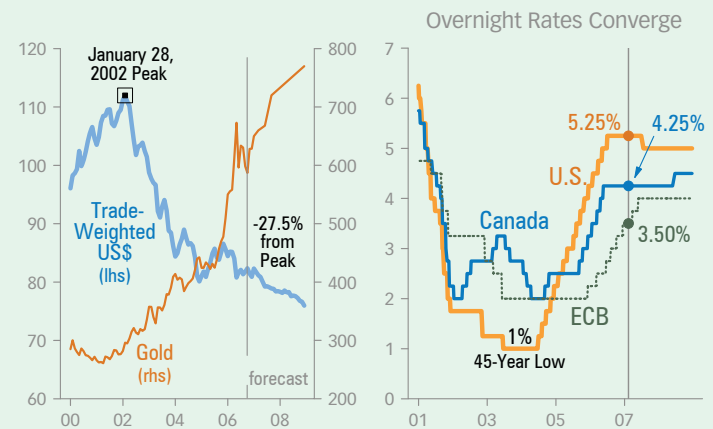
2005 (consumption 000s tonnes : per \$1 trln GDP)



Source: BMO Capital Markets, Brook Hunt

Chart 10
Slumping U.S. Dollar Expectation Helping Gold

(% : as of February 15, 2007)



Commodity Price Index Hits an Air Pocket in January

The BMO Capital Markets Commodity Price Index started 2007 the way it started 2006, by hitting an air pocket at high altitude. Turbulence affecting the energy, metals and, to a lesser extent, agricultural sectors caused the Index to drop 4.2% in the month. Nonetheless, at 202.5 (1993=100), the Index remains historically elevated and is expected to remain so through 2007. However, it will be subject to a fair degree of volatility on a monthly basis.

Robert Hogue,
Senior Economist

BMO Capital Markets Commodity Price Index



	Jan. Level	% change from	
	1993=100	Month Ago	Year Ago
All Commodities	202.5	-4.2	-1.1
Oil & Natural Gas	330.6	-7.1	-14.9
Metals & Minerals	264.8	-4.0	34.0
Forest Products	116.7	0.2	-4.1
Agriculture	119.4	-1.5	17.4

Energy and Materials







		Crude Oil	Natural Gas		Lumber	Pulp**	Newsprint
		(WTI)	(NYMEX near mo.)	(Alta. Empress spot)			
		US\$/bbl	US\$/mmbtu		US\$/mbf	US\$/tonne	
	1994	17.18	1.95	1.54	341	568	460
	1995	18.41	1.70	0.91	251	884	660
	1996	22.15	2.51	1.16	353	578	623
	1997	20.59	2.50	1.41	354	567	551
	1998	14.37	2.48	1.53	288	517	588
	1999	19.28	2.16	2.04	343	521	493
	2000	30.42	4.30	3.81	259	681	551
	2001	25.91	4.03	3.48	251	515	565
	2002	26.14	4.04	2.63	238	490	445
	2003	31.10	5.49	4.82	270	551	488
	2004	41.44	6.20	5.25	394	637	534
	2005	56.57	9.01	7.51	354	647	583
	2006	66.09	6.99	5.92	297	717	629
	Year-to-date: 2007	55.87	6.99	7.04	261	783	630
2006	February	61.56	7.52	6.71	346	654	612
	March	62.89	6.98	5.80	332	660	618
	April	69.56	7.27	5.95	332	679	620
	May	70.97	6.36	5.29	322	696	631
	June	70.93	6.39	5.33	302	714	636
	July	74.42	6.20	5.21	293	742	637
	August	73.04	6.99	5.92	273	750	641
	September	64.06	5.25	4.41	271	763	641
	October	58.85	6.63	5.21	238	770	639
	November	59.15	7.97	6.99	242	770	637
	December	61.97	7.12	6.68	255	770	631
2007	January	54.62	6.74	6.52	265	780	640
	February*	58.50	7.52	7.56	251	789	611
	3-Month Forward Price Trend						
Forecast	2007 Avg.	62.00	7.20	6.50	255	780	610
	2008 Avg.	64.00	8.00	7.40	300	720	625

* month-to-date

** 1996 and prior from Pulp & Paper Week, 1997 onward from FOEX PIX NBSK Index

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	Lead	Aluminum	Zinc	Nickel	Gold	Silver
				US\$/lb.			US\$/oz.	
	1994	0.87	0.18	0.52	0.44	2.40	384.01	4.31
	1995	1.05	0.25	0.67	0.45	2.88	384.18	5.28
	1996	1.33	0.29	0.82	0.47	3.41	387.74	5.20
	1997	1.04	0.35	0.68	0.46	3.15	331.31	5.20
	1998	1.03	0.28	0.73	0.60	1.81	294.25	4.97
	1999	0.72	0.24	0.62	0.46	2.09	278.66	5.23
	2000	0.71	0.23	0.62	0.49	2.74	278.57	5.22
	2001	0.82	0.21	0.66	0.51	2.70	271.12	4.38
	2002	0.72	0.22	0.65	0.40	2.71	310.57	4.61
	2003	0.81	0.23	0.65	0.38	4.38	364.04	4.88
	2004	1.30	0.40	0.78	0.48	6.28	409.54	6.66
	2005	1.67	0.44	0.86	0.63	6.70	445.08	7.31
	2006	3.06	0.58	1.17	1.48	10.96	604.25	11.57
	Year-to-date: 2007	2.56	0.76	1.27	1.64	17.02	640.32	13.12
2006	February	2.26	0.57	1.11	1.01	6.79	555.00	9.53
	March	2.32	0.54	1.10	1.10	6.77	557.09	10.38
	April	2.91	0.53	1.19	1.39	8.18	609.98	12.67
	May	3.64	0.53	1.29	1.61	9.59	673.35	13.41
	June	3.28	0.44	1.13	1.45	9.34	596.15	10.80
	July	3.50	0.48	1.14	1.51	11.88	633.71	11.23
	August	3.48	0.54	1.12	1.51	13.88	631.93	12.18
	September	3.46	0.61	1.13	1.54	13.47	598.19	11.68
	October	3.40	0.69	1.21	1.74	14.76	585.78	11.56
	November	3.19	0.74	1.23	1.99	14.47	627.83	12.93
	December	3.02	0.77	1.28	1.98	15.59	629.26	13.30
2007	January	2.59	0.76	1.27	1.73	16.64	631.43	12.84
	February*	2.50	0.76	1.28	1.45	17.81	658.92	13.70
	3-Month Forward Price Trend							
Forecast	2007 Avg.	2.70	0.55	1.20	2.00	14.00	700.00	14.00
	2008 Avg.	2.30	0.45	1.10	1.80	14.00	750.00	15.60

* month-to-date

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

Agriculture

1993 = 100





Wheat

Corn

Canola

Soybeans

(US\$ terms)

		Wheat	Corn	Canola	Soybeans
	1994	102.7	105.7	116.8	99.9
	1995	109.6	119.0	120.5	97.4
	1996	125.2	168.4	123.0	121.4
	1997	99.7	117.6	110.9	123.6
	1998	89.5	98.4	103.1	97.0
	1999	82.2	84.3	79.6	74.5
	2000	80.7	82.3	67.9	78.7
	2001	82.0	83.9	78.6	73.4
	2002	92.2	95.4	94.1	82.7
	2003	94.8	100.0	101.5	102.3
	2004	103.0	104.9	105.9	121.9
	2005	106.5	83.7	87.3	95.5
	2006	115.7	105.9	100.0	91.0
	Year-to-date: 2007	117.7	161.9	124.7	107.6
2006	February	108.7	90.7	82.4	90.4
	March	108.0	90.2	85.9	89.0
	April	110.1	96.2	88.7	88.0
	May	119.1	98.2	99.2	90.9
	June	124.7	94.4	96.2	90.4
	July	126.7	97.8	105.3	90.0
	August	110.4	91.2	103.3	84.0
	September	108.3	97.5	104.0	83.0
	October	119.2	123.2	108.5	90.2
	November	123.5	150.5	121.5	102.7
	December	120.7	155.1	123.8	103.0
2007	January	117.7	161.9	124.7	107.6
	3-Month Forward Price Trend				
Forecast	2007 Avg.	119.2	132.4	106.0	91.4
	2008 Avg.	107.0	114.5	97.8	90.2

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Global Commodity Indicators

y/y % change	2005	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2006f	2007f	2008f
Global Economic Growth (GDP)	4.1	n.a.	n.a.	n.a.	n.a.	5.1	4.6	4.6
Industrial Production								
Global *	2.2	n.a.	n.a.	n.a.	n.a.	4.0	2.6	2.9
United States	3.2	3.3	4.2	5.1	3.7	4.1	2.6	3.0
China	16.3	15.9	18.0	16.2	14.8	16.2	14.0	13.0
Japan	1.6	2.8	3.7	5.1	4.9	4.1	2.3	2.8
Germany	2.8	4.6	6.0	6.7	5.1	5.4	3.0	2.7
France	0.2	0.5	1.6	0.6	0.6	1.3	1.1	1.7
United Kingdom	-1.8	-1.1	-0.6	0.5	0.9	1.1	1.2	1.3
Italy	-0.9	2.8	1.6	1.4	3.8	1.9	1.2	1.4
Canada	1.0	1.9	0.1	-0.9	-2.5 e	-0.3	-0.5	1.5
Housing Activity	<i>thousands of units</i>							
U.S. (starts)	2,073	2,123	2,123	2,123	2,123	1,820	1,580	1,600
Germany (permits)	240.5	71.5	63.3	61.9	n.a.	n.a.	n.a.	n.a.
Japan (starts)	1,234.8	319.2	325.5	317.4	328.2	1,290.3	n.a.	n.a.
Vehicle Production	<i>millions of units</i>							
N. America (light vehicles, s.a.a.r.)	15.8	16.1	16.1	16.1	16.1	n.a.	n.a.	n.a.
Japan	9.0	2.5	2.5	2.5	2.5	n.a.	n.a.	n.a.
W. Europe	9.7	2.4	2.4	2.4	2.4	n.a.	n.a.	n.a.
Exchange Rates								
US\$/€	1.24	1.20	1.26	1.27	1.29	1.26	1.32	1.27
¥/US\$	110.1	116.9	114.3	116.3	117.8	116.3	117.0	109.0
US\$/£	1.82	1.75	1.83	1.88	1.92	1.84	1.95	1.85
C\$/US\$	1.21	1.15	1.12	1.12	1.14	1.13	1.18	1.16
A\$/US\$	1.31	1.35	1.34	1.32	1.30	1.33	1.31	1.32
Rand/US\$	6.36	6.14	6.47	7.15	7.31	6.77	7.00	7.00

e = estimate; f = forecast

* 22 major industrialized nations, BMO Capital Markets estimate

Sources: BMO Capital Markets, Consensus Economics Inc., Brook Hunt, IMF, OECD, Bloomberg, CRU

Forecasts by BMO Capital Markets Economics

Industrial Commodity Fundamentals

y/y % chng (except days' supply and prices)	2005	2006	2006 Q3	2006 Q4	2007 Q1f	2007 Q2f	2007f	2008f
Crude Oil								
Global Consumption	1.2	1.0	1.0	1.7	1.4	1.4	1.9	1.6
Global Production	1.8	1.0	1.4	0.9	-0.2	-0.2	-0.1	2.8
Days' Supply in Inventory	54.5	55.7	58.2	56.5	53.7	55.3	61.6	54.0
WTI Spot Price (US\$/bbl)	56.5	66.1	70.4	60.1	57.0	56.0	62.0	64.0
Natural Gas								
U.S. Consumption	-2.2	0.4	5.6	4.8	8.7	2.1	2.8	1.8
U.S. Supply	-1.0	0.3	2.8	1.9	2.8	0.9	1.0	2.6
Days' Supply in Inventory*	44.1	50.8	59.8	49.8	21.3	46.5	47.0	43.4
NYMEX Near Mo. Price (US\$/MMbtu)	9.0	7.0	6.2	7.3	7.2	6.6	7.2	8.0
Aluminum								
Global Consumption	5.4	6.9	5.9	4.8	6.6	6.9	6.9	4.7
Global Supply	6.9	6.0	4.7	7.4	9.8	9.8	9.2	5.5
Days' Supply in Inventory*	27.8	24.7	23.9	24.5	26.4	24.1	27.5	30.7
LME Spot Price (US\$/lb.)	0.85	1.17	1.13	1.24	1.27	1.25	1.20	1.10
Copper								
Global Consumption	-0.4	3.6	1.9	0.8	6.0	6.0	4.6	5.2
Global Supply	4.1	5.6	2.5	3.9	9.1	7.1	6.6	4.7
Days' Supply in Inventory*	45.0	43.4	46.6	41.2	47.6	41.8	49.1	51.9
LME Spot Price (US\$/lb.)	1.67	3.06	3.48	3.21	2.70	3.06	2.70	2.30
Zinc								
Global Consumption	3.3	6.1	5.7	5.7	5.7	5.8	5.8	4.3
Global Supply	-1.2	6.5	8.2	8.4	14.1	13.3	11.2	7.0
Days' Supply in Inventory*	27.6	17.8	17.9	17.8	14.3	10.9	14.2	19.7
LME Spot Price (US\$/lb.)	0.63	1.48	1.52	1.90	1.68	2.30	2.00	1.80
Nickel								
Global Consumption	0.0	6.5	8.4	3.9	9.1	2.8	5.6	7.3
Global Supply	2.3	5.4	0.5	16.2	3.9	6.5	4.5	5.0
Days' Supply in Inventory*	46.0	42.0	41.7	41.2	37.0	34.8	34.7	19.6
LME Spot Price (US\$/lb.)	6.7	11.0	13.1	14.9	16.0	15.0	14.0	14.0

f = forecast * end-of-period

Sources: BMO Capital Markets, Brook Hunt, IMF, OECD IEA, U.S. EIA, Bloomberg, CRU

Forecasts by BMO Capital Markets Economics

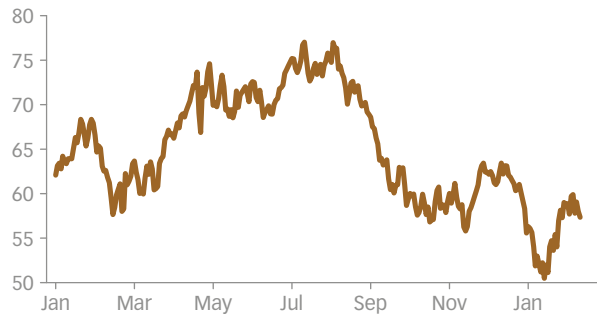


Commodities

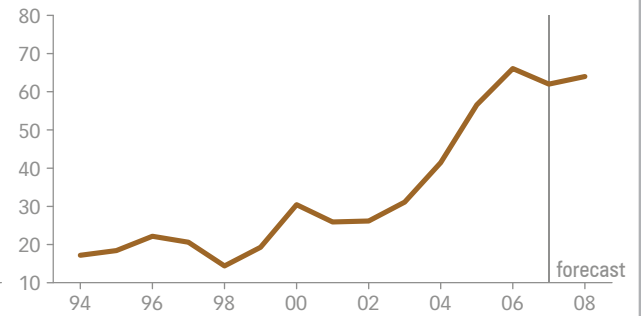


Crude Oil

WTI Spot Price—2006-07 (US\$/bbl : as of February 15, 2007)

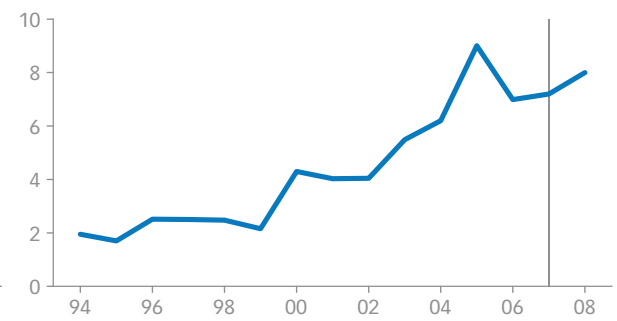


(annual average)



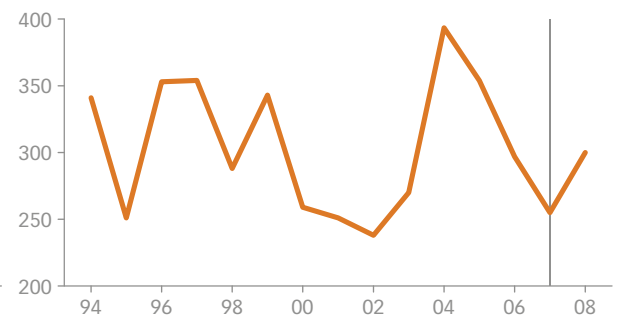
Natural Gas

NYMEX Near-Month Price—2006-07 (US\$/MMbtu : as of February 15, 2007)



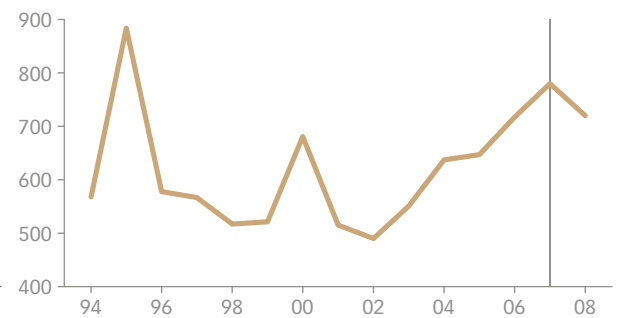
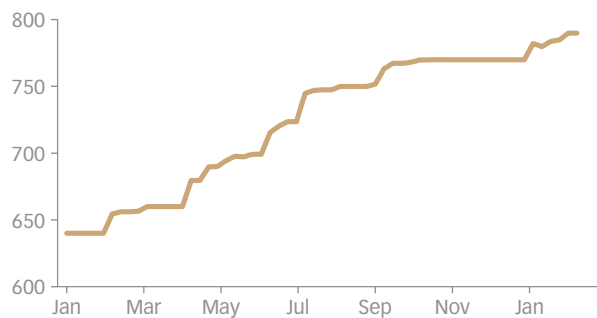
Softwood Lumber

NYMEX Near-Month Price—2006-07 (US\$/mbf : as of February 14, 2007)



Pulp

NBSK Contract—2006-07 (US\$/100t : as of February 13, 2007)

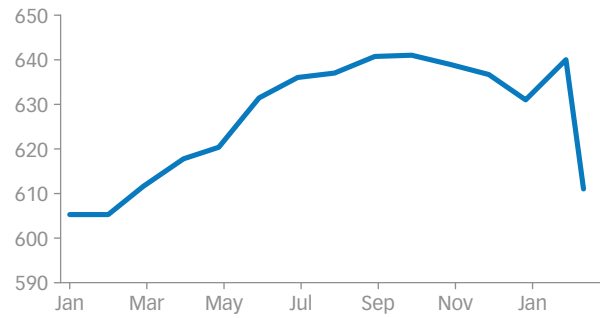




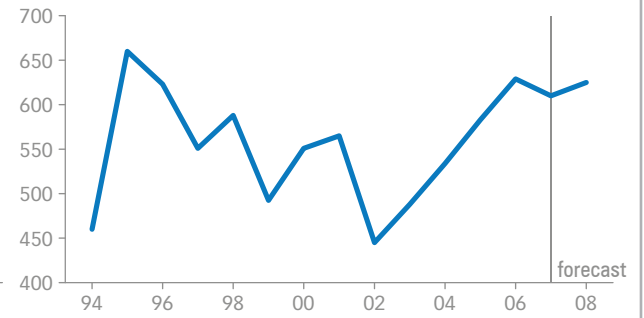
Commodities

Newsprint

Spot Price—2006-07 (US\$/t : as of February 15, 2007)

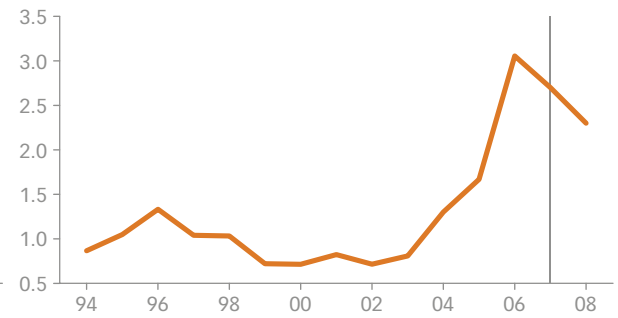


(annual average)



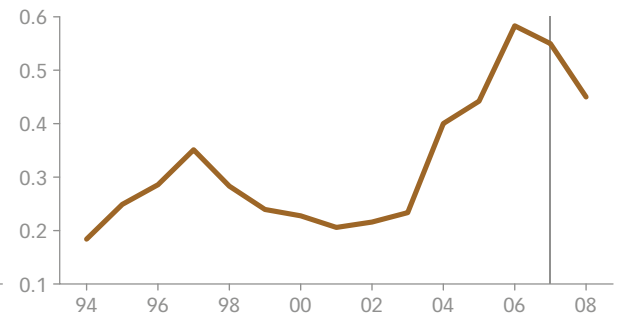
Copper

LME Spot Price—2006-07 (US\$/lb. : as of February 15, 2007)



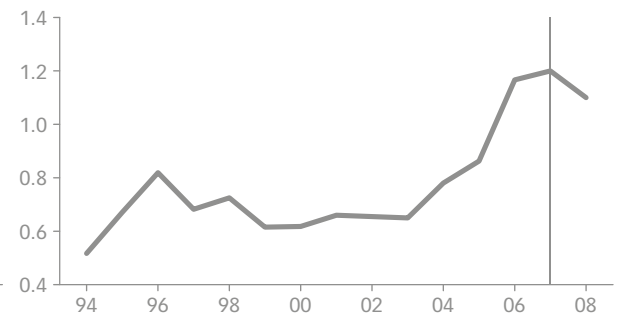
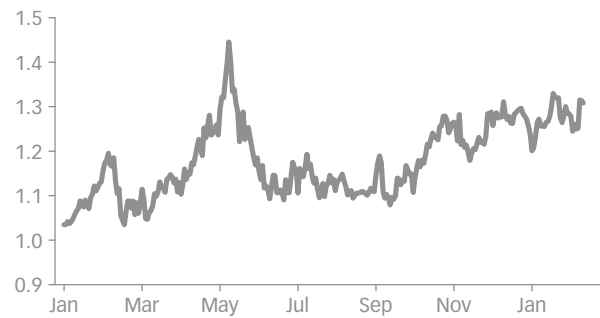
Lead

LME Spot Price—2006-07 (US\$/lb. : as of February 15, 2007)



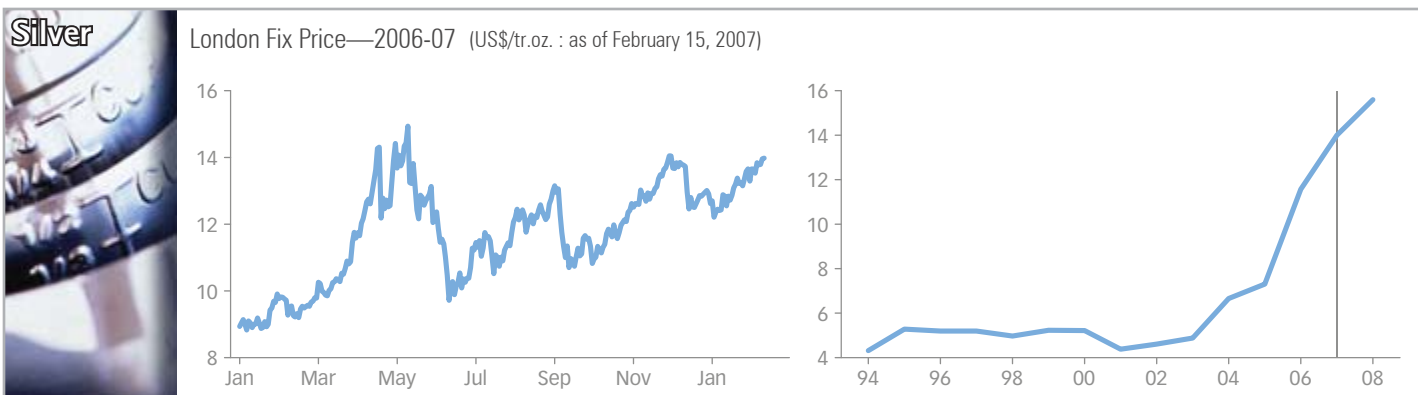
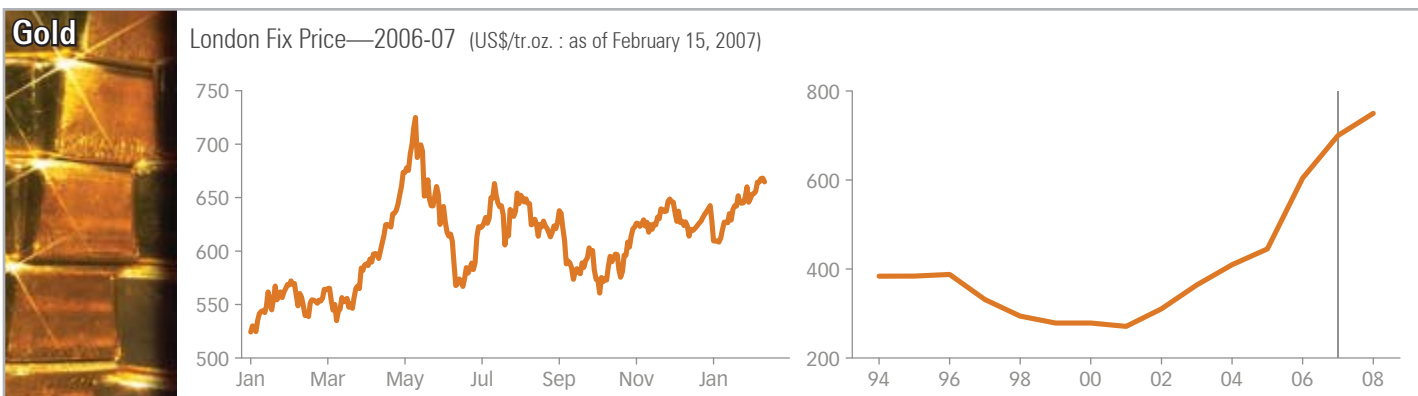
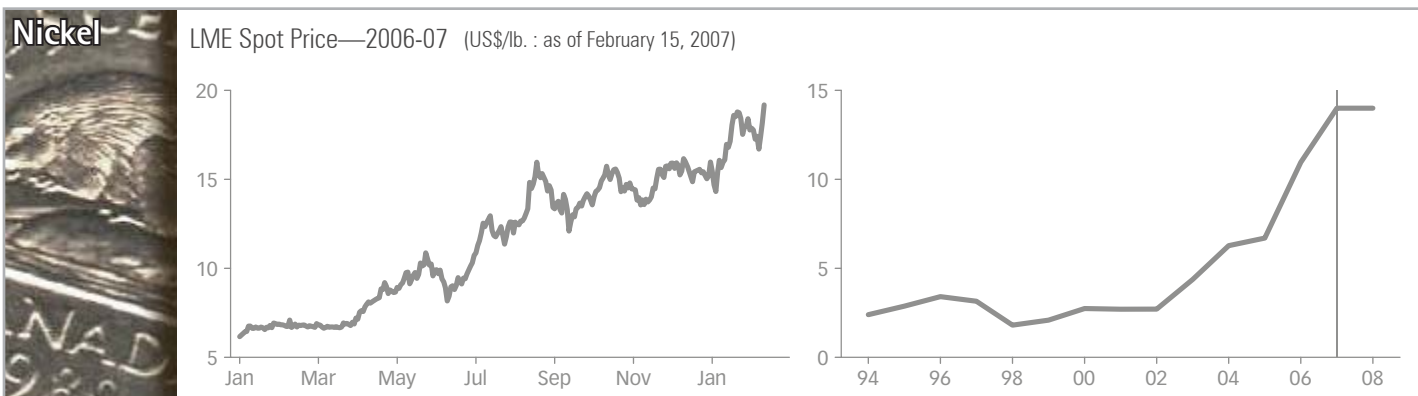
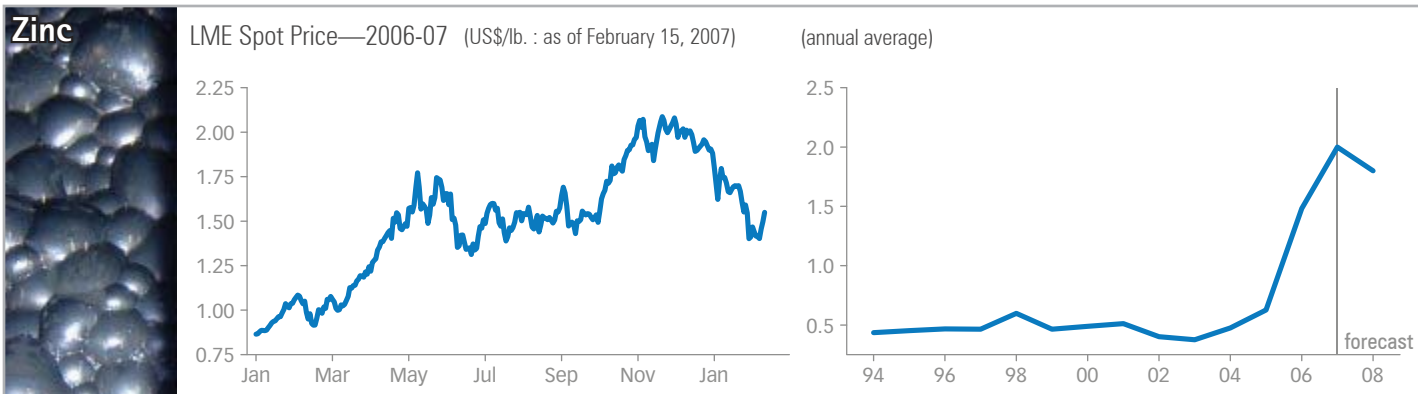
Aluminum

LME Spot Price—2006-07 (US\$/lb. : as of February 15, 2007)





Commodities

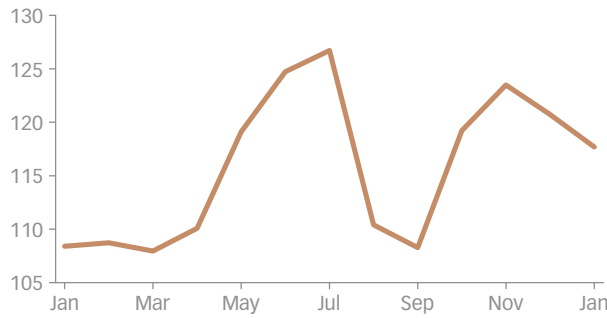




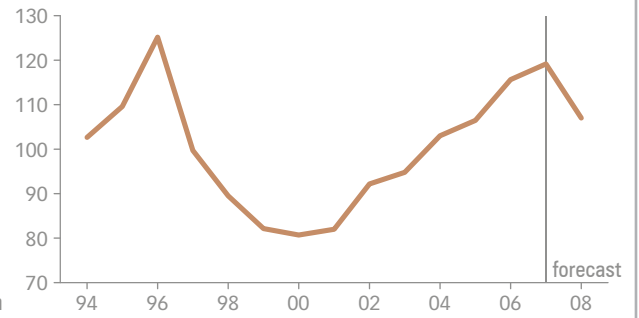
Commodities

Wheat

2006-07 (1993=100)

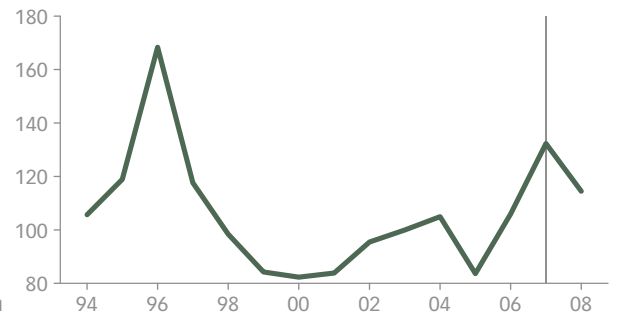


(annual average)



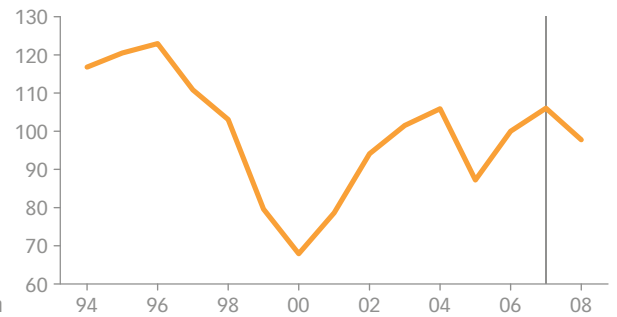
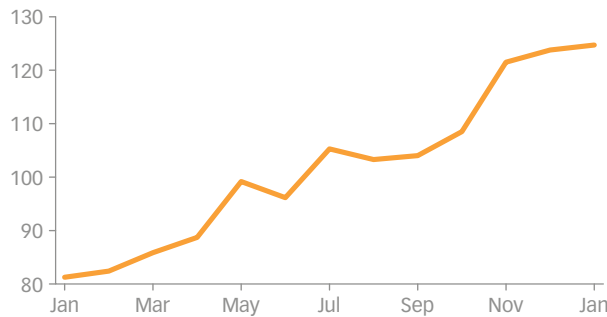
Corn

2006-07 (1993=100)



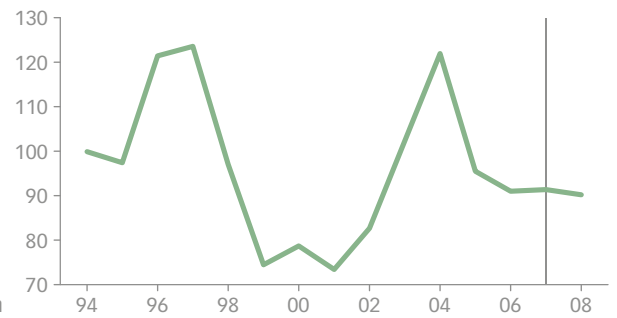
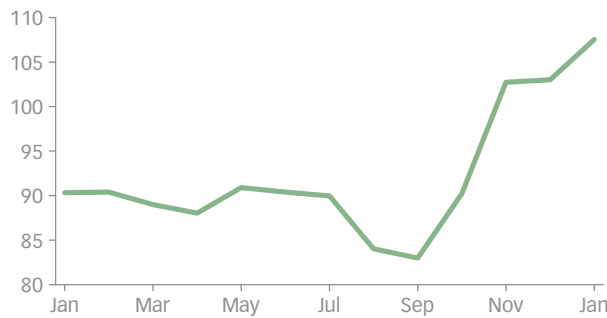
Canola

2006-07 (1993=100)



Soybeans

2006-07 (1993=100)





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