THE Goods

A MONTHLY COMMODITY WATCH

ECONOMIC RESEARCH

BMO Capital Markets

A Market Bottom Still Elusive

As Commodity Slide Continues in February

The **BMO Capital Markets Commodity Price Index** moved lower again in February, sliding **4.2%** to **128.5** (2003 = 100). Losses were small compared with those of the last three months of 2008 but were broad-based, with all of the sub-categories weaker during the month. Since peaking last June, the index has pulled back markedly, falling roughly 50% to levels last seen in early 2005.

The deep and protracted global recession will sustain a soft tone to commodities through 2009. While we don't expect further sharp drops, volatility will likely be the order of the day over the next several months, as markets search for a bottom. In many cases, the declines in prices to levels below cash operating costs have spurred production cuts as well as deferral and outright cancellation of projects. This supply-side discipline and an eventual improvement of economic conditions are likely to nudge prices onto a firmer footing toward the end of this year and in 2010.

The **Oil & Gas Index** fell for the eighth straight month in February to drop 68% below its peak last June. Both crude oil and natural gas prices retreated. While economic uncertainty is likely to keep volatility high over the next several months, there are tentative signs that crude oil may be forming a bottom. However, we anticipate further downside for natural gas heading into the weak-demand spring season in the midst of a deep and broad recession.

The **Metals & Minerals Index,** after advancing during the prior month, retreated in February on losses in base metals that have been plagued by weak demand and mounting inventories. Meanwhile, precious metals gained handily as investors sought safe-havens in gold and silver amid ongoing economic and financial uncertainty.

The **Forest Products Index** slid for the sixth consecutive month in February. However, performance across the sector was mixed. Lumber was lifted by widespread downtime and production curtailments. Similar supply management efforts were unable to keep pulp and newsprint prices from tracking lower due to weakening demand in North America and offshore markets.

The **Agricultural Index** pulled back in February due to losses in grains and oilseeds, as an improvement in weather conditions lifted crop prospects and export competition intensified. Livestock prices gained modestly as focus shifted to the likelihood of lower production due to shrinking herd size.

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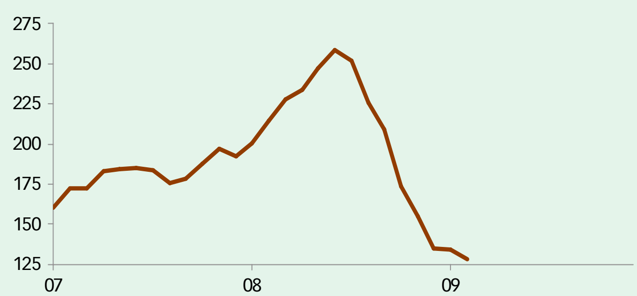
BMO Capital Markets Commodity Price Index

All Commodities Index (2003 = 100)



	Feb. Level (2003=100)	% Change from Mth. Ago	Yr. Ago
All Commodities	128.5	-4.2	-40.0
Oil & Gas	103.5	-9.4	-54.9
Metals & Minerals	215.4	-0.7	-25.6
Forest Products	97.8	-0.7	-7.6
Agriculture	144.1	-3.1	-52.0

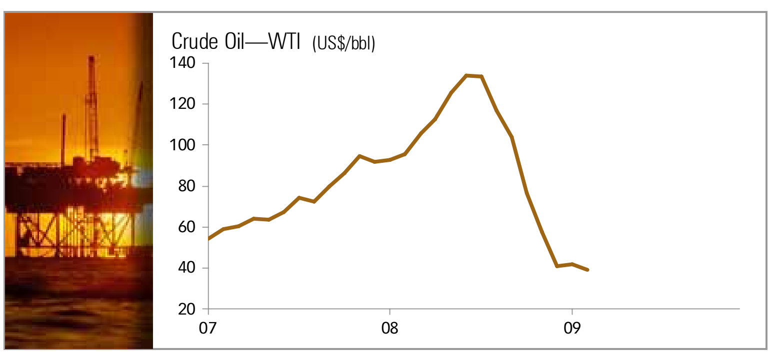
Oil and Gas

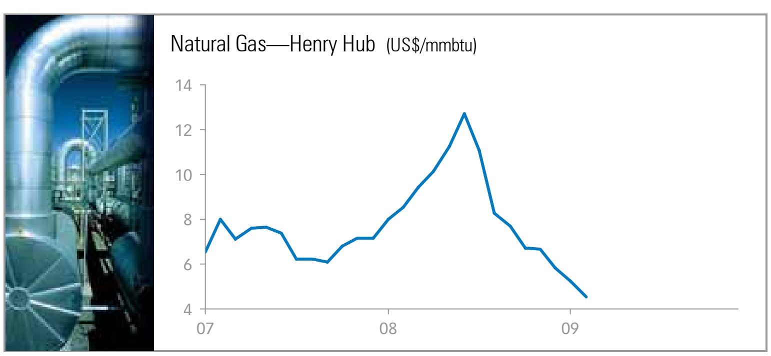
Crude Oil

West Texas Intermediate (WTI) fell 6.2% in February to a monthly average of US$39.16. It had dropped to $34 at mid-month, prior to staging a rally to its current level of approximately $45 (March 11th). Volatility will likely remain high, given uncertainty as to the depth and length of the recession and the extent to which OPEC will execute production cuts. However, in the past couple of weeks, WTI has held in the low-to-mid-$40 range despite a barrage of very weak economic data. Although it's too early to say that a market bottom is forming for oil, it's beginning to look like one. While global demand for oil is projected to decline by at least 1.5 million barrels per day this year, there are signs that supply is also adjusting. In January, OPEC cut output by a little over 1 million barrels per day (mmb/d) from December, with declines widespread among member countries. This reinforced earlier production curtailments which, by January, had amounted to 2.5 mmb/d relative to 2008:Q3 levels. Moreover, further OPEC cuts may be in the works. So far, non-OPEC oil supply has not declined; in fact, it is actually up from its 2008:Q3 level. However, it too will likely turn down, as exploitation of marginal fields – profitable with oil at $100-plus but not at current levels – diminishes and development of higher-cost new resources is postponed. Given falling demand and the contra-seasonal global oil stock-build during 2008:Q4, these supply cuts are essential to lowering inventories and stabilizing the market. There are tentative signs that this is happening. Despite low operating rates and crude throughput by U.S. refiners, inventories have flattened in recent weeks, reflecting a notable drop in imports. Besides, with gasoline inventories running below their five-year average, refineries will be ramping up operating rates during the next several months. While the process of paring crude inventories will be arduous and uneven – with price gyrations likely – it could potentially lead to tighter markets in 2010, as growth in the global economy and demand for oil strengthen. Additionally, OPEC's supply adjustments tend to lag the overall economy – i.e., it could keep production low for too long. Thus, we project that WTI will rise from an average of $45/barrel in 2009 to $65 in 2010.

Natural Gas

prices continued to deflate in February, with Henry Hub dropping 13.7% to a monthly average of US$4.52 per million British thermal units (mmbtu). The recession has weighed heavily on the gas market, with demand growth slowing from 6.3% in 2007 to 0.5% in 2008. By the second half of 2008, consumption stood 2.6% lower than a year earlier, reflecting notable declines by industry for process heating and feedstocks (down 3.1%) and by electric power generators (down 8.5%). The latter largely reflected lower indirect demand from industry and a significant decline in air conditioning due to a cooler summer in 2008. Given the deepening of the recession during the first quarter of 2009, it is likely that natural gas consumption has continued to diminish. On the supply side, growth in U.S. natural gas output accelerated to 7.8% last year, more than offsetting a 5.3% decline in imports from Canada and 54% plunge in imports of liquefied natural gas. Thus, inventories entered winter well above their five-year average and are likely to finish winter in similar fashion. With the low-demand spring season just ahead and with the recession still in full force, Henry Hub will likely weaken further from its current low-$4 range, before staging a moderate recovery later in the year amid slowing growth in production and imports. We expect Henry Hub to average US$4.50/mmbtu in 2009 and $6.75 in 2010.

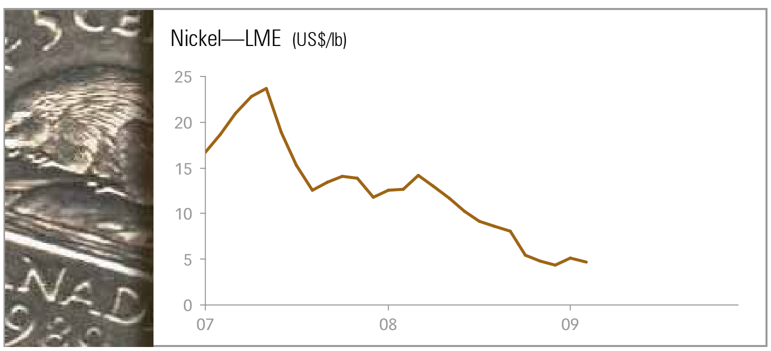


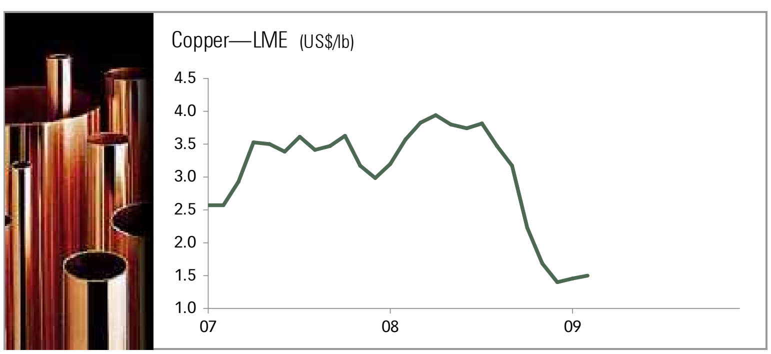


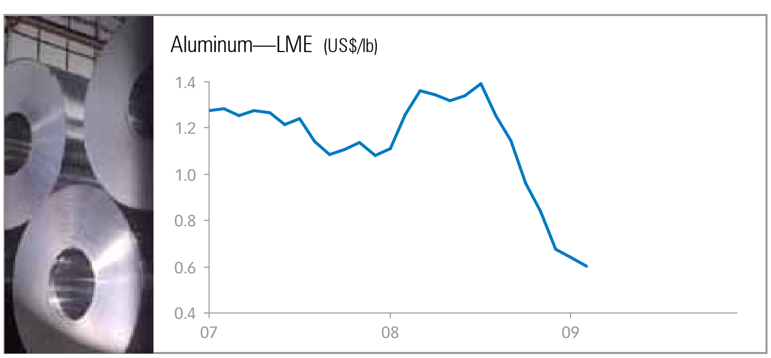
Metals and Minerals

Nickel ceded some of January's gains as prices fell 8% to US$4.72/lb. in February. The setback was largely due to ongoing concerns about demand and came amid a further notable rise in LME inventories. The losses left average prices more than 60% below year-earlier levels, reflecting a marked reduction in consumption. Demand remains depressed, as evidenced by a continuing stock-build despite substantial output cuts. LME inventories climbed 18% in February and roughly doubled over the past year to stand at their highest level since the spring of 1995. However, we judge that the bulk of nickel's weakness is likely in the past. With prices below average cash costs for a significant part of the industry, producers continue to announce plans to curtail production and defer new projects in an effort to bring about a better supply-demand balance. While evidence of a deepening global recession suggests some downside risk during the first half, supply-side discipline and the impact of worldwide fiscal and monetary stimulus on industrial production should see the market balance improve notably later in the year. We project that nickel will average $5.25/lb. in 2009. A moderate pick-up in global economic activity should help lift prices to $6.50/lb. in 2010.

Copper ignored mounting LME stockpiles and advanced 2.9% to average $1.50/lb. in February. The gain reflected some improvement in demand in Asia where scrap availability tightened and China reportedly added to its strategic reserves. In other regions, however, demand remained tepid, with auto sales tumbling in the United States and elsewhere, global industrial production contracting, and housing markets still in the doldrums. A precipitous decline since last July has left copper prices close to 60% lower than a year ago. The weak pricing environment, along with credit restrictions, has pushed producers to cut output and defer projects. Supply-side discipline, the beginnings of economic recovery, and government-financed infrastructure projects should provide some support for copper later this year and in 2010. We project that prices will average $1.70/lb. in 2009 and $1.90/lb. in 2010.







Aluminum The downward trend in aluminum remained intact in February, as average prices fell 5.9% to US$0.60/lb. The loss came amid another substantial build in LME inventories and continued weak demand from the distressed automotive and housing sectors. Strategic purchases by China's State Reserves Bureau during the month failed to provide any material support. Last month's setback left aluminum prices 52% below year-earlier levels. Recently-announced production cuts have not provided any fillip to prices in a market that is amply supplied. LME inventories have more than tripled over the past year to their highest level in well over a decade. A lack of demand and elevated inventory levels are expected to continue weighing on aluminum for much of this year. We project that prices will average $0.75/lb. in 2009, before rising to $0.90/lb. in 2010 on moderately firmer demand growth.

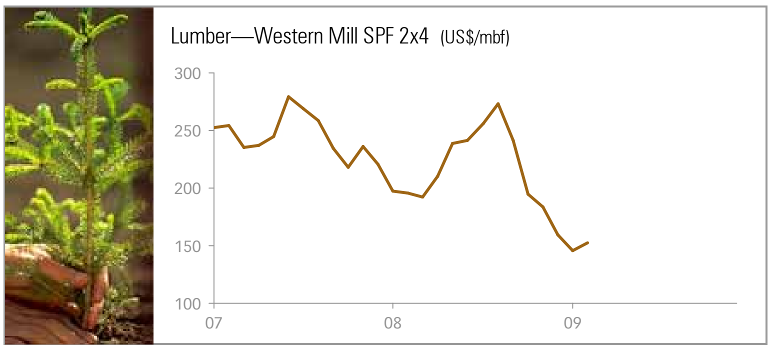
Forest Products

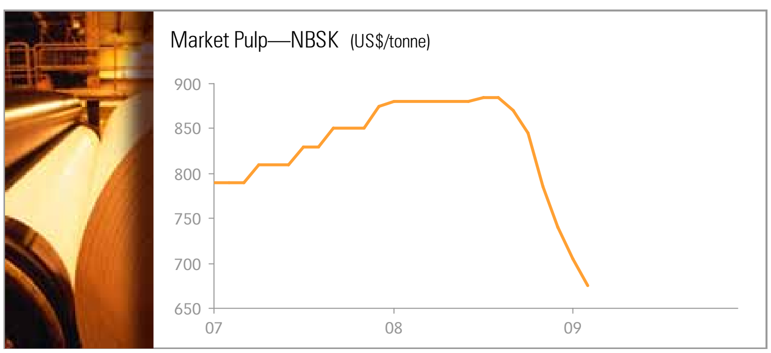
Lumber

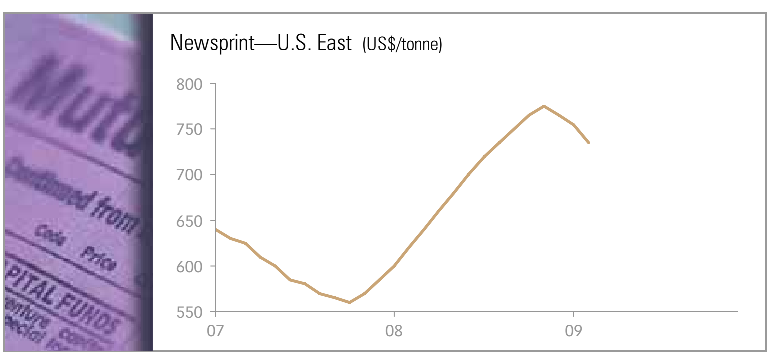
After falling for five consecutive months, Western SPF 2x4 rose 4.5% to US$153/mbf in February. Prices were lifted by a string of production curtailments at the beginning of the month but later gave up some of those gains on news of historically-low (going back to 1959) U.S. housing starts. Looking ahead, lumber demand is expected to remain dismal in 2009 as deteriorating economic conditions keep potential homebuyers on the sidelines. Moreover, residential construction in Canada is also now in full-fledged retreat. The Obama Administration's Homeowner Affordability and Stability Plan may boost U.S. housing demand, although any near-term impact will be limited. However, low lumber dealer inventories, disciplined production cuts and seasonal demand increases in coming months will likely provide some upside to prices. We project that SPF 2x4 will average US$185/mbf in 2009 and strengthen to US$225/mbf in 2010 on improving market demand.

Market Pulp

NBSK continued its descent in February with a $30 drop to US$675/tonne. In order to forestall further precipitous price declines, producers have attempted to reduce supply. However, production cuts have failed to keep pace with shrinking demand for pulp-consuming paper products. Global shipments of bleached softwood kraft slid 12.7% year-over-year in January and global inventories reached 40 days-of-supply, compared with an average of 34 days-of-supply during 2008. In the next few months, pulp mills are expected to take more downtime as producers head into the spring maintenance season. Given bleak prospects for growth in the production of printing and writing paper in Europe and the United States, we see NBSK moving down to an average of US$650/tonne in 2009, with prices stabilizing in the latter part of the year aided by exports to Asian markets and output cuts. Prices should strengthen in 2010 to an average of US$680/tonne.







Newsprint

The U.S. East Coast benchmark dropped $20 to US$735/tonne in February as demand continued to falter. Newsprint shipments in North America reportedly fell 30% in January on a year-over-year basis. Offshore exports, in similar fashion, plunged 40% from a year ago as foreign demand slid as a result of the global economic downturn and a stronger U.S. dollar, which hampered U.S. competitiveness. So far, producer supply curtailments have proved insufficient to counter the sharp decline in newsprint demand. Given fierce competition from electronic media, waning newspaper advertising revenues, and the consequent decline in demand from publishers, newsprint prices are expected to track lower during the year, for an average of US$695/tonne in 2009. Supply management should help stabilize the market by 2010, when prices are projected to average US$680/tonne.

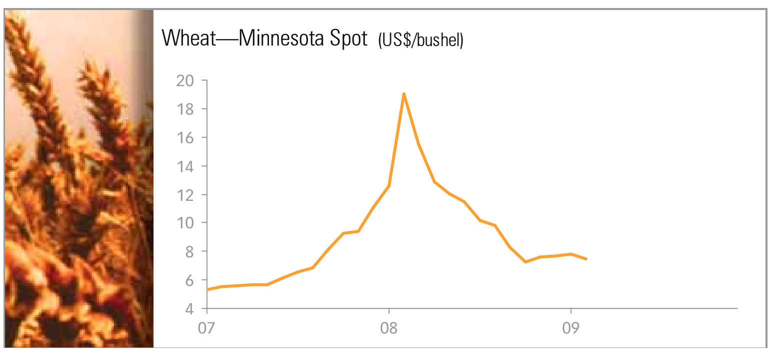
Agricultural Products

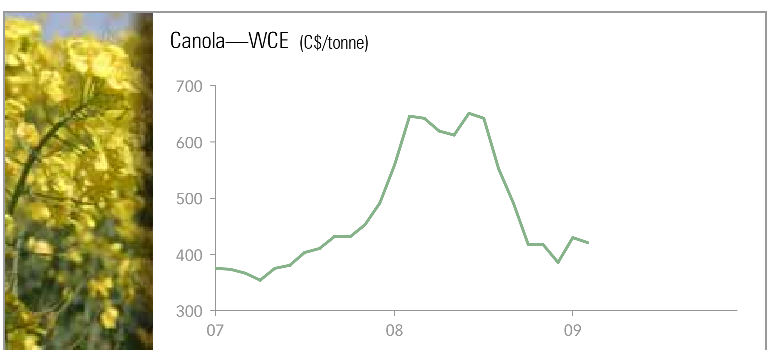
Wheat

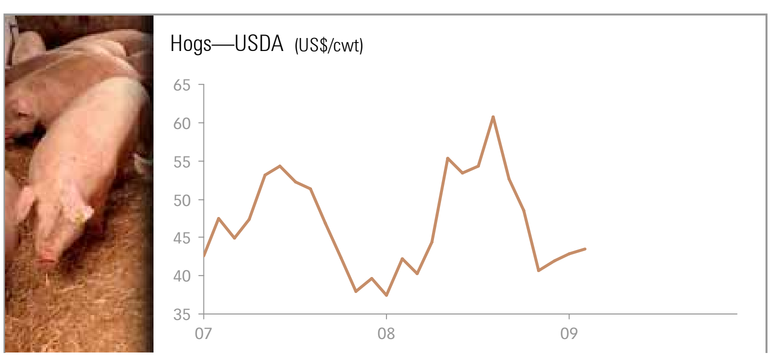
The price of Minneapolis dark spring wheat retreated 4.2% in February to an average of US$7.49/bu. The decline was largely driven by lower foreign sales due to a strengthening U.S. dollar, heightened competition in export markets, and the global downturn. Over the past year, wheat shed roughly 60% of its value as producers responded to previously high prices with increased production, as credit restrictions hampered demand, and as financial turmoil dampened speculative interest. Notwithstanding February's decline, wheat has effectively stabilized during the past several months in the mid-to-upper $7 range and downside risk to prices is limited. Even with a projected large increase in the 2008-09 crop, global inventories will remain low relative to consumption. Moreover, the price declines over the past year, along with still-elevated input costs, are expected to limit planted acreage for the 2009-10 crop year. We project that wheat will average $7.70/bu. in 2009 and $8.00/bu. in 2010. While down considerably from 2008 levels, prices would nevertheless remain well above longer-term averages. Moreover, there is the potential for prices to be markedly higher if adverse weather were to negatively affect production.

Canola

slipped 2.4% in February to C$420/tonne, reflecting weakness in the more dominant soybean market as an improvement in weather conditions in South America boosted crop prospects. As a result of the setback, average prices fell 35% below year-earlier levels in Canadian dollar terms. Canola has dropped sharply since last June amid rising supplies, diminished involvement of investment funds in commodity markets, and a pull-back in crude oil and biofuel prices. Ample supplies in Canada and Europe are expected to limit gains over the next several months. Further out, we see canola firming and holding well above longer-term levels, supported by a reduction in planted acreage, solid demand from developing countries, and further expansion of biofuel production. We anticipate that prices will average C$485 in 2009, before rising to C$530 in 2010 on an improvement in the global economy.







Hog

prices rose 1.6% in February to US$43.50/cwt. Providing support were continued reductions in the breeding and market herds, a decline in farrowing, and a drop-off in shipments from Canada. In contrast, demand concerns due to the weakening economy were an offsetting influence. Compared with a year ago, prices have risen 3.1% on the strength of foreign purchases of U.S. pork. However, export prospects have dimmed due to the stronger U.S. dollar, a deepening global recession, and a recovery of Chinese hog production. Nevertheless, an expected increase in U.S. per capita consumption will likely compensate for some of the lost export business. The increased U.S. demand for pork, along with projected lower hog inventories and reduced slaughter, should underpin the hog market in 2009. We see hog prices rising moderately, to an average of $51/cwt. in 2009 and $52 in 2010.

Energy and Materials

		Crude Oil (WTI)	Natural Gas (NYMEX near mo.)	Natural Gas (Alta. Empress spot)	Lumber	Pulp	Newsprint
		US$/bbl	US$/mmbtu		US$/mbf	US$/tonne	
	1996	22.13	2.70	1.16	378	600	645
	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
	y-t-d 2009	41.07	4.75	5.14	151	690	745
2008	March	105.56	9.44	8.80	193	880	640
	April	112.57	10.13	9.52	210	880	660
	May	125.39	11.26	10.05	239	880	680
	June	133.93	12.69	11.27	241	880	700
	July	133.44	11.06	9.59	256	885	720
	August	116.61	8.25	7.22	273	885	735
	September	103.90	7.67	5.99	241	870	750
	October	76.65	6.73	6.19	195	845	765
	November	57.44	6.69	6.30	183	785	775
	December	41.02	5.81	6.27	160	740	765
2009	January	41.74	5.23	5.44	146	705	755
	February	39.16	4.52	4.55	153	675	735
	m-t-d March	43.93	4.10	n.a.	150	n.a.	n.a.
Forecast	2009 Avg.	**45.00**	**4.50**	**4.25**	**185**	**650**	**695**
	2010 Avg.	**65.00**	**6.75**	**6.15**	**225**	**680**	**680**

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	
	1996	1.04	0.68	0.47	3.41	388	5.20
	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
	y-t-d 2009	1.50	0.62	0.52	4.84	902	12.45
2008	March	3.83	1.36	1.14	14.16	971	19.49
	April	3.94	1.34	1.03	13.04	912	17.50
	May	3.80	1.32	0.99	11.67	889	17.02
	June	3.75	1.34	0.86	10.22	890	17.00
	July	3.82	1.39	0.84	9.14	939	18.02
	August	3.46	1.25	0.78	8.58	841	14.66
	September	3.17	1.15	0.79	8.07	827	12.39
	October	2.23	0.96	0.59	5.50	810	10.43
	November	1.69	0.84	0.52	4.85	758	9.83
	December	1.39	0.68	0.50	4.39	818	10.29
2009	January	1.46	0.64	0.54	5.13	858	11.33
	February	1.50	0.60	0.50	4.72	940	13.42
	m-t-d March	1.62	0.58	0.53	4.40	923	12.98
Forecast	2009 Avg.	**1.70**	**0.75**	**0.65**	**5.25**	**895**	**12.50**
	2010 Avg.	**1.90**	**0.90**	**0.75**	**6.50**	**925**	**12.80**

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Agriculture

		Wheat	Canola	Cattle	Hogs
		US$/bushel	US$/tonne	US$/cwt	
	1996	5.62	315	59.31	53.25
	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
	y-t-d 2009	7.62	340	80.15	43.15
2008	March	15.47	642	87.80	40.30
	April	12.87	611	86.80	44.40
	May	12.06	611	91.30	55.30
	June	11.46	639	91.90	53.40
	July	10.15	634	95.00	54.30
	August	9.85	527	95.80	60.70
	September	8.28	464	94.20	52.60
	October	7.24	357	87.40	48.50
	November	7.62	342	84.30	40.70
	December	7.65	312	79.70	41.90
2009	January	7.81	352	80.10	42.80
	February	7.49	338	80.20	43.50
	m-t-d March	7.44	316	n.a.	n.a.
Forecast	2009 Avg.	**7.70**	**390**	**90**	**51**
	2010 Avg.	**8.00**	**450**	**92**	**52**

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Commodity Indices and Forecasts

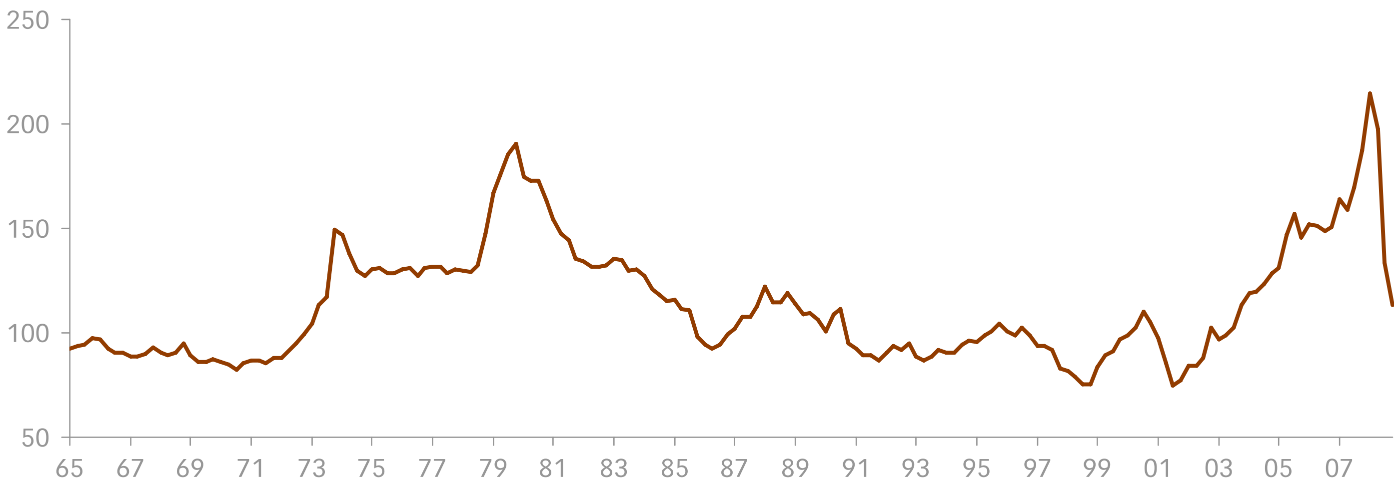
US$-terms : 2003 = 100		All Commodities	Oil & Gas	Metals & Minerals	Forest Products	Agricultural Products	All Commodities C$-terms
Annual							
	2000	95.8	87.7	99.5	109.6	84.5	101.7
	2001	87.1	77.5	89.2	101.9	88.4	96.1
	2002	81.7	72.2	89.0	90.0	92.5	91.6
	2003	100.0	100.0	100.0	100.0	100.0	100.0
	2004	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
Forecast	2009	**135.6**	**112.6**	**224.4**	**99.0**	**155.1**	**120.6**
	2010	**166.5**	**165.0**	**243.4**	**106.6**	**164.2**	**139.3**
Quarterly							
2007	Q3	179.1	176.2	278.1	109.6	150.4	133.6
	Q4	192.3	208.3	264.4	107.2	183.3	134.8
2008	Q1	214.1	234.6	289.6	106.0	259.3	153.5
	Q2	246.1	300.6	295.9	114.5	223.0	177.6
	Q3	228.8	269.3	283.5	121.7	189.1	169.6
	Q4	154.5	151.4	220.6	107.8	145.3	133.0
Forecast 2009	Q1	**130.9**	**108.3**	**215.9**	**97.8**	**146.2**	**116.0**
	Q2	**129.8**	**102.6**	**220.0**	**98.5**	**154.9**	**117.9**
	Q3	**136.2**	**109.8**	**228.7**	**101.5**	**160.2**	**122.5**
	Q4	**145.4**	**129.7**	**233.1**	**98.2**	**159.1**	**126.1**
Monthly							
2008	Feb	214.0	229.5	289.4	105.9	300.1	152.8
	Mar	227.8	253.8	311.3	106.5	258.9	162.8
	Apr	233.4	271.3	304.0	110.0	228.0	169.0
	May	246.8	302.0	294.4	116.0	223.0	176.4
	Jun	258.1	328.7	289.1	117.6	218.1	187.4
	Jul	252.0	312.8	294.6	120.8	204.0	182.0
	Aug	225.4	260.2	282.1	124.6	194.2	168.9
	Sep	209.1	234.8	273.7	119.7	169.2	157.9
	Oct	173.9	183.2	236.5	112.4	146.1	145.4
	Nov	154.7	152.5	217.9	108.6	146.4	134.7
	Dec	134.9	118.5	207.4	102.4	143.4	118.9
2009	Jan	134.2	114.2	216.9	98.5	148.7	117.3
	Feb	128.5	103.5	215.4	97.8	144.1	114.2

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

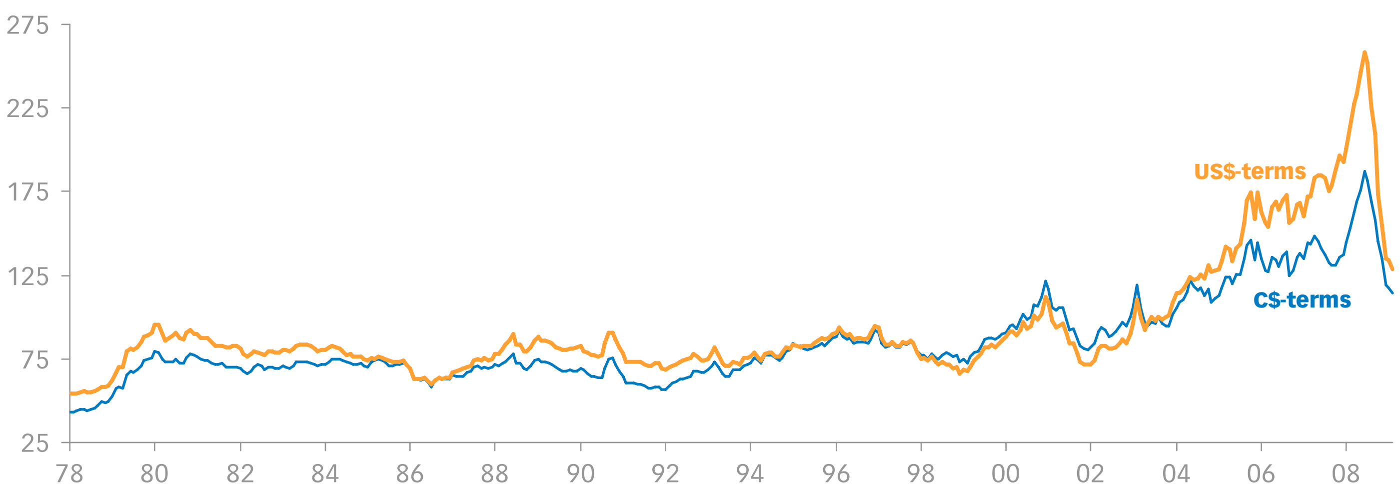
Historical Charts: All-Commodity Index

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.