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THE Goods
A MONTHLY COMMODITY WATCH
ECONOMIC RESEARCH
BMO Capital Markets

Commodities Tugged Lower in July

Reflects volatility at economic turning point rather than trend reversal

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The **BMO Capital Markets Commodity Price Index** slipped 4.2% to **144.1** (2003 = 100) in July following strong gains during the previous two months. Three of the four sub-components of the index fell – Oil & Gas, Forest Products, and Agriculture. While the aggregate index has risen almost 12% from its low point in February, it remains almost 43% below a year earlier.

The setback in July underscores some concerns about the sustainability of the commodities rally, notwithstanding the general improvement in market sentiment over the past few months. Demand outside China has remained soft, although there are signs of renewed growth in Europe and the United States. And, much of the Chinese buying has been strategic, not directly related to underlying consumption. While we do not expect sharp corrections from recent heady gains in commodities, prices are likely to undergo substantial volatility over the next few months. Looking further ahead, earlier measures to curtail production and the emergence of clear signs of economic recovery should support further price increases in 2010.

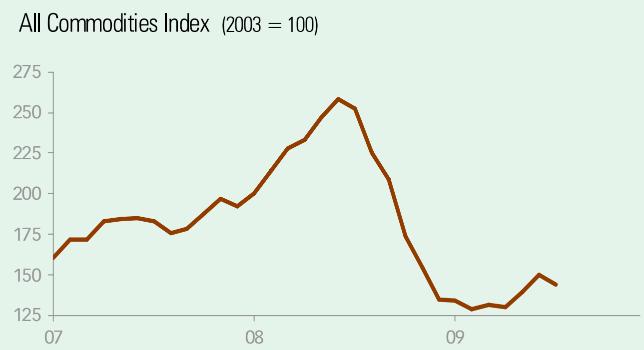
The **Oil & Gas Index** in July retraced some of the gains it made during April-June, with declines recorded for both crude oil and natural gas. Oil prices have recovered losses that occurred during the first half of July, although volatility will be the name of the game over the next several months as markets struggle to gauge the timing and strength of the global economic recovery. Natural gas fundamentals are considerably weaker, given very high inventories and recession-reduced demand.

The **Metals & Minerals Index** advanced for the third straight month in July on strength in base metals, which continued to benefit from Chinese buying, a weaker U.S. dollar, and signs of a pick-up in activity among key end-use sectors. The greenback's retreat, along with inflation concerns, continued to support gold.

The **Forest Products Index** slipped in July as newsprint continued to plunge on depressed demand and excess supply. Lumber also moved lower, although it is expected to firm with some improvement in housing markets. Pulp continued to advance on strong exports to China and massive mill downtime.

The **Agricultural Index** posted a substantial decline in July as grains and oilseeds retreated on harvest pressure and an improving crop outlook in key growing areas. Livestock prices firmed amid a pick-up in domestic consumption, an increase in exports, and tightening supplies.

BMO Capital Markets Commodity Price Index



	Jul. Level (2003=100)	% Change from Mth. Ago	Yr. Ago
All Commodities	144.1	-4.2	-42.8
Oil & Gas	132.4	-8.8	-57.7
Metals & Minerals	236.2	1.6	-19.8
Forest Products	90.7	-1.6	-25.0
Agriculture	138.2	-9.6	-32.3

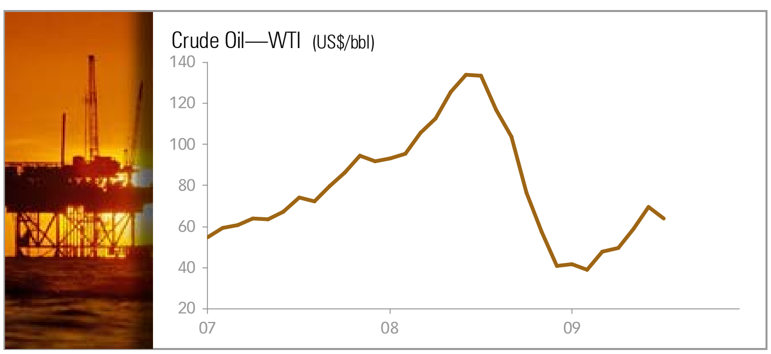
Oil and Gas

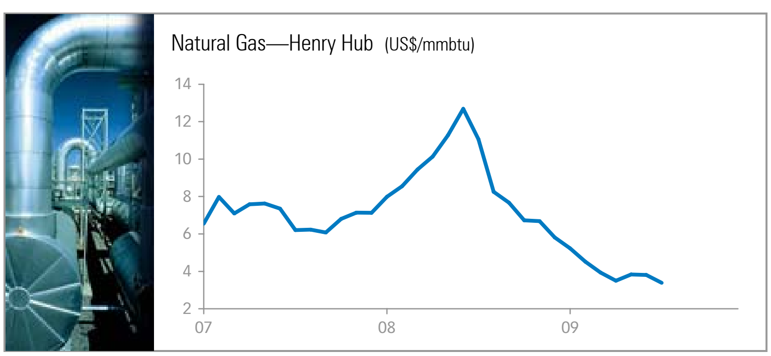
Crude Oil

Following a strong rally from April to June, West Texas Intermediate (WTI) slipped 8% in July to a monthly average of US$64.09/barrel, less than half its price of a year earlier. WTI weakened during early July but began to strengthen around mid-month on increasing signs of a global economic recovery. However, volatility is likely to remain a key feature in commodities during the next several months as markets struggle to assess the timing and strength of the recovery. As is usually the case at this stage of the business cycle, when the economy is at or close to its recession trough, the multitude of monthly and weekly indicators that are released provide widely varying signals. With crude inventories well above normal levels for this time of year, oil prices are likely to retreat on economic indicators which are weaker than expected. By 2010, the global economic recovery, while sluggish by historical standards, should become better established. Emerging-market nations such as China and India have already sustained relatively brisk economic growth in 2009 even with the U.S. economy shrinking 2.6% and Europe by even more. With western nations getting back onto a moderate growth track in 2010, emerging markets, the source of 100% of oil demand growth through much of this decade, will see even stronger economic gains. This would put upward pressure on the demand for oil at the same time that supply is being held back by project cancellations and delays during the past year. For 2009 as a whole, we expect WTI to average US$60/barrel, which would entail an average of close to $70 for the rest of the year. Given large OPEC production cuts, weakening oil output outside of OPEC, and firmer demand growth, markets should become more balanced in 2010. Overall, we are maintaining our forecast that WTI will rise to an average of $75/barrel next year.

Natural Gas

U.S. benchmark Henry Hub fell 11.1% in July to a monthly average of US$3.38 per million British thermal units (mmbtu, roughly the amount of energy in 1000 cubic feet). That left it at less than one-third its level of a year earlier. Natural gas is being challenged by bulging inventories, very weak industrial demand, still-growing U.S. domestic production, and rising imports of liquefied natural gas. Although Henry Hub has returned to the relatively low levels of mid-2002, we still consider the near-term risk skewed to the downside. With demand from the industrial sector depressed by the recession – down 13% year-to-date – and no disruptions yet from tropical storms, U.S. inventories of natural gas are at very high levels. At the end of July, working gas in underground storage hit a seasonal record-high 3.1 trillion cubic feet (tcf), 19% above its average of the previous five years for that period. With three months left during the 'injection' season – spring, summer, and autumn to October 31st, when consumption is less than output – there is legitimate concern that physical storage capacity will be filled, particularly in the producing region, causing more firms to shut-in production of the fuel. This could force prices considerably lower in the period through October, although there would likely be some recovery during the winter heating season. Overall, we expect Henry Hub to average US$4.00/mmbtu in 2009, down more than 50% from 2009. An expected improvement in demand by industry and power generators in 2010, combined with slower supply growth in light of the sharp drop in rig utilization, should provide some lift to prices next year. However, we are lowering our forecast for 2010 to $5.50/mmbtu from $6.50 previously.

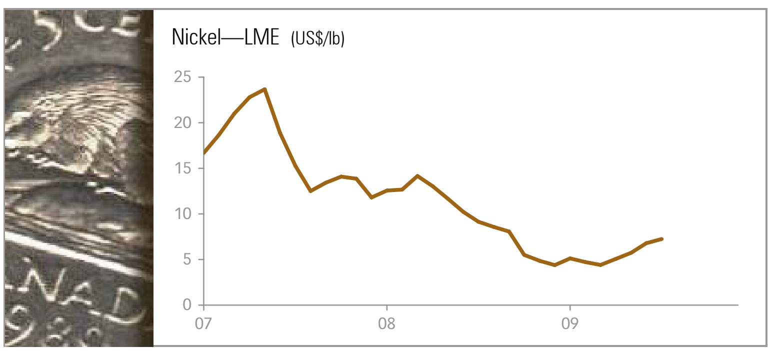


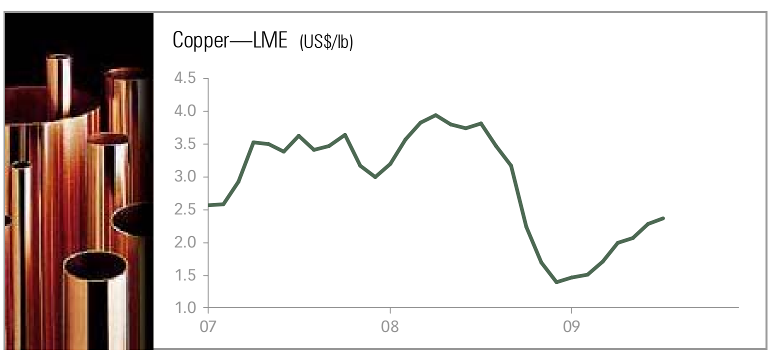


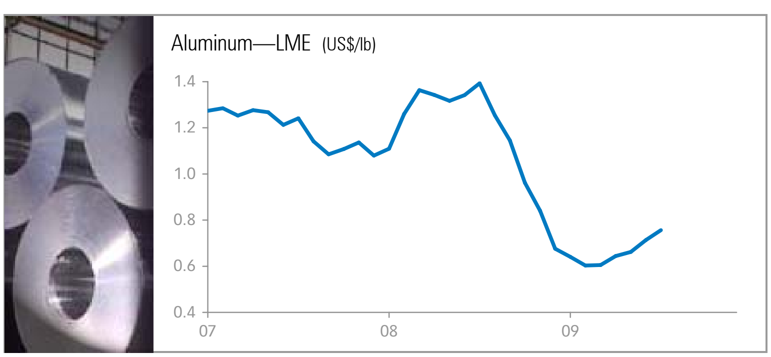
Metals and Minerals

Nickel advanced 6.8% in July to US$7.25/lb., lifted by continued Chinese buying, rising capacity utilization among stainless steel producers, a further decline in LME stocks, supply concerns due to a strike at Vale Inco Canadian operations, and renewed interest by investors. Prices moved even higher in August, averaging $8.85/lb. through the first week. Still, there is room for some pull-back in the next few months. In particular, off-take by the critical stainless steel industry, while picking up lately, leaves much to be desired with production running well below last year's level. Moreover, while LME inventories have come off 14-year highs, they remain close to three times their level a year ago. Lingering concerns about the global economic outlook, a potential reduction in Chinese imports, an early resolution of the Vale Inco strike, and slower activity during the summer could see prices weaken near term. However, prior output curtailment and the positive impact of fiscal and monetary stimulus on industrial production should provide additional lift to prices next year. We see nickel averaging $6.40/lb. in 2009 and $7.50/lb. in 2010.

Copper Despite an increase in LME inventories, copper rose 4% in July to average $2.37/lb. The gain reflected improving manufacturing data for key consuming countries, continued Chinese purchases, U.S. dollar weakness and a production disruption at a Chilean mine. However, demand remains tepid outside China despite some encouraging signs recently. While U.S. auto sales and housing markets appear to be turning, they remain soft and industrial production is still in negative territory in many regions. Even with notable gains over the past several months, prices in July were 38% lower than a year ago. Still, copper has continued to strengthen in August, averaging $2.76/lb. through the first week. Though a pull-back is likely in the near term amid slower Chinese buying, a resumption of normal production at the affected Chilean mine, and seasonal demand weakness, an incipient economic recovery and infrastructure spending by governments should prove constructive further out. We project that copper will average $2.15/lb. in 2009 and $2.60/lb. in 2010.







Aluminum prices increased 6% in July to average US$0.76/lb., with improved sentiment and continued Chinese buying providing the boost. Specifically, signs that the auto and housing sectors are on the mend are raising hopes of a pick-up in demand. However, for the time being, market conditions remain tenuous as inventories continue to mount amid soft demand and ample supplies. Record-high LME stocks, some four times higher than a year ago, have kept prices 46% below year-earlier levels. Moreover, the market imbalance is deepened by capacity restarts, encouraged by the price rally that has continued strongly in August. As a result, aluminum should retreat from current levels over the next several months. We project prices will average $0.75/lb. in 2009 before rising to $0.90/lb. in 2010 as the global economy moves to a firmer footing.

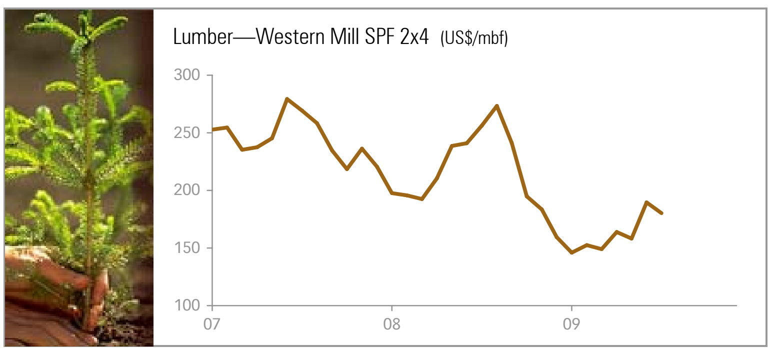
Forest Products

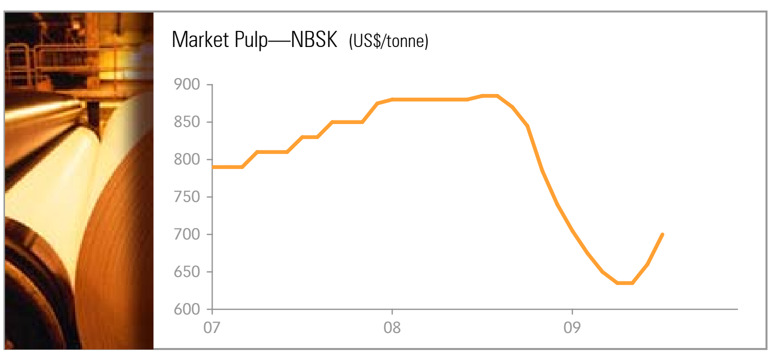
Lumber

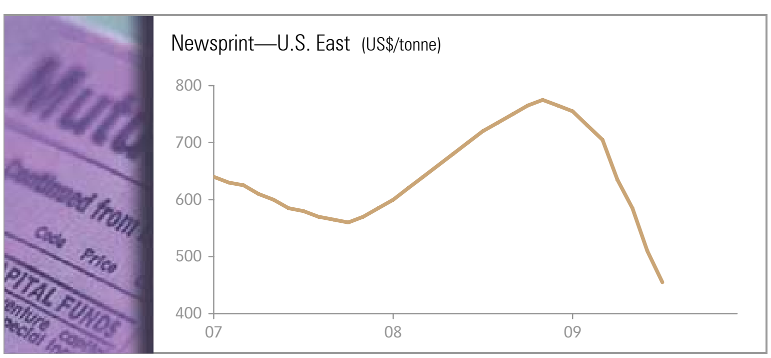
Western SPF 2x4 fell 4.9% to US$180/mbf in July on soft demand, but a modest upturn is expected in August or September for several reasons. First, improving home sales and housing starts in the United States and Canada show that the North American house market is stabilizing. Second, a strengthening Canadian dollar will force more Canadian producers to shut mills or raise prices, as their profits are squeezed by lower export prices and relatively expensive domestic inputs. Third, wildfires in British Columbia should help bolster prices by potentially constraining supply. Looking ahead, as we move into the fourth quarter, lumber prices are likely to fall later this year on the usual seasonal downturn in demand, but low dealer stocks and a cost floor would prevent them from retesting the lows reached early this year. Overall, we expect SPF 2x4 to average US$175/mbf in 2009 and strengthen to US$210/mbf in 2010 on recovering demand.

Market Pulp

NBSK prices advanced 6.1% in July to US$700/tonne. The price hike is attributed to strong Chinese demand and massive pulp mill downtime in Canada, Indonesia and the Nordic countries. Due to rising paper production and falling domestic pulp supply in China, cumulative shipments of NBSK from North America to China through June rose 38% from their year earlier level. At the same time, surging values of currencies in producing nations led to substantial capacity reduction, driving down producer inventories and spurring pulp price gains. With pulp consumption in North America and Europe showing a slight uptick recently, the momentum in NBSK prices might carry over for the next couple months. Yet, as pulp prices move higher, the gains are likely to dissipate if Chinese buyers increase domestic production or Canadian producers bring idle mills back to operation. We expect that NBSK will average US$690/tonne in 2009, before moving up to US$725/tonne in 2010.







Newsprint

The U.S. East Coast benchmark plummeted again in July, down 10.8% to US$455/tonne. The rapid decline in prices is pushing more Canadian mills into loss-making territory, a situation that is compounded by the loonie's recent strength. North American newsprint consumption continued to fall, though the declines were not as severe as in previous months. Moreover, while North American newsprint inventories have started to decline on extensive mill downtime and some pick-up in demand due to bargain prices, they remained 41% above year-ago levels. Given depressed demand and abundant supplies, big producers have abandoned plans to lift newsprint prices in August. Thus, newsprint is likely to fall further before hitting a cyclical bottom in the third quarter. We see the East Cost benchmark averaging US$560/tonne in 2009. Prices are likely to gain momentum at the end of this year on shrinking capacity and rising production costs to average US$575 in 2010.

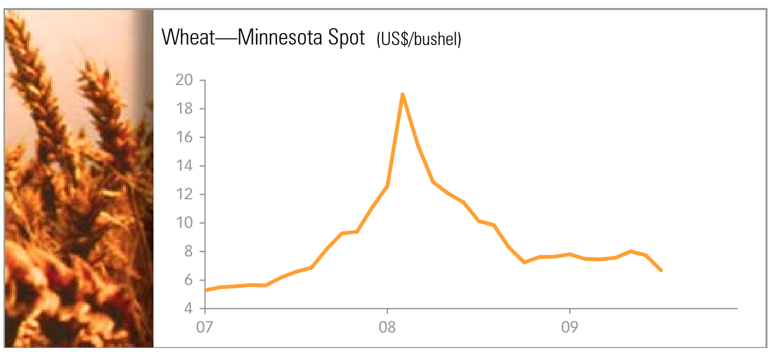
Agricultural Products

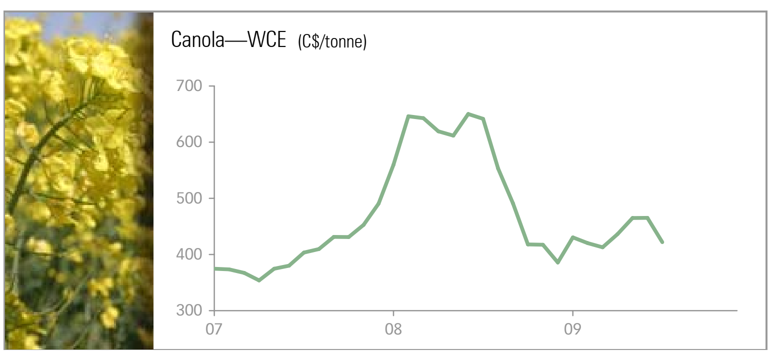
Wheat

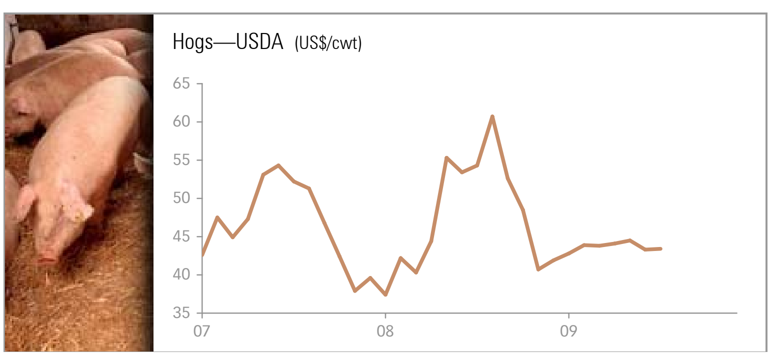
The price of Minneapolis dark spring wheat fell 13.7% in July to average US$6.68/bu. The drop reflected seasonal harvest pressure, improving prospects for the spring crop, an upward revision to the Australian wheat crop, and price declines on other grains and oilseeds. After last month's drop, average prices were 34% below year-earlier levels, suppressed by a significant increase in global supplies. Wheat is expected to strengthen somewhat in the near term amid dissipating harvest pressure in the Northern Hemisphere and continuing concerns about yields and quality in some regions (e.g., Argentina, Europe). However, ample inventories relative to global consumption will contain any appreciation in prices over the next several months. Moreover, while the sharp reduction in prices over the past year has limited planted acreage, and should lead to lower output, favourable growing conditions are lifting production prospects for the 2009-10 crop-year. Overall, with the ratio of stocks to consumption approximating longer-term levels, the outlook is for prices to post moderate gains over the remainder of this year and next, largely reflecting more sanguine general economic conditions. We project that wheat will average $7.50/bu. in 2009 and $7.90/bu. in 2010.

Canola

shrugged off any bullish influence of a lower seeded acreage in Canada and reduced estimates of the South American soybean crop to retreat 9.3% in July to C$422/tonne. Prices were tugged lower by a stronger Canadian dollar, falling crude oil and biofuel prices, and improving conditions in the canola crop. Losses in U.S. soybeans also contributed to the decline. Last month's setback left the average price, in Canadian dollar terms, 34% below a year earlier. However, we expect canola prices to strengthen over the next several months and hold well above longer-term levels, driven by a significant reduction in the acreage planted to canola in Canada, tighter global soybean supplies, rising crude oil prices, and an improving demand outlook. We project that canola prices will average C$445 in 2009 and C$460 in 2010







Hog

prices remained essentially flat in July, advancing just 0.2% to average US$43.40/cwt. Prices were kept in check by H1N1-related concerns that adversely affected export markets for U.S. pork (mainly China), an ample supply of hogs, and soft demand in domestic and foreign markets due to weak economic conditions. In particular, the expected seasonal pick-up in demand has failed to materialize due to cool weather. The bearish factors, along with productivity gains in hog farming, largely offset the positive influence of shrinking breeding and market herds. After last month's losses, average prices remained about 20% lower than a year ago. The recent lifting by Russia of restrictions on pork imports from several U.S. states should support prices over the next few months. In addition, further reductions in the hog supply in the face of continuing losses, as well as stronger economic conditions in 2010, should nudge prices higher over the next year. We see hogs averaging $45/cwt. and $49/cwt in 2009 and 2010, respectively.

Energy and Materials

		Crude Oil (WTI)	Natural Gas (NYMEX near mo.)	Natural Gas (Alta. Empress spot)	Lumber	Pulp	Newsprint
		US$/bbl	US$/mmbtu	US$/mmbtu	US$/mbf	US$/tonne	US$/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	54.28	3.99	3.55	165	666	625
2008	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	730
	March	47.98	3.94	3.47	149	650	705
	April	49.79	3.50	2.81	164	635	635
	May	59.16	3.83	3.02	158	635	585
	June	69.68	3.81	2.72	190	660	510
	July	64.09	3.38	2.62	180	700	455
	m-t-d August	71.13	3.58	2.89	198	n.a.	n.a.
Forecast	2009 Avg.	**60.00**	**4.00**	**3.40**	**175**	**690**	**560**
	2010 Avg.	**75.00**	**5.50**	**5.85**	**210**	**725**	**575**

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	1.96	0.67	0.63	5.76	920	13.28
2008	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
	March	1.70	0.61	0.55	4.40	926	13.12
	April	2.00	0.64	0.63	5.06	893	12.53
	May	2.07	0.66	0.67	5.73	925	14.09
	June	2.27	0.71	0.71	6.78	948	14.67
	July	2.37	0.76	0.72	7.25	934	13.39
	m-t-d August	2.74	0.89	0.83	8.89	956	14.43
Forecast	2009 Avg.	**2.15**	**0.75**	**0.69**	**6.40**	**930**	**13.60**
	2010 Avg.	**2.60**	**0.90**	**0.85**	**7.50**	**950**	**14.50**

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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	7.47	369	80.91	43.69
2008	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	78.80	43.90
	March	7.45	327	79.00	43.80
	April	7.57	354	83.50	44.10
	May	8.01	401	83.20	44.50
	June	7.74	414	80.40	43.30
	July	6.68	375	81.40	43.40
	m-t-d August	6.35	401	n.a.	n.a.
Forecast	2009 Avg.	**7.50**	**390**	**83**	**45**
	2010 Avg.	**7.90**	**450**	**88**	**49**

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Commodity Indices and Forecasts

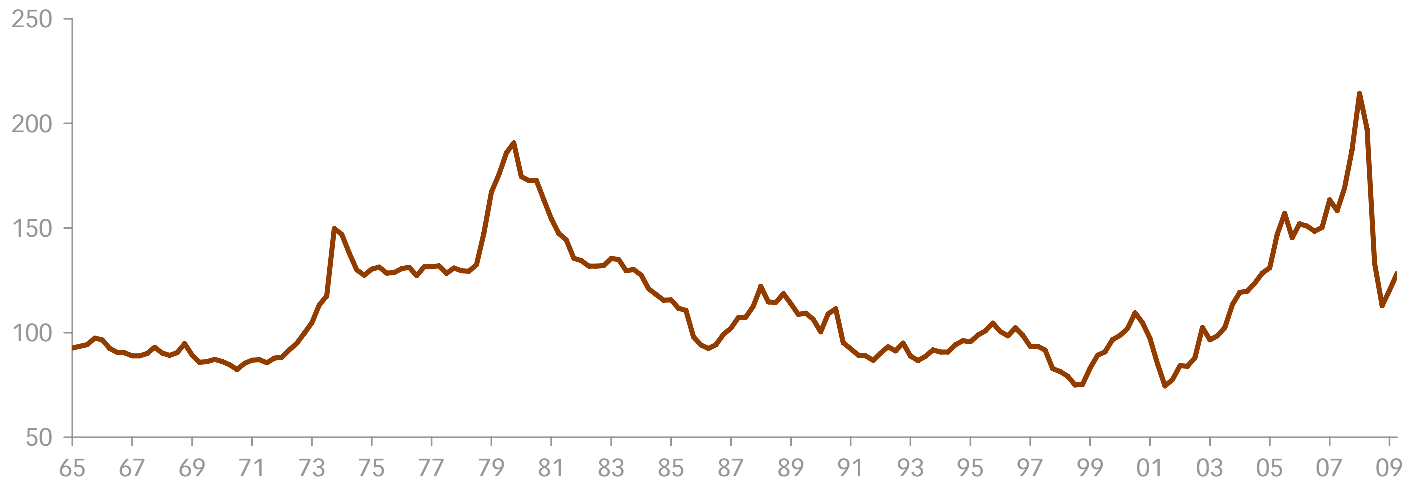
US$-terms : 2003 = 100		All Commodities	Oil & Gas	Metals & Minerals	Forest Products	Agricultural Products	All Commodities C$-terms
Annual							
	2000	95.8	87.7	99.5	109.6	84.5	101.7
	2001	87.1	77.5	89.2	101.9	88.4	96.1
	2002	81.7	72.2	89.0	90.0	92.5	91.6
	2003	100.0	100.0	100.0	100.0	100.0	100.0
	2004	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	**144.7**	**131.6**	**233.5**	**93.8**	**149.4**	**119.6**
	2010	**170.5**	**169.1**	**259.0**	**102.5**	**161.1**	**127.2**
Quarterly							
2008	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
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	150.0	138.5	245.6	93.5	144.1	120.6
Forecast	Q4	**156.8**	**149.9**	**249.5**	**93.3**	**156.3**	**124.0**
2010	Q1	**168.1**	**169.6**	**255.0**	**96.5**	**159.8**	**130.0**
	Q2	**169.8**	**165.9**	**263.3**	**101.6**	**162.4**	**128.3**
	Q3	**168.4**	**163.1**	**256.6**	**107.1**	**162.2**	**124.3**
Monthly							
2008	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	216.8	98.5	148.7	117.2
	Feb	128.8	103.5	217.1	97.6	143.8	114.5
	Mar	131.9	112.1	216.7	94.8	142.5	118.9
	Apr	130.2	110.9	212.9	92.8	147.4	114.5
	May	139.8	128.7	220.4	89.5	156.1	115.6
	Jun	150.5	145.1	232.6	92.1	152.9	120.7
	Jul	144.1	132.4	236.2	90.7	138.2	115.9

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

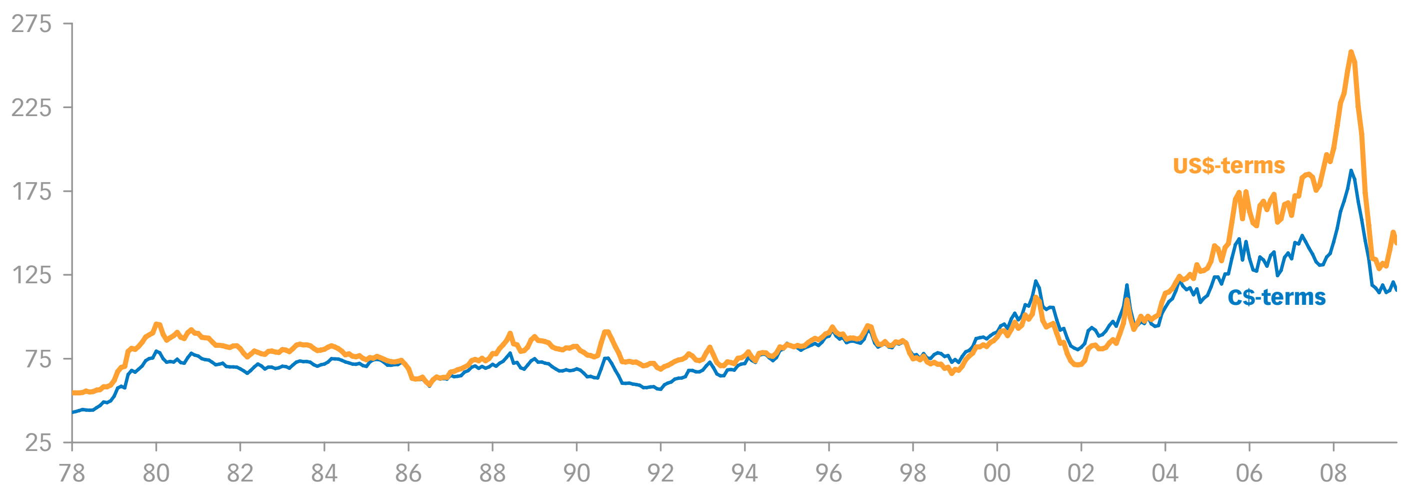
Historical Charts: All-Commodity Index

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.