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THE Goods

A MONTHLY COMMODITY WATCH

ECONOMIC RESEARCH

BMO Capital Markets

Commodities Pull Back

On concerns about demand sustainability

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The **BMO Capital Markets Commodity Price Index** declined 2.1% to 168.5 (2003 = 100) in February, as increasing concerns about unsustainably high public sector deficits and debts in Greece and some other European countries prodded investors into safer investments. Monetary tightening in China also contributed to weaker commodity prices by raising concerns about the strength of demand for industrial metals and energy products. The potential for a major U.S.-China trade spat did not help matters. However, following large losses early in the month, commodity prices subsequently strengthened on constructive economic data.

We are likely to see considerable commodity volatility in the months ahead as markets continue to mull conflicting economic news. However, further out, pricing should be supported by accumulating evidence of a sustainable global recovery, which would lift demand, as well as by sluggish supply growth for some commodities.

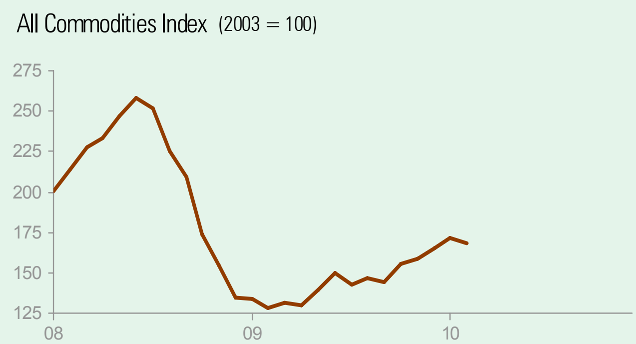
The **Oil & Gas Index** retreated in the month. Natural gas was particularly hard hit on evidence of increasing imports of liquefied natural gas (LNG) and weak demand. Although natgas could fall below the US$4 mark within the next few weeks, pricing should receive some support from increasing substitution for coal in power generation. While the average price of crude oil fell slightly in February, it actually trended up later in the month and into the first half of March. Support came from evidence of increasing demand for products in North America and strong demand growth in China and other emerging markets.

The **Metals & Minerals Index** fell as the fiscal challenges in Europe pushed investors into safer instruments and monetary tightening in China raised questions about the strength of demand. The stronger U.S. dollar reduced the attractiveness of precious metals, pushing their prices lower. Generally, losses came early in the month, after which prices firmed on supportive economic data.

The **Forest Products Index** notched a brisk advance on gains for all three products. Lumber continued to be driven by inventory restocking although purchases lost momentum at the end of the month due to snow storms. Pulp increased on tight supply and is expected to advance further as the earthquake in Chile caused a temporary loss of capacity. Newsprint firmed moderately on strengthening demand in offshore markets.

The **Agricultural Index** edged upward in February on strength in wheat and cattle. The former was supported by reduced availability of high-protein milling wheat while the latter benefited from some improvement in demand and tightening supplies.

BMO Capital Markets Commodity Price Index



	Feb. Level (2003=100)	% Change from Mth. Ago	Yr. Ago
All Commodities	168.5	-2.1	30.8
Oil & Gas	169.8	-4.2	64.0
Metals & Minerals	236.4	-4.6	8.9
Forest Products	115.6	7.8	18.4
Agriculture	145.8	0.6	1.3

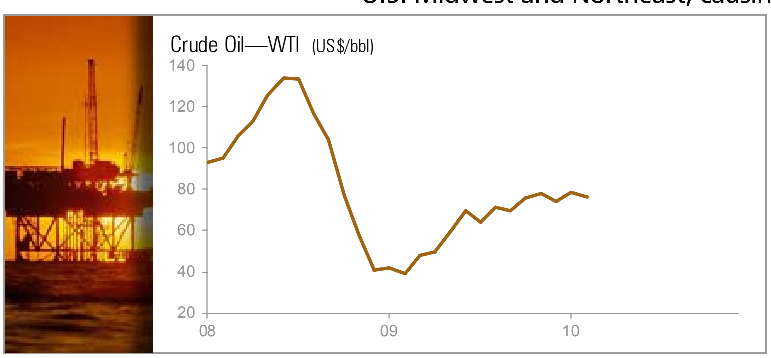
Oil and Gas

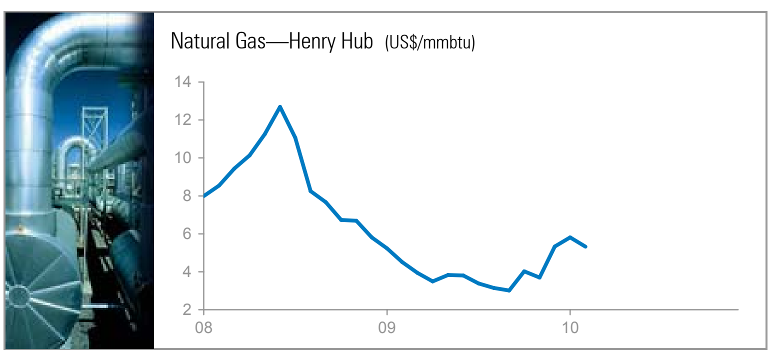
Crude Oil

West Texas Intermediate (WTI) slipped 2.3% in February to an average of US$76.42/barrel, yet stood almost double its recession-depressed level of a year earlier. Reversing the pattern in January, oil prices in February started near their low for the month and subsequently trended upward, extending gains through the first half of March. Though prices have recently shown some stability in the vicinity of $80, they remain susceptible to on-again off-again rumors of support for Greece and other high-deficit European countries, concerns that China may take stronger measures to rein in over-heated credit growth and inflated housing prices, and fears of a potential trade war between China and the United States. On the supply side, OECD inventories of crude oil and products are still above-average, although the surplus is diminishing. While non-OPEC production will likely remain flat this year, OPEC output is trending upward as member countries exceed quotas. On the demand side, stronger-than-expected economic growth in China, India, and other emerging-market nations has led the International Energy Agency to increase its estimate of global demand for 2010 to 86.6 mmb/d, up 1.6 mmb/d from 2009. If OPEC were to continue to produce at its Q1 level, global supply would grow to an estimated 86.2 mmb/d, up 1.3 mmb/d. That would result in a moderate stock draw over the course of the year, helping support prices near current levels. For 2010 as a whole, we maintain our forecast that WTI will average $78/barrel, although there is downside risk if OPEC members were to further exceed their quotas. Less bloated global inventories and a stronger pace of economic recovery in the West, which would bolster the demand for crude oil and products, is projected to lift WTI to an average of $85/barrel in 2011. A comfortable margin of excess productive capacity and increased regulator focus on speculative activity should prevent the type of price spikes seen during the first half of 2008 when WTI soared close to $150/barrel.

Natural Gas

After rallying in January on colder-than-normal weather and large draws from storage, U.S. benchmark Henry Hub sank 8.4% in February to average US$5.33 per million British thermal units (mmbtu, roughly the amount of energy in 1000 cubic feet). The downdraft intensified in March as balmy weather engulfed the U.S. Midwest and Northeast, causing Henry Hub to sink to the low-$4 range by mid-month. With winter-ending underground storage in the United States likely to be above 1.5 trillion cubic feet and the recovery in industrial usage still tepid, pricing will probably remain weak through the spring and early summer. The rising production of gas from shale formations, increasing imports of liquefied natural gas (LNG), and the tapping of previous shut-in resources will also keep the market loose. At current prices, however, natural gas is quite competitive with coal in power generation. This should help put a floor under pricing. Further out, the increasing substitution of natural gas for other fossil fuels to meet environmental objectives, stronger demand in Europe for LNG shipments, and relatively fast production decline rates in conventional fields and some shale resources should provide support to pricing. Additionally, longer-range weather forecasts point to a warmer and more active hurricane season this summer and autumn than during the past couple of years. Overall, we have lowered our projection for Henry Hub in 2010 by 25 cents to $5/mmbtu and have maintained our $5.75 forecast for 2011.

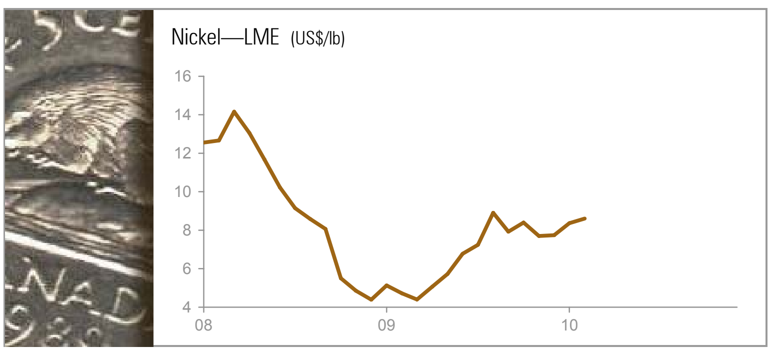


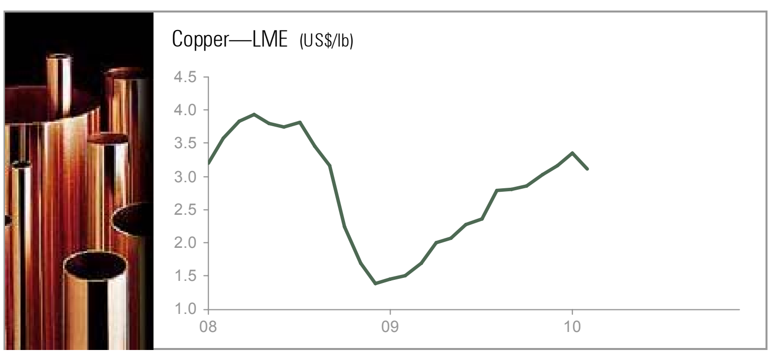


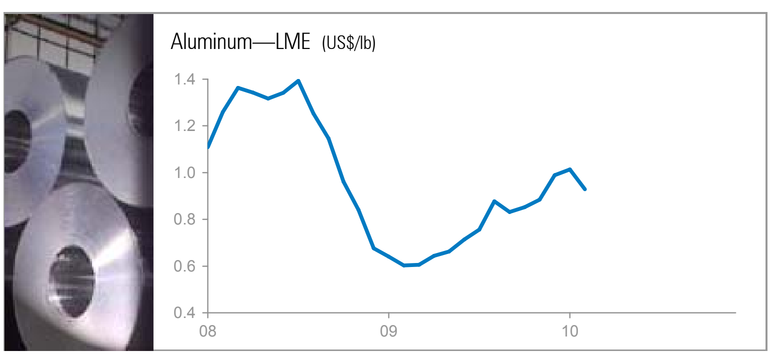
Metals and Minerals

Nickel stood out in February as the only base metal to register a price increase. Early in the month, it did show some weakness on demand concerns stemming from monetary tightening in China and the increasing focus on unsustainably high public sector deficits in Greece. However, nickel strengthened over the remainder of the month to average US$8.60/lb. The 2.9% advance reflected growing demand from the stainless steel sector, particularly in Asia, the shrinking availability of scrap metal, and the first decline in LME inventories in seven months. February's advance lifted average prices 82% above their recession-reduced level a year earlier. Nickel's strength in February has carried over into March, with prices averaging close to US$10.00 through mid-month. However, with LME stocks expected to remain elevated, new and expanded capacity slated to boost production in the second half of the year, and demand outside Asia still lacklustre, it will be difficult for the recent strength in nickel prices to be sustained. Still, the downside should be limited with demand expected to continue on its firming path. We look for nickel to average $9.00/lb. in 2010 (compared to $6.64 in 2009) and $9.25 in 2011.

Copper fell 7.3% in February to $3.11/lb. amid the same concerns that have affected other commodities and an increase in LME inventories. These bearish factors overwhelmed any positive influence from continued strong Chinese imports and supply uncertainty in the wake of the earthquake in Chile toward the end of the month. Even with last month's decline, average prices were still more than double their level (+107%) of a year ago when recession and credit concerns dented demand. Although pricing was initially boosted by earthquake concerns, it tended to ease through mid-March as it became clear that there was little direct damage to copper operations in Chile. With stockpiles rising and questions about demand lingering, copper is unlikely to sustain its recent gains over the next few months. Further out, stronger demand as global economic growth becomes more entrenched and a sluggish supply response should underpin prices. We look for copper to average $3.30/lb. in 2010 (compared to $2.34/lb in 2009) and $3.50/lb. in 2011.







Aluminum prices dropped 8.3% in February to US$0.93/lb. on global demand concerns and a stronger U.S. dollar. Despite this setback, average prices remained 54% higher than a year ago. As with other base metals, after early losses, aluminum strengthened over the rest of the month on positive economic data. With stocks still relatively high and new supplies coming on stream, any further price appreciation in the near term will likely be limited. However, with the global economic recovery moving onto a more sustained path, prices should remain firm. We look for aluminum to rise from an average of $0.75/lb. in 2009 to $0.95/lb. this year and $1.00/lb. in 2011.

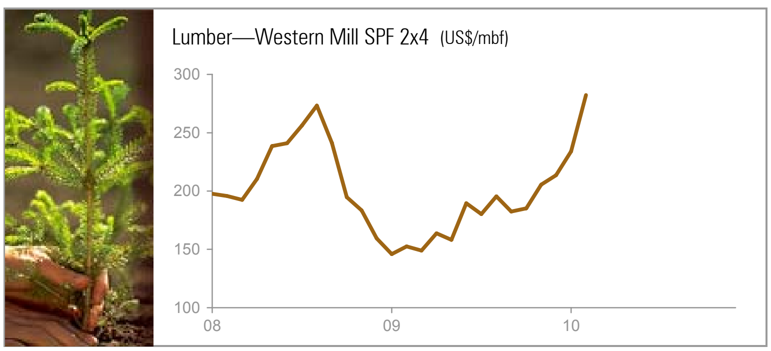
Forest Products

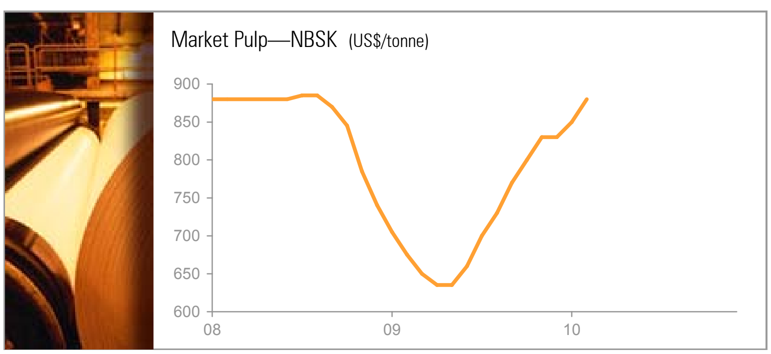
Lumber

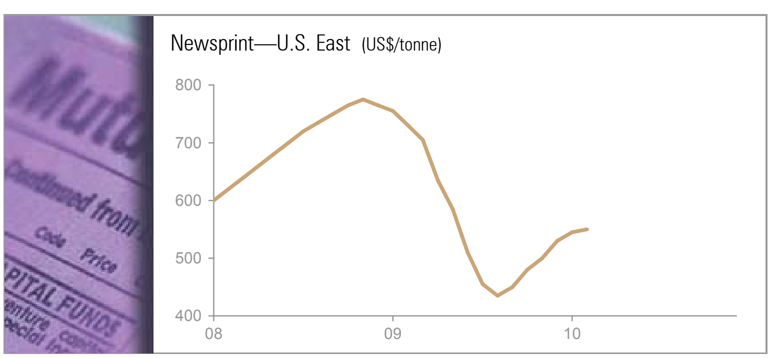
Western SPF2x4 moved higher in February for the fifth consecutive month, rising 20.6% to US$282/mbf and marking the largest increase since 2005. Yet, prices lost momentum by the end of the month as dealers unloaded supplies ordered earlier and snow storms delayed new purchases in the U.S. East and Midwest. Looking ahead, price volatility will likely continue to characterize the lumber market through 2010. On one hand, inventory restocking should continue to support prices as dealers' supplies are running at very low levels and may not be sufficient to meet demand when wood consumption increases seasonally during the spring and summer. On the other hand, excess capacity remains elevated and increased production stemming from recent price increases may weigh on the market. Overall, we expect SPF 2x4 to rise from an average of $177/mbf in 2009 to $250/mbf in 2010. A strengthening in demand in 2011 should raise lumber prices to an average of $270.

Market Pulp

NBSK continued its run, rising $30 to US$880/tonne in February. Prices have shot up $245/tonne over the past nine months and have now almost returned to their last cyclical peak reached in the summer of 2008. On the demand side, after falling freely through the recession, shipments to the United States and Europe recently have showed signs of life on economic recovery. On the supply side, producers are facing a wood fibre shortage due to unusually wet weather in the U.S. South. Inventories of market pulp in major producing countries measured 28 days of shipments in January 2010, below the long term average of 33 days. Already tight supply was exacerbated by Chile's massive earthquake in late February, as about 8% of global market pulp capacity resides in Chile and about 85% of that capacity is located near the epicentre of the earthquake. As mills in Chile are expected to be closed for an indefinite period, we have revised up our NBSK forecast to $900/tonne in 2010, compared to an average of $718 in 2009. Sky-high prices are likely to spur the reopening of idled mills, which should reduce NBSK to US$780/tonne in 2011.







Newsprint

The U.S. East Coast benchmark edged up $5 to US$550/tonne in February. In Latin America and Asia, demand has surged since late 2009, with advertising markets recovering from recession and publishers rebuilding depleted inventories. For example, North American offshore newsprint exports, which now account for about 30% of total shipments, increased 58% over the last five months. However, demand in the United States has remained weak, though the pace of decline is moderating. While some major producers are planning to implement additional price hikes in Q2, this may run into resistance given the restart of idled mills and insufficient capacity closures. We see newsprint prices rising from an average of $564/tonne in 2009 to $572 in 2010 and $635 in 2011.

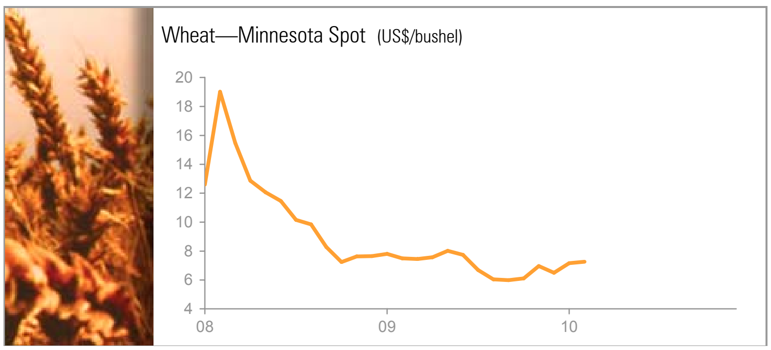
Agricultural Products

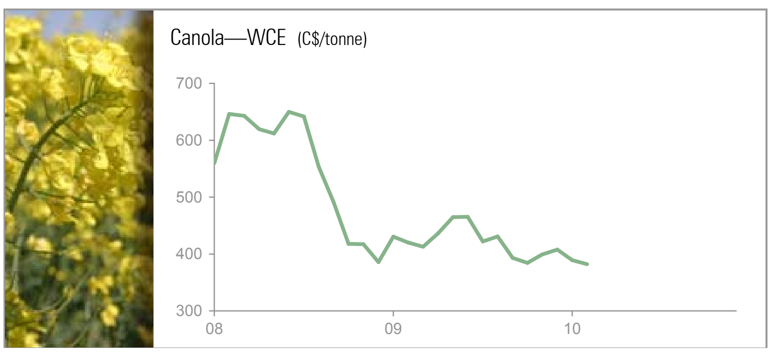
Wheat

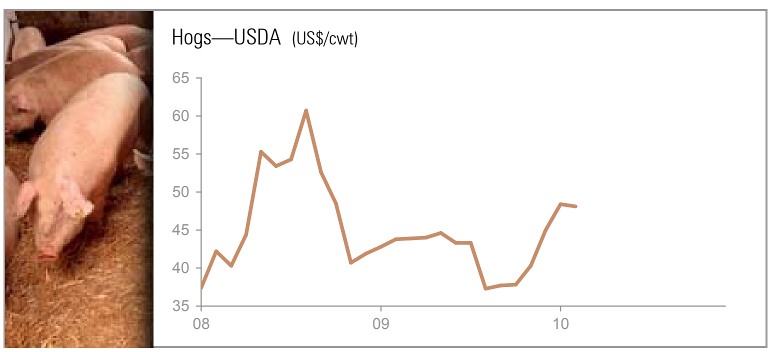
The price of Minneapolis dark spring wheat rose 1.4% in February to an average of US$7.26/bu. The gain was driven largely by reduced availability of U.S. high-protein milling wheat. Over the past year, the price of wheat has retreated 3.1%, suppressed by a significant increase in supplies and lacklustre demand. Prices have remained relatively firm so far in March but are expected to come under downward pressure over the next several months amid forecasts of ample supplies. In particular, global production has been subject to repeated upward revisions, substantially boosting stocks relative to consumption. Accordingly, any further price appreciation over the next several months is likely to be limited, motivated primarily by a general improvement in economic conditions. Further out, prices should begin to strengthen as the focus shifts toward expectations of a reduction in global production in response to the current weak pricing environment. We see wheat gaining modestly over the course of the year to average $7.25/bu. in 2010 (compared to $7.03 in 2009), before rising to $7.40 in 2011 on rising demand.

Canola

Weakness in the more dominant soybean market helped to push canola 1.8% lower in February to C$382/tonne. Oilseed markets are being pressured by forecasts of large upcoming soybean harvests in Argentina and Brazil. China's ongoing restrictions on imports from Canada due to concerns about blackleg disease remain a bearish factor. Over the past year, average canola prices fell 9% in Canadian dollar terms on rising oilseed supplies. While an improving demand outlook as the global economy recovers should provide support, ongoing uncertainty from restrictions on exports to China and the forecast strength of the Canadian dollar will temper price gains over the next few months. Moreover, high canola ending stocks in Canada and expectations of a large South American soybean crop will weigh on prices in the second half of this year. This year's price weakness is expected to prompt reduced production and higher prices in 2011. From an average of C$422/tonne in 2009, we see canola easing to C$400 in 2010 and then recovering to C$435 in 2011.







Hog

After a substantial gain during the previous month, hog prices slipped 0.6% in February to average US$48.10/cwt. amid slower slaughter rates and declining exports of pork. Nevertheless hog prices rose 9.8% over the past year. This improvement primarily reflects efforts taken by producers to reduce the size of their herds in the face of financial losses, as well as a reduction in imports from Canada. A pick up in demand as the U.S. and global economies emerge from recession has also contributed to the more sanguine pricing environment. Further reductions in the breeding herd, stronger demand due to the reopening of some key export markets (e.g., China and Russia), and firmer economic activity are expected to support hogs. We look for prices to rise from an average of $42 in 2009 to $47 in 2010 and $48 in 2011.

Energy and Materials

		Crude Oil	Natural Gas				
		(WTI)	(Henry Hub)	(Alta. Empress)	Lumber	Pulp	Newsprint
		US$/bbl	US$/mmbtu		US$/mbf	US$/tonne	
	1997	20.58	2.50	1.41	379	590	555
	1998	14.37	2.08	1.53	312	543	596
	1999	19.25	2.27	2.04	368	541	509
	2000	30.30	4.31	3.81	282	685	564
	2001	25.92	3.96	3.48	275	558	585
	2002	26.10	3.36	2.63	262	490	465
	2003	31.14	5.50	4.82	268	553	503
	2004	41.44	5.91	5.25	386	640	550
	2005	56.46	8.81	7.51	347	647	610
	2006	66.10	6.74	5.92	290	722	667
	2007	72.36	6.98	6.32	245	824	593
	2008	99.57	8.86	8.09	215	858	701
	2009	61.69	3.95	3.46	177	718	564
	y-t-d 2010	78.40	5.26	4.85	253	865	548
2009	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
	August	71.06	3.15	2.45	196	730	435
	September	69.46	3.01	2.56	183	770	450
	October	75.82	4.02	3.80	185	800	480
	November	78.08	3.70	3.30	206	830	500
	December	74.30	5.33	4.77	214	830	530
2010	January	78.22	5.81	5.02	234	850	545
	February	76.42	5.33	4.63	282	880	550
	m-t-d March	81.14	4.48	n.a.	265	n.a.	n.a.
Forecast	2010 Avg.	**78.00**	**5.00**	**4.40**	**250**	**900**	**572**
	2011 Avg.	**85.00**	**5.75**	**5.15**	**270**	**780**	**635**

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

Base and Precious Metals

		Copper	Aluminum	Zinc	Nickel	Gold	Silver
			US$/lb			US$/oz	
	1997	1.03	0.73	0.60	3.15	331	4.91
	1998	0.75	0.62	0.46	2.10	294	5.55
	1999	0.71	0.62	0.49	2.73	279	5.22
	2000	0.82	0.70	0.51	3.91	279	4.96
	2001	0.72	0.66	0.40	2.71	271	4.37
	2002	0.71	0.61	0.35	3.08	310	4.60
	2003	0.81	0.65	0.38	4.37	364	4.88
	2004	1.30	0.78	0.48	6.27	409	6.65
	2005	1.67	0.86	0.63	6.69	445	7.31
	2006	3.05	1.17	1.48	11.00	605	11.58
	2007	3.23	1.20	1.47	16.89	697	13.40
	2008	3.15	1.17	0.85	9.57	872	15.01
	2009	2.34	0.75	0.75	6.64	973	14.67
	y-t-d 2010	3.27	0.98	1.04	8.90	1112	16.92
2009	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
	August	2.80	0.88	0.83	8.91	950	14.41
	September	2.81	0.83	0.85	7.92	997	16.37
	October	2.85	0.85	0.94	8.40	1044	17.24
	November	3.03	0.88	0.99	7.71	1126	17.84
	December	3.17	0.99	1.08	7.74	1134	17.66
2010	January	3.35	1.01	1.10	8.36	1120	17.78
	February	3.11	0.93	0.98	8.60	1096	15.87
	m-t-d March	3.37	1.00	1.04	10.00	1122	17.18
Forecast	2010 Avg.	**3.30**	**0.95**	**0.90**	**9.00**	**1100**	**17.40**
	2011 Avg.	**3.50**	**1.00**	**0.95**	**9.25**	**1150**	**18.50**

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Agriculture

		Wheat	Canola	Cattle	Hogs
		US$/bushel	US$/tonne	US$/cwt	
	1997	4.48	284	63.34	52.03
	1998	4.02	264	59.73	32.50
	1999	3.69	204	63.28	32.33
	2000	3.62	176	68.37	42.89
	2001	3.69	201	71.20	44.08
	2002	4.14	242	66.61	33.28
	2003	4.24	261	79.97	37.55
	2004	4.56	271	85.58	51.21
	2005	4.78	224	89.55	49.62
	2006	5.19	257	87.08	46.25
	2007	7.10	379	90.02	46.66
	2008	11.19	528	89.23	47.64
	2009	7.03	371	80.36	41.98
	y-t-d 2010	7.19	369	83.25	48.25
2009	March	7.45	327	79.10	43.90
	April	7.57	354	83.80	44.00
	May	8.01	401	83.20	44.60
	June	7.74	414	80.10	43.30
	July	6.68	375	80.90	43.30
	August	6.05	396	80.40	37.30
	September	5.99	363	80.50	37.70
	October	6.12	363	79.20	37.80
	November	6.97	377	79.60	40.30
	December	6.49	386	78.50	45.00
2010	January	7.16	373	82.10	48.40
	February	7.26	362	84.40	48.10
	m-t-d March	7.13	373	n.a.	n.a.
Forecast	2010 Avg.	**7.25**	**395**	**85**	**47**
	2011 Avg.	**7.40**	**440**	**88**	**48**

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Commodity Indices and Forecasts

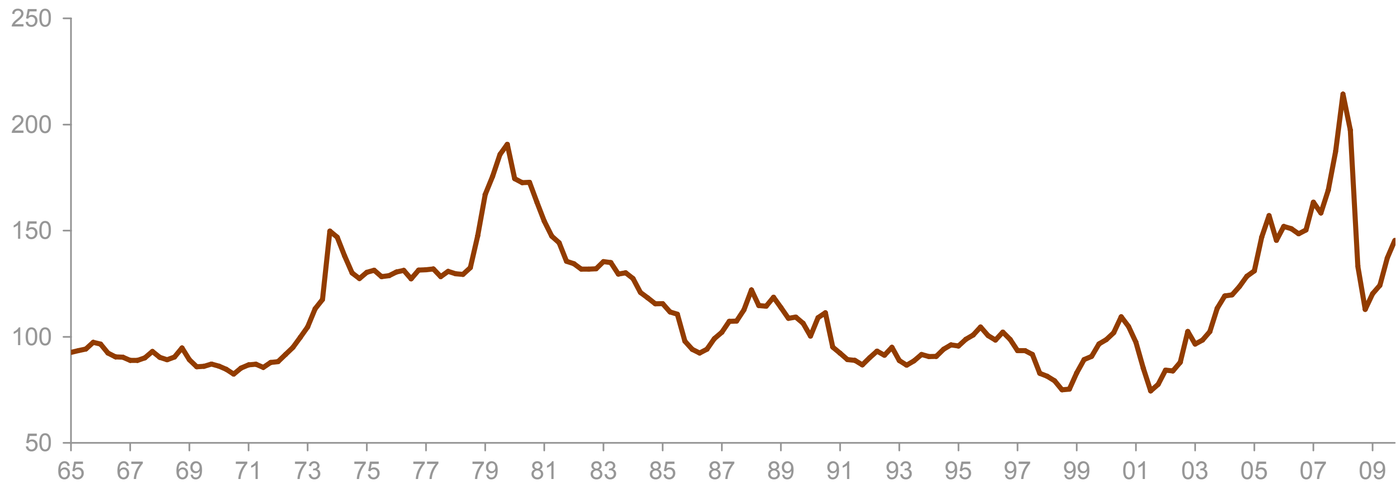
US$-terms : 2003 = 100		All Commodities	Oil & Gas	Metals & Minerals	Forest Products	Agricultural Products	All Commodities C$-terms
Annual							
	2001	87.1	77.5	89.2	101.9	88.4	96.1
	2002	81.7	72.2	89.0	90.0	92.5	91.6
	2003	100.0	100.0	100.0	100.0	100.0	100.0
	2004	122.4	120.0	128.4	124.7	109.5	113.7
	2005	149.8	170.6	150.3	121.7	109.0	129.3
	2006	163.7	166.7	229.6	115.6	114.5	132.6
	2007	181.0	178.8	284.0	108.2	146.5	138.5
	2008	210.9	239.0	272.4	112.5	204.2	158.4
	2009	144.2	133.9	227.1	95.2	141.2	117.1
Forecast	2010	**170.9**	**169.3**	**251.5**	**112.8**	**148.1**	**124.0**
	2011	**184.1**	**187.3**	**270.0**	**114.7**	**154.4**	**129.6**
Quarterly							
2008	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	145.0	137.0	229.5	92.6	132.3	113.7
	Q4	160.1	160.2	240.1	99.8	135.3	120.9
Forecast 2010	Q1	**170.5**	**171.8**	**245.3**	**112.4**	**145.6**	**127.5**
	Q2	**169.1**	**163.4**	**252.7**	**115.4**	**148.5**	**123.7**
	Q3	**169.5**	**163.7**	**250.4**	**117.9**	**150.3**	**120.9**
	Q4	**174.4**	**178.1**	**257.4**	**105.7**	**148.2**	**124.1**
Monthly							
2009	Feb	128.8	103.5	217.1	97.6	143.8	114.5
	Mar	131.9	112.1	216.7	94.8	142.6	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	152.8	120.7
	Jul	142.9	132.4	230.8	90.7	138.0	114.9
	Aug	147.4	141.2	231.2	93.5	130.9	114.5
	Sep	144.5	137.4	226.6	93.6	127.8	111.7
	Oct	155.8	156.8	234.6	95.6	128.9	117.7
	Nov	159.2	157.4	239.9	100.7	140.3	120.4
	Dec	165.2	166.5	246.0	103.2	136.6	124.6
2010	Jan	172.1	177.2	247.6	107.3	144.9	128.3
	Feb	168.5	169.8	236.4	115.6	145.8	127.0

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

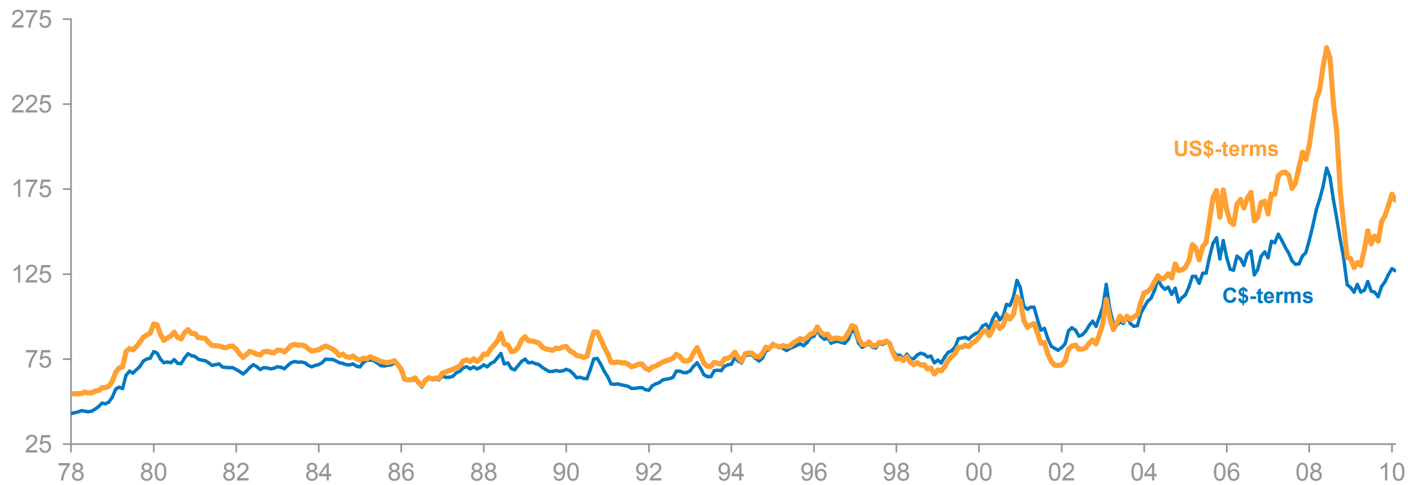
Historical Charts: All-Commodity Index

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.