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THE Goods
A MONTHLY COMMODITY WATCH
ECONOMIC RESEARCH
BMO Capital Markets

Commodities Tumble in May

On European Sovereign Risk & China Concerns

The **BMO Capital Markets Commodity Price Index** fell 7% to 165.1 (2003 = 100) in May amid worries that sovereign debt problems in Europe and Chinese government efforts to cool the hot housing market would slow the pace of global economic recovery and the demand for commodities. All sub-indices retreated as increased risk aversion among investors prompted an influx of funds into safer instruments such as U.S. treasuries, which buoyed the U.S. dollar.

Commodity prices continued to soften during the first few days of June but have since firmed as global uncertainties, while still a key driver of markets, calmed somewhat. However, any gains in the near term are likely to be capped as a result of seasonal demand weakness for some commodities. In addition, substantial volatility will likely remain a major market feature. Further out, we expect to see prices generally strengthen over the next year on sustained global economic recovery and relatively sluggish supply growth for a number of commodities.

The **Oil & Gas Index** dropped sharply, with a steep decline in oil overwhelming a rise in natural gas. Oil weakened on ample global supplies and concerns that global economic growth could falter. While natural gas inventories are still very high, prices are receiving support from rising consumption and slowing growth in supply.

Similar to oil, the **Metals & Minerals Index** suffered its largest decline since late 2008 amid concerns about the sustainability of the global recovery, a firmer U.S. dollar, and slower growth in China's imports of strategic resources. In contrast to the industrial metals, gold and silver – benefiting from economic uncertainty – advanced despite the greenback's strength.

The **Forest Products Index** fell in May as lumber prices fell on rising production and the prospect of increased shipments of tariff-free wood sent from Canada to the United States. Pulp and newsprint prices continued to advance on lean inventories and tight market supply.

The **Agricultural Index** continued to slip in May as wheat prices fell on increasingly optimistic forecasts of global supplies and heightened competition in export markets. The losses in wheat were sufficient to overwhelm the strength in livestock, which was buoyed by reductions in herd size and the scrapping of import restrictions in key markets.

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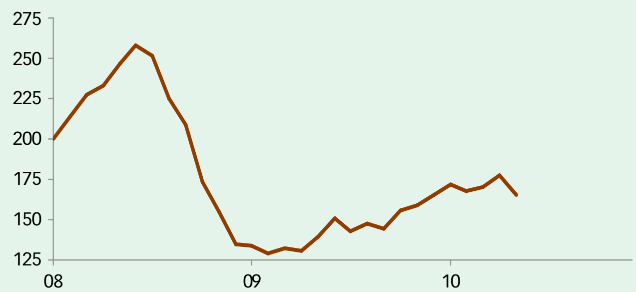
BMO Capital Markets Commodity Price Index

All Commodities Index (2003 = 100)



	May Level (2003=100)	% Change from Mth. Ago	Yr. Ago
All Commodities	165.1	-7.0	18.1
Oil & Gas	154.8	-9.2	20.3
Metals & Minerals	241.4	-7.2	9.5
Forest Products	125.2	-2.7	39.8
Agriculture	144.5	-1.5	-7.4

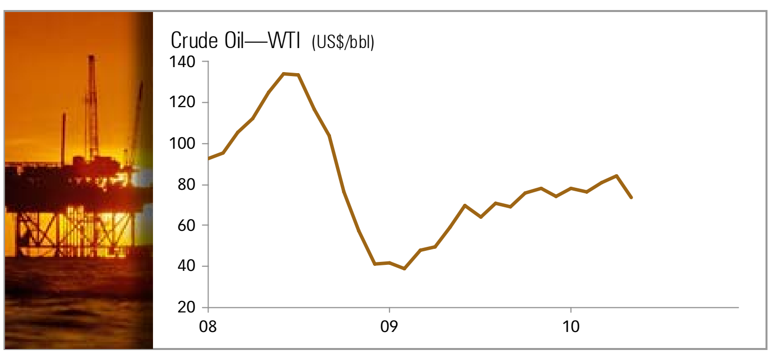
Oil and Gas

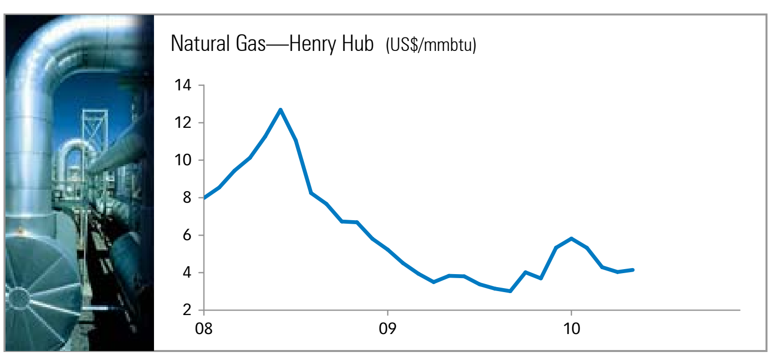
Crude Oil

In May, West Texas Intermediate (WTI) fell 12.6% to an average of US$73.84/barrel on concerns that the European debt crisis and measures undertaken by China to deal with its property bubble would slow the global recovery. Relatively high global inventories are also weighing on oil prices. In the United States, crude oil inventories have fallen a little below year-earlier levels but remain 7.3% higher than their five-year average for this time of year. Until there is greater clarity as to how the European sovereign debt crisis will play out, oil is likely to face above-average volatility. As for China, growth prospects remain solid despite a struggling Europe and only moderate recovery in the United States. China and other emerging-market nations have strong internal growth dynamics driven by the adoption of market-friendlier policies, rapid middle class growth, and urbanization. This will support growth in industrial output and construction and the demand for a wide range of commodities, including oil, for many years. In 2009, in the midst of a major financial crisis and a deep global recession, China's economy grew by almost 9% and we expect it to expand at an average annual rate of 10.5% during the next couple of years. In 2009, Chinese consumption of crude oil jumped 7.6% to an average of 8.5 million barrels per day (mmb/d). This year, it is expected to rise even faster to 9.2 mmb/d. Other nations such as India and Brazil are facing similar growth dynamics. This is likely to accelerate the rise in global oil demand above that for supply, helping to reduce the current inventory overhang. We are maintaining our forecast that WTI will average $78/barrel in 2010 and $85 in 2011 and expect considerable variability around those averages. In the near term, risk is skewed to the downside.

Natural Gas

Natural gas has resisted the downdraft in oil prices. Henry Hub advanced 2.8% in May to an average of US$4.15 per million British thermal units (mmbtu) and showed significant additional upside during the first half of June, to the vicinity of $5.00. While market fundamentals remain soft, with U.S. underground storage of natural gas still running close to 15% above its five-year average, the demand-supply balance is likely to tighten over the next year. On the demand side, total U.S. consumption of natural gas rebounded 4.8% on a year-to-date basis through March, after falling 2% in 2009. The swing was particularly notable for industrial users, which recorded a 9.1% advance following a 7.6% plunge in 2009. Natural gas has also been increasing its share of power generation, reflecting relatively low prices and increasingly stringent greenhouse gas emission standards. On the supply side, growth in U.S. domestic production of natgas slowed to 0.8% during the first quarter of 2010 from an average of 4.2% during the past three years. Pipeline imports from Canada, which supplied 16% of the U.S. market during the past five years, dropped 3.6% during the first quarter. However, this was offset by a sharp jump in imports of liquefied natural gas (LNG). Although the share of LNG imports in U.S. natgas consumption only averaged 2.5% during the past five years, it surged 61% during the first quarter as supplies were diverted from traditional markets in Europe. Overall, we expect demand-supply trends to gradually pare down the inventory glut currently in place. An above-average hurricane season would accelerate the process, following two benign years in which there was virtually no disruption to natgas production and transportation in the Gulf. Overall, we have maintained our forecast for Henry Hub at US$4.75/mmbtu in 2010 and $5.75 in 2011, with risk skewed to the upside.

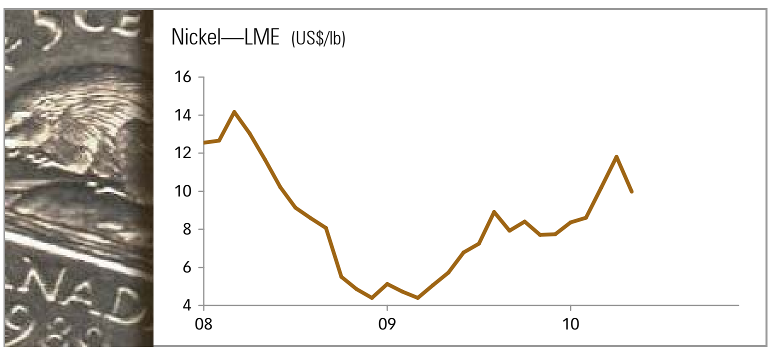


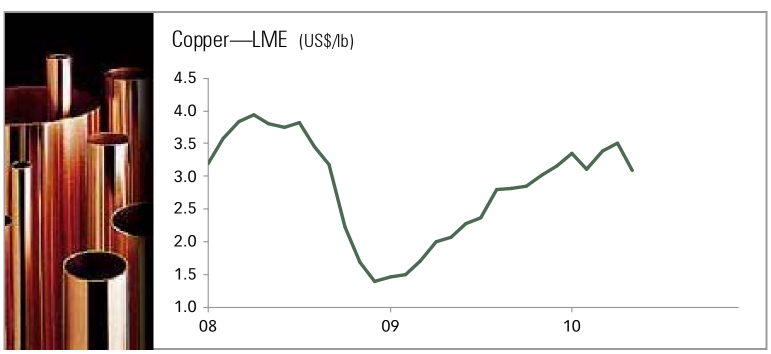


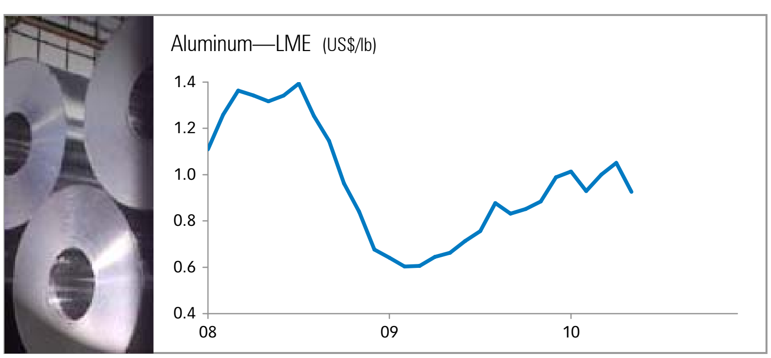
Metals and Minerals

Nickel

Ignoring the continuing decline in LME inventories since January, nickel prices plunged 15.5% in May to average US$9.98/lb. as concerns mounted that rising sovereign credit risk in Europe and monetary tightening in China might cause global demand to falter. Even after last month's losses, however, gains over the past year remained quite substantial at 74%. Indeed, nickel was the best performer among base metals over that period and also outshone gold, which advanced by 30%. This superior accomplishment reflected growing demand from stainless steel producers, falling LME inventories, and an influx of investment funds. After sliding through the first few days of June, nickel has since firmed as European sovereign debt worries tempered. Near term, volatility will likely be a key market feature given ongoing concerns about the sustainability of global economic recovery. In addition, there is little likelihood of any appreciable upward near-term momentum given the usual demand weakness during the summer shutdown period. Further out, prices are expected to firm as the global recovery becomes more entrenched, though gains would likely be limited by new production capacity coming on stream as well as increased substitution. We look for nickel to rise from an average of $6.64/lb. in 2009 to $9.60 in 2010 and $9.85 in 2011.







Copper

Even though declining LME inventories were constructive, copper suffered a double-digit decline in May, plummeting 11.7% to an average of US$3.10/lb. Copper continued to slide through the first week of June on weaker-than-expected U.S. private-sector employment data and slower imports of the commodity by China, but has recently rallied moderately. Despite last month's pull back, average prices remained 50% higher than a year ago, reflecting recovering global industrial production and construction in emerging markets. In the near term, copper prices may be restrained by seasonal weakness. However, we see prices continuing to recover from their recent swoon and remaining well supported over the next couple of years as sustained global economic growth promotes solid demand and supply remains constricted. Copper is slated to rise from an average of $2.34/lb. in 2009 to $3.30 in 2010 and $3.50 in 2011.

Aluminum

Following the trend in other industrial metals, aluminum fell 11.9% in May to average US$0.93/lb. Even with that decline, the price remained 40% higher than a year ago. Aluminum slid further during the first week of June but has since firmed as pessimism as to the sustainability of the recovery eased. However, so far in June, prices are still below last month's level. While aluminum will remain subdued in the near term due to seasonal weakness, we expect to see prices firm over the rest of the year as demand picks up with sustained economic recovery. We look for aluminum to rise from an average of $0.75/lb. in 2009 to $0.98 in 2010 and $1.05 in 2011.

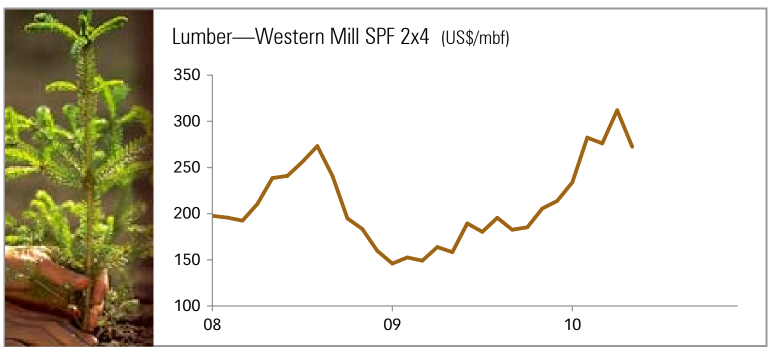
Forest Products

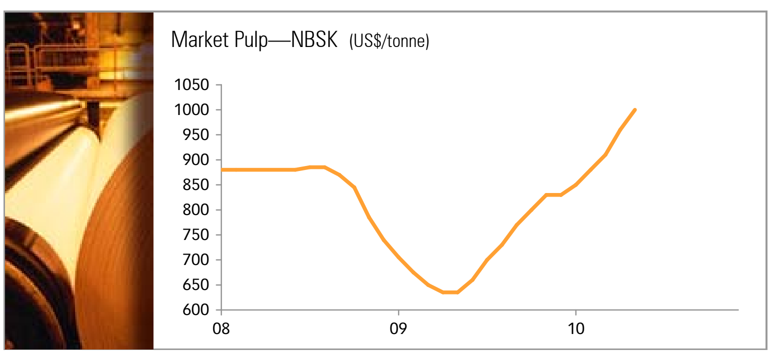
Lumber

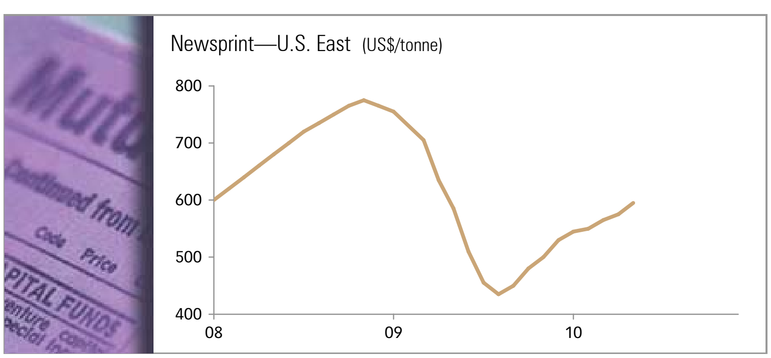
As anticipated, Western SPF2x4 corrected downward in May, falling roughly $40 to US$273/mbf. U.S. buyers delayed orders, given the prospect of increased shipments of tariff-free wood from Canada in June. Mill production is also catching up with demand requirements, with North American lumber output rebounding to its highest level since the end of 2008. However, prices are not likely to return to the lows reached early last year for two reasons. First, demand will continue to be supported by a seasonal pick-up in building activity and recovery in the broader economy, with U.S. housing starts trending moderately upward and lumber exports to offshore markets remaining strong. Second, if prices were to remain at current levels, Canadian lumber shipments to the United States would again attract export taxes. This would incent producers to restrict supply in order to shore up SPF quotes. Overall, prices are expected to be volatile, averaging $260/mbf in 2010 and strengthening to $295/mbf in 2011.

Market Pulp

NBSK continued to advance in May to their highest level since 1947, gaining $40 to US$1000/tonne. Looking ahead, the peak in pulp prices may not be far off. With mills affected by the February earthquake in Chile now back in operation and some Canadian producers planning to reopen idle facilities, pulp supply is expected to ramp up in late summer. In addition, producers have limited room for further price hikes, as some paper mills would likely pare back operations as rising pulp costs lead to losses. Still, the recent rally in prices may last a while longer, as pulp stocks held by consumers in North America and Europe have remained lean. Global inventories of Bleached Softwood Kraft in April were the equivalent of only 21 days of supply – close to record lows. In addition, in May, China announced an aggressive plan for closing 4.3 million tonnes of pulp and paper capacity by the end of September. If this plan is implemented, it could drive up Chinese imports and push pulp prices even higher. All told, we see the annual average price of NBSK reaching $960/tonne in 2010 before moderating to $805 in 2011.







Newsprint

The U.S. East Coast benchmark forged higher again in May, rising $20 to US$595/tonne. Offshore shipments continued to play an important role, with exports from North America through the first four months of 2010 up 51% from a year earlier. Further, demand in the United States appears to be stabilizing, posting the smallest 12-month decline in April in more than three years. On the supply side, Abitibibowater decided to extend downtime at some paper mills, raising the shipments-capacity ratio in North America to 100%. Along with rising pulp costs, tightening market supply, and strengthening demand, many producers have slated more price hikes before the end of the year. We look for newsprint to move upward from $564/tonne in 2009 to $605 in 2010 and $660 in 2011.

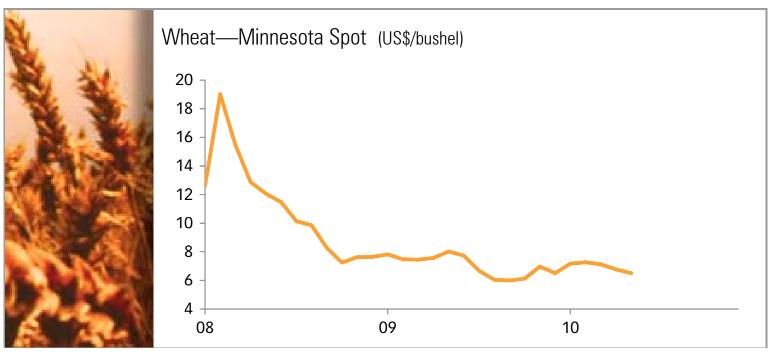
Agricultural Products

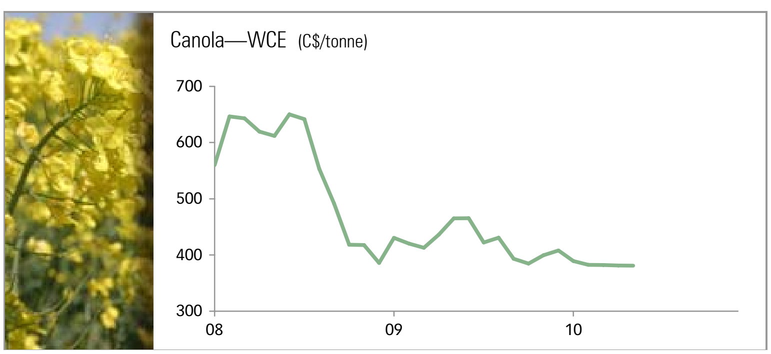
Wheat

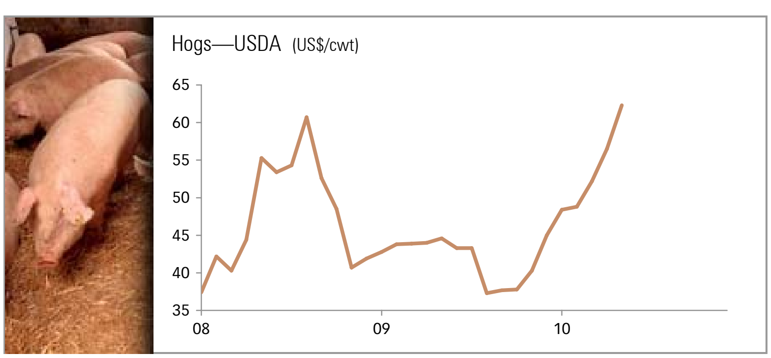
Minneapolis dark spring wheat weakened further during May, slipping 3.9% to average US$6.50/bu. as market fundamentals remained bearish on expectations of abundant global supplies. Increased competition in export markets from producers in the Black Sea region and the recent strengthening of the U.S. dollar also contributed to price weakness. Over the past year, prices have fallen roughly 19% amid ever-increasing global supplies and limited demand growth. Wheat has firmed in June, averaging US$6.58/bu. through the 11th, as wet weather delayed planting of spring wheat and slowed harvesting of winter wheat in North America. Nevertheless, with ample global production boosting supplies and lifting stocks relative to consumption, wheat will be hard-pressed to see substantial price appreciation over the next several months. Further out, prices should strengthen notably as the focus shifts toward expectations of a reduction in global production in response to the current weak pricing environment. We see wheat averaging $7.10/bu. in 2010, almost unchanged from 2009, before rising to $7.40 in 2011 on firming demand and lower output.

Canola

failed to get a boost from a lower Canadian dollar in May and remained flat at C$381/tonne over the month. Weakness in soybeans due to large supplies, expectations of increased acreage planted to canola in Canada, and falling crude oil and biofuel prices combined to hold the oilseed in check. The monthly average price of canola has fallen 18% over the past year as estimates of overall oilseed supplies rose. While the global economic recovery has bolstered the outlook for demand, ample oilseed supplies and comparatively high canola ending stocks will temper any gains over the remainder of the year. The weak recent pricing environment is expected to prompt lower production and support higher prices in 2011. From an average of C$422/tonne in 2009, canola should ease to C$400 in 2010 before recovering to C$437 in 2011.







Hog

prices jumped 10.3% in May to US$62.30/cwt., 40% higher than a year ago. The gain extended the winning streak to nine months as supplies continued to tighten as a result of shrinking herds, lower imports of live animals, and a pick-up in domestic and foreign demand for pork due to global economic recovery and the lifting of import restrictions in export markets. Notwithstanding the increase for the month of May, hog prices have more recently fallen as commodity markets in general succumbed to European sovereign debt concerns and a stronger U.S. dollar, which dimmed export prospects. However, the downside is likely to be limited during the next few months by typically stronger seasonal demand. Further out, tight supplies and continued demand strength as the global economy moves onto a sustainable growth path should continue to support hogs. We look for prices to rise from an average of $42 in 2009 to $53 in 2010 and $55 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	78.53	4.69	4.04	268	920	566
2009	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
	March	81.24	4.29	3.62	276	910	565
	April	84.48	4.03	3.40	312	960	575
	May	73.84	4.15	3.48	273	1000	595
	m-t-d June	73.18	4.62	3.63	222	n.a.	n.a.
Forecast	2010 Avg.	**78.00**	**4.75**	**4.10**	**260**	**960**	**605**
	2011 Avg.	**85.00**	**5.75**	**5.15**	**295**	**805**	**660**

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	3.26	0.98	1.00	9.70	1142	17.49
2009	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
	March	3.38	1.00	1.03	10.18	1116	17.12
	April	3.51	1.05	1.07	11.80	1147	18.12
	May	3.10	0.93	0.89	9.98	1204	18.42
	m-t-d June	2.91	0.87	0.78	8.62	1222	18.09
Forecast	2010 Avg.	**3.30**	**0.98**	**0.95**	**9.60**	**1145**	**17.85**
	2011 Avg.	**3.50**	**1.05**	**1.00**	**9.85**	**1200**	**19.00**

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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	6.93	371	90.06	53.64
2009	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	85.50	48.80
	March	7.12	373	90.50	52.20
	April	6.77	378	95.70	56.50
	May	6.50	366	96.50	62.30
	m-t-d June	6.58	367	n.a.	n.a.
Forecast	2010 Avg.	**7.10**	**390**	**92**	**53**
	2011 Avg.	**7.40**	**440**	**94**	**55**

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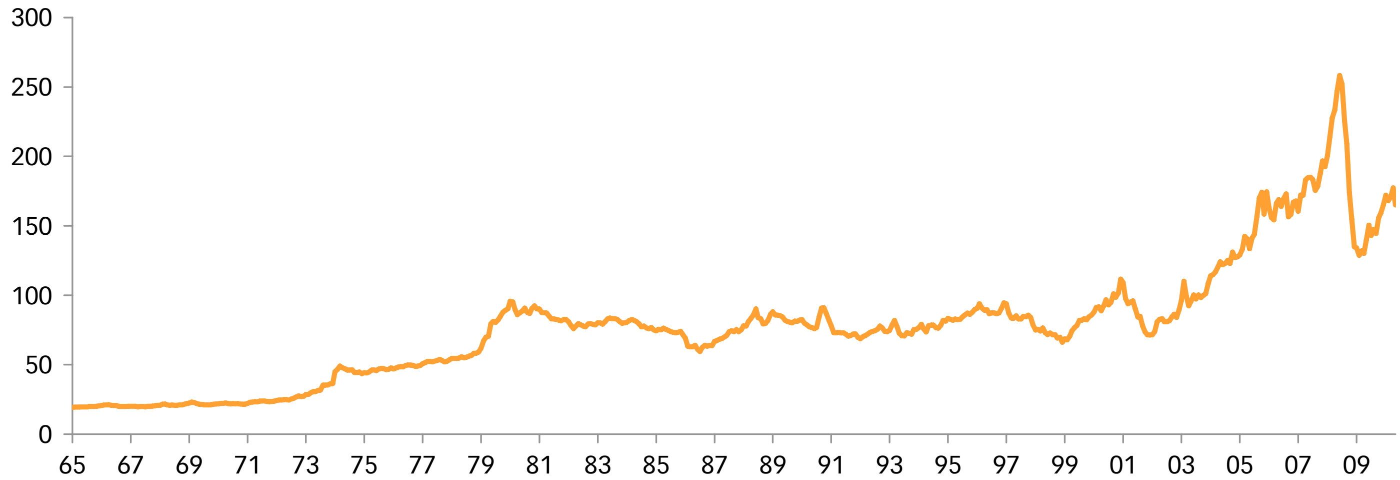
Commodity Indices and Forecasts

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	**171.8**	**166.9**	**251.9**	**119.9**	**149.5**	**125.8**
	2011	**186.7**	**187.3**	**274.4**	**120.3**	**157.8**	**132.5**
Quarterly							
2008	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
2010	Q1	170.2	171.6	243.3	113.4	146.3	126.6
Forecast	Q2	**168.6**	**160.3**	**245.4**	**125.4**	**145.9**	**124.0**
	Q3	**170.6**	**160.7**	**253.8**	**123.9**	**153.5**	**125.2**
	Q4	**177.9**	**175.2**	**265.1**	**116.9**	**152.4**	**127.2**
2011	Q1	**185.2**	**188.4**	**271.4**	**115.1**	**157.3**	**131.9**
Monthly							
2009	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	168.1	169.8	234.7	115.6	146.2	126.7
	Mar	170.5	167.8	247.4	117.3	147.9	124.6
	Apr	177.4	170.6	260.2	128.6	146.8	127.6
	May	165.1	154.8	241.4	125.2	144.5	122.7

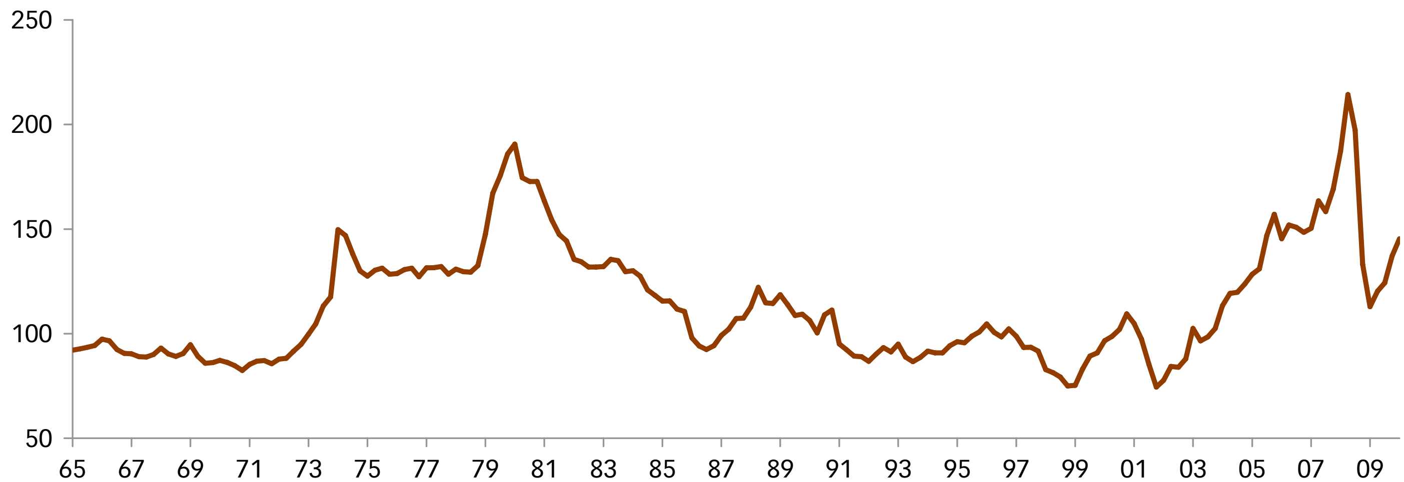
Commodity price indices and forecasts are by BMO Capital Markets Economics.
Forecasts are independent of those used by BMO Capital Markets Equity Research.

Historical Charts: All-Commodity Index

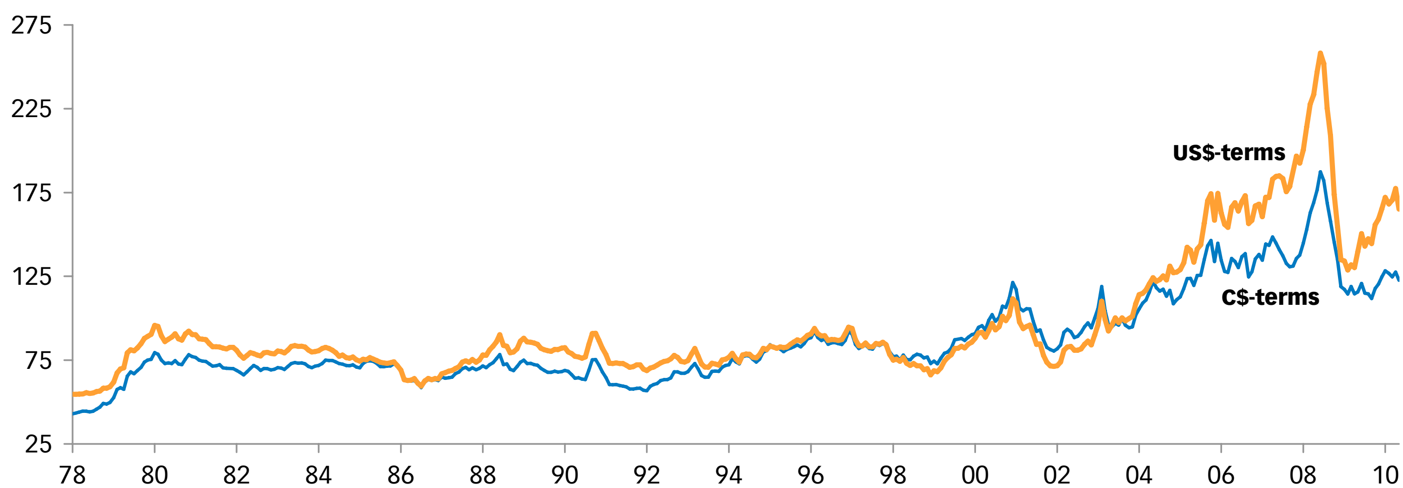
Nominal US$-Terms (2003 = 100)



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.