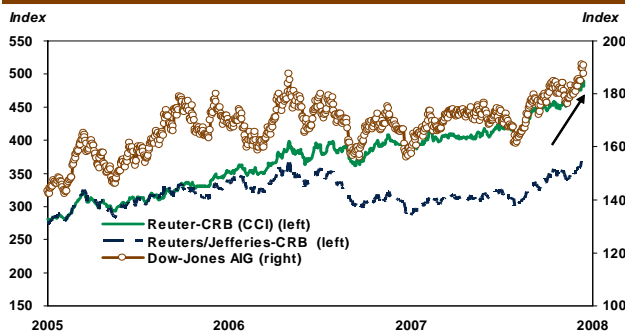


Oil and gold set new marks

As in 2007 as a whole, the last few weeks have been very good for commodities, which benefited from new U.S. dollar weakness and various events fuelling demand from investors who want a turn at profiting from the surge in commodity prices (graph 1).

Graph 1 – Commodities price indexes have gotten the year off to a strong start



Sources: Datastream and Desjardins, Economic Studies

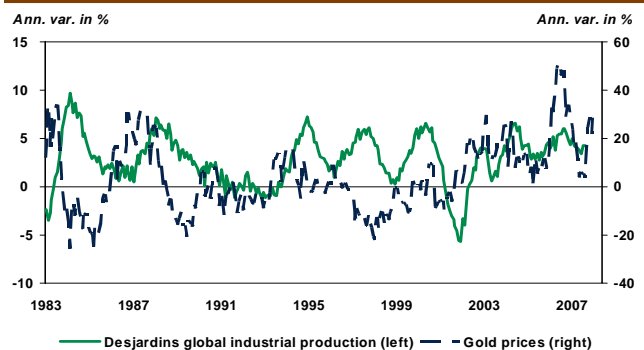
Once again, oil and gold have stolen the show as 2008 begins. Further dips in American crude inventories and an intensification of geopolitical risk have revived fears of an oil shortage. This helped a barrel of WTI (West Texas Intermediate) to temporarily reach the psychological threshold of US\$100 in the first days of this month.

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Heightened international tension and a tough start to the New Year for the stock market have once again inflated the appeal of gold's safe haven value. Strong demand from investors allowed the yellow metal to end trading on January 9 at US\$880 an ounce, a new historic peak. The contracyclicality of precious metals should allow them to keep benefiting from the uncertain macroeconomic climate (graph 2).

Graph 2 – The economic context is more favourable for gold prices



Sources: Datastream and Desjardins, Economic Studies

Grain prices have also shot up lately, as wheat harvests remain disappointing and, with the exception of corn, stocks will end the 2007-2008 season down.

Base metals are still posting poorer results than other commodities; their prices have only edged up slightly in the last month. The economic slowdown should limit demand for these metals.

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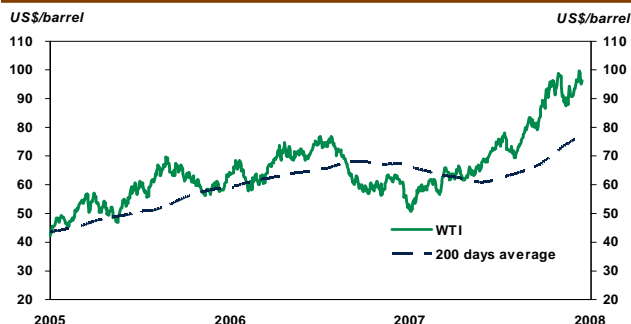
ENERGY

Oil will have a hard time staying close to the \$100 mark in absence of another “political” shock

OIL

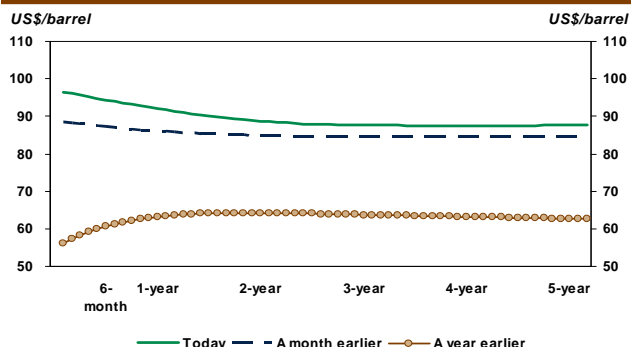
- The price of WTI oil (West Texas Intermediate) started to head up again in recent weeks, finally, for the first time in nominal terms, reaching US\$100 a barrel a few times during trading on January 2 and 3. Oil prices have climbed an impressive 57% in the last year, from where they were at the end of 2006 (graph 3).
- The oil price surge is mainly due to the heightening of geopolitical tensions at the end of 2007. The assassination of former Pakistani Prime Minister Benazir Bhutto, further operations by the Turkish army in Iraq, and renewed violence in Nigeria have driven up the risks to the world’s oil supply.
- Moreover, the ongoing decline in U.S. crude oil inventories has also fuelled fears of a shortage, making speculators bet on a price increase. The drop in inventories, normal for this time of year, has been bigger than usual in recent months, taking inventory levels below the average for the last five years. However, the supply is large enough to prevent any short-term shortage and, based on normal seasonal trends, inventories should climb in the months to come.
- The historic \$100 a barrel mark was reached in only a few transactions and, as the futures contracts indicate (graph 4), oil will have a hard time maintaining this price sustainably. The tough economic context, especially in the United States, does not augur sharp growth in demand for oil in the coming months. The dismal American employment figures released on January 4 thus quickly pushed the price per barrel back toward US\$95. What’s more, global oil production has grown at a solid pace in the last few months, and has finally caught up with consumption (graph 5); OPEC (Organization of Petroleum Exporting Countries) would not hesitate to announce another increase in its quotas at its special meeting on February 1 if the price per barrel were to close in on US\$100 again.

Graph 3 – Oil temporarily reached US\$100 a barrel



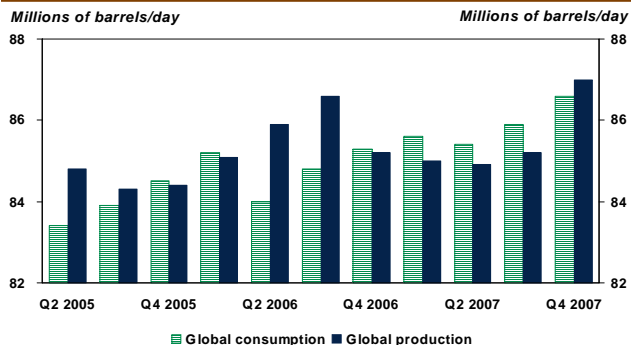
Sources: Datastream and Desjardins, Economic Studies

Graph 4 – Futures are anticipating some moderation in oil prices



Sources: Bloomberg and Desjardins, Economic Studies

Graph 5 – Oil production accelerated at the end of 2007



Sources: Energy Intelligence and Desjardins, Economic Studies

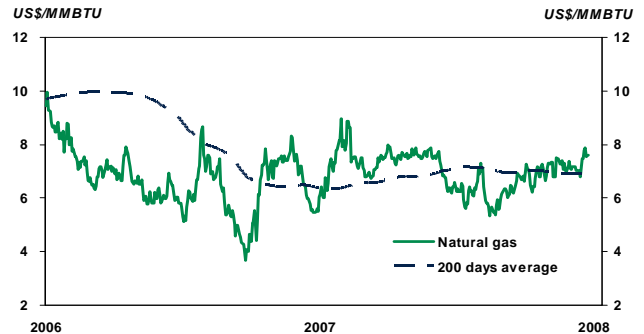
NATURAL GAS

- After oscillating around US\$7 per MMBTU (Million British Thermal Unit) in the second half of 2007, natural gas prices shot up at the start of the new year, to near US\$8 (graph 6). The rise is mainly due to a cold snap that hit the United States at the end of December and drove up heating needs. The latest weather forecasts are announcing above normal temperatures for the next few weeks, however.
- Oil's surge to US\$100/barrel also gave natural gas a boost; it is an important alternative energy source whose appeal grows as oil prices climb to increasingly prohibitive levels. Demand for natural gas could eventually benefit from efforts by industrialized economies to reduce their dependence on oil.
- Weather conditions will continue to have a major impact on natural gas prices until winter is over; however, plentiful inventories limit the potential for an increase in the near term. Despite some dips at the end year, U.S. natural gas inventories finished 2007 8.2% above their average for the last five years, according to the EIA (Energy Information Administration) (graph 7).

URANIUM

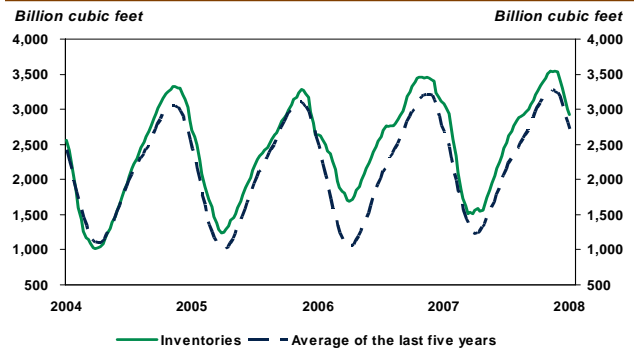
- After having fluctuated sharply in recent years, uranium prices have stabilized at around US\$90 a pound in the last few months (graph 8). This price is well below the US\$138 a pound peak reached last June. However, note that uranium was trading at \$36 a pound just two years ago. The current price, which is very elevated, historically speaking, reflects expectations of a major surge in demand in the medium term, when many nuclear plants should come on line.

Graph 6 – Renewed strength in natural gas prices



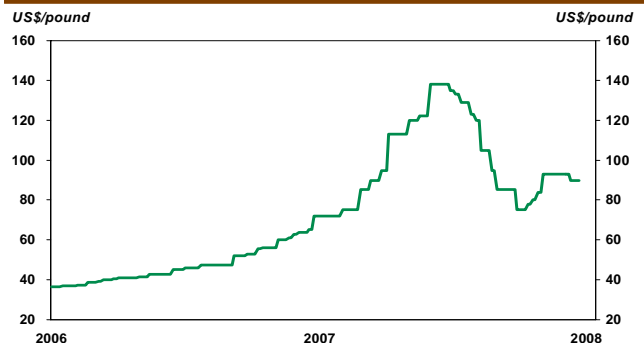
Sources: Datastream and Desjardins, Economic Studies

Graph 7 – Natural gas inventories remain high



Sources: Energy Information Administration and Desjardins, Economic Studies

Graph 8 – The price of uranium stabilizes



Sources: Bloomberg and Desjardins, Economic Studies

Forecasts: If no major problem interrupts oil production and delivery, oil should gradually return toward US\$70 or US\$80 a barrel by mid-2008, as the balance between production and global demand continues to improve. Beyond seasonal variations and weather changes, natural gas prices should reach US\$7.75 MMBTU on average this year.

BASE METALS

The economic situation will remain unfavourable in 2008

For base metals, 2007 held a lot of upheaval, with spectacular appreciation in the first half of the year being followed by major corrections. A very good start to 2008 for all commodities and the rebalancing of some indexes in favour of base metals have taken base metal prices up but, except for tin, prices are still well below where they were six months ago.

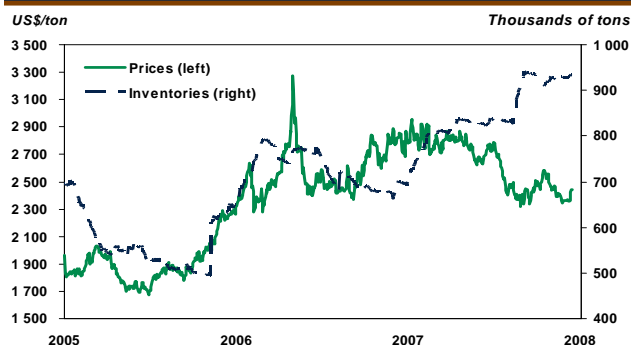
ALUMINIUM

- Although it has edged up in the last few days, the recent trend for the price of aluminium remains negative. Aluminium ended 2007 down 17% from where it ended 2006 (graph 9). U.S. demand for aluminium should remain weak this year, as the housing sector will continue to struggle.
- Aluminium inventories have been rising further in the last few weeks, which could put downward pressures on prices in the short term. However, this could be offset by a slowdown in output by some Chinese smelters following difficulties with the electrical supply. In the longer term, elevated energy prices and the possibility that China will eventually become a net aluminium importer could sustain prices. The futures market is thus anticipating appreciation by aluminium, and the marked increase in open interest seen the last few months is expressing heightened investor interest in this metal (graph 10).

COPPER

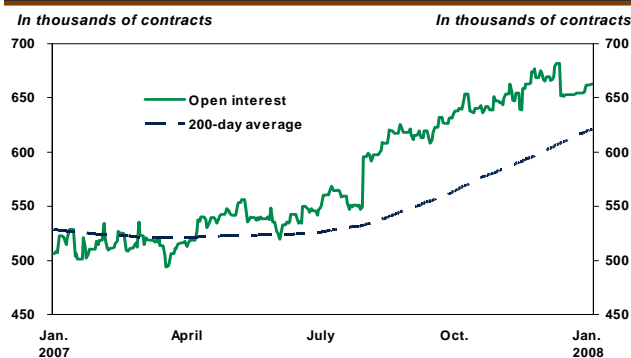
- The price of copper recently climbed above \$7,000 a tonne, but remains below the US\$8,300 peak set last October (graph 11). As with aluminium, the problems in the American housing sector are having a very adverse impact on copper prices, especially since inventories, though still relatively small, have begun to climb in recent months. Global output, especially in China, should expand more quickly than consumption in 2008, which could put further downward pressure on copper prices.

Graph 9 – Aluminium prices and inventories



Sources: Datastream and Desjardins, Economic Studies

Graph 10 – The market's interest in aluminium is growing



Sources: Bloomberg and Desjardins, Economic Studies

Graph 11 – Copper prices and inventories



Sources: Datastream and Desjardins, Economic Studies

NICKEL

- The price of nickel climbed to close to US\$30,000 a tonne in early 2008, but the rise could be temporary as inventories have kept expanding and are now at impressive levels (graph 12). The anticipated recovery of the stainless steel market (the main use for nickel) is still taking its time in emerging, especially in Asia, where the marked increase in China's production capacity is putting downward pressure on prices. After what looks like a rather tough start to the year, nickel should do better toward the end of 2008, when demand is expected to recover.

ZINC

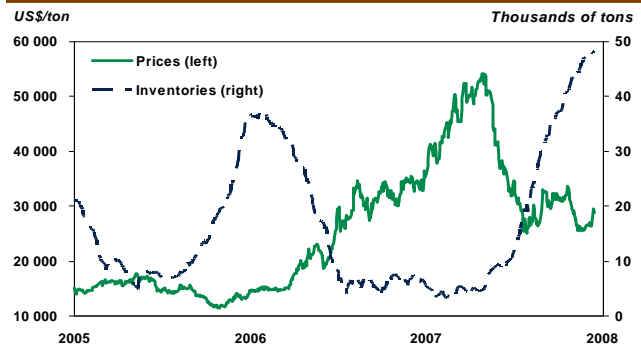
- After tumbling 45% over 2007 (graph 13), the price of zinc could stay on a down trend in 2008, as the sharp increase in global output could result in major surpluses of this metal. Currently at low levels, zinc inventories should thus start to climb soon.

TIN AND LEAD

- After brushing US\$4,000 a tonne in mid-October, the price of lead corrected to end 2007 at US\$2,561 a tonne; this price is still 45% higher than the price recorded at the end of 2006, however (graph 14). The recent pullback by prices is partly due to the looming restart of lead deliveries by Australia's Magellan Metals. Sustained growth in demand for this metal from China, the world's leading consumer of lead, should continue to sustain prices this year, however.
- Tin is the metal that has stood up the best to the darker economic outlook—its price ended 2007 up by 40%. The balance between global supply and demand will continue to favour high tin prices in 2008.

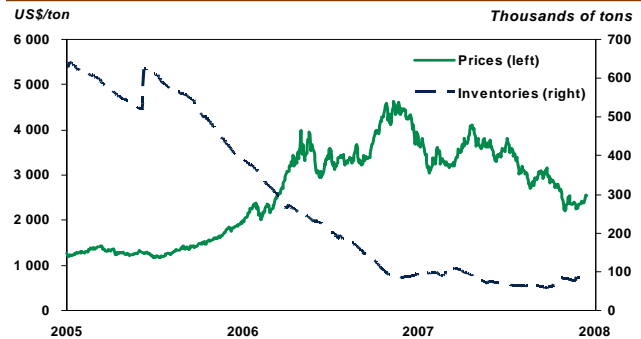
Forecasts: The short-term outlook for base metals is generally negative: the global economic slowdown will continue to curb demand, especially for metals used in the housing sector. If the American economy weathers the storm without slipping into a recession, and if the developing economies, especially China, maintain their momentum, base metals prices could return to a positive trend at the end of this year or in 2009.

Graph 12 – Nickel inventories are growing steadily



Sources: Datastream and Desjardins, Economic Studies

Graph 13 – Low inventory levels have not kept zinc prices from falling



Sources: Datastream and Desjardins, Economic Studies

Graph 14 – Despite the recent correction, the price of lead remains high



Sources: Datastream and Desjardins, Economic Studies

PRECIOUS METALS

Uncertainty benefits safe haven assets

GOLD

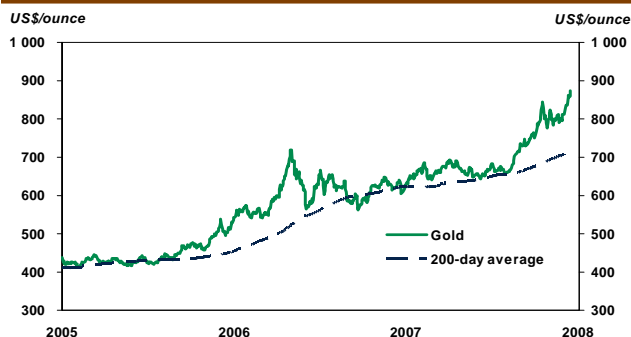
- After posting a gain of over 30% in 2007, gold prices started the year off strong, reaching a new peak of US\$880 an ounce on January 9 (graph 15). The previous peak dated back to 1980.
- Gold's recent price gains are mainly due to financial factors that intensified gold's safe haven appeal. Geopolitical tensions, the persisting financial problems, a tough beginning of the year for the stock market, and new signs of greenback weakness inflated demand for the yellow metal. What's more, the surge by oil and grain prices, combined with the monetary easing underway in several countries, are prodding some investors to turn to gold as a hedge against potential acceleration by inflation. In the current situation, a temporary surge to US\$1000 an ounce seems possible. The substantial speculative positions and extremely positive market sentiment, however, indicate that the metal could face a correction in the next few weeks (graph 16).

PLATINUM AND PALLADIUM

- Like gold, platinum set a new historic peak of US\$1,544 an ounce in the last few days (graph 17). Along with a context that favours precious metals, platinum's price benefited from the news of new mining problems that confirm that global platinum production should remain below demand in 2008. The fundamentals appear much less favourable for palladium, where major production surpluses in the last few years are limiting its potential for appreciation.

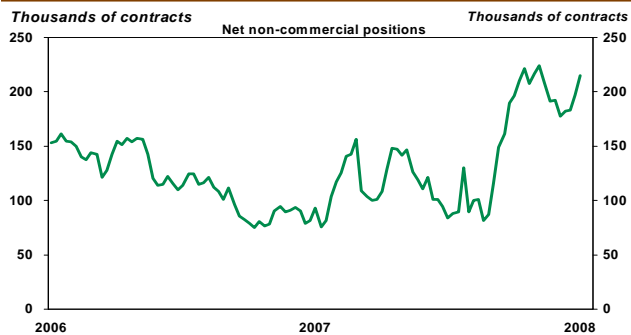
Forecasts: Unlike other commodities, precious metals will benefit from the many uncertainties surrounding the world's economy in 2008, and from major injections of liquidity by monetary authorities. However, there is less potential for gains after 2007's sharp increases, especially since much of the greenback's tumble appears to be behind us.

Graph 15 – New record for gold prices



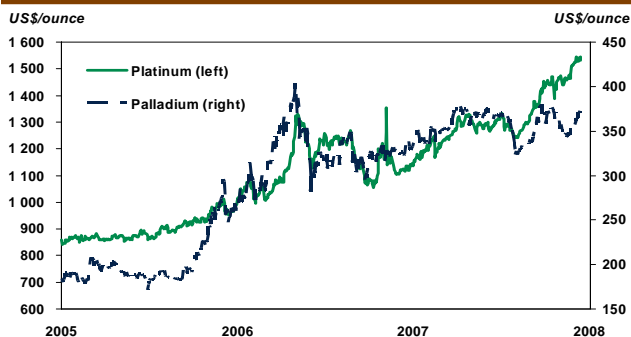
Sources: Datastream and Desjardins, Economic Studies

Graph 16 – Speculative positions on gold are very large



Sources: Bloomberg and Desjardins, Economic Studies

Graph 17 – Platinum has also reached a new peak



Sources: Datastream and Desjardins, Economic Studies

AGRICULTURAL COMMODITIES

Grain prices start 2008 off at a peak

2007 saw a marked increase in grain prices with wheat, corn and soybean prices closing up by 68%, 17% and 77% respectively from where they were at the end of 2006.

WHEAT

- Despite expectations of an increase in global production in 2008, the price of wheat started to rise again in the last few weeks, even brushing the US\$10/bushel mark in mid-December. Further downward revisions to the harvests, especially in Australia, are behind the renewed strength in wheat prices. The potential for further increases seems limited (graph 18).

CORN AND SOYBEAN

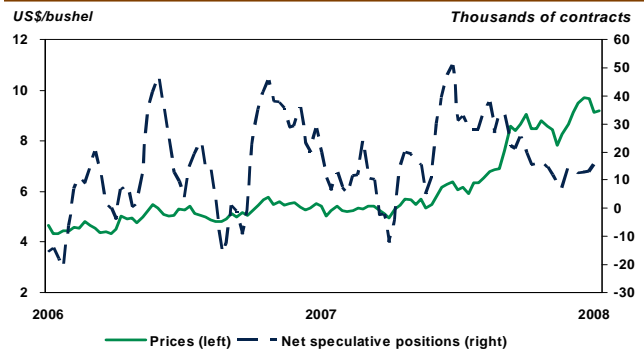
- Corn prices have jumped by more than 20% since the beginning of November (graph 19). Last year's sharp surge in global output translated into an increase in inventories, but the situation could change quickly. Demand for corn, to produce ethanol, among other things, will continue to skyrocket in the next few years, while the marked rise of soybean and wheat prices will limit growth of corn seeding.
- Soybean prices are still rising, with the price per bushel going over US\$12 at the beginning of 2008 as speculators continued to increase their exposure to this commodity, whose inventories declined drastically last year (graph 20).

LIVESTOCK

- Unlike grains, livestock prices continued to pull back in recent months as lively growth in meat production in the United States seems to be more than enough to deal with slowly advancing consumption.

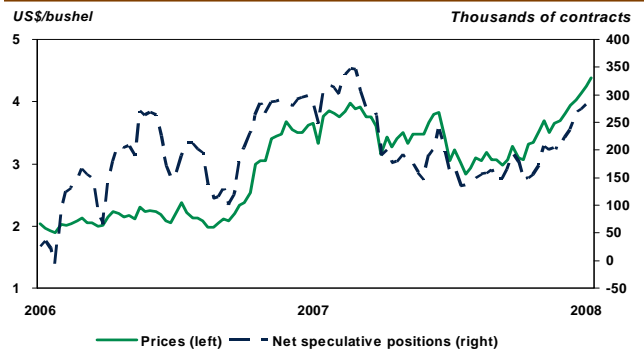
Forecasts: The context should remain favourable for grains in 2008, but the potential for further appreciation now appears smaller. High grain prices should eventually translate into some appreciation by livestock prices, especially cattle.

Graph 18 – Speculators have trimmed their positions on wheat



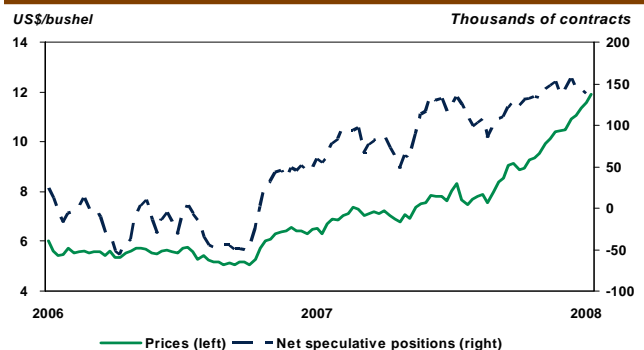
Sources: Datastream, Bloomberg and Desjardins, Economic Studies

Graph 19 – Corn prices start to rise again



Sources: Datastream, Bloomberg and Desjardins, Economic Studies

Graph 20 – Soybean maintains its momentum



Sources: Datastream, Bloomberg and Desjardins, Economic Studies

Table 2 Commodities

	Spot price	Previous data				Last 52 weeks		
	Jan-9	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
Index								
Reuter-CRB* (CCI)	487.8	460.2	438.6	416.5	380.0	489.1	422.5	379.8
Reuters/Jefferies-CRB*	366.6	342.9	325.9	321.2	289.5	368.6	321.3	285.9
Dow-Jones AIG	190.0	178.3	173.3	171.7	155.9	190.9	172.8	155.9
Energy								
Crude oil (US\$/barrel)	95.7	88.3	80.3	72.2	55.7	99.6	73.3	50.5
Gasoline (US\$/gallon)	3.1	3.1	2.8	3.0	2.3	3.2	2.8	2.2
Natural gas (US\$/MMBTU**)	7.9	7.1	6.7	6.4	6.1	9.0	7.0	5.4
Uranium (US\$/pound)	89.0	93.0	75.0	135.0	72.0	138.0	99.4	72.0
Precious metals								
Gold (US\$/ounce)	880.3	797.3	737.8	661.9	609.1	880.3	702.9	609.1
Silver (US\$/ounce)	16.0	14.4	13.2	12.7	12.4	16.0	13.4	6.1
Platinum (US\$/ounce)	1,550.0	1,458.0	1,357.0	1,303.0	1,123.0	1,550.0	1,315.1	1,123.0
Palladium (US\$/ounce)	374.0	344.0	359.0	368.0	329.0	382.0	355.5	320.0
Base metals								
Aluminium (US\$/ton)	2,450.3	2,417.5	2,363.3	2,767.3	2,681.5	2,952.5	2,629.1	2,316.3
Copper (US\$/ton)	7,350.5	6,811.8	7,990.5	8,040.5	5,540.5	8,300.5	7,147.7	5,225.3
Nickel (US\$/ton)	28,750.0	26,350.0	30,257.5	34,857.5	32,850.0	54,150.0	37,063.4	25,052.5
Zinc (US\$/ton)	2,526.5	2,370.8	2,989.5	3,467.5	3,698.8	4,119.8	3,208.9	2,213.5
Tin (US\$/ton)	16,437.5	16,477.5	15,702.5	14,187.5	10,150.0	17,297.5	14,655.8	10,150.0
Lead (US\$/ton)	2,629.5	2,672.5	3,852.5	2,942.5	1,595.5	3,977.5	2,607.5	1,574.5
Agricultural commodities								
Wheat (US\$/bushel)	8.96	9.51	8.49	6.15	5.04	10.00	6.85	4.97
Corn (US\$/bushel)	4.49	3.88	3.07	3.17	3.33	4.51	3.53	2.82
Soybean (US\$/bushel)	12.02	10.78	8.93	8.23	6.32	12.08	8.32	6.32
CRB* Livestock index	412.4	418.9	432.0	456.9	375.8	468.3	428.7	375.3

* Commodity Research Bureau; **Million British Thermal Unit.
Note: Currency table base on previous day closure.

Table 2 Commodities prices: History and forecasts

	2006	2007	2008 ^f	2009 ^f
Annual average				
WTI* oil (US\$/barrel)	66	72	Target: 80 (range: 74 to 90)	Target: 87 (range: 75 to 95)
Natural gas Henry Hub (US\$/MBTU**)	6.73	6.97	Target: 7.75 (range: 6.75 to 8.50)	Target: 8.50 (range: 7.50 to 9.25)
Gold (US\$/ounce)	604	697	840 (range: 800 to 925)	775 (range: 700 to 880)
CRB*** index—base metals	606	868	Target: 850 (range: 800 to 950)	Target: 900 (range: 840 to 1,000)

f: forecasts

* West Texas Intermediate; ** Million British Thermal Unit; *** Commodity Research Bureau.

Sources: Datastream and Desjardins, Economic Studies