

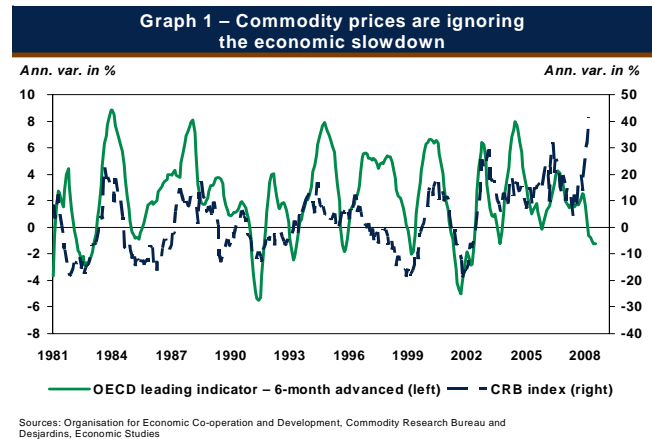
Volatility edges up another notch in the commodities market

The last few weeks have, once again, been very exciting ones for commodities. After having jumped in recent months, prices on a number of commodities corrected somewhat. Despite this, the main raw materials price indexes ended 2008's first quarter with increases of almost 10%, very enviable performance compared with most financial assets.

Some production problems and another decline by the American dollar have helped raw materials appreciate since the early part of this year. However, growing demand from investors fleeing the stock market correction and looking for better returns was the main factor in boosting prices. Speculators' growing influence is also behind the last few weeks' extreme price volatility.

To date, these factors have won out over the economic situation's increasingly obvious deterioration. International agencies are constantly cutting their economic forecasts, and the International Monetary Fund (IMF) now expects that global growth will fall below 4% this year. This should rein in demand for commodities substantially and, sooner or later, it will be reflected in prices (Graph 1).

Despite an improvement in the balance between global consumption and production and an increase in inventories, crude oil prices are holding over US\$100 a barrel. Natural gas



has gotten a boost from the cold temperatures since the year began.

Low inventories and intensified Chinese demand helped most base metals go up in the first quarter. These gains could be difficult to maintain, however.

Prices on precious metals have been highly volatile. Despite a favourable context, the spectacular gains recorded up to mid-March were followed by a sharp correction, which could be temporary, however.

Grain prices remain very high, capitalizing on low inventories and strong demand. The publication of the planting outlook in the United States caused prices to react sharply.

François Dupuis
Vice-President and Chief Economist

Mathieu D'Anjou
Senior Economist

CONTENTS

Summary	1
Energy	2
Base metals	4
Precious metals	6
Agricultural commodities	7
Tables	8

François Dupuis
Vice-President and Chief Economist

Yves St-Maurice
Director and Deputy Chief Economist

Mathieu D'Anjou
Senior Economist

Martin Lefebvre
Senior Economist

Hendrix Vachon
Economist

514-281-2336 or 1 866 866-7000, ext. 2336
E-mail: desjardins.economics@desjardins.com

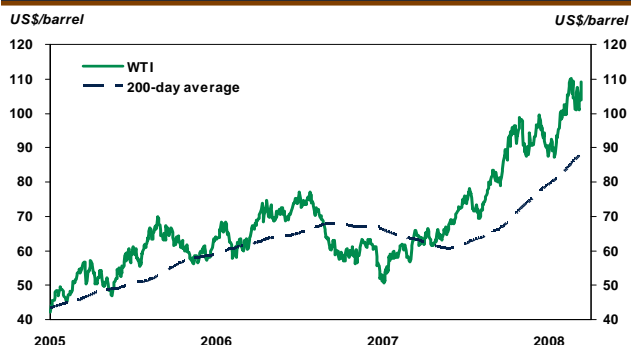
ENERGY

The fundamentals that determine oil prices continue to deteriorate

OIL

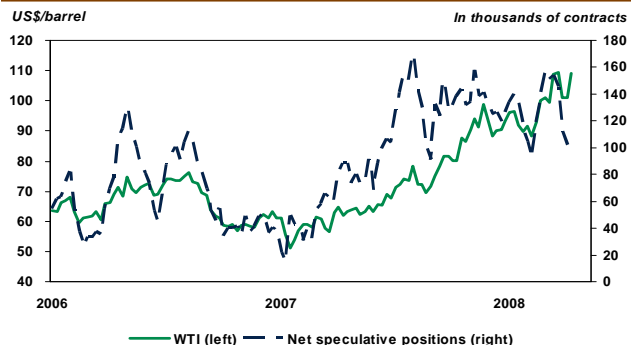
- Oil prices have been highly volatile in the last few weeks. The weak American dollar and investor enthusiasm for commodities pushed the price above US\$110/barrel at mid-March (Graph 2). Since then, prices have been very volatile, quickly tumbling to close to US\$100/barrel several times then rebounding over US\$112 during yesterday session.
- The sharp changes in oil prices since the year began primarily reflect fluctuations in investor demand (Graph 3). The more than \$20/barrel surge in crude prices between the beginning of February and mid-March occurred at the same time as an almost 60% increase in net speculative positions in WTI (West Texas Intermediate) derivatives.
- Speculators' growing influence in the oil market could also be why the price is, more and more, responding to greenback fluctuations (Graph 4), a figure the financial markets are watching very closely. With the majority of the economic problems focused in the United States, investor pessimism pushed the greenback to a historic low in mid-March, which helped temporarily put oil over US\$110/barrel.
- Movement in the balance between global oil consumption and production is still hinting that prices will moderate, however. The increasingly clear economic slowdown in the United States and even around the world is making all analysts cut their forecasts for oil demand. Also, a substantial acceleration in production by countries that don't belong to OPEC (Organization of the Petroleum Exporting Countries) is expected for this year and especially next year. The resilience of China's demand for oil and disappointing Russian output this year worry some analysts but, overall, the global oil market looks like it's beginning to ease.
- A better balance between the oil supply and demand can be seen in the movement by U.S. crude oil inventories. They generally continued to climb quickly in the last few weeks, benefiting from the slowdown in U.S. demand. Furthermore, the statistics on oil inventories for all OECD (Organisation for Economic Co-operation and Development) countries were recently revised up, which should help banish fears of a shortage.

Graph 2 – Price of oil per barrel



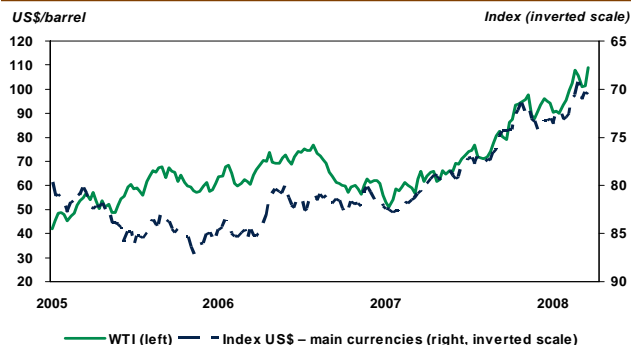
Sources: Datastream and Desjardins, Economic Studies

Graph 3 – Movement in speculative positions has a major influence on oil prices



Sources: Bloomberg, Datastream and Desjardins, Economic Studies

Graph 4 – The price of oil is increasingly correlated with U.S. dollar fluctuations



Sources: Datastream and Desjardins, Economic Studies

GAS

- Skyrocketing oil prices are having an increasing impact on gas prices. In the United States, the price of gas is now, on average, US\$3.33 a gallon, a new record. Prices have also gone up in Canada, reaching an average of \$1.16/litre at the start of April.
- Soft demand for gas and the sharp increase in U.S. inventories had, until recently, reined in pass-through by the surge in crude oil prices to gas prices. However, given their deteriorating margins, refiners have slowed production and inventories have started to come down in the last few weeks (Graph 5). With the driving season getting underway in the United States, upward pressure on prices will stay with us.

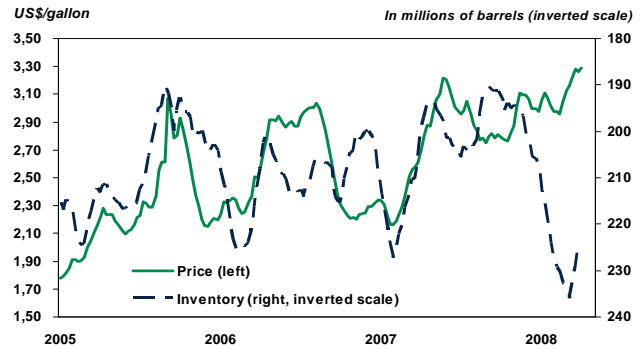
NATURAL GAS

- On the cold weather that has been hitting North America since the year began and due to increased attention from investors, natural gas prices have shot up in the last few weeks to reach a peak that has held for over two years. They even brushed US\$10/MMBTU (Million British Thermal Unit) at the end of March (Graph 6). As with most other commodities, prices have been very volatile in the last few weeks, going from \$8.68/MMBTU to \$9.94/MMBTU.
- The tough winter had a major impact on U.S. consumers' demand, and made natural gas inventories plummet (Graph 7). The inventories, which had started the year off at very high levels, will finish the destocking period below where they have in recent years. The question now is whether inventories will be replenished enough by next October to deal with next winter.

Forecasts: Energy prices, especially oil prices, will remain very volatile in the next few months as speculators will continue to have a major influence on prices. We still think that the trend for oil prices will be a little more to the downside, given the better balance between global consumption and output. A return toward US\$90/barrel will not, however, necessarily translate into a tumble by gas prices, as refiners seem quite determined to bring their profit margins back up.

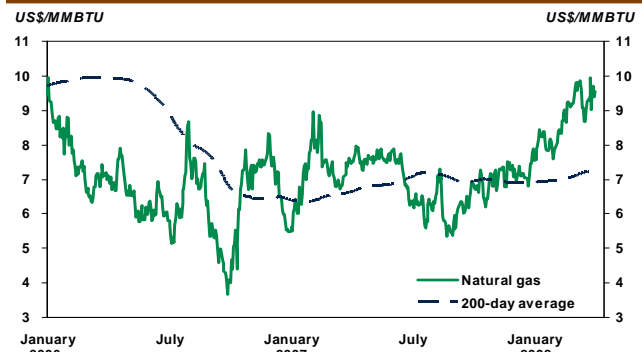
Natural gas prices should remain high in the near future, after which they will be very much influenced by how fast inventories grow. Our forecast of an average 2008 price of US\$8.50/MMBTU constitutes a one-year gain of over 20% from 2007.

Graph 5 – Prices and inventories of gasoline



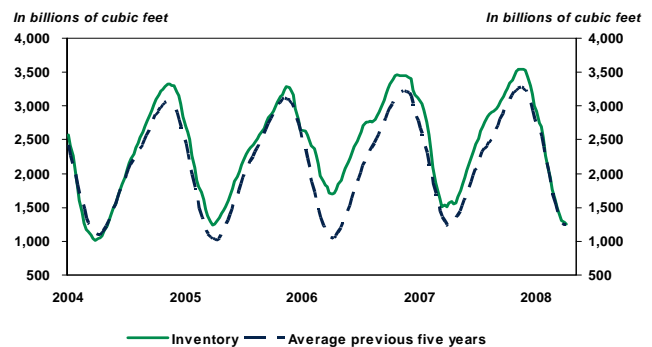
Sources: Energy Information Administration and Desjardins, Economic Studies

Graph 6 – Natural gas prices



Sources: Datastream and Desjardins, Economic Studies

Graph 7 – U.S. natural gas inventories



Sources: Energy Information Administration and Desjardins, Economic Studies

BASE METALS

The last few months' gains will be hard to hold onto

Along with getting a boost from the general enthusiasm for commodities, base metal prices continue to reflect the production problems seen in the last few months. Despite a slight correction in mid-March, the LME (London Metal Exchange) index of base metals prices is up sharply from the beginning of the year, even though it is still below the heights reached last year (Graph 8). Trade statistics that show that Chinese demand for the primary metals remained strong in the first two months of 2008 have offset concerns about the global economic slowdown.

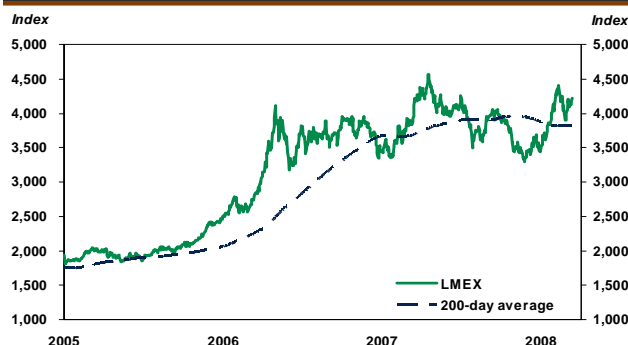
ALUMINIUM

- After jumping over US\$3,150/tonne in early March, aluminium's price came back to just under US\$3,000 (Graph 9). U.S. demand for aluminium is continuing to show signs of softness, but the jump by electricity prices and ongoing electricity supply problems in China and South Africa will slow growth by world production and support prices over the next few years. Aluminium inventories have, however, continued to go up since the beginning of the year, which will rein in the additional potential for appreciation.

COPPER

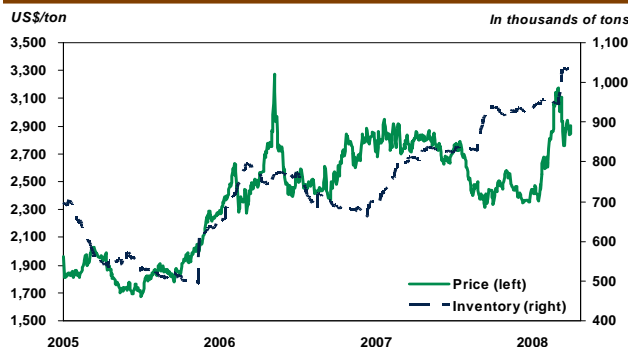
- The trend for copper prices has remained up in the last few weeks, and the price could soon test its record, US\$8,880 a tonne (Graph 10). Low inventories and fears that output growth will be disappointing again this year have, to date, won out over downward pressures on prices arising from the problems in the real estate sector in the United States, as well as Japan and some European countries.
- It is no surprise that output problems, which affected all base metals in early 2008, have really boosted copper prices, as the global supply was already struggling to meet demand in 2007. The recent decline by inventories makes the market very vulnerable to further production problems. A major strike in Chile, for instance, could make prices jump again. However, if the supply holds up for several months, the copper market should ease in the second half of the year.

Graph 8 – LME index of the prices of base metals



Sources: Datastream and Desjardins, Economic Studies

Graph 9 – Aluminium prices and inventories



Sources: Datastream and Desjardins, Economic Studies

Graph 10 – Copper prices and inventories



Sources: Datastream and Desjardins, Economic Studies

NICKEL

- Nickel's price per tonne has come back below US\$29,000 in the last few days, after reaching US\$33,000 in early March (Graph 11). Inventories, which were already very high, continued to grow despite a major strike at BHP Billiton's facility in Columbia. Demand for this metal remains soft, especially in the United States, where the Specialty Steel Industry of North America is reporting that stainless steel consumption fell 25.7% in January from the same month last year.

ZINC

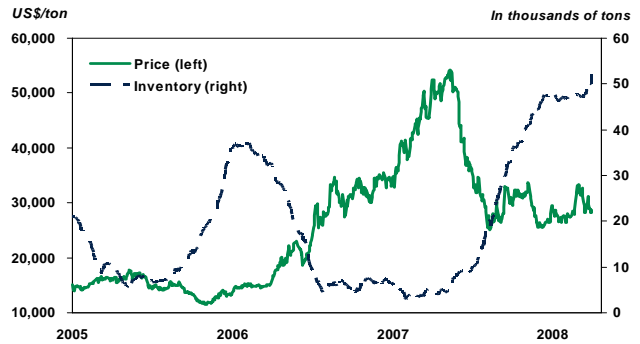
- Once again, zinc posted the worst performance among industrial metals in the first quarter, recording a depreciation of 3.5% (Graph 12). Despite output problems early this year, it seems that global supply is still outstripping demand. Inventories should thus continue to come back up in the next few quarters, maintaining the downward pressure on prices.

TIN AND LEAD

- The news on tin remains positive, with the price climbing steadily and now over US\$20,000 a tonne (Graph 13). China's exports have declined again, whereas demand for the metal, not much used in the construction sector, seems to be holding up. Tin inventories thus continued to slide, which helped prices take off.
- Lead's price per pound has been seesawing, going from over US\$3,400 a tonne in early March to US\$2,650 a few weeks later, then climbing back to almost US\$3,000 recently. Low inventories and the decline in Chinese exports are continuing to buoy lead prices. Acceleration by Chinese output and exports in the second half of the year could bring prices down, however.

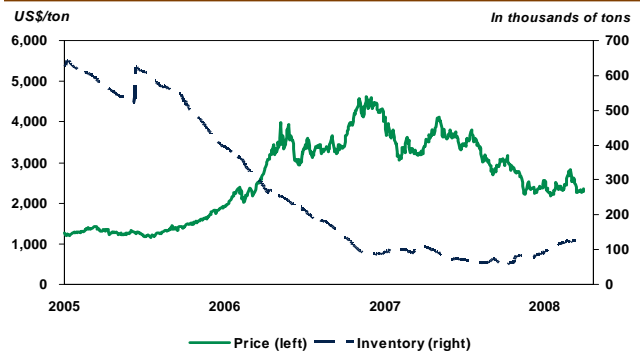
Forecasts: For now, investors are focusing on the low inventories of some base metals and the risks that demand will continue to outstrip supply in the near future. The global economic slowdown should, however, bring more balance to the industrial metals market in the second half the year, bringing prices for most metals down. More than ever, how Chinese demand evolves will be a determining factor in metals prices, as demand is slowing everywhere else in the world.

Graph 11 – Nickel prices and inventories



Sources: Datastream and Desjardins, Economic Studies

Graph 12 – Zinc prices and inventories



Sources: Datastream and Desjardins, Economic Studies

Graph 13 – Tin and lead prices



Sources: Datastream and Desjardins, Economic Studies

PRECIOUS METALS

Gold could rebound near US\$1,000/oz

Volatility has been especially extreme for precious metals prices. The spectacular surge ended in mid-March, followed by a violent correction that brought prices down by over 10%.

GOLD AND SILVER

- Given the soft greenback, it came as no surprise to see gold go over US\$1,000/oz in mid-March (Graph 14). A slight comeback by the greenback, however, convinced speculators to cash in their profits, and the price of gold plummeted, going toward US\$920 in just a few days. It continued to slide until the beginning of March, with gold hitting US\$875/oz before coming back toward US\$925. As the context is still positive – financial upheaval, accelerating inflation, monetary easing and a weak greenback – gold should continue to draw investors and could well come back near US\$1,000. Given how volatile its price is, we must however wonder whether gold is still playing its safe haven role properly, or whether it is, increasingly, becoming a speculative asset. The IMF's intention of increasing its gold sales could also rein in the yellow metal's price growth.
- Silver's movement was similar to gold's in the last few weeks. It went to US\$20.92/oz before quickly sliding back toward \$17 (Graph 15). Rapid growth in silver production suggests that this metal may not do as well as gold in the next few years.

PLATINUM AND PALLADIUM

- Although everything suggests that platinum demand will continue to surpass global output this year, the metal did not escape the overall correction by precious metals prices, tumbling near US\$2,000 an ounce after hitting a record US\$2,273 at the beginning of March (Graph 16). Palladium corrected more sharply, losing about 25% of its value since March 4.

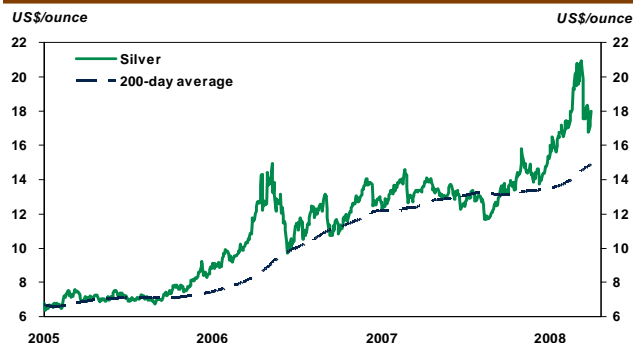
Forecasts: The muscled action taken by central banks to inject liquidity, low real interest rates and the American dollar's fragility should continue to support precious metals prices in the coming quarters. Speculators' importance in this market could, however, bring on more sharp movement in prices.

Graph 14 – Gold prices



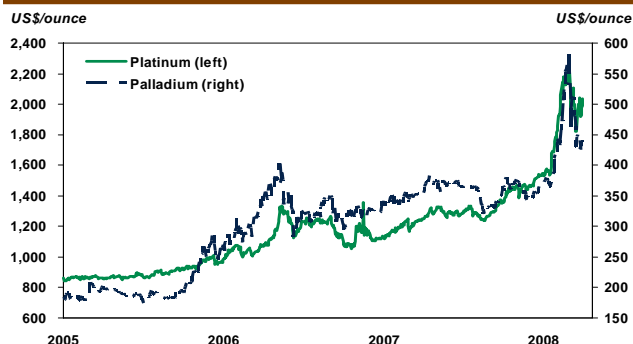
Sources: Datastream and Desjardins, Economic Studies

Graph 15 – Silver prices



Sources: Datastream and Desjardins, Economic Studies

Graph 16 – Platinum and palladium prices



Sources: Datastream and Desjardins, Economic Studies

AGRICULTURAL COMMODITIES

The planting outlook favours corn's price

Low inventories and rapid growth by demand from emerging nations and the biofuel industry continue to buoy grain prices. The bigger-than-forecast increase in wheat and soy plantings has brought their prices down, however, unlike corn, which benefited from the news of a decline in the number of acres devoted to it (Graph 17).

WHEAT

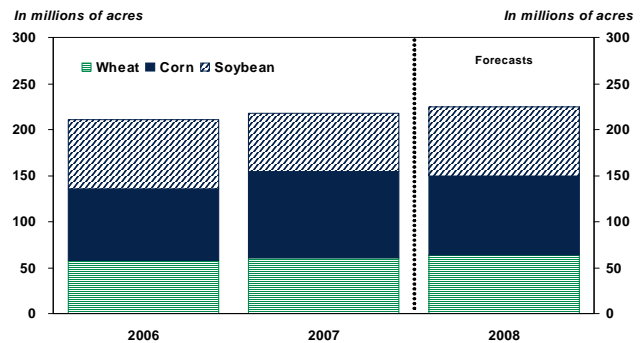
- Wheat's price per bushel has been very volatile in the last few weeks, going over US\$14 at the end of February then rapidly tumbling toward US\$12 (Graph 18). The U.S. Department of Agriculture (USDA) announcement that American farmers would increase wheat seeding by 6% in 2008 even temporarily took wheat prices below US\$10. If the weather is good, the increase in the crop production area could quickly replenish inventories and make prices come down, as growth by global demand for wheat is small. A third straight year of bad harvests, however, could make prices jump again, given the fears of a shortage.

CORN AND SOYBEAN

- Unlike wheat, corn and soy are seeing very rapid growth in global demand due to the rapid increase in biofuel production. The outlook for planting is promising an increase of 18% in crop area dedicated to soybean, and a drop of 8% for corn. Although partially expected, these results helped to bring soybean's price back toward US\$12/bushel, and took corn price to a peak of US\$5.66/bushel (Graph 19).

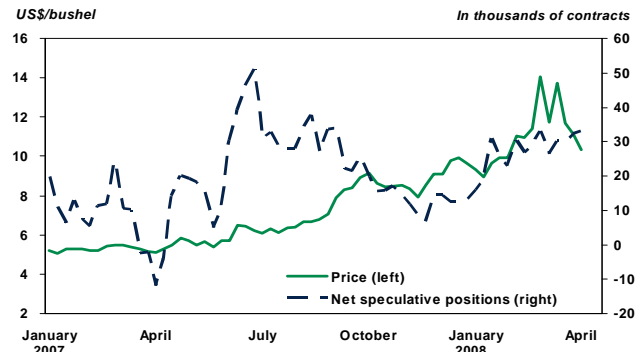
Forecasts: Grain prices should remain high in the near future. However, the supply's response to the price surge is starting to be felt, and the total crop area that American farmers are dedicating to the three primary grain crops should rise by more than 3% for a second straight year in 2008. This could limit further price increases. Given that demand for wheat is more stable, and its inventories are low, wheat prices could be highly volatile, and react sharply to weather conditions in the main producer nations.

Graph 17 – Planting prospects in the United States



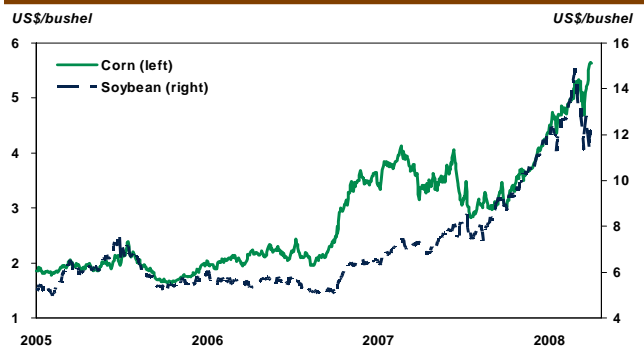
Sources: U.S. Department of Agriculture and Desjardins, Economic Studies

Graph 18 – Wheat prices and speculation



Sources: Datastream, Bloomberg and Desjardins, Economic Studies

Graph 19 – Corn and soybean prices



Sources: Datastream and Desjardins, Economic Studies

Table 1 Commodities

	Spot price	Percentage return since				Last 52 weeks		
	Apr-9	1 month	3 months	6 months	1 year	High	Average	Low
Index								
Reuter-CRB* (CCI**)	541.3	-3.1	11.0	23.4	32.9	576.0	453.7	398.1
Reuters/Jefferies CRB*	408.5	-0.8	11.4	25.4	29.9	420.6	341.7	299.8
Dow Jones AIG***	211.0	-1.9	11.0	21.7	22.5	219.1	181.4	161.1
Energy								
Crude oil (US\$/barrel)	110.9	5.4	15.9	38.1	80.2	110.9	83.1	61.5
Gasoline (US\$/gallon)	3.33	5.4	7.2	20.3	18.9	3.33	2.99	2.75
Natural gas (US\$/MMBTU****)	9.81	-0.2	24.0	46.5	28.0	9.94	7.39	5.35
Uranium (US\$/pound)	71.0	-2.7	-20.2	-5.3	-25.3	138.0	98.6	71.0
Precious metals								
Gold (US\$/ounce)	925.5	-5.2	5.1	25.4	37.0	1,011.6	770.8	642.5
Silver (US\$/ounce)	17.5	-13.5	9.3	32.4	28.8	20.9	14.5	6.4
Platinum (US\$/ounce)	1,997.0	-4.1	28.8	47.2	59.6	2,273.0	1,489.8	1,240.0
Palladium (US\$/ounce)	452.0	-10.7	20.9	25.9	29.0	582.0	381.0	320.0
Base metals								
Aluminium (US\$/ton)	2,951.0	-7.0	20.4	24.9	5.0	3,174.5	2,623.2	2,316.3
Copper (US\$/ton)	8,649.5	-0.1	17.7	8.2	15.9	8,880.5	7,605.1	6,272.3
Nickel (US\$/ton)	28,902.5	-12.9	0.5	-4.5	-44.8	54,150.0	33,653.0	25,052.5
Zinc (US\$/ton)	2,305.3	-12.7	-8.8	-22.9	-32.2	4,119.8	2,962.2	2,179.8
Tin (US\$/ton)	20,512.5	6.6	24.8	30.6	44.8	20,797.5	15,927.9	13,425.0
Lead (US\$/ton)	2,894.5	-8.3	10.1	-24.9	43.3	3,977.5	2,874.6	1,950.5
Agricultural commodities								
Wheat (US\$/bushel)	10.42	-13.4	16.2	22.7	99.3	14.07	8.28	5.23
Corn (US\$/bushel)	5.57	10.2	24.2	81.7	66.5	5.66	3.83	2.82
Soybean (US\$/bushel)	11.94	-10.3	-0.6	33.7	68.2	14.88	9.69	6.78
CRB* Livestock index	465.8	0.3	13.0	7.8	10.9	476.5	442.1	391.7

*Commodity Research Bureau; ** Continuous Commodity Index; *** American International Group; ****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: 92 (range: 85 to 105)	Target: 86 (range: 80 to 100)
Natural gas Henry Hub (US\$/MMBTU**)	6.73	6.97	Target: 8.50 (range: 7.75 to 9.25)	Target: 9.00 (range: 8.00 to 10.00)
Gold (US\$/ounce)	604	697	Target: 975 (range: 925 to 1,025)	Target: 925 (range: 850 to 1,000)
LMEX*** index—base metals	3,396	3,847	Target: 3,750 (range: 3,600 to 4,000)	Target: 3,600 (range: 3,400 to 3,800)

f: forecasts; * West Texas Intermediate; ** Million British Thermal Unit; *** London Metal Exchange Index.
Sources: Datastream and Desjardins, Economic Studies