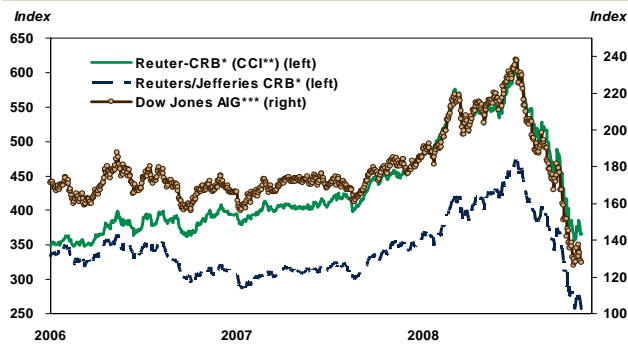


Is the plunge in commodities prices a threat to future supply?

The collapse in raw materials prices accelerated in October: commodity price indexes plunged by about 20% (graph 1). This is the commodities market's worst performance since the indexes were first calculated. The correction is very widespread, with all of the products we track depreciating in the last month. Despite a slight rebound in the early part of November, the prices of all commodities are now down from where they were at this time last year.

Graph 1 – Commodity price indexes recorded their worst month ever



*Commodity Research Bureau; ** Continuous Commodity Index; *** American International Group.
Sources: Datastream and Desjardins, Economic Studies

The economic outlook has become even grimmer, which explains much of the problems in the resource sector. The American economy contracted in the third quarter of 2008

and the latest statistics, including a plunge of consumer confidence to a historic low, confirm that the difficulties will continue. It is now only a matter of time before an official recession is declared in the United States. The other industrialized economies are also in trouble; Europe and Japan are flirting with a recession. The situation has also deteriorated substantially in emerging nations and even Chinese authorities are having to take extensive action to rein in their economy's slowdown. Financial factors, including ongoing financial turmoil and substantial appreciation of the U.S. dollar, magnified the correction in commodities prices, especially gold.

There are therefore many reasons for the decline in raw materials prices, and the reasons could persist for several more months. Does this mean that commodity prices could continue to correct, perhaps, for example, oil prices dropping back below US\$30 a barrel in the near future? In our view, this would be very surprising. In many cases, current prices are already low enough to bring on a substantial drop in the supply of commodities. It is thus hard to argue for further substantial correction, except in the event of a global depression that would cause a violent, lasting decline in demand. In our opinion, the correction in resource prices is already well advanced and, after a few months of stagnation due to the global economic softness, they are likely to come back as of mid-2009.

CONTENTS

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

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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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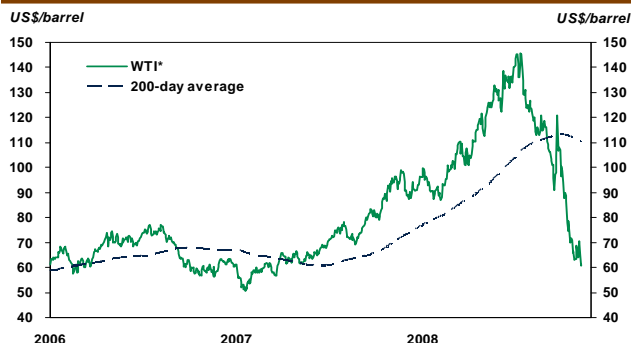
ENERGY

Will OPEC's actions have an impact?

OIL

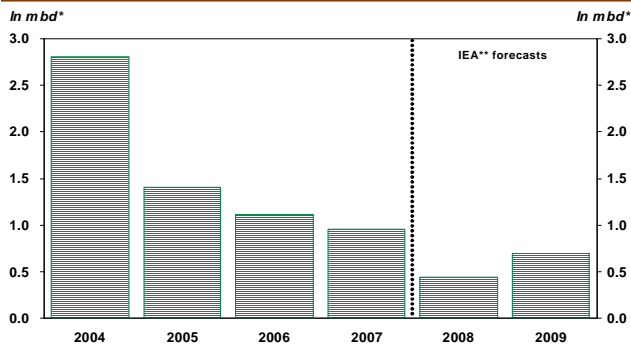
- Oil prices continued their spectacular correction in October. The price of WTI (West Texas Intermediate) went from about US\$100/barrel at the end of September to around US\$60. The stock market rebound and a bad day for the greenback gave crude prices a temporary boost to over US\$70/barrel, but prices fell back quickly, going even temporarily below US\$60 (graph 2).
- Soft worldwide demand for oil and the growing risk of a global recession are still weighing heavily on crude prices. As was to be expected, the International Energy Agency (IEA) has slashed its growth outlook for oil demand in October and now expects it to go up by only 0.5% in 2008 and 0.8% in 2009 (graph 3). The very poor economic statistics that have been released since these forecasts were made public and, in particular, substantial deterioration in emerging economies' situation suggest that further downward revisions will be needed soon. Global oil demand could record almost zero growth next year. Global oil demand could record almost zero growth next year. One factor to keep an eye on is the impact the drop in prices has on American consumption of petroleum products. For now, however, demand seems to be still pulling back as the effect of the economic slowdown holds sway.
- The market may be making a mistake in putting its whole focus on developments in demand for oil. Major changes are also impacting the crude supply, which could eventually make prices rebound. First, at its extraordinary meeting in October, the Organization of Petroleum Exporting Countries (OPEC) announced production cuts of 1.5 million barrels a day. If prices do not stabilize, a further cut should be announced in December. Production of non-OPEC countries remains disappointing; the IAE now expects almost zero growth this year. The surplus that has been characterizing the global oil market for a few months now could thus quickly evaporate, even if demand continues to stagnate.
- The financial crisis, which is really impeding access to credit, is also threatening to put the brakes on investments in new oil production capacity. This, combined with crude prices' tumble below some projects' breakeven points, threatens the future oil supply. In our view, fears of shortages could resurface as soon as the world economy regains a little strength. The futures markets also seem to have doubts that current oil prices are sustainable (graph 4).

Graph 2 – Price of oil per barrel



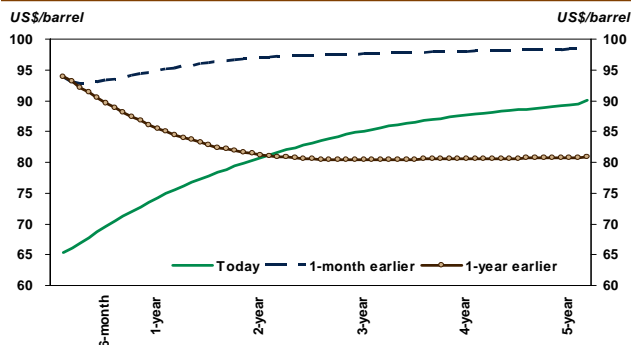
* West Texas Intermediate.
Sources: Datastream and Desjardins, Economic Studies

Graph 3 – Growth in global oil demand



* Millions of barrels a day; ** International Energy Agency.
Sources: Datastream, International Energy Agency and Desjardins, Economic Studies

Graph 4 – Oil futures



Sources: Bloomberg and Desjardins, Economic Studies

GASOLINE

- As expected, Hurricanes Gustav and Ike had only a short-lived impact on the gas market and, since the end of September, gas prices have fallen by one third in the United States, dropping back below US\$2.50 a gallon. Canadian motorists are also getting a break, as fuel prices fell below \$1.00/litre for the first time this year. The softness of fuel demand, which could persist, and replenishing of gas inventories in the last few weeks are behind the rapid slide (graph 5). As with crude, the price correction seems quite advanced at this point.

NATURAL GAS

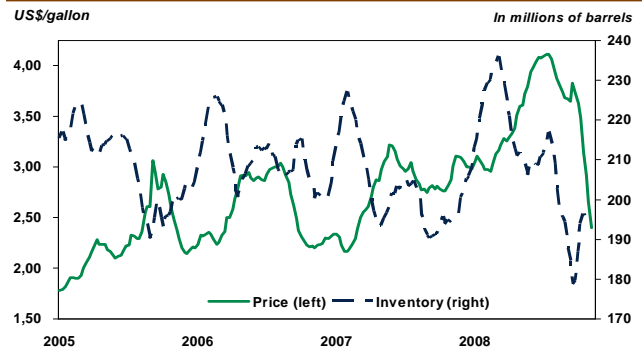
- As we anticipated last month, natural gas prices have been showing more resilience than most other commodities. Prices neared \$6/MMBTU (Million British Thermal Unit) several times in October, then quickly climbed back over US\$6.50 (graph 6). The U.S. economic slowdown will curb growth in natural gas demand over the next few quarters. The rapid increase in production could also continue to weigh prices down; the latest statistics show a surge in proven natural gas reserves in the United States. Inventories are at comfortable levels, confirming that the probability of a major rebound in prices is very slim in the near future. Despite all of these negative factors, we still think that gas prices will not fall much further, as additional correction would jeopardize the development of non-traditional gas sources, especially given that access to credit is very limited.

URANIUM

- Uranium prices continued to pull back in October as the economic slowdown and financial turmoil seem to have convinced a number of speculators to offload their inventories of this metal. The price slid to US\$45/pound around mid-October and has since stabilized near this level (graph 7). The last few months' substantial price decreases seem to be starting to draw buyers, which could lead to a slight price increase.

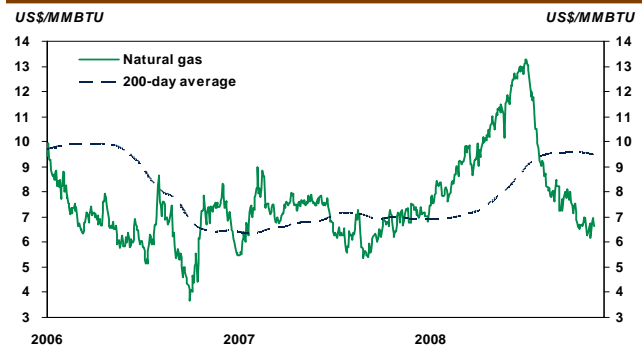
Forecasts: In the short term, the pressure on oil prices could remain to the downside, as the inevitable further bad economic news could magnify fears about demand evolution. Financial factors, especially movement by the U.S. dollar and overall investor sentiment, will also continue to have a big influence on crude prices. However, we still believe that prices at this level will be hard to sustain over the long haul; they are likely to rise next year. Natural gas prices could edge up slightly as winter closes in.

Graph 5 – Gasoline prices and inventories



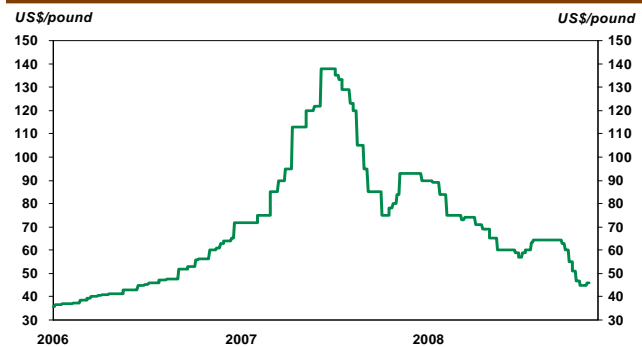
Sources: Energy Information Administration and Desjardins, Economic Studies

Graph 6 – Natural gas prices



Sources: Datastream and Desjardins, Economic Studies

Graph 7 – Uranium prices



Sources: Datastream and Desjardins, Economic Studies

BASE METALS

Have prices come down too quickly?

The outlook for the global economy has darkened further and that, along with the U.S. dollar's strength, led to another substantial tumble in base metal prices in October (graph 8). The financial turmoil seems to be having an increasing effect on the emerging economies, another very negative factor for prices of industrial metals. The LME (London Metal Exchange Index) therefore tumbled 28% in October, the worst performance since the index was first calculated in 1984. It would have been even worse if a lull in the financial markets had not caused metals prices to edge up since October 24.

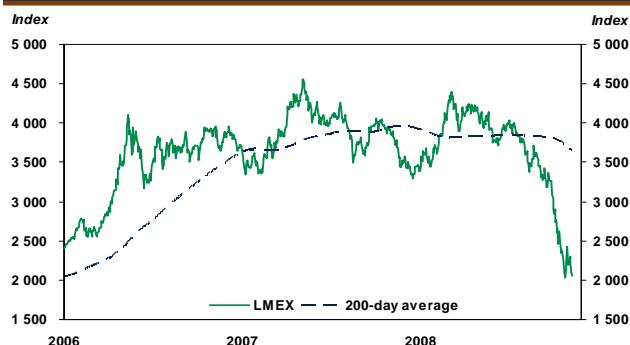
ALUMINIUM

- Although they depreciated less sharply than other metal prices did, aluminum prices continued to slide, pulling back almost 18% in October. Aluminum is now trading under US\$2,000 a tonne for the first time since November 2005. Despite all the rumours and announcements about production cuts, as more and more smelters' costs are higher than prices, global aluminum production seems to be staying well above demand. The already large aluminum inventories have thus once again jumped by over 10% since the end of September (graph 9). Added production capacity, especially in China, seems to be offsetting production cuts at existing smelters. Demand is also still being hard hit by the economic slowdown, especially the shakeout in the automotive sector. The slowdown in demand for vehicles is even being seen in China, where car sales fell for a second straight month in September.

COPPER

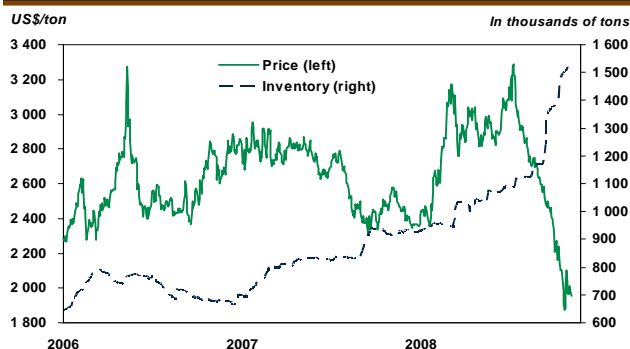
- Last month, we wrote that copper was one of the base metals that could still plummet sharply. More correction was not long in coming: copper's price fell 38% in October (graph 10), the worst performance of all of the commodities we track. Copper prices are sensitive to financial variables, which could have magnified its October pullback and played a part in the volatility of the last few days.
- The outlook for copper demand continues to worsen as the construction sector is undergoing a substantial slowdown worldwide. Even Chinese demand has slowed sharply since the year began; this trend could continue over the next months. Despite many production issues, the global copper market is now in surplus and inventories, which have expanded by nearly 30% since the end of September, should continue to rise.

Graph 8 – LME index of the prices of base metals



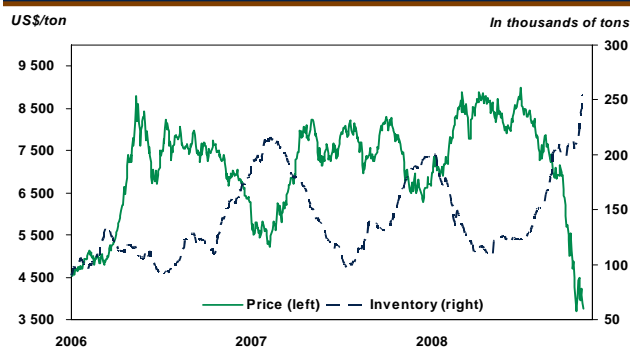
Sources: Datastream and Desjardins, Economic Studies

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 prices continued to correct sharply in October, tumbling 28%. Nickel's price even brushed US\$8,800 a tonne before rebounding to around US\$12,000 (graph 11). Despite the rebound, nickel has still depreciated over 60% in the last year, the worst performance of all commodities. In this economic context, hopes of seeing the stainless steel market and thus nickel demand rebound are very slim. Despite substantial production cuts following the collapse by prices, the nickel market could stay in surplus for several quarters. Inventories should continue to grow, which would curb any surge by nickel prices.

ZINC

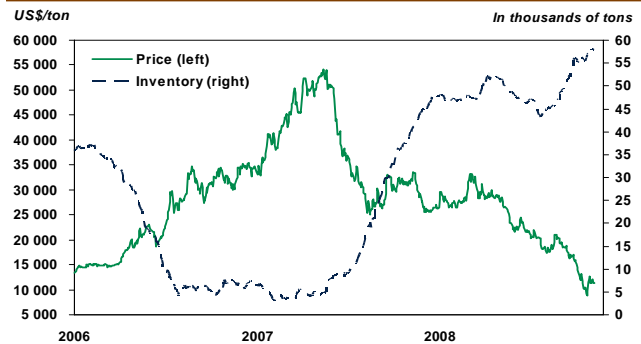
- Although its correction already seemed to be well underway, the price of zinc fell by over 30% in October (graph 12). This metal has recorded the worst depreciation after copper. The surplus in the global zinc market, with production still rising and demand flagging, means that inventories are expanding more and more quickly. This has ratcheted up the downside pressure on zinc prices.

TIN AND LEAD

- The price of tin has been very volatile over the last few weeks. It descended to almost US\$11,000 a tonne on October 24, then went back over US\$15,000 in the last few days (graph 13). In all, the metal has only lost 12% since the end of September. Further declines in tin inventories show that production problems are offsetting soft demand, which explains why the metal has performed better.
- As with tin, lead prices have done relatively well, down 20% since the end of September. Lead inventories are still declining, falling below where they were last March, which is giving the metal some support in these troubled times. Low inventories are also certainly playing into lead prices' extensive volatility.

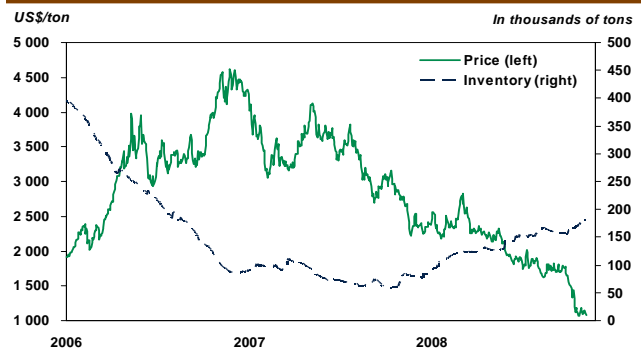
Forecasts: The economic context will remain very unfavourable to base metals over the next few months, as recession becomes official in more and more countries. Any rebound in metals prices could therefore be short-lived. However, the supply response could be increasingly felt, especially for aluminium and nickel, whose prices have already dropped below many producers' breakeven points. Until there are enough production cuts to slow the surge by inventories, downside pressures will hold sway, however. Overall, base metal prices could oscillate close to current levels for several months before coming back somewhat next year.

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

The U.S. dollar's strength hammers gold

Precious metals' safe haven value did not keep them from depreciating in October. Very negative sentiment about all commodities and more greenback appreciation put major downside pressures on prices.

GOLD AND SILVER

- Gold's price was especially hard hit by the U.S. dollar's rapid ascent. The yellow metal even closed in on US\$700/ounce before coming back near US\$750 in early November (graph 14). Although gold's performance is, at first glance, disappointing, note that this is the commodity that has seen the least depreciation in the last three months.
- Once again, silver prices were hurt by the deterioration in the economic outlook, they slid almost 30% in October. Per ounce, silver even fell below US\$9 before coming back to around US\$10.

PLATINUM AND PALLADIUM

- The price of platinum also recorded another substantial decline of 19% in October, while palladium was able to stabilize following the last few months' sharp nosedive (graph 15). Platinum is still being hard hit by the shakeout in the global automotive industry. The ratio between platinum and gold prices, at nearly 2.40 in the first half of 2008, is now very close to 1. We can no longer rule out the possibility that platinum's price may fall below gold's for the first time since 1997 (graph 16). The already limited platinum supply could be affected by its sharp depreciation, as some mining expansion projects could be dropped, according to a South African minister.

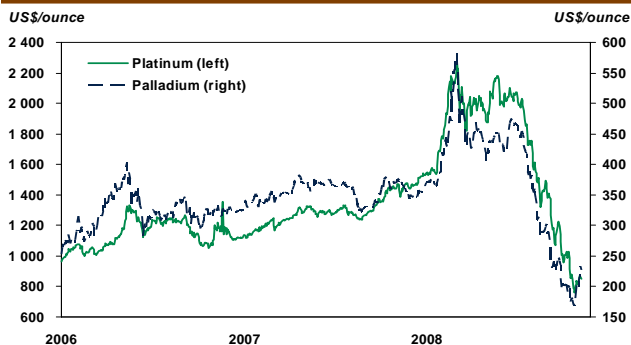
Forecasts: The economic and financial context should continue to favour gold versus other commodities, which are more dependent on industrial demand. In our opinion, the yellow metal is one of the only base products that could retest its historic peak in the fairly near future, especially if the greenback goes through a soft patch. Platinum's correction still seems exaggerated—a rebound is probable over the medium range.

Graph 14 – Gold and silver prices



Sources: Datastream and Desjardins, Economic Studies

Graph 15 – Platinum and palladium prices



Sources: Datastream and Desjardins, Economic Studies

Graph 16 – Ratio of platinum and gold prices



Sources: Datastream and Desjardins, Economic Studies

AGRICULTURAL COMMODITIES

Is the trough behind us?

Financial strains and investors' negative sentiment about all commodities continued to put substantial downside pressure on prices for agricultural commodities in October. However, grain prices have slightly rebounded in recent weeks.

WHEAT

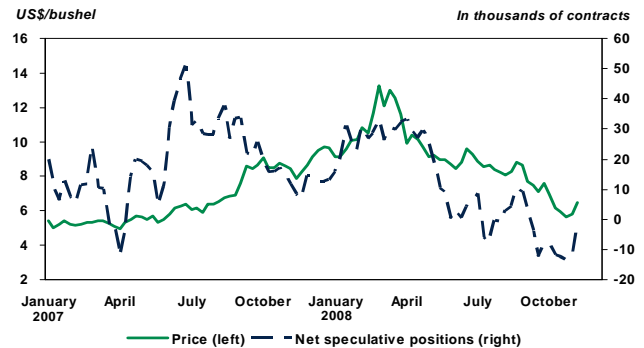
- The price of wheat tumbled sharply in the opening weeks of October, even dropping below US\$5/bushel for the first time since April 2007. Increasingly negative speculative positions in this grain played a role in the pullback (graph 17). It then rebounded, with the price of wheat ascending to over US\$6.00 a bushel. It should be said that the price correction and collapse by marine transportation costs could lead to an increase in demand for U.S. wheat exports. Note that, despite this year's record harvest, global wheat stocks are very low, which should keep prices over US\$5/bushel.

CORN AND SOYBEAN

- Corn has depreciated more sharply than wheat and soy since the end of September. Its price went from US\$4.41 a bushel to US\$3.41, a drop of over 20% (graph 18). For its part, the price of soy fell 12%, edging below US\$9/bushel (graph 19). The news at the end of October that the American government had to slash harvest forecasts for these two grains kept their prices from sliding too far. Some analysts think that the election of Barack Obama is good for wheat, as it decreases the likelihood of major changes to programs supporting ethanol producers.

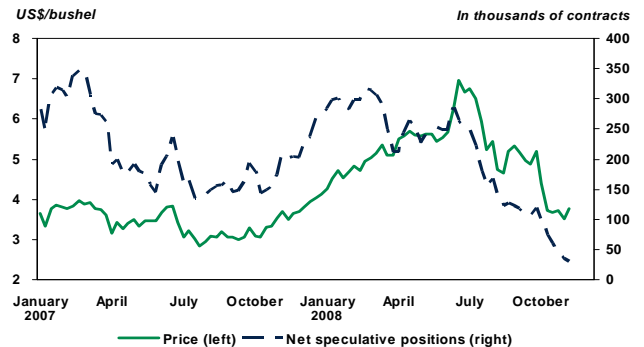
Forecasts: Even though financial factors could continue to weigh cereal prices down in the short run, we think the correction is well advanced. The lows reached on October 24 could be a floor. The global cereal supply and demand situation continues to favour relatively high prices, especially since restricted access to credit and the price correction are now threatening to slow the growth of grain production.

Graph 17 – Wheat prices and speculation



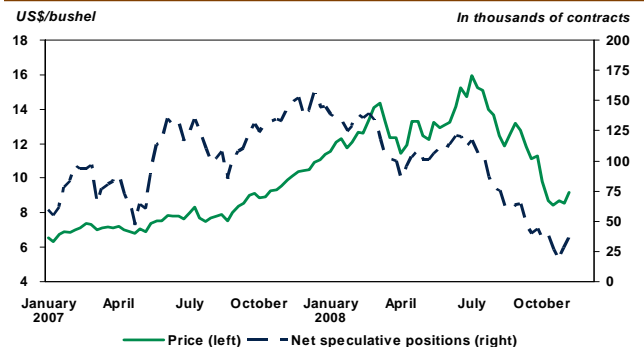
Sources: Datastream, Bloomberg and Desjardins, Economic Studies

Graph 18 – Corn prices and speculation



Sources: Datastream, Bloomberg and Desjardins, Economic Studies

Graph 19 – Soybean prices and speculation



Sources: Datastream, Bloomberg and Desjardins, Economic Studies

Table 1 Commodities

	Spot price	Percentage return since					Last 52 weeks		
	Nov. 9	1 month	3 months	6 months	1 year	High	Average	Low	
Index									
Reuter-CRB* (CCI**)	365.8	-12.2	-28.4	-34.1	-19.8	614.6	506.3	356.0	
Reuters/Jefferies CRB*	256.8	-17.3	-33.7	-39.9	-27.6	473.5	382.4	256.0	
Dow Jones AIG***	127.7	-15.7	-32.5	-41.0	-30.8	238.0	194.0	126.2	
Energy									
Crude oil (US\$/barrel)	61.0	-29.5	-47.0	-51.5	-36.6	145.7	106.3	60.8	
Gasoline (US\$/gallon)	2.40	-31.1	-38.1	-33.6	-20.3	4.11	3.43	2.40	
Natural gas (US\$/MMBTU****)	6.62	-1.1	-19.5	-41.4	-0.7	13.27	8.99	6.17	
Uranium (US\$/pound)	46.0	-9.8	-28.7	-29.2	-50.5	93.0	70.1	45.0	
Precious metals									
Gold (US\$/ounce)	742.9	-16.8	-12.9	-15.2	-10.7	1,011.6	872.5	710.8	
Silver (US\$/ounce)	10.1	-13.0	-35.7	-40.3	-33.1	20.9	15.6	8.9	
Platinum (US\$/ounce)	849.0	-17.3	-45.3	-59.2	-40.8	2,273.0	1,662.4	763.0	
Palladium (US\$/ounce)	227.0	11.8	-34.2	-48.1	-38.6	582.0	375.0	168.0	
Base metals									
Aluminium (US\$/ton)	1,955.5	-12.6	-30.7	-31.8	-23.7	3,291.3	2,684.2	1,875.0	
Copper (US\$/ton)	3,760.5	-30.4	-50.2	-55.2	-46.4	8,982.5	7,434.6	3,685.5	
Nickel (US\$/ton)	11,402.5	-11.2	-36.1	-57.5	-64.4	33,652.5	23,693.0	8,807.5	
Zinc (US\$/ton)	1,079.0	-26.1	-36.1	-50.2	-60.3	2,825.3	2,059.7	1,061.5	
Tin (US\$/ton)	15,087.5	0.8	-24.2	-38.6	-9.4	25,497.5	19,117.9	11,300.0	
Lead (US\$/ton)	1,445.5	-9.8	-27.9	-36.7	-58.8	3,679.8	2,349.9	1,137.5	
Agricultural commodities									
Wheat (US\$/bushel)	6.02	-2.9	-25.1	-36.3	-25.4	14.07	9.05	4.87	
Corn (US\$/bushel)	3.41	-13.7	-24.3	-41.7	-7.7	7.11	4.96	3.33	
Soybean (US\$/bushel)	8.66	-6.3	-25.0	-33.6	-14.3	16.19	12.23	8.06	
CRB* Livestock index	368.7	-17.0	-32.7	-28.2	-12.5	565.8	473.0	368.7	

*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	2008f	2009f
Annual average				
WTI* oil (US\$/barrel)	66	72	Target: 103 (range: 100 to 105)	Target: 87 (range: 70 to 100)
Natural gas Henry Hub (US\$/MMBTU**)	6.73	6.97	Target: 9.10 (range: 8.85 to 9.30)	Target: 8.00 (range: 6.50 to 9.50)
Gold (US\$/ounce)	604	697	Target: 875 (range: 860 to 890)	Target: 850 (range: 750 to 950)
LMEX*** index—base metals	3,396	3,847	Target: 3,500 (range: 3,400 to 3,600)	Target: 2,600 (range: 2,200 to 3,000)

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