

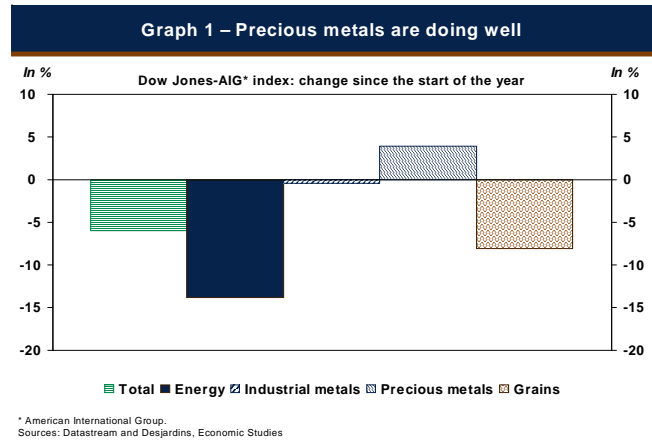
The timing and strength of the economic recovery will be critical to commodity prices

The beginning of 2009 was fairly calm on the commodity market, especially compared with last year. Some substantial one-day fluctuations were still recorded, especially in oil, but, overall, prices for raw materials have not changed much since January began.

In our view, this relative stability confirms that a floor has been or is in the process of being established for most commodities. The fact that raw material prices are beginning to move with less uniformity is encouraging. For example, precious metals, as safe-haven assets, are doing better than industrial metals and energy (graph 1). Price movements seem to be less and less dictated only by investor mood swings.

The economic situation is now quite clear. All the statistics confirm that we are undergoing a relatively severe worldwide recession. There is thus no hope for any near-term upswing in demand for most raw materials. The supply side situation is just as clear. For most raw materials, production has been slashed and investments have been postponed or dropped altogether.

In this context, industrial commodity prices seem certain to remain very low in the near term, but will come back quickly as soon as global demand firms up. The major question is: when will the global recession come to an end, and what will the recovery look like? In our opinion, the most likely scenario



is that the downturn will last until mid-2009, and be followed by a moderate recovery. We must, however, recognize that, unless some leading indicators start to improve soon, there is a risk that the recession could last longer. In that case, the comeback by commodity prices could also be pushed back a few quarters. What remains to be seen is what impact the infrastructure plans announced by many governments will have on commodity demand. If these investments cause a strong comeback in economic activity, the price of many commodities could record spectacular rebounds.

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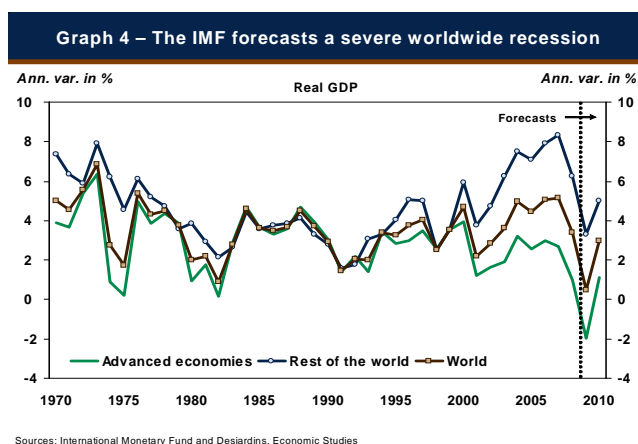
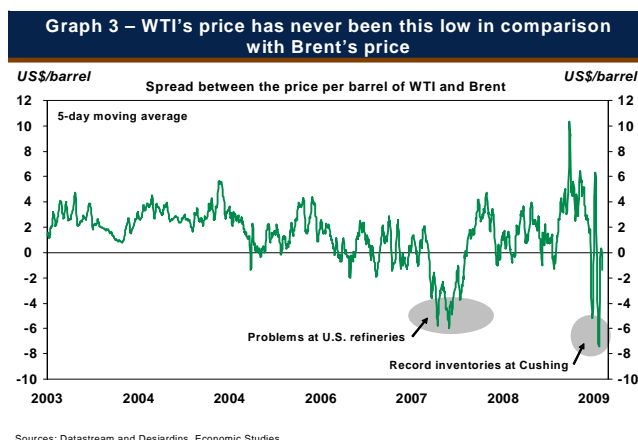
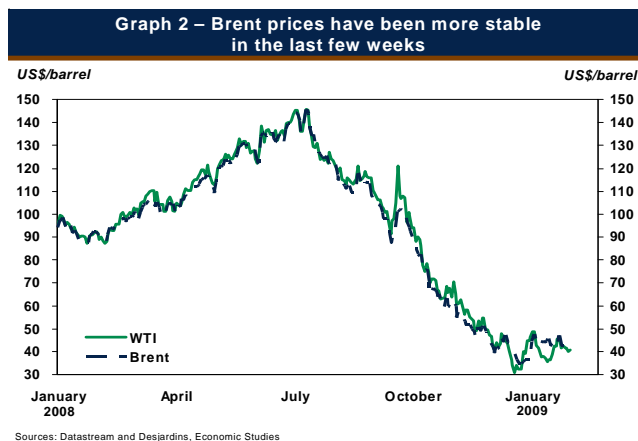
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ENERGY

Is the WTI still a good benchmark?

OIL

- Oil prices were fairly volatile in early 2009, going from close to US\$50 a barrel to US\$35 a barrel then edging back up over US\$40 (graph 2). Beside geopolitical tensions, the price fluctuations were mainly due to specific problems affecting West Texas Intermediate (WTI) and the expiry of the February futures contract. They thus did not reflect changes in the global market for black gold. Brent's price per barrel has therefore been much steadier in recent weeks.
- Although it has become the dominant marker for global oil prices, the WTI's limitations are well known. This type of oil is only available in a limited market; that is not accessible by boat. As a result, the specific problems affecting the American market could skew this global oil benchmark index. That is exactly what is happening now as skyrocketing inventories in Cushing, Oklahoma, the place where WTI futures are settled, are putting excess downside pressure on the WTI's price. The usually positive premium between the WTI and the Brent went into negative territory, reaching a historic low of -US\$9.03 a barrel on January 16 (graph 3). This phenomenon had also occurred in 2007. A look at the overall movement of different types of oil shows that, without these distortions, the WTI's price would have remained relatively stable since the year began.
- The latest data show that the decline in consumption of petroleum products is spreading worldwide. In Japan, oil demand fell 12% in November from the same month last year. On an annual basis, consumption even fell in China in November. In this case, however, it would be surprising if this were the start to a lasting trend since the Chinese economy should continue growing. In the United States, demand is still pulling back sharply, but the speed of the retreat is starting to show signs of moderating. The worst is not over, however. The International Monetary Fund (IMF) slashed its economic outlook again, now projecting global real GDP growth of just 0.5% in 2009 (graph 4).
- Clearly, the collapse in demand has put the global crude market into surplus. The International Energy Agency (IEA) estimates that global crude production exceeded demand by about a million barrels a day in the final quarter of 2008. The surplus is reflected in large stockpiles on land and, in particular, by an explosion in off-shore reserves. Between 50 and 80 million barrels of crude are thought to be currently stored on ships. All of this oil currently stockpiled at sea must eventually be sold, which could slow the comeback by crude prices.
- Despite the drop in demand, the production surplus is likely to disappear during 2009. The substantial output cuts announced by the Organization of Petroleum Exporting Countries (OPEC) seem to have materialized. It is estimated that January's output of the cartel's members was over three million barrels a day below the peak reached in mid-2008 (graph 5). After a slight pullback in 2008, oil output in the rest of the world should edge



up this year, but this will not be anywhere near enough to offset OPEC's production cuts. The United States and China's plans to take advantage of low prices to increase their strategic reserves should help to mop up the global crude surplus over the next few months.

GASOLINE

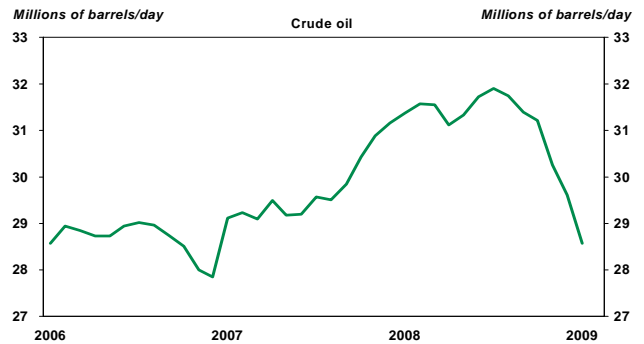
- As we anticipated, gas prices have come back up in the last few weeks, going from US\$1.61 a gallon in the United States to US\$1.89 (graph 6). Also recorded in Canada, this increase stems, among other things, from the fact that refineries responded to soft prices and soft demand by reining in output and cutting investments. After going up for several months, gasoline stockpiles are thus starting to show signs of cresting. At -2.6% on an annual basis, the drop in American gas demand has been fairly small since the year began. The threat of a strike that would have hit almost two thirds of U.S. refineries has played a role in this recent increase in gas prices. However, the two sides have just signed an agreement, which could bring fuel prices back down.

NATURAL GAS

- The last month has been especially difficult for the price of natural gas, which fell by about 10%. It even descended to US\$4.57 MMBTU (Million British Thermal Units), a two-year low, before coming back to around US\$5. Despite the last few weeks' intense cold, inventories have not declined much, reflecting slower industrial activity's impact on demand. The decline in natural gas drilling (graph 7), however, points to the major impact that the tumble in prices and tightened credit conditions are having on the development of new fields. Over the medium range, this should push prices up.

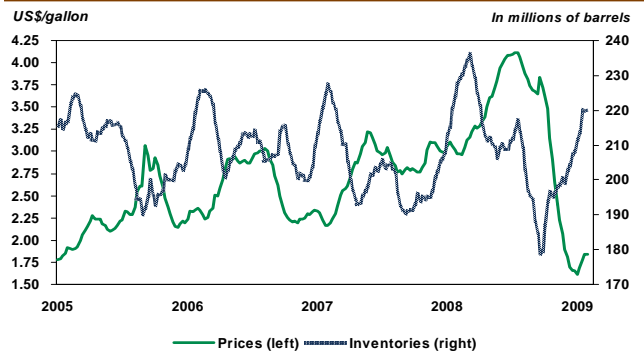
Forecasts: To date, oil prices are still moving as we expected, fluctuating between US\$35 and US\$50 a barrel. We are therefore keeping our target price at an average of US\$62 for 2009, and are still expecting prices to swing back up substantially in the second half of the year. The main risk to the scenario is to the downside, however, as the global economic recovery could be delayed. Natural gas prices' recent weakness and the fact that the chances of a rebound are slight in the short term are making us lower our forecast. The price of gas should thus be, on average, US\$6.00/MMBTU this year.

Graph 5 – Output by OPEC member nations* tumbles quickly



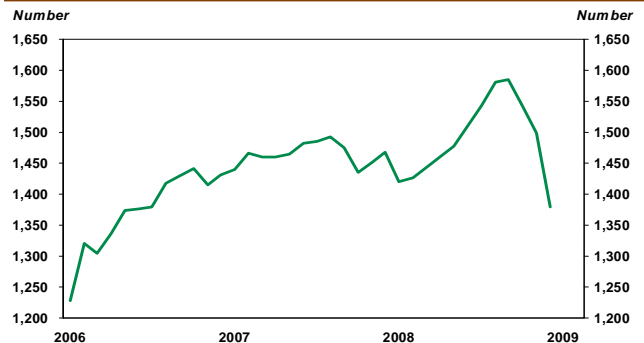
* Excluding Indonesia but including Iraq.
Sources: Datastream and Desjardins, Economic Studies

Graph 6 – Gas prices and inventories



Sources: Energy Information Administration and Desjardins, Economic Studies

Graph 7 – Drills used by natural gas producers in the United States



Sources: Energy Information Administration and Desjardins, Economic Studies

BASE METALS

Will production cuts bring the rise in inventories to an end?

As we had expected, the surge in base metal prices early this year did not last, as it was essentially based on technical factors. After going to 1,879 on January 7, the LME index (London Metal Exchange Index) of industrial metal prices has fallen to almost 1,700 in the last few days. Despite the many production stoppages, the global base metals market is still clearly in surplus. Inventories of the six major metals have shot up by an average of about 25% since 2009 began. In this context, it is encouraging that metal prices have not dropped below last December's low. The economic situation continues to deteriorate, which does not augur well for demand for metals. The drop in the Organisation for Economic Co-operation and Development's (OECD) leading indicator seems to suggest that prices are not likely to rebound in the next few months (graph 8). The Chinese government's plans to substantially boost its stockpiles of a number of raw materials could give "apparent" demand for metals some support.

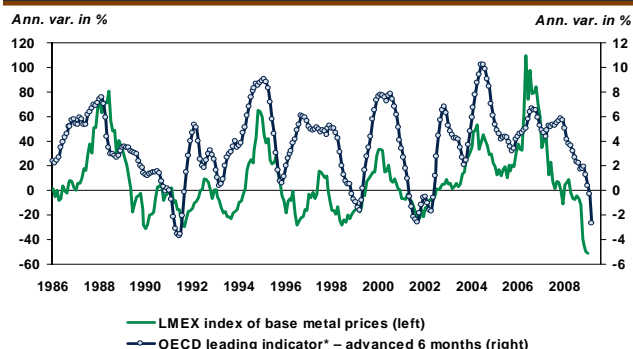
ALUMINIUM

- The industrial metal that had the toughest start to the year is aluminum. It depreciated by almost 10%, temporarily going back below US\$1,300 for the first time in over six years. Inventories continue to explode, despite proliferating announcements of production stoppages (Québec did not go unscathed when Rio Tinto Alcan announced that it was closing the Beauharnois plant permanently). Already very high at the end of 2008, inventories have jumped by another 20% since the new year opened (graph 9). Production cuts will continue in the near term, as the price of aluminum is making about half of the planet's smelters unprofitable. Despite this, the demand outlook is so soft that the surplus will persist in 2009.

COPPER

- Copper's price has done well in the last few weeks, in general managing to stay over US\$3,100 a tonne, over 15% above its mid-December low (graph 10). This performance could come as a surprise given that inventories have jumped by almost 50% since the year began, reaching an over five-year peak. One positive factor that could explain copper's recent resilience is that Chinese imports shot up at the end of 2008; however, whether the trend will continue or, as we believe, is only a reflection of temporary copper restocking remains to be seen.

Graph 8 – The decline in the OECD's leading indicator does not point to an upcoming rebound in metal prices



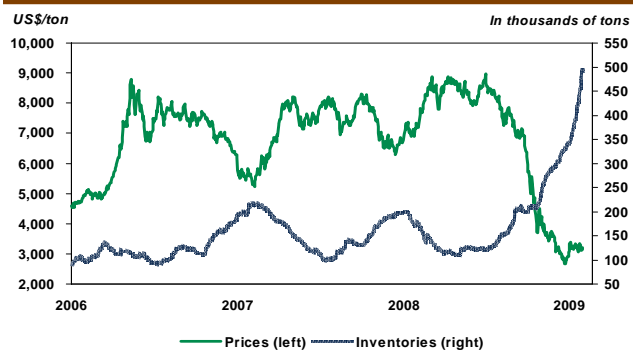
* Including six major emerging economies
Sources: Datastream, International Monetary Fund and Desjardins, Economic Studies

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

- The last few weeks confirmed that the surge in the price of nickel at the beginning of 2009 was mainly due to the metal's increased weight in the Dow Jones-AIG index. After jumping to almost US\$13,500 a tonne on January 6, the price of nickel quickly slid back to around \$11,000 (graph 11). Inventories have continued to rise, reaching a nearly 15-year peak. The rate of growth slowed substantially in January, however, a sign that the many production stoppages could be starting to have an impact.

ZINC

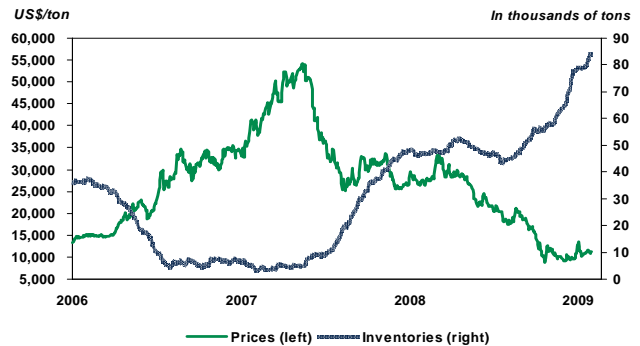
- Like nickel, zinc's rise to almost US\$1,300 a tonne in the early part of this year could not be sustained; the price quickly fell to around US\$1,100 a tonne (graph 12). The trends for global supply and demand have not changed. Production cuts are proliferating, but are still not enough to achieve equilibrium. Zinc inventories have thus once again jumped by more than 35% since the end of 2008, reflecting soft demand. The Chinese government's zinc purchases could help to mop up the global surplus in the next few months, but this will be a temporary impact.

TIN AND LEAD

- Like most other base metals, the jump in tin prices early this year was followed by rapid depreciation that took the price close to where it ended 2008. Inventories have risen by over 15% since the year opened, but are still low. Although demand for tin is also being affected by the global downturn, producers' ongoing problems should limit the size of the surplus. The Chinese government's intended purchases should give tin prices substantial support; the purchases could represent almost 10% of the world's 2009 output.
- Unlike other metals, the price of lead has held onto its gains from early 2009 and is now about 25% over where it ended 2008 (graph 13). However, this metal has inured us to violent movements in the last few months. It is therefore too soon to read the recent increase as the start of a new trend. Although they have risen by more than 20% since the year began, lead inventories remain very low, representing just half of a week of consumption.

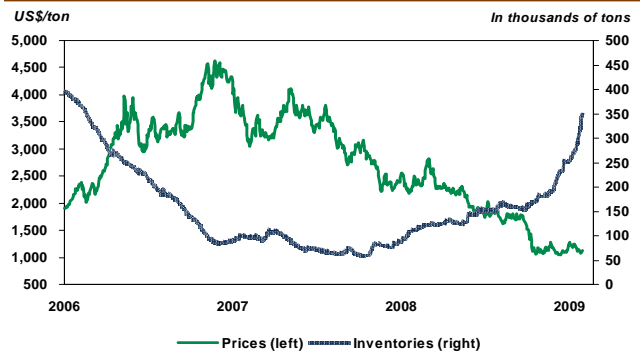
Forecasts: The global industrial metals market is still evolving as predicted. Soft demand is the key factor that will rein in any price surges over the next few months. On the other hand, prices are so low that production cuts are proliferating (especially for aluminum, zinc and nickel). This should keep prices for these metals close to current levels and lead to a substantial increase over the medium range. For now, we are still calling for industrial metals to come back starting in mid-2009. As with oil, however, there is a risk that this period of stagnation will last longer.

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 crossed major resistance levels

The year got off to a good start for precious metals. Gold, silver, platinum and palladium prices all went up substantially in the last few weeks, with investors continuing to look for safe haven securities.

GOLD AND SILVER

- After some failed attempts, the price of gold finally crossed the US\$900/oz mark at the end of January (graph 14). Investors' demand for gold is still rising, whether it is for financial products such as exchange-traded funds or for bars and coins. Demand is being swelled by the unprecedented actions taken by monetary and government authorities, which are starting to cast some doubt on other safe haven securities, especially government bonds and the greenback. However, two factors could slow the rise of gold prices in the coming months. First, high prices and the economic downturn have led to a sharp drop in the demand for gold used in making jewellery. It fell 11% in 2008, and the trend should continue in 2009. Secondly, gold sentiment is very bullish at this point (graph 15), opening the door to a correction in the near future. Investors have also jumped on silver in the last few weeks, driving its price up by 15% to over US\$12/oz.

PLATINUM AND PALLADIUM

- Platinum and palladium prices have been fairly volatile in recent weeks. Strong demand for precious metals is pushing them up, but the bad economic news is confirming that demand from the auto industry will remain very soft. After hitting US\$1,000/oz at the beginning of January, the price of platinum quickly fell back under US\$925 before climbing to around US\$960 (graph 16).

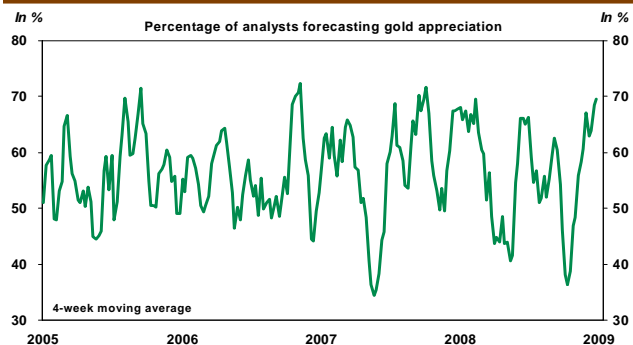
Forecasts: The deterioration in public finances and massive liquidity injections by central banks should continue to favour precious metals over other safe haven securities. The strong financial demand will continue to be offset by a drop in demand for jewellery and industrial uses, however. Gold could very well surge over US\$1,000 temporarily, but this price will be difficult to sustain for any period this year.

Graph 14 – Gold and silver prices



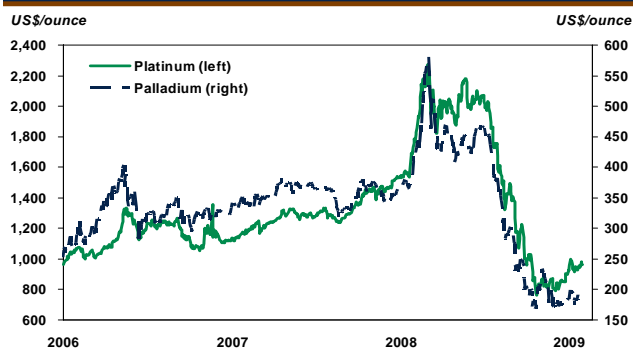
Sources: Datastream and Desjardins, Economic Studies

Graph 15 – Very positive gold sentiment allowed this metal to cross US\$900/oz



Sources: Bloomberg and Desjardins, Economic Studies

Graph 16 – Platinum and palladium prices



Sources: Datastream and Desjardins, Economic Studies

AGRICULTURAL COMMODITIES

The impact of the weather

Cereal prices have edged down since the beginning of the year, but are still 20% higher than the lows reached in the second half of 2008. The evolution of South America's weather conditions has influenced cereal prices in the last few weeks. Major drought problems have inflated prices temporarily, until rain came to limit the damages. The global recession will not leave demand for agricultural products completely unscathed, especially corn. However, the desire of some countries, including China, to replenish their inventories, should buoy cereal prices.

WHEAT

- The price of wheat has continued to fluctuate around US\$6.00/bushel since the beginning of 2009 (graph 17). Despite the major changes affecting the global economy, the forecasts for the 2008-2009 wheat season have not been changed much. A record harvest is still forecast, which should allow global inventories to grow significantly, despite a substantial increase in global demand.

CORN AND SOYBEAN

- The price of corn has fallen by about 10%, taking it to around US\$3.40/bushel (graph 18). The global recession and collapse in fuel prices seem to be having substantial impacts on ethanol production and, as a result, on demand for corn. The U.S. Department of Agriculture has thus substantially upgraded its inventory forecast for the end of the 2008-2009 season. Corn could, however, give up some acreage to other cereals next season, which could support its price. The price of soybeans managed to stay close to US\$10/bushel on bad harvest weather in Argentina and Brazil and greater interest from investors (graph 19).

Forecasts: Despite spectacular fluctuations in cereal prices over the last year, the market's fundamental situation has not changed much. Global inventories are still low, arguing for fairly high prices. The global recession will have a slight downside impact on both the consumption and production of agricultural commodities. It does not change the situation completely, however, as is the case for industrial raw materials. In our view, cereal prices could appreciate slightly in 2009 and remain high over the medium range.

Graph 17 – Wheat prices and speculation



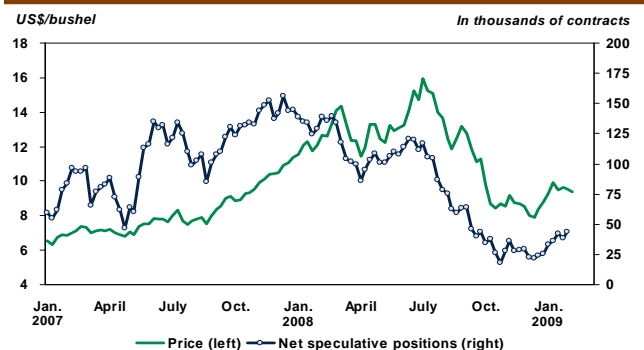
Sources: Datastream, Bloomberg and Desjardins, Economic Studies

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		
	Feb. 4	1 month	3 months	6 months	1 year	High	Average	Low
Index								
Reuter-CRB* (CCI**)	359.7	-3.0	-6.7	-31.9	-29.1	614.6	478.4	323.2
Reuters/Jefferies CRB*	217.5	-7.0	-21.8	-45.9	-40.9	473.5	351.8	208.6
Dow Jones AIG***	110.2	-8.0	-19.9	-44.1	-42.5	238.0	177.6	106.1
Energy								
Crude oil (US\$/barrel)	40.3	-13.0	-42.8	-66.8	-55.2	145.7	94.6	30.8
Gasoline (US\$/gallon)	1.89	17.3	-21.2	-51.2	-36.5	4.11	3.13	1.61
Natural gas (US\$/MMBTU****)	5.01	-7.8	-26.5	-45.4	-34.1	13.27	8.58	4.57
Precious metals								
Gold (US\$/ounce)	905.7	3.2	19.0	-0.1	1.0	1,011.6	869.6	710.8
Silver (US\$/ounce)	12.4	11.9	24.6	-28.6	-25.7	20.9	14.6	8.9
Platinum (US\$/ounce)	962.0	3.9	16.3	-39.4	-46.1	2,273.0	1,510.4	763.0
Palladium (US\$/ounce)	190.5	3.0	-8.4	-47.1	-54.6	582.0	332.8	164.0
Base metals								
Aluminium (US\$/ton)	1,383.0	-7.3	-30.5	-51.3	-47.4	3,291.3	2,466.6	1,289.5
Copper (US\$/ton)	3,317.5	8.0	-21.6	-58.0	-54.5	8,982.5	6,572.3	2,667.5
Nickel (US\$/ton)	11,602.5	-8.7	-1.7	-35.6	-57.5	33,275.0	19,514.1	8,807.5
Zinc (US\$/ton)	1,160.5	-4.9	2.2	-35.4	-52.9	2,825.3	1,760.7	1,041.0
Tin (US\$/ton)	11,425.0	-0.9	-25.0	-45.9	-31.9	25,497.5	17,979.8	9,950.0
Lead (US\$/ton)	1,194.5	14.8	-21.4	-42.8	-58.3	3,459.8	1,941.9	877.5
Agricultural commodities								
Wheat (US\$/bushel)	6.08	-7.9	-6.1	-23.6	-42.1	14.07	8.29	4.87
Corn (US\$/bushel)	3.37	-12.3	-10.4	-30.7	-30.6	7.11	4.80	2.72
Soybean (US\$/bushel)	9.27	-3.0	1.0	-27.2	-26.9	16.19	11.69	7.60
CRB* Livestock index	310.9	-0.3	-17.9	-42.0	-27.6	565.8	448.4	267.1

*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

	2007	2008	2009f	2010f
Annual average				
WTI* oil (US\$/barrel)	72	99	Target: 62 (range: 45 to 70)	Target: 83 (range: 70 to 100)
Natural gas Henry Hub (US\$/MMBTU**)	6.97	8.84	Target: 6.00 (range: 5.00 to 7.00)	Target: 7.50 (range: 6.00 to 9.50)
Gold (US\$/ounce)	697	872	Target: 900 (range: 750 to 1,000)	Target: 1,000 (range: 850 to 1,000)
LMEX*** index—base metals	3,847	3,377	Target: 2,000 (range: 1,500 to 3,000)	Target: 2,300 (range: 1,750 to 3,500)

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