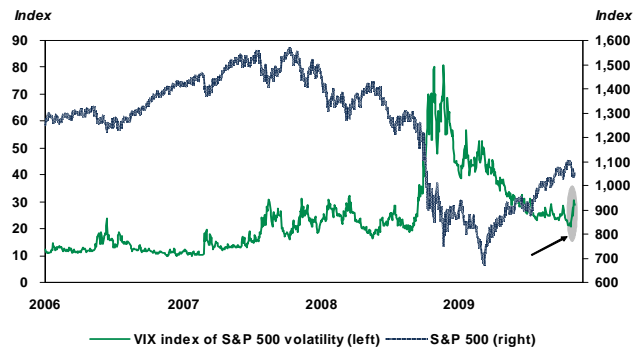


The U.S. dollar and investor sentiment hold a lot of sway

Commodity prices' fundamental determinants, including global supply and demand, have not changed much in the last few weeks, but prices have still been fairly volatile, reacting sharply to certain developments in the financial markets. The U.S. dollar depreciated steeply in early October, making prices for a number of resources jump and propelling gold price in particular to another record peak near US\$1,100 an ounce. The soft greenback also allowed oil prices to climb over the US\$75 a barrel mark (graph 1).

The last few days, however, have been somewhat tougher for raw material prices, as investors have become slightly edgier (graph 2). Even though the U.S. economy returned to growth in Q3, numerous economic statistics indicate that the

Graph 2 – The recent upswing in financial strain hurts risk assets



Sources: Datastream and Desjardins, Economic Studies

Graph 1 – The soft greenback gives oil and gold a boost



Sources: Datastream and Desjardins, Economic Studies

problems are not over. Moreover, the financial sector's fragility remains a concern, with consumer and commercial lending giant CIT group recently filing for bankruptcy. Risky assets such as shares and commodities that had gotten a large boost in recent months due to the upswing in investor optimism, were affected by the renewed pessimism. Despite the last few days' retreat, almost all resources appreciated in October.

Beyond the near term, the slow resurgence in economic activity almost worldwide should support commodity prices in the coming quarters. The surplus production capacity that was freed up for a number of resources during the recession and relatively moderate rise in demand limit the risk that prices will surge, however.

CONTENTS

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

François Dupuis

Vice-President and Chief Economist

Mathieu D'Anjou

Senior Economist

François Dupuis

Vice-President and Chief Economist

Mathieu D'Anjou

Senior Economist

Martin Lefebvre

Senior Economist

Yves St-Maurice

Director and Deputy Chief Economist

Hendrix Vachon

Economist

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

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

IMPORTANT: This document is based on public information, obtained from sources that are deemed to be reliable. Desjardins Group in no way guarantees that the information is complete or accurate. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. The document may under no circumstances be construed as a commitment by Desjardins Group, which takes no responsibility for the consequences of any decision made based on the information herein. The prices and rates shown are for information purposes only as they may change at any time based on market conditions. Past returns are no guarantee of future performance, and Desjardins Group does not hereby purport to provide any investment advice. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document's authors and do not represent the official position of Desjardins Group. Copyright © 2009, Desjardins Group. All rights reserved.

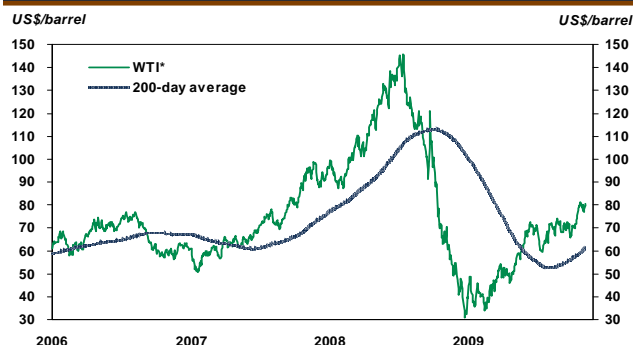
ENERGY

Oil crosses US\$75 a barrel and natural gas rebounds

OIL

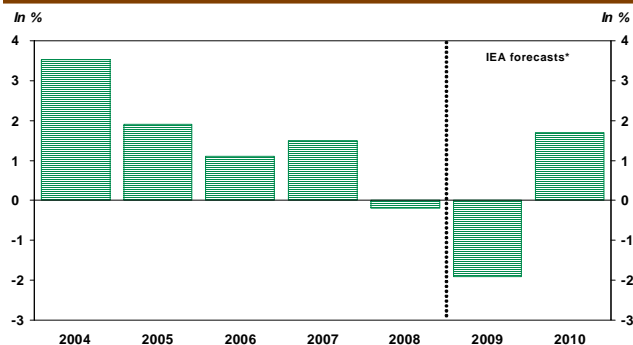
- Oil prices continued to oscillate close to US\$70 a barrel until mid-October. After that, the soft American dollar and a few declines in U.S. gasoline stocks pushed the price of crude over the US\$75 mark, a major technical resistance level. Once this level gave way, the price quickly rose above US\$80 a barrel, hitting an over one-year peak at US\$81.43 a barrel. Investors' increased concern about the financial sector's solidity and magnitude of the economic recovery pulled the barrel slightly down in the last few days, however (graph 3). Saudi Arabia's decision to stop using WTI (West Texas Intermediate) to price its oil sales spotlighted the problems with this global benchmark.
- The worldwide recession really seems to be over: the U.S. economy posted strong 3.5% growth for the third quarter of 2009. However, substantial doubts remain as to the recovery's sustainability in industrialized economies, where the growth in activity is still heavily dependent on government stimulus programs. Developing economies, particularly China, seem to be undergoing solid recoveries, however. The improved economic outlook has prompted the International Energy Agency to notch up its 2009 and 2010 projections for oil demand. The 1.7% increase in demand forecast for 2010 largely rests on Asian growth (graph 4).
- However, developments regarding the supply of oil should rein in the rise of crude prices. In particular, members of the Organization of Petroleum Exporting Countries (OPEC), which have already boosted their output somewhat in the last few months, have opened the door to officially increasing their quotas as of December, if the situation calls for it. OPEC seems to be well aware that a surge in crude prices that could threaten to stifle the global economic recovery would not be in its best interests. OPEC's sizeable unused production capacity (graph 5) and very large global inventories give the global oil market quite a substantial margin. Moreover, since the year began, the big oil companies have reported many large new oil finds around the world. This should help to ease fears of a looming end to the oil era.

Graph 3 – Price of oil per barrel



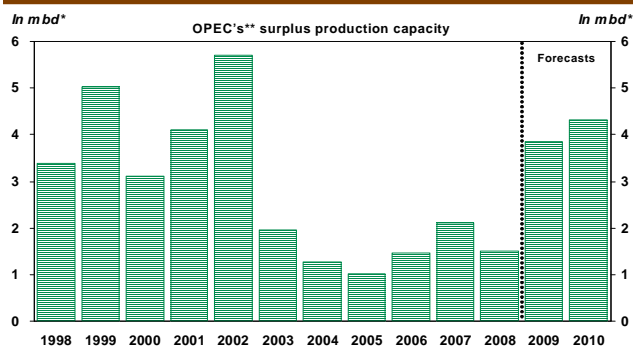
* West Texas Intermediate.
Sources: Datastream and Desjardins, Economic Studies

Graph 4 – Growth in global oil demand



* International Energy Agency.
Sources: Datastream, International Energy Agency and Desjardins, Economic Studies

Graph 5 – OPEC should be able to limit the price rise



* Millions of barrels per day; ** Organization of Petroleum Exporting Countries.
Sources: Energy Information Administration and Desjardins, Economic Studies

GASOLINE

- Crude's rise to around US\$80 a barrel quickly rippled into gas prices. A number of substantial drops in U.S. gas inventories also helped to drive the price per gallon to US\$2.69, its peak for the last twelve months (graph 6). Canada was not spared, with the price even jumping over CAN\$1.10 a litre in the Montréal area when the Canadian dollar sagged at the end of October. Now, however, moderating crude prices and the slight increase in gas inventories in the last few weeks should put downside pressure on fuel prices.

NATURAL GAS

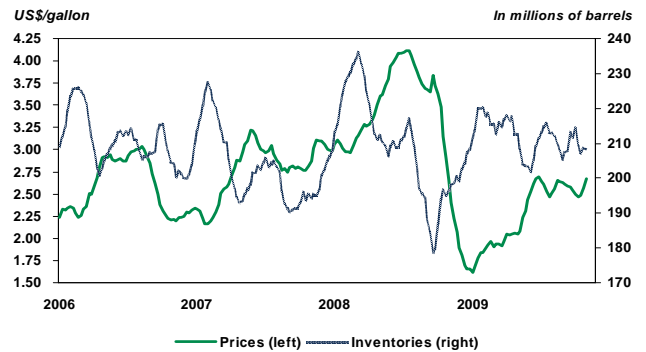
- The price of natural gas has been extremely volatile in recent months (graph 7). After tumbling to US\$1.92/MMBTU (Million British Thermal Units) in early September, a seven-year low, natural gas prices caught fire. The rebound, which was not based on any real changes in terms of supply and demand, drove the price of gas to almost US\$5 on October 22. However, the widespread weakness of commodity prices in the last few days has now taken the price closer to US\$4/MMBTU.
- Along with positive seasonal factors, the looming end to North America's natural gas inventory building season, with storage capacities finally appearing to be adequate, limits the risk that natural gas prices will nosedive. However, remember that inventories are at record highs and demand could be limited as the economic recovery promises to be fairly sluggish.

URANIUM

- Uranium's price remains much less volatile than prices for other energy commodities. A force majeure issue in a mine belonging to mining giant BHP Billiton delayed some uranium shipments and helped boost prices to US\$50 a pound (graph 8). Demand for uranium remains soft, however.

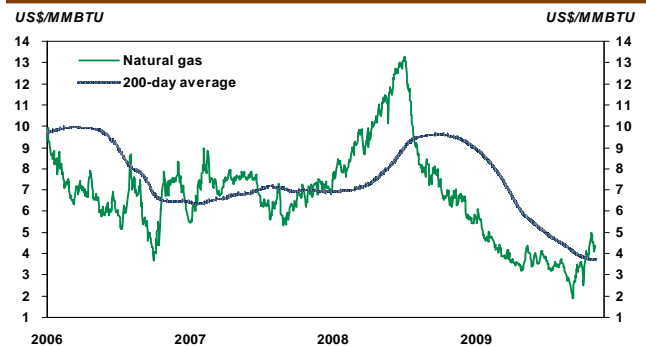
Forecasts: The global economy's gradual recovery and strong Asian demand for oil should continue to support crude prices in the coming quarters. The excursion over the technical resistance level at US\$75 is a key fact prompting us to increase our forecast for the end of 2009 slightly (to US\$80). Fairly soft economic activity in industrialized countries and the existence of substantial surplus oil production capacity should, however, keep prices from quickly surging over US\$100 a barrel. The comeback in natural gas prices got off to a slightly faster than predicted start. Our forecast of an average price of US\$5/MMBTU next year is still appropriate, however, as the supply will be more than enough to meet demand.

Graph 6 – Gas prices and inventories in the United States



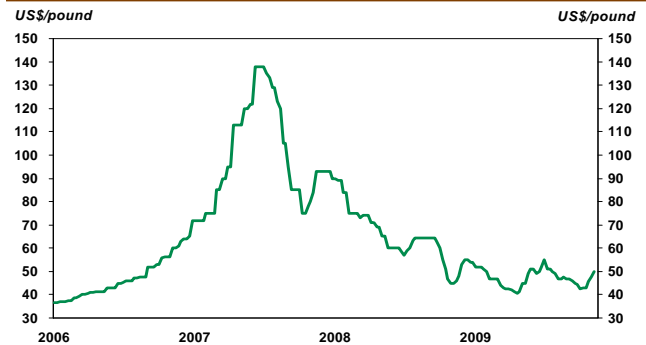
Sources: Energy Information Administration and Desjardins, Economic Studies

Graph 7 – Natural gas prices



Sources: Datastream and Desjardins, Economic Studies

Graph 8 – Uranium prices



Sources: Datastream and Desjardins, Economic Studies

BASE METALS

China and the soft greenback support metal prices

After edging down in September, prices for industrial metals went back on the rise in October due to such factors as the greenback's devaluation at the start of the month. Data from China also gave metal prices some support, as the economic recovery appears to be accelerating (graph 9) and base metal imports were stronger than forecast in September. The LME index (London Metal Exchange Index) of base metals thus hit a peak for 2009 at 3,099.6 on October 23. Investors' heightened concern combined with the greenback's rise took prices for several metals down at the end of the month, however.

The news from China is not all completely encouraging. Although the country is undergoing real growth in demand for base metals, this comes with an equally spectacular surge in local production of metals. This explains why the inventories of numerous metals covered by the London Metal Exchange (LME) are still expanding.

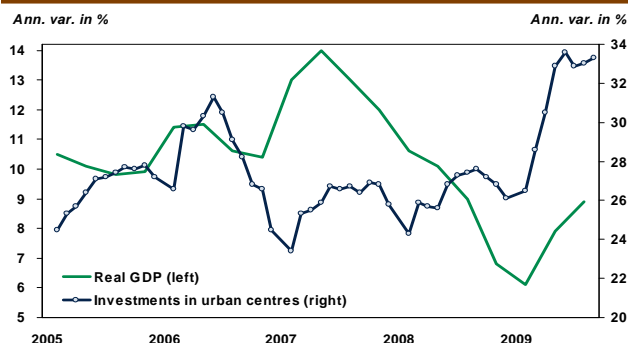
ALUMINIUM

- Aluminium's price has continued to fluctuate around US\$1,900 a tonne in the last few weeks. Global inventories of this metal remain extremely high, but the cresting that started several months ago seems to be confirmed (graph 10). Chinese aluminium output continued to surge in September, rising by a monthly 7.6% according to the National Bureau of Statistics (NBS). Luckily, China's aluminum consumption is just as strong, limiting the impact of the stronger output on the international market. Although economic indicators continue to improve, aluminum demand seems to be remaining fairly soft in industrialized countries.

COPPER

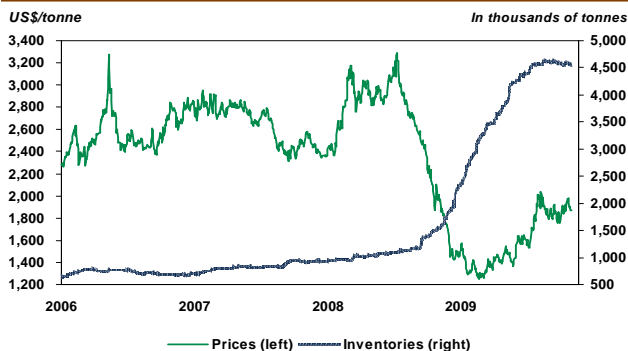
- It was a great October for copper prices, which jumped to US\$6,675 a tonne, a peak that dates back to September 2008, before edging back down slightly on the greenback's upswing (graph 11). September's surprise rise in Chinese copper imports explains much of the metal's good performance. At first glance, the rise in imports, combined with a marked increase in local production, appears to indicate that China is seeing very strong copper consumption. However, some indicators, including a drop in the premium between the local and international prices, are sending a less positive message for copper demand.

Graph 9 – Stimulated by an imposing recovery plan, Chinese growth picks up speed



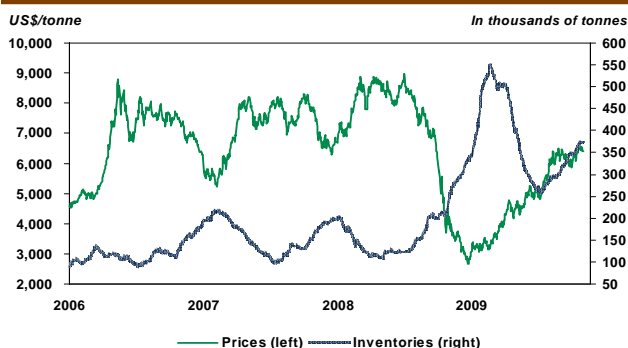
Sources: Datastream and Desjardins, Economic Studies

Graph 10 – Aluminum prices and inventories



Sources: Datastream and Desjardins, Economic Studies

Graph 11 – Copper prices and inventories



Sources: Datastream and Desjardins, Economic Studies

NICKEL

- Nickel prices were fairly volatile in October, jumping to around US\$19,500 a tonne and then falling back near US\$18,000 (graph 12). A worrisome development for nickel is the fact that the already very large inventories have expanded by more than 8% since the end of September. China's nickel imports also continued to pull back, as the strong increase in local production appears to be sufficient to meet the increase in demand. The latest signals from stainless steel producers are also less encouraging.

ZINC

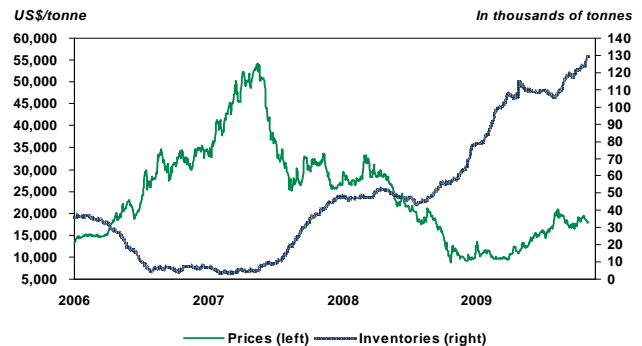
- Zinc is the industrial metal that had the best October, with its price rising by 15% to around US\$2,200 a tonne (graph 13). The growth in Chinese zinc imports in September certainly played a role in this solid performance. The country's demand for zinc should continue to be boosted by the surge in infrastructure investment. Despite October's slight decline, zinc inventories remain large, however.

TIN AND LEAD

- Tin is one of the few commodities whose price pulled back in October. The decline was limited, however, and, at about US\$14,900 a tonne, tin's price has barely changed for three months now (graph 14). Global tin inventories have surged again, rising by 6% since the end of September, which explains the metal's underperformance.
- The price of lead consolidated its last few months' gains and remained at around US\$2,200 a tonne in the last few weeks. Despite the slowdown in Chinese output due to environmental reasons, the country's lead exports rose in September, a sign of soft local demand for lead. Lead inventories continued to rise in the last few weeks.

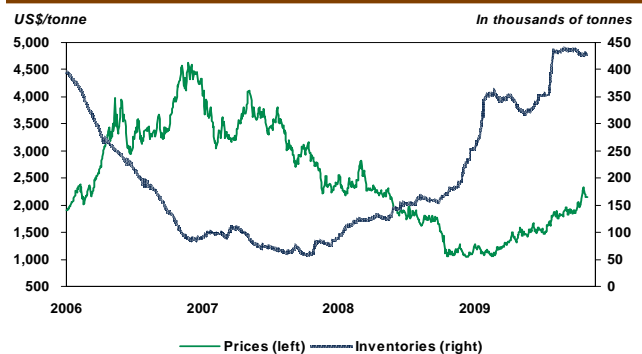
Forecasts: The global economy's gradual recovery should continue to support base metal prices in the coming quarters. However, current prices already reflect the end of the recession and it will take stronger demand from industrialized countries to justify much higher prices. Base metal prices could therefore continue to react sharply to signs that the economic recovery will be either sluggish or lively in the large, wealthy economies. Despite stronger-than-forecast imports in September, it seems increasingly clear that Chinese consumption will not be sufficient to prompt any marked drop in the inventories covered by the LME. In fact, much of the increase in Chinese demand has been met by an equally rapid increase in local metal output.

Graph 12 – Nickel prices and inventories



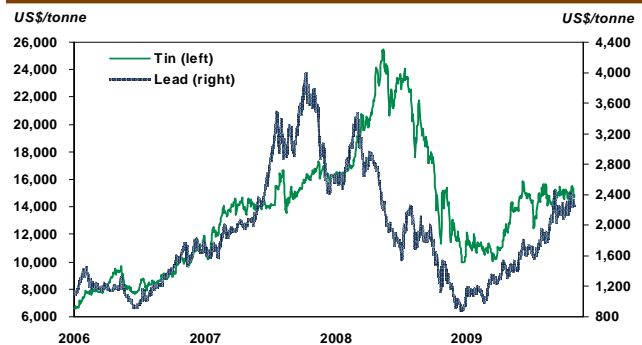
Sources: Datastream and Desjardins, Economic Studies

Graph 13 – Zinc prices and inventories



Sources: Datastream and Desjardins, Economic Studies

Graph 14 – Tin and lead prices



Sources: Datastream and Desjardins, Economic Studies

PRECIOUS METALS

Gold's price is still following the greenback's movements

After surging sharply for a few months, precious metal prices edged up in October, which still allowed gold to reach a new peak. The increase would have been larger without the American dollar comeback in the last few days.

GOLD AND SILVER

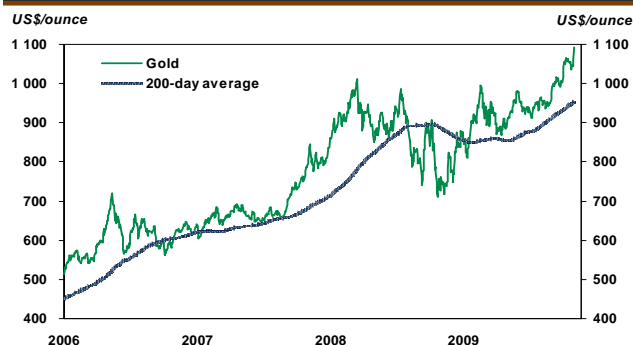
- Although rumours that, in international petroleum transactions, the U.S. dollar would be replaced by a basket of currencies, including gold, have been vehemently denied, gold's price has held on to the major gains it made in early October. Note that doubts about the U.S. dollar's solidity are still with us as public finances in the U.S. remain in extremely precarious condition. Despite this, the greenback rebounded in the last few days as tension in the financial markets notched up. Gold's price then came back to about US\$1,030 an ounce, a sign that it is currently acting as insurance against a greenback tumble rather than as a hedge against financial catastrophe. The news of a major IMF (International Monetary Fund) gold sale to India pushed the price of gold to a new peak of US\$1,093.50 an ounce in early November, however (graph 15). Silver's price was volatile in October, jumping very close to US\$18 an ounce before sliding back temporary to US\$16.50 (graph 16), where it was at the end of September.

PLATINUM AND PALLADIUM

- Aside from the dollar's weakness, platinum and palladium are capitalizing on renewed activity in the industrial sector. Platinum's price thus notched up in October, managing to consolidate its gains and stay above US\$1,300 an ounce (graph 17). Palladium has continued to outperform the other precious metals, posting a gain of 11% in October, which takes its rise from the beginning of the year to 78%. Relatively promising news from the auto industry, with Ford back in the black, is very positive for both metals.

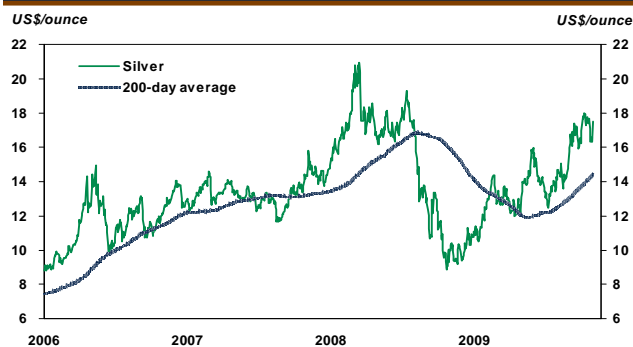
Forecasts: The price of gold should continue to respond primarily to financial factors in the short run. The fact that financial strains and the U.S. dollar's strength usually put opposing pressures on gold prices prompts us to think that gold could keep consolidating its gains in the coming months. Unless the automobile market tumbles again, the next few years promise to be good ones for platinum and palladium.

Graph 15 – Gold prices



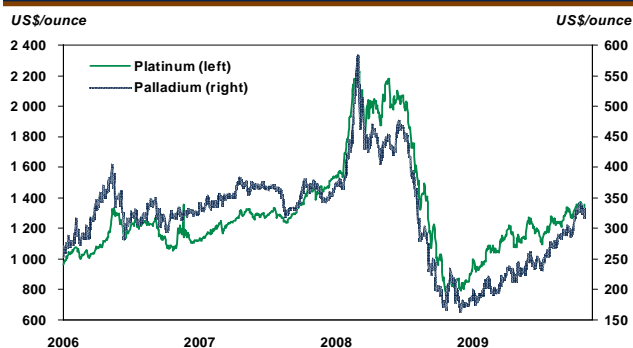
Sources: Datastream and Desjardins, Economic Studies

Graph 16 – Silver prices



Sources: Datastream and Desjardins, Economic Studies

Graph 17 – Platinum and palladium prices



Sources: Datastream and Desjardins, Economic Studies

AGRICULTURAL COMMODITIES

Prices for cereals on the rise

After going through some tough times in the last few months, prices for cereals shot up in the first few weeks of October, capitalizing on the weak U.S. dollar and renewed interest from speculators. The strong upswing, which was not based on fundamentals, has flagged in the last few days as the U.S. dollar rebounded.

WHEAT

- Wheat's price has been especially volatile, jumping 27% from October 2 to 22 and going to US\$5.40 a bushel before falling back to around US\$5 (graph 18). Last month, we predicted that very large short positions would open the door to this type of technical rebound. The greenback's fluctuations, which had an impact on the appeal of U.S. cereal exports, and a major increase in Chinese wheat imports also played a role in wheat price movements. In October, the U.S. Department of Agriculture upgraded its harvest forecast for 2009-2010, thanks to good weather in the United States, Canada and Europe.

CORN AND SOYBEAN

- Corn also shot up in the first weeks of October, going to US\$3.83 a bushel, a peak that dates back to last June, and then edged down slightly (graph 19). Net speculative positions in corn rose sharply, as many are hoping demand for this cereal will surge next year and Chinese exports have fallen off substantially since the year began. China had very poor harvest weather, prompting a decline in global corn output and the inventories forecast for the 2009-2010 season. After plunging in September, soybean prices came back near US\$10 a bushel (graph 20). Another upgrade to forecast harvests and inventories and soft Chinese soybean imports, following a very strong first half of the year, limit this cereal's price rise.

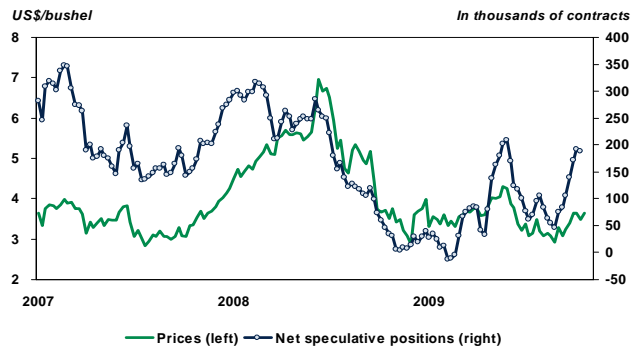
Forecasts: Current corn, wheat and soybean prices are a fairly accurate reflection of global supply and demand. Prices for the cereals could therefore continue to seesaw in the next few months without posting any real trend. Keep an eye on rice, as the news that India, the world's second largest producer, will have to start importing rice again could fan fears of a shortage.

Graph 18 – Wheat prices and speculation



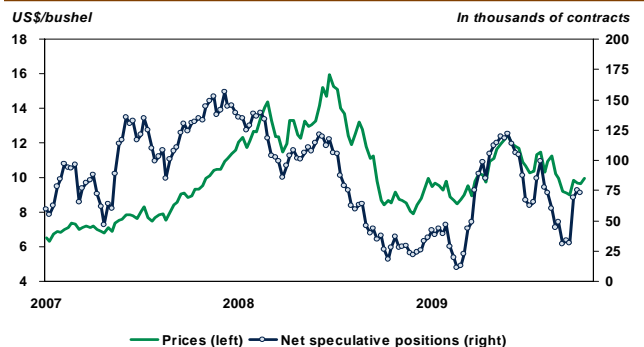
Sources: Datastream, Bloomberg and Desjardins, Economic Studies

Graph 19 – Corn prices and speculation



Sources: Datastream, Bloomberg and Desjardins, Economic Studies

Graph 20 – Soybean prices and speculation



Sources: Datastream, Bloomberg and Desjardins, Economic Studies

Table 1 Commodities

| | Spot price | Percentage return since | | | | | Last 52 weeks | | |
|---------------------------------|------------|-------------------------|----------|----------|--------|----------|---------------|---------|--|
| | Nov. 4 | 1 month | 3 months | 6 months | 1 year | High | Average | Low | |
| Index | | | | | | | | | |
| Reuter-CRB* (CCI**) | 359.7 | 0.0 | 0.0 | 0.0 | -6.7 | 614.6 | 478.4 | 323.2 | |
| Reuters/Jefferies CRB* | 217.5 | 0.0 | 0.0 | 0.0 | -21.8 | 473.5 | 351.8 | 208.6 | |
| Dow Jones AIG*** | 110.2 | 0.0 | 0.0 | 0.0 | -19.9 | 238.0 | 177.6 | 106.1 | |
| Energy | | | | | | | | | |
| Crude oil (US\$/barrel) | 40.3 | 0.0 | 0.0 | 0.0 | -42.8 | 145.7 | 94.6 | 30.8 | |
| Gasoline (US\$/gallon) | 1.89 | 0.0 | 0.0 | 0.0 | -21.2 | 4.11 | 3.13 | 1.61 | |
| Natural gas (US\$/MMBTU****) | 5.01 | 0.0 | 0.0 | 0.0 | -26.5 | 13.27 | 8.58 | 4.57 | |
| Precious metals | | | | | | | | | |
| Gold (US\$/ounce) | 905.7 | 0.0 | 0.0 | 0.0 | 19.0 | 1,011.6 | 869.6 | 710.8 | |
| Silver (US\$/ounce) | 12.4 | 0.0 | 0.0 | 0.0 | 24.6 | 20.9 | 14.6 | 8.9 | |
| Platinum (US\$/ounce) | 962.0 | 0.0 | 0.0 | 0.0 | 16.3 | 2,273.0 | 1,510.4 | 763.0 | |
| Palladium (US\$/ounce) | 190.5 | 0.0 | 0.0 | 0.0 | -8.4 | 582.0 | 332.8 | 164.0 | |
| Base metals | | | | | | | | | |
| Aluminium (US\$/ton) | 1,383.0 | 0.0 | 0.0 | 0.0 | -30.5 | 3,291.3 | 2,466.6 | 1,289.5 | |
| Copper (US\$/ton) | 3,317.5 | 0.0 | 0.0 | 0.0 | -21.6 | 8,982.5 | 6,572.3 | 2,667.5 | |
| Nickel (US\$/ton) | 11,602.5 | 0.0 | 0.0 | 0.0 | -1.7 | 33,275.0 | 19,514.1 | 8,807.5 | |
| Zinc (US\$/ton) | 1,160.5 | 0.0 | 0.0 | 0.0 | 2.2 | 2,825.3 | 1,760.7 | 1,041.0 | |
| Tin (US\$/ton) | 11,425.0 | 0.0 | 0.0 | 0.0 | -25.0 | 25,497.5 | 17,979.8 | 9,950.0 | |
| Lead (US\$/ton) | 1,194.5 | 0.0 | 0.0 | 0.0 | -21.4 | 3,459.8 | 1,941.9 | 877.5 | |
| Agricultural commodities | | | | | | | | | |
| Wheat (US\$/bushel) | 6.08 | 0.0 | 0.0 | 0.0 | -6.1 | 14.07 | 8.29 | 4.87 | |
| Corn (US\$/bushel) | 3.37 | 0.0 | 0.0 | 0.0 | -10.4 | 7.11 | 4.80 | 2.72 | |
| Soybean (US\$/bushel) | 9.27 | 0.0 | 0.0 | 0.0 | 1.0 | 16.19 | 11.69 | 7.60 | |
| CRB* Livestock index | 310.9 | 0.0 | 0.0 | 0.0 | -17.9 | 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