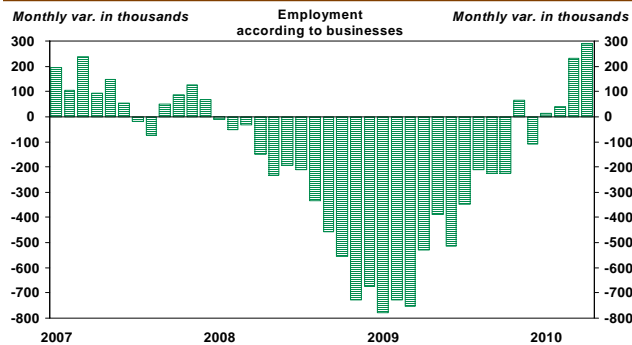


Favourable economic conditions, but a surge in financial tensions

The release of encouraging economic statistics, especially in North America (graph 1), continued to support price increases for the majority of commodities in the first few weeks of April. The data that are available also show that the acceleration in economic activity is beginning to be reflected in demand for industrial products.

Graph 1 – Finally, healthy job creation in the United States

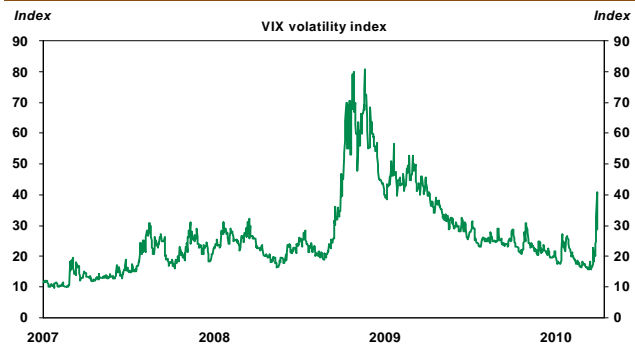


Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

However, in the past few days, the commodities sector has been having a tougher time. Persistent fears that Greece may default on its sovereign debt, and that other euro zone countries, including Spain and Portugal, may find themselves in a similar situation, have sent a gust of panic through the financial markets and generated a significant rise in financial

tensions (graph 2). Commodities are also put at a disadvantage by the sharp appreciation of the U.S. dollar against the euro. As far as base products are concerned, the main fear is that a sustained increase in financial tensions may shake the confidence of economic players and stifle the global recovery. Even though economic growth in this country is still strong, many investors are also concerned about the situation in China, where the government keeps announcing a variety of measures to prevent overheating.

Graph 2 – Greece's problems worry investors



Sources: Datastream and Desjardins, Economic Studies

The risks associated with sovereign debts should be taken seriously, but we still believe that the consequences outside the euro zone will be relatively limited. Therefore the global economic recovery should continue in the coming quarters, which will support demand for industrial commodities. The prices of oil and base metals should therefore be able to remain high and even add a bit to their gains between now and the end of 2010.

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Vice-President and Chief Economist

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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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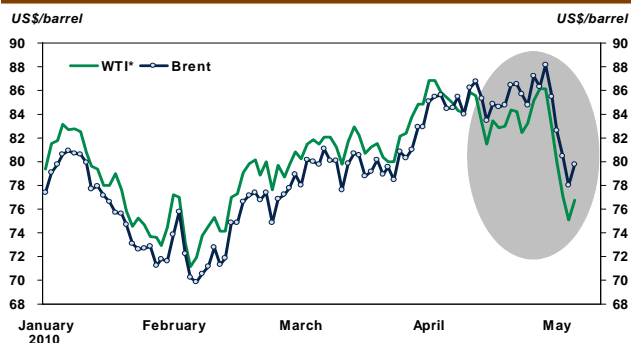
ENERGY

Oil prices are volatile

OIL

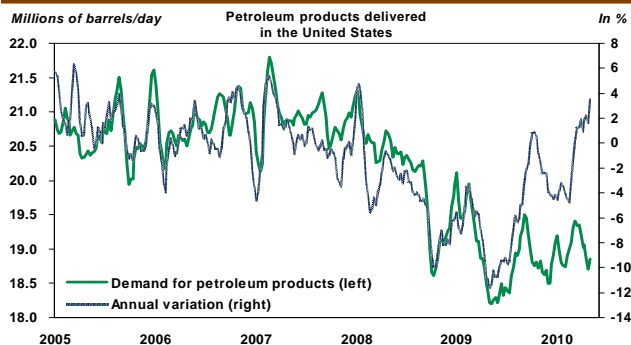
- Oil prices remained high in April, generally fluctuating around US\$85 per barrel. The barrel of WTI (West Texas Intermediate) flagged temporarily towards the middle of the month, but this mainly reflected a surplus of inventory at Cushing, Oklahoma, rather than the balance between global supply and demand. Brent oil was more stable and even stronger than WTI in April, while economic news was very encouraging for the outlook on demand for oil (graph 3). However, investors' optimism waned considerably at the beginning of May, when the Greek crisis threatened to transform itself into a European, or even a global, crisis. In just a few days, the price of crude retreated by over 10%, back near US\$75 per barrel. That slide is not surprising, since oil is one of the commodities that are most affected by financial market conditions.
- The main support for oil prices is still coming from global demand. The acceleration of economic activity is increasingly being reflected in demand for petroleum products, especially in the emerging countries and in producing countries where consumers are not much affected by rising prices on the global market. The situation is also continuing to improve in the United States, where consumption of petroleum products is up by 1.1% since the beginning of the year, compared with the same period in 2009 (graph 4). The upswing in gasoline consumption is particularly encouraging. However, demand in Europe is still quite weak, and that is likely to be the case for some time to come, as the efforts required to reduce government deficits may hold the economic recovery back.
- While investors seem to be reacting primarily to the positive signals of global demand, we must not overlook the supply side of the equation. In fact, in the past few quarters, global oil production has been climbing just as impressively as demand. In particular, the production of countries outside OPEC (Organization of Petroleum Exporting Countries) is currently posting one of the best growth rates of recent decades. As may be seen from accelerated drilling activity in the United States, the strong growth in crude oil prices in the past year is motivating producers to expand their efforts (graph 5). A sharp upswing in production in North America, Brazil and former U.S.S.R. countries accounts for OPEC's refusal to increase its quotas. Despite rising demand, the global oil market is thus very well supplied. Although the direct consequences on the global supply are negligible, the oil slick that is hitting Louisiana may well curtail the development of oilfields off the American coast in the medium term.

Graph 3 – Specific factors have worked against the WTI* in the past few weeks



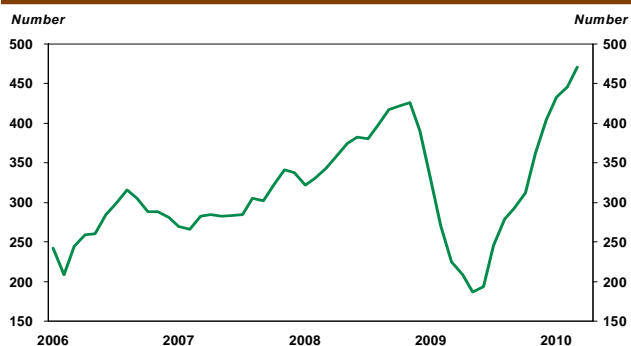
* West Texas Intermediate.
Sources: Datastream and Desjardins, Economic Studies

Graph 4 – U.S. demand for petroleum products is heading back up



Sources: Energy Information Administration and Desjardins, Economic Studies

Graph 5 – Drills in use by oil producers in the United States



Sources: Energy Information Administration and Desjardins, Economic Studies

GASOLINE

- Crude prices in the neighbourhood of US\$85 per barrel and accelerating demand in the United States have continued to support the price of gasoline in recent weeks; it recently rose above US\$2.90 per gallon (graph 6). Favourable seasonal factors, i.e. the fact that fuel costs often rise as the summer season approaches in the United States, are also supporting gasoline prices. Gasoline inventories are still high, however, and that, combined with the recent slump in crude prices, could put downward pressure on prices at the pump.

NATURAL GAS

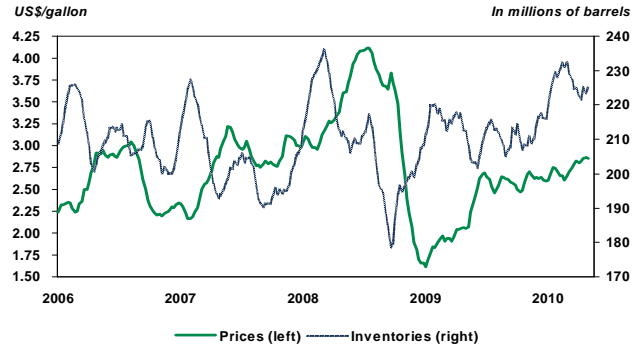
- It comes as no surprise that the price of natural gas has remained low in recent weeks, fluctuating around US\$4 per MMBTU (Million British Thermal Units) (graph 7). The restocking season is in full swing, and natural gas inventories are currently at record levels for this time of year. This situation is likely to last some time, putting a strong damper on the potential for price increases. One positive point in the favour of natural gas prices is that, after several months of expansion, the number of drillings has recently fallen slightly. At this point, the decline is not significant, but if it heralds a new trend limiting American production, it could give some support to gas prices. In addition, more attractive prices in other parts of the globe seem to be reducing deliveries of liquid natural gas in the United States.

URANIUM

- The price of uranium has risen slightly in recent weeks, from a cyclical low of US\$40.50 to US\$41.75 per pound (graph 8). This modest gain is due to a larger number of transactions in the past month. However, the majority of purchases were made by investors, while demand from nuclear plants is still on the low side. The recent surge in financial tensions could reduce demand from the financial markets.

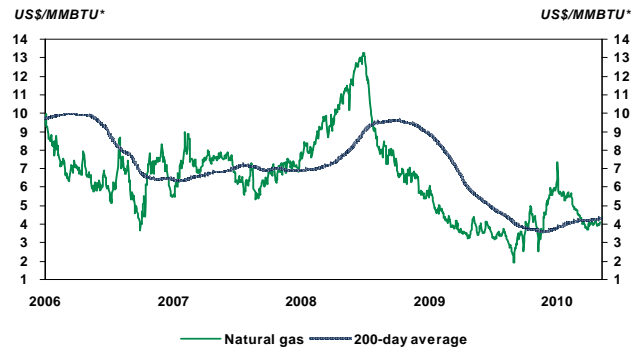
Forecasts: In our opinion, the wind of panic that has blown through the financial markets should have only a limited effect on oil prices, related mainly to a stronger U.S. dollar. Crude prices should climb back quickly over US\$80 per barrel, and stay near that level in the coming months. Accordingly, we are maintaining our prediction of an average price of US\$83 per barrel for 2010 as a whole. We note, however, that the two main risks hanging over our prediction are both on the downside. First of all, should a widening of the sovereign debt crisis or a collapse of the Chinese economy stop the global recovery in its tracks, oil prices could be subject to a violent correction. Secondly, if the production of non-OPEC countries continues to grow at such a fast pace, which would be surprising, oil prices could stay below US\$80 per barrel for some time to come.

Graph 6 – Gasoline prices and inventories



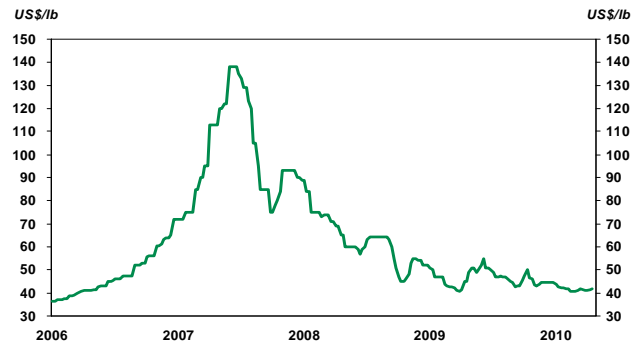
Sources: Energy Information Administration and Desjardins, Economic Studies

Graph 7 – Price of natural gas



* Million British Thermal Unit.
Sources: Datastream and Desjardins, Economic Studies

Graph 8 – Price of uranium



Sources: Datastream and Desjardins, Economic Studies

BASE METALS

Investor jitters push prices down sharply

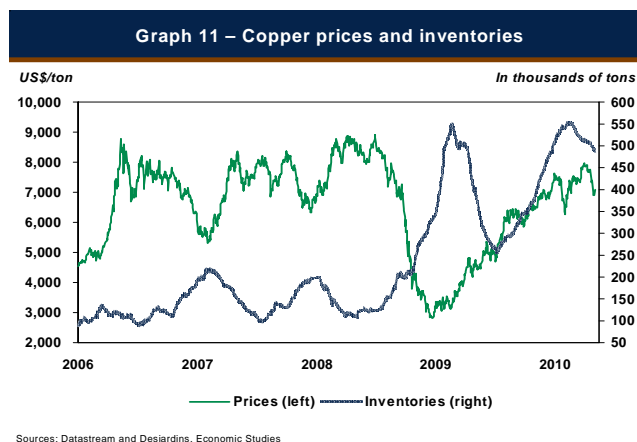
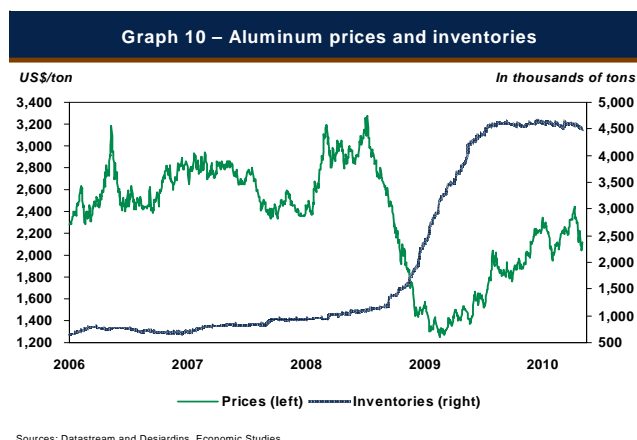
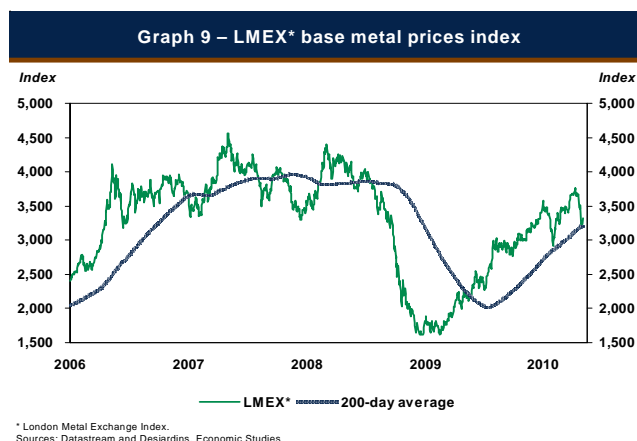
The upward trend of base metal prices continued until mid-April. Signs of acceleration in the economic recovery and strong growth in demand for several industrial metals sent the LME (London Metal Exchange Index) up above 3,750 on April 15. However, the index was unable to maintain that level, due to new worries about China, where the government is multiplying steps to prevent overheating and where the demand for certain industrial metals seems to be flagging a bit, pushing metal prices down. After that, the surge in financial tensions surrounding the issue of sovereign debts in the euro zone drove prices down sharply at the beginning of May, leaving the LME index at around 3,300 (graph 9).

ALUMINUM

- The price of aluminum rose above US\$2,400 per tonne in mid-April for the first time since September 2008, and then fell quickly back below US\$2,200 per tonne (graph 10). Strong growth in global demand is continuing to provide major support for aluminum prices. Higher consumption in some parts of the globe has even been reducing inventories slightly in recent weeks. However, the latest signals from China seem to indicate that this very sizable market is starting to see an aluminum surplus. The fast-paced growth in global aluminum production is also likely to curb gains in the price of this metal.

COPPER

- The price of copper stayed high in April, but was unable to break through the barrier of US\$8,000 per tonne despite a favourable economic and financial climate. Strong demand from China and limited growth in global production caused world copper inventories to decline. These very positive factors kept prices at a level well above the metal's production costs. Strong speculative demand has also bolstered copper prices since the beginning of the year. The surge in financial tensions in recent weeks has had a particularly harmful effect on the price of copper, which has tumbled to around US\$7,000 per tonne (graph 11).



NICKEL

- Nickel's performance has been outstanding. This metal's price climbed above US\$27,000 per tonne on a few occasions in April and, despite the general downturn in resources at the beginning of May, it managed to stay near US\$23,000 per tonne (graph 12), a gain of 25% since the start of 2010. Strong demand from China (due to what seems to be an accelerating recovery in the stainless steel industry) and certain problems that are limiting expansion in global nickel production have significantly tightened the balance between global supply and demand for nickel since the beginning of the year. Therefore, global inventories may continue to decline, which will help to keep prices high.

ZINC

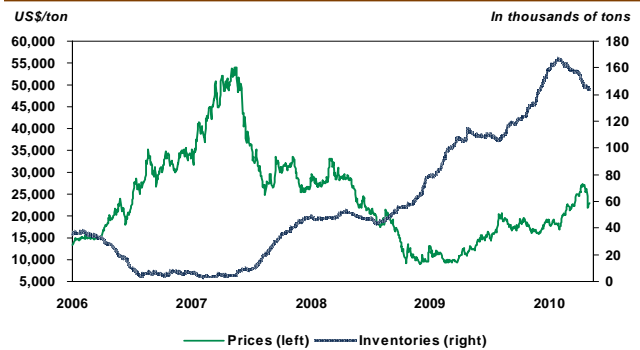
- After staying at around US\$2,400 per tonne during the first part of April, the price of zinc recently sank below US\$2,100 per tonne (graph 13). Besides the surge in financial tensions, the slump in zinc prices has been amplified by a new increase in inventories. The problem does not lie in global demand; it has been rising steadily in the past few months. However, it appears that production will remain significantly above demand throughout 2010, which could put further downward pressure on the price of zinc.

TIN AND LEAD

- After climbing above US\$19,000 per tonne at mid-April, the price of tin has tumbled sharply to around US\$17,500 per tonne (graph 14). Despite the slump of recent weeks, conditions are still favourable for tin, while inventories continue to dwindle. This situation should last for a while to come, as a decline in production of this metal is forecast for all of 2010.
- The price of lead posted a few gains at the beginning of April. However, expanding inventories and major exports by China have continued to weigh down the price of this metal, which is still significantly lower than it was at the start of the year.

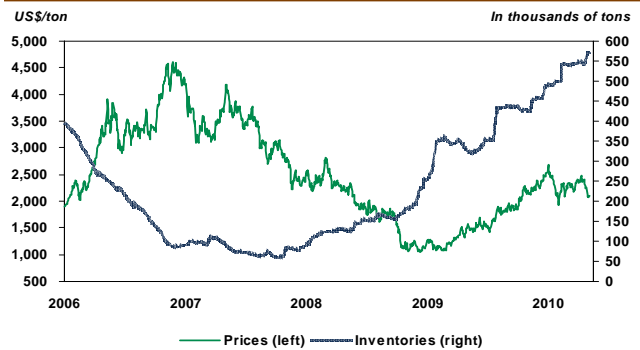
Forecasts: We feel that the drop in industrial metal prices at the beginning of May was a bit exaggerated, and that the prices of most metals will climb back up as long as the consequences of the Greek crisis remain concentrated in Europe. Trends in the demand for industrial metals are encouraging and they should consolidate the major gains of 2009. However, the past few weeks have confirmed that any sign of the global economy losing steam, or of serious problems in China, could prompt a strong reaction by base metal prices.

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

Financial tensions are in gold's favour

To no-one's surprise, precious metals have been less affected by the current Greek crisis. The surge in financial tensions in the past few weeks even caused gold and silver to appreciate in value, despite the gains made by the U.S. dollar. On the other hand, platinum and palladium prices have faltered significantly in the past few days due to emerging doubts about the solidity of the global economic recovery.

GOLD AND SILVER

- After remaining relatively stable for several weeks, slightly above US\$1,100 per ounce, the price of gold benefited from higher investor demand for safe-haven assets to climb back over to US\$1,200 per ounce. It would no doubt have done even better without the rapid appreciation of the U.S. dollar. As a result, the price of gold set a record at the start of May against the euro (graph 15). The surge in financial tensions also drove the price of silver back above US\$18.50 per ounce (graph 16). These high gold and silver prices are still greatly dependent on investor demand as physical demand is still limited.

PLATINUM AND PALLADIUM

- Platinum and palladium prices have continued to react like those of industrial metals. They spiked in the first part of April, but then fears of contagion from the Greek crisis sent them tumbling sharply (graph 17). The strong demand for these metals, especially in China, should continue supporting their prices once calm returns to the financial markets.

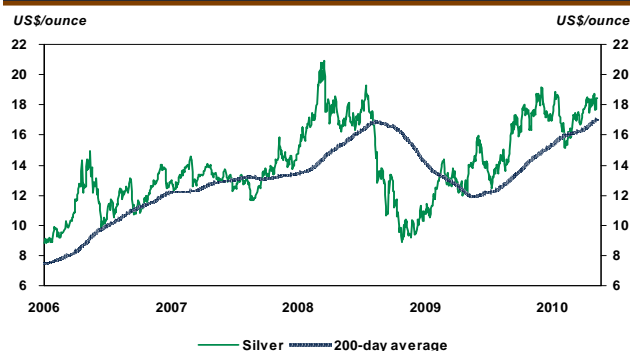
Forecasts: In the short term, ongoing financial tensions and the abundance of liquidity should act in the favour of gold and silver prices. However, if, as we expect, the global economic recovery manages to overcome the current obstacles, the price of gold is likely to sink slightly in the second half of the year. Also according to that view, platinum and palladium prices should start heading back up in the medium term.

Graph 15 – Gold prices



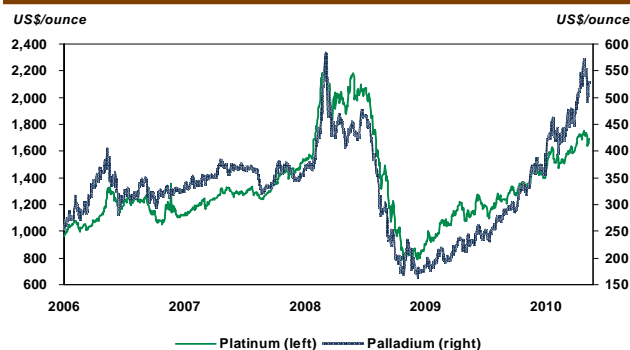
Sources: Datastream and Desjardins, Economic Studies

Graph 16 – Silver prices



Sources: Datastream and Desjardins, Economic Studies

Graph 17 – Platinum and palladium prices



Sources: Datastream and Desjardins, Economic Studies

AGRICULTURAL COMMODITIES

A slight uptick in grain prices

Grain prices reacted much less to the Greek crisis and have continued to basically reflect trends in global supply and demand. In this respect, recent developments were slightly more favourable, with Chinese demand for soybeans rallying, and weather seeming to be less favourable for wheat and corn harvests. As for livestock prices, they are benefiting from herd reductions in recent years and higher demand. They are performing far better than grain prices (graph 18).

WHEAT

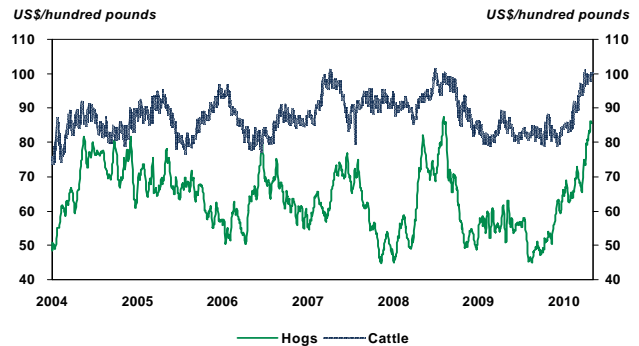
- The price of wheat continued to fluctuate with no clear direction in April, in the neighbourhood of US\$4.50 per bushel (graph 19). Weather that was less favourable for wheat harvest, particularly in the United States where the temperature approached the freezing point in many regions at the beginning of May, as well as a lack of precipitation in some other producing countries, drove the price of wheat slightly higher. It is too soon, however, to tell whether these developments will have any real impact on the global wheat market.

CORN AND SOYBEANS

- The price of corn edged up slightly in the past few days, near US\$3.50 per bushel (graph 20). The unfavourable weather, and the hope that China would increase its imports of corn, led some investors to start betting on a rise in the price of corn. The price of soybeans fared particularly well in the first few weeks of April. It even came close to US\$10 per bushel after Chinese foreign trade data confirmed that the considerable downturn in soybean imports in February was merely a temporary phenomenon. However, doubts about the global recovery have pushed the price of soybeans back down in the past few days.

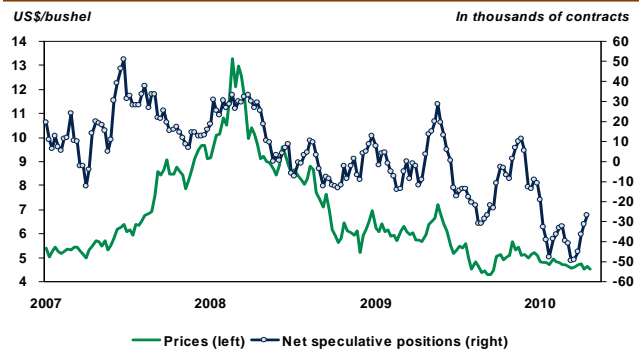
Forecasts: Although recent developments have been slightly more favourable for grain prices, nothing so far changes the fact that harvests are likely to be amply sufficient to meet global demand. Therefore, the recent upturn in prices is probably not the start of a long-term trend.

Graph 18 – Livestock prices are up in the United States



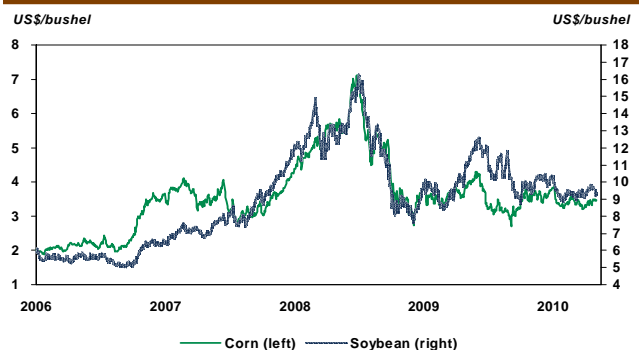
Sources: Bloomberg and Desjardins, Economic Studies

Graph 19 – Wheat prices and speculation



Sources: Datastream, Bloomberg and Desjardins, Economic Studies

Graph 20 – Corn and soybean prices



Sources: Datastream and Desjardins, Economic Studies

Table 1 Commodities

	Spot price	Percentage return since					Last 52 weeks		
	May 10	1 month	3 months	6 months	1 year	High	Average	Low	
Index									
Reuter-CRB* (CCI**)	470.9	-0.4	1.0	2.7	17.0	504.7	447.9	382.9	
Reuters/Jefferies CRB*	265.4	-3.9	-0.3	-2.5	9.1	293.8	265.6	231.2	
Dow Jones AIG***	130.2	-3.3	0.3	-1.8	7.8	145.0	130.2	113.2	
Energy									
Crude oil (US\$/barrel)	76.8	-9.6	3.1	-2.8	31.0	86.8	74.0	56.3	
Gasoline (US\$/gallon)	2.91	2.8	9.5	9.0	39.8	2.91	2.63	2.08	
Natural gas (US\$/MMBTU****)	4.10	5.0	-25.2	8.0	-1.8	7.38	4.14	1.92	
Precious metals									
Gold (US\$/ounce)	1,199.5	3.5	12.5	8.9	31.7	1,212.0	1,050.2	911.1	
Silver (US\$/ounce)	18.5	0.7	18.3	7.0	32.8	19.2	16.3	12.5	
Platinum (US\$/ounce)	1,694.0	-1.4	12.1	25.1	47.4	1,752.0	1,395.3	1,095.0	
Palladium (US\$/ounce)	528.0	3.3	26.9	58.6	118.2	571.0	355.2	223.5	
Base metals									
Aluminium (US\$/ton)	2,114.3	-10.9	5.5	9.8	40.2	2,439.9	1,954.5	1,370.8	
Copper (US\$/ton)	7,084.3	-10.3	8.8	8.9	51.8	7,960.3	6,435.6	4,428.0	
Nickel (US\$/ton)	22,936.0	-8.8	30.1	36.9	76.1	27,227.0	18,493.3	12,047.0	
Zinc (US\$/ton)	2,107.0	-11.5	0.2	-1.4	37.8	2,686.3	2,028.7	1,415.8	
Tin (US\$/ton)	17,677.0	-5.3	13.0	18.5	24.4	19,127.0	15,774.1	12,095.0	
Lead (US\$/ton)	2,076.8	-9.9	2.4	-8.2	42.7	2,652.8	2,066.8	1,383.5	
Agricultural commodities									
Wheat (US\$/bushel)	4.53	-2.1	-7.1	-11.4	-28.8	7.29	5.13	4.22	
Corn (US\$/bushel)	3.46	5.8	3.0	-5.9	-13.0	4.30	3.48	2.70	
Soybean (US\$/bushel)	9.33	0.5	0.8	-1.2	-15.7	12.60	10.15	8.73	
CRB* Livestock index	500.3	6.9	22.2	28.5	49.4	507.5	399.8	334.9	

*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

	2008	2009	2010f	2011f
Annual average				
WTI* oil (US\$/barrel)	99	62	Target: 83 (range: 75 to 90)	Target: 95 (range: 85 to 105)
Natural gas Henry Hub (US\$/MMBTU**)	8.84	3.95	Target: 4.75 (range: 4.00 to 6.00)	Target: 6,00 (range: 5.00 to 7.50)
Gold (US\$/ounce)	872	973	Target: 1,100 (range: 1,000 to 1,200)	Target: 1,000 (range: 900 to 1,100)
LMEX*** index—base metals	3,377	2,471	Target: 3,500 (range: 2,800 to 4,200)	Target: 4,200 (range: 3,500 to 5,000)

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