

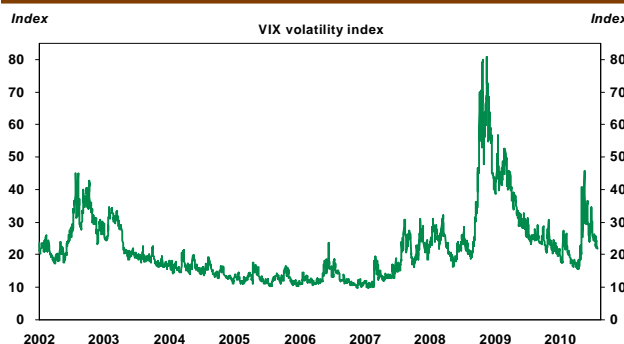
After correcting, commodity prices come back quickly

Commodity prices have undergone substantial fluctuations in recent months. The surge in financial strains at the end of last spring, when the markets were worried about another financial crisis arising from domino defaults by euro zone nations, prompted a spectacular tumble by prices for oil and metals used by the industrial sector. The situation has eased in Europe in recent weeks, as Greece seems to be able to meet its commitments and will thus continue to get substantial financial support, and the other euro zone nations, especially Spain, are still managing to issue their debt to the markets. The publication of the stress tests results also confirmed the resilience of the major European banks.

Financial strains have thus declined sharply in the last few weeks (graph 1) and, like the stock indexes, commodity prices posted a big rebound in July (graph 2). The U.S. dollar's retreat and some specific factors, like the warm weather that is having a big impact on the wheat harvests and is swelling demand for natural gas, also supported commodity prices.

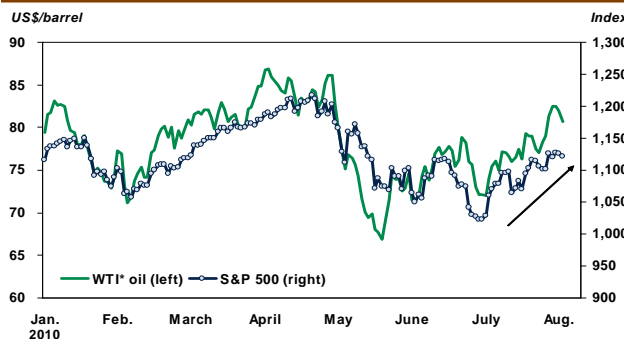
The last few months' fluctuations demonstrate the degree to which commodity prices are influenced by financial conditions and investor sentiment, particularly during times of crisis. If there is less financial turbulence in the coming months, the fundamental determinants should once again start to have more influence. Here, the latest statistics tend to confirm that economic growth will moderate in the coming quarters, which should limit commodity price gains.

Graph 1 – The financial strains have eased...



Sources: Bloomberg and Desjardins, Economic Studies

Graph 2 – ... allowing the stock markets and commodity prices to start trending up again



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

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

Yves St-Maurice
Director and Deputy Chief Economist

Mathieu D'Anjou
Senior Economist

Hendrix Vachon
Senior 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 © 2010, Desjardins Group. All rights reserved.

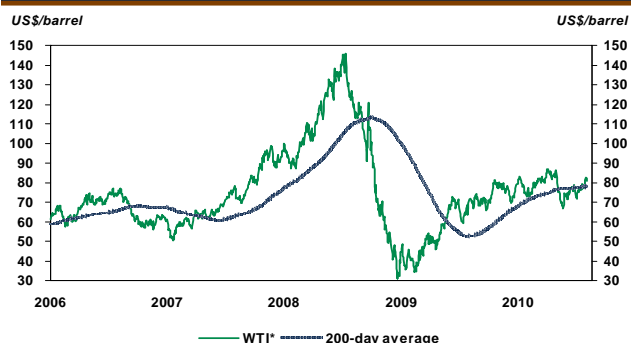
ENERGY

Oil is back above US\$80 a barrel

OIL

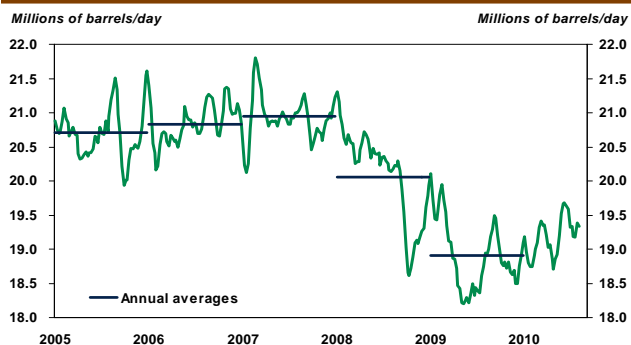
- After having tumbled below US\$70 a barrel in May, WTI (West Texas Intermediate) oil quickly started to trend up again. Its climb picked up speed in July when financial strains dissipated. The announcement by the International Energy Agency (IEA) that China had become the biggest energy consumer—all sources combined: oil, gas, coal, etc.—also helped oil's price to go back above US\$80 a barrel. Beyond the recent fluctuations, oil's price is continuing to move within a band that is focused around US\$80 a barrel (graph 3).
- The latest statistics confirm that global oil demand is heading for robust growth this year. The emerging nations are still the main source of demand growth this year, with the IEA estimating that China alone will be responsible for almost 50% of the increase this year. However, a comeback by consumption is also shaping up in the United States (graph 4), a country that clearly remains the world's leading consumer of oil. Following an increase of 2.1% in global demand this year, the IEA is predicting growth of 1.6% for 2011.
- Rapid demand growth is still being coupled with solid growth by global output, especially by non-OPEC nations (Organization of Petroleum Exporting Countries). For now, the global crude market seems to have a slight surplus and nothing points to a major shortfall until at least the second half of 2011. OECD (Organisation for Economic Co-operation and Development) nations still have very large inventories (graph 5) and OPEC will continue to have large unused production capacities that it could reactivate if the need materializes.
- While the fundamental situation in the petroleum market does not appear worrisome in the near term, a further increase could stem from the emergence of a risk premium. The situation in the Middle East is a concern: Iran is refusing to give up its uranium enrichment program despite new international sanctions, and tension between Israel and its neighbours has increased. Also, the hurricane season could impact oil production.

Graph 3 – Price of oil per barrel



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

Graph 4 – U.S. demand for oil is starting to rise



Sources: Energy Information Administration and Desjardins, Economic Studies

Graph 5 – Inventories of oil products held by OECD* nations remain very large



* Organisation for Economic Co-operation and Development.
Sources: International Energy Agency and Desjardins, Economic Studies

GASOLINE

- As expected, May's tumble in oil prices took gas prices down. In the United States, the price of a gallon of gas went from just over US\$2.90 in mid-May to about US\$2.75 (graph 6). The recent upswing by crude prices over US\$80 a barrel has yet to be fully reflected in gas prices. A slight increase can therefore be anticipated in the coming weeks, despite ongoing large inventories. The arrival of the hurricane season could also have a big impact on prices at the pump.

NATURAL GAS

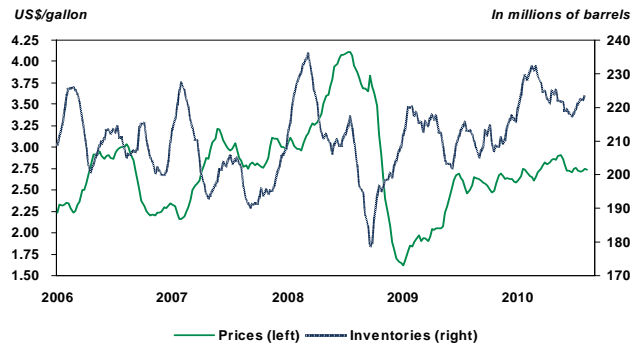
- Not as affected by the financial upheaval, the price of natural gas has risen in the last few months to close in on US\$5/MMBTU (Million British Thermal Units) (graph 7). The gains stem mainly from the above-average temperatures in the last few months which have inflated North American demand for natural gas. The upswing in economic activity is also resulting in an increase in the industrial sector's use of natural gas. The stronger demand has limited growth in gas inventories. Inventories remain large, historically speaking, but are now about 4% lower than they were at this time last year. The current price is therefore about 50% higher than the depressed levels seen in August 2009. Despite stronger demand, natural gas output will be more than enough to supply the market and the restocking season could end with inventories very close to the record level reached in 2009.

URANIUM

- After a tough start to the year, uranium's price has gone up by about 10% since early July, reaching US\$45.25 a pound (graph 8). Labour and equipment problems at a major American producer prompted a number of buyers to make deals to protect themselves against a potential supply issue. Over the longer range, the progressive commissioning of new nuclear power plants should allow uranium's price to move upward.

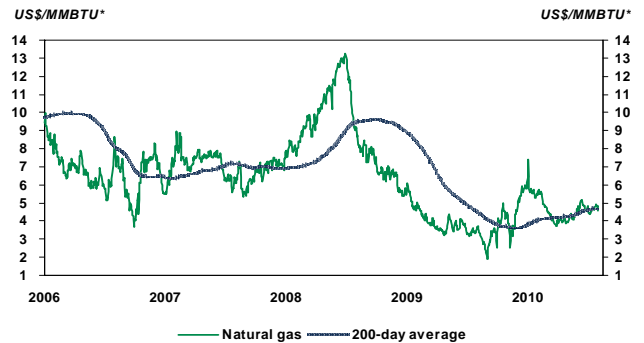
Forecasts: Our scenario, which calls for the global economic recovery to continue, although at a more moderate pace in China and North America, should allow oil prices to appreciate somewhat by year's end, despite large inventories. We are therefore maintaining our target of US\$88/barrel by the end of 2010. The slowly tightening balance between global supply and demand should take oil prices over US\$100/barrel in 2011. Natural gas' recent strong performance is encouraging, but we are maintaining our target of US\$4.75/MMBTU for all of 2010, as the large inventories should limit increases in the coming months.

Graph 6 – Gas prices and inventories



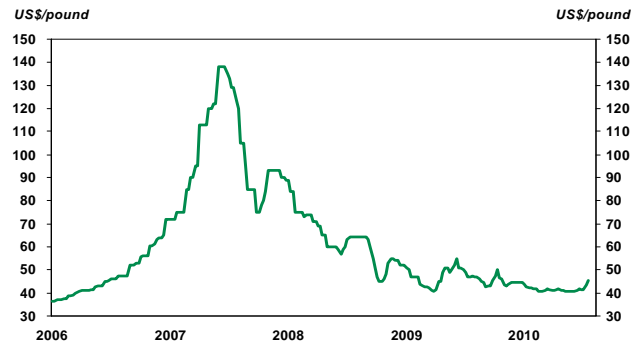
Sources: Energy Information Administration and Desjardins, Economic Studies

Graph 7 – Natural gas prices



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

Graph 8 – Uranium prices



Sources: Datastream and Desjardins, Economic Studies

BASE METALS

Can the rebound keep going?

Base metal prices have been especially volatile in the last few months. Following major gains in 2009 and in early 2010, the LME (London Metal Exchange) index of industrial metal prices collapsed as of mid-April, hit by the signs of a slowing Chinese economy and, in particular, a surge in financial strains. The LME index tumbled just over 26% between mid-April and the start of June, falling back to its lowest point since October 2009. The trend has reversed in the last few weeks, as the good news from Europe, combined with a pullback in inventories of most metals, made prices rebound quickly (graph 9). However, signs of slowing economic growth in several major countries, including the United States and China, could affect demand for metals.

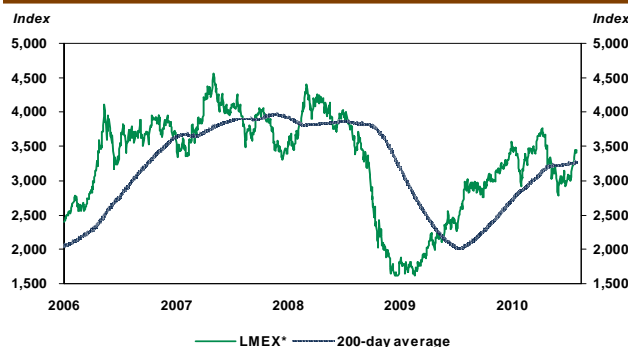
ALUMINUM

- After tumbling to US\$1,835 a tonne early in June, aluminum's price rebounded to cross back over US\$2,200 a tonne at the start of August (graph 10). The metal's price has thus come very close to where it started 2010. Although they have dipped slightly since the year began, aluminum inventories remain very elevated, which will limit the metal's gains. Following spectacular growth, global aluminum production has quieted somewhat, especially in China. Despite this, the country has once again become a net aluminum exporter in the last few months. The existence of substantial unused aluminum production capacity suggests that the global supply will be more than enough to meet demand.

COPPER

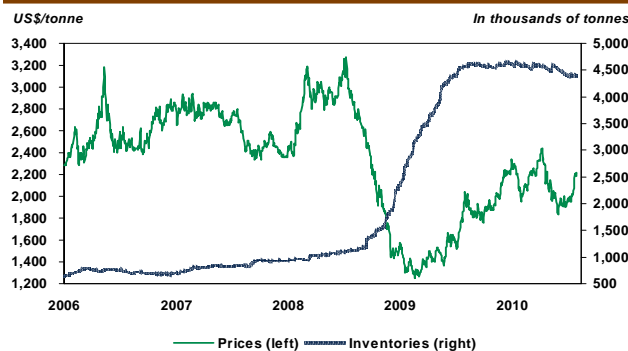
- As usual, the price of copper reacted sharply to the financial strains, tumbling nearly 25% to close in on US\$6,000 a tonne at the start of June, then rising to almost US\$7,500. Fundamentally speaking, copper continues to be buoyed by the limited growth of global production, despite a price that is holding well above production costs. The limited copper supply twinned with substantial Chinese imports has led to an over 18% drop in the inventories recorded by the LME (London Metal Exchange) since the year opened (graph 11). The latest trade data, however, show a decline by shipments to China. Also note that, compared with the other base metals, the comeback of global copper demand is still relatively modest.

Graph 9 – LME^{*} index of base metal prices



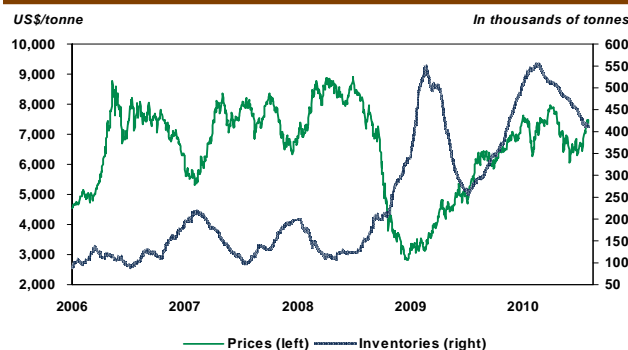
^{*} London Metal Exchange Index.
Sources: Datastream and Desjardins, Economic Studies

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

- After making spectacular gains at the start of the year, the price of nickel was hard hit by the spring correction, which took it from more than US\$27,000 to under US\$19,000 a tonne in just a few weeks (graph 12). It recently came back to nearly US\$22,000 a tonne, however. A big rise in stainless steel production—the primary use for nickel—at the start of the year, and a long strike at Vale's Canadian nickel facilities, have helped to slash the historically very large nickel inventories. However, the less favourable outlook for stainless steel production and sizeable increase in China's nickel output should keep nickel's price well below last April's level.

ZINC

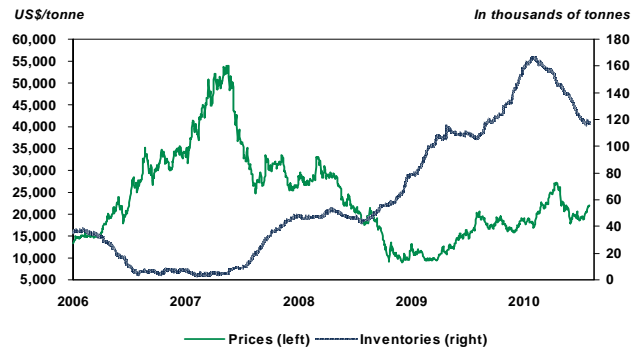
- The price of zinc has followed a trend similar to that of other base metals in recent months. A major tumble at the end of the spring was followed by a rebound to just over US\$2,000 a tonne. From the start of the year, zinc's price is, however, down by 17%, the worst performance among base metals. The pullback in prices comes as no surprise, given that the rapid rise by output is keeping the zinc market in surplus, a situation that could persist for the next few quarters. The surplus is clearly visible in movement of inventories, which are up over 25% since 2010 began (graph 13).

TIN AND LEAD

- The major rebound of tin prices in the last few weeks has taken it over US\$20,000 a tonne for the first time since August 2008 (graph 14). Stagnant global tin production and strong demand from China have taken tin inventories down rapidly in the last few months. The global market should stay in a deficit situation for a while, which will continue to support the metal's price.
- Lead prices remained volatile in the last few months, with a 35% correction followed by a rebound of more than 40%. Lead's price recently rose to nearly US\$2,200 a tonne, a level that is still below where it started the year. The recent drop in inventories, however, points to a better second half of the year, as Chinese demand should remain firm.

Forecasts: May's spectacular correction in industrial metal prices was exaggerated; it is not surprising to see them come back up substantially now that the fears of another financial crisis are dissipating. However, the gains promise to be more modest in the next few months, as moderating economic growth will limit advances by demand for metals. Industrial metals with limited short-term prospects for output growth, especially copper and tin, should continue to outperform.

Graph 12 – Nickel prices and inventories



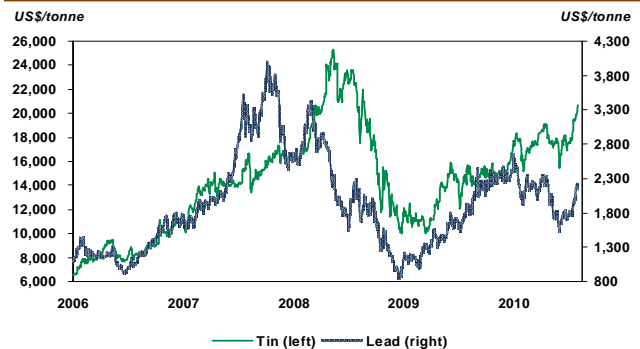
Sources: Datastream and Desjardins, Economic Studies

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

A little less demand for safe-haven securities

The increase in financial strains at the end of last spring boosted gold and silver prices, even driving gold's price to another historic peak in mid-June. After that, however, ebbing financial strains played against gold and silver. Conversely, platinum and palladium prices followed a trend similar to that of industrial metals.

GOLD AND SILVER

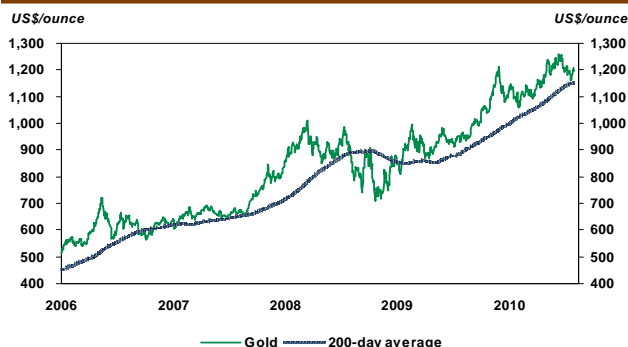
- Gold has once again proven its usefulness as a safe-haven security in the last few months. While the stock markets and most commodities were correcting violently in May and early June, gold capitalized on the anxieties to go back over US\$1,200 an ounce and even set a new peak at US\$1,259 on June 18 (graph 15). The financial strains eased in July, taking gold's price down by about 5%. The U.S. dollar's pullback and news that China wants to develop and liberalize its internal gold market limited the retreat of the metal's price. The price of silver followed a similar trend, advancing to US\$19.64 an ounce while financial strains were on the rise, then retreating to around US\$18.00 (graph 16).

PLATINUM AND PALLADIUM

- The surge in financial strains and fears of a slowing economy were not nearly as good for platinum and palladium, where demand is very dependent on the health of the auto industry. After making major gains early in the year, prices for these two metals pulled back substantially in May and early June (graph 17). The improvement seen in the last few weeks has allowed them to start trending up again, and this should persist as Chinese demand for these metals remains robust. The uncertainty surrounding Russian palladium inventories has inflated the metal's price since the start of the year, while making it very volatile.

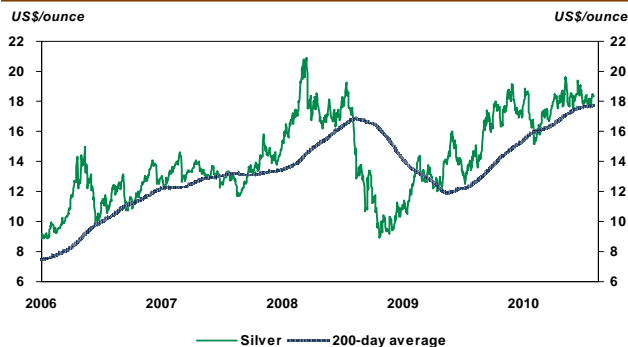
Forecasts: Failing another surge of financial strains, the outlook for gold seems weak in a context in which inflation pressures should remain anaemic. Given investors' desire for security, gold's price should remain high, however. Platinum could continue to appreciate over the next few months.

Graph 15 – Gold prices



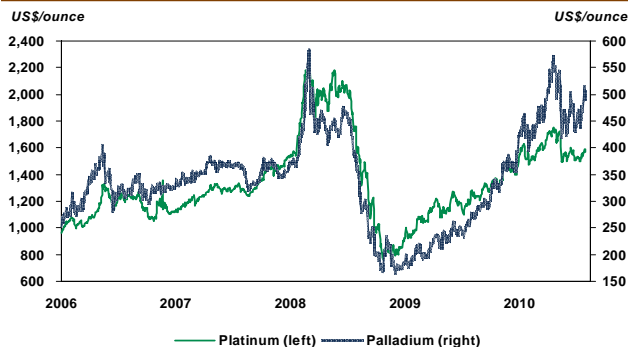
Sources: Datastream and Desjardins, Economic Studies

Graph 16 – Silver prices



Sources: Datastream and Desjardins, Economic Studies

Graph 17 – Platinum and palladium prices



Sources: Datastream and Desjardins, Economic Studies

AGRICULTURAL COMMODITIES

Cereal prices heat up

Not so long ago, cereal prices seemed to be doomed to lacklustre performance, as everything pointed to another good year of harvests. However, the last few weeks have demonstrated how much influence climatic conditions have, as unfavourable weather, especially for wheat in Russia, have changed the situation radically and even raised once again fears of a shortage. That was all it took to get speculators to rush back into the market, magnifying the upswing of cereal prices.

WHEAT

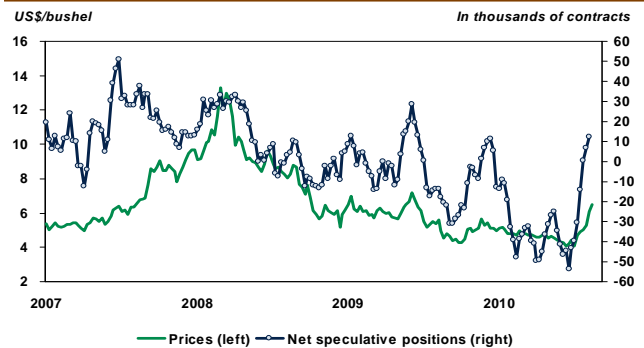
- The drought that is currently affecting the former USSR—the worst one in the last 50 years, according to many—will have major consequences for the global wheat harvest. This region produced just over 15% of this cereal's harvest last year. In early July, the U.S. Department of Agriculture substantially downgraded the harvest forecast for this year; the situation has deteriorated seriously since then. Russia decision to suspend grain exports fueled investor fears. Wheat's price has thus jumped by more than 50% since the end of June, going back over US\$6.50 a bushel (graph 18). This price is still well below the peaks hit at the start of 2008, however, which is fully justified by the fact that global wheat stocks had been replenished in the last few years, substantially reining in the risk of a shortage.

CORN AND SOYBEAN

- Poor weather in Eastern Europe will have a much smaller impact on the corn and soybean market, as the major exporters for these cereals are located in the Americas. Prices for these cereals still benefited from renewed interest from those investing in agricultural products. The price of corn has come back above US\$3.70 a bushel, capitalizing on a downward change to the forecast for the U.S. harvest and an increase in Chinese imports (graph 19). Chinese demand has also helped to take soybean prices back over US\$10/bushel (graph 20).

Forecasts: Although they seem rapid, the recent gains by cereal prices do not appear exaggerated. For wheat, this year's substantial decline of the harvest will keep providing some support; it could decrease global inventories substantially. It is, however, too early to anticipate a real shortage that would take cereal prices to the levels reached in 2008.

Graph 18 – Wheat prices and speculation



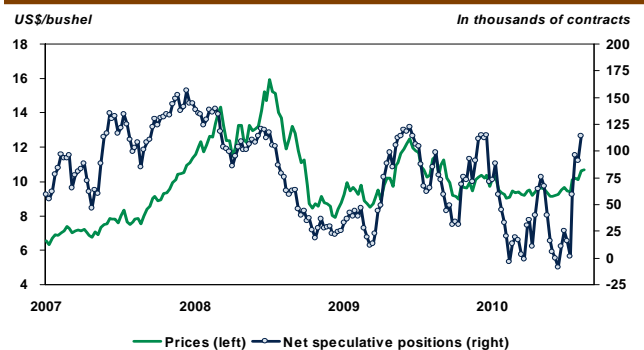
Sources: Datastream, Bloomberg and Desjardins, Economic Studies

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		
	Aug. 8	1 month	3 months	6 months	1 year	High	Average	Low	
Index									
Reuter-CRB* (CCI**)	500.0	5.9	7.2	8.8	18.5	505.7	463.9	406.8	
Reuters/Jefferies CRB*	274.7	5.9	5.1	5.0	3.9	293.8	268.3	247.6	
Dow Jones AIG***	135.3	7.1	5.2	5.7	3.9	145.0	131.3	122.0	
Energy									
Crude oil (US\$/barrel)	80.7	7.0	7.4	12.3	13.8	86.8	76.4	65.8	
Gasoline (US\$/gallon)	2.74	0.3	-5.6	3.1	7.0	2.91	2.69	2.47	
Natural gas (US\$/MMBTU****)	4.60	1.8	17.0	-19.7	29.4	7.38	4.37	1.92	
Precious metals									
Gold (US\$/ounce)	1,208.6	1.5	1.1	12.8	26.1	1,259.2	1,116.1	935.3	
Silver (US\$/ounce)	18.3	1.7	3.4	20.9	24.9	19.6	17.3	13.6	
Platinum (US\$/ounce)	1,571.0	2.8	-4.8	6.4	24.7	1,752.0	1,488.0	1,210.0	
Palladium (US\$/ounce)	491.0	9.8	-2.8	21.2	81.2	571.0	409.6	268.0	
Base metals									
Aluminium (US\$/ton)	2,181.8	10.8	6.9	10.1	9.7	2,439.9	2,051.0	1,755.3	
Copper (US\$/ton)	7,344.8	11.4	6.3	14.3	19.6	7,960.3	6,850.2	5,857.8	
Nickel (US\$/ton)	22,035.0	13.9	-2.0	28.1	12.7	27,227.0	19,752.9	15,919.0	
Zinc (US\$/ton)	2,100.3	15.0	1.9	4.6	12.2	2,686.3	2,099.2	1,596.5	
Tin (US\$/ton)	20,695.0	18.1	18.1	36.7	37.7	20,695.0	16,633.1	13,932.0	
Lead (US\$/ton)	2,135.5	18.1	5.8	9.8	13.4	2,652.8	2,113.8	1,529.0	
Agricultural commodities									
Wheat (US\$/bushel)	6.52	30.1	40.4	36.5	29.0	7.12	4.82	4.09	
Corn (US\$/bushel)	3.71	4.7	6.6	12.6	17.8	3.88	3.41	2.70	
Soybean (US\$/bushel)	10.68	7.2	14.8	17.3	-6.4	11.78	9.73	8.73	
CRB* Livestock index	463.7	-1.1	-8.1	14.5	16.4	507.5	425.9	345.8	

*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: 80 (range: 77 to 83)	Target: 95 (range: 85 to 105)
Natural gas Henry Hub (US\$/MMBTU**)	8.84	3.95	Target: 4.75 (range: 4.25 to 5.25)	Target: 6.00 (range: 5.00 to 7.50)
Gold (US\$/ounce)	872	973	Target: 1,165 (range: 1,125 to 1,200)	Target: 1,075 (range: 950 to 1,150)
LMEX*** index—base metals	3,377	2,471	Target: 3,300 (range: 3,100 to 3,500)	Target: 4,200 (range: 3,400 to 4,500)

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