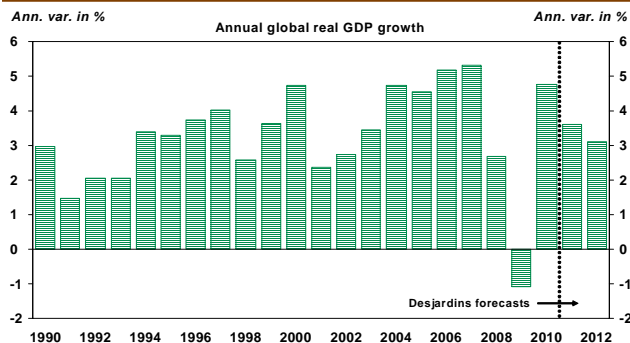


2011 was a hard year, and 2012 looks no better

After a very promising beginning of the year, commodity prices dropped sharply over the last months of 2011. Rising financial strains, largely related to the growing sovereign debt crisis in Europe, and worsening global economic outlooks (graph 1) caused the price of industrial commodities to fall throughout the second half of 2011. More recently, the greenback's strength, particularly against the euro, has intensified the downturn by commodity prices, affecting even precious metals.

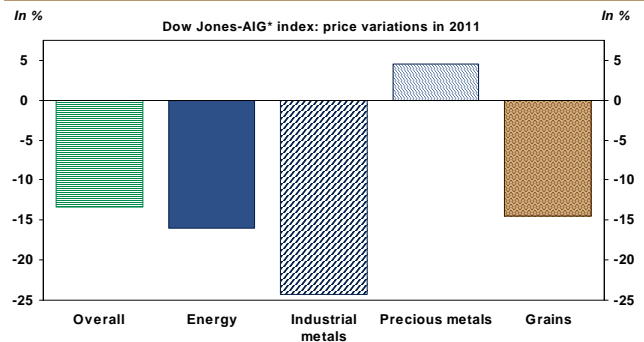
Graph 1 – The global economy will see limited growth in 2012



Sources: International Monetary Fund, Consensus Forecasts and Desjardins, Economic Studies

The outcome for 2011 is thus relatively sombre, with the main indexes of commodity prices down about 10%. While most resource prices have declined (graph 2), their performances

Graph 2 – Only precious metal prices advanced last year



* American International Group.
Sources: Datastream and Desjardins, Economic Studies

were rather varied. Not surprisingly, the global economic slow-down hit industrial metal prices particularly hard: they were down 20% in several cases. Another new decline of natural gas prices also caused energy prices to pull back; however, the upswing in geopolitical tensions allowed oil prices to reach US\$100 per barrel, to end 2011 on the rise. For cereals, large world harvests, especially in the case of wheat, have erased fears of a shortage and pulled prices down sharply. Finally, despite a tougher year-end, precious metal prices recorded a gain over the last year.

2012 promises to be fairly tough, too, as investors remain worried about the European crisis and the global economy's slow growth will limit demand for commodities. Prices should however start to post a substantial upswing as 2013 approaches.

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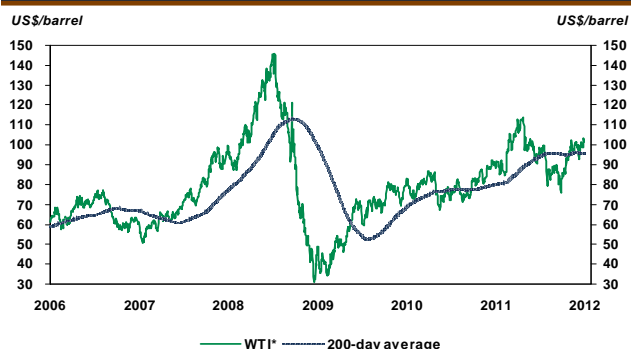
ENERGY

Will geopolitical concerns cause weak demand to be overlooked for a long time?

OIL

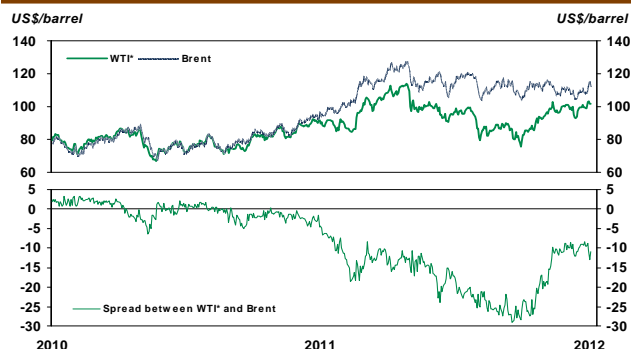
- Several factors affected oil prices in 2011. At the beginning of the year, the Arab Spring pushed prices up, especially when Libyan production was affected. A crude oil surplus in the U.S. Midwest, however, prompted a major negative difference between prices for WTI (West Texas Intermediate) and other types of oil. The intensification of the sovereign debt crisis in Europe and worsening economic outlooks then made WTI prices drop to around US\$75 per barrel in early October.
- WTI oil prices have rebounded significantly since autumn, despite an economic and financial environment that is generally unfavourable to industrial commodities, crossing back over US\$100 per barrel (graph 3). Initially, this comeback did not reflect a general increase in oil prices, but rather a narrower spread between WTI and other oil types (graph 4). Several developments, including Enbridge's partial acquisition of the Seaway Pipeline in mid-November and their plans to reverse its flow, suggest an end to the Midwest's crude oil surplus. In recent weeks, geopolitical tensions have once again resurfaced and have caused a more generalized increase by crude oil prices.
- While there are also some problems in Nigeria, investors are primarily worried about Iran. Tensions between the fifth largest oil producer and the West have increased significantly since last November, when inspectors from the International Atomic Energy Agency confirmed that Iran was trying to develop nuclear weapons. The United States and Europe quickly decided to use stronger economic sanctions against Iran. For its part, Iran has reacted by carrying out military exercises in the Strait of Hormuz. It is evident that Iran is able to block this strategic location, through which pass nearly 17 million barrels per day (mbd) (graph 5). This is about 20% of the world's oil production. Iranian leaders are nevertheless aware that the United States would not tolerate such an action, which could lead to a war Iran could not hope to win. In that context, it seems logical to assume that the global oil supply will not be disrupted on a lasting basis. The rising tensions does, however, increase the risks of the situation degenerating in the region, if, for example, Israel decides to act unilaterally against Iran's nuclear program. We must therefore expect the risk premium on oil prices to continue for some time.
- Beside geopolitical worries, note that the outlooks for global supply and demand are not favourable to oil prices remaining very high. The gradual return of Libya's production and the efforts of Saudi Arabia to ensure a sufficient supply have increased oil production in the OPEC (Organization of the Petroleum Exporting Countries) to over 30 mbd, putting the supply at its highest level since November 2008 (graph 6). It is also encouraging to see that OPEC acknowledged this level (30 mbd) at their December meeting; their old official quota was only 24.8 mbd. With all signs pointing to another drop by oil demand in industrialized countries in 2012, the oil supply will be more than adequate.

Graph 3 – Price of oil per barrel



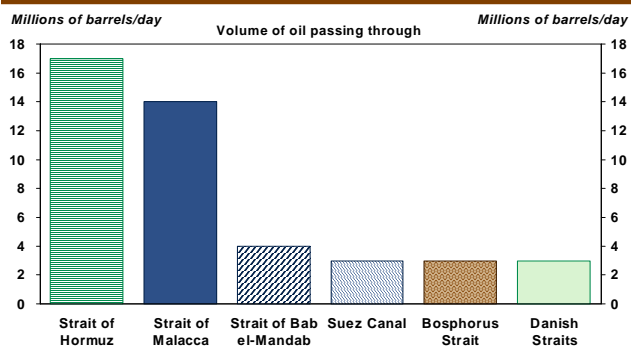
* West Texas Intermediate.
Sources: Datastream and Desjardins, Economic Studies

Graph 4 – The gap between WTI* and Brent oil prices fluctuated sharply last year



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

Graph 5 – Bigger chokepoints in oil transport



Sources: Energy Information Administration and Desjardins, Economic Studies

GASOLINE

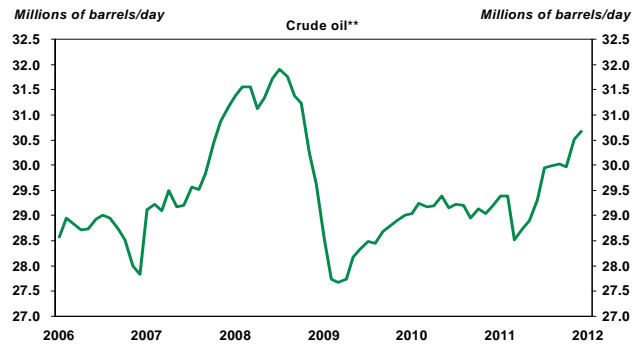
- Gasoline prices were much less volatile than the prices of WTI oil in 2011, reflecting the changes in other oil prices, including Brent (graph 7). After reaching nearly US\$4.00 per gallon in April, the prices at the pump in the United States moved downward, ending 2011 at around US\$3.25. The trend was similar in Canada. However, because of the situation in Iran, we are seeing some upside pressure on gasoline prices in early 2012. The possibility of a lasting rise in gasoline prices seems rather limited, without a surge of crude oil prices, given the ample supply of gasoline and the decreased demand in the United States.

NATURAL GAS

- The price of natural gas fell significantly in 2011, dropping 30% from where they ended 2010. Mild weather early in the winter allowed natural gas to end the year under US\$3.00 per MMBTU (Million British Thermal Units) while stocks remain extremely high (graph 8). The average for 2011 overall was US\$3.99 per MMBTU, down nearly 9% from 2010. The lasting weakness in natural gas prices is primarily due to a substantial surge in production, resulting partly from new extraction methods. The U.S. Department of Energy estimates that the natural gas supply jumped 7.4% in 2011 in the United States, while consumption only rose 2.7%. The very low prices are beginning to affect producers' activities, but other, more modest increases in production are expected in 2012 and 2013.

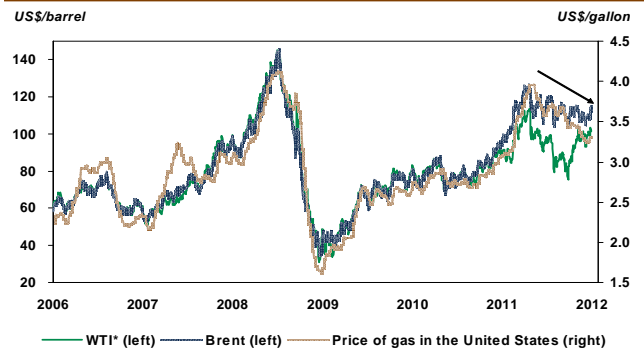
Forecasts: In the short term, tensions in the Middle East may keep oil prices around US\$100 per barrel. Prices should fall substantially thereafter, averaging US\$89 per barrel in 2012. A better economic environment in 2013 should bring crude oil prices back to nearly US\$100 per barrel. Limited economic growth and very high stocks in North America should keep natural gas prices at an average of about US\$4 per MMBTU over the coming years.

Graph 6 – OPEC* output has shot up in the last few months



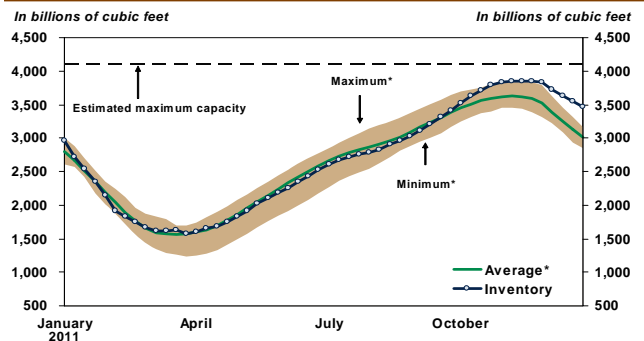
* Organization of the Petroleum Exporting Countries; ** Excluding Indonesia but including Iraq.
Sources: Datastream and Desjardins, Economic Studies

Graph 7 – Brent was a better reflection of the real trend for oil and gas prices in 2011



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

Graph 8 – The rise by U.S. gas inventories accelerated at year's end, reaching a new peak



* For the previous five years.
Sources: Energy Information Administration and Desjardins, Economic Studies

BASE METALS

Generalized pullback by prices in 2011

After a strong start to 2011, prices of all industrial metals decreased substantially in the second half. This movement was not surprising. The global economy's increasingly obvious slowdown is already starting to affect demand for metals and it will have a bigger impact in the coming quarters. The drop of the LME (London Metal Exchange Index) seems justified by the drop in the leading indicator issued by the OECD (Organisation for Economic Co-operation and Development) (graph 9).

However, the picture for metals is not completely bleak. Contrary to what many feared at the end of the summer, the U.S. economy seems to be avoiding a new recession. Furthermore, the Chinese economy should continue to grow rapidly in the coming years, despite some signs of slowing. Chinese metal imports have even jumped over the last several months as the Chinese government seems to take advantage of lower prices to replenish their metal stocks.

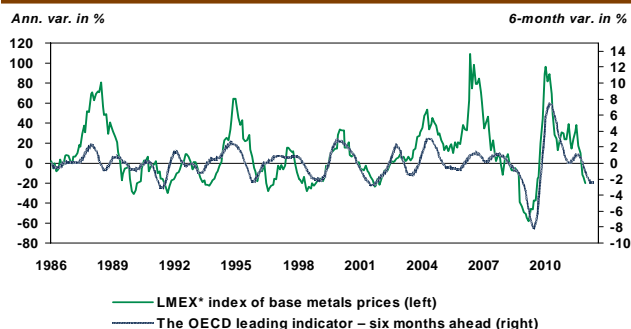
ALUMINUM

- Like the other base metals, aluminum had a rough end of the year, falling sharply in early December and ending the year below US\$2,000 per tonne, down 19% from where it ended 2010 (graph 10). Another big surge by aluminum stocks, as well as a continued slowdown by global demand growth, contributed to the recent weak prices. A supporting factor for aluminum prices in 2012 may be the reaction from producers. Significant slowdowns in production have already been announced, as the prices reached in December made a lot of smelters unprofitable. This helped boost aluminum prices slightly in early 2012.

COPPER

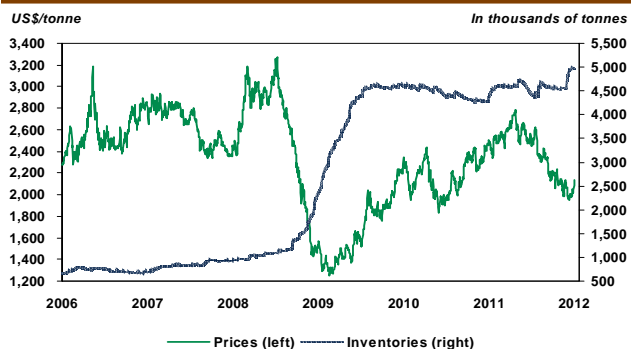
- From a fundamental standpoint, ongoing very high copper prices remain justified. Despite a slight pullback by demand for this metal in industrialized countries in 2011, strong demand growth in emerging countries and the limited growth in global supply kept the copper market in a shortage situation and led to a notable decline in stocks in the second half of 2011. In spite of this, the price of copper ended 2011 at about US\$7,500 per tonne, 21% lower than at the end of 2010 (graph 11). Note that elevated prices in early 2011 were only justifiable in a very advantageous economic and financial environment.

Graph 9 – The pullback by industrial metal prices is consistent with the deteriorating economic outlook



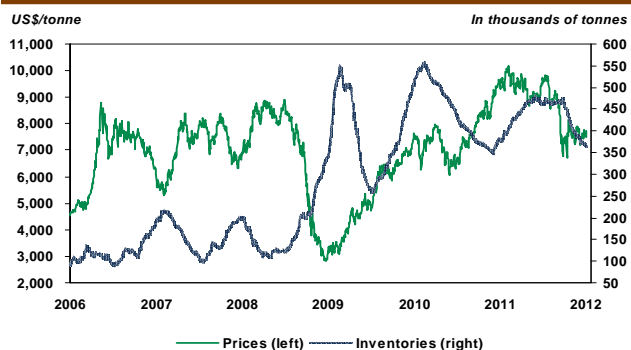
* London Metal Exchange Index; ** Including six major emerging economies. OECD: Organisation for Economic Co-operation and Development.
 Sources: Datastream, International Monetary Fund and Desjardins, Economic Studies

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

- Although nickel stocks dropped more than 30% in 2011, nickel prices had a very tough year. Nickel ended December below US\$19,000 a tonne, off 24% from where it started the year (graph 12). Demand for stainless steel, nickel's main use, weakened in the last few months in Europe and China and the outlooks for 2012 are soft. In this context, the major expansion of global production capacity, with several large investment projects recently concluded or poised to wind up in 2012, could put the nickel market into surplus.

ZINC

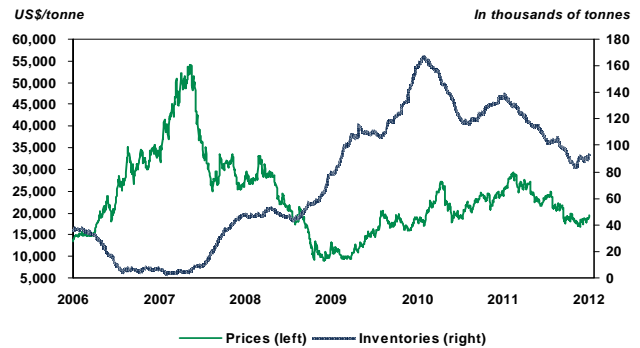
- Zinc prices ended the year at around US\$1,825 a tonne, down 25% from where it ended 2010 (graph 13). The downtrend for stocks noted in the second half of 2011 suddenly reversed in December and zinc stocks ended the year up by 16%. The weak outlook for zinc demand growth should keep production well ahead of demand in 2012.

TIN AND LEAD

- The attempt by Indonesian producers to support tin prices by temporarily suspending deliveries did not have the hoped-for effect and the metal's price continued to slide at the end of 2011. Even though tin stocks fell substantially, tin prices retreated over 30% last year (graph 14), ending 2011 under US\$19,000 a tonne. In the near term, investors' concerns and weak growth in global demand could keep tin prices close to their current levels. Any sign of acceleration by demand could prompt a quick rebound by tin prices, for which the supply is very limited.
- Lead prices did better than prices for other metals in the last few months, holding at around US\$2,000 a tonne. For 2011 as a whole, marked by a major increase in stocks, lead prices retreated by just over 20%, however. Compared with other industrial metals, demand for lead, especially for batteries, should be less affected by the slowing global economy.

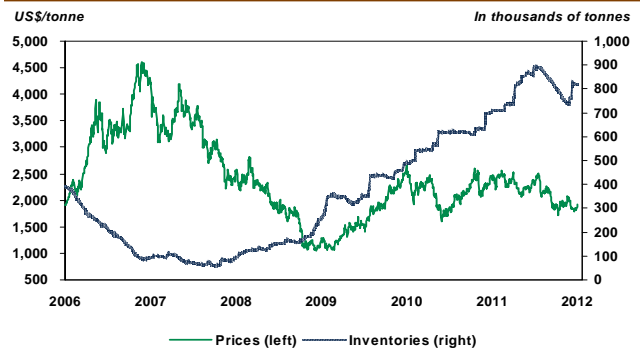
Forecasts: The economic and financial situation does not look very promising for industrial metals in 2012. Failing a major financial crisis or a steeper than anticipated economic slowdown in China or the United States, it would, however, be surprising for metal prices to tumble much lower. Relatively high production costs and limited growth in the global output of some metals, especially copper and tin, mean that the potential for depreciation is limited. This should also allow base metal prices to rise in 2013, when the global economy will return to a more normal growth pace.

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

The strong greenback hurts gold

Gold lost some of its shine in the last few months of 2011, when the expanding European sovereign debt crisis prompted investors to opt for the U.S. dollar and government bonds. Despite this, gold prices posted a substantial gain in 2011. The year was tougher for the other precious metals.

GOLD AND SILVER

- At the end of last summer, the surge in financial strains propelled gold prices upward by about US\$400 an ounce in just a few months, putting gold at a new peak of more than US\$1,900 an ounce. However, the intensifying sovereign debt crisis in Europe in the last few months, with the euro zone at times apparently poised to implode and trigger a global liquidity crunch, led to some steep drops by gold prices in the last few months. The release of encouraging economic statistics in the United States may have convinced some investors, who wanted to be shielded from a financial shock from Europe, to seek shelter in the U.S. dollar rather than gold. Despite this, gold prices ended 2011 at US\$1,575 an ounce, up 11% from where they ended 2010 (graph 15). The strong greenback also hurt silver prices, which ended 2011 at US\$28.18 an ounce, off 8% from where they started the year (graph 16).

PLATINUM AND PALLADIUM

- Prices for platinum and palladium, for which demand is heavily associated with activity in the auto sector, were more affected by the worsening global economic outlook. They both ended 2011 down just over 20% from the same time last year (graph 17).

Forecasts: Despite a strong greenback, gold price should hold close to current levels in 2012. The financial uncertainties, with the euro zone's problems hard to get rid of on a lasting basis and interest rates at extremely low levels, should support gold prices. However, the situation should start to turn more against gold in early 2013 and gold prices should progressively moderate.

Graph 15 – Gold prices



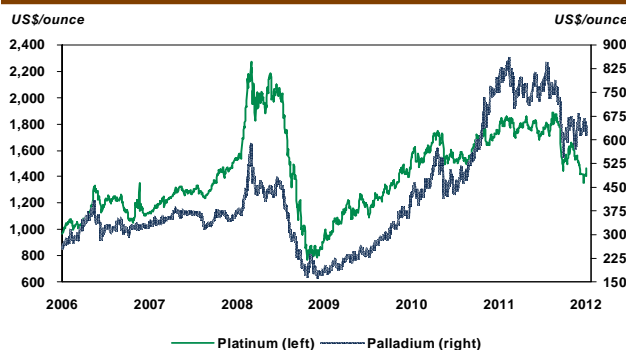
Sources: Datastream and Desjardins, Economic Studies

Graph 16 – Silver prices



Sources: Datastream and Desjardins, Economic Studies

Graph 17 – Platinum and palladium prices



Sources: Datastream and Desjardins, Economic Studies

AGRICULTURAL COMMODITIES

The good harvests allow shortage fears to wane

2011 got off to a strong start for cereals prices, as the 2010 drought in Europe had made shortage fears resurface. The much better weather in 2011 pulled cereals prices down sharply in the second half of year. Some concerns about the harvest in Argentina, however, have pushed cereal prices up somewhat recently.

WHEAT

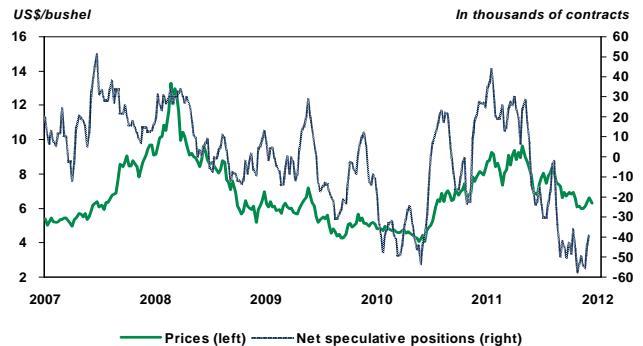
- Given the current situation in the global wheat market, it is hard to imagine there were fears of a shortage at the start of 2011. The return of better harvest weather, especially in Eastern Europe, made global wheat production rebound; the 2011-2012 season is expected to set a new record for production. Despite the fairly robust demand growth, global wheat stocks should hit a 12-year peak when the current harvest season is over. The turnaround in the situation had a spectacular effect on wheat prices. After jumping over US\$10 a bushel at the end of April, wheat prices fell more than 40% and, although they swung up slightly at the end of 2011, they ended the year at US\$6.64 a bushel, down 18% from where they ended 2010 (graph 18).

CORN AND SOYBEANS

- Despite a tough season in the United States, global corn production is also heading for a new record for the 2011-2012 season. Despite this, strong demand for this cereal should keep global stocks very low. In this context, it is understandable that corn prices are high. A lack of rain in Argentina even allowed corn prices to end 2011 at US\$5.44 a bushel, making it one of the few commodities to show a gain (+9%) for 2011 as a whole (graph 19). Although some U.S. subsidies to ethanol producers came to an end, the industry should continue to consume a lot of corn, especially as the mandate forcing massive use of ethanol is being maintained. Despite a drop in global soybean production, stocks of the cereal are adequate and prices retreated by about 12% in 2011 (graph 20).

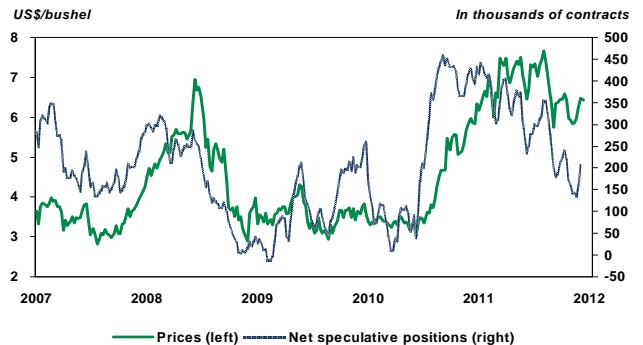
Forecasts: The economic and financial situation does not look very promising for cereal prices in 2012. Prices should hold close to where they are unless additional droughts have a big impact on the upcoming harvests.

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		
	Jan. 11	1 month	3 months	6 months	1 year	High	Average	Low
Index								
Reuter-CRB* (CCI**)	581.1	2.4	-1.2	-8.8	-7.4	690.1	630.4	547.1
Reuters/Jefferies CRB*	313.6	2.3	1.0	-7.9	-5.4	370.6	333.5	293.3
Dow Jones AIG***	143.2	0.1	-1.9	-10.5	-10.7	175.4	157.5	136.3
Energy								
Crude oil (US\$/barrel)	100.9	1.5	17.6	6.0	10.7	113.9	95.4	75.7
Gasoline (US\$/gallon)	3.4	2.7	-1.2	-7.1	9.4	4.0	3.5	3.1
Natural gas (US\$/MMBTU****)	2.8	-16.1	-21.3	-36.6	-36.9	4.9	3.9	2.6
Precious metals								
Gold (US\$/ounce)	1,641	-4.4	-1.3	6.1	19.1	1,898	1,577	1,326
Silver (US\$/ounce)	29.8	-6.8	-5.0	-18.0	0.9	48.7	35.2	26.2
Platinum (US\$/ounce)	1,489	-0.5	-1.7	-14.0	-15.3	1,887	1,710	1,354
Palladium (US\$/ounce)	638.0	-4.8	6.0	-17.1	-18.0	858.0	729.3	549.0
Base metals								
Aluminium (US\$/tonne)	2,135	3.4	-2.8	-12.8	-14.0	2,786	2,389	1,948
Copper (US\$/tonne)	7,767	-0.3	6.8	-18.7	-18.4	10,180	8,768	6,722
Nickel (US\$/tonne)	19,423	4.5	3.1	-16.2	-21.3	29,281	22,718	16,721
Zinc (US\$/tonne)	1,927	-3.4	1.9	-15.6	-19.5	2,569	2,177	1,720
Tin (US\$/tonne)	20,415	1.1	-8.7	-23.1	-23.1	33,265	25,807	18,471
Lead (US\$/tonne)	1,966	-8.5	-0.6	-26.2	-24.8	2,925	2,380	1,765
Agricultural commodities								
Wheat (US\$/bushel)	6.3	8.6	-8.4	-3.1	-20.1	10.1	7.7	5.8
Corn (US\$/bushel)	6.4	9.8	1.2	-3.8	10.0	7.8	6.7	5.7
Soybean (US\$/bushel)	11.8	8.2	-2.1	-13.6	-11.1	15.0	12.9	10.8
CRB* Livestock index	571.2	-2.7	-6.8	-10.3	4.2	662.5	609.4	548.3

*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**

	2010	2011	2012 ^f	2013 ^f
Annual average				
WTI* oil (US\$/barrel)	80	95	Target: 89 (range: 80 to 100)	Target: 100 (range: 85 to 110)
Natural gas Henry Hub (US\$/MMBTU**)	4.38	3.99	Target: 4.00 (range: 3.25 to 4.50)	Target: 4.25 (range: 3.50 to 5.00)
Gold (US\$/ounce)	1,226	1,572	Target: 1,600 (range: 1,500 to 1,750)	Target: 1,450 (range: 1,250 to 1,650)
LMEX*** index—base metals	3,466	3,927	Target: 3,300 (range: 3,000 to 4,000)	Target: 3,800 (range: 3,200 to 4,400)

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