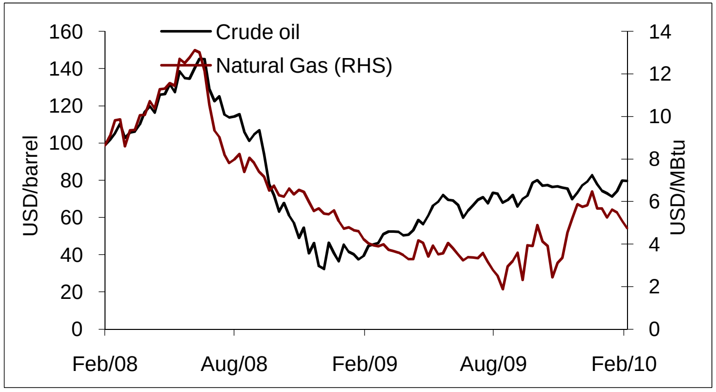
# The Commodity Analyst

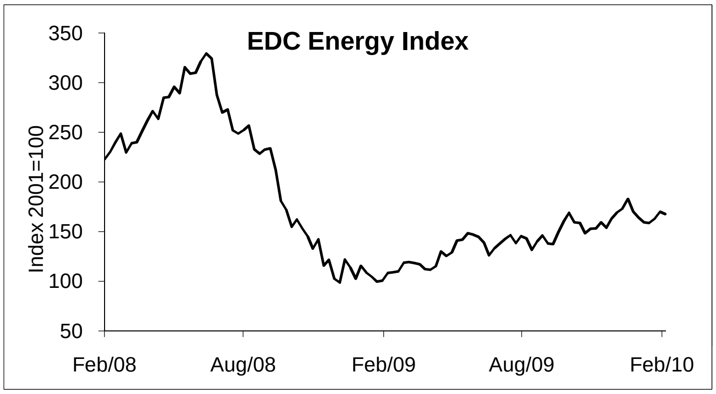
**March 1, 2010**

## Energy

Natural gas prices dipped below $5/MMBtu again in February but we don't believe prices will stay this low. US drilling activity may be coming back from the brink but it remains deeply depressed and US supply is likely to shrink slightly in 2010. As for demand, we are focused on industrial sources which were the cause of all of last year's demand weakness in the US. As US industrial production rebounds (a two to three year process), so too will related gas demand. Meanwhile the inventory build may be turning the corner. Indeed, after massive year-on-year increases (peaking at 36% in April 2009) the latest data point shows that inventories actually fell 2 y/y. It's a baby step for sure but a step nonetheless towards market balance.

We are not as bullish on crude and our latest forecast calls for the price of WTI to average US$69/brl in 2010. Demand is certainly rebounding but it will take time for still high global inventories to be worked down enough to justify prices in the mid-$70 area or higher. Moreover, USD weakness, which has fueled investor interest in crude in the past, has reversed course in light of fiscal problems emanating from Europe.



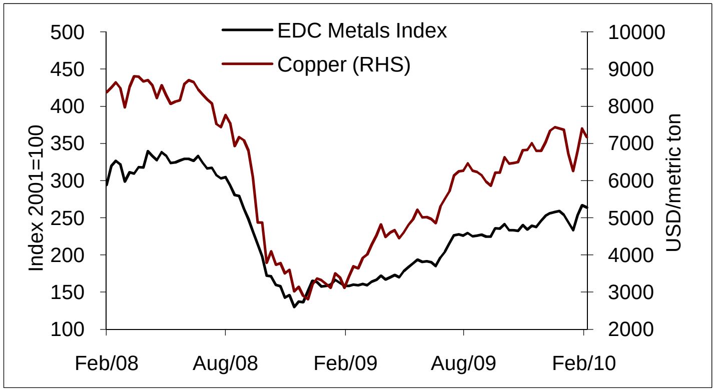



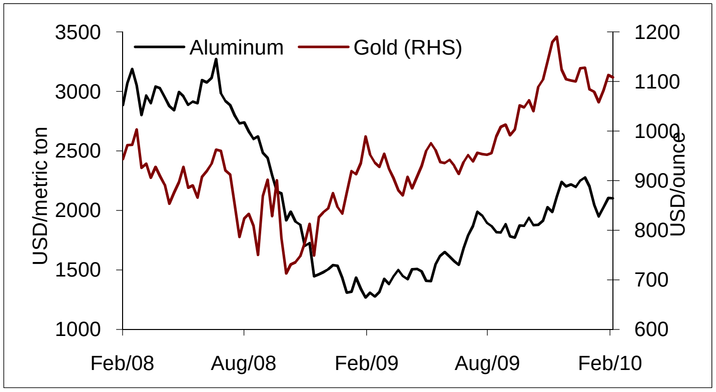

## Metals

Copper had a very volatile month in February, as the economic outlook weakened, and the fiscal crisis in Europe intensified, investors moved out of commodities and into US treasuries. While inventories soar and the recovery looks anemic, we continue to consider current bubble-level prices are driven by speculation and expect a correction sometime later this year. In the very near term the earthquake in Chile will impact mine production but its too soon to tell for how long.

Aluminum LME inventories have been drifting lower and outlook for demand (linked to auto production and infrastructure spending) is modestly positive in 2010. China now accounts for one third of global aluminum production, so policy decisions in that market will greatly influence the side-supply story this year. Persistently high costs in developed markets will be offset by cheap supply coming online in the Middle East.

Gold prices could strengthen as concerns over EU-member fiscal crisis escalate.




The Commodity Price Tracker is a weekly report on activity in the commodity markets most relevant to Canadian exporters. The report includes the latest average prices, as well as charts and tables highlighting recent trends. Once a month we include a commentary, The Commodity Price Analyst, on the short-term outlook.

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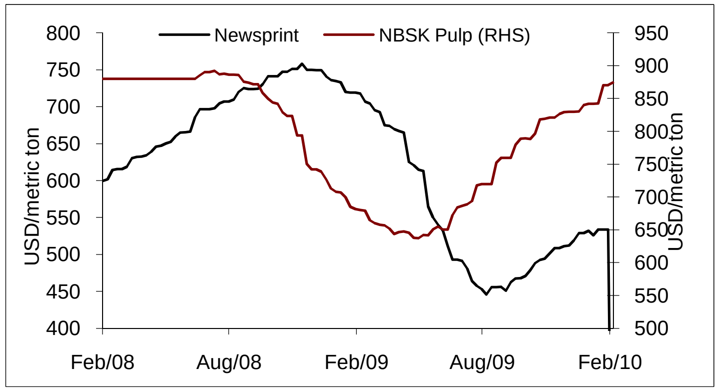
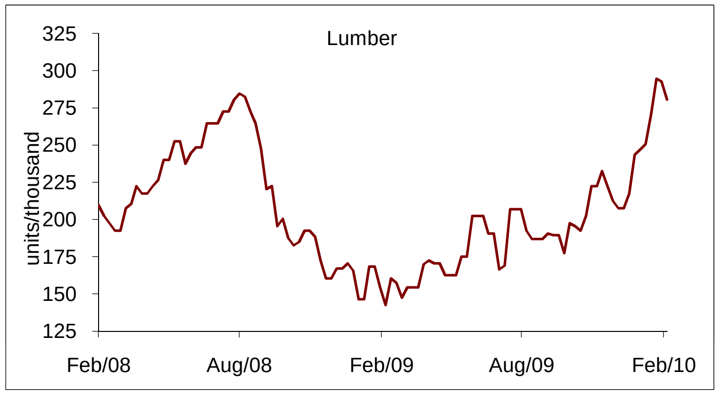
## Forestry

Lumber prices continued to advance early in the month due to supply constraints, mainly weather-related log shortages in the US. The momentum in lumber prices reversed in late February as inventories were replenished and the demand outlook remained shaky. Nonetheless, prices rose 12% during the month. These concerns also drove up OSB prices, which rose 11% in February. January single-family housing starts were up 1.5% m/m, but building permits were flat and new housing sales registered a strong decline.

Continued healthy demand from Asian markets are encouraging pulp producers to push through another price increase, slated to begin March 1, despite rising inventories and a 4.9% decline in shipments in January. Overall inventories rose to 30 days of supplies, the highest level since May. Softwood pulp was tighter at 25 days.

Newsprint prices flattened in February as upward price momentum stalled on higher inventories and the restart of approximately 600k tons/year of production. The decline in newsprint consumption eased to 15% y/y, but production declines are lagging (down only 4% y/y).




## Agriculture

Grain and oilseed fundamentals remain weak, and with markets awaiting trend direction in anticipation of spring plantings, the tone in the agri-food complex has broadly been subdued. Impacts from exchange rate and energy price dynamics, have offered intermittent boosts to prices (especially those of oilseeds used as biofuel inputs), as speculative activity has gained momentum. The near-term outlook, however, remains one of sideways movement for most crops.

Wheat prices registered a 13% increase in February, yet the increase was driven largely by the above non-fundamental factors, in combination with some reduction in milling quality wheat stocks.

Global supplies of barley, whose value fell 3% m/m, remain ample relative to demand, and we expect the price bias to remain negative for some time.

Canola prices rose 5% on the month. With global supplies ample and the jury still out on 2010 planting prospects, we anticipate limited upside in the coming months. Reports of new, deferred-contract Chinese business are positive in light of current trade restrictions.