

BMO Commodity Price Index Advances in September

Metals rally on QE3 Announcement

The **BMO Capital Markets Commodity Price Index** climbed 2.8% to 263.2 (2003 = 100) in September, marking a third consecutive monthly increase. Concerns about global economic growth and euro zone sovereign debt were allayed by Fed and ECB bond-buying announcements early in the month, sparking a strong gain in metal and mineral prices. Setting aside supply disruptions for some commodities, further price growth is likely to be subdued in light of the considerable uncertainty surrounding the pace of the recovery in the United States, the extent of the slowdown in China, and the sovereign debt situation in Europe.

The **Oil & Gas Index** edged up in September, lifted by a modest increase in crude oil; natural gas remained virtually unchanged. Oil hovered close to US\$95/barrel, as Middle East supply risks counterbalanced softening global demand and more-than-adequate North American inventories. During the first half of October, oil slipped a bit while natural gas rallied as the inventory glut continued to deflate.

The **Metals & Minerals Index** posted the biggest monthly gain in over four years in September, as commodities rallied through the first half of the month on the Fed's announcement of open-ended QE3. Base metals started to ease in early October, with markets still concerned about the prospects for global growth and softening demand in China. Precious metals should be bolstered by a weakening U.S. dollar.

The **Forest Products Index** dropped as pulp prices continued their downward trend, reflecting tepid global demand for printing and writing paper. Lumber also eased, but the ongoing U.S. housing recovery should provide support. Newsprint continued to mark time, although Canadian producers might have to try increasing prices early next year, as the strong loonie is raising material and labour costs and squeezing profit margins.

The **Agriculture Index** advanced in September after taking a breather in August. Modestly higher crop prices drove the increase, as drought conditions crept toward northern U.S. states and threatened the planting of winter wheat. This was partly offset by a significant decline in hog prices, as farmers faced with high feed costs sought to reduce the size of their herds, temporarily increasing supply to market.

ECONOMIC RESEARCH

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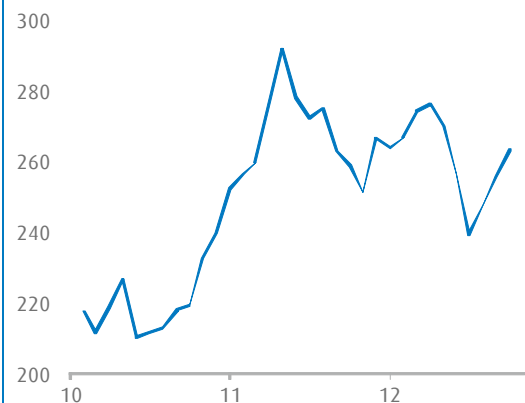
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BMO CAPITAL MARKETS COMMODITY PRICE INDEX (2003 = 100)

All Commodities Index



	Sep. Level (2003=100)	% Change from Mth. Ago	% Change from Yr. Ago
All Commodities	263.2	2.8	1.7
Oil & Gas	248.1	0.6	8.1
Metals & Minerals	356.0	6.8	-5.1
Forest Products	129.6	-1.9	-1.6
Agriculture	225.3	1.3	5.6



Commodity Focus: Aluminum

Stockpiles Restraining Prices

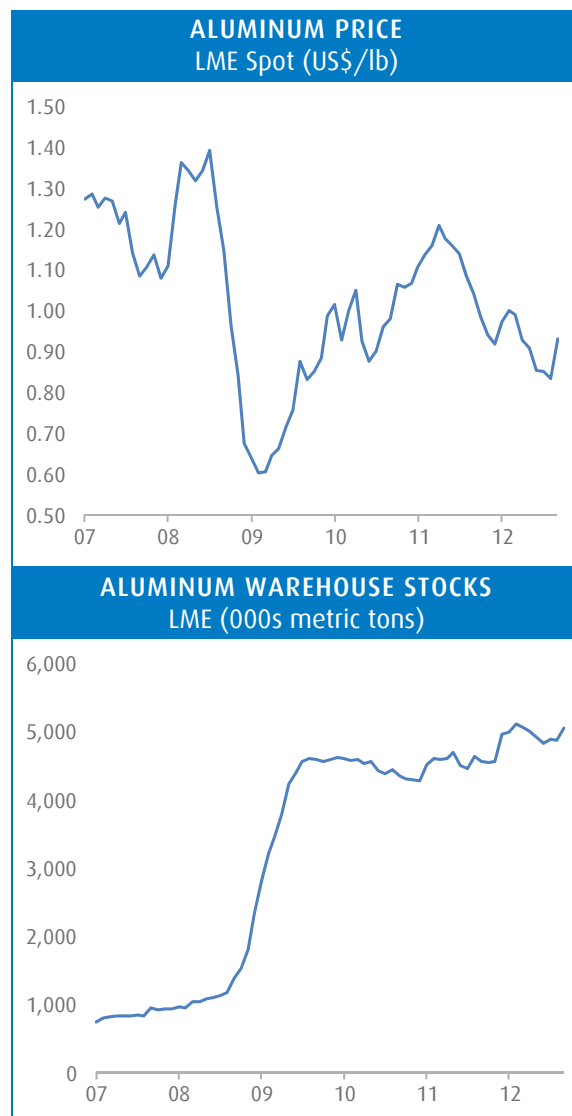
After falling 23% from March through mid-August, aluminum prices rallied in late August and through the first half of September on the expectation, correct as it turns out, of QE3. Despite easing in recent weeks, prices remain approximately 15% above their mid-August low.

On the demand side, aluminum consumption has been growing at a much slower pace this year than in 2010 and 2011. Growth was nil in Europe due to the recession in the United Kingdom and the euro zone, slowed in North America in line with the subpar U.S. economy, and fell sharply in China reflecting the country's manufacturing slowdown. Over the long term, robust auto sales in emerging markets and a preference for lightweight vehicles should bolster the market, but demand is likely to remain restrained in the near term against a tepid economic backdrop.

The downward trend of demand and prices over the past twelve months has squeezed producers' profit margins and caused them to cut capacity. For example, production in North America is expected to slip 2% this year, while Europe could post a whopping 10% decline. However, these curtailments seem to have been offset by expansion in China, where supply has surged in western provinces, reflecting lower electricity prices and the central government's efforts to close inefficient older smelters in the eastern regions. Continued capacity expansion and shrinking demand have led to substantial oversupply, which has put a large number of companies in an unprofitable position. Electrolytic aluminum inventories have risen sharply at the Shanghai Futures Exchange, forcing some provincial governments to step in and purchase aluminum to help producers through the economic slowdown.

Stockpiles in China and the country's reduced needs for imports are also placing upward pressure on inventories around the world. Warehouse stocks at the London Metal Exchange have been hovering around 5.0 million metric tons for months—the highest level since 1990. Record high stocks at exchanges indicate that a significant amount of aluminum is sitting as collateral under forward sales contracts, keeping availability in the physical metal market restricted and making prices more sensitive to changes in demand.

With economic headwinds putting downward pressure on prices, aluminum is expected to slip a bit further, averaging \$0.91/lb in 2012, well below last year's level of \$1.09. Prices should remain restrained in the first half of 2013, before improving over the second half as markets receive further clarity on euro zone issues and U.S. fiscal policy. Prices in the second half will also be supported by stronger growth in emerging market economies, as demand responds to stimulative monetary and fiscal measures. Overall, aluminum is projected to average \$0.91 in 2013 (\$0.95 by the end of the year), with capacity cuts limiting the downside risk.



Energy and Materials

	Crude Oil (WTI) US\$/bbl	Natural Gas (Henry Hub) US\$/mmbtu	(Alta. Express) US\$/mmbtu	Lumber US\$/mbf	Pulp US\$/tonne	Newsprint US\$/tonne
1999	19.25	2.27	2.04	368	541	509
2000	30.30	4.31	3.81	282	685	564
2001	25.92	3.96	3.48	275	558	585
2002	26.10	3.36	2.63	262	490	465
2003	31.14	5.50	4.82	268	553	503
2004	41.44	5.91	5.25	386	640	550
2005	56.46	8.81	7.51	347	647	610
2006	66.10	6.74	5.92	290	722	667
2007	72.36	6.98	6.32	245	824	593
2008	99.57	8.86	8.09	215	858	701
2009	61.69	3.95	3.46	177	718	564
2010	79.43	4.39	3.59	255	960	606
2011	95.08	4.00	3.28	255	977	640
y-t-d 2012	95.89	2.57	1.94	288	874	640
2011						
October	86.41	3.57	2.85	236	950	640
November	97.21	3.24	2.61	230	920	640
December	98.57	3.16	2.39	248	890	640
2012						
January	100.24	2.67	2.03	254	870	640
February	102.25	2.51	1.93	264	870	640
March	106.19	2.16	1.39	280	870	640
April	103.33	1.95	1.41	281	900	640
May	94.70	2.43	1.93	306	900	640
June	82.41	2.46	2.01	298	900	640
July	87.93	2.96	2.24	294	880	640
August	94.16	2.83	2.21	310	850	640
September	94.72	2.84	2.36	296	830	640
m-t-d October	91.17	3.24	n.a.	n.a.	n.a.	n.a.
Forecast						
2012 Avg.	95.50	2.80	2.20	283	868	640
2013 Avg.	95.00	3.65	3.05	293	872	654

Commodity price forecasts are by BMO Capital Markets Economics and are independent of those used by BMO Capital Markets Equity Research.

Base and Precious Metals

		Copper	Aluminum	Zinc	Nickel	Gold	Silver
		US\$/lb			US\$/oz		
	1999	0.71	0.62	0.49	2.73	279	5.22
	2000	0.82	0.70	0.51	3.91	279	4.96
	2001	0.72	0.66	0.40	2.71	271	4.37
	2002	0.71	0.61	0.35	3.08	310	4.60
	2003	0.81	0.65	0.38	4.37	364	4.88
	2004	1.30	0.78	0.48	6.27	409	6.65
	2005	1.67	0.86	0.63	6.69	445	7.31
	2006	3.05	1.17	1.48	11.00	605	11.58
	2007	3.23	1.20	1.47	16.89	697	13.40
	2008	3.15	1.17	0.85	9.57	872	15.01
	2009	2.34	0.75	0.75	6.64	973	14.67
	2010	3.42	0.99	0.98	9.89	1225	20.16
	2011	4.00	1.09	0.99	10.38	1570	35.11
	y-t-d 2012	3.62	0.92	0.88	8.04	1658	30.83
2011	October	3.33	0.99	0.84	8.57	1668	32.02
	November	3.43	0.94	0.87	8.11	1736	33.06
	December	3.43	0.92	0.87	8.23	1653	30.36
2012	January	3.65	0.97	0.90	8.99	1656	30.79
	February	3.82	1.00	0.93	9.28	1743	34.14
	March	3.84	0.99	0.92	8.48	1675	32.98
	April	3.75	0.93	0.91	8.12	1649	31.56
	May	3.59	0.91	0.88	7.72	1585	28.69
	June	3.37	0.85	0.84	7.50	1596	28.07
	July	3.44	0.85	0.84	7.33	1593	27.44
	August	3.40	0.83	0.82	7.10	1626	28.71
	September	3.66	0.93	0.91	7.81	1742	33.62
	m-t-d October	3.73	0.92	0.91	8.20	1769	34.22
Forecast	2012 Avg.	3.61	0.91	0.88	8.07	1681	31.79
	2013 Avg.	3.60	0.91	0.95	8.45	1753	34.92

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Agriculture

		Wheat	Canola	Cattle	Hogs
		US\$/bushel	US\$/tonne		US\$/cwt
	1999	3.69	204	63.28	32.33
	2000	3.62	176	68.39	42.88
	2001	3.69	201	71.21	44.08
	2002	4.14	242	66.61	33.28
	2003	4.24	261	79.97	37.54
	2004	4.56	271	85.54	51.20
	2005	4.78	224	89.55	49.61
	2006	5.19	257	87.09	46.25
	2007	7.10	379	90.02	46.68
	2008	11.19	528	89.23	47.65
	2009	7.03	371	80.36	41.99
	2010	7.57	429	91.97	55.05
	2011	11.20	567	113.25	66.47
	y-t-d 2012	9.62	598	122.00	65.06
2011	October	9.98	517	117.00	68.70
	November	10.61	506	120.00	64.40
	December	9.69	497	120.00	63.50
2012	January	9.43	516	125.00	63.50
	February	9.57	549	127.00	65.50
	March	9.62	596	128.00	65.20
	April	9.63	631	124.00	62.80
	May	9.12	609	122.00	62.80
	June	9.31	600	121.00	70.20
	July	10.17	613	114.00	72.10
	August	9.71	623	117.00	66.90
	September	9.82	639	120.00	56.50
	m-t-d October	10.15	614	n.a.	n.a.
Forecast	2012 Avg.	9.49	603	119	63
	2013 Avg.	8.50	583	122	68

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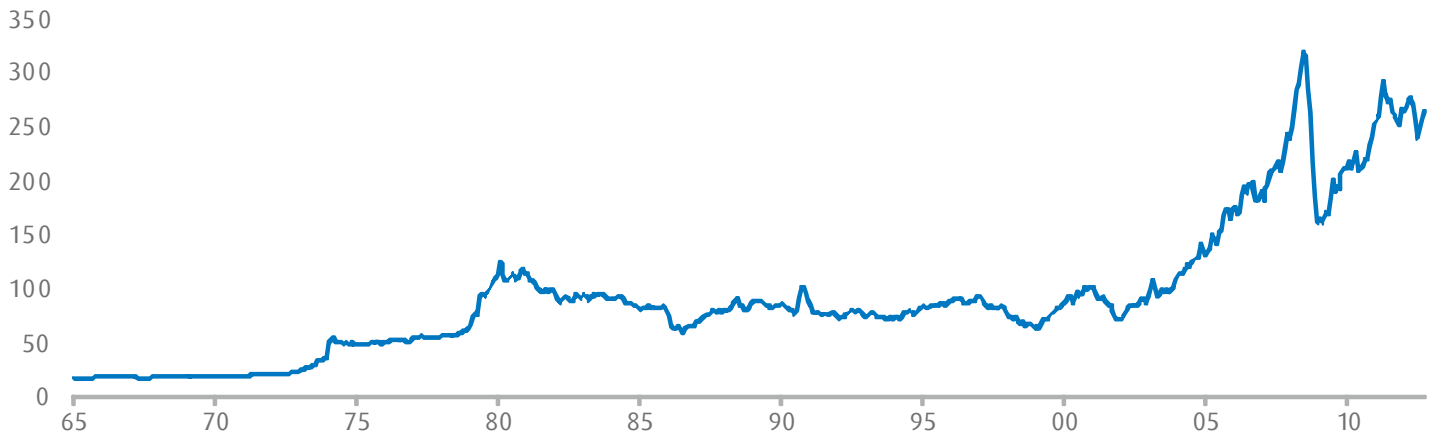
Commodity Indices and Forecasts

US\$-terms : 2003 = 100		All Commodities	Oil & Gas	Metals & Minerals	Forest Products	Agricultural Products	All Commodities C\$-terms
Annual							
	2003	100.0	100.0	100.0	100.0	100.0	100.0
	2004	124.7	127.4	125.7	122.2	107.2	115.6
	2005	155.4	176.7	147.0	121.3	103.7	134.2
	2006	185.2	192.4	220.0	119.9	112.4	149.8
	2007	213.0	209.0	276.8	117.3	152.5	162.6
	2008	261.3	284.5	290.4	122.8	222.0	196.1
	2009	188.2	170.1	265.6	104.0	148.9	152.6
	2010	222.6	216.1	288.6	129.3	166.0	163.7
	2011	268.0	253.6	359.8	132.1	232.1	189.1
Forecast	2012	261.5	249.9	349.6	129.1	216.9	185.6
	2013	267.0	252.1	367.3	131.2	203.1	188.5
Quarterly							
2011	Q1	264.9	251.7	348.8	135.9	240.7	186.5
	Q2	280.8	273.8	362.4	133.2	254.6	194.0
	Q3	265.6	240.7	376.5	132.5	221.9	185.8
	Q4	260.6	248.4	351.3	127.0	211.2	190.2
2012	Q1	272.6	266.9	360.3	126.6	211.8	194.9
	Q2	255.3	242.7	339.3	132.1	217.3	183.7
	Q3	255.7	242.1	340.2	130.9	224.8	181.6
Forecast	Q4	262.6	247.8	358.6	126.8	213.8	182.3
2013	Q1	264.1	250.6	360.6	127.5	207.1	186.6
	Q2	265.0	246.9	368.9	132.5	203.6	188.3
Monthly							
2011	Sep	258.8	229.6	375.1	131.7	213.3	184.6
	Oct	251.5	230.3	350.8	128.9	211.3	183.1
	Nov	266.4	255.9	356.8	126.3	217.3	194.5
	Dec	263.8	259.0	346.3	125.8	205.1	192.9
2012	Jan	267.0	261.2	353.7	125.3	205.2	193.2
	Feb	274.3	265.6	368.7	126.2	211.6	195.4
	Mar	276.4	274.0	358.6	128.3	218.7	196.0
	Apr	270.3	266.0	349.5	130.2	223.0	191.5
	May	256.3	246.4	336.7	133.3	213.7	184.1
	Jun	239.3	215.8	331.6	132.7	215.2	175.5
	Jul	247.9	231.6	331.2	131.1	226.7	179.5
	Aug	256.0	246.7	333.4	132.1	222.4	181.5
	Sep	263.2	248.1	356.0	129.6	225.3	183.9

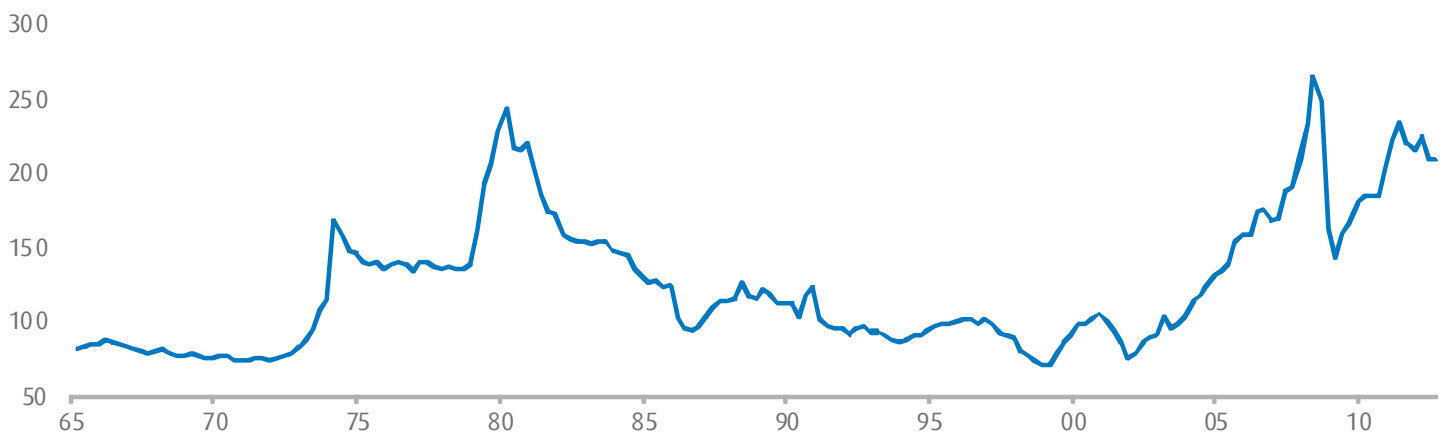
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Historical Charts: All-Commodity Index

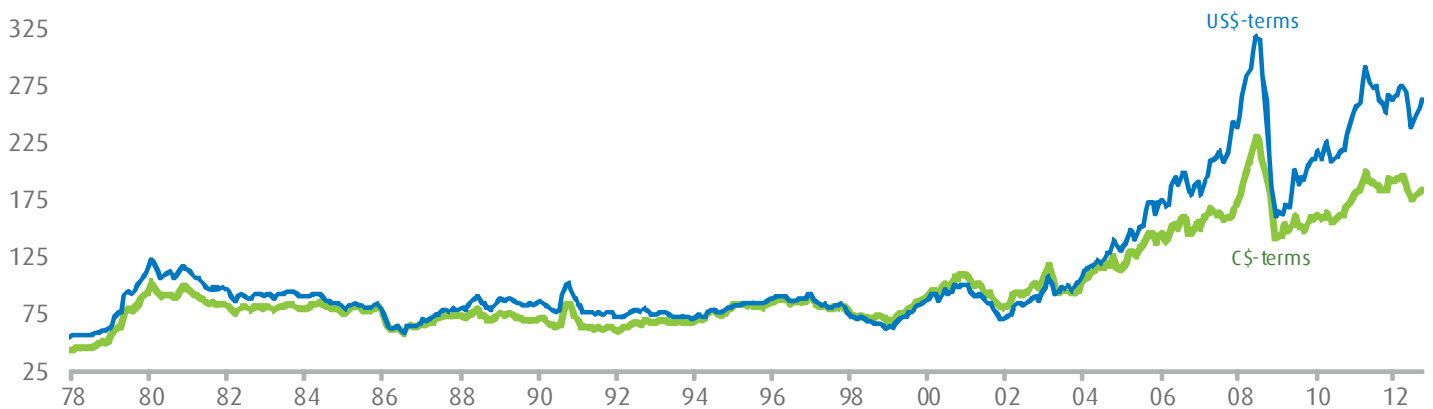
Nominal US\$-Terms (2003 = 100)



Real US\$-Terms (2003 = 100)



Nominal (2003 = 100)



Technical Note

The BMO Capital Markets Commodity Price Index is a fixed-weight, export-based index that encompasses the price movement of 19 commodities key to Canadian exports. Weights are each commodity's average share of the total value of exports of the 19 commodities during the period 2002-06. Similarly, weights of sub-index components reflect the relative importance of commodities within their respective product group.

The all-commodities index and sub-indices consist of the following:

Percent	Weight in All-Commodities Index	Weight in Sub-Index		Weight in All-Commodities Index	Weight in Sub-Index
Metals & Minerals	29.3	100.0	Forest Products	12.3	100.0
Gold	9.3	31.5	Newsprint	2.0	16.1
Silver	1.4	4.5	Market Pulp	4.3	35.1
Aluminum	6.5	22.3	Supercalendered Paper	2.0	15.7
Copper	2.4	8.1	Lumber	3.5	28.4
Nickel	3.6	12.3	OSB	0.6	4.8
Zinc	0.9	3.2			
Uranium	1.6	5.4	Agricultural Products	7.9	100.0
Potash	3.7	12.7	Wheat	4.1	50.9
			Canola	2.8	35.6
Oil and Gas	50.5	100.0	Hogs	0.3	3.5
Crude Oil	39.3	77.8	Beef Cattle	0.8	9.9
Canadian Natural Gas	11.2	22.2			
			All Commodities	100.0	

Unless otherwise specified, all indices reported in this publication correspond to prices in U.S. dollars.

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