

Scotiabank Commodity Price Index

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Scotiabank's Commodity Price Index Eases Back Temporarily In September

- **Oil prices head towards US\$90.**
- **Uranium prices are boosted by the Olympic Dam mine outage and potential U.S. carbon 'cap-and-trade' legislation. Nuclear power emits virtually no greenhouse gases.**
- **A weakening U.S. dollar will drive commodity prices higher.**

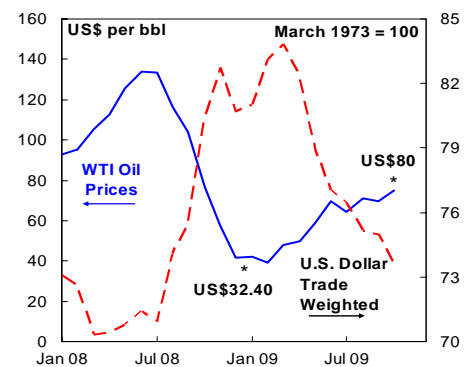
After a solid gain in August, Scotiabank's Commodity Price Index declined by 1.8% m/m in September — pushed down by seasonal factors — significant harvest pressure on grain prices, particularly weak U.S. demand for natural gas during the 'shoulder' period between summer 'cooling' and winter 'heating' demand and a normal unwinding of lumber & OSB prices, after the summer building season. **However, the All Items Index remains 4.3% above the April cyclical low and will receive a big boost in October, from oil climbing to a higher plane (US\$80), natural gas prices lifting off the bottom and a weak U.S. dollar.**

The Agricultural Index led the decline in September (-6.1% m/m). Favourable growing conditions in many countries — including an extended frost-free harvest period in September in the United States and Western Canada — have contributed to large world crops of wheat, feedgrains and rapeseed (canola), pushing down grain & oilseed prices. World wheat production is forecast by the U.S. Department of Agriculture to reach 668 million tonnes, the second-highest on record, with global ending stocks up 53% from two years ago. After expectations of a sub-par crop, unseasonably warm September weather in Saskatchewan, Alberta and Manitoba rescued the harvest, boosting the Canadian wheat crop to an estimated 24.6 mt (close to the average of the previous five years) — good news for Prairie grain handlers (elevator terminals and railways). While the Canadian Wheat Board's asking export price has fallen significantly from the February 2008 peak, international wheat values are edging up again in October. Cold weather has returned to the Prairies and the Illinois corn-belt, hurting crops yet to be harvested.

The Oil & Gas Index also lost ground in September (-2.5% m/m). Canadian natural gas export prices plunged to only US\$2.69 per mcf (estimated) — the lowest since August 2002 alongside tumbling Nymex prices (down to a low of US\$2.50 per mmbtu in early September — below break-even costs for the lowest-cost shale developments in the United States). **Nymex prices have subsequently rebounded close to US\$5 in late October.** Traders likely recognize that recent levels were unsustainably low and are anticipating some recovery in U.S. 'industrial' demand in industries such as steelmaking and chemicals.

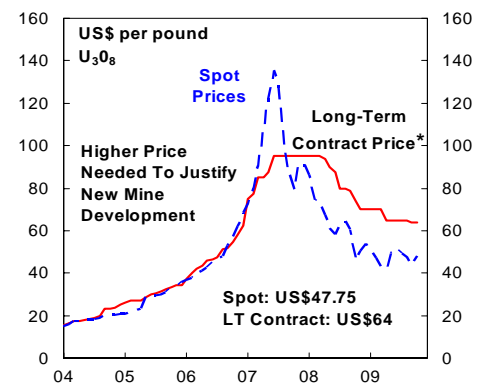
Alberta light and heavy crude oil prices also lost ground in September, as WTI oil fell to US\$69.54 per barrel. However, oil prices rallied back to

Stronger U.S. Equity Markets — A Barometer Of Economic Recovery — & Dollar Weakness Lift Oil Prices



Data to October 23, 2009. *WTI oil prices bottomed at US\$32.40 per barrel on December 19, 2008.

Uranium Prices



*Long-term base price before escalation.
Data to October 2009. 104 nuclear reactors generate 20% of U.S. electricity.

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a high of US\$82 in intraday trading on October 23. Prices have been boosted by a weak U.S. dollar (with the euro climbing above the psychologically important US\$1.50 level) and better-than-expected U.S. corporate earnings in 2009:Q3, likely reflecting the beginning of an economic recovery in the United States and stronger oil demand. Of the 196 companies in the S&P500 Index reporting so far in 2009:Q3, 157 have posted better-than-expected earnings, only 24 have been disappointments and 15 have reported earnings as expected.

The **Metal & Minerals Index** edged down in September (-1.1% m/m), as lower potash, uranium and molybdenum prices and a mixed performance in base metals more than offset stronger precious metal prices. **Spot gold prices climbed to a new record high of US\$1,070.80 per ounce in intraday trading on October 16, re-monetized by a faltering U.S. dollar.**

The **Forest Products Index** was the only sub-component to increase in September (+0.6% m/m). **NBSK pulp prices** delivered to the United States rose to a lucrative 10-month high of US\$770 per tonne (+US\$40). U.S. newsprint and uncoated freesheet paper prices also edged up, more than countering a seasonal decline in building material prices. Printing & writing paper prices generally touched bottom in the late summer, with producers announcing price increases for the seasonally stronger Fall. Commercial printers & smaller publishers accepted a **US\$35 newsprint price increase in September**, though larger publishers with contract or formula pricing will delay the increase until October, with overall prices rising US\$10 to US\$445 per tonne. The strong Canadian dollar is contributing to significant mill closures in Canada.

Oil & Gas

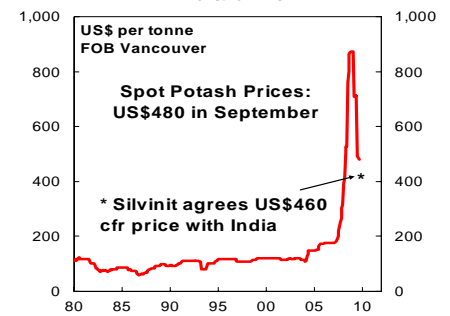
WTI oil prices eased from US\$71.14 per barrel in August to US\$69.54 in September, but have rallied back over US\$80 in mid-October. **Much of the gain in recent weeks reflects U.S. dollar weakness (attracting investment fund interest into oil — a hard asset — as a hedge against a declining U.S. currency).** A soft dollar also makes it easier for the industry to lift prices in currencies such as euros, without unduly curbing consumer demand. While prices have increased 147% in U.S. dollars from a low of US\$32.40 on December 19, 2008, the increase in euros has been more limited at 129%. This trend is even more evident in the period since March 2009, during which the U.S. dollar consistently fell against the euro (oil rose 67% in U.S. dollars, but only 45% in euros). The trade-weighted U.S. dollar has dropped 8% since late 2008 and is expected to move irregularly lower over the next 6-12 months (at least until the Fed begins to exit its ultra-loose monetary policy, by lifting the Fed funds rate).

Aside from gasoline, where demand has picked up (+4.2% yr/yr), U.S. petroleum consumption remains at a low ebb in mid-October (with more-than-ample inventories — especially of home heating oil). Given low margins, U.S. refineries operated at only 81.8% of capacity in mid-October, in an effort to cut stocks. However, oil markets are beginning to discount a recovery as well as strong, secular growth in Chinese/Asian demand for petroleum products. China's refinery runs climbed to a record in September (7.99 mb/d), though crude oil imports eased.

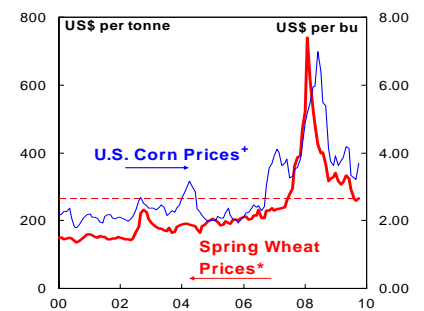
International 'climate change' talks set for Copenhagen on December 7-18 — to be attended by OPEC, which will delay its next meeting until December 22 — will challenge consumers and industry to cut greenhouse gas emissions. However, only a gradual shift away from fossil fuels is likely and there remains lingering concern over medium-term oil supplies (a vestige of genuine supply-side tightness in the first half of 2008). While biofuel development and tighter auto fuel-efficiency standards will slow G7 demand growth for transportation fuels (gasoline & diesel), rapid expansion of the motor vehicle fleet in China (auto sales +84% yr/yr in September) and India and 'strategic' oil stockpiling by China will likely be a significant offset in coming years. Oil prices are expected to climb towards US\$90 by mid-2010.

In the United States, concern over curbing CO₂ emissions should open up opportunities for more natural gas-based electricity (of interest given the rejuvenation of domestic supplies) as well as nuclear power generation. Current technology does not allow use of solar or wind alone (renewables, excluding hydro) for large-scale industrial power generation. Natural gas (with lower CO₂ emissions than coal or residual fuel oil) could represent a 'bridging fuel'. However, a shift to using more natural gas as a power source for 'base-load' U.S. generation (and not just 'peaking' capacity) would probably require natural

Potash Markets Await New Price Contract Between BPC & China

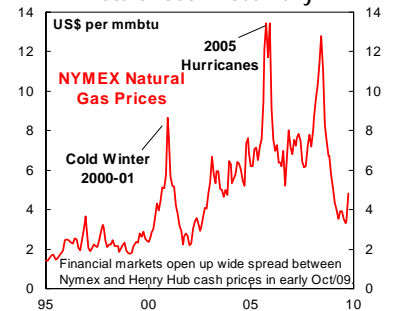


Large Global Crops Push Down Grain Prices



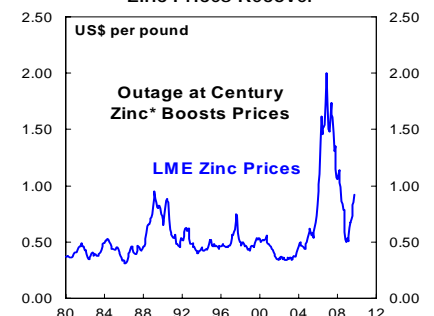
*Canadian Wheat Board asking export price for No. 1 grade CWRS.
+CBOT nearby futures prices for yellow corn.

Natural Gas Prices Rally



Nymex less Henry Hub price Oct 1 = US\$1.55,
up from US\$0.20 from May to September 2009.

Zinc Prices Recover



*Owned by China MinMetals; data to October 23, 2009.

gas producers to accept 'long-term stable price' contracts rather than the volatile, short-term pricing in use today.

Bills on 'Energy and Climate Change' passed by the U.S. House of Representatives and proposed in the Senate — of significant interest to the Canadian 'oil patch' — would limit carbon emissions (by 20% by 2020 in the House bill; tightening over time) through cap-and-trade systems. However, under the House version, 85% of the required permits would initially be given away free, and would only begin switching to those that must be sold in 2026 (probably limiting the effectiveness of the program). While the House bill does not favour nuclear energy, Democrats may include initiatives supporting new reactor construction to gain Republican support in the Senate.

Metals & Minerals

Spot uranium prices declined from US\$48.50 per pound in early August 2009 to a low of US\$42 in mid-September — pushed down in recent months by news that the U.S. Department of Energy will barter US\$150-200 million per year of UF₆ (held in inventory) over four years beginning in FY2010 to pay for contractor services related to environmental clean-up at the Portsmouth Gaseous Diffusion Plant in Ohio. Despite considerable criticism over the price-dampening impact of these effective sales by both the U.S. mining industry and members of Congress in uranium-producing states, it appears that the DOE will go ahead. U.S. uranium producers are relatively high cost and it is likely that the DOE policy (partly intended to generate jobs) could actually cut U.S. employment through mine shutdowns or delayed development.

Uranium prices have rebounded to US\$47.75 in mid-October on news of the shutdown of 75% of the ore haulage system at the **Olympic Dam copper/uranium mine in Australia**, likely through 2010:Q1. Roughly 2 million pounds of uranium could be lost due to this outage (1.7% of world production). News that the Senate may favour nuclear energy in its version of the 'U.S. Energy and Climate Change' bill has also been supportive. While the recent rebound in spot prices is welcome, current prices are insufficient to spur new mine development. Output from Kazakhstan climbed to 15.6 million pounds in 2009:H1 (+57% yr/yr) and will likely ramp up to 20.8 million in 2009:H2 (contributing to this year's significant increase in world mine output). While a further gain to 39 million is possible in 2010, some of this gain will require sustained higher prices (US\$55-70). Term-contract prices remain at US\$64 (prior to escalation at time of delivery).

Cameco has recently set up an office in Hyderabad to take advantage of opportunities opening up in India — a growth market for nuclear power — and can sell uranium into India from its operations in the United States or Kazakhstan (countries which have already negotiated nuclear bilateral co-operation agreements with India). Canada is in the midst of negotiating such an agreement, needed to permit the export of uranium and nuclear equipment directly from Canada to India. Changes to Canada's bilateral nuclear co-operation agreement with China are also being discussed to permit exports of 'uranium concentrates' to this market as well as 'further processed' uranium.

Spot potash prices (FOB Vancouver) edged down from US\$486 per tonne in August to US\$480 in September — below near-record levels of US\$862 a year ago. Prices in North America are reported to be declining amid quiet market conditions. Belarusian Potash Company (BPC) hopes to conclude soon a 2010 contract with China (possibly at US\$400-435), a development which should re-start the market, and likely set the tone for other contract negotiations in early 2010. China currently has about 2-3 mt of potash inventory and should start buying again when stocks recede to 2 mt; crop yields in China are beginning to suffer from fertilizer under-application. Higher oil prices in 2010 will encourage rising biofuel output from palm oil and sugar cane in SE Asia and Brazil and overseas demand for potash should pick up moderately next year. **Sulphur prices (FOB Vancouver)** leveled out at US\$27.50 per tonne in September, but are expected to increase in October alongside higher contract prices (US\$40 for 2009:Q4).

A weak U.S. dollar contributed to a surge in base metal prices on October 22-23, with **copper** climbing to a very lucrative US\$3.01 and **zinc** to US\$1.03 per pound, despite some moderation in China's imports in recent months. Supply disruptions at Olympic Dam (the world's

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Growth Trends		(per cent change at annual rates)				
	Weights	One Month	Three Months	One Year	Five Years	Ten Years
All Commodity Price Index	100	-19.3	-12.0	-33.0	3.0	4.6
Industrials	83	-11.9	-2.9	-34.4	2.7	4.8
Forest Products	40	7.1	11.1	-23.0	-5.8	-1.5
Metal and Minerals	27	-12.2	5.6	-30.1	13.0	10.0
Oil and Gas	16	-25.8	-24.7	-47.2	-0.3	6.2
Agriculture	17	-52.9	-50.5	-22.5	4.8	3.8

		Index 1997 = 100				
		2009		2008		
		Sept	Aug	July	June	Sept
All Commodity Price Index*	152.0*	154.8*	149.4*	157.0	226.9	
Industrials*	157.7*	159.4*	150.8*	158.8	240.4	
Forest Products	83.1	82.7	80.7	81.0	107.9	
Metal and Minerals	231.2	233.8	216.3	228.1	330.8	
Oil and Gas*	217.7*	223.1*	213.3*	233.7	412.3	
Agriculture	123.9	131.9	142.0	147.7	159.8	

*Natural gas and propane prices are subject to revision.

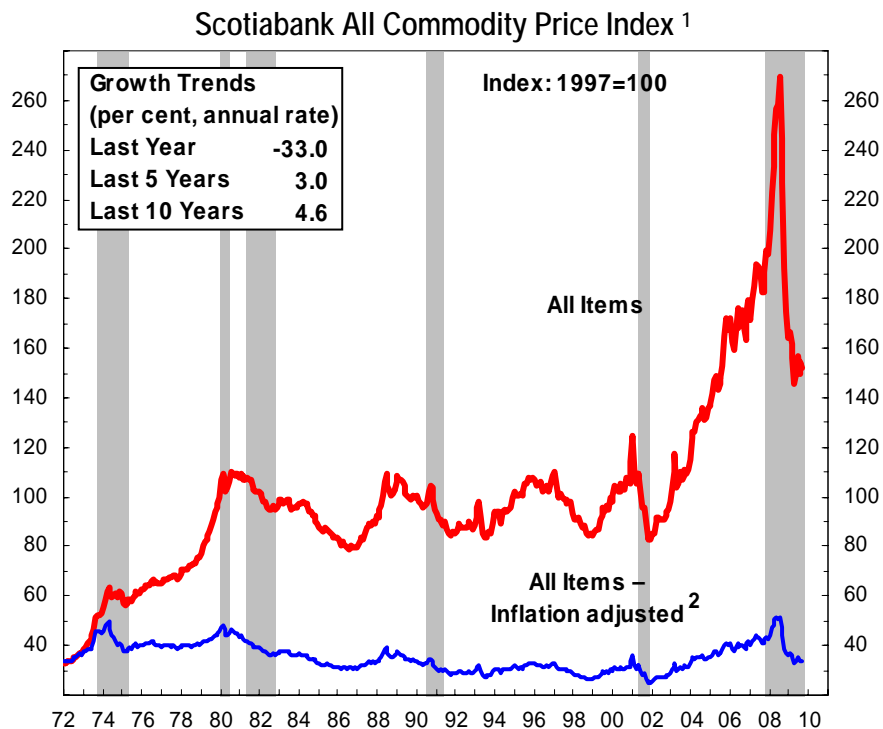
fourth-largest copper mine) and at Century Zinc (the world's second-biggest zinc mine) have pushed up prices. China's GDP growth accelerated to 8.9% yr/yr in 2009:Q3, up from 7.9% in Q2, and industrial production strengthened in September (up 13.9% yr/yr).

Forest Products

Western Spruce-Pine-Fir 2x4 lumber prices retreated to US\$183 per mfbm in September, after strengthening to US\$195.50 in August. U.S. housing starts edged up to 590,000 units annualized in September, though the gain was less than hoped for. U.S. homebuilders are concerned over the expiry of the first-time home buyers tax credit of US\$8,000 on November 30. However, prices climbed back to US\$190 in mid-October, as a strengthening Canadian dollar led Canadian producers to concentrate on domestic sales and U.S. dealers built inventories, fearing further mill curtailments in Canada.

Agriculture

The **Canadian Wheat Board's asking export price for No.1 grade milling wheat** dropped from US\$265 per tonne in August to US\$259 in September. However, prices have rallied back to US\$263 so far in October (down from US\$367 a year ago). International wheat values are rising, with the euro, the Australian dollar and the Russian rouble all appreciating relative to the U.S. dollar. U.S. futures prices are also being pulled up by a rebound in corn and soybean prices in October, with cool, wet weather limiting harvest progress this month. **U.S. CBOT corn futures** have rallied back to the US\$4 per bushel mark.



1. A trade-weighted U.S. dollar-based index of principal Canadian exports.

2. Index deflated by U.S. Producer Price Index for Intermediate Goods.

– Shaded areas represent U.S. recession periods.