

Scotiabank Commodity Price Index

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Scotiabank Commodity Price Index Rebounds In July

- **Grain & oilseed prices move higher** — pointing to a recovery in world fertilizer demand and prices.
- **LME copper prices rally strongly**, with hedge funds re-establishing long positions, on supply constraints and betting that China will offset much of the slowdown in the United States.
- **Uranium prices lift off bottom.**

Scotiabank's Commodity Price Index rose by 2.7% m/m in July and continued to rally in early August, after sharp declines in May and June. A significant drop in the U.S. dollar against key currencies lifted dollar-denominated commodity prices last month, as did some return of investor 'risk appetite' for commodities & equities. The All Items Index remains 24.7% above the cyclical low in April 2009.

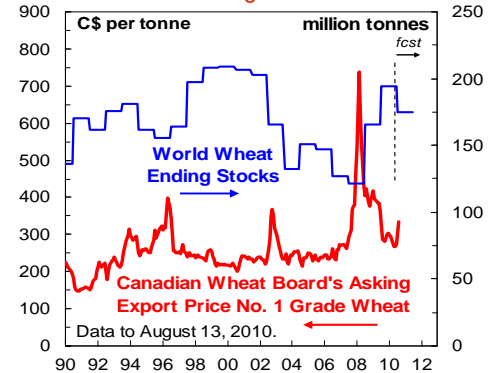
The DXY Index — tracking the U.S. dollar against six key currencies — fell by 9% from the recent high on June 7th through August 6 in reaction to disappointing U.S. economic indicators on consumer spending, employment and housing activity. U.S. industrial production strengthened markedly in 2010:Q2 (+7.3% yr/yr) and remained firm in July (+7.7% yr/yr) — related partly to re-stocking low inventories of manufactured goods coming into this year. However, financial markets worry about the 'sustainability' of the recovery, given prospects for weak consumer spending — in turn linked to consumer & government deleveraging, cautious private-sector hiring and employment cuts at some state & local governments. A rise in U.S. initial jobless claims to 500,000 (the highest since November 2009) and a very soft Philly Fed reading on Mid-Atlantic manufacturing activity triggered renewed 'risk aversion' and fund inflows into 'safe-haven' U.S. Treasury securities in mid-August, with the U.S. dollar regaining some lost ground (likely temporarily).

On a more positive note for the global economy, Eurostat's 'flash' estimate points to a surprisingly strong 4% annualized pace of Euro zone GDP growth in 2010:Q2 over Q1, despite the debt crisis (stronger than the 2.4% in the United States). Germany, accounting for 27% of the region's GDP, posted an exceptional 8.8% annualized advance — lifted by a strong export performance to Asia and its competitive edge in R&D-intensive capital goods — offsetting very slow growth in Spain and Portugal and recessionary conditions in Greece.

The increase in Scotiabank's Commodity Price Index was broad based in July, with all sub-components advancing. Agriculture led the gain (+7.1% m/m), with strength in grains (wheat, canola and barley) and fish (Pacific salmon and Atlantic lobster).

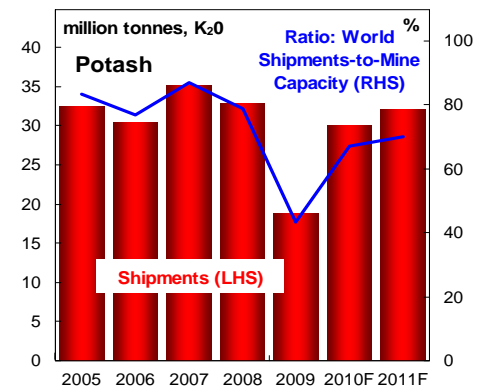
Grain & Oilseed Complex Turns Up

Russian Drought Lifts Wheat



World Wheat Ending Stocks as a % of Consumption:			
2007/08 (record prices)	2008/09	2009/10e	2010/11F
20.2%	25.8%	29.8%	26.3%

An Important 'Inflection' Point Spurring Potash Demand



World shipments = domestic sales + imports.
 2010 shipments reflect little speculative re-stocking.

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Since bottoming in April/May at C\$266 per tonne, the Canadian Wheat Board's asking export price for wheat (No.1 grade) has recovered rapidly to C\$334 in mid-August (+ 26%) and will likely climb further over the next six months. Minneapolis and CBOT wheat prices spiked on August 5th following Russia's ban on wheat exports (for the period August 15-December 31) due to a severe drought across the FSU-12 spring wheat area. Russia (the world's third-largest wheat exporter last year) expects a crop of only 60-65 million tonnes, down from 97 mt in 2009-10. This winter's wheat crop in Russia will also be affected. Reduced crops in Western Canada, Kazakhstan, the Ukraine and the EU-27 have also slashed estimated world wheat ending stocks for 2010-11 to 26.3% of world consumption. This follows two years of near-record world crops which lifted stocks to 29.8% of global consumption (near the high levels of 1999-2000), leading to a gradual fall in prices over the past 18 months. However, stocks remain above the very low levels of 2007-08, which triggered fear of global 'food shortages'.

The Metal & Mineral Index rebounded in July (+1.9% m/m), as base metal prices bounced back from declines in May and June, more than offsetting a temporary pull-back in gold & silver prices. LME copper prices remain quite resilient and surged as high as US\$3.38 per pound on August 19 — yielding a 56% profit margin — boosted by supply-side tightness. LME copper stocks have plunged by more than 27% since February. The Oil & Gas Index also gained ground in July (+2.8% m/m) alongside stronger light & heavy crude oil prices in Alberta as well as some improvement in natural gas export prices. Finally, the Forest Products Index advanced by 1.3% m/m in July, as gains in U.S. newsprint and fine paper prices and some recovery in lumber prices (back towards average cash costs plus the export tax) offset slightly lower OSB prices.

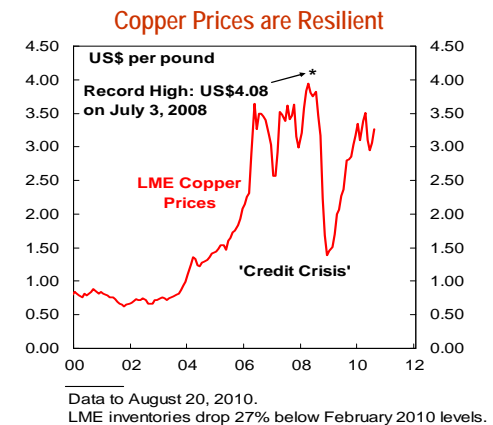
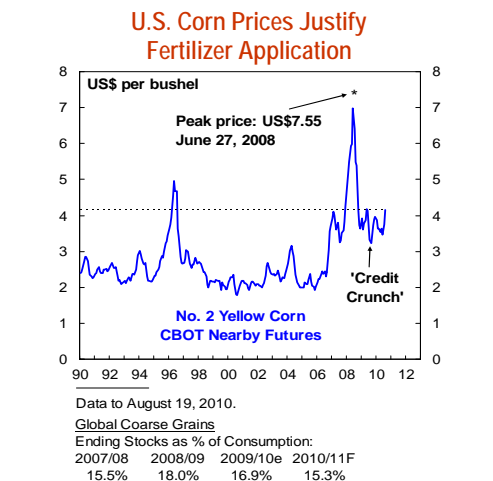
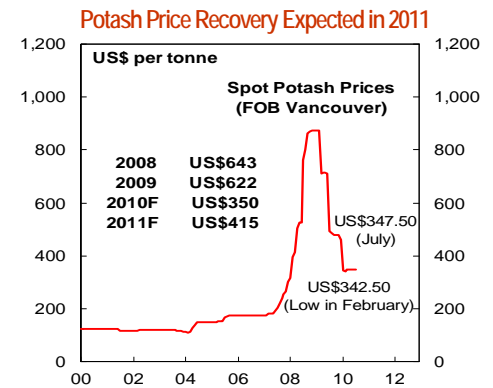
Metals & Minerals

A stronger Metal & Mineral Index in July reflected widespread gains in base metals, a US\$25 price increase for Western Canadian premium-grade hard coking coal to US\$225 per tonne (FOB Vancouver) and a slight increase in uranium prices. These developments more than countered a modest correction in precious metals and lower prices for steel-alloying agents (cobalt and molybdenum).

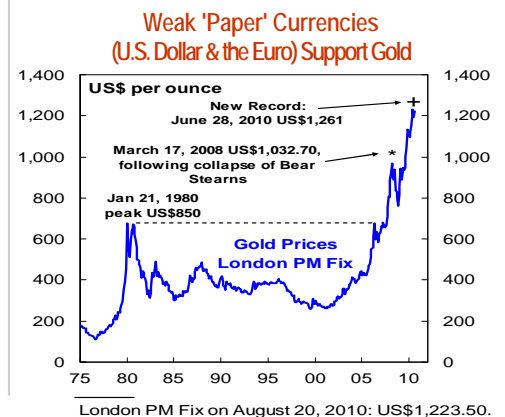
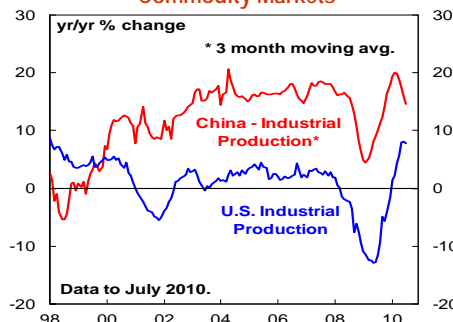
Spot uranium prices have lifted off the bottom, rising from US\$40.75 per pound in mid-June to US\$46.00 in late July and US\$46.50 in mid-August. Sellers pulled back offers at prices near the US\$40 mark, believing prices to be too low. Term contract prices (before escalation at the time of delivery) have also increased from US\$58 to US\$60 per tonne. Cameco (the world's largest publicly traded uranium producer) has indicated that it will reduce spot sales.

Spot potash prices (FOB Vancouver) were unchanged in July at US\$347.50 per tonne, but appear to have edged up in mid-August, with Brazil rumoured to have agreed to a small hike in the granular price to US\$390 (cfr) ahead of its peak corn/soybean growing season. Recent developments in world grain markets have already contributed to significant price improvement for phosphate and nitrogen fertilizers. DAP (diammonium phosphate) prices have surged from US\$465-470 per tonne on July 22 to US\$485-496 on August 19 for exports from the U.S. Gulf. Limited U.S. export availability (due to long-term contract commitments to India, Latin America and Asia) and uncertainty over a Mosaic phosphate rock expansion have also bolstered DAP prices.

The recent bid for Canada's largest potash producer — also the world's largest potash & overall fertilizer producer — likely reflects the following developments: 1) the expectation that 'a key inflection point' has been reached for fertilizers, pointing to near-term recovery in global demand and stronger prices; 2) a potential merger between Silvinit and Uralkali of Russia (a partner in BPC) under new ownership, with the merged colossus controlling close to 28% of 2010 nameplate



China — Vital to Global Commodity Markets



potash capacity with Belaruskali, suggesting an even more concentrated global industry going forward; Canada's leading producer will remain the largest, with significant expansion in the next five years lifting its current 28% of world potash capability; and 3) expectations for strong growth in 'emerging market' demand for meat and higher-value food products. Over the medium-term, China's demand growth for corn to feed animals for rising meat consumption will require increased potash application both in China (where soils are potash deficient) and in key corn-producing regions abroad.

While **spot sulphur prices (FOB Vancouver)** — used in making DAP — dropped temporarily from US\$100 per tonne in June to US\$65 in July, prices have bounced back over US\$100 in mid-August — lifted by demand from Chinese traders.

After losing ground last spring, **LME copper prices** rallied from US\$2.95 per pound in June to US\$3.05 in July and were US\$3.27 on August 20. While China's economy — accounting for 39% of world copper consumption in 2009 — is likely to slow in the third quarter from 10.3% yr/yr in 2010:Q2 — **copper consumption estimates for China are being revised up**. China's demand for refined copper will likely grow by 13% in 2010 and another 8-10% in 2011, after an extraordinary 28% increase in 2009 (not including any inventory building by China's State Reserve Bureau or fabricators). Moreover, several programs will offset the impact of a winding down of the massive infrastructure spending program put in place in late 2008 to revitalize China's economy from the 'credit crisis'. **Huge spending on copper-intensive power infrastructure on the state grid in 'rural areas' will continue through 2012 (12 bn RMB). Beijing has also renewed the 'home appliance subsidy scheme' and is promoting electric cars, which are twice as copper-intensive as conventional vehicles.**

In addition, **there is growing recognition that copper supplies are fundamentally tight** — given almost no increase in world mine capability over the past five years and declining ore grades at major producing mines. While new mine development will begin to ramp up in 2011, it will not be until 2012 that it has a significant impact. The net result, **world supply/demand conditions for copper are in 'deficit' in 2010, with the deficit likely to grow in 2011. The LME copper price forecast has been revised up to US\$3.20 for 2010 and US\$3.35 for 2011.**

Gold prices (London PM Fix) lost ground in July, falling to US\$1,193 per ounce, but have snapped back to US\$1,223 in mid-August. Prices will likely remain exceptionally strong over the balance of 2010, given concern over the potential for additional 'quantitative easing' by the Fed, to spur a slowing economy. Concern over high government debts and deficits also continue to call into question the integrity of key reserve currencies (both the U.S. dollar and the euro).

Oil & Gas

WTI oil prices edged up from US\$75.40 per barrel in June to US\$76.38 in July. Prices continue to ebb and flow on sentiment related to U.S. and global economic prospects, equity market performance and investor 'risk appetite'. Prices climbed as high as US\$82.55 in early August on a weaker U.S. dollar. However, prices receded to US\$73 on August 20, as 'risk aversion' returned, with U.S. economic indicators pointing to a slowdown. Actual U.S. petroleum consumption was up 3.1% yr/yr in early August. **NYMEX natural gas prices** strengthened in June to US\$4.78 per mmbtu, pulling up Canadian export prices in early July. However, NYMEX prices have since faded and stand at only US\$4.12 in mid-August on signs of a cooling U.S. economy.

Forest Products

Western Spruce-Pine-Fir 2x4 lumber prices have been very volatile in 2010. After strengthening to quite profitable levels last spring, lumber prices fell sharply in June to US\$208 per mfbm (near average mill variable costs), before recovering to US\$215 in July. Prices are US\$224 in mid-August. The recovery in U.S. housing starts has, unfortunately, stalled in recent months, despite very low mortgage rates (only 4.42% for a 30-year mortgage). After rising as high as 679,000 units in April, starts have retreated

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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	37.0	-19.2	21.6	4.1	5.7
Industrials	83	26.7	-25.7	24.9	3.8	5.8
Forest Products	40	17.1	-25.3	31.2	1.0	1.3
Metal and Minerals	27	25.3	-28.1	19.9	11.2	11.0
Oil and Gas	16	38.7	-22.0	27.3	-1.7	5.0
Agriculture	17	127.4	43.2	4.5	6.4	5.0

	Index 1997 = 100					
	2010			2009		
	July	June	May	Apr	July	
All Commodity Price Index*	181.7 *	177.0 *	180.9	191.6	149.4	
Industrials*	188.4 *	184.7 *	190.3	202.9	150.8	
Forest Products	105.9	104.5	112.6	113.9	80.7	
Metal and Minerals	259.3	254.5	263.8	281.7	216.3	
Oil and Gas*	271.6 *	264.3 *	257.9	289.0	213.3	
Agriculture	148.4	138.5	134.2	135.6	142.0	

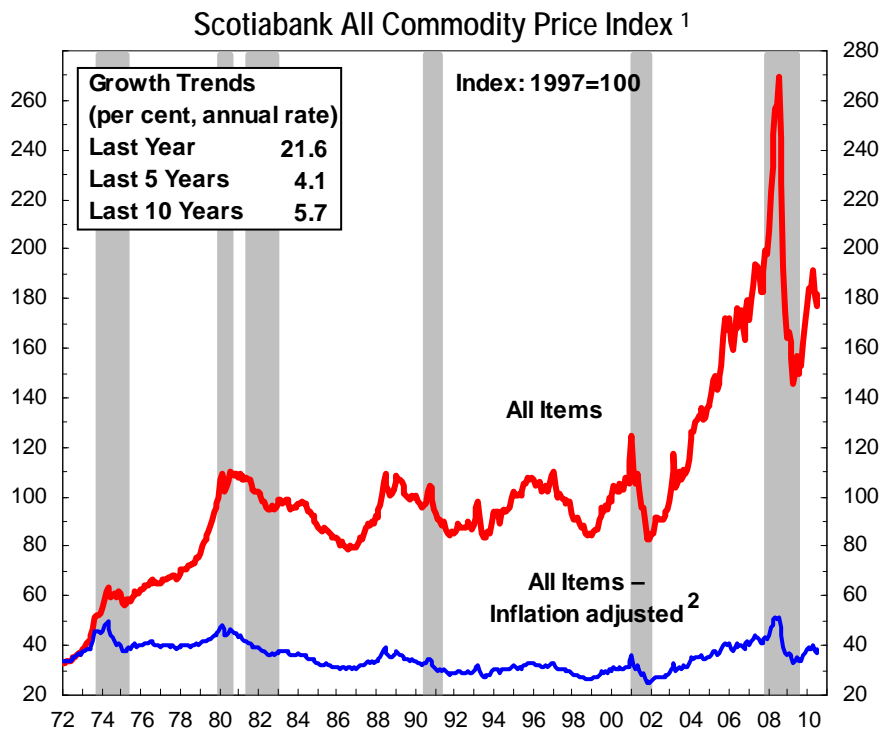
*Natural gas and propane prices are subject to revision.

to only 546,000 in July (slightly lower than a year earlier). With the peak construction season soon drawing to a close, a significant pick-up awaits 2011, when starts are expected to rise to 900,000 units (at most). This year's starts will total 575,000 - 600,000 units — only marginally ahead of 554,000 in 2009. After shipping to the United States free of the export tax in June — for the first time since the 2006 Canada-U.S. Softwood Lumber Agreement came into effect — the downturn in U.S. lumber prices has triggered re-imposition of a 15% tax on Western exports in August.

Eastern U.S. newsprint prices have recovered from a low of only US\$435 per tonne in mid-2009 to US\$630 in July 2010. North American mills are running flat out at virtually 100% of capacity, given surprisingly strong export shipments to Asia (+296% yr/yr), an edging up in publisher demand in the United States and Canada and recent industry rationalization.

Agriculture

The entire grain & oilseed complex has been lifted by this year's drought in Russia and Kazakhstan as well as flooding last spring in Western Canada. **Spot canola (FOB Vancouver)** advanced from C\$434 per tonne in June to C\$472 in July and C\$482 in mid-August (similar to year-ago levels) alongside higher soybean prices in the United States. Prices for **barley** (a feedgrain and malt) — normally a large volume crop in Western Canada — are being pushed up by a projected 10.8% drop in the Canadian harvest in 2010-11 as well as the lowest Russian barley crop in 40 years.



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.