



Commodity Price Report

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<http://www.bmo.com/economic>

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COMMODITY INDEX FINISHES RECORD-BREAKING YEAR IN STYLE

The commodity rally that started in mid 2002 remained in full swing in 2005, defying earlier expectations it would slow down. The annual average of the **BMO Financial Group Commodity Price Index** rose 19% in 2005, only slightly off the 21% pace in 2004 and the 23% advance in 2003. Unadjusted for inflation, the Index shattered the all-time high set in 2004 and ended the year almost 33% above the December 2004 level. By far, the main driving force in 2005 was Oil & Gas, followed by Metals & Minerals. Forest Products and Agriculture were little changed in the year.

In December, the Index rebounded by 10.7% to 219.6 (1993 = 100) from a short-lived correction in November. In keeping with the annual trends, Oil & Gas and Metals & Minerals provided most of the monthly impetus. Forest Products rose modestly, while Agriculture declined.

The current strong momentum in the overall Index is not expected to be sustained through 2006. Elevated prices should work to slow demand growth and spur increases in production, together easing market tightness. However, performance amongst commodities is likely to be mixed.

The **Oil & Gas Index** bounced back in December from a sharp drop the previous month. This primarily reflected a surge in natural gas prices during the first half of the

month, when colder-than-normal weather raised concerns about winter supply. The price of oil also rose in December, though more modestly. WTI remained below the US\$60/barrel mark for the second straight month. However, it did push back over \$60 during the first week of January amid worries about the implications of a dispute between Russia and the Ukraine over natural gas.

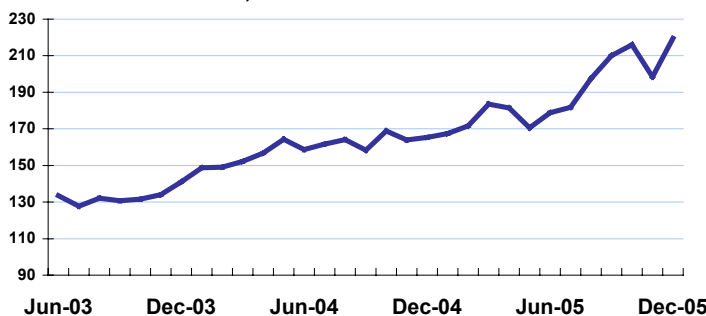
The **Metals & Minerals Index** continued its ascent in December, with strong gains in both precious and base metals. Gold prices were lifted partly by inflation concerns while supply worries fueled base metals. Prices are generally expected to soften in 2006, although solid demand and limited production growth should keep them at elevated levels.

The **Forest Products Index** moved modestly higher, as most components either were unchanged or posted small price increases. Newsprint producers further implemented a price increase introduced in October. Market pulp was flat. Lumber rose for the second consecutive month.

The **Agricultural Index** slipped in December, as wheat and canola moved lower on upward revisions to supplies. With market balances now less tight, prices are expected to ease during the next year. Still, relatively low global stocks of key commodities should temper declines.

BMO Financial Group Commodity Price Index

All Commodities Index, 1993=100



	Dec. Level	% Change from	
	1993=100	Mth. Ago	Yr. Ago
All Commodities	219.6	10.7	32.8
- Oil & Gas	455.6	17.7	64.9
- Metals & Minerals	187.8	7.6	21.0
- Forest Products	119.7	1.7	1.8
- Agriculture	103.9	-2.4	0.9

Technical Note

The BMO Financial Group 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 export values during the period 1993-97. 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:

	Weight in All-Commodities Index (%)	Weight in Sub-Index (%)		Weight in All-Commodities Index (%)	Weight in Sub-Index (%)
Metals & Minerals	20.1	100	Forest Products	45.2	100
Gold	5.1	25.4	Newsprint	11.5	26.1
Silver	0.4	2.2	Market Pulp	11.7	26.3
Aluminum	6.6	32.7	Supercalendered Paper	2.3	5.0
Copper	2.3	11.4	Lumber	18.2	39.3
Lead	0.2	1.0	OSB	1.4	3.2
Nickel	1.5	7.3			
Zinc	1.4	6.9	Agricultural Products	8.7	100
Potash	2.6	13.1	Wheat	6.2	72.4
			Corn	0.1	1.7
Oil & Gas	26.0	100	Canola	1.9	22.3
Crude Oil	14.8	56.9	Soybeans	0.3	3.6
Canadian Natural Gas	11.2	43.1			
			All Commodities	100	

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

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OIL & GAS

Overall In December, the Oil & Gas Index rebounded from its sharp drop the previous month, climbing 17.7%. This primarily stemmed from a very large increase in natural gas prices during the first half of the month, when colder-than-normal weather raised concerns about winter supply. The price of oil rose modestly in December, although West Texas Intermediate (WTI) remained below the US\$60/barrel mark. Although inventories of crude oil and refined products remain adequate for this time of year, WTI pushed back over \$60 during the first week of January as the dispute between Russia and the Ukraine over natural gas prices fuelled concerns about the use of energy as a political weapon.

The Oil & Gas Index rose on average by 40% in 2005, double its growth rate in 2004. During the twelve months ending in December, 2005, the index climbed almost 65%.

Crude Oil The average monthly price of WTI rose 1.9% in December to US\$59.50/barrel. This brought WTI to a level 36% higher than a year earlier. Despite continued below-normal production of crude oil in the Gulf of Mexico in the wake of hurricanes Katrina and Rita, inventories are very high – roughly 11.5% above their five-year average – and, in fact, are setting new five-year highs. Inventories of gasoline and distillates are both running around their five-year averages. During the first week of January, WTI rose above the \$60 mark as the dispute between Russia and the Ukraine over natural gas and Iran’s removal of seals from its nuclear facilities highlighted political risks to energy.

The price of WTI rose on average by 36% in 2005, following a 33% increase in 2004. As high prices and moderately slower global growth ease the expansion of oil consumption, and global supply rises, we anticipate that WTI will decline from an average of \$56.44 in 2005 to \$55.50 in 2006 and \$54.50 in 2007.

Natural Gas prices soared in December, as a cold snap during the first half of the month sharply increased the draw on underground storage, raising concerns about adequacy of supply. On an average monthly basis, US benchmark, Henry Hub, rose 22% to US\$12.90 per million British thermal units (mmbtu). This fully reversed a decline of the same magnitude in November. Henry Hub rose as high as \$14.50 by mid-December, before the onset of warmer weather led to a decline in natural gas prices. Given that the natural gas market is integrated on a continental basis, prices in Alberta followed suit. Alberta Express jumped 31.5% to an average of US\$11.02/mmbtu in December.

The price of Alberta Express climbed on average by 43% in 2005, following increases of 9% in 2004 and 83% in 2003. The very tight North American natural gas market will keep prices at high levels, if moderately off their 2005 peak, during the next two years. We project Express to decline from an average of US\$7.51/mmbtu in 2005 to \$7.40 in 2006 and \$7.00 in 2007.

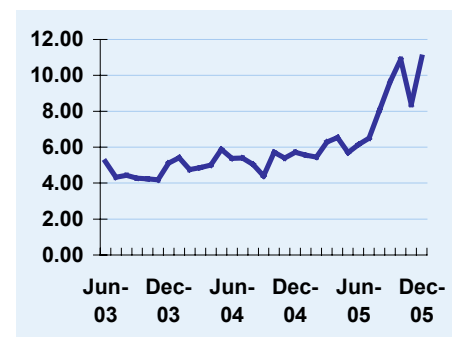
Oil & Gas Index, 1993=100



Crude Oil (WTI), US\$/bbl



Natural Gas (Alberta Express), US\$/mmbtu



METALS & MINERALS

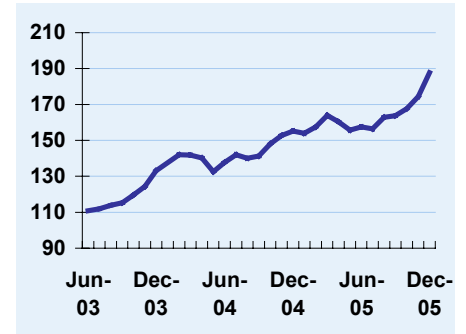
Overall With robust gains in both precious and industrial metals, the Metals & Minerals index increased 7.6% in December. During the month, average gold prices – at US \$ 511 per ounce – hit their highest level in 25 years, lifted by strong demand, declining production, and concerns about inflation and alternative investment opportunities. Silver followed gold’s lead with a near 10% gain and base metals soared on supply concerns. The December advance took the index some 21% higher than a year ago. In the 12 months through December, zinc (up 55%) and copper (up 45%) turned in by far the best performances although all metals and minerals but nickel (down 3%) recorded significant gains. Over the next year, we anticipate that prices will generally retreat although continued solid demand and limited production growth should keep them at elevated levels.

Nickel After trending downward since last May, nickel surged in December as it shrugged off concerns of faltering demand. Instead, the metal responded to a series of actual and potential supply disruptions (in Norway, New Caledonia and the Dominican Republic) and to constructive conditions in other base metal markets. During the month, prices advanced by close to 11% to average US\$6.14/lb. even in the face of a large increase (up 55%) in LME inventories. With the December gain, the monthly average recovered some of its recent losses but remained 3% below year-earlier levels. We anticipate prices will return to their weakening pattern amid gradually looser supply-demand conditions. Still, nickel prices should remain at comparatively high levels, averaging in the area of US\$ 6.00/lb. over the next year.

Copper continued its heady run in December, with a gain of 6.7% – its seventh increase in a row. With supplies already tight, prices received further support from a strike by railroad workers in Chile and speculation that China would have to buy large amounts of copper to cover a short position built up by a government trader. Prices, which averaged US\$2.08/lb. during the month, have risen by 45% over the last year. However, the market balance is expected to ease over the next year, as the prevailing high prices elicit increased production and prompt consumers to curtail demand. While prices are projected to retreat in this environment, still-low inventories should support copper at fairly high levels through 2006. We are projecting an average price of US\$ 1.60/lb. in 2006.

Aluminum prices advanced 9.1% in December to average US\$ 1.02/lb. – its highest level in 16 years. A major impetus came from an agreement by several smelting companies in China to cut production in a bid to force suppliers to lower prices of their primary raw material (alumina). Over the past year, the monthly average has climbed by roughly 21%, supported by low stocks, strong Chinese demand, and rising production costs due to higher energy prices and tight alumina supplies. With high energy prices continuing to constrain aluminum supply – particularly in China where the government has sought to rein in production – prices are expected to be well supported through the next year. Prices are slated to average in the area of US 85¢ in 2006.

Metals & Minerals Index, 1993=100



Nickel (LME), US\$/lb.



Copper (LME), US¢/lb.



Aluminum (LME), US¢/lb.



FOREST PRODUCTS

Overall The Forest Products Index moved modestly higher (up 1.7%) in December, as most components either were unchanged or posted small price increases. The main exception was structural panels, where robust demand helped lift prices a little more substantially. On the pulp and paper side, newsprint producers further implemented a price increase introduced in October. Market pulp was flat. On the wood products side, lumber rose for the second consecutive month. Looking forward, a projected slowing in housing construction in North America is expected to keep wood product prices on a downward course in 2006. Pulp and paper prices are likely to hold up relatively better.

Lumber continued to trade within a narrow band in December, with the Western SPF 2x4 benchmark gaining US\$11/mbf to US\$334/mbf. Since July, lumber prices have moderated, hovering between US\$305/mbf and US\$340/mbf, following a four-month rally last winter and spring. For the entire year, average lumber prices fell 10% in 2005 – although this is compared to exceptionally high prices in 2004. Prices are expected to trend lower in 2006-2007, as North American housing construction cools. This will exacerbate woes of many Canadian lumber mills, especially in Central Canada. Fortunately, since mid December, Canadian lumber exports to the United States have been subject to lower duties (cut to 10.8% from 20.2%), as a result of the US Department of Commerce’s second annual administrative review.

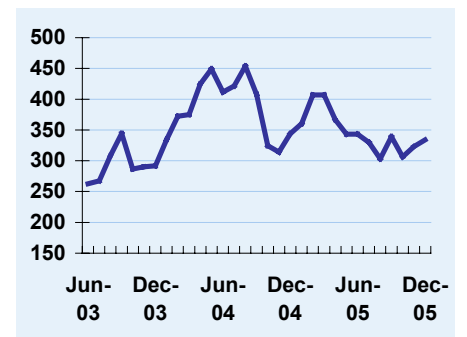
Market Pulp prices were flat in December after rising by a total of US\$20/tonne in the previous two months. Developments overseas – where price increases were announced in Europe and China – and an unusual drop in world pulp inventories for this time of year provided ammunition to some producers to propose a new price hike in coming months. Producers are eager to raise prices to cover higher production costs (especially for energy and transportation). However, the pricing environment will likely become more challenging for producers in the latter part of 2006, as massive capacity expansions (mostly for hardwood pulp) in South America and Asia will bring more supplies onto world markets. Any upward momentum in prices will be difficult to sustain later this year.

Newsprint The third round of price increases in 2005 was further implemented in December, with newsprint delivered to the Eastern United States gaining US\$10/tonne to US\$645/tonne. Since October, when producers began to push for the increase, newsprint has gone up US\$20/tonne, still less than the US\$35/tonne initially proposed. As has been the case in earlier rounds, the increase had yet to apply to all buyers, with some (typically the largest) customers still escaping it. Producers intend to apply the higher price to all customers by January, as they argue rapidly rising costs make it necessary. Word has also begun to circulate about another increase targeted for February. Success will rest on producers’ ability to curb output, as North American newsprint consumption is in a secular decline. In the past year, operating rates have remained high and inventories have been kept under control, despite US consumption tracking significantly lower. Producers have been staunchly committed to shutting capacity.

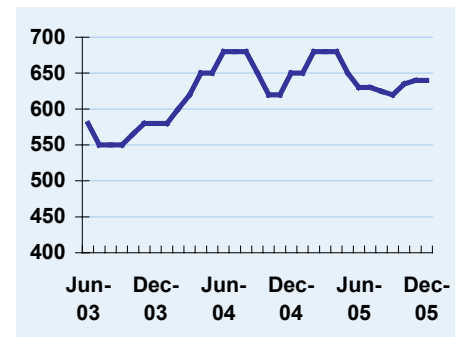
Forest Product Index, 1993=100



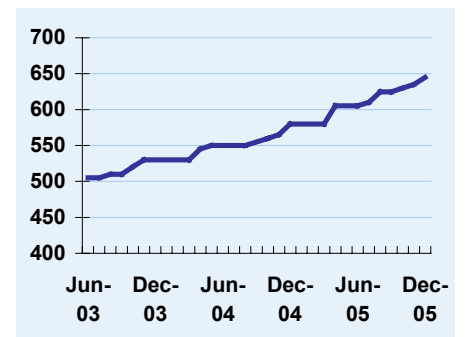
Lumber (West. SPF 2x4), US\$/mbf



Market Pulp (NBSK), US\$/tonne



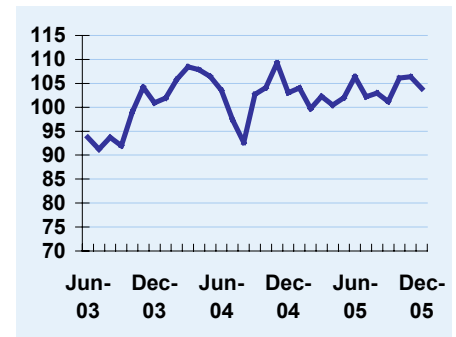
Newsprint (US East), US\$/tonne



AGRICULTURAL PRODUCTS

Overall The agricultural sub-index slipped 2.4% in December, as losses in wheat and canola more than offset solid gains in corn and soybeans. Weaker wheat and canola prices were precipitated largely by upward revisions to supply estimates during the month. In the 12 months through December, agricultural prices, which have been subject to substantial variability, recorded a modest gain of 0.9%. While market balances have generally improved, low global stocks relative to consumption have provided support to prices. Agricultural prices are expected to ease during the next year although comparatively low global inventories of key commodities should provide some support.

Agriculture Index, 1993=100



Wheat The average price of wheat fell 2% during December to US\$5.04/bu. Larger-than-expected production in key exporting regions, an upward revision in global ending stocks by the US Department of Agriculture, and significant use of export subsidies by the European Union all helped to push prices lower. Over the past year, wheat prices have advanced by 3.7% and currently stand well above (close to 18%) their average for the most recent five years. While higher projections for global ending stocks are likely to weigh on prices, any decline over the next year is likely to be limited, with inventories projected to remain relatively low. In 2006, the annual Minneapolis spot price for dark spring wheat is slated to average around US\$ 4.60/bu.

Wheat (Minn. Spot), US\$/Bushel



Canola The slide in canola continued in December as prices fell by 6.7% to average C\$236/tonne over the month. Record large Canadian canola supplies – as indicated in a Statistics Canada report during the month – was largely responsible for the decline. Over the past year, the monthly average price has fallen by roughly 15% in the face of ample global oilseed supplies and a markedly stronger Canadian dollar. A still-sanguine outlook for global oilseed production is expected to continue to weigh on the canola market over the next year.

Canola (WCE), C\$/Tonne



●●●●●●●●●● COMMODITY INDICES & FORECASTS

	All Commodities (US\$)	Oil & Gas (US\$)	Metals & Minerals (US\$)	Forest Products (US\$)	Agricultural Products (US\$)	All Commodities (C\$)
Indices 1993=100						
1996	115.2	97.0	120.8	121.3	124.5	121.8
1997	110.4	98.2	120.1	114.6	102.5	118.5
1998	98.7	82.0	101.7	108.0	93.1	113.5
1999	105.9	109.6	102.9	109.7	82.3	122.0
2000	128.7	187.6	113.6	111.1	78.6	148.4
2001	117.6	165.9	102.5	103.2	81.9	141.0
2002	107.2	145.4	102.2	90.1	92.9	130.5
2003	131.9	215.1	114.2	98.6	96.6	143.3
2004	159.3	257.7	142.6	120.7	103.6	160.7
Annual Forecasts						
2005	189.7	359.6	163.5	120.0	103.1	178.0
2006	187.4	354.0	162.2	119.8	97.1	171.8
Monthly						
2004 Dec	165.3	276.3	155.1	117.6	103.0	156.3
2005 Jan	167.5	281.7	153.9	119.8	104.1	159.0
Feb	171.6	282.6	157.5	127.7	99.7	165.1
Mar	183.5	322.6	164.0	127.6	102.2	173.0
Apr	181.4	324.2	160.2	123.9	100.5	173.9
May	170.6	294.0	155.8	119.3	102.0	166.2
Jun	178.9	324.6	157.5	118.2	106.4	172.0
Jul	181.8	341.7	156.5	116.2	102.1	172.6
Aug	197.5	400.4	162.9	114.0	103.0	184.4
Sep	210.1	439.6	163.8	119.4	101.2	192.0
Oct	216.0	461.8	167.6	116.9	106.1	197.2
Nov	198.3	387.0	174.5	117.7	106.4	181.7
Dec	219.6	455.6	187.8	119.7	103.9	197.9
Quarterly History and Forecasts						
2004 Q3	161.4	257.9	141.0	127.0	97.6	163.7
Q4	166.0	288.1	151.9	113.5	105.5	157.2
2005 Q1	174.2	295.6	158.5	125.0	102.0	165.7
Q2	177.0	314.3	157.9	120.5	102.9	170.7
Q3	196.5	393.9	161.0	116.5	102.1	183.1
Q4	211.3	434.8	176.6	118.1	105.5	192.3
2006 Q1F	202.3	395.3	173.8	123.2	100.7	185.9
Q2F	185.7	344.1	164.8	120.9	95.9	170.6
Q3F	178.8	323.0	156.8	121.2	95.9	163.5
Q4F	182.7	353.5	153.3	114.0	95.9	167.2

Source: All indices and forecasts are by BMO Financial Group Economics Department.

COMMODITY PRICES & FORECASTS

	Crude Oil	Cdn. Natural Gas	Aluminum	Copper	Nickel	Zinc	Newsprint	Market Pulp	Lumber	Wheat
Indices 1993=100										
1996	119.9	66.7	132.3	120.1	142.0	106.5	139.9	132.0	105.8	125.2
1997	111.5	80.7	140.4	119.0	131.1	136.9	120.2	130.0	106.0	99.7
1998	77.8	87.5	119.2	86.5	87.5	106.4	129.2	119.5	87.5	89.5
1999	104.3	116.7	119.5	82.4	113.6	111.7	110.3	119.2	103.0	82.2
2000	164.1	218.5	136.1	94.9	162.7	117.0	122.2	150.8	78.9	80.7
2001	140.3	199.7	126.9	82.8	112.9	92.2	126.8	122.8	77.0	82.0
2002	141.4	150.7	118.6	81.6	128.2	80.9	100.7	108.0	73.4	92.2
2003	168.7	276.4	125.7	93.0	182.5	85.9	109.1	121.7	75.1	94.8
2004	225.0	300.9	150.8	149.7	260.9	108.7	119.2	140.9	108.1	103.0
2004 Dec	237.5	327.6	163.0	165.1	263.4	123.0	125.7	143.1	96.2	108.1
2005 Jan	253.6	318.8	160.6	164.9	274.6	128.8	125.7	143.1	100.9	110.9
Feb	259.6	312.9	164.9	169.2	289.1	137.0	125.7	149.7	114.0	106.2
Mar	293.5	360.9	173.9	176.9	306.8	142.2	125.7	149.7	113.9	106.6
Apr	286.1	374.6	165.7	177.2	305.1	134.7	131.2	149.7	102.7	104.4
May	269.3	326.7	153.0	169.7	320.0	129.2	131.2	143.1	96.1	106.4
Jun	304.0	351.9	151.9	183.3	304.8	132.2	131.2	138.7	96.1	111.1
Jul	318.4	372.4	156.9	189.3	275.9	124.5	132.2	138.7	92.3	105.1
Aug	353.4	462.6	163.9	198.9	283.4	136.4	135.5	137.6	84.9	107.7
Sep	353.3	553.5	160.8	200.9	265.2	144.7	135.5	136.5	94.9	106.6
Oct	338.5	624.7	169.5	212.1	235.0	153.6	136.6	139.8	85.8	113.8
Nov	316.2	480.5	181.5	224.5	231.0	168.2	137.7	140.9	90.4	114.5
Dec	322.3	631.8	198.0	239.4	255.5	190.3	139.8	140.9	93.5	112.2
Prices										
Basis	WTI	Alberta Empress	LME	LME	LME	LME	US East	NBSK	West. SPF 2x4	Minneapolis Spot
Units	US\$/bbl.	US\$/mmbtu	US¢/lb.	US¢/lb.	US\$/lb.	US¢/lb.	US\$/t	US\$/t	US\$/mbf	US\$/bu
2004 Dec	43.85	5.71	84.3	143.2	6.32	53.7	580	650	344	4.85
2005 Nov	58.38	8.38	93.9	194.8	5.55	73.5	635	640	323	5.14
2005 Dec	59.50	11.02	102.4	207.7	6.14	83.1	645	640	334	5.04
Annual Forecasts										
2004 A	41.54	5.25	78.0	129.9	6.26	47.5	550	640	388	4.62
2005 A	56.44	7.51	86.2	166.7	6.70	62.7	610	647	347	4.88
2006	55.50	7.40	85.5	160.0	6.03	72.5	675	646	320	4.60
2007	54.50	7.00	78.0	120.0	5.50	70.0	655	620	290	4.60

Sources: Global Insight data services, Natural Gas Week, Pulp & Paper Week, Random Lengths. All indices and forecasts are by BMO Financial Group Economics Department.

HISTORICAL CHARTS

All-Commodity Index, Nominal US Dollars
1993 = 100, Monthly



All-Commodity Index, Real US Dollars
1993 = 100, Quarterly



All-Commodity Index, Nominal
1993 = 100, Monthly

