
COMMODITY PRICE REPORT

TD Economics



February 29, 2012

TD UPGRADES COMMODITY PRICE FORECAST

- Since the start of the year, commodity prices have been much stronger than we had anticipated. Better-than-expected U.S. economic data, the Federal Reserve's announcement that interest rates will remain on hold until late 2014, and expectations that China will ease monetary and fiscal policy have helped lift prices from their fourth quarter lows.
- The debt crisis in Europe, while still far from resolved, has had less of a negative impact on commodity markets this year. Still, headlines regarding the Greek bailout have led to increased volatility in recent weeks.
- While the risk of a disorderly debt default has eased, financial stress and economic uncertainty in Europe is still likely to weigh on growth around the world. Europe's debt crisis remains the number one risk facing commodity prices and our forecast.
- Nonetheless, we have revised our commodity price forecasts to reflect the recent resilience in prices, particularly in metals and oil prices. 2013 forecasts are largely unchanged.
- The rebound in base metals prices came without any change in the supply-demand fundamentals, suggesting that it was driven by an improvement in market sentiment. As such, we have boosted our near-term forecasts across the board, while the latter part of 2012 and 2013 were left untouched.
- Gold prices rallied from a low of US\$1,530 at the end of last year to over US\$1,700 in January, after the Fed extended the timeline on low interest rates. Bullion gained further momentum in mid-February after a second Greek bailout was agreed upon and crude oil prices shot up. We expect gold prices to remain on an upward trajectory this year, reaching US\$2,150 by year-end. The growth in the annual average forecast for gold prices in 2013 masks the downtrend that we foresee taking place next year.
- Geopolitical tensions in Iran have continued to inflate crude oil prices this year, as market fundamentals have become less supportive. The International Energy Agency has cut its forecast for 2012 global oil demand already twice this year. At the same time, supply has been rising and appears to be more than adequate – barring any major supply disruptions in the Middle East. Given the lofty price levels seen thus far in the year, we have upgraded our forecast for 2012. We now expect prices to trend in the US\$95-105 per barrel range this year.
- In contrast to the rest of the commodity complex, natural gas prices have been much weaker than anticipated. At about US\$2.50 per MMBtu, prices have been hammered by lackluster demand and abundant supplies. And with storage levels likely to end the withdrawal season relatively high, there is not much upside for prices. Accordingly, we have significantly downgraded our natural gas price forecast for both 2012 and 2013.
- In the agricultural sector, livestock prices have been on a tear, particularly cattle prices which have continued to reach new highs this year. Canola prices have bounced back nicely thanks to solid demand while shrinking inventories have been supporting livestock prices. As such, the forecasts for these commodity prices were bumped up.

- Minor tweaks were made to the forestry price forecasts, with lumber prices adjusted slightly higher, and pulp and newsprint prices slightly lower. The housing market in the U.S. is showing some improvement, which is good news for lumber prices. The pulp and newsprint markets are still working to bring supply in line with faltering European and North American demand.
- Overall, the bulk of the revisions are concentrated in the first half of 2012, essentially smoothing out the forecast

profile. However, should markets receive some bad news relating to Europe, or data showing a slowdown in economic activity in China or the U.S., we could still see fairly sharp corrections across the commodity complex. Indeed, weaker economic data out of China in mid-February stalled the price rally of several commodities – particularly metals. Hence, while the outlook for commodity prices is fairly rosy, several downside risks remain.

COMMODITY PRICE FORECAST SUMMARY									
	2011			Q4			Annual Average		
	Q1	Q2	Q3	2011	2012F	2013F	2011	2012F	2013F
FORESTRY									
LUMBER	297.47	267.91	265.16	261.59	300.00	330.00	273.03	292.50	310.00
PULP	967.16	1019.04	1000.50	926.58	920.00	970.00	978.32	895.00	955.00
NEWSPRINT	640.00	640.00	640.00	640.00	660.00	675.00	640.00	650.00	667.50
ENERGY									
OIL	94.02	102.60	89.70	94.06	105.00	105.00	95.09	98.75	103.75
NAT GAS	4.18	4.37	4.12	3.31	3.05	3.70	3.99	2.50	3.60
COAL	127.51	120.65	121.72	115.42	120.00	106.00	121.33	120.25	100.00
PRECIOUS METALS									
GOLD	1384.98	1506.96	1700.89	1681.11	2150.00	1850.00	1568.48	1925.00	1975.00
SILVER	31.80	38.59	38.88	31.83	45.00	28.00	35.28	38.50	33.50
NON-PRECIOUS METALS & MINERALS									
ALUMINUM	113.40	118.37	108.83	94.69	108.00	106.00	108.82	107.00	108.00
COPPER	437.89	415.50	407.89	339.65	415.00	370.00	400.23	398.75	380.00
NICKEL	12.20	11.03	10.00	8.31	8.85	8.25	10.39	9.05	8.51
ZINC	108.69	102.13	100.98	85.92	105.00	117.00	99.43	100.25	110.00
URANIUM	68.25	56.57	52.06	52.22	52.00	70.00	57.28	53.50	67.50
AGRICULTURE									
WHEAT	11.68	12.75	10.30	10.07	10.05	10.55	11.20	9.63	10.33
BARLEY	193.82	211.90	204.95	209.59	220.00	230.00	205.07	210.00	223.25
CANOLA	607.80	619.58	594.29	534.47	595.00	610.00	589.04	568.75	600.00
CATTLE	110.80	111.28	114.81	121.35	124.00	130.00	114.56	123.50	127.00
HOGS	86.03	94.10	93.42	87.87	93.00	96.00	90.35	90.50	93.25



COMMODITY PRICE FORECAST SUMMARY: % CHANGE									
	2011			Q4			Annual Average		
	Q1	Q2	Q3	2011	2012F	2013F	2011	2012F	2013F
FORESTRY									
LUMBER	11.1%	-9.9%	-1.0%	-2.3%	14.7%	10.0%	-3.3%	7.1%	6.0%
PULP	-0.6%	5.4%	-1.8%	-4.8%	-0.7%	5.4%	2.6%	-8.5%	6.7%
NEWSPRINT	0.0%	0.0%	0.0%	0.0%	3.1%	2.3%	5.6%	1.6%	2.7%
ENERGY									
OIL	10.5%	9.1%	-12.6%	10.5%	11.6%	0.0%	19.7%	3.8%	5.1%
NATURAL GAS	10.0%	4.5%	-5.6%	-12.9%	-7.8%	21.3%	-9.0%	-37.4%	44.0%
COAL	18.0%	-5.4%	0.9%	6.8%	4.0%	-11.7%	22.6%	-0.9%	-16.8%
PRECIOUS METALS									
GOLD	1.3%	8.8%	12.9%	22.9%	27.9%	-14.0%	28.1%	22.7%	2.6%
SILVER	20.0%	21.4%	0.7%	20.1%	41.4%	-37.8%	74.6%	9.1%	-13.0%
NON-PRECIOUS METALS & MINERALS									
ALUMINUM	6.6%	4.4%	-8.1%	-11.0%	14.1%	-1.9%	10.4%	-1.7%	0.9%
COPPER	11.7%	-5.1%	-1.8%	-13.4%	22.2%	-10.8%	17.0%	-0.4%	-4.7%
NICKEL	13.9%	-9.6%	-9.3%	-22.4%	6.5%	-6.8%	5.0%	-12.9%	-5.9%
ZINC	3.5%	-6.0%	-1.1%	-18.2%	22.2%	11.4%	1.4%	0.8%	9.7%
URANIUM	18.7%	-17.1%	-8.0%	-9.2%	-0.4%	34.6%	22.8%	-6.6%	26.2%
AGRICULTURE									
WHEAT	31.1%	9.2%	-19.2%	13.1%	-0.2%	5.0%	47.9%	-14.1%	7.3%
BARLEY	10.9%	9.3%	-3.3%	19.9%	5.0%	4.5%	31.7%	2.4%	6.3%
CANOLA	11.8%	1.9%	-4.1%	-1.7%	11.3%	2.5%	30.4%	-3.4%	5.5%
CATTLE	10.4%	0.4%	3.2%	20.9%	2.2%	4.8%	20.7%	7.8%	2.8%
HOGS	20.7%	9.4%	-0.7%	23.3%	5.8%	3.2%	19.5%	0.2%	3.0%

MEASURES & QUOTED PRICES (\$ is US\$ unless stated otherwise; C\$ prices converted to US\$ using daily C\$/US\$ exchange rate).
FORESTRY*
Lumber: Random Lengths' Framing Lumber Composite (\$/1000 Bd Ft) Pulp: NBSK, delivered in east U.S. (\$/mt) Newsprint: New York (\$/mt)
ENERGY**
Oil: Domestic Spot Market Price: West Texas Intermediate, Cushing (\$/Barrel) Natural Gas: Henry Hub, LA (\$/mmbtu) Coal: Austr. Therm (\$/mt)
PRECIOUS METALS**
Silver: Cash price: Silver, Troy Oz, Handy & Harman Base Price (\$/Troy oz) Gold: Cash Price: London Gold Bullion, PM Fix (\$/Troy oz)
NON-PRECIOUS METALS & MINERALS**
Aluminum: LME Aluminum, 99.7% Purity: Closing Cash Price (Cents/lb) Copper: LME Copper, Grade A: Closing Cash Price (Cents/lb) Nickel: LME Nickel: Closing Cash Price (\$/lb) Zinc: LME Zinc: Closing Cash Price (Cents/lb) Uranium: Ux U308 (\$/lb)
AGRICULTURE*
Wheat: Spring, 14% Protein: Minneapolis (\$/bu) Barley: Canada: Cash Prices: Feed Barley: Lethbridge: Grade 1 CW (C\$/mt) Canola: Canada: Cash Pr: Canola: Instore Vancouver: Grade 1 Canada NCC (C\$/mt) Cattle: Live Cattle Futures Price: 1st Expiring Contract Open (Cents/lb) Hogs: Lean Hogs Futures Price: 1st Expiring Contract Open (Cents/lb)
Sources: WSJ, FT, Ux Weekly, Random Lengths, Pulp & Paper Weekly, GlobalCoal, Comtex, WCE, FRBNY / Haver Analytics. * Forecasts by TD Economics; ** Forecasts by TD Securities

SAMPLE

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