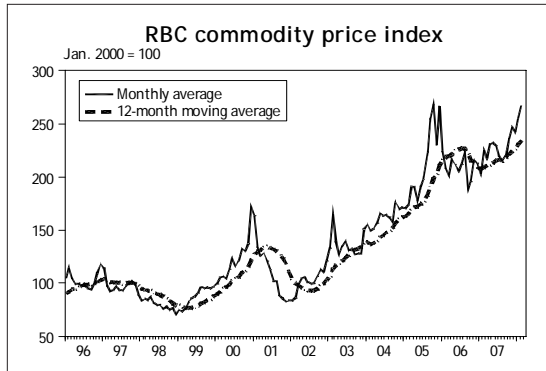


COMMODITY PRICE MONITOR

March 2008

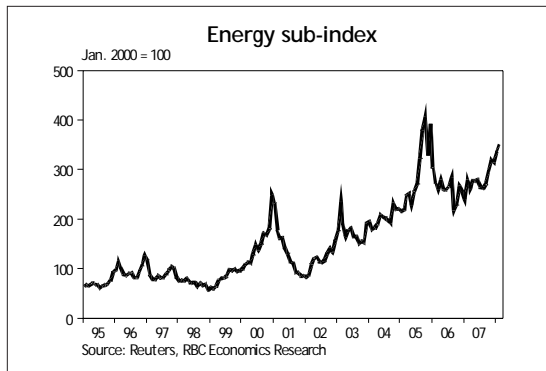


RBC commodity price index – Current trend overview

RBC’s commodity price index gained 5% in February following January’s 5.2% increase. The early-year pause in energy price escalation has proven short-lived as oil broke records and natural gas’ momentum carried through February. Precious metals are currently breaking records as is likely in the context of U.S. dollar depreciation, but an increasing number of base metals prices are now also moving up because inventories remain scarce. Agricultural commodities haven’t paused, but the increase is mostly a result of grain prices, whereas other food prices such as meat are not as buoyant, at least not on North American markets. Much has been said about emerging countries “decoupling” from the developed economies and fuelling a commodity boom, but the recent story highlights significant speculative play that will likely lead to great volatility. The resilience of developing countries to export shocks should not be overestimated (see the special focus on page 3) and talk of a widespread commodity super-cycle driven by decoupling emerging economies should be taken with a grain of salt.

Energy price index

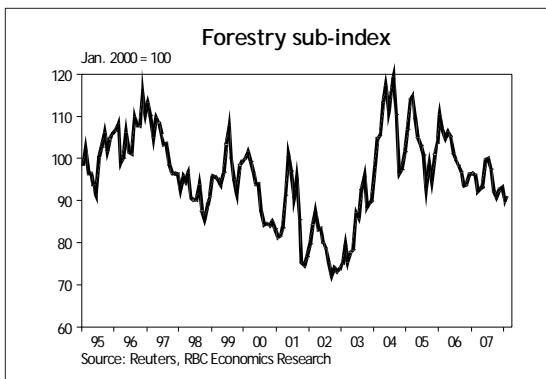
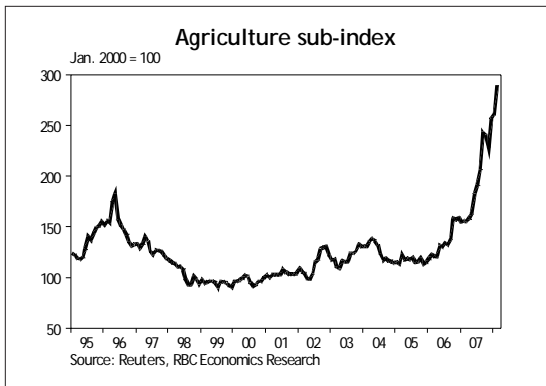
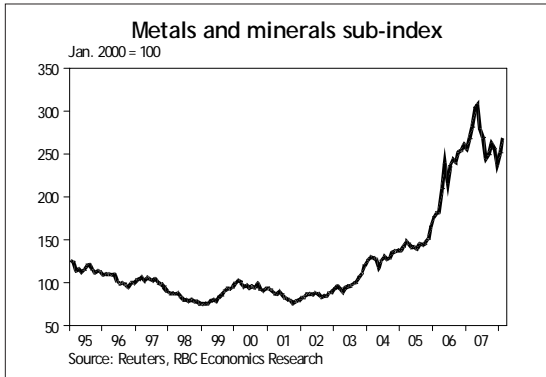
The energy price index gained 4.6% in February. Oil gained nearly US\$35 a barrel in 2007 and, in real terms, prices are now above their early 1980s peak. Crude oil prices had actually fallen significantly to reach US\$87/barrel in early February, but rising geopolitical tensions with Venezuela, supply disruptions in Nigeria and the North Sea plus OPEC’s resolve not to increase production sparked a rally. Financial flows then took over since oil is regarded as a temporary stay for liquidities fleeing a weaker U.S. dollar. Still, the fundamental picture has been consistent with the U.S. economic slowdown. Crude oil stocks on the U.S. market are on the rise and motor gasoline stocks are at their highest level since 1999. While this highlights the downside risks to prices, futures markets indicate rising expectations as the fourth-quarter 2008 contract reached nearly US\$100 from US\$92 at the beginning of the year. Natural gas prices had remained under control in 2007 but are now joining the party. Prices have rallied strongly since the most recent low of US\$5.38/mmbtu in September 2007, gaining a spectacular 71% in six months to end February at US\$9.20/mmbtu. The overall trend had been flat and drilling activity had been greatly downscaled since Katrina since inventories were widely above their long-term average and soft prices lowered activity. The recent pick-up in prices combined with the tighter inventories may set the stage for increased drilling activity after two difficult years.



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Metals price index

Our metals index gained 6.8% during February and 13% so far in 2008. Precious metals are still red-hot commodities in the current weak dollar environment associated with the persistence of inflation. Gold is resolutely marching towards



US\$1000 an ounce, while platinum ended February at US\$2150 an ounce. Platinum prices have now doubled their levels of only 16 months ago mainly as a result of the supply squeeze emerging from power shortages in South Africa. Because production of platinum is so highly concentrated in South Africa (about 80% of the world's production) and because the power shortages stem from insufficient electricity generation, the speculative ramp-up may have farther to go, which also emphasizes the likelihood of a material post-peak collapse. Going forward, the monetary, financial and physical conditions should be conducive to further upward pressures on precious metals. Most base metals are now also on an upward track. Aluminum and copper prices have gained back nearly all their 2007 losses, while lead prices took back about one-half its losses of the past fall. Significantly low inventories for most base metals should remain an important upward driver going forward, although it remains unclear how the emerging world demand will evolve in a pronounced U.S. slowdown scenario.

Agriculture price index

The surge in food prices was one of the main commodity highlights of 2007, sending our agriculture price index up a record 61% during the year largely on the back of skyrocketing grain prices. Wheat gained an unprecedented 86% throughout 2007 as a result of strong demand by the developing world (even excluding China) and bad crops in major producing countries like Argentina and Australia that sent cereal inventories down. The further run-up since the beginning of 2008 has sent the price to US\$10.36/bushel, three-times the level of a year ago, while the U.S. Department of Agriculture estimates stocks of wheat to have reached their lowest level in 60 years.

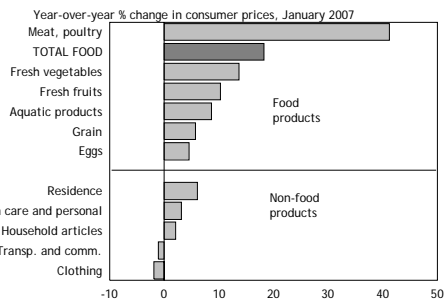
Food prices are already one of the major challenges facing the emerging world, but the issue is not as sensitive for developed economies. Inflation resulting from food prices in developed countries is also up but is still shy of the late 1980s levels in the United States and remains stable in Canada. This is because many components of the basket are not traded as intensely as grains and are more contingent on local supply/demand factors, which tend to be more stable. For instance, whereas the food component of the U.S. CPI gained 4.8% year-over-year in January, the import price index for food, feeds and beverages ran at 10.9% year-over-year. Hogs and cattle are examples of food commodities that haven't been affected by world conditions.

Forestry price index

The forestry index exhibited its usual volatility in 2007, but the overall trend was flat, reflecting the divergence between lumber prices, which lost about 12%, and pulp prices, which gained 12%, through the year. The divergence between pulp and lumber prices started in 2006, along with the housing recession, while strong world growth has sustained demand and pulp and paper prices. The forestry index has lost 2.4% since the beginning of 2008 and the outlook remains negative for lumber prices because gloomy conditions in the residential construction sector in the United States will linger throughout 2008. Lumber has already dropped 8.6% since the beginning of the year and further capacity reductions and mill shutdowns are an almost certainty in Canada's currency-challenged forestry industry. Pulp prices will also feel the effects of slower economic activity on demand for paper products.

CHART 1

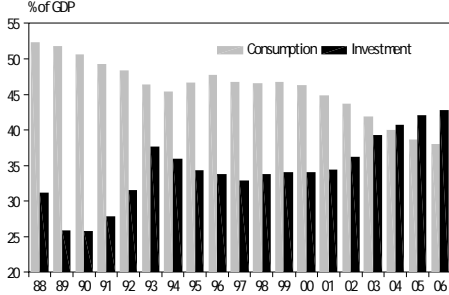
China - Inflation



Source: National Bureau of Statistics of China, RBC Economics Research

CHART 2

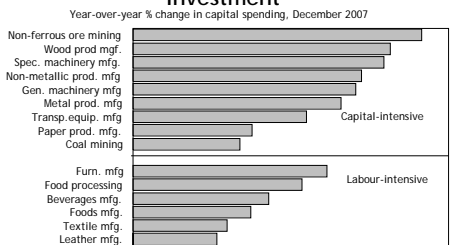
China - Investment and consumption



Source: National Bureau of Statistics of China, RBC Economics Research

CHART 3

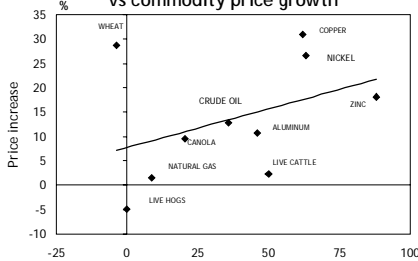
China - Capital vs Labour-intensive investment



Source: National Bureau of Statistics of China, RBC Economics Research

CHART 4

China's share of world demand growth vs commodity price growth*



Source: BP Statistical Review, World Bureau of Metal Statistics, USDA, RBC Economics Research

A major slowdown is facing the developed world in 2008 and there has been much speculation as to whether the emerging market economies, China included, can “decouple” from the U.S. economy — that is, continue to enjoy rapid economic growth while the U.S. stares down a possible recession. However, it is becoming increasingly clear that China will be facing tough challenges of its own, one of them being a painful fight against inflation. Several hikes in lending rates and stricter reserve requirements for Chinese banks have not yet been conclusive in reining in consumer prices, which ran at a 7.1% yearly clip in January, with most of the upward pressure coming from food (chart 1). Meat product prices grew at nearly 30% year-over-year in January, stemming mainly from hog prices pushed up by high feed costs as a result of soaring corn prices.

Steps are being undertaken by Chinese authorities to encourage local production, but feed made from corn and wheat comprise one-half farmers’ production costs. High hog prices also contribute to shifting consumption to other types of meat, which are experiencing rapid price growth. Chinese authorities are well aware of the dangers of the price controls that were recently announced and the real battle will be on the capital investment front. China’s rapid pace of industrialization and urbanization is putting substantial strain on resource utilization and new factories and infrastructures are quickly invading and polluting farm land. Yearly growth in fixed asset investment was 26% in December, a largely unsustainable rate.

The idea that China can “decouple” from the U.S. economy has downplayed the fact that China’s economy is caught up in a serious imbalance between the high contribution of trade and the relatively low and declining contribution of domestic consumption (chart 2). While the household savings rate is relatively high, the biggest savers/investors are the highly profitable exporters. Now that slowing export income is in the pipeline and monetary tightening is being pursued, an investment growth slowdown could hit China more strongly than expected for at least two reasons. First, the country’s export composition is rapidly diversifying away from labour-intensive industries and massive investments have been made in capital-intensive industries as well as on the primary side of the supply chain (chart 3), meaning that China’s export industry increasingly relies on local inputs. Therefore, any bad news on the export front has broader negative implications than before since import reduction can no longer act as a significant counterweight. Second, the tight linkages between investment and trade imply that an adverse shock to exports would inevitably expose the inability of China’s domestic economy to fill the gap and carry the economy.

The implications for commodities aren’t negligible. In the past three years, China has been a major contributor to world demand for commodities and there appears to be a positive relationship between the share of growth in world demand accounted for by China and price growth (chart 4), especially in the case of base metals such as zinc, nickel and copper. But the big 2007 correction in these commodities also points to the high speculative activity that had been generated by expectations on Chinese growth. An economic downturn stemming from a declining trade surplus combined with monetary policy measures is far from impossible, especially now that China faces other issues such as a bust in real estate and financial asset prices, a shaky banking system, and the country is inundated with liquidity. China’s weak spots should not be underestimated and the impact on some commodities could be larger than anticipated.

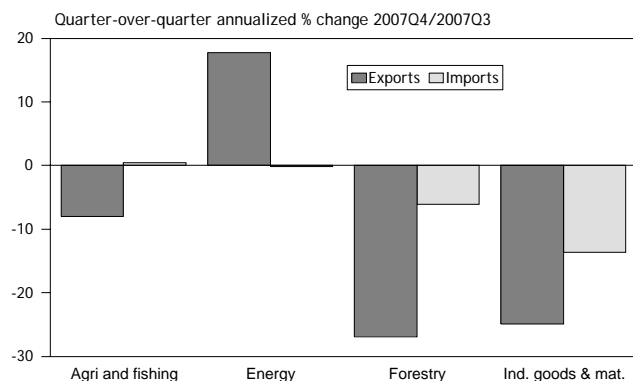
Canada's commodity production

	Latest date	Level	y/y % chg.	m/m % chg.
Metals & Minerals				
Aluminum (000 tonnes)	Dec-2007	265.2	1.3	1.5
Copper (000 tonnes)	Dec-2007	47.0	-12.8	1.4
Nickel (000 tonnes)	Dec-2007	23.0	6.5	1.9
Zinc (000 tonnes)	Dec-2007	41.7	-22.2	-2.8
Lead (000 tonnes)	Dec-2007	8.0	21.2	19.2
Molybdenum (000 kgs)	Dec-2007	627.6	2.0	3.5
Uranium (000 kgs)	Dec-2007	685.5	-11.8	14.2
Gold (000 kgs)	Dec-2007	8.9	-0.4	2.2
Silver (000 kgs)	Dec-2007	71.5	-24.0	3.7
Energy products				
Oil (000 cubic metres)	Sep-2007	12694.8	6.7	2.9
Natural gas (millions of cubic metres)	Mar-2007	18455.4	-2.5	-1.1
Coal (tonnes)	Nov-2007	5883.0	11.1	2.1
Forestry products				
Lumber (cubic metres dry)	Dec-2007	4322.0	-18.6	-8.8
Pulp (shipments in C\$ millions)	Dec-2007	613.9	2.9	2.2
Newsprint (shipments in C\$ millions)	Dec-2007	508.3	-24.1	-1.0
Agricultural products				
Canola (000 tonnes)	Dec-2007	781.0	22.6	-3.5
Wheat (000 tonnes)	Dec-2007	1457.1	-6.3	6.9
Corn (000 tonnes)	Dec-2007	9.6	14.8	N/A
Barley (000 tonnes)	Dec-2007	441.1	22.5	-8.6

Source: Statistics Canada

Profile of Canada's trade in commodities

Canada's trade by principal commodity grouping*



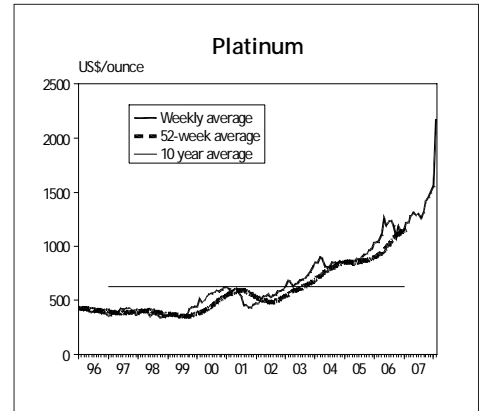
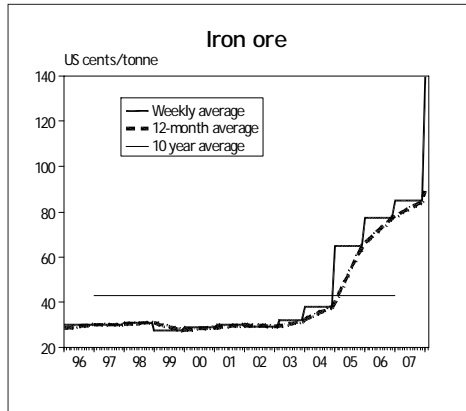
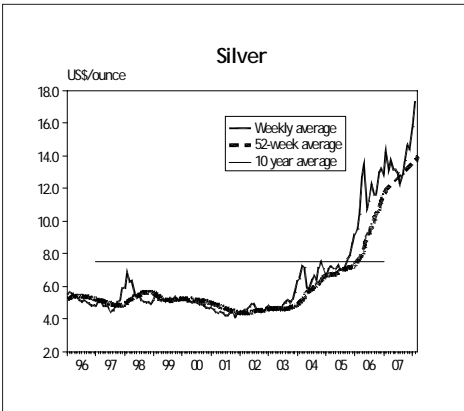
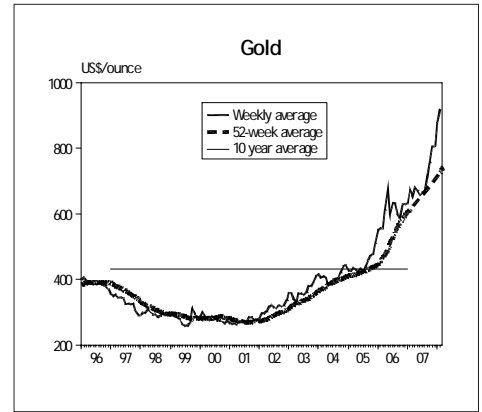
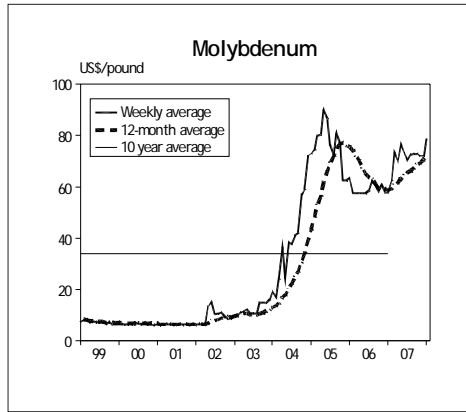
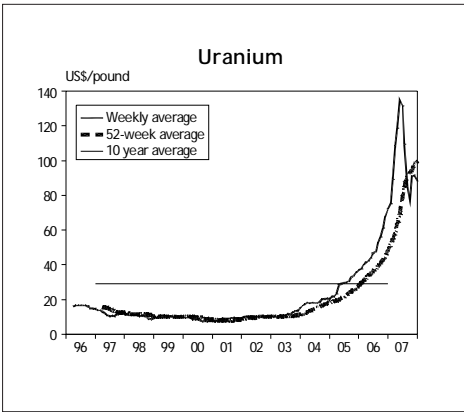
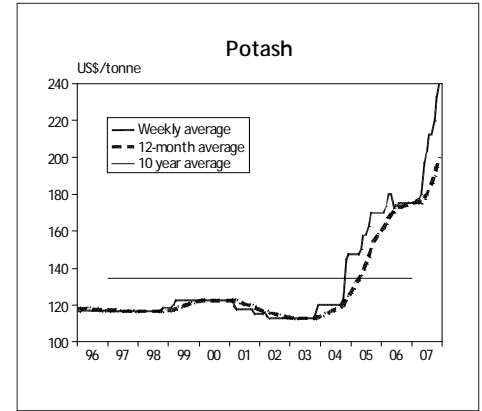
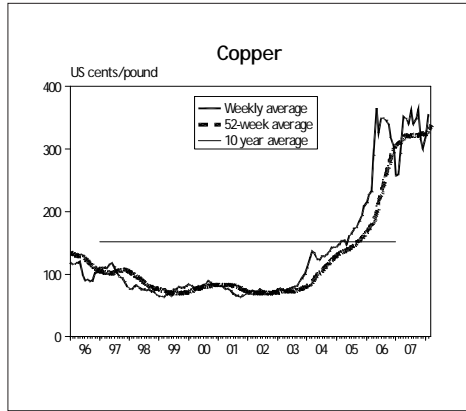
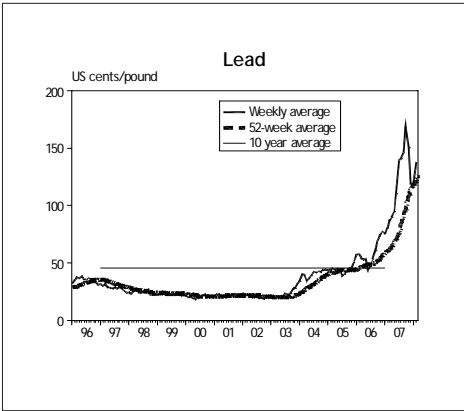
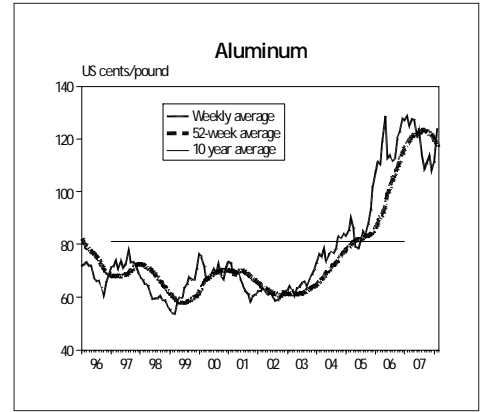
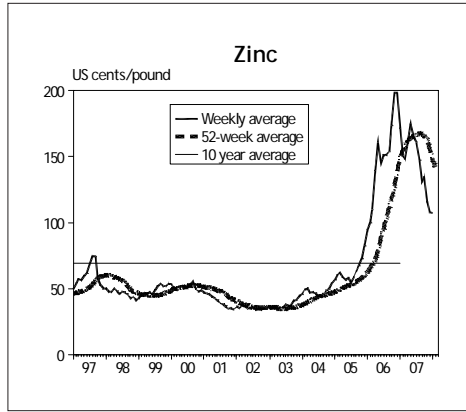
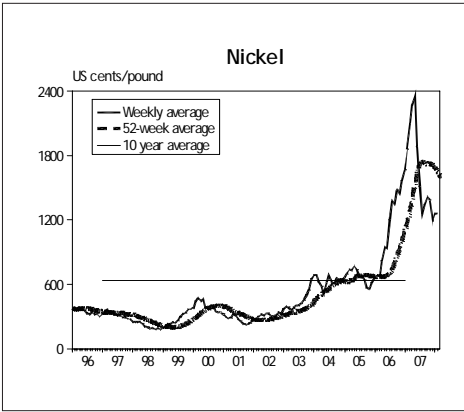
Canada's trade by principal commodity grouping

Quarter-over-quarter annualized % change 2007Q4-2007Q3

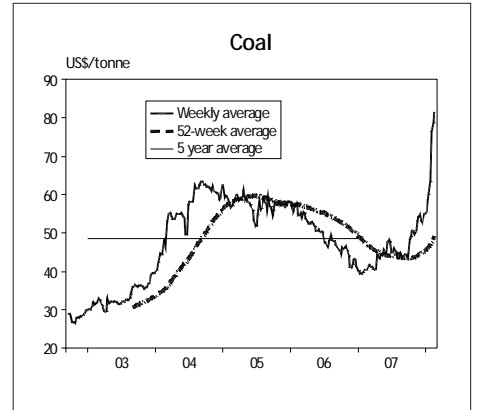
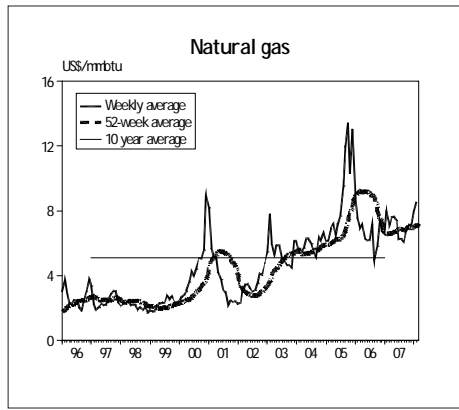
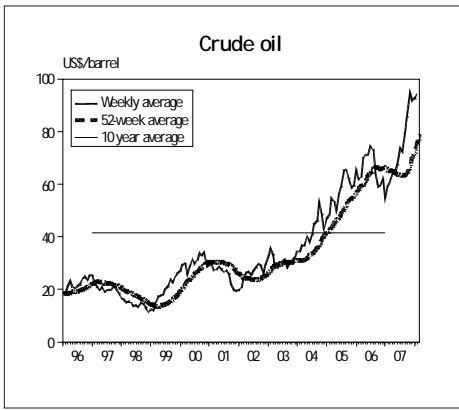
*Grouping adjusted to Balance of Payments basis	Exports	Imports
Commodity		
Agriculture and fishing	-8.0	0.4
Energy	17.7	-0.1
Forestry	-26.9	-6.1
Industrial goods & materials	-24.9	-13.6

Source: Statistics Canada, RBC Economics Research

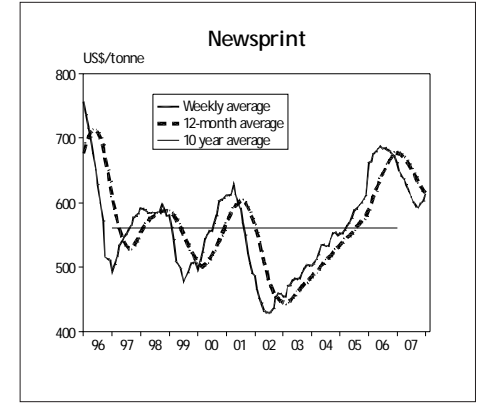
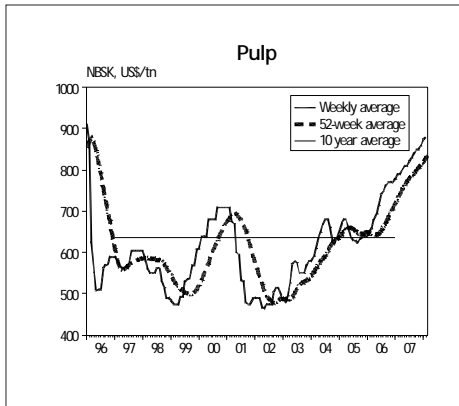
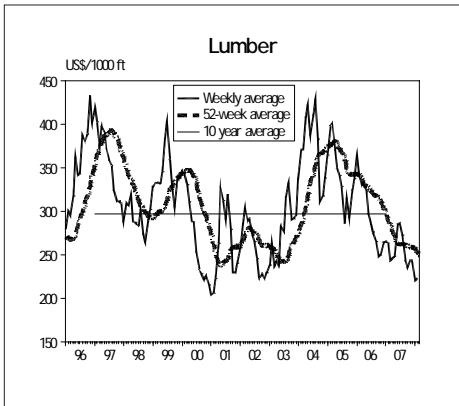
Metals and minerals



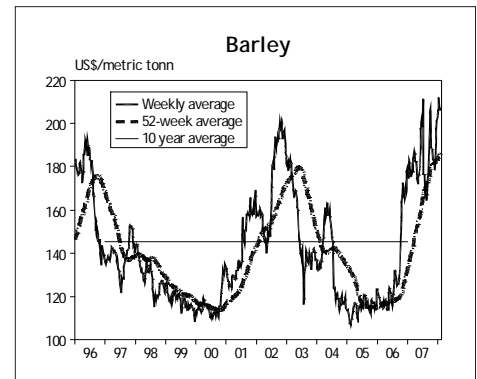
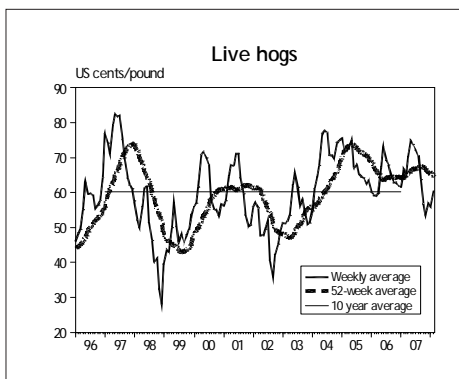
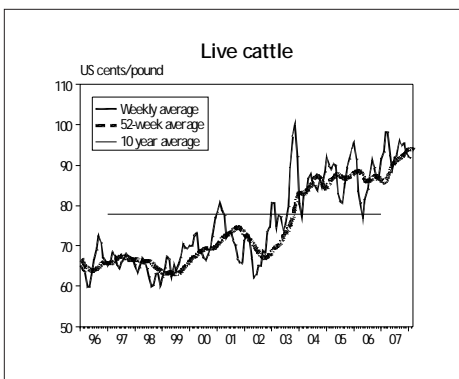
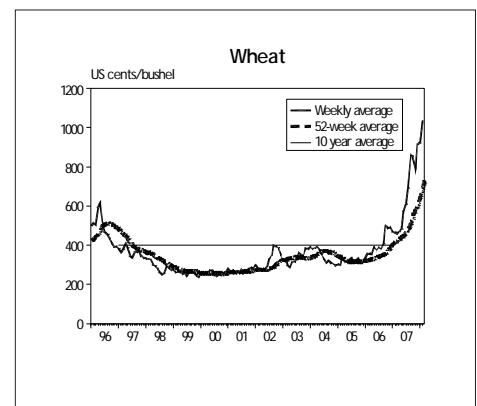
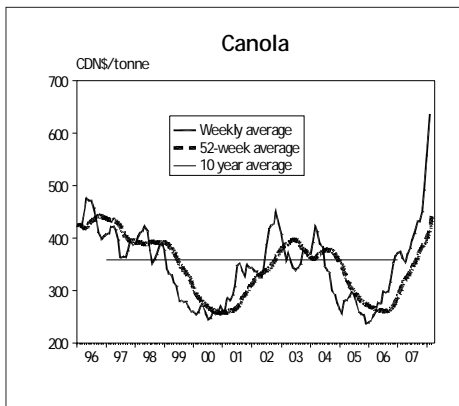
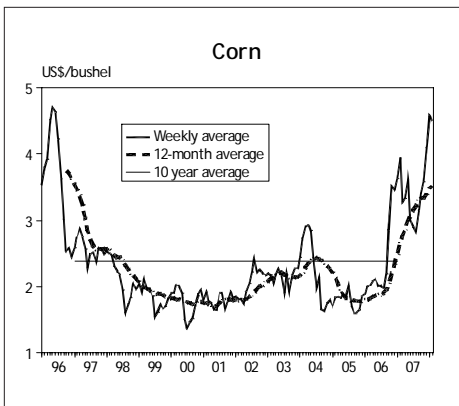
Energy products



Forest products



Agricultural products



Commodity price trends

	Week ending			Period averages							
	1-Feb	15-Feb	29-Feb	Dec-07	Jan-08	Feb-08	Q4/06	Q3/07	Q4/07	2006	2007
Aluminum (LME, US¢/lb)	118.1	125.4	133.4	108.1	111.4	124.1	123.7	115.6	110.9	116.6	119.8
Year-over-year % change	-7.1	-1.7	7.8	-15.6	-12.3	-3.6	31.1	2.5	-10.4	35.2	2.7
Copper (LME, US¢/lb)	328.5	358.8	378.1	300.8	321.1	355.8	320.7	350.1	326.7	305.0	323.5
Year-over-year % change	35.1	36.0	37.8	-0.8	24.4	37.2	64.2	0.6	1.9	82.9	6.1
Nickel (LME, US\$/lb)	12.24	12.54	12.58	11.82	12.60	12.55	14.95	13.70	13.26	10.94	16.85
Year-over-year % change	-31.3	-34.5	-36.7	-24.3	-24.6	-32.6	159.0	4.8	-11.3	63.2	54.1
Zinc (LME, US¢/lb)	109.3	107.0	112.1	107.9	107.2	109.6	190.4	146.3	119.6	148.0	147.4
Year-over-year % change	-23.4	-30.0	-25.5	-45.7	-37.5	-27.3	156.5	-3.8	-37.1	136.4	-0.4
Lead (LME, US¢/lb)	127.3	138.2	147.6	118.7	118.9	138.0	73.5	142.4	146.0	58.5	116.9
Year-over-year % change	72.9	64.0	74.1	53.1	57.5	71.4	54.8	163.1	98.7	32.4	99.9
Gold (US\$/ounce)	901	910	949	807	877	920	615	682	790	604	698
Year-over-year % change	36.3	34.6	47.2	28.4	39.0	36.3	26.6	9.8	28.6	35.8	15.5
Silver (US\$/ounce)	16.57	17.25	18.67	14.36	15.79	17.35	12.61	12.69	14.25	11.58	13.43
Year-over-year % change	19.9	20.7	44.9	8.6	22.8	21.7	56.3	8.6	13.0	58.2	16.0
Platinum (US\$/ounce)	1784	2059	2135	1495	1552	1984	1129	1292	1452	1141	1307
Year-over-year % change	32.3	68.0	79.1	33.3	35.1	63.7	17.8	6.3	28.6	27.1	14.6
Canola (C\$/tonne)	601	644	689	491	556	636	344	412	457	289	402
Year-over-year % change	57.9	75.1	87.3	34.5	49.6	70.3	38.3	38.6	32.9	7.1	38.9
Wheat (CBOT, US¢/bsh)	988	1022	1200	917	924	1037	493	722	854	402	637
Year-over-year % change	116.7	115.3	158.8	86.2	97.5	123.1	54.9	83.7	73.1	26.3	58.5
Barley (US\$/metric ton)	211	213	226	199	208	215	165	182	191	132	184
Year-over-year % change	20.2	19.1	27.1	14.3	16.3	21.5	41.0	42.3	15.3	14.9	39.1
Live cattle (US¢/lb)	90.9	91.5	93.3	93.2	92.1	91.8	87.6	93.6	94.5	86.2	93.9
Year-over-year % change	-1.6	-2.1	-5.3	7.2	0.5	-1.7	-4.5	7.0	7.9	-2.1	8.9
Live hogs (US¢/lb)	59.5	61.3	60.8	57.2	56.0	60.6	62.6	68.8	55.8	64.1	65.5
Year-over-year % change	-8.6	-9.0	-7.9	-7.7	-9.1	-9.0	-1.4	2.0	-10.8	-6.5	2.2
Lumber (CME, US\$/1000ft)	222	222	215	243	220	222	254	267	240	298	256
Year-over-year % change	-14.4	-17.3	-12.8	-7.7	-16.9	-15.6	-20.2	-3.0	-5.2	-12.9	-14.1
Pulp (NSBK, US\$/tn)	880	880	880	860	874	880	770	830	853	717	819
Year-over-year % change	11.7	11.4	11.4	11.7	12.2	11.6	20.8	10.6	10.8	10.7	14.2
Oil (WTI, US\$/barrel)	88.6	96.0	100.9	91.7	92.7	94.4	60.2	75.2	90.7	66.2	72.3
Year-over-year % change	50.7	61.7	64.9	47.9	69.9	59.0	0.3	6.7	50.7	17.0	9.2
Natural gas (Henry Hub, US\$/mmbtu)	7.85	8.88	9.16	7.13	7.98	8.54	6.64	6.18	7.01	6.74	6.98
Year-over-year % change	-4.9	14.6	24.7	5.7	20.9	7.1	-45.8	1.5	5.7	-23.6	3.6
Uranium (US\$/lb)	84.00	75.00	75.00	91.50	88.00	76.80	61.53	108.70	86.57	47.71	98.65
Year-over-year % change	12.0	0.0	-11.8	35.8	22.2	2.4	81.5	123.1	40.7	70.9	106.8
Potash (US\$/tn)				240.00			175.00	209.38	230.83	174.51	200.16
Year-over-year % change				37.1			2.9	19.9	31.9	10.3	14.7
Molybdenum (US\$/kg)				72.00	79.00	79.00	59.08	72.00	72.33	59.15	70.60
Year-over-year % change				24.1	36.2	26.4	-12.3	19.0	22.4	-22.6	19.4
Coal (NYMEX, US\$/tn)	76.50	81.50		53.88	59.40	78.92	43.73	44.58	51.97	49.40	45.47
Year-over-year % change	88.9	101.2		28.2	50.0	93.8	-24.0	-5.4	18.8	-14.1	-8.0
Corn (US\$/bushel)				4.09	4.58	4.50	3.46	3.15	4.09	2.34	3.40
Year-over-year % change				18.2	26.2	13.9	87.0	43.2	18.2	31.7	45.0
Newsprint (US\$/tn)				602.77	614.34	633.12	675.14	601.63	597.91	677.01	619.36
Year-over-year % change				-10.2	-7.0	-2.5	11.5	-11.9	-11.4	16.6	-8.5
Iron ore (UScents/tonne)				84.70	139.70		77.35	84.70	84.70	77.35	84.70
Year-over-year % change				9.5	64.9		19.0	9.5	9.5	19.0	9.5

Source: Reuters

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