

**Commodity Prices,
Currencies & Global Growth**

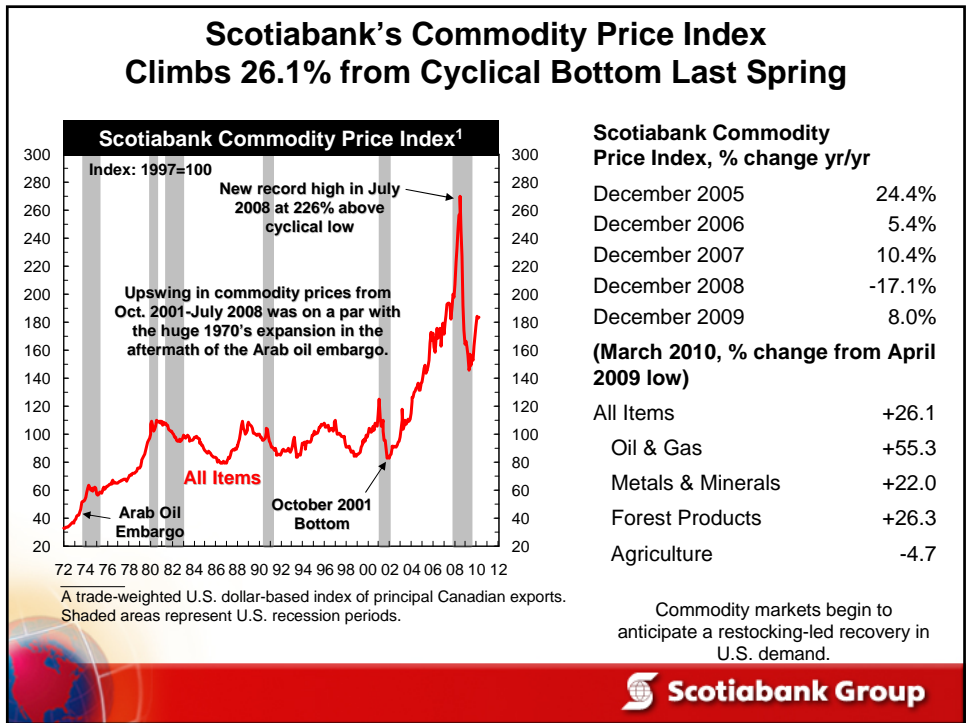
Outlook for 2010-11

Patricia M. Mohr, Vice-President, Economics
& Commodity Market Specialist
The Scotiabank Group, Toronto

2010 Seminar, Industrial Gas Users Association

Château Cartier Resort,
Gatineau, Quebec

May 6, 2010



Commodity Price Outlook – 2010-11

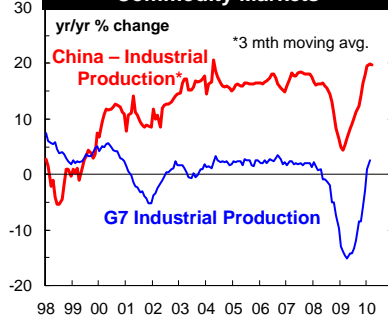
After rising a solid 26.1% from the cyclical low in April 2009, commodity prices are expected to move irregularly higher in 2010-11 alongside the following developments:

- 1) ongoing strength in China's economy, with GDP expected to climb by 10.3% in 2010, up from 8.7% in 2009 (higher than targeted by Beijing);
- 2) some re-stocking of basic materials across the G7 (especially in the United States) – a development which is just getting under way – as these economies recover;
- 3) continued interest by investors in commodities as an 'asset class', with interest shifting from passive, commodity-index investing to more active strategies, using hedge funds; the search for higher returns – given near-record low interest rates across the globe and exceptionally low U.S. Treasury yields – spurred a US\$75 bn inflow into commodity-related investments in 2009 – boosting global commodity assets under management to about US\$260 bn by late 2009 compared with a mere US\$6-10 bn in 2000. No where is this more evident than in base metals – where fund and speculative interest has been driven by the China and 'emerging Asia' story.

However, commodity prices are likely to be more volatile in 2010. China's shift to a tighter monetary policy in January and February temporarily pulled down base metal and oil prices, after an early-January surge. Another increase in bank reserve requirements on May 2 is again pulling down prices, as is the risk of sovereign-debt default in some Euro zone countries. A potential shift to tighter monetary policy by the Fed in late 2010 could have a similar impact, on the way to much tighter market conditions for many commodities in 2011.

 Scotiabank Group

China – Vital to Global Commodity Markets



China's Share of Global Consumption in 2009e Compared with United States (in brackets)

Copper	38.2% (8.9%)	Nickel*	29.9% (10.1%)
Zinc	40.0% (8.9%)	Aluminium	40.3% (10.9%)

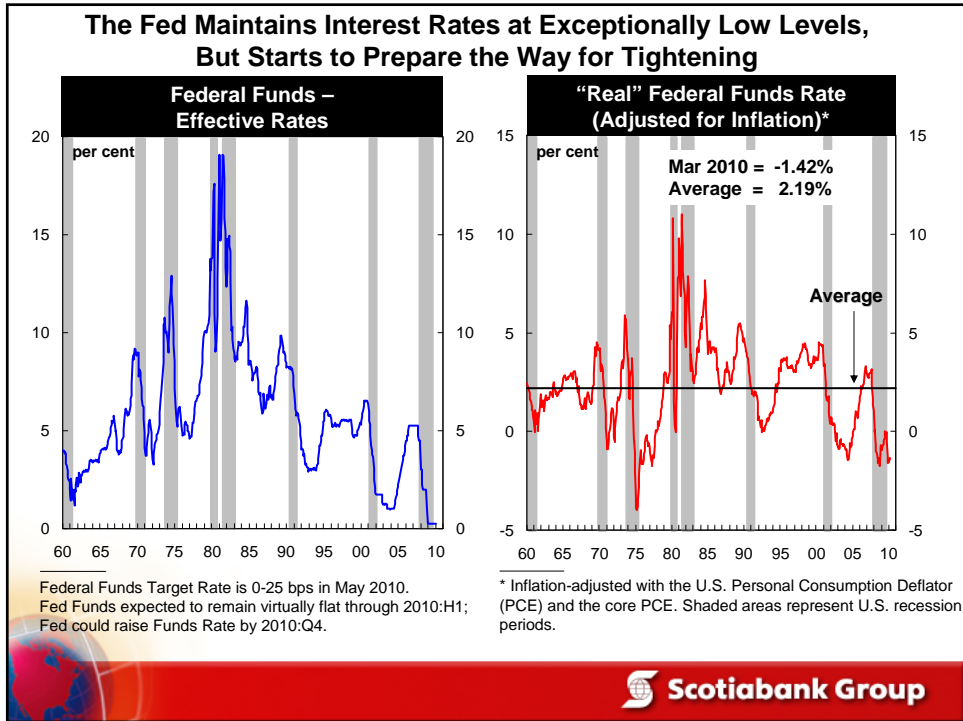
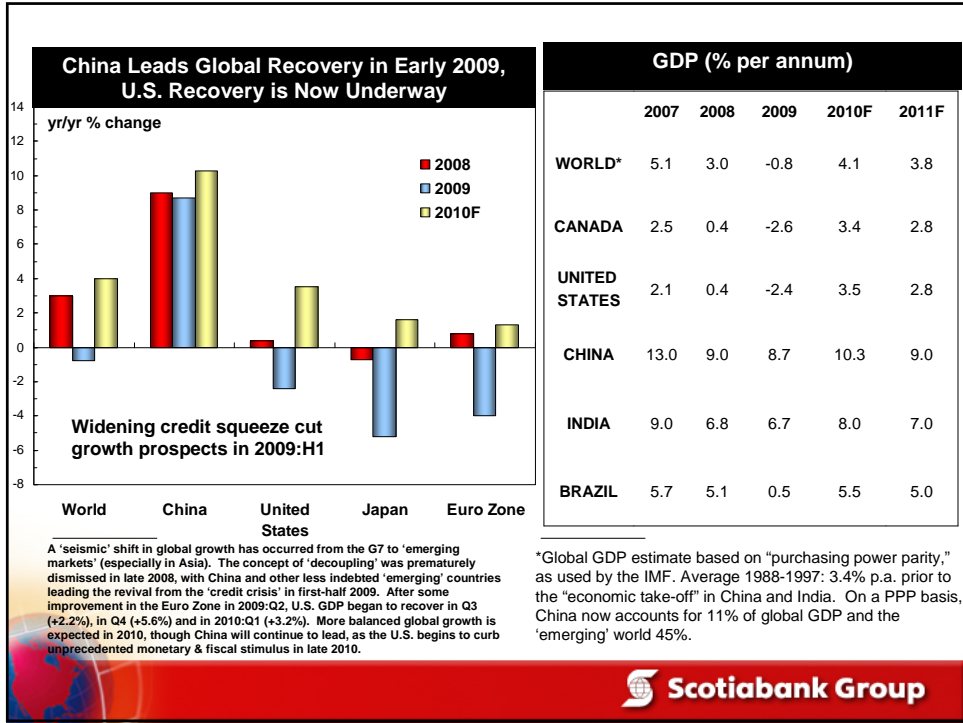
Four Base Metals: China 39.4%, USA 10.0%.
*Japan 12.0%; excluding inventory accumulation in China

China Industrial Production:

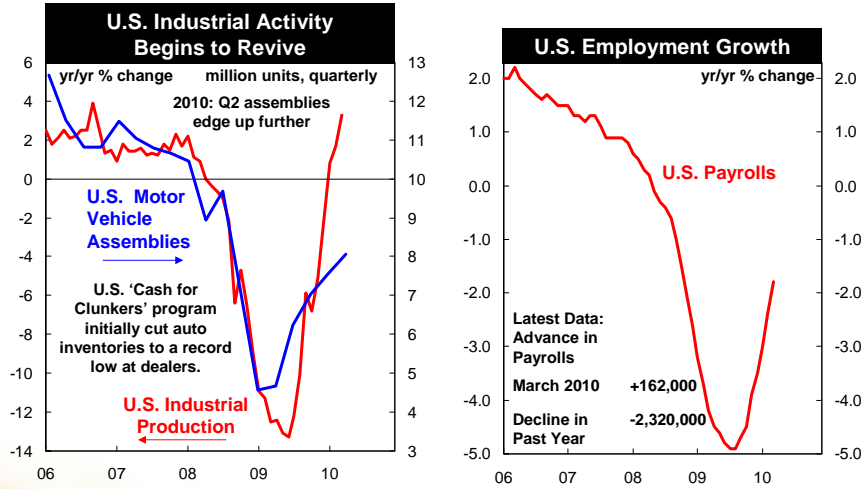
Jan-Feb 2009	3.8% yr/yr (a bottom)
Mar 2009	8.3%
July 2009	10.8%
Nov 2009	19.2%
Dec 2009	18.5%
Jan/Feb 2010	20.7%
March 2010	18.1%
G7 Industrial Production	+2.5% (Feb)
U.S.	4.0% (Mar)
Japan	28.8% (Mar)
Germany	5.4% (Feb)

Source: Scotiabank Commodity Price Index.

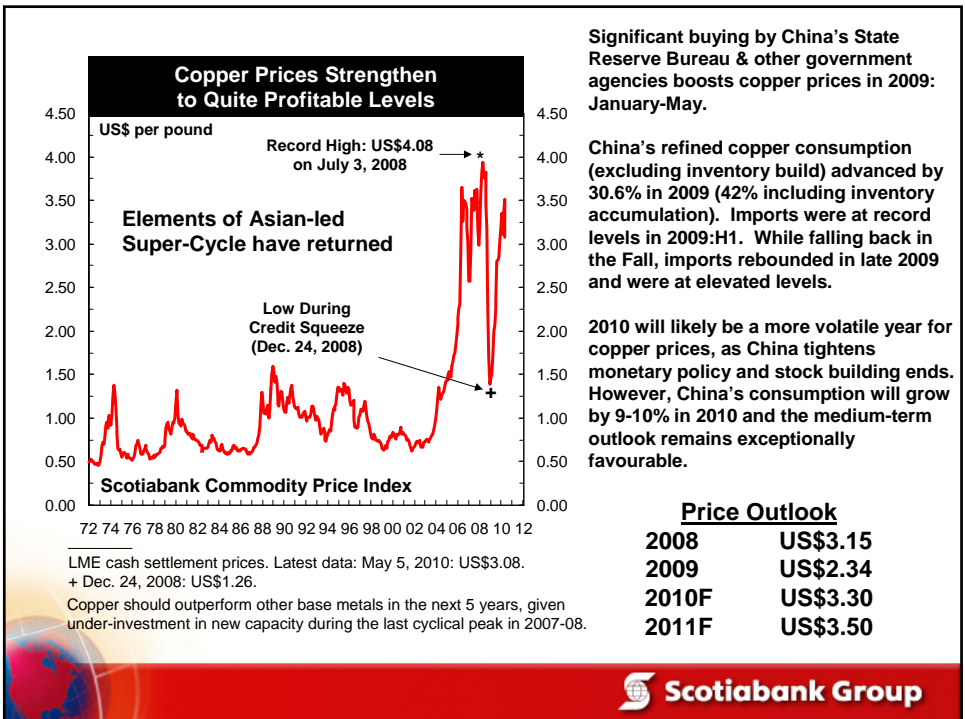
 Scotiabank Group

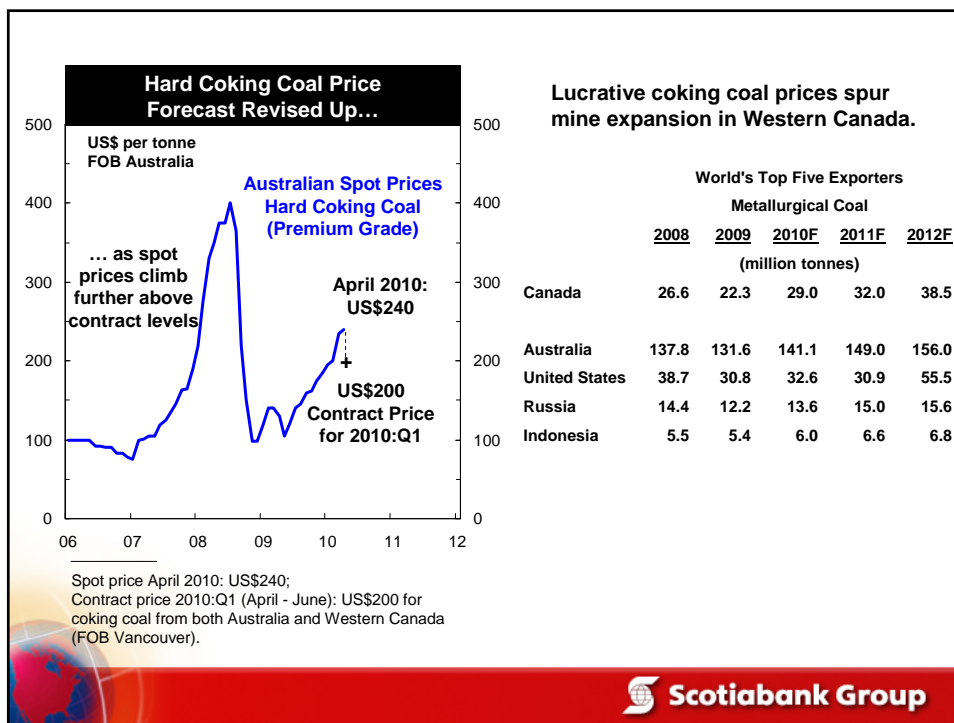
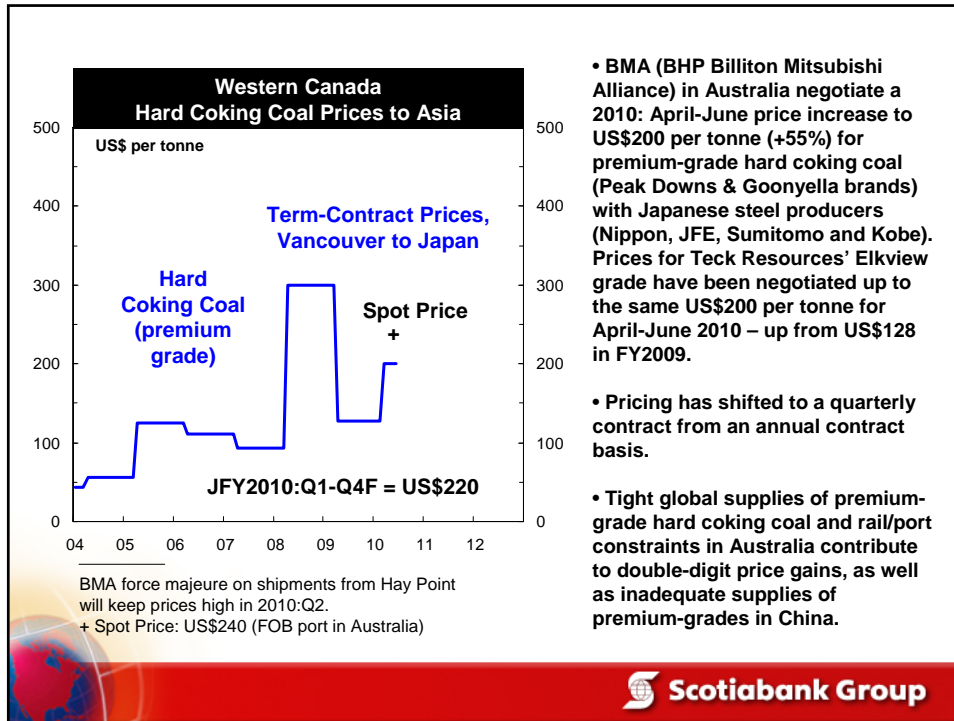


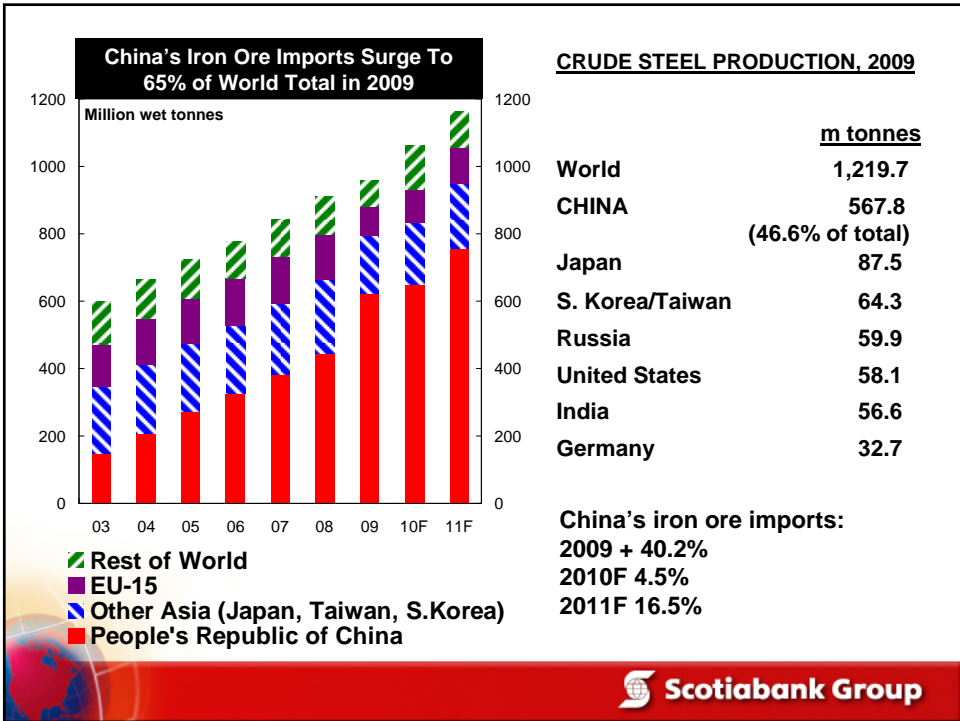
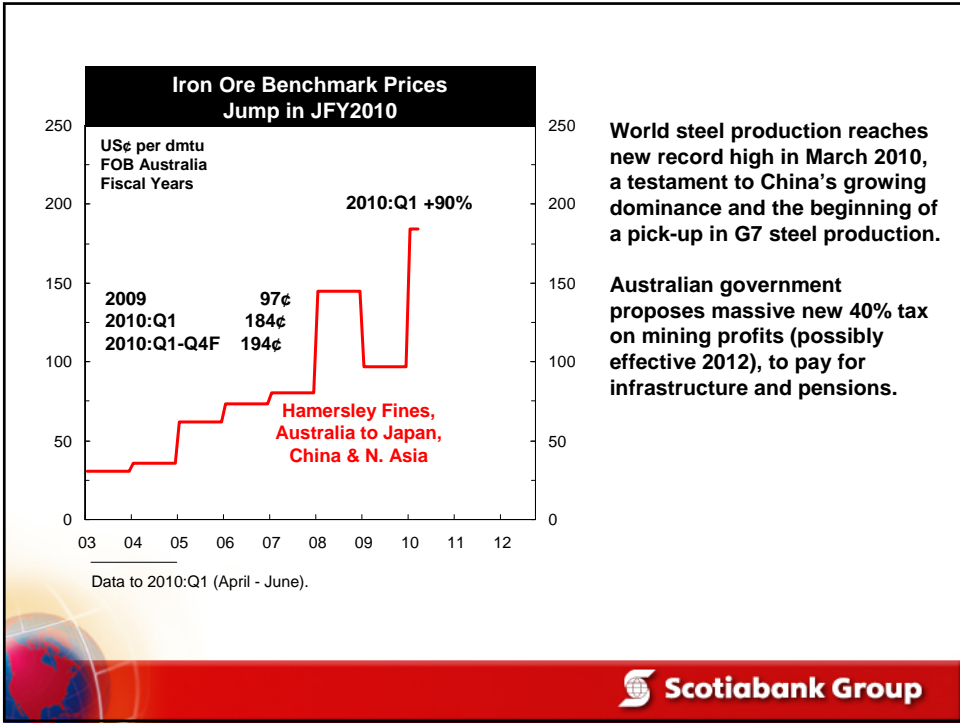
U.S. Economy Begins to Recover in 2009:Q3 Re-stocking Expected in 2010:H1

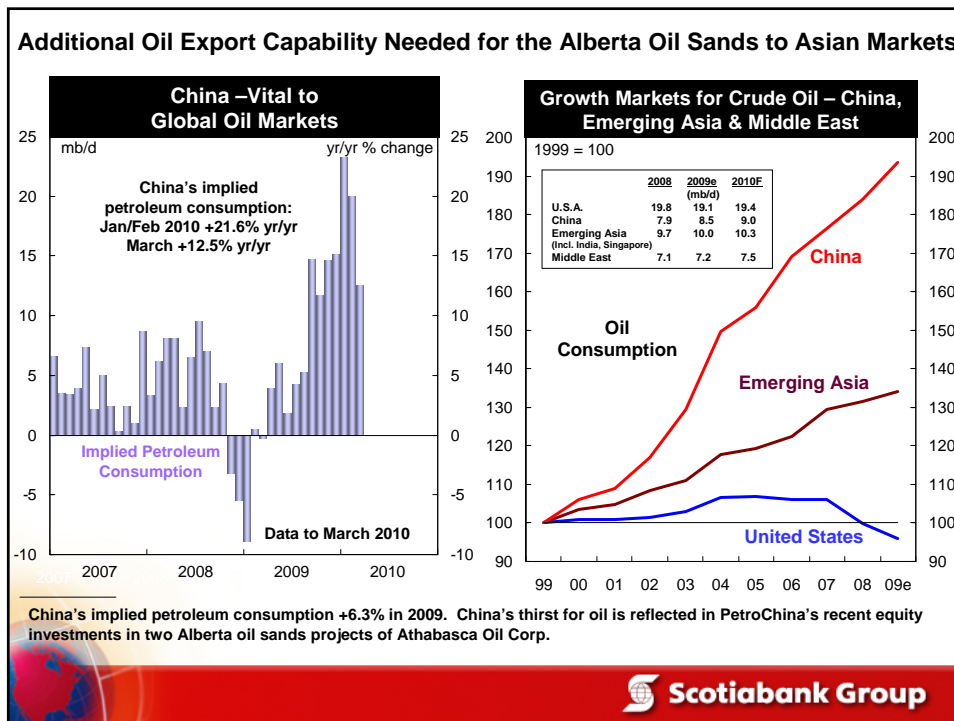
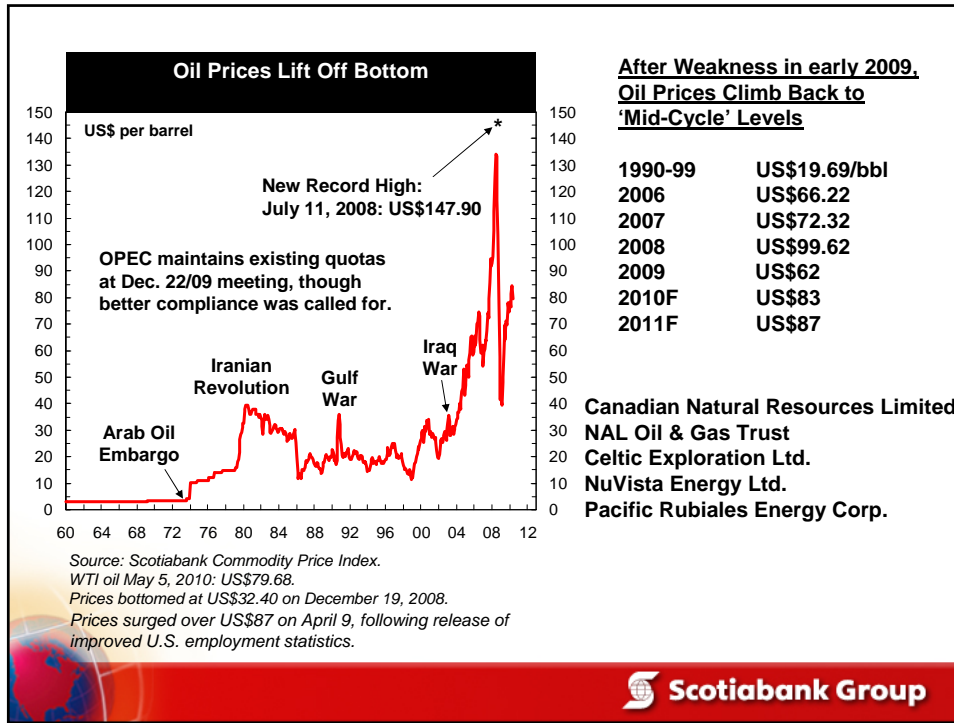


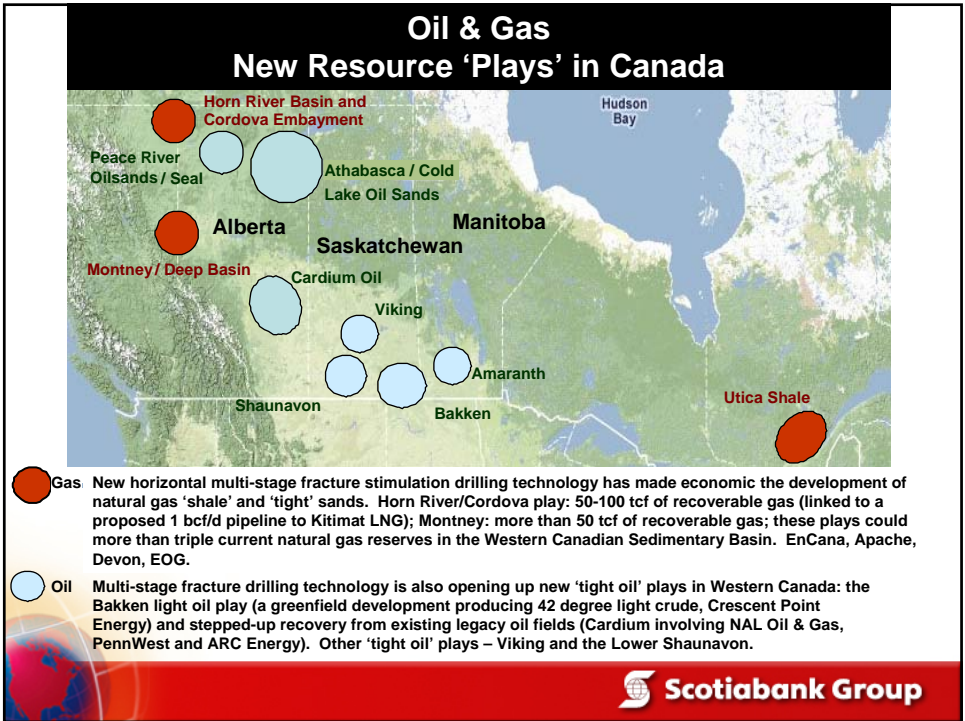
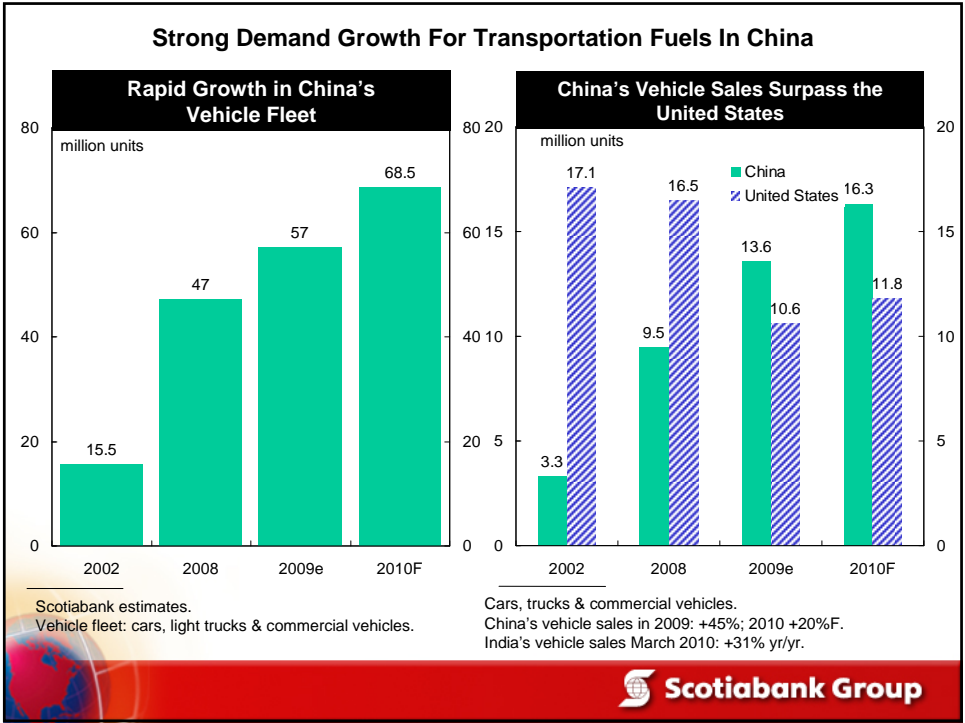
North American motor vehicle assemblies are expected to edge up from 11.5 million units in 2010:Q1 to 12.3 million in Q2.

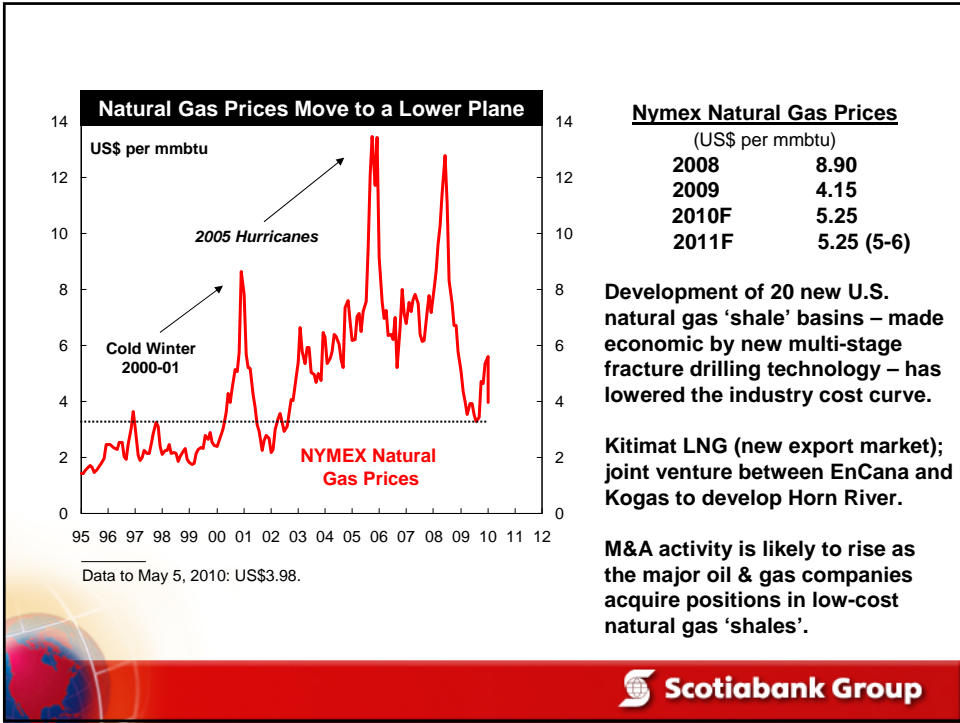












U.S. Shale & Tight Sands Development Lowers Industry Cost Curve & Points To Lower Trend Prices

Nymex natural gas prices rallied last fall and reached a high of US\$6.01 per mmbtu during a cold spell in early January 2010, after falling as low as US\$2.51 in early September. Traders bid up prices, recognizing that even the lowest-cost U.S. shale plays cannot be economically produced at prices below US\$3. Prices have since eased back again and are US\$3.98 in early May.

Scotia Waterous estimates indicate that the natural gas price required to cover break-even costs (operating, F&D costs and royalties/taxes as well as a 10% return on total capital employed, but excluding land costs) is only US\$3.19-4.45 per mmbtu for the U.S. Marcellus, Haynesville, Barnett, Eagle Ford and Fayetteville shales. Despite falling prices through 2009:H1, the rig count on the Haynesville and Marcellus shales actually rose in the first 3-4 months of 2009, with companies needing to hold acreage with production, though activity was down in the other Lower 48 plays. Overall U.S. production climbed by 3.3% in 2009 (revised DOE data). High 'initial' flow rates from shale and increased well productivity maintained production at high rates, despite a reduced number of active drilling rigs and rapid 'decline' rates.

While prices are expected to average somewhat higher in 2010, with 'industrial' demand recovering with better economic conditions & manufacturing activity and ongoing strength in power demand, the lower cost curve for the industry suggests only a modest rally (barring extraordinarily hot summer temperatures) and lower average natural gas prices in the next several years. Horizontal drilling allows a more rapid response to higher prices than conventional drilling – a factor also likely to check prices.



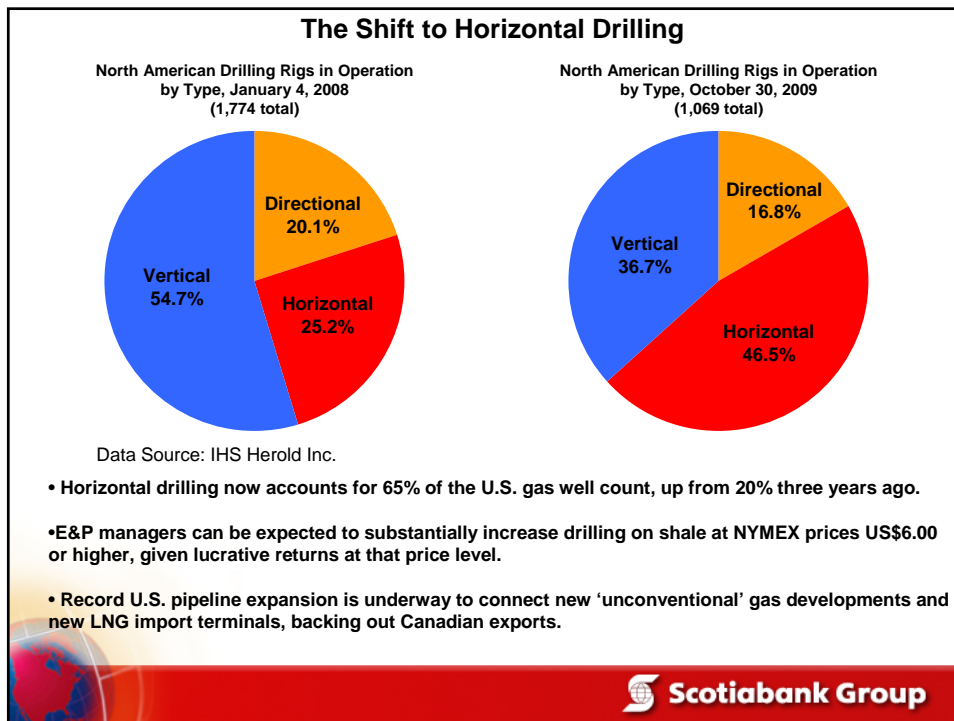
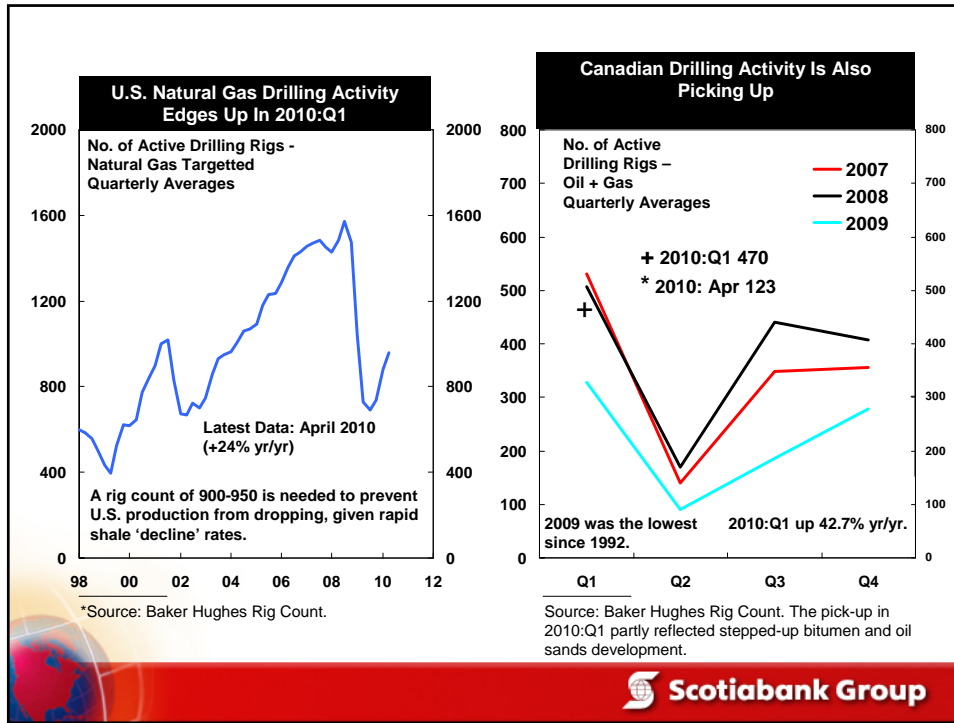
Industry Needs To Focus On Boosting Natural Gas Demand

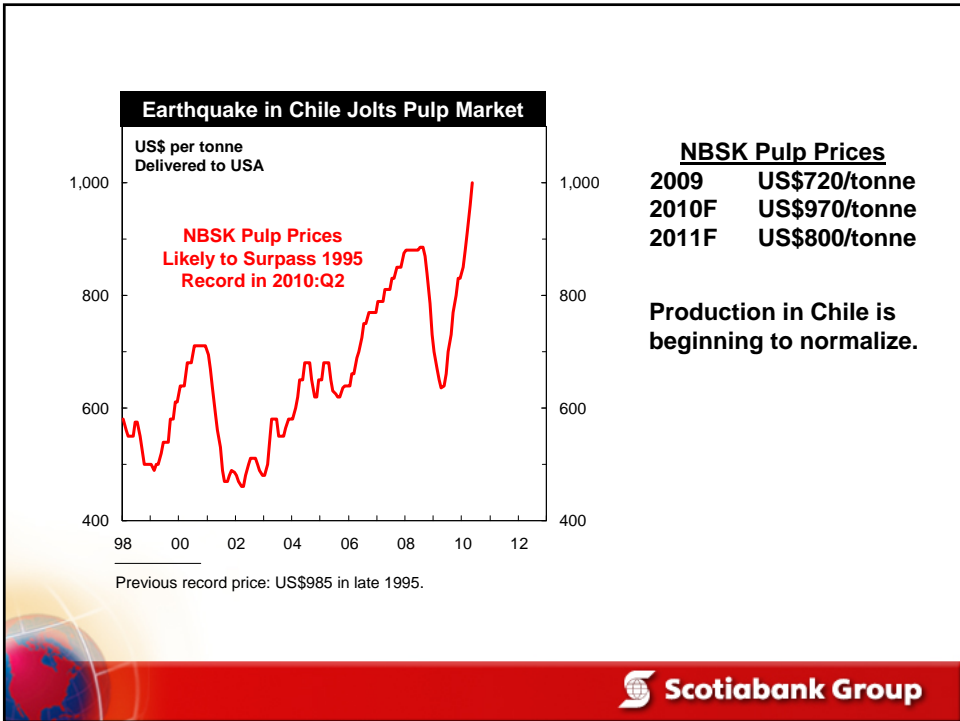
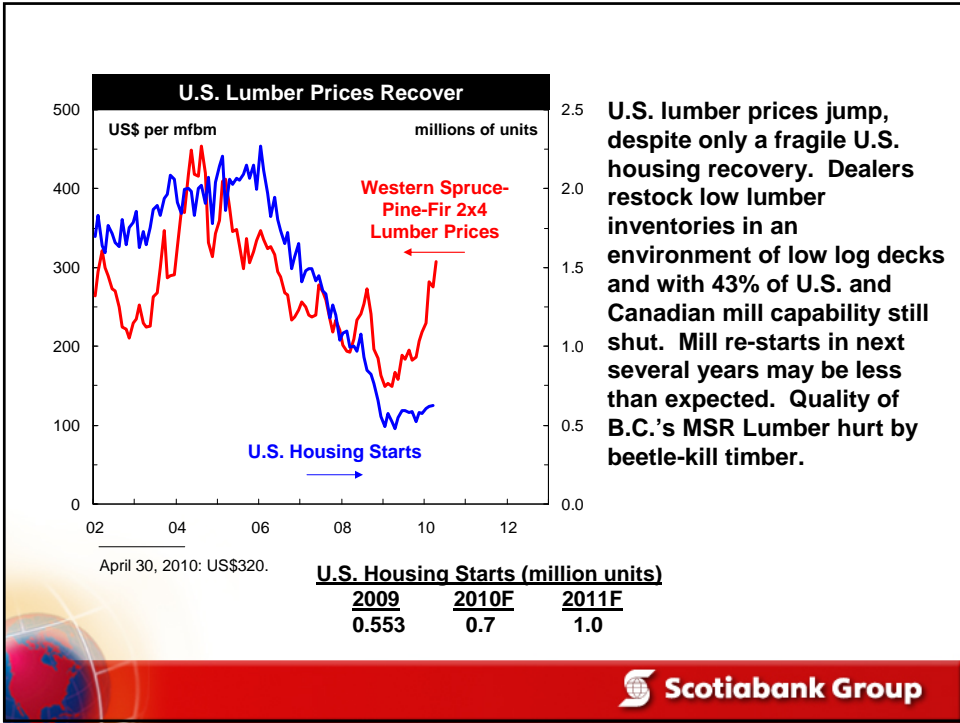
U.S. natural gas demand declined by -2% in 2009 – as soft residential & commercial consumption and a -7.6% decline in 'industrial' demand swamped a +3.3% gain in electricity generation (natural gas took market share from coal during 'shoulder periods' as well as residual fuel oil). While it is too soon to be sure, U.S. 'industrial' demand now appears to be recovering, with a 1% yr/yr gain in 2009:Q4 and a 9.6% yr/yr increase in January and February 2010.

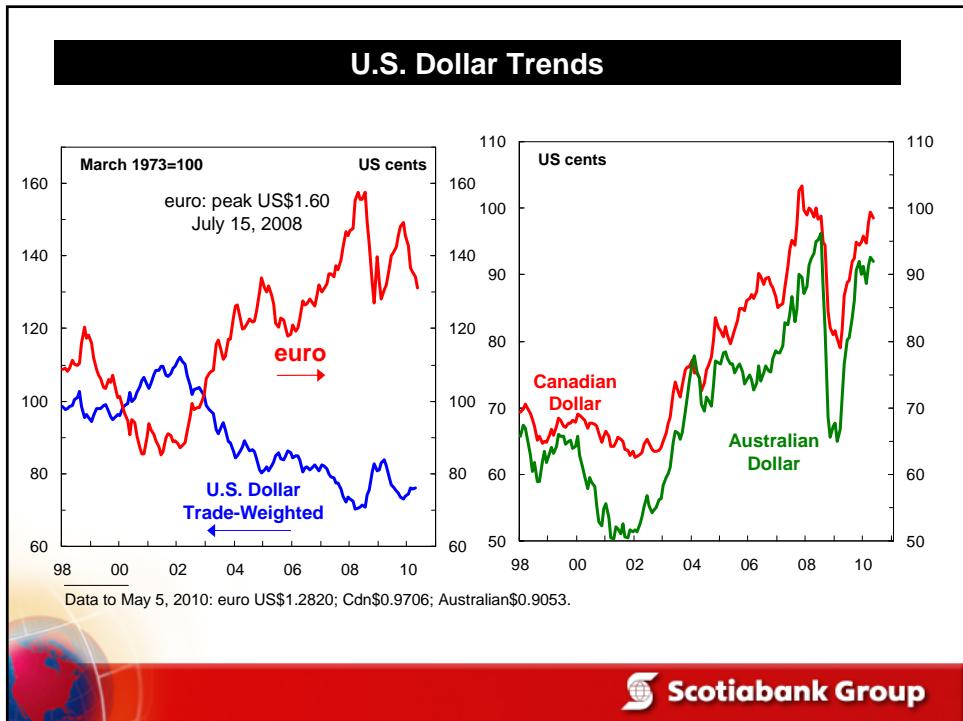
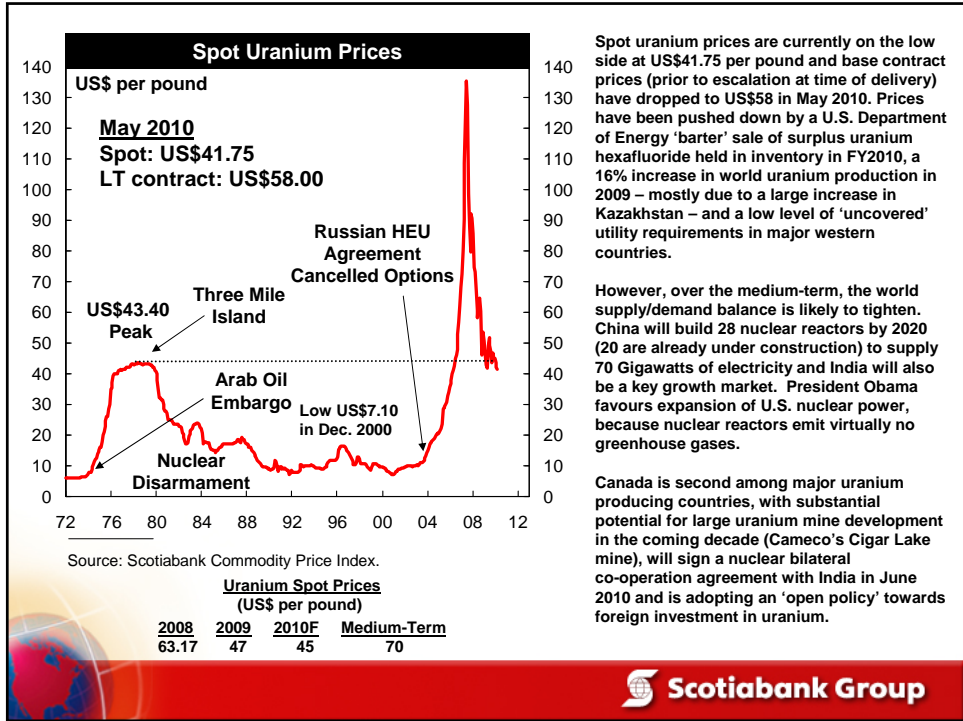
However, with drilling activity also edging up again (the industry needs to maintain lease positions) and huge potential shale and tight sands development across North America in the next several years, the industry must step-up its efforts on 'growing' demand for natural gas – e.g. as 'base load' for additional U.S. power generation (more environmentally friendly than conventional coal burning).

In our view, Kitimat LNG and other potential LNG export opportunities for northeast B.C. gas makes commercial sense and should be developed. (U.S. natural gas production has increased by 3.2% per annum over the past 4 years – recently backing out Canadian gas from the U.S. market – though production may plateau in 2010.)



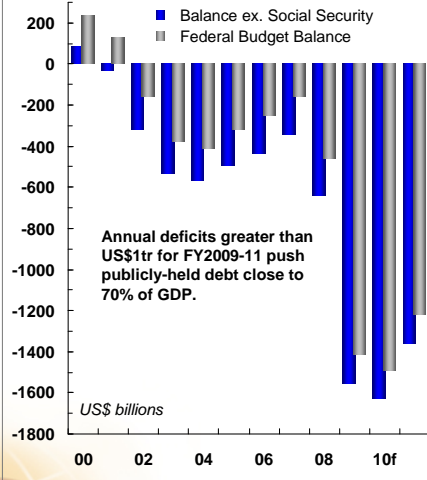




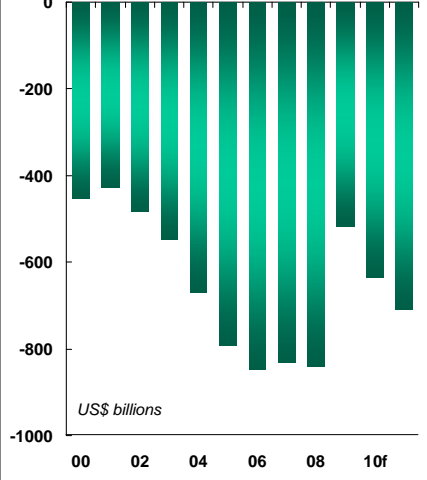


United States - The 'Twin' Deficits Pressure Points For The U.S. Dollar

U.S. Federal Budgetary Deficit



U.S. Trade Deficit



Source: Scotia Economics, Global Insight.



Scotia Capital's Global Presence In Resource Industries

Equity Sales & Research

Scotia Capital is a leading provider of Equity Research on Base Metal, Precious Metal, Oil & Gas, Fertilizers and Forest Products Companies. Voted World's Top 'Infrastructure Bank' by Global Finance magazine.

Investment Banking and M&A Advisory Services

#2 Canadian Equity Issuer and a leading mining underwriter in 2009, acting as Co-Bookrunner on Barrick's US\$4.0 billion equity offering – the largest equity offering in Canadian history and the largest equity financing ever made in the international gold sector.

Landmark Transaction -- Sole Financial Advisor to China Investment Corporation in their landmark private placement in Teck Resources (US\$1.5 billion); largest investment in a mining company by a Chinese investor in Canadian history.

ScotiaWaterous -- #1 world leader in upstream Oil & Gas M&A and Divestiture mandates from January 2008 through December 2009; with offices in Calgary, Houston, Denver, London, Beijing and Singapore; Co-Bookrunner of Crescent Point Energy common share offering (C\$575.3 million) – the largest Canadian oil & gas equity issue in 2009.

Corporate Banking – Global Mining

Among top 2 lenders to the North American mining sector (# 1 in deal count & # 1 in Canada); the most international of the Canadian banks, with representative offices in Shanghai, Beijing, Xian, Hong Kong and throughout Asia/Pacific; in Chile via "Scotiabank Sudamericano", in Perú via "Scotiabank Perú" – the third largest bank in Peru and in Mexico via "Grupo Financiero Scotiabank Inverlat."



This Report is prepared by Scotia Economics as a resource for the clients of Scotiabank and Scotia Capital. While the information is from sources believed reliable, neither the information nor the forecast shall be taken as a representation for which The Bank of Nova Scotia or Scotia Capital Inc. or any of their employees incur responsibility.

