Investing in Commodities

Walter de Wet
August 2011
+44-20-3145-6821
Walter.Dewet@standardbank.com

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Commodities as an asset class

Advantages of commodity markets

- Commodity markets trade globally
  - Enhanced liquidity
  - Information priced in quickly
- Commodity markets often move in the opposite direction to fixed income securities and equities
  - Diversification benefit
- Commodity markets are thought to offer protection against inflation
  - Not perfect, but superior

Asset class criteria

Criterion	Commodities
Homogeneity within asset class	√
Mutually exclusive	√
Diversifying	√
Liquidity	√
Non-zero positive returns	√

Source: Standard Bank Research

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Commodities as an asset class

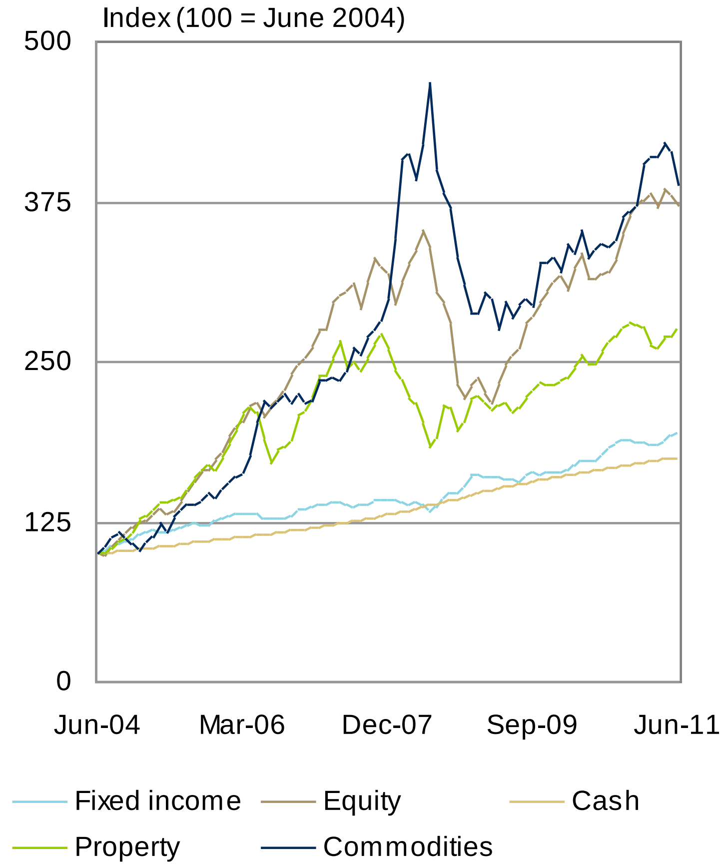
Correlation across asset classes

(June 2005 to June 2011)

	Commodities
Fixed income	-0.61
Equity	0.52
Cash	-0.40
Property	0.05

Source: Standard Bank Research; Bloomberg

South African asset class performance



Sources: Bloomberg; JSE

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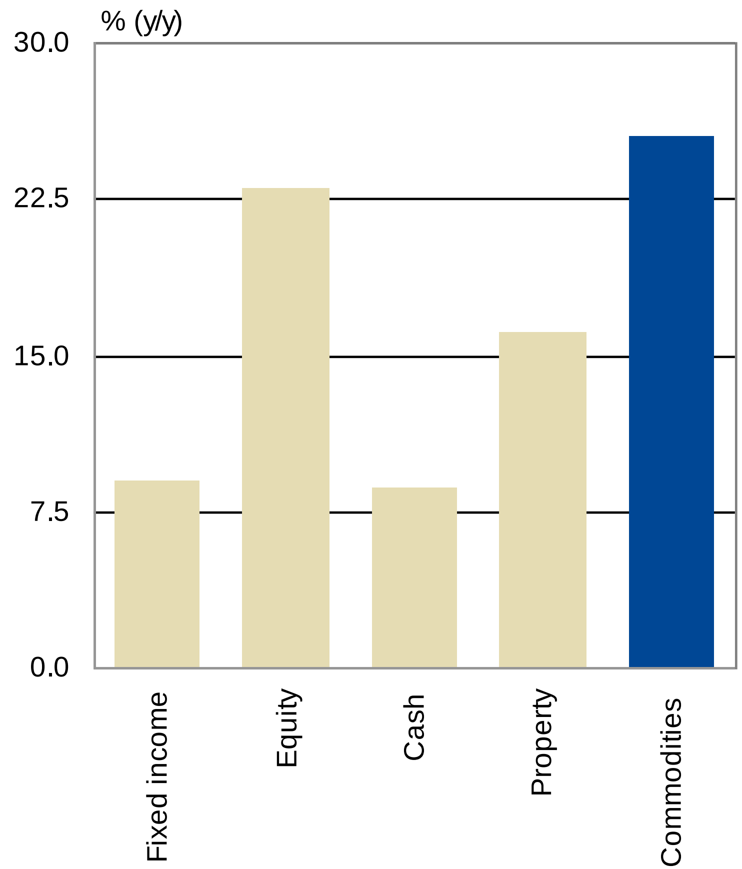
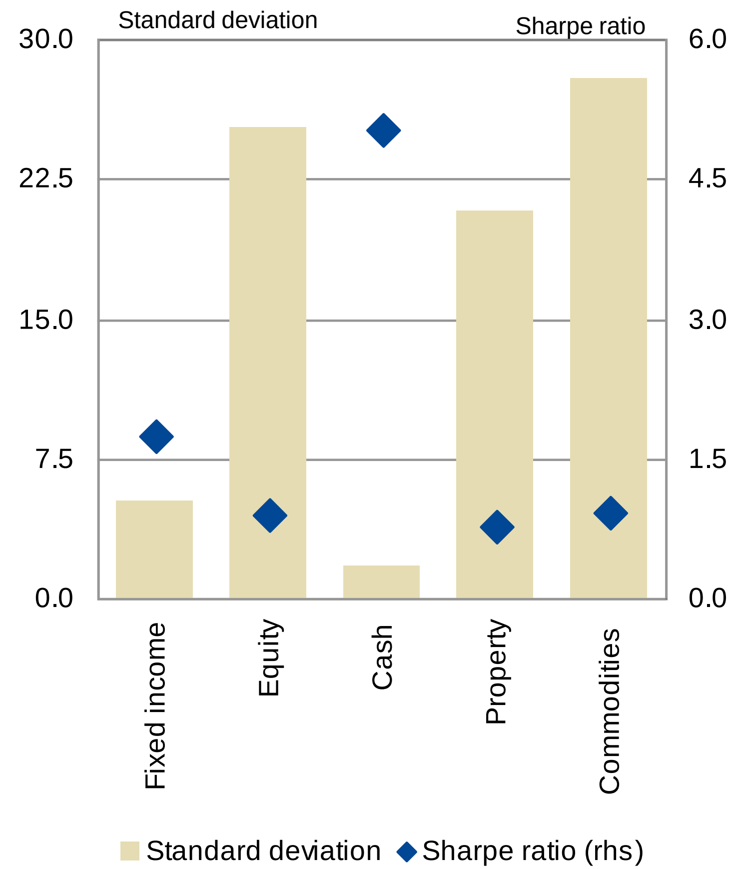
Commodities as an asset class

Average returns (June 2005 to June 2011)



Sources: Standard Bank Research; Bloomberg

Risk and return trade-off of asset classes



Sources: Standard Bank Research; Bloomberg

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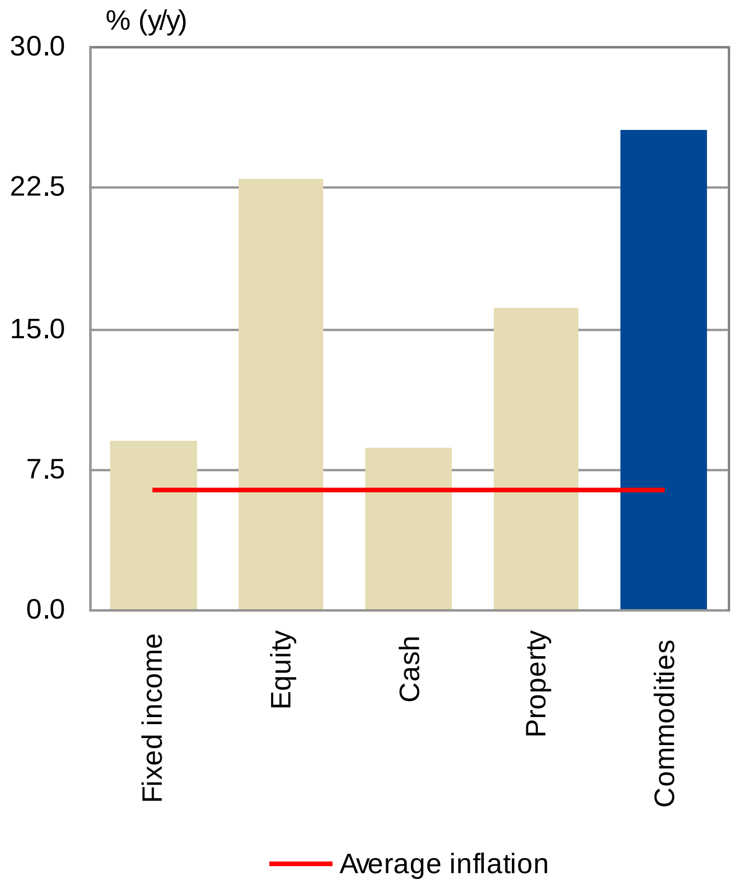
Commodities as a hedge against inflation

Inflation and returns (June 2005 to June 2011)



Source: Standard Bank Research; Bloomberg

Correlation with inflation

(June 2005 to June 2011)

	Inflation
Fixed income	-0.58
Equity	-0.58
Cash	0.79
Property	-0.72
Commodities	0.12

Source: Standard Bank Research; Bloomberg

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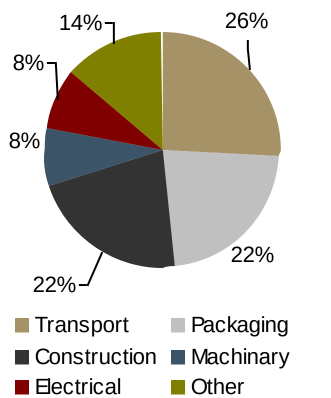
Aluminium

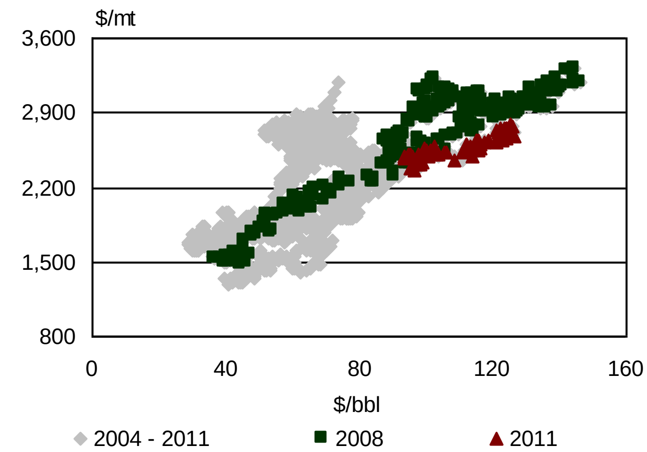
Aluminium consumption



Recent developments

- Aluminium plummeted in early May, falling 7% in just three days.
- Unlike some of the other base metals, aluminium has found relatively good support
- Aluminium has a very high correlation with crude oil
- The surge in the oil price as a result of the Middle-Eastern unrest in recent months has been touted as a key reason behind aluminium's recent price strength
- Any pull-back in energy prices serves to undermine the perceived floor to the price, and vice versa
- China is planning to lay yet another level of control on the construction of smelting capacity.

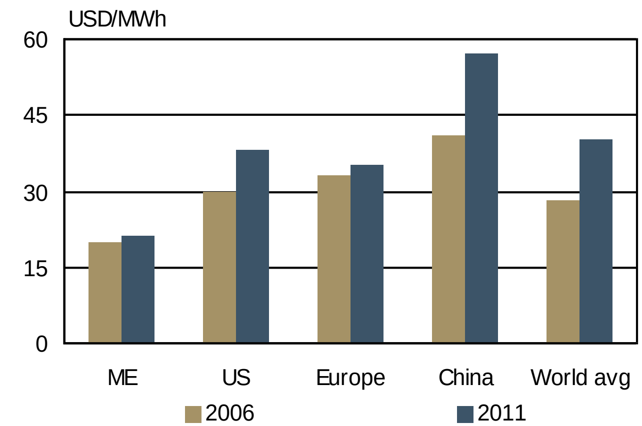
Aluminium vs. crude oil



Market outlook

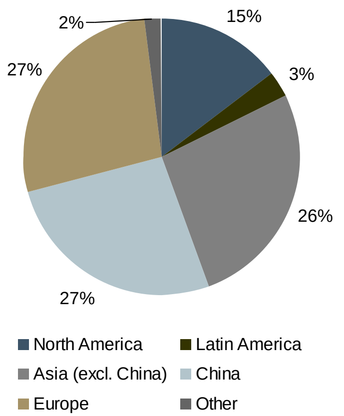
- Looking ahead, China is raising the greatest concerns
- While any slowdown in growth rates in China will be of concern to players in all markets, implications are perhaps greater for aluminium
- The Chinese aluminium market is well balanced at present but this could readily switch to being oversupplied if output continues to rise and demand growth is reined in
- Although the markets have been rattled by the rush of weak economic indicators in recent days, on the ground demand for aluminium remains strong
- Record high (and in the US still rising) physical premiums support this view,
- Though metal tied up in financing deals in Europe, and the often very long waiting times to get material out of some US warehouses, is a key factor behind the perceived tightness

Electricity costs globally



Copper

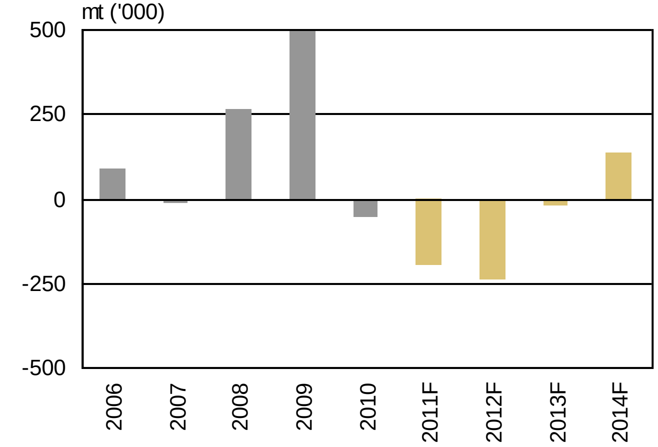
Copper consumption



Recent developments

- A lack of fundamental support means that technical signals and trading patterns are governing direction
- The latest macro data shows that the expansion of the manufacturing sector continues to slow, and this should continue as May, June and July are seasonally weaker months
- On the supply side, record production in March and similarly strong output in April was seen as smelters maintained high capacity utilisation
- What copper still has going for it, is a supportive longer-term picture. With the longer-term fundamental bull case still intact, any episodes of dollar weakness will likely see dip-buying activity emerge
- However, the key to a sustained recovery in the copper market ultimately remains the return of the Chinese, something we see happening only in H2:11

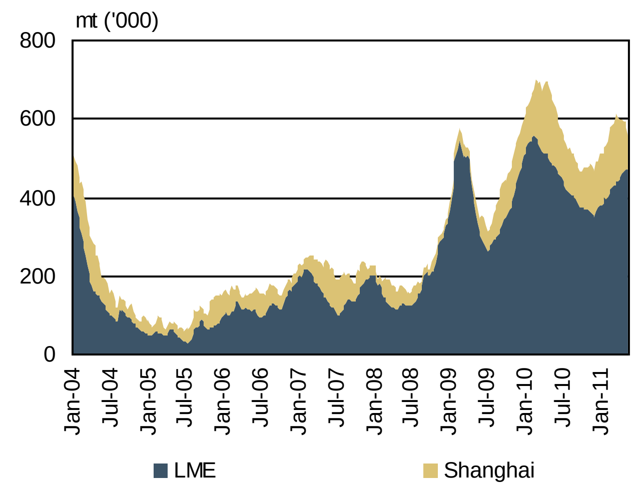
Supply/demand balance for copper



Market outlook

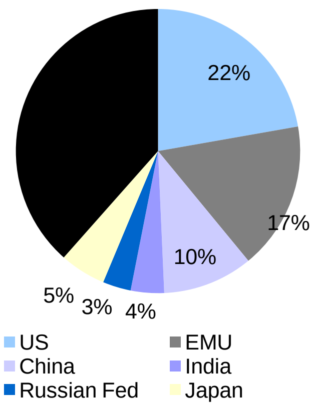
- We are not surprised by the poor performance of copper prices lately
- Our price forecasts remain unchanged, with copper moving back in line with our expectations
- It has always been our view that 2012 will be fundamentally tighter than 2011 and, as a result, the higher prices will come next year
- So, beyond the mid-2011 price correction, we still expect copper prices to resume an upward trend and even set fresh highs next year
- Due to the short-term Chinese demand adjustment running its course and as the inherently bullish underlying fundamentals of the copper market reassert themselves

LME and SFE copper stocks



Crude oil

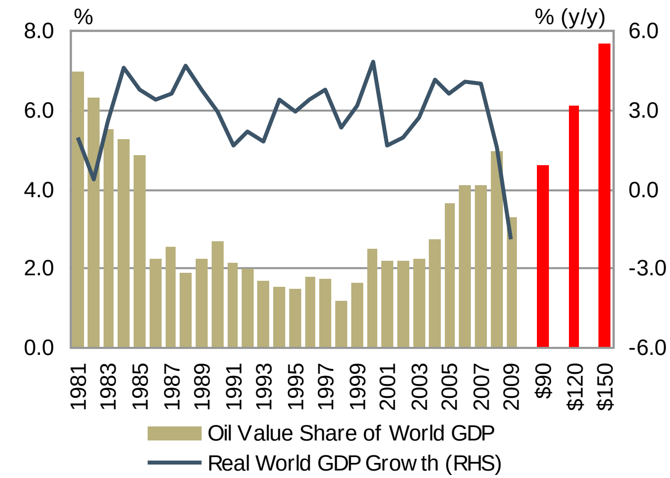
Oil consumption



Recent developments

- In Q1:11, the oil market was dominated by the turmoil in the Middle East and North Africa (MENA) region
- The conflict in Libya has resulted in a supply shortfall of about 1.5mbd in crude
- Crude supply from Libya is unlikely to recover soon
- There is also the possibility that Libya's oil facilities will be damaged, which could constrain medium-term crude supply from Libya, on top of the existing short-term supply cut
- The oil market was also hit by the devastating earthquake in Japan which caused severe damage to several coastal nuclear power stations, oil refineries and petrochemical plants
- Consequently, the energy market's ability to rebalance was challenged further, and uncertainty over the oil market in general was exacerbated
- We believe that the oil market will need to adjust itself for Libya's supply shortfall and Japan's earthquake
- The unrest in the MENA region has increased central projections for oil prices, and the tail-risks for oil flat prices to both upside and downside have increased substantially

Oil value share of world GDP vs. real GDP growth



Front-month WTI price vs. S&P500 index

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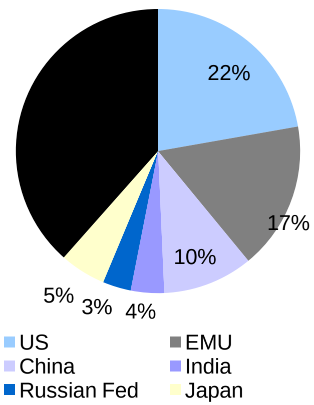
Crude oil

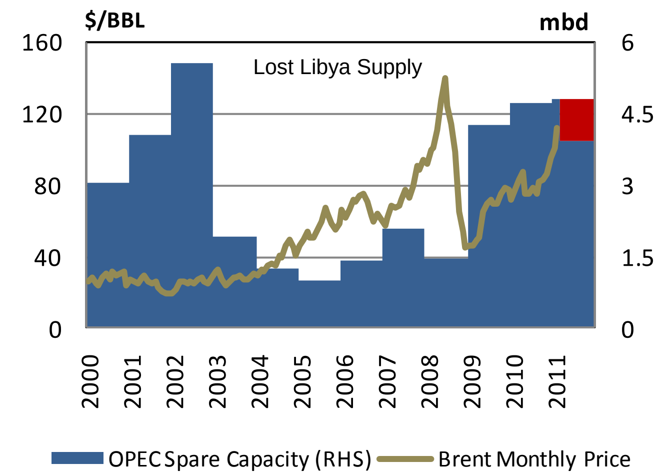
Oil consumption



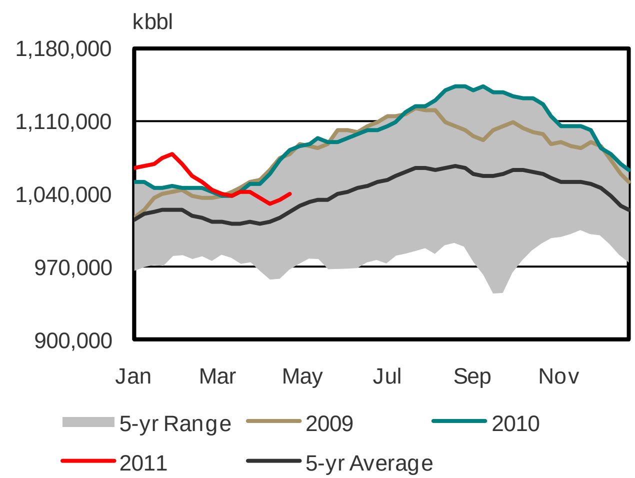
Market outlook

- For the coming quarters, our key market views are
  - Upside risks for oil flat price and volatilities due to *reduced inventories*, *OPEC spare capacity* and *spare refining capacity*
  - Bearish WTI and ICE GO term structures for Q2:11 and Q3;11 due to their respective location and product-specific inventories overhang
  - Refining margins and product cracks will remain under pressure
- For the longer term, we believe that the price will be anchored at around $95/bbl for the following reasons
  - Major oil producers have hiked their public spending
  - Cost pressure for oil production should to ramp up again as a result of broad commodity-led price increases

OPEC spare capacity vs. oil price

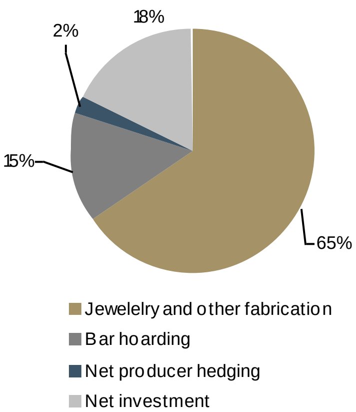


Total US Commercial Oil Inventories



Gold

Gold demand by use

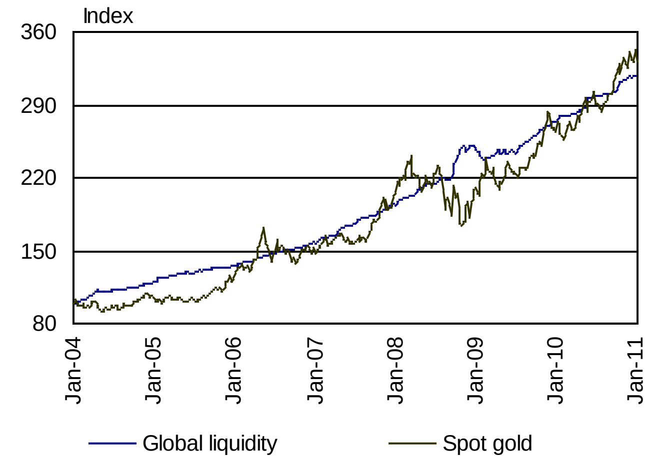


Recent developments

- Gold has been tracking global liquidity closely and generally trades within one standard deviation of global liquidity.
- We measure global liquidity as:

  The Fed's Balance Sheet + Global FX Reserve Holdings
- This view boils down to analysing gold as a currency rather than a commodity
- The global liquidity process is being driven not only by major central banks, but also by government borrowing – these two are independent from one another.
- While central banks may slow liquidity growth, we expect government borrowing, in nominal terms, to continue its rise.
- Physical market buying activity is strong on price dips

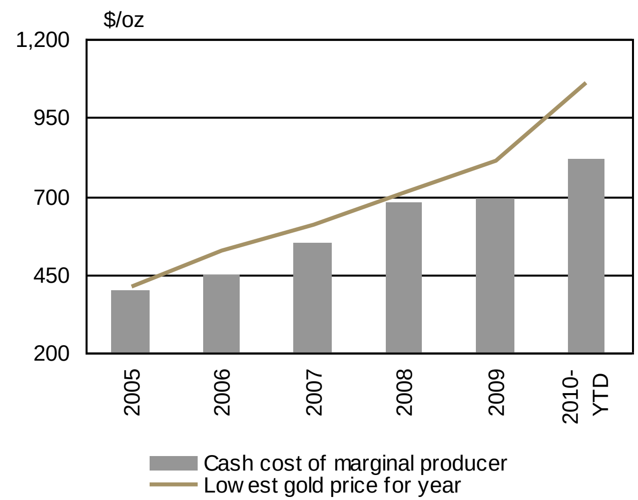
Gold vs. global liquidity



Market outlook

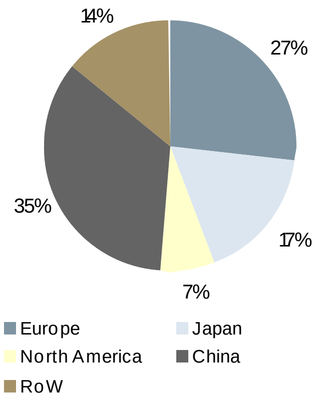
- We remain bullish on gold, with value below $1,450
- Although risk aversion has declined, systemic risk remains in the financial system
- This credit growth, captured in FX reserve accumulation, is a source of support for gold
- While we do not rule out a pull-back in gold towards $1,450 and slightly lower, gold should trade above $1,500 on a sustainable basis in Q3

Gold price and the marginal cost of production



Platinum

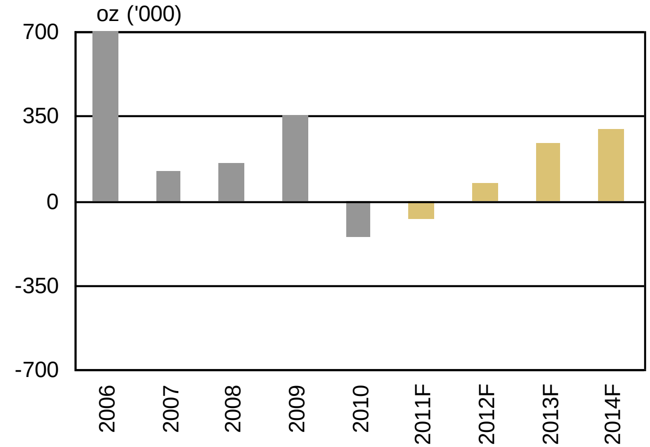
Platinum consumption



Recent developments

- We forecast a relatively balanced market over the next two years. However, the market will move into an ever increasing surplus growing to around 500,000 oz by 2015
- We expect tight platinum supply, particularly from the South African platinum mining industry
- This industry faces production problems, the effects of safety stoppages, strikes, cost pressures and high capital costs
- Investment demand and recycling will likely be the main swing factors in determining the market surplus/deficit going forward
- We believe that the cash cost of the marginal producer is still the relevant benchmark to judge whether platinum and palladium provide value or not

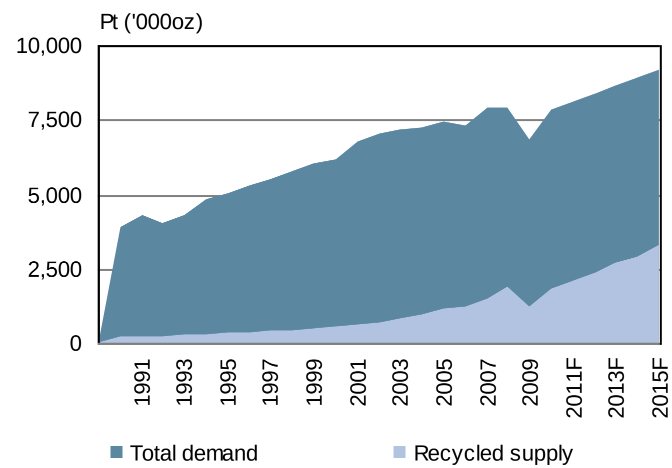
Platinum surplus/deficit



Market outlook

- The market could trade lower due to speculative activity, although fundamentally we see growing value in platinum on approach of $1,700 (at ZAR7.00/USD)
- The amount of production at risk is still small at these levels, but at the current price levels, we expect further underinvestment in the South African PGM sector
- We target $1,900 towards year-end
- We forecast the platinum price to average US$1,850/oz in 2011 and US$1 980/oz in 2012
- Could see the platinum price spike to over US$2,000/oz in the next two years

Platinum demand vs. recycling

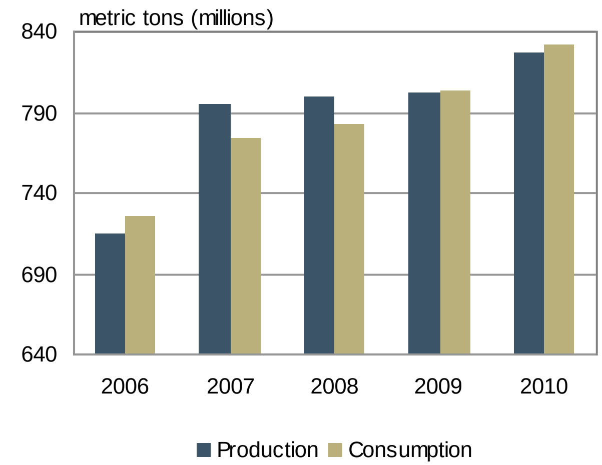


Corn & Wheat[#]

Corn - Market outlook

- 2010/11 world corn consumption data is still expected to reach a record high
- Demand in China remains firm despite mounting food price pressures and the associated inflation-fighting monetary tightening
- Globally, strong demand is being driven largely by
  - rising demand for meat
  - limited supplies of other feed grains
- Global supply of is expected to remain tight this year due to weather conditions in the US, Europe and Commonwealth of Independent States.
- Eurozone debt crisis and the slowing US economy could keep prices capped for the remainder of the year

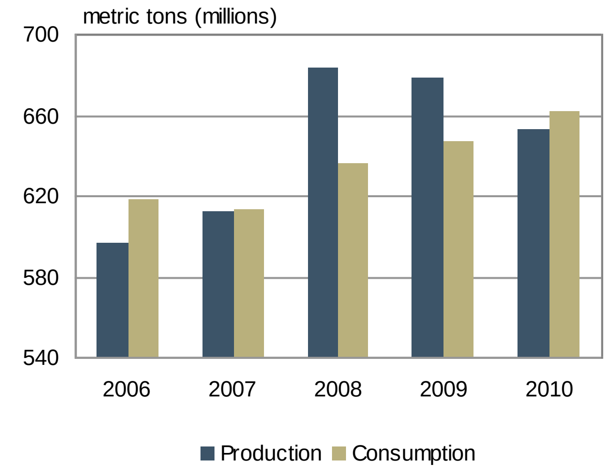
Global corn production and consumption



Wheat - Market outlook

- Global wheat consumption continues to reach new records, driven by feed manufacturers and industrial processors
- Demand is expected to continue growing as the global economy recovers, with the main impetus coming from the developing economies as disposable incomes rise
- The outlook for prices is mostly dominated by concerns over the slowing US recovery and the impact of the Eurozone debt crisis on the global economy
- Consequently, prices are expected to ease off in H2:11, with possible upside risks in 2012 owing to the uncertainty about North American crops, especially the higher-quality grades

Global wheat production and consumption



 # This material has been sourced from the International Grains Council, US Department of Agriculture and Economist Intelligence Unit.

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Walter de Wet*

Head : Commodity Strategy, Standard Bank Research

Phone: +44-20-3145-6821 email: Walter.Dewet@standardbank.com

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