



| Capital Benefits |

JRG Wealth Management

Yearly Review and Outlook on Commodities



JRG Commodity Research Desk

Summary

The year 2011 has been a mercurial year for Global asset classes. The huge rally in almost all riskier assets fizzled out in the second half due to the re-emergence of EU sovereign debt crisis. In commodities, all base metals recorded sharp drop in the range of 18% to 24%. In Bullion, Gold prices slipped from their historic highs but managed to provide a decent return of 10% (YoY) while Silver continue to struggle in the last three quarters of the year after posting multi-year high of around \$50 an ounce. By the end of the year, Silver was net negative by nearly 10%. In Energy, despite the European debt crisis, price stayed at an elevated level due to MENA oil supply risks.

Commodity Returns

Commodity	2005	2006	2007	2008	2009	2010	2011
Gold	17.9%	23.2%	30.9%	5.8%	24.4%	29.6%	10.1%
Silver	29.2%	46.4%	14.6%	-22.9%	48.0%	83.2%	-9.9%
Copper	39.5%	44.0%	5.5%	-54.0%	140.2%	30.2%	-20.8%
Nickel	-9.2%	146.9%	-21.1%	-55.5%	58.3%	33.6%	-24.4%
Aluminum	16.3%	23.1%	-14.1%	-36.1%	44.8%	10.8%	-18.2%
Zinc	53.2%	121.6%	-44.0%	-49.0%	111.9%	-4.1%	-24.8%
Lead	4.7%	58.4%	53.2%	-60.8%	143.4%	4.9%	-20.2%
Crude Oil	40.5%	0.0%	57.2%	-53.5%	77.9%	15.1%	8.2%
Natural Gas	82.6%	-43.9%	18.8%	-24.9%	-0.9%	-20.9%	-32.1%

In our view, the global financial market should be under pressure in 2012 as possible bailout of major economies such as Italy or Spain will put pressure on the credit market. Any addition such as default of Greece/Portugal may widen the issue and impact global liquidity in a big scale. In such as situation, we may see sharp liquidation in all asset classes including commodities.

The EU crisis is expected to continue weakening and US economy might extend its slowdown towards the second half of 2012. This might be the period during which the US Fed may initiate their round of Quantitative easing program. Any large support on the fiscal or monetary side will limit the decline in commodity prices, however if situation turns worse than we may not witness any major recovery in global markets.

Amongst the key commodities, Crude oil after recording healthy gains in 2011 is unlikely to have a major impact due to demand slowdown as supply risk remain a key concern from major OPEC producer. Iran's nuclear standoff with the west and any war like situation may result in a significant loss of global crude oil supply and can result in surging oil prices amidst high volatility.

Gold, which is regarded as a safe heaven can face initial pressure if liquidity crisis widens. Despite this overall outlook is very strong on increased buying from Central banks, Governments and later from Fund houses. Investment demand is the key to watch in 2012; while in Silver weakness likely to persist on contraction of industrial sector. Revival of investment demand in terms of ETF's may arrest the fall in Silver prices.

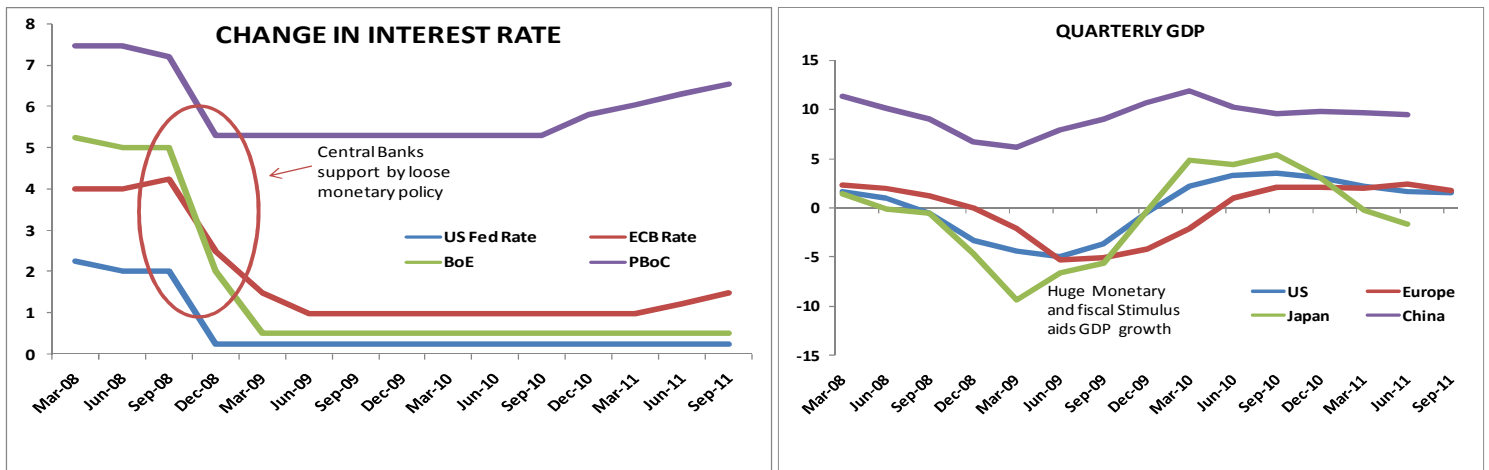
In Base metal, consumption will remain depressed throughout 2012 which will put downward pressure on prices. A risk factor to watch it is potential supply disruption if prices fall below their marginal cost of production.

In domestic Agri-commodities, Guar complex is likely to witness further volatility in the current year. The sharp appreciation of prices last year may result in lower demand from domestic as well as export markets. Acreage is likely to increase on higher prices. In other major commodities, Pepper is expected to see correction on slowing export orders.

Global Equity and Commodity market regained most of the ground in 2010 and recorded one of the best performances in decades aided by strong buying from the historic lows seen early 2009. The sharp spike in commodity and energy prices was mainly driven by higher than expected recovery in the global economy coupled with unprecedented monetary easing measures by major Central banks.

Monetary easing was conjugated with healthy manufacturing and services growth as most developing and developed nation's recuperated from the slump in Industrial and services industry in early 2009. Upside was triggered by strong public policies across the global arena. Adding to the rate cuts by different central banks, major governments launched strong fiscal stimulus programs which reduced uncertainty and increased confidence for smooth economic expansion throughout 2009-2010.

Post the stupendous rally in the global commodities in 2009-2010, overall movement has been laborious in 2011 with only 7 out of 19 commodities in the Dow Jones-UBS Commodity Index recording negative close for the year. In the base metals space, all 5 major industrial metals were net negative for the year. The price trend in base metals during the year was marred by no of systemic and unsystematic issues both on the financial and economic front and also fresh problems about the weakness in the global economy.



Source: Bloomberg, JRG Commodity Research

End of QE 2nd and commodity price easing

In Nov 08, the US Fed came with \$600 Bln agency mortgage backed securities purchase program to provide support to mortgage and housing markets and to foster improved conditions in the US financial markets. The program started in Jan 09 whereas in Mar 09, the Fed raised the goal to \$1.25 trillion.

Later on in Nov 10, the Fed announced a second round of quantitative easing, or 'QE2' for buying \$600 Bln of Treasury securities by the end of the second quarter of 2011. Additionally it also announced it will reinvest between \$250 Bln to \$300 Bln in Treasuries with the proceeds of its earlier investments.

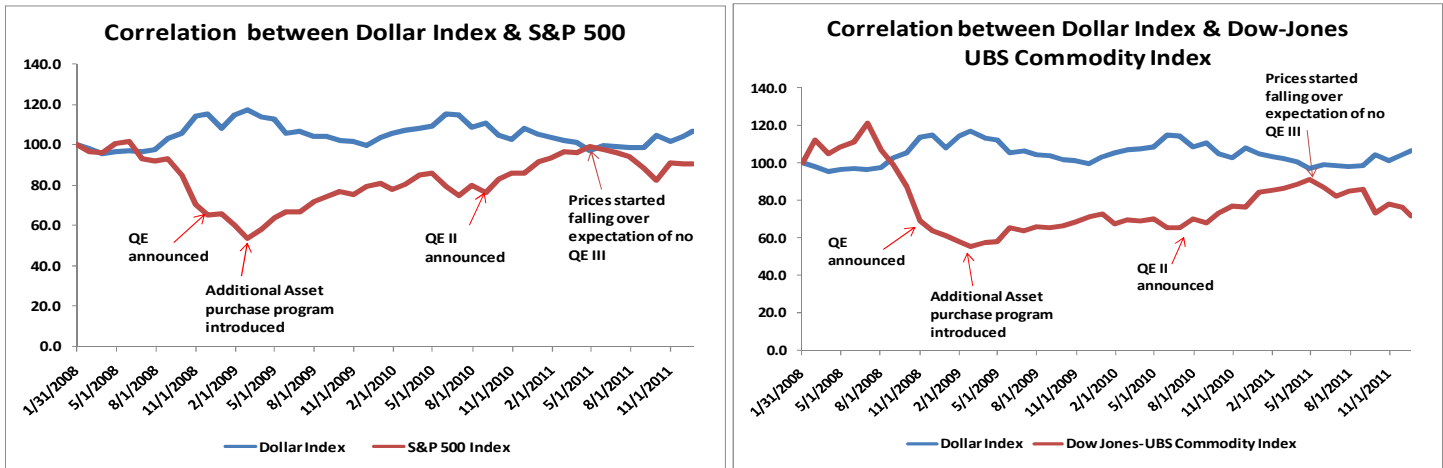
The bond buying program by the central banks infused huge liquidity in the banking system wherein which significant part of that amount went into the riskier assets like the stock and the commodity markets. If we analyze the financial measures taken by various developed economies and bottoming out process of some key Stock and commodity indexes, we find a distinct movement in various asset classes and the financial announcements by global Central banks, specifically the US Fed.

Correlation between Dollar Index with Equity and Commodity Index

Period	Dollar Index & S&P 500	Dollar Index & Dow-Jones UBS Industrial Index
Last 2 Years	-0.815	-0.651
Last 3 Years	-0.716	-0.675
Last 5 Years	-0.458	-0.481
Last 10 Years	-0.094	-0.779

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The rise in investment in riskier asset lead to a decline in US Dollar, which is regarded as a safe haven during uncertainties. If we compare the movement of the Dollar index with the S&P 500 in Equities and Dow Jones-UBS Commodity Index in Commodities from the latter half of 2008; there is very high inverse correlation between them.

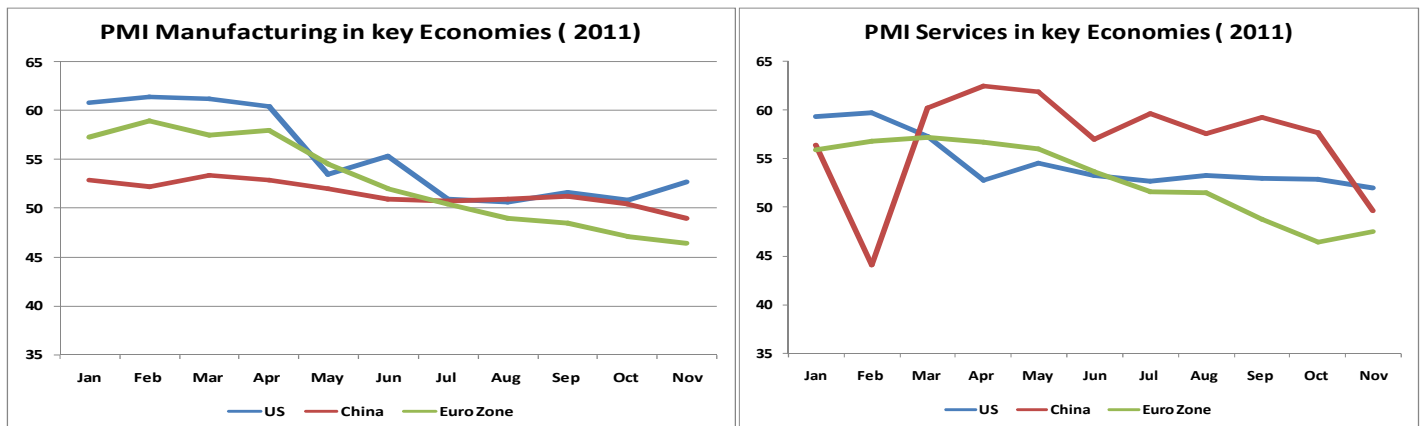


The US dollar has started recovering now as Global risk aversion has been triggered by EU debt crisis and global economic slowdown. The most expected QE 3rd is not likely to happen in the immediate scenario as Fed has been refraining from taking additional monetary steps to boost the US economy. Fed policy makers said that the US is maintaining growth even as the global economy slows, disappointing investors that were expecting the central bank would signal plans for a third round of asset purchase or QE 3rd.

Slowing global economy, EU debt crisis is the focal point post June 2011 and should be for 2012 too

In a recent report on Global economic growth, the United Nations has warned that the world is on the brink of another recession, and projected lower growth for the global economy in 2012. It added that, the emerging powerhouses like India and China, which aided the recovery during the last fall in 2008 might not be able to withstand the pressure from another recession.

The UN has also revise down the global growth forecast for next year to 2.6% from 4% in 2010. The report also mentioned that the failure of policymakers, especially those in Europe and the US to address the jobs crisis and draft proper policy and fiscal measures to prevent the sovereign debt distress in Euro region poses the most acute risk for the global economy in 2012-2013. The above risks remarked by the UN are looking real if we try to dig deep into the economic readings of various developing and developed nations.



There has been significant drop in manufacturing activity across Europe, China and emerging Asian countries while few countries are also witnessing decline in the service sector. The PMI which tracks the trend in the manufacturing and services sector is showing distinct weakness over past few quarters. The Euro-zone manufacturing PMI slipped below the critical 50 mark in Aug 2011, signaling the first contraction in the sector since September 2009 and since then has witnessed sustained downside. Euro-zones services sector too giving similar trend since Sep 2011. It is not only that Europe is in trouble; there has been continuous downside in business activities of almost all major economies throughout 2011, which projects a bleak outlook for 2012.

Apart from the recent data that suggest slowing global economy, the imminent fear is a severe crisis in the Euro zone with much fear that will result in breakdown of the common currency union.

Since the latter half 2009, fears of a sovereign debt crisis seeped amongst investors increasing concerns about debt levels of certain European nations. Issues intensified in 2010 and made it almost impossible for problem nations like Greece, Ireland and Portugal to re-finance their debts. To safeguard these nations from defaulting on their sovereign debts and to infuse financial stability in Euro region, a rescue package (European Financial Stability Facility) worth €750 Bln was created in May 2010. Its main aim was to raise funds in capital markets so as to order finance loans for euro area member states which are experiencing difficulty in obtaining financing at sustainable rates.

Later, in Oct 2011 Euro-zone leaders agreed on another package to prevent the collapse of member economies. This included an agreement with banks to accept a 50% write-off of Greek debt owed to private creditors, increasing the EFSF to about €1 trillion, and requiring European banks to achieve 9% capitalization. Meanwhile, the EU leaders also suggested creating a common fiscal union across the Euro region with strict and enforceable rules embedded in the EU treaties

Notwithstanding these attempts made by European leaders to stabilize the economic and financial problems in region, numbers of countries in the 27 group Euro-Zone are facing heightening concerns due to their high public debt, rising fiscal deficit, falling GDP growth and very high levels of unemployment.

The imminent fear is the “bailout of Italy” or may Spain later on as their yield has been rising to a level not see after the EU creation. In 2012, there is a possibility that a major country like Italy will look for external help to fund their debt.

The global economic slowdown and fear of a major crisis is the factor to be watched out in 2012. There are also concerns that EU may enter into recession before 1st Half of 2012. US economy which has see some moderately positive data in late November and December is keeping hopes alive, but cannot be ruled out to see a major slowdown in economic growth.

China which has replaced Japan as second largest economy is now finding a position of high inflation and slowing manufacturing and slower growth in exports. China is the largest consumer of metals and any slowdown in china may result in demand slowdown in commodities.

The HSBC PMI data showed, Chinese manufacturing data remained below 50 in December. The average PMI reading in the fourth quarter of 2011 was the worst since the first quarter of 2009, when the world economy was reeling from the effects of the global financial crisis.

The recent trade data showed slowing growth in exports. Export growth slowed to 13.8% in November down from October's 15.9 % rise. Exports to the EU slowed significantly, but shipments to the US, Japan and emerging economies remained reasonably steady. About 40% of China's economy remains export-related and the vagaries of external demand continue to be a major threat to the country's growth.

The 2012 demand outlook for commodities donot looks bright owing to recent developments. In 2012, we will look at few factors which will decide the outlook of major commodities like metals and energies.

Country	Factors	Impact
Europe	Fear of bailout of Spain and Italy along with fear of a default by Greece and Portugal	Liquidity Strain, collapse of common currency and a severe banking crisis globally
China	EU and US slowdown along with slowdown will result in export slowdown and decline in manufacturing	Will lead to a sharp decline in commodities demand
US	Slowdown and possible QE3rd	QE 3 rd may arrest downside may lead a flow of hot money to commodities
Emerging Nations	Slowing growth	Demand slowdown for industrial commodities such as base metals, energies which are highly used for infrastructure

Base Metals: Demand slowdown may weigh, supply threat to be watched out

Most of the base metals have started witnessing negative trend in the second half of 2011 and likely to continue the trend till the second half of 2012. Commodities such as Nickel, Lead, and Aluminium are trading near to their marginal cost with a surplus market scenario till 2012 while Copper is better off and trading far above their cost due to supply concerns. Let's have a brief review and outlook of individual commodities.

Copper

% Return in 2011	2012 Outlook
-20.83	Weak demand outlook due to global economic slowdown, supply may not be strong due to decline mine capacity utilization along with fall in prices which is disincentive for producers. Market may stay in surplus as demand decline may be faster due to slowing Chinese economy. Prices may fall back towards \$4500-\$4800/ MT. Market may stabilize at those levels on rebalancing along with QE 3rd as expected in 2 nd 2012

After more than doubling up in 2009 and registering more than 30% gains in 2010, Copper prices couldn't maintain the upward momentum and ended being one of the worst performers in 2011. Copper prices gained between Jan to Apr wherein it clocked its fresh life-time high of \$10,179 /MT. However, the rally fizzled out pretty soon as commodity traders and investors started unwinding long positions as QE II was nearing to an end in Jun. Copper prices are seen as a barometer of the global economy and usually tend to drop before the economic downturn. The current state of the global economy is not looking at its best and thus can be seen in the price movement of the commodity in 2011.

As per the recent ICSG Report, the world total usage of Copper in the first 9 months of 2011 grew by just 1% compared to the same period of 2010. Despite some support from the Chinese markets in Q3 wherein its usage enhanced over 9%, total consumption in the nine months remained just 0.5%. Similar trend can be drawn from the lower net imports from China in the first half of 2011. Amongst other key regions like Europe, Japan and the US usage has significantly weakened as the year progressed. Overall in first three quarters of 2011, usage in these three regions declined by 0.5%, 3.8% and 0.3% respectively.

While the demand has not been at its best, supply side issues mainly driven by operational problems and labor strikes in mines in South America and Indonesia persisted throughout 2011. The average mine capacity utilization rate for the period under review fell to 77.7% from 79.2% (9M 2010). At the same time, world refined production grew by 2.8% compared with that in the same period of 2010. Primary production increased by 1% and secondary production (from scrap) increased by 12%.

If we see some of the recent data in Copper supply and demand, red metals import in China accelerated to a 20 month high in November. Inbound shipments climbed 16% to 343,926 MT last month from 295,341 MT in October. Most of this increase is attributed to the high arbitrage opportunity between the prices in LME and the Shanghai Exchange. Significant drop in exchanged inventories which have fell to almost a one year low are also expected to aid the price for the metals in 2012.

Meanwhile demand from China is very critical as it consumes more than 40% of the global supply. As Chinese economy has been slowing and possibility of further slowdown is possible in 2012 due to weak export growth, we may see downtrend in Copper prices. The recent upticks in the US housing data along with supply threats in Chile, Peru and Indonesia has managed to keep prices moderately higher, but may face pressure if EU gets hit with a banking crisis. A banking crisis in the EU will directly impact the US housing sector which accounts for about 50 % of U.S. copper consumption. US, Europe and China along with Japan are the major consumer of Copper

(In 000' MT)	2006	2007	2008	2009	2010	2011*	2012*
Mine	14990	15483	15527	15897	15989	15995	15963
Mine Capacity Utilization	87.30%	85.50%	82.90%	81.40%	80.04%	77.00%	78%
Refined Production	17291	17934	18226	18272	19035	19576	19585
World Refined Usage	17034	18197	18039	18108	19386	19677	19283
Surplus/ Deficit	257	-263	187	164	-351	-101	302

Source: International Copper Study Group, JRG Analytics

Nickel

% Return in 2011	2012 Outlook
-24.4	Nickel prices may remain under pressure due to faltering steel demand. The market may remain in surplus in 2012. Prices may decline towards \$13000-\$12500/ MT this year and may see some moderate recovery from there onwards. Upside is limited to \$23,000-\$24,000 /MT.

Nickel is primarily used in the production of stainless steel and has been one of the biggest laggards in the base metals space this year. The metals has registered negative returns of around 27% owing to dim demand outlook from steel producers, higher supplies and rising exchange inventories among others.

Before the financial and economic crisis in 2008, Nickel was one of the best performers and even surged to record levels like of \$51,000 /MT. In the current conditions wherein the metal is quoting near the \$18,000 /MT levels, some of the producers are already facing the heat w.r.t. production losses. Any further drop in prices from these levels might **trigger production cuts in different parts of the globe.**

Price trend in Nickel closely track movement in the steel industry as more than 60% of all nickel mined annually goes straight to the production of stainless steel. As per a recent note by the OECD Steel committee, global steel production and demand has showed steady deceleration 2011. Against a forecast of over 12% growth in Steel production globally for the full year, total production during the first three quarters has recorded a growth only 9% (YoY) and reached 1,514 MT. On the other side, World finished steel consumption has increased by mere 7% in the first three quarters of 2011 creating decent surplus for the rest of year. It should be noted that, growth in global consumption is just 7% compared to 15% jump in 2010. The lower than expected demand was imputed by moderating industrial production and weak construction sector growth.

Demand concerns for Nickel have escalated due to ongoing issues in Europe and slowdown in China. According to the International Nickel Study Group (INSG), Europe which is the second largest primary producer of Nickel and is also the second largest market for demand has reported consumption slowdown throughout 2011. Weakening economy in China has also aggravated worries for Nickel producers as the country currently accounts for more than one-third of global consumption.

Supply has been comfortable in Nickel and fresh capacities and enhanced production from Canada following the end of strikes is likely to keep supply fundamentals soft. World primary refined nickel production is anticipated to increase to 1.60 MT in 2011(11.1% growth YoY) while the demand is expected to rise by only 6% to 1.57 MT. Nickel exchange inventories are also a big worry, as they have been consistently rising since 2009. In the current year too, Global inventories have gained almost every month projecting a further bleak outlook regarding the metals off-take.

We expect soft fundamentals to persist in Nickel for 2012 which will keep prices under pressure.

(In MT)	2006	2007	2008	2009	2010	2011*	2012*
Global Mined Production	1432000	1570000	1496000	1363000	1516000	1632661	1518375
Global Refined Production	1349000	1454000	1362000	1335000	1511000	1624325	1494379
Global Refined Usage	1375000	1354000	1296000	1305000	1511000	1616770	1487428
Net Surplus/-Deficit	-26000	100000	66000	30000	0	7555	6950.6

Source: Bloomberg, JRG Analytics

Lead

	% Return in 2011	Outlook 2012
Lead	-20.20%	Growth in Lead demand looks dim as slowdown in global automobile sector is anticipated to continue in 2012. Nevertheless, demand slowdown might not be as severe as Nickel due to the support from replaceable Battery demand globally. Prices might also come under pressure due to rising supplies from China and Australia. Potential downside \$1400-\$1500 /MT. Upside is limited at \$2800-\$3000 /MT.

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Lead prices are directly linked to the growth in the global automobile market as almost 80% of the total demand comes from lead-acid batteries which are used in vehicles. The drop in the metals prices in 2011 is evident from the fact that growth in auto sales have slowed down significantly.

While the metals demand has been slow, supply is in excess as per the latest data from International Lead and Zinc Study Group (ILZSG). For the first 9 months of 2011, global refined lead market has moved into a surplus of 170,000 Tons as strong supply growth in China, Australia, Germany and the US eclipsed demand growth in the metal. For the period between Jan to Sep, the total refined production of Lead jumped up to 7.631 Mln Tons surpassing the total consumption of 7.461 Mln Tons. Overall surplus is almost three times when compared on a YoY basis as in 2010 total surplus stood at just 57,000 Tons during the same period.

On the positive side, despite heavy crack down in production lead production units in different parts of China owing to environmental issues, overall demand has remained healthy. As per an ILZSG study, more than 25% of the lead based battery production facilities in four provinces of China have been asked to shut down since mid 2011, following major cases of lead poisoning in surrounding areas.

However, the Chinese battery industry has stabilized since then and operating at almost normal levels lately. During the first nine months of the year, China has posted a 14% jump in output at 3.374 Mln Tons. It should be noted that more than 75% of China's total lead consumption goes for battery production and going with the industry estimates that the world's largest auto market is planning to produce over 20 Mln battery-powered electric bikes annually, only helps for sustained demand for refined lead.

However, looking at 2012 perspective the demand outlook is not strong due to weaker growth expected in global automobile industry. The cyclical recovery in global auto sales that began in mid-2009 is likely to see pressure in 2012 after growing moderately 5% in 2011 from a healthy 12% in 2010.

From price perspective, it is quoting at the marginal cost of production (almost \$1800 per MT) and any major fall in prices may lead to supply cut as well. But owing to weak demand outlook in 2012 any major recovery is less likely.

(In MT)	2006	2007	2008	2009	2010	2011*	2012*
Mine Production	3528000	3650000	3793000	3830000	4205000	4541400	4677642
Metal Production	8108000	8331000	9055000	9024000	9627000	10397160	10657089
Metal Usage	8233000	8383000	9045000	8962000	9588000	10163280	9960014
Surplus Deficit	-125000	-52000	10000	62000	39000	233880	697075

Source: International Lead and Zinc Study Group, JRG Analytics

Zinc

	% Return in 2011	Outlook 2012
Zinc	-24.82%	Zinc market is expected to remain in surplus in 2012. Supply destruction is possible on further major decline in prices as market is trading near the cost level. Overall outlook remains weak. Potential downside \$1300-\$1350 /MT. Upside limited at \$2400-\$2500 /MT.

All base metals went through their rough period patch in 2011 and Zinc was no exception of that. Slump in economic growth amongst key consumers like those of the Euro-zone and China coupled with increasing Zinc mine and production supply have taken had a toll on the metals prices. Likewise Lead, Zinc is also experiencing a cycle continuous surpluses year after year. Zinc prices are down around a quarter in 2011 and trading near the \$1800 /MT levels.

According to the International Lead and Zinc Study Group (ILZSG), during the first nine months of 2011 the global zinc market was in surplus by 275,000 MT. During the same period global refined Zinc usage grew modestly to 9.45 Mln MT as compared to last year's usage of 9.33 Mln MT. In that period itself, the global refined production was higher to 9.72 Mln MT as against 9.47 Mln MT a year earlier.

It should be noted that US, Europe and China together consume more than 70% of the global Zinc production and the ongoing concerns in those regions has already put and further extend the demand pressure 2012. Weaker economic growth in those regions has reduced expenditure on the construction sector and also pressurizes the growth in the automobile segment. Both these segments

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consume large amount of galvanized steel which in turn make for more than 50% of total Zinc output. Other than falling demand, the year 2011 witnessed increased output from countries such as China, India, Kazakhstan, Mexico and Russia. The above scenario is expected to stretch the higher supply situation in the next year, offsetting any improvement in demand.

In the near term, only positive can come in from extended demand from Japan due to the last years tsunami and nuclear disaster. These events have enhanced the zinc demand due to reconstruction which is likely to likely to continue into 2012.

Zinc inventories at the LME are another thing which the traders and investors keep a close track so as to check with the price momentum. While Zinc prices peaked in early 2008, metal inventories at the London exchange have been at a high for a long time. In the mid of 2011, Zinc inventories jumped to 900,000 MT; recording their highest levels of in more than 16 years before falling levels of 750,000 MT in early Dec. Despite such a drop, inventories remain at very high levels and are nearly equated to 23-25 days of metals demand. Until and unless the demand outlook for Zinc improves significantly or the supply witnesses a sharp cut; prices are anticipated to remain under pressure throughout 2012.

(In MT)	2006	2007	2008	2009	2010	2011*	2012*
Mine Production	10431000	11133000	11831000	11560000	12275000	12950125	11655113
Metal Production	10629000	11345000	11768000	11286000	12825000	13055850	11684986
Metal Usage	11003000	11272000	11570000	10874000	12542000	12667420	11527352
Surplus Deficit	-374000	73000	198000	412000	283000	388430	157634

Source: International Lead and Zinc Study Group, JRG Analytics

Precious Metals

	% Return in 2011	2012 Outlook
Gold	10.1%	The outlook remain bullish, while some short term correction is possible on EU banking crisis, US QE3rd will be supportive. Downside support \$1300. Upside potential \$2000+
Silver	-9.9%	The outlook is mixed. Weak industrial growth and stable supply may continue to pressurize the metals. Investment demand may be supportive at lower levels. Downside potential is \$18-\$20 an ounce, while upside is limited at \$38-\$40 an ounce

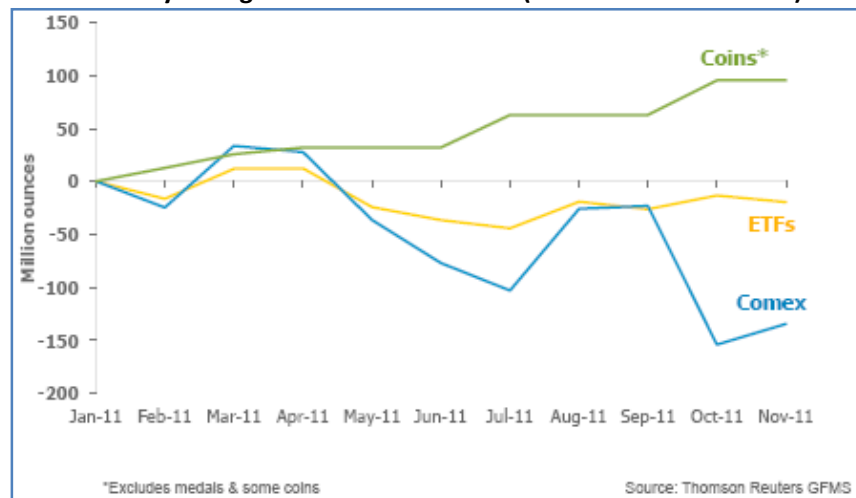
Year 2010 started with an unprecedented rally in Silver prices which rose to almost \$50 an ounce in the spot market by April backed by speculative buying and exit of big short position by hedge funds. Silver which is mostly used as an industrial metal failed to sustain at higher levels due to decline in manufacturing across developed markets and also as investment demand in the form of ETF dropped. Silver prices are now quoting around \$27 an ounce, down almost 46% from the yearly high.

Silver is historically known for moving in negative correlation to the dollar, but it has been moving more with risk assets this year. Like risk assets, silver's price volatility could often be explained by the market responding to economic data, mainly from the US and EU.

After 2010's stellar rise, growth in industrial off take has slowed, on the back of the tragedy in Japan, the end of stock replenishment and more recently, slower economic growth globally. In 2011, fabrication demand has grown by 4%. Fabrication demand for photography and house wares were weak, which is a mere continuation of a silver trend from past decade.

But demand from ETP is expected to have declined due to redemption pressure from Mutual funds and hedge funds in due course of EU crisis. Though investment demand is expected to reach \$10 billion in Dec, in terms of value, the ETP demand was down 33 million ounces for the year.

Monthly Changes in Silver Investment (Source- Silver Institute)



Supply side has been considerable in 2011. Mined production is expected to be around 30 Mln ounces with major contribution from Mexico and China. Led by higher price in the first half of 2011, there has been considerable focus on recycling this year. Silver recycling as a supply source has become more significant in the recent past. Jewelry recycling is mostly conducted in countries such as India and China but does not usually occur on a notable scale in developed nations. Increases from both mined supply and recycling explains the corrections in silver prices this year.

The road 2012 is very critical as industrials have been contracting across the globe and fear of a banking crisis in the Euro zone is leading more demand for cash and safe haven US treasury. If Euro zone crisis hits Italy in terms of bailout requirement for the country,

we expect considerable pressure can be seen in commodity prices. A major downturn in the EU and slowing growth in the US may create a case for QE 3rd which may limit downside in the metals.

Gold may have similar situation in liquidity crisis, however fundamentals still remain strong

In Gold too, overall momentum looks slightly similar to Silver. Recently Gold prices have coming under pressure as US dollar started gaining sharply due to liquidity concerns in the interbank market. Gold, regarded as a safe haven instrument dropped sharply in 2008, but regained when QE1st was announced. In the current situation, pressure on Gold in any liquidity crisis situation could be smaller as a number of exchanges, clearing houses and banks now accept gold as collateral. Despite the correction in gold prices, global bar hoarding demand for gold increased by 170% in 2008 as a result of the financial crisis. Similarly, we have seen bar hoarding demand pick up in regions suffering from financial crisis.

In a worst case scenario, the Euro zone break will be a short term trigger for gold which may lead to a healthy correction. Taking at medium term consideration, demand for reserve assets such as US dollar and Gold to go up from Central banks and government across countries.

Another supportive for Gold prices will be the possible QE3 which may ease some strain of liquidity. But if situation remain depressed for 2012 and turn worsen than 2008, which few believe that it will be- then a major run up in any asset classes including Gold will be difficult.

We need to keep an eye on the TED spread which gauges the liquidity pressure in the banking system. It is quietly above 50 marks after stabilizing below 30 for past two years. In early 2009, the TED spread rose to almost 300 due to tight liquidity in the interbank market.

This led us to keep a “cautiously optimistic” view for Gold for 2012.

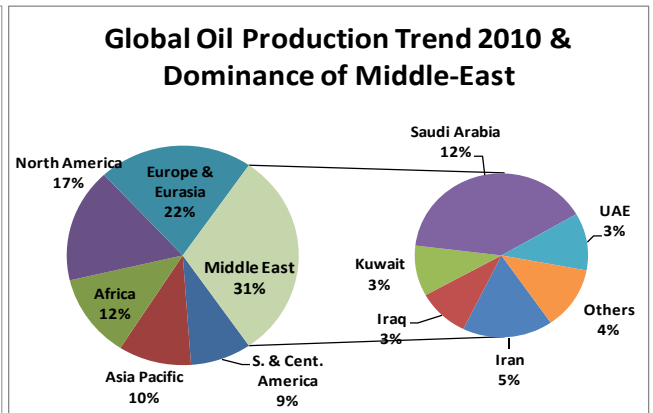
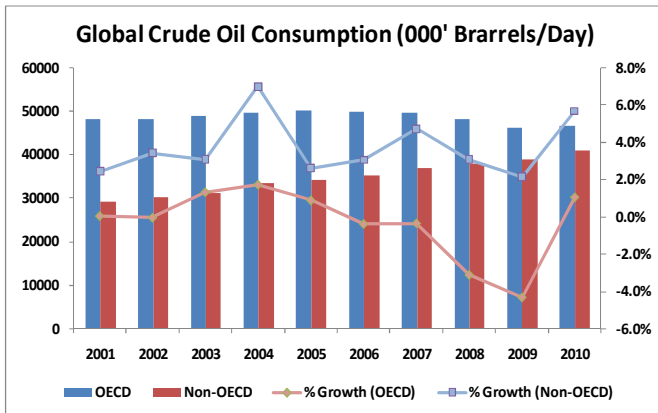
Energy: Crude oil may not react as it did in 2008 crisis; supply risk is the major concern

% Return in 2011 2012 Outlook

8.15%	Crude prices may trade with high swings throughout 2012. Though demand is expected to remain tight due to slowing global economy, geo-political risk may drive prices higher. Markets are expected to stay with a positive bias due to the ongoing tensions between Iran and the Western economies meanwhile actual closure of the Strait of Hormuz can lead to significant increase in Crude oil prices. Downside limited to \$70-\$75 /barrel. Market may post fresh historic highs in case of Iran war.
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There has been sharp decline in Crude oil in 2008 crisis when prices dropped from \$143-\$145 / bbl to almost \$33 bbl. But the situation is not the same this time around. The major factor we see for 2012 is the geo political risk in the Middle East. As already seen in 2011, the MENA (Middle East North Africa) tension created an unprecedented market scenario with Brent quoting far higher than the WTI light sweet. Any cues from the political risk in the Middle East will be watched upon carefully in 2012 as well.

The year of 2011 began with unrest in the Middle East that threatened supply. Prices rose above \$100 as oil-rich Libya followed Tunisia and Egypt into violent social unrest. Brent prices rose above \$120, but thereafter prices eased with debt crisis in the EU and rating cut of US by sovereign rating agencies. The additional pump of Oil by OPEC due to supply cut from Libya gave some relief while end of Libyan war in late 2011 gave further support on for normal supplies.



Source: BP Statistical Review 2011, JRG Commodity Research

On the demand side, the International Energy Agency (IEA) in its recent report trimmed the demand forecast for oil in 2012 and over the next five years. As per the agency, world oil demand is set to fall in 2012 on the worsening global economic backdrop and persistently elevated oil prices; however demand is anticipated to remain decent as supply is seen tight until 2013 onwards. For 2012, the oil demand is expected to increase at an average 1.2% or 1.1 MBPD mainly driven by firm demand from Non-OECD countries. The IEA forecasted global oil demand at 90.3 MBPD in 2012 up from 89 MBPD in 2011.

Despite demand worries, oil prices still loom near the \$100 per barrel due to geo-political risk premium. This time the tensions between Iran and the West are supporting the Crude prices from falling. Iran is the second largest producer of OPEC and contributes almost **17% of OPEC oil supplies**. Iran holds the second largest natural gas reserves and the third largest oil reserves in the world.

In the recent past, tensions between Iran and US have heightened after the world's largest economy has proposed fresh sanctions against the Iran's alleged nuclear weapons program. Some of the fresh sanctions, though yet to be passed might bar exports of refined petroleum products from Iran as there is general expectation that it is diverting its funds from export to fulfill its nuclear program. To counter these moves, Iran has threatened to shut down the 'Strait of Hormuz', a very narrow body of water near the exit and entry point of the Persian Gulf through which 15 MBPD or one-sixth of the world's supply of oil passes.

Above fears over supply cut, have pushed international oil prices higher. For the year 2012, Oil prices might see extreme situations wherein any action by Iran to stop crude supply in the Strait of Hormuz may drive prices to very high levels not seen since 2008. On the other side, if the current situation cools-off aided by some political solution between Iran and Western nations; we might see oil price

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settle around the \$85 per barrel mark for 2012. Lastly, oil along with other asset classes might undergo severe downside if the weakening environment in Europe due to the credit and fiscal issue deepens further leading to a break-up of EU.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*	2012*
Demand (MMBPD)												
OECD	48.0	47.9	48.6	49.4	49.9	49.6	49.3	47.6	45.6	46.2	45.8	44.0
Non-OECD	29.3	30.1	31	33.2	34.1	35.5	37.8	38.9	39.9	42.1	43.4	44.3
Total World Demand	77.3	78	79.6	82.6	84	85.1	87.1	86.5	85.5	88.2	89.2	88.2
Supply (MMBPD)												
Non-OPEC	46.9	48.3	49.2	50.5	50.5	50.8	50.8	50.6	51.5	52.6	52.8	53.00
OPEC Supply (Incl NGLs)	30.5	28.9	30.8	33.1	34.2	34.3	35	36.2	34.1	34.8	35.7	35* (Risk of Iran Oil supply)
World	77.4	77.2	80	83.6	84.7	85.1	85.8	86.8	85.6	87.4	88.5	88

Source: International Energy Agency, JRG Analytics

Agri Market

Commodity	2010 Close	2011 close	% Change	Outlook 2012
Soy bean	2374	2445	3.0	Lower global output estimates is supportive for prices.
Soy oil	632	714.7	13.1	
RM seed	2846.5	3505	23.1	
Chana	2557	3304	29.2	Steady demand, higher MSP is positive for prices
Guar seed	2412	6992	189.9	Higher prices may lead to demand slowdown and increase supply leading healthy correction
Guar gum	6284	23186	269.0	
Sugar	2973	2905	-2.3	Higher production past two years is likely to keep market lower, demand is also moderate
Pepper	22497	32775	45.7	Weak demand and higher global production may lead to correction
Jeera	14326	15806	10.3	Revival of exports is the key to watch
Chilli	8410	6484	-22.9	Steady export and fresh crop arrivals may keep market stable

Pepper: Weak demand and higher global production may lead to correction

Pepper futures recorded biggest annual gain in 2011 with 73.3 % increase to touch 10 years high of Rs 38,985 in December month. The rally started from Rs 23,000 levels and moved up steeply in November and December. Futures came into steep backwardation in December month.

Pepper production in India fell for three consecutive years and reported below 50000 tonnes. For 2011-2012, Indian production estimated at 43000 tonnes. India has exported 13760 tonnes during April – October 2011, up by 33 % from same period of last year. In terms value, exports rose by 116 % during same period.

Global pepper production is estimated to increase by 7.2 % to 3.2 lakh tones in 2012 against 2.98 lakh tones in previous year (IPC estimates). Vietnam production is estimated to increase marginally to 1.1 lakh tones in 2012 along with other major producing countries like Indonesia, Malaysia. Indonesia and Malaysia output estimated at 41000 tonnes (from 33000 tonnes) and 26500 tonnes (from 25600 tonnes) respectively.

Pepper futures are expected to correct in 2012 due to weakening demand from consuming countries and higher global production estimates. Supplies from India and Vietnam in the first four of the year may add pressure on prices. Prices are expected to come down towards Rs25000 levels in the first half of the year.

Chilli: Steady export and fresh crop arrivals may keep market stable

Chilli prices were quite volatile in 2011. After touching record high of Rs10970 per quintal in April 2011, it corrected sharply towards year end to Rs6200. Crop loss in 2010-2011 season triggered sharp rise of about 30 % in first four months extending previous year's rally. However, fall in exports thereafter triggered correction in the market. Output fell to 8 lakh tones in 2010-2011 seasons against normal output of 12 lakh tones due to bad weather conditions.

Exports fell drastically 110600 MT in April-October 2011, down by 28 % from same period of previous year. However, in value terms, exports showed positive trend due to high prices and weak rupee. Exports mainly to Malaysia, largest buyer fell due to high prices.

As per Andhra Pradesh agriculture department data, acreage under chilli has increased marginally to 0.44 lakh hectares (as on 21 December 2011) compared to 0.42 lakh hectares. However, it is still lower compared to normal area of about 0.47 lakh hectares. Crop yield and quality is likely to get affect due to insufficient moisture and reports of disease.

The market is expected to remain stable in first half of the year due to steady export and fresh crop arrivals. Thereafter, prices may move up towards Rs10000 per quintal due to lower output estimates for this season.

Cardamom: Maintain bullish trend in 2012

Cardamom prices fell by 66 % in 2011 after hitting record high of Rs2100 in 2010. Weak demand and higher output in 2010 and 2011 triggered sell off in 2011. Cardamom production estimated at 12000 mt in 2011, where arrivals almost ended. Cardamom exports during April-October 2011 stood at 2650 MT against 780 MT in same period of previous year. At present spot prices are quoting below Rs600 kg and likely to move up slowly with improved demand at lower levels. In 2012, prices may move up towards Rs850-900 per kg.

Jeera: Revival of exports is the key to watch

Jeera futures gained sharply in the initial months of 2011 and touched record high of Rs17520 per quintal. However, it fell sharply in the middle of the year to Rs13000 levels and recovered only towards year end to Rs16000 levels. Weak exports and higher output in 2010-2011 seasons pressurized the prices. Output in this season was about 25 lakh bags. As per Spices Board data, exports stood at 20600 MT during April – October 2011 against 19800 MT in previous year, up by 4 %. In terms of value, exports have increased sharply by 24 %. Rupee has depreciated over 20 % in last 4-5 months, which led to higher export value.

Although, area under crop is estimated to have increased this year (2011-2012 season), unfavorable weather conditions and strong revival in export demand supported rise in prices. Acreage in Gujarat, a largest producer, is estimated to have increased to 2.64 lakh hectares in this season (2011-2012) against normal acreage of 1.25 lakh hectares. However, unfavorable weather conditions like extreme cold condition has threatened crop yields. Initially, production was expected to touch record 35-40 lakh bags (60 kgs per bag), however, with lower yields expectation, production may fall down below earlier expectation.

Exports may remain high at least till next crop, which starts from April in India. Supply from other producing countries like Syria and Turkey is expected to come only from June-July 2012, which may support demand for Indian produce in first half of the year. Current stocks in the domestic market estimated around 7-8 lakh bags, which is normal at this point of time. Jeera prices are expected to remain bullish in 2012 due to expectation of revival in export demand and lower than expected output. These factors may push prices towards Rs26000 per quintal in 2012.

Edible oil seeds: lower global output estimates is supportive for prices

Soy bean and soy oil prices showed moderate gains supported rally towards year end. It remained mostly stable with bearish tone as global markets declined owing economic factors. However, RM seed touched record high of Rs3600 levels towards year end and gained more than 25 %. Global soy bean production for 2011-2012 estimated at 259.22 million tones against 264.18 million tones in previous year. Ending stocks estimated lower at 64.54 million tones. Meanwhile, global edible oil seed complex remained weak in 2011 due to higher output and economic concerns. Soy bean futures at CBOT fell by nearly 15 % in 2011, while soy oil futures fell nearly 12 %. Debt crisis in Europe and slowdown in US led to fall in most of the global commodities during 2011, which also had negative impact on soy bean.

Indian soy bean output estimated at 125.72 lakh tones (Agriculture department) for 2011-2012 season against 126.58 lakh tones in previous year. However, low oil extraction from seed, the output of oil has been affected. As per reports, India has imported about 9 million tons during November – October 2011-2012. Rupee has depreciated by nearly 25 % in last 6 months, which added to import cost of edible oils. The bullish trend is expected to continue to 2012 as well on strong domestic demand and lower global output estimates. Soy bean prices, which are currently trading around Rs2500 levels, are expected to touch Rs3000 per quintal in first half of the year.

Chana: Steady demand, higher MSP is positive for prices

Chana futures gained sharply during June-October 2011 period, a peak demand season for its products. Overall, it gained by 45 % in 2011 to touch record high of Rs3700, however, corrected sharply in November – December. Despite higher output in rabi 2010-2011, which touched record high of 73 lakh tones, prices moved up due to seasonal demand. Prices of other pulses like tur, urad and moong declined in 2011 after hitting record highs in 2010. Sowing of chana has been delayed by few days due to late harvesting of Kharif crops. As per agriculture department data, area under rabi crop (2011-2012) estimated to have increased marginally to 76 lakh hectares and production is estimated to touch 84 lakh tones against previous year output of 74 lakh tones. However, given the bad weather conditions in growing areas, output may not touch record levels.

Demand for chana products remains steady during 4-5 months of the years and supply of fresh crop may keep prices under pressure. However, prices may not fall below Rs2800 in 2012 as MSP has been fixed at this price. In the second half of the year, prices are expected to move and likely to touch Rs4000 per quintal in second half of the year (August – September).

Guar seed complex: Speculative interest is the highest, higher prices may lead to demand slowdown and increased production in 2012

Among agriculture commodities, guar seed was best performing commodity in 2011. It rose by 208 % to touch record high of Rs7420 per quintal in futures market. Guar gum, its product gained as much as 292 % to Rs24631 per quintal. Despite better production in 2010-2011 as well as 2011-2012 seasons, guar seed complex prices moved up sharply due to higher export demand. Guar seed output touched 11.2 lakh tones in 2010-2011 season and estimated at 9.5 lakh tones in 2011-2012 season. Guar gum exports touched record quantity of 4.03 lakh tones in 2010-2011, up by 148 % from previous financial year. As per market sources, India has already exported over 2.5 lakh tones in current financial year. With huge volatility in futures market, exchange has imposed additional and special margin of about 25 % in December month to contain excess volatility.

Guar seed complex is expected to remain firm initially, but expected to correct thereafter as demand may slowdown at higher levels. Price trend in second half of the year depends on sowing and crop output in 2012. Guar seed prices may start falling from Rs 8000 levels and likely to touch Rs 4500-5000 range.

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