COMMODITY MARKET REVIEW 2010

In 2010 a rising trend in commodity prices was witnessed locally and globally. Almost all major commodities ranging from metals to agriculture rose substantially during the year. Commodities remained the focus of investors worldwide due to rising price trend through the year and bullish outlook going forward.

There are a number of factors which are responsible for the current commodity boom. In general, a continuous rise in population is a force behind growing demand for agricultural commodities like wheat, sugar, rice, cotton, vegetable oils etc. Other specific reasons include natural disasters such as drought in Russia and floods in Pakistan that hit hard and reduced harvesting areas. Additionally, steps taken by different Governments like ban on export or increasing tariffs on imports are the forces that create an upward pull in the commodity prices globally.

Similarly, a rise in the prices of gold, silver and other metals can be attributed to a rise in demand due to record growth in the BRIC [Brazil, Russia, India, and China] economies. Another important actor that played important role in the recent upturn in commodities is the European economic crisis and bearish trend of US dollar in 2010. Thus, commodities such as gold have attracted a lot of safe haven demand, meaning that investors do not trust the assets of these countries in times of economic turbulence.

Metals traded higher for much of 2010, especially copper and gold reaching record highs while silver appreciated nearly 81%. Gold continued to shine last year marking its 10th straight positive return. Gold ended the year up 28% at $ 1408.8 a toz.

The recognition of commodities as an asset class is in boom internationally for the last couple of years. This growth is also visible locally now with the National Commodity Exchange Limited coming into action by listing new products within the last two years, adding new members and holding investor awareness programs. The individual investors and commodity funds investment also played a role in the rising trend of commodities. Considering the continued bullish outlook of commodities the investment trend will continue to prevail in the current year.

In energy sector, global oil demand was on track to hit all time high in 2010, growing 2.9% to 87.45 million barrels a day, according to the International Energy Agency. The agency forecasts further expansion in 2011, although at a slower pace, to 88.77 million barrels a day. Prices stayed in a narrow band between $68 and $92 a barrel. Oil ended the year up 15% at $ 91.3 a barrel.

The UN Index, which tracks the wholesale cost of several agricultural commodities including wheat, corn, rice, oilseeds, dairy products, sugar and meat, rose by 32% in the second half of 2010, up from 167 in July to 215 in December, 2010. Similarly the Dow Jones-UBS Commodity index was higher by 16.8% in 2010 after an appreciation of 19% in 2009.

NCEL commodity index rose by 40% during the year 2010 which is based on five commodities Gold, Silver, Crude Oil, Rice and Palm Olein. The following table shows the opening and closing pricing and the percentage rise for these commodities during the year 2010.

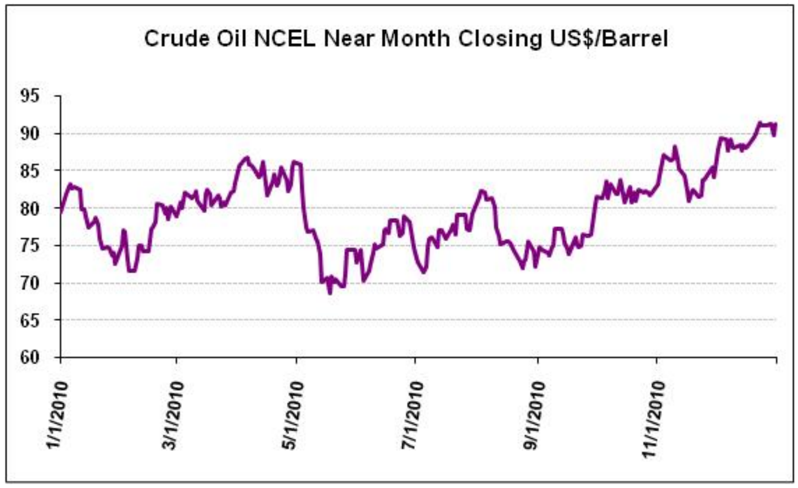
Year - 2010	
GOLD Spot (USD/toz)	
Gold Jan 01, 2010 [$ US]	1097.5
Gold Dec 31, 2010 [$ US]	1408.8
Change	28%
CRUDE OUL Near Month Futures (USD/Barrel)	
Crude Oil Jan 01, 2010 [$ US]	79.5
Crude Oil Dec 31, 2010 [$ US]	91.3
Change	15%
SILVER Near Month Futures (USD/toz)	
Silver Jan 01, 2010 [$ US]	16.99
Silver Dec 31, 2010 [$ US]	30.67
Change	81%
RICE - IRRI-6 Spot (PKR/100 Kg)	
IRRI-6 Jan 01, 2010 [PKR]	2,869
IRRI-6 Dec 31, 2010 [PKR]	3,375
Change	18%
PALM OLEIN Spot (PKR/Maund = 37.324 Kg)	
Palm Olein Jan 04, 2010 [PKR]	3,630
Palm Olein Dec 31, 2010 [PKR]	5,225
Change	44%

GOLD

Gold opened at $ 1097.5/toz a little below to $ 1100/toz in the year 2010 and closed at $ 1408.8/toz after witnessing a record of $ 1421.1 per troy ounce. A noteworthy 28% return is the yield over the year.

CRUDE OIL

Robust demand from emerging countries was tempered by record high stockpiles in developed nations. Larger economic forces were the main drivers for prices. Prices stayed in a narrow band between $68 and $92 a barrel. Oil ended the year up 15% at $ 91.3 a barrel.

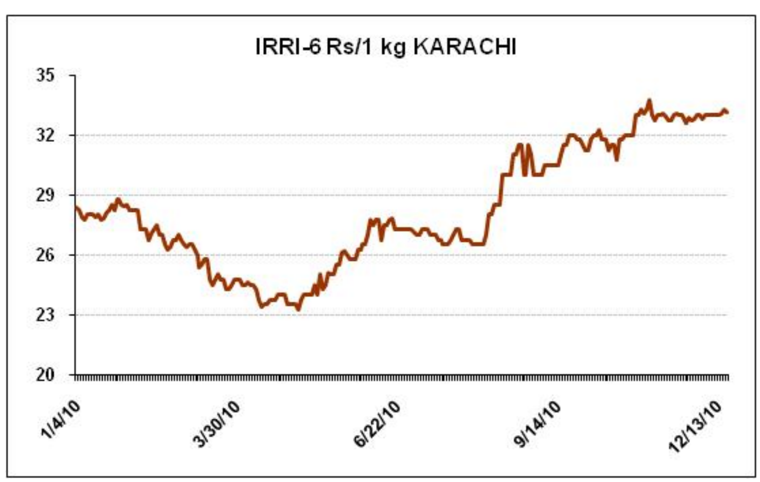


SILVER

The silver market is relatively small in size $ 19 billion, compared with $ 170 billion for gold. But of all the precious metals, silver's surge came as a big surprise, which gained 81% to $ 30.67 a troy ounce. Silver traded to a 30-year high approaching $ 30/toz in the year 2010.

IRRI-6

A mixed trend has been witnessed here in domestic markets for rice, IRRI-6 ended the year up 18% at PKR 3375/100 kg. Local

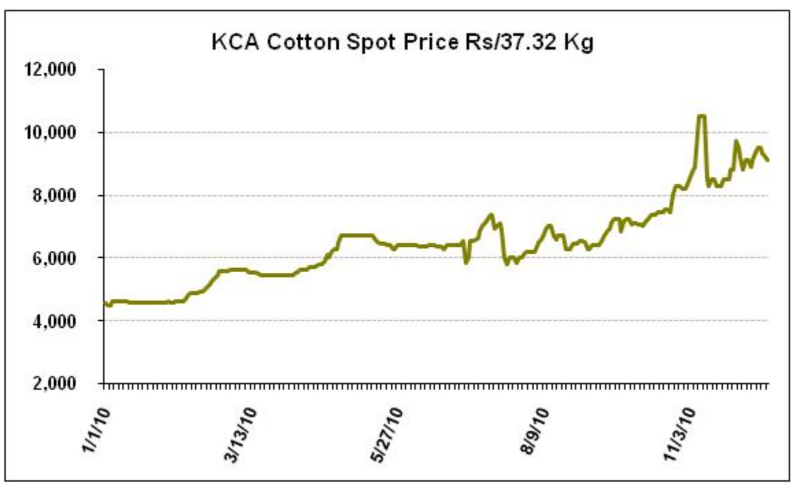


prices rose primarily due to the crop damage by floods. As Rice IRRI-6 is mostly exported the international price trend also caused the increase in the local prices.

Palm Olein\Palm Oil

Malaysian crude palm oil hit a new 33-month high as robust demand chases, tightening supplies and investors continue to place bets on commodities after a strong performance last year. Malaysian crude palm oil rose by 42.2% in 2010. As a result the Palm Olein, derived from crude palm oil also rose by 44% in the local market and ended up at PKR 5225/37.324 kg.

COTTON



Cotton prices in NY have doubled since the beginning of 2010, soaring to a record high of $1.59 per pound, before dropping back to $1.48 per pound, as tight supplies and insatiable demand from China sent prices surging. Over the year, cotton prices have risen 54.22 percent over their close in 2008. In domestic markets cotton prices closed near Rs 9100/37.32 kg on the year end after getting historic peak of Rs. 10,500 /37.32 kg.

Commodities as an asset class is now equal in importance to other traditional markets like stocks, bonds and currencies. The current shift in global economics has placed commodities at the centre-stage in terms of world growth. As such, it has become imperative for participants in all sectors to keep themselves aware of happenings in the commodities world as it now increasingly affects all other areas of economic activity. There will always be periods of unanticipated volatility. Commodity futures offer insurance against these events.

In Pakistan, National Commodity Exchange Limited (NCEL) is the only SECP regulated electronic futures trading platform which offers commodity investment options. NCEL is offering an avenue where growers, producers, processors, traders, exporters, importers and investors can hedge themselves against the soaring prices of agriculture and non-agriculture commodities.

Currently, there are five commodities: Gold, Silver, Crude Oil, Rice and Palm Olein are available for trading. In order to cater the needs of different market participants, NCEL provides different contracts in each commodity in terms of lot size and tenor.

NCEL has achieved remarkable growth in 2010 with total traded volumes of approximately Rs 185 billion. The total volume last year was Rs 28 billion, which translates into an increase of 660 % in traded volumes over previous year. NCEL's increasing growth is coming about as a result of newer products, low transaction costs, tight spreads, deep liquidity, growing membership and efficient systems that make it very easy for brokers and their clients to transact and manage their trades.

Sugar, Cotton, Wheat, Maize, Steel and international currency pairs are expected to be made available for trading in the current year. The addition of new commodities will provide further depth to the market and as well as creating new opportunities for trading and hedging strategies.

PMEX Research Team

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