

COMMODITY MARKET REVIEW – 2011



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Commodities remained the focus of investors worldwide with question marks hanging over the investment risks in international currency and stock markets. However, in 2011 a downward trend in commodity prices was witnessed locally and globally. Commodities posted the first annual drop since 2008, paced by declines in cotton, copper and cocoa, on concern that the sovereign-debt crisis in Europe and a cooling Chinese economy will sap demand for raw materials.

Bumper crops coupled with slowing demand and a stronger US dollar also weighed on prices of most commodities especially in the 2nd half of the year.

Gold the standout performer, which set a record peak US \$ 1,900 per t Oz in September as investors rushed to snap up the precious metal that is considered as a safe haven in times of economic uncertainty.

Oil also finished the year in encouraging as the market was lifted by unrest in the oil-producing Middle East and North Africa region.

The U.N. Food and Agriculture Organization said its food price index dropped 27 points from its high in February to 211 in December. But the average for the year was 228, the highest since the index was created in 1990.

The Dow Jones-UBS Commodity Index ended 2011 down 13.37%. The Dow Jones-UBS Single Commodity Indexes for gas oil, orange juice and Brent crude had the strongest gains producing year-end returns of 19.41%, 18.75%, and 16.77%, respectively. The three most significant downside performing single commodity indexes in 2011 were cocoa, wheat and natural gas, which ended the year down 32.41%, 34.02% and 47.13% respectively.

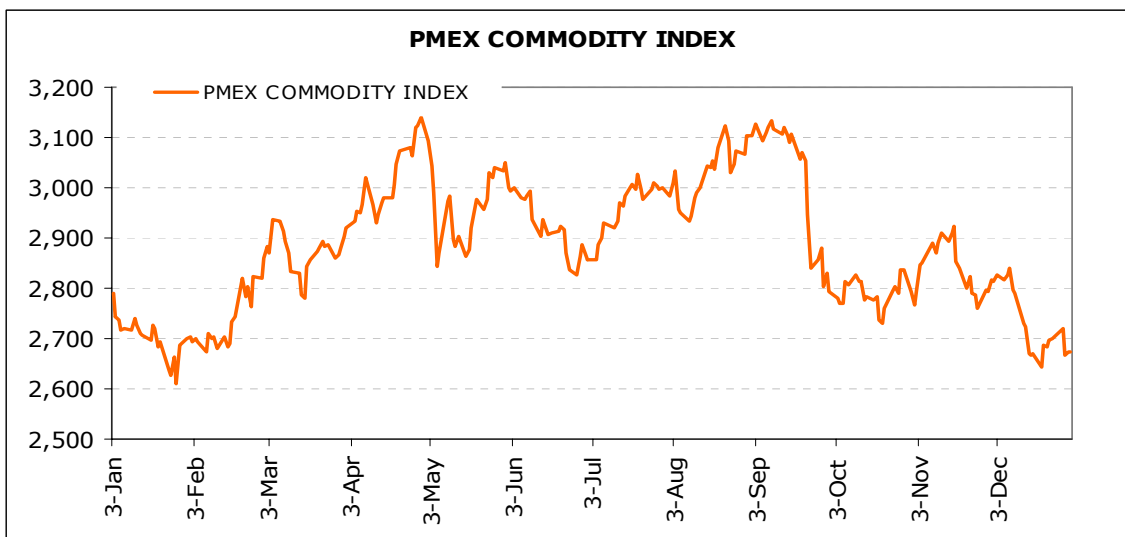
However, despite the steady decline in prices during the second half of the year, the FAO Food Price Index (FFPI) averaged 228 points in 2011, 23 percent (42 points) more than in

2010, exceeding the previous high of 200 points in 2008 and the highest level (in both nominal and real terms) since FAO started measuring international food prices beginning in 1990.

Nationally, In the backdrop of withdrawal of subsidy on agriculture inputs, levy of General Sales Tax (GST) on electricity, the year 2011 was ‘difficult’ for agriculture sector in general and the growers in particular. Due to these factors, not only input cost rose to 35-percent but at the same time produce price of some of the major crops such as cotton, rice and sugarcane dropped by 25-percent.

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 Pakistan Mercantile Exchange (formerly National Commodity Exchange Limited) coming into action by listing new products within the last three 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. The entry of new financial investors has paved the way for the “financialization of commodities”. Consequently, global commodity markets have become more sensitive to portfolio rebalancing by financial investors, which has made commodity markets more correlated with other asset markets, including major equity markets.

PMEX commodity index decreased by 4.21% during the year 2011 which is based on six commodities Gold, Silver, Crude Oil, Rice, Sugar and Palm Olein.

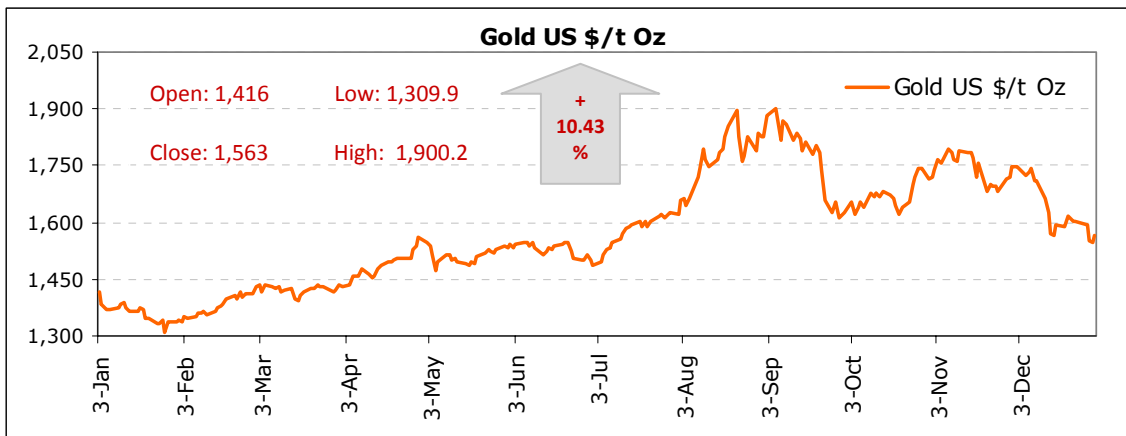


The following table shows the opening and closing pricing and the percentage rise for these commodities during the year 2011.

Year - 2011	
VOLUME & VALUE	
Total Contracts Traded in all commodities	2,898,560
Traded Value in PKRS	802,118,899,940
Year on Year Change (Value)	435%
PMEX COMMODITY INDEX	
PMEX Commodity Index Jan 03, 2011	2,790
PMEX Commodity Index Dec 30,2011	2,673
Change	-4.19%
GOLD Spot (USD/toz)	
Gold Jan 03, 2011 [\$ US]	1416
Gold Dec 30, 2011 [\$ US]	1563.7
Change	10.43%
CRUDE OIL Near Month Futures (USD/Barrel)	
Crude Oil Jan 03, 2011 [\$ US]	91.63
Crude Oil Dec 30, 2011 [\$ US]	98.99
Change	8.03%
SILVER Near Month Futures (USD/toz)	
Silver Jan 03, 2011 [\$ US]	30.69
Silver Dec 30, 2011 [\$ US]	27.65
Change	-9.91%
RICE - IRRI-6 Spot (PKR/100 Kg)	
IRRI-6 Jan 03, 2011 [PKR]	3,450
IRRI-6 Dec 30, 2011 [PKR]	2,925
Change	-15.22%
PALM OLEIN Spot (PKR/Maund = 37.324 Kg)	
Palm Olein Jan 03, 2011 [PKR]	5,350
Palm Olein Dec 30, 2011 [PKR]	4,730
Change	-11.59%
Sugar(PKR/ Kg)	
Sugar July 01, 2011 [PKR]	67.40
Sugar Dec 30, 2011 [PKR]	47.50
Change	-29.53%

GOLD

The precious yellow metal gained nearly 10 % this year despite a last quarter dip and a steep decline from September's ever highest hit of \$1900 an ounce. Its smallest annual rise in three years. It remains down 18 percent from a record \$1,900.2 set in September, and finished the fourth quarter with its first quarterly loss in more than three years. Analysts said a rebound rally is possible in the near term but gold is far from retesting all-time highs.

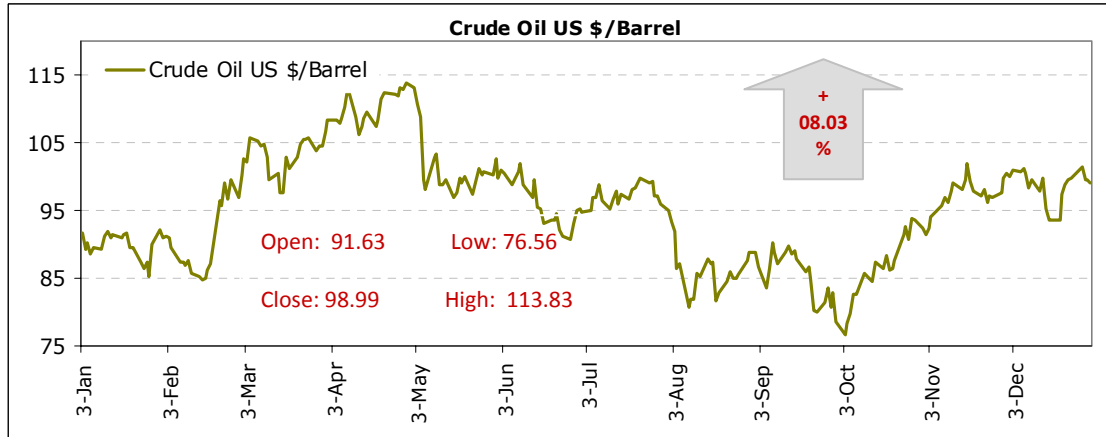


At PMEX, gold Prices fluctuated between \$ 1309.9 – 1900.2 per ounce in the year, 2011. Where as traded volumes at the Exchange increased to Rs. 581 bn from Rs. 137 bn in the correspondence period of previous year, a growth of 324 %.

CRUDE OIL

Oil prices ended 2011 up 8 percent as a fresh wave of supply concerns capped a year of unrest and disruptions in North Africa and the Middle East that overwhelmed concerns about the economic health of large consuming nations.

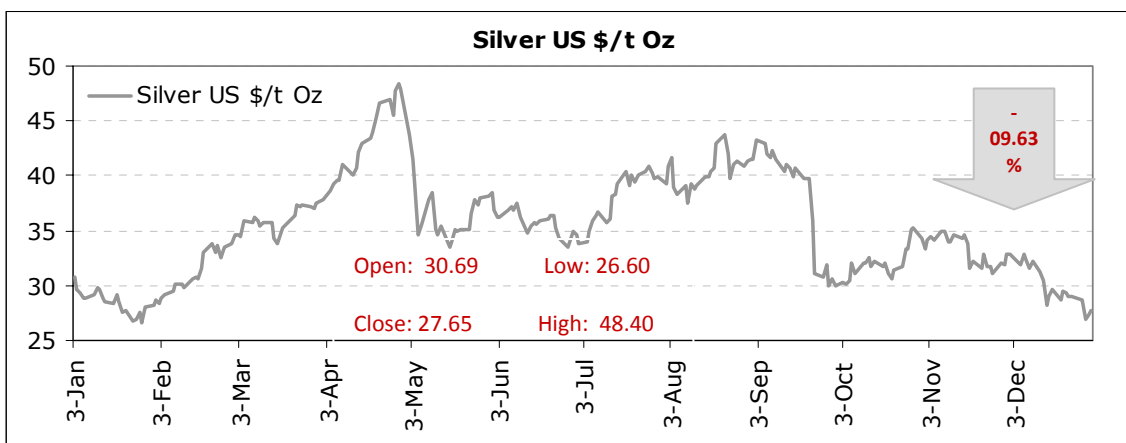
Crude Oil price fell from \$ 113.83 the highest in the month of April to its lowest \$ 76.56 a barrel in the month of October. Crude recovered in last quarter of the year.



During 2011, the traded volumes at the Exchange increased to Rs. 98 bn from Rs. 29.3 bn in the correspondence period of previous year, a growth of 234 %.

SILVER

Silver logged its first annual loss in three years on Friday, backtracking from a near-doubling in price during 2010, as worries about the global economy and a recent slide in gold hurt demand. Silver shattered almost 10% over the year of 2011. A continuous growth has been witnessed in the first quarter of year.



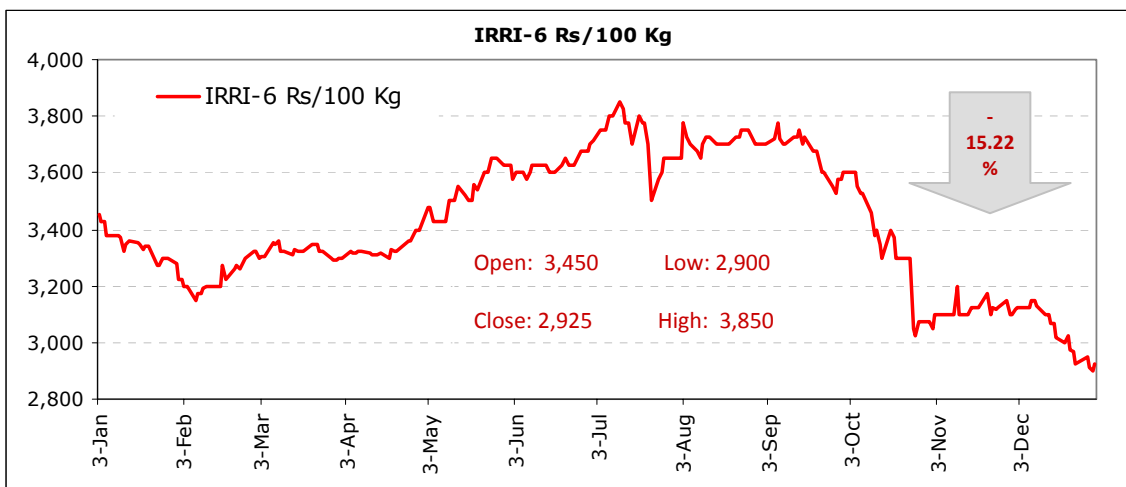
Silver prices peaked near \$50 in late April. In the following months, it was a bumpy ride as markets were driven more by euro zone headlines than fundamentals. Silver experienced a sharp sell-off in September, but found support near \$26 per ounce.

Silver Prices fluctuated between \$ 26.60 – 48.40 per ounce in the year, 2011.

During 2011, the traded volumes at the Exchange increased to Rs. 123 bn from Rs. 17.2 bn in the correspondence month previous year, a growth of 612 %.

IRRI-6

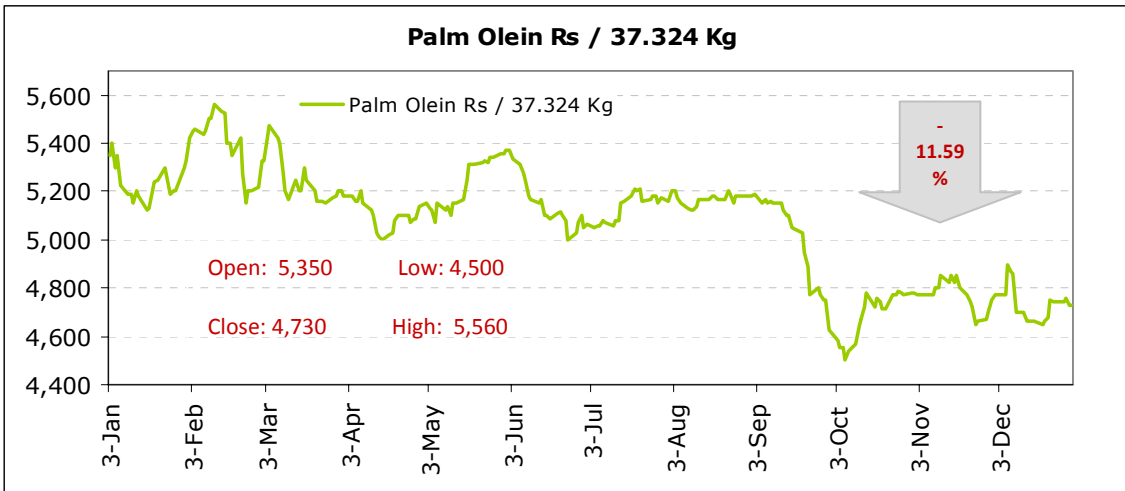
In domestic market a downward trend in prices has been witnessed in last quarter of the year, 2011. Price movement remained in a bit wider band, Maximum price was Rs 3,850 per 100 Kg in July and Minimum price was Rs 2,900 per 100 kg on 2nd last trading day of December. A drop of 15.22 % has been observed over the year 2011.



Palm Olein\Palm Oil

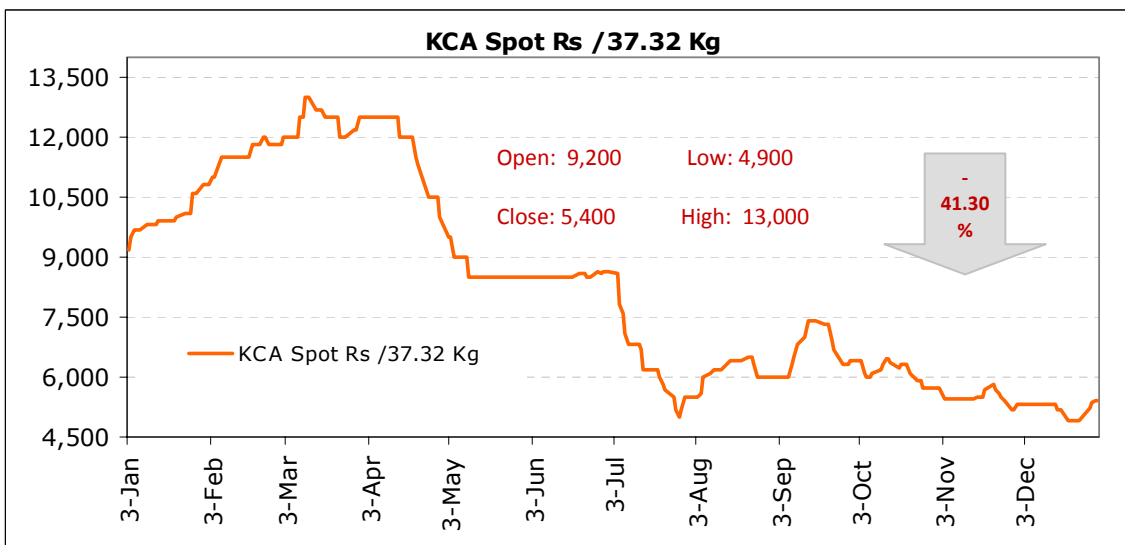
In international market, despite the rise, palm oil posted its first annual decline since 2008. It lost more than 16 percent this year, a performance that pales in comparison to the 42 percent gain in 2010.

In domestic market, a downward trend in prices has been witnessed over the year, 2011. Max price Rs 5,560 was in the month of February where Min price was Rs. 4,500 per 37.324 kg noticed in the month of October. A drop of 11.59 % has been observed in prices in 2011.



COTTON

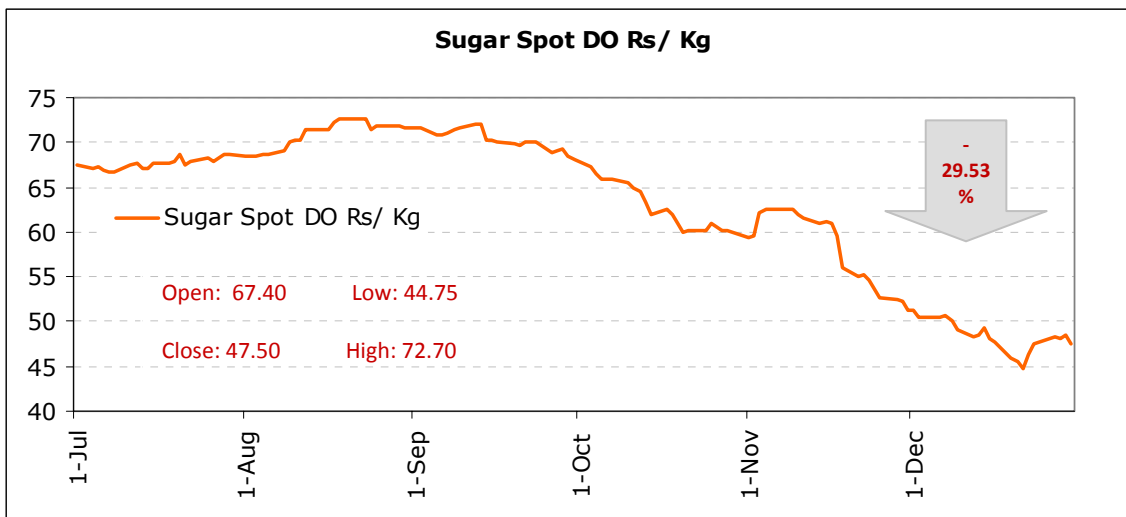
Cotton prices have drastically dropped since the beginning of 2011, soaring to a record high of Rs 13,000 per 37.32 kg, before dropping back to Rs 4,900 per 37.32 kg. Over the year, cotton prices have slumped by 41.30 percent over their close in 2010. In domestic markets cotton prices closed near Rs 5,400/37.32 kg.



SUGAR

Declining sugar prices have provided immense financial relief to consumers this year. This mainly because of the bumper sugarcane crop over the year of 2010-11 and same is for the year 2011-12. PSMA sources said that about 0.8 million tons sugar would be surplus in the country after meeting the country's full next year's requirement

Prices remained on the downside for the fourth straight month where prices slashed by 29.53 % since July, 2011. Sugar opened at Rs 67.40 /kg on July 1, 2011 and closed at Rs. 47.50 /kg on last trading day of year 2011.



Global commodity markets have become more sensitive to portfolio rebalancing by financial investors, which has made commodity markets more correlated with other asset markets, including major equity markets. 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, Pakistan Mercantile Exchange (formerly National Commodity Exchange Limited - NCEL) is the only SECP regulated electronic futures trading platform which offers commodity investment options. PMEX 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 six commodities: Gold, Silver, Crude Oil, Rice, Sugar and Palm Olein are available for trading. In order to cater the needs of different market participants, PMEX provides different contracts in each commodity in terms of lot size and tenor.

PMEX has achieved remarkable growth in 2011 with total traded volumes of approximately Rs 802 billion. The total volume last year was Rs 184 billion, which translates into an increase of 435 % in traded volumes over previous year. PMEX'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.

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.

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