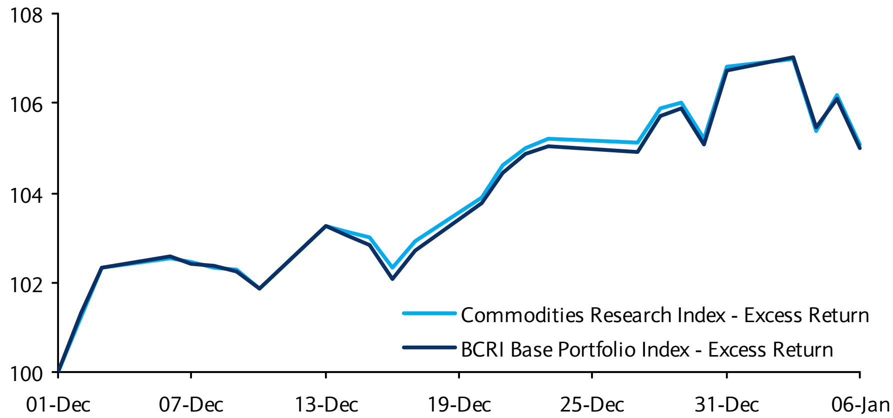
BARCLAYS CAPITAL COMMODITIES RESEARCH RANKINGS – JANUARY 2011

- The Barclays Capital Commodity Research Index (BCRI), launched at the start of December, gained 9.7% on the month, outperforming the neutral portfolio by 0.1%.
- Agriculture was the strongest performing commodity sector in December due to a combination of factors including weather disruptions and strong emerging market demand. We believe agriculture will continue to outperform other commodity sectors in January and consequently we are overweighting this sector relative to all others.
- Within the agriculture sector, corn remains our favoured exposure. Corn continues to benefit from a combination of highly supportive fundamentals: tight supply and low stocks, record-high US ethanol production, weather disruptions linked to the effects of La Nina on Southern Hemisphere crops, and strong Chinese imports.
- Base metals fundamentals look the strongest after agriculture. They are the commodities most exposed to economic recovery and we expect the sector as a whole to benefit from emerging market growth and strong construction in China, whilst copper and tin will receive extra support from exceptionally tight supplies.
- Within the energy sector, while we remain positive on crude oil market fundamentals, with the upside surprise in global oil demand continuing, the pace of non-OPEC supply growth slowly reducing and the rapid erosion of inventories continuing apace, prices have already risen strongly over the course of the past month. At these levels, while we think downside risk is small, the upside also looks limited for the next month and prices are likely to be in consolidation mode, in our view.

Figure 1: BCRI performance in December



Source: Barclays Capital

For up-to-date index performance, please refer to the *Barclays Capital Commodity Research Index*, located on the Indices page of Barclays Capital Live.

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BCRI performance review

The Barclays Capital Commodity Research Index produced an excess return of 9.7% in December, outperforming the neutral portfolio by 0.1%.

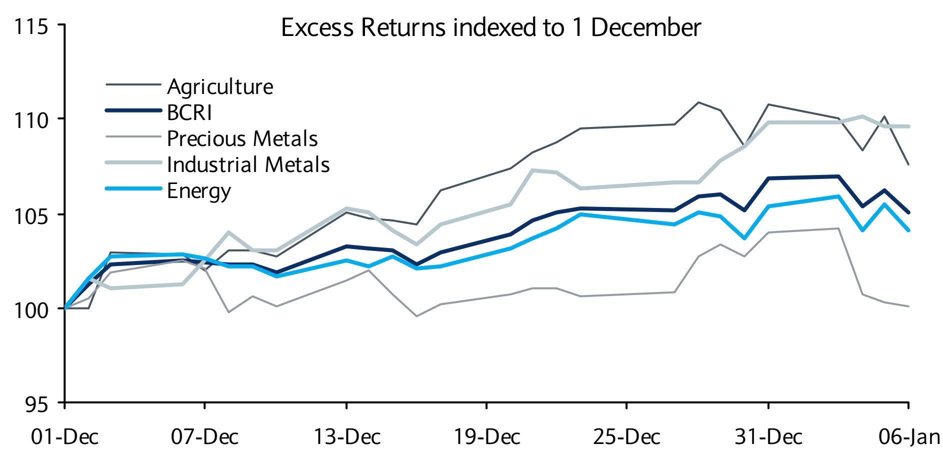
Figure 2: BCRI performance statistics

	Date	Index	month-to-date	quarter-to-date	year-to-date	start of data
Commodities Research Index ER	06-Jan-11	112.2	-1.6%	-1.6%	-1.6%	5.1%
BCRI Base Portfolio ER	06-Jan-11	111.9	-1.6%	-1.6%	-1.6%	5.0%
Sub Indices						
BCRI Energy ER	06-Jan-11	108.3	-1.1%	-1.1%	-1.1%	4.1%
BCRI Base metals ER	06-Jan-11	112.3	-0.3%	-0.3%	-0.3%	9.6%
BCRI precious Metals ER	06-Jan-11	108.9	-3.8%	-3.8%	-3.8%	0.1%
BCRI Agriculture ER	06-Jan-11	127.3	-2.9%	-2.9%	-2.9%	7.5%

Source: Barclays Capital

The performance was led by agriculture and base metals. Last month we ranked the energy sector highest on the back of highly supportive fundamentals. In December, it was the third best performing sector, gaining 8.5%, led by Brent crude (10.3%), heating oil (9.8%) and gasoline (8.3%). Agriculture was the best performing sector this time round, with an excess return of 15.2%. Across the agricultural sector, corn was – and still is – our favoured exposure; it gained a healthy 18.7% in December. We also assigned a ranking of 4 – signalling very supportive fundamentals – to soybeans, wheat and cotton (for more details see our *December rankings*) and those crops performed strongly, gaining 12.1%, 22.1% and 14.7%, respectively. The top agricultural performer in December was wheat, while cocoa lagged behind with 9.5%. Within the base metals sector (12.7%), we were most positive on copper and tin, which performed strongly in December gaining 14.8% and 9.8%, respectively. Nonetheless, zinc (16.2%) was the top performer and nickel (7.4%) the worst. Finally, within the precious metals sector, which was the weakest overall (4.6%), we ranked gold the highest and were less positive on platinum. Palladium (15%) was the strongest performer in December, while gold was the weakest performer gaining 2.5%.

Figure 3: BCRI performance by sector



Source: Barclays Capital

January 2011 rankings

The Barclays Capital Commodity research rankings reflect individual sector and market analyst views on the relative strength of fundamentals for each commodity. A ranking of five signifies a very strong market and one a very weak market. For a more detailed explanation of the ranking methodology see our report: *Launching the Barclays Capital Commodities Research Rankings*, 2 December 2010, where we explain how these rankings are used in the under/overweighting of commodities within the BCRI, relative to the neutral portfolio.

The January rankings by commodity market and sector are shown below.

Figure 4: Individual commodity market rankings

Commodity	Sector	Ranking	Front End
Aluminium	Base Metals	4	TRUE
Copper	Base Metals	5	TRUE
Nickel	Base Metals	4	TRUE
Zinc	Base Metals	3	TRUE
Lead	Base Metals	4	TRUE
Tin	Base Metals	5	TRUE
WTI Crude	Energy	3	TRUE
Brent Crude	Energy	3	TRUE
Gas Oil	Energy	4	TRUE
Heating Oil	Energy	4	TRUE
Unleaded Gasoline	Energy	3	TRUE
Natural Gas	Energy	2	FALSE
Carbon EUA	Energy	3	N/A
Carbon CER	Energy	3	N/A
Gold	Precious Metals	4	N/A
Silver	Precious Metals	3	N/A
Palladium	Precious Metals	4	N/A
Platinum	Precious Metals	2	N/A
Coffee	Agriculture	4	N/A
Cotton	Agriculture	4	N/A
Sugar	Agriculture	4	N/A
Cocoa	Agriculture	3	N/A
Corn	Agriculture	5	N/A
Soybeans	Agriculture	4	N/A
Wheat	Agriculture	4	N/A

Note: The default position for all the commodities being ranked is at the front end of the curve which is represented with TRUE. Alternatively, for each of the base metals and for each energy commodity excluding carbon, the analyst is able to select a forward deferred position, represented by FALSE. For each commodity the deferred position represents a rolling 6-month forward exposure, with the exception of US natural gas where the forward position refers to the next December point on the forward curve, with that position rolling forward to the next December position in October.
Source: Barclays Capital

Figure 5: Sector rankings

Sectors	Ranking
Base Metals	4
Energy	3
Precious Metals	3
Agriculture	5

Source: Barclays Capital

January 2011 rankings commentary

Sector ranking – Agriculture has been the strongest performing commodity sector recently with a combination of factors, from bad weather to strong emerging market demand and economic recovery, all proving highly supportive to fundamentals. In the short term, agricultural market fundamentals still look the strongest of all commodity sectors and consequently we rank this sector above all others at 5. Base metals are the commodities most exposed to economic recovery and we expect this sector as a whole to benefit, particularly from emerging market growth and strong construction in China, whilst copper and tin will receive extra support from exceptionally tight supplies. Consequently we have ranked the base metals sector 4.

Energy – Within the energy sector, while we remain positive on crude oil market fundamentals, with the upside surprise in global oil demand continuing, the pace of non-OPEC supply growth slowly reducing and the rapid erosion of inventories continuing apace, prices have already risen strongly over the course of the past month. At these levels, while we think downside is limited, significant upside is unlikely too for the next month and prices are likely to be in consolidation mode. In product markets, we favour heating oil and gasoil, as colder-than-usual temperatures should support seasonal demand; with inventories having run down, the strong cyclical demand growth from an expanding economy should also bode well for diesel prices. We are neutral on European carbon markets at present and negative on natural gas. In US natural gas markets, inventories are still comfortable; production is a lot higher y/y and there is also "spare capacity" in the form of wells that have been drilled but not completed. However, winter weather has been supportive for gas thus far and forecasts point to continued cold over the next few weeks.

Agriculture – Corn is our favoured exposure across the agricultural sector with a slew of supportive fundamentals. US corn supplies have tightened materially on lowered yields, stocks remain very tight and ethanol production has set a series of record highs. Concerns have surfaced over the impact of La Nina on Southern Hemisphere crops, while China has stayed a net corn importer for the past six months. Worsening flood conditions in Eastern Australia tightened spot availability in the wheat market, especially as transportation of product is impeded by the floods. Soybeans' supply outlook has also been affected by dry weather in Argentina and, coupled with record high Chinese import demand for 2010, will be well supported. We are also positive on cotton: supplies are tight, stocks relative to use are at their lowest in over a decade and a half, and export quotas limit India's exports. Sugar fundamentals are positive with low stocks and strong demand, but increased Indian exports could weaken the picture. We are also neutral on cocoa as supply concerns relating to the political impasse post-elections in the Ivory Coast appear to have eased as cocoa exports continued apace despite the political uncertainty. While we had been less positive on coffee, poor weather in Brazil and parts of Central America tightened global supply, resulting in a near 20% reduction in production in Brazil, while world stock levels fell 30% in the last marketing year. Although production is forecast to recover, much lower stock levels leave a much reduced buffer against the impact of adverse weather on production.

Base Metals – Industrial metals have been one of the strongest performing commodity sectors recently with copper leading the way, driven by improving demand, the ongoing economic recovery and tightening market balances. This is reflected in a narrowing of nearby spreads with half of the base metals now trading in backwardation. The launch of physically-backed base metals exchange traded funds could also add to market tightness, though so far take-up has been muted. Copper fundamentals still appear the tightest of all the base metals with supply underperforming and Chinese import demand likely to pick up again before long. Lead fundamentals could receive a temporary boost from seasonal demand resulting from extreme weather in some parts of the northern hemisphere, whilst aluminium is supported by weaker output growth provided Chinese production cuts remain in place. Zinc is on much weaker ground with the market returning to surplus.

Precious Metals – Across the precious metals we remain most positive on gold in the near term as a clouded macro environment and growing uncertainty surrounding currency debasement and medium-term inflation fears stoke investor appetite for a portfolio diversifier and a safe haven. Gold supply from central banks remains subdued, while physical demand continues to materialise on price dips. Slower Russian shipments and strong investment demand have tightened the palladium market and concerns surrounding a slowdown in China's gasoline-biased auto market look overdone to us. While, in comparison, sister metal platinum, looks set to trek higher slowly as fundamentals remain constructive; however, it could be squeezed if power supply is curtailed or industrial unrest impacts production. Although silver retains the weakest fundamental outlook, in our view, in light of growing mine supply outpacing growth in industrial demand, the metal's fortunes rests with investment demand to plug the gap. For now that demand is positive but if it slows prices could correct sharply.

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