

## **Industry Commentary February 2011**

### **Dow Jones-UBS Commodity Indexes In February: Down Slightly Despite Geopolitical Concerns**

By Christine Marie Nielsen

The Dow Jones-UBS Commodity Index was down 0.62% for the month of February. Geopolitical concerns – particularly regarding unrest in the Middle East and North Africa - in addition to other supply and demand concerns, drove market activity. The three most significant downside performing single commodity indexes in February were natural gas, sugar and crude oil, which were down 12.53%, 11.10%, and 6.60% respectively.

Somewhat warmer-than-expected temperatures during some of the month in major U.S. gas-heating markets in the U.S. Northeast and Midwest weighed on the natural gas market. Not even a bullish midmonth U.S. Energy Information Administration (EIA) inventory release could arrest downward momentum in contracts. According to EIA, working gas in storage was 1,911 billion cubic feet (bcf) as of Friday, February 11, 2011. This represented a net decline of 233 bcf from the previous week. Stocks were 141 bcf less than last year at this time and 128 bcf below the 5-year average of 2,039 bcf.

The focus in the sugar market was largely on major producer Brazil, where the new sugarcane harvest starts in March. Estimates indicated that sugar production in Brazil's main growing region, the Center-South - accounting for about 90% of total output - would rise to 35 million tons. According to a research report released by Commerzbank analysts Feb. 21, the sugarcane acreage has "already been expanded in past years and this trend is set to continue. However, growth is anticipated especially from the higher percentage of sugarcane processed to sugar rather than ethanol, while efforts will be required to reverse the decline in productivity." Supply is also expected to rise in other major producing countries. The National Federation of Cooperative Sugar Factories in India expects a further rise of at least 5% on the current strong yield of about 25 million tons, after significant acreage expansion. Also noted in the Commerzbank report was that Thailand's Cane and Sugar Board expects a record crop in the world's third-largest exporting country. Sugar trader Kingsman SA anticipated a market oversupply of 5.6 million tons from April to March.

Constructive fundamental data releases, along with fears of supply shortages due to ongoing political tensions in the Middle East and North Africa, supported crude oil prices; however, West Texas Intermediate (WTI) crude oil continued to lose ground under pressure from perceptions of Cushing, Oklahoma; inventories (where up to 10% of the total U.S. crude inventory exists) filling up and the WTI-Brent Crude Oil differential widened to record levels, according to a Feb. 18 Barclays Capital Commodities Research report.

The Dow Jones-UBS Single Commodity Indexes for cotton, silver and coffee, had the strongest gains with month-to-date returns of 17.59%, 14.52%, and 10.53%, respectively.

Cotton rose to a fresh all-time high of about \$2 a pound on Feb. 17 amid a continued global shortage of the fiber. Global cotton stocks were expected to fall to their lowest levels in 15 years.

And, as investors increasingly sought a “safe haven” amid the growing unrest in the Middle East-North Africa region, they moved into precious metals. Net long positions in silver reached their highest level since early November 2010. Following in gold’s footsteps, silver also had high physical demand; however, while gold neared historical resistance on charts, no major resistance was in sight for silver.

Mid-month, Arabica futures in New York set a fresh 13-1/2-year high near the 260 cents/lb level on thin supplies. Demand for coffee continued to grow in emerging markets. It’s anticipated that as coffee consumption increases in top coffee producing country Brazil, its strong harvest this season could be followed by a smaller, off-cycle crop, and this may decrease supplies.

Year to date, the Dow Jones-UBS Commodity Index is up 0.36% with the Dow Jones-UBS Cotton Sub-Index posting the highest gain of 36.78% so far in 2011.

Dow Jones-UBS Natural Gas Sub-Index has the most significant downside year-to-date performance, down 12.57%. In its monthly Short-Term Energy Outlook report EIA estimated that natural gas working inventories ended January 2011 at 2.3 trillion cubic feet, about 30 billion cubic feet, or 1 percent, below the 2010 end-of-January level. Inventories are expected to remain high, however, through 2011.

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