

Private and confidential

# Global Markets

## Commodities

South Africa

August 2012



## Contents

### Case for investing in commodities

## Commodities as an asset class

### Advantages of commodity markets

- Commodity markets trade globally
  - Enhanced liquidity
  - Information priced in quickly
- Commodity markets often move in the opposite direction to fixed income securities and equities
  - Diversification benefit in portfolio
- Commodity markets are thought to offer protection against inflation
  - Not perfect, but superior to other asset classes

### Asset class criteria

Criterion	Commodities
Homogeneity within asset class	√
Mutually exclusive	√
Diversifying	√
Liquidity	√
Non-zero positive returns	√

Source: Standard Bank Research

## Commodities as an asset class

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### Main applications

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#### Gold

- Medium of monetary exchange – investors
- Jewellery
- Medicine/Medical applications/Dentistry – Large pharmaceuticals
- Electronics, wiring, connectors - Electronic companies like LG, Nokia, Sony

#### PGM's

- Medium of monetary exchange – investors
- Autocatalytic converters – auto makers
- Jewellery
- Chemical manufacturer – Celanese, Bayer Ag,
- Electronic capacitors – Cell phone companies e.g. Nokia
- Petroleum – BP, Citgo, Shell (used in catalysts)
- Electronic storage - CD's, microchip manufacturers e.g. Cisco
- Liquid crystal displays (LCD's), high quality glass – LG, Sony, Siemens
- Recyclers

#### Silver

- Medium of monetary exchange – investors
- Jewellery and silverware
- Dentistry - Large pharmaceuticals
- Photography - Panasonic, Sony, Canon, AGFA etc
- Catalyst Manufacturer – Criterion
- Mirrors and optics – Owens Corning

#### Oil

- About 20 gallons of gasoline from 1 barrel oil
- Fuel, plastic, paints, detergents, fertilizers, lubricants
- USA biggest consumer, daily consumption passes 19,5 million barrels with China catching up
- Oil with coal and natural gas supply about 88 % of the world's energy needs
- Saudi Arabia 1st oil reserves of 262, 600 m barrels. Venezuela 2nd 211,200 m barrels. Africa – Libya(9) 46,420 m, Nigeria (10) 37,200 m, Algeria (16) 12,200m and Angola (18) 9,500 m.

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## Commodities as an asset class

## Case for investing in commodities

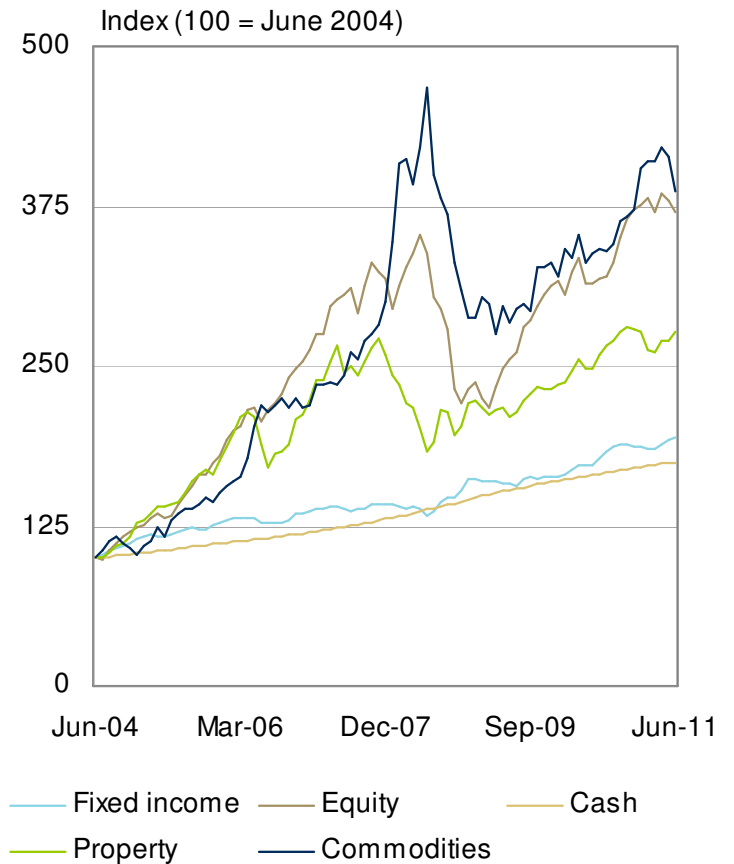
## Correlation across asset classes

(June 2005 to June 2011)

	Commodities
Fixed income	-0.61
Equity	0.52
Cash	-0.40
Property	0.05

Source: Standard Bank Research; Bloomberg

## South African asset class performance

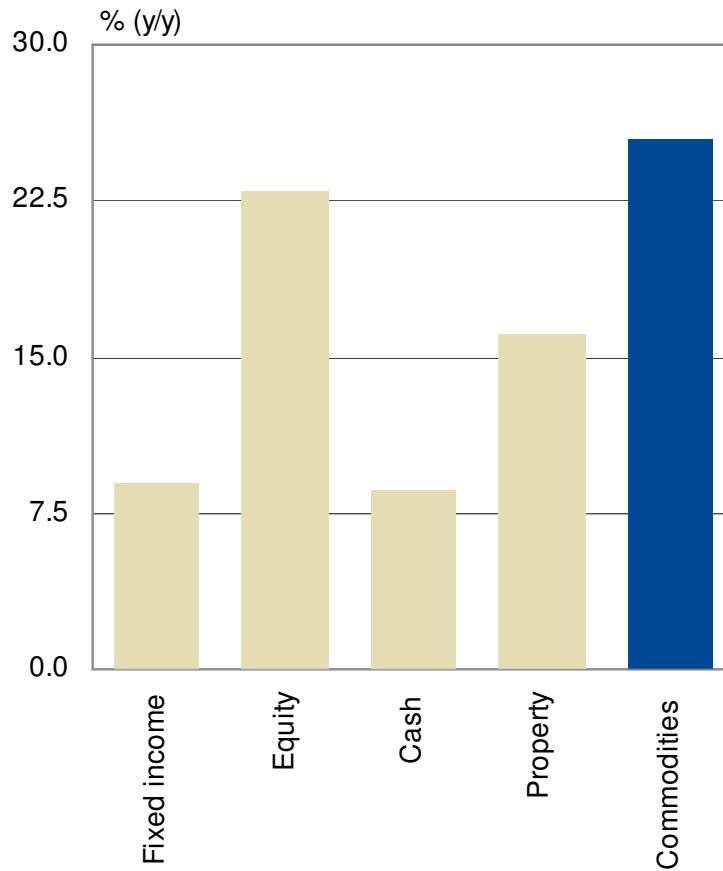


Sources: Bloomberg; JSE

## Commodities as an asset class

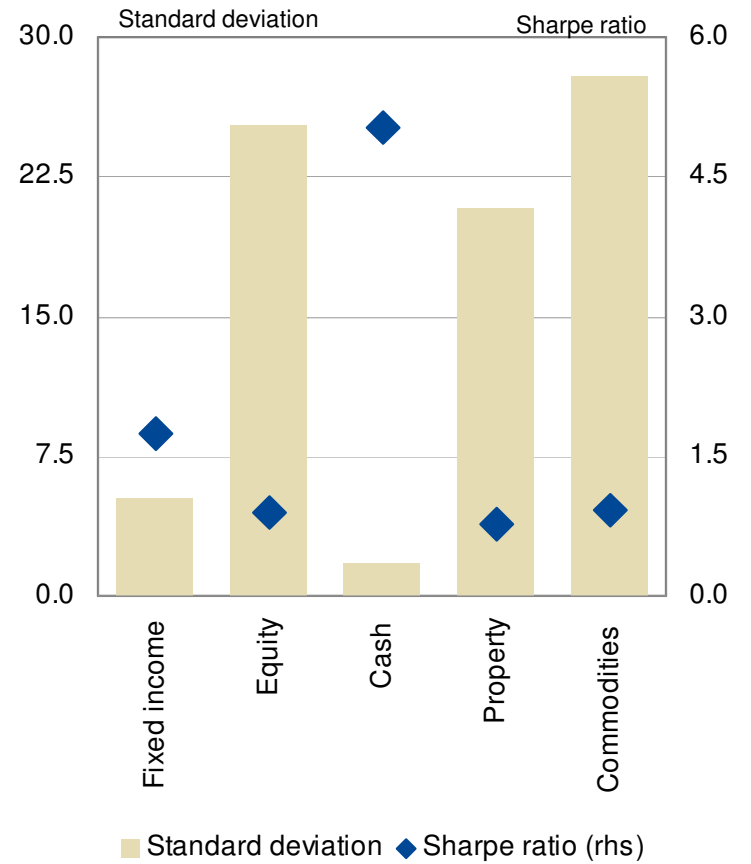
Case for investing in commodities

### Average returns (June 2005 to June 2011)



Sources: Standard Bank Research; Bloomberg

### Risk and return trade-off of asset classes



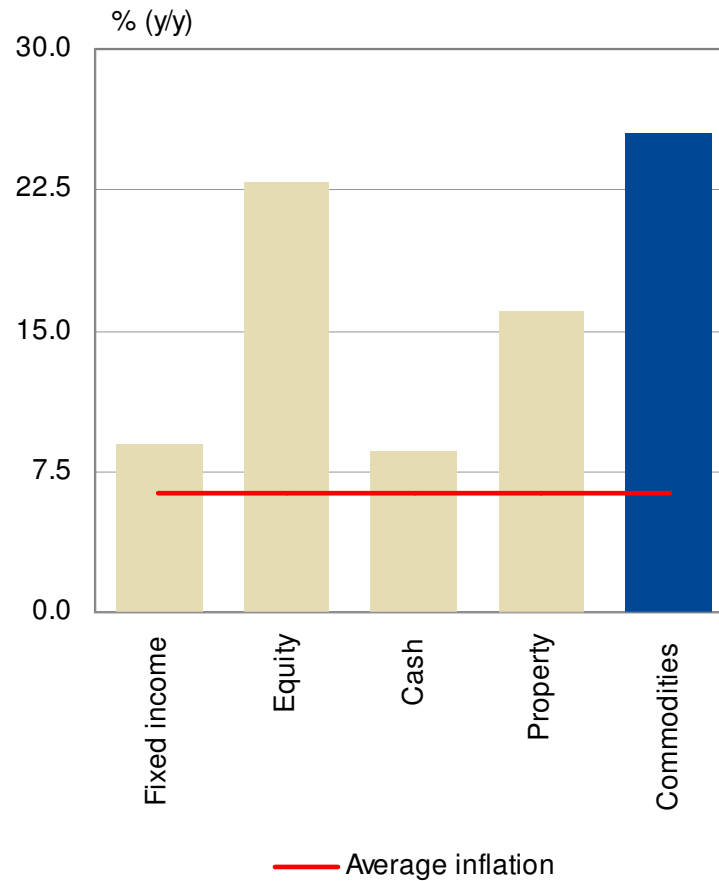
Sources: Standard Bank Research; Bloomberg

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*Case for investing in commodities*

## Commodities as a hedge against inflation

### Inflation and returns (June 2005 to June 2011)



Source: Standard Bank Research; Bloomberg

### Correlation with inflation

(June 2005 to June 2011)

	Inflation
Fixed income	-0.58
Equity	-0.58
Cash	0.79
Property	-0.72
Commodities	0.12

Source: Standard Bank Research; Bloomberg

## What are ETNs?

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- JSE listed instruments that track the performance of an underlying instrument or index like commodities.
- Traded in the same manner as a listed security in ZAR.
- Standard Bank is the issuer and market maker of the ETNs and will therefore facilitate the buying and selling, ensuring the liquidity.
- Standard Bank ETNs will constitute senior unsecured unsubordinated obligations – par with deposits.
- Offering Includes: Oil, Gold, Platinum, Palladium, Silver, Wheat, Corn, Copper, Africa Commodity Index and Africa Equity Index
- Cost-effective convenient way to access a broad range of assets in previously expensive and difficult to reach sectors
- ETNs are open ended investment securities



## Standard Bank Commodity ETNs

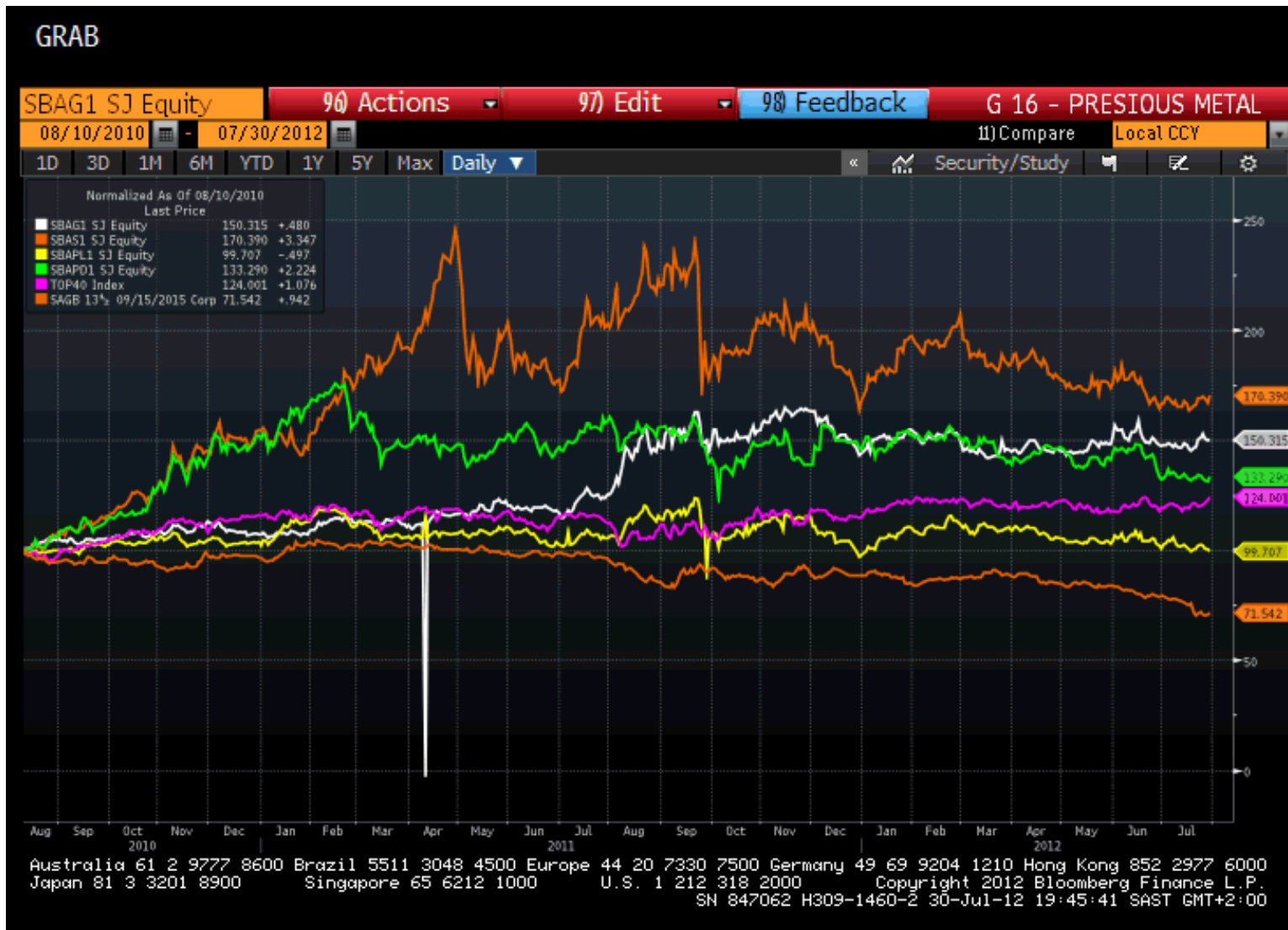
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- Standard Bank's Commodity Linker ETNs provide investors with exposure to commodities in a cost effective manner.
- A total return index is created from the near dated USD commodity future, USD interest rates and the USDZAR exchange rate.
- The near-dated future is used as it is typically the most cost effective way of gaining exposure to commodities.
- The Commodity Linker ETNs therefore do not incur the costs of owning, storing and insuring physical commodities.
- Annual management fee of 0.5% is accrued daily





# Commodity Linkers



## Benefits of Exchange Traded Notes (ETN's)

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### Why?

- **Accurate** - ETNs accurately track the performance of the underlying market benchmark
- **Liquid** - ETNs are open-ended securities, and therefore are not limited to on-exchange volumes and issuers are obliged to act as (or appoint) market makers
- **Accessible** - ETNs are traded and settled on the stock exchange, the same as any equity, and can be purchased and held in ordinary brokerage or custodial accounts
- **Simple** - ETNs do not involve any of the difficulties with buying and then managing a futures position (e.g. worrying about margin calls) No need to own physical or no gearing involved
- **Transparent** - ETN pricing is based on a transparent formula with the pricing updated daily by the issuer
- **Guaranteed pricing** - ETNs are priced using published settlement prices
- **No tracking error** - ETNs give investors a broad-based index without any tracking error to the index
- **Costs Effective** - Cheaper than actively managed funds
- **Access** - They have opened up new markets for retail investors

### Points to consider:

- Market Risk - Subject to the performance of the underlying – no capital protection
- Currency risk – Subject to the Rand versus the US Dollar
- No dividend payments
- Standard Bank credit exposure


## ETN Price

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- The ETN price = Commodity future price x USD/ZAR x Exposure Factor.
- Gold ETN = ZAR 150.64 (\$1,615 x 8.10 x factor)
- Each ETN gives the investor exposure to a portion of an ounce/pound/barrel or bushel of the commodity, this fraction is determined on issuance of the note and fluctuates marginally through time as interest is earned and expenses are incurred.

Commodity	Category	JSE Code	Measure Convention	Exposure Factor
Corn	Agriculture	SBACRN	Bushels	1 / 5
Wheat	Agriculture	SBAWHT	Bushels	1 / 5
Copper	Base Metals	SBACOP	Pounds	1 / 2.5
WTI - Oil	Energy	SBAOIL	Barrels	1 / 50
Gold	Precious Metals	SBAG1	Ounces	1 / 86.84
Palladium	Precious Metals	SBAPD1	Ounces	1 / 34.59
Platinum	Precious Metals	SBAPL1	Ounces	1 / 111.72
Silver	Precious Metals	SBAS1	Ounces	1 / 1.32

# Using Warrants Site (www.warrants.co.za)– ETNs

 Standard Bank
Warrants and Share Instalments

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## Find Exchange Traded Notes

Even though every effort has been made to ensure this warrant data's accuracy, Standard Bank, or an associated company can not be held responsible for any errors contained herein. Please use the data with caution. We recommend that you contact the issuer for confirmation of key data.

Date	Underlying	JSE Code	Price Per ETN	Factor*	Underlying Price**
2011-08-08	African Equity Index	SBAEI	R 7.67	1 / 100	\$ 107.952
2011-08-08	Silver	SBAS1	R 204.93	1 / 1.326	\$ 38.62
2011-08-08	Platinum	SBAPL1	R 107.01	1 / 112.756	\$ 1,714.30
2011-08-08	Palladium	SBAPD1	R 146.24	1 / 34.811	\$ 723.27
2011-08-08	Gold	SBAG1	R 136.92	1 / 87.261	\$ 1,697.50
2011-08-08	WTI	SBAOIL	R 11.76	1 / 49.8883053912558	\$ 83.35
2011-08-08	Wheat	SBAWHT	R 9.20	1 / 5	\$ 6.58
2011-08-08	Corn	SBACRN	R 9.54	1 / 5	\$ 6.84
2011-08-08	Copper	SBACOP	R 11.26	1 / 2.5	\$ 3.99

**Replicating the ETN Price**  
The ETN price comprises of the ZAR future or Index...

**Exchange Traded Notes (ETNs) Description**  
*Commodity Linked ETNs* provide investors with exposure to a commodity return index is created from the near dated USD commodity future, USD interest rates and the exchange rate. The near-dated future is used as it is typically the most cost effective way of gaining exposure to the underlying.

*Standard Bank Africa Equity Index ETNs* offer investors a convenient and convenient way to access a broad range of listed companies active across Africa (excluding South Africa, Lesotho and Swaziland). The investment tracks the Standard Bank Africa Total Return Index (SBAFRITR), which is a passive, dollar-based index and aims to track a diversified basket of liquid shares in companies that have their majority of exposure to Africa.

**More Information**

- [Commodity-Linker ETN Brochure](#)
- [Commodity-Linker ETN Fact Sheet](#)
- [Latest Commodity View](#)
- [Standard Bank Africa Equity Index ETNs Brochure](#)

**Trade Now**

Contact Standard Bank's [Online Share Trading](#) or your JSE broker to start trading.

For product information contact Standard Bank on [ETNS@standardbank.co.za](mailto:ETNS@standardbank.co.za).

Select ETNs From Instrument List

ETN Brochures in PDF

## ETN General Specifications

<b>Listing</b>	Listed on the Johannesburg Securities Exchange (JSE) under the ETN sub-sector.
<b>Trading</b>	Through any JSE-approved stock broker including Online stock broker and ETF SA.
<b>Issuer</b>	The ETNs are issued by Standard Bank off its Blue Access platform or ZAR 60 Billion Domestic Medium Term Note (DMTN) Programme. Standard Bank's credit rating is AA-.
<b>Purchase Price</b>	Each ETN will be issued at a price providing a fraction exposure of the applicable measure convention.
<b>Liquidity and Secondary Market</b>	Standard Bank acts as the market maker and provides live intraday buy-and-sell prices on the JSE's equity trading platform during JSE trading hours.
<b>Trading Times</b>	JSE trading times are 9:10 to 16:49.
<b>Fees</b>	An annual ETN management fee of depending on the ETN is charged per annum, accrued daily and reflected in the daily AEI ETN price, will be charged. Standard Bank, as market maker, also charges market-related spreads between buy and sell prices of the AEI ETN.
<b>Term</b>	The term of the notes is 10 years. Standard Bank will provide live screen prices for investors wishing to sell their notes prior to maturity.
<b>Performance</b>	The performance of the ETN is the performance of the underlying asset being tracked in USD multiplied by the USD ZAR exchange rate, less the annual management fee.

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