Commodities & Global Capital Markets

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Commodities Outlook - 2011

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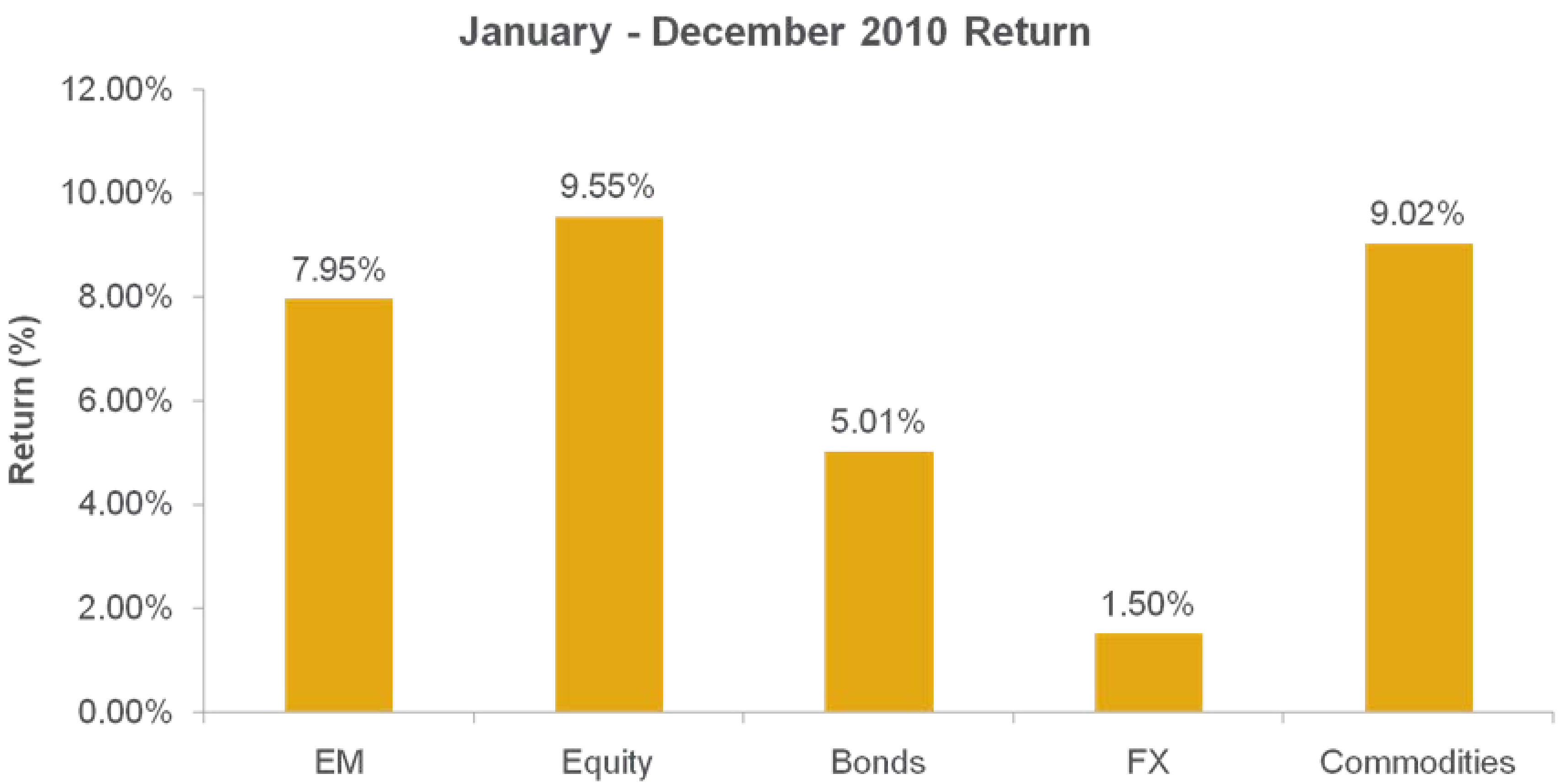
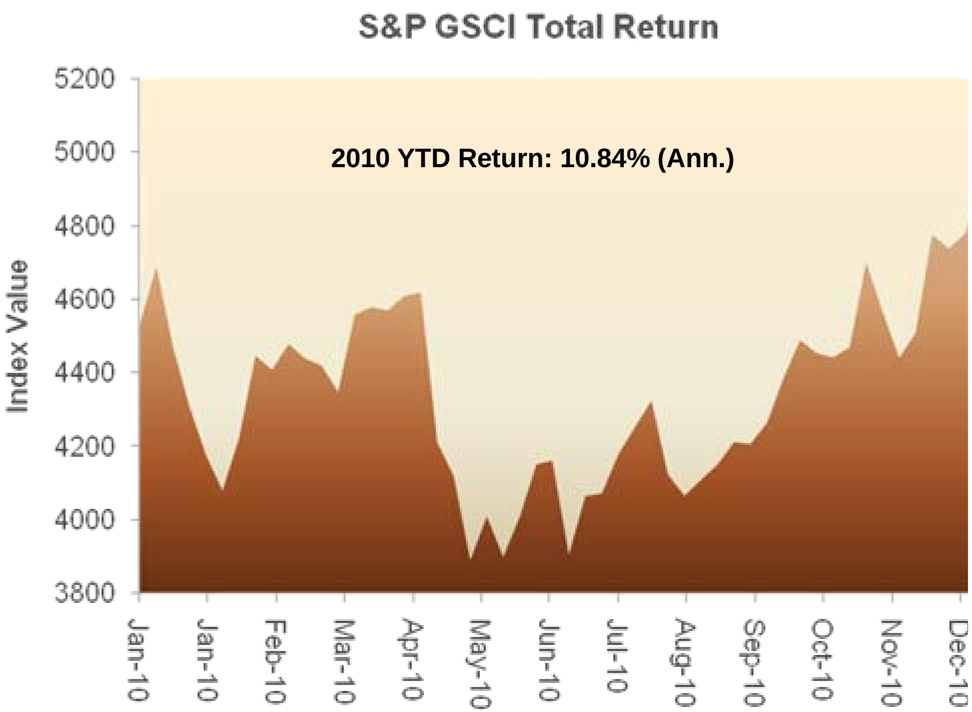
A look back- Asset Class Returns: 2010



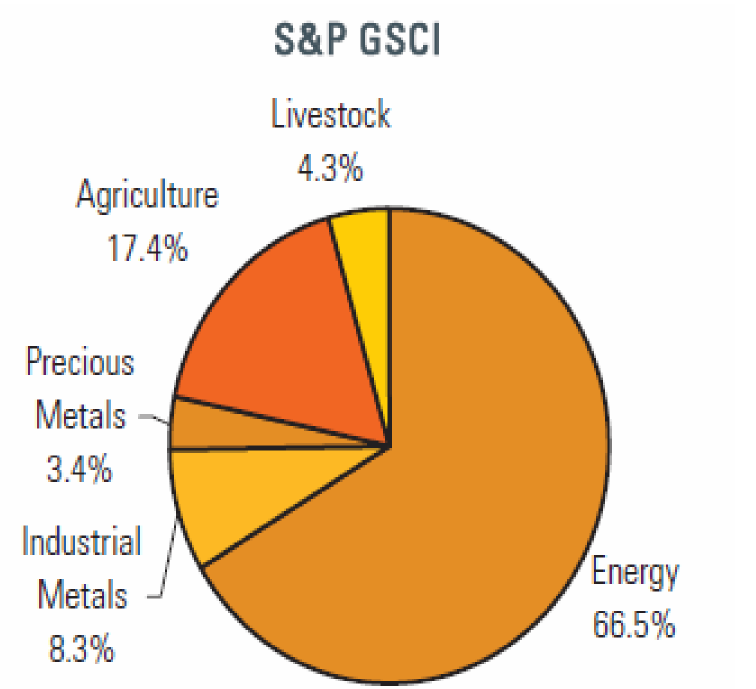
EM: DBIQ EMLE Index
Equity: MSCI Global
Bonds: JP Morgan Global Aggregate Bond Index
FX: Dollar Index (DXY)
Commodities: S&P GSCI

Source: Bloomberg

More than just oil and gas…



Source: Bloomberg



Data as at 31 December 2010
Source: Standard and Poor's

"The S&P GSCI is calculated primarily on a world production weighted basis, and is comprised of the principal physical commodities that are the subject of active, liquid futures markets."

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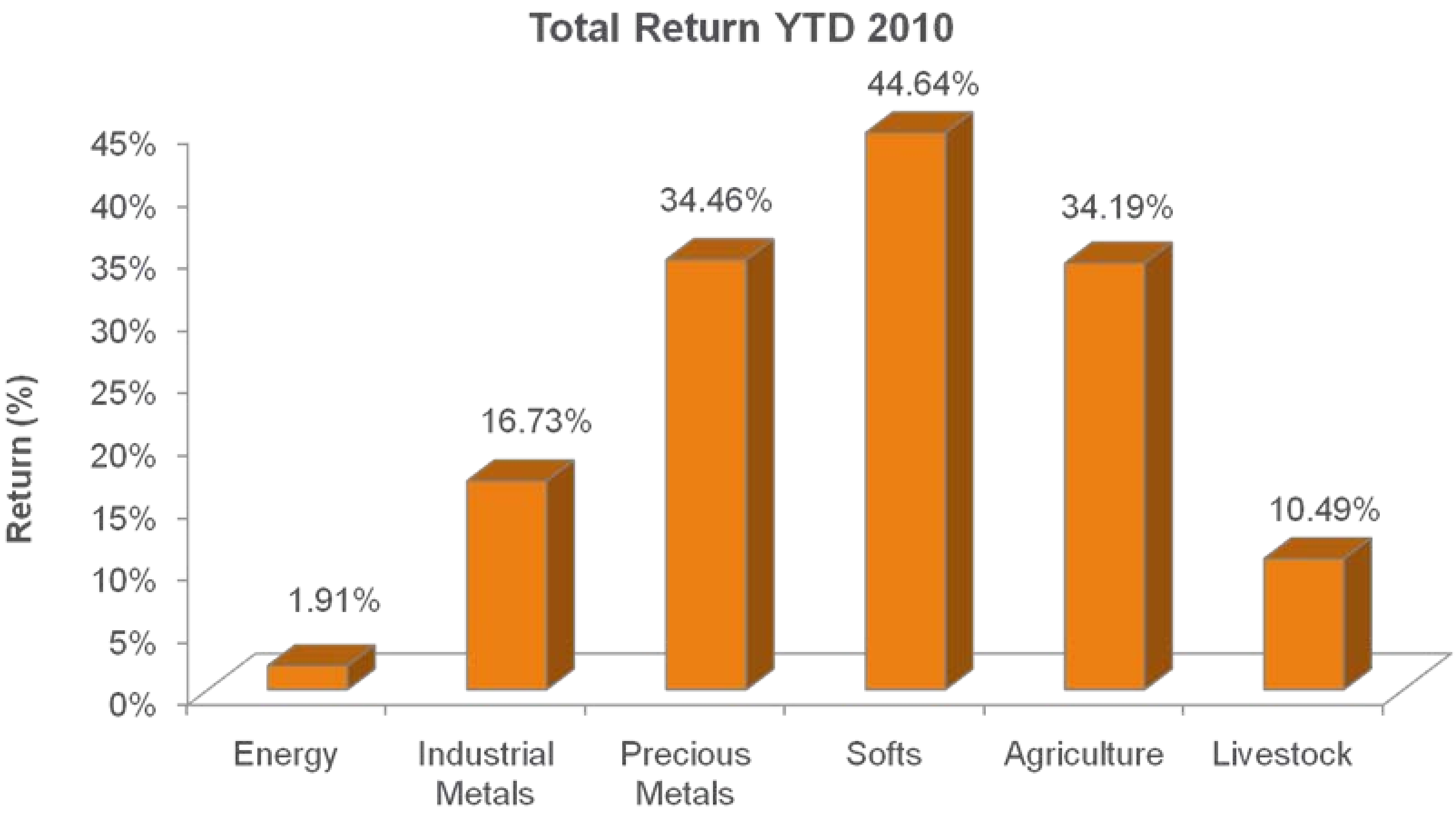
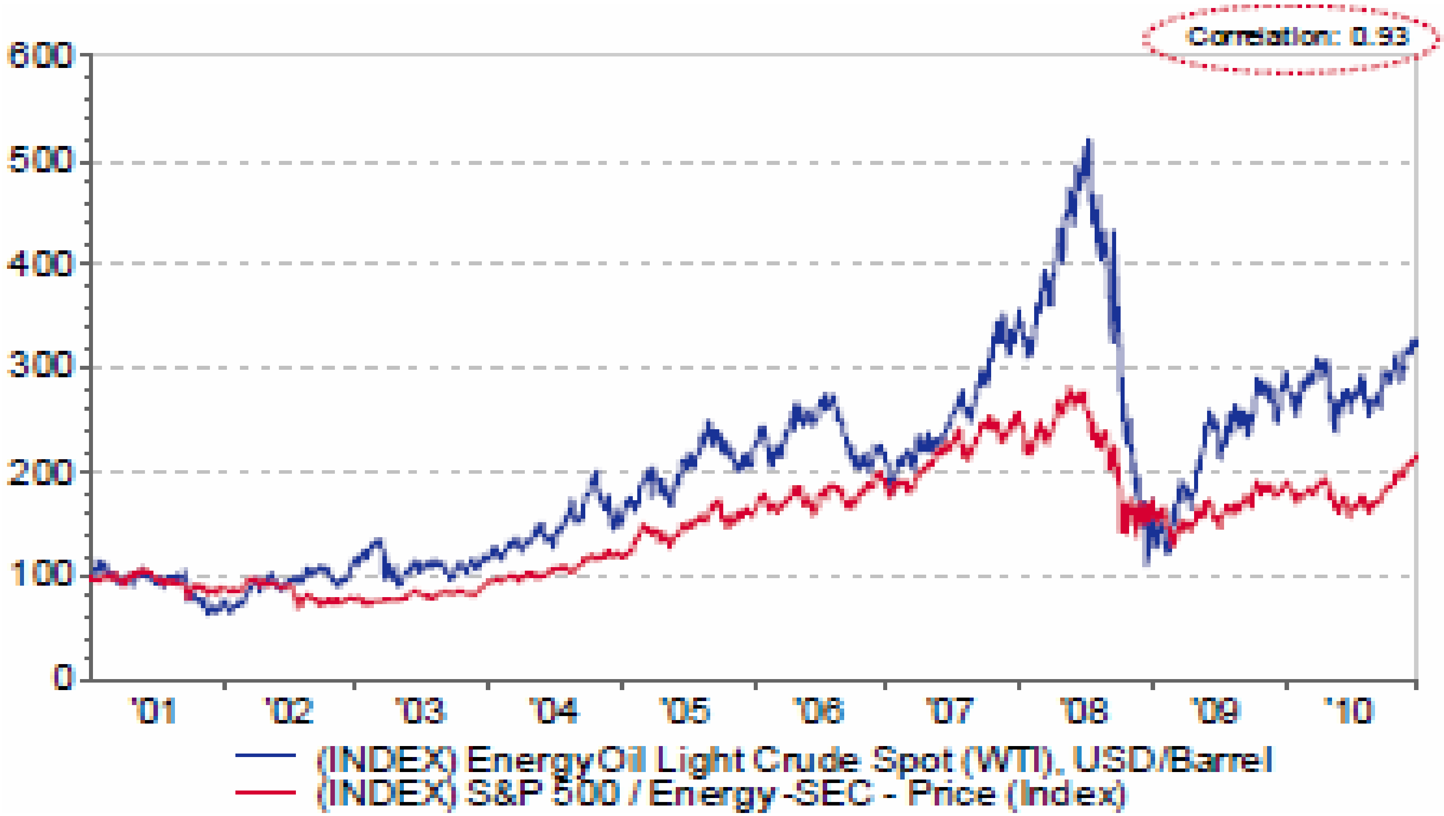
Among the Commodity Sectors…



The Energy Complex

Oil versus Energy Shares



Source: Deutsche Bank, Private Wealth Management
01/07/11

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Commodities Outlook
- New wave of investments

2011..Outlook

Commodities complex will enjoy a new wave of investment inflows in 2011.

Reflects investor appetite;

- strong emerging market growth expectations
- tail event risks
- higher inflation ahead

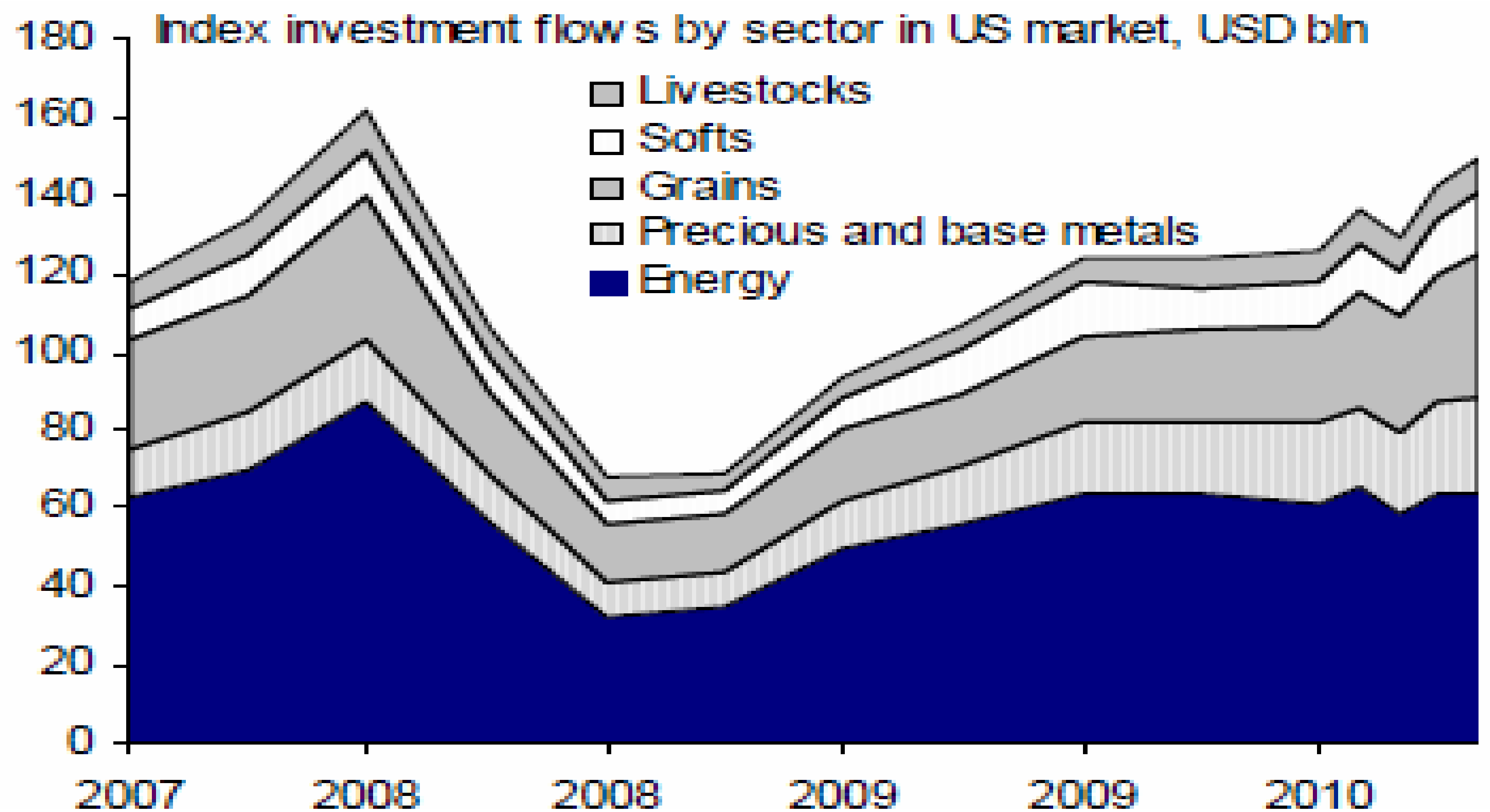
Bullish… 2011

Broadly bullish due to the core belief that:

- Emerging Market growth will remain strong.
- The Fed's efforts to stimulate growth will be successful.
- European sovereign risk will be contained
- Physical fundamentals in many commodity markets will tighten on account of supply side constraints.

Energy and industrial metals are most vulnerable to disruption risk.

Commodity Sectors – Investment Flows



Source: CFTC, DB Global Markets Research

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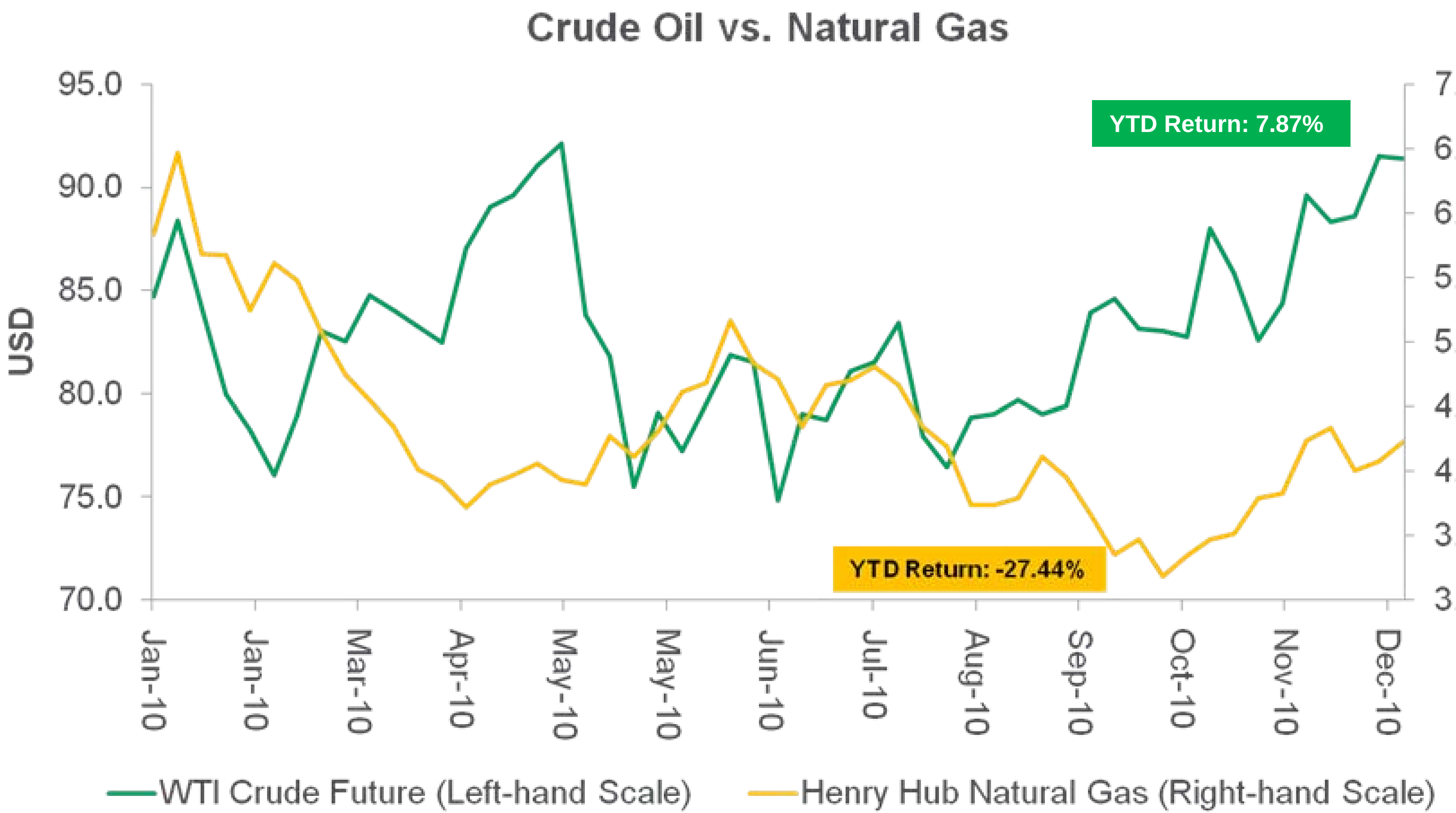
2010 Crude Oil vs. Natural Gas (Henry Hub)



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Energy

•OECD crude oil inventories outside the US have now fallen below seasonal norms (Jan. 2011).

•Shortage due to bad weather during Winter in the US and Europe.

•Relatively, ‘bearish’ on Natural Gas markets in response to the surge in US shale gas production and significant overhang in storage levels, may take several months to deplete.

•In product market, traders favor distillates over gasoline, mainly due to relatively low inventors (esp. Europe) and strong cyclical demand growth for diesel.

•Coal market fundamentals are positive. Russia is having transport problems and South American supplies are sold out.

Agriculture

- Corn is the preferred exposure across the agriculture sector. US corn supplies have tightened materially on lower yields, while stocks remain very tight and ethanol production has set multiple record highs.

- La Nina concerns in the Southern Hemisphere, while China has stayed as a net corn importer for the second half of 2010.

- Sugar fundamentals are positive, with low stocks and strong demand. Increased Indian exports could weaken the price somewhat.

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Industrial Metals

- We are ‘bullish’ on Metals and Tin. Copper fundamentals continue to tighten, mine supply remains constrained and global demand is above expectations.
- Copper supply/demand imbalance is not fully priced into forwards. We expect China to neither overheat nor over-tighten but grow at a healthy 9% pace (GDP) in 2011. China accounts for 40% of global copper demand.
- The nickel market remains tightly balance, and recent Chinese data point to a pick up in the domestic stainless steel sector. We expect a pickup in stainless demand in Q1 2011.
- Our outlook for lead and zinc is neutral. Lead remains in moderate surplus. The zinc market is in also in surplus.

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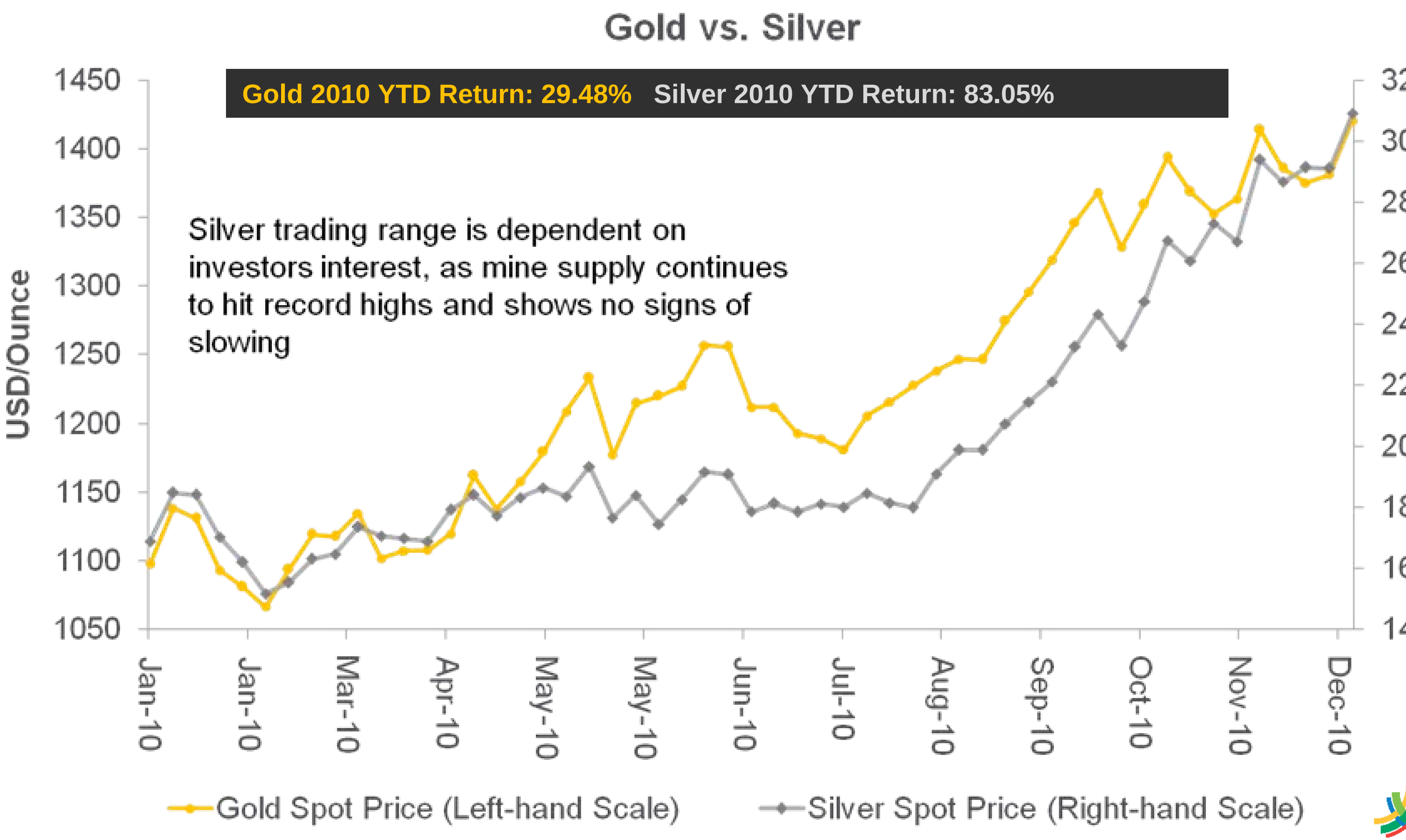
Precious Metals



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Gold - Hedge against Inflation and Deflation & Other Precious Metals

Gold

•We are positive on Gold in the near term due to;

- Sovereign debt risk
- Macro (economic) uncertainty
- Concerns about currency stability
- Medium term inflation fears, and increasing global money supply (short USD trade).
- Geopolitical tension

•Demand for gold has softened for seasonal reasons but the forecasted demand is healthy for 2011. Any Gold surplus is expected to be absorbed by investor's interest.

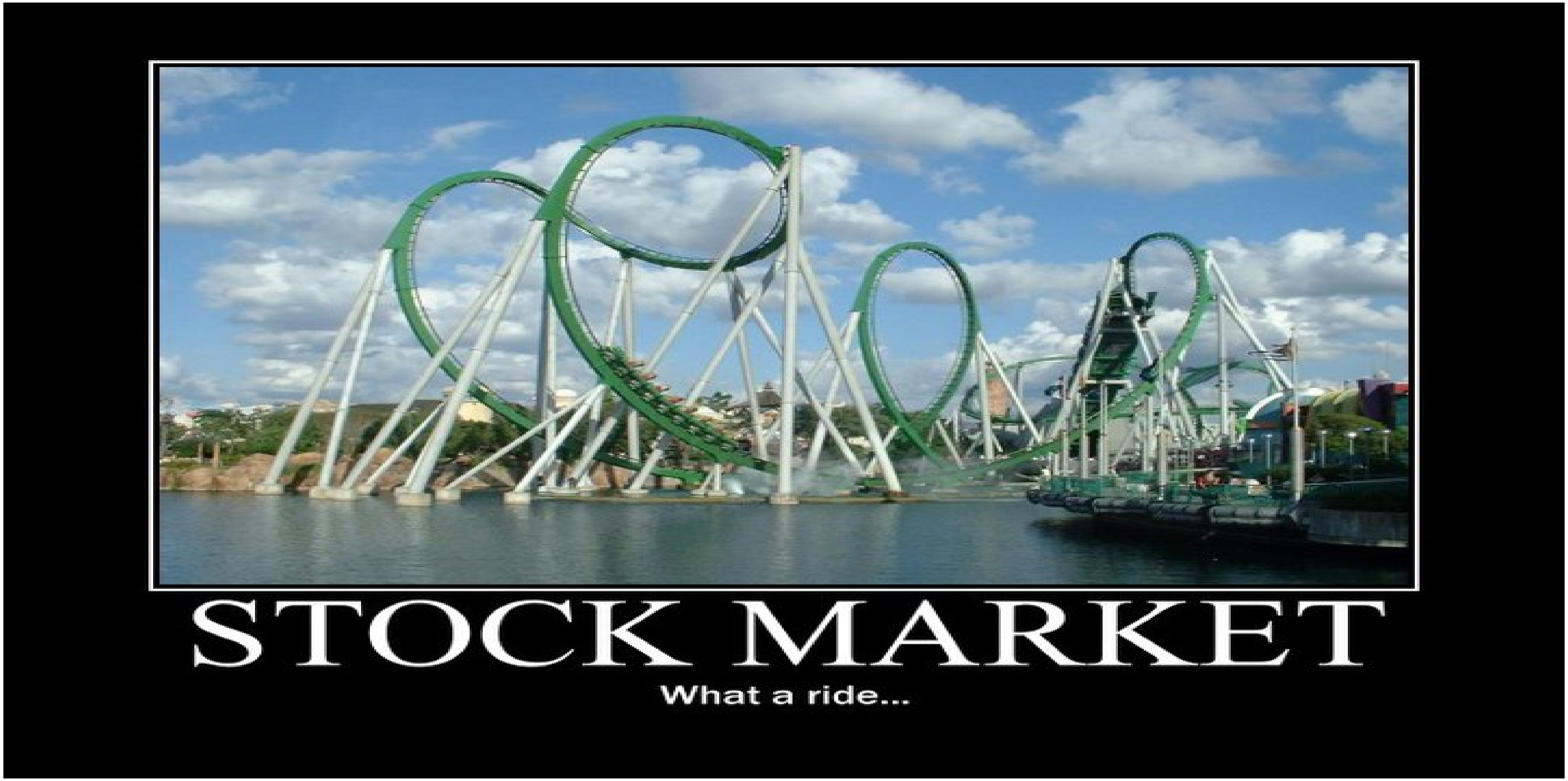
•Central Banks buying and investors interest in the physically backed ETFs continues to grow and would support prices.

Conclusion

- Expect a new wave of investment capital in 2011 for the commodity complex.
- Tightening in physical fundamentals – excess demand over supply, with the Natural Gas as an exception.
- Risk assets such as commodities viewed as vulnerable to markets disruptive risk.
- Move towards greater financial regulation is another potential hazard that can reduce market turnover and damage liquidity in the sector. May not affect the underling commodity prices but rather dampen speculative activities.

International Equity Outlook

Stock Market



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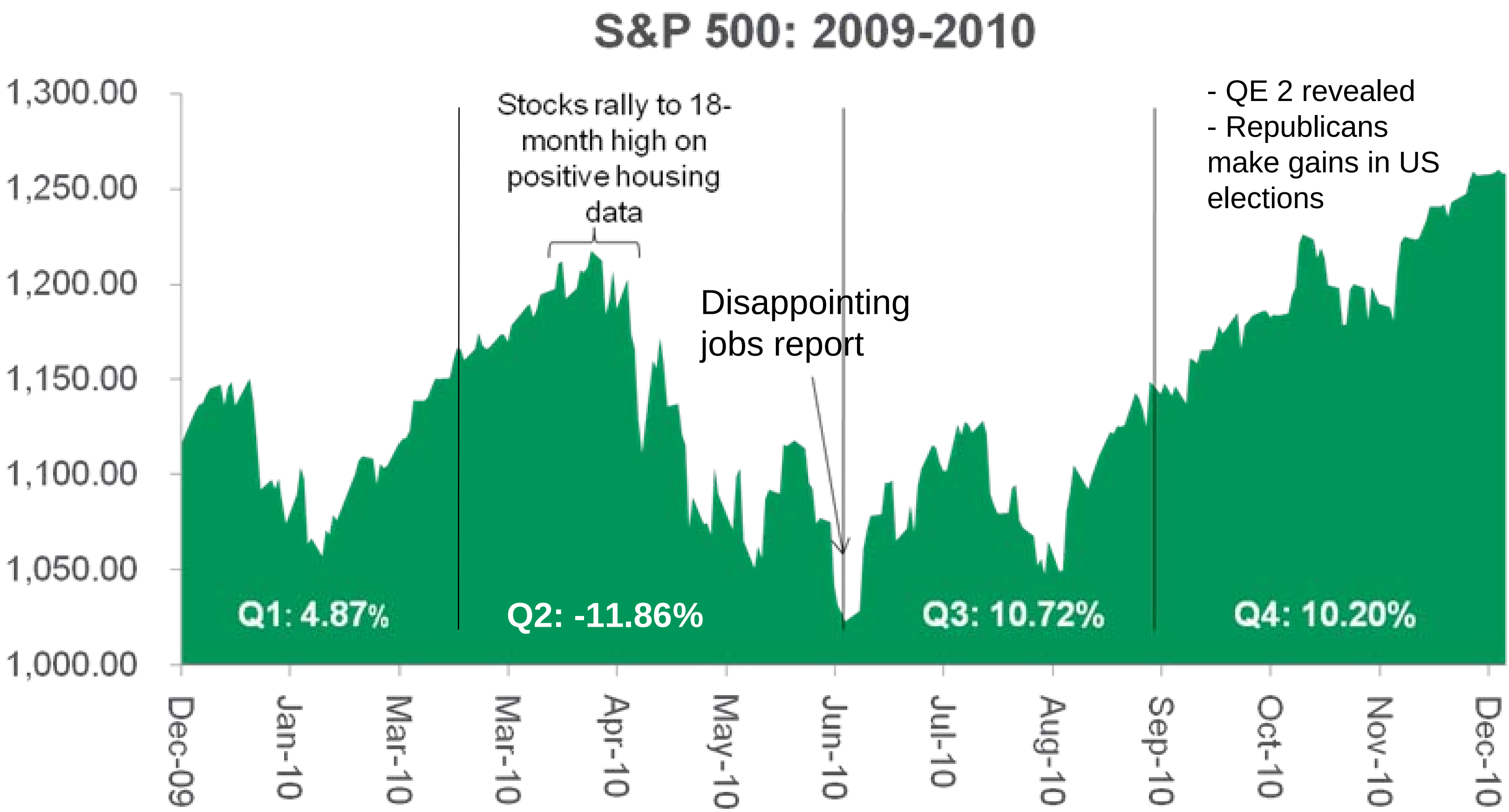
2010: The Year of Broken 'Trends' and 'Effects'



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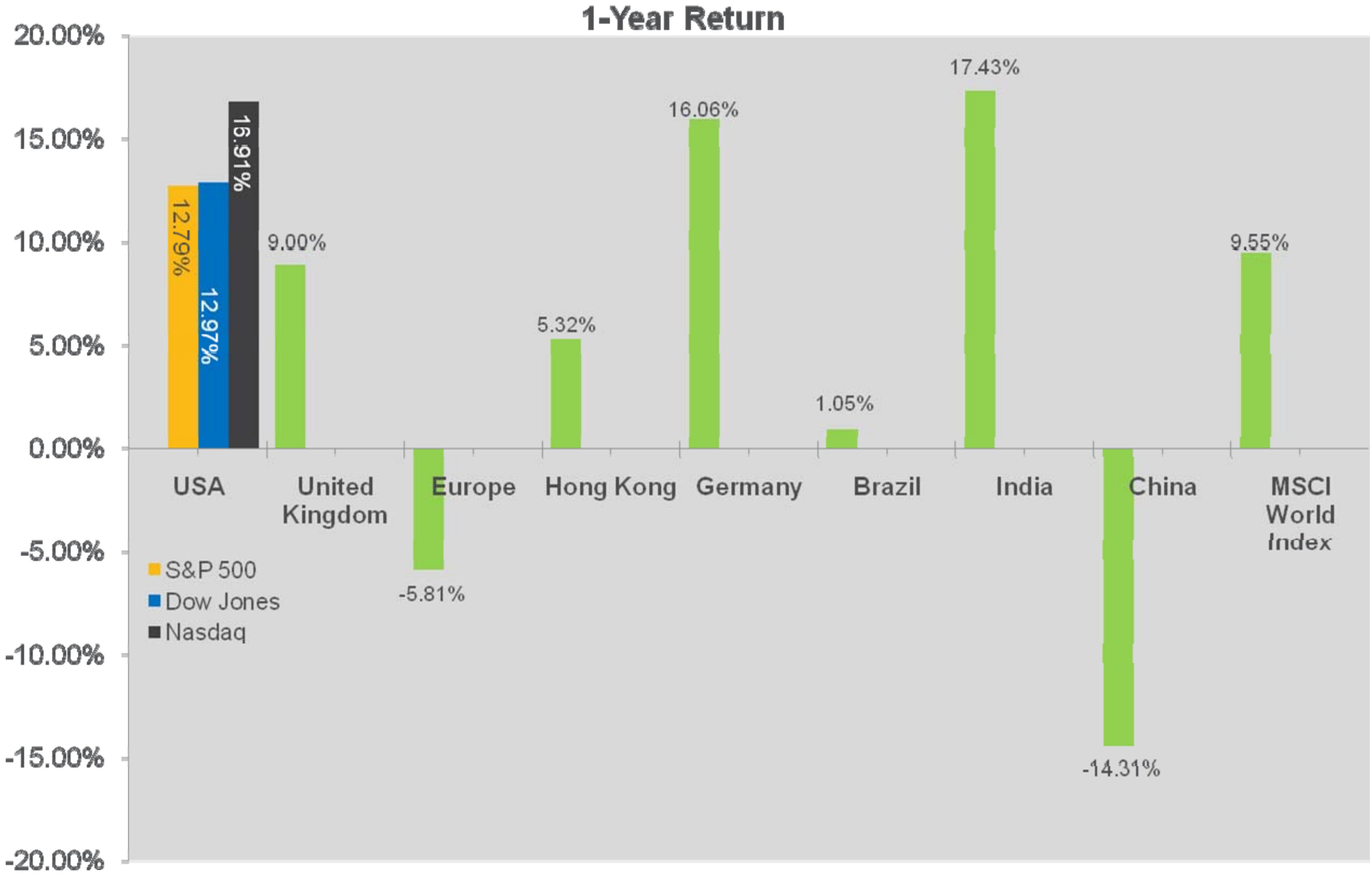
World Equity Index Performances 2010

Source: Bloomberg, Yahoo Finance



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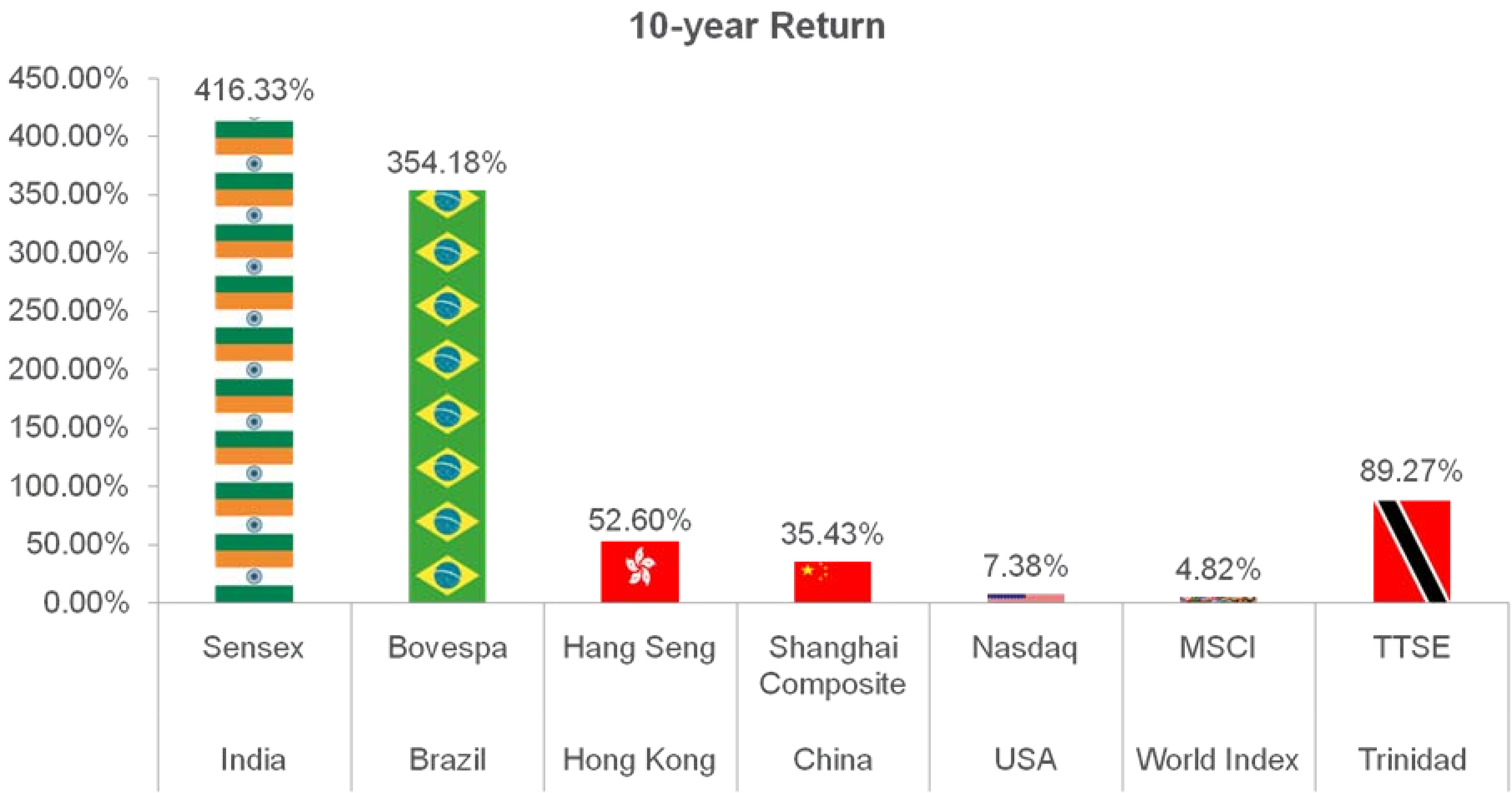
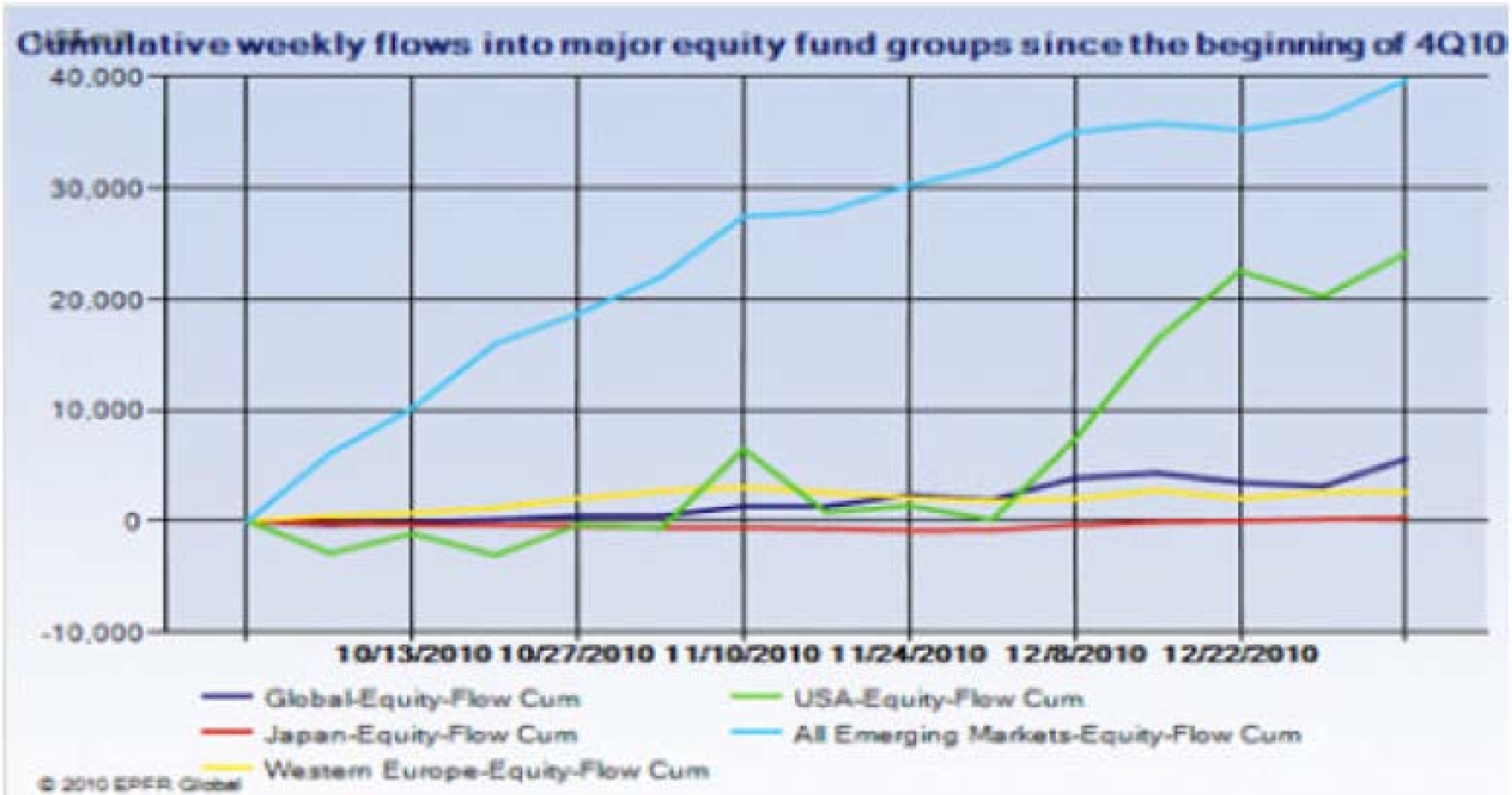
A Decade Later…

World Equity Index Performances 2010



Source: Bloomberg, First Citizens Investment Services

Will rally continue into 2011?



Source: EPFR Global

Investment themes for 2011

- US Equities to produce strong returns in 2011.
- Equity earnings growth expected to slow but remain above average.
- S&P historical average corporate earnings yield is 5.77% (E/P based on a 10-year average).
- Third year of US Presidential Term.

Sector recommendations for 2011

Cyclical sector to continue to perform as economy recovers

- Consumer Discretionary
- Industrials
- Energy
- Financials

Sectors at risk

- Healthcare

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2011: be wary of …

“The Element of surprise”

- **Macro-economic data: *Actual* versus *Expectations***
- **The end of QE2**
- **Currency wars (China, USA)**
- **Developments in the Eurozone and EM Markets**

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Emerging Market Fixed Income

Review and Outlook

Fixed Income Market Review 2010

A Year of Modest Returns....

Fixed Income Market Review 2010

- EM FI continued to deliver equity-like returns
- No comparison to returns in 2009. Decreased risk aversion and increased investor confidence in 2010.
- EM debt issuance of over USD280 billion.
- Improved economic fundamentals transcended into 2010.

Characteristics in 2010

•Low yields in Advanced economies

•Search for yield channeled funds into EM securities

•Tighter credit spreads as economic resilience continued.

•Improved quality of credits given positive rating changes.

Caribbean Eurobond Review

Country	S&P Rating Changes	S&P Outlook	Change in Benchmark Eurobond Yield\ TR 2010
Trinidad and Tobago	Unchanged at A	Stable	GOTT 2027 January – 5.69% December - 5.23% **Total Ret. 8.82%**
Jamaica	**Upgraded from** **CCC to B-**	**Stable**	GOJ 2036 January – 10.53% December – 8.50% **Total Ret. 28.01%**
Barbados	**Downgraded from BBB to BBB-**	**Stable**	BDOS 2021 January – 7.10% December – 6.70% **Total Ret. 10.03%**

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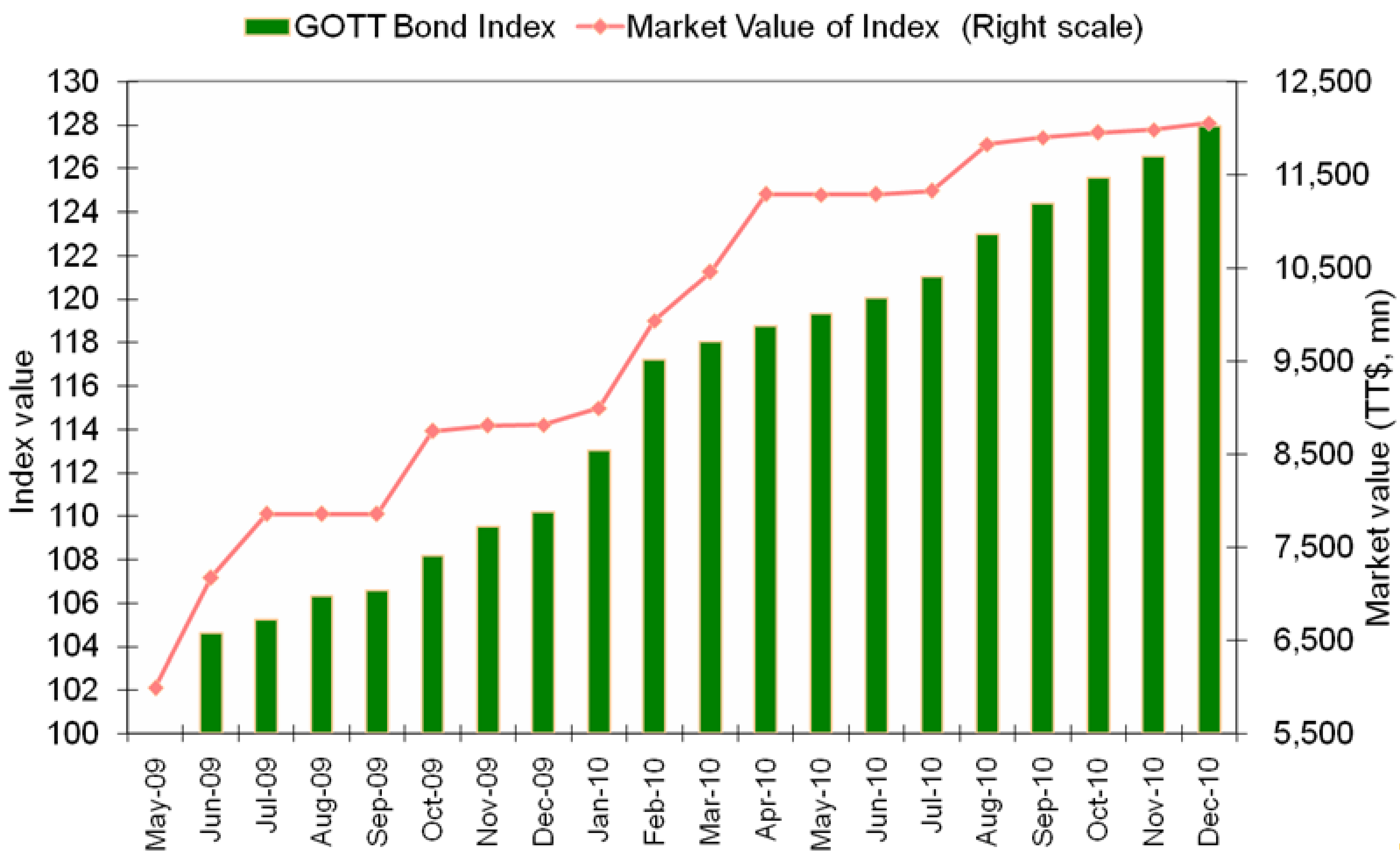
Local (TTD) Bond Review

- New Issues in 2010 amounted to TT$2.2 billion.

- TTD denominated bonds enjoyed substantial price increases.

- **First Citizens Investment Services Research Department's GOTT Bond Index** showed a return of **16.11%** for 2010.

First Citizens Investment Services Research Department
GOTT Bond Index



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EM Fixed Income Outlook 2011

- Average returns of 4%-5% expected.
- Debt issuance to total USD240 billion.
- Value to be found in EM Corporate Bonds.
- EM Foreign Exchange expected to appreciate, as investors seek higher yields in EM local currency debt.
- Be wary of Government intervention to limit the FX appreciation, which can affect EM returns.
- Marginal reduction in TTD yields.

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EM Fixed Income Outlook 2011

Investment Opportunities:

Colombia

Chile

Indonesia

South Africa

For those with more risk tolerance:

Bahamas

Russia

Investors walking a tight rope…in 2011

Source: www.cartoonstock.com

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THANK YOU

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