December 1, 2011

Goldman Sachs

Global

Commodity Watch

Commodities Research

Threading the needle between economic crisis and tight supply

Even as the European debt crisis intensified during November, unlike other financial markets, commodity markets traded mostly sideways, ending the month up 1%. This is a reflection of the two offsetting, but intensifying forces commodity markets face, as they continue to navigate between a potential economic crisis whirlpool on one side and rocks on the other side, which the market will likely run up against should demand not falter and supply constraints force price spikes to balance the market.

Slow growth may help commodity markets balance in 2012

As our economists roll out a 4.1% 2013 global GDP forecast, the real concern is the more near-term outlook for 2012 where they have reduced their global GDP forecast from 3.4% to 3.2%. This reduced outlook, but avoidance of global recession, makes it more likely that commodity markets can maintain a central course between the whirlpool of a world economic recession and the rocks of potential shortages. Accordingly, we are maintaining our 2012 commodity price forecasts with an end-of-2012 price forecast for Brent oil of $127.50/bbl. We are also introducing an end-of-2013 price forecast for Brent oil of $135/bbl.

Upside risks in 2012; downside risks in 2013

The European debt crisis remains a significant downside risk in 2012. However, as long as the risks manifest themselves in economic weakness and not in financial stress that would likely precipitate a global recession, it is unlikely to severely impact commodity markets. This was the lesson from 2008, as the US was in recession, but commodity markets traded higher as EM remained strong until financial stress created a global recession. In the current environment, increasingly tighter physical markets driven by de-stocking and supply disappointments create significant upside price risks in 2012 that could threaten economic growth. If either of these risks – an oil price spike or a global economic recession triggered by the European debt crisis – were realized in 2012, they would likely lead to lower commodity demand in 2013, skewing the risks to the downside.

We maintain our 12-month Overweight allocation recommendation

On net, while we maintain our 12-month Overweight allocation to commodities with a 12-month forecasted return of 15%, the risks to this view are skewed to the upside, particularly given the return of significant backwardation to the oil market that could become a very large driver of returns.

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Hedging and trading recommendations

Petroleum

Hedging recommendations

Consumers: Despite the notable slowdown in global economic growth, we continue to expect that oil demand will grow well in excess of production capacity growth. In our view, it is only a matter of time before inventories and OPEC spare capacity become effectively exhausted, requiring higher oil prices to restrain demand, keeping it in line with available supply. Further, we believe that the oil market has been too focused on the downside risks to prices and not focused enough on the upside risk should the economy avoid recession. Consequently, we believe that the large put skew in the crude oil options markets presents an opportunity for commercial hedgers to add incremental protection on top of their core hedging programs through structures such as zero-cost collars.

Refiners: US refining margins remain relatively strong as WTI prices remain weak relative to other crude oils such as Brent and LLS. While forward margins imply a narrowing of the WTI-Brent spread, we continue to expect longer-dated spreads to narrow even further than what the market has currently priced in. Consequently, we see current long-dated refinery margins in 2012 as a selling opportunity for refinery hedgers. Further, for 2H12 and beyond, we believe that crude will be the bottleneck in the system, rather than refining; this would squeeze margins from the crude side through a renewed spike in backwardation, suggesting refiners also look for potential timespread hedges.

Producers: While we expect supply-demand balances to continue to move to critically tight levels in 2H12, making producer hedging less attractive, the ongoing uncertainties over the European debt situation still pose downside risks. Given the relatively large put skew in the market, we would recommend put-spread structures for oil producers, where incremental downside protection can be obtained against the impact on crude oil prices of a moderate slowdown in economic activity by forgoing protection against a more severe downturn. This would be most beneficial to producers that are able to lower production in the event of a severe decline in crude oil prices.

Trading recommendations

Short March 2012 WTI-Brent spread, long December 2012 WTI-Brent spread (initial value $1.79/bbl, current loss $0.17/bbl)

To profit from the anticipated rotation in the WTI-Brent spread curve, we are recommending to be short the March 2012 WTI-Brent spread and long the December 2012 WTI-Brent spread.

Long ICE Brent July 2012 position (initial value $105.16/bbl, current loss $0.13/bbl including loss on original position in ICE December 2012 Brent of $1.95/bbl)

We recommend opening a long position in the ICE Brent July 2012 contract, as we expect that the market will continue to tighten in 2012, pushing oil prices substantially higher to restrain demand.

Natural Gas

Hedging recommendations

Consumers: We believe there are opportunities for consumer hedging in the long end of the NYMEX natural gas curve, particularly in calendar 2015 and 2016 contracts. Specifically, we believe that regulatory changes in the US power generation sector will lead to increased demand for natural gas, ultimately allowing prices to move higher. In addition, long-term US natural gas demand can be further supported by US LNG exports and industrial demand growth on the back of the current low prices.

We believe there are currently good hedging opportunities for consumers exposed to European spot markets in 2H2012 and beyond; we expect a tightening shift in global LNG markets – intensified by this year's events in Japan and Libya – to lead to a narrowing of the UK NBP differential to oil-indexed prices in the next 12 months. As a result, we see upside to UK NBP prices relative to the forward curve.

Producers: We believe the hedging opportunities for US producers in calendar 2012 and 2013 contracts are limited, as prices have declined recently.

In the UK, despite our constructive view for UK NBP prices in 2H2012 relative to the current forward curve, we believe that current market prices provide an opportunity for natural gas producers to hedge 2012 volumes to reduce exposure to the risk of further deterioration in financial markets leading to a renewed global recession. Should this extreme scenario be realized, UK NBP and oil-indexed natural gas prices could move sharply lower from current levels.

Trading recommendations

Long UK NBP 4Q2012 ICE Natural Gas contracts (initial price 70.8 p/th, current loss 4.1 p/th)

We continue to recommend a long position in UK NBP 4Q2012 contracts as we expect UK NBP prices to be well above the current forward curve in 2H2012. Our view is mainly driven by the expectation of improved gas demand this winter. This is likely to help narrow the price differential between spot and oil-indexed natural gas beyond what is currently priced into the forward curves.

Base Metals

Hedging recommendations

Consumers: Concerns about the European sovereign debt problems and slowing economic growth have kept base metal prices under pressure. We caution that these concerns are likely to continue to overhang the market in the near term. Notably, most metals prices are trading into the cash cost curve, with the exception of copper, which is trading around incentive price levels for medium- to long-term copper projects. Looking ahead, we continue to emphasize that the main-line expectation of lackluster but substantially positive global economic growth led by EM and disappointing supply growth in key metals, points to higher metals prices in 2012. Further, we maintain that a powerful upside catalyst still lies largely ahead in China should the ongoing easing policy shift and/or lower prices increasingly drive strong Chinese consumption growth. An end to the recent de-stocking in Europe would also act as a positive catalyst for metals prices in 2012. Thus, we continue to believe that most metals prices present value to consumers at current prices.

Producers: Prices have declined to substantially below forecasts, suggesting potentially better opportunities for producers ahead.

Trading recommendations

Long Copper: Buy June 2012 LME copper (initial price $8,804/mt, current loss $1300/mt)

Although our long copper position opened in May 2011 remains substantially under water, our 12-mo copper price target of $9,500/mt suggests substantial upside from current depressed levels. Further to the macroeconomic catalysts highlighted in the 'Hedging recommendations' section above, copper supply disruptions are presenting significant upside risks to copper at present. Industrial action is ongoing at one of the world's largest mines – Freeport's Grasberg mine – with mine output having stopped completely in late October, further tightening the concentrate market.

Long Zinc: Buy December 2012 LME zinc (initial price $2,189/mt, current loss $174/mt)

Although our long zinc position opened in May 2011 remains substantially under water, our 12-mo zinc price target of $2,400/mt suggests substantial upside from current depressed levels. We caution that concerns about the European sovereign debt problems and slowing economic growth are likely to continue to overhang the market in the near term. However, zinc prices are still low enough to motivate reduced production in coming months. Medium-term, we continue to expect zinc to become more supply-constrained owing to growing demand from China as well as important mine closures that are set to take place in 2013-15. Thus, given the mainline expectation of still lackluster but substantially positive global economic growth, we continue to recommend long positions in zinc.

Precious Metals

Hedging recommendations

Consumers: We expect gold prices to continue to climb given the current low level of US real interest rates. Further, with our US economics team forecasting slower US economic growth throughout 2012, we expect US real interest rates to remain lower for longer, supporting higher gold prices. Consequently, we recommend near-dated consumer hedges in gold through 2012.

Producers: With gold prices expected to continue to climb through 2012, we find hedging opportunities less attractive for gold producers at this time.

Trading recommendations

Long Gold: Buy December 2012 COMEX Gold (initial value of $1,800.5/toz, current gain $355.6/toz)

We expect gold prices to continue to climb in 2012 given the current low level of US real interest rates, and as a result recommend a long gold position.

Agriculture

Hedging recommendations

Consumers: We recommend corn consumers take advantage of the recent price pull-back to layer in hedges given our forecast for higher corn prices in the next six months.

Although we expect range-bound soybean prices in the coming months, the forecast for a return of La Niña weather conditions leaves risks to soybean prices as skewed to the upside this winter, and we therefore recommend consumers layer in asymmetric upside hedges for 2012.

Producers: Our expectation of modestly lower crop prices on a 12-month horizon suggests that producers should take advantage of any rally in crop prices to implement hedge programs for the 2012/13 crop year, especially for wheat. The moderate decline in cotton prices that we expect suggests that producers should lock in current deferred prices.

Trading recommendations

We currently have no outstanding trading recommendations in the agriculture sector.

Current trading recommendations

Current trades	First recommended	Initial value	Current Value	Current profit/(loss)[1]
Short March 2012 WTI - Brent spread, Long December 12 WTI - Brent spread				
Buy March 2012 ICE Brent Crude Oil, Buy December 2012 NYMEX WTI Crude Oil,				
Sell March 2012 NYMEX WTI Crude Oil, Sell December 2012 ICE Brent Crude Oil				
	November 22, 2011 - *Energy Weekly*	$1.79/bbl	$1.62/bbl	**($0.17/bbl)**
Rolled from a long Dec-12 NYMEX WTI Crude Oil future position on 22-Nov-11 with a potential gain of $6.61/bbl				
Long Gold				
Buy December 2012 COMEX Gold	October 11, 2010 - *Precious Metals*	$1,800.5/toz	$1,732.2/toz	**$355.6/toz**
Rolled from a long Dec-11 COMEX Gold future position on 13-Nov-11 with a potential gain of $423.9/toz				
Long Brent Crude Oil				
Buy July 2012 ICE Brent Crude Oil	May 23, 2011 - *Energy Watch*	$105.16/bbl	$106.98/bbl	**($0.13/bbl)**
Rolled from a long Dec-12 ICE Brent Crude Oil future position on 1-Nov-11 with a potential loss of $1.95/bbl				
Long Copper				
Buy June 2012 LME Copper	May 23, 2011 - *Commodity Watch*	$8,804/mt	$7,505/mt	**($1,300/mt)**
Long Zinc				
Buy December 2012 LME Zinc	May 23, 2011 - *Commodity Watch*	$2,189/mt	$2,015/mt	**($174/mt)**
Long UK Natural Gas				
Buy Q4 2012 ICE UK NBP Natural Gas	April 26, 2011 - *Natural Gas Weekly*	70.8 p/th	66.7 p/th	**(4.1 p/th)**

[1]As of close on November 29, 2011. Inclusive of all previous rolling profits/losses.

Source: Goldman Sachs Global ECS Research.

Price actions, volatilities and forecasts

	Prices and monthly changes[1]			Volatilities (%) and monthly changes[2]				Historical Prices						Price Forecasts[3]		
	units	29 Nov	Change	Implied[2]	Change	Realized[2]	Change	2Q 10	3Q 10	4Q 10	1Q 11	2Q 11	3Q 11	3m	6m	12m
Energy																
WTI Crude Oil	$/bbl	99.79	6.47	40.1	-4.53	25.5	-17.0	78.05	76.21	85.24	94.60	102.34	89.54	**104.50**	**113.50**	**122.50**
Brent Crude Oil	$/bbl	110.82	0.91	37.9	-2.14	25.0	-7.7	79.41	76.96	87.45	105.52	116.99	112.09	**117.50**	**120.00**	**127.50**
RBOB Gasoline	$/gal	2.54	-0.14	37.9	0.84	32.3	-3.6	2.17	2.00	2.22	2.68	3.10	2.89	**3.06**	**3.11**	**3.12**
NYMEX Heating Oil	$/gal	3.02	-0.04	32.1	-0.85	20.8	-3.1	2.11	2.06	2.36	2.82	3.05	2.98	**3.19**	**3.24**	**3.49**
NYMEX Nat. Gas	$/mmBtu	3.63	-0.29	34.8	2.25	58.8	8.1	4.35	4.23	3.98	4.20	4.38	4.06	**4.50**	**4.25**	**4.25**
UK NBP Nat. Gas	p/th	58.23	-4.21	30.8	-1.52	33.0	-19.9	37.48	42.68	51.74	56.77	58.04	57.03	**66.40**	**66.20**	**87.70**
Industrial Metals[4]																
LME Aluminum	$/mt	1996	-246	26.3	-0.57	26.6	-6.2	2122	2110	2365	2531	2618	2430	**2300**	**2400**	**2650**
LME Copper	$/mt	7490	-685	39.8	-3.26	28.3	-28.9	7042	7278	8614	9629	9163	8993	**8000**	**9000**	**9500**
LME Nickel	$/mt	17050	-2650	39.9	-0.22	29.5	-26.0	22431	21271	23619	26926	24191	22037	**18500**	**19000**	**21000**
LME Zinc	$/mt	1958	-27	38.0	1.48	33.3	-7.9	2052	2043	2333	2414	2271	2247	**2050**	**2200**	**2400**
Precious Metals																
COMEX Gold	$/troy oz	1713	-34	26.5	-2.55	22.3	-0.6	1197	1228	1370	1388	1508	1704	**1785**	**1840**	**1940**
COMEX Silver	$/troy oz	32.0	-3.5	46.9	-6.15	38.2	-21.9	18	19	26	32	38	39	**29.8**	**30.7**	**32.4**
Agriculture																
CBOT Wheat	Cent/bu	595	-50	31.9	-0.08	32.7	-17.5	467	653	707	786	745	690	**670**	**640**	**590**
CBOT Soybean	Cent/bu	1125	-92	22.1	-0.33	21.7	-7.0	957	1035	1245	1379	1361	1356	**1220**	**1250**	**1200**
CBOT Corn	Cent/bu	598	-57	30.4	-1.11	24.0	-12.7	355	422	562	670	731	696	**685**	**650**	**550**
NYBOT Cotton	Cent/bu	93	-12	n/a	n/a	30.7	3.1	81	87	128	179	156	106	**90**	**85**	**85**
NYBOT Coffee	Cent/bu	225	-10	n/a	n/a	25.3	-17.4	140	174	205	257	271	256	**235**	**200**	**175**
NYBOT Cocoa	$/mt	2177	-571	n/a	n/a	40.4	15.1	2987	2863	2856	3307	3043	2962	**2450**	**2450**	**2450**
NYBOT Sugar	Cent/lb	23.5	-2.7	30.1	-2.51	22.0	-20.2	16	20	29	31	24	29	**22.0**	**22.0**	**22.0**
CME Live Cattle	Cent/lb	120.6	1.5	n/a	n/a	15.5	0.8	94	95	101	111	111	115	**130.0**	**125.0**	**130.0**
CME Lean Hog	Cent/lb	88.0	1.3	n/a	n/a	12.4	-8.3	82	80	71	86	94	94	**95.0**	**95.0**	**95.0**

[1] Monthly change is difference of close on last business day and close a month ago.
[2] Monthly volatility change is difference of average volatility over the past month and that of the prior month (3-mo ATM implied volatility, 1-mo realized volatility
[3] Price forecasts refer to prompt contract price forecasts in 3-, 6-, and 12-months time.
[4] Based on LME three month prices.

Source: Goldman Sachs Global ECS Research.

S&P GSCI Enhanced Commodity Index® and strategies' total return and forecasts[1]

	Current Weight (%)	2009	2010	2011 YTD	12-Month Forward 12-mo Forecast
S&P GSCI Enhanced Commodity Index	100.0	21.6	12.2	1.0	15.0
Energy	70.5	23.8	5.9	5.1	18.9
Industrial Metals	6.6	82.7	16.5	-16.8	26.4
Precious Metals	3.9	25.2	34.5	19.3	5.0
Agriculture	14.5	3.6	33.7	-10.1	-5.1
Livestock	4.6	-11.3	18.5	1.0	10.5

[1]YTD returns through October 31, 2011.

Source: Standard & Poor's, Goldman Sachs Global ECS Research.

Threading the needle between economic crisis and tight supply

Even as the European debt crisis intensified during November, unlike other financial markets, commodity markets traded mostly sideways, ending the month up 1%. This is a reflection of the two offsetting, but intensifying forces commodity markets face, as they continue to navigate between a potential economic crisis whirlpool on one side and rocks on the other side, which the market will likely run up against should demand not falter and supply constraints force price spikes to balance the market. We continue to emphasize that concerns about being pulled under by the whirlpool have pushed key commodity prices too low relative to current fundamental balances, as evidenced by exceptionally sharp inventory draws in oil and base metals that further accelerated in November.

Not only did weak supply growth in key commodity markets like crude oil and copper contribute to these draws, but equally important has been the significant amount of de-stocking that has occurred to hoard cash or eschew financing arrangements in the event that the European debt crisis creates a global financial crisis. In other words, the seemingly growing belief that the whirlpool cannot be avoided has pushed the market ever closer to the rocks. Reinforcing this course that continues to narrow has been unexpectedly resilient economic and commodity data in the US. Nevertheless, the European debt crisis remains a very real threat, as demonstrated by the rolling crises that characterized Europe over the past month.

As our economists roll out their 2013 global GDP forecast that calls for an edging back towards, but still below, trend growth, at 4.1%, the real concern facing the market is the more near-term outlook for 2012 where they have further reduced their global GDP forecast from 3.4% to 3.2% due to an expected worsening in the European situation before it gets better. This reduced outlook for growth, but avoidance of global recession, makes it more likely that commodity markets can maintain a central course between the whirlpool of a world economic recession and the rocks of potential shortages. Accordingly, we are maintaining our 2012 commodity market outlooks, with an end-of-2012 price forecast for Brent oil of $127.50/bbl and for LME copper of $9,500/mt. We are also introducing an end-of-2013 price forecast for Brent oil of $135/bbl, reflecting the modest recovery in economic activity into 2013 (see November 30, 2011 Energy Watch).

The key to these commodity forecasts is that the economic problems in Europe are suppressing demand sufficiently to keep the markets from slamming into supply constraints, but are not sufficient to create significant surpluses. This threading the needle between these two intensifying risks creates substantial risks to our central forecasts for both 2012 and 2013. However, we see the risks skewed to the upside in 2012 but skewed to the downside in 2013. Clearly, the European debt crisis remains a significant downside risk in 2012, but as we have emphasized in the past, as long the risks manifest themselves in economic weakness and not in financial stress that would likely precipitate a global recession (via trade credits and banking systems), it is unlikely to severely impact commodity markets.

This was the lesson from 2008, as the US was in recession starting in December 2007 and Europe was in recession by May 2008, but commodity markets traded higher as emerging market economic activity and commodity demand remained strong until financial stress created a global recession. As our economists still forecast Chinese GDP growth at 8.6% for 2012 and are introducing an 8.7% forecast for 2013, reinforced by recent signs of policy easing in China, emerging market demand for commodities is expected to be sufficient to keep markets tight globally even as Europe falls into recession. This ever-increasing dependence of commodity markets on emerging markets has created a nearly complete decoupling of commodity demand, as for oil in 2012 we expect emerging market oil demand to rise by 1.25 million b/d against a decline of 0.25 million b/d in the developed markets, leading to global growth of 1.0 million b/d.

Against this demand backdrop, increasingly tighter physical markets driven by de-stocking and increasing supply disappointments, leave many commodity markets extremely vulnerable to the upside in the near- to medium-term. In fact, for the oil market, the end of 2011 looks very similar to the end of 2007, when very tight physical markets sent prices soaring in 2008 despite the United States being in recession. However, unlike in 2007-2008 when China was slowing, in 2012 China is likely to re-accelerate. All of this creates a very real risk for a significant oil price spike in 2012 that could threaten world oil demand and economic growth. If either of these risks – an oil price spike or a global economic recession triggered by the European debt crisis – were realized in 2012, they would likely lead to lower commodity demand in 2013, skewing 2013 price risks to the downside.

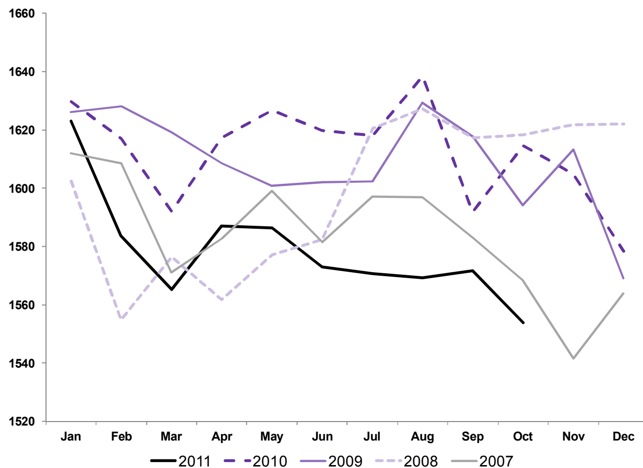
On net, while we maintain our 12-month Overweight allocation to commodities with a 12-month forecasted return of 15%, the risks to this view are skewed to the upside, particularly given the return of significant backwardation to the oil market that could become a very large driver of returns should physical markets tighten much more than expected. In 2008 markets were overly focused on the sharp rise in commodity prices, but ultimately it was the financial sector that proved to be the far greater risk. In 2012 we could see the opposite, with markets overly focused on the whirlpool of an economic crisis, hitting the rocks of supply constraints could potentially pose a greater risk, which paradoxically is being exaggerated by the fear of the whirlpool itself via de-stocking.

Petroleum: +11.1% ytd through November 29, 2011

The crude oil market continues to navigate between two extremes, with the whirlpool of a threatened global economic recession triggered by the European debt crisis on the one side and the rocks of extremely tight physical oil markets on the other. As we roll out our 2013 oil price forecasts, the difficulties that the oil market will face maintaining a central course between these two extremes seem even greater. We are maintaining our 2012 average Brent crude oil price forecast of $120/bbl and have introduced a 2013 forecast of $130/bbl (see our GS Energy Watch: *Energy Outlook 2012-13: Whirlpool roars louder, rocks loom larger*, November 30, 2011 for details). These forecasts reflect our view that crude oil prices will need to continue to rise in order to slow demand growth, restraining oil demand in line with limited supplies, even in a relatively poor economic growth environment. We are also maintaining our 2012 WTI crude oil price forecast of $112.50/bbl and have introduced a 2013 WTI crude oil price forecast of $126.00/bbl, reflecting our view that the WTI-Brent spread will likely compress further from rail economics toward pipeline economics in 2013 as the Seaway pipeline is scheduled to increase capacity to 400 thousand b/d.

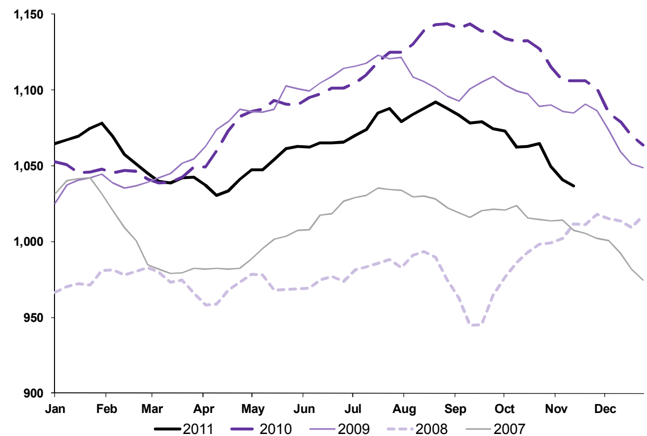
We continue to see substantial risks to our crude oil forecasts for 2012 and 2013. In 2012, we believe that the risk is skewed to the upside. Although the European debt crisis remains a significant downside risk to oil prices in 2012, we believe that like in 2H07, extremely tight physical markets may have set the stage for oil prices to move sharply higher first (see Exhibits 1 and 2). This would be similar to what took place in 1H08, when crude oil prices hit record highs over $145/bbl, with the potential damage to world oil demand from the feared global economic recession realized only afterward. If either of these two extreme outcomes – a crude oil price spike driven by the extremely tight physical markets like the one experienced in 1H08 or a global economic recession triggered by the European debt crisis – were realized in 2012, they would likely lead to sharply lower oil demand in 2013. Consequently, we believe that the risk to our 2013 crude oil price forecasts is skewed to the downside.

Exhibit 1: OECD total petroleum inventories outside of the United States are at exceptionally low levels…
Million barrels



Source: IEA, DOE and Goldman Sachs Global ECS Research.

Exhibit 2: … and US total petroleum inventories have been drawing rapidly.
Million barrels



Source: DOE and Goldman Sachs Global ECS Research.

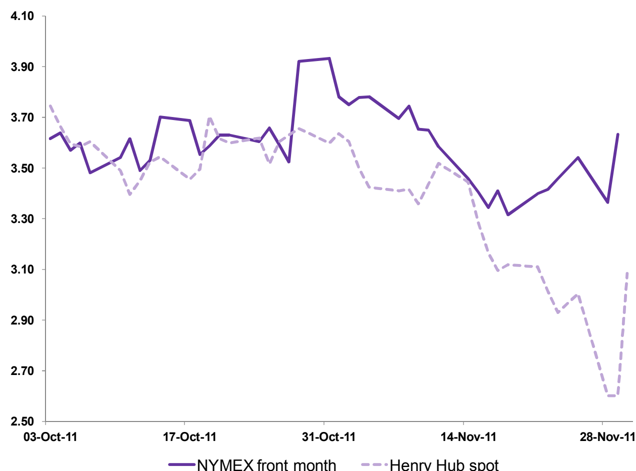
U.S. Natural gas: -30.7% ytd through November 29, 2011

NYMEX natural gas prices declined in November after stabilizing in October, as ongoing production growth and a delayed start to the winter have resulted in a soft balance and contributed to record-high inventory levels. Specifically, front-month NYMEX prices dropped $0.30/mmBtu on the month, with Henry Hub spot prices declining $0.52/mmBtu. These declines highlight the softness in physical markets owing to recent milder-than-normal weather – leading to seasonally low heating demand in key consumer areas of the United States – and impressive production growth out of the Marcellus Shale in particular (see Exhibit 3).

US natural gas inventories ended October at 3.81 Tcf, and have since continued to build to an all-time high just above 3.85 Tcf as of November 18 (see Exhibit 4). The arrival of colder winter weather expected over the next week is likely to drive heating demand higher and lead to inventory declines in the near future, as well as support front-month prices in coming months. However, the continued strength on the production side presents risk that the balance will be softer next year relative to this year. Importantly, we do not expect a demand response that is large enough to compensate for continued strong production growth next year, even after embedding CSAPR-driven coal-to-gas switching from the beginning of next year. In addition, a return to more normal weather this winter and next summer would mean markedly less demand on a year-over-year basis.

Accordingly, we see clear downside risk to our $4.25/mmBtu average price forecast for 2012, and in particular to our $4.00/mmBtu forecast for 3Q12, as we see increasing risk that inventories may approach full towards the end of the 2012 summer (estimated at around 4.15 Tcf).

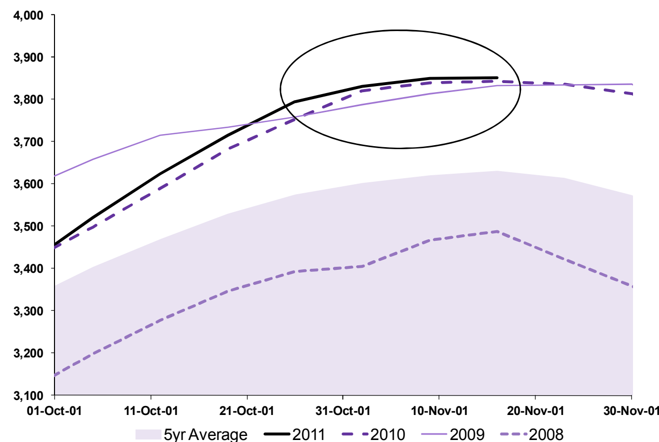
Exhibit 3: NYMEX natural gas prices declined in November after stabilizing in October
$/mmBtu



Source: Goldman Sachs Global ECS Research.

Exhibit 4: US natural gas inventories are at an all-time high

US working gas inventories, Bcf



Source: US Department of Energy (DOE).

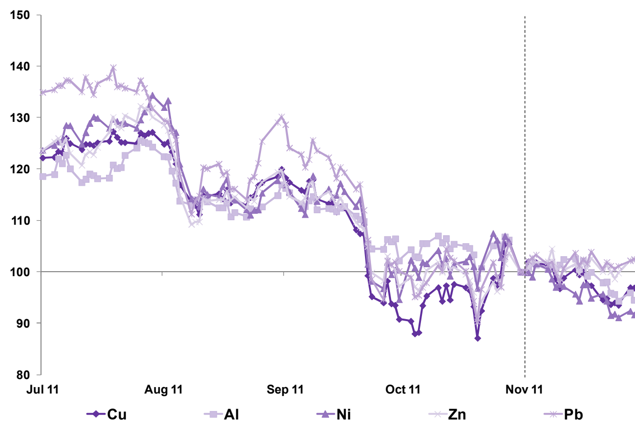
Industrial Metals: -23.1% ytd through November 29 2011

Most metals prices fell significantly over the month of November, with nickel and aluminum retracing their October lows. The exceptions were zinc and lead, which were broadly flat over the month (see Exhibit 5). Continued weakness in European metals consumption, de-stocking in Europe, and a further slowing in some metal-intensive Chinese end-use markets placed downward pressure on prices over the month.

From a metal-specific perspective, nickel and aluminium underperformed owing to an increase in metal availability, with aluminium increasingly widely available in Europe, and LME nickel stocks posting their largest weekly increase since the beginning of 2010. By contrast, zinc and lead prices outperformed in November in large part owing to continued LME stock withdrawals over the month.

Concerns about the turmoil in Europe continue to overhang the metals markets and will understandably remain the main market focus in the short term. However, we would note that the contraction in European metals demand has been sharp already (in part owing to unsustainable de-stocking) and some Chinese end use sectors have recently slowed significantly. Looking ahead, we expect that an end to de-stocking in Europe, Chinese policy easing and solid construction activity (underpinned by the build out of social housing) will act as upside catalysts for metals prices in 1H12. In copper's case, substantial upside risks may also come from any further issues with mine production, which has disappointed substantially this year (see Exhibit 6). Continued disruption at the Grasberg mine in particular presents a meaningful upside risk to our already constructive copper forecast in 1H12.

Exhibit 5: Mixed metals price movements in November
$/mt



Source: Reuters, Goldman Sachs Global ECS Research.

Exhibit 6: Global copper mine supply down YoY in 2H11
% Change YoY

Source: Company Reports, Goldman Sachs Global ECS Research estimates.

Precious Metals: +17.6% ytd through November 29, 2011

After rallying back to $1,800/toz in early November, gold prices have receded to $1,700/toz with this move lower coinciding with rising US real rates. In particular, after sharply disconnecting with US real rates in September, gold prices have returned to trading inversely with 10-year TIPS since late October (Exhibit 7).

As we expect that gold prices will continue to be driven in large measure by the evolution of US real interest rates and with our updated US economic outlook pointing to continued low levels of US real rates in 2012, we continue to recommend long trading positions in gold. Should 10-year US TIPS yields remain close to their current levels of 0 bp, our gold pricing model suggests that gold prices between $1,800-$1,900/toz would be well supported (see Exhibit 8) and our 12-mo price forecast remains $1,940/toz. Further, we continue to see the European financial crisis as skewing the balance of risks to higher gold prices.

While TIPS yields near 0 bp is quite low, there is a compelling case that US TIPS yields will remain low for longer. Specifically, our US economics team continues to expect sluggish and below-trend economic growth in 2012, which is supportive of low US real rates. The case for low real rates was strengthened also by the September announcement by the Federal Reserve of another significant monetary easing step, lengthening the average duration of its balance sheet. Given our US economists' cautious economic outlook and the significant downside risks associated with the European turmoil, additional Fed easing might well be needed.

Exhibit 7: Gold prices in November have tracked changes in US real interest rates
USD/toz (left axis); % yield (right axis, inverted)

Source: US Federal Reserve Board (FRB), COMEX.

Exhibit 8: We expect US real rates will remain lower for longer, supporting gold prices
Real interest rates are the key determinant of gold prices over the medium term under stable monetary demand

US 10 yr TIPS yield % per annum	Front-month gold price 2011 USD/toz
0.00	1884
0.50	1645
1.00	1437
1.50	1255
2.00	1096
2.50	957

Source: FRB, COMEX, Goldman Sachs Global ECS Research.

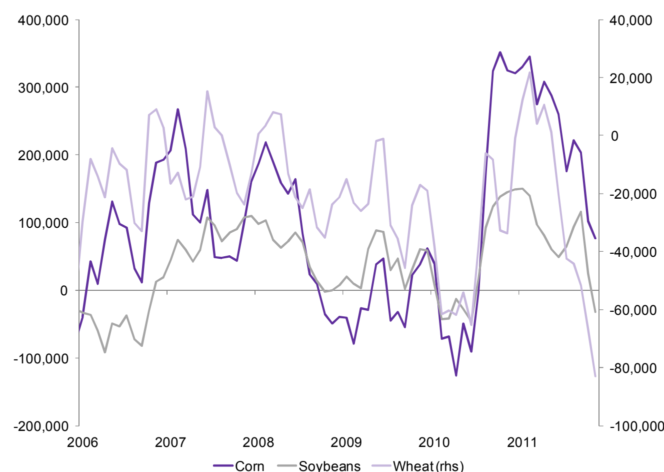
Agriculture: -17.3% ytd through November 29, 2011

While the USDA's November WASDE release resolved the uncertainty on the size of the US crops, demand uncertainty remains elevated for the 2011/12 marketing year. With no data to help track the pace of US crop consumption until mid-January, crop prices have been driven by external forces with the surging concerns over the European sovereign debt issues pushing crop prices sharply lower. Specifically, corn and wheat prices underperformed, down 10% since the WASDE on November 9, with soybean prices down only 7%. This decline in prices has coincided with a large decline in positioning, as reported by the CFTC Commitment of Traders report (see Exhibit 9).

We have adopted the USDA's lower corn production estimate but forecast a slightly tighter US corn balance on stronger US domestic demand. As a result, we reiterate our forecast for higher corn prices with our 3- and 6-month price forecasts above the forward curve at $6.85/bu and $6.50/bu, respectively. With corn prices currently back below $6.00/bu, we see growing risks that prices remain below levels needed to limit demand growth, further drawing already low corn inventories. We note however, that upside to corn prices remains limited as we expect a sequential decline in US corn grind for ethanol and feed demand in 2012. Further, large foreign corn and wheat supplies will help keep US corn exports at low levels.

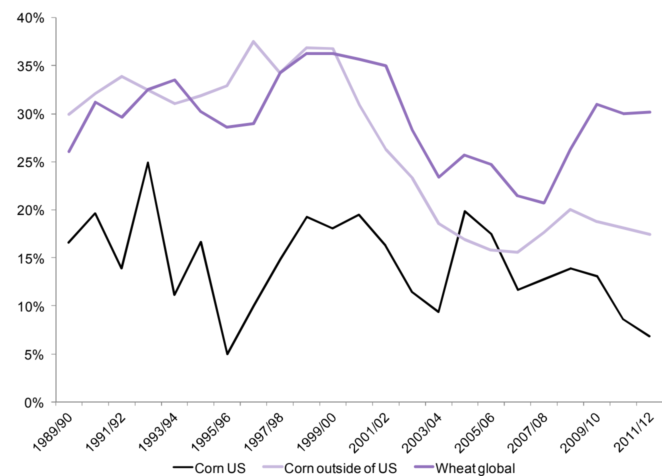
Our expectation for low corn inventory coverage, combined with large wheat supplies and improving prospects for South American soybean production, lead us to expect that corn prices will continue to trade at an historically large premium to both soybean and wheat prices in coming months. In particular, we expect that wheat prices will trade at a discount to corn prices until next summer. While we continue to expect soybean prices will outperform corn prices over the next 12 months, the favorable South American weather conditions have led us to recently lower our soybean forecasts, to $12.20/bu, $12.50/bu and $12.00/bu on a 3-, 6- and 12-month horizon, respectively.

Exhibit 9: Crop prices have declined strongly with positioning down sharply over the past month
Non-Commercial and non-reportable net positions, in number of contracts



Source: CFTC, Goldman Sachs Global ECS Research.

Exhibit 10: The US corn balance remains the tightest but large foreign corn and wheat supplies will help manage export demand
Stocks-to-use ratio



Source: USDA, Goldman Sachs Global ECS Research.

Livestock: +1.1% ytd through November 30, 2011

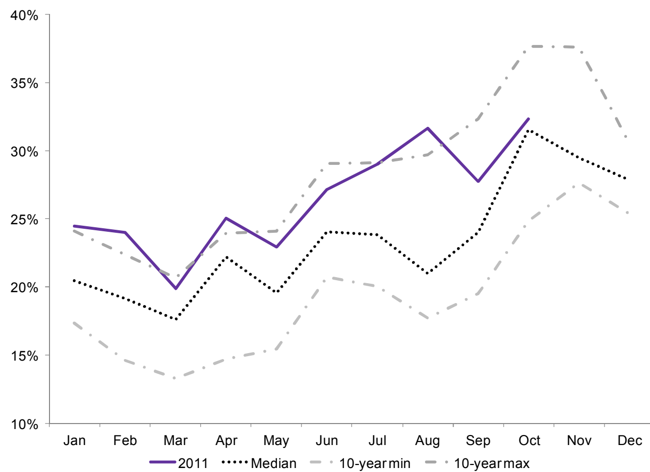
Livestock returns were range-bound in November. Despite strong cattle slaughter expected in the coming months, we continue to believe that live cattle prices will outperform lean hog prices into 2012 on sharply lower cattle on feed placements against a modest hog herd expansion.

While positive cattle margins have supported placements recently, we continue to expect sharply lower placements of cattle on feed in 2012 given tight feeder cattle availability. Feeder cattle supply has declined as a result of both strong placements on elevated deferred margins earlier this year as well as the persistent US drought. In contrast, we see risks of further modest expansion of the US hog herd on continued positive margins and a rise in litter rates.

We expect that demand for meat will continue to improve, driven largely by strong EM income growth with the USDA expecting further growth in exports in 2012. US exports have increased significantly this year, supported by strong imports by Japan and South Korea, which are among the largest importers of both US pork and beef.

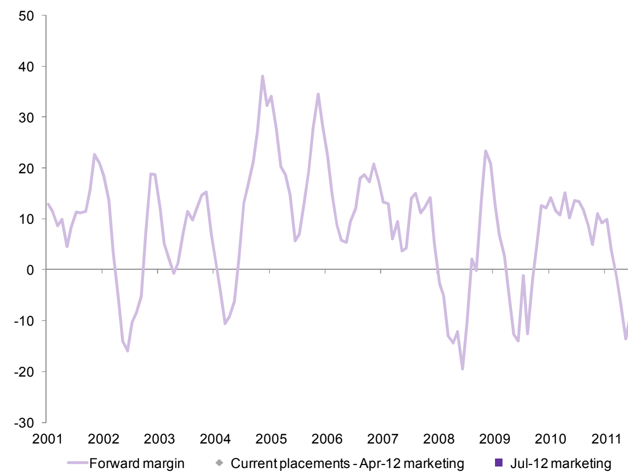
On net, we expect a tighter live cattle balance in 2011/12 to support prices and our 3- to 12-mo price forecasts remain 130 cents/lb, 125 c/lb and 130 c/lb. Our 3- to 12-month lean hog forecast remains 95 cents/lb.

Exhibit 11: Lightweight cattle on feed placements have increased in 2011, pointing to tighter feeder cattle supply
Share of placements weighing less than 600 lbs



Source: USDA, Goldman Sachs Global ECS Research.

Exhibit 12: Hog margins have surged, likely supporting hog herd expansion
Wean to finish crush margin, $/head



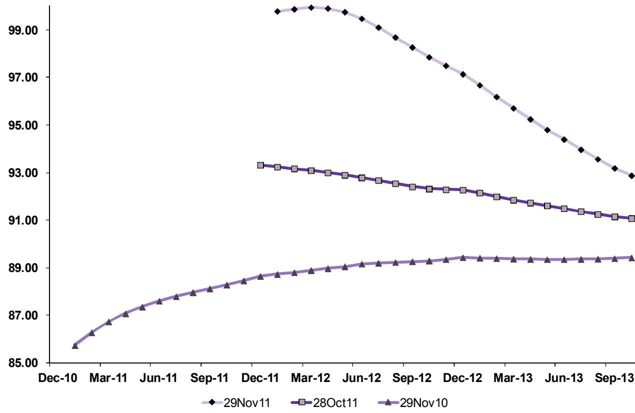
Source: USDA, CBOT, Iowa State University, Goldman Sachs Global ECS Research.

Commodities in a nutshell

Commodities	Recent events/outlook and key issues	12-m price forecasts
Energy		
WTI Crude Oil	The WTI-Brent spread narrowed further following the announcement of the Seaway pipeline reversal. We expect that more crude oil will flow from the US Midwest to Cushing in anticipation of the reversal of the Seaway in 2Q12, leading to a build in Cushing inventories. However, we believe that the current level of prompt WTI-Brent spreads, and the Canadian Mixed Sweet (MSW) – WTI spread in particular, would lead Cushing inventories to build to an excessively high level prior to the reversal of the Seaway. Consequently, we expect near-dated WTI-Brent spreads to widen. However, longer-dated WTI-Brent spreads have more room to narrow toward our 12-month target of -$5.00/bbl, in our view.	$122.50/bbl
Brent Crude Oil	With world economic growth continuing to drive world oil demand growth well in excess of non-OPEC production growth, the oil market continues to draw on inventories and OPEC spare capacity in order to balance. In our view, it is only a matter of time until inventories and OPEC spare capacity become effectively exhausted, requiring higher oil prices to restrain demand, keeping it in line with available supplies. While near-term downside risk remains as the oil market navigates the impact from European sovereign debt issues on the pace of world economic growth, we believe that the market will continue to tighten throughout 2012, pushing oil prices substantially higher to restrain demand.	$127.50/bbl
RBOB Gasoline	Gasoline margins against LLS and Brent have collapsed over the past week, in line with the substantial narrowing of the WTI – Brent differential. US gasoline demand remains weak and gasoline inventories are still relatively high compared to other petroleum stocks such as middle distillates. While we continue to believe that upside risks on gasoline cracks are likely limited over the medium term given the expansion in refining capacity over the past few years, we don't expect the current negative crack spreads for East Coast refiners to be sustainable and we expect to see some recovery going into next year.	$3.12/gal
USGC Heating Oil	While US distillate stocks started 2011 well above last year's levels, inventories have declined sharply over the past weeks. This supporting trend is driven primarily by strong export demand from Latin America and increasingly Europe rather than domestic demand, which remains well below last year's levels. We expect this export demand to continue this winter, likely supported by diesel-fired electricity generation demand in China and Japan.	$3.49/gal
NYMEX Nat. Gas	US natural gas prices have generally declined in recent months, mainly driven by continued strong production growth. Going forward, we believe that the overall balance is likely to remain soft as production continues to outpace demand, although increased heating-related gas demand may provide support to prices in the short term. Accordingly, while we maintain our 4.25/mmBtu average NYMEX natural gas price forecast for 2012, we believe risks to this forecast are substantially skewed to the downside.	$4.25/mmBtu
UK NBP Nat. Gas	UK NBP prices declined substantially in November, as mild weather kept natural gas demand well below previous years' levels. We maintain our constructive view on 2012 NBP prices relative to the forward curve, especially in 2H2012, assuming a return to normal weather and sequential improvement in economic activity relative to the 2011/2012 winter.	87.70 p/th
Industrial Metals		
LME Aluminum	The aluminum market has continued to soften over the past month, evidenced in particular by falling physical premia across most regions. We believe that there is upside to prices over the next 3-12 months. The market is set to remain much closer to balance than many market participants expect, particularly in China, and rising Chinese costs of production for high-cost producers (particularly in USD terms) will remain supportive. Although broadening Eurozone sovereign pressures pose downside risk to our forecasts in the very short term, we still expect bullish price catalysts, including Chinese power shortages in some major aluminum producing regions and stronger oil prices, will be supportive for prices.	$2650/mt
LME Copper	Although our long copper position opened in May 2011 remains substantially under water, our 12-mo copper price target of $9,500/mt suggests substantial upside from current depressed levels. We expect that an end to de-stocking in Europe, Chinese policy easing and solid construction activity (underpinned by the build out of social housing) will act as upside catalysts for copper prices in 1H12. In addition, copper supply disruptions are presenting significant upside risks to copper at present. Industrial action is ongoing at one of the world's largest mines – Freeport's Grasberg mine – with mine output having stopped completely in late October, further tightening the concentrate market.	$9500/mt
LME Nickel	Nickel underperformed in November, with stocks rising over the month. We continue to expect a small nickel surplus in 2012 as new production comes online. As both demand and sentiment towards demand recovers through 2012, we expect high cost nickel pig iron will still be needed to clear the market. European turmoil and the knock-on effect to economic growth remains the key downside risk to our nickel forecasts.	$21000/mt
LME Zinc	Zinc price were broadly flat in November, and are still low enough to motivate reduced production in coming months. On net, we continue to believe that a lessening in fears with regards to European sovereign debt and a perceived easing in Chinese policy will see zinc prices rebound. European turmoil and the knock-on effect to economic growth remains the key downside risk to these views. Medium-term, we continue to expect zinc to become more supply-constrained owing to growing demand from China as well as important mine closures that are set to take place in 2013-15.	$2400/mt

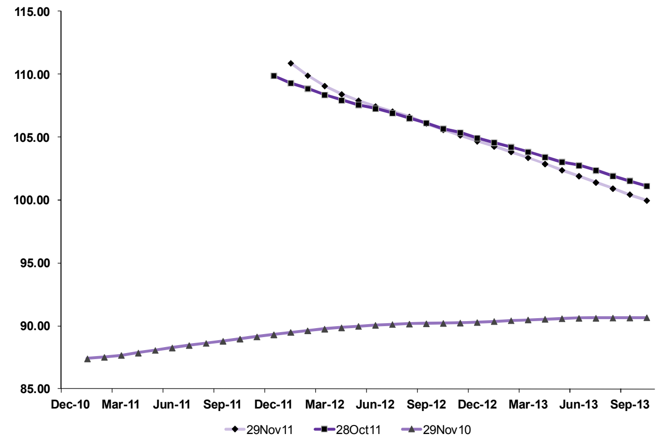
Commodities	Recent events/outlook and key issues	12-m price forecasts
Precious Metals		
London Gold	We expect the low US real interest rate environment, combined with continued Central Bank buying will continue to provide support for gold prices. Further, with our US economics team expecting US economic growth to remain slow through 2012, we expect US real interest rates will remain lower for longer. Consequently, we expect gold prices to continue to rise through 2012, reaching $1,940/toz in 12 months.	$1940/toz
London Silver	Over the long run, silver prices tend to track gold prices. Thus, our silver forecast reflects the historical ratio to gold.	$32.4/toz
Agriculture		
CBOT Corn	Corn prices sold off sharply after the November WASDE to below $6.00/bu on both ongoing concerns for the European sovereign debt crisis as well as expectations for weaker US domestic demand in 2012. While we acknowledge limited growth in ethanol production, lower US feed demand and exports in 2011/12, we believe that corn prices are too low to limit demand growth in the face of low corn inventories. As a result, we continue to expect higher corn prices over the next six months. We also expect that corn prices will remain elevated relative to wheat and soybean prices.	550c/bu
CBOT Soybean	Soybean prices sold off sharply in November on continued favorable weather conditions in South America, weak US exports and ongoing concerns for the European sovereign debt crisis. We expect that soybean prices will continue to trade at historically low levels relative to corn prices in the near term. But we expect that soybean prices will outperform corn prices over the next 12 months, on either a return of La Niña weather conditions this winter, a ramp up in Chinese imports or a loss of acreage to corn next spring in the US.	1200c/bu
CBOT Wheat	Wheat prices followed corn prices lower in November, and continue to trade at a discount to corn prices. The November WASDE confirmed that the global and US wheat markets are amply supplied, especially relative to the tight US corn market. The confirmation of these high wheat supplies despite stronger global feed demand lead us to expect that wheat prices will continue to trade at a discount to corn prices in the coming months, with the outperformance of wheat relative to corn prices likely now deferred until at least next summer.	590 c/bu
NYBOT Cotton	Cotton declined swiftly in November to settle near our 3-mo forecast of 90c/lb on both the ramp up in India's and Pakistan's harvests and ongoing concerns over the European sovereign debt issues. While the USDA'S November WASDE continued to point to large recoveries in US and global cotton inventories in 2011/12, strong import demand by China to rebuild reserves will likely limit further large prices declines.	85 c/lb
NYBOT Coffee	After a brief rally in early November, coffee prices ended the month unchanged as concerns over potential losses in production were offset by ongoing concerns over the European sovereign debt crisis. We expect lower global 2011/12 production (on Brazil's off-year of the Arabica plants two-year cycle), strong EM demand growth and low beginning stocks to keep prices elevated and our 3-mo price forecast remains 235 c/lb. While Brazil is expected to have a record off-year harvest in 2011/12, we see risk to our short-term price forecast as skewed to the upside: (1) Colombia has revised its production estimate lower for 2011 for the second time in two weeks on disease outbreak and adverse weather, (2) recent torrential rains in Central America have likely caused damage to both the local crops and infrastructure, and (3) forecasts for a return of the La Niña weather pattern this winter creates downside risk to Brazilian production. Over the medium term, we expect a continued supply response to the current high coffee prices during the 2012/13 crop year with a large "on-year" harvest in Brazil under average weather conditions. As a result, our 6- and 12-mo price forecasts of 200 c/lb and 175 c/lb, respectively, point to lower coffee prices.	175 c/lb
NYBOT Cocoa	Cocoa prices sold off sharply in November, to reach their lowest levels since March 2009. The sell-off was driven by intensifying concerns on the European fiscal situation, the ICCO's forecast for a slowdown in grindings in 2011/12 as well as decent supply prospects from West Africa. The growing likelihood that global cocoa production exceeds demand for a second year in the 2011/12 season that started last month is leading us to lower our 3- to 12-month forecasts, which until last month were below cocoa prices, from $2,700/mt to $2,450/mt. Over the longer term, the production outlook for the Ivory Coast remains key as aging orchards, poor infrastructure and political instability have curbed production and investment over the past few years. The introduction of a guaranteed minimum price for farmers by the Ivory Coast government, equal to as much as 60 percent of international prices, could support investment in the sector.	$2450/mt
NYBOT Sugar	Sugar prices declined strongly in November on both growing concerns over the European sovereign debt issues and confirmation of a sequential improvement in supplies from northern hemisphere crops. Specifically, a good monsoon will support India's production with the government allowing exports in the upper range of trade expectations, at 1 million tonnes of white sugar. Further, crushing has started in Thailand, where concerns for supply losses following the floods have eased, and sugar output expected to set a new record. A record production is also expected from Russia, with Ukraine and the European Union also expected to have large crops. Net, we expect this supply response to continue to weigh on prices and reiterate our 3- to 12-mo sugar price forecasts of 22 c/lb. We don't expect a larger decline in prices for now, given Unica's expectations for limited production growth in Brazil for the upcoming 2012/13 season given recent adverse conditions as well as competition from ethanol at those lower prices. The ongoing risk of a return of La Niña weather conditions this winter would present upside risk to our price outlook.	22 c/lb
CME Live Cattle	Live cattle prices were range-bound over the past month. While current large feedlot counts point to large fed cattle supplies in coming months, low feeder cattle inventory will continue to limit placements in coming months and point to strong live cattle prices into 2012.	130 c/lb
CME Lean Hog	While we expect domestic and foreign demand for pork to remain strong this year, larger pig and hog inventory than last year as of September 1 continues to point to a slight expansion of the US hog herd. Further, current elevated hog forward margins create an incentive for herd expansion. As a result, we expect hog prices to underperform relative to live cattle prices in 2012.	95 c/lb

Exhibit 18: NYMEX WTI forward curves
$/bbl



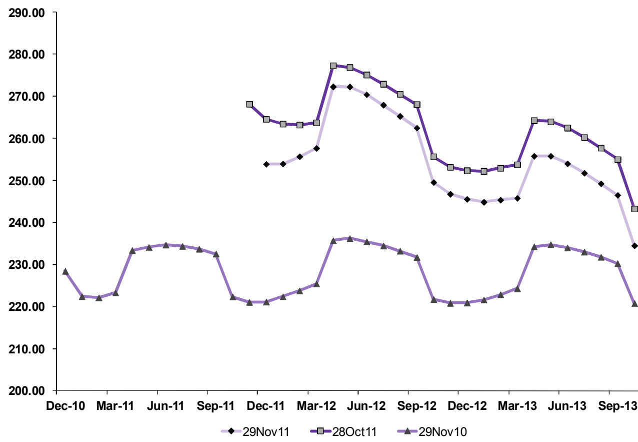
Source: Goldman Sachs.

Exhibit 19: IPE Brent forward curves
$/bbl



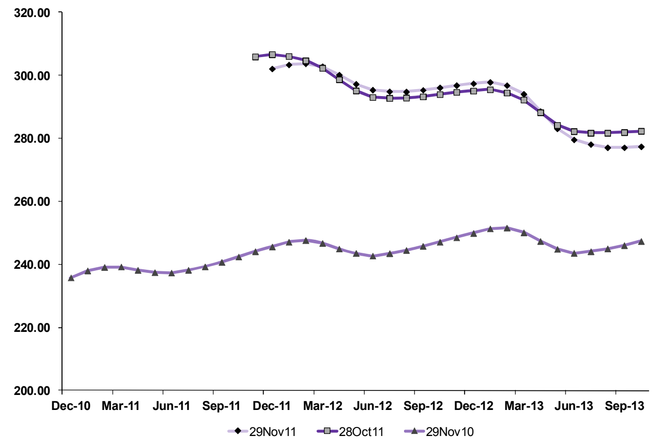
Source: Goldman Sachs.

Exhibit 20: NYMEX gasoline forward curves
Cents per gallon



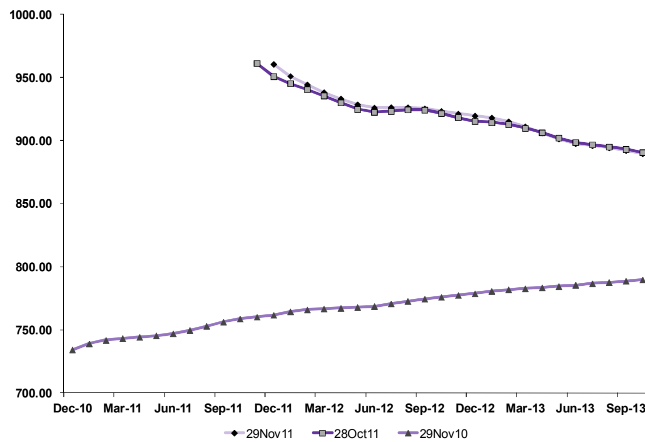
Source: Goldman Sachs.

Exhibit 21: NYMEX heating oil forward curves
Cents per gallon



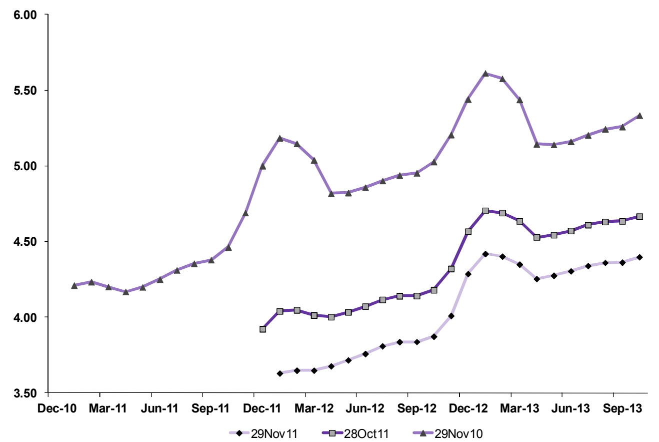
Source: Goldman Sachs.

Exhibit 22: IPE gasoil forward curves
$/mt



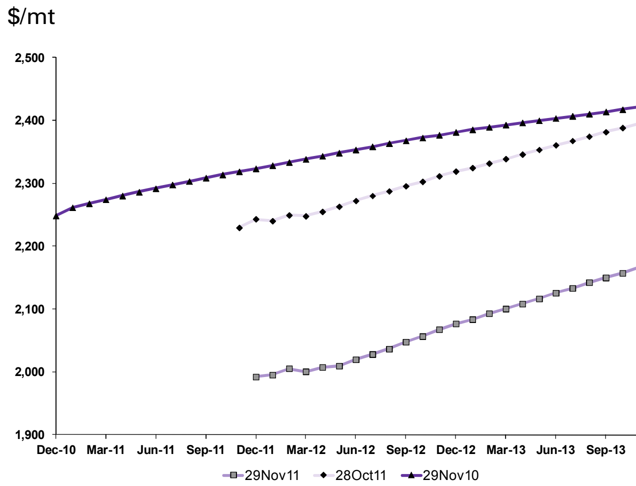
Source: Goldman Sachs.

Exhibit 23: NYMEX natural gas forward curves
$/mmBtu



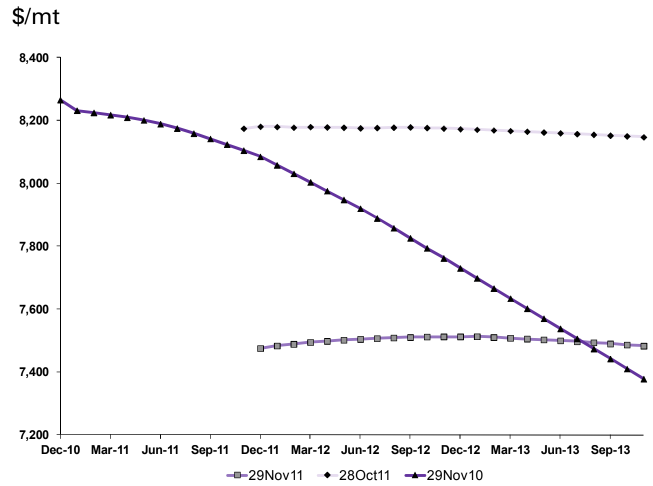
Source: Goldman Sachs.

Exhibit 24: LME aluminum forward curves
$/mt



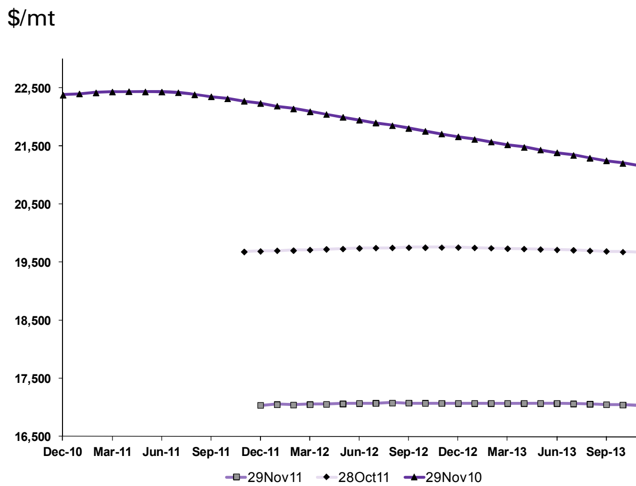
Source: Goldman Sachs.

Exhibit 25: LME copper forward curves
$/mt



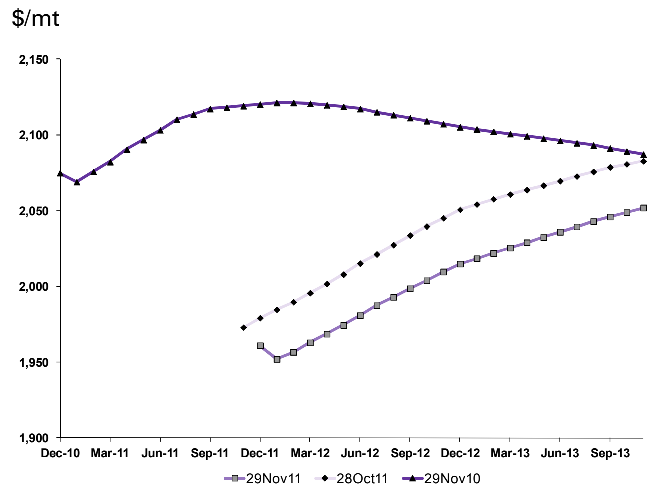
Source: Goldman Sachs.

Exhibit 26: LME nickel forward curves
$/mt



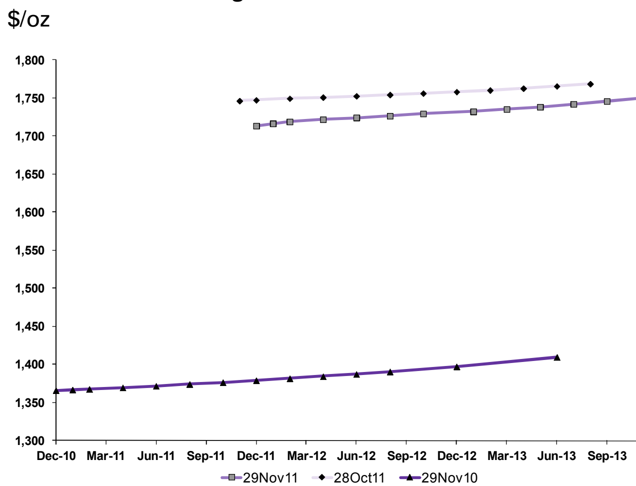
Source: Goldman Sachs.

Exhibit 27: LME zinc forward curves
$/mt



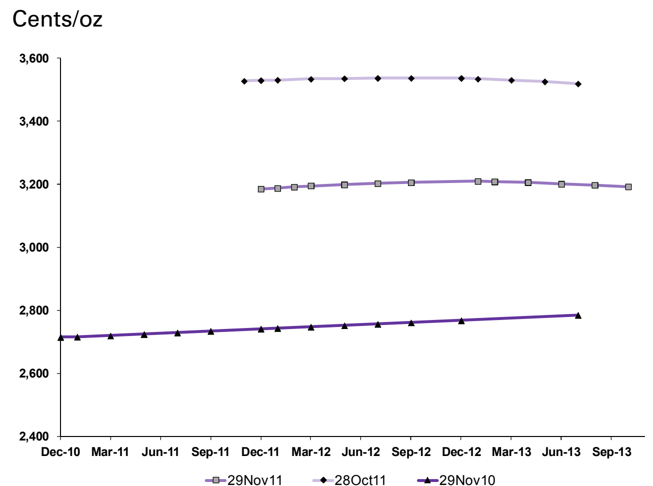
Source: Goldman Sachs.

Exhibit 28: COMEX gold forward curves
$/oz



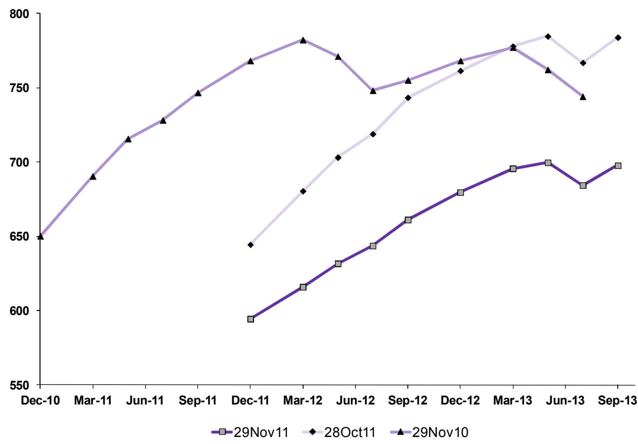
Source: Goldman Sachs.

Exhibit 29: COMEX silver forward curves
Cents/oz



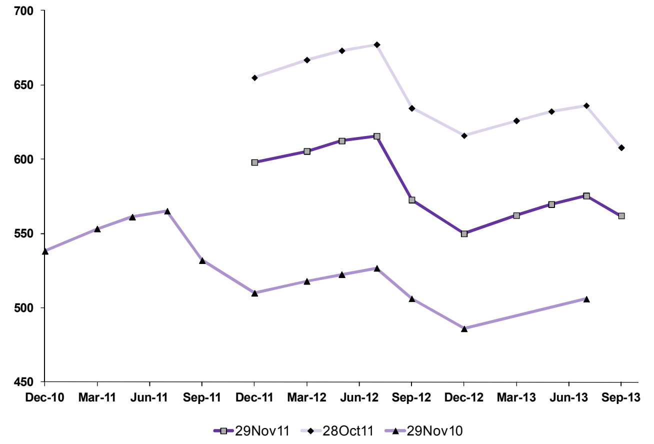
Source: Goldman Sachs.

Exhibit 30: CBOT wheat forward curves
Cents/bushel



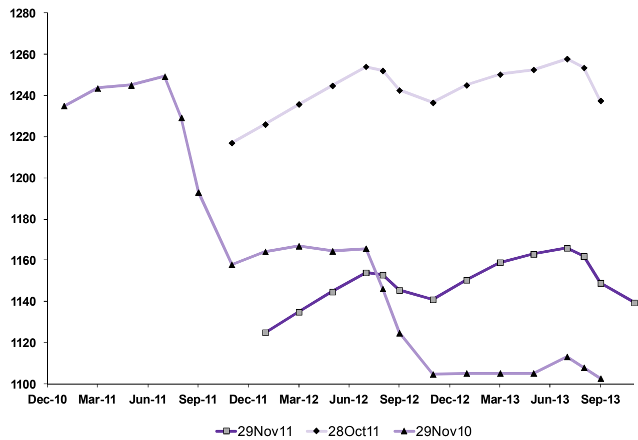
Source: Goldman Sachs.

Exhibit 31: CBOT corn forward curves
Cents/bushel



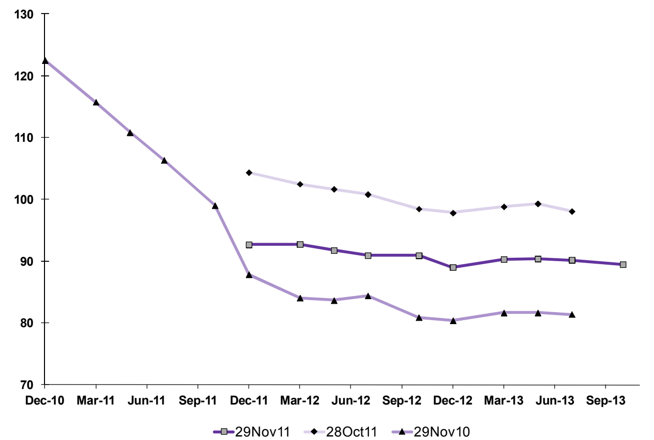
Source: Goldman Sachs.

Exhibit 32: CBOT soybean forward curves
Cents/bushel



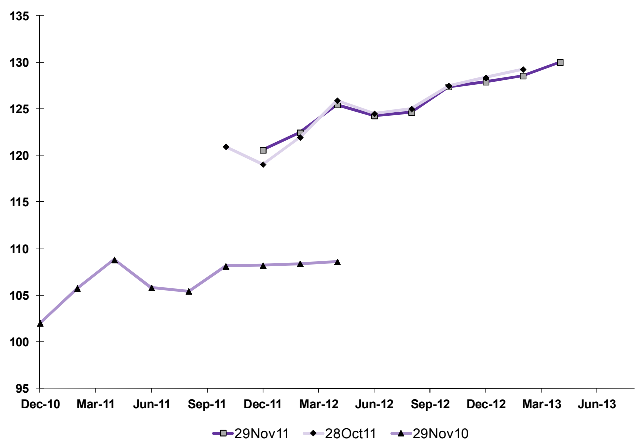
Source: Goldman Sachs.

Exhibit 33: NYBOT cotton forward curves
Cents/lb



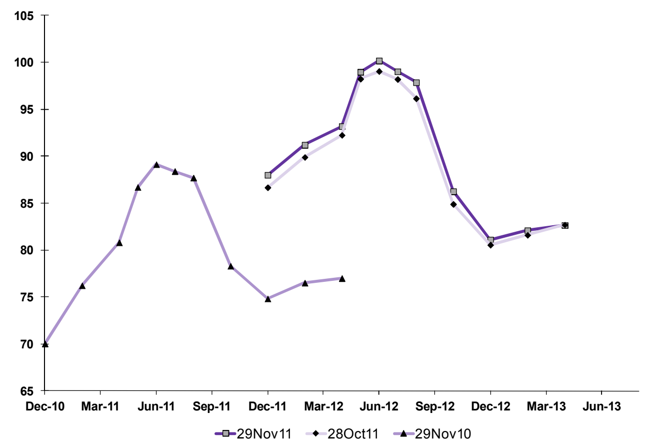
Source: Goldman Sachs.

Exhibit 34: CME live cattle forward curves
Cents/lb



Source: Goldman Sachs.

Exhibit 35: CME lean hog forward curves
Cents/lb



Source: Goldman Sachs.

Exhibit 36: Performance of S&P GSCI Enhanced Commodity Index and Strategies through November 29, 2011

Index and strategies	Dollar Weight	Base Date = 100	29-Nov-11 Level	Total Returns (%)					
				2009	2010	2011 YTD	1-Month Change	3-Month Change	12-Month Change
S&P GSCI Enhanced Index	**100.00**	Dec-69	723.3	21.6	12.2	1.6	-0.8	-1.5	10.3
Energy	65.18	Dec-82	1559.4	23.8	5.9	8.8	2.1	5.9	16.4
Petroleum	57.33	Dec-82	1766.5	31.9	9.5	11.1	2.5	6.9	19.2
Industrial Metals	6.43	Dec-76	226.7	82.7	16.5	-23.1	-8.8	-17.3	-12.4
Precious Metals	3.82	Dec-72	473.8	25.2	34.5	17.6	-2.8	-6.9	23.9
Agricultural	18.80	Dec-69	134.8	3.6	33.7	-17.3	-9.8	-22.3	-5.2
Livestock	5.78	Dec-69	200.4	-11.3	18.5	1.1	-0.2	2.8	4.5
Commodities									
Energy									
WTI	31.98	Dec-86	1949.4	31.9	7.5	3.8	6.3	13.9	11.3
Brent	12.69	Jan-99	1969.5	27.4	12.0	19.5	-0.5	1.1	29.4
Unlead/RBOB Gas	3.39	Dec-87	1881.8	77.7	16.3	13.0	-5.6	-3.8	24.3
Heating Oil	4.82	Dec-82	1142.0	19.0	9.7	17.5	-0.9	1.4	25.3
Gasoil	4.44	Jan-99	1335.5	23.5	11.4	23.7	0.0	1.3	27.9
Natural Gas	7.85	Dec-93	166.6	-34.4	-35.6	-30.7	-6.7	-15.5	-28.3
Industrial Metals									
Aluminum	2.58	Dec-90	76.1	33.7	5.7	-22.0	-11.5	-16.4	-15.2
Copper	2.29	Dec-76	633.8	136.3	29.5	-22.6	-8.3	-17.7	-9.3
Lead	0.33	Jan-95	500.4	132.4	0.5	-20.4	-0.7	-18.7	-7.0
Nickel	0.68	Dec-92	331.5	55.3	32.3	-31.3	-14.3	-20.6	-24.2
Zinc	0.56	Dec-90	128.4	98.6	-9.0	-22.7	0.8	-13.4	-8.9
Precious Metals									
Gold	3.49	Dec-77	451.4	23.0	28.8	20.3	-1.8	-4.2	25.0
Silver	0.33	Dec-72	652.7	47.8	82.0	2.9	-9.1	-21.4	17.1
Agriculture									
CBOT Wheat	5.20	Dec-69	79.4	-24.4	23.2	-35.8	-10.6	-27.6	-27.3
KBOT Wheat	1.23	Jan-99	78.3	-23.9	41.7	-28.4	-11.0	-26.9	-17.9
Corn	4.93	Dec-69	137.2	-9.3	31.9	1.0	-8.3	-21.8	14.3
Soybeans	3.19	Dec-69	334.0	19.3	33.8	-21.1	-9.6	-23.0	-10.9
Cotton	1.06	Dec-76	41.1	32.2	94.5	-20.6	-10.7	-11.2	-0.6
Sugar	1.84	Dec-72	299.9	86.3	20.5	-12.2	-12.5	-19.2	-0.5
Coffee	0.90	Dec-80	73.7	10.7	67.7	-11.1	-4.5	-21.3	5.6
Cocoa	0.45	Dec-83	90.9	18.6	-12.4	-26.1	-16.6	-26.7	-18.6
Livestock									
Live Cattle	3.36	Dec-69	199.6	-5.6	19.4	-1.7	-0.8	2.1	1.3
Feeder Cattle	0.63	Jan-02	152.2	-3.9	19.7	6.8	-0.8	6.3	11.0
Lean Hogs	1.79	Dec-75	205.6	-22.8	16.7	4.7	1.1	3.1	8.7

Note: As of November 29, 2011.

Source: Goldman Sachs Global ECS Research.

Exhibit 37: Performance of equity and bond total returns indices through November 29, 2011

Indices	29-Nov-12 Level	Total Returns in USD (%) 2009	2010	2011ytd	1-Month Change	3-Month Change	12-Month Change
Equity Indices (Quoted)							
US S&P 500	2,048	26.46	15.06	1.30	10.93	(3.10)	8.04
Canada S&P/TSX Composite	32,563	59.03	24.08	(6.90)	10.80	(9.68)	3.14
UK FTSE 100	3,608	43.01	9.19	(0.25)	12.12	(5.81)	2.21
France CAC 40	6,225	31.67	(5.98)	(8.11)	13.06	(14.42)	(11.48)
Germany DAX	5,800	27.83	8.52	(7.65)	16.04	(16.69)	(6.56)
Japan Topix	936	4.72	15.93	(9.57)	(0.79)	(9.24)	(0.32)
HK/China Hang Seng	39,393	56.57	8.30	(11.14)	13.23	(10.89)	(11.83)
Australia S&P ASX 200	31,168	76.76	15.76	(2.76)	17.07	(5.76)	4.05
Singapore STI	3,073	75.29	24.22	(6.00)	11.23	(13.11)	(2.63)
MSCI Equity Indices							
Region (USD)							
All Country World Index	491	35.41	13.21	(3.88)	10.74	(7.45)	1.04
The World Index (DM)	3,921	30.79	12.34	(2.68)	10.37	(6.65)	2.38
EAFE	4,507	32.46	8.21	(6.38)	9.65	(9.95)	(3.65)
Europe	674	38.50	5.07	(5.29)	12.23	(10.89)	(4.89)
Emerging Markets (EM)	1,673	79.02	19.20	(11.27)	13.26	(12.42)	(7.19)
Country (USD)							
USA	4,268	27.14	15.45	1.31	10.99	(3.29)	8.20
Canada	5,450	57.36	21.21	(7.76)	10.48	(9.73)	2.02
France	4,952	33.26	(3.23)	(7.78)	12.86	(14.30)	(10.68)
Germany	4,580	26.56	9.32	(7.80)	16.10	(16.58)	(6.29)
Italy	823	28.00	(14.07)	(12.51)	13.57	(13.88)	(19.82)
Netherlands	10,782	43.04	2.17	(6.38)	13.04	(8.10)	(6.89)
Spain	3,749	45.07	(21.13)	(1.46)	8.86	(8.45)	(13.39)
Switzerland	8,811	26.61	12.86	(2.19)	8.42	(9.95)	2.64
United Kingdom	5,731	43.37	8.80	0.11	12.06	(5.69)	2.40
Japan	3,944	6.39	15.59	(10.97)	(0.25)	(9.82)	(2.17)
Hong Kong	34,289	60.15	23.23	(11.08)	12.54	(11.88)	(9.24)
Singapore	9,094	74.00	22.16	(8.29)	10.58	(13.65)	(4.82)
China	81	62.63	4.83	(12.91)	15.16	(13.95)	(15.78)
Korea	535	72.06	27.15	(4.13)	15.08	(14.28)	4.95
Citigroup World Government Bond Indices (USD)							
Region							
World	N/A	2.55	5.17	N/A	N/A	N/A	N/A
European Union	N/A	5.50	(6.21)	N/A	N/A	N/A	N/A
G7	N/A	0.75	6.30	N/A	N/A	N/A	N/A
Country							
USA	N/A	(4.12)	5.16	N/A	N/A	N/A	N/A
Canada	N/A	14.51	11.34	N/A	N/A	N/A	N/A
United Kingdom	N/A	10.23	2.97	N/A	N/A	N/A	N/A
France	N/A	4.10	(2.27)	N/A	N/A	N/A	N/A
Germany	N/A	3.08	(1.37)	N/A	N/A	N/A	N/A
Italy	N/A	9.46	(7.88)	N/A	N/A	N/A	N/A
Netherlands	N/A	5.07	(1.41)	N/A	N/A	N/A	N/A
Switzerland	N/A	4.90	14.84	N/A	N/A	N/A	N/A
Japan	N/A	(1.83)	16.10	N/A	N/A	N/A	N/A

Note: As of November 29, 2011.

Source: Goldman Sachs Global ECS Research.

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We, Jeffrey Currie, Allison Nathan, David Greely, Samantha Dart, Damien Courvalin, Max Layton, Stefan Wieler, CFA and Johan Spetz, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

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