

## Commodities update

### Aliquot Commodity Fund

- Most commodities gained in July\* as supply constraints and high demand spread across the agriculture and energy markets
- Wheat and sugar led the agriculture market with record monthly gains\* as buyers scrambled to replenish supply
- Crude oil and base metal prices are potentially set to continue rising if the global recovery persists
- Gold is attracting new buyers after a corrective swing in the markets; emerging market demand for bullion continues to rise\*

#### Double-digit gains in agriculture

Agriculture led the commodities rally in July with wheat and sugar rising by 38%\* and 22%\*, marking their biggest monthly gains in over 20 years\*. Sugar stockpiles were depleted as buyers rushed to replenish stocks whilst a backlog in shipments at Brazilian ports prevented more supply from hitting the market\*.

Russia's worst drought in 50 years, coupled with the USDA reporting lower planting numbers, has increased concerns about supply in the coming months. In our opinion, this could affect the prices of corn and soybean as farmers may seek a lower-cost alternative for feed.

#### Oil markets look to the upside

Crude oil posted its best monthly gain since March with a steady climb throughout the month and a close above \$80/barrel by the beginning of August\*. This is a level that the market has been watching closely and we believe a close above this could signal a new trading range between \$80 and \$84/barrel. Crude oil held a strong correlation with the equity markets and was supported by better than expected earnings, signalling an improving economy.

#### Base Metals stage a comeback

Copper and aluminium led the base metals rally in July with gains of 12.8%\* and 10.9%\*, respectively, on prospects of new industrial spending. Data from the London Metal Exchange has shown a steady decline in copper stockpiles after reaching a high in February. We believe the metals market will look to manufacturing data over the next month to see continued support for prices.

#### Gold may be back on the rise

After a technical correction in July, gold has attracted new investors seeking to buy bullion at lower prices<sup>1</sup>. Demand from China is increasing as investors look to protect wealth in the event that the property and stock markets are overheated\*. In addition, the People's Bank of China recently announced that they will allow foreign banks to import gold bullion to help satisfy the demand\*.

#### Commodities and the portfolio

In our view, an allocation to the physical commodities can enable diversification of the portfolio and potentially help protect it from falls in other markets. Castlestone Management's Aliquot Commodity Fund gained 5.90%<sup>2</sup> per cent in July, benefitting from exposure to these – and other – physical commodities. In comparison, the S&P GSCI Excess Return returned 5.27<sup>2</sup>.

Sources: \*Bloomberg, <sup>1</sup>Castlestone Management research,

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<sup>2</sup>Note: The data denotes actual performance of Aliquot Commodity Fund share class I from 1 July 2010 to 30 July 2010. Past performance is not a guide to future returns.

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