Alfa Capital

COMMODITIES:
LONG LIVE THE SUPERCYCLE

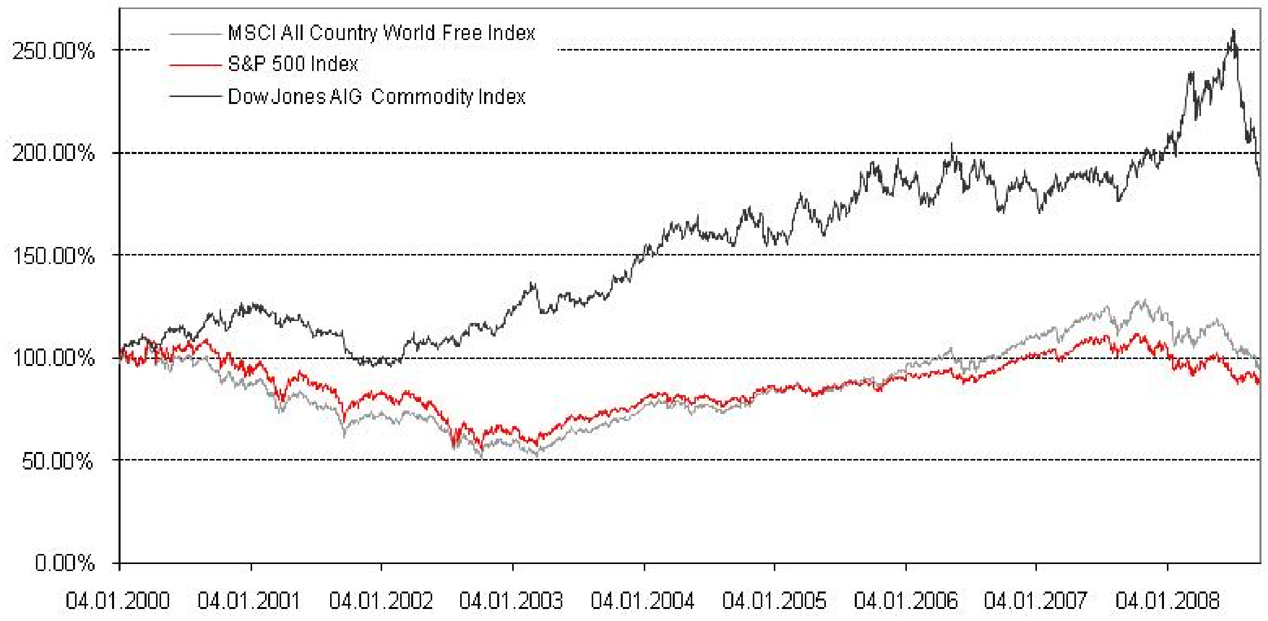
MOSCOW,
SEPTEMBER, 2008

COMMODITIES AS AN ASSET CLASS

- Historically low correlation of commodities to other asset classes
  - Bonds – 0%
  - Stocks – 8%
  - Real estate 16%
- Lowers diversifiable risks and increasing expected return of a portfolio
- Good hedge against inflation
- In today’s markets – diversify, diversify, diversify

INDICES DYNAMICS

- First half of 2008 – major increase in interest for commodities
- Commodities have been rallying for the last 6 years

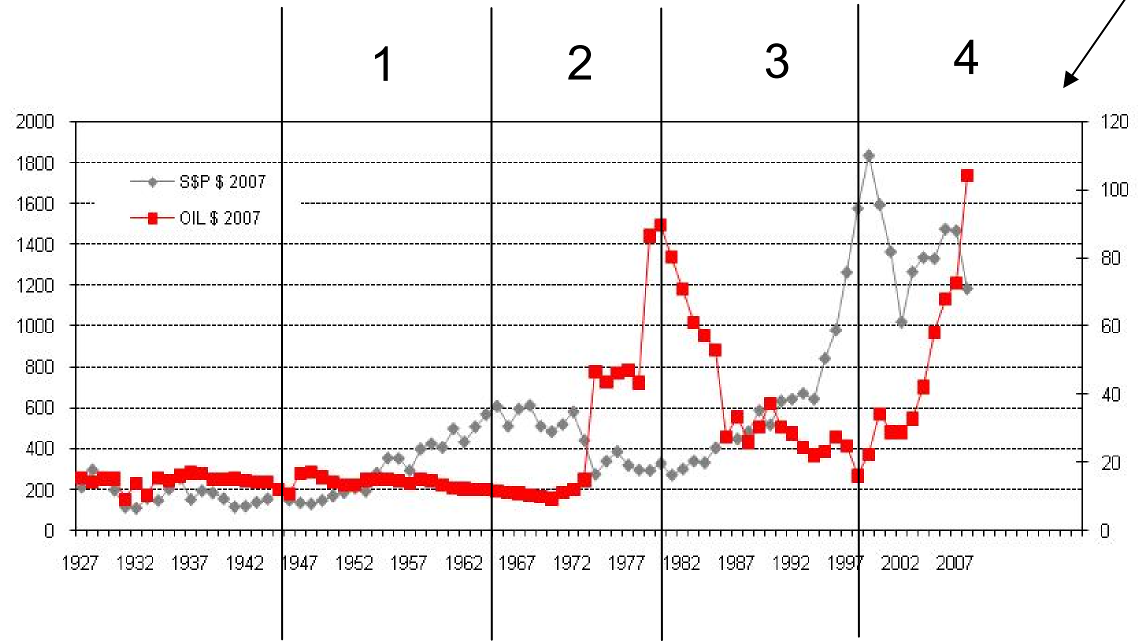


- Since the beginning of 2008 commodities indices – almost flat
- Where are we now? Sharp decline in commodities prices in recent months led by oil

SUPER CYCLES – OIL EXAMPLE

- For the last ten years since 1998 oil prices went up 10 times
- Looking back: In 1997 prices went down to $10/barrel
  - For over 10 years oil prices were low enough to discourage investments
- 2: In1966-1980: oil goes up 9 times in real prices, S&P down 35%
- 3: Recent bull markets in stocks started in 1983 and ended in 2000
- … Right now we look somewhat like (2)

Prices are corrected for consumer inflation. All numbers are in $2007



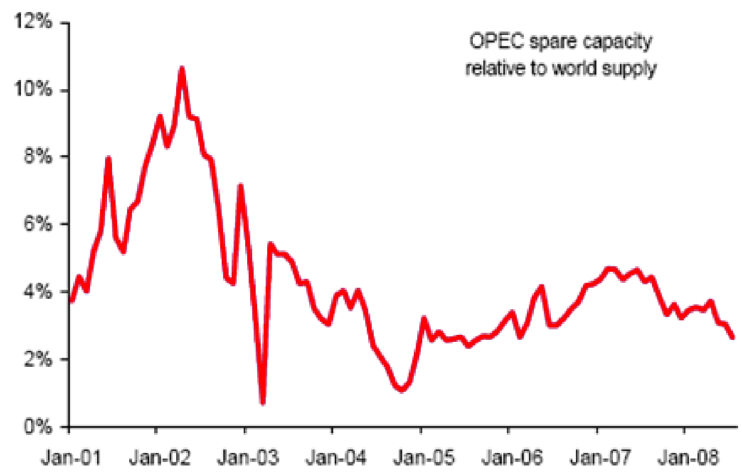
OIL FUNDAMENTALS

- OPEC spare capacity- low
- Need to look at the marginal cost of supply
  - Canadian oil sands projects of Petro-Canada ~$100/bbl
- 4 catalysts:
  - stronger demand in US as refineries recover from hurricanes (+New refining in Asia)
  - Rebound in speculative positions (as risk appetite returns)
  - Declines in OPEC Oil production (-0.5mln bbl/day in September)
  - Return of Chinese buying (after destocking in late summer))

Oil: Supply/Demand Outlook

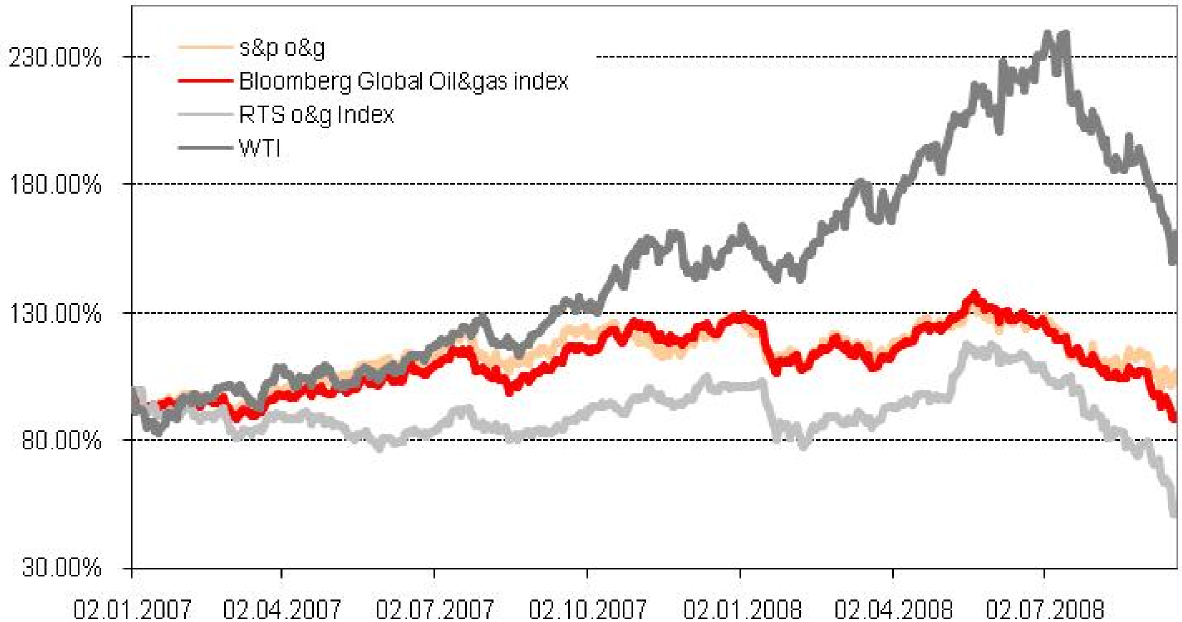
million barrels/day	2007	2008	% Ch.
Demand			
Total OECD	48.9	48.4	-1.1%
Total Non-OECD	36.6	36.6	0.0%
Total Demand	**85.5**	**85.0**	-0.6%
Supply			
Total OECD	21.5	21.3	-1.1%
Total Non-OECD	63.0	65.1	3.4%
Total Supply	**84.5**	**86.4**	2.3%
Balance	-1.0	1.4	

Source: EIA Short-Term Energy Outlook



OIL PRICES AND STOCK MARKET

- Russian stock market is over dependent on oil
- Since the beginning of 2007 oil went up 61%, RTS O&G -49%, S&P O&G +7%



ENERGY OVERVIEW

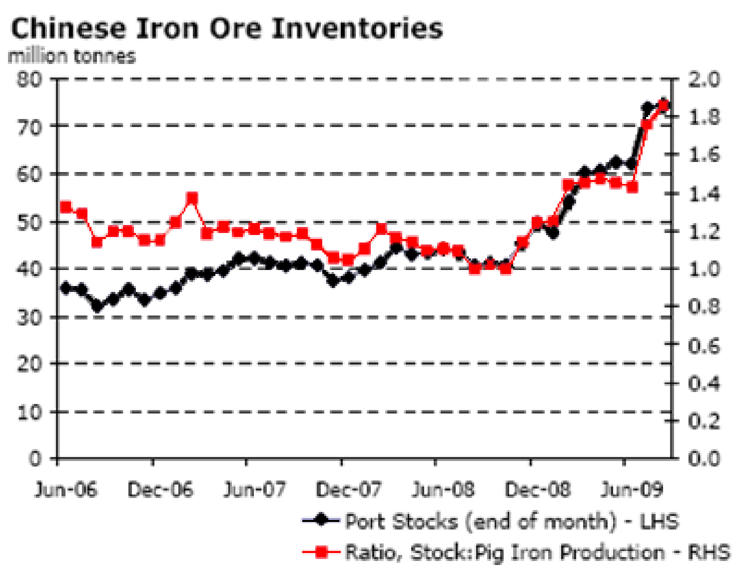
- Just as oil prices overshot in the beginning of the year, now they overshot to the downside
- Expectations - short-term rally
- Risks: Demand side risks and slowing economies
- Relative value trades
- More support in the medium term

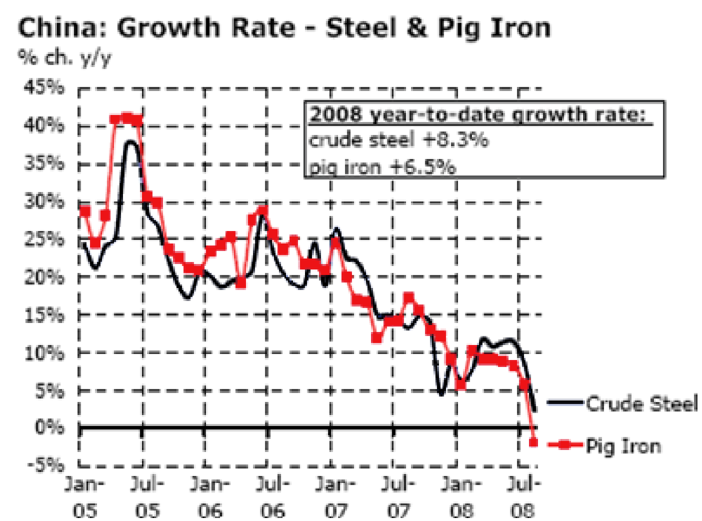
INDUSTRIAL METALS

- Downside risks to global growth
- Short selling should soften
- Most vulnerable to broad economic recession
- Will depend on Chinese domestic demand growth
- Approaching the marginal costs of production levels
- Weakness will continue

IRON ORE/STEEL

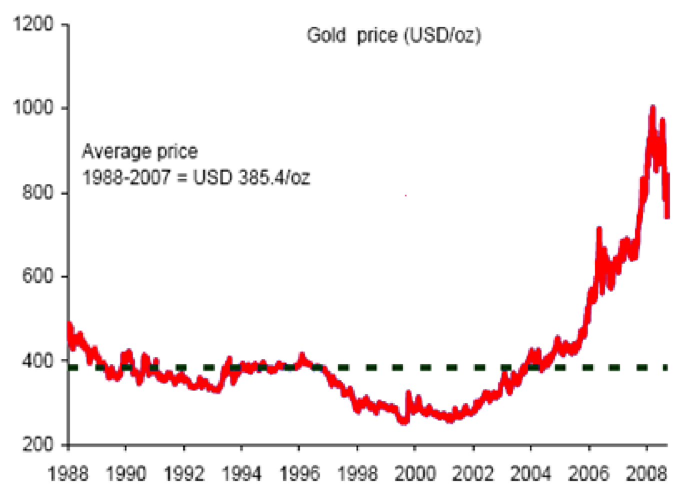
- Significant rise in contract prices since the beginning of the year (Iron Ore +80%,..)
- Spot prices are down up to 60% since June (China -30%, Mediterranian -50%)
  - In China port stocks are up 80% this year
- Post-Olympics pick-up in prices in China (in August steel demand down 6.6% YoY)
- Iron Ore markets are in deficit this year, very closely balanced next year
- A lot will depend on China as China already accounts for 50% global Iron Ore trade





PRECIOUS METALS

- Indications of a global slowdown triggered recent price adjustments
- US Dollar rally will fade
- Production demand growth slowing
- Safe haven – “insurance securities”
- Palladium and silver are oversold
- RESUME: cautiously bullish



AGRICULTURE

- Grain market- source of big volatility
- Seasonal factors will fade
- Physical fundamentals will support prices
    - Downside risks to US harvests
    - Supporting industrial demand
- Inventory to consumption ratios are record low
- RESUME: short term could be lower, long term positive

RISK & OPPORTUNITIES

- Market confidence will remain fragile
- Global equity markets will go lower
- Challenging environment for commodities
- Further FED rate cuts might support commodities
- Current levels provide compelling buying opportunities
- Global recession – main downside risk to our bullish forecasts
- Fundamentals suggest commodities bull cycle is far from over