

2011 Foreign Exchange and Commodity Outlook – Charlotte Economics Club

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imagination at work

Oil Consumption by Country



2008

25 barrels

2012



2 barrels



1 barrels

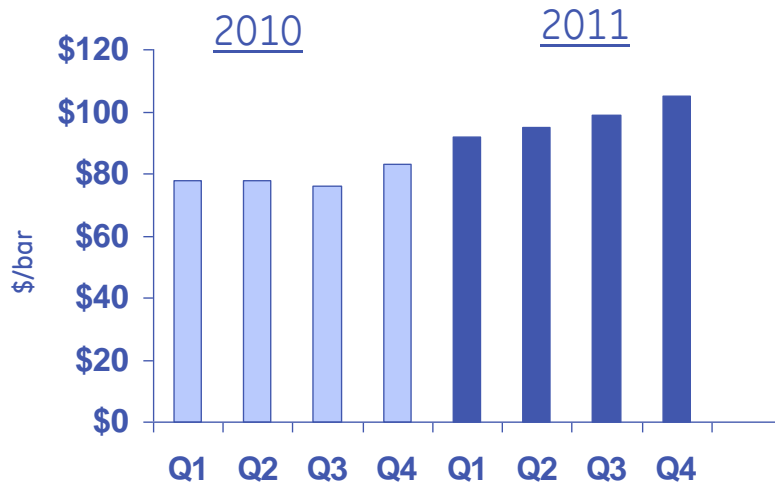


GE Hedging Strategy



Option Cost, Commodity Volatility Also Drive Portfolio Decisions

Oil



Key Drivers

- Weak US demand to continue
- Emerging market demand to increase
- OPEC production cuts to remain in place

Key Risks

- Political uncertainty in exporting nations (Iran, Venezuela)
- US dollar bear cycle in 2011 will accelerate pace of oil price rebound

Typical Hedging Matrix

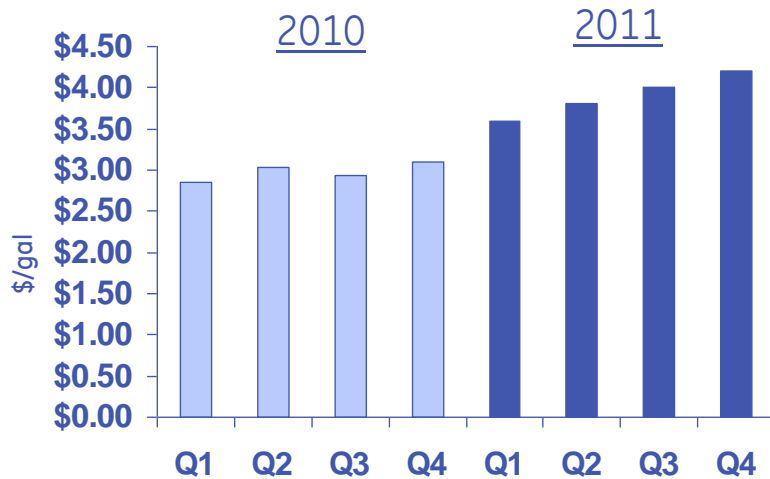


Option Cost, Commodity Volatility Also Drive Portfolio Decisions

2011 Indicative Prices

	2011
Spot Ref.	\$91.00
Swap	95.50
Option Strike	95.50
Option Premium	7.70

Diesel



Key Drivers

- Refineries are better at making diesel than gasoline...less refined
- USA is now a net exporter of diesel

Key Risks

- Political uncertainty in exporting nations (Iran, Venezuela)
- Refineries are reducing runs to perform maintenance.
- Exports of diesel to emerging markets will continue to surge

Typical Hedging Matrix

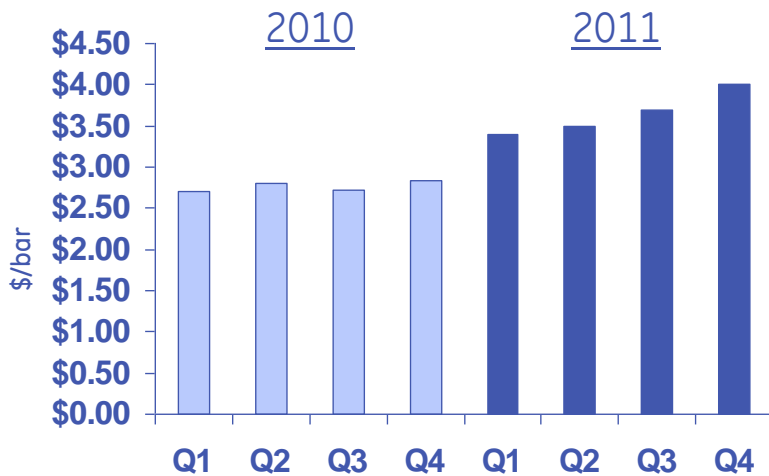


Option Cost, Commodity Volatility Also Drive Portfolio Decisions

2011 Indicative Prices

Spot Ref. \$3.33		2011
Swap		3.60
Option Strike		3.60
Option Premium		0.19

Unleaded Gasoline



Key Drivers

- Inventories remain above 5 year average
- OPEC production cuts to remain in place

Key Risks

- Political uncertainty in exporting nations (Iran, Venezuela)
- Refineries are reducing runs to perform maintenance.

Typical Hedging Matrix

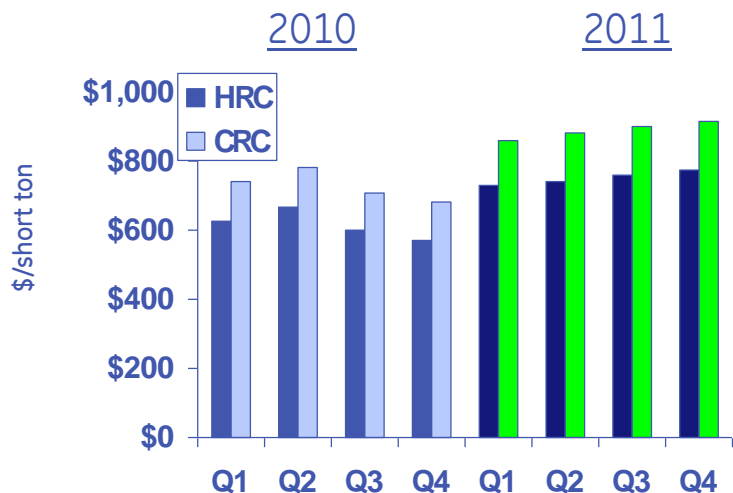


Option Cost, Commodity Volatility Also Drive Portfolio Decisions

2011 Indicative Prices

Spot Ref. \$3.09		2011
Swap		3.44
Option Strike		3.44
Option Premium		0.20

Steel



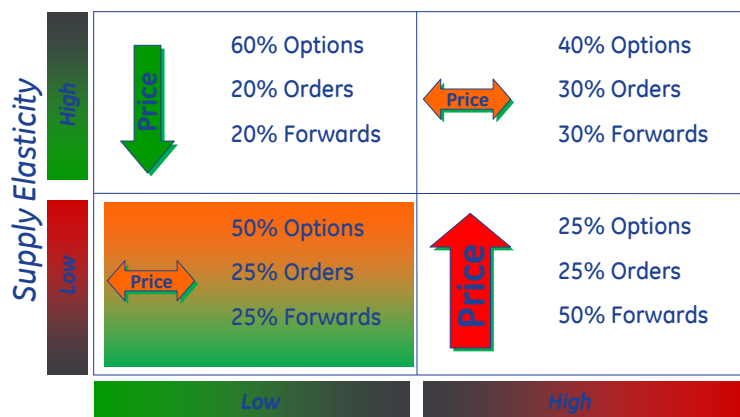
Key Drivers

- Capital spending to increase in 2011
- Import tariffs remain in place
- Steel industry implemented production cuts quickly to balance demand market

Key Risks

- New NYMEX contract has been launched
- Infrastructure stimulus globally

Typical Hedging Matrix

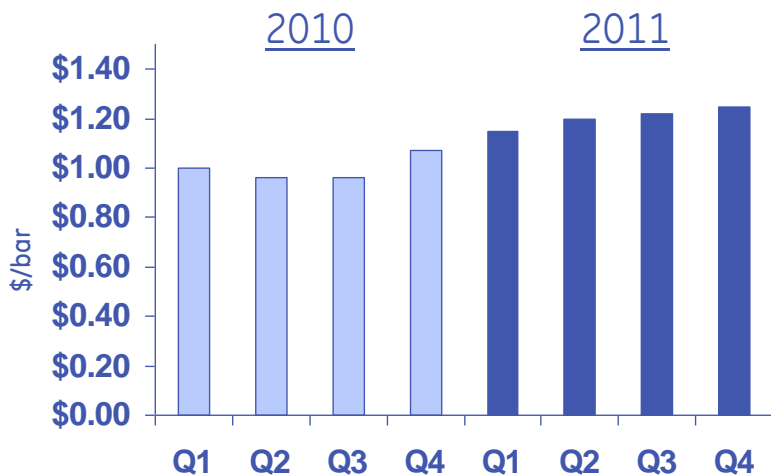


Option Cost, Commodity Volatility Also Drive Portfolio Decisions

2011 Indicative Prices

\$ per short ton	HR Coil	CR Coil
Spot	724	840
2011	785	895

Aluminum



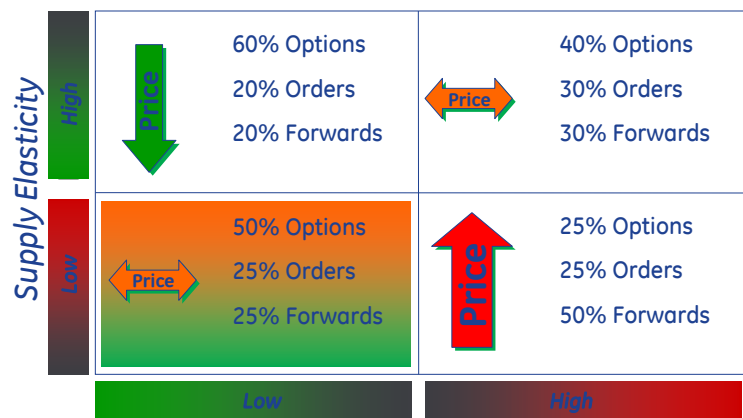
Key Drivers

- China power cuts reducing supply
- Demand is picking up in auto sector
- ALCOA and other producers are increasing production

Key Risks

- Energy accounts for ~40% of marginal costs
- Enormous new facilities coming on line in 2012 and 2013 in the middle east

Typical Hedging Matrix

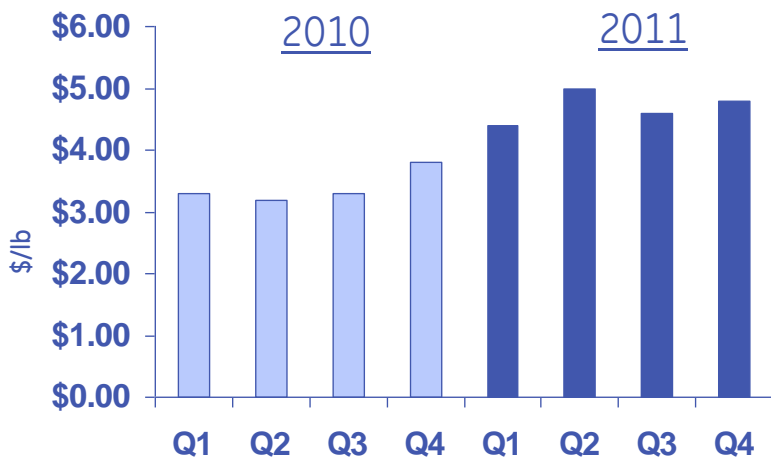


Option Cost, Commodity Volatility Also Drive Portfolio Decisions

2011 Indicative Prices

Spot Ref.		2011
\$1.12		
Swap		1.12
Option Strike		1.12
Option Premium		0.08

Copper



Key Drivers

- Emerging market demand increasing
- Supply disruptions / strikes to increase
- New mines are producing at a lower yield

Key Risks

- Supply concerns when demand picks up
- Bellwether for economy...first commodity to pick up
- Could see temporary price spikes to \$6.00

Typical Hedging Matrix



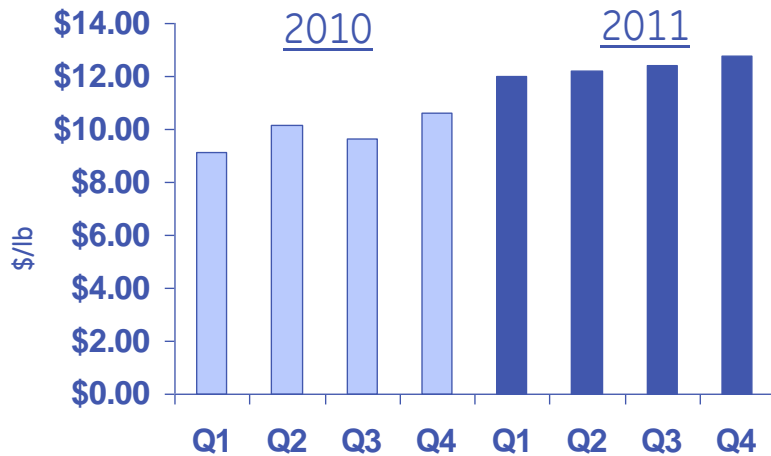
Global GDP Growth

Option Cost, Commodity Volatility Also Drive Portfolio Decisions

2011 Indicative Prices

Spot Ref. \$4.40/lb		2011
Swap		4.38
Option Strike		4.38
Option Premium		0.35

Nickel



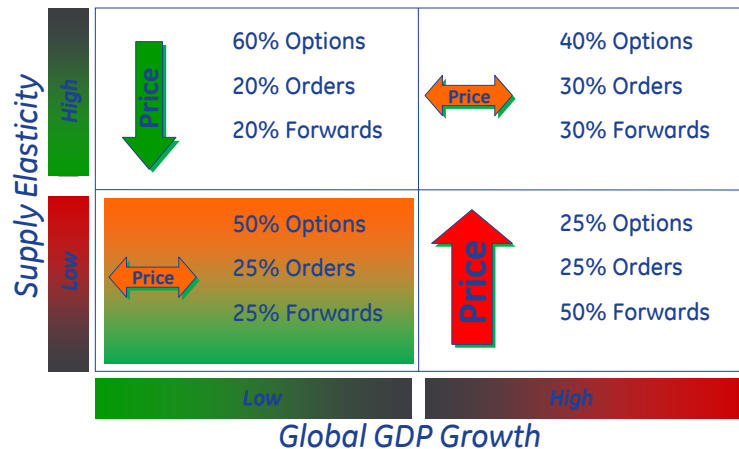
Key Drivers

- China power cuts to reduce supply
- Home Remodeling increasing demand

Key Risks

- First industry to implement production cuts
- Pig iron substitute will keep prices from getting out of control

Typical Hedging Matrix

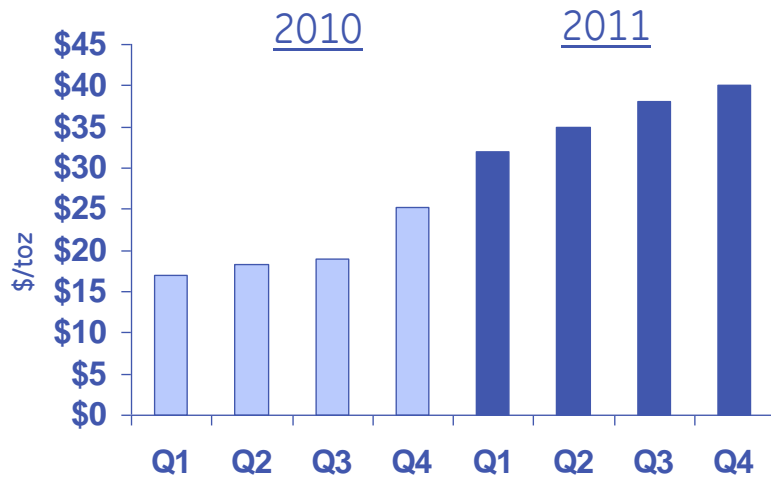


Option Cost, Commodity Volatility Also Drive Portfolio Decisions

2011 Indicative Prices

Spot Ref. \$11.99/lb		2011
Swap		11.94
Option Strike		11.94
Option Premium		1.13

Silver



Key Drivers

- Speculative demand increasing as inflation hedge
- Supply will be less than demand

Key Risks

- Silver usually trends with gold
- Industrial demand increasing
- Inflation could become rampant in 2013-2016

Typical Hedging Matrix



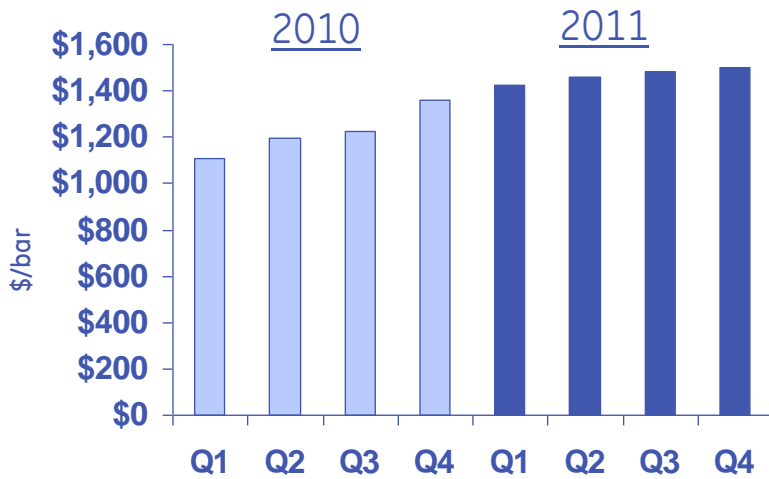
Global GDP Growth

Option Cost, Commodity Volatility Also Drive Portfolio Decisions

2011 Indicative Prices

Spot Ref. \$28.87		2011
Swap		28.94
Option Strike		28.94
Option Premium		2.61

Gold



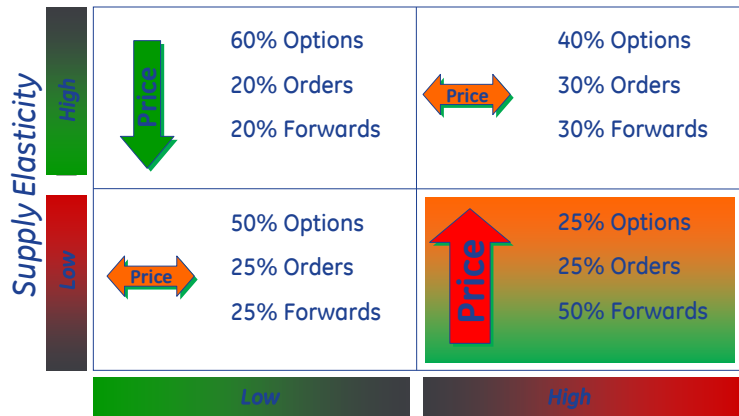
Key Drivers

- Gold prices will drop as soon as US interest rates go up in Q1 2012
- Inflation concerns will create a demand for physical inventory

Key Risks

- Asian Central Banks buying gold
- Inflation could become rampant in 2013-2016

Typical Hedging Matrix



Global GDP Growth

Option Cost, Commodity Volatility Also Drive Portfolio Decisions

2011 Indicative Prices

Spot Ref.	\$1,372	2011
Swap		1,376
Option Strike		1,376
Option Premium		71

Commodities Price Forecasts (YE)

	<u>2011</u>
WTI Crude Oil	105
DOE Diesel	4.20
DOE Gasoline	4.00
LME Aluminum	1.25
LME Copper	4.80
LME Nickel	12.75
Silver	40.00
Gold	1500
Nymex Natural Gas	5.50
HRC Steel	775
CRC Steel	915

Foreign Exchange Market

- Expect USD to continue to depreciate in 2011
- Primary Drivers:
 - Federal Reserve wants to pay massive debt with cheaper USD\$
 - Commodities are negatively correlated to USD\$
- Emerging market and commodity currencies to outperform
- China RMB to appreciate to 6.45 by 2011 YE.

Foreign Currency Price Forecasts (YE)

	<u>2011</u>
CAD	0.96
CNY	6.41
EUR	1.48
GBP	1.70
JPY	75
KRW	1000
MXN	12.60
MYR	2.95
SGD	1.20