

# THE BASICS OF COMMODITIES

About iPath® Exchange Traded Notes (ETNs)



Investors have shown increasing interest in commodities, which as an asset class can offer opportunities to fine-tune a portfolio's risk and return characteristics. The commodities asset class has experienced strong growth in recent years. In fact, 2008 saw net inflows of \$15 billion into commodity exchange traded products with total assets at the end of the year at \$45 billion. The low historical correlation to financial assets, equity-type returns and risk characteristics offered by commodities provide investors a means to diversify portfolios. The following will describe the composition of commodity markets and popular benchmark methodologies, the rationale for inclusion into investment portfolios, and different vehicles available for commodity investment.

\* Source: Barclays Capital Inc., as of 12/31/08.

## iPATH COMMODITY ETNs

iPATH® COMMODITY ETNs	Ticker Symbol	Yearly Fee*	Maturity Date
iPath® Dow Jones–UBS Commodity Index Total Return <sup>SM</sup> ETN	DJP	0.75%	6/12/36
iPath® S&P GSCI® Crude Oil Total Return Index ETN	OIL	0.75%	8/14/36
iPath® S&P GSCI® Total Return Index ETN	GSP	0.75%	6/12/36
iPath® Dow Jones–UBS Agriculture Subindex Total Return <sup>SM</sup> ETN	JJA	0.75%	10/22/37
iPath® Dow Jones–UBS Copper Subindex Total Return <sup>SM</sup> ETN	JJC	0.75%	10/22/37
iPath® Dow Jones–UBS Grains Subindex Total Return <sup>SM</sup> ETN	JJG	0.75%	10/22/37
iPath® Dow Jones–UBS Softs Subindex Total Return <sup>SM</sup> ETN	JJS	0.75%	6/24/38
iPath® Dow Jones–UBS Nickel Subindex Total Return <sup>SM</sup> ETN	JJN	0.75%	10/22/37
iPath® Dow Jones–UBS Energy Subindex Total Return <sup>SM</sup> ETN	JJE	0.75%	10/22/37
iPath® Dow Jones–UBS Livestock Subindex Total Return <sup>SM</sup> ETN	COW	0.75%	10/22/37
iPath® Dow Jones–UBS Industrial Metals Subindex Total Return <sup>SM</sup> ETN	JJM	0.75%	10/22/37
iPath® Dow Jones–UBS Precious Metals Subindex Total Return <sup>SM</sup> ETN	JJP	0.75%	6/24/38
iPath® Dow Jones–UBS Natural Gas Subindex Total Return <sup>SM</sup> ETN	GAZ	0.75%	10/22/37
iPath® Dow Jones–UBS Cocoa Subindex Total Return <sup>SM</sup> ETN	NIB	0.75%	6/24/38
iPath® Dow Jones–UBS Coffee Subindex Total Return <sup>SM</sup> ETN	JO	0.75%	6/24/38
iPath® Dow Jones–UBS Cotton Subindex Total Return <sup>SM</sup> ETN	BAL	0.75%	6/24/38
iPath® Dow Jones–UBS Sugar Subindex Total Return <sup>SM</sup> ETN	SGG	0.75%	6/24/38
iPath® Dow Jones–UBS Aluminum Subindex Total Return <sup>SM</sup> ETN	JJU	0.75%	6/24/38
iPath® Dow Jones–UBS Lead Subindex Total Return <sup>SM</sup> ETN	LD	0.75%	6/24/38
iPath® Dow Jones–UBS Tin Subindex Total Return <sup>SM</sup> ETN	JJT	0.75%	6/24/38
iPath® Dow Jones–UBS Platinum Subindex Total Return <sup>SM</sup> ETN	PGM	0.75%	6/24/38

\* The investor fee is calculated cumulatively based on the yearly fee and the performance of the underlying index or currency exchange rate and increases each day based on the level of the index or currency exchange rate on that day. Because the investor fee reduces the amount of your return at maturity or upon redemption, if the value of the underlying decreases or does not increase significantly, you may receive less than the principal amount of your investment at maturity or upon redemption. For a more complete description of how the investor fee is calculated, please see the applicable Pricing Supplement at [www.iPathETN.com](http://www.iPathETN.com).

## WHAT ARE COMMODITIES?

Commodities are the goods used in the initial phase of the manufacturing process, and refer to real assets such as energy, industrial and precious metals, agriculture, and livestock. There are two commonly used benchmarks that define the composition of the commodities market.

The S&P GSCI® Total Return Index is a world-production weighted index, the analogue to market capitalization weighting for equities. The weightings also reflect the liquidity of the underlying futures contracts. The Dow Jones–UBS

Commodity Index Total Return<sup>SM</sup> is both liquidity (2/3) and production (1/3) weighted, with constraints on individual commodities (15%) and commodity groups (33%) as of the January 2009 rebalancing period. Following the annual rebalancing period, the percentage weighting will fluctuate based on market price changes.

While each index intends to represent the commodity market, construction and methodology differences result in varying portfolio compositions (see Figures 1 and 2).

**FIGURE 1**

	<b>DOW JONES–UBS COMMODITY INDEX TOTAL RETURN<sup>SM</sup></b>	<b>S&amp;P GSCI® TOTAL RETURN INDEX</b>
<b>Number of commodity groups</b>	19	24
<b>Index calculation</b>	Arithmetic	Arithmetic
<b>Weighting method</b>	2/3 liquidity, 1/3 production 15% for single commodity 33% cap per commodity group*	Production and liquidity
<b>Launch date</b>	1998	1991

\* As of annual rebalancing.  
Sources: Dow Jones-AIG, S&P as of 4/20/09.

**FIGURE 2**

<b>COMMODITY GROUP</b>	<b>% WEIGHT IN DOW JONES–UBS COMMODITY INDEX TOTAL RETURN<sup>SM</sup></b>	<b>% WEIGHT IN S&amp;P GSCI® TOTAL RETURN INDEX</b>
<b>Energy</b>	28	66
<b>Agriculture</b>	34	19
<b>Precious metals</b>	14	4
<b>Industrial metals</b>	15	6
<b>Livestock</b>	10	6

Sources: Dow Jones and S&P, as of 12/31/08.

## WHY INVEST IN COMMODITIES?

One of the most compelling reasons to add commodities to a portfolio is their ability to provide diversification. Commodities have historically low correlations to financial assets such as stocks and bonds.

Commodity and financial asset prices respond differently to capital market and economic conditions, although both are driven by the basic forces of supply and demand. However, because stocks and bonds are publicly traded on a secondary market, prices can quickly reflect forecasted earnings and future cash flows. Conversely, many factors may contribute to how commodity prices respond to market events including warehousing and delivery constraints, changes in supply and demand dynamics, and (in the case of physical commodities) a potential lack of fungibility. Other factors affecting commodity futures prices include weather, agriculture, trade, fiscal, monetary, and exchange control policies, disease, pestilence, technological developments, and changes in interest rates.

Because commodities have low historical correlations to stocks and bonds, an allocation to commodities may enhance a portfolio's risk-adjusted returns by lowering overall portfolio volatility (see Figure 3). However, trading in commodities

and commodity futures is speculative and can be extremely volatile. The factors influencing commodity futures prices may affect the value of the relevant index and value of any associated securities in varying ways, and different factors may cause the prices of the index components and the volatilities of their prices to move in inconsistent directions at inconsistent rates.

## TOTAL RETURN COMMODITY BENCHMARKS

As discussed earlier, two of the most popular commodity benchmarks are the total return versions of the Dow Jones–UBS Commodity Index<sup>SM</sup> and the S&P GSCI<sup>®</sup> Index. Both indexes are based on a basket of collateralized commodity futures returns, rather than simply futures price returns over a period of time. Each index calculates returns from three distinct sources (hence the classification, total return):

- The interest earned from the cash collateral committed to trading in the futures (generally Treasury bills)
- The change in futures contract price
- The return from rolling the futures into further dated contracts as they approach expiry

**FIGURE 3**

CORRELATION COEFFICIENT	DOW JONES–UBS COMMODITY INDEX TOTAL RETURN <sup>SM</sup>	S&P GSCI <sup>®</sup> TOTAL RETURN INDEX	S&P GSCI <sup>®</sup> CRUDE OIL TOTAL RETURN INDEX
Dow Jones–UBS Commodity Index Total Return <sup>SM</sup>	1.00	0.90	0.75
S&P GSCI <sup>®</sup> Total Return Index	0.90	1.00	0.89
S&P 500 <sup>®</sup>	0.21	0.14	0.09
Barclays Capital U.S. Aggregate Index	0.05	0.04	–0.02
MSCI EAFE Index	0.35	0.27	0.20

Sources: Dow Jones-AIG, Standard & Poor's, Barclays Capital, MSCI Inc., and BGI (12/31/93–12/31/08), based on monthly returns.

## WAYS TO INVEST IN COMMODITIES

Historically, investors interested in adding commodities to their portfolios had three primary options to choose from:

- **Buying the physical commodity:** This approach offers pure exposure to the underlying commodity, but delivery, storage and spoilage may be problematic.
- **Investing through the futures or derivatives market:** This has predominantly been limited to large institutional investors with the resources and experience to administer complicated futures portfolios themselves, or to use a total return swap and manage the related counterparty risk.
- **Investing in pooled vehicles such as mutual funds:** Prior to the introduction of commodity exchange traded products, mutual funds presented the most viable option for individual investors or small institutions because they provide convenient access to commodity-linked investment at reasonable costs and low investment minimums.

iPath ETNs provide investors the vehicles to construct broadly diversified portfolios of traditional assets and alternative, low-correlating assets.

## INNOVATIONS IN COMMODITIES VEHICLES

iPath® Exchange Traded Notes (ETNs) provide a way to access difficult-to-reach markets such as commodities. iPath ETNs are unsecured debt securities issued by Barclays Bank PLC and deliver exposure to the returns of an asset class or market with the trading flexibility of an equity. iPath ETNs linked to commodity indexes are designed to allow investors cost-effective access to the returns of popular commodity benchmarks, less an investor fee. Like equities, they trade on an exchange and can be shorted.<sup>1</sup> Like an index fund, they offer definable performance linked to the returns of a benchmark.

In addition to daily exchange liquidity, investors in iPath ETNs may redeem their securities directly with the issuer, typically in a minimum amount of 50,000 units,<sup>2</sup> or hold the securities until maturity and receive a cash payment equal to the principal amount of the securities on the final valuation date times the index factor minus the investor fee.

iPath ETNs provide investors the vehicles to construct broadly diversified portfolios of traditional assets and alternative, low-correlating assets. Additionally, iPath ETNs deliver exposure to the performance of commodities indexes for long or short tactical strategies, with cost and logistical advantages lacking in traditional commodity investment alternatives.

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1. With short sales, you risk paying more for a security than you received from its sale.

2. The issuer may from time to time in its sole discretion reduce, in part or in whole, the minimum redemption amount of 50,000 units, applicable to all holders, at the time the reduction becomes effective.

An investment in iPath ETNs involves risks, including possible loss of principal. For a description of the main risks see "Risk Factors" in the applicable prospectus.

Barclays Bank PLC has filed a registration statement (including a prospectus) with the SEC for the offering to which this communication relates. Before you invest, you should read the prospectus and other documents Barclays Bank PLC has filed with the SEC for more complete information about the issuer and this offering. You may get these documents for free by visiting [www.iPathETN.com](http://www.iPathETN.com) or EDGAR on the SEC website at [www.sec.gov](http://www.sec.gov). Alternatively, Barclays Bank PLC will arrange for Barclays Capital Inc. to send you the prospectus if you request it by calling toll-free 1-877-76-iPATH, or you may request a copy from any other dealer participating in the offering.

iPath ETNs (the "Securities") are unsecured obligations of Barclays Bank PLC and are not secured debt. The Securities are riskier than ordinary unsecured debt securities and have no principal protection. Risks of investing in the Securities include limited portfolio diversification, trade price fluctuations, uncertain principal repayment, and illiquidity. Investing in the Securities is not equivalent to direct investment in index or index components. The investor fee will reduce the amount of your return at maturity or on redemption, and as a result you may receive less than the principal amount of your investment at maturity or upon redemption of your Securities even if the value of the relevant index has increased. An investment in iPath ETNs may not be suitable for all investors.

The Securities may be sold throughout the day on the exchange through any brokerage account. There are restrictions on the minimum number of Securities you may redeem directly with the issuer as specified in the applicable prospectus. Commissions may apply and there are tax consequences in the event of sale, redemption or maturity of Securities. Sales in the secondary market may result in significant losses.

The index components for iPath ETNs linked to commodities indexes are concentrated in the commodities sector. The market value of the Securities may be influenced by many unpredictable factors, including, where applicable, highly volatile commodities prices, changes in supply and demand relationships; weather; agriculture; trade; pestilence; changes in interest rates; and monetary and other governmental policies, action and inaction. Index components that track the performance of a single commodity, or index components concentrated in a single sector, are speculative and may typically exhibit higher volatility. The current or "spot" prices of the underlying physical commodities may also affect, in a volatile and inconsistent manner, the prices of futures contracts in respect of the relevant commodity. These factors may affect the value of the index and the value of your Securities in varying ways.

In addition to factors affecting commodities generally, index components composed of futures contracts on nickel or copper, which are industrial metals, may be subject to a number of additional factors specific to industrial metals that might cause price volatility. These include changes in the level of industrial activity using industrial metals (including the availability of substitutes such as man-made or synthetic substitutes); disruptions in the supply chain, from mining to storage to smelting or refining; adjustments to inventory; variations in production costs, including storage, labor and energy costs; costs associated with regulatory compliance, including environmental regulations; and changes in industrial, government and consumer demand, both in individual consuming nations and internationally. Index components concentrated in futures contracts on agricultural products, including grains, may be subject to a number of additional factors specific to agricultural products that might cause price volatility. These include weather conditions, including floods, drought and freezing conditions; changes in government policies; planting decisions; and changes in demand for agricultural products, both with end users and as inputs into various industries.

iPath ETNs typically have lower investor fees than currently existing mutual funds that invest in similar markets and are available to retail investors. Buying and selling iPath ETNs will result in brokerage commissions.

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"Dow Jones," "DJ," "UBS," "Dow Jones-UBS Commodity Index," "DJ-UBSCI," "Dow Jones-UBS Commodity Index Total Return," "Dow Jones-UBS Agriculture Subindex Total Return," "Dow Jones-UBS Aluminum Subindex Total Return," "Dow Jones-UBS Cocoa Subindex Total Return," "Dow Jones-UBS Coffee Subindex Total Return," "Dow Jones-UBS Copper Subindex Total Return," "Dow Jones-UBS Cotton Subindex Total Return," "Dow Jones-UBS Energy Subindex Total Return," "Dow Jones-UBS Grains Subindex Total Return," "Dow Jones-UBS Industrial Metals Subindex Total Return," "Dow Jones-UBS Lead Subindex Total Return," "Dow Jones-UBS Livestock Subindex Total Return," "Dow Jones-UBS Natural Gas Subindex Total Return," "Dow Jones-UBS Nickel Subindex Total Return," "Dow Jones-UBS Platinum Subindex Total Return," "Dow Jones-UBS Precious Metals Subindex Total Return," "Dow Jones-UBS Softs Subindex Total Return," "Dow Jones-UBS Sugar Subindex Total Return," and "Dow Jones-UBS Tin Subindex Total Return" are servicemarks of Dow Jones & Company, Inc. ("Dow Jones") and UBS AG ("UBS AG"), as the case may be, and have been licensed for use for certain purposes by Barclays Bank PLC. The Securities based on the indices are not sponsored, endorsed, sold or promoted by Dow Jones, UBS AG, UBS Securities LLC ("UBS Securities") or any of their respective subsidiaries or affiliates. None of Dow Jones, UBS AG, UBS Securities, or any of their affiliates makes any representation or warranty, express or implied, to the owners of or counterparts to the Securities based on the indices or any member of the public regarding the advisability of investing in securities or commodities generally or in the Securities based on any of the indices particularly.

"S&P GSCI," "S&P GSCI Index," "S&P GSCI Total Return Index," "S&P GSCI Commodity Index," "S&P GSCI Total Return Index" and "S&P GSCI Crude Oil Total Return Index" are trademarks of The McGraw-Hill Companies, Inc. and have been licensed for use by Barclays Bank PLC. The Securities are not sponsored, endorsed, sold or promoted by Standard & Poor's, a subsidiary of The McGraw-Hill Companies, Inc. ("S&P"). Standard & Poor's does not make any representation or warranty, express or implied, to the owners of the Securities or any member of the public regarding the advisability of investing in securities generally or in the Securities particularly or the ability of the S&P GSCI to track general stock market performance.

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