BCOM Index Quarterly Commodities Update
Third Quarter of 2019

Executive Summary

The Bloomberg Commodity Index Total Return declined 1.84% during the third quarter of 2019. The top three detractors for the period were in the Agriculture sector. Kansas City Wheat decreased 13.21% after favorable weather conditions in the US Northern Plains and the Black Sea region led to better-than-expected crop yields for the 2019 / 2020 season. Wheat also declined as the likelihood of its use as animal feed decreased as corn prices dropped. Coffee fell 10.29% after beneficial weather in Brazil's key growing regions allowed the harvest to exceed last year's pace, increasing supply expectations. Corn was 10.17% lower after the US Department of Agriculture (USDA) reported significantly more US planted acres and higher yield expectations than what the markets had priced in. Nickel increased 35.46% after the Indonesian government announced that the ban on all nickel ore exports planned for January 2022 would be moved forward by two years, tightening the supply outlook. In addition, Chinese stimulus measures appeared to support its manufacturing sector amid reports of steel production reaching record levels, increasing demand expectations for nickel as an input for stainless steel. Silver and Gold gained 10.50% and 3.82%, respectively, on safe haven demand after the US-China trade war and Middle East tensions escalated over the quarter. In addition, lower global bond yields and increasing concerns of a possible recession elevated the attractiveness of Gold and Silver as alternative stores of wealth.

Quarterly Commentary

The Bloomberg Commodity Index Total Return was negative for the quarter, with 18 out of 23 constituents posting losses. Agriculture declined 6.15%, as both grains and softs fell with the exception of Soybean Oil as US soybean oil reserves consistently came in lower than last year's figures throughout the quarter. Energy decreased 4.53%, led lower by Crude Oil and petroleum products, as the geopolitical risk premium waned in the Middle East as the US and Iran seemed to potentially be closer to brokering an export deal, increasing future supply expectations. In addition, demand estimates weakened as it became increasingly likely that global economic growth was slowing. Natural Gas also fell as strong production growth and mild temperatures for a majority of the quarter increased the pace of inventory injections typically seen in the summer compared to the five-year historical average. This led to higher expectations that US inventories will be in surplus going into the winter heating season. Livestock returned 0.77% for the period. Lean Hogs gained on expectations that China may begin to import more US pork after African swine fever decimated its domestic hog population. Live Cattle declined after a fire at one of the largest US beef processing plants halted beef production at the beginning of August, reducing live cattle demand. The facility was responsible for approximately 6% of the nation's total live cattle packing capacity. Expectations are for the plant to be fully operational by December. Industrial Metals increased 2.44%, led higher by Nickel. All other base metals declined as a stronger US Dollar and the US-China trade war continued to weigh on demand expectations. Precious Metals gained 5.28% as their appeal as alternative stores of wealth and safe haven assets rose, even amid US Dollar strength.

Market Outlook

Trade tensions between the US and China seemingly calmed in September, fueling optimism that both nations will finalize a trade agreement in the coming months. Worsening industry data out of China and the US may be encouraging cooperation between the two nations, as both sides decided to delay additional rounds of tariffs in perceived acts of goodwill before a scheduled meeting in October. The next tranche of retaliatory US duties on Chinese goods is scheduled to take effect on October 15th, and it's possible that the US government may provide another extension until talks have concluded. Impeachment proceedings in the US may either accelerate or complicate the progression of negotiations for this trade deal as well as those with trading partners in North America and other parts of the world. Finalized trade accords would be supportive of commodities demand across multiple sectors.

Mid-month, a major oil field in Saudi Arabia suffered from a drone attack, temporarily taking around 5% of global crude oil production and processing offline. Although reports have indicated that output from the damaged facilities would largely be restored in the coming weeks, there still remains uncertainty as to how much inventories will draw down and whether Saudi Arabia will be able to meet its targeted schedule. A prolonged period of reduced output and processing would limit crude oil and petroleum product supplies. Despite the attack, the US and Iran appeared to be moving forward with a deal that would allow Iran to resume crude oil exports after the US granted Iran entry into the country in order to attend the United Nations General Assembly in New York. However, geopolitical risk among OPEC members remain as the civil war in Libya continued to put crude oil infrastructure at risk. There is also potential for further incidents in the Middle East related to the heightened tensions between Iran and Saudi Arabia.

Despite some renewed optimism in September, signs of economic slowdowns continued. The Organization for Economic Cooperation and Development announced its expectation that the pace of global growth in 2019 will be at the slowest over the past decade, (con't)

with growth to remain muted in 2020. Over the quarter, central banks have tapped into their monetary tools in an effort to combat waning growth and to try and avoid a potential recession. The US Federal Reserve cut short-term interest rates by an additional 0.25% in September, the European Central Bank restarted its quantitative easing program and the People's Bank of China reduced its reserve requirement ratio to promote business lending. As such, governments and their central banks remain committed to attempting to support their economies as it becomes more likely that the US economy is either late in its growth cycle or nearing early stage contraction, a time when commodities tend to outperform traditional asset classes such as equities and fixed income.

Bloomberg Commodity Index TR Performance through September 30, 2019

	Weight as of Quarter End	QTD Total Returns
Energy	29.91%	-4.53%
Agriculture	28.53%	-6.15%
Livestock	5.71%	0.77%
Industrial Metals	18.05%	2.44%
Precious Metals	17.80%	5.28%
BCOM Index Total Return	**100.00%**	**-1.84%**

Sources: Credit Suisse Asset Management, LLC, Bloomberg

Performance Notes:

The Bloomberg Commodity Index Total Return is a composite index of commodity sector returns, representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities. The returns are calculated on a fully-collateralized basis with full reinvestment. Excess return reflects relative performance versus the benchmark (+/-).

Indices are not subject to management fees and are not available for direct investment. Investing entails risks, including possible loss of principal. Past performance is no guarantee of future results.