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BCOM Index Annual Commodities Update 2019

Executive Summary

Commodities gained in 2019, with the Bloomberg Commodity Index Total Return increasing 7.69%. The top three performers for the year came from the Energy sector. Gasoline, Brent Crude Oil and WTI Crude Oil rose 44.49%, 35.57% and 34.44%, respectively. This strong performance was largely supported by supply drivers, with continued voluntary OPEC+ production cuts as well as involuntary cuts stemming from US sanctions on Iran and domestic problems in Venezuela. The various instances of increasing or decreasing tensions in the Middle East also helped drive petroleum prices higher or lower throughout the year. The demand side for crude oil was less impactful, but incremental information on US-China trade tensions influenced prices during the period as well. A positive demand driver for low-sulfur petroleum products was a new international maritime rule set to go into effect in 2020. Natural Gas was the worst performing commodity, down 37.42%. With the exception of a few short-lived cold fronts, most of the continental US experienced warmer-than-average temperatures during the winter seasons, dampening heating demand. This, along with strong production growth, allowed the pace of inventory builds to materially surpass the five-year historical average. Forecasts of mild temperatures into mid-January 2020 further weighed on heating demand expectations towards the end of the year. Lean Hogs fell 19.18% after the US Department of Agriculture reported increases in pork production, frozen inventories and herd sizes throughout the year while the timing of more US pork exports to China remained uncertain as a partial US-China trade agreement remained unsigned by year end. Kansas City Wheat decreased 9.58% as supportive growing conditions in the Black Sea Region and the US Northern Plans led to better-than-expected crop yields for the 2019 harvest.

Annual Commentary

The Bloomberg Commodity Index Total Return performance was positive for the year, with 14 out of 23 Index constituents posting gains. Precious Metals increased 17.02% amid continued loose monetary policy across central banks. Notably, the US Federal Reserve cut short-term interest rates three times from July to October in hopes of combating slowing economic growth expectations as US-China trade tensions continued to simmer. Escalating military tensions in the Middle East also added to the attractiveness of Gold and Silver as safe haven assets and alternative stores of wealth. Energy rose 11.78%. Gains in Crude Oil and petroleum products were offset by losses in Natural Gas, the largest Index detractor for the one-year period. Industrial Metals gained 6.98%, led higher by Nickel, as the Indonesian government announced that it would institute a ban on all nickel ore exports starting in January 2020, two years earlier than expected. Agriculture increased 1.72%, led higher by Soybean Oil, as US soybean oil reserves consistently came in lower than last year's figures throughout the third quarter. The oilseed derivative also received a boost in the fourth quarter from higher biofuel blending mandates in Indonesian and Malaysian that go into effect in January 2020. This, along with lower-than-expected Malaysian production in November, tightened fundamentals for palm oil, a key substitute for soybean oil. Livestock declined 5.99%, led lower by Lean Hogs. Losses in Lean Hogs were slightly offset by gains in Live Cattle. Live Cattle increased, mostly in the last four months of the year, as the demand outlook brightened for US beef. The US signed trade agreements with Japan, Canada and Mexico, its largest beef consumers internationally.

Market Outlook

Global trade developments became a major theme in December. The US started off the month by reinstating tariffs on steel and aluminum sourced from Brazil and Argentina while also proposing over $2 billion in new levies on French goods. The US administration's attitude towards protectionist trade policies later softened as the US and China agreed in principle to a Phase One trade deal that avoided an escalation in US tariffs initially scheduled for December 15th. Although full details of the agreement have yet to be released, China announced its commitment to substantially increase its purchases of US agricultural products. Given the prolonged length of the US-China trade war, it may take time for US suppliers to reestablish supply chains to China. In addition, the US House of Representatives signed the revised US-Mexico-Canada Agreement with ratification expected in January. Lower trade barriers worldwide may improve global growth forecasts while also supporting commodity demand.

Entering 2020, new International Maritime Organization (IMO) regulations will require the shipping industry to use more expensive, cleaner burning fuels or to install scrubbers to clean fuels on ships. Even those involved in the supply chain of refining fuels may be impacted, though it remains unclear how exactly the new rules will impact various grades of crude oil, shipping fuels, and shipping rates. All of these costs may add inflationary pressure to the energy sector. Energy market participants will also closely monitor OPEC+ compliance with the new production cut targets as well as any changes in growth in US oil production. Rising geopolitical tensions in the Middle East between the US and Iran also has the potential to shock the energy complex. Near month-end, an Iran-sanctioned attack on an Iraqi military base resulted in the death of a US contractor while also causing injuries to US and Iraqi (con't)

personnel. Pro-Iranian protestors also attacked the US embassy in Baghdad, Iraq. In response to these events, the US announced plans to retaliate against Iran. This rapid escalation of tensions may increase the risks that oil infrastructure of US allies in the region may be targeted, including the key shipping channel of the Strait of Hormuz as well as production and refining facilities in Iraq or elsewhere in the Middle East.

In macro-economic related news, the Chinese economy showed signs of improvement during the month, highlighted by larger-then-expected, year-over-year increases in industrial production and retail sales for November. However, economic readings in the US were less supportive of an improved growth outlook as US jobless claims and key indicators of the US manufacturing sector underperformed expectations. Further progress on trade discussions between the two countries may lend support to improved growth forecasts. Central banks of developed countries seem in no rush to tighten amid mixed economic signals as well as rising geopolitical risk.

Bloomberg Commodity Index TR Performance through December 31, 2019

	Weight as of Year End	2019 Total Return
Energy	30.20%	11.78%
Agriculture	29.42%	1.72%
Livestock	5.86%	-5.99%
Industrial Metals	17.00%	6.98%
Precious Metals	17.52%	17.02%
BCOM Index Total Return	**100.00%**	**7.69%**

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.**