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BCOM Index Monthly Commodities Update
February 2019

Executive Summary

Commodities gained in February, with the Bloomberg Commodity Index Total Return up 1.01%. Brent Crude Oil and WTI Crude Oil increased 9.03% and 5.55%, respectively. Faster-than-expected production cuts by some OPEC members and their allies paired with involuntary cuts from Iran and Venezuela helped to tighten the global supply demand imbalance. The US Department of Energy reported a minimal change in US oil inventories, which is atypical versus the increase in supplies typically seen in February. US imports of crude oil in February fell to their lowest levels since the 1990's, while increasing US exports helped to more than offset rising domestic production growth. Gasoline and Ultra-Low Sulfur Diesel (ULS Diesel) increased 12.70% and 8.39%, respectively. While rising oil prices helped to support petroleum products, in general, US gasoline inventories in February shrank from high levels as reported in the prior month while inventories of distillates built back up from very low levels. This combination contributed to the outperformance of Gasoline over ULS Diesel during the month. Kansas City Wheat and Chicago Wheat declined 11.89% and 11.34%, respectively, as mild weather conditions in the Black Sea region boosted expected yields for the area and increased international competition for US wheat. In addition, the US Department of Agriculture (USDA) reported strong winter wheat condition ratings for key US wheat producing states, indicating higher yield expectations for this year's harvest. Coffee fell 9.64% as beneficial rainfall in key Brazilian growing regions relieved concerns of recent dryness and increased expectations for larger crop yields.

Monthly Commentary

The Bloomberg Commodity Index Total Return was higher for the month, with 10 out of 23 constituents posting gains. Energy increased the most, returning 5.44% for the period. Crude Oil and petroleum products led the sector higher due to reductions in global production and increasing demand expectations as the global growth outlook improved following potentially productive trade conversations between the US and China throughout the month. Industrial Metals gained 3.51%, led higher by Copper, as orders to remove the metal from London Metal Exchange warehouses rose to the highest level in several months, leading to rising demand expectations. Base metals were generally supported from warming US-China trade relations. By month end, the US administration extended the March 1st deadline for an increased tariff rate on Chinese imports, which helped to relieve some trade tensions. Livestock was 0.02% lower, led down by Lean Hogs, after a February-released USDA report revealed a decline in US pork exports in November 2018 compared to the same period a year ago, indicating slowing demand. This trend continued into December as pork exports week-over-week ending December 20th were 30% lower. Precious Metals declined 1.14%, led lower by Silver. Stronger-than-expected US jobs data for January boosted confidence in the US economy and allowed the US Dollar to strengthen, detracting from the appeal of Silver and Gold as alternative stores of wealth. Agriculture decreased 3.90%, led lower by Kansas City Wheat, Chicago Wheat and Coffee. Sugar offset some of the declines in grains and oilseeds as it rose following below-average rainfall along with high temperatures in key Brazilian growing regions, which reduced crop yield, and subsequently, supply expectations.

Market Outlook

Crude oil and petroleum products will likely continue to be driven by OPEC and its allies, who are looking to support and stabilize prices at higher levels in order to meet their budgeting needs. Thus far, it is expected that at OPEC's next meeting scheduled for April, the members will vote to continue with the cuts already in place, despite reduced production due to US sanctions on Venezuela's state-owned petroleum company and on Iran. Meanwhile, US exploration and production companies continue to produce more crude oil, offsetting some of the non-US output cuts. However, there are already signs of restraint on behalf of US companies, who are increasingly focused on profitability rather than production growth. In addition, there remains the risk of further additional unplanned outages, especially in politically sensitive areas such as Libya and Nigeria.

Global growth expectations improved after China and the US were perceived to be on the path to finding a resolution to their trade dispute. In China, the Caixin Manufacturing PMI remained in contraction after its February reading remained below 50, evidence that its economy has slowed, potentially due to the trade dispute. In addition, the US Administration faced mounting pressure from its farming communities as the demand for US crops and livestock continued to be affected by reduced international demand. A near-term resolution would likely be supportive of commodities demand. Meanwhile, the US Federal Reserve (Fed) signaled that it had shifted to a looser monetary policy stance, including a potential shift away from its current 2% inflation target towards a 2% average inflation target over a business cycle. This could have dramatic implications for current and future monetary policy. Near-term inflation may have to increase and be sustained at a level above 2% for longer since inflation has been undershooting this target for the past several years. This may suggest that the Fed may allow for growth and inflation to increase uninterrupted for longer in order to achieve its objective. In such an environment, demand could potentially increase for many raw materials.

Bloomberg Commodity Index TR Performance through February 28, 2019

	Weight as of Month End	MTD Total Return	YTD Total Return
Energy	32.53%	5.44%	15.17%
Agriculture	27.74%	-3.90%	-0.98%
Livestock	5.70%	-0.02%	-1.52%
Industrial Metals	18.47%	3.51%	11.84%
Precious Metals	15.57%	-1.14%	2.06%
BCOM Index Total Return	**100.00%**	**1.01%**	**6.51%**

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.**

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