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BCOM Index Monthly Commodities Update
May 2019

Executive Summary
Commodities decreased in May, with the Bloomberg Commodity Index Total Return down 3.36%. WTI Crude Oil, Brent Crude Oil and Gasoline fell 16.21%, 13.02% and 12.70%, respectively. During the month, markets looked past rising tensions between the United States and Iran, which could increase the risk of oil supply shocks, towards the potential for weaker-than-expected demand as the trade war between the US and China escalated. The US Energy Information Administration reported growing US crude oil and petroleum product inventories throughout the month, suggesting US crude producers were able to continue to produce enough to offset declines in exports from Iran and others. This helped contribute to the shift in sentiment towards a widening supply/demand balance in addition to a weakening in future demand expectations. Kansas City Wheat and Chicago Wheat increased 20.29% and 17.55%, respectively, as the prospect for a robust crop this year was reduced amid heavy rainfall in the US Midwest. Wheat was also buoyed by higher-than-normal US Department of Agriculture (USDA) wheat export inspections, indicating completed international transactions. Corn gained 18.03% as severe storm conditions in the US Midwest and Great Plains kept the corn planting pace at a record low, decreasing supply expectations. This may reduce this season's crop size as the US passed its optimal corn planting period. Plantings in June may face a shorter growing season, which may result in smaller yields.

Monthly Commentary
The Bloomberg Commodity Index Total Return was lower for the month, with 16 out of 23 constituents posting losses. Energy decreased 11.97% for the period, with all constituents ending the period in the red. In addition to oil and petroleum products, Natural Gas was also lower as temperatures in May came in below average for most of the continental US, leading to reduced electricity generation demand for cooling and the highest pace of storage builds over the last two decades. Industrial Metals declined 5.88%, led lower by Zinc, following the US administration's decision to raise duties on various Chinese imports and China's in-kind response, which caused trade negotiations to stall and reduced base metals demand broadly. The breakdown in US-China trade and its impact to global growth expectations may have been a factor behind softening manufacturing April PMI readings within the Eurozone and China. Livestock fell 5.63%, led lower by Live Cattle, after the USDA reported that beef exports in March declined approximately 5% compared to the year prior. In addition, recently announced potential levies on imported Mexican goods by the US government threatened the United States-Mexico-Canada Agreement, potentially reducing US beef exports. Lean Hogs also declined as the ongoing trade conflicts continued to weigh on US pork demand expectations. Precious Metals ended the month relatively flat, gaining 0.72%. The various escalating trade threats led to a risk-off environment while spurring safe haven demand for Gold. Agriculture increased 7.57%, led higher by grains. Coffee also gained as heavy rainfall in key coffee-producing regions in Brazil disrupted the harvest and reduced supply expectations.

Market Outlook
Trade negotiations between the US and China deteriorated in May, although an agreement is not yet off the table. The two nations may resume trade talks at the upcoming Group of 20 Summit in Japan, scheduled to take place in late June. Both administrations signaled that they would prefer a resolution rather than continued strained relations. However, neither side appeared ready to accept the terms currently available. The US' decision to end steel and aluminum tariffs for Canada and Mexico also provided some hope for a timely agreement as progress there may indicate the country's easing stance towards cooperation with key trading partners. However, the US administration also threatened during the month to levy tariffs on all Mexican goods imported into the United States. A trade resolution could increase the demand for key commodities, such as base metals and agricultural goods.

In the meantime, grains have been impacted by extreme weather events in the US Grain Belt and Europe's Black Sea region. If bad crop weather persists, then wheat and corn crop yields for the 2019/2020 season may be further reduced, potentially ending the trend of bumper crops seen over the past few years. In addition, growing conflict between Iran and the United States, along with US allies in the Middle East, may increase crude oil supply risks to the region. An escalation towards military involvement could result in major production disruptions and reduced export capabilities out of the Persian Gulf, during a period of reduced spare production capacity outside of the United States. OPEC scheduled its next meeting for late June. Declining crude prices and increasing US inventories may encourage OPEC and its partners to extend their crude oil production cut agreement longer than they otherwise would.

US economic data have grown more mixed as of recent. According to the US Department of Labor, the US unemployment rate dropped to 3.6% in April, the lowest rate since December 1969. US inflation in April rose slightly, as measured by the Personal Consumption Expenditures Price Index, but remains well below US Federal Reserve (Fed) targets. However, softening US factory activity (con't)

in April, as measured by the Federal Reserve Board's Industrial Production data, showed that the US economy is not immune to cooling growth elsewhere, particularly in China and Europe. As a global economic growth slowdown or recession now appears more likely, central banks, including the Fed, seem to be suggesting they are prepared to shift back to easier monetary policies. Markets are now pricing in that the Fed will be lowering the Fed Funds rate once again sometime within the next three months, after pricing in hikes as recently as November of 2018, which is a noticeable shift in guidance. Central banks continue to be very flexible in their policy–making as they adapt to the changing economic landscape. Their actions may help to forestall any dramatic weakening in the global economy. At the same time, they appear more willing to potentially let the economy and inflation run hotter for longer on the upside, which would be beneficial to commodity prices.

Bloomberg Commodity Index TR Performance through May 31, 2019

	Weight as of Month End	MTD Total Return	YTD Total Return
Energy	31.07%	-11.97%	6.43%
Agriculture	29.58%	7.57%	0.67%
Livestock	5.93%	-5.63%	-3.50%
Industrial Metals	17.54%	-5.88%	2.58%
Precious Metals	15.88%	0.72%	-0.15%
BCOM Index Total Return	**100.00%**	**-3.36%**	**2.31%**

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.**