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BCOM Index Monthly Commodities Update
June 2019

Executive Summary
Commodities increased in June, with the Bloomberg Commodity Index Total Return up 2.69%. WTI Crude Oil and Gasoline rose 8.79% and 8.46%, respectively, as escalating tensions between the US and Iran heightened supply risks in the Middle East while constructive trade talks between the US and China, following the Group of 20 Summit in Japan, improved demand expectations for crude oil and petroleum products. Gasoline received additional support after a fire shut down one of the largest oil refineries on the East Coast, reducing the supply outlook as the US entered into its peak summer driving season. Gold increased 8.01% as tensions in the Middle East rose after Iran downed a US military drone aircraft. In addition, the global growth outlook weakened and raised the likelihood that major central banks may further ease monetary policy. Lean Hogs declined 10.02% on increased pork production expectations as well as growth in US hog herd sizes as the US-China trade war continued to weigh on demand. The US Department of Agriculture (USDA) confirmed a 16% increase in year-over-year pork production for the week ending June 21st. Natural Gas decreased 6.08% over the period as milder-than-average temperatures throughout June for most of the continental US reduced cooling demand. Kansas City Wheat fell 4.94% after a US agricultural report revealed higher-than-expected planted acreage for corn, which reduced the demand for wheat as a substitute for corn in animal feed. In addition, planted acreage for wheat was revised higher, increasing supply expectations.

Monthly Commentary
The Bloomberg Commodity Index Total Return was higher for the month, with 16 out of 23 constituents posting gains. Precious Metals increased 7.33%, led up by Gold. Increasing geopolitical risks, including potential retaliation from the US on Iran for the downing of the military aircraft, helped to increase safe haven demand. Energy rose 3.95%, led higher by Crude Oil and petroleum products. In addition to increasing supply risks out of the Persian Gulf, OPEC and its partners indicated that they will continue to support output curbs to potentially offset any demand declines owing to a weakening global economy. Industrial Metals gained 2.05%, led higher by Nickel, on increased prospects of additional stimulus measures from central banks, which would be supportive of industrial demand. Base metals demand expectations also rose following a tariff ceasefire between the US and China, which included the US administration's delaying of levies on an additional $300 billion worth of Chinese imports. Agriculture was 0.51% higher. While Kansas City Wheat declined for the month, Chicago Wheat increased after ongoing rainfall in the parts of the US Midwest where this grade of wheat is grown increased the risk of fungus growth, potentially decreasing yields and the production of delivery-grade supplies. Livestock declined 3.46%, led lower by Lean Hogs, following reports of increased US supply expectations. Also, China's Ministry of Agriculture and Rural Affairs commented that the African swine fever outbreak among China's hog population has been contained, weighing on China's import demand expectations.

Market Outlook

The Group of 20 Summit in Japan provided an avenue for world leaders to improve both trade and political relationships, particularly between the US and China, as other nations affected by the trade war become more vocal about their reaching a trade agreement. The US and China entered into a temporary truce to prevent an escalation of tit-for-tat tariffs while also allowing for negotiations to resume, which has caused market participants to become cautiously optimistic that a near-term trade deal may be reached. Reduced barriers to trade would be beneficial to commodity demand as companies are increasingly delaying capital investments amid the uncertainty. Russia also announced at the G20 Summit that it agreed with Saudi Arabia to extend the crude oil production cut agreement through year end and potentially into the first quarter of 2020. How strictly all participants will be at adhering to the agreement remains a concern as some participating nations, such as Nigeria, face growing political and financial constraints. So far, a majority of the participating nations to the OPEC+ agreement have met or exceeded production cut quotas over the past year and a half, exemplifying their commitment to supporting crude oil prices. However, the biggest risk to the agreement's effectiveness rests outside of the group's control. A question remains on how much more will US shale producers continue to grow production and make up for the shortfall.

Beyond policy risk, weather continued to impact the planting and growing seasons of key crops. Per the National Oceanic and Atmospheric Administration, soil saturation levels for a large part of the US Midwest remained abnormally moist to excessively wet in late June. The heavy rainfall has forced farmers to plant a higher percentage of their fields at the same time, increasing the concentration risk to plantings if additional adverse weather conditions appear, especially during the key summer growing season. Meanwhile, European wheat faced a heatwave by the end of the period, which may also impact output expectations. In addition, a delayed monsoon season in India, a country which tends to oscillate between a net consumer and a net exporter of sugar, may also impact sugarcane production. If dry conditions persist in India, then there may be less sugar supplies available for trade. (con't)

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Economic indicators seem to be losing some momentum, adding to the evidence that the ongoing trade conflict between the US and China has impacted growth expectations broadly. In the US, unemployment remained at 3.6% in May. However, the US Purchasing Manager's Index reading weakened to 50.5 in May. A reading below 50 would indicate a contraction. The same reading for the Eurozone fell to 47.7, potentially threatening the region's job market as its manufacturing industry was impacted by reduced factory activity. China's Caixin/Markit Manufacturing PMI reading remained at 50.2 for May as well, as exports fell. In response to these data points, central banks prepared to potentially take action. The Fed announced it was prepared to cut short-term interest rates, with two to three rate hikes priced in this year as of the end of the period. ECB President Mario Draghi announced the central bank will consider cutting interest rates in the near future in an effort to counteract an economic slowdown. China may also implement more stimulus measures in an attempt to reduce the pace of the weakening following special bond issues released earlier in June. As central banks continue to adjust policies to accommodate growth in the latter stages of an expansionary cycle or even in early contractionary periods, the appeal of commodities as an asset class is increased as a business cycle diversifier.

Bloomberg Commodity Index TR Performance through June 30, 2019

	Weight as of Month End	MTD Total Return	QTD Total Return	YTD Total Return
Energy	31.23%	3.95%	-4.56%	10.64%
Agriculture	29.41%	0.51%	4.50%	1.18%
Livestock	5.51%	-3.46%	-11.01%	-6.84%
Industrial Metals	17.32%	2.05%	-7.23%	4.68%
Precious Metals	16.53%	7.33%	7.15%	7.17%
BCOM Index Total Return	**100.00%**	**2.69%**	**-1.19%**	**5.06%**

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 (+/-).
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