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BCOM Index Monthly Commodities Update
July 2019

Executive Summary
Commodities declined in July, with the Bloomberg Commodity Index Total Return down 0.67%. Coffee decreased 8.78% as beneficial dry weather in Brazil's key growing regions allowed the harvest to progress at a faster pace relative to last year, increasing crop yield expectations. In addition, the risk of a frost damaging coffee plants dissipated during the month. Kansas City Wheat and Chicago Wheat fell 8.22% and 7.41%, respectively, on the back of stronger-than-expected production from Europe and the Black Sea region. Nickel increased 14.41% as a result of Indonesia announcing plans to enforce a restriction on the export of raw unprocessed nickel ore in January 2022. This led to increased efforts to secure near term supplies more quickly. Silver rose 7.14% as escalating tensions in the Middle East buoyed safe haven demand. In addition, increasing signs of a global economic slowdown, including weak economic data from Asia and Europe along with dovish statements from central banks, raised the appeal of the metal as an alternative store of value. Lean Hogs gained 4.00% after China's Ministry of Agriculture and Rural Affairs revealed the largest drop in China's domestic hog population since the onset of the African swine fever epidemic. As the disease persisted, with a new case confirmed in Sichuan Province, producers remained hesitant to increase their herd sizes. These developments, along with the US and China resuming trade negotiations, raised prospects for higher US pork exports to China.

Monthly Commentary
The Bloomberg Commodity Index Total Return was lower for the month, with 13 out of 23 constituents posting losses. Agriculture decreased 5.12%, with all constituents ending in the red, as favorable weather conditions supported the growing and harvesting stages of grains and softs. Energy was relatively unchanged, returning 0.13% for the month. Crude Oil and petroleum products rose after OPEC and its partners decided to extend their production cut agreement through year end and potentially into the first quarter of 2020. However, they later sold off on weakening demand expectations, spurred by increasing macroeconomic concerns. Rising tensions in the Persian Gulf threatened the transportation of crude oil out of the Middle East, weighing on supply forecasts, which helped the sector finish the month in positive territory. Meanwhile, Natural Gas declined and offset most of those gains as strong production growth out of the US Northeast outpaced demand for summer cooling needs, leading to accelerated inventory builds in the month of July. This narrowed supply deficits relative to the five-year seasonal average for this time of the year. Industrial Metals increased 1.41%, led higher by Nickel. Other base metals declined as global growth concerns continued to weigh on usage needs. Precious Metals gained 2.35%, due to higher demand for Silver and Gold as global growth concerns and geopolitical risks increased. Livestock was 2.85% higher, led up by Lean Hogs. Live Cattle also rose after the US government reported a reduction in frozen beef inventories and a decline in new feedlot placements for the month of June compared to the same period a year prior.

Market Outlook

Policy risk continued to influence commodity prices and global growth expectations, with the US-China trade war dominating headlines. While trade discussions between the US and China resumed during the last week of July, the timing of a trade deal remains unclear, particularly as neither side seemed prepared to offer any new concessions by month end. A prolonged negotiation process may be likely. However, as the 2020 US presidential election approaches and economic indicators worsen in China, both sides faced renewed urgency to come to an agreement. In the Middle East, tensions remained high following the US' dissolution from the Iran nuclear deal. Exports out of Iran continued to decline, and there were additional reports of ships facing difficulties navigating the Strait of Hormuz. Crude oil and petroleum product prices would likely go significantly higher should the odds of an outright military conflict increase.

The potential for supply shocks in the other sectors remains as well. Major flooding in the US Midwest in June may have affected the reporting accuracy of the US Department of Agriculture's June planted acreage data. Market participants will look to the August data release for answers, and notable differences in corn and soybean yield estimates may introduce significant volatility into the grains and oilseeds markets. In addition, Indonesia recently announced its commitment to end the five-year reprieve it offered to miners to continue to export low-grade, unprocessed ore in January 2022 as they increase the country's domestic smelting capabilities. The pace at which these producers will be able to build smelters by the deadline remains in question as many projects are still in their initial stages. Delays in these smelting projects may restrict the production of nickel significantly.

Various central banks globally have already cut their key rates in July, with others seemingly planning to do so in future months. In the US, although jobs, consumer spending and manufacturing data remain mixed, the US Federal Reserve (Fed) cut the Federal Funds Rate for the first time since 2008 in an effort to help withstand heightened risks to global growth and in an attempt to target higher (con't)

inflation. If headwinds to growth persist, the Fed may choose to implement additional rate cuts in 2019. The European Central Bank also signaled its intention to cut rates at its September meeting and restart its bond purchasing program in an effort to support the Euro bloc, particularly as the likelihood of "Brexit" progressing became more likely after the election of a new UK Prime Minister. China, meanwhile, may act to implement additional fiscal measures in order to attempt to meet its annual growth target, particularly as the country's manufacturing PMI reading for June remained in contraction. The dovish sentiment of central banks globally reinforces their commitment to attempt to support growth and stabilize inflation at higher levels.

Bloomberg Commodity Index TR Performance through July 31, 2019

	Weight as of Month End	MTD Total Return	YTD Total Return
Energy	31.45%	0.13%	10.78%
Agriculture	28.13%	-5.12%	-4.00%
Livestock	5.53%	2.85%	-4.18%
Industrial Metals	17.71%	1.41%	6.16%
Precious Metals	17.17%	2.35%	9.69%
BCOM Index Total Return	**100%**	**-0.67%**	**4.35%**

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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