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BCOM Index Monthly Commodities Update
August 2019

Executive Summary

Commodities decreased in August, with the Bloomberg Commodity Index Total Return down 2.32%. Lean Hogs declined 10.38% as escalating trade tensions between the US and China greatly diminished the probability of higher US pork exports to China. Chinese hog herds declined significantly since August 2018 due to African swine fever, which has led to rising pork prices in China. Zinc fell 9.64% as increasing signs of an economic slowdown may lead to lower refined zinc demand amid a backdrop of increasing mine supply growth. Kansas City Wheat was 9.63% lower as strong crop yield forecasts for Ukraine's 2019 wheat harvest increased global competition for US supply. Beneficial weather conditions in the US Midwest also raised corn yield estimates, reducing the demand for wheat as a substitute for animal feed. Nickel gained 23.98% after the Indonesian government announced that the initial start of January 2022 for a ban on all nickel ore exports would be moved forward by two years. This tightened the nearer-term supply outlook for the base metal. Silver and Gold increased 11.10% and 6.55%, respectively, as the odds of a recession increased and US bond yields declined sharply amid a flight to safety, raising the appeal of precious metals as alternative stores of wealth.

Monthly Commentary

The Bloomberg Commodity Index Total Return was lower for the month, with 19 out of 23 constituents posting losses. Livestock decreased 8.86%, led lower by Lean Hogs. Live Cattle was weighed down after a fire at one of the largest US beef processing plants halted beef production, reducing live cattle demand. Energy declined 5.70%. The demand outlook for crude oil and petroleum products weakened amid softening economic indicators globally. Agriculture was 5.05% lower. Sugar fell as beneficial weather in Brazil and India improved crop yield estimates while the Indian government approved further export subsidies to domestic producers, both of which increased supply expectations. Industrial Metals was relatively flat, returning 0.51% for the one-month period. Besides Nickel, all other base metals posted declines after the US administration announced plans to implement new tariffs on an additional $300 billion of Chinese imports, with three different rounds of hikes scheduled over the next few months. China reciprocated with its own set of levies against US imports. These actions decreased industrial demand expectations for base metals broadly and increased fears of slower global growth. Precious Metals increased 7.60% as new trade announcements between the US and China further strained relations between the world's two largest economies, increasing safe haven demand for Gold and Silver.

Market Outlook

The US-China trade war worsened mid-August with another bout of tit-for-tat import taxes scheduled to take place in three waves, first on September 1st, second on October 1st and the last on December 15th. There is a possibility that the latter rounds may be reduced or not occur at all, as both administrations indicated their intentions to meet in autumn as previously planned to continue negotiations. The US administration also made symbolic statements towards negotiating in good faith at the recent Group of 7 Summit in France. Any meaningful move towards a resolution would likely impact commodity prices to the upside as exports of US agricultural goods would improve and industrial demand for base metals may rise, spurring price inflation and potentially improving the pace of GDP growth. The potential for supply shocks in key commodity-producing regions such as the Middle East also remain, especially as political leaders may continue with aggressive negotiating tactics. This is despite some indications during the month that more diplomatic means would return, at least in the discussions between the US and Iran.

The trade war appeared to finally impact the US economy, as second quarter GDP slowed in comparison to first quarter's reading and as the IHS Markit US Manufacturing PMI August reading fell to slightly below 50, potentially indicating contraction, for the first time since 2009. As a synchronized global slowdown takes hold and central bankers prepare for a moderating pace of global growth, the focus has slightly shifted to what stage the markets are in within the current business cycle as concerns of a recession have increased. Many central banks and governments have committed themselves to trying to stimulate growth through more interest rate cuts and stimulus measures. The US Federal Reserve indicated further and potentially larger rate cuts, with the second cut of the year estimated to occur at the September meeting. China revealed that it may allow local governments to issue new bonds to support infrastructure investments. Supportive monetary and fiscal measures from various countries around the world may help economies soften the negative impacts from the slowing of international trade and consequently spur demand.

Bloomberg Commodity Index TR Performance through August 31, 2019

	Weight as of Month End	MTD Total Return	YTD Total Return
Energy	30.20%	-5.70%	4.47%
Agriculture	27.53%	-5.05%	-8.85%
Livestock	5.14%	-8.86%	-12.67%
Industrial Metals	18.23%	0.51%	6.70%
Precious Metals	18.90%	7.60%	18.02%
BCOM Index Total Return	**100%**	**-2.32%**	**1.93%**

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.**