

# 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%
<b>BCOM Index Total Return</b>	<b>100%</b>	<b>-2.32%</b>	<b>1.93%</b>

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.**

### Important Legal Information

This material has been prepared by Credit Suisse Asset Management, LLC ("Credit Suisse") on the basis of publicly available information, internally developed data and other third party sources believed to be reliable. Credit Suisse has not sought to independently verify information obtained from public and third party sources and makes no representations or warranties as to accuracy, completeness or reliability of such information. All opinions and views are subject to change at any time without notice and with no obligation to update. This material is for informational and illustrative purposes only, does not constitute research and is intended solely for the information of those to whom it is distributed by Credit Suisse. No part of this material may be reproduced or retransmitted in any manner without the prior written permission of Credit Suisse. Credit Suisse does not represent, warrant or guarantee that this information is suitable for any investment purpose and it should not be used as a basis for investment decisions. This material does not purport to contain all of the information that a prospective investor may wish to consider. This material is not to be relied upon as such or used in substitution for the exercise of independent judgment. Past performance does not guarantee or indicate future results.

The charts, tables and graphs contained in this document are not intended to be used to assist the reader in determining which securities to buy or sell or when to buy or sell securities. Benchmarks are used solely for purposes of comparison and the comparison does not mean that there will necessarily be a correlation between the returns described herein and the benchmarks. The only legally binding terms of this investment product including risk considerations, objectives, charges and expenses, and conflicts of interest are set forth in the private placement memorandum and subscription documents which are available upon request.

This material should not be viewed as a current or past recommendation or a solicitation of an offer to buy or sell any securities or investment products or to adopt any investment strategy. The reader should not assume that any investments in companies, securities, sectors, strategies and/or markets identified or described herein were or will be profitable and no representation is made that any investor will or is likely to achieve results comparable to those shown or will make any profit or will be able to avoid incurring substantial losses. This informational report may not be used or relied upon in connection with any offer or sale of a security or hedge fund or fund of hedge funds. Performance differences for investors may occur due to various factors. Investment return, if any, will fluctuate and may be volatile, especially over short time horizons. Investing entails risks, including possible loss of some or all of the investor's principal. To the extent that these materials contain statements about the future, such statements are forward looking and subject to a number of risks and uncertainties.

The only legally binding terms of this investment product including risk considerations, objectives, charges and expenses are set forth in the private placement memorandum and subscription documents which are available upon request. This document does not constitute an offer or invitation to enter into any type of financial transaction. The issuer has no obligation to issue this investment product. Where not explicitly otherwise stated, the issuer has no duty to invest in the underlying assets. Before deciding to invest, prospective investors must carefully read the relevant private placement memorandum and subscription documents and pay particular attention to the risk factors contained therein and determine if this investment product suits the investor's particular circumstances and should independently assess (with the investor's tax, legal and financial advisers) the specific risks (maximum loss, currency risks, etc.) and the legal, regulatory, credit, tax and accounting consequences. Prospective investors should have the financial ability and willingness to accept the risk characteristics of this investment product. This investment product is intended only for investors who understand and are capable of assuming all risks involved. Credit Suisse makes no representation as to the suitability of this investment product for any particular investor or as to the future performance of this investment product.

Certain risks relating to investing in Commodities and Commodity-Linked Investments: Exposure to commodity markets should only form a small part of a diversified portfolio. Investment in commodity markets may not be suitable for all investors. Commodity investments will be affected by changes in overall market movements, commodity volatility, exchange-rate movements, changes in interest rates, and factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. Commodity markets are highly volatile. The risk of loss in commodities and commodity-linked investments can be substantial. There is generally a high degree of leverage in commodity investing that can significantly magnify losses. Gains or losses from speculative derivative positions may be much greater than the derivative's original cost. An investment in commodities is not a complete investment program and should represent only a portion of an investor's portfolio management strategy.

Copyright © 2019. Credit Suisse Group AG and/or its affiliates. All rights reserved.