

# BCOM Index Monthly Commodities Update

## September 2019

### Executive Summary

Commodities increased in September, with the Bloomberg Commodity Index Total Return up 1.17%. Lean Hogs gained 10.81% after the US administration delayed a planned increase on the tariff rate for Chinese imports while China exempted US pork products from additional tariffs, improving the chances of higher US pork exports to China in the coming months. Zinc rose 9.37% as demand expectations improved amid easing trade tensions while stockpiles tracked by the London Metal Exchange fell to a five-month low, indicating potentially tightening fundamentals. Chicago Wheat increased 7.37% as rising corn prices elevated wheat's appeal as a substitute in animal feed. In addition, higher international prices offered for wheat increased global demand expectations. Silver and Gold declined 7.17% and 3.53%, respectively, on reduced safe haven demand after the US and China announced their intention to continue trade negotiations during a meeting in October. Both metals have been strong performers year-to-date but gave back some gains during the month as the US Dollar rose. Nickel decreased 4.49% after the Indonesian government announced it may establish export quotas among producers before the export ban takes full effect in January 2020. This raised the possibility that miners may try to bring more nickel ore to market ahead of that deadline.

### Monthly Commentary

The Bloomberg Commodity Index Total Return was higher for the month, with 18 out of 23 constituents posting gains. Livestock increased 7.49%, led higher by Lean Hogs. Live Cattle also rose after US data showed new cattle feedlot placements in August were approximately 9% below last year's level, potentially indicating declining supplies of live cattle. In addition, the US and Japan signed a limited trade agreement, which would lower levies on US beef and pork while eliminating duties on other US-produced agricultural goods. This raised import demand expectations from Japan, the largest buyer of US beef. Agriculture gained 4.19%. Besides Chicago Wheat, Corn was also higher on lower-than-expected production estimates by the USDA paired with higher-than-expected corn consumption expectations. Energy rose 1.11%. Petroleum products outperformed both grades of crude oil after the largest oil processing center in the world, located in Saudi Arabia, suffered from a drone attack on September 15th, raising concerns of reduced gasoline, gas oil and ultra-low sulfur diesel output. Industrial Metals returned 0.51% for the period, led by Zinc. Copper also rose amid a brighter demand outlook as US and Chinese officials continued trade negotiations. Precious Metals declined 4.40%, with both Silver and Gold posting losses as international relations among US, China and

Iran appeared to not regress during the month. This reduced safe haven demand for both metals.

### Market Outlook

Trade tensions between the US and China seemingly calmed in September, fueling optimism that both nations will finalize a trade agreement in the coming months. Worsening industry data out of China and the US may be encouraging cooperation between the two nations, as both sides decided to delay additional rounds of tariffs in perceived acts of goodwill before a scheduled meeting in October. The next tranche of retaliatory US duties on Chinese goods is scheduled to take effect on October 15th, and it's possible that the US government may provide another extension until talks have concluded. Impeachment proceedings in the US may either accelerate or complicate the progression of negotiations for this trade deal as well as those with trading partners in North America and other parts of the world. Finalized trade accords would be supportive of commodities demand across multiple sectors.

Mid-month, a major oil field in Saudi Arabia suffered from a drone attack, temporarily taking around 5% of global crude oil production and processing offline. Although reports have indicated that output from the damaged facilities would largely be restored in the coming weeks, there still remains uncertainty as to how much inventories will draw down and whether Saudi Arabia will be able to meet its targeted schedule. A prolonged period of reduced output and processing would limit crude oil and petroleum product supplies. Despite the attack, the US and Iran appeared to be moving forward with a deal that would allow Iran to resume crude oil exports after the US granted Iran entry into the country in order to attend the United Nations General Assembly in New York. However, geopolitical risk among OPEC members remain as the civil war in Libya continued to put crude oil infrastructure at risk. There is also potential for further incidents in the Middle East related to the heightened tensions between Iran and Saudi Arabia.

Despite some renewed optimism in September, signs of economic slowdowns continued. The Organization for Economic Cooperation and Development announced its expectation that the pace of global growth in 2019 will be at the slowest over the past decade, with growth to remain muted in 2020. Over the quarter, central banks have tapped into their monetary tools in an effort to combat waning growth and to try and avoid a potential recession. The US Federal Reserve cut short-term interest rates by an additional 0.25% in September, the European Central Bank restarted its quantitative easing program and the People's Bank of China reduced its reserve requirement ratio to promote business lending. As such, governments and their central banks remain committed to (con't)

attempting to support their economies as it becomes more likely that the US economy is either late in its growth cycle or nearing early

stage contraction, a time when commodities tend to outperform traditional asset classes such as equities and fixed income.

### Bloomberg Commodity Index TR Performance through September 30, 2019

	Weight as of Month End	MTD Total Return	QTD Total Return	YTD Total Return
Energy	29.91%	1.11%	-4.53%	5.63%
Agriculture	28.53%	4.19%	-6.15%	-5.04%
Livestock	5.71%	7.49%	0.77%	-6.13%
Industrial Metals	18.05%	0.51%	2.44%	7.24%
Precious Metals	17.80%	-4.40%	5.28%	12.83%
<b>BCOM Index Total Return</b>	<b>100.00%</b>	<b>1.17%</b>	<b>-1.84%</b>	<b>3.13%</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 (+/-).

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