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# BCOM Index Monthly Commodities Update
## October 2019

**Executive Summary**
**Commodities gained in October, with the Bloomberg Commodity Index Total Return up 2.02%. Silver increased 6.44% after weaker-than-expected manufacturing and housing data released throughout the month increased the likelihood that the US Federal Reserve (Fed) would cut interest rates in its October month-end meeting, which it did. This raised the attractiveness of Silver as a viable store of wealth relative to lower interest rates. Live Cattle rose 6.43%, steadily increasing throughout the month as supply and demand fundamentals tightened. US beef export expectations were raised following a US and Japan trade agreement. In addition, concerns surrounding potentially low cattle weight gains amid forecasts of an early winter storm in the US Midwest also helped to raise prices. Cotton rose 6.09% after progress towards a partial trade deal between the US and China boosted US export estimates, in addition to other US agricultural goods. Meanwhile, concerns surrounding below average mid-month temperatures in West Texas, the largest cotton-producing region in the US, also threatened cotton crop yields. Lean Hogs declined 8.96% as US pork demand remained muted amid the US-China trade dispute while US Department of Agriculture data showed an approximate 5% increase in pork production in mid-October compared to the year prior, potentially signaling growing supplies. Nickel decreased 2.05% as Indonesian nickel exporters quickly increased shipments in front of the looming January 2020 export ban. Gas Oil fell 1.63% as the market anticipated that refineries under maintenance would quickly return to operations, potentially increasing gas oil production.**

**Monthly Commentary**
The Bloomberg Commodity Index Total Return was higher for the month, with 19 out of 23 constituents posting gains. All sectors ended the period in positive territory. Precious Metals increased 3.79%, led higher by Silver, as cooling US economic data encouraged the Fed to cut the Federal Funds Rate and increased investment appetite for other stores of wealth. Progress in trade negotiations between the US and China also supported Silver's industrial usage. Industrial Metals gained 1.78%. Zinc rose the most after inventories tracked by the London Metal Exchange continued to decline while several smelters and refineries were taken offline due to production issues, suggesting supply tightness. Optimism surrounding upcoming US-China trade talks also brightened the demand prospects for base metals broadly. Agriculture was up 1.74%, led higher by Cotton. Soybean Oil also rose following an improved outlook for a potential partial trade deal between the US and China by November. Energy rose 1.61%, with Gasoline leading the sector higher, after attacks on Saudi Arabia's crude processing infrastructure in September reduced the supply of petroleum products more than it did for crude oil, helping Gasoline to rise. Demand prospects for crude oil and petroleum products also rose after the US and China neared a limited trade agreement by month-end. In addition, Natural Gas increased as cooler temperatures towards the end of the month for the US East and Midwest, the two key consuming regions, increased heating demand and helped counterbalance strong production growth. Livestock returned 0.71% as gains in Live Cattle were partially offset by losses in Lean Hogs.

**Market Outlook**
A move towards resolution became the theme for major geopolitical affairs in October as trade negotiations and Brexit talks seemingly progressed. The US and China neared a partial trade agreement that would at minimum address the sales of US agricultural goods, particularly soybeans and pork, to the expansive Chinese market. By month end, the two administrations showed preference towards finalizing the deal's terms. Both countries announced plans to find another location to sign the agreement after Chile cancelled the mid-November Asia-Pacific Economic Cooperation meeting amid growing domestic social unrest. Any meaningful progress in the US-China trade war may help to improve commodities demand expectations and the global growth outlook. In addition, the US successfully made a trade deal with Japan, which should help improve US beef export demand.

In Chile, the largest producer of copper, public protests have already disrupted mining operations and caused transportation delays. Prolonged unrest may hinder copper production into 2020. Across the Pacific Ocean, supply disruptions appeared sooner than expected after the Indonesian government purportedly made a verbal agreement with its domestic mining industry to temporarily restrict the flow of high-grade nickel ore exports ahead of the revised January 2020 export ban deadline as it attempts to shore up profits all along the nickel production supply chain. However, Indonesia's policy towards nickel production and exports has varied widely over the past years, so potential uncertainty remains for further adjustments to these rules, which could help to tighten supplies further.

In macroeconomic news, leading economic indicators for large economies continued to show weakness. The US and the Eurozone both suffered lower manufacturing PMI readings for September. Meanwhile, China's PMI readings varied, though all were near contraction territory. China's GDP for the third quarter of 2019 fell to 6%, the lowest quarterly reading since 1993. Until trade frictions among the largest economies ease, central banks are likely to

continue to act to support economic activity in an effort to help counteract any impediments to growth.

**Bloomberg Commodity Index TR Performance through October 31, 2019**

| | Weight as of Month End | MTD Total Return | YTD Total Return |
|---|---|---|---|
| Energy | 30.27% | 1.61% | 7.33% |
| Agriculture | 28.36% | 1.74% | -3.38% |
| Livestock | 5.59% | 0.71% | -5.46% |
| Industrial Metals | 17.81% | 1.78% | 9.15% |
| Precious Metals | 17.97% | 3.79% | 17.10% |
| **BCOM Index Total Return** | **100.00%** | **2.02%** | **5.22%** |

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.**