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BCOM Index Monthly Commodities Update
March 2020

Executive Summary

Commodities declined for the third straight month in March, with the Bloomberg Commodity Index Total Return down 12.81%. The impact of the global coronavirus (COVID-19) pandemic rose significantly, with the worldwide number of confirmed cases rising from approximately one hundred thousand to almost one million by the end of the month, according to data compiled by Johns Hopkins University. The focus of the global pandemic also shifted from China to other regions of the world. In the United States, the home market for most of the commodity contracts held in the Index, the number of confirmed cases skyrocketed from fewer than 100 cases to over 200 thousand. The largely singular global policy response of utilizing various forms of social distancing measures resulted in sudden and significant demand shocks within a condensed time frame across all commodities in the Index, save for certain agricultural products and Gold. Gasoline was the worst performer in the Index with a 59.85% decline as social distancing measures affected its biggest source of demand: vehicle fuel. This allowed inventories to build and sent gasoline refining margins to their lowest levels since at least the Global Financial Crisis. Falling petroleum prices and vehicle fuel demand also negatively impacted Sugar, which fell 26.27%. In Brazil, falling ethanol demand led to increasing attractiveness of diverting more sugarcane into sugar rather than ethanol, boosting supply expectations. Several major ethanol fuel distributors in that country also declared force majeure on ethanol purchases in a sign of low demand for ethanol. Lean Hogs decreased 19.94% as school and restaurant closures significantly reduced pork demand. Silver and Aluminum declined 13.94% and 10.55%, respectively, as their demand for industrial and construction applications declined with the global economic slowdown. Aluminum inventories tracked by London Metal Exchange (LME) warehouses rose by the most in several months, particularly the ones located in Asia. Among the few benefactors of this pandemic were Wheat and Gold, which rose 8.39% and 1.77%, respectively. Wheat benefitted from increasing retail purchases of flour-based storable products such as crackers, cookies, and flour as the public prepared for the potential of remaining at home for weeks to avoid coronavirus infection. Gold was pushed higher by rising demand for safe-haven assets during the risk-off market environment.

Monthly Commentary

The Bloomberg Commodity Index Total Return was lower for the month, with 18 out of 23 constituents and all sectors posting losses. Energy declined 35.09% with Crude Oil and petroleum products driving most of the losses. The aforementioned pandemic-related demand shock was further exacerbated by the Organization of the Petroleum Exporting Countries (OPEC) and Russia's announcement to abandon their existing production cut strategy and in turn, increase oil output as they could not come to an agreement. This potentially created the largest daily global supply/demand imbalance in decades. Natural Gas also declined slightly, adding to the sector's loss, despite a rally following the OPEC announcement on the back of expectations for lower associated gas production out of US shale oil fields. The rally was proven to be short-lived as bearish, pandemic-related demand impact on domestic and Liquefied Natural Gas export demand overwhelmed the bullish supply shock. Livestock decreased 13.49%, as both Live Cattle and Lean Hogs fell. Compounding the weak demand for US pork due to the pandemic, the United States Department of Agriculture (USDA) Quarterly Hogs and Pigs report late in the month showed a 4% increase of total hog inventory from last year, indicating the potential for more supplies in the coming months. Industrial Metals decreased 13.49% as demand from many manufacturing and infrastructure projects came to a halt. Large US automakers announced that they would shut their operations indefinitely due to safety concerns, extremely low sales projections and weakening economic confidence, reducing demand for Aluminum. Agriculture declined 3.25%. Aside from Sugar, Cotton also fell sharply as effects from the pandemic resulted in shutdowns from the textile industry globally in many regions, including cotton mill closures in China and clothing manufacturers in northern Italy. Precious Metals also declined 1.37% as the large decline in Silver more than offset the slight gain in Gold. The loss in industrial demand for Silver more than outweighed its safe-haven property.

Market Outlook

As COVID-19 continues to spread globally with cases increasing in the months ahead, many nations are likely to enact more stringent social distancing measures as well as limitations on travel. While this may continue to suppress demand for commodities, especially petroleum products, market participants may have already reflected the impact from the lower demand in commodity futures prices. Unleaded gasoline, which is usually priced at a premium to diesel as the US enters into the peak driving season, is trading at discounted levels. In addition to the drop-off in demand, the increase in oil supply due to the crude oil production war between Russia and Saudi Arabia has resulted in lower near term prices as traders look to buy and store oil. As available storage capacity decreases, lower near-term oil prices will likely further strain corporate and fiscal budgets in an environment where governments are looking to increase spending to support their local economies. This may force companies (con't)

and oil producing nations to re-evaluate the oil production strategy currently in place. Any potential coordinated changes to oil production levels may affect petroleum prices materially.

Meanwhile, the USDA's 2020 Prospective Plantings report revealed a higher-than-expected increase in corn planting intentions, surpassing 2019's planted figures by approximately 8%. However, surveys for the report were conducted prior to late March when a majority of the US began to ramp up virus containment efforts, which lowered ethanol demand and corn prices. If planting intentions subsequently decrease, this could be supportive of agricultural commodities. Additionally, concern for workers' safety amid the coronavirus outbreak has already led to strikes and other supply disruptions across the globe. During March, sugarcane harvesters on several large plantations in India refused to continue operations without proper protective equipment. The Santos port in Brazil, responsible for a large percentage of the country's annual trade, also grappled with strike concerns during the period. Supply chains, especially those that involve a higher degree of human labor, may be especially vulnerable to disruptions in coming months as governments continue to adjust restrictions and as the virus infection rate has yet to be confirmed in large numbers in certain parts of South America, Africa, and Asia.

The sudden demand drop during March caused notably lower commodity prices, which will likely flow through to near-term inflation forecasts. However, governments globally have resorted to an unprecedented amount of quick monetary and fiscal stimulus measures to combat the economic effects of the coronavirus pandemic. The magnitude of this intervention has the potential to create meaningful inflation once the commodity supply-demand balance tightens.

Bloomberg Commodity Index TR Performance through March 31, 2020

	Weight as of Month End	MTD Total Return	YTD Total Return
Energy	19.16%	-35.09%	-51.10%
Agriculture	34.95%	-3.25%	-9.86%
Livestock	5.80%	-13.49%	-28.14%
Industrial Metals	18.41%	-9.71%	-18.46%
Precious Metals	21.68%	-1.37%	-1.11%
BCOM Index Total Return	**100.00%**	**-12.81%**	**-23.29%**

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.
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.**

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.