

# BCOM Index Monthly Commodities Update

## April 2020

### Executive Summary

Commodities were lower during the month of April, with the Bloomberg Commodity Index Total Return down 1.54%. Global efforts to contain the coronavirus (COVID-19) continued, as confirmed cases globally grew from slightly under one million to over three million during the month, according to data from Johns Hopkins University. Crude Oil and petroleum products felt the largest impact from these containment efforts. WTI Crude Oil decreased 24.00% as a supply glut amid significantly lower refinery demand prompted storage concerns. Towards the end of the month, broader commodity demand expectations rose after a flattening of the infection rate curve in various countries prompted government officials around the globe to develop plans for reopening businesses and other public places. However, Gasoline was the best performer in the Index, rising 16.38% as weak refining margins led to less production while gasoline consumption in the US rose for three straight weeks, according to weekly US Energy Information Administration (EIA) reports released in April. Live Cattle declined 6.64% as the COVID-19 outbreak sickened many meat packing workers and forced an increasing number of processing plants to shut down. When this happens, processors typically reduce purchases of cattle and hogs, lowering prices paid to farmers and often the futures contracts as well. For this reason, Live Cattle demand fell, with beef production in the last week of April down 35% from the same period in the prior year. Soybean Meal and Corn fell 9.80% and 7.60%, respectively, as packer shutdowns consequently led farmers to reduce hog headcounts in April. This reduced both near-term as well as medium-term demand for these two commodities that are often used in livestock feed. Copper gained 4.64% as inventories tracked by the Shanghai Futures Exchange (SHFE) continued to fall, down nearly 30% from highs in February. Additionally, Copper rose on reduced supply expectations following reports of additional temporary mine closures related to the virus outbreak, particularly in South America. Gold rose 6.13% as the US Federal Reserve announced a large stimulus package, resulting in US Dollar weakness during the beginning of the period, boosting the appeal of precious metals as alternative stores of wealth. Large global stimulus programs have generally increased inflation expectations.

### Monthly Commentary

The Bloomberg Commodity Index Total Return was lower for the month, with 15 out of 23 constituents posting losses. Agriculture declined 5.67%, with all constituents except for Cotton recording

losses. Expectations rose that China would fulfill its pledges to purchase more US agricultural products as part of the US-China partial trade agreement. This was particularly true for Cotton as prices for the fiber reached their lowest levels in a decade and as textile mills in China continued to reopen. Wheat fell as rain reduced spring drought risk in France and Ukraine. Livestock decreased 5.13%. Lean Hogs was volatile during the month, falling 27.50% month-to-date through April 17th and then rebounding to finish the month down only 2.27%. Lean Hogs fell initially due to numerous processor shutdowns. However, it mostly recovered from intra-month lows as wholesale values for pork climbed during the period and as the US administration invoked the Defense Production Act near the end of the month in order to keep the meat packing plants open. Energy declined 3.46% as US crude oil inventories rose primarily due to subdued demand stemming from the coronavirus outbreak, pressuring prices lower. Meanwhile, Natural Gas rose 12.80% on the back of a reduced supply outlook. Sharp declines in US crude oil prices quickly resulted in some near-term oil well shutdowns in the US shale regions, which accounts for approximately half of total US natural gas production as a byproduct. Industrial Metals rose 2.29%, led higher by Nickel. The demand for nickel, a key input into stainless steel production, rose as China's reopening of its manufacturing sector buoyed stainless steel prices. Precious Metals increased 5.90%, led up by Gold. Despite some encouraging signs of slowing coronavirus infection rates in major developed countries, continued uncertainty surrounding the extent of infection rates and the impact on the global economy boosted the safe haven appeal of gold and silver.

### Market Outlook

While commodities fell during April due to global shutdowns enacted to slow the spread of COVID-19, there were signs of emergent recovery towards the end of the month. Some economically sensitive commodities such as Gasoline, Copper, and Nickel rose during the month, buoyed by demand optimism around a resumption of travel and manufacturing activity as governments began to relax stay-at-home ordinances. As of the end of the month, inflation expectations as implied by 5-Year Treasury Inflation-Protected Securities averaged 0.70%, well below the US Federal Reserve's inflation target of 2%. These low expectations are a direct result of COVID-19 impacting consumption and commodities demand, unemployment and wages, medical care excluding coronavirus-related illnesses, and many other components of CPI. However, to counterbalance the rapid decline in economic activity caused by the closure of non-essential activities, many governments and central banks have enacted monetary and fiscal stimulus measures. As the world economy seeks to re-start activities, it is likely that the pace of the activity will be slow and cautious with some stops and (con't)

starts along the way, but ultimately trending upwards. With such low inflation expectations priced into the market, even a modest economic re-acceleration may lead to inflation surpassing expectations, especially in an environment where prices for many commodities are low.

Finally, producer responses may likely also lift commodities prices. Evidence of production cuts after the rapid fall in Crude Oil prices caused WTI Crude Oil to rise 24% in the final two trading days of April. There remains significant demand uncertainty once stay-at-

home orders come to an end. If consumers avoid air travel and other forms of public transportation in favor of driving in personal vehicles, this may increase gasoline and other fuel-related commodities prices. Within Agriculture, May is typically a volatile month for grains and oilseeds based on weather-related production risks. However, this year, grains prices may also be impacted by additional export bans as countries try to ensure food security for large segments of their populations that have been affected as a result of widespread self-isolation measures.

### Bloomberg Commodity Index TR Performance through April 30, 2020

	<b>Weight as of Month End</b>	<b>MTD Total Return</b>	<b>YTD Total Return</b>
Energy	21.07%	-3.46%	-52.79%
Agriculture	32.56%	-5.67%	-14.97%
Livestock	5.38%	-5.13%	-31.82%
Industrial Metals	18.53%	2.29%	-16.59%
Precious Metals	22.46%	5.90%	4.73%
<b>BCOM Index Total Return</b>	<b>100.00%</b>	<b>-1.54%</b>	<b>-24.47%</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.

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