

# BCOM Index Monthly Commodities Update

## May 2020

### Executive Summary

Commodities were higher during the month of May, with the Bloomberg Commodity Index Total Return up 4.34%. Major developed countries began lifting coronavirus (COVID-19)-related restrictions in an attempt to mitigate economic impacts, which boosted demand expectations for commodities generally. After falling for three consecutive months, WTI Crude Oil bounced back and became the top performer in the Index during the month with an increase of 49.60%. Early in the month, multiple US Crude Exploration and Production (E&P) companies announced production curtailments and reductions in capital expenditures, which sharply reduced the potential for inventory congestion at Cushing, Oklahoma, the delivery location of the WTI Crude Oil futures contract. In addition, as the economy started to reopen in some parts of the US, demand for crude oil and petroleum products improved from their lowest levels in years. The combined bullish supply and demand dynamics led to a significant slowdown in the pace of US crude oil inventory builds compared to the prior month. In Agriculture, Soybeans fell 1.69% during the month as worsening relations between the US and China decreased the export prospects of US soybeans to China. Additionally, throughout the month, Brazil continued to export seasonally elevated volumes of soybeans as the Brazilian Real fell to all-time lows. Live Cattle rose 10.10% as meat packing facilities resumed operations in May, raising beef production levels closer to seasonal norms, which represented a large improvement from April production levels. This raised processor demand for cattle, helping to push Live Cattle prices higher. Copper gained 3.49% as positive results from a COVID-19 vaccine trial led to heightened optimism on a quicker global recovery, and as major countries accelerated plans to reopen, increasing expectations for base metals demand. Silver rose 23.56% on increased optimism for the metal's industrial demand as the prospects for an accelerated global economic recovery strengthened. Silver also benefitted from its safe haven status amidst deteriorating relations between the US and China near the end of the month.

### Monthly Commentary

The Bloomberg Commodity Index Total Return was higher for the month, with 16 out of 23 constituents posting gains. Agriculture was the only sector posting a loss, declining 0.90%. Agriculture was mixed, with Coffee falling 9.40% as the Brazilian Real weakened to its lowest historical levels versus the US Dollar, incentivizing exports and increasing supply expectations. Dry weather in major Arabica coffee-producing regions in Brazil aided harvesting efforts there,

boosting expected yields. Sugar gained 5.22% as rising oil prices increased the appeal of ethanol as an alternative fuel source, reducing expected levels of global sugar supply as mills became incentivized to divert more sugarcane towards ethanol production. Livestock increased 5.26%. During May, the US Department of Agriculture (USDA) announced a large drop in cattle placed into feedlots, potentially reducing supply and helping to increase Live Cattle prices by 10.10%. Energy rose 11.35%, with all constituents gaining except for Natural Gas, which fell 14.79%. During the month, US Liquefied Natural Gas export cargo cancellations by importers in European and Asian countries increased due to continued sluggish demand, potentially leaving these cancelled shipments in the US and adding to already-high inventories. Petroleum gained as increased demand from reopening efforts globally, combined with announcements of US crude oil production curtailments, resulted in the US Department of Energy reporting a much smaller US crude oil inventory increase than in April. Industrial Metals rose 2.76% as inventories tracked by Shanghai warehouses continued to decline, an indication that demand for metals may have continued to pick up subsequent to China's reopening. Precious Metals gained 6.32% as growing tensions between the US and China surrounding a security law aimed at Hong Kong threatened trade relations, increasing safe haven demand for Gold and Silver.

### Market Outlook

Petroleum and products may continue to be a major driver of commodities volatility in June. Disagreement between OPEC member states on how soon to lift production and an unclear trajectory for the scale and timeline of a restoration of US production could create significant supply-side uncertainty. Crude Oil and petroleum products may also be impacted by different idiosyncratic factors in the near term. Crude supply balances in the current storage-constrained environment are largely based on production versus refinery usage. Petroleum product demand reflects the relationship between refinery production and end-user demand. Divergence between the two prices is possible if supply increases were to vastly outpace demand. Energy demand volatility is also high, as governments around the world grapple with how to reopen safely and prevent future waves of infections, and as individuals weigh the risks of public transportation and tourism as the Northern Hemisphere approaches summer driving season. If citizens were to avoid crowded public transportation in favor of driving personal vehicles after lockdowns are lifted, a phenomenon already being observed in certain areas of China, Gasoline may see even higher demand than in the pre-pandemic period.

Agriculture prices may see some gains as a strengthening Brazilian Real makes US corn and soybeans relatively more attractive (con't)

on the export market. At the end of June, the USDA will also release the final US acreage figures for the 2020/2021 crop year, which may add some strength to corn prices if farmers switched planted acreage away from the key ethanol input. Livestock may be buoyed in the near term as newly instituted protections at US meatpacking facilities and increased end-user demand from restaurant re-openings support demand for hogs and cattle. Finally,

as countries resort to measured and controlled re-openings, economic activity may resume, albeit at a slower pace. As a result, additional rounds of fiscal stimulus measures could be needed to help continue to bridge the gap before most segments of the economy can be on firmer footing. In the US, such measures may further weaken the value of the US Dollar relative to other currencies, which may in turn be supportive of commodities prices.

### Bloomberg Commodity Index TR Performance through May 29, 2020

	Weight as of Month End	MTD Total Return	QTD Total Return	YTD Total Return
Energy	22.96%	11.35%	7.50%	-47.43%
Agriculture	30.62%	-0.90%	-6.52%	-15.74%
Livestock	5.56%	5.26%	-0.13%	-28.23%
Industrial Metals	18.07%	2.76%	5.11%	-14.29%
Precious Metals	22.79%	6.32%	12.59%	11.34%
<b>BCOM Index Total Return</b>	<b>100.00%</b>	<b>4.34%</b>	<b>2.74%</b>	<b>-21.20%</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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