CIO | VIEW

CIO Commodity Commentary

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Marketing Material

CORONAVIRUS TURMOIL IS OVERSHADOWING COMMODITIES

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IN A NUTSHELL

_ Commodities and the energy space in particular have been challenged by the coronavirus outbreak. How the infection rate evolves over the upcoming days and weeks will be critical, especially to the oil-price outlook.

_ Chinese copper importers have declared force majeure. Port shutdowns mean the downward trend in copper prices probably won't ease any time soon.

_ For trade-deal optimism to continue to drive agricultural prices higher, the market would need to see more realized export sales to China. In the midst of the coronavirus turmoil, that seems unlikely.

The coronavirus is on everyone's lips – and not least of those who manage commodity portfolios. Thus far, it has contributed to making 2020 a wild ride. Prices have fallen in recent weeks. But when the turmoil eases, there could be opportunities.

The conflict between the United States and Iran in January looked like a severe shock to oil markets. But the coronavirus, now technically named COVID-19, has proven to be a still greater shock. Very little is known about how contagious the virus is nor how successful the control measures may prove to be. It is apparent, however, that we have not yet reached an inflection point at which we can be sure that the virus will be contained. The coming days might provide more light on the trajectory of the disease. As Chinese employees return to work after the extended Lunar New Year holiday, economic activity is likely to pick up again. If there is no significant increase in the rate of infection, we believe it could take until April before Chinese oil demand may be fully restored. But for now, headline news has been dominating the market and we foresee even more volatility. The large energy companies in the United States are particularly challenged by this tumultuous market environment.

And yet, a post-coronavirus world won't necessarily be a far brighter one for the energy sector. The International Energy Agency (IEA) is predicting the first quarterly decline in global oil demand in over a decade. And so when attention shifts back to fundamentals, we believe that slower economic growth will create a challenging environment for oil. Excess supply, OPEC's limited ability to decrease production, and continuing growth in U.S. shale is likely to amplify that. OPEC might respond – it is mulling over an extension of its voluntary production cuts. In an extraordinary meeting in Vienna in early February the Joint Technical Committee recommended extending the cuts until the end of 2020.

A still bigger question lurks just beneath the surface: Is there such a thing as a post-coronavirus world for China? It remains to be seen whether the oil-demand destruction is temporary or permanent. Will people resume eating out, driving extensively and traveling right away? Or will it take a very long time for them to do so? At this point, we see most demand as being deferred rather than destroyed. The longer the outbreak lasts, however, the more likely it is that the deferred demand will turn into destroyed demand. We will therefore closely monitor travel and industrial output, as well as measures of congestion and pollution, to gauge the level of economic activity in China, not only to find answers to the big questions about possibly changed behavior patterns, but also to watch for signs of alleviation and a return to normal.

Within natural gas the world does not look much better. Chinese gas buyers have declared force majeure[1] and have walked away from their purchase contracts. As outlined in previous issues, the gas market continues to be hopelessly oversupplied. The coronavirus just makes the already gloomy outlook – due to a mild winter and increasing supply from the United States – even darker. Prices will likely remain under pressure.

Similarly, Chinese copper importers have declared force majeure. Port shutdowns mean the downward trend in copper prices probably won't ease any time soon. At the beginning of the year, the phase-one trade deal between the United States and China was supportive and better-than-expected economic data from China also helped to fuel a rally in prices. The coronavirus turned the outlook upside down. While we believe the downward pressure on prices

[1] Unforeseeable circumstances that prevent someone from fulfilling a contract.

will be alleviated when we reach an inflection point in the epidemic, we expect copper prices to exhibit heightened volatility in coming weeks. Longer-term, we maintain a positive outlook given strong underlying fundamentals. More broadly we see short-term pressure on base-metal prices due to the coronavirus outbreak but expect the sector to rebound, with Chinese fiscal support.

While uncertainty keeps energy and base-metal investors at bay, precious metals remain supported. We expect the coronavirus outbreak, together with near-term geopolitical risks, to keep the gold price in the mid to high 1,500 dollars-per-ounce range. However, any turnaround in macroeconomic sentiment or relief of geopolitical risks could trigger a correction in gold to around 1,500 dollars per ounce, or even below. Strategically we believe gold has scope to rise should the U.S. Federal Reserve (the Fed) move ahead with further interest-rate cuts. Rising geopolitical tensions should also continue to stimulate investor interest in gold. Additionally, we expect palladium to continue to shine on robust fundamentals, though we may see increased price volatility.

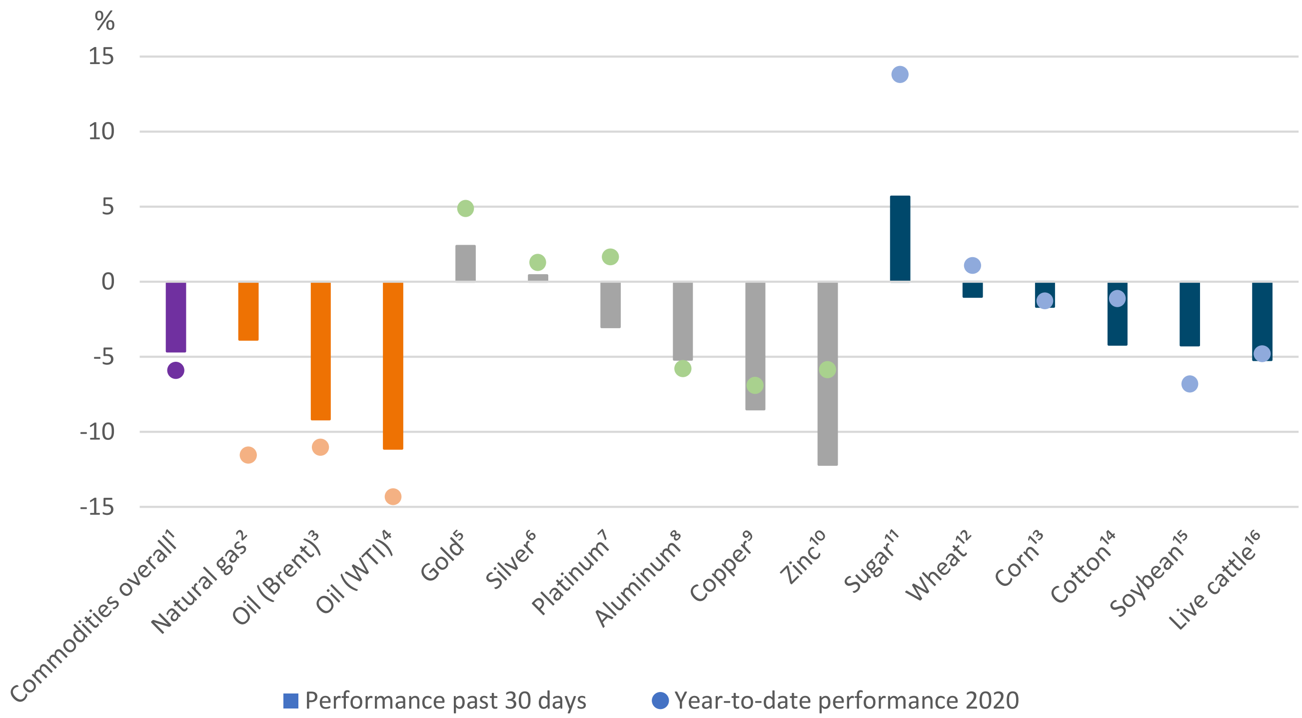
The phase-one trade deal had allowed everyone to breathe a sigh of relief. But a lack of meaningful export sales to China is making observers skeptical that the 40 to 50 billion dollars in additional annual Chinese import commitments can be reached. For trade-deal optimism to continue to drive prices higher, market participants would need to see more realized U.S. export sales to China. In the midst of the coronavirus turmoil, that seems unlikely. Indeed, Robert O'Brien, U.S. National Security Advisor, has acknowledged that the coronavirus "could have an impact on how big, at least in this current year, the purchases are."

Elsewhere, South America appears to be on track for a robust harvesting season. This should continue to pressure agricultural prices in the United States in the near term.

U.S. pork-product sales to China had been strong, with China recently lowering tariffs on U.S. pork imports – partially because the African Swine Flu had jeopardized pork supplies – but price momentum has faltered in the wake of the coronavirus.

It has been a tough period for most commodities. Whenever the coronavirus dust settles, there could be opportunities to re-enter.

PAST 30-DAY AND YEAR-TO-DATE PERFORMANCE OF MAJOR COMMODITY CLASSES



Past performance is not indicative of future returns.
Sources: Bloomberg Finance L.P., DWS Investment Management Americas Inc. as of 2/18/20

[1] Bloomberg Commodity Index, [2] Bloomberg Natural Gas Subindex, [3] Bloomberg Brent Crude Subindex, [4] Bloomberg WTI Crude Oil Subindex, [5] Bloomberg Gold Subindex, [6] Bloomberg Silver Subindex, [7] Bloomberg Platinum Subindex, [8] Bloomberg Aluminum Subindex, [9] Bloomberg Copper Subindex, [10] Bloomberg Zinc Subindex, [11] Bloomberg Sugar Subindex, [12] Bloomberg Wheat Subindex, [13] Bloomberg Corn Subindex, [14] Bloomberg Cotton Subindex, [15] Bloomberg Soybeans Subindex, [16] Bloomberg Live Cattle Subindex

GLOSSARY

Bloomberg Aluminum Subindex (BCOMAL) is a commodity group subindex of the Bloomberg CI (BCOM) composed of futures contracts on Aluminum.

Bloomberg Brent Crude Subindex (BCOMCO) is a commodity group subindex of the Bloomberg CI (BCOM) composed of futures contracts on Brent Crude.

The Bloomberg Commodity Index (BCOM) traces 23 commodities and reflects commodity futures price movements.

Bloomberg Copper Subindex (BCOMHG) is a commodity group subindex of the Bloomberg CI (BCOM) composed of futures contracts on Copper.

Bloomberg Corn Subindex (BCOMCN) is a commodity group subindex of the Bloomberg CI (BCOM) composed of futures contracts on Corn.

Bloomberg Cotton Subindex (BCOMCT) is a commodity group subindex of the Bloomberg CI (BCOM) composed of futures contracts on Cotton.

Bloomberg Gold Subindex (BCOMGC) is a commodity group subindex of the Bloomberg CI (BCOM) composed of futures contracts on Gold.

Bloomberg Live Cattle Subindex (BCOMLC) is a commodity group subindex of the Bloomberg CI (BCOM) composed of futures contracts on Live Cattle.

Bloomberg Natural Gas Subindex (BCOMNG) is a commodity group subindex of the Bloomberg CI (BCOM) composed of futures contracts on Natural Gas.

Bloomberg Platinum Subindex (BCOMPL) is a commodity group subindex of the Bloomberg CI (BCOM) composed of futures contracts on Platinum.

Bloomberg Silver Subindex (BCOMSI) is a commodity group subindex of the Bloomberg CI (BCOM) composed of futures contracts on Silver.

Bloomberg Soybeans Subindex (BCOMSY) is a commodity group subindex of the Bloomberg CI (BCOM) composed of futures contracts on Soybeans.

Bloomberg Sugar Subindex (BCOMSB) is a commodity group subindex of the Bloomberg CI (BCOM) composed of futures contracts on Sugar.

Bloomberg Wheat Subindex (BCOMWH) is a commodity group subindex of the Bloomberg CI (BCOM) composed of futures contracts on Wheat.

Bloomberg WTI Crude Oil Subindex (BCOMCL) is a subindex of the Bloomberg CI (BCOM) composed of futures contracts on WTI crude oil.

Bloomberg Zinc Subindex (BCOMZS) is a subindex of the Bloomberg CI (BCOM) composed of futures contracts on Zinc.

The International Energy Agency (IEA) is a autonomous intergovernmental organization which works to ensure reliable, affordable and clean energy for its 30 member countries and beyond.

OPEC's Joint Technical Committee (JTC) review the state of the oil market.

The Organization of the Petroleum Exporting Countries (OPEC) is an international organization with the mandate to "coordinate and unify the petroleum policies“ of its meanwhile 12 members.

The U.S. Federal Reserve, often referred to as "the Fed", is the central bank of the United States.

Volatility is the degree of variation of a trading-price series over time. It can be used as a measure of an asset's risk.

APPENDIX: PERFORMANCE OVER THE PAST 5 YEARS (12-MONTH PERIODS)

	01/15 - 01/16	01/16 - 01/17	01/17 - 01/18	01/18 - 01/19	01/19 - 01/20
Bloomberg Commodity Index	-23.4%	13.4%	2.5%	-10.1%	-7.3%
Bloomberg WTI Crude Oil Subindex	-45.5%	17.1%	15.4%	-14.3%	-5.1%
Bloomberg Brent Crude Subindex	-44.2%	30.5%	21.7%	-9.6%	3.0%
Bloomberg Natural Gas Subindex	-37.2%	-4.3%	-23.2%	-6.2%	-46.9%
Bloomberg Gold Subindex	-13.1%	7.0%	8.8%	-4.1%	16.6%
Bloomberg Silver Subindex	-18.4%	20.8%	-4.0%	-9.4%	8.3%
Bloomberg Platinum Subindex	-29.7%	12.9%	-0.8%	-19.6%	13.7%
Bloomberg Copper Subindex	-17.9%	29.7%	13.8%	-15.6%	-10.7%
Bloomberg Aluminum Subindex	-22.9%	16.6%	18.1%	-13.5%	-13.9%
Bloomberg Zinc Subindex	-25.6%	72.7%	23.6%	-19.9%	-15.4%
Bloomberg Corn Subindex	-10.2%	-11.3%	-12.2%	-8.9%	-9.1%
Bloomberg Wheat Subindex	-7.0%	-23.4%	-11.1%	-1.5%	3.4%
Bloomberg Soybeans Subindex	-7.2%	14.4%	-7.7%	-14.5%	-13.1%
Bloomberg Sugar Subindex	-19.4%	48.8%	-38.5%	-12.1%	2.7%
Bloomberg Cotton Subindex	0.9%	21.0%	3.3%	-4.7%	-13.1%
Bloomberg Live Cattle Subindex	-11.3%	-6.0%	8.6%	2.1%	-7.4%

Past performance is not indicative of future returns.
Sources: Bloomberg Finance L.P., DWS Investment Management Americas Inc. as of 2/13/20

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