

OUR MONTHLY ANALYSIS AND OUTLOOK ON COMMODITIES



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IN A NUTSHELL

- The Venezuela crisis, sanctions on Iranian oil, the OPEC-plus deal and a seasonally-driven demand increase should provide support for the oil price.
- Copper exhibited negative performance during the past month due to muted demand. However, we expect the improvement in Chinese credit growth and in turn industrial activity to brighten the outlook.
- Tactically we change our outlook on soybeans. As the planting progress for soybeans has been far behind the historical norm and the soybean price has fallen so much, we believe that it is currently oversold.

Across the commodity space the past month has been a lackluster one. Many crosscurrents such as Brexit, slower growth and weak manufacturing data in Europe contribute to a rather modest economic outlook. Adding the current trade dispute to the picture calls to mind that seemingly dormant risks are still prevalent. Particularly, the energy sector is under pressure as the oil market had already priced in a trade deal, so that any backtracking has the potential to lower future demand, and in turn lower the oil price. We expect further volatility as long as the trade deal is not finalized. Additionally, the oil price is currently affected by three hot spots. First, we expect that efforts by the U.S. State Department to corner Venezuela's incumbent regime will support the oil price. In fact, the United States is threatening foreign trading houses and refiners to stop all dealings with Venezuela or face sanctions. Second, the United States ended sanction waivers for importers of Iranian crude oil which caused an outperformance of the energy sector relative to the broader commodity index. Iranian threats to close the Strait of Hormuz to oil-tanker traffic in response only contributed to further tightening. Third, despite the Saudi Energy Minister's comments that the OPEC-plus deal could be prolonged through the end of this year, we remain skeptical that it will be extended in its current form beyond June 2019. Increasing supply by non-OPEC members in response to the OPEC-plus deal and slower demand growth

should keep efforts to cut supply in check. Finally, a seasonally-driven demand increase due to the summer driving season should provide support for the oil price. We favor Brent over West Texas Intermediate (WTI) as we expect an increase in Canadian and U.S. production.

Within the energy space, natural gas also exhibited weak performance during the past 30 days. Remarkable, however, was the fact that the European Union (EU) took action to reduce its dependency on natural gas from Russia by promising to double its imports of U.S. liquefied natural gas (LNG) over the next five years. This is important since Nord Stream 2 – a gas pipeline transporting gas from Russia under the Baltic Sea to Germany and thereby bypassing Ukraine – increases the high dependency on natural gas from Russia. Imports of U.S. LNG counterbalance these dependencies and make the EU less vulnerable to supply interruptions from one country. We expect the LNG price to be supported by Europe's endeavors in the long term. In the short term though, China's announcement that it will raise tariffs from 10% to 25% on U.S. LNG should keep the upside potential limited.

After a strong first quarter prompted by optimism over a potential trade resolution and strong Purchasing-Manager-Index (PMI) data in China, industrial metals suffered from a re-escalation of the trade conflict. They are particularly sensitive to the negotiations be-

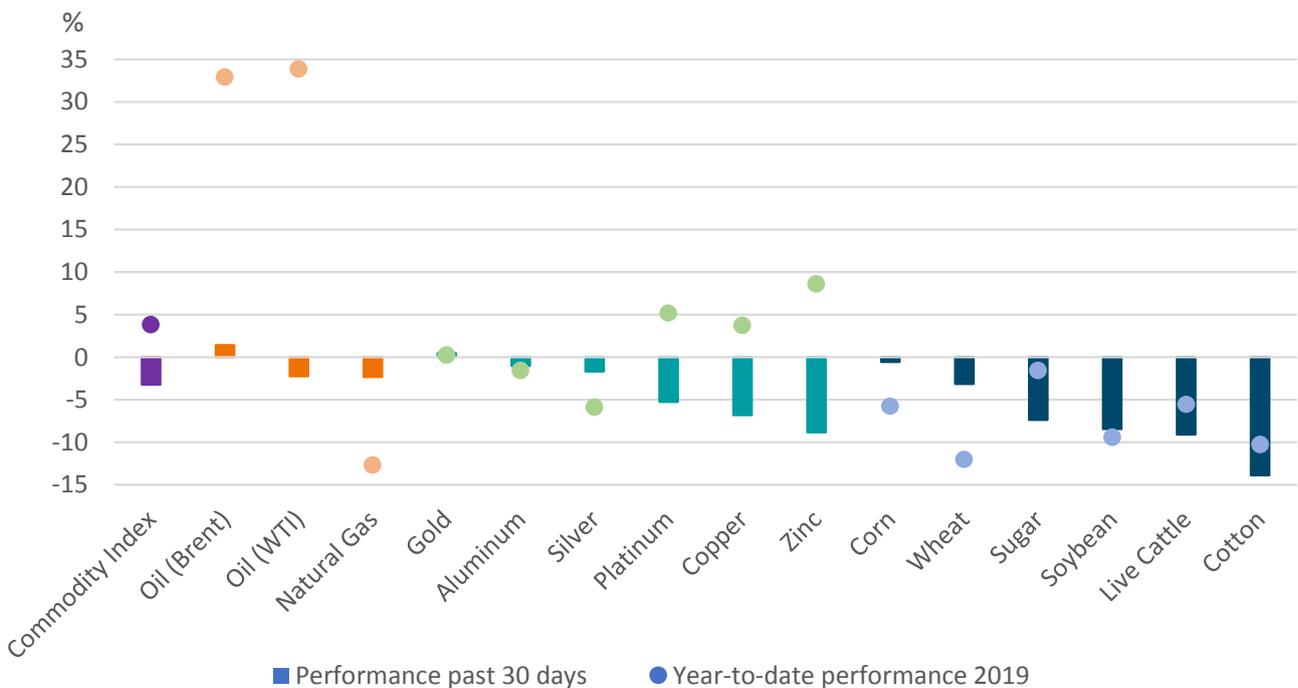
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tween the United States and China. This is rooted in the fact that industrial metals are traditionally very dependent on China as it is a primary demand generator. Copper in particular exhibited negative performance during the past month due to muted demand. Nonetheless, we expect prices to improve next year. As there has been an improvement in Chinese credit growth we expect this to translate to increased industrial activity. However, due to industrial activity lagging credit growth it might only become eminent in prices early next year. Still, we also favor copper tactically amongst the base metals since it has the most leverage to recovering global macro fundamentals. On the precious-metals front we reaffirm our forecast of a moderate appreciation as several of the risk factors supporting our bullish view remain in place such as the trade conflict, globally slowing growth momentum and Brexit. Additionally, the U.S. Federal Reserve's (Fed's) recent comments indicate that the tightening cycle may be more uncertain as the Fed "will be patient (when) it determines what future adjustments to the target range for the federal funds rate may be appropriate (...)."¹ This should support the gold price as long as inflationary pressures stay tepid.

Agriculture continues its weak performance of the previous month. In response to the spread of the Afri-

can Swine Fever (ASF)², demand and therefore prices for soybeans have collapsed, inducing farmers to switch to producing corn. Recent reports by the United States Department of Agriculture (USDA) confirm this trend. However, we still favor soybeans as the planting progress for soybeans has been far behind the historical norm due to rain. And the soybean price has fallen so much, and we believe that it is currently oversold. Weather conditions are also a tailwind for the price of corn. As the Southern-Hemisphere harvest progresses, the focus has shifted to Northern-Hemisphere production where an abnormally wet start to spring has caused flooding across portions of the Plains and Midwest in the United States. Therefore, planting has fallen behind contributing to our tactically positive outlook on the price of corn. Generally, the U.S.-China trade negotiations should continue to be a major driver for agriculture prices. Finally, we favor cotton due to a tightening of global stocks and due to a large correction in cotton prices recently, and we expect production in India to fall behind expectations due to unfavorable weather conditions.

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



Sources: Bloomberg Finance L.P., DWS Investment Management Americas Inc. as of 5/15/19

¹<https://www.federalreserve.gov/newsevents/pressreleases/monetary20190501a.htm>

²It is a highly contagious viral disease of wild and domestic pigs.

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

	04/14 - 04/15	04/15 - 04/16	04/16 - 04/17	04/17 - 04/18	04/18 - 04/19
Commodity Index	-24.7%	-17.6%	-1.8%	6.6%	-10.1%
Oil (WTI)	-42.2%	-44.7%	-8.2%	36.0%	-6.5%
Oil (Brent)	-43.0%	-41.3%	-3.7%	44.5%	-2.2%
Natural Gas	-48.8%	-43.8%	7.9%	-30.4%	-7.7%
Gold	-9.1%	8.6%	-3.2%	1.9%	-5.3%
Silver	-16.9%	8.9%	-5.3%	-7.3%	-11.5%
Platinum	-20.5%	-5.8%	-13.1%	-6.3%	-3.6%
Copper	-4.9%	-22.0%	11.6%	14.4%	-7.8%
Aluminum	2.8%	-17.6%	10.8%	15.9%	-21.9%
Zinc	12.6%	-19.8%	32.8%	19.6%	-4.5%
Corn	-36.0%	-2.5%	-15.8%	-4.7%	-21.0%
Wheat	-38.1%	-2.2%	-25.4%	-2.4%	-24.2%
Soybean	-25.4%	6.2%	-9.3%	4.3%	-24.9%
Sugar	-38.0%	10.0%	-4.4%	-30.8%	-4.1%
Cotton	-19.4%	-7.4%	17.8%	9.4%	-10.7%
Live Cattle	11.4%	-20.7%	20.0%	-15.1%	6.5%

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Sources: Bloomberg Finance L.P., DWS Investment Management Americas Inc. as of 5/15/19

GLOSSARY

Bloomberg Commodity Index

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

Brent

Brent crude is a grade of crude oil dominant in the European market.

Brexit

Brexit is a combination of the words "Britain" and "Exit" and describes the exit of the United Kingdom of the European Union.

European Union (EU)

The **European Union (EU)** is a political and economic union of 28 member states located primarily in Europe.

Federal funds rate

The **federal funds rate** is the interest rate, set by the Fed, at which banks lend money to each other, usually on an overnight basis.

Inflation

Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

Organization of the Petroleum Exporting Countries (OPEC)

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.

Purchasing Managers Index (PMI)

The **Purchasing Managers Index (PMI)** is an indicator of the economic health of the manufacturing sector in a specific country or region.

U.S. Federal Reserve (Fed)

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

United States Department of Agriculture (EN only)

The **United States Department of Agriculture** is the U.S. federal executive department responsible for developing and executing federal laws related to farming, forestry and food.

Volatility

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.

West Texas Intermediate (WTI)

West Texas Intermediate (WTI) is a grade of crude oil used as a benchmark in oil pricing.

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