CIO | VIEW

CIO Commodity Commentary

May 16, 2019

DWS

OUR MONTHLY ANALYSIS AND OUTLOOK ON COMMODITIES

Darwei Kung
Head of Commodities

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.

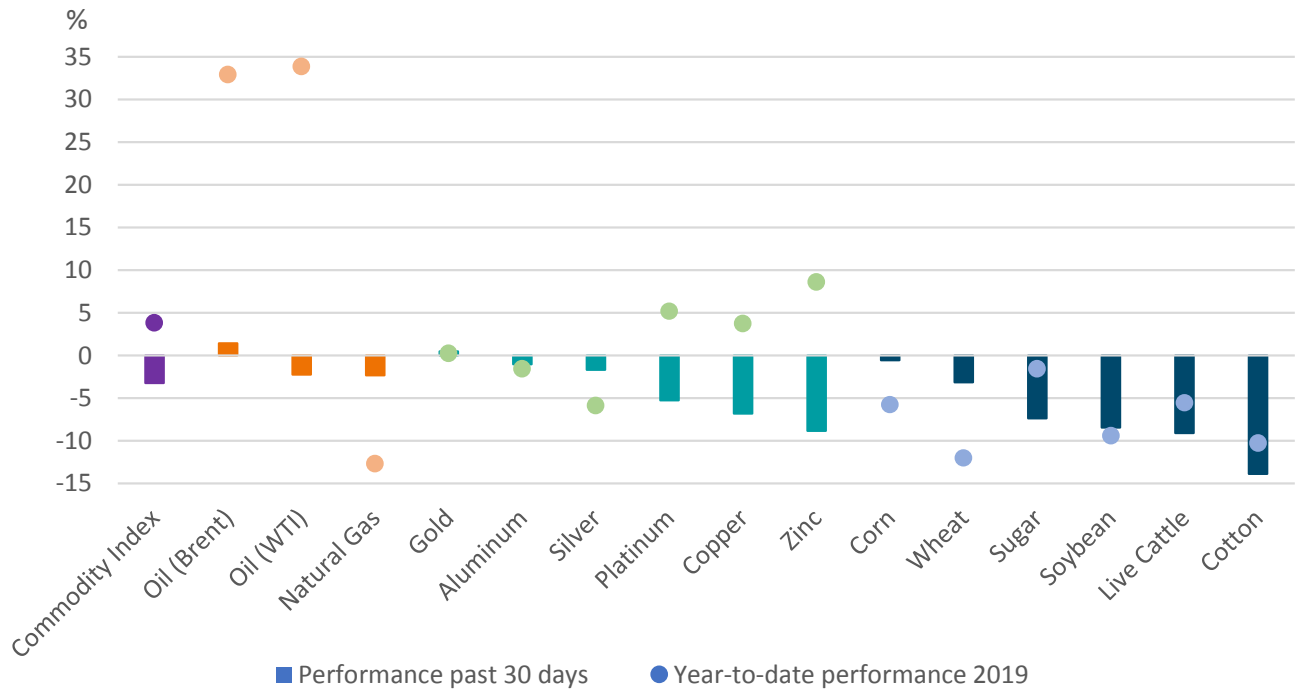
Within the energy space, natural gas also exhibited weak performance during the past 30 days. Remarkable, however, was the fact that the European Union (EU) took action to reduce its dependency on natural gas from Russia by promising to double its imports of U.S. liquefied natural gas (LNG) over the 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-

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

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%

Past performance is not indicative of future returns.
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.

IMPORTANT INFORMATION

The brand DWS represents DWS Group GmbH & Co. KGaA and any of its subsidiaries, such as DWS Distributors, Inc., which offers investment products, or DWS Investment Management Americas Inc. and RREEF America L.L.C., which offer advisory services.
This document has been prepared without consideration of the investment needs, objectives or financial circumstances of any investor. Before making an investment decision, investors need to consider, with or without the assistance of an investment adviser, whether the investments and strategies described or provided by Deutsche Bank, are appropriate, in light of their particular investment needs, objectives and financial circumstances. Furthermore, this document is for information/discussion purposes only and does not and is not intended to constitute an offer, recommendation or solicitation to conclude a transaction or the basis for any contract to purchase or sell any security, or other instrument, or for Deutsche Bank to enter into or arrange any type of transaction as a consequence of any information contained herein and should not be treated as giving investment advice. Deutsche Bank AG, including its subsidiaries and affiliates, does not provide legal, tax or accounting advice. This communication was prepared solely in connection with the promotion or marketing, to the extent permitted by applicable law, of the transaction or matter addressed herein, and was not intended or written to be used, and cannot be relied upon, by any taxpayer for the purposes of avoiding any U.S. federal tax penalties. The recipient of this communication should seek advice from an independent tax advisor regarding any tax matters addressed herein based on its particular circumstances. Investments with Deutsche Bank are not guaranteed, unless specified. Although information in this document has been obtained from sources believed to be reliable, we do not guarantee its accuracy, completeness or fairness, and it should not be relied upon as such. All opinions and estimates herein, including forecast returns, reflect our judgment on the date of this report, are subject to change without notice and involve a number of assumptions which may not prove valid.

Investments are subject to various risks, including market fluctuations, regulatory change, counterparty risk, possible delays in repayment and loss of income and principal invested. The value of investments can fall as well as rise and you may not recover the amount originally invested at any point in time. Furthermore, substantial fluctuations of the value of the investment are possible even over short periods of time. Further, investment in international markets can be affected by a host of factors, including political or social conditions, diplomatic relations, limitations or removal of funds or assets or imposition of (or change in) exchange control or tax regulations in such markets. Additionally, investments denominated in an alternative currency will be subject to currency risk, changes in exchange rates which may have an adverse effect on the value, price or income of the investment. This document does not identify all the risks (direct and indirect) or other considerations which might be material to you when entering into a transaction. The terms of an investment may be exclusively subject to the detailed provisions, including risk considerations, contained in the Offering Documents. When making an investment decision, you should rely on the final documentation relating to the investment and not the summary contained in this document.

This publication contains forward looking statements. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models and hypothetical performance analysis. The forward looking statements expressed constitute the author's judgment as of the date of this material. Forward looking statements involve significant elements of subjective judgments and analyses and changes thereto and/or consideration of different or additional factors could have a material impact on the results indicated. Therefore, actual results may vary, perhaps materially, from the results contained herein. No representation or warranty is made by DWS as to the reasonableness or completeness of such forward looking statements or to any other financial information contained herein. We assume no responsibility to advise the recipients of this document with regard to changes in our views.

No assurance can be given that any investment described herein would yield favorable investment results or that the investment objectives will be achieved. Any securities or financial instruments presented herein are not insured by the Federal Deposit Insurance Corporation ("FDIC") unless specifically noted, and are not guaranteed by or obligations of Deutsche Bank AG or its affiliates. We or our affiliates or persons associated with us may act upon or use material in this report prior to publication. DB may engage in transactions in a manner inconsistent with the views discussed herein. Opinions expressed herein may differ from the opinions expressed by departments or other divisions or affiliates of Deutsche Bank. This document may not be reproduced or circulated without our written authority. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries. This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, including the United States, where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Deutsche Bank to any registration or licensing requirement within such jurisdiction not currently met within such jurisdiction. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions.

Past performance is no guarantee of future results; nothing contained herein shall constitute any representation or warranty as to future performance. Further information is available upon investor's request. All third party data (such as MSCI, S&P & Bloomberg) are copyrighted by and proprietary to the provider.

Deutsche Bank AG is authorised under German Banking Law (competent authority: European Central Bank and the BaFin, Germany's Federal Financial Supervisory Authority) and by the Prudential Regulation Authority and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority, and regulation by the Financial Conduct Authority are available from us on request.