CIO | VIEW

CIO Commodity Commentary

July 17, 2019

DWS

Marketing Material

OUR MONTHLY ANALYSIS AND OUTLOOK ON COMMODITIES

Darwei Kung
Head of Commodities and Portfolio Manager

IN A NUTSHELL

- Tactically, it is likely that short-term supply-side risks will continue to support oil prices. Strategically, however, we stick to our forecast of $60 per barrel for WTI by June 2020.
- Within the base-metals space, idiosyncratic stories are dominating. We have revised our strategic gold forecast upwards to $1,400 per ounce.
- On the agricultural front, bad weather conditions earlier in the year continue to have repercussions today.

As the first half of the year has elapsed, it is time to take stock of the developments within the commodities space. Some key price drivers changed quite dramatically; notably the move of central banks towards dovish monetary policies has had a sizeable impact across the board. By contrast, others remained broadly the same, including the lingering U.S.-China trade conflict. While broad commodity indices exhibited a solid performance year-to-date, this was mainly due to oil, gold and corn.

Let's have a closer look at the underlying causes of performance so far and how they might keep us busy in the second half of the year. In the energy space, many of the drivers from the first half of the year carry over. The supply-side risks in the oil market, which we outlined in our last commentary, have now started to materialize [CIO Commodity Commentary as of 6/13/19]. Several countries, including India, have actively been shifting their oil sourcing away from Iran, typically increasing imports from the United States instead. Unsurprisingly, these shifts away from Iranian crude are already showing up in the numbers. Iranian exports are 80% lower than last year and there are fears that the latest round of sanctions could escalate the conflict with Tehran even further. The seizure of a British tanker at the Strait of Hormuz is just another act of despair that increases the possibility of a supply disruption, potentially impacting production in the wider region. The oil price, however, has not only been grinding higher because of geopolitical risks materializing, but to a lesser extent because OPEC+ (including non-OPEC members, such as Russia) extended their production cuts until 2020. While Saudi Arabia is willing to shoulder most of the cartel's cuts, sticking together in these turbulent times sends a very positive signal in our view. In addition, the latest data of the U.S. Energy Information Administration (EIA) showed a decrease in the counter-seasonal crude-oil inventory builds – further supporting the oil price.[1]

Instances like the complete destruction of an alkylation unit at a Philadelphia oil refinery during the past month pushed prices higher. Tactically, it is likely that short-term supply concerns prop up oil prices further – e.g. the hurricane season. Strategically, however, we stick to our forecast of $60 per barrel for West Texas Intermediate (WTI) by June 2020. Lacking progress in the U.S.-China trade talks would continue to weigh negatively on oil demand and additionally, heavy non-OPEC supply growth contributes to weaker oil prices. Continued U.S. shale-output growth will likely reduce OPEC's market share further, potentially changing the market permanently. Technological cost savings coupled with an abundance of the raw material would allow for a continuous downward trend in prices –

[1]Source: https://www.eia.gov/petroleum/weekly/crude.php as of 7/11/19

making it harder for OPEC to regain market share. This is in sharp contrast to traditional mining exploration where the costs of the next exploration project are usually higher than the previous one, so that prices naturally trend upward.

Unlike crude oil, prices for its close cousin natural gas went down year-to-date. Excess supply from the output surge last summer and a mild winter did not really contribute to a depletion of inventories. Hence we do not expect Storm Barry and the consequential shutdown of wells and ports in the Gulf of Mexico to yield much support for natural gas prices. Not least because the boom in shale contributed to a lower dependence on offshore gas. While prices are strategically driven by a structural oversupply, markets are tactically driven by weather conditions. The summer heat during the past weeks contributed to the positive performance lately. In the coming weeks, warm temperatures may well provide further upside for the price.

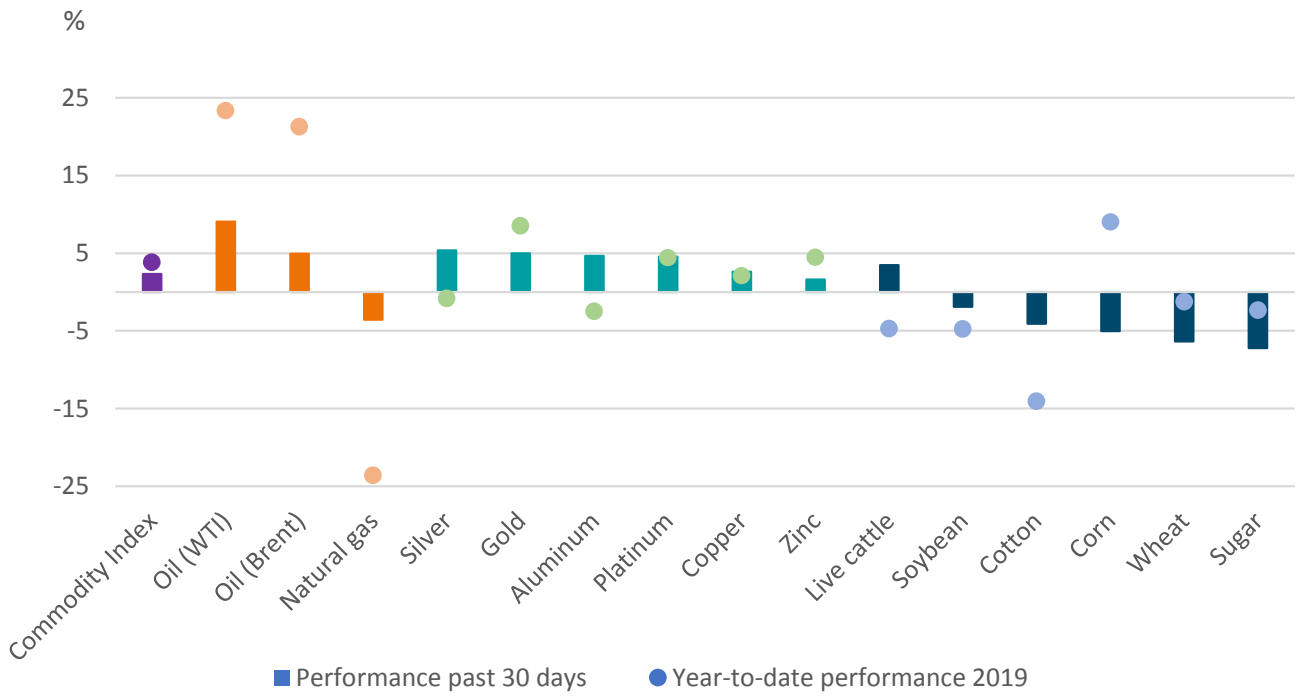
While natural-gas prices are relatively unaffected by the trade conflict, industrial metals are very sensitive to the state of the Chinese economy as it is a primary demand generator. The unresolved trade conflict between the United States and China still hangs like a Sword of Damocles over base-metal prices. The mere absence of negative headlines after the G20 summit contributed to a short-lived rally at least in copper prices. Also, labor strikes at one of the world's largest copper mine supported prices. As evident from the graph, however, there is no clear trend among the various base metals. Idiosyncratic stories dominate the space. In the coming weeks, we believe that copper will fail to find a strong bullish catalyst and lower gross-domestic-product (GDP) growth in China could dampen its tactical outlook. Our tactical outlook on zinc is equally gloomy as trade-related uncertainties translate into lower demand numbers. Coupled with capital expenditures increasing supply efficiency, the zinc market is oversupplied. Iron ore on the other hand should benefit from higher demand due to credit easing and increased infrastructure spending in China.

Due to the shift in the central bank's reaction to market sentiment, we have recently updated our thinking on the U.S. Federal Reserve (Fed) interest-rate policy. We now expect two Fed interest-rate cuts of 25 basis points (bps) each [CIO Flash: Adjusting our 12-month targets as of 6/25/19]. As a result, we revised our strategic gold forecast upwards to $1,400 per ounce. Lower interest rates not only make a U.S. dollar (USD) appreciation less likely, but also decreases the opportunity cost of holding gold relative to lower yielding U.S. Treasuries. Likewise, safe-haven flows into the asset class in light of geopolitical risks and unresolved trade tensions continue to support the gold price. We stick to our strategically positive outlook, despite a significant climb in non-farm payrolls by 224,000 in June and the resulting decline in the gold price.[2] Tactically, we continue to be cautious as the gold market currently prices in a 50 bps cut and any change in sentiment could see a sharp reversal to the downside.

On the agricultural front, bad weather conditions earlier in the year continue to have repercussions today. In our view, July's acreage report was widely misunderstood and should be taken with a grain of salt. The farm survey, conducted in early June, indicated 91.7 and 80.0 million planted acres of corn and soybeans, suggesting little to no prevented planting in the United States. However, the United States Department of Agriculture (USDA) later clarified that 17% and 41% of those "planted" acres, respectively, were in fact "intended" to be planted at the time of the survey. In most years, there is typically only a very small percentage of intended acres and thus these planted estimates are highly suspect. Accordingly, the USDA will conduct another survey in July and correct the figures in August. We expect this August report to show significantly lower planted acres and thus see further upside to grains, particularly corn and soybeans. We will closely monitor the evolution of the weather conditions as they remain the primary driver in the agricultural market.

[2]Source: https://www.bls.gov/news.release/pdf/empsit.pdf as of 7/5/19

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



Sources: Bloomberg Finance L.P., DWS Investment Management Americas Inc. as of 7/15/19

GLOSSARY

Appreciation
In relation to currencies, **appreciation** refers to a gain of value against another currency over time.

Basis point
One **basis point e**quals 1/100 of a percentage point.

Central bank
A **central bank** manages a state's currency, money supply and interest rates.

Dove
Doves are in favor of an expansive monetary policy.

G20
The **Group of 20** are the largest industrialized and emerging economies in the world.

Gross domestic product (GDP)
The **gross domestic product (GDP)** is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

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.

Treasuries
Treasuries are fixed-interest U.S. government debt securities with different maturities: Treasury bills (1 year maximum), Treasury notes (2 to 10 years), Treasury bonds (20 to 30 years) and Treasury Inflation Protected Securities (TIPS) (5, 10 and 30 years).

U.S. dollar (USD)
The **U.S. dollar (USD)** is the official currency of the United States and its overseas territories.

U.S. Energy Information Administration (EIA)
The **U.S. Energy Information Administration (EIA)** is a principal agency of the U.S. Federal Statistical System responsible for collecting, analyzing, and disseminating energy information.

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

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

Yield
Yield is the income return on an investment referring to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

IMPORTANT INFORMATION: EMEA

The following document is intended as marketing communication.
DWS is the brand name under which DWS Group GmbH & Co. KGaA and its subsidiaries operate their business activities. Clients will be provided DWS products or services by one or more legal entities that will be identified to clients pursuant to the contracts, agreements, offering materials or other documentation relevant to such products or services.
The information contained in this document does not constitute investment advice.
All statements of opinion reflect the current assessment of DWS Investment GmbH and are subject to change without notice.
Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, opinions and hypothetical performance analysis, therefore actual results may vary, perhaps materially, from the results contained here.
Past performance, [actual or simulated], is not a reliable indication of future performance.
The information contained in this document does not constitute a financial analysis but qualifies as marketing communication. This marketing communication is neither subject to all legal provisions ensuring the impartiality of financial analysis nor to any prohibition on trading prior to the publication of financial analyses.
This document and the information contained herein may only be distributed and published in jurisdictions in which such distribution and publication is permissible in accordance with applicable law in those jurisdictions. Direct or indirect distribution of this document is prohibited in the USA as well as to or for the account of US persons and persons residing in the USA.

IMPORTANT INFORMATION: UK

Issued in the UK by DWS Investments UK Limited. DWS Investments UK Limited is authorised and regulated by the Financial Conduct Authority (Registration number 429806).
DWS is the brand name of DWS Group GmbH & Co. KGaA. The respective legal entities offering products or services under the DWS brand are specified in the respective contracts, sales materials and other product information documents. DWS, through DWS Group GmbH & Co. KGaA, its affiliated companies and its officers and employees (collectively “DWS”) are communicating this document in good faith and on the following basis.
This document is a financial promotion and is for general information purposes only and consequently may not be complete or accurate for your specific purposes. It is not intended to be an offer or solicitation, advice or recommendation, or the basis for any contract to purchase or sell any security, or other instrument, or for DWS to enter into or arrange any type of transaction as a consequence of any information contained herein. It has been prepared without consideration of the investment needs, objectives or financial circumstances of any investor. 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. 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 DWS, are suitability and appropriate, in light of their particular investment needs, objectives and financial circumstances. We assume no responsibility to advise the recipients of this document with regard to changes in our views.
We have gathered the information contained in this document from sources we believe to be reliable; but we do not guarantee the accuracy, completeness or fairness of such information and it should not be relied on as such. DWS has no obligation to update, modify or amend this document or to otherwise notify the recipient in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.
DWS does not give taxation or legal advice. Prospective investors should seek advice from their own taxation agents and lawyers regarding the tax consequences on the purchase, ownership, disposal, redemption or transfer of the investments and strategies suggested by DWS. The relevant tax laws or regulations of the tax authorities may change at any time. DWS is not responsible for and has no obligation with respect to any tax implications on the investment suggested.
This document 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 document. 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 in this document.
PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.

Publisher: DWS Investment GmbH, Mainzer Landstraße 11-17, 60329 Frankfurt am Main, Germany

IMPORTANT INFORMATION – APAC

DWS is the brand name of DWS Group GmbH & Co. KGaA. The respective legal entities offering products or services under the DWS brand are specified in the respective contracts, sales materials and other product information documents. DWS Group GmbH & Co. KGaA, its affiliated companies and its officers and employees (collectively "DWS Group") are communicating this document in good faith and on the following basis.

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 DWS Group, 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 constitute an offer, recommendation or solicitation to conclude a transaction and should not be treated as giving investment advice.

DWS Group does not give tax or legal advice. Investors should seek advice from their own tax experts and lawyers, in considering investments and strategies suggested by DWS Group. Investments with DWS Group are not guaranteed, unless specified.

Investments are subject to various risks, including market fluctuations, regulatory change, possible delays in repayment and loss of income and principal invested. The value of investments can fall as well as rise and you might not get back 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. The terms of any investment will 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 transaction and not the summary contained herein. Past performance is no guarantee of current or future performance. Nothing contained herein shall constitute any representation or warranty as to future performance.

Although the information herein has been obtained from sources believed to be reliable, DWS Group does not guarantee its accuracy, completeness or fairness. No liability for any error or omission is accepted by DWS Group. Opinions and estimates may be changed without notice and involve a number of assumptions which may not prove valid. All third party data (such as MSCI, S&P, Dow Jones, FTSE, Bank of America Merrill Lynch, Factset & Bloomberg) are copyrighted by and proprietary to the provider. DWS Group or persons associated with it may (i) maintain a long or short position in securities referred to herein, or in related futures or options, and (ii) purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation.

The document was not produced, reviewed or edited by any research department within DWS Group and is not investment research. Therefore, laws and regulations relating to investment research do not apply to it. Any opinions expressed herein may differ from the opinions expressed by other DWS Group departments including research departments. This document may contain 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 Group as to the reasonableness or completeness of such forward looking statements or to any other financial information contained herein.

This document may not be reproduced or circulated without DWS Group's written authority. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States.

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 DWS Group 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.

Unless notified to the contrary in a particular case, investment instruments are not insured by the Federal Deposit Insurance Corporation ("FDIC") or any other governmental entity, and are not guaranteed by or obligations of DWS Group.

In Hong Kong, this document is issued by DWS Investments Hong Kong Limited and the content of this document has not been reviewed by the Securities and Futures Commission.

In Singapore, this document is issued by DWS Investments Singapore Limited and the content of this document has not been reviewed by the Monetary Authority of Singapore.

Publisher: DWS Investment GmbH, Mainzer Landstraße 11-17, 60329 Frankfurt am Main, Germany