CIO | VIEW

CIO Commodity Commentary

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Marketing Material

POST THE OIL-PRICE INFLECTION

Darwei Kung
Head of Commodities and Portfolio Manager

IN A NUTSHELL

_ Once oil demand eventually begins to recover from the unprecedented collapse due to the coronavirus pandemic, high inventories are likely to keep prices low in subsequent months.

_ In our view, the overall environment remains supportive for gold.

_ We expect China to fulfill its "phase-one" agreement for agriculture in late 2020 or early 2021.

Oil is again trading near its five-week high, with a West Texas Intermediate (WTI) price of around 29.5 dollars per barrel – a bit higher than half its end-February level. After April's rollercoaster, however, when for the first time in history oil prices fell below zero, this represents an important recovery. With demand for oil plunging because of Covid-19 and storage capacity short, market participants had to pay to have oil taken off their hands. At the worst point the price of WTI fell below minus 40 dollars per barrel. This fragility about the WTI market was surprising. Only the few with spare crude storage capacity or those in the business of providing temporary storage profited. In an effort to increase storage capacity, traders and producers alike are chartering tankers to hold their oil. Earnings in the tanker industry are flourishing. According to analysts 10% to 15% of the world's largest tankers are now used for storage and this number is increasing.[1]

We do not believe, however, that negative oil prices will become a common occurrence. Many producers in the Bakken basin have reacted quickly by halting operations, which is evident by decreasing rig counts and that certainly helped prices. "Tank tops," in other words, storage running out, however, remains an issue for WTI contracts, but the interplay between collaborative efforts to decrease crude oil production globally and a likely recovery in demand as coronavirus lockdowns are eased, should provide a reasonable level of support for prices. This does not preclude further volatility in the future, especially as we move closer to the expiry date for the June WTI contract.

Once oil demand eventually begins to recover from the unprecedented collapse due to lockdown measures caused by coronavirus pandemic, high inventories are likely to keep oil prices low as supply outweighs demand. Although OPEC and Russia began to realize production cuts and other non-OPEC countries announced cuts, we forecast an oil price of 37 dollars per barrel for WTI by March 2021 [DWS CIO Flash as of 4/29/20]. Norway, for example, has announced a cut of 250,000 barrels per day. In addition, many oil exploration and production companies have said they are cutting both capital spending and production.

While oil suffers, gold continues to be supported by the uncertain environment. After some beleaguered investors, hurt by falling equities, had to sell gold to satisfy their margin requirements, putting downward pressure on gold prices, the focus is now shifting to the improving fundamental picture for gold. Currently, we expect the risk-off environment to support prices throughout the year and expect a gold price of 1.800

[1] https://www.nytimes.com/2020/04/23/business/oil-markets-tankers.html

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dollars per ounce by March 2021. In contrast to gold, palladium prices fluctuated wildly in April. In quarterly reports some miners noted that demand for palladium from automotive applications seems set to rebound strongly post Covid-19.

We continue to view the base-metals recovery cautiously and have a preference for metals with the most robust near-term fundamentals, such as nickel. China's stockpiling program for base metals should be supportive for prices in the near term, but the stockpiled inventory could overhang the market if the pick-up in demand is not as robust as hoped. As we move closer to activity restarting across many economies, we continue to look for signs from the physical market that balances are tightening in order to gauge the sustainability of the recent rally.

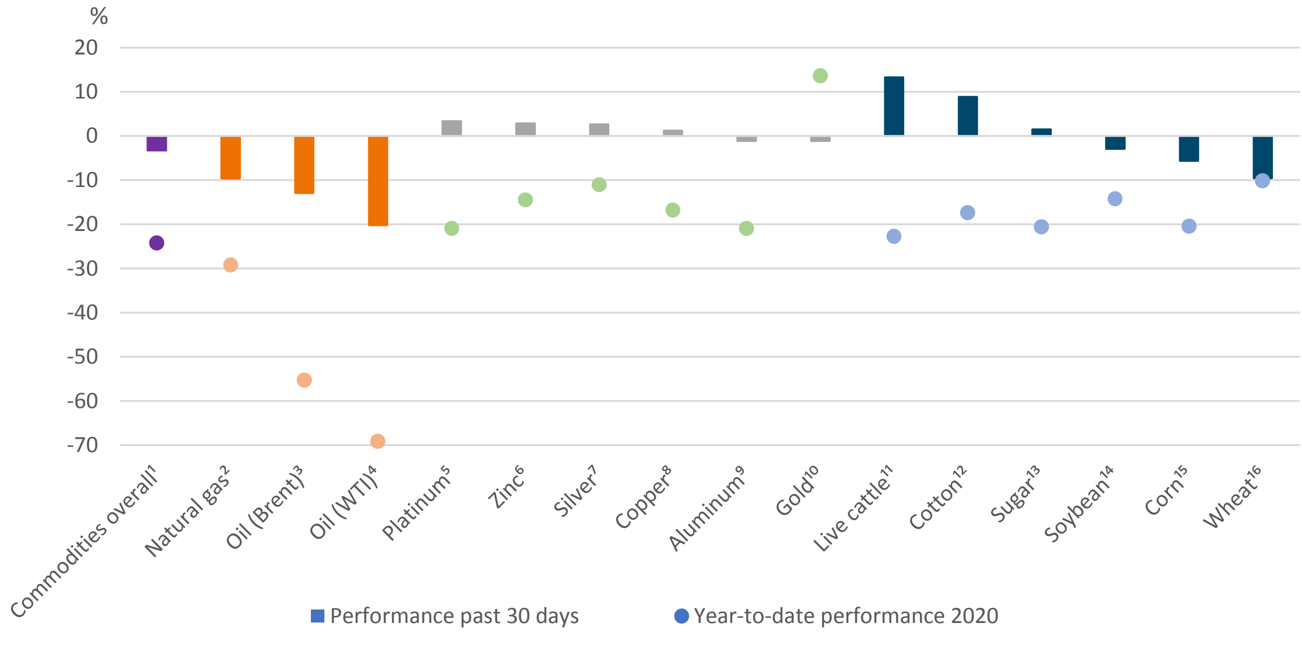
In agriculture, April's World Agricultural Supply and Demand Estimates (WASDE) report recognized some Covid-19 demand destruction, with changes in line with market expectations. Ethanol and cotton demand estimates decreased, but those of feed and food demand actually increased in some instances.

China has recently stepped up agricultural purchases, a move toward fulfillment of the "phase-one" agreement. If the steady purchases continue, we expect China to fulfill its "Phase One" commitments for agriculture around late 2020 or early 2021, which is likely to support agricultural prices.

A panic-driven surge in grocery sales excited some coffee speculators, but with exchange inventories once again climbing, we maintain the view that coffee demand – and thus prices – should tend to move lower in a global recession.

President Trump's executive order to force a reopening of meat plants gave a significant lift to livestock prices. The supply chain for livestock continues to show signs of distress. Mass culling of animals (and the dumping of carcasses) is likely to occur as farmers are forced to kill animals they can no longer sell for processing. Though enforcing President Trump's order looks challenging, we do expect enough progress to help stabilize meat markets. We believe livestock should endure the impact of Covid-19 better than energy and metals, but we remain cautious until there is clarity on how much demand has been destroyed rather than being deferred.

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 5/14/20

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

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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.

Margin describes borrowed money that is used to purchase securities.

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.

A recession is, technically, when an economy contracts for two successive quarters but is often used in a looser way to indicate declining output.

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

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) is a grade of crude oil used as a benchmark in oil pricing.

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

	04/15 - 04/16	04/16 - 04/17	04/17 - 04/18	04/18 - 04/19	04/19 - 04/20
Bloomberg Commodity Index	-17.6%	-1.8%	6.6%	-10.1%	-24.4%
Bloomberg WTI Crude Oil Subindex	-44.7%	-8.2%	36.0%	-6.5%	-75.7%
Bloomberg Brent Crude Subindex	-41.3%	-3.7%	44.5%	-2.2%	-61.3%
Bloomberg Natural Gas Subindex	-43.8%	7.9%	-30.4%	-7.7%	-42.2%
Bloomberg Gold Subindex	8.6%	-3.2%	1.9%	-5.3%	28.6%
Bloomberg Silver Subindex	8.9%	-5.3%	-7.3%	-11.5%	-3.5%
Bloomberg Platinum Subindex	-5.8%	-13.1%	-6.3%	-3.6%	-10.8%
Bloomberg Copper Subindex	-22.0%	11.6%	14.4%	-7.8%	-20.5%
Bloomberg Aluminum Subindex	-17.6%	10.8%	15.9%	-21.9%	-20.7%
Bloomberg Zinc Subindex	-19.8%	32.8%	19.6%	-4.5%	-29.7%
Bloomberg Corn Subindex	-2.5%	-15.8%	-4.7%	-21.0%	-19.5%
Bloomberg Wheat Subindex	-2.2%	-25.4%	-2.4%	-24.2%	19.4%
Bloomberg Soybeans Subindex	6.2%	-9.3%	4.3%	-24.9%	-7.9%
Bloomberg Sugar Subindex	10.0%	-4.4%	-30.8%	-4.1%	-23.4%
Bloomberg Cotton Subindex	-7.4%	17.8%	9.4%	-10.7%	-27.8%
Bloomberg Live Cattle Subindex	-20.7%	20.0%	-15.1%	6.5%	-27.0%

Past performance is not indicative of future returns.
Sources: Bloomberg Finance L.P., DWS Investment Management Americas Inc. as of 5/12/20
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