

A UNITED OPEC AND TRADE HEADLINES



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IN A NUTSHELL

- Despite their internal conflicts, OPEC+ countries appear to remain united in their goal of keeping the oil-market supply balanced.
- In the short term we expect any positive news from the U.S.-China trade negotiations to drive gold prices down. But the high levels of geopolitical and economic risk and the low- interest- rate environment should be supportive for gold.
- Trade headlines continue to overshadow any fundamental developments in agriculture. We expect that tactically news around trade will be driving prices.

Weakening manufacturing Purchasing Managers' Indices (PMIs) across the globe, slowing global gross-domestic-product (GDP) growth, especially in China, and many risk factors – such as U.S.-China trade negotiations, Brexit and the upcoming U.S. elections, to name just a few – are making our strategic outlook for oil-demand growth gloomier. Meanwhile, new pipeline infrastructure that will allow U.S. shale oil to reach global markets and signs of stability in oil rig count declines are likely to amplify oil oversupply. The fact that Brazil, Norway and Russia are expected to add production capacity in 2020 is only conducive for that development. This makes it more likely that Saudi Arabia will respond by advocating for deeper production cuts at the December OPEC meeting. Preparations for the initial public offering (IPO) of one of the largest oil companies in the world should give the Saudis all the more reason to keep the oil market in balance and buoy oil prices. The timing of the IPO is difficult. Geopolitical flare-ups in the Middle East are currently dominating the oil-price action. And at the same time the tectonic shift toward sustainable investing is undermining hydrocarbons such as oil.

The Middle East continues to be likely troublesome for the market. We consider it probable that Iran and its allies will again attack its neighbors' oil facilities, as (widely believed) they did in September, as U.S. sanctions continue to drag on the Iranian economy. Any strike would probably cause an upward price move of five to ten U.S. dollars. We do not, however, expect subsequent military escalation as Saudi Arabia is likely to prioritize its Vision 2030 plan for economic diversification. The country aims to lessen the degree of economic dependence on oil by implementing several social

and economic policies. The IPO remains a major element in that, above all in the near term. We therefore forecast a price of 54 dollars per barrel (WTI) as strategically there is more down-side risk to oil prices.

On the natural-gas front, Denmark approved the controversial Nord Stream 2 natural-gas pipeline, which will allow Russia to supply gas directly to Germany, bypassing Ukraine in the future. This gives Russia further leverage in its stalled negotiations with Ukraine on a gas transit agreement. It is, however, hard to completely rule out some disruption to supply in the absence of a Gazprom-Ukraine deal, given low winter temperatures. Early completion of Nord Stream 2 would, however, reduce the severity of any disruption.

Meanwhile, optimism over a phase-one deal between the United States and China has put pressure on the traditional safe-haven asset, gold, and the gold price has fallen below the level of 1,500 dollars per ounce. However, despite the slight progress in trade negotiations, the data continue to show a deceleration in Chinese exports and whether activity will pick up even if a phase-one deal is reached is questionable. Our strategic forecast is therefore 1,550 dollars per ounce by December 2020, despite our expectation that there will be no further rate cut by the U.S. Federal Reserve (the Fed) during the year.

In the short term we expect any positive news from the U.S.-China trade negotiations to drive down gold prices. But the high level of geopolitical and economic risk and the low-interest-rate environment should be supportive for gold and limit the downside potential of gold prices. Central-bank

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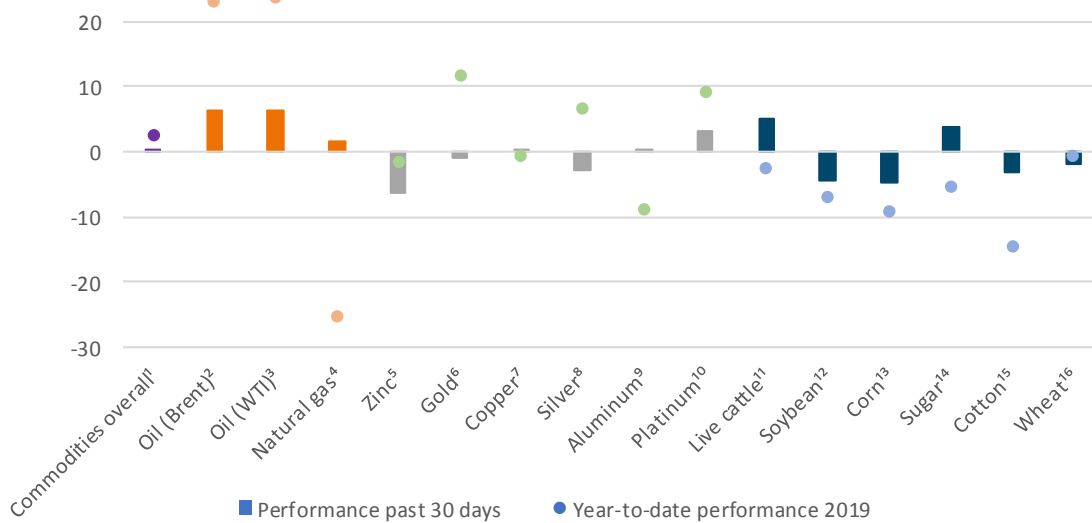
buying remains an additional source of demand for gold. We therefore expect prices to remain elevated compared to historical levels.

Palladium continues to catch a bid given expected strikes by workers in South Africa that should disrupt supply. It retains its status as our favorite pick within the precious and base-metals space. The copper price was hurt by dollar strength and poor macro sentiment in 2019, but appears to be stabilizing now due to healthy supply-and-demand fun-

damentals and producers' reluctance to commit more capital to production.

Agricultural developments have been dominated by a still delayed North-American harvest. The U.S. Department of Agriculture has once again trimmed its estimate of corn production. But headlines from the U.S.-China trade dispute continue to have more influence on the market than any fundamental developments. Markets remain skeptical that a phase-one deal will be reached, with soybeans underperforming despite substantial purchases of soybeans and pork

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



Sources: Bloomberg Finance L.P., DWS Investment Management Americas Inc. as of 11/21/19

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

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

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.

Initial public offering (IPO) is a type of public offering in which shares of stock in a company usually are sold to institutional investors that may in turn sell them to the general public, on a securities exchange, for the first time.

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

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

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

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

	10/14 - 10/15	10/15 - 10/16	10/16 - 10/17	10/17 - 10/18	10/18 - 10/19
Bloomberg Commodity Index	-25.7%	-2.9%	1.5%	-3.5%	-4.8%
Bloomberg WTI Crude Oil Subindex	-50.5%	-28.3%	4.4%	24.5%	-19.1%
Bloomberg Brent Crude Subindex	-50.3%	-19.1%	15.0%	29.3%	-16.7%
Bloomberg Natural Gas Subindex	-51.1%	-15.0%	-23.7%	0.9%	-29.0%
Bloomberg Gold Subindex	-3.1%	10.5%	-1.9%	-6.7%	21.2%
Bloomberg Silver Subindex	-4.7%	12.5%	-8.4%	-16.6%	22.3%
Bloomberg Platinum Subindex	-20.4%	-1.7%	-7.4%	-10.0%	7.8%
Bloomberg Copper Subindex	-24.2%	-6.5%	36.9%	-17.0%	-2.2%
Bloomberg Aluminum Subindex	-32.0%	14.2%	21.1%	-9.0%	-13.8%
Bloomberg Zinc Subindex	-27.8%	40.9%	32.0%	-21.5%	5.3%
Bloomberg Corn Subindex	-10.3%	-14.7%	-13.8%	-8.7%	-4.3%
Bloomberg Wheat Subindex	-5.0%	-27.9%	-17.0%	1.0%	-3.1%
Bloomberg Soybeans Subindex	-14.9%	13.3%	-7.4%	-19.4%	0.0%
Bloomberg Sugar Subindex	-17.9%	42.1%	-35.0%	-18.3%	-15.4%
Bloomberg Cotton Subindex	-1.3%	8.0%	-1.1%	13.4%	-19.3%
Bloomberg Live Cattle Subindex	-12.0%	-21.1%	30.1%	-9.8%	-0.4%

Past performance is not indicative of future returns.

Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 11/23/19

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