Quarterly commentary / 30.9.2024

Vontobel Fund – Commodity

Marketing document for institutional investors in: AT, CH, DE, ES, FI, FR, GB, IT, LI, LU, NL, NO, PT, SE, SG (Professional Investors only).

Summary

- Commodity markets slightly up in third quarter 2024 (+0.7 percent)
- Fed rate cut, China stimulus hopes pushed precious and base metals prices higher
- Petroleum sector suffers from outlook of an oversupplied oil market in 2025

Market developments

Commodities had a tough time in most of the third quarter 2024. From July until the second week of September Bloomberg Commodity TR Index (BCOMTR) lost 6.5 percent before a significant recovery started in the second half of September. In July, the focus was on weaker Chinese data (China is the biggest oil importer and responsible for 50 percent of metals demand), pushing base metals, grains and petroleum lower. Open interest across global commodities plunged to the lowest level since March, reinforcing the sell-off. In August, strong GDP growth in the US in the second quarter and easing inflation provided some optimism. Additionally, Fed Chair Jerome Powell signaled that the Federal Reserve was preparing to adjust its policy. This sudden dovish tone supported higher risk assts across the board and commodities recovered somewhat. A noticeable recovery started in the second week of September driven by China's shift in narrative towards more stimulus and the US Fed`s interest-rate cut of 50 basis points (bps). Also, a geopolitical escalating situation in the Middle East pushed crude oil prices higher. Eventually, BCOMTR index ended slightly in green territory in Q3 (+0.68 percent).

Base metals complex ended slightly higher in the third quarter (+3.0 percent). With Chinese data coming in weak (GDP Q2 growth 4.7 percent vs 5.1 percent expected; manufacturing PMI below 50; deteriorating consumer confidence), focus for copper shifted more and more to fundamentals: global copper inventories were significantly higher than a year ago, record high refined copper production in China and exports out of China due to weak domestic demand. This caused copper to lose all of its 30 percent year-to-date gains from mid- May by mid-August. Stimulus announcements in China in September helped restore some positive momentum in the base metals such that copper gained 4.1 percent overall in Q3. Zinc (5.3 percent) was the outperformer in the complex due to production cuts announced by Chinese smelters. Only lead ended lower in the third quarter (-6.8 percent)

Precious metals were the second-best sector (after softs) in the third quarter (+11.3 percent). Official data showed that Chinese central bank stopped buying gold in May up until today which caused some concerns around physical demand going forward. However, strong Indian demand plus inflows in gold ETFs gradually creeping up, alongside robust activity in the over the counter (OTC) market were offsetting forces. Going forward, we believe that central bank gold buying (due to diversification needs and continuous de-dollarization) will be a multi-year program. Although gold suffered in the initial sell-off beginning of August, with investors rushing to sell liquid assets to cover losses elsewhere, gold rebounded very strongly. The Fed rate cut mid-September set Gold up to reach new record highs. Gold was up 12.9% in Q3 while silver has been lagging gold`s performance (+6.3%). Solar demand has more than doubled since 2020, now 20 percent of total silver demand, with rising installations and rising silver intensity. However, stories about bankruptcy events of solar companies in China due to negative margin pressure are rising and need to be closely followed. Palladium (+2.8 percent) showed signs of recovery after Sibanye-Stillwater announced the shutdown of some production in North America due to negative margins. This move triggered a short squeeze of palladium's record negative short positioning.

Petroleum was the weakest complex in Q3 (-12.5 percent), down in every one of the three months. WTI lost -11.8 percent, while Brent lost -12.1 percent. A main factor was underwhelming Chinese demand. Diesel demand as well as Diesel production is weak, which reflects economic cooling. Diesel trucks are more and more replaced by LNG powered trucks and strong EV sales reduce diesel demand further. Chinese overall flight activities are still 25 percent below pre-Covid levels which goes along with weak consumer confidence. Geopolitical risks were rising again, as the political leader of Hamas was assassinated on Iranian soil end of July. Iran threatened severe retaliation and the rest of the world feared that an outright war between Iran and Israel was imminent. As there was no attack following these threats by mid of August, the market started to price out this geopolitical risk premium and oil prices corrected. In the last week of August, oil prices were supported by the escalating conflict in Libya between the eastern government under Khalifa Haftar and the government in Tripoli with the result of an announced shutdown of all oil production facilities in Libya for an indefinite period. Libya produces around 1.2 million barrels per day (mbpd) and production has already fallen by around 0.6 mbpd per the end of August. Despite this major supply loss (the first geopolitical crisis

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that really affects the supply side this year) oil prices corrected again on a stronger US-Dollar and weak Chinese oil demand. Several OPEC countries announced on the last day of August that they are likely to go ahead with tapering their production cuts, causing a 3 percent selloff in crude oil.
West Texas Intermediate (WTI) fell below USD 65 per barrel, while Brent dropped below USD 70 in the first half of September, driven by deteriorating economic data. Despite OPEC+'s announcement to extend their voluntary production cuts for another two months until December, prices struggled to find support. Market participants quicky shifted their focus to a heavily oversupplied oil market outlook for 2025, resulting in the most negative futures positioning across the whole petroleum complex on record. Rising geopolitical tensions in the Middle East, such as the assassination of Hezbollah leader Hassan Nasrallah, Israeli ground troop incursions into Lebanon, and the US increasing its military presence in the region, didn't significantly support prices in September, as there were no major supply losses recorded.
US natural gas suffered in Q3 (-10.2 percent) as production cuts were unwound to take advantage of higher prices mid-June while Freeport`s LNG terminal was knocked out for 2 weeks after Hurricane Beryl caused some damage. Furthermore, weather turned out to be less warm in summer, reducing heating demand and US and storage injections were higher than expected. Natural gas staged quite a recovery in September (+17.5 percent) as Hurricane Helene introduced some shut-ins for offshore oil production and storage injections showed that congestions risk would likely be averted before winter heating season starts.
Softs gained +14.8 percent in the third quarter of the year and were the best performing sector. Similar to the other sectors, softs suffered in July. Due to a rally in coffee prices in August (+8.7 percent) to their highest levels in eight years on dryness in Brazil and Vietnam and Sugar (+2.8 percent) because of a 10 percent rally in the last week of August due to fire on Brazilian sugar cane fields and lower sugar crush numbers, the sector outperformed the broader market during the summer. The news spilled over into September with Coffee and Sugar being the two main performance drivers in the last month of the quarter and therefore kept up the positive momentum.
Unlike softs, Grains ended the Q3 slightly negative (-1.2 percent) after a mixed performance over the summer months. US crop conditions led to first signals of an oversupplied market in July. Wheat (-7.6 percent) and soybean meal (-6.9 percent) corrected the most during that month. Lower Chinese demand combined with good US crop conditions and continuous good weather forecast resulted in further price pressure in August. These price levels in August indicated somewhat a bottom during the quarter. Especially bad weather outlooks in the black sea region combined with the short covering of managed money and the fear of a delayed soybean planting season in Brazil were favorable to grain prices towards the end of Q3. Soybeans (+9.6 percent), corn (+6.4 percent) and wheat (+6.3 percent) all contributed to the price recovery.

Portfolio review

The fund currently maintains an overall overweight of around 15 percent versus the benchmark. The biggest overweight position in the fund is precious metals, at around 11 percent. We began reducing this overweight to around 7 percent a few days after the Fed meeting, as we believed new performance drivers were lagging. Throughout most of September, we maintained an overweight position in sugar, but we took some profits during the last two days of the month as sugar prices corrected due to diminishing bullish news from Brazil. The fund held an underweight in base metals in the first half of the month. However, we shifted to a small overweight in the second half as we observed a strengthening stimulus narrative in China. The overall positioning in grains is neutral, but within this sector, the fund is overweight in wheat and soybean oil while underweighting soybeans and soybean meal. Despite the sector's modest underperformance in September, we stick to our conviction that wheat has the highest probability of a sustained price recovery, while soybeans lack bullish catalysts. In the petroleum complex, the fund holds a 5 percent overweight in WTI versus benchmark.

Performance analysis

Vontobel fund – Commodity (I share class) was up 1.42 percent, while Bloomberg Commodity Index TR was up 0.68 percent in the third quarter 2024, resulting in a quarterly outperformance of 0.74 percent. Year-to-date, the fund's absolute performance stands at 8.63 percent, with a relative performance of 2.77 percent. A major part of the q3 outperformance (+0.49 percent) can be attributed to the fund's significant overweight in precious metals. The fund's sugar overweight generated +0.33 percent of relative performance. Another major outperformance driver was the underweight in natural gas (+0.50 percent). Negative relative performance stems from base metals (-0.13 percent) and petroleum overweight (0.59 percent).

Outlook

For base metals, developments in the Chinese economy will be most crucial to watch. So far, the stimulus measures are more centered around monetary policy, but we believe that we are likely to see more fiscal stimulus ahead, which should support base metals.
In terms of US monetary policy, it doesn't matter too much if the Fed cuts another 50bps or 25bps in November. What matters more for commodities is that the cutting cycle began in September and, even more so, that a recession is averted.
For gold, we will be observing ETF inflows, which should help mitigate the impact of reduced Chinese central bank and Asian retail purchases due to record-high prices.
It will also be essential to watch for any rhetoric from OPEC+. We expect OPEC to begin tapering its production cuts in December. However, there is always a possibility that they may postpone this decision if prices experience a downturn. Conversely, any discussion around shifting focus to capture higher market share could exert downward pressure on prices. We consider the recent escalation in the Middle East to be meaningful, but the market may be fatigued after six months of trading around such escalation risks.

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Fund characteristics

Fund name	Vontobel Fund – Commodity
ISIN	LU0415415800
Share class	I USD
Reference index	Bloomberg Commodity Index TR
Inception date	7.1.2009

Historical performance (net returns, in %)

Time period	Fund	Ref. index
MTD	5.6%	4.9%
YTD	8.6%	5.9%
1 year	4.4%	1.0%
3 yrs p.a.	4.6%	3.7%
5 yrs p.a.	10.8%	7.8%
10 yrs p.a.	1.0%	0.0%
ITD p.a.	0.9%	0.0%

Time period	Fund	Ref. index
2023	-5.1%	-7.9%
2022	10.7%	16.1%
2021	35.1%	27.1%
2020	-0.5%	-3.1%
2019	9.2%	7.7%
2018	-15.0%	-11.2%
2017	2.2%	1.7%
2016	16.6%	11.8%
2015	-23.3%	-24.7%
2014	-19.3%	-17.0%

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- Using derivatives creates significant leverage and entails valuation risks and operational risks. Leverage magnifies gains but also losses. Over-the-counter derivatives involve corresponding counterparty risks.
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