Monthly commentary / 30.8.2024

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

- Risk assets under pressure in the first half of August due to elevated volatility
- Oil prices in the crossfire of ceasefire talks between Israel and Hamas as well as the escalating conflict in Libya
- Base metals stage recovery in August

Market developments

Some investors might not have had a relaxing vacation period in August, as financial markets experienced significant turbulance marked by heightened volatility. At the beginning of the month, weak US labor market data triggered a sell-off in risk assets as markets feared that the US Federal Reserve had let rate policy remain too tight for too long, exacerbating fears of a potential recession. On 5th August, Japanese stocks had their worst trading session since 1987, after the Bank of Japan's unexpected decision to raise interest rates. Consequently, the Japanese Yen appreciated against the US Dollar, triggering an unwinding of the classic carry trade. That triggered a global sell-off in all asset classes, driving the VIX Index to an intraday high of over 60. However, markets calmed relatively quickly, and the volatility event already seemed almost forgotten by the end of August. Strong GDP growth in the US in the second quarter and easing inflation provided some optimism. Another major event was Jerome Powell`s speech in the Jackson Hole Economic Symposium. He signaled that the Federal Reserve was preparing to adjust its policy, highlighting that the risks to the job market were now more pressing than inflation concerns. This was interpreted as a strong indication that rate cuts were on the horizon, most likely starting in September. This sudden dovish tone supported higher risk assts across the board.

Oil prices ended in negative territory (Brent -3.7 percent, WTI -3.6 percent) in August. The first half of the month started out promising: after the drawdown in July driven by financial liquidation, oil prices were believed to be oversold. More attention was drawn to the fact that oil markets were still tight due to global inventories drawing, ongoing geopolitical risks and healthy demand (ex-China). Geopolitical risks were indeed rising again, as the political leader of Hamas was assassinated on Iranian soil end of July. In order not to lose face, 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 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. Oil products were weak in August (gasoline -5.8 percent, heating oil -6.7 percent, gasoil -5.4 percent).

Natural gas prices staged a recovery in the first half of the month as production levels came down. However, weather turned out to be less warm in the US and storage injections were higher than expected, leading to a sharp selloff in gas prices in the second half of the summer months causing a small monthly loss (-2.9 percent).

Contrary to energy, base metals were able to escape their downward trend that started in May. Base metals probably did too much on the downside and started to recover with financial market participants covering their short positions. Especially aluminum (7.3 percent), zinc (8.5 percent) and tin (8.8 percent) performed well in August. Zinc prices recovered due to production cuts announced by Chinese smelters. Aluminum demand is still healthy, and tin`s balance sheet is in good shape. Copper ended the month flat (0.3 percent) driven by macroeconomic topics such as a dovish Jackson Hole speech but still lagging micro economic fundamentals with rising inventories at the LME and COMEX and downward revisions to Chinese GDP growth. In our opinion, a clear catalyst for metal prices going forward is missing: we need to see a significant up-tick in industrial production, accelerating fiscal stimulus in China, or additional supply disruptions to stop metals from trading sideways from here. Negotiations on treatment charges which are usually conducted in October could alter the picture as smelters could potentially decide to lower production if their margins get squeezed too much.

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 and climbs from one record high to the next on an almost daily basis (2.6 percent in August). Silver was also strong (2.6 percent) but

lagged Gold`s performance. Precious metals suffered on the last day of the month after a US-Dollar rally following better than expected economic data in the US.
The grains sector was flat in August (-0.3 percent) and seems to have found a bottom in the second half of the month. Strong crop rates in the US for soybeans, wheat, and corn with continuous good weather forecasts put pressure on prices especially in the first half of the month. Weaker global demand (especially from China) and record high short positions of money managers were additional factors which were not supportive of grain prices. These bearish news has been digested in the drawdown of recent months, reflected in the almost record short positioning of financial investors. A new catalyst to drive prices lower from here is missing. On the contrary, expectations of dry weather for first two weeks of September are a threat to soybeans and corn in their final stage.
The softs sector showed a stellar performance in August (5.5 percent). Coffee prices were rallying (8.7 percent) to their highest levels in eight years on dryness in Brazil and Vietnam, the two largest coffee producers. Sugar was up 2.8 percent with a 10 percent rally in the last week of August due to fire on Brazilian sugar cane fields and lower sugar crush numbers. Furthermore, the Indian government decided to lift restrictions on sugar mills and distilleries using cane juice to make ethanol, a move that's likely to prolong sugar export curbs from the world's second-biggest grower and tighten global supply. But the real star was cocoa. Cocoa inventories are still not recovering, driving up prices back towards 8000 USD per ton.

Portfolio review

The fund held an overweight position at crude oil products at the beginning of the months as a hedge against elevated hurricane risk in the US and close to record low financial positioning in the futures market. As hurricane season was underwhelming so far and refinery margins are further depressed, with refinery runs extremely high, we shifted positioning away from crude products towards crude oil in the second half of the month. Within the base metals sector, the fund has an overweight in copper and tin and an underweight in zinc and nickel. Overall positioning in base metals shifted from being underweight at the beginning of the months to a more neutral stance during the course of the month. At the same time, the fund kept its strong overweight in precious metals in August unchanged as a Fed cut in September could trigger more inflows in gold and silver ETFs, pushing up prices. We still hold a long position in sugar within softs and reduced our sizeable underweight in grains in the second half of August. We hold a neutral position now and wait until we receive more information about predicted dryness in Brazil and before the soybean /corn harvest starts in the US.

Performance analysis

Relative Performance of Vontobel Fund – Commodity (I shareclass) was almost flat in August. The small underperformance (-0.28 percent) arrived on the last day of the month as precious metals, sugar and crude oil prices corrected heavily. Absolute monthly performance of the fund was -0.23 percent while the benchmark was flat (0.05 percent). Year-to-date outperformance is 1.96 percent.
On a monthly basis, the fund`s underweight in grains in the first half of the months, as well as livestock positioning were positive relative performance drivers. Meanwhile,, our overweight on crude oil, our relative value positioning in base metals and our overweight in platinum were drags on performance.

Outlook

The major event in September will be the FOMC meeting on 19th. The biggest question is not if a cut happens but if 25bps of 50bps cuts materialize. A 25bps cut is priced in by the market and is set in stone after the dovish Jackson Hole speech. The impact of a potential 50bps cut on financial markets is not clear. Risk assets could cheer on a more rapid start to the cutting cycle. However, investors might also interpret it as a panic signal that the economy is deteriorating faster than expected. In any case, precious metals should clearly benefit from a 50bps cut.
Furthermore, geopolitical risks will continue to play a major role in commodity markets. Per the end of August, there were unconfirmed reports about the US informing that an Iranian retaliation attack against Israel will happen in the next few days. If this happens, the severeness of the attack will be significant for future progress in the middle eastern region. The conflict in Libya is now an additional geopolitical crisis to observe closely. There is zero trust between the two governments and the conflict might not be solved anytime soon, especially as international actors capable of putting pressure on either party are not united (Italy + UK + US + Turkey support the western government vs. France + Egypt + UAE + Russia support the eastern government). If production stays offline for the rest of the year, this will have a material impact on global oil supply.
With Chinese economy weakening, fiscal stimulus efforts might be stepped up in Q3 and Q4 to support the economy and reach the 5 percent growth target. This will be important to watch, especially for base metals future performance.

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	-0.2%	0.0%
YTD	2.9%	0.9%
1 yr	-1.9%	-4.4%
3 yrs p.a.	3.8%	3.7%
5 yrs p.a.	9.5%	7.0%
10 yrs p.a.	-0.1%	-1.1%
ITD p.a.	0.5%	-0.3%

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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Investment risks

- 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.
- The sub-fund's investments may be subject to sustainability risks. Information on how sustainability risks are managed in this sub-fund may be obtained from vontobel.com/sfdr.

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