Monthly commentary / 30.9.2024

Vontobel Fund – Commodity

Summary

- Commodity markets strong in September with Bloomberg Commodity Index TR up 4.86 percent
- Fed rate cut, China stimulus hopes and dry weather push metals and agricultural prices higher
- Petroleum sector suffers from outlook of an oversupplied oil market in 2025

Market developments

Financial markets were primarily driven by the US Federal Reserve's (Fed) interest-rate cut of 50 basis points (bps) and China's shift towards more stimulus. The Fed initiated a new rate-cutting cycle in mid-September, marking the first reduction in four years, driven by growing confidence that inflation was trending towards the 2 percent target. Chair Jerome Powell reiterated that the labor market is still in good shape. Most risk assets reacted positively (e.g., the S&P 500 Index reached new record highs, while the Bloomberg Commodity Index Total Return gained 4.86 percent in September). Precious metals also received further support from the lower interest rates. In China, deteriorating economic data prompted the government to announce measures to counteract the downturn. The stimulus was mostly geared towards easing credit supply and bolstering the ailing real estate sector (cutting interest rates, cutting RRR, lowering mortgage rates for existing home loans, relaxing property buying restrictions) and introducing a put for equity markets. These actions resulted in a significant rally in Chinese stocks, with the CSI 300 Index surging 27 percent from mid-September through the end of the month, as well as a boost in base / bulk metals.

Precious metals were strong in September, up 6.3 percent. Gold climbed from one record high to another (+5.7 percent), largely driven by the Fed's rate cut. Despite official data indicating the absence of the Chinese central bank in the physical gold market, strong physical buying from India continues, alongside robust activity in the over the counter (OTC) market. Additionally, global gold ETF holdings are gradually creeping up. Silver, often viewed as the higher-beta counterpart to gold, outperformed the sector (+8.4 percent). Even palladium (+4.3 percent) and platinum (+5.7 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. After a heavy correction in the base metals sector (copper lost all its 30 percent year-to-date gains from mid- May until mid-August), stimulus announcements in China helped restore some positive momentum in the base metals sector (+6.8 percent) in September. Copper was the standout performer (+8.6 percent), followed by zinc (+7.0 percent) and aluminum (+6.8percent). Tin (+3.7 percent) and nickel (+4.4 percent) also showed decent performance.

The only negative sector and major underperformer was the petroleum sector (-5.6 percent). West Texas Intermediate (WTI) fell below USD 65 per barrel, while Brent dropped below USD70 in the first half of the month, 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. Oil priced overshot to the downside as global inventories are still on the lower end from an historical perspective. After Brent recovered to USD75 per barrel, the Financial Times reported that Saudi Arabia was preparing to compete for global markets share. This, combined with an imminent resolution in Libya, led to another USD3 selloff in oil prices. 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.

In contrast, natural gas staged quite a rally 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 were the stars in September's sector performance (+11.3 percent), with all commodities in green territory. Sugar was up 14.4 percent amid an ongoing drought in Brazil and fires that have devastated significant areas, likely reducing sugar content. Coffee also rallied (+11.2 percent) as a result of the Brazilian drought.

The grains sector gained 6.0 percent in September on the back of weather concerns and ongoing short covering in a heavily shorted futures market. Soybeans (+9.6 percent) and corn (+6.4 percent) were supported by a delay of the rainy season in Brazil, while wheat (+6.3 percent) found support by a continued drought in the Black Sea region.

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
The commodity market was strong in September: Vontobel fund – Commodity (I share class) was up around 5.56 percent, while Bloomberg Commodity Index TR was up 4.86 percent, resulting in a monthly outperformance of 0.70 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 September outperformance (+0.74 percent) can be attributed to the fund's significant overweight in precious metals. The fund's sugar overweight generated +0.42 percent of relative performance. Negative relative performance stems from base metals (-0.15 percent) and grains (-0.23 percent). In base metals, the fund holds an underweight in zinc due to weak demand factors (steel sector). However, zinc smelters agreed to cut production, causing zinc to rally 7 percent in September, generating an underperformance of -0.26 percent. In grains, underweighting soybeans (-0.17 percent) and soybean meal (-0.21 percent) were a drag on relative performance as grains rallied on heavy short covering from speculative positions. The overweight position in wheat (+0.14 percent) and soybean oil (+0.07 percent) could dampen the negative effect in the grains complex.

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.

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%

Past performance is not a reliable indicator of current or future performance. Performance data does not consider any commissions and costs charged when shares of the fund are issued and redeemed, if applicable. The return of the fund may go down as well as up due to changes in the rates of exchange between currencies.

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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