Vontobel

Quarterly commentary / 28.6.2024

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

- Slight commodities correction after highest levels in the last 1.5 years on stronger US-Dollar und speculative positioning pull-back
- Bullish narrative on copper despite weak fundamentals
- Strong refinery runs and hurricane risks support oil prices

Market developments

The US-Dollar appreciated in June due to some hawkish comments from several Fed members and the shift from three interest rate cuts to only one in their dot plot while the market still expects two for the rest of the year. A stronger US-Dollar and financial investors cleaning their long positions (after BCOMTR index reached its highest level since Q4 2022) led to a loss of 1.54 percent in the month of June. However, the soft core PCE print suggests the disinflationary trends that were interrupted in 1Q24 are getting back on track. This should give the Fed enough comfort to start their cutting cycle in September.

In particular, base and precious metal prices suffered from a stronger US-Dollar and lower expectations about an imminent monetary easing cycle. After a stellar performance of silver year-to-date, prices corrected 3.5 percent in June. Gold was surprisingly stable (0.1 percent), trading mostly in the USD 2300-2350 range throughout the month as prices were supported below USD 2300 from physical buying from central banks but capped as the Fed cutting cycle is still forecasted to start later this year. Gold corrected from record high levels mid-June once official data showed that Chinese central bank stopped adding gold to their reserves after 18 months of doing so. This shows us that even central banks can act price sensitive occasionally. We do not think that this will be-come permanent. The survey from the Gold Council showed that 29 percent of central banks respondents intend to in-crease their gold reserves in the next twelve months, the high-est level ever. The de-dollarization that is going on in emerg-ing markets will not find an end soon and therefore, gold will stay in high physical investment demand. Palladium seems to have woken up from a 2-year losing streak (+7.6 percent). Rising leasing rates, an expected deficit market due to low recycling rates in the last couple of years, and a record short position on the futures market led to some short covering.

Natural gas prices staged quite a rally in the first half of June (+20 percent) due to weather forecasts pointing to the hottest June on record in the US and production being surprisingly disciplined by holding on to their cuts. In the last 1-2 weeks before month-end, we have been seeing production starting to come back. On the demand side, there is higher power burn due to strong cooling demand, but at the same time more gas to coal switching is taking place and export demand is also maxed out.

We believe that we are seeing the last few strong summer months in crude oil prices. After the drawdown in April and May based on a sizeable reduction in speculative positioning, prices recovered in June around 6 percent, driven by financial positioning and on the back of increasing refinery runs amid stabilized products margins. Demand drivers are ok currently, but not fantastic: while European and US oil demand (mostly jet fuel) is exceeding expectations, Chinese demand is lagging, especially diesel demand. From a supply perspective, Opec+ extended their cuts which should keep supply tight in Q3 and should let inventories draw. However, from Q4 on, Opec will release around 2.2 million barrel per day (mbpd) of their cuts over the following 12 months. Furthermore, UAE baseline production (which is used for applying cuts) was increased by 0.3mbp over the same time period. This together adds around 2.5 mbpd oil supply to the market by Q4 2025. Also, Non-Opec supply growth is quite strong (Canada, US, Brazil, Guyana) and adds around 1 mbpd in 2024 and almost 2 mbpd in 2025. Non-Opec supply growth already covers expected demand growth of 1-1.4 mbpd for this year. Oil balances have no room to absorb additional barrels from Opec. The next Opec meeting is in December. If they want to reverse their tapering, they will need to launch an extraordinary meeting.

The base metals sector was weak in June (-5.3 percent), particularly nickel (-12 percent). There is a shift of nickel-containing batteries toward LFP batteries that do not contain any nickel, particularly in China. The supply side also shows a comfortable picture with Indonesia ramping up capacities. Copper lost 4.1 percent in June. While the medium/long term narrative is still quite bullish, fundamentals do not look too good at the moment. Inventories in China are extremely high and global inventories are 150 percent higher than a year ago. Increased scrap usage by smelters prevented shut-ins. If we do not see inventory draws soon, the market might end up in a surplus this year. Again, tin was the most stable one in the metals complex (-0.7 percent). LME inventories are drawing, and supply is still constrained in Myanmar.

The grains sector was very volatile in the last 2 months. Dryness and late frost events in Russia caused doubts about Russia`s record wheat harvest that we have seen in the last couple of years to continue. Wheat rallied 25 percent in May starting in the last week of April. We reduced our underweight position in that period and implemented a small overweight position in wheat as we saw that global balances would tighten. All other grains were pushed higher together with wheat. However, US crop conditions were reported to be in extraordinary shape in May and prices corrected sharply in June (-18 percent). The bearish plantings report from the US agricultural department at month-end (91.5m acres vs. expected 89.8m acres) contributed to the move lower in corn (-9.2 percent).
Softs gained 4.0 percent in June on rising sugar prices (+11.6 percent). Persistent drought-like conditions accompanied by heat across southern Brazil may result in an early end to the harvest in sugar and a projected deficit balance of over 3mio tonnes through 2024/25.

Portfolio review
Vontobel Fund – Commodity (I share class) was down 2.45 percent in June versus the benchmark -1.54 percent, generating a negative relative performance of 0.91 percent. The fund experienced two challenging months. However, the outperformance cushion that was generated in the first four months of the year, helped to compensate for that period: year-to-date outperformance is still at a solid 1.97 percent. The fund saw negative contributions from underweighting natural gas (-0.14 percent), a defensive crude oil allocation (-0.26 percent), silver overweight (-0.18 percent) and grains allocation (-0.26 percent). Whereas underweighting nickel (+0.31 percent), implementing an overweight in sugar (+0.11 percent) and palladium (+0.05 percent) generated an outperformance.

Performance analysis
We continue to hold a sizeable precious metals overweight (9.4 percent per end June) as we believe that once we come closer to a first Fed rate cut, ETF inflows will come back after almost constant outflows in last 2 years, adding to demand and pushing gold and silver prices to new highs. We kept the underweight in natural gas in the fund as we believe that production is coming back once maintenance is over and producers decide to take advantage of higher prices. We continue to be bearish natural gas medium term as the US National Oceanic and Atmospheric Administration warned that we might see quite an active hurricane season due to exceptionally warm temperatures in the ocean. The fact that we are currently seeing the first category 5 hurricane (hurricane beryl) in July and so early in the season shows us that this might be a reasonable concern. Hurricanes usually reduce domestic gas demand as power outages and LNG terminal shut-ins may occur. We hold a neutral position in grains in order to reevaluate the weather and wait for a clearer picture of global balances after the harvest is over in northern hemisphere. In base metals, the fund holds a structural underweight in nickel and a structural overweight in tin as supply will stay constrained while demand picks up as it is used in soldering for electronics. We reduced our copper overweight position to almost neutral. We believe in the long-term bullish narrative for copper but short term, the fundamental picture does not look good. If we see more stimulus in China, inventories drawing or smelter shut-ins, we will increase our position again. The fund has a neutral position in crude oil for the moment and is positioned further out on the futures curves. We will evaluate when the time is right for an underweight after summer. At the same time the fund has an overweight in petroleum products due to the strong travelling season and to hedge against hurricane risk.

Outlook
Generally, geopolitical tensions remain elevated (situation in the Middle East remains highly uncertain, the Russia-Ukraine war drags on, and US-China-EU relations continue to deteriorate with a renewed tit for tat in implementing tariffs). In the US, the Trump-Biden rematch in November could have important macro and market implications, especially if it brings the possibility of fresh unfunded fiscal expansion or a further rise in tariffs.

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	-2.5%	-1.5%
YTD	7.1%	5.1%
1 yr	9.4%	5.0%
3 yrs p.a.	4.8%	5.7%
5 yrs p.a.	9.5%	7.2%
10 yrs p.a.	-0.2%	-1.3%
ITD p.a.	0.8%	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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