Julius Bär

COMMODITIES OUTLOOK 2019
MUCH NOISE, LITTLE DIRECTION

- The recent intense price swings should not distract from the fact that commodities largely treaded water in 2018. The mid-year sell-off on the back of sliding metal and agricultural prices fully erased the early year gains. Oil surged for months and crashed within weeks as the market mood swiftly shifted from bullish to bearish.
- For 2019, we see no meaningful change in the big picture. With abundant noise but a lack of fundamental direction, the asset class should continue to bounce wildly around a sideways trend. Global growth is neither strong nor soft enough. The projected US dollar reversal is unlikely to translate into meaningful tailwinds.
- Our commodity key call is gold, which likely bottomed this year and proved its safe-haven status when equities sold off. We recommend buying gold for the long term, as sentiment is as negative as it gets and fundamental support appears on the horizon.

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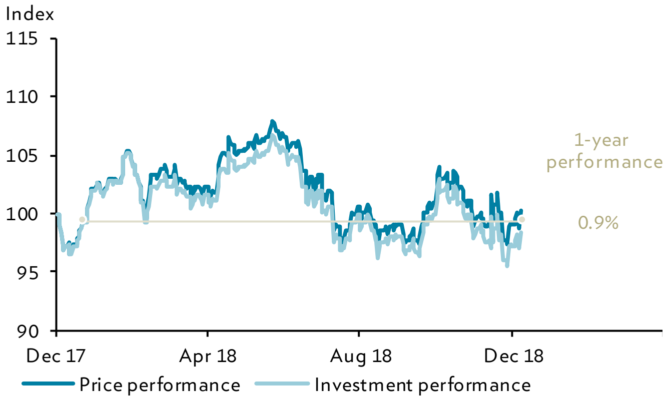
Beyond the bounces is a lack of direction

The year end means there is some time for reflection. Financial markets tend to operate mostly with their short-term memory, and stretching this horizon brings to the fore that there is usually less change than commonly perceived. The Bloomberg Commodity Index, the most-watched benchmark but far from perfect composite index, delivered a flat investment performance for the second year in a row. The index trades almost exactly at the levels of the beginning of the year. Like last year, 2018 was a year of two halves, just in reverse order. The strong global economy and the upbeat market mood on the back of several months of rising prices lent support to the commodity complex at the beginning. Then, by early summer, cooling growth optimism, softening emerging market currencies and the uncertainty unleashed by the trade dispute put downward pressure on commodities. The industrial metals and agriculture segments in particular deflated, pulling the asset class lower. Risk aversion and market jitters marked the turning point for gold at price levels just below USD 1200 per ounce in late summer. The energy segment initially defied gravity. The US demands for an Iran embargo and shortage fears pushed oil prices beyond USD 80 per barrel. But the rally was short-lived. The emerging market slowdown and an unexpected softening of the US stance against Iran triggered a swift reversal in the market mood from bullish to bearish, pushing prices below USD 60 per barrel within weeks.

Commodity performance (Bloomberg Commodity Index)



Source: Bloomberg Finance L.P., Julius Baer (The chart only shows the last 12 months to highlight the relevant performance.)

Every year has its high-flyer and the award for 2018 goes to carbon credits. After years of neglect, there was strong investor interest in the only commodity that is a cost rather than a prize. Carbon credits (European emission allowances, to be precise) more than quadrupled from the mid-2017 lows, after the European governments credibly established a mechanism to reduce the credit surplus. The carbon credits rally alongside elevated coal prices lend support to the European energy complex, and after years of intense structural change and margin erosion, the electricity business could breathe some relief.

'One dates but never marries a commodity', a veteran commodity expert used to say. We agree that commodities are a tactical rather than a strategic investment, and believe that 2018 confirmed these characteristics. Timing was crucial for a positive performance. Meanwhile, the cost of carry of the asset class has been less of a challenge for investors compared to previous years. Investing into commodities is investing into futures markets. Upward-sloping futures curves are the norm, i.e. futures prices are more expensive than spot prices, which bears costs of carry and roll losses. However, in particular the oil market's future curve was downward sloping for most of 2018, yielding some small roll gains instead of roll losses. Within the costs of carry emerged a positive contributor. Commodity index investments are mostly unlevered with a collateral invested in the money market. The collateral yield awakened from years of hibernation due to the pick-up in interest rates. In consequence, the gap between price and investment performance has been comparably narrow this year. Looking ahead, elevated interest rates are set to further partially offset the roll losses. That said, spot returns are more important than roll returns for the overall investment performance.

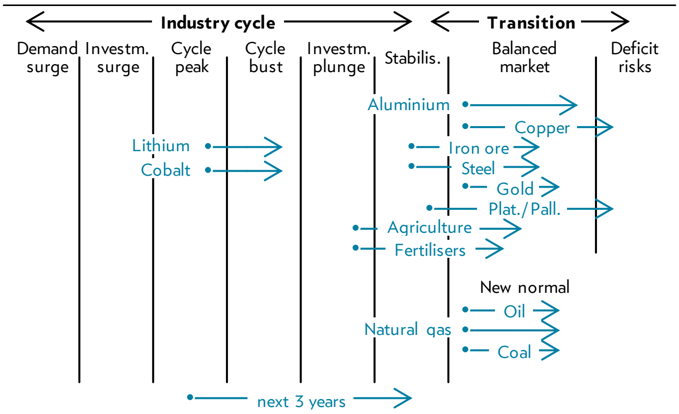
'One dates but never marries a commodity.'

The year end also means that it is time to take stock. Our big picture view was quite accurate. Commodities overall delivered flat investment returns, in addition to the macro cycle there were several mini cycles at work, the car market saw its dent, and China's slowdown was a key headwind. Also our segment views were more right than wrong. Gold bottomed by mid-year, while battery metals peaked as supply constraints eased. Our oil and industrial metals view was initially too cautious, but the prices eventually moved in the foreseen direction. Our view on oil, in particular, was off for most of the year, but at least towards year end prices undershot our below-consensus forecasts. The investment ideas in sum had a positive performance at just above 7.5%. Commodities remain a tactical bet and will offer many short-term trading opportunities also in 2019. The following paragraphs elaborate more comprehensively on the outlook for next year and the themes deserving a closer look.

Commodities: Much noise, little direction

We see no meaningful change in the big picture. Global growth slows as the United States decelerates yet remains on the fast lane. China balances its deleveraging process with nuanced economic interventions. Emerging markets are held back by unchanged soft domestic currencies. The fundamental support is insufficient to push prices either way. Demand is too soft to cause shortages but still strong enough to avoid abundance, while supply should grow solidly across most markets. Given the lack of fundamental direction, commodity prices are more exposed to market noise and sentiment swings. The yet unresolved trade dispute, potential Chinese stimulus and the Iran tensions show that there is no shortage of stories to add uncertainty to the outlook and likely bring more short-term bouncing than a lasting move of the asset class. Oil is a case in point. The story of the US demand for an Iran oil embargo, followed by the unexpected softening of the administration's stance, shifted the expectation from shortage fears to glut concerns. This mood change convinced hedge funds and other investors to swiftly herd from the bull to the bear side of the market, which amplified the price swing. Given the lack of fundamental direction, last year's theme 'soft macro cycle, strong mini cycles' remains relevant for 2019.

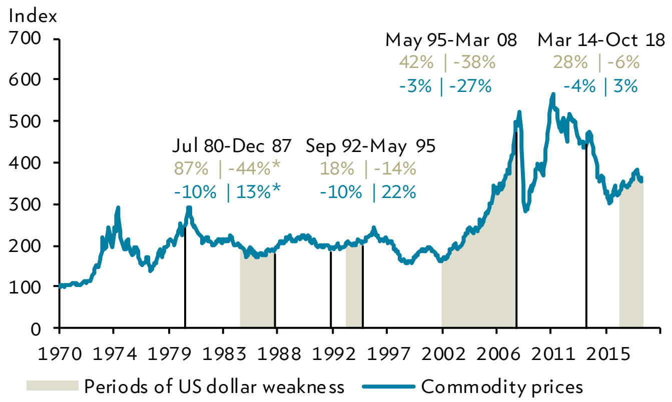
Commodity industry cycles



Source: Julius Baer

The big picture compromises both the business and the industry cycle. Commodity markets are in a transition period but the past decade's super cycle remains quite present in the investor's mind. However, return expectations for the asset class should not be benchmarked against a super cycle period. The transition is the norm rather than the exception, and lasts years, not months. The cost structures have settled and the companies have largely repositioned their operations as a result of the shockwaves and tectonic shifts between 2014 and early 2016. Though less noticed, however, there were still some tremors this year. Emerging market currencies lost almost 15% in value versus the US dollar, and in particular the cost structures in the metals segment deflated in consequence. However, there is no more exuberance and excess, unlike in 2014, following years' of an investment frenzy. The US dollar strength did not unleash the negative feedback loop between commodity currencies and commodity prices because the business is healthier today and has no fat to burn through. Our economists see a reversal of the US dollar later next year, but the projected weakness is insufficient to translate into meaningful tailwinds.

Commodities during periods of USD strength and weakness



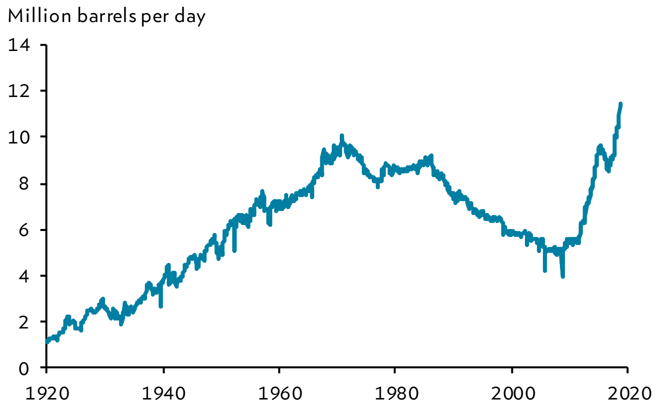
Source: Bloomberg Finance L.P., Julius Baer (Commodity index: GSCI Ultra-light Energy. * Annualised price change for USD and commodities.)

Beyond 2019 there are several questions to be asked. Most relevant is the health of the economy. The business cycle matures and the slowdown risks increase at the turn of the decade. With hindsight, global growth turned out to be more lasting, not least because of the fiscal stimulus in the United States. These clouds appearing on the distant horizon and their implications for commodity demand in part frame the environment for our 12-month forecasts. China finds itself in a multi-year transition from investment- to consumption-driven growth. China is key for commodity markets as it accounts for half of global metals use and half of global oil demand growth. Historically, these economic transitions mostly came with hiccups, but so far China has managed the challenges successfully, incrementally learning how to use its diverse toolbox. Underinvestment is a precondition for lasting upside to commodity prices. Capital expenditures in exploration and production are still below the levels seen earlier in this decade, but the activity levels including drilling and mining seem appropriate. Cost deflation and productivity gains largely explain the gap. With the possible exception of some metals (e.g. copper), we see no signs of potential underinvestment.

Oil: Geopolitical spices

The petro-nations' oil policy currently dominates the oil market's headlines. The main players are Saudi Arabia and Russia, with the former and its close allies leading the oil politics of the Organization of the Petroleum Exporting Countries (OPEC), and the latter providing credibility to the oil politics thanks to its consent. The story evolves and while last year's chapter was all about the supply deal and production quotas, this year's chapter has been mostly about boosting output to offset any shortfall of Iranian oil exports. The US demands for an Iranian oil embargo changed the narrative. With the opening and closing of the oil valves, the petro-nations are only following up on their promise to maintain market stability. Their supply management balances a somewhat erratic US policy on Iran. The waivers granted by the US administration, i.e. the exemptions offered to key Iranian oil buyers to maintain some imports, are only temporary. Forcing Iranian oil trade down to zero remains the goal and achieving it will require additional oil from the petro-nations to offset the supply shortfall. North American shale oil on its own cannot grow fast enough. Thus, we believe that today's oil politics will see further twists and turns, spicing up the oil market momentarily.

US oil production



Source: Energy Information Administration, Julius Baer

Although this noise dominates the headlines, the oil politics are less relevant for the oil price in the longer term. The past months have shown the fundamentally justified oil price range. Above USD 75 per barrel, fuel inflation dents emerging market demand growth and softens the US stance on Iran. Weak emerging market currencies have lowered the threshold at which the global oil price becomes an economic burden. Below USD 50 per barrel, the shale oil boom likely cools as investments slow. Put differently, North American shale oil determines the oil price level in the longer term. Oil politics cannot alter the new oil world order. Thanks to its abundant and cost competitive shale resource, the United States has surpassed Russia as the leading oil producer. Also for next year we see US shale oil growing closer to its potential, with today's infrastructure bottlenecks largely removed, thus meeting the lion's share of global oil demand growth. We maintain our Neutral view and see oil trading around current levels, admittedly within the above-mentioned wide range.

Of course, this new market order has its vulnerabilities. Venezuela and Libya are the key wild cards and any supply outage would tighten the market meaningfully. More importantly, any growth uptick in emerging economies and any return in risk appetite for their currencies would lift the fuel inflation threshold, and hence the oil price upside risk. Meanwhile, a faster than expected growth slowdown and the failure to coordinate supply among the petro-nations frame the bear case for oil.

Oil politics cannot alter the new oil world order.

Beyond 2019, we still see three waves of supply. First, shale output is set to grow robustly as long as prices stay above USD 50 per barrel, ultimately lifting US oil production towards 15 million barrels per day. Second, oil sands and offshore projects will continue to add supplies. Productivity gains and ongoing cost deflation support investments and production by Canada, Brazil, and the North Sea and Caspian regions. Third, some petro-nations will continue opening up to foreign investment to preserve oil revenues. Mexico's new president remains committed to the energy reform and demands positive production contributions within three years. Venezuela's political system will eventually collapse. China and Russia have positioned for the country's oil wealth, which eventually will find its way to the market. Lastly, the future of mobility looks electric, and a peak in oil demand beyond 2030 seems very likely. However, global growth remains the more immediate threat, and a peak in oil demand does not necessarily mean lower oil prices. Instead, depending on what drops faster, demand or supply, there should be periods of well-supported prices.

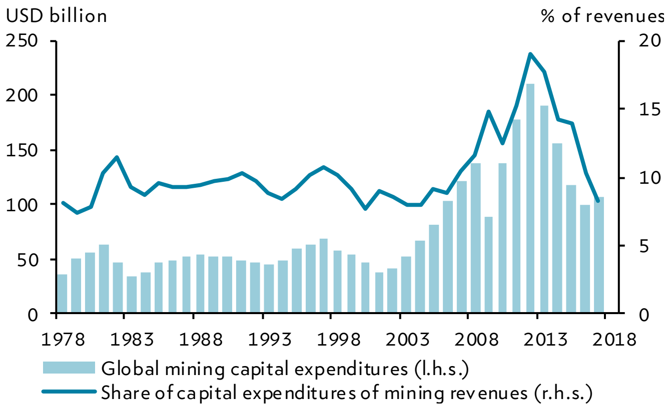
Industrial metals: More 'metals light' growth

The trade tensions between the United States and China turned out to be the dominant topic in the industrial metals markets this year. While making plenty of headlines, the fundamental impact of the tensions and the related tariffs has nevertheless been limited, constraining neither supply nor demand. The tariffs caused a diversion but no draining of trade flows. Examples include China's aluminium exports, which reached record highs despite the US tariffs, as well as China's copper scrap imports, which remained resilient despite retaliatory tariffs. That said, the tariffs had the expected inflationary impact on US prices, pushing them well above international prices and squeezing the margins of some manufacturers. Rather than the trade tensions, it was signs of a slowdown in global growth, weakness in emerging market currencies and fears of uncontrolled deleveraging in China that triggered the metals' summer sell-off, accompanied by a massive shift in market sentiment from bullish to bearish.

Heading into next year, we do not believe the focus of the metals markets will change. The trade tensions will remain a constant companion, causing more noise than giving direction, and the slowdown in global growth as well as China's deleveraging will be closely watched. While global growth should stay sound for most of next year, we believe it will be 'metals light', i.e. driven by consumption in the United States rather than construction in China. Despite a booming economy, the United States already recorded lacklustre metals demand growth this year and an acceleration does not look very likely in our view. That said, growth could become a little more metals-intensive if an infrastructure programme was introduced, but on a global scale, this would hardly matter for metals demand.

Global growth is driven by consumption rather than construction.

Mining capital expenditures



Source: Wood Mackenzie, Julius Baer

China is much more relevant, accounting for about half of global metals demand. Its construction sector alone uses more aluminium and copper than Europe or the United States, and twice as much steel as Europe, the United States and Japan combined. The outlook for next year is somewhat mixed. Infrastructure investments should pick up again, partly reflecting recent stimulus measures, while the real estate and manufacturing sectors should face a slowdown, resulting in moderate metals demand growth and supporting our view of rangebound prices. Barring major changes in the global growth backdrop, both upside and downside risks appear limited. A broad-based stimulus in reaction to an even weaker growth backdrop is the biggest upside risk in our view. That said, the Chinese government does not seem to be willing to go for such a stimulus yet, as the related re-leveraging of the economy would undo parts of past year's deleveraging success and add to concerns about China's debt load.

Further out into the future, one of the most frequently asked questions concerns a potential metals supply crunch. Some say that the combination of slowing mine production as a result of insufficient investment and growing consumption from electric vehicles should lead to a severe supply shortage over the coming years. While capital expenditures have collapsed in recent years, we believe the comparison to the levels reached earlier this decade is not valid. Those levels were inflated by the commodity super cycle and related tightness in input factors such as labour or equipment, which drove up costs. This tightness has eased significantly. Stretching the comparison period and considering the projected increase in capital expenditures, the latter seem more in line with the longer-term average, suggesting that a slowdown in mine production growth or even a contraction is less likely. Whether there will be shortages therefore very much depends on the outlook for metals consumption. While the rise of electric vehicles will provide structural tailwinds to consumption, these will be partly offset by structural headwinds related to China's transition from investment-driven to consumption-driven growth. That said, before the impact of the electric vehicles on the metal markets materialises, prices will likely feel the pressure of the slowdown in global growth. All the same, this could lead to a longer-term buying opportunity for some metals, such as copper.

Gold: A three-phased recovery

It was a remarkable year for gold. Some started to question its status as a safe haven as prices came under pressure despite mounting trade tensions. We believe this was due to different perceptions in different parts of the world. For the US investor, focused on the domestic economy and the domestic market, the perceived threat from the trade tensions was much lower than for his European or Chinese counterparts. Watching a soaring stock market and facing a rebounding US dollar as well as rising US interest rates, there was little incentive for US investors to hold gold – at least until the summer – and consequently they started to sell. While we expected headwinds from the US interest-rate cycle, we were surprised by the size and the speed of the summer sell-off, as well as by the deterioration in market sentiment.

Such sentiment cycles are a characteristic of commodity markets, amplifying trends and pushing prices above or below fundamentally justified levels. Extreme sentiment often coincides with a turning point in the trend, as either all the good news or all the bad news is priced in. This seemed to be the case in the summer, when prices traded below USD 1,200 per ounce. Speculative short positions, i.e. bets on falling prices, climbed to record levels. They were around a third higher than two or three years ago, when the case for falling gold prices was much clearer in our view. At the same time, long positions, i.e. bets on rising prices, hovered around multi-year lows. The last time the mood in the gold market was this bearish was in 2001, shortly after prices bottomed. We took this bearishness as the long-awaited buying opportunity and entered the gold market with a first position.

Real gold price and projected future performance

Source: Bloomberg Finance L.P., Julius Baer

Looking back over the past few years, we have never been this confident about gold's outlook. We see gold in the first phase of a longer-term recovery and believe that the normalisation of sentiment should provide more support to prices. Following the recent rebound, during which gold underpinned its status as a safe haven, we suggest using sentiment-related setbacks to increase positions. The subsequent second phase of a weakening dollar should start around the middle of next year, i.e. somewhat later than initially expected. The booming US economy justifies further interest-rate hikes by the Federal Reserve, supporting the dollar's interest-rate advantage and keeping it stronger for longer. Shifting expectations about US monetary policy should remain a major source of volatility for gold, but headwinds from the interest-rate cycle should soften as the year progresses. That said, sustained strength of the US dollar remains the key risk for gold also next year.

Beyond that, growth and inflation concerns should revive the Western world investors' demand for gold as a safe haven, leading the recovery into the third phase. Returning investment demand should soften gold's tight relationship with the US dollar, making it less dependent on US monetary policy and putting the recovery on a more solid footing. After spending most of the past few years in 'currency mode', we believe that gold will shift into 'commodity mode' again. We see prices trading above USD 1,400 per ounce early in the next decade.

Despite our confidence in the recovery, we caution not to compare it to the 2001-2011 bull market, which started from a lower base and was extended by rising systemic risks in financial markets. We believe these risks have been significantly reduced in recent years, as indicated for example by gold's non-reaction to the ongoing struggles of European banks as well as Europe's political woes. Put differently, we see gold moving into a cyclical bull market rather than into a structural one. It could be extended if Chinese investors return to the gold market, attracted either by the price performance or a deteriorating domestic backdrop. Such simultaneous buying in the Western world and China has hardly ever occurred historically, as China's accumulation of wealth gained traction only over the past decade. This would be a very powerful price driver, given the small size of the gold market, extending the recovery and pushing prices above fundamentally justified levels. The all-time highs should still be out of reach.

Platinum and palladium: Stuttering engines

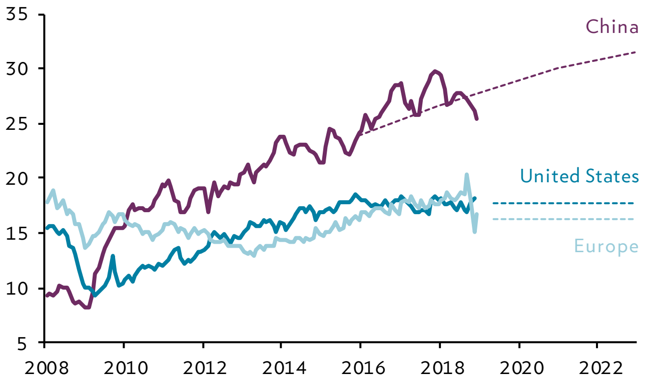
The divergence between platinum and palladium continued this year. Platinum slid to its lowest level in almost a decade, while palladium climbed to new record highs. This divergence is still about diesel versus gasoline. Platinum is mainly used in catalysts of diesel-fuelled cars, while palladium dominates in catalysts of gasoline-fuelled cars. That said, the pricing trends themselves contributed to the divergence on an absolute, but even more so on a relative, basis. The platinum/palladium price ratio is on a multi-year downtrend, which likely lured more and more trend followers and technical traders into the market.

Global car sales are past their cyclical peak.

The demand outlook for platinum and palladium is softening as global car sales are past their cyclical peak. China's weakness is the most striking as the market is on track to record its first yearly decline in three decades. Initially not more than a reality check following two years of a tax-driven boom, sales started to suffer from a crackdown on peer-to-peer car loans as well as buyers staying out of the showroom in expectation of another round of tax cuts. While such cuts would lift sentiment and sales in the short term, they would draw even more future demand into the present. More importantly, the cuts would not offset the negative impact of the crackdown on the car loans. While car sales should remain lacklustre also next year, the long-term outlook is still positive. That said, sales of conventional cars are on track to level off during the next five years, considering the strong growth of electric vehicles. Among the major car markets, the US appears most resilient. Against the backdrop of a strong economy, a tight labour market and a confident consumer, this is hardly surprising. Yet even in the US, sales are no longer growing, as the market is saturated, i.e. it is driven by cyclical rather than structural factors. The magnitude of any slowdown in car sales depends on the speed and severity of the economic downturn. Assuming the US economy falls into a mild recession early in the new decade, this suggests moderate downside risks for the car market. The European car market is very much comparable to that of the US. Following a multi-year expansion, car sales climbed back to record levels. In contrast to the US, we believe a slowdown is much more imminent, as European consumers are less confident amid signs of economic softness.

Global car sales by region and long-term trend

Million units (annualised, seasonally-adjusted)



Source: Bloomberg Finance L.P., Julius Baer

While substitution between platinum and palladium in catalysts is feasible, a broad-based shift seems unlikely despite the latter's price premium. Redesigning automotive catalysts is quite costly, as a lot of research and development is involved. A change in design also needs regulatory approval, which adds to the costs and lengthens the time until the new catalyst can be used. Economically, there is not a lot of gain for car companies. Hence, we only project a gradual, not a material, shift in catalyst loadings over the coming years, leaving palladium much more exposed to the global car markets than platinum.

Such a major shift would however be needed to make a difference for platinum, as it still suffers from oversupply. Supported by a weak rand, which lowered dollar-denominated production costs, South African mine production remained very resilient this year. Thanks to some promising projects, production should stabilise and incrementally grow over the coming years. Against this backdrop, platinum should continue trading around the cost of production, which we see well below USD 1,000 per ounce. That said, the market is about to enter the seasonally strongest period and prices could be due for a short-term rebound.

Palladium is a tight market. Yet this has been the case for the past few years, and it has not prevented prices from falling in times of softening global car markets. What is more, this tightness appears to be more acute on the investment side of the market than on the industrial side. Industrial users do not seem to be scrambling for supplies. We believe the tightness is partly due to the market's small size, its lack of transparency and insufficient liquidity. Together with the bullishness of the technical traders, this provides the potential for even higher prices. Yet we do not believe these price levels would be sustainable in the medium to longer term. We prefer staying out of the market as the relationship between risk and reward supports neither a buy nor a sell recommendation. Those currently in the market should be aware of the risks they are taking.

COMMODITIES IN A NUTSHELL

Top of mind

- The recent price swings should not distract from the fact that the asset class lacks fundamental support. Global growth is neither strong nor soft enough to provide a clear trend. The yet unresolved trade dispute, potential Chinese stimulus and the Iran tensions add uncertainty.
- Oil should settle in a price range. Petro-nation supply curbs and a brightening mood are positive in the near term, but the shale boom and softening demand growth keep a lid on prices in the longer term.
- Gold underpinned its status as a safe haven when equities sold off, but still faces headwinds from the US interest-rate cycle. With sentiment as negative as it can get, we recommend buying gold for the long term.

Talking points

- China's heavy industry heating season capacity cuts have moved back into focus. Regionally targeted rather than centrally ordered cuts reduce the risk of a shortfall of Chinese metal supplies.
- The trade truce between the US and China does not mark a turnaround. It improves market sentiment but not the fundamental outlook. The slowdown in global growth and China's deleveraging matter much more.
- Seen in isolation, trade tariffs and barriers are inflationary domestically but deflationary globally. The related reorganisation of supply chains casts uncertainty on commodity markets.

VIEWS

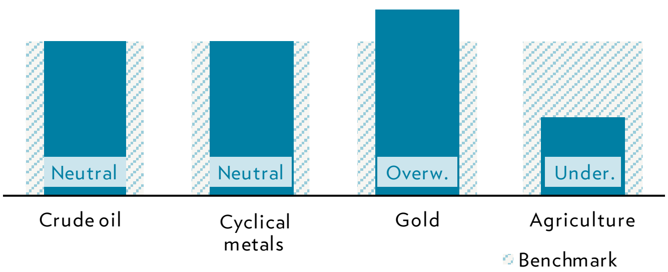
Commodity Underlying	View	Last price| Forecast 3m/12m Unit| 12m % | Uncer-
Commodities Bloomberg commodity index	●●●○○ Neutral	-|►+/-7.5% Index|medium
Crude oil Brent	●●●○○ Neutral	60.2|65 / 60 USD/bbl|►+/-15% I high
Natural gas Henry Hub	●●●○○ Neutral	4.14|3.5 / 3 USD/mbtu|►+/-15% I medium
Natural gas National Balancing Point	●●○○○ Cautious	66.1|60 / 50 GBp/th|▼-15% I medium
Cyclical metals Bloomberg commodity index	●●●○○ Neutral	-|►+/-7.5% Index|medium
Aluminium	●●●○○ Neutral	1922|1950 / 1950 USD/t|►+/-10% I medium
Copper	●●●○○ Neutral	6145|6150 / 6000 USD/t|►+/-10% I medium
Iron ore	●●○○○ Cautious	66.8|65 / 60 USD/t|▼-10% I high
Platinum	●●●○○ Neutral	804|850 / 875 USD/oz|►+/-7.5% I me-
Palladium	●●●○○ Neutral	1266|1050 / 900 USD/oz|►+/-15% I high
Metals & Mining MSCI Metals & Mining	●●●○○ Neutral	-|►+/-10% Index|medium
Gold	●●●●○ Constructive	1246|1275 / 1325 USD/oz|▲+7.5% I medium
Silver	●●●●○ Constructive	14.7|16.5 / 17.5 USD/oz|▲+15% I medium
Gold miners NYSE Arca Gold Bugs	●●●●○ Constructive	-|▲+15% Index|medium
Agriculture Bloomberg commodity index	●●●○○ Neutral	-|►+/-7.5% Index|medium

INVESTMENT IDEAS

- **Long gold**
  High risk | Long-term horizon
  Return: 4.3% (Physical, USD/ounce), since 21 Aug 2018,
  entry: 1194, target: 1325, stop: 1050
- **Long silver**
  High risk | Short-term horizon
  Return: 4.0% (Physical, USD/ounce), since 6 Sep 2018,
  entry: 14.2, target: 16.5, stop: 13.1

- **Performance:** average return is 8.1% and average holding period 5.9 months of all recommendations since 2009. Recently sold (return, entry/exit price, open/close date):
  Long US/Short Europe natural gas
  (17.1%, 2.91, 74.7/3.85,71.3, 1 Oct 2018/15 Nov 2018)
  Long natural gas (22.2%, 2.97/3.63, 1 Oct 2018/13 Nov 2018)
  Long Cushing 30 MLP (-5%, 891/849, 4 Jun 2013/25 Oct 2018)
  Short copper (12.9%, 6801/6100, 8 Sep 2017/20 Jul 2018)
  Short Brent crude oil (-11.2%, 66.5/74, 6 Feb 2018/24 Apr 2018)
  Long Morningstar MLP (-20%, 9738/7839, 4 Jun 2013/16 Mar 2018)
  Long platinum (10.1%, 890.5/980, 8 Dec 2017/7 Feb 2018)
  Short Brent crude oil (-9.5%, 56.2/61.5, 21 Sep 2017/3 Nov 2017)
  Long clean energy yieldcos (30.1%, 100/130, 3 Dec 2015/15 Sep 2017)
  Short palladium (-12.8%, 816/920, 2 May 2017/17 Aug 2017)
  Short copper (-12.7%, 5766/6500, 2 Dec 2016/16 Aug 2017)
  Short wheat (13.5%, 534/461, 14 Jul 2017/14 Aug 2017)
  Short Brent crude oil (12.4%, 56.8/49.7, 27 Jan 2017/7 May 2017)
  Short soybeans (9%, 1013/943, 31 Oct 2016/4 Apr 2017)

PORTFOLIO RECOMMENDATION



Commodity allocation

Zero strategic allocation as commodities are long-term deflationary and bear cost of carry. But tactically the asset class yields beneficial diversification, with price views, business and industry cycles guiding the allocation.

	Oil	Cycl. metals	Gold	Agricult.
Price views	►	►	▲	►
Business cycle	▲	▲	►	►
Industry cycle	▼	►	►	►

Sources: Bloomberg Finance L.P. Julius Baer (12m % views might deviate from forecast-implied up/downside due to underlying price volatility. ▲= positive, ►= neutral, ▼= negative)

IMPORTANT LEGAL INFORMATION

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IMPRINT

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APPENDIX

Analyst certification

The analysts hereby certify that views about the companies discussed in this report accurately reflect their personal view about the companies and securities. They further certify that no part of their compensation was, is, or will be directly or indirectly linked to the specific recommendations or views in this report.

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Constructive	Future price path has more upside than downside.
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Cautious	Future price path has more downside than upside.
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