



# Commodity Market Update: Growth versus supply worries

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# Commodities is on top in 2022

- The best performing themes in 2022 are **Commodities, Defence, Nuclear Power** with **Renewable energy, India** and **Cyber security** also themes that we like.
- **New geopolitical situation** with the world splitting into two parts with everything evolving around self-reliance and re-arming.
- **4-5% inflation** over the next decade is not outrageous and price controls / fiscal will make things worse.
- **Re-shoring** (deglobalization) and **re-wiring** the grid (energy transition) are two of the biggest themes emerging which will push up prices **(inflationary)**
- Developments that are **commodity intensive, capital intensive and interest rate insensitive**

## Saxo equity themes performance overview

Sorted on year-to-date return (updated as of 21 October 2022)

Theme	1D	1W	MTD	YTD	1Y	5Y
Commodities	0.7	3.7	7.5	13.8	13.5	90.6
Defence	0.6	7.1	10.2	8.7	2.5	35.0
Nuclear power	1.5	4.5	1.9	-4.9	-14.3	153.5
India (GDRs)	0.9	2.4	0.2	-10.3	-15.9	62.1
Renewable energy	-0.8	-0.4	-6.3	-14.6	-16.9	379.8
Logistics	0.6	1.1	2.4	-17.0	-14.4	96.5
Travel	0.8	4.3	7.6	-22.1	-26.5	-16.1
MSCI World (USD)	1.4	3.6	3.6	-22.8	-20.6	34.0
Mega Caps	1.7	3.6	1.6	-26.4	-23.2	113.0
MSCI EM (USD)	0.0	0.2	-1.2	-28.0	-31.2	-6.9
Cyber security	0.7	8.0	1.4	-28.2	-29.8	158.6
Financial trading	0.8	3.1	1.3	-28.9	-29.5	99.4
Women in leadership	-0.9	1.1	0.0	-29.4	-33.0	96.2
Energy storage	0.8	0.5	-3.9	-33.4	-37.2	360.7
China's little giants	0.1	0.1	3.6	-35.2	-29.2	127.6
Payments	1.0	4.3	3.6	-36.1	-50.8	75.5
China consumer & technology	-1.0	-3.1	-9.1	-37.2	-41.4	86.1
Semiconductors	2.4	5.4	1.2	-37.8	-28.1	135.7
Gaming	-0.3	0.7	-2.9	-38.4	-42.1	80.5
NextGen medicine	2.2	-0.4	-3.3	-39.6	-47.4	260.8
Green transformation	0.3	0.6	-9.5	-48.7	-52.9	222.6
Bubble stocks	0.7	3.2	-5.6	-50.5	-61.8	297.4
E-commerce	-0.7	2.8	-2.8	-62.9	-71.1	31.8

Source: Bloomberg and Saxo Group



# Saxo's Commodities basket

Name	Mkt Cap (USD mn.)	Sales growth (%)	EBIT margin (%)	Diff to PT (%)	5yr return
Exxon Mobil Corp	388,424	64.1	12.2	13.1	51.9
Shell PLC	192,978	61.4	14.9	20.9	38.7
BHP Group Ltd	133,378	9.9	52.4	5.8	196.4
PetroChina Co Ltd	128,270	37.7	7.0	55.6	-6.1
ConocoPhillips	143,687	123.4	34.0	10.1	167.5
Equinor ASA	109,465	125.4	46.2	9.2	176.8
Petroleo Brasileiro SA	84,231	65.9	49.7	22.6	134.0
Rio Tinto Ltd	91,993	3.2	40.8	13.5	157.3
China Shenhua Energy Co Ltd	84,376	31.1	27.1	25.9	106.4
Glencore PLC	72,808	47.9	8.5	23.3	73.1
Canadian Natural Resources Ltd	60,570	72.8	40.5	28.2	120.4
Archer-Daniels-Midland Co	48,954	25.9	4.0	10.0	132.9
Southern Copper Corp	36,992	6.7	50.3	7.6	52.6
Newmont Corp	35,136	-1.0	6.3	35.6	36.2
Wilmar International Ltd	17,579	26.1	4.4	40.6	44.7
Mosaic Co/The	18,945	66.6	27.8	24.0	172.8
Bunge Ltd	13,861	26.4	3.4	36.9	49.4
Norsk Hydro ASA	12,821	57.1	16.8	21.1	32.0
Mowi ASA	9,484	13.2	19.5	36.4	47.5
Svenska Cellulosa AB SCA	10,019	15.9	46.2	7.4	148.4
<b>Aggregate / median</b>	<b>1,693,970</b>	<b>34.4</b>	<b>23.3</b>	<b>22.6</b>	<b>106.4</b>

Source: Bloomberg and Saxo Group



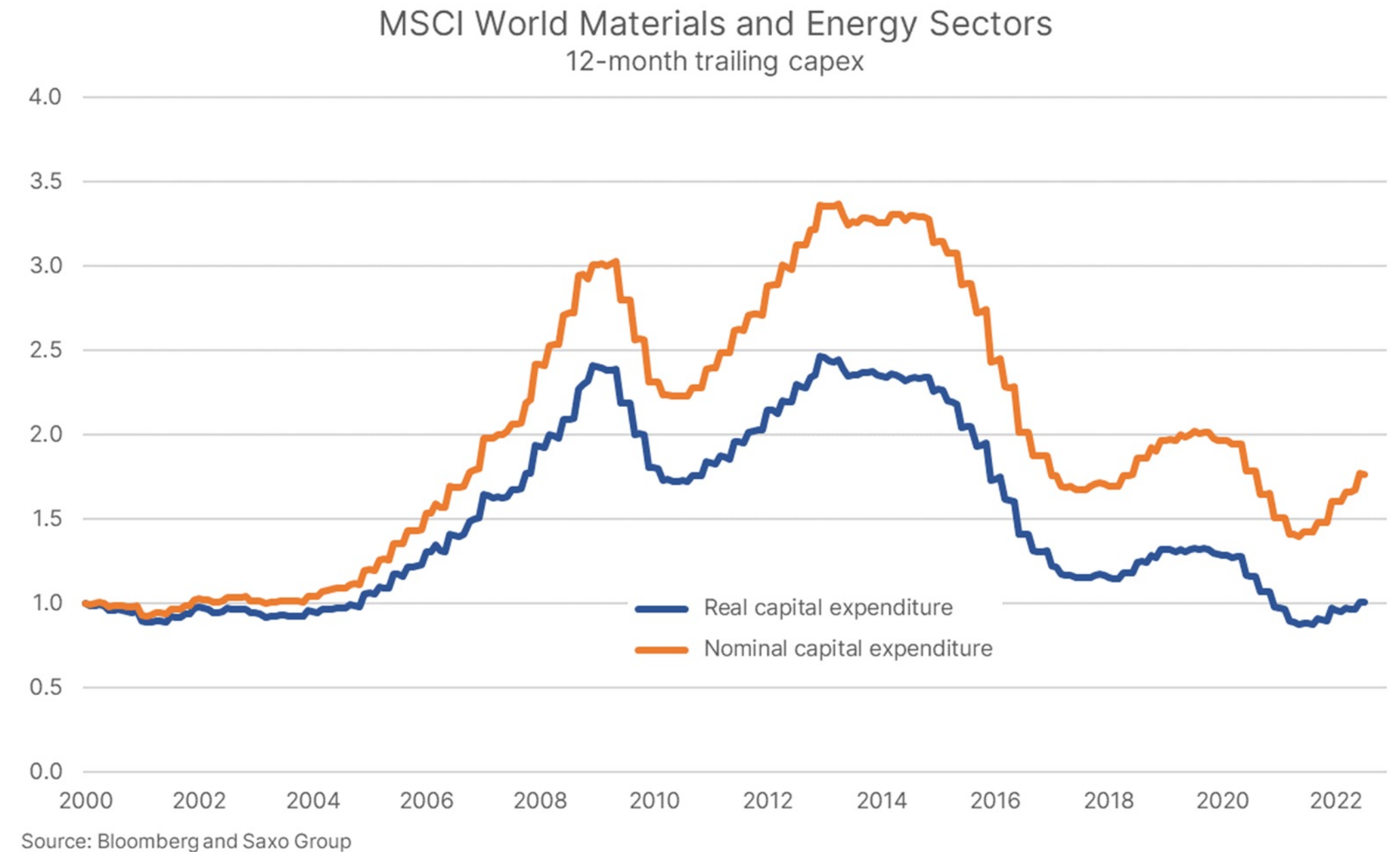
# Lack of investments, decarbonization, electrification and urbanization to keep supply tight and inflation high

## What drives a commodity bull cycle?

- Rising physical demand and tightening supply
- Increased demand for real assets from underweight investors
- A weaker dollar
- Heightened inflation risks
- ESG, investor and lending restrictions

## Duration determined by:

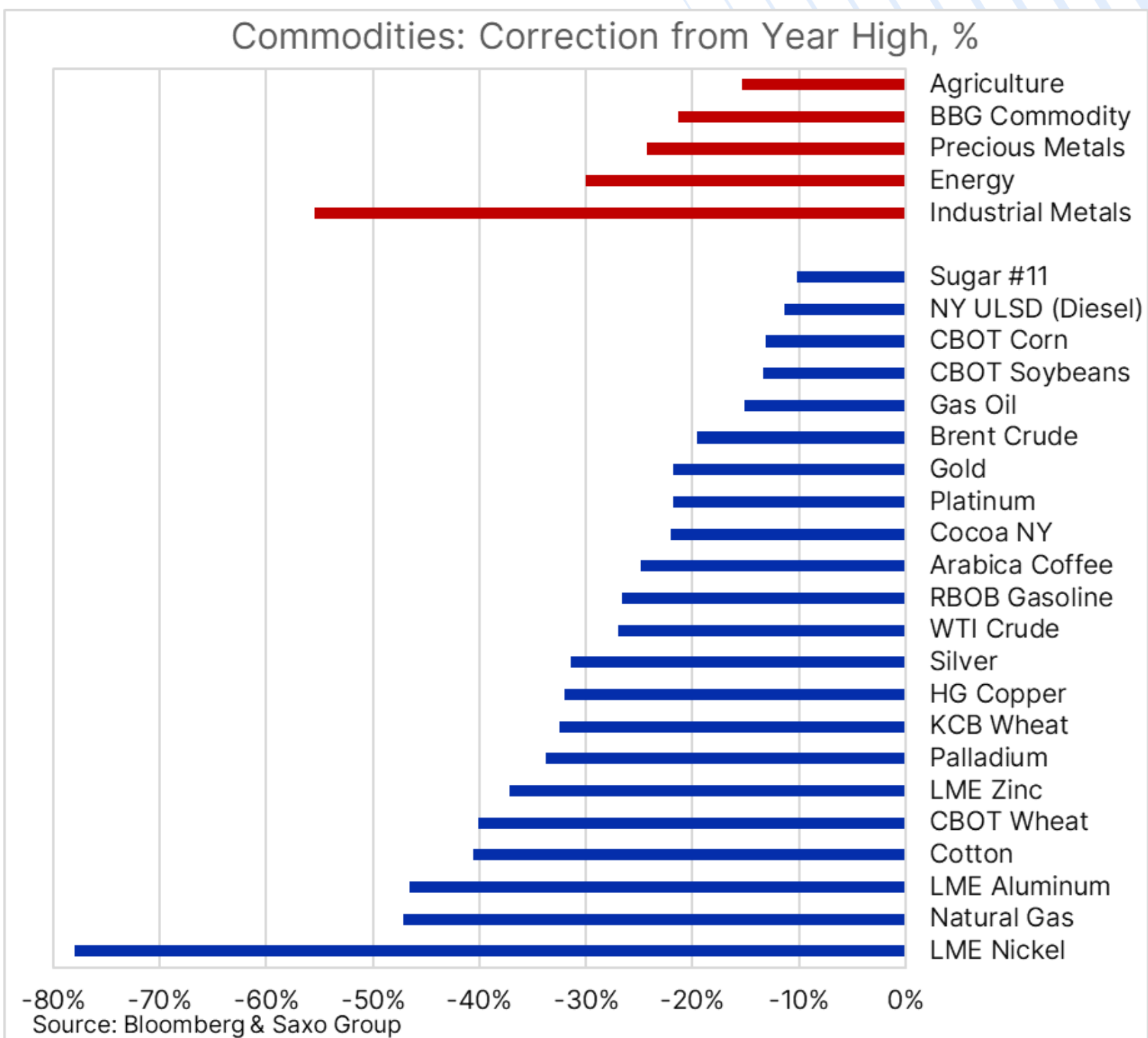
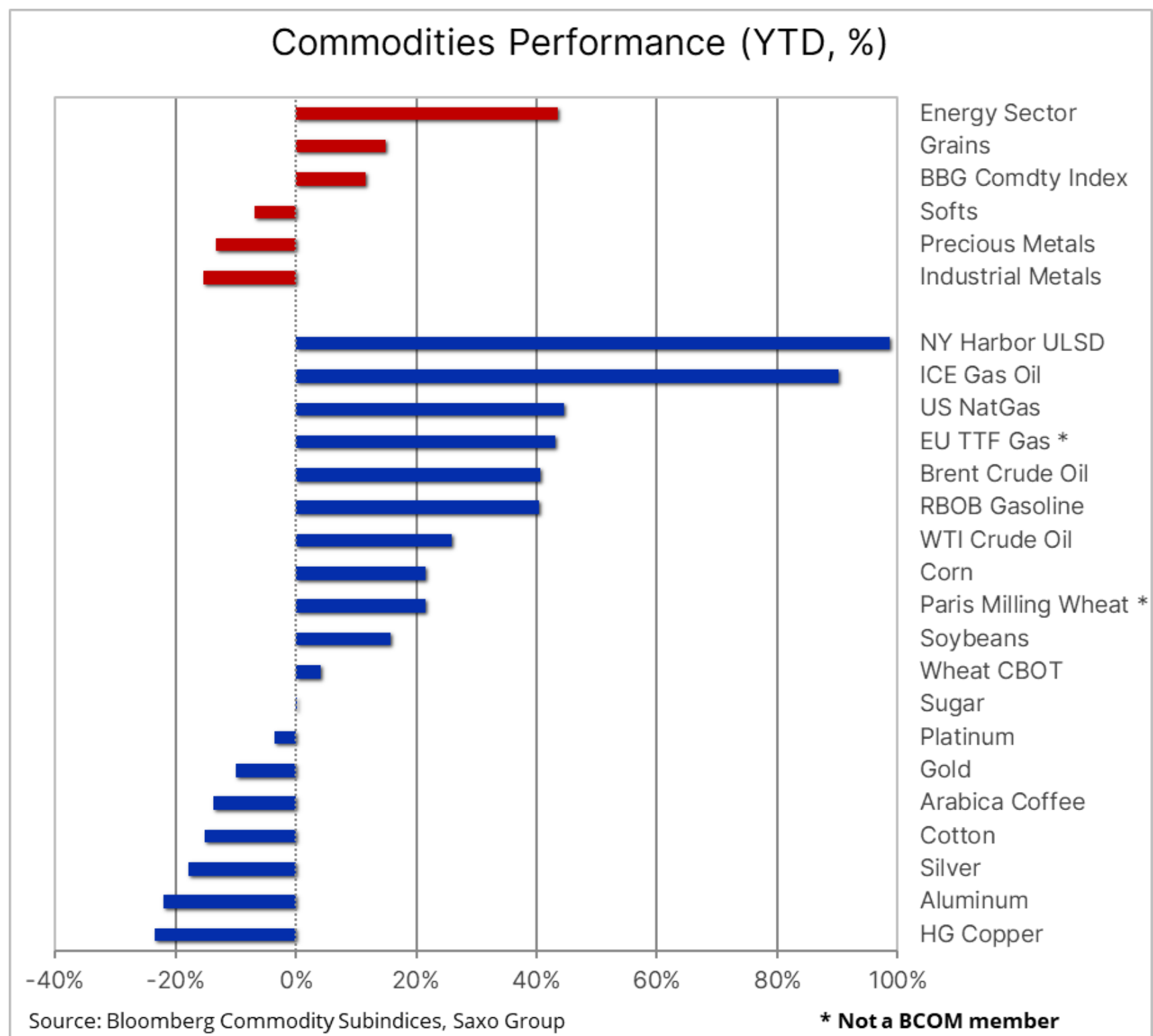
- Prolonged period of mismatch between rising demand and inelastic supply
- Supply/demand imbalances take years to correct
- High start-up capex for new projects and falling ore grades





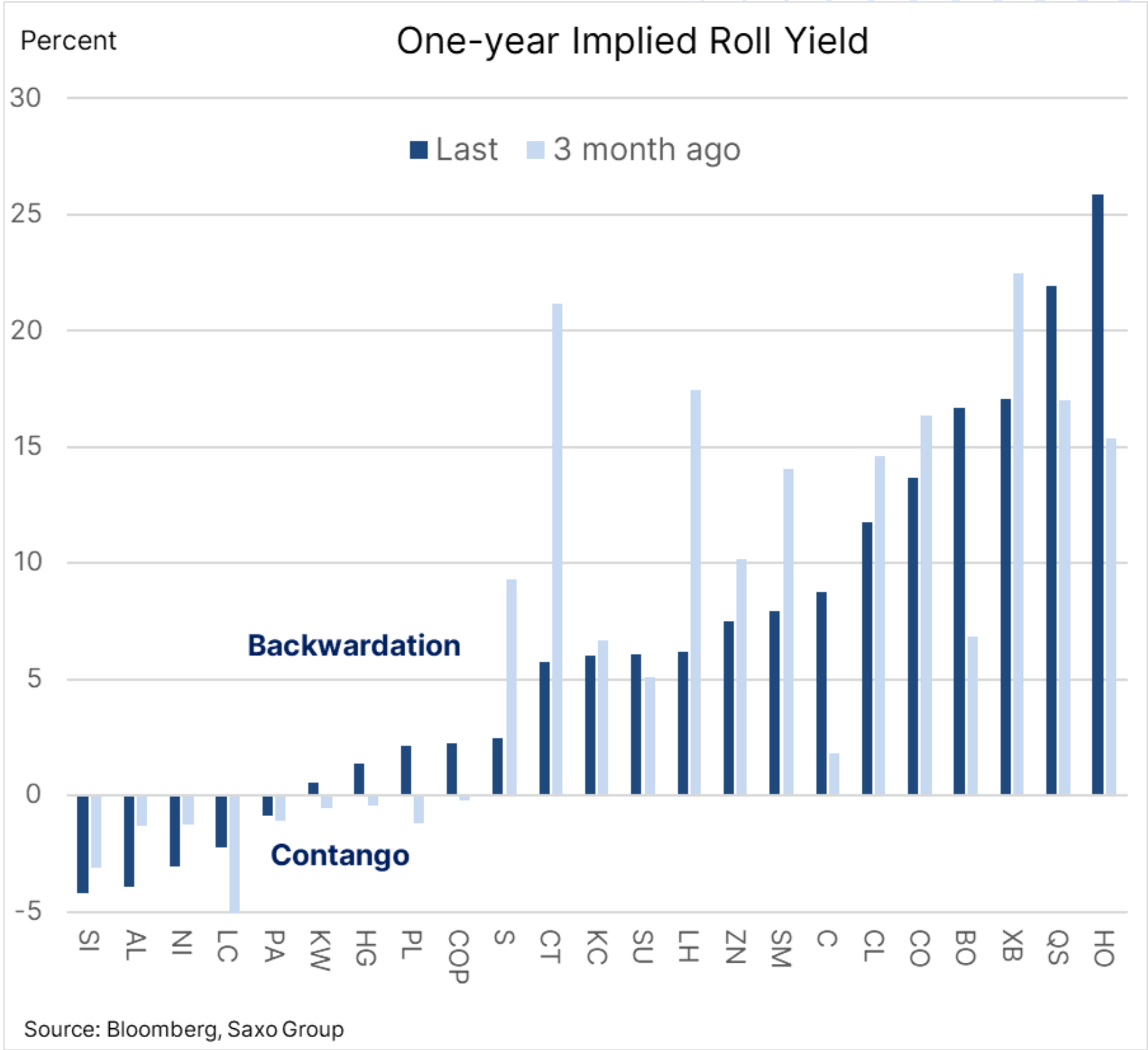
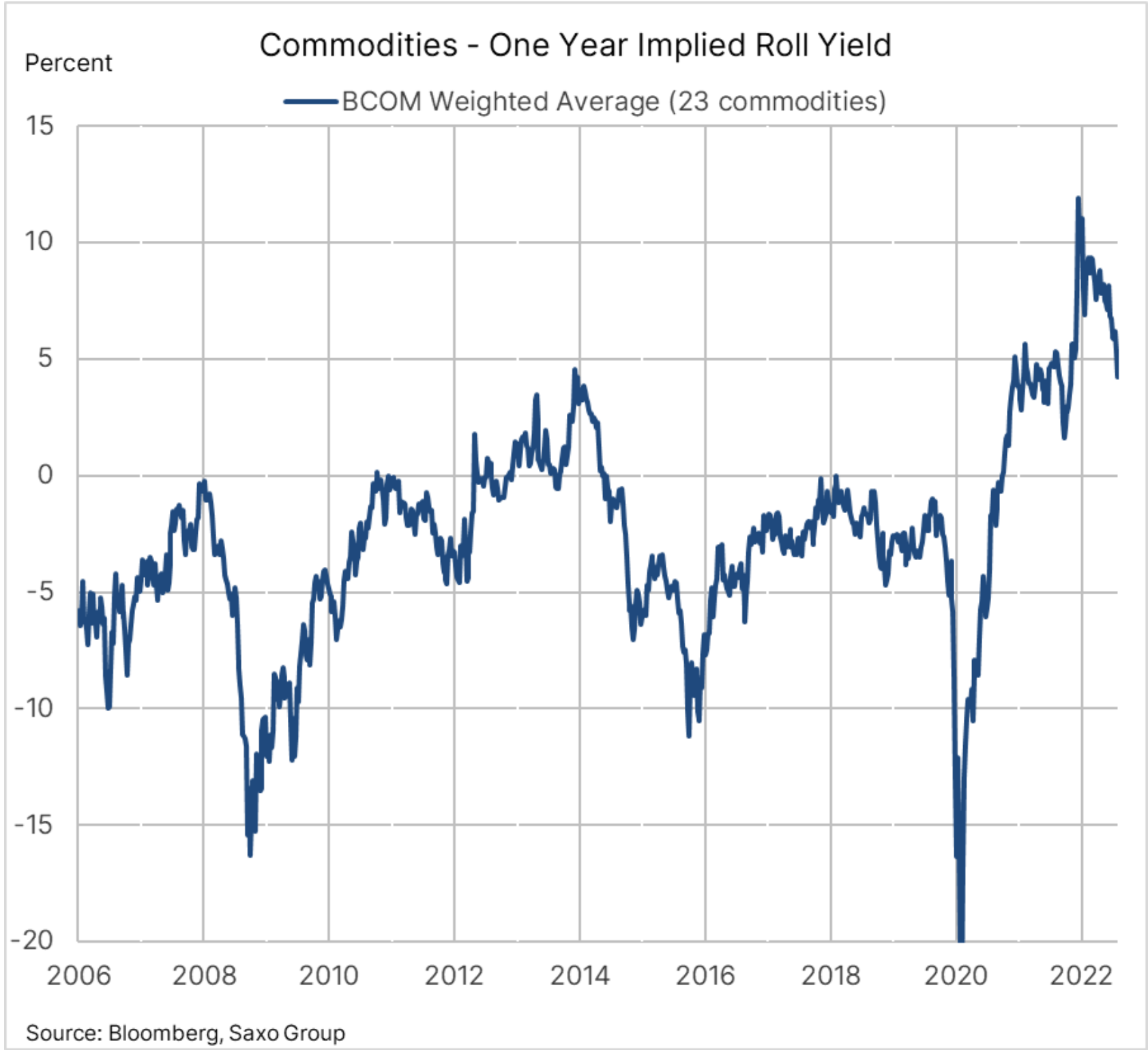
# A strong year for commodities despite recent setbacks

Growth and demand concerns offset by tight supply



# Most commodities remain in tight supply

Led by refined fuel products



# From contango to backwardation

A key source for understanding the overall state of any given market



Source: Bloomberg



Source: Bloomberg



# What are the Commitment of Traders Reports (COT)

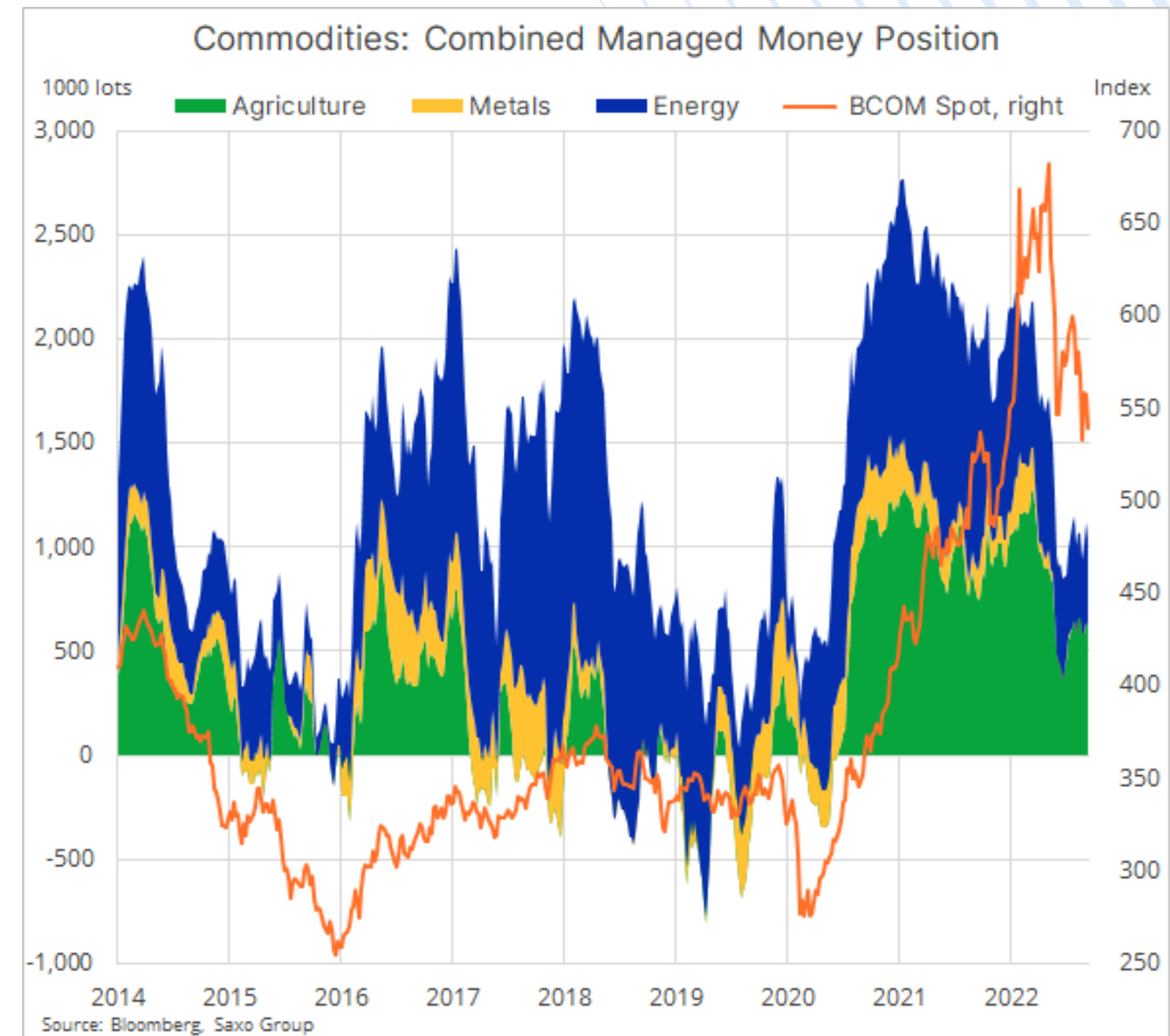
Special focus on hedge funds given their quick response to changes in the technical and/or fundamental outlook

The reports break down the **open interest** in futures markets into different groups of users depending on the asset class.

Commodities: Producer/Merchant/Processor/User, Swap dealers, **Managed Money** and other

The reason why we focus primarily on the behavior of the highlighted group is:

- **Tight stops and no underlying exposure**
- **Most reactive to changes** in fundamental or technical price developments
- Provides views about **major trends** and **reversal**



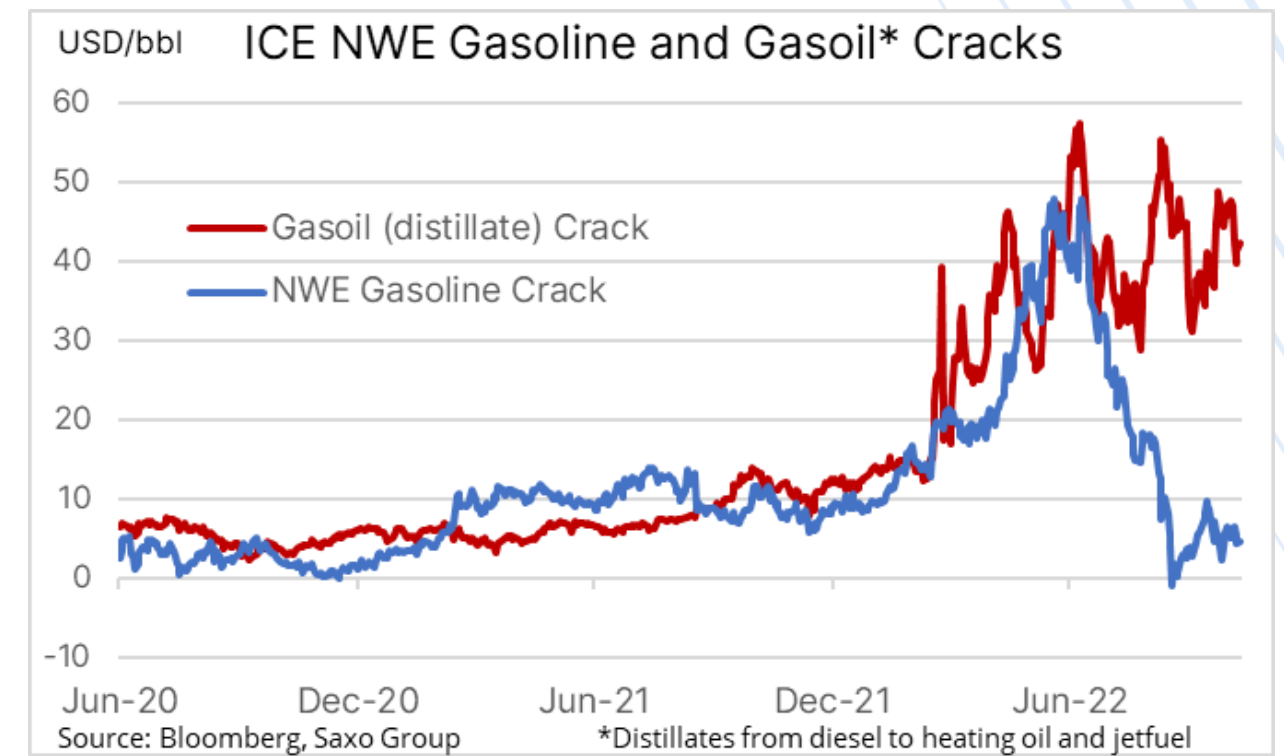
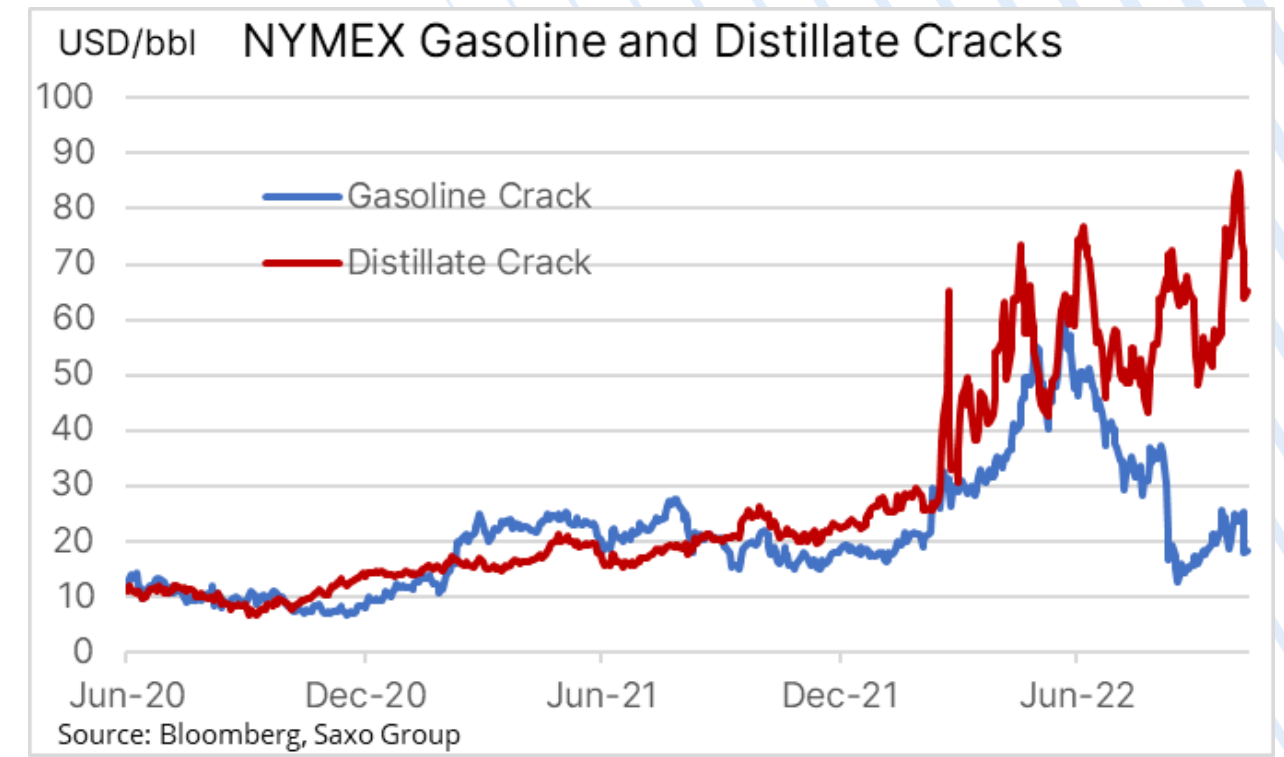
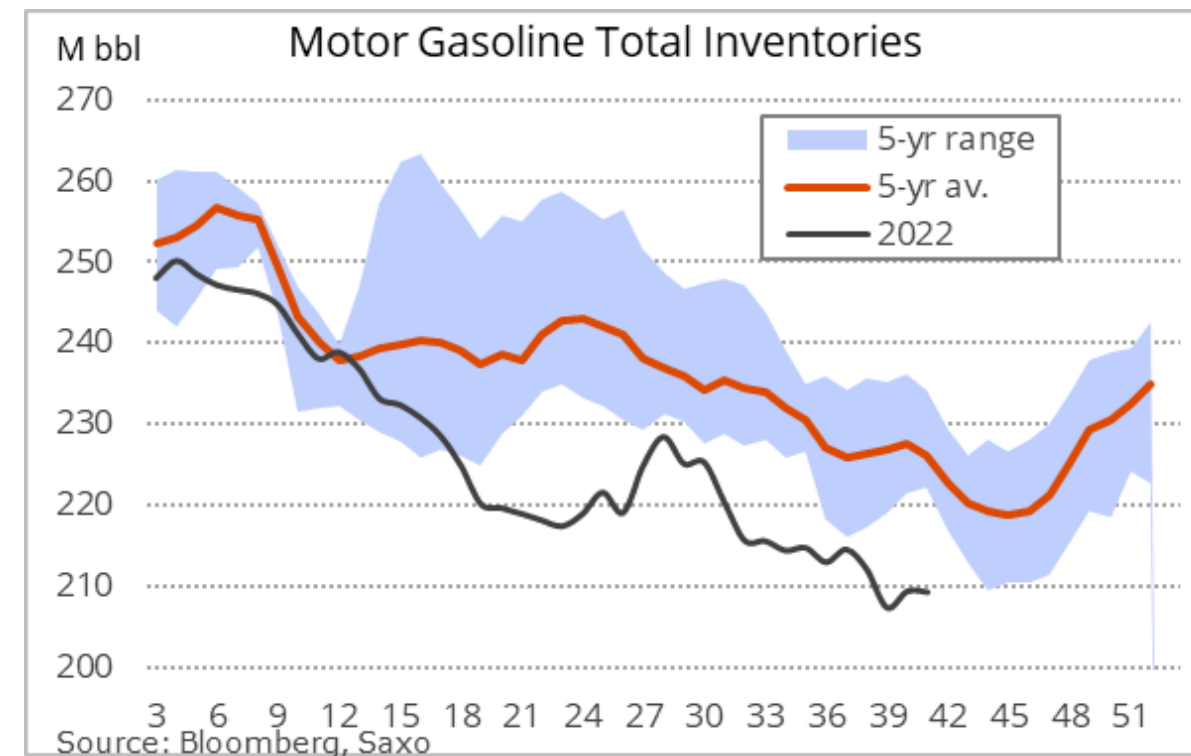
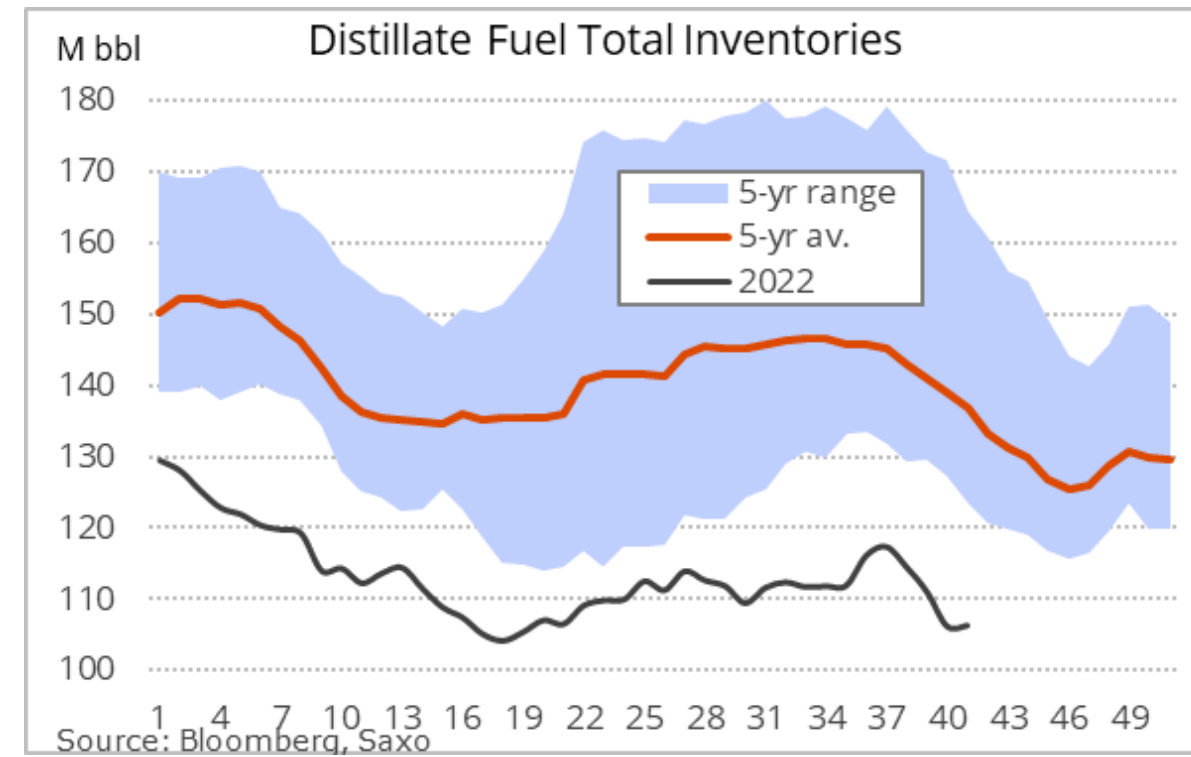
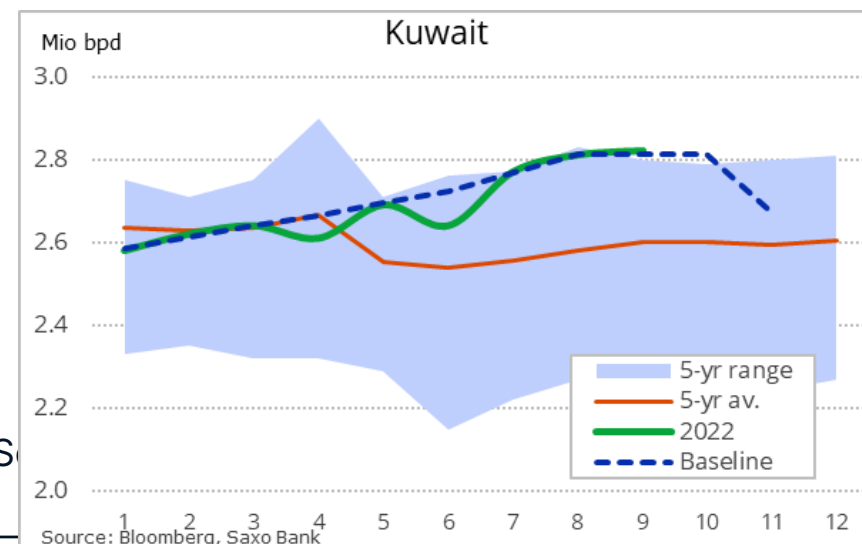
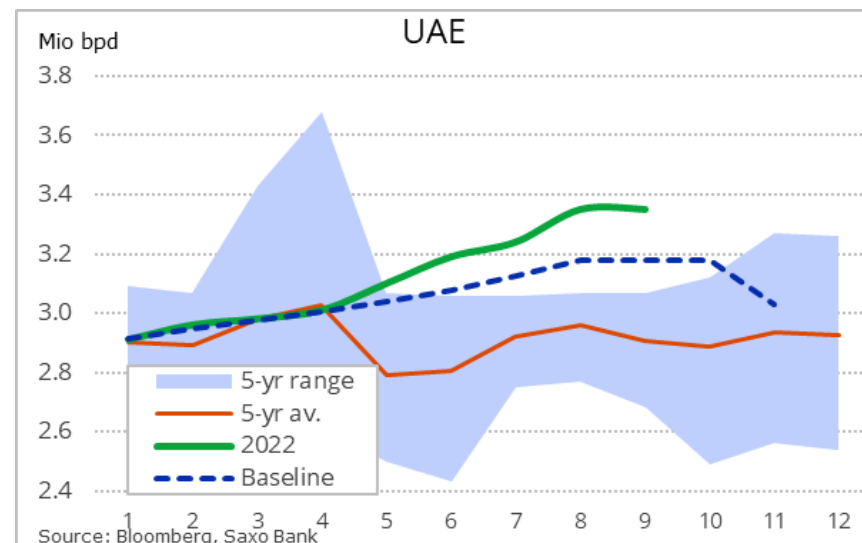
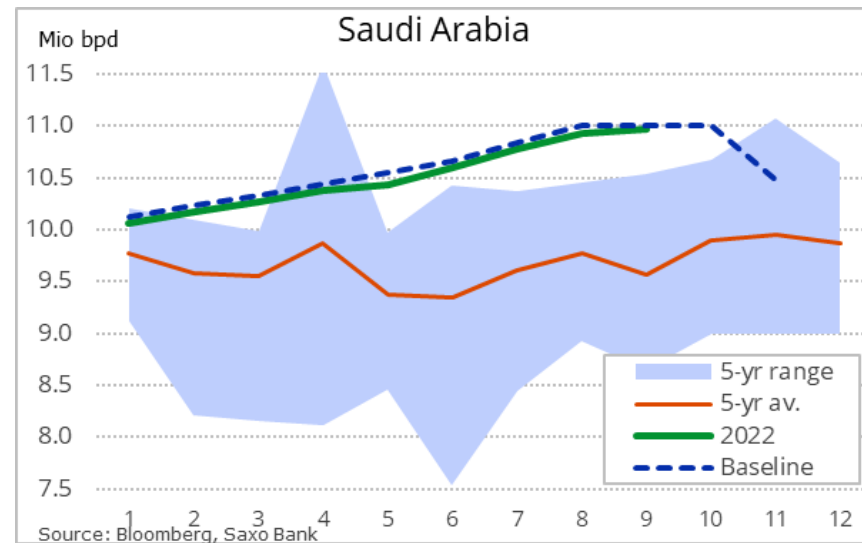
# Focus on net positions versus recent history

Week to Tuesday: 18-Oct-22	Leveraged Fund Positions							Trend	One-year Position Extremes			Price change Pct	Long / short ratio	Forward Curve		Notional Value	
	Long	Change	Short	Change	Net	Change	Change Pct		High	Low	Relative to max			1st-2nd	1 Year	Change Bn. USD	Total Bn. USD
WTI Crude (CME)	212,701	-19,458	36,651	13,158	176,050	-32,616	-16%		342,685	153,403	51%	-6.7%	5.8	1.3%	11.8%	-2.7	14.4
Brent Crude (ICE)	214,300	-22,437	37,423	1,849	176,877	-24,286	-12%		259,526	124,454	68%	-4.5%	5.7	2.4%	13.7%	-2.2	15.9
Gas Oil (ICE)	76,237	3,090	11,080	18	65,157	3,072	5%		152,276	43,811	43%	5.2%	6.9	6.5%	21.9%	0.3	7.2
RBOB Gasoline	54,963	-2,361	4,865	366	50,098	-2,727	-5%		81,140	45,486	62%	-2.9%	11.3	6.8%	17.0%	-0.3	5.5
NY Harbor ULSD	36,366	2,638	7,915	-1,850	28,451	4,488	19%		44,526	8,809	64%	1.6%	4.6	7.0%	25.9%	0.8	4.8
NatGas (4 contr.)	145,035	-1,135	227,553	3,182	-82,518	-4,317	6%		201,000	-82,518	-100%	-12.9%	0.6	-12.0%	-1.9%	-0.2	-4.7
Gold	80,501	-6,175	101,134	15,748	-20,633	-21,923	-1699%		175,694	-41,300	-50%	-1.8%	0.8	-0.8%	-4.7%	-3.6	-3.4
Silver	36,457	2,444	44,056	11,166	-7,599	-8,722	-777%		49,248	-24,632	-31%	-4.6%	0.8	-0.8%	-4.2%	-0.8	-0.7
Platinum	17,775	2,735	14,547	192	3,228	2,543	371%		26,076	-20,296	12%	0.9%	1.2	0.4%	2.1%	0.1	0.1
Palladium	1,698	-252	1,907	426	-209	-678	-145%		895	-3,209	-7%	-6.3%	0.9	-0.8%	-0.9%	-0.1	-0.0
HG Copper	39,775	-2,510	45,269	3,814	-5,494	-6,324	-762%		47,596	-26,497	-21%	-2.9%	0.9	0.7%	2.2%	-0.5	-0.5
Soybeans	87,049	250	20,187	-874	66,862	1,124	2%		180,334	12,137	37%	-0.4%	4.3	-0.7%	2.5%	0.1	4.6
Soybean Meal	85,148	1,492	14,351	1,084	70,797	408	1%		103,159	-15,141	69%	-1.0%	5.9	1.8%	7.9%	0.0	2.8
Soybean Oil	83,172	12,312	8,198	-1,678	74,974	13,990	23%		97,683	14,908	77%	5.0%	10.1	3.5%	16.7%	0.6	3.1
Corn	293,795	-6,925	39,534	6,191	254,261	-13,116	-5%		384,101	120,788	66%	-1.7%	7.4	-0.9%	8.7%	-0.4	8.7
Wheat (CBOT)	52,790	-1,413	74,841	1,136	-22,051	-2,549	13%		26,586	-34,658	-64%	-5.7%	0.7	-2.3%	-4.4%	-0.1	-0.9
Wheat (KCBT)	35,801	-411	9,531	-173	26,270	-238	-1%		65,609	7,520	40%	-4.7%	3.8	0.3%	0.5%	-0.0	1.2
Sugar	160,923	27,550	53,855	-523	107,068	28,073	36%		237,757	-22,228	45%	-0.4%	3.0	4.9%	6.1%	0.6	2.2
Cocoa	58,175	-2,378	80,067	2,794	-21,892	-5,172	31%		42,254	-44,435	-49%	-1.8%	0.7	-0.3%		-0.1	-0.5
Coffee	28,917	-11,944	16,845	9,945	12,072	-21,889	-64%		60,133	12,072	20%	-10.4%	1.7	2.7%	6.0%	-1.6	0.9
Cotton	41,928	-2,767	19,896	2,045	22,032	-4,812	-18%		83,793	22,032	26%	-7.4%	2.1	0.9%	5.8%	-0.2	0.9
Live Cattle	61,245	-3,776	23,946	-6,013	37,299	2,237	6%		86,061	12,085	43%	0.8%	2.6	-2.0%	-2.3%	0.1	2.2
Feeder Cattle	8,213	574	17,231	-204	-9,018	778	-8%		7,326	-9,796	-92%	1.4%	0.5	-1.8%		0.1	-0.8
Lean Hogs	58,452	6,624	22,665	-8,139	35,787	14,763	70%		79,242	10,563	45%	8.7%	2.6	-1.6%	6.7%	0.5	1.2
Total	1,971,416		933,547		1,037,869	-77,893	-7%		2,233,521	848,638	46%					-9.8	64.4

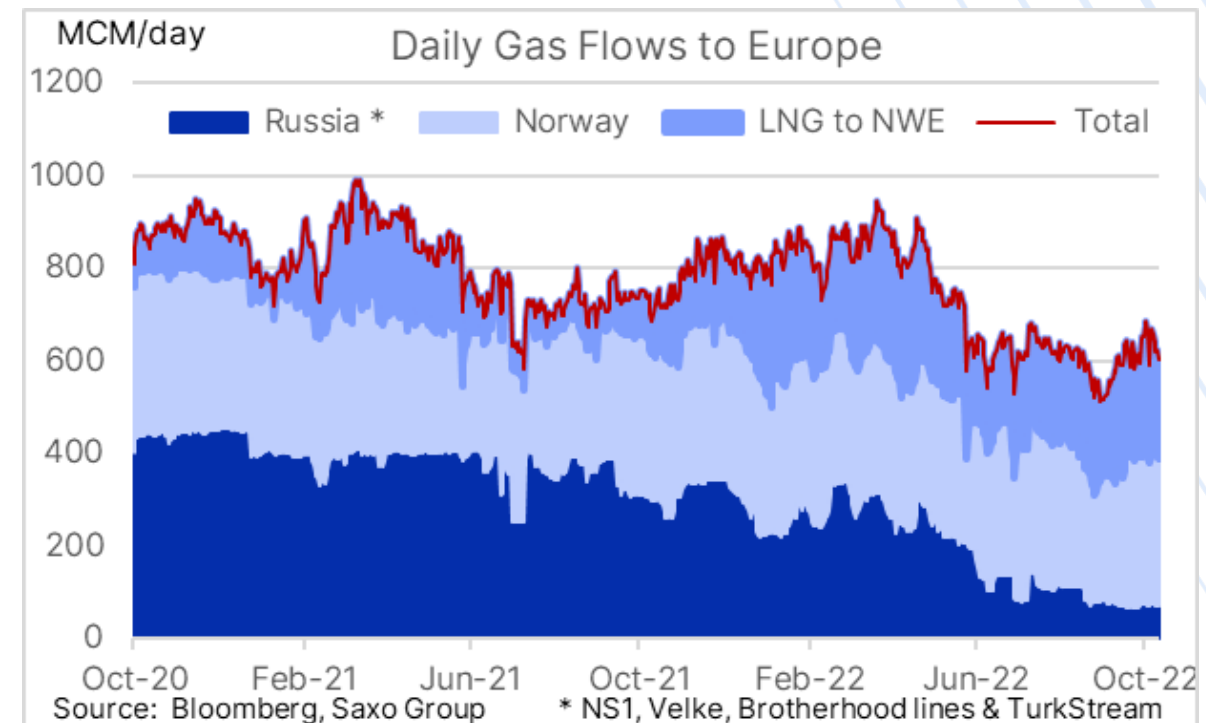
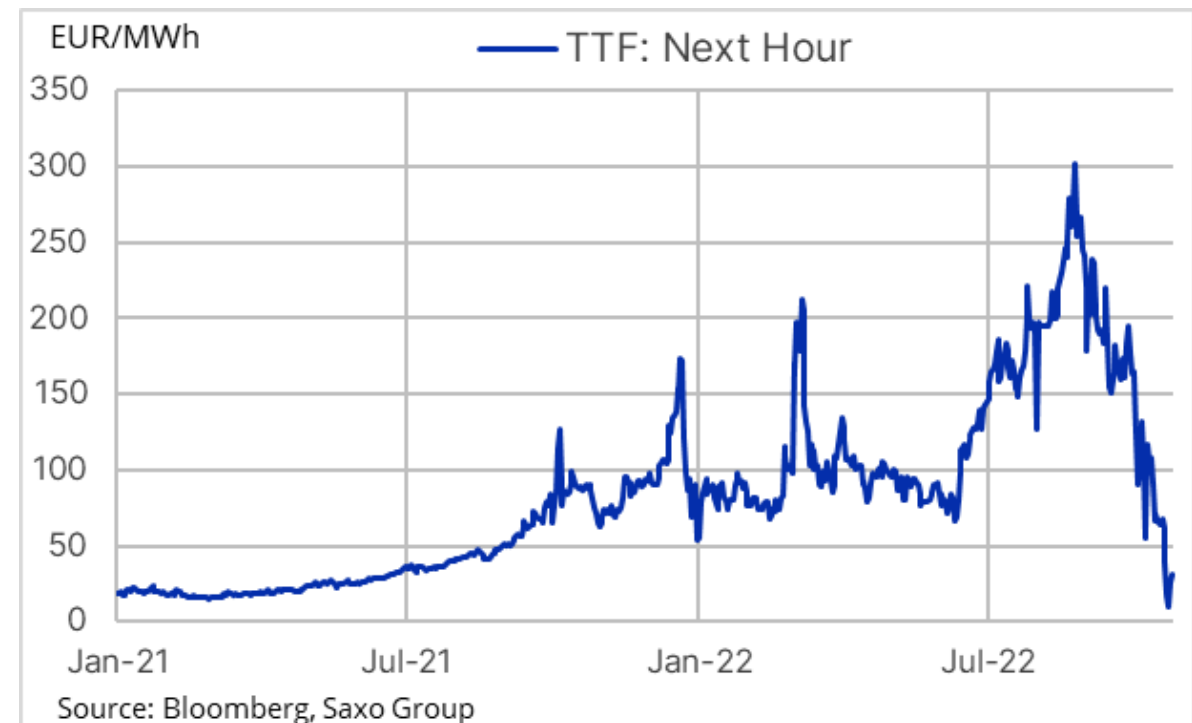
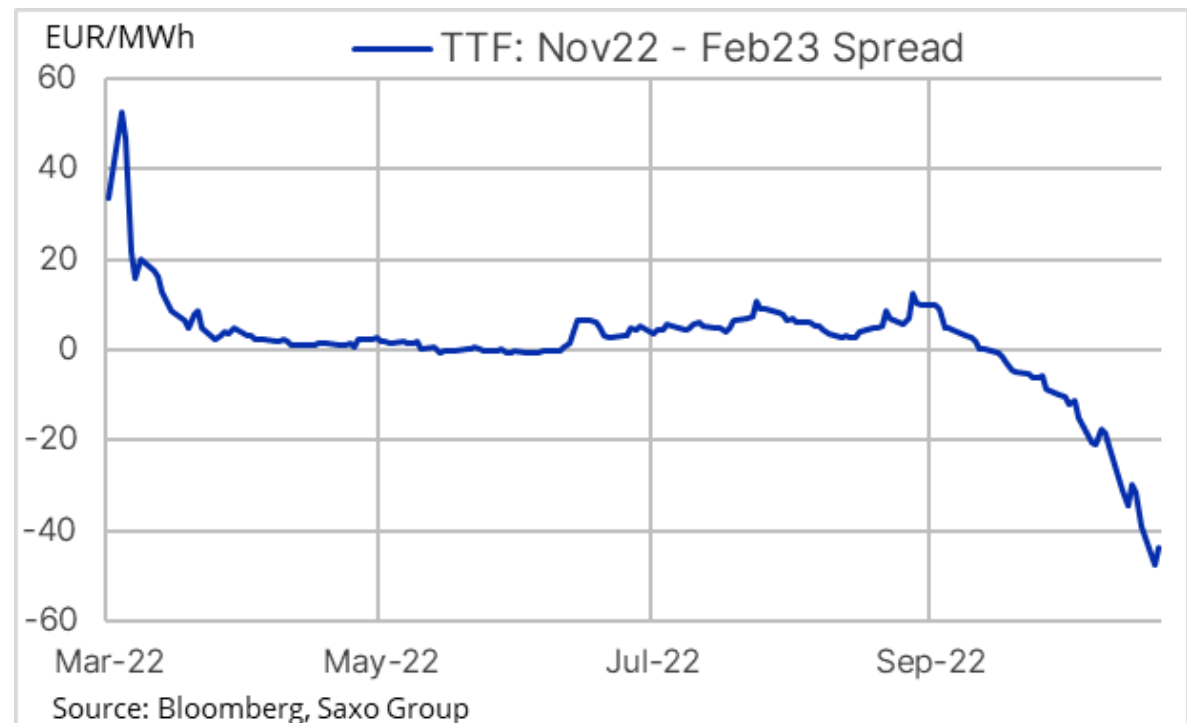
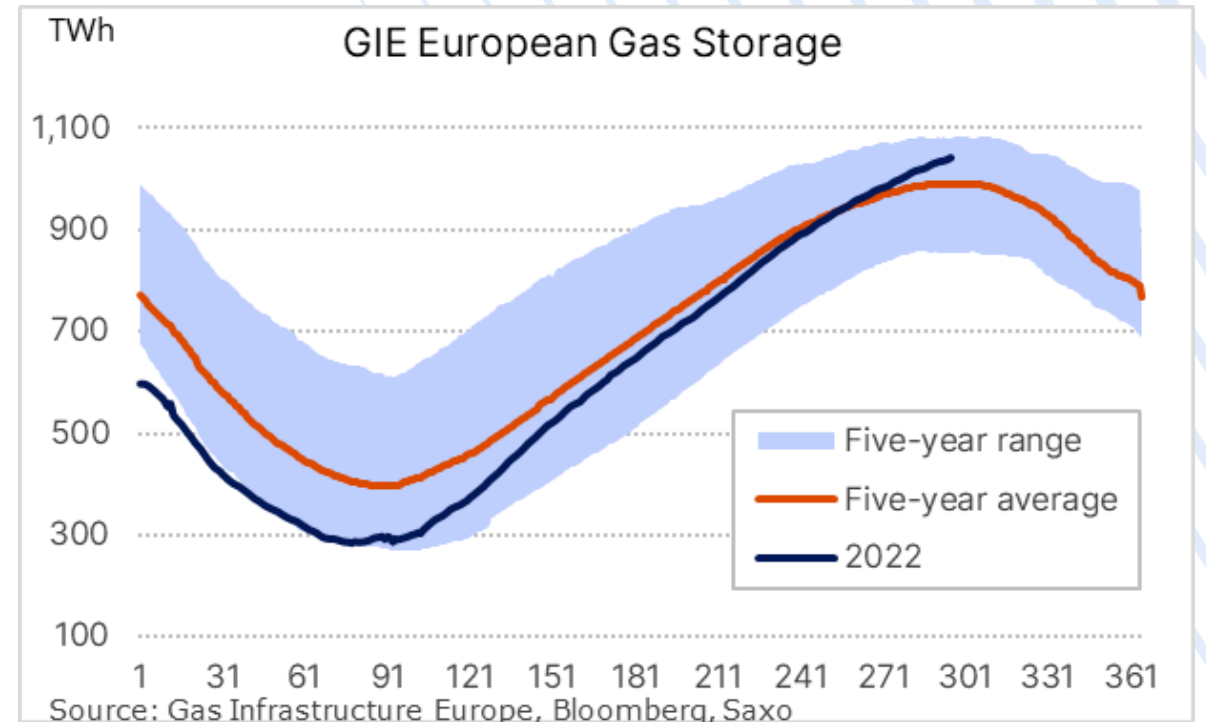
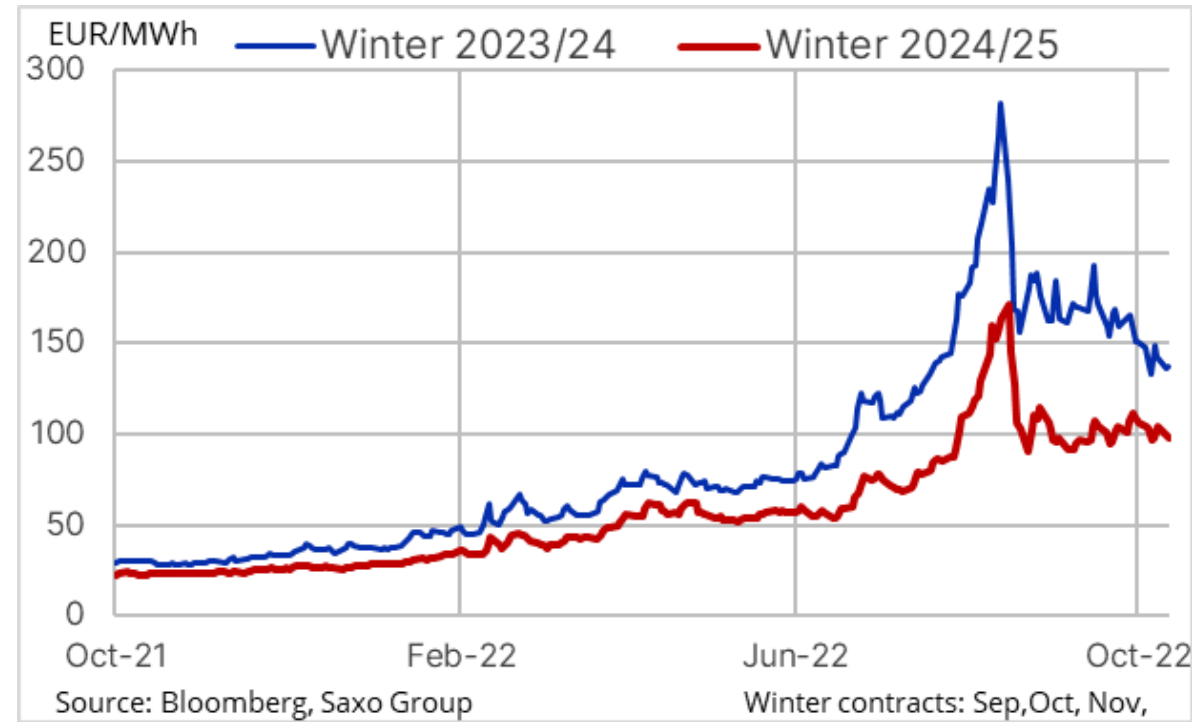
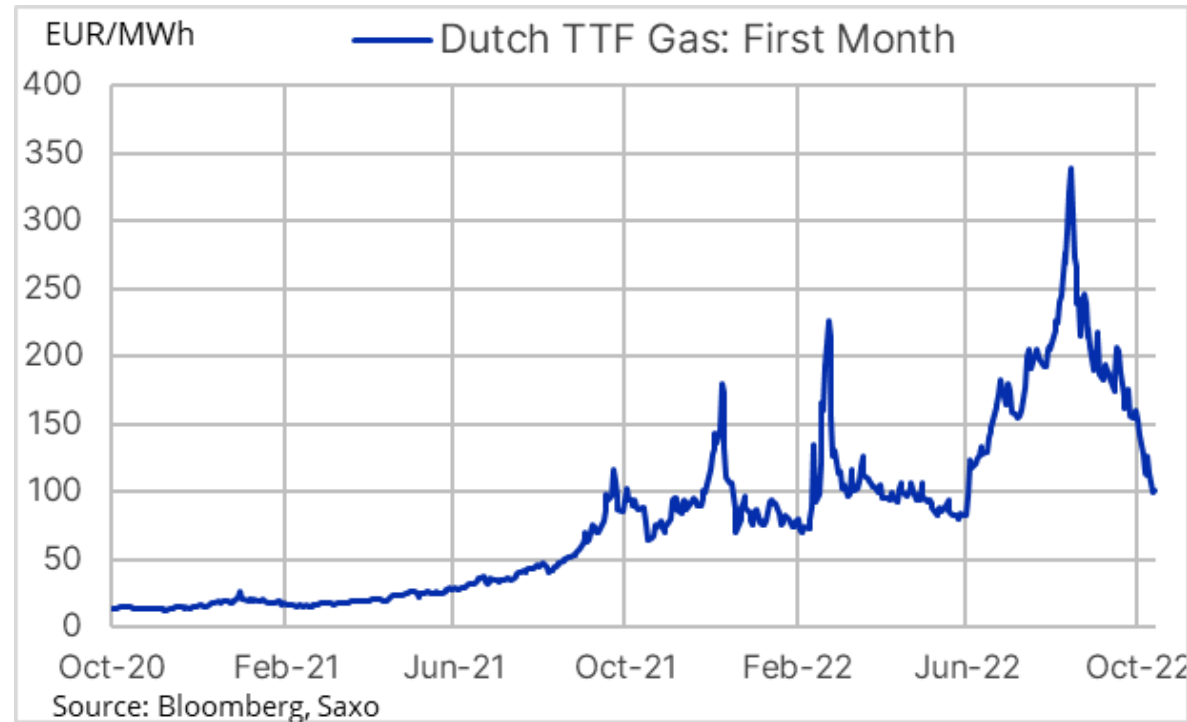
Source: CFTC, ICE, Bloomberg and Saxo Group



# OPEC+ cuts adding to tightness in distillate fuel market



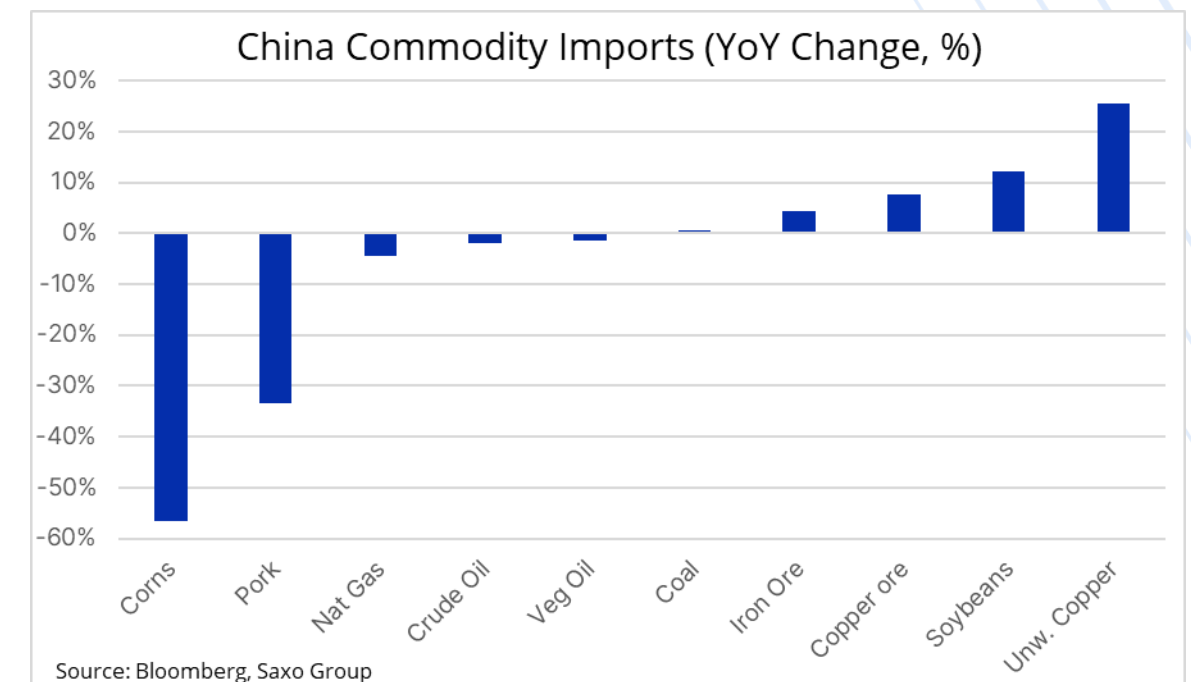
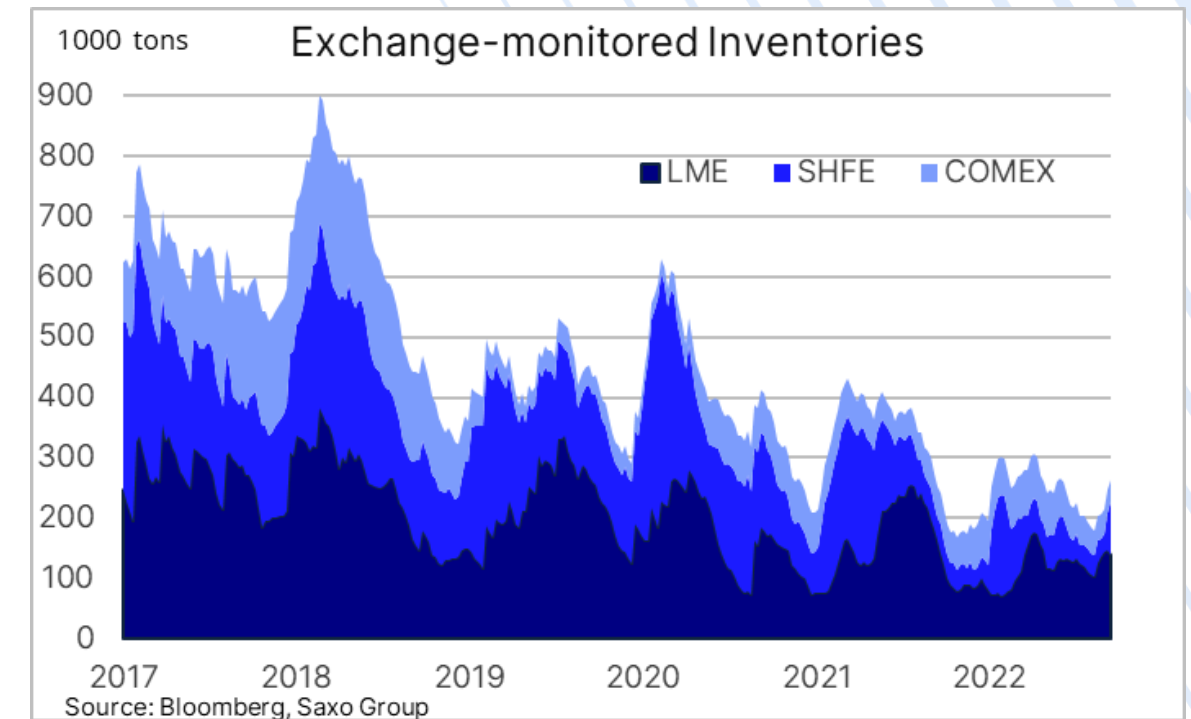
# EU Gas: Mild autumn, LNG and demand destruction





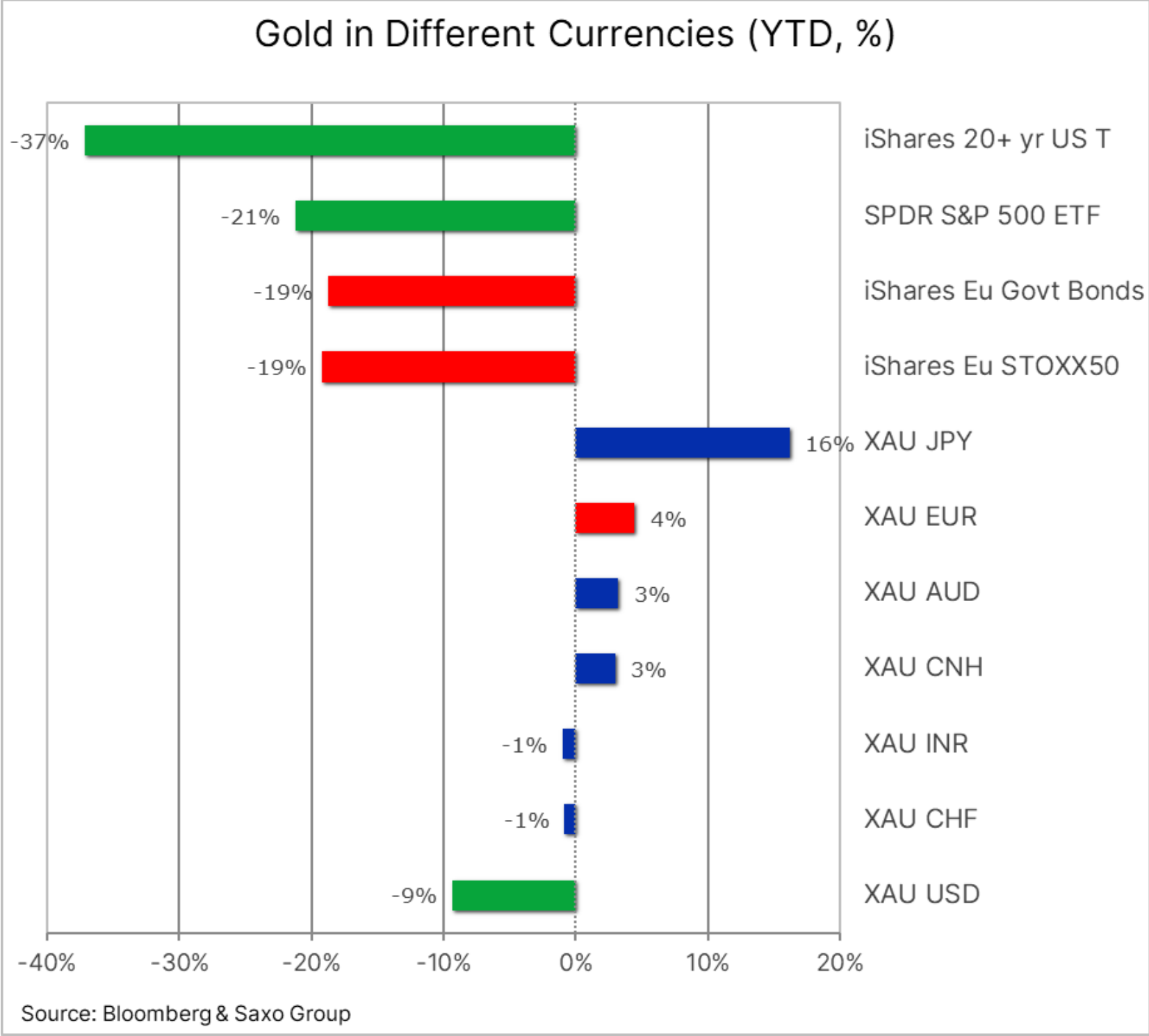
# Copper: Structural l/t bull case despite 2023 supply jolt

King of green metals: batteries, electrical traction motors, solar PV technologies, wind turbines and hydrogen economy



# Gold challenged by surging dollar and yields

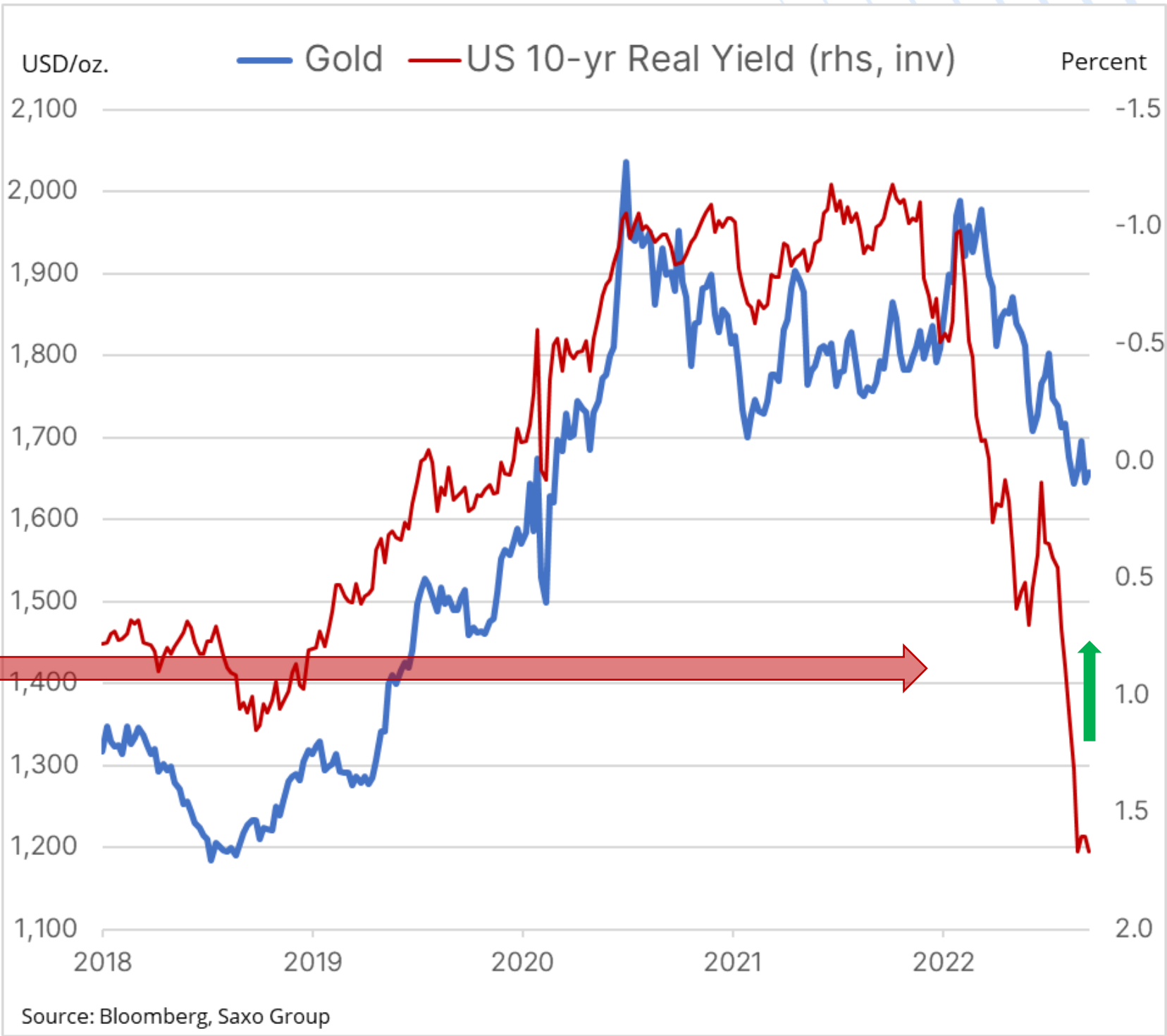
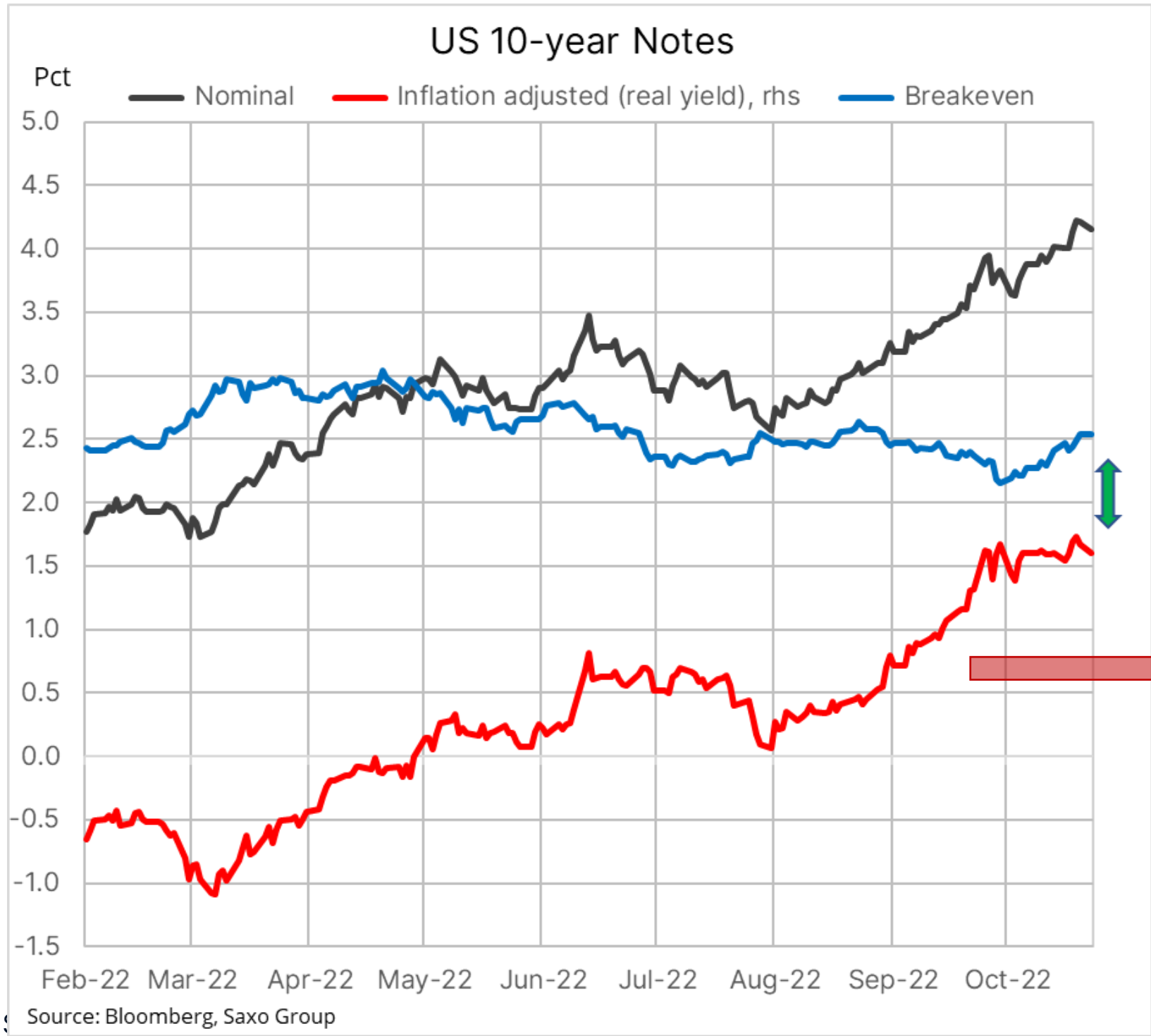
All things considered a good year for non-dollar investors despite recent competition from elevated bond yields





# Long-term inflation expectations too low in our opinion

Creating the risk for a major realignment



# Agriculture sector troubled by weather and war

La Niña: The conductor of a weather symphony

## **North America:**

Drought and hot weather from California to Texas (cotton & grains)

## **South America:**

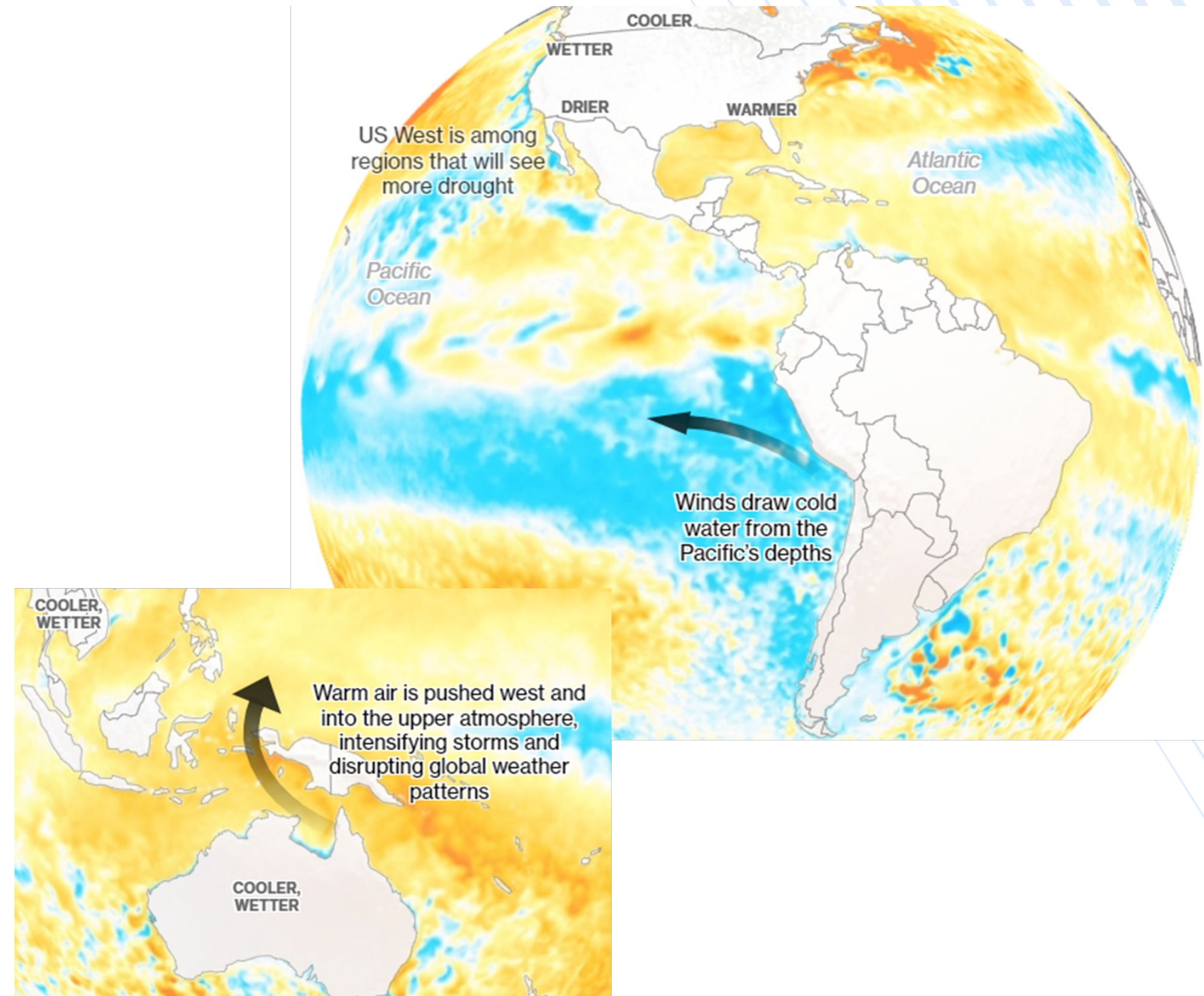
Intensely dry weather in Brazil, Argentina & Chile (soybeans, corn, coffee, sugar & mining)

## **Australia:**

Torrential rains and floodings (wheat, barley, mining)

## **South Asia:**

Increased weather volatility from massive floodings in Pakistan and Bangladesh to extreme heat in India (wheat & rice)





Find more at [www.analysis.saxo](http://www.analysis.saxo) and @Ole\_S\_Hansen

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Source: Saxo Group



Source: Saxo Group