Ole Hansen: Commodity Sector Outlook

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Erik: Joining me now is Ole Hanson who heads up commodity market strategy for Saxo Bank. Ole has prepared a fantastic slide deck for us listeners. You'll find the download link for the slide deck in your research roundup email. If you don't have a research roundup email, just go to our homepage macrovoices.com. Look for the red button that says looking for the downloads.

Ole before we dive into the slide deck. I know you've been reading a lot about inflation. I don't know if you caught David Hay on this program, recently coined this phrase *greenflation*, which I think perfectly explains how the goals of ESG are wonderful, but the way they're going about it by villainizing the energy industry is really I think, setting us up for a big price shock in the future. Did you catch that interview? And what are your thoughts generally on secular inflation?

Ole: Well, good afternoon, Erik and thank you very much for having me and inviting me back. I fully subscribe and we as experts fully subscribe to the to the non-transitory inflation outlook. And the energy surge that we've seen this year. Our general commodity surge was seen as part of that process. Obviously, we come out of the pandemic, we've seen the global economy, which has been absolutely overstimulated search and demand for power around the world. And we end up with shortages all over the place. But part of that is also the transformation and then the intense focus. You can almost argue that it's quite clear that back in the 50s, and 60s, we had an arms race. It was all about developing nuclear technology and governments were throwing billions of dollars into it.

This time around, we have another arms race, and that's the climate. And that's basically leading to billions of dollars being thrown into those efforts. And you can sometimes worry a little bit that that money not being used in the in the smartest way. But it is obviously also trying to send signals to the market then signals to population that something is being done. But we've seen this year how, especially in Europe, and also in Asia, how we suddenly came short on power because we didn't have the gas we need and the wind and the sun was not producing the amount of energy that we had expected. And it just highlights how we can be left exposed and in the coming years is a development, we continue to see because the transformation will require a lot of energy, it will require a lot of mined metals. And if the companies are producers, mining companies aren't being villainized. And banks are not prepared to lend him the cash or investors not prepared to put the money. And then obviously we do have a transformation which is just going to go become ever more expensive.

Erik: Ole, is the *greenflation* argument that David Haye presented valid? And in other words, is it really the focus on renewable energy that's going to increase the price of energy? Or is the price of energy just really increasing because of lack of investment, regardless of green factors?

Ole: I think it is a combination of both. First and foremost, global demand has recovered and it has recovered strongly following the pandemic and the collapse, we saw in 2020. But going forward, the trajectory and demand tends to be relatively easy to work out. So I'll say the additional factor and that has come into play is the uncertainty related to supplies, especially Non-OPEC+ supplies, where we are seeing... just look at the US, we dropped from 13 million, we're now back in the 11th, around 11.6-11.9. And that's really how far that the EIA in the latest update think we can see production go next year. So we're not seeing the response to these very profitable high prices that we got right now from producers. And that really is because they are their focuses is somewhere else. And part to blame for that is the not only the ESG. But also just simply the fact that they are somewhat worried that the transition will take place or will occur fairly quickly. That's basically means for the next 10-15 years, and that also leaves the some of these multi-billion dollar projects in doubt. And that's part of the I think that's part of the reason why we have this these elevated prices.

Erik: Ole, I think that your view and mine are very closely aligned. I think we both see a secular inflation that last for many years, and that we're just at the beginning of an epic commodity bull market. But anytime my views are aligned that much with the guest, I've kind of feel an obligation as a journalist here to take the other side. So let's for sake of argument, consider, wait a minute. What if you and I have this wrong? What if Janet Yellen has it exactly right? That inflation is transitory and the reason we're seeing these spikes in commodity prices is just because, you know, we've got a global pandemic on that is disrupted supply chains. Those supply chain disruptions surely are going to get corrected sometime fairly soon here and everything is going to all retrace and it'll turn out that anybody who invested in a bull view on a long term commodity bull market will have completely missed the boat and you know, been up ended and caught wrong footed in the trade. Frankly, I'm quite willing to bet against that view. But for the sake of giving it some airtime, what would you say in response to that objection from an investor?

Ole: Well, I'm struggling to see that occur ever again. And so I'm struggling to take the other of the argument, because the demand is the demand look strong, not only because the economies are recovering, and we have the transformation, which requires major, a big increase in supply. I think the devil's advocate should probably be China, because that's really where we see where we have such a huge amount of demand for most major commodities. But at the same time, they're going through a soft patch now, but again, we've seen in the past China do respond to weakness by adding support to the market. So even though they're going through a phase now with, especially with focus on the property sector, which could hurt some of the metals. We did also see oil demand drop somewhat last month in October. I think that's really the only risk, but against that we just had the infrastructure bill in the US coming through. And that infrastructure and green transformation will, I think will ensure that the demand remains robust. And into that we obviously need supply to keep up and again, the coming year, so we may not, we just have to remember that commodity prices can rise, even if demand doesn't as long as supplies doesn't. If supply is struggling to keep up, then prices will move higher.

Erik: Okay, well, I tried to give at least a little bit of airtime to the other view. But let's go back to the one that you and I share, which is that as we come out of this pandemic, there will be increasing demand. The supply will be constrained by a number of logistic issues that will continue to exist for a long time. And among them is lack of investment, especially in the industries that have been targeted by ESG is supposedly being the bad guys. So when I look at this whole picture, you know, obviously energy is a very appealing thing to talk about. It's what I trade too.

But you know, let's look at the whole commodity picture. Because one of the things that's really striking to me, okay, the big call here has been secular inflation. And I think we got that call, right. And a lot of us who got that call, right a couple of years ago said the big winners got to be gold. And look at what's happened. We've got finally maybe the beginnings of a breakout as we're speaking today, but we're still below $1,830 And that's been kind of the the line in the sand that hasn't been crossed yet. And boy, copper is doing great. So what's the real inflation hedge in this environment? Is it gold or is it copper and other commodities?

Ole: Well, up until now, it has been oil and copper. Gold's had a troubled year for several reasons. First of all the uncertainty related to what the FOMC is going to do next. I think some of that uncertainty has now been cleared. We are going to get the taper finally. Interest rates they're not too keen on getting involved with hiking anytime soon. And at the same time in this environment, I think the biggest two things probably when if you look at the Gold market is a lot of has been mentioned about the crypto space attracting investors away from some of the metals. I think that's probably part of the story. But I think the main story is just simply we have the VIX at such a low level. It means that physical gold demand right now is strong in Asia and India is picking up as they recover from the pandemic. But if you look at ETF holdings, they have been on a downward trajectory now for the past 18 months and it is fund managers who piled into gold last year as a hedge, as volatility didn't really spike and we seen the stock market continue to rally then the need to have diversification has really been suppressed and I think that's probably one of the main reasons why gold has struggled because right now we are finding the in the bond market in recent months on reason yeah, as last few months I started to see the inflation expectations start to build. At the same time, that's really only impacting the short end of the yield rates. We've seen has only been impacting the short end because the longer end is more worried about growth going forward.

And that has allowed really to drop to these current very low levels nearly historic lows below negative 1% So that part of the equation is is fully supported right now. Now I think we just need some more volatility in the stock market for gold really to shine and you're a trader as well Erik. And we know full well that one thing that drives markets are momentum and we just simply haven't had any momentum in the gold market for a long time. And I think if you're look at the chart. If we can take out that $1,835-40 level then not only are we disappoint towards a breakout of the downtrend from the highest last year, but also that, I think four or five times back in July and August, we failed to break above that level. So if you do break that, that really will be the big test because at that point, money managers and technical traders, they will have to respond and it is my belief they will do.

Erik: And if you look at the volume profile above $1,840, there's room for a really big price acceleration above that level if it happens. And it may have happened by the time this airs. We're actually recording this interview on Tuesday to air on Thursday. And we're right at teetering just below that critical level. So perhaps we'll have a new news to report to our listeners by then. Let's go ahead and dive into your chart deck and look at some of the details on specific commodities starting on page two, you're kind of painting the big picture here on commodities and breaking it out in different sectors. Agriculture, metals, energy and so forth. Energy seems like a very obvious one. What else should we think about in terms of the effects of this whole macro backdrop on commodities?

Ole: Well, I think first and foremost, I've been using the Bloomberg commodity indices for those commodities that are part of that basket. There are quite a few, which has been marked. And you can see they're actually some of the best performing. That's gas in Europe, it's German power prices, the cost of emissions. These are really where they stay stand out with gas, at one point up more than 300%. It has come down today, because it looks like Putin is finally delivering on his promise to that Gazprom will supply additional gas over the coming weeks and that should hopefully just alleviate some of the pressure on gas prices here. But generally as you can see, there's really not many, that many markets that are sticking out to the downside. And then we talked about gold, it's flat on the year. And if you use gold as a hedge against the uncertainties elsewhere, it's been a brilliant year because you don't really need any performance in gold when you have stock markets doing what they're doing right now. And bonds, bond market still reasonably well behaved. So gold is sitting there and waiting for a rainy day. Remember what happened a couple of years ago when we had the worst months for equities since the 30s, 1930s. There was a really good month for gold so let's not rule that one out at this stage.

But otherwise, broad gains led by the led by the energy sector and after the recent small setback we seen in industrial metals. Part of that driven by China with industrial metal saw, even despite that we're still up by a handsome say around 30%. It's difficult to see the scale when it goes all the way up to 300. But we have seen strong gains, more or less across the board. And I look for that to continue into 2022. What I think is interesting if you look at the same slide is also the [inaudible] of interest because the market has become a little bit of... money managers has become a little bit lukewarm.

In recent months, there's actually been net selling ongoing now for the past six, six to nine. Well, most of the year, actually, we peaked in January, in terms of net long held across 24 major commodities. And that does indicate that, that there is plenty of room, but also the fact that volatility has been rising in some of these markets and that basically has forced some of these hedge funds to reduce exposure because a lot of these they are tracking volatility as part of their risk management and as volatility goes up, then they have to cut exposure. So I think that's part of the story that explains why the even though we're seeing Bloomberg commodity spot index as a multi-year high, we've seen a reduction in positioning over this year.

Erik: On page three, your title says tightness in energy and industrial metals still points to higher prices. Now, okay, help me understand that logic, because boy, the price movement upward has already occurred very dramatically in both energy and in industrial metals. So what makes you say it's got further to go?

Ole: Well, this is just to explain, though, what these charts are showing is basically the 12-months spread between the front futures contract and the contract 12-months out. And it's interesting, if we look at the I didn't put in the whole sector as a whole, but we can see that some of these, these markets that we've had to had several years. So if you look at something like industrial metals, we had half a decade from 15 to 20, where basically that spread was negative that basically means if I was trading at contango spot prices were trading lower than futures prices further out the curve indicating a market with ample supply. And the same goes for some of the other markets agricultural especially has been on a on a downward sloping trajectory for during that past that five year period as well.

Whereas the energy has been a bit more on the on the plus side where we have been experiencing periods of tightness and then we did have that massive slump last year when we saw all prices go to negative in WTI. And that has caught some volatility on these spreads. But generally, right now we are seeing that for the first time in five years a solid backdrop for investments in commodities because you have to remember that backwardation and contango is either hurting your investment or supporting your investments when the market is in backwardation, you are having a positive roll on a monthly basis. You're not but the provider of your investment is rolling selling the expensive to buy the next one at a cheaper level that roll yield is benefiting you on your return. And that's what we see now, very strongly in especially in the energy market and industrial metals.

And it just tells us that the market is tight and see very limited reason for that tightness to suddenly evaporate because as for the reasons we talked about and on the page as well just some of the factors that drives this, this focus on commodity supercycle. As and as you can see, rising physical demand and tightening supply and that supply quite often tends to take time to come into the market. And I think the big difference now compared to previous cycles where we had tightness in the market is due to ESG. Because the old saying that the best cure for high price is a high price because it incentivize production, while potentially cutting demand those functions has to a certain extent been hurt by ESG. Because even though prices are moving up, we're not seeing the producer response that we would have seen in previous cycles. So that's also still part of story that's driving this tightness in the market.

Erik: Well Ole you just quoted one of my favorite sayings, which is the cure for high prices is high prices. And if you look at the backwardation that exists, particularly in the energy market. If you think like a commodity guy who hasn't been introduced to the new thinking of ESG, you think boy, they've got to be really just opening the floodgates on CAPEX to do major investments. And we should expect energy prices to take a nosedive a few years from now when all of those big capital expenditures that are being made now, because of this price structure actually hit the market. So let's look at the next slide and how big those capital investments that are being made now actually are. Hey, wait a minute is this slide right?

Ole: It isn't either, Erik. And when we looked at it, it's actually my colleague Peter Garnry who pulled that out. And when we looked at it, we just couldn't believe what we're seeing. Basically, real capital expenditure so far this year is basically back to and if that's for the MSCI World Materials and Energy sector, we basically back to levels we saw 20 years ago. And that's clearly not what we need at this moment in time where demand is only expected to increase and remain firm over the coming years. And it's also telling that back then we remember in around the 2000s, really when China entered the global stage as a major buyer of everything. Commodities took off and it almost took a doubling of the Bloomberg commodity index between 2001 and 2005, before capex actually started to pick up. So that's how long it took before money really started to be spent on increased supply because the market or the producers realize this is much longer term than then we may have perhaps expected initially. And fast forwarding to today, we are potentially at the beginning of a similar move. This time round is not China it's the green transformation and infrastructure spent. That's going to be part of it. But are we going to see that response and potentially that response could come quite a bit late.

Erik: And all of this is intuitively obvious to you and I because we both trade in energies. But just for the benefit of any listeners who are not seeing this, I want to make it super clear. What this chart is showing us is that oil comes from oil wells and oil wells wear out over time. They have to be replaced especially the new fangled shale ones which wear out even faster than the old style. What's being done to invest in replacing the wearing out oil wells is exactly nothing because it's fallen out of political favor to invest in energy companies. And I just can't see how this chart can be true and not lead to a major price crisis in the future. What am I missing? That's not going to take us to oil prices to the moon in the next few years when we haven't made the investments we needed to make in replacing those declining shale wells that are not going to be able to continue to produce the same amount of oil that they do today.

Ole: Well, it's first and foremost real depends on the amount of spare capacity that OPEC plus countries still have available. I think there are some concerns that they may not be as highest we as we potentially could calculate given the data that we seen in the past and we've got a slight a bit. So what's going to give? Well, it could be, it could be an economic slowdown, basically high prices, kills growth, that song is not a venue we want to go down. But that ultimately could be the risk that could help balance the market. But in the short term or medium term, we still have supplies coming from OPEC+. Plus, that will take us well into next year, perhaps even 23. But as you said Erik wells don't pump forever. They need to be replaced as they expire and that's really the challenge. Which means that the sector constantly needs billions of dollars investments of new investments and right now we're not getting it.

Erik: Okay. Ole when I take a look at this graph on page four, and I think about everything that I know and everything I've ever heard about OPEC spare capacity. Lots of people in the industry passionately disagree about how much spare capacity OPEC really has. But you know, it's somewhere between a couple of million barrels a day to, you know, 10 million barrels a day. It's not like they can turn the screws up and increase by 40 million barrels a day. I look at this graph, and I look at what's going to happen to investment. And I know that demand is not going to zero overnight, just because everybody wants an electric vehicle. That's not reality yet, it's coming. I just can't see how this graph is possibly going to be solved by OPEC plus spare capacity. Am I missing something you guys studied OPEC spare capacity more than I do. Is that really a potential Savior here?

Ole: Well, that will be the savior event. And again, when we had the focus in Europe just a few months ago, when the gas prices really took off, where there was some speculation with position fear, blackouts more than climate change. And again, it's two horrible things that have to weigh up against each others. But if we do run into a period of prolonged high prices, then we could potentially see that resolve fade somewhat but we need to get there at least in the coming years, at least the next five years we need to rely on good old fashioned fossil fuels, and it still accounts for around 80% of the total global energy mix. 1% right now as renewables, 5% is nuclear. So those 80% will just take a much longer time than expected to get that down to reasonable levels.

Erik: Now Ole, on page five, you're arguing that an overstimulated global economy because of the stimulative effects that central banks have done in reaction to COVID-19 Presumably have been driving this energy crunch. Does that mean that that stimulation is no longer needed, that the energy crunch is going to be over?

Ole: Nope, because at the same time, I'll just rewind a little bit because it's part of what we talked about in the beginning that we had the, we had this massive handout from governments into the pandemic just to keep the wheels turning and we all went on a spending spree, sending all our all our gear handouts to Asia in return for consumer goods, power consumption in China accelerated very strongly that required a lot of coal and gas to keep that power running. And that's why the Chinese demand suddenly took off in a strong way. Especially on gas because at the same time, they also tried to wean themselves off coal consumption, which is for now it's not working, because they've had to increase production domestically in order to keep the power production or prevent them from having power cuts.

So that was just the start of this overstimulation and we are now seeing that spread to first the gas market and also the cold market, then the spreads to the gas market and right now, the gas markets has become the the transitory energy because we need to move away from coal and gas needs to be there to keep the turbines running on the days where the wind isn't blowing. And that basically means that demand for gas in Europe and in Asia will remain firmer. That competition for gas basically means that we have this. we have LNG and gas in Europe basically taking off moving far away from gas prices as you know them in the US. I put in a list on charges for references to show it's not scientific, but just to give us a rough idea about how these gas prices are, what levels they're trading if we price them in Brent, and as you can see we at 1.3 to close to $200 a barrel. And historically as well, you can see the gas prices tend to trade below Brent, and this is obviously a golden opportunity for Russia because they would like to have their long term contracts reinstated. Question is whether anyone will buy gas on long term contracts at this current very high levels. But you can see this market is out of whack. And the question is obviously how quickly we can get that normalized. And for now, with a very very cold winter potentially looming on the northern hemisphere, once again. I think the competition for gases winter will be quite intense, both from China and from Europe.

Erik: Ole moving on to page seven, we've got the crude oil rally coming into focus. And I should mention just in the time we've been speaking, it's a Tuesday afternoon that we're recording this particular interview. And we have broken out above the short term moving averages on WTI. Crude oil back up almost to $84 as we're speaking, having opened at $82 something this morning. So it looks like maybe the crude oil rally is back on as of this week. Do you agree with that? It seems like that's what you're showing or predicting here on your chart? If so, you got it right. And what comes next?

Ole: Well, I think just to before that, we just rewind one slide, because I think we need the gas part of the oil equation right now. We talked about gas before. And then this is just highlighting again the gas prices in Europe and in Asia, and the gas-to-oil switch that really became a big talked about theme here during the past months. I think probably what has driven up the oil price for at least $5. As we saw gas prices surged, we saw the substitution into fuel products. So I think the short term key to oil is probably to a certain extent, again, being driven by gas, because if we do see Russian supplies to Europe pick up and gas prices come back below this gas to switch area then then that potentially could take some of the sting out of oil, because demand may just stabilize somewhat.

But you are right Erik, we take note that very very long downtrend that we had from the highs back in 2008. We moved higher today on Tuesday. And that's actually interesting enough, because we trade higher today, because the EIA report was actually a bit dovish, that basically meant the market was removing. They were thinking that the risk of an SPR release was less likely. So that's why all prices are somewhat higher here. But I think in the next month or so, gas could be a major theme for the oil market. If we should see prices come down that will help just at least in the short term, take some of the sting out of the rally in crude oil. But if you look at Brent here at $86.75, we're not far away from it. That's the recent highs from 2018. If you do break that then the call for $100 will start to strengthen.

But I think also at the same time, and we talked about that, where can the extra barrels come from? Because that really is a key right now. And I think just looking at the OPEC+ meeting recently, where they just went for another 400,000 barrel increase. We have to remember what they're agreeing to increase is not really what's actually hitting the market, because we have two laggards right now and that's shown here on page seven, Nigeria and Angola. They are currently co-producing combined 450,000 barrels a day less than what the can according to the quota, and that's a full month's increase at plus some that we're not getting into the market. So I think in order to help stabilize price, we need it really to see these two countries get their production back up. And the outlook for that is not terribly promising.

One area that could be promising is Iran, because we got the nuclear negotiation resuming here at the end of the month. Again, Iran knows full well that the US is quite desperate to get prices down. And they potentially hold the key to that because they have compared to the recent peaks back in 2017-18. They have 1.2 million barrels of additional supply that it could increase production by. Probably not that much because there is a lot of oil probably leaving Iran covertly that don't get counted. But still it's a it's a sizable increase that could come from the removal of sanctions. So I think that's really what we should be looking at over the coming months to see if there's any sign of relief coming from that front.

But looking at the US Strategic reserves are coming down, rightfully so because there's no need for these current very high levels because imports into the USA has come down during the past decade. But at the same time we talked about US production earlier and the today in their forecast. They see production in December this year around 11.6. They see the average for next year around 11.9. Today, it's only a 300,000 barrel increase over the next 12 months and that's really a far cry from the 13 million barrels they produce before the pandemic. So, we probably need to focus on on OPEC and, and their ability to increase production in order to avoid that we are going to talk about the potential $100 barrel oil by next time we speak.

Erik: Let's come back to that 13 million barrel figure for the United States production. I've heard a lot of other people tell me that it's basically impossible to ever get back to that, because that happened as a result of the shale revolution in the incredible mountain of easy money that was available thanks to Federal Reserve largesse, junk bond market was very supportive of the oil patch in that timeframe. What people are telling me is, that's just not true anymore. The money is not there, we don't have easy money to fund these things. It's much harder to get financing and it's impossible to get back to 13 million because of that. But at the same time, a lot of people who told me we were going to just be in permanent decline didn't forecast that we are seeing at least a slow recovery in US production. So what's the real story here? How much can the US recover?

Ole: Well, it's somewhere in between I think because I just recently made an update on some of the market caps for the 15 biggest shale oil producers in the US and then and obviously realized that quite a few of them had disappeared from the face of the earth during the past 18 months, because they've been taken over by larger entities. And I think that's part of the that's part of the reason why we're not going to see a return because the willingness to pump at will and just take on accumulate a lot of debt to do that. That is well and surely, that has been put to rest. So it's more whether some of these much bigger oil companies following several mergers, whether they have the incentive to ramp up production, which they obviously can if they feel like they are allowed to and if it makes economic sense, then that is an option. But the kind of production bench that we had, leading up to that collapse before the pandemic just before the pandemic is difficult to see that being being repeated. But again, the best cure for high price is a high price. And again, land areas are available for to increase production. So but in order for that to happen, we still have to remember as well, the shale producers don't necessarily sell oil at $84 bucks a barrel. They are selling at forward prices with a very, very steep curve. We have right now selling at much lower prices than the one we see on our screen. So that's also a thing that has to be taken into consideration.

Erik: On page eight, I see you've got a chart showing the December 21 through December 22 backwardation spread. That happens to be one that a lot of our MacroVoices listeners bought in contango at minus three spot 20 and have ridden all the way up. One of my favorite spreads what's going on? Why is it on your chart and what is it telling us about the market?

Ole: Well, I brought it with me, because there's been quite a lot of focus on Cushing, Oklahoma recently. And I think that's part of the spec of interest, which tends to be contrary to the front of the curve, which to a certain extent can drive maybe the backwardation a little bit out of whack compared to what's actually supplied. What the supply and demand actually looks like. We have been seeing the emergence of a real threat to supplies because Oklahoma Crude stocks have been shrinking as fast as they've been doing in recent months. And we have to remember it was also Oklahoma that Cushing, that was the reason why we hit $40, briefly minus $40 briefly last year. This around it's the opposite, because well, back then we were worried about tank tops. Now we are worried about hitting low points, where the whole system is not functioning well enough, but there are signs that I think we just seen some reports that some of the price differential between especially Midland has moved more in favor of WTI. And that should lead to more supplies hitting Cushing. So I think just for reference that if you're watching the curve, you should also be watching what's going on at Cushing because it's obviously the landlocked delivery point for WTI futures.

Erik: Ole let's shift gears and move on to gold bullion on page nine what's going on here?

Ole: Well, that's we talked about at the beginning of the show. We are getting close to a level, this chart is a little bit below that level, but we are currently challenging or getting very close to once again challenging that $1,835 level and as we talked about the real yields developments are currently very supportive. We've got real yields moving firmly into negative territory and we have to remember that the way you construct a nominal yield is basically taking the inflation part and then you end up with the real yield and as inflation expectations breakevens are expected to remain elevated. And if nominal yields are not going in anywhere due to growth worries, then real yields will continue to remain into deeply negative territory and that's a key source of inspiration for gold, at least has been in the past.

I would argue at current levels if you look at the real yields. Gold is probably somewhere around $40 to $50 too cheap. I should have put a chart where I showed the correlation between the two but based on recent history, I would say that gold is trading cheap at these levels. So it's more question that the market comes to the conclusion that these real yields are going to stick around these deeply negative to levels for a long period of time. And that combined with the prospect for inflation to remain elevated for economic growth to be a potential challenge. I think that is setting up for a a renewed upside attempt in gold. And if we do take out that $1835 level then I could see that market pop $100 relatively quickly, because we will see renewed momentum from a lot of speculative traders who have been looking elsewhere. While we've been trading range bound for the past six to nine months.

Erik: I definitely agree with that outlook. And as we're speaking we're still looking at $1831. So we're close but not quite. Maybe by the time this airs, we'll already have the breakout underway, we'll see what happens. Moving on to page 10 though copper. Boy copper is doing better than gold in an inflation environment. I was expecting gold to be the performer.

Ole: Yeah and copper is actually doing incredibly well if you think about all the worries that we had about China during the past three months. Especially the property sector, which is a key source of demand for copper due to all the wiring and electrical wirings and so on. And despite this, we have not even had a 38.2% retracement of the rally that from the March low last year, we stopped short. I'm using high grade copper in New York as a reference. And as you can see, we found quite a solid flow around that $4 pound level. The reason spike up to nearly the record high we had back in May was triggered by some, I'll call it shenanigans in the London market where big firms were hoovering up stocks, thereby driving the visible stock levels down creating a sense of shortage in the market. And that was some of that was given back but just look at the exchange-monitored inventories down on slide 10.

We are we are dealing with levels which is approaching the lowest levels in more than a decade. And some of that can obviously be taken out for speculative purposes taken out of visible stores into invisible warehouses where it's not being monitored. That creates a sense of tightness in the market. But it's happening right now both on the LME and it's also happening in Shanghai. So it does indicate to me that gold is still one of the king of the I'll call it the king of the green metals, because just look at the whole electrification, electrical vehicles, the supply which potentially construct to keep up. And also the interest from money managers, which is also as part of my weekly update, which is available on Mondays. You can see the interest right now is probably around half of what we had when we visited those ice on a previous occasion. So plenty of room for funds to or to get involved. I'm not chasing it right now. Because I think we still need to get China growth worries and with the developments out of the way. So I cannot rule out that we could on a rainy day see it break below four to challenge that 377. But I think that whole area below $4 is a buy for a longer term move to fresh record highs.

Erik: Moving on to page 11. You make the argument that we need metal prices to be high in order to have the energy transition work. I understand what you mean, but I'm not sure everybody does. Please explain.

Ole: It's all to do about what we talked about earlier that we need high prices to incentivize mining operations to maintain a solid funnel of new supply to meet these increased demands over the coming years. And as you can see, we're not just talking about a couple of metals, it's almost the whole the specter of industrial metals that in some way or for another is can be used and will be used towards that transition. So we need all of them.

Erik: And let's talk about weather a page 12. How does that come into the equation?

Ole: Just because we haven't talked too much about weather and again, when people ask well, what's your outlook for weather for the agricultural production? Well, I think I'm not whether a man or someone sitting above us all looking down deciding what's going to happen next. But what we can see is that there is a risk of another linear building over the coming months and if that becomes as strong as it was last year that will once again create some worries about the supplies or outlook for crop production in South America and to a certain extent also in the US. So we focus there on the key crops: wheat, corn, soybeans, but also Brazil-centric commodities such as sugar coffee. And just returning to the US, cotton as well with cotton will be competing with other crops. And I think also, once again just mentioning the gas surge because it has led to a phenomenal rally in fertilizer prices. And if we have high diesel costs, we have high fertilizer prices, that is a risk to production next year because some farmers may have to use less fertilizer that could obviously bring the crop production in doubt. So unfortunately from a global perspective, I think we have to worry a little bit about the agricultural space that prices will continue to rise as well.

Erik: And finally on page 13, uranium and nuclear power, a subject that we covered with a whole special back when it was time to buy it right here on MacroVoices.

Ole: Yeah, now I think that's just it's just again, this whole thing about how do we go about the transition in the smartest way and we had a podcast in Saxo Bank recently where we had invited one of the company, local company to discuss some of the new technologies that they're working on. And one thing is for sure that if nuclear power is known, and the new generations of nuclear technologies are somewhat more safe and easy to and faster to build than the technologies we know today, which most of them were developed back in the 50s and 60s. So we see a future for uranium and off of nuclear power because it is the fastest way to achieve the baseload that is required so we can we can get rid of coal to begin with. And then over the coming decades, reduce the need for some like gas. But I think it's a long term view. So I think investors there have to be patient. We've seen some volatility this year, especially with the Sprott ETF joining the fray, But I think we just have to keep in mind that it's a long term prospect for the sector. So do not expect a very big moves in the short term, but it is mostly certainly a sector that will continue to attract demand over the coming years.

Erik: Well, Ole I can't thank you enough for a terrific interview but before I let you go, I want to fill our listeners in on where they can follow the work that you do there at Saxo Bank because you guys have your own commodity podcast, which you actually produce. Tell us about that and what else they can do to follow your work.

Ole: Well, you mentioned our podcast. It's not only commodities, it is a macro-based commodity podcast that we do on a daily basis from our headquarters here in Copenhagen. And we just basically take the temperature on the market. What happened overnight and potentially where we go next. It's gained a lot in popularity over the last couple of years so that's really I would say our flagship production. We also got a quick take every morning that is available on analysis.saxo. So otherwise, you can always follow us on our individual Twitter profiles. So I put in the individual Twitter profiles down on the slides 14 as well.

Erik: Well, I can't thank you enough for a terrific interview Ole. Patrick Ceresna and I will be back as MacroVoices continues right after this message from our sponsor.