MACRO Voices
with hedge fund manager Erik Townsend

Ole Hansen: The Commodity Supercycle Has Begun

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Erik: Joining me now is Ole Hansen who heads up the commodities desk at Saxo Bank. Ole prepared a terrific slide deck for today's interview. Listeners will find the download link in your research roundup email. If you don't have a research roundup email, just go to our homepage, macrovoices.com and click the red button that says looking for the downloads. Ole there have been times since I've known you that we've actually intentionally not booked you on MacroVoices because we just felt like the commodity sector was kind of quiet and there wasn't much to talk about. This is not one of those times. Holy cow! Where do we start? We've got World War Three. We've got a I think a secular inflation that had begun before World War Three. A lot of people are saying that the commodity supercycle catalyst was actually the pandemic that was going before we got to World War Three. Where do we start and how do we reconcile this big picture? Let's just start at the highest level, how should we think about everything happening in the commodity space?

Ole: Well, thank you Erik for inviting me back. I think ultimately, I think we just have to start by once again just realizing that commodity market is a finite market. Supply and demand needs to be balanced on a daily basis. That basically means when one is out of whack, we do get some big moves. What we've seen for quite a while now is that the market has increasingly become worried about the supply side. We had the stimulus driven surge in growth following the pandemic. Then we had Putin turbocharging commodities, sanctions and war creating a large mismatch across several commodities. And that was really what took us through these record highs that we actually booked the record high as late as last week. If you look at the Bloomberg commodity index, but since then, things has turned on a diamond and we've now we have to throw another lockdown another outbreak into the equation and this time, obviously, with China, where the lockdowns are spreading. China is key producer and key consumer of commodities basically thrown the whole thing into a little bit into disarray right now once again. And I think on top of that, also very aggressive expectation for how high interest rates will go in the US, thereby also adding some downward economic growth projection. So we've seen the market switch from worse about supply to worse about demand. And that's what we really looking at this time. And then that obviously raised the question whether it's over, we can take that a little bit later. But from my perspective, that's really where we are right now.

Erik: Let's go ahead and get into the slide deck. I see on page three, you're starting with surging inflation calls. And of course, that was before the worst cycle. Give us the whole

rundown over the first few slides in the deck here about what's going on with inflation and what's going on with central bankers response to inflation and how do you think it's going to work out?

Ole: The first slide here, just basically give an overview how we came out of nowhere to suddenly seen this massive jump in inflation over the past year, culminating last month where we had eight and a half percent in the US and some double digits elsewhere as well. I actually left out Turkey because otherwise the color scheme was going to be whacked because turkeys with their 60 plus percent right now would obviously admit, United States that eight and a half percent look pretty, pretty muted. So that's removed. So just gives them the highlight to give you an idea about how we are turning more and more red on the inflation front. Central banks have been very slow in responding because first they had to deal with the recovery after the pandemic. And that basically mean that this market has had been allowed to run ahead of itself. And with the consequence that we have overstimulated the economy. We have suddenly set a scene scarcity of supplies with supply bottlenecks as well. Adding to the equation, and that's left us where we are and central banks really need to respond. And I think that's we're seeing that most clearly in the US last year when Powell was reappointed, I'm sure he was read the riot act by the White House, stop focusing on job stop, instead start focusing on inflation because there's only a few 100,000 out of more than that out of work, but there are millions of people suffering from inflation, inflationary pressures. And in brackets I also have a midterm election to run to win negative data this year.

So, that has basically seen a massive shift in the stance of the central bank and on slide four, we can now see just using the data from the market that the market is pricing in 10 rate hikes now by February next year. So obviously we are about to expand on a massive rate hike cycle. And it is needed because even if you look at the longer term inflation and prospective projections using inflation swaps two years is still is around four and a half percent and obviously well too high. 10 years are somewhat more muted around 3%. And the question is really whether they will succeed to bring down inflation at this point before the growth starts to have negative impact because that's really the essence and if we look at, if we move to what we have to be aware of that central banks cannot control the availability or lack of availability of key input materials like commodities so they can only really impact the demand side.

So right now, they are out on a mission to basically kill demand in order to bring down prices. And obviously, when you kill demand, you're also killing growth. So the question is really whether we are going to see growth play ball i.e. that we see a managed slowdown in growth with these rate hikes or whether we're going to hit towards something more serious in terms of recession. The jury's out on that, but that is really the balancing act, the central bank needs to needs to write over the coming months. And I think at the same time, we also can have to consider China they are the lockdowns now is really having a serious impact on growth. The party has a promise to the people to ensure stability and growth. And that basically means that when we get on the other side of these lockdowns, they will come in with a massive stimulus program I believe in order to support the economy that will bring back demand for commodities. And that's the reason why we still see commodities move on the upside. And I think it's all basically just put into slide five, where we were to see some of these changes and the

differences that we experienced in the commodity market over the past year. So we are obviously using the Bloomberg commodity spot index, which tracks 24 major commodities. We are at a record level, as I mentioned, we saw record high last week, we saw a record quarter basically 24% in one quarter that is obviously unsustainable in the long run. So the timing of the slowdown we see now is pretty is probably quite a good timing of that. Because we needed this market to consolidate because the continued rally that would obviously be incredibly unsustainable.

What we're seeing the market has moved towards more and more tightness that you can see on the top right and chart basically using the implied role yield, the one year spread between spot and 12 months out for half a decade. That's really the reason why a lot of investors been scrambling to get back into commodities. But for half a decade, we had ample supply, basically meaning that we had markets trading in contango. So you basically had a negative role yield by passive long investment in a commodity ETF. And that has only really changed now over the past couple of years to the point that we are looking at almost record backwardation, which basically means that if you believe that we are in 12 months time, we'll see unchanged prices i.e. not going up not going down. You basically holding an ETF with tracking the Bloomberg commodity index, you would make 7%. And obviously if there's a price increase at the same time that you can add on top of the gains you will make just by the rolling of position from month to month where you are selling high and buying the next month at a lower rate. So that's adding investment demand into commodities.

We've seen a little bit of a slowdown recently, prompt spreads, the number of contracts and prompts written in backwardation has dropped down back down to 14. That's out of 29 commodities. Hang on sorry, no 26. I can't count. We're making up. You can see the numbers at the bottom. I think it's 28 commodities so half roughly is trading in backwardation that peaked at around 22 just a few weeks ago. So this is the underlying thesis that is driving demand for commodities. And there are plenty of reasons why we are seeing that. Obviously, we are not going to talk for nonstop for an hour. So I'll just give it back to Erik.

Erik: Ole, it seems to me like in normal times, the Fed is working as hard as they can, or central banks around the world are working as hard as they can to try to avoid a recession to try to manage the economy so that we don't have a recession. And you know, it's much harder to try to prevent bad things from happening than causing them to happen. Now, I'm convinced that the Fed is very necessarily trying to cause a recession for the necessary purpose of dealing with inflation. Seems to me like they've got all the tools they need to cause one. So it's hard for me to even understand why people question. Do you think there's a chance we could be headed toward recession? It seems very clear to me that we're going to get a recession, but I don't think that they need to make that recession last any longer than it takes to get demand under control. Or maybe they do and so how does this sort of forward looking way that monetary policy works, how does that intersect with what you described at the beginning where commodity supply and demand really has to be balanced every day?

Ole: I think the risk of a recession, especially in the US is probably low. But obviously you can't rule it out. Going from employment as workforce as strong as it is right now to a recession, that would require a massive, massive break, which I don't see will happen, but we will see a slowdown and obviously, when the slowdown starts, then again, the ball starts rolling, how quickly can you work on your wrist that, that slide, if you will, when you get to a level in terms of inflation that you are satisfied with, and especially as well what happens if you don't manage, you do not manage to get inflation under control. And that's where I think we that's really where the big difference is right now, because if you're looking on a year to year basis, you will probably see a peak in commodity inflation fairly soon. But what happens if these supply bottlenecks, they are maintained, what happens if we are seeing a world where there is not enough investment going into new discovery for oil and for mined metals? What happens if we have more years with food supply risks as we have right now. Then the prospect of inflation starting to slow from the commodity input side, I think is relatively muted.

And just on page six. Just to look at the real capital expenditure we've seen over the past a few decades, we are back to levels that we didn't see for we haven't seen for 20 years. So we're seeing results from the major oil companies as we can really see them step up their capex spent in order to ensure that we do have enough oil for the foreseeable future. I think adding to that, look at the projected urbanization, urban versus rural population in the world. The urban population will continue to rise and there will be commodity to heavy overcoming years, just to place like India, had a colleague one day were saying that well India in terms of urbanization is at a level where US was in 1910. So it's just there's still just massive amount of offer investment has to come through that natural transition towards the cities. And that's just something I think we in the western world probably sometime failed to pick up that there's still a massive move happening in Asia and elsewhere. So that will require investments. If those investments don't materialize, then we do have an issue. We have the green transition, just look at Europe where we are. We're suffering from you complaining about $7 gas, we are looking at $30-$40 gas in Europe and it's punitively expensive. We're taking a hit on this. But we also at the same time, we'd want to get rid of dependency on Russian, Russian suppliers that really mean that the political will to step up the green transition is there. And we all know green transition is anything but green, it requires a heck of a lot of all the all the black stuff and all the other metals as well. So that demand will continue to remain robust.

Erik: Ole, there's a theme I've been discussing on MacroVoices for several years, which is if we are in fact at the beginning of a secular inflation, if this is you know, for the first time since the late 1960s. Well, what that means is that there's nobody still alive in the industry, who's been through that before and truly has the experience of knowing how to trade it. That tends to surprise the heck out of people, particularly in the commodity sector where you know, people want to look and say well wait, it's already above the five year average. It can't go any higher. It's like no, no, it's a different game now. We're in a secular inflation and people are just not used to the rules of the game changing. That was certainly what blindsided so many people in the early 1970s as the great inflation really took off. I see page seven is titled what drives a commodity supercycle. Please tell us and particularly with regard to what is it going to mean if

we really are in kind of a new paradigm of secular inflation that nobody really has experienced with?

Ole: Well, quite simple it is supercycle is driven by a prolonged period where you have a mismatch between demand which can be rising and inelastic supply. We have to remember that mining looking for new mining capabilities can easily take five years from the beginning to actually starting to mine these metals and spare thoughtfully all majors where you will be apart from shale oil, you are often looking at a 5-10 year horizon. And the oil majors were prepared to bet on the global oil demand in 10 years time but that I think is really one of the key questions that they are asking themselves and also wonder, one of the reason why they are not that particularly aggressive in terms of going out and try to benefit from these very high prices we see right now, because some of these projects do take a long time, and even further out in order for them to become profitable. So I think that is what we are. That was what we were facing. So let's just say demand is going to be stable. Let's say we have a slowdown in, in growth in the Western world, not so much a thing in China, because that we will have to see a stimulus led recovery there.

But then adding to that the Greenflation the investment into renewables. I think with that in mind, we I think we just have the foundation for a continued rally. And I think we also have to remember, this rally we've seen so far has really happened without a weaker dollar, the dollar is actually in strengthening. So that just makes the rally even more phenomenon. What happens if we do get a hit a hit or threw in the dollar, we start to see weakness start to kick in. Not that it's looks like it's in the card anytime soon. But I think there's still overall risk that the dollar eventually, it will eventually start to weaken again, that will just add some more fuel to the fire so basically, simply a prolonged period of mismatch between the demand and supply.

Erik: Ole, I'm seeing more and more credible analysts going on record saying look we're headed toward a global food shortage crisis. And they're not talking about the price of coffee going up do that Starbucks is more expensive. They're talking about widespread areas of famine and in death in parts of the world that are impoverished and shortages and simply cannot get it at any price kind of situations for important food supplies. A lot of this is driven by the need to fertilize the crops, which of course, you've got to have the potash to make the fertilizer and the whole situation with Russia and Ukraine has put a lot of that at risk. Where's all this headed and what would a global... Are these analysts Right? And should we really be thinking about global food crisis on the level of famine and so forth or are we just talking about higher prices at Starbucks?

Ole: I think that the risk is most certainly there. And again, if it becomes more paramount, and it is visible than it is right now. It will as per usual hit those that least can afford it. And that will be in key food importing countries, some of which are also already also a major importer of fuel. So I think the risk, the risk is there. I think what we're seeing so far in the US in terms of weather is not a good omen. Because we need a bumper crop from Canada and the US this year. And so far, I think I'm stuck here in sunny Copenhagen, but it's been fluctuating very much the temperatures as well. But it looks like the US is dealing with places that are too hot and other

place are too cold and too wet and the mismatch of everything. So we got Winter Wheat Quality at the lowest in 12 years. We got the planting of corn has kicked off at a very very slow pace. We got Ukraine where potentially affordable sense of the of the corn wheat crop could may never be produced. And these are big numbers, because we have to remember that Ukrainian soil is some of the best in the world. And they produce some fantastic high protein products perfect for human consumption. And that's why it's in terms of tonnage of the total global production. It's maybe not that high. But in terms of what's going towards human consumption. It is a very notable level. We see sunflower, sunflower oil, Ukraine, a major exporter of that. Palm oil as the consequences is rocketing right now is anything from soap to shampoo to food production that's being impacted by that. So I think there is a there is a risk and again the main driver in any normal year because it's relatively easy to project demand for food commodities, because there's only so much we can eat. That is really the weather. And so far the weather is not playing ball. And then added to that this year, the really disastrous situation we got in Ukraine.

Erik: Energy is the other really big important commodity in a situation like this, and boy, oh, it's on fire. The thing that I really have a hard time reconciling Ole is I can easily make an argument in my head that says, look, if I look at everything going on with this worst cycle, the inflation, everything else. I can easily make an argument for crude oil well north of $200 a barrel. The thing is, I know that crude oil north of $200 a barrel will break the economy, and it won't take very long for it to happen. And of course that's going to crush demand. So if there's something that I would think eventually does bring a recession It would be if energy prices really start to go out of control. And frankly, it seems to me like we've got an awfully ripe setup for that to happen. What are your reactions? Would you agree with any of that or how do you see it?

Ole: Yeah, I think we have certainly been saved in terms of price rises in the short term, not only by the SPR, which obviously won't last forever. And then also the outbreak of the lockdowns in China, which is probably removed demand for in between 1 or 2 million barrels a day. That's the reason why we are at the back around the 100 level and we are close in Brent and we are at a $100 level in the WTI. But both of these are short term, they will they will eventually go away at that will what we're left with is still a large weight of the world. We are very skeptical about Russia, I think as long as the leaders the current leadership is in place, the sanctions may not necessarily be lifted, even though we had a peace deal tomorrow, because the relationship has become so toxic and has broken down to the extent that parts of the world will try to avoid buying products from buying fuel, gas, and oil from Russia. And that basically means that all the other producers, they will have, they'll be selling at higher prices than the normal and adding to that also on slide 11. The fact that OPEC+ is really struggling to meet their own corporate quotas. OPEC meetings have been at least for now become irrelevant, because they don't want to address the elephant in the room, which is Russia, and their inability to meet their targets due to sanctions and what have you. But looking at this is really only the GC nations in the Middle East that continue to raise production according to the quotas, whereas most others are currently struggling. And then we also have Iran and Venezuela where sanctions are preventing them from raising production.

So all this does leave us in a precarious spot. And I think that it is one that will continue to underpin the price but your trade as well Erik. You know also the technical setup, if we do break lower for whatever reason over the coming days could be in a deterioration situation China. We break 98, we could have a 5 to 10% down move in crude oil for just purely from a technical reason. Hedge funds have actually been scaling back positions in recent months. Part of that is due to margin calls and higher volatility, which means they have to cut down their nominal exposure. But perhaps also just the hint of some worries about one thing that supply will level perhaps also that the demand will start to suffer as interest rates are being raised.

But I think the long term prospects, the long term structural issues that the oil market is facing won't go away and that will continue to underpin the price. You talked about the $200 in terms of killing the economy, I think we've seen in Europe already. And that's on slide 12, the European gas oil contract. The ice low sulfur gas contract, which is basically diesel. We have hit levels already where industries are scaling back. I was on a Danish radio recently just doing a part of a program where they were asking whether the Danish fishing industry were pretty close to basically calling it old, because some of the old vessels just simply could not make money with the diesel prices that that they had reached. Luckily, we have come down a little bit but we are still in very high territory. And that also basically brings us to the point that it's not crude oil we need to look at when it comes to demand destruction. It is obviously the refined products. And both gasoline and diesel have not really corrected that much from the highs saw a couple of months ago. Refinery margins as a consequence are record high and that also highlight a market that is stressed because the demand for diesel and gasoline especially diesel is very robust, and especially also in Europe, because again I'm sure a lot of the consumers in Europe when they were filling up the car with diesel or gasoline. They didn't have a clue that most of it was actually coming from Russia. But it does come from Russia, I think close to half of that. And that basically means that again we have to look for our products elsewhere. And that's just adding pressure and upward pressure on the price because it's a very competitive market.

Erik: Ole something that has shocked me is I've seen credible analysts in the oil industry, remarking that look, you know, don't get worried about $200 oil. Saudi Arabia doesn't want $200 oil, it doesn't benefit them. They haven't taken action yet, but they're not going to let it get anywhere close to that because as soon as it gets over $125-$150 in there somewhere. They're going to turn the screws up and they're going to tap all of that massive spare capacity that they have. I think these folks are nuts. I don't think Saudi Arabia or anyone else in OPEC has any spare capacity left. If they did, I think they'd already be doing what they could. Am I missing something?

Ole: No, you're absolutely right. And I think we have to remember that Saudi Arabia's been pumping oil out of the same hole for the past what 40-50 years. And as you continue, then the quality will start to deteriorate. You will need more and more water in order to maintain pressure and so on. So I think the Saudis, their lack of response to the current situation that I suppose is twofold. They obviously want to stay on good terms with Russia. They've built up a close relationship over the past few years through the OPEC+ cooperation. But I think also generally I think there is a worry that they may actually not have that spare capacity. And the same goes

for some of the other producers that the market is looking for, especially when we have a situation like this where as shown on one of the previous slides, where were just three countries, Nigeria, Angola, Equatorial Guinea, they produce around half million barrels less than their quota. The fact that they don't step in and temporary to say okay we'll mitigate that by producing more ourselves. That hasn't happened. And that does indicate to me that they are pretty close to running at full throttle.

Erik: Our listeners know the expression that the cure for high prices is high prices. But I want to talk about the timetable. Let's imagine that starting tomorrow morning, there's this great big epiphany and all the folks that previously thought it was a good idea to phase out fossil fuels before phasing in their replacement, suddenly realized that we really, really need to invest in oil production and exploration and really increase global spirit capacity. And we need to start making those investments and start making them right now. But there's one thing, which is, as you said earlier, global commodity markets have to be balanced in supply and demand right now, not based on something that's coming online later. How long does it take if we came to our senses and really put investment into the oil sector tomorrow, something that is not really going to happen... How long does it take before we get to the point where we don't have to worry about this spare capacity problem anymore?

Ole: Well, if factors in the US could get all of the enough sand, water, and the labor and truckers then we may start to see some kind of support relatively quickly. But there seems to be struggling all accounts with regards to that. I'm obviously sitting very, very far away from there. So I'm not an expert at all, but at least that's what I what I read and what I see. So if it comes to the, again, the deep sea exploration progress that we've seen in the past, in places like Brazil, we are looking at several years, potentially half a decade. And that is obviously much longer than the market can cope with if we are when we are looking at as I said, this market needs to be prepared to be balanced on the database. So, we supply not forthcoming then, again, it's really only once one side of the equation that can give and that's the demand side. And that's again, so the high price is does play its part. We're seeing that already in Europe. The problem with food is obviously not, that's more, that's much more tricky, because we need food and water. We can scale back and change our habits when it comes to mobility and put building projects on hold if we can't get the source, the metal, or the material that we require. But what I try to convey to our clients, even if we have an economic slowdown, commodities can still go up. Because it is a supply and demand market if we are struggling with on the supply side. And even if demand is potentially slowing, then that doesn't necessarily mean that we are going to see the happy days of low prices return.

Erik: Let's talk about what the high price is that really breaks the economy because some people would say well when we got to $147 a barrel in 2008, you know, clearly that was the number that we just can't tolerate that. But if you inflation adjust that it's like $225 or so in today's dollars. We got a long way to go before we're back there. So how much room do we have before the cost of energy really becomes the factor that breaks the economy?

Ole: I think we first see if we see the return to the levels in gasoline and diesel levels or just around the panic, the panic surge back around the time when the war broke out. If we returned to those kind of levels, then for sure, we will see disruptions on a global scale and I think that's basically almost enough so if current margins are being maintained between the crude oil and the products and it doesn't really take more than then crude oil returning to the highest that we already seen for us for a sustainable period. If that occurs, then we do have a problem and I think also what's different this time compared to previous spikes in commodities is the fact that it's just across all three major sectors. Normally you sometime from time to time you had an oil crisis where you had maybe a geopolitical risk from the Middle East or Libya or what have you, you may be in the middle market, you had strike action in South America, you had had other issues at play, potentially supporting metals for a shorter period of time. food commodities obviously fluctuate with weather up and down. But this time around, because Russia is the second biggest exporter of everything, most of many commodities, it is just happening. It's why it's so painful, because it's hurting all three sectors at the same time, and then the prospects for that to ease anytime soon, obviously doesn't look like it's forthcoming.

Erik: It seems to me Ole, that there is a very specific time marker on the near horizon. And what I'm talking about is very specifically to where you live in Europe. Right now, we're coming into spring in the fact that Europe is so dependent on Russian gas for heating, and I'm talking now about propane, not about gasoline, the gas market in Europe, where a lot of the residential heating comes from, and as well as heating everything else. It comes from Russia. And you know, in the springtime, you don't have to worry too much about losing your heat. If we get to the autumn when we're starting to get to freezing temperatures in Europe, and all of a sudden, there's a political escalation, and Russia shuts the valve off. I've heard a lot of different analysts talk about how big of a deal that would be for Europe, and I'm not sure who's right. So how big of a deal would that be for Europe, and what can be done between now and the fall to mitigate those risks?

Ole: Well, first of all, political will to support and help pay for gas outside of outside of Russia have to rebuild our storage levels, we can see that on slide 13 in the deck that we actually had a reasonably good start to the rebuilding process gas in stores in Europe has picked up quite well to the last few weeks. And that's part of that is due to we've had a bit of a warm spell here. But also, for strong arrivals of LNG, especially from the U.S. The problem right now is that the summer winter up simply doesn't work. Because normally some of gas prices would be quite a bit lower than the winter price. Winter price I mean October to March. Right now, the summer the spot price in Europe is around 100. And actually we rally today because the signs of Polish supplies for Poland is being turned off. But we'll know more about that over the coming days. But we're trading above a 100 euros per megawatt hour that is basically higher than where we are trading for the coming winter, which is somewhere in the just below that. So you have no economic incentive to buy gas, put into storage and sell it at a higher price during the winter period. So that basically means that requires a political will, which I probably think we will find to ensure that we get these gas storage levels up to decent levels because Russia is the last case right now.

Ole at the height of the pandemic, the big supply chain issue with semiconductors and also anything pertaining to home construction because there was a big boom and people trying to get out of cities and build homes in the country and so forth. My building friends tell me that the escape COVID building boom is definitely slowing down. It seems like the semiconductor stuffs coming into line, but I'm hearing that broader commodities are not so much a price issue, but just can't get it there. There's a lot of supply chain issues with availability of just things like copper and nickel and aluminum and so forth. What's going on there? What's driving it? And where's it headed?

We're looking at the again on slide 13, you can see Gazprom has basically brought down the storage levels that they have for controlled youth facilities. I think that was only a three because I think one was taken over by the German authorities in order to ensure supplies, but it has basically come almost to nothing. So we are facing a very challenging summer in terms of getting gas supplies rebuilt. But even at these current prices. I just I just last week, had a bit of shock, I paid three and a half dollars for a cucumber. And that's US dollars that have never only seen that in Norway where my wife is from. They pay the highest prices both for diesel and gasoline even though they produce a lot of it but also pretty high very high price for food commodities, food items but a cucumber cost me three and a half dollars, basically, because obviously the greenhouses, they can operate with gas prices at these levels. So we will see more of that over the coming weeks and months if we don't start to see these prices come down. And again, you mentioned oil before and that duration is how long you could take before we get supplies rebuilt. The same goes for gas it's there are also low hanging fruits with increased supplies from Norway increase imports of LNG. And potentially over time, if we ever should become friends with the Iranians again, then I think Iran is probably sitting on the world's biggest gas reserves. So there's plenty of gas to tap in there if the political will is there. But again, this doesn't happen overnight. That could easily take years.

Well right now we're seeing some taking on slide 14, you can see I'm just putting high grade copper, we broken the uptrend from the 2020 low. And that is again that's technical driven and based on based on worries about what's happening in China right now. But I think if we, I think we just need to stay focused here because China will come back, they will increase spending, they will stimulate the economy, they cannot live with growth. So much blows five and a half where it's heading right now, they will stimulate growth, I think that growth will be not in heavy industries, they will not be building any more steel mills, but they will be looking at the numbers looking at the green transformation as well. They'll be looking at projects that is in that part of the economy. And again, that will require plenty of industrial metals, and especially something like copper. And I think looking at the supply side of copper we got we had recent elections suppose in Chile and Peru, there's a growing demand for a bigger slice of the revenues. That is that copper mining industries they produce in chain Chile and Peru. And that potentially could challenge their ability to grow and expand the business. Chile is running into a 13-year drought. And water scarcity in the capital is scarcity around the country. And the water is a major source required for the mining of copper so there's just plenty of obstacles.

And the green transformation in Europe which we for sure will be heading towards. If you are a normal household in Denmark as an example that use around 4000 kilowatt. If you didn't buy electric car, you will use 8000 kilowatt. If you didn't buy a heat pump, because you don't want to expensive gas bills, it probably goes up to around 12,000 kilowatt, all that kilowatt has to be delivered to your house. And the regret that is probably will start to choke eventually, because you simply cannot cope with that kind of capacity increase that again requires a hell of a lot of investments going into the infrastructure. And that's again where I think copper is sitting right in the middle. So I'm very bullish on copper. Can't deny that it's been a range bound market for the past year because it is the metal that's mostly used as a from a macroeconomic perspective as well. And that basically means it has been striking given some of the adversity have we seen with interest rates starting to go up but at the end of the day supply and demand rules. Demand will go up, supply will be tight and that makes me believe that we will see record highs in copper eventually.

Erik: Although let's move on to precious metals a subject near and dear to many of our listeners hearts. I guess my view has been quite unpopular in the precious metals community, it seems to me like for the most part, all of those predictions the gold bugs made that was going to send the price of gold to 5000 bucks came true. We've got massive massive expansion of central bank balance sheets were debasing the currency we've got inflation looks to me like this inflation is going to be a secular inflation that is going to last a long time. All the things that we're going to send the gold price to the moon happened except the gold price. It's my eye hasn't really gone anywhere. Am I missing something?

Ole: Nope, you're not. And if you are gold bug and you only trading gold you obviously sitting there feeling pretty letdown. But if you are looking at your gold as part of a portfolio, I think it's doing great. If you are obviously in dollar terms gold is only up around 4% this year but if we take the dollar strength into account that we've seen so far this year. If you're here in Europe, I'm currently looking at a 22% outperformance against the European stock index, the Euro stocks 50. I'm looking at a 19% outperformance against the core position of bonds. So with that in mind, I'm very happy holding a gold position. So why hasn't it moved? Well it hasn't moved for several reasons. I mean, the first one and the reason why a lot of banks were actually quite negative on gold at the beginning of the year was this prospect of real yields going to zero. Well, hey, we are at zero now and we have rallied by 1% during the past few months, gold hasn't moved, that does indicate or actually gold has been moving up, that does indicate they are other bigger fish to fry right now. And I think those are a combination of a very strong retail demand. Because you and me and everyone else Erik a year ago inflation was something we talked about as something that might happen. Not really. And many of us probably haven't lived the time where inflation was actually an issue. I remember when my dad had to buy an extension to come from a farm. And back in the 80s, the loan was 20%. I think we haven't seen that in the Western world for many years. So many people just simply doesn't... inflation is that is abstract. Now fast forward a year and boy, we can all feel it on our pocket, how everything is just going through the roof and inflation starting to rise. Your mortgage rates are going up. Your food items you're buying in supermarket is going up. The cost of filling the car going up. The cost of building anything is going up to the point that builder so right now they won't give you a quote

because they'd say we simply don't know what the price will be tomorrow. So you'll just have to accept that we will bill you when we go out and buy the goods that we need to for a building project.

And so it's not abstract anymore with something we feel and that basically means that created a reaction among investors because it's well, how can I protect myself against this and they'll look across the space and they'll look at Bitcoin. And I'm sure a lot of people have been looking at gold. So retail demand is strong. Central bank demand remains firm. And then also the big change from last year was space, the fact that asset managers have started to return to gold last year, they have 2020 the pile into gold in anticipation of stimulus, bringing inflation which then didn't materialize and asset prices that would dump. Last year, we had a very very strong year across the equity market. So the need for diversification was not there. So we just saw a steady sell off of asset managers holding in gold last year that you can see that through the ETF holdings. Ever since the beginning of December last year, they were seen holdings almost rice on a daily basis, they are making a change in their portfolio, they are hedging themselves against a so called policy mistake from the central bank that basically that they kill growth too fast and too soon, and thereby having to reverse some of the tightening.

And at the same time, they also were seeing this incredible volatility, especially in the bond market, but also in the stock market. That is something you want to guard yourself against. And then obviously, in addition to that, we have the war on Ukraine, which is where we go from, from a nuclear threat one day to something obviously much less serious than the next one. But all in all, just all the drivers that will attract demand for gold recently. And that's why I put this in on slide 16 a key driver for gold has actually been crude oil. And I think that makes perfect sense because crude oil right now is an inflation gauge is also a geopolitical risk gauge. So when crude oil comes down gold has been struggling a bit. And I think that's part of the together with what we've seen in China now for the past few weeks. That's a reason why gold has come down because oil prices come down. We believe oil prices will find a plateau and move up again. And I think the prospect for an economic slowdown to the extent that the rate hikes may have to be paused at one point, will continue to add demand for gold even though we got this rise in reliance.

Erik: Ole, we've got just a few minutes left. I see a couple of slides here about agriculture and so forth. But what I'm most interested in is how should our audience think about putting money to work in this sector as we look at all of these catalysts for a major supercycle? Is it about buying the commodities? Is it about buying equities in the companies that produce the commodities? How do we play this? What do we do? How do you make money on this?

Ole: I think in the short term Erik, we have an exposure to the actual commodities is the best option because we are currently looking at the stock market which is not exactly falling out of bed but is most certainly not doing well. There is a risk that we'd see even steeper losses and that will send some of the commodity related companies lower but based on our of our view that that commodities will remain firm. And that basically also means that the profitability of some of these companies will remain incredibly strong. That means that we should be looking for

opportunities over time but in the short term, potentially buying into the actual underlying commodities I see as the best way forward. There are a decent amount of ETFs available. I like the broad exposure, given the kind of volatility that we are seeing. You mentioned agricultural, it is an area which I would like to avoid, but obviously, because again from the repercussions that it has for food prices, that is a speculative buying going into the sector so the broad exposure where we primarily focus on the metals and the energy, but we can see from looking at the companies that we created several equity themes at Saxo Bank over the past year or so, we just find that as it's telling us a much better story than if you're looking at sectors and what have you, because then you can spread across markets, across countries, and just basically pick up some of the main contributors to the different sectors and is looking here on slide 20, you can see these 20 companies and you're gonna see how the basically right now it is at the top of the heap even though we've seen this current correction still up 50% over the past year, so it makes companies will do great over the coming years. I think there's no doubt about that.

Erik: Ole I can't thank you enough for a terrific interview, but before I let you go, please tell our listeners what you guys do at Saxo Bank and how people can follow your work.

Ole: Well Saxo Bank is a global provider of access to markets. We got offices around the world I think with the exception of North America actually. But we serve as a global client base. And my role is covering commodities from a broad perspective. I'm not a specialist, I'm a bit more of a generalist because I focus across markets, but we have a tight knit team work together best part of 10 years where we support each other and that basically results in daily output. So we have a daily podcast which I will highly recommend, it's been growing in size over the past two years. Just look up Saxo Market Call and you can find that on your favorite podcast app. And otherwise you can look out to our research hub analysis.saxo. You're always welcome to follow me on Twitter at @Ole_S_Hansen.

Erik: Patrick Ceresna and I will be back as MacroVoices continues right after this message from our sponsor.