MACRO Voices
with hedge fund manager Erik Townsend

Ole Hansen: Commodities Can Go Up Even In Recession

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Erik: Joining me now is Ole Hanson, head of commodity strategy for Saxo Bank. Ole has prepared a terrific slide deck to accompany today's interview. Registered users will find the download link in your research roundup email. If you don't have a research roundup email, it means you're not registered, just go to our homepage, macrovoices.com. Click the red button above Ole's picture that says looking for the downloads.

Ole, it's great to have you back on the program. Let's go ahead and dive into the slide deck as we get into page three here you talk about commodities in general,. Give me the big picture of where we are in the cycle because my feeling has been the 2020s are going to be the decade you want to be long commodities. But I also felt like we kind of got ahead of ourselves a little bit in the recovery from COVID. I was thinking there's got to be a big pullback. I know that a recession is coming. At some point there's that buy the dip moment where if you could somehow magically have a crystal ball and know where that bottom point is. That's where you want to go long commodities and stay long for the next decade or so. At least that's been my view. Well, first question is do you agree generally with that view, but the next one is what's your crystal ball say? Are we there yet or should we wait for a recession?

Ole: Well, I wish life was that easy, Eric, and thank you very much for having me back. It is a very interesting time in in commodities and you're absolutely right, we probably ran ahead of ourselves a bit, just not only from the COVID outbreaks, which just triggered this massive surge in demand for raw materials, but also the war breaking out in Ukraine which added some additional rocket fuels to some of these individual markets. But we have been trading somewhat lower since then we are stabilizing, I would say at this point in time. But the long term outlook I think, is still one where we were we're looking at scarcity of supply of several key commodities where the upside potentials are still there. But it's also difficult for investors right now to navigate this market because we got quite a few contradictions going on. Right now. We have the dollar, which has been strengthening all year, it's creating some headwinds.

We got demand which, which is softening especially in China, but whether it's obviously worries about the recession incoming and the extent to which that will have an impact. And then we got supply also, several key commodities being challenged. We obviously all know the situation right now in the gas market, especially in Europe, but also energy supplies in general. And some of the metals. So timing wise, I think the everyone is right now looking for the rollover in

the Federal Reserve's approach to interest rate hikes. And I think that will be a key moment for the commodity sector as well because the market needs some more clarity on the trajectory of the dollar. And if we do see a rollover, that potentially could be quite a quite an event that the market will respond to in a positive way when it comes to the commodity space. But I think what we're finding as well, and what has changed since the outbreak, and then that's some of the themes we're picking up here on page 3 is basically that the world has changed.

The world is... we're seeing breakdowns in trade relationships. We have a new geopolitical situation and it basically means that some of the themes that we like from an equity investment perspective are also themes that really spills into the into the commodity space. We like to use equity themes as our guide to what moves markets here at Saxo Bank and we made these different equity themes, and those are highlight are the ones that we like. And we can also see they are the ones that have been on top in terms of performance, so far to this year, which obviously has been a year with dismal performances across many different themes. But it is the commodity space, it is defense, its nuclear power, its renewable energy, it's probably India sitting nicely in between East and West. And it's obviously cybersecurity. These are all themes that we would like. But our main thesis is basically that demand will potentially slow a bit, but supply will remain tight.

Inflation is going to be higher than we anticipated in the past simply because and I'm referring also to some of the latest update that we had from sultanates at Credit Suisse, basically, he's using these reshoring and rewiring. The reshoring due to globalization, rewiring of the grid, the energy transition. These are real and these will really be quite commodity intensive and over the coming years. And we basically believe that that will drive inflation to a higher level than where we have seen in the past. I think the underlying inflation in the US for the past 20 years has been in the region of 2% We could easily see that at least twice, twice as high over the next decade so four plus and that is something that is not priced into the market at this point. And that could potentially create a revaluation of some of these markets if the market joins us in that in that belief.

Erik: Okay, this really brings an important question to my mind because a few minutes ago, it sounded like said, look for getting to that terminal rate on rate hikes, you know, when the Fed is done hiking, and we've hit that maximum policy rate level before they start easing again, maybe that's the optimum time to really be backing the leverage truck up and then stocking up on commodities or commodity producing equities as the case may be. But I think we also agree that most people, including the Fed are not being realistic about what I think is a secular inflation. So it seems to me you get to what everybody thinks is a terminal rate on policy, and then it turns out that the inflation doesn't go away. And maybe that doesn't end up really being the terminal rate, after all, am I right to think that or how do you think about what may be coming?

Ole: That is the risk, basically the economic slowdown happens before they managed to get inflation under control. And also then the realization that the longer term projection for inflation has to be at is going to end up at a higher level than what we have been used to in the past.

And I mean, again, with a world which is so heavily indebted, as it is right now, some inflation is what would help the help bring down some of those debt levels. So I think at this point, they're sticking to their beliefs in inflation coming back down to those levels, but I think it will turn out to be more sticky then we expect and then obviously, they have to, they have to make a decision about where the terminal rate has to be in if we are entering into a high inflation and high inflation environment. But that's also an environment where I think tangible assets are. We're likely to continue to be in demand. Investments in general into tangible investments, compared with the intangibles that has been the main driver of stock markets for the past decade.

Erik: Ole, so moving on to page four, you've got what looks like just a wonderful shopping list for our listeners of stocks that are producers of all of these commodities. But I want to clarify the meaning of this. You know, sometimes when a bank produces a list, it's their picks. This is what we think are the best investments. Other times, they're just giving you a list of these are the representative companies that make up the sector and it doesn't really reflect any endorsement or belief on the publishers part that at that particular stock is a good one. What is this list? Is this your list of favorites or is this just the market.

It is the markets primarily and again, there'sbobviously some smaller companies, which where you can get a lot more bang for your buck. But these are the big, the big companies represented within the different sectors of agricultural energy and metals. So it's primarily based on size and its global reach and its availability from a trading perspective. So this is basically the basket that has created that year-to-date 14% return that we showed on the on the previous slide. So these are the ones that we primarily focus on when it comes to that. They're obviously as I said, individual companies outside of this list, which potentially could be even more interesting, but it's we first and foremost looked at, at the having a decent spread across the different sectors. And then from top down looking at from the biggest companies and downward.

Erik: Let's move on to page five and a subject that's near and dear to my heart lack of investment, particularly in the energy industry. And I would say a misplaced ESG agenda. Certainly I'm for it being responsible and being green. But I think the way that we've gone about it hasn't worked very well. Tell us a little bit more about what you see in what we should make of the graph here on page five.

Ole: Well, it's just a little bit of an addition to what we already talked about. Basically what drives the commodity supercycle which we was really started to become something that was talked about almost two years ago. It's paused now but the fundamental and underlying reason for believing in the commodity supercycle is, I think has not gone away. And I think the main, the main driver there is the lack of investments. We've got the major oil, the big oil companies, so reporting this week, obviously interesting to see how they're going to have to how they're going to spend their hard earned cash, which obviously will be in at a very high level. But we are seeing a market of companies just simply struggling with this transition and the speed of it and or the timing of when we're going to see the big switch. And I can understand a big oil major looking at an investment that potentially could take five years before they start to make their money back. And then they have to make their money back over the next five to 15 year period.

And we just simply don't know what the demand outlook will be would look like in for fossil fuels in 10 years time. So and that's really the challenge they're facing and ESG has obviously been a major obstacle as well was a lack of investments, lack of funds being made available for projects with both within the energy and the mining sector. So that remains a key part of the supercycle. And I think also the one that hasn't played ball this year, and that's the weaker dollar, which obviously has strengthened. And I think even considering that is still quite a phenomenal performance we've seen already this year, in a year where the dollar is up as much as it is.

Erik: And what's your outlook for the dollar? Some people are saying, look, there's got to be some kind of Plaza Accord or something. |We can't dare to let it go higher. Other people are saying we're just getting started here.

Ole: Well, it's helping the process of killing growth, because it's just making everything really expensive for everyone who's not based in the base in the US. So in that sense, it has been sped up the slowdown in the economy, which obviously is what the central banks are looking for right now. Because that is the instrument they have available killing growth by hiking rates, and then supported by a strong dollar at the same time. But if we get to the point of a rollover in yields, I would expect the dollars to at least to pause or hold, and eventually start to make a turn around. The focus that will be on the Chinese Renminbi which has weakened quite substantially, and especially the Japanese yen where there's just simply no, the only buyer right now seems to be the Bank of Japan. And that will change when we see that turn because we will have more clarity on the interest rate differentials in the markets. And so we'll keep an eye on the yen and we'll keep an eye on the Renminbi. Interestingly enough, we actually have seen the net buying in the Euro dollar for the past two months, even after we broke below $1. Broke below parity. If you look at the speculative data that I collect on a weekly basis from the CFTC. We've seen the length in the Euro actually go from a quite substantial short to a decent long right now so a good indicator. We are starting to see some underlying demand or speculation that we were getting close to a through in the Eurodollar at least.

Erik: Although let's move on to page seven and eight because as a commodity trader myself I'm extremely interested in backwardation and contango and particularly, whether it jives with the rest of my economic outlook. Let's start for just some of our listeners who may not be commodity traders with a quick review of what backwardation and contango what those terms mean, but particularly what we're seeing in the current market.

Ole: Well, backwardation and contango is simply the shape of the futures curve because it tells us a story about whether the market is in tight supply or over supplied. Right now, we are seeing backwardation across most major commodity futures. And that basically is telling us that while it's basically showing that the front month contract is the highest price on the curve basically indicating that, that the bias of commodity is they are prepared to pay a premium for immediate delivery and that does send the signal that this market is not in ample supply. That's the opposite of what we've seen for a number of years where the market was actually in

contango. That would that you can see here on the on the left hand side, that's basically the weighted average of the Bloomberg commodity index that's 23 commodities and total, the weighted one year implied role yield. So basically, if you bought those three commodities 23 commodities and held them for a year, on the weighted basis, according to the index, you would happen between 2006 As far as back this one goes, and then more or less all the way up to 2020, you would have a negative role yield. Basically every month when the underlying futures were rolled, you were losing out because you were selling cheap to buy the next one at a higher price. That's what contango does to you.

Right now, it's the complete reverse and that's really kicked off when we saw the recovery of during the pandemic in 2020. And this snapshot is just a couple of days old, it just shows you where we got the biggest backwardation right now. Just look at something like the heating oil in the in the US and also gas oil in Europe and gasoline in the US. If you are holding that if you're buying that, if you buy that contract and expecting it to be unchanged price on change in a year's time, you will pick up more than 25% roll yield on heating oil and you can see 15 More than 15 and more than 20 on the two others. That is a very forceful driver for investment demand because that's basically giving you a positive carry on a position and obviously has to be said to you talked about recession. This is a reflection of mostly of the spot market demand supply and demand right now, but it still indicates that the market is not in any hurry to price in a recession at this at this point. And just on the impact from an investment perspective, just take a look at slide eight, I put in the biggest ETF tracking the Bloomberg commodity index, I believe it's called iPath Bloomberg commodity and the Bloomberg commodity spot index. The spot index, basically the orange line is just basically tracking the front month contract.

And if you look over the last five years performance, the spot index just indicate that you would have made a 55% return during that five year period. But if you actually look at the ETF, you only made 39%. That is because throughout most of that period, you had a negative roll, which has to be reflected in the lower performance of the ETF. If you just fast forward and just take a look at the last year, you can see how it's flipped around. Now you've been doing this last year, the ETF has given you a return of 6.6%, while the actual spot index indicate that the performance should have been flat, and that's what backwardation does to your to your return. And that's something that from an investment perspective, you have to keep in mind. So if we're staying within a prolonged period of, of market tightness, and the general belief that commodity prices are just trading flat to potentially higher than there will be a role yield or return to be be harvested from being long ETFs in commodities.

Erik: I'm particularly fascinated by this connection between backwardation versus contango and a recession outlook because a lot of people hold the view, as you just alluded a moment ago, that when you see a market that is in backwardation, which is what we have now, that's an indication that we're not headed in toward any kind of recession, because markets are in tight supply, and that it doesn't make sense for that to occur in recession. But I think there's also another side to that, which is you could spin it another way and say, what the backwardation is telling you is that we're not headed for deflation. And if you look at that view, they say, oh, wait a minute, maybe what it means is, if we're going to have a recession, which I think we are, it

doesn't mean the inflation is going away, because it may be that the resurgence of secular inflation is actually a cause of the recession. And it may be that the inflation persists even during the recession. It might, is that just wishful thinking? Am I trying to persuade myself to to believe in my own outlook, or does that make sense?

Ole: No, I think you're absolutely right Erik. And that's also it basically is one of the thesis that we are putting out right now that we can have a recession high commodity price at the same time. Because one thing is whether and I would say almost at this point in time, you will you're almost need a slowdown in demand for some of these commodities, just in order to make sure they don't rally even further. I think the energy is a clear example of that, because the supply side is challenged that equally challenge across some of these markets as well. So yes, the input costs from commodities can remain elevated, and potentially even move higher, even though we have recession because the inflation that we had is also making production costs and so on, has increased the cost of production. So that has to be factored into to commodity prices as well as in order to make it viable. So yeah, I agree with your with your view that the recession is not necessarily one that means lower commodity price, because the supply side is equally important.

Erik: Well, that brings me back to my earlier question, which is I've been thinking that the time to invest in the commodity market for the long term, if you wanted to put on that trade that you're going to hold for 10 years and just be long a basket of commodities, because I think the 2020s are going to be a commodity decade. I was previously thinking wait for the recession, so that commodities bottom, but I think we just agreed that it's actually commodities, not bottoming, that could be the cause of the recession. So does that mean right now is the time to put on that trade? Do you wait for something? How do you time this?

Ole: Well, I think we are only a month away from some major development in China, in terms of adding stimulus into the economy to support a recovery from these pandemic lockdowns which clearly has not worked very well. So China coming back together with the potential Frewin in the in the yields, and without a weaker dollar. I mean, that that is really a potent cocktail for for commodities. And in terms of sending prices higher. So I think we are, we are within without we are within a short period of potentially hitting low if we haven't hit it already, because they again, the markets responding is what we know. And everyone is taught screaming recession. And you would have imagined given the fact that was well that some there are traders in these commodity markets who are using a macro economic overlay for making their investment decisions and trading decisions. And that's been part of the selling that we've seen in in recent months. So some of that that recession has been priced in, I would say almost at these levels, and the market has been holding up remarkably well. I would say especially the energy where there's been constant talks about a near term collapse, and I just don't see that coming.

Erik: Let's move on to page nine now for commodity futures traders like myself. The commitment of traders (CoT) report is kind of the holy grail of weekly data. Tell us what it is for some of our listeners who aren't familiar with it?

Ole: Well basically just considering the futures market as a big pie, because it's a closed circuit. So you have for each long, you have a short, that basically adds up to a total number of long and short that is the open interest, that open interest can be broken into specific users. User groups which is handled by the CFTC in the US. When it comes to commodities as you can see, the breakdown of the open interest is put into four major categories, producers, merchants, processes, swap dealers, manage money, and then the bucket which contains the rest is called others. And that's why the commodity space, especially I think, is interesting, because most of the trading activity always ends up in the futures market in some way or another. And that basically means if you look at the manage money category, especially, that's what I follow primarily and I used to work for a hedge fund myself by back in my days in London, and we were behaving in environments in the sense that many of these money managers do behave, because what are they? Well, they're not married to the position first and foremost. They're not as, as we mere mortals sometimes get into a situation where we believe we are right and the market is wrong. The hedge funds, they always listen to the market. So they have tight stops and no underlying exposure most of the time. That basically means they are reactive to changes, or they're very reactive to changes in the fundamental or the technical price developments. And that basically gives us a good idea about not only the major trends, so the size of the position relatively to the historic norms, but also what kind of impact the potential reversal in the market could have on the price action, especially when we that is, obviously we've seen that quite often when we have very elevated positions, and suddenly the tide turns for whatever reason, then we know there is a potential quite strong counter reaction from funds simply having to reduce their positions.

And what I want to show on this is really that the market is completely unprepared for or the manage money, right now is completely unprepared for any further increase in the price that obviously does go hand in hand with the technical picture, which is not really sending any strong signals right now. So that is one of the reasons why we why we see such relatively low positioning, even though we have commodities, some commodities, still at a quite elevated levels, but it also highlights the fact that if we do see breakouts, or we see some renewed demand come into play into individual commodities, and we see some technical developments, then we will also see these funds reverse back into the market. And they will provide some additional tailwind.

I just put in the table in on slide 10. It's a lot of numbers, but it's just my weekly that's my basically my radar. I publish that weekly, both on Twitter and in our update which can be found on analysis.saxo. So this is basically my radar where, I just keep an eye on the changes. And the keep an eye on the size of the positions, whether we're getting into overbought, oversold or overextended are under appreciated markets. And thereby that basically means when we get to those keep a close eye on when we have any change in the direction. And a good example was gold where we just recently had, I think just two weeks ago, we had the biggest short in four years, we got rejected at 1617. The key level, which we'll show later, and then the market rallied almost $100. That rally was primarily short covering, because we went from the biggest short in four years to a small long. And it also reflects why the market didn't continue because the news underlying news were not strong enough to support a recovery from that point. So the initial

move was one of short covering. And now that we since then we've been drifting lower again, so it is just my as I said, my radar for how the professionals view the price action in different markets.

Erik: I just want to add my own endorsement Ole, which is if you try to process the Government published Commitment of Traders data yourself, it's incredibly arcane and difficult to follow. Your graphs and charts are absolutely fantastic and they're free of charge. So you don't want to look at the government's version, you want to look at the same charts and graphs that we're looking at here on pages 9 and 10 and you can get those on a continuing basis will tell you at the end of this interview exactly where to go to find them.

Let's move on to energy now. Before we get into slide 11, where you're talking about OPEC cuts, I want to just start with the big picture. And by all means please speak up if you disagree with me, but a lot of guests have agreed with the view that I have, which is we've reached a point where I'm convinced it is not possible for the economy to return to pre-pandemic normal, so to speak, because we simply no longer have sufficient supply of oil and gas in order to support that and yeah, we're gonna get to an electrified economy and green energy and everything someday, but we're not there yet. And the world runs on oil and gas and we don't have enough of it.

And furthermore, I've made the argument that It's not a problem that you can change by just changing policy and pushing a button, it takes several years of investment in order to fix this problem. I think that means that we are at the very early stages of a global energy crisis. And I think that a lot of the difficulty Europe has experienced already is coming to the rest of the world. Do you agree or disagree with that view and why?

Ole: I do agree. The strength of the move higher is obviously up for discussion. But the underlying reasons for the tightness that we're seeing right now, it's not only caused by the West cutting off Russia as a meaningful source of supply, at least for now. It is the lack of investment and that is driven by as we talked about the uncertainty regarding the long term demand outlook for fossil fuels. And it's creating a potential, at least a five year period where we could see prices just remaining elevated. And that's even if we see a slowdown in economic growth, because we still need to the underlying demand is not going to be that significantly impact. Yes, the pandemic was a massive blow nut that was just the whole world shut down from one day to the next. But if you look at previous recessions, the drop in demand has not been that great. And I think what is interesting right now, even though we have all these predictions for lower growth next year. We still have not seen any, I still haven't seen anyone actually predicting a drop in demand next year. I'm still seeing demand growth coming in next year. They have been moderated in recent months. I'm obviously thinking here about OPEC, IEA and EIA, their monthly reports. But even some of the banks have yet to sort of change their outlook towards a contraction in demand.

And then that basically brings us to the point well, this market is not a status quo market. We need to find 5 to 8 million barrels on an annual basis just to maintain status quo. And it's

investment required to find those 5 to 8 million barrels at a time where we're big producers like Saudi Arabia is getting close to their capacity. That is the big challenge that we are facing and that just requires a lot of money and a lot of investment and this is the challenge that I think we are facing. And added to this in the short term and that's also that's why I put in these OPEC+ cuts. We just have to understand the again the crude oil is not crude oil crude oil has different qualities and and also where we have the tightness right now. The tightness is found in the distillers market. It's diesel, it's heating oil, it's jet fuel. And we can see that on the crack spreads both in New York and in Europe, these are the red lines on the on the right hand side on slide 11. We have very elevated crack spreads right now so refineries are making decent amount of money on their refinery and that's simply because the demand is strong and inventories are low.

And then into that OPEC+ decides to cut production by 2 million barrels. That effects will probably around 1.1 - 1.2 million but who can make those cuts? It's really only Saudi Arabia, UAE, Kuwait and a couple of others and the problem with that is these three major Middle East producers they produce this high yielding distillate barrels so the heavier grade which is perfect for producing diesel among others, we have enough gasoline right now. It's diesel that we are missing so basically they're removing 1.1 to 1.2 million of high yielding distillate barrels that have to be replaced by potential lower yielding crude from other sources.

And I think that is the that is another key that don't look so much at the oil price but look at the price of the underlyings and they remain elevated in Denmark and right now diesel is more expensive than gasoline. That's only the second time it's happened in the last 20 years. And I think that goes the same scenarios and unfolding elsewhere. And diesel is really the workhorse that's required to keep the wheels running at a time where obviously gas prices are as high as they are so if you have a generator standing at the back of your yard or your factory you will obviously burn as much diesel as you can because even at these levels, it is historically cheap relative to gas.

Erik: And for the benefit of Americans in the audience. When you say relative to gas you're speaking relative to natural gas since Europeans refer to gasoline as petrol. Exactly. Many Americans think of gases as meaning gasoline. Speaking of natural gas, all that helped me out here just a few weeks ago, it was unanimous agreement among all of the experts that I interviewed on this program all of the analysts that I follow everybody said the same thing which is look if they don't turn Nord Stream back on Europe is in big trouble. Everybody's gonna freeze before the winter is over. It is you know, the sky is crashing the world's coming to an end we got to do something to get Nord Stream back on and then when the Nord Stream pipeline was sabotaged, the doomsday bloggers took over and said, Okay, this is it. Armageddon is here. Half of Europe's gonna freeze to death. Somehow this week that has shifted to actual serious discussions of the possibility of negative natural gas prices in Europe because of a supply glut, there's suddenly too much what the heck happened?

Ole: Well, what happened was that we all put on a jumper and turn down the heating. And then we've been also had the fortune to be supported by mild autumn weather, I think just like you're seeing in the U right now. The weather has been, at least for next few weeks, we're

gonna see weather in Europe temperature be in a region of 4 to 8 degrees higher than what we have this time of year in late October, early November. That's having quite a significant impact on demand.

But at the same time, collectively across Europe, private individuals are I mean, discussions at the dinner table has gone from how fantastic property market has been doing for the last 10 years to how on earth can we save on our gas bills because they have really become punitively expensive. So there's been a lot of waste as well. Industry has been used to cheap gas for a long period of time. So it wasn't really where they put in their efforts to preserve or to cut back. They're doing that now and that's collectively happening across Europe. So that basically means that demand for gas, natural gas has come down quite significantly already, I think in the region of the estimates I'm seeing in Region 15 to 17%.

At the same time, if we look at the pickup we've seen from LNG, flows into Europe and also increased flow from Norway. The net flow into Europe, including Russia is only down around 12% year on year. So right now the flow is down by less than demand has gone down. And that basically means inventory levels has managed to build very strongly just like we're seeing in the US right now. So we were getting pretty close to tank tops. And that led to the situation where we saw just yesterday, or this week, that briefly we saw the next our cost of gas going negative. So we had a bit of a WCI moment in the European gas market. We'll continue to see the first month so it's the spot months be quite volatile and potentially trade even lower than the 100 euros that we are seeing right now, simply because the if the mild winter continues and we got LNG ships lined up to deliver the cargoes, then that will keep the price on the pressure. In order for this to have two things. First of all, we will not we will not see a WTI moment as such in Europe because obviously the this flow all depends on gas natural gas coming in via LNG. And these LNG ships, they can obviously divert their costs and go somewhere else to offload the natural gas if they if the price becomes economically unattractive. So we're not going to see the price complete it collapse. And that's also important for this to be maintained to become hopefully a success story into next year, that we do still need higher prices, basically simply to kind of make sure that demand is not going to that we become a bit laissez faire again and we start to go back to our own old habits.

So what I'm looking at right now is really the spread between the current spot months and the peak winter contract of February, which is currently trading around 45 Euros. So basically, meaning that the peak February contract is still trading above 140 euros. If we look at the next one, so it's still trading above 130 euros. These are really the ones that we need to see come down in order to start to get to be a bit more relaxed about the longer term outlook. But obviously every day that the we have this warm weather in Europe, with the potential for us, leaving the EU with higher level of inventory that we otherwise would have thought is obviously rising. And that will make the next refilling season a little bit easier to get through.

Erik: I got an email from our mutual friend Tracy Shuchart, a well known oil trader, who asked me specifically to get your outlook for 2023 natural gas. I think her view is, look, everybody is mesmerized by what's just happened. She said, look, we got a gift here of nice weather, it's not

going to last. That doesn't mean the problem is over. The problem is very real. We just got very lucky with autumn weather that's not going to last Do you share that view or is the problem really, truly getting better?

Ole: Well, I think in order to get lucky, we need to see gas prices, natural gas prices dropped well below 100 because we have to remember the long term average is less than 20. So in order for it really to have an impact on the on the cost of energy in Europe, we need to see it much lower but from the position that we traded 200+ even 300 just a few months ago, then just the fact that if we can, if we can settle into was to a price around the 100 Euro level, then that itself I think will be a relief to many industries because one thing is the price that they're paying. Another thing is the uncertainty about where prices are heading. And I think with Russia's ability to spook the market and sharply reduce, we really only have two pipelines left one going through Ukraine, and one going through Turkey to the turkey one, they will not charge because that's going to Russia friendly consumers primarily, and the one from Ukraine. I think most forecasts are basically expecting that one to be closed down as well. And that potentially is not going to have a significant impact on the market because of the current flows from LNG.

But the two biggest challenges. First of all, obviously the weather. Whether we hit a very cold winter. So far, no signs of that. But who knows? January, February is normally the time of year where that happens. And then also if we do see a revival in China, leading to a bigger demand for gas. Because gas demand from China has been weak in recent months, I think we even seen gas supplies, gas going through China being diverted to Europe, because the price would be better here. That could obviously reverse and then that would make the filling process a bit more challenging. But in terms of prices, I think we'll see prices into next year stabilize around the 100 Euro. The winter next year is as I said, 130 plus but that one will come down if we get through the exit this winter was with a higher level of injury inventory that we forecast. And I think the the chance of that happening, given what we're seeing right now is rising.

Erik: Let's move on to copper on page 13. Obviously, a very important commodity. What do you make of this, and particularly something I've been thinking about is it seems to me like the energy crisis that I think is coming is going to put a real dent in the ESG movement. I don't think it's going away. i And I very much think that we need to invest in electric vehicles and electrifying the economy and so forth, but feels to me like maybe the copper boom that people expected because of electric vehicles, maybe is on hold for a few years. What do you think?

Ole: I think it's on hold. But at the same time, I think it's only just started. So the Copper has been just like I would say cotton and crude oil to a certain extent been used as a macroeconomic hedge against the economic slowdown. It's also been used as a hedge against what's happening in China. But it looks like so far this year, the demand increase for copper towards renewables and for the transition has almost offset the slowdown from the from the property sector. I think we only just have to look at the imports on the on the bottom right there just showing the that copper ore and unwrought copper, we're still seeing year on year gains in imports. So even though we've had this property crisis in China, the demand has remained firm. Inventory levels has picked up in over the past couple of months, but they're still historically very

low. And that basically means where's the copper going to come from if we do see a pickup in demand, especially from China over the coming months.

So the negative story, I think in copper is based on the fact that we know that there will be additional mine supply coming online next year. So the forecast I'm hearing is lower price next year, and then it's going to go higher the following years. I'm a little bit down for the market, it works that way in terms of the price action. And I think at the same time, we've seen the chili one of the world's biggest producer of copper having production problems in recent months, lack of water, or grades starting to diminish. So more material has to be pulled out of the ground to where to get the copper that's required. And that obviously requires a lot of additional investment and capacity and energy and so on to do so. So I think the there's the copper is not only a story about demand, I think being structurally strong over the coming years. It's also supply which following this next year's pump up is likely to taper off and prevent our basic credit market where there's a strong foundation for a a recovery in the price.

But looking at where we are right now, we are setting in around that 350 level looking at high grade copper. It's more or less the halfway mark between the low in 2020 and the high this year. And I think it's also pretty clear that for some of the major big investors to change their view on copper, we need to go back above that $4 level. So that I think the big line in the sand for potential bears to turn back to more bullish case but I I maintain that I'm bullish on copper, I'm bullish on the mining sector and just look at the all the different unique copper and across all these different green initiatives from batterie, to the motors, to the solar, to the wind turbines, and the hydrogen economy. So the demand for those sectors will continue to remain firm over the coming years.

So I think we still just at the beginning of the of the bull run, it was probably a while we had a bit of a false start in 2021. Since then we come down quite a bit and actually correcting from a technical perspective at the perfect place. The 314, as you can see, it basically shows us that we had a deep correction, but the uptrend is still more or less intact.

Erik: Moving on to page 14 Gold is a market that I want so badly to believe in all that I'm still long, I haven't liquidated any of my long position. But boy, you know, a lot of the things that we've been taught that gold is supposed to do, it just hasn't been doing in this cycle. I mean, it's supposed to be a geopolitical hedge. And on the day that there were missiles flying and 20 major cities in Ukraine under attack 20 bucks down on gold of the day. What's going on here? And why is it that gold doesn't seem to be performing the way so many people thought it would?

Ole: Well, I think it really depends on first of all, where you're sitting in the world. I fully appreciate if you're priced based in dollars or Canadian dollars, you are not particularly happy with the return that we've seen, especially in dollars, obviously, this year where we're down close to 10%. But let's start with the first from a relative perspective, if you started the year by selling out of your, your shares and your S&P and instead bought gold, you obviously would have done quite a significantly better than then the products that you sold. So that's one thing. But same time, I think we simply just gold is such a part of the established financial system in

terms of algorithms driving a lot of trading activity algorithms, they look for correlations on a constant basis. And this year, obviously, two major themes has played out very significantly, and both very, very counter very non-gold friendly. And that has been the strong surge we've seen in the dollar and has been the phenomenal rally we've seen in bond yields. These are really been major headwinds. And I think based on based on the lens that we've seen gold or the dollar travel and yields rise, I think gold has actually been doing significantly better than while it has been because we can see that on next slide.

When we when we go to the second and it's holding up, it's holding this line in the sand was I'm calling it that $1,617 level, it's maybe not out of the woods yet for that we need to see through in the Feds view on peak rates. But I think we are... we're getting close to that. And then the main thesis I'm looking at and that's on slide 15 basis is simply the fact that gold is still an insurance policy. So far this year that has cost you in dollars a premium of 9% to have that insurance in other currencies, you actually make money to have the insurance because of the dollar strength and weak currencies elsewhere. But what I'm looking for, and that's also the reason why this argument that well real yields are basically telling us a goal to be $300 weaker. Well yes that's true, but then gold should be $300 weaker already because this is all known knowns.

What we don't know and that's really where my view on inflation comes in that this market is not pricing inflation correctly. If I believe that the long term inflation is going to be more anchored around the 4 to 5% area instead of the two and a half which the 10-year breakeven is right now indicating then we will have a major realignment of expectations of prices. Sometime I would say not too distant future which would drive real yields down ie up on the right hand side where it's inverted and breakevens obviously move higher at the same time.

So we using gold as insurance against the market being wrong in the belief that central banks will be successful in getting inflation down to levels where they currently looking for it to go. And then obviously the geopolitical situation is also potentially one of the reasons why we have this wide gap between where gold is where real yields are. Because boy, the world is a troubled place right now. And that's not showing any signs of improving anytime soon.

Erik: On your final slide, page 16, you've talked about agriculture sector being troubled by weather in war. When I interviewed Lee Gearing on this program, he said we're at the beginning of a major food crisis for the simple reason that the growth patterns because emerging markets basically can afford to eat meat now. It's changed the trajectory of grain demand in a way that he thinks it just creates a massive, massive food shortage in coming years. Do you agree with that view? And what do you see on the horizon for agriculture?

Ole: Well, that's first of all, let me say that I certainly don't hope so. But one thing is hope. Another thing is what happens and just looking at how the market has been behaving the last few years, we can see our ability to withstand to a trouble growing season has become increasingly challenged. We've seen stock levels being brought down some of the major and key crops around the world for the weather phenomenon. So we've seen now for well, basically three year running with the London year having a profound impact on weather across the world.

And that is likely to continue to pay to play its part. But you're right, the need to continue to increase production is there because our eating habits has become more crop intensive, because of the as you say, the meat consumption as well.

But at the same time also the geopolitical situation, if we look at something like wheat, where again, oil is not oil, and wheat is not wheat. There's a difference between the Chicago wheat that we trade and the wheat coming out of the Black Sea area. One goes into the animals and the other one goes into the bread production that feeds the global population. And we are basically, we got a high protein wheat, not shortest but at least very low level of supply and with the developments in Ukraine and Russia not showing any signs of improving anytime soon, then that tide will continue.

In addition, the gas prices has led to well both the high cost diesel to farmers and the not least a very high cost of gas which is seen as a dramatic increase in the cost of fertilizer potential not a problem for the wealthy countries. But for the poor nations that we don't talk about. Well fertilized are being used to just to make sure that there's enough food to go around to feed the family for the coming season. These are potential where we could see additional problems because the high cost of fertilizer means basically means that that some of that production may not live up to what is required. And that basically means we can see some countries being forced to enter the global market for additional supplies. And then that will continue to add some nervousness to the market. So yeah, I do worry that we are that we could see higher prices over the coming years. And then the continued biofuel production as well as taking both soybean and corn away from the food chain.

Erik: Ole, I can't thank you enough for a terrific interview. But before I let you go, I really want to focus on page 17. Because frankly, you give away more excellent quality stuff for free than just about anybody else I know. So I've lost track of it all between the daily podcast, the commitment of traders analysis that you do every week. Give us the rundown of what people can find at analysis.saxo

Ole: Well, thank you very much Erik. Well analysis.saxo is basically where we post our updates and as you say they are free. We have a we have a global reach of well as I said nearly 800,000 clients globally which we supply information to. But we also make it available to everyone who's interested. If I should just point to a couple of... we do a daily quick check for European-based clients. We post around 10am or 9am in the morning. It is just a rundown on what we are looking at during the day and what we think potentially could move the markets. The podcasts has increasingly grown in popularity. Now not obviously to the extent of yours, Erik but the fact that it's coming out on a daily basis is something that we've seen a great response to. We're not here to sell any particular product so if there's something we don't like we will say, we don't like it. So I think our listeners like that way of reporting the markets. Then obviously I do my flagship weekly commodity update on Friday where I just go through the major markets and what's moving and what to look out for in the week ahead. And then obviously if you want to join my little family on Twitter, you're more than welcome to do that. My Twitter handle is in the headline.

Erik: We look forward to getting you back on the show for an update in a few months. Patrick Ceresna and I will be back as MacroVoices continues right after this