Ole Hansen: Commodities Update

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Erik: Joining me now is Ole Hanson, head of commodities research for Saxo Bank. Ole has prepared a slide deck to accompany this interview that you're not going to want to miss. So I highly recommend that you download it and refer to it as we will be discussing the charts and graphs that contains throughout the interview. Ole, it's been way too long since we've had you on MacroVoices, welcome back and why don't we dive right into the slide deck and talk about US interest rates because so much else hinges on that. What's the outlook?

Ole: Oh gosh. I wish I knew Erik. Thank you very much for inviting me back. It's most certainly still a market that's throwing up a lot of surprises and talking points. But yes, the direction of interest rates, short term interest rates in the US has clearly been a major focus in the market over the past six weeks going from expecting a year of no change in terms of rate cuts and further hikes to suddenly a dramatic round of cuts in response to the banking crisis. And since then the market, that's once again, you have just basically looking for heights in the short term, and then cuts later in the year, and then that's really I think, creating a lot of confusion in the market and also uncertainty and it's still it's amazing how resilient some of these markets have been. I would say especially stock is not, it's not my area of competence. But I think we've seen quite a stable market despite all the uncertainty that's out there.

Erik: Let's talk about inflation and where it's headed. A lot of people seem to think okay, it was all about the pandemic and supply chains and that's behind us now and we're headed back down to 2%. I say no way. I think we've got a new secular inflation trend that's going to stay with us for a long time. What's your outlook and how do you see this developing?

Ole: Well that's exactly one of the reasons that as well we look towards the commodity sector as a place of investment interests because we highly doubt that the long term inflation that the market is currently pricing in the round two and a half percent that it can be met, we will see the base effect of last year's very high prices still have a positive impact downward impact on inflation in the coming months. But then we see things start to turn higher again and the structural inflation over time, perhaps more closely towards the 3 or even the 4% area. And that will obviously have a significant impact on markets and potentially one point lead to some repricing as well.

Erik: Although let's expand on that outlook a little bit and move on to page three, where you talk about the continued upside potential for commodities. Obviously, inflation and interest rates are part of this. But there's I think, a bigger picture here. Is this being driven by interest rates and inflation and so forth? Is it being driven by energy transition and the expected need for copper in order to you know, electrify the vehicle fleet? Is it being driven by something else? What is actually going on? There's obviously been a change in the market. What's driving all of this?

Ole: Well, it's a combination of all of the above, you mentioned. And, as you can see on slide three have quite a lot of text there. But it's just something that some of the major developments that we've seen over the past year, we were the one Ukraine has, has kicked started a unfortunate route in the market where we're looking at the globalization, reshoring, friend-shoring, these developments are likely to push up price for key commodities. The green transformation, we all know it's supporting demand for industrial metals at a time where investments may potentially not be strong enough where supply of key commodities, key metals in the coming years could be challenged simply by the fact that the cost of production going up, quality is coming down and multiple other factors that could have an impact. So that will also be adding upward pressure to the price. And basically I think the thesis is that the key commodities will potentially will thrive even though we may have an economic slowdown where demand may suffer. The supply side is equally challenging as well in our view and this whole deglobalization.

We call it the fragmentation game. We put that out in our quarterly outlook recently. And our equity guy is basically using the fragmentation focus to best to highlight some sectors in the stock market. We should not talk about that. Now. That's not my area of competence again, but just look at these with that we can see how defence already has been benefiting the European defence stocks. We got electricity, renewables, and nuclear power. We got technology. We got commodities. These are all sectors, we call them the four pillars in equities that we are looking to watch for investment themes over the coming period. But adding to all this we also have this dedollarization. Even though we don't really believe it's going to be having a strong impact, the weaker dollar is something that we are focusing on as well. Simply as rates are starting to eventually peak out in the US and we'll continue to see rates move higher elsewhere. Also the reason why we've seen the Euro do reasonably well this week, briefly back above 110 again, and the weaker dollar is always supportive for the commodity market in general.

Erik: Ole, we live in interesting times to say the very least. Let's talk about the trade relationship with China and how it might evolve in the next few years. Obviously, neither one of us has a crystal ball, but we can look at the geopolitical landscape and easily ascertain that there's much higher risk of a breakdown in relations between the United States and China in coming years than there has been in prior years. What would that mean in terms of the commodity world? Let's imagine that there's, I don't know if it's quite a declaration of war between China and the United States. But let's say things are moving in that direction and there's a complete breakdown of trade. What would that mean to the global commodity market? And what would it mean for the world?

Ole: Well it would mean that, I will say in Europe and especially but also elsewhere, we are in a hurry to re-shore some production and go look for key commodities elsewhere. And overall, I believe it will drive prices higher. We know how our dependence on some like rare earth minerals, how that potentially could play out. So it's difficult to invest, it's a complete breakdown, because we are we have build up dependency on each other from a trade perspective for the past two decades. And with that in mind that I believe will find some kind of equilibrium. Sooner or later before obviously, it goes completely pear shaped. But what we're seeing in terms of commodities right now in China as well is that the recovery we're seeing isn't recovery, but it's just not as commodity intensive as we've seen in previous recoveries. And then that's also reason why we were seeing some of these commodities wight now being under pressure. We're seeing iron ore dropped back down to $100. We're seeing steel production in China started starting to slow but simply because they're not using all the government handouts on property of building new cities. They're thinking differently this time. But again, the green transformation is still part of the major solution and also a major focus in China. And that basically means that some of the commodities that are involved in that sector will continue to thrive, but it's creating a lot of uncertainty and the global supply chains needs to be reconfigured. And that whole process is difficult to see without adding upward pressure to prices.

Erik: Moving on to slide four, we talked about China just a minute ago. But let's expand on that a little more. So many people, myself included thought that the reopening of China's economy was going to be the big floodgate that would really unleash a lot of inflation, a lot of commodity inflation, particularly, and a lot of economic demand. And, you know, the economic recovery of China is underway. It's happening just like we predicted it would but boy, the commodity impact hasn't been there. How do you explain that? I mean, we really thought that as soon as China picked up there wasn't going to be enough oil supply, prices were headed much higher. None of it's happened yet.

Ole: No and I think the initial reaction of the initial movements activities in China is that people are looking at consumers are looking at the service economy, they're looking at it's not a consumer demand driven recovery as we've seen before, simply because you haven't been able to go out to, to restaurants, and to travel and do things that may not necessarily be as commodity intensive as we saw during the during the lockdown period where we all went on a spending spree for consumer goods. And that helped drive the big start to the rally in the market. So it's more evened out. And the focus is simply somewhere in terms of how the growth is being created. And that's probably caught the market by surprise, because according to the rulebook, when China adds stimulus, it's good for commodities. And at least that's what we saw on several occasions during the past decade. This time around, as we come to realize is different than... some producers have been ramping up production in anticipation to meet that stronger demand. And as this has not materialized at this point is just having a negative impact on some of the markets and I think happening at the same time where we're still down about the strengths of the slowdown. We're seeing elsewhere, then that just adds to the uncertainty and then from a macroeconomic perspective, trading it, it's something that means that you are becoming a bit more cautious at least on the short term outlook.

Erik: All right, moving on to page five, I want to just alert our listeners that these charts are not just for today, you can actually get updates every single week at analysis.saxo. So something that I am definitely addicted to. For listeners who may not be familiar with commodity charts, talk to us about this. It's not quite red, white, and blue, it's kind of red, yellow, and blue, where we have these blue and red shaded areas. But then there's a yellow line, that's really the important one on top of everything. What are these charts mean with the blue on the top and the red and the bottom and the yellow explain the chart first, and then let's walk through them.

Ole: Exactly well, these are basically data that were pulled from the CFTC on the weekly basis, where the where the positions held in the futures markets, especially in the US, but also some of the some of the European ones Brent Gas and so on. As an investor, you have to report back to the exchange in terms of positioning. I think in commodities it's a great tool, simply because all the activities that we're seeing commodities, they tend to end up in the futures market. There are similar reports or stocks and bonds and currencies as well, but they're all part of a major cash market as well, where it's very difficult really to gauge too much into it. But, but looking at the futures market as a cake, that cake has to be put into can be cut into slices, or the cake is basically the open interest and we cut that into slices. And the slice that we're focusing on is the manage money section simply because money managers, hedge funds, speculators, they have a lot of different names. What they do is they are looking for direction, they're looking for momentum, they are not married to their position. So they will continue to buy into strengths sell into weakness until the technical or the fundamental outlook tells them that they are down the having a wrong position. And then obviously, they're very quick to respond. And that basically means on a weekly basis, we get a snapshot of the positioning in the market and how the changes has been. And it quite often helps explain some of the volatility that we are seeing in the market.

And quite often we just focus on what we call the, what is the yellow line here on the slide is the net position, but it's equally important to know how is that position built from the number of Longs and the number of shorts because if you have a market where the long has been created with a very, very limited participation on the short side, then you obviously have a problem if the market turns around because if these longs need to get out fairly quickly, and the short position is relatively small, then who's going to buy them because the other side of the coin quite often are producers and hedges, and they don't necessarily have the need to go in and buy a market that that's falling because they have been hedging some forward production so that's why I think it gives a very good idea about how the market is behaving and we can see some of the recent movements starting with crude oil. I think there's a slight a bit later on but oh boy, that's just been a been a horrendous six week period we had. We had a technical break to the downside when we broke below 80 in Brent and that attracted a lot of momentum selling and within a couple of weeks, we had the OPEC production cut and they were all forced to cover shorts and enter back into Longs and that's creating some pretty unwanted volatility. But if you look across some of the others. The interest for gold is very high. The agricultural space is a bit mixed. I didn't put in wheat but that's actually the most shorted of all the Commodity Futures that's around. So that just highlights how the wheat has fallen from grace and sitting at some pretty well pretty record highs last year. And something like coppers well even though the market is wants to be bullish. The net position is relatively small simply because the chart right now is not really giving any clear direction, whereas gold for quite a few weeks has been given quite a clear buy signal.

Erik: Ole let's move on to slide six which is about backwardation and contango. And just as a quick refresher for I think most of our audience is already familiar with the terminology but backwardation and contango, let's start with what do these phrases mean? And what are these charts telling us about them?

Ole: Well, backwardation is simply the shape of the Futures Curve. If you have a Futures Curve that's in backwardation, that basically means that you're paying the highest price in the spot market. The first contract is trading at a higher price than the following contracts. That is an indication that you as a buyer are pretty anxious to get hold of your delivery and you're prepared to pay a high price to own it right away. The opposite can be said about contango that's the normal shaped forward curve, because you have to consider you can buy a commodity today and hold it. That basically means you need to finance the you need to borrow dollars that let's just put it into perspective for just for clarification, because these are showing the one year spread between the spot and the 12 months further out contract using the commodities that are included in the Bloomberg commodity index.

If you're buying let's just take the example which is actually something like gold, which is the Brown Line, the light brown line in contango. Why is gold in contango? What it is, because, if you're buying gold today, you have to borrow the dollars, and if you borrow dollars for a year, that will cost you 5%. And lo and behold, the contango of one year gold is roughly 5%. So that's really the reflection of the funding costs. And that goes for all the commodities. On top of that obviously, you would normally have to pay for some kind of pay for stories, which would make the contango even bigger. So, a normal market where you have funding costs, you have storage cost, then the forward price should be trading at a higher price, basically, in this case meaning contango. The fact that the bulk of these commodities, these are basically the ones out of the 24 commodities in the Bloomberg commodity index are taking those that have a weighting of more than two and a half percent. You can see the bulk of these are trading in backwardation and this is despite the weakness that we've seen recently. So even though the prompt price is selling off, the backwardation has been maintained and that's the new normal till they say that the spot market is who can tell you a lot of story and sometimes also tell you a few lies because it's very much also short term driven but the curve rarely lies and right now the curve is telling us that the market remains tight. Many markets remain tight even though we've had the correction reasons. So that's what I'm looking for.

Ole: And if we take the whole commodity basket together the Bloomberg commodity index. All 24 commodities and take the weighted roll over a year then you can see on the blue line we're currently in a small contango, but if you exclude natural gas, which is just in a crazy contango, then you actually have a small backwardation and you can see that backwardation started to emerge late 2020 when the vaccine was discovered…when wee found the vaccine for the Coronavirus. Since then we saw this very strong recovery and in demand for commodities and the backwardation is very positive for a commodity investment and that's what I'm showing on slide seven just to give you an example of what the contango and backwardation means to passive long investment in an ETF that tracks the Bloomberg commodity index. First of all, let's take the period from 2017 to 21. You can see on the previous slide, slide six, that's a period where we were trading in backwardation. What happened to your other investment during that five year period?

Well, if you just look at looked at the spot prices or the spot prices, then you would have thought that five year period would have given you a return of 53%. But actually, when you take all these rolls into account, basically considering every month if you're in contango, when you roll your futures contract, you're selling low, buying high, that's obviously a negative role. That basically means that over that five year period, instead of making 53%, you actually only made 22%. Fast forward to last year when we had quite as extreme period of backwardation. Again, the spot price last year was would have would have given you a return around just below 7%. But actually looking, if you were holding an ETF tracking the Bloomberg Commodities index, you would have been up 16% and that's really the benefit of backwardation versus contango. And if we are moving into a future, let's right now, minus natural gas, but a future with a continued tight supply, then that will give you an additional return on your investment. And I think that's very important from an investment perspective.

Erik: Moving on to slide eight, let's talk about energy and crude oil specifically, we were boy for months and months it seemed struggling and unable no matter how hard we tried to get back above the 100-day moving average on the continuation chart. Then all of a sudden, we had this OPEC event where OPEC surprised the market by cutting production that resulted in a gap up open to take us above the 100 day moving average. And only in the last couple of days, we've come back down and finally tested it but still, at least as we're talking on Tuesday, we haven't closed that gap yet from the OPEC gap. What do you think are we going to close the gap? And when we do is that going to you know, reverse the direction we're going to move back up or are we headed lower?

Ole: Well that is that is the almost the million dollar question right now Erik. First of all, when we saw that gap higher we know that and again from looking at the cup report we saw this and you can see that on the right hand side. We had two very strong weeks of selling when the banking crisis hit when we broke below 80. I apologize for the American listeners who will probably prefer WTI. But I'm a little bit, I'm using Brent more and more simply because it's the global benchmarks. But obviously this story is the same. But on the right hand side, I have the combined position, a week of change in WTI and Brent and as you can see, we had two weeks where we have massive amount of selling to the tune of more than 100,000 lots every week. And basically that meant when that surprise cut came, the market was scrambling to get their shorts covered. And that resulted in the especially that first week well, more than a closer 150,000 lots were bought. And what we know from the price action, all of that were bought above 83 and a half. And the fact that we didn't see any follow through in the in the in the weeks that followed, suddenly left this market very vulnerable to a setback simply because you are known to trade as well, Erik. You know that one thing that technical traders hate it's gaps in the market. And that gap was just simply acting as a massive magnet. And then what triggered the eventual break was this continued collapse that we were seeing in refinery margins, which we can talk about in the next slide. But generally, a lot of this recent action has been explained by the positioning. And then the question, as you've asked is, what's going to happen nowadays? Are we going to close the gap? Well, I think we probably are. Because we're seeing here on Tuesday as we speak, there's a general amount of weakness across markets and risk adversity creeping in stock markets also coming down. And that means we probably going to close that gap.

And what happens if we see a 77 handle once again, with OPEC having cut production to a month ago, where they're going to cut again? At least it could start to raise some speculation and some concerns. So I think I've called the headline back to the 80s. And I think we were in the 80s during the first quarter, and I think we will probably stay in the 80s for the best part of the second quarter as well. But in the short term, the risk is simply that's just referring to the slide nine, again with refinery margins. Right now refineries, modulus has collapsed, they're more than half in a relatively short period of time. And that basically means we could start to see refineries cutting back production, refinery production, and that will lead to lower demand for crude oil. And that could, in the short term, at least send it lower. So I think we are, we're heading for a bit of a trouble to a couple of weeks in the markets. Also simply because there's a lot of built up expectation that now we're going straight back to $100. But I think the OPEC reacted to what the rest of the world was seeing. The banking crisis worries about the demand growth in the second half, not living up to expectations. And basically, they also call it a preemptive strike in order to try to maintain prices here in the 80s.

Erik: Let's talk a little bit more about these crack spreads and what they mean. A crack spread is essentially a measure of the profit that's made from refining crude oil into refined products and selling them. If you listen to the rhetoric out of the White House, you would think that the way this works is evil oil company executives sit around and say, okay let's arbitrarily set our prices at a level, which is, you know, price gouging and screw the consumer and make big profits for ourselves. As if they're setting the price directly. And President Biden has criticized the industry pretty sharply for setting its prices. And it seems like maybe they're listening now and the prices are coming down. I actually think it's other things besides what President Biden says that determines how crack spreads are resolved in the market. What's your perspective?

Ole: Oh very simple, I would say supply and demand, and to a certain extent, a certain dose of uncertainty as well. And the uncertainty relates to the sanctions against Russian fuel exports that that came into effect earlier this year that drove away worries about supply shortages. And then that helped drive margins higher, but as we came through that one and as the sanctions started, and we basically, the only thing we're the only thing that changed was ships. Instead of sailing from the Baltics, through the straits, around where they've to Rotterdam, they continue to carry through the straits where I live and now they're heading to India and the Middle East and Asia as well. And so based the market has not seen as slumping in supply and that basically means that the availability of supply has started to to exceed the demand and I think the canary in the coal mine is fact that it's actually diesel that has led the latest slump. What is diesel used for? Well, that's heavy machinery, it is trucks, it's big machines, and that that is obviously the engine that drives the economies and then if that demand is coming down then that does obviously tell the story about the slowing demand.

But you're hinting that you had other reasons that I think one of the reasons is also the increased capacity we're seeing in refinery. Because initially after the pandemic and the lockdowns, we actually saw some refineries shut down, the market was looking for lower demand going forward, that didn't materialize. So during 22, we had a period of tight production and tight availability of resembling refineries not able to keep up. We're seeing a massive amount of new refinery capacity coming online this year, both in the Middle East is becoming a major hub for refineries, but also in India and Asia. And that basically means that over time, the owning refineries is not going to be the big money spinners, as had been in the past. And you can also see just going back to April 21, and further back, refinery margins tend to be relatively low key affair, they don't move that much. And I think with the edit refinery capacity in the coming years, margins are likely to be under some pressure because at the end of the day, it's really a question of not demand for crude oil. That's not what you put in your tank on your in your college. It is the refined products and if there's competition from refineries to produce that, then there's also available that there will be enough availability for for the global consumer. But for now it's sending a bit of a stress signal to refinery sent. And if we start to see them curb production simply because margins are not come down too much, then that will have in the short term have a negative impact on crude oil demand.

Erik: Forgive me for deviating slightly from the slide deck. But there's a question I've been dying to ask you, which is not reflected in the slides. And that pertains to natural gas arbitrage between the United States and Europe. Last summer, a lot of people smart people thought, Okay, we've finally gotten to the point where natural gas demand in Europe has pushed the price so high, that we're going to develop a US export market, and we're going to see a convergence of US and European natural gas prices. So a lot of people thought that US natural gas prices would continue to move higher, in order to get closer to European natural gas prices. The opposite happened, it didn't play out at all the way people expected. Is it eventually going to and if so is there a trade there?

Ole: I was looking at how the market is set has been behaving and looking at the increase capacity that's coming online in the US for LNG export capacity. You would have thought that the global market will become more and more in line. But whether it's going to be at what level of price level is going to be at is, it remains to be seen, because at this point in time, European gas and Asian gases is what trading around $13 a term where we are still just hovering above $2 in the US. And it's what makes me just incredibly surprised on a continual basis that that's one of the world's well most important energy source of energy can trade. So for such a prolonged period of these very low prices, I suppose part of it is a story is the robust production output from US producers. Some of the gases produced from oil production, so they have to capture it and almost give it away and that's adding to supply production in the US has remained very robust even though prices have collapsed. But you would expect that continued flow to to LNG export terminals, which is now around 15 billion cubic feet a day. Back in 19, it was less than half of that. So, that will obviously be an additional source of supply, which will help bring these prices closer together.

But Europe is certainly still incredibly dependent on imports of LNG. And even though it looks fairly rosy right now, we are starting to rebuild the inventories and we may even get them filled up before time, then we still is only we still only one very cold winter away from from an issue from a problem and that that's where LNG comes in. So yes, I think they will converge. And in order to move from there to make it profitable for us producers, they will have to for sure have to be at a higher level than then the $2.20 we're seeing currently but that's also part of the story that I mentioned earlier with the contango and gas because when there's looking one year out, it's a complete different gas price we were looking at so the market is expecting higher prices in the future and that's also why it's so incredibly difficult to try to profit on it because of the shape of the curve.

Erik: Ole, let's move on to Slide 10 and copper, which is a subject that I've become even more interested in in the last few months, you know, you probably would have done better in copper mining shares than you would have in gold mining shares in the last few years. And frankly, that was before we had the bull argument that we have for copper now. I was fascinated when I interviewed Robert Friedland, last I asked him, you know, hey Robert, you're in the copper business, you must be excited about this whole electric vehicle revolution and so forth, you know, what do you think of it? And he said look, we're not excited, we're scared. He says, I know everybody in the mining industry, it's not a question of getting excited about we're gonna sell all the copper we can mine. It's a question of, we literally don't know where to find anything close to the amount of copper that would be needed to achieve fully the energy transition that's being planned. Between now and 2050. He's saying there's just not enough copper that can be mined out of Earth's crust in a timely fashion, in order to meet that need... Can't be done. Do you agree with that view? Is that just Robert talking his book? Where is this copper thing headed?

Ole: Well, I think we just need to look at some of the recent M&A activity in the copper space. And you can see how mining companies are really trying to increase and beef up their market shares. A lot of recent takeovers and buyouts and I think that's just reflecting a sector where we have mining companies that are exactly thinking that and looking at the forward projections for demand and how big a share as a small insert that was borrowed from Woodmark in UBS of just how the percentage of copper demand, how it will continue to move in the direction of the energy transition. So yes, it is a potential trouble to the future we're heading into also just looking at some big mining companies like Codelco where they on several quarters last year disappointed in terms of their output relative to what they had projected. And then on a relatively frequent basis, saying its cost of production, its lower work rate, its lack of water as well in some cases that's reducing the output. And these are not problems that are going to go away.

The low hanging fruits has been picked years ago. And that basically means we need a lot more material out of the ground to find the final metal that's required and that requires heavy machinery that requires energy and that and generally the cost of production will remain high. And we prices simply needs to be at levels that makes it worthwhile for these mining companies to take the big decisions and then go out and look for the additional copper that is required. So that's a long term picture. But I think in the short term, copper is quite frustrating has been frustrating a lot of investors because these are all known knowns and but I think it's same time also a question of being very patient. If you own mining stocks, by all means hang on to them and and expect there's going to be some volatility and a bumpy road. We saw that recently with a Canadian mining company where suddenly the government in Panama wanted a higher percentage of the revenues and that led to some problems in which they then were sold.

And we're seeing now also with Chile where they want to create a state-owned company that wants to have its say in the lithium industry. So there are potential obstacles. But if the end is result is electrified world and just looking at all the different appliances, it is a king of green metal copper simply because it's used in in almost all the different applications that the market is focusing on. On the chart here, which is just one day old, we've seen a brief breakdown of that uptrend, that basically means now we're trading back towards the $3.80 level as we record this. I don't see this as a major stumbling block. But it just highlights again, their market where they want to belong. But at the same time wants to be cautious if we see some technical developments in the short term. So right now it's still a range bound sideways to the trading market. But the long term outlook is is one of support.

Erik: Ole, I'd like to run my personal outlook and trading plan past you both to share it with our listeners and to get your feedback in the scorecard so to speak. I don't know what's going to happen with commodity prices between now and the recession that I think is going to hit the tape in the second half of 2023. But I think eventually we're going to find ourselves in the depths of a recession probably back at new stock market lows. When that happens, if it happens.. If I'm right about that outlook, I make the argument that that moment is going to be a generational buying opportunity in copper, uranium, and crude oil. And my plan is to wait that out and when it happens probably late this year, maybe in early 2024. Whenever I feel like, okay seems like this is the depths of the recession, starting to see bottoming signals in the stock market. That is probably where I'm going to move substantially into copper mining shares, uranium mining shares, and more gold or gold mining shares. What do you think about that strategy and what would you adjust?

Ole: Well, if we came into that situation and the recession becomes deeper, and it does trigger a reversal in to the extent that you mentioned then for sure, yes, it does make sense because you will be looking at these investment as a 5-10 year investment opportunity simply because of the direction the world is moving into. So yeah, I think that's probably a strategy that would work. But it's probably also one that a lot of people are hoping for at this point, if you want to get into the to the mining. I've been at several conferences recently. And they also take a lot of questions from audience and there, it really is a hot topic. And that basically means that there's a lot of focus on it. And I think we've just briefly saw last week when the market tried to pop higher. How they were kind of respond to trigger from traders simply a word to miss the boat. So, the question is basically, if investors are patient enough to wait that long, and see whether we can get that correction, but obviously if we do see a new low in the stock market, then the whole market as a whole including mining companies will suffer and create some better opportunities.

Erik: Let's move on to gold on page 11. We're almost back up to all time highs, you know, I'm very excited. I feel like there's a strong bull case to be made here. But hang on a second, those highs were the 2020 high. Let's think about what happened then. That was the middle of a global pandemic and the largest pile of printed government money still was you know, the ink hadn't dried yet on the biggest pile of stimulus money ever printed. Couldn't get above $2,080 in that scenario, then we had nuclear escalation threats, invasion of Ukraine, everything in February of 2022 wasn't enough to get us back even to that level, although we got close to it. So do we need to think about some event pushing us through or is it just a matter of the underlying economic fundamentals have changed and it's time for gold to move to new all time highs?

Ole: Well, events tend to have a short term impact. So, it has to be the underlying developments in the economy. We're just now coming up to another potential debt crisis in the US. So the debt issue is a global problem and one that raises concerns in general about but the stability and so on. So that's one part but I think my main reasons are still the good old trusted drivers for gold, the dollar, and real yields. And we've seen a dislocation... We can see that on slide 12. The dislocation between gold and real yields and recently also against the dollar, which does indicate that there's been quite a strong pickup in demand for gold simply because we went from expecting rate hikes to rate cuts within a very short period of time. Those movements in a two year and further down interest rates last month was just phenomenal. I haven't seen anything for a long time and I've been in this market for many years. So, I believe that the dollar will continue to weaken. I believe there will be a realignment when the market starts to reprice inflation not at two and a half percent but maybe three, maybe even higher. And that will basically drive real yields back down again and that will help support continued move higher in gold.

Then, we all know the central bank demand which has been very strong... at record level last year. I think we may see a bit of a lull here because central bankers are just like anyone else are also price sensitive. When we have a big move in prices we have now for the past few months, then the you may just want to feel comfortable with the new level before you continue. But I think the central bank demand will continue to be a force that will underpin the prices and that's really the main reason why last year at one point gold did not trade $300-$400 lower as many were predicting because if you just look at real yields but instead actually held up very well. So, I think it's not gold going down. So. looking at the chart where the inverted yield chart on slide 12 is not gold going down to real yields. It is real yields going up towards gold. I.E. real yields are coming down because of the inversion of the axis there.

On top of that, if we do get a recession, then the expectation for rate cuts will increase even further. And right now, as you can see the short term interest rates in the US are pricing in one one and a half plus percent increase reduction between June this year and June next year. And these will this will help decipher or determine the price action in the short term. I think we probably have to be a little bit prepare... We need to wait a little bit here. Because going back to slide 11, I just put in that the impact of peak rates in the US we've had three occasions of peak rates in the past 20 years. And they all lead to very strong gains in gold in the months and quarters that followed. And right now the peak is potentially not in so we need to wait for that and be a bit patient. So, gold right now I think is a patient game. We rallied a long way. So far, we haven't even corrected 25% of the reason rally. Same goes for silver so I think we just have to be a little bit patient here.

Erik: A lot of us in the commodity space have been focused on the metals, because that's where these narratives exist. The narrative about there's going to be an energy transition between now and 2050 and it's going to require an insanely large amount of copper. Okay, copper makes sense. But actually moving on to Slide 13, when I interviewed Lee Gearing, although he's maybe not the common view. He's a very well researched, knowledgeable guy. He makes the argument that the agricultural commodity narrative is even stronger than the metals narrative in the next few years. And he thinks that we're going to be facing some really serious shortages. Do you concur with that view? And if so, what does it mean for the outlook?

Ole: Well, I will certainly say. First of all, I hope not because of the impact it will have on from a stability perspective. But inventory levels are relatively low following last year. So again, as the World Bank said a few years ago. We are only one bad harvest away from a crisis. And I think that's still something that we need to be concerned about. Right now, we as I mentioned earlier a very important source of food... The wheat prices are trending lower. They are very shorted by the speculative community because the outlook right now they're coming in we're seeing increased acreage in Canada. We're seeing Europe expecting above average production. We still have Russia producing the very robust pace. Ukraine obviously not but still producing. And that's leading the market to expect that we're going to have another year of ample supply. But the whether, climate change or not, it has become incredibly much more volatile. And that's creating a situation there that we should be concerned about.

We're seeing that right now in the Soft Commodities and that's what I highlighted here on slide 13. The gains we've seen, obviously very strong gains this month, so far, and they're all in the in the Soft Commodities and a lot of these gains has been driven by supply worries. Sugar export out of India, Thailand, potentially as well. Coffee, concerns about the production in South America. Once again, orange juice in Florida production is coming down. And sugar as an example there we're hitting the highest level since 2011. That's almost gone under the radar at the same time, sugar as an example is also competing with gasoline as a fuel store as a fuel for biofuel production. And that part is also expected to continue to be robust that raw sugar will be going towards biofuel production instead of to the sweetener and that will also add some support. So right now, the upside risks are constrained in sorts but if they do start to switch to the grain sector, which is really important one. I would say then we have an issue and weather can be is once again the what we need to keep a very close eye on over the coming months. So our commodity outlook for higher prices really concentrated on the prospect for higher energy and higher metal prices and if agricultural start to play its part as well, that will add an accelerator to it.

Erik: Ole, I can't thank you enough for a terrific interview. But before I let you go, I want to talk a little bit more about slide 15 in the work that you do at Saxo Bank. A lot of people who are in the stock market space and not really commodities people are not aware of how much of a leader you are. How well recognized as you are, but also how much work Saxo does in the commodity space, both on research, trading, and so forth. So tell us a little bit more about it and what can people expect to find when they tune into your daily podcast? It says here on the slide, if you're not confused, you're not paying attention.

Ole: Yeah exactly. That was the title of my colleague, John Hardy chose for today's podcast this Tuesday simply because we were just contemplating all the different factors that we put into the market. And then that just basically had concluded that we're confused and the market is generally confused as well, with all the different segments that's coming but the podcast is produced daily in early European hours. We started that during the lockdowns and it really has been growing from strength to strength, and we are trying to just give our short term take on equities, forex, commodities. What we're looking for in the day ahead. That's also what we put out in our daily global market quick-take. There's one for Europe. There is also one created out of Asia from my Asian team during Asian hours. Again, just a very quick list of how we see the world and what's happening. And just to get you get you ready for the day ahead. And in the commodity space, I do two major weekly ones, my weekly update, which I send out on Fridays, and then the court update on Monday and then in between ad hoc updates if there's anything in particular going on that I would like to reflect on. In addition, I try to send out my thoughts as well on Twitter. You can obviously join me there if you want to. It's a great source. I'd say not only to give information but also receive information, I use it a lot.

Erik: Ole. we look forward to getting you back on the show for an update in a few months. Patrick Ceresna, Nick Galarnyk, and I will be back as MacroVoices continues right here at macrovoices.com.