# Ole Hansen: Still Bullish Commodities

**October 26th, 2023**

***Erik:*** Joining me now is Saxo Bank's commodity chief, Ole Hansen. Ole prepared a slide deck to accompany this interview; you'll find the download link in your research roundup email. If you don't have a research roundup email, just go to our homepage macrovoices.com. Look for the red button that says "looking for the downloads" above Ole's picture. Ole, it's great to have you back. I'm really looking forward to diving into your slide deck. I love the 747 on the splash page there. But let's dive into slide number two.

***Ole:*** Well, let's do that, Erik. Yeah, first of all, thank you very much for inviting me back. It's obviously continued to a very interesting time to be involved in the commodity sector, for good or bad. And movements are seen everywhere. But yeah, let's start with a conclusion first. Basically, our view is that the commodity supercycle is still alive. It's much driven by tight supply than it is by demand. And I think we're seeing that also unfolding across some of these key commodities. Right now, we've had a significant correction, as we can see on this slide. Bloomberg's spot indexes have corrected almost half the gains since the low in 2020. But have started to recover somewhat in during the past three months. And actually, so far this quarter is looking quite promising. But I've highlighted some of the reasons why we believe that the commodity sector will continue to be supported. Simply because in some cases, prices are not high enough in order to attract the production that is required for some of the targets and future goals to aspirations to be met. I mentioned some of them.

I think the first one we're seeing in full flow right now is the fragmentation game that has been ongoing now for a number of years. We're seeing production being reshored and friend-shored. It's having a quite significant positive impact on the US economy. But it's also helping to drive up prices, because it's no longer necessarily where the price of the cheapest that they are being produced. So that's having an impact. The green transformation we all know, and I think the structure of inflation is one that we cannot ignore. We are seeing the, and I got a slide later on just showing how the forward inflation expectations are already starting to pick up again. So we're not going to settle at the central, as the FOMC is, the Fed's long-term inflation time, we may dip, but it is not going to be where we were, we eventually settle. We think that will support commodities. And then we have tight supply. We have seen that in the crude oil market right now due to politically motivated decisions to keep production tight, but we also see it elsewhere across the food commodities and some of the mined metals as well.

***Erik:*** Moving on to page three, let's talk about inflation. I have a view that we are in a new structural inflation is that your view and tell us a little bit about the charts.

***Ole:*** Absolutely. And as shown here, this is the five-year forward inflation swap. What we've seen recently is that last week, it briefly hit the highest level since 2015. We are pretty close to that level. That's basically the market telling us where they believe inflation will be in five years' time. And we can see that it's obviously not in the 2% area, where the Fed has its long-term target. At the same time, we're also watching the SOFR contracts. The SOFR contract replaced the old Eurodollar three-month contracts that were traded in the open outcry pits in Chicago in the old days. Now, it's the SOFR contracts that really dictate the movements in the short end of the curve. What we've seen this month is really two things. First of all, the expectations for how low interest rates will go before they eventually start to pick up again, have moved up by more than 30 basis points. So now the low point, as indicated by the blue line from just recently, suggests that we're going to have a trough higher than 4.1%, which was below that at the start of the month. Also, the low point has moved closer. The market is pricing in a period of potential rate cuts, but then eventually it will start to pick up again. Part of that story is simply that the market is getting around to the idea that inflation is not going to come down to where we were hoping to see it, but it will structurally be at a higher level, and the short-term interest rate market has to reflect that as well.

***Erik:*** Moving on to page four, let's talk about which commodities are performing well which are not and why.

***Ole:*** Yeah, exactly. And this is just showing the second half. We all know that there was some weakness during the first half. But the second half so far is one of January of strengths. We can see the energy sector is out there in front, and some of that has really been mostly happening during the first part of this second half because this month, even though we have the crisis in the Middle East, we've got the energy sector shut down. In the month, we got the refinery margins coming down, we've got diesel and then the gasoline prices coming down as well because we're entering into the low-demand part of the season. That's helping to offset some of the risks that we have associated with the war between Israel and Hamas right now, but, as you can see, it's the energy sector that's been leading. And then we got some soft sectors, which is just, I mean, we got some of these markets on fire. Like orange juice, I haven't even put it in there because it breaks the scale. It's more than 100%. This year, we've got cocoa prices trading at the highest level since I was a young kid. I don't remember exactly what chocolate was priced at back in 1978, but I was there. So that's a 44-year high in cocoa prices, sugar at a 12-year high, coffee has had a very strong recovery this past month. So there's something happening there as well that's weather-related. And then, generally, precious metals are starting to pick up very strongly, but so far, it's primarily been a gold-driven rally across the precious metal space. But as you see, all the weaknesses that we saw are starting to be reversed, some of that due to demand, and quite a lot of it due to supply issues.

***Erik:*** I'm curious about orange juice being up more than 100% I wasn't aware of that. Is that a weather-related thing or what's causing that?

***Ole:*** Well, I want to say that the trees seem to be disappearing in Florida. There have been diseases, there have been some storms. Basically, the production in Florida, I can't remember the numbers now, but it's just a fraction of what it was a couple of decades ago. So it's primarily a drop in US production. So the old 'Trading Places' film from the '80s is really back in focus with orange juice prices at these very, very elevated levels.

***Erik:*** Ole, if you were to ask me, what is the one thing about commodities that most finance professionals, other than commodity people, just don't get or kind of misunderstand? It's the point you're about to make on the next two slides. So listeners, pay attention because this is super important to understand. Hit us up with why backwardation, structural backwardation, is so important to long investors in commodities.

***Ole:*** Simply because all the activity in the commodity market starts in the futures market. The Futures Curve is pricing expectations for, well, it's pricing what the market is, what a given commodity is worth for immediate delivery, and what people are prepared to pay ahead of a forward date. And this basically creates either a curve that's backward-sloping, which is backwardation, and upward-sloping, which is contango. For a number of years, we've had a market where the market has been well supplied. We had that almost throughout the last decade, up until around 2018-2019, ample supply has been led by the very strong rallies in commodities after the financial crisis, led by China that triggered a lot of investments. We saw the rush into oil production in the US. So basically, we had ample supply. This has changed in recent years, and right now, we actually see quite a few commodities in backwardation, meaning that the spot price is the highest on the curve. Why is that important from an investment perspective? Well, it is because if you are buying either the futures market or you're buying an ETF that tracks the underlying or tracks the futures market, you will incur a roll on a regular basis, in your market is once a month. And obviously, if we enter backwardation, the provider of the ETF or if you hold the futures market contract yourself, you will be selling high and buying the next one at a lower price, giving you a return, a roll yield, which, when you accumulate that, will have quite a positive impact on your return.

You can see on the right-hand side there, I've just highlighted some of the changes over the last three months. And if we take some of the big contracts with the biggest backwardation right now, it's heating oil and gas oil, as crude oil WTI. That has come down a little bit since, but basically, what it means is that if you're buying crude oil today and you expect an unchanged price in a year's time, you would make 10% or more. If you're looking at heating oil or the ULSD contract, if you buy today and expect an unchanged price in a year's time, then that backwardation basically means that the price a year out will move towards the spot level, giving you a return closer to 15%. And that really is a significant factor. Also, I think it's worth mentioning that what is the cost of holding a position for a year? The main cost is normally the cost of financing, and for years, the cost of finance was close to zero because US money was free. Now, the one-year cost of borrowing money is a bit more than 5% if you just look at T-bill rates. That basically means that any commodity that trades above that red line there, you can almost say that backwardation, because if everything else were equal, then all the commodities would be at least around that -5% because that's the cost of holding a position for a year. That's also why gold and silver and some of the metals, they all cost around 5% to hold for a little bit more than that to hold for a year simply because the cost of holding a position. That's a key element in why we've seen some of the investment appetite not being strong in gold, but we can come to that. As you said, there's two slides in this section just to give you an idea about the return.

On slide six, if you look at the five-year return using the Bloomberg commodity index, I like it because it's roughly 1/3 in energy, metals, and agriculture. If you bought an ETF tracking the Bloomberg commodity spot index, in that five-year return, you have a five-year period, you're looking at a return of 46%. But if you look at the total return, basically taking the roll into account, then suddenly your return has collapsed to just 5%. So basically, no one has been stealing your money, or the ETF was just punitively expensive to buy. It's simply the roll cost that instead giving you 46%, gives you only 5%. Fast forward to the past couple of years, from 2021 up until now, we can see how this completely flipped around. The spot index tells you that the spot price of the market has moved up around 29%, but the actual return, if you held an ETF tracking that index, you would have made close to 45%, that is a major shift, and that's why investments in commodities have started to pick up and become more popular. And we can see that actually, if you just stay on a theme.

On slide seven, this is just some of the ETFs. Obviously, there are tons of different ETFs tracking underlying futures markets, but I just split them into two sections, some we can't trade in Europe, and some we can, but you can see those that are highlighted in green, these are basically broad exposure ETFs. And you can see that's where most of the activity has come in the flows, has come in over the past two or three months. So investors are looking for broad exposure in commodities. One of the reasons is the tightness, another reason is, and that obviously leads to this roll yield that you're getting.

***Erik:*** It's such an important point because, you know, you hear macro people talk about, 'In this environment, I really like gold as a better investment than oil.' And I say, 'Wait a minute, do you realize that if you're going to go long gold, you've got to make $112 in a year of upside in order to break even because that's the contango you're fighting. But if you buy oil instead, the price can go down a little bit, and you still make money even though the price went down because you're capturing all of that roll yield.' It seems to me like if you imagine a fixed income guy buying and selling bonds, ignoring the 10% coupon, the people that trade commodities through ETFs who don't understand this mechanism, it's like they're ignoring the coupon on the bond. It's amazing to me how many people don't really understand this. And since we're on the topic of gold, why don't I get your comments on that as well.

***Ole:*** And I think that's a good segue, Erik, simply because you just mentioned the cost of carrying the contango in the gold market. And I think that's probably one of the reasons why we have seen gold, to a certain extent, on one point being a little bit out of favor from ETF investors. On slide eight, in the bottom right-hand corner, just giving you the movements in ETF holdings and real yields. And real yield has been going up quite strongly. That's also as the funding costs have been going up, the one year, as we talked about earlier, which was more than 5%. So the rising cost of funding has basically meant that if you're an asset manager and you're looking for gold as an investment, you like gold, but at the same time, you're facing that wall to climb, put in terms of being the funding of holding a position, you're basically in no hurry. You're looking for a change. Now, look before you really start to get involved. And that's basically meant that the holdings in ETFs have been on a downward slope since 2021. It really accelerated, I would say, during the past three to four months and is only now showing signs of stabilizing because asset managers, I think, are looking for one thing, and they're looking for a peak in rates. They're looking for that funding to start coming down. Either that or they're looking for a move in the price, which basically simply forces them to get into the market.

But I think also the gold mine is telling us a completely different story. And no other story or no other headlines we see now for the past week, gold is rallying on safe-haven buying. I'm not buying that safe-haven yesterday, probably kicked it off. But what it did kick off was a massive amount of short covering. Because just before the October 7 attack on Israel, we actually had money managers holding a short position in gold simply because the outlook was fading somewhat with a high-for-longer thesis taking hold. And suddenly we had a turnaround. So the safe-haven buying triggered this short covering that started and then that really carried on. But when you look at the right-hand side, that discrepancy between gold, the dollar, and especially gold and real yeilds, you can see there's most certainly something else going on. I think that something else is simply the fact that rising yields, for a while, have been gold-negative, but I think they should have started to become gold-positive because rising yields just create bigger and bigger problems as there are massive losses out there which I think might be starting to get worried about.

Just take a look at the major banks this year in the US: Citi group down 14%, Wells Fargo down 14%, 16% Morgan Stanley, we got Bank of America down 23%. They are at the lows of the year. These are some of the worries that the market may have. So I think gold right now, rising yields, is gold supported simply because it creates concerns about something breaking somewhere else. That's why I think we've seen this major discrepancy between gold and real yields recently. So again, can it continue? Maybe not, maybe we've seen most of it already, and maybe we need to see real yields start to come down. I think it will come down when the inflation story starts to take hold. And we will get confirmation that we have seen peak rates, because if you look at slide nine, we have seen peak rates three times now in the past 20 years. And every time that peak rate has been followed by very strong moves in gold. Just looking at these FNs and managed involvement, there's a lot of ammunition that can be sent back into the gold market if, when we get that peak rate confirmation, and we potentially get some concerns about the economic health elsewhere. So we maintain a, as we call it, patient bullish outlook for gold, and if we do take out that high from the triple top, then I think we won't see much in terms of resistance before we move to $2,300 higher.

***Erik:*** Ole, let's talk a little bit more about peak rates. I agree with you, and I think the general consensus is that once we get to peak nominal rates, and the market knows that the top is in, it's probably a launch point for gold to the upside. But hang on a second, I'm a lot more skeptical than a lot of market participants about this idea that surely we're almost at peak rates. I mean, we've been saying that for how many years? And everybody thought maybe the tenure could get as high as 3%, but unlikely. Well, guess what? We're not quite double that yet, but we're kind of heading in that direction.

***Ole:*** Absolutely. And that is still the big thing. But I think at the same time, the older comments we had from central bankers during the past month leading up to next month's meeting, they've all been talking about the mouse has been doing the job for them, i.e., the rising interest rates we've seen at the long end of the bond market has helped tighten up the market. I just wonder if they're sending that signal because they are worried about something that they can't tell us. So maybe a little bit of not a conspiracy, but just maybe some concerns that there are other and bigger issues that may become the focus. So, I think that's probably my reason for not seeing rates going much, much higher, even though the underlying, maybe the underlying economics should dictate that we should see higher rates. But I think also simply the fact that we've had these rate hikes, just looking at that right-hand side on slide nine, the phenomenal pace of this rate hike has been so aggressive that we've only now really started to see the impact of those hikes. And I think there's reasonably room for them to at least pause for now. If the aggression of these hikes and the high mortgage rates we see now in the long end in the US, as far as I can see, US mortgage rate is now close to 8%. If you have a long-term loan, this will be felt. And I think they probably see that happening over the coming months. So, I think we are very close to a peak soon because the impact of these hikes has yet really to filter through to the economy.

***Erik:*** Let's move on to page 10 and industrial base metals. I see you've got a lot of emphasis on this slide on energy transition. Robert Friedland told me that he doesn't believe it's possible for energy transition to occur as it's planned, because there literally is not enough copper. And it's just that simple. Is he right about that? And which other metals, you know, battery metals and so forth, it seems like we really haven't thought through what it's going to take to pull this off.

***Ole:*** That is, I think that's an option, fair point. And that's also our main reason for staying medium to long term very bullish on copper, simply because these prices are way too low to attract the amount of production that is required. I mean, there's a lot of focus right now, obviously, on the rollout of electric vehicles, it's going really fast. We do note in Scandinavia that we get very cheap electric vehicles because there is not really the whole of Europe that's jumped onto this EV bandwagon. So they're dumping their cars in Scandinavia. So that's nice for us for the time being. But the EV rollout will always continue to accelerate. A lot of people, myself included, have a reasonably old car, and I'm just sitting on the fence because I don't really want to buy a new combustion engine car, and I don't think we're quite there yet in terms of EVs. But another one is actually providing having a grid that can provide all the electricity that is going to be required in the years to come. I came out with some numbers the other day, and I think they're pretty nonsense because the amount of kilometers that need to be put down every day is something I couldn't quite work out. But nevertheless, demand for copper will remain strong. Current prices are not high enough. But current prices are a reflection of the slowdown that we are seeing in the short term here, not only in China, where the property market is still under pressure, but also the rest of the world. But at the same time, I think it's worth pointing out that the inventory levels are really, really low. You can see that on the insert on slide 10.

We have seen a pickup in carbon recently. But I think part of that is simply due to the fact that the cost of financing and holding a position right now is so high with interest rates at these levels. So a lot of these metals are just being pushed onto the exchange. And that's why we're seeing an increased number of inventories. So it's not necessarily because it's not in demand, but simply because investors don't want to sit on it, they will pass it on, and then they'll take it out when they need it. So low inventories combined with the transition is a supportive factor in the coming years for copper, aluminum, probably the two major ones when it comes to support. And I think they'll stay the same time we're seeing miners now into the earning season. So it'll be interesting to see what they have to say in terms of their challenges. But the last quarter, they will talk about high input prices, diesel electric and labor low grades, regulatory costs, climate change, too much water, too little water, and so on. So they're faced with a lot of challenges in the coming years to achieve the kind of production levels that we believe will be required. So again, a long-term bullish story for industrial metals.

***Erik:*** One of the reasons that I'm extremely long-term bullish on copper is because to my knowledge, there basically is no replacement for transmitting electricity. I mean, there is a replacement, which is aluminum, which costs more and is also very expensive to produce. So are you aware of any developmental research laboratory stuff that there's anything at all on the horizon that might be a replacement or a substitute for copper and aluminum as electrical conductors?

***Ole:*** Not yet. And as you mentioned, aluminum is one, but its ability over long distances is not great. So what can alleviate some of these pressures is smart applications, that the availability of electricity at any given time gets utilized to the max, basically being that whenever there's a low in regular uses of power, that's when all the charges kick in. So that obviously can, if you can even out the consumption of electricity throughout the 24 hours, not only the two hours in the evening when you put on your kettle and start your washing machine and then turn the TV on, then obviously that could alleviate some of the pressure. But generally, electricity demand will continue to rise, and that basically means it needs to be transported, and that's still copper. That's the main conduction for that.

***Erik:*** Let's move on now to crude oil on page 11.

***Ole:*** Yes, and I think we can have an interesting discussion. Because what I'm seeing here in the crude oil market is obviously a market where traders simply don't really know what leg to stand on. We are in a bit of a flux in terms of geopolitical risks. Market is trying to price in a war premium or the risk of a disruption. So far, that premium seems to be capped at around $5, and it gets given back to the market almost before that gets built up. And it just highlights the market struggling with a not yet realized disruption. Also, it's happening at a time where we are seeing refinery margins coming down. So we are heading into the season period where demand tends to weaken. So if refinery margins come down, then obviously refineries will reduce the demand for crude oil, and it will suffer somewhat as well. And that will make more available. I mentioned the spare capacity here on slide 11 as a key reason why I think prices will struggle to break significantly higher. We have the geopolitical risk, and obviously, that could be a complete game-changer. But spare capacity and rising spare capacity in the past has generally not been associated with higher prices, simply because the ability to meet a disruption goes up. But at the same time, we also see that most of that spare capacity is basically the GCC countries in the Middle East. And again, if we do have a flare-up in the Middle East, which I doubt will happen, but we can discuss that, some of that spare capacity will not be able to be released and offset disruptions elsewhere.

So if we set aside the geopolitical risk just for now, then I think the only thing we know for sure is that there is a floor, there has probably been a floor established in the market. When Saudi Arabia has been prepared to give up yield revenues in order to support prices by cutting production, then it does tell me that there is an area in the 75 to 80 bracket in Brent. A bit lower in WTI, that will be defended tooth and nail, and I think that's the only thing that's probably relatively certain right now. But whether the upside is capped at 95 or whether we are going to see a spike higher really all depends on the availability of supply. Speculators right now are not buying into this geopolitical risk. We've seen some pretty interesting movements recently, but generally, they do not point to a massive renewed buildup in length. Part of that is probably also volatility and spiking has moved higher. And when volatility goes up, then as a hedge fund, you need to lower your exposure because quite often you're targeting a certain level of volatility. And if volatility goes up, then you will need to reduce your overall exposure. But again, the upside, Erik, that's really where we obviously think could get nasty if something develops.

***Erik:*** If I'm reading this chart correctly, you're showing spare capacity presently as just over 6 million barrels a day. That's bigger than my mental estimate, which is definitely based on a lot less analysis than you're doing. Where is it that you believe that spare capacity is? Saudi Arabia has how much? The UAE has how much? Where is that 6 million barrels?

***Ole:*** Yeah, the bulk is Saudi three, and UAE one, and then two spread out, Kuwait got a couple and other smaller players have some but then it spread out across the OPEC spectre. But I can accept that maybe instead of calling it six, that we call it closer to four or five. But because UAE and Saudi Arabia, they were the only ones where we know for pretty certain that they can ramp up production at a relatively short period of time. And that's obviously what spare capacity it is. It is the ability to increase production by that amount within a relatively short period of time. So we can argue that it may be closer to four.

***Erik:*** I think it's really important to understand that. And the reason is that, at least as I understand this geopolitical situation, and I'm the odd man out here, both you and Dr. Anas Alhajji are both more qualified and more highly respected experts on this than I am. But the way I'm looking at this Ole is, look, we've got the situation where Israel has been very clear that they are going to invade Gaza. There's going to be some kind of ground invasion, they seem to be delaying that at the request of the United States who wants to evacuate their civilians first. Okay, but it's coming. We know it's coming. Iran has pledged that if Israel does what Israel has pledged it's going to do that, Iran is going to retaliate. And it seems to me like there is very high risk that the US gets involved with Israel and a war with Iran, which eventually escalates. And I think if you listen to what Senator Lindsey Graham said. I don't remember it was Thursday or Friday of last week. He was just incredibly clear saying look, if Iran does what they're promising to do, if Israel does what Israel is promising to do, then I'm promising right now that I'm going to introduce legislation to declare war. And we're going to use military force in Senator Graham's own words, to knock Iran out of the oil business, to use military force to destroy their oil producing assets so that Iran can't produce or sell any more oil. I don't think that that's in the United States interest. But obviously, I'm not a senator and Mr. Graham is. If that happened, it seemed to me if you take, I don't know exactly, I don't think anybody knows exactly how much oil is really being produced and exported from Iran, because some of it is grey market. But if it was really all taken offline, I think that's at least 3 million barrels. And if we really have 6 million barrels of spare capacity, okay that's one thing. But if we've only got three and a half or four, it's a very different story.

***Ole:*** That's true and again, that is the big unknown. I do know that last week, when Biden visited Israel, he pleaded with the Israelis not to make the mistakes that they did after 911, that the US did after 911. Obviously, the need for revenge and rage were led to the ill thought invasion of Afghanistan. Prior to that we had Iraq. So obviously, the US success rate in the Middle East when it comes to armed conflict has been extremely poor, and has been extremely costly. So it really is ultimately a question of whether the appetite for another incursion or another attack is there. I also do note that the US from an oil demand perspective they are no longer big customer of the of the Middle East. The big customers and their big interest in the Middle East from outside is China, major buyer for crude oil, not only from Iran, but also the others. Russia is sending a lot of oil to the Middle East for refining, then being shipped back to Europe and elsewhere. And that basically means if there's big forces and big nations involved there as well, which may or may act as a counter.

So really again, I'm not a geopolitical expert. I do note that in a worst case scenario, that $100 will not be capping the price and we will be seeing it quite a significantly higher, but I think before we get to that, there'll be a lot of extra thoughts within the US, maybe the administration just simply because they've done it before and they come out not looking good on both occasions. Let's see where it takes us. With respect to capacity, you are absolutely correct. If we enter into such a situation then that could be reduced fairly quickly and then it doesn't really help much that we have proved ties with Venezuela, which has got the world's biggest known reserves bigger than Saudi Arabia. Ghana is increasing production quite rapidly. They could reach a million barrels next year. But that obviously is not happening. The timing wise is not happening fast enough to alleviate offset any risks. So yeah, it's a big open question. It really depends on whether how many adults we have in the room, and many is just staring blind with rates at what's going on, so let's see.

***Erik:*** Ole let's move on to Slide 12. What is the positioning from the commitment of traders reports telling us about what traders are doing in crude oil?

***Ole:*** Yeah well, what we've seen, the area is quite interesting that just simply the interest to get involved in this latest run up in prices has not really been there. And generally, you can see the yellow line, which is a net position, if you take Brent and WTI combined, it has been on a bit of a downward sloping trend to weaken. But up until this year, and then we had these Saudi production cuts back in April. And since then obviously, interest is starting to pick up. But as we fail above 90 recently, it just triggered quite a lot of selling. So the market wants to trade this market from a long perspective but the conviction rate is, I would say is fairly weak at this point.

***Erik:*** Ole, moving on to slide 13. The chart we just looked at on page 12, actually was sourced from data in the Government's commitment of traders report, which is kind of the Oracle of data in the commodities world. The thing is, those government reports are incredibly difficult to read. And it's hard to really deduce exactly what they're telling you. You've done an absolutely amazing job of turning those government reports into a very visual graphic presentation. And what's more, you give it away for free, you don't even charge for it. So tell us how you got into this. I don't want to say the business since you're not charging it. But how'd you get into the business of giving away for free all of this wonderful visualization of Commitment of Traders data and tell us a little bit more about why Commitment of Traders is so important?

***Ole:*** Well, I think first and foremost, simply because if you're not a major trading house, you probably quite often feel that you don't have the same insights as they do. But what this report does is, it actually gives you a lot of information about what the big boys do. And basically the commitment of traders report is basically all the positions the open interest in the individual futures contract being broken into different groups or user groups. The biggest one that I tend to watch and I'll tell you why is, the speculator interest that's called managed money, it could be hedge funds, CTAs, I used to work for one in London for eight years. And I know exactly how most of these operate, they're looking for the big moves, they're looking for momentum. So it will be buying into strength, and they'll be selling into weakness, quite opposite to what we tend to do. We like to sell something that we think is too expensive, and buy something that we think is cheap. Funds, hedge funds, like momentum and trend following funds, they'll do the opposite. And that's why often they get these really long, and big rallies and big sell offs, get a bit much better return on those. But what they do is, and quite often they know Saudi oil minister obviously hate them. But they are not starting moves. They're not meeting in a dark alleyway on a Friday afternoon to decide what to buy and sell and in the days ahead. They anticipate, accelerate, and amplify price moves. They are not the ones necessarily start the move. The move has started, they will jump on board and accelerate and amplify it until, as I said the music stops. And that's why quite often we'll find them being the longest at the turn lower, and then the biggest short when it moves higher.

And that's just the nature of the beast. It is not because it's dumb money simply because they've been enjoying the move up until that point. The table just gives you the rundown of the different markets. We talked about crude oil before, and as you can see, actually last week quite interesting, WTI was net sold. It was net buying of Brent, Brent is obviously the global benchmark. So that's where the geopolitical risk is concentrated. So that's why Brent was seeing a bit of a renaissance and perhaps quite a lot of that was spreads getting out of WTI and into brand instead. But I think the main move last week was really the gold market where we had that massive increase in the net long from a short and a lot of that was driven by short covering, which you can see because quite often we just focus on the net but it's most certainly interesting to break it down, as well as the how does that net produced and we can see that was quite a lot of short covering. So if this market is in a fresh bull run, then obviously 21,000 addition to the long side is not a lot, so you could potentially see continuous short covering and additional legs being added if this rally can get some additional traction to the upside. So I just basically use it as my radar, you should as well. If you have a bit of, if you want to think about entering into position, always be aware of the position because it can give you support, some tailwind or it can also be a bit of a hindrance if we are seeing any change in the direction.

***Erik:*** Moving on to slide 14. We have to think about weather as we look at agricultural commodities what's going on this page?

***Ole:*** Yeah, just highlighting that this year is a bit of a strange one. We all worry about the availability of key crops at the start of the year with how the weather was going to play out, but the northern hemisphere has actually been fairly robust. We're seeing good production of the main crops; corn, wheat, and soybeans. Whereas the problems, and that's related to a linear, is more on the southern hemisphere. And then also some of the reason that we talked about earlier that we've seen a very, very strong rally. So now I'm showing the one-year performance as you can see, orange was up more than 150%, sugar is up 75%, cocoa up more than 65%. And these are all related to supply worries and by actual supply disruptions. Because it's not as if food is not something where, its only demand that goes off a cliff because I mean, there's only so much food we can eat. And we know how many animals that needs to be fed as well. So, the volatility in the food markets primarily comes from the supply side. And supply is really where the market is somewhat worried. And El Niño is going to have an impact this coming northern hemisphere winter. And this will continue to drive some of these price action we're seeing so a bit of a discrepancy between the key crops and major crops and some of the softs. A lot of that is related to El Niño.

***Erik:*** And finally on slide 15, you've got your equity theme basket. Now tell me about what this actually is, is this recommendations that you're making or are you just giving an analysis of the market,

***Ole:*** it's an analysis of the market and also, just get a better understanding for what's actually moving the equity markets because we quite often tend to be just focusing on specific indices, the S&P 500, the NASDAQ. We know roughly the NASDAQ is tech heavy and so on. But it doesn't really give you much of a nuanced picture. And this is obviously not rocket science, but couple of years ago for our own benefit. And obviously, for our clients as well, we created these different themes just to get a much more granular approach and then feeling for what's happening in the market. And we basically picked the number of stocks in the individual baskets. Normally somewhere between 10 and 20. And use them to as a guide for what's happening and this year already, obviously, has been quite significant in terms of movement. And some of them we all know about, we know the semiconductors with Nvidia and then so on with all the cybersecurity is ever present theme that will continue to be important. Mega Caps we know as well, and then obviously defense given what's been going on. We're running out of ammunition and the defense industry is having a massive Renaissance here. Then we got nuclear power, and then we got commodities down as well, up 5.2% still a relatively decent performance.

And then again, the whole green transformation, which is really hit the rocks in recent months simply because the cost of financing projects are very heavy commitments to financing has had this negative impact on the green transformation and energy source and renewable energy. So this is part of that is because of miners have given up or not given up. But basically some of these were themes so strong that have been bought to levels where some of these companies were struggling to deliver the returns that demand was looking for, and then adding to that sharply higher funding cost. And then you have at least in the short term, you have some sectors that are troubled, but generally Erik, simply to give a better feeling for what it is that drives the market and for us to make more qualified advice to our clients about where we want to be and which sectors and so on. Because I'm not the stock market. I'm not an equity expert, but I do like themes. I can relate to those. And instead of you having buying one particular stock in a particular theme, and then you have a problem with that individual stock, then it's obviously much better to spread your wings and buy a basket instead. So it's something that we are looking to expand as much as possible because I think that is the future of equity investments.

***Erik:*** Ole I can't thank you enough for a terrific interview. But before I let you go, please tell us a little bit more about how our listeners can follow your work at Saxo Bank. You've got your own podcast that you produce. And particularly please tell them where they can find your free Commitment of Traders Analysis Reports.

***Ole:*** Well, thanks for that, Erik. Well, obviously if you're a client of Saxo Bank, everything is available on the platform. This is a snapshot from the platform that I showed you on slide 15. But obviously otherwise, you can follow me on Twitter, it's @Ole_S_Hansen and produce every Sunday. I try to if I'm not too busy doing anything else on the weekend. I'll publish the tables and quick updates. Otherwise you can always go into analysis.saxo where we post my updates and my colleagues who are focusing on equities, fixed income, and technical analysis and so on. So analysis.sexo is also a one-stop one-shop go-to for all the stuff we do.

***Erik:*** And what about the podcast?

***Ole:*** We've changed the theme a little bit recently going forward. We are doing a commodity specific podcast every Thursday. And again, I will always post it on my Twitter feed. But again there's it can also be found on analysis.saxo but the Thursday's is primarily a commodity-only where we tried to dig a little bit deeper than what we have been able to do in the past where we try to come across all the different asset classes in a 15 minute talk quite concentrated but now it is gives us the opportunity to be a little bit more in-depth with the individual sector. So, Thursday that's the day you can find my latest update.

***Erik:*** Patrick Ceresna, Nick Galarnyk, and I will be back as MacroVoices continues right here at macrovoices.com