MACRO Voices
with hosts Erik Townsend and Patrick Ceresna

Ole Hansen: Green Shoots in The Commodity Markets

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Erik: Joining me now is Ole Hansen, head of commodity strategy for Saxo Bank. Ole prepared a slide deck to accompany today's interview with some terrific graphs and charts, so you'll want to download that. 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, click the red button that says “looking for the downloads” above Ole’s picture. Ole, it's great to have you back on the show. The title of the slide deck is Commodity Outlook for 2024. Last time we had you on, you said you thought maybe commodities were bottoming and starting to turn around. How are things looking?

Ole: Thanks very much for inviting me back. Well, yeah, we have been bottoming out now for the best part of a year. And this is really quite an interesting time that we speak again, because I think, if we look at some of the developments that have been seen across commodities, so far this month, we were seeing some green shoots starting to emerge, not only the precious metals, which really kicked off the rally at the start of the month, we're also seeing just recently, some strength coming back into industrial metals. The energy sector is, after a prolonged period of sideways trading, showing signs as well, of wanting at least to try to move higher. So, we basically were asking the question, whether this is it for the correction. And from a technical perspective, it seems like we're starting to break that downtrend that has been in place since the peak back in 2022.

Erik: Let's go ahead and dive into the slide deck. Starting on page two, we're seeing what looks like the beginning of a breakout, on this break above the trend line I should say, on this chart. What's the chart and what's it telling us?

Ole: Well, it's simply that some of the strengths that we have seen in some of the sectors is, now it's becoming a bit more broad. I'm sure we all have seen the all the headlines about our cocoa, chocolate bars getting more expensive, we’ll talk about that in a second. But also the move was seen, somewhat perplexing a lot of traders in gold recently, how it just moved higher without really having any strong catalysts. And now just recently, also the tightness that's starting to emerge in the copper market is helping ascending prices higher and also starting to sway investors and speculators back into the market, because some of many of these markets have been trading really good with almost a neutral bias for quite a long time, simply because we haven't had any momentum in the market. So, a momentum is what is needed right now in order for some of these moves to stick, because they will attract fresh demand from funds who have been in sidelines for a while here.

Erik: Looking at page three and your chart of all of the commodities, obviously, cocoa, we'll come to that story in just a minute. But it seems like for the most part, everything is starting to look up, not everything I should say, is there a trend here in terms of what we should understand from a macro perspective? Is this inflation driven? Is this driving inflation? Is it energy driven? Is it metals driven? What's the backstory here?

Ole: I think it's a combination of several things. There's no doubt that the headwinds that we've seen since, well, for the last year and a bit, a year and a half almost, has been the rapid rise in interest rates. it's really been lifting funding costs for many industries, it has led to the stocking of inventory levels, especially in metals, but also other commodities. And that has been weighing on prices. And now we're seeing some of the producers to respond to some of these developments. Not only are we, we're seeing production starting to be reduced in certain areas, just in order to balance the market that's underpinning prices. So basically, saying that it's not only a question about demand, but supply, obviously, can be adjusted as well. And we're seeing some of that starting to emerge. Places like natural gas, but then also the prospect for rate cuts, even though they have been lowered quite significantly in the last couple of months, due to the continued data strength from the US and then sticking inflation, then the market is looking to price in an environment where funding costs started to come down. So that's having an impact. And then, the leftover from last year, with the weather developments, where we can only see we've had a north/south divide. The northern hemisphere, harvest season last year was very good. That basically led to a big increase in a robust increase in key crops: corn, wheat and soybeans. Where as the southern hemisphere, struggling with weather developments and leading to very high prices in some like coffee, cotton, sugar, and then of course, some like cocoa.

Erik: Let's go ahead and take a look at cocoa on page four in the slide deck. Holy cow! We've seen the price of cocoa double, almost just in the last couple of months and more than triple in the last year. What's the fundamental driver here, what happened?

Ole: Simply, supply. Cocoa, we have to remember, is dependent on production from a very small part of the world; West Africa, Ghana Ivory Coast. Weather there has been dismal in the last few months, first too wet and then too hot. We have ageing trees struggling to produce, that basically means they need fertilizers and pesticides. The farmers are not reaping the benefits from these higher prices, because farm loads are very small. So, the price they can sell is dictated by the government or by the exporters. Normally, when you have a very high price, you will also have higher production but this dysfunction is not working in cocoa. And this has led to a lot of head scratching, many of the big chocolate producers around the world, they buy the cocoa in the forward markets, also in the futures market. And what we actually have seen during the latest run up in prices, it has not been speculative driven, speculators have been net selling cocoa futures for the past two months. Instead, the buying has comes from producing covering their shorts position, basically covering the hedges against cocoa beans they thought they bought, but which suddenly is not going to get because of the production is down by close to 1/3. And this is just the leading to this massive scramble for supplies, which is driving up the

futures price. And you can see on the chart that is primarily the front end. So the current front contract, the May ‘24 contract is screaming above $8,000. Next year, May 2025, is still stuck around $5,000. So that basically leaves us with a massive backwardation of 35%. And it just highlights a market, which in at least for the coming months, will be struggling. And it's leading to another round of *shrinkflation*, where producers of your chocolate bars will try to maintain revenues by cutting the size of the package. So basically, reducing the amount of cocoa that needs to produce the bar, while keeping the price at the same level. And so, we most certainly are going to see a quite a bit of that in the coming months.

Erik: Now, normally, when I see a commodity move this far on a weather related phenomenon, the trade there is actually to fade it, to bet the other way. But of course, when we're short, we'd like to be selling into contango rather than backwardation. So, you really, if you try to short this market on a forward basis in next year's contract, you're giving up about a third of that price, in terms of where you're in or you're short. Is it a ripe short? Is that why everybody has been selling cocoa futures? Or is it too early for that? Is there a trading opportunity here?

Ole: Considering that the May ‘25 has remained steady around $5000 here for, well, the front has been raising high could indicate that it's found a bit of a plateau where the market is. And it makes sense because this is, May ‘25 is the next season, because the current season is more or less done, and it looks horrible. The mid-season, which starts in around April, it looks equally bad. So we're not going to have much of a catch up in terms of additional supplies coming from that mid-season crop, then the focus will be turning to next year's crop. And then the expectations are obviously, that at least the farmers will get a higher price than what they received this year. And that will help them fund the need for the different pesticides and fertilizers and so on, that's required for these trees to deliver a decent production. So, with that in mind, it probably makes sense. But actually, the selling, with the conditions we've had this year, I think there's probably a risk to that. So, it's a tricky trade, Erik. And we also are seeing, as I mentioned, hedge funds have actually been pulling back, getting out of longs even though the price continues to go up, because it is a market which is just in a flux right now, where it almost goes to $1,000 within a matter of days, and that it's an extremely tricky one to call it up on.

Erik: Let's move on to page five and agricultural futures. What is going on here with the food story? And particularly what is it going to mean? From a macro standpoint, if we continue to see a lot of these food prices moving higher, this is not exactly an economic environment where consumers can afford higher food prices. What could the consequences be?

Ole: We touched a little bit on it earlier. But I think, first of all, we have to say, thank God this is not in the reverse, that we are seeing these very, very strong gains occurring to key crops like corn, wheat and soybeans, because then obviously, we will have a week where we'll be talking about a food crisis if suddenly we had wheat prices goes up 200% instead of cocoa. So right now, this is the north/south divide, as I talked about. Soft commodities, they're not strictly necessary for us to live, as opposed to many would say life without coffee would be not a life worth living. I'm probably a part of that group. Chocolate bars a little bit more sanguine on that

one. But it just highlights how weather become more volatile and how we, at least for the past six months or so, have seen this quite big divergence following a period where both sectors were more or less in lockstep, falling at the same rate. But since then, the weather developments, different weather developments have occurred and to bring this big changes in the divergence between grains and softs, and as I mentioned, if you look at the weekly CoT report, the short position was reduced a bit in the last week, reporting weak, but the short position just recently hit a record high. And if you look at corn, wheat and soybeans combined, and this is now in the lull period before we get going with the northern hemisphere season. And again, do you really want to be record short when you have potentially some uncertainties, starting potential unfolding in the months ahead.

Erik: Moving on to page six and natural gas, boy, the winter of 2022, 2023 was a huge bearish story in natural gas, just crashing prices. It seems like for the last year or so, we've stabilized. I don't know if this is a bottoming pattern, are we about to go the other direction and move up on natural gas prices?

Ole: I think we are and simply for several reasons. But as of right there in the headline, the old saying that best, just like cocoa, where we have high price, low prices need to secure low prices. And I think, we've seen part of that medicine being applied right now with EQT, Antero, Comstock and Chesapeake, recently announcing production cuts, simply because the inventory levels right now, as you can see, in the top middle chart, we got inventory levels around 35% above the five year average. So that very big overhang of stocks in underground storage ahead of the rebuilding starts very soon, that needs to be brought in back into line, in order to support price. And I think we've seen the first step for that to happen. And then we also see the continued expansion of US export capabilities, well, LNG, they will also continue to try and move gas out of the country to the rest of the world, and thereby also underpinning prices, which remains extremely cheap relative to the rest of the world. So, a massive competitive advantage for US consumers of natural gas, compared to the rest of the world. So, I think we are, that one and a half dollar level looks like it's something, it's a level that's just like OPEC+ is defending 70. And Brent, I think one and a half is potentially a level that will increasingly be defended by producers simply by cutting production.

Erik: Ole, after the Ukraine conflict broke out in the summer of 2022, US natural gas prices topped $10, there was sudden demand to send a lot of US gas to Europe, in order to help them out and so forth. We're down more than 80% now, below $2 from $10. It seems to me like things are really heating up geopolitically. But at the same time, I think the fundamentals are different in terms of Europe's vulnerability. So, the question in my mind, as I think about a speculative long trade and natural gas is, how vulnerable is Europe at this point? If there is a military disruption of some kind, due to the escalating geopolitical tension around Gaza, and the Red Sea and so forth, do we have the same kind of vulnerability? Is there a risk of another moonshot to $10?

Ole: I think the answer to that is no. Also, part of the reason that they rallied as forcefully as we did back then is a similar story to what we just recently have seen in cocoa, where buyers of

cocoa have been hedging cocoa by going short the futures market. Utilities in Europe had been selling gas, ahead of the spike, simply because we were heading towards some sort of an economic slowdown, they had fixed term contracts with Gazprom to receive a certain amount of gas, as you could see that we're not going to need that gas, sold that gas forward in the futures market. Suddenly, Gazprom turned off the taps, they were left with a short that was not going to be covered by gas coming in, and they had to cover the short and that really set the ball rolling. And that's where we had these massive spikes, back then in European gas prices, whereas it really was 350 euros per megawatt hour, where we are now, the trend is below 30. So that will not really be repeated. We are building up LNG import facilities and a lot of that is coming from the US. We have adjusted to longer sailing routes to south of Africa, instead of through the Red Sea, so I think that's also a development that we should not be too worried about. The worry, that is probably still supplies from Russia, because even though pipeline gas has been reduced significantly, there's only a couple of lines left open selling gas to more Russia-friendly nations in southern Europe. But we also have seen the LNG from Russia actually picking up and there's been recent, some initiatives trying to recoup that sale. So if that is successfully implemented, I doubt at this point in time, then it potentially could tighten the market but overall. We've been lucky, once again, where this winter was another very mild winter, economic activity has been on the weak side, we are entering this coming season with within reach, level set at high levels, which will be relatively manageable to get back up to these levels, by the time winter starts again. And we can already see now winter prices are trading relatively cheap, both for the coming winter and next winter again, so the market is taking quite a sanguine view on the current developments.

Erik: All the stuff that we've talked about before in your previous interviews, I'd like to come back to which is backwardation versus contango and particularly, why for people who are speculating on the long side of commodities backwardation is your friend. We've discussed this before, but I'd like to go through it again just to make sure it's clear because even if on professional traders outside the commodities community, specifically, this concept is not well understood.

Ole: No, exactly. And it has created quite a few grey hairs and we'll look at that on the following slide. But yeah, the backwardation is really, in essence, a sign of market being tight. So, if you are in need of supplies, you are prepared to pay up to get immediate delivery and that basically means the spot price is the highest along the whole curve. So further out you go, those prices tend to drop off. And the opposite is contango. Normally what you would have most markets trading in, if everything was equal and you're only looking at what is the funding costs of holding a commodity position, then commodities should be trading in contango, because we have higher interest rates, we have funding costs, and that basically means if you disregard supply and demand to storage and so on, then all commodities really, a year out in the future, should be trading at the at a 5% discount at a contango. That's really the cost of financing the treasury bill for 12 months. So in theory, everything that trades in backwardation is showing strength, because not only is mitigating, offsetting the cost of holding position or finding a position, it also shows how the market is tight and how does that matter for an investor. It does simply because whether you're in a futures market or you're in an ETF, or a swap or whatever, all these

positions are hedged back into the futures market. This is the purest form of trading commodities. And if you have a long position and you're in backwardation every month, the roll takes place you're selling an expiring contract at a higher price and when you buy the next, so that is giving you a positive roll yield and the overtime that all the small roll yields that accumulated and that's why you when you look at commodity indices, you have to look at the total return, because the total return takes these rolls, either positive or negative, into account or vice versa. Contango, opposite, you're selling an expiring contract at a lower price than where you're buying the next, that's penalizing you on your return over time. And that's why something like natural gas has been so incredibly difficult to trade, from a long perspective, unless you have a very short term time horizon, because the contango has been quite intrinsic for a long time and basically means that you've been eroding your investment slowly over time, and basically making it very expensive, more expensive to have a long term view on the market.

But turning to page eight, we could just simply see the impact of the backwardation versus contango because, up until the pandemic in 2020, we've gone through a number of years where the commodity sector was fairly boring, supply was ample and the markets, most miners were trading in contango, that basically means in the five year period from 2016, up until the end of 2020. That does include also the dirty parts of the post pandemic rally. But during that period of time, if you look at your spot prices, you would have thought an investment, an ETF investment, in the Bloomberg commodity index would have given you 47% return. When you look at your actual account statement, you only made 6%, simply because contango was just costing you money on a monthly basis during that time. Fast forward to the last nearly five years, what are we up to? Four year and a bit? Since early 2021, where most commodity has been trading in backwardation similar to the tightness that occurred after the post pandemic spike, in demand for raw materials and or the government support for economic growth. We're seeing, during this time, that the stock price has been trading as up 21%, but your actual return have you held an ETF or held a swap tracking this index, you would have made 37%. So it is a major major mover. And it is one that, this backwardation in the last couple years, has also slowly started to attract new investors, asset managers and so on into the commodity space. But what we need right now is clarity about the economic outlook for growth. We need clarity about the direction of interest rates before, I think, we see the paper so-called “paper demand” for commodities picking up in earnest.

Erik: Ole, moving on to page nine, let's talk about US rate cuts, what they mean particularly. You've got the chart here of SOFR futures, as SOFR, of course is Secured Overnight Financing Rate, once you know what it stands for, I don't think you're any closer to understanding what it actually means. So maybe you can explain that as well.

Ole: The SOFR rates is the way the market can bet on future, the direction of short term rates. The ones I've just highlighted here is literally the price, will more or less reflect the fed fund rate when it comes to expiry, give or take, so it's a good gauge for where the market is pricing the rate cut expectation. And SOFR futures, quite often, I use when we have these calculations of the percentage chance of a cut in July as so on and so on, and I've changed quite often it's a silver futures that makes up this calculation. And what we have seen, since the start of the year,

where we really started on a high note in terms of expectations, we were looking for almost seven rate cuts in 2024, that expectation has deflated quite significantly. And now we're looking at around three and we can see the cost has been moved further and further out. And it does make sense the market is scratching their head a bit, simply because inflation has come down. But the short-term momentum indicators, looking at the three months change on an annual basis, and six months changed as well in the core inflation, they have both started to pick up after they, actually for a couple of months, we're hovering around that 2% inflation target. So the question is really will they cut? I believe that will, but how much will be dependent on the direction of inflation. Will they start to look at other issues more than inflation, which potentially could end up being more sticky than originally thought? That is really the uncertainty that we have in the volatility right now in the bond markets and in the short term rates.

Erik: Higher interest rates tend to lead to a sharper contango or less backwardation. What else do we need to know about changing interest rates and how they affect commodity markets?

Ole: Simply, because it's the cost of money and if the money or cost of money comes down, then they should obviously support economic activity. It’s also support for the companies who have been bringing down the inventory, the stock levels of key commodities, in order to bring down the funding cost, especially last year. And that's so-called restocking cycle, which we look towards as adding some additional physical demand to the market, not only the paper demand, which is for the futures and which can be carried out by asset management and so on and hedge fund CTAs, but also actual real demand from end users, restocking simply because the cost of money starts to come down and making it more interesting again. But at the same time, it has to coincide with expectations that the economic, the economic outlook has stabilized and we're looking for higher growth in the months ahead. And yet, the jury's still out on that one, especially in the US, where some of the signs are still that, we are probably not going to see recession, but at least the economic outlook could show some weakness. But at the same time, other parts of the world are benefiting from lower funding cost and potential with that is also a weaker dollar.

Erik: Let's move on to slide 10, and a topic that's near and dear to many of our listeners hearts, which is precious metals. Ole, I'm going to be the first to admit that I don't really understand this big bull move up that we've seen in the last month or so. It seems pretty darn clear that it was Fed Commissioner Wallers’ comments that the market interpreted in a way that was the catalyst for this big move. Honestly, I don't understand. I heard what he said, I don't understand how that translates to what was it $150 move in gold in the matter of a few days? Am I missing something. Is there a clear reason that I don't understand why this happened?

Ole: I think we’re all missing something. And I think there's no clear explanation to why it happened. Now, I think a lot of commentators expected the move to happen, but not at a time where we just gone through a sharp reduction in the expectations for rates, we can see that on slide 10. This is where the fed funds is expected to be, by either July and December. And you can see, by July, we’re now looking at just around one cut. And by December we're looking at less than three, from close to seven. And despite this, the market has moved higher. I think

there's probably a couple of things, and the underlying physical demand, we should not ignore it. It's extremely strong, especially in China, where investors, the middle class in China, they're faced with, stock market is up until recently was struggling quite a bit as property market is no longer a safe place to put your retirement money than it used to. And they are looking with the limited amount of investable products they have.

Gold has become a hot topic, central banks, we all know have been continuing to buy. There was, I think, there's even recently some talk that brushes dollars should, that was held at the central banks around the world, should be confiscated and used to put towards rebuilding Ukraine. I can't even imagine what kind of impact that would have for the global system, if that was to be the case. But there's just thought of that, I'm sure, is likely to have added some additional demand from central banks getting out of the dollar. So that's one part. And I think we just have to look at the CoT report on the week, that data, the futures demand has just exploded in the last two reporting weeks, hedge funds bought 250 tonnes of gold. And that's basically quarter of what all central banks bought in a whole year, and they bought that in two weeks. That is a massive amount of gold that is adding to a squeeze in the price. So, I would say this move has been momentum, technical breakout driven. And that also means that for now, this rally is built on a bit of a shaky foundation. We all know hedge funds are not married to the position, I used to work for one, they will change the outlook if there is a change in the technical or the fundamental outlook. The fundamental outlook has changed somewhat, to a little bit towards the negative side, but the technical for now, it's holding up. So I would be cautious of calling this the new leg higher. I think it's perhaps happened a bit too soon, it really all depends on whether we get any data that add some downward pressure on the price, and then potentially forces the ball to roll, because what we have to remember, hedge funds, they will buy into strengths and sell into weakness. And at the same time, they will maintain the same risk to a given market. So, if they bought at 100, and the market went to 120, they'll buy again, then they'll move the stop higher. So the stop loss on the new bigger position is still the same as it was at the entry level of the position. And that is a key to remember, that the stop losses on these longs have been moved higher as the price moves higher. And that basically means, well,they are closer to the market than they were initially, but the good thing is that the rally was, as you mentioned, 150 plus dollars, meaning that these levels are stopped, probably at this point in time, relatively far away from the current spot market. So we can take quite a bit of heat without triggering some of these stops, which otherwise could trigger a cascade of sell orders, even though there's not been any major changes in the in the outlook.

Erik: The title on page 11 is “Too much too soon?” with a question mark on it. It seems to me, you know, we had the second hot inflation print in a row last week, that seems to have kept to the rally. Now we're starting the correction. I just wonder how far the correction has? I think it is a buy-the-dip opportunity. Probably the question is, are we going all the way back down to, you know, $2100? Or below? I guess the breakout zone was $2085, $2087, something like that. And are we going all the way there on this correction? Or are we just going halfway there? What do you think?

Ole: I will say, I hope not. Because if we do take that $2088, $2089, $2090 area, then I think we are into that territory where stops will start to hit the market. And again, speculators, hedge funds that do not ask questions, they fire, they shoot first. If they're wrong, they get out and then they take another look when the price tells them to get back in again. So this move potentially could have nothing to do with fundamentals, more simply positioning being adjusted. So I think for now, I'm keeping a close eye on that $2135 area that was the previous peak on the spot, on spot gold, I'd like to see it hold that area, would get a little bit more nervous if we break below. But I think, what's also important, when what we saw last week was gold holding reasonably well through these higher, hotter than expected inflation print. And I think part of that was silver, picking up the baton, simply because the rally we saw in copper, which were further reasons, and we can talk about that a little bit later. But silver last week, silver's rally last week, I think it helped cushion gold, and the question is whether that can be maintained into this week. So we're not a million miles away from critical levels, but still have some miles to go, or some dollars to go, before we start to get worried.

Erik: On page 12, you're showing $2300 as an upside target. What's the timeframe for that and what do you see on the horizon even further out?

Ole: I see that when we start to get the rate cuts, and those rate cuts has to be at least the three that we have priced in at this point in time. So when we get, also just to highlight one of the previous slides, I'm sure both of you and the listeners have seen that one before, that the previous rate cuts cycles in this during the past 20 years, have all led to very strong rallies in gold. This time around, the rally has started, even before the cuts started to materialize. But that's, the market likes to run ahead of itself sometimes. But $2300 was our call at the start of the year, the fact that, if this rally that we've seen just recently, managed to stick without the rate cuts, and then adding the rate cuts on top of that later in the year, then potentially $2500, which is the other range of that potential long term channel going all the way back to 2007. That could be the target but $2300 into the second half is my goal.

Erik: Let's move on to copper, which has moved extraordinarily, just in the last week or so. What is going on, both long-term and also, what's been the driver short-term for this, this big surge higher in copper prices?

Ole: Well, first of all, it's a technical driven rally once again, the funds have been trading this from the short side for a while and they've been forced to get back into the market. But the fundamental trigger behind the rally is news out of China. China is the biggest refinery hub for refined metals in the world. And as we've seen, producers and mining companies around the world downgrade their production forecasts over the year. And also with the Panama, the copper mine surging down in Panama last year, that are starting to tighten the availability of supply of copper. And that basically means all these smelters in China, they've been increasingly been faced with lower supply. And what do you do in order to attract supply? Well, you make it more cheap, cheaper to refine the copper, in order to get supplies, so that competition has been a race to the bottom. So, refining charges, treatment refinery charges in China was at one point, almost a hit zero, which basically means they're not making money,

they're most certainly losing money and that's led to a decision last week that they will try to curb production, simply resumed in order to lift the profitability. And if they do that, the finished product of refined copper will suffer as well. So, this is kind of a catch-22, both, basically in my mind, leading to higher prices over time. And with these such supply cuts, really starting to be felt into the second half, then I agree with that, this is a market that has been asleep for a while, simply because we had to deal with property crisis in China. In China, we've had to deal with sharply lower growth expectations, sharply higher interest rates around the world forcing destocking of mining metals. And despite of all this, copper is now starting to move higher, after this period of consolidation. And I believe we are to start off of a move that will continue to gain some traction. Also, simply, if that momentum comes back to the market, then there will be the added tailwind from fund starting, having to get back into the market, having traded this with a close to neutral position for almost a year.

Erik: Slide 14, energy transition metals. What's the story here?

Ole: Just that it looks like we may be starting to see a few green shoots. If you look at equity baskets and equity themes over the last year, boy, everything that's related to green transformation has been hammered. And some of these metals have suffered significant losses as well. Just take a look at the chart here, where we see that the year to date, the worst performing is the mining, lithium miners, they were the best performing as the actual lithium carbonate contract, or a benchmark in China. So it does indicate that miners are lacking right now, what looks like a start of a recovery in prices. And part of this is just like natural gas, driven by producers cutting back production, simply because price has tanked by 80% over the last year, back to where they more or less were, before the massive spike we saw a couple of years ago. And that has led to some production curtailment, and that's starting to support the lithium price again. So, lithium and copper, again, two key green metals that show signs of finding their feet here. So that's basically the main story I'll say from this one.

Erik: Now, I noticed you've got some comments on the right hand side of page 14 about nuclear power, but you don't have uranium on the chart. Any thoughts on where uranium is headed?

Ole: Uranium is heading higher. But for now, it's just like many other speculative or has become a very speculative market. We saw a rush of new investors rushing into the market, both into mining companies, but also into ETFs tracking companies and ETFs tracking physical uranium to the extent that we probably, we overextended ourselves to the upside because we have to remember, the uranium rally is a multi-decade rally. This is not happening overnight. Nuclear power plants are not built on a daily basis. We know more or less, exactly what we'll be needing over time. And what will be needed over time is rising and that will underpin prices. I think it was just simply, it was a victim of a speculative bubble that drove uranium spot prices to around $105/pound, now we're back into the 80s and we've seen some of this speculative froth getting out of the market. It was a typical buy-rumor, sell-fact market, we rallied strong in January on the expectation that both Kazakhstan and Cameco in Canada would cut their production outlook that materialized as expected. But the market had already taken that rally

quite substantially on the back of that. So, right now, it's just a question of, I think we need to see a bit of this market consolidate, watching something like the Sprott physical trust, that discount to NAV, at one point last week, hit 15%. So you could basically buy the trust of 15% below net asset value that has since come down, but when you see these kinds of spikes, that is obviously an indication that there is quite a lot of selling activity coming into the market, from people wanting to get out. And everyone that got in January was basically on the water, and that's led to this correction. But the long term outlook, I believe is very, it's very positive for Uranium, for the commodity and for the miners in general.

Erik: I agree completely, and I did buy quite a bit at the 15% discount last week. Page 15 and crude oil.

Ole: Yeah, crude oil. What can we say? We looked like we are starting to wake up a little bit. We have been struggling in a relatively tight range for a long time. Just last week, early last week, the weekly average on a monthly rolling basis, hit the lowest level in 10 years. So the market was really just content sitting here, boxing around with Brent around 80, and WTI a bit lower. And since then, the market has started to firm up a bit. And we all know the reasons for that. The main catalyst is still the tightness of OPEC+ keeping barrels off the market, we've seen drone strikes hitting plants in Russia, lifting gasoline and diesel prices, simply because Russia's export of diesel and gasoline may be at risk and perhaps even worst case scenario, they have to import stuff. So that's driving up the costs of refined products that's underpinning crude oil. But also, IEA last week, came out saying, based on the assumption that OPEC will keep supplies tight for the remainder of the year, they see now a deficit starting to emerge in the second half. more deficits emerging which will underpin prices. The upside is still one I'm a little bit doubtful about, simply because rallying higher prices with higher spare capacities rarely go hand in hand. And what we have seen with these production cuts from OPEC, especially some of those in the Middle East, where taps can be turned on, again, relatively easy, spare capacity has been rising to levels, which would normally not warrant a spike in prices. And at the same time, the Middle East situation remains uncertain. But at the same time, there's just a sense that almost no matter how bad it gets, there's not really any appetite for this conflict to start impacting the production and the transportation of crude, away from the main production areas.

Erik: Saudi Arabia really got my attention when they announced recently, that they're not intending, or actually, they've reversed their prior decision to make further investments in their productive resources in Saudi Arabia. They're not going to increase beyond their current production capacity. And they've made that announcement to the market. What do you make of that?

Ole: Simply that they don't see the need for it. But also, at the same time, what's the point spending billions of dollars, expanding your capacity, if you may not need it anytime soon. And also, just simply the fact that they are producing quite a bit less than they can right now. So I think it's more just to keep the money at work somewhere else, instead of trying to put them into investment that may not necessarily pay off anytime soon. And whether it's a signal that we are approaching Peak Oil, I think that's probably taking it a bit too far. In terms of trying to analyze

why, the data is saying simply, they see there's no need for spare, spending all those billions of dollars at this point in time. And they can obviously revert the decision at any moment in time, if they feel that's necessary in the years to come.

Erik: Page 16, all or one of the most valuable tools that we have in commodities trading is the government supplied Commitment of Traders report, but the government's version of that report is so cryptic that it's really hard to follow. You provide a tremendous service where you kind of translate the government data into graphs and charts and very readable format. And you do that for free, which is really a phenomenal service. Why do you do that and where can people find it?

Ole: Well first of all, I do it because I used to work for a hedge fund myself and in my days, in London for nearly 10 years, I know how they operate, at least some of them, the information that they have to provide to the authorities, how that is useful for everyone, who may not be buying and selling massive amounts of contracts on a daily basis. And because what I say hedge funds are, as a put into this little text there, they're quite often being accused of driving prices, that they try to anticipate but then also accelerate and amplify price changes that has been set in motion already. They are not the ones starting to move, they will join a move when the momentum tells them this is the right thing to do. But at the same time, that also mentioned earlier, they are never married to the positions, unlike us who potentially is sometimes at risk with our investment becoming a married position when it starts to go wrong. Believing that we are right over time and the market is wrong. They don't have the luxury, they will respond if the price doesn't react as they were hoping for, as their position is telling them and that basically means as well, they will be found holding the biggest long at the turn of a peak. When the market peaks, they'll also be found holding the biggest short at the bottom of the market and that's why sometimes people call them dumb money. They're actually not saying anything dumb, they will be in these moves for as long as possible, as long as momentum tells them to, so they will only get out when they have to think otherwise. They will obviously all be out of business if they were, if it was dumb money. But it gives us mere mortals a good idea about what they're doing, in terms of positioning, if the size start to become very elevated, that does obviously raise the risk. Well, If something changes in the market, if the technical or fundamental outlook changes, combined with the knowledge of the positions they hold, then we can assume that something potentially major could happen. And just look at gold right now, as I said, the last two weeks, the last weekend was changed with 28,500 loads that was added quite a substantial more than the previous week, adding up to these 200+ tonnes that are mentioned. But that net is now the highest we've seen in a couple of years, obviously, leaving it exposed, if we do see a change in the price action. So that's why we're watching all these rates in the grains, as I mentioned, shorts across the board into the spring. And then also interestingly, something like the cocoa, as I mentioned, where the cocoa short, or long, is much reduced compared to where it was just a few months ago. So it's basically a radar, knowing what they hold, and then combine that with the market activity. And that gives you a good idea about when things potentially could start to get a bit risky.

Erik: Ole, I can't thank you enough for a terrific interview as always. One final question before we go, though, I mean, everybody knows the big theme this year has been inflation, you guys at

Saxo Bank have actually gotten some attention for slashing your fees on your online trading platform. You go in opposite direction, I'm sure that's appreciated by a lot of traders. What's the motivation for that? And also, be sure to tell us where our listeners can find your research on the Commitment of Traders reports that you just described?

Ole: Well, thank you, Erik. Well, first and foremost, we want to be competitive, who doesn't? But at the same time, also just the knowledge of how trading commissions erode your return over time. So our business is built on long-term relationship. We obviously like to have clients staying with us and growing with us. And a way to do that is to ensure that when they do enter the market, that they enter the market at these levels in terms of costs, so that was introduced back in rolling LEAP being introduced across the world. We started with that process back in January. But otherwise, Erik, you can obviously always find me on Twitter (@Ole_S_Hansen) I put in the handle there. Yeah, I don't talk about recipes and dogs and cats. It's really only commodities most of the time. Almost, I would say 99% of the time, perhaps sometimes a picture from the seas around Copenhagen, which, it's cold this time of year but beautiful to swim in during the summer. And then also, if you go into our website, analysis.saxo, we've got great content from all my colleagues around the world, focusing on the different asset classes.

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