Erik: Joining me now is Ole Hansen, who heads up commodity research at Saxo Bank. Ole prepared a slide deck to accompany today's interview, so I strongly encourage you to download that as we'll. Be referring to those slides over the course of this interview. The download link is in your research roundup email.

If you don't have a research roundup email, it means you're not yet registered at macrovoices.com. Just go to our homepage, macro voices com. Click the red button above Oles picture that says, looking for the downloads Ole. Obviously the big story is oil. And Iran, and I shouldn't say oil, it's energy generally and Iran and other commodities that are affected by this whole conflict.

We just had a dip, which hopefully many of our listeners were listening last week when I suggested there's going to be a big dip that came on Friday morning. Hopefully people bought $79 crude oil when they had the chance to do you've missed that opportunity If you didn't do it then. Tell us your perspective on the big picture of what's going on with energy, how long this is likely to last, and what we can expect for energy markets out of this conflict.

Ole: Hello Eric. And thank you very much for having me back. I think there's no doubt that even though the market is behaving relatively benignly, especially if you're just watching front bonds, the futures price in, in the crude oil market, you would you would be saying what's the whole Fs about?

But this disruption we're seeing right now is just so profound because it's not only the energy space that we are seeing being impacted, and then, and one thing is crude oil but another thing is the older, refined products where we are really seeing the tightness right now, diesel, jet fuel, petrochemicals, and so on.

But it's also the associated impacts because I think many were probably not aware how the importance of the Middle East besides energy production, that in, in recent years the Middle East has obviously expanded. Its production base. And why it just why just sell sell oil outta the ground and send it on the ship when you can actually make some money on the process of refining these into other areas.

And that's why we suddenly left with a market where besides gas obviously, which is a cat and a major supply to the global market, we have all the associated productions of commodities that, that takes place in the Persian Gulf simply because they have an abundance of cheap energy available.

So the energy intensive commodities that's anything from from aluminum to especially fertilized, which requires a lot of gas, which the main feedstock they have become key issues. Reason we just come to know as well that miners in South America then needs sulfuric acid in order to break down the copper from the, from their mines.

And that basically means with 50% of that coming out of the Middle East then we also suddenly face a potential shortage in that area we talked about. We, helium has been mentioned prior to, to to the chips industry. So the it's just a whole how the breadth of this breadth this this crisis and how it impacts not only energy, but anything through to metals and agriculture as well.

And the duration is really the one that everyone is trying to work out because looking at the forward curves, especially in the energy space in crude oil, you would imagine that you'd think that this would be over by by, well within a few months. We're seeing still, we're seeing a very extreme backwardation right now, which basically means the price is further out, trades relatively cheap.

If you look at Brent's crude December contract is trading just above 80. And you could, you can easily argue that having gone into this year with with all the talk about ample supply with, was the biggest supply lot in, in living memory as as touted by the IA, which potentially was, too high compared to where the market was actually signaling.

We started with trade the year in the 60 to $75 range. Looking at Brent. And I think that there is an argument that once, the dust settles, and we on the other side of this, we should expect prices to settle in at a, at least 10 higher level, maybe even to 15 higher. So the floor has moved higher for this, and that basically means if you're looking at Brent Crew for December at $80

That's potentially where the new floor should be. So I'm struggling to see any, so see these these these Ford prices really reflect what potential will unfold in the coming months because it will take time. It will be a logistic, a nightmare. Ships are not in the right place. We have refinery damages.

We have wells that needs to be restarted, but before they can restart. The oil tanks needs to reduce the the inventory levels has to come down so that, so the tanks can free up space for the production to restart. So we're easily looking at two to three months from a peace deal before we can start to talk about any kind of normalization in my book and.

And this is getting a little bit long, Ari, but I think also interesting to note that in the last six weeks, how much has the US crude oil production risen by zero barrels, how many additional rigs has been employed in the US shale area, zero rigs? Basically, where are the US producers? Why are we not seeing any response?

And I think part of that is, is clearly the fact that the curve is very backwardated. So if you are an oil producer needs to hedge your production three to six months out. The prices Are still not, that great. And similar, maybe also just raising question. Are we getting close to a saturation point in terms of how high US production can actually go at this stage?

Erik: You mentioned backwardation, and this is something I've really been surprised by over the years, even among professional investors, people who are not professional commodity traders seldom understand how important term structure is in commodity trading For. Particularly for position traders who hold a position because of a macro viewpoint for several months to several years, you can make money in a down market and you can lose money in an up market depending on what the term structure is.

You're probably the only person I know who's put a chart together that really clearly explains this. So let's Jump ahead to page four of the slide deck.

Ole: Yeah.

Erik: So I wanna go back to what I just said a moment ago and ask you to explain it. 'cause it sounded crazy. I said you can actually lose money being long in an up market and you can make money by being long in a down market, depending on what's going on with the term structure.

Explain how that's possible.

Ole: Simply because if you are a passive long investor, Eric, you are no, almost no matter how you invest into a commodity space, whether it's through an ETF or through a swap, the whoever provides you the ETF or the swap will always go back to the clean market.

And the clean market in this case is the futures market. And if you have a market where, which is backwardation IE, it's seek a signal in a relatively tight supply and you are holding a futures position to as a, to hedge your exposure to the ETFs and the swaps that you have issued every time you roll that position.

If we are in backwardation, you'll be selling an expiring contract at a higher price where you buy the next, that is giving you a positive roll yield over time. And the, obviously the opposite occurs if you have a time period with ample supply where spot prices or the first future months is cheaper than the next, then you'll be selling low, buying high.

That's that's basically one of the reasons why natural gas is such a dog to trade from a long-term perspective, because the return there is just is so difficult to to achieve because. This long periods of time during during a calendar year, we have periods where natural gas is trading a really steep contango.

Basically when we are moving out of peak demand into lower demand season, where we have this very, we move from a very high price to winds to a very low price during the summer. That period is just killing you if you're trying to just be belong because you're constantly selling high and buying low. But, how does that impact you as a return? Real returns. And that's really where it starts to get interesting. Because one thing is that there's a lot of investors looking at commodities. From that perspective saying the outlook potential look looks good for commodity.

We like to have some hard assets in our portfolio, but we don't wanna be get killed by the by a potential contango. What I put up here on, on chart for slide four is simply the performance between the Bloomberg Spot Index and the Bloomberg Total Return Index. The spot index is basically reflecting the movements in the underlying futures price.

And the total return takes these roles that are mentioned into account. And we had a five year period let's just do it in five year cycles here. We had a five year period from 2016 up to 2021. I could have gone further back, so we just hit the nail where we had the bottom in 20, but that's just for argument's sake.

The, those two, those five years. During that time, the spot index actually indicated that if you had bought a, an investment in commodities tracking the Bloomberg Commodity Index, you would've made 52%, but your actual return was only 14. That massive difference is basic because we had a period, a number of years where most markets were trading contango.

Basically there was ample supply. We come out of a period where producers had responded to higher prices in the past, and we also had the re recession that a weakness that in the economic, that was under holding demand out. So basically we had a market that was amped, supplied.

Fast forward to the last five years from 21 to 2026. Once again, if you look at the spot index, the yellow line. It's based more or less performed, done the same performance up 57% against the 52 in the previous five years. But if you look at the total return, you actually up 83%. That is a massive difference in the performance of your investment.

And that's why backwardation is so important to keep an eye on. And if we are seeing a future where we see tightness emerging in several, across several commodities, and that backwardation will continue to be present, then that would basically provide an investor with some tailwinds besides the actual movement in the price.

Erik: Now coming back to the oil market, I want to jump ahead to slide seven in the deck where you show a forward curve chart. Now for people who are not commodity traders might not be familiar with a forward curve chart, this is not showing the price action over a period of time. This is one snapshot of one instant.

The price is not just a price, it's a bunch of prices. Explain what the forward curve chart is showing us on the left here, and particularly that's a lot of backwardation and what we just saw in the previous chart was the more backwardation is, the more that. Actual realized return exceeds the return on the underlying spot price.

So what does this all mean for crude oil investors and boy, look at the difference between the front month and just say the December

Ole: Yeah.

Erik: Of 26 contract.

Ole: That's huge. Indeed, Eric and it reflects several things. But first of all. It does reflect the fact that we have this that we have the war, we have the tightness, which is which is mostly impacted, which starts at the spot, at the various spot.

That's why we, if we added some like data print, which is the the price that barrels are exchanging, hand, physical barrels are exchanging hands in the North Sea, then that would be trading at at an even higher price. So basically a very backwardated curve because the stress is in the front end of the curve because that's where we have the tightness and where we have the worries about where the next barrel is gonna come from.

And that's driving this kind of this kind of curve structure. In addition to that, there is also a speculative element. And I highlight that on the right hand side, but basically where we look at what managed money is, so that's hedge funds and CTAs, how they position themselves in the oil market.

And we come out of a at the start of the year, basically, you can see that we literally had a net short position if you look at the WTI and Brent combined , I can't recall I've ever seen hedge funds being being so weak in terms of the positioning started, moved into the year and then and then suddenly basically it really took off.

And you can see primarily with Brent that took off, Brent as the, is more reflection of the global situation. And where do hedge fund buy into the market? They do that at the front end of the curve, simply that's where the liquidity is best. So that's also underpinning the front end and driving up the backwardation.

So some of it is related to tightness, but also some of it related to speculative interest. And that's also why we see these five to $10 corrections. We've seen two now in the last couple weeks. And that's part of that is most certainly driven by. By Spectra is having to get out a long position because we have to remember hedge funds, if there's one thing, they're not, they're never ever married to their positions.

If something goes wrong, if there's a technical change or fundamental change, they'll seek a divorce as soon as possible. Whereas the rest of us potentially can sometimes get bucked into a position where we think we right in the market is wrong, but hedge funds, they respond when there is a change in the market.

And that's, that helps add to some of the volatility we see at the very front end. But, Also just returning to this, the curve the steepness of the curve. That does obviously mean right now when we are moving now from the June to, to the July contract in Brent, and more or less the same, in, in double high, you're basically gonna pick up $5.

So that be, they would be rolling out of, at 95, buying back in at 90. And if the on, if the market in the month's time is still on change, then we still have tightness and we're back to 95. Then basically that was, that's your $5 that just come in. Come in as a as an additional as an additional game.

So it's further out the curve. That's really where many of the producers they're operating and that's where they're looking if they need to hedge their production further out. And if we imagine that the new floor in Brent is is closer to 80 than

than 70, that as it was just a few months ago, then you can see further out that we dip below at two levels where.

Potentially could be which potentially may not be warranted given what we, how the world has developed in the last three, two months there, where we've basically seen a massive reduction in the overhang of global supply, we are seeing more than half a billion barrels of production that has not has not been lost, but has not been produced.

And that's really tightening up the global market. SPR Strategic Reserves needs to be rebuilt. And that basically also means there's an additional layer of demand into the market. So I'm just basically questioning that, whether that, whether we are going to how soon and whether we are going to see a significant drop back below ac even when we get through this this current crisis.

Erik: Let's talk a little bit more about that because what this curve on the left slide of page seven is showing us is about 12, 12 and a half dollars of backwardation between the June contract and the December contract. So that means if you bought the December contract and waited for it to come to expiry in six months, you'd be making 15% on that investment in six months.

Yeah. So what does that annualize to a whole lot. Even if the spot price stays exactly where it is, it doesn't go up or down. Of course somebody might say, oh, but wait a minute. That's just because of this situation, which is about to blow over. The president said on tv it's gonna be over any day Now.

Hang on a second. I'll let this began in February. By the time this episode airs, we've got one week left in April before we're into May. And we haven't even seen the beginning of the disruption yet because the tankers that left the Persian Gulf at the end of February are just now arriving at their destination.

So the big disruption of supply is only about to start and go on for at least six weeks. H how does this blow over to the point where oil prices are back to normal in six months? I don't get it.

Ole: Nope. And I agree, Eric, and I think the only thing that really in the short term could potentially drive them down there is if we see an extended phase of long liquidation from the, from from hedge funds, as I mentioned, basically holding around 500 billion, 500 million barrels of of longs.

But I think a lot of that has still be initiated above levels where we are right now. So yeah, there could potentially be a piece piece sell off. But then once

that is done, I think the market will very quickly turn around and ask the hard questions. When is the normalization going to occur?

And then that's really when I think we, we will come to the conclusion that it's not gonna happen anytime soon. And that basically means that we will have to live with higher for longer in, in the oil market. And as you mentioned, if if 80 is around 80 in December, the longer it takes, the more we will move towards the actual current level.

So that, that's why the the back, that's the beauty of backwardation, how it works over time. And just looking at Brenton on Friday, we drip we dipped all the way down to 77. And one could argue that below 80 there is some value to be be found in Brent, basically based on the fact that this is going to take a long time to to sort itself out.

Erik: I wanna move on now to another potential trade opportunity that I think might be even more ripe than the energy trade. Because let's face it, even though it's resulted in this steep backwardation, the front month has been played here, it's priced in. Everybody knows that there's a war on, although frankly, I'm not sure it's priced in as much as it should be given that so many people seem convinced that this is ending when I'm not persuaded that it is, but I wanna come to something that I don't think has been priced hardly at all yet, which is it seems to me that the fertilizer deficit is near certain to result in diminished crop yields next year. 'cause you know it's planting season right now. Everything I'm reading says that American farmers, and I'm sure it's probably the same in Europe, the farmers can't afford or can't get their hands on enough fertilizer to fertilize the crops as much as they normally would wanna, so they're planting under fertilized crops.

Seems to me like that can only mean undersized yields. That presumably results in higher prices. Am I right about that? And more importantly, has that already been discounted and priced into the market, or is that something the market isn't really pricing yet?

Ole: It's priced in a to a certain extent, Eric, but I think the the reason why it has not significantly impacted the market at this point in time is simply because it's still too early.

We are also a lot hinges on on weather in the coming three months during the growing season across the Northern Hemisphere. But if we have a combination of adverse weather and the fact that the amount of fertilizer that was available and it has been used if we see a combination of those.

We will see downgrades to to crop production targets for this year. And that will start to eat into an overhang of supply because we're coming into this, just like the oil market, we're coming into this fertilizer crisis, which we can call it with ample supplies of some of the key crops soybean, corn and wheat.

But it really only takes one, one bad season for that whole equation to, to change around. And that's really the worry in the coming months that that if we see some troubled the weather potential as well. We already now in, in the US it's been, and that's why natural gases.

Dirt cheap. US natural gas is dirt cheap because we've had a very mild end to the winter but also a very dry start to the, to this season. And that basically means something like wheat prices are struggling or wheat crops are struggling in some of the major wheat belts production areas.

And that has already added some a bit to to wheat prices. But wheat is one that is probably most exposed. It is the one that's most nutrient or nitrogen intensive of the major crops. And the one that's least intensive is soybeans. And and that's why we as well, we have seen the response in the crop market being strongest so far in corn and and wheat prices.

But then we have other associated impacts which is also lifted some like soybean oil. So the question is really whether we are. Wether This benign performance we've seen in agriculture now for the past couple years. Just looking at the, agriculture sector as a whole.

In the last year, the total return on the agricultural sector has been 1.3%. Two years is only 5%. So it really has been bumping long near some multi-year lows. Some of these key crops. But the risk is. Clearly that the cost of fertilizers and adding to that also the cost of diesel into a system where farmers already struggling from having produced at low prices in the previous few years, that will add to the pain.

You could argue that across the northern hemisphere, as we were so close to the planting season when this started, that fertilizers were not coming from middle East because it would've arrived in the US and Europe way after the the planting has finished and the need for the fertilizers was there.

But it, so it's, the focus is probably much on. Some of the regions closer to the Middle East in the coming months, be India, Africa, but also later on South America. And south America has become the, one of the biggest, is the biggest export of key crops, especially to China. So all in all.

It raises concerns that we are potentially facing higher food prices in the coming months. And that basically means that while agricultural or me, metals was a driver last year, energy was a driver at the start of the year. Potentially agriculture become another driver as we move into the second half and into into 2027.

Erik: Now the challenge with agricultural commodities normally is they're typically contango markets. Contango is the opposite of backwardation, meaning that the price goes up over time, and that just makes it very difficult to make any kind of bet on what's happening next year because if you try to go long next year's agricultural commodities, there's so much price premium that you're paying for buying in advance that it ends up canceling out.

You don't make anything on the trade, even if you were right. Have these markets moved into backwardation as other markets have in this crisis?

Ole: Not yet to the extent that we've seen seen in, especially in the energy. If I'm just scrolling down, looking at my one year and the one where we have the most significant ation right now is soybean oil.

And and again, that's the energy related story. Soybean oil is has been in strong demand. And now with the biofuel link to to diesel. Then the the soy oil is in backwardation wheat and corn still in 10% one year contango. And and then elsewhere we have some like coffee, which is actually in a decent as well.

But generally, as you said, Eric and mentioned. And crops tends to be in cont. So just the mere fact that we're moving towards a anything less than 5%, which is basically reflection of the one year funding cost. If you look at the dollar then that basically means that we are moving towards tightening market.

What we need for that to return to proper contango back validation, sorry, is really just what we see as similar as what we see in the oil market that the spot market is becoming stressed because inventory levels are being drawn down and for worries of supply. And then again, It's not a situation now I would ideally like to avoid because one thing I talk about talk about gold prices doubling. That's fine. But talk about wheat prices doubling. That's a complete different in terms of global food security and what it does to to nations. But it's one we cannot ignore simply because the impact of fertilize and the lack of it right now.

Key markets, sewers, watch in the coming months, I would say.

Erik: Let's go a little bit deeper on that. Suppose that my trade hypothesis is its planting season right now in the Northern hemisphere. Suppose I think this crop is probably not going to be as productive as prior years have been because of this fertilizer situation.

First of all, what's the right timeframe? Would it be, say, December of 26 futures that I would be looking at to try to trade the outcome of this year's planting season? And because of the contango that you described, it seems like we gotta figure out how to hedge that somehow. So what would you think about something like a pears trade long wheat, say December 26?

Wheat futures short soybeans, basically betting on the more nitrogen dependent, more fertilizer dependent market, outperforming the non fertilizer dependent market of soybeans.

Ole: Yeah, that could be that could be a way of of expressing it Eric yeah if it's purely the nitrogen balance that we are looking at, and and it is interesting if you look at and you mentioned us, where we're on the curve and really depends on whether we should include the next Brazilian harvest.

Obviously wheat is not a major product in Brazil so it's mostly the northern hemisphere and then later on in Australia as well. But if you look at December or the current front months in wheat, it's trading just above $6 a bushel. If you look further out, which is the new crop, which basically is concentrated in the December contract.

Then we're looking at a price currently at six just below six 40 per bushel. So there is this contango, but if we do see the market start to tightening up in the coming months then December, then the December contract out there will will show will start to, to increase.

And we also seeing just march next year, trading again. Quite a bit higher, and that's when we start to take in the southern hemisphere via harvest into into account. But generally, if you're looking at not this harvest or not the present situation, which is basically anything you trade right now with, in terms of front that's basically what's left.

You're trading what's left in stocks around the world in inventory. If you wanna trade what's coming outta the ground in the coming months, you'll be looking at December corn, December wheat, and November soybeans.

Erik: Let's move on to the longer term effects of this crisis situation. One of the things I've been fascinated in the study of inflation is the extent to which it tends to be a self-reinforcing process once it gets going.

It seems to me frankly, I thought we were headed into secular inflation even before this whole Iran conflict. Came about, but it seems to me if we weren't there already, we ought to be by the time this is done, because the effect that this is having on energy prices, I think is going to send an inflation signal into the economy that's likely to become self-reinforcing.

Do you agree with that? And if so, what does that mean for commodity trades?

Ole: Commodities, will be a major input to, to that risk. And as we talked about is because it, the broad nature of the current current stress that we are seeing, it's not only energy and fuel markets is also spreading to to some of the metals and some of the food commodities.

Then the impact will be felt. And and yeah it just raised the question where to be positioned if in, in such a scenario. And I think just simply the looking at the commodity space, how it's recovered from the pandemic low in 2020, and how we basis since then has has risen almost 200%.

If we look at the commodity index.

The underlying reasons for holding hard, hard assets. I think the argument for that probably has only been strengthened by developments in the last last month because we are increasingly facing a world where we are moving from. I don't know if whether it was Jeff, Cory or one of the others said you had on the show recently that, let say we moved to, from a just in time to a just in case world where the economy is basically the disruption we're seeing to the global.

Trading system to trading to the breakdown in normal relations basically means that we are much more focused on having ample supplies instead of just having enough supplies and being reliant on supply chains, being able to deliver. So you don't run into any shortages, and that basically means that, that.

That means that there will be a demand for, to, that it will drive higher drive demand because inventory, the in inventory levels needs to be kept around the world at higher levels than it was in the past because of this change in, in, in the way we look at the world and then we'll have to see how that feeds into to some of the darlings of the, of last year, which I think is basically just right now just taking a bit of a breath as some of the metals.

I see the I see the gold market just consolidating right now. I think we actually. Seeing some of the macro tailwinds starting to return but as I mentioned before, the. The Speccy community, especially hedge funds they don't have a signal here. There's nothing really we basically just bashing around a bit aimlessly around that $50 or 50% reation of the big seller from the highs to the low we had last month, which were ended up at the 200 day move average, which was quite a strong level of support.

But I think the. Once we're on the other side of this we'll start looking at some of the reasons why we drove these up in the first place, have not really gone away, and if we had that with the risk of high inflation. if we had that with central Banks having to Stock between two sitting, stuck between two chairs. You focus on inflation or should just start focus on the economic support. I think that's still, and then the whole fiscal debt situation there, which is, has anything worsened in the last last six weeks that based all, I think still points back to in investments in hard assets where.

Where gold is one of the go-tos, but also the energy sector, simply because we need, we're gonna see a higher floor than we saw in the before, and that will benefit the energy producers. So the energy, the recovery that we started to see in the energy sector last year, which accelerated obviously has accelerated, which may go through a al consolidation.

Now if we do get a deal, I think the what's what we're left with is the fact that higher prices will be higher going forward. And that should be benefiting the the earnings. So again, the, so the energy sector and all the producers are also the sector, which I think will benefit in, in, in the future.

Erik: You mentioned in the course of that answer that we're up about 160% in this cycle since 2021. I want to go now to slide three in your deck where you talk about the super cycles that commodities tend to trade in looking at. This slide here, the 1970s were a famous bull market and commodities and bear market and almost everything else.

It seems like there's a strong correlation with that famous inflation of the 1970s there. These cycles seem just from the looks of the slide here to last about 10 years, where five years into the present one, does that mean we're halfway done, halfway there. What should we expect in terms of the current cycle?

Where do you think it's headed?

Ole: I think we're heading higher. Simply because what can we call this third wave is it, and I think we can probably call it the energy transition simply because of the increase.

We are still in a power hungry world that where demand for power continue, or energy continues to go up. It's increasingly we focusing on power, which is electricity. We all know some of the major culprits for that increase in demand, but also and we need to make sure we in situation where we can conduct all that that power.

And and that is just very commodity in sense. So we have this, again, I think that's actually Jim was Curry's phrase that we have the old world is striking back against the new world because the new world wants to accelerate at a at a hundred miles an hour down the towards progress.

But the old world is bumping along at a much lower speed because they can't keep up with the demand that is that is coming from all the different, all the new technologies and all the direction that we want to go. I think that basically leave us in a situation where this, the old saying that the best cure for high price is a high price because it incentivizes supply and it also impacts negatively the demand side.

I think that is still obviously relevant in many areas. The most striking one recently has been cocoa prices, which went from two and half thousand to 12,000 only took utterly collapse back to where we came from. Simply because there was a response both from the demand side, which slowed and the supply side, which increased.

But I think if you look at some of the, both the energy and the metal space, the the, what we're missing or could be missing in such now is simply the supply side, not being able to respond. To higher prices. And that leaves us in a precarious situation where prices could actually still go up even though economic, growth is not great or potentially not at levels that we could invest it simply because the demand for many key commodities at is at a level where.

The physical world is struggling to keep up with the to deliver all that all that material and energy that is required. I think we are, perhaps we are halfway through. Perhaps it could last even longer. Depends really on the speed of it.

And I think if anything, what we learned from the 2022. War in the Russian invasion of Ukraine was the was house of renewable sector. Obviously it had a

massive boost in the months that followed because the realization that we need to be less dependent on fossil fuels.

I think what we're already seeing signs of that reemerging now with the very high energy prices we have that. So perhaps so we are seeing parts of the power sector or the that part of the energy equations having a, having another arena on. And that again will just speed up the process in terms of tightening some of the mar markets that are, that delivers the materials and commodities that's required to to go to to sustain this this energy transition.

Erik: You also mentioned gold a few minutes ago, so I wanna move on now to page nine in your deck where you're talking about gold Here, it seems like some very fascinating things have happened. Gold normally functions as a geopolitical hedge. So bombs drop, gold goes up, something flipped like a switch, Ole. Yep.

At about 11:00 PM on March 2nd, where all of a sudden a bombs drop, gold goes down. What happened there?

Ole: The market panicked. And when the market panics, it's a question of just getting out of position or getting reduced. Getting your exposure down to levels that you find that's manageable and so gold to a certain extent, to some of the other metals well suffered from the success that had in the previous months.

So they become very wild. Wild wildly held investment, meaning that they were also exposed, when that situation unfolded. And we've seen similar situation. The the Liberation Day last year, was another example. But it takes some of the major crisis we've had in the last 30 years.

The dotcom bubble, the global financial crisis. We've had a couple of others. The initial response in gold has quite often been a selloff only to recover very strongly and making new highs in the months, and quarters that followed. And and I think we, it's it's.

It should not be taken as a surprise that when we have such a major event that the gold is struggling, at least in the short term, and then the depth of the correction $1,500, which is pretty insane. But then again, just looking at the chart, it's not simply because of the distance we traveled in the months and quarters up until that peak point in back in January.

So we could, we corrected $1,500. We found support of the 200 day moving average. We're now just treading waters. We've gone from a bit of a liquidity

and inflation shock, perhaps now more towards a growth shock where the implications of this this crisis will start to to play out in the coming months in terms of soft economic growth.

And with that also the central bank struggle business between focusing on inflation on one hand and perhaps focusing on economic stimulus on the other side. And I think that's that, that will eventually send the gold prices higher again. But for now, we are consolidating and it's really just.

If you look again on the chart, it's literally just around the 50% retracement of the big sell off. So it's a natural point for the market to consolidate and try to gather what's gonna happen next. So I see more of the sideway trading in the coming weeks, but I think the foundation that was late and sold in the previous.

For this multiyear bull run has not has not suddenly died. A sudden death. The correction was necessary. It was becoming, especially in silver, becoming completely and utterly unhinged. But now the market has had time just to reflect and I think over time, we'll start to see prices go back up again.

Erik: I very much agree with everything that you've just said, but there's one big caveat or fear that exists in my mind, which is, boy, we've really seen that at least since March 2nd. Gold does not like the idea of an oil driven inflation signal. And the problem I have with this chart is it seems to be recovering as people are un panicking about Iran and the oil market.

And I agree with you that I am not. So persuaded that this is over yet in the oil market, I don't think it is. That makes me worry that another big leg down in gold could be coming maybe even, retesting or moving to a lower low below the 200 day moving average. At what point would you get concerned that, okay, wait a minute, looks like, at a certain price level, this thing's going the wrong way. It's time to maybe step out of gold for a while.

Ole: I would say if it starts to break back below the $4500, 4,600 area then I would also get a bit convert, bit nervous, but I think what you said, the area beautifully reflects what the market is thinking. That that we are trading sideways here simply because there are still, there's clearly still traders and investors out there having some.

Concerns about what may happen next, but I think ultimately we also just need to keep an eye on the dollar. Even though the movements in gold is much bigger than the movements in the dollar, it still sends a strong signal. And we just gone through a massive amount of dollar short covering, which led to a.

We've gone from a multi-year big short position. If I look at the weekly cut data covering futures price the IMM futures market to a the biggest long in, in two years. So there's been a significant amount of dollar buying which now seems to be tapering off again. And I think the low point or the recovery scene reasoning probably is also a.

Sign that the dollar is time to send a little bit of of mixed signals. We're starting to see some weakness coming back in. I think that weakness will eventually continue, but again, if we see a further escalation, then the dollar could once again be the go-to safe haven at least liquidity safe haven in the short term.

And that. That's probably the biggest risk that we, that another major escalation could lead to that, and lead to another round of general and broad liquidation. So yeah it's a two-way market right now. And I think it's a question of probably being a little bit patient here.

Erik: As I look at this chart on page nine, boy, what a beautiful, great big rally. That was from 2024 all the way up to the peak, just at the beginning of the year in January. But oh, it's been so painful since then. It makes you wish that you could have had maybe a little bit less upside for the sake of more stability.

Hang on a second, even though it's gold and silver that everybody's talking about, let's move on to page 11. That, that suddenly looks like a chart. That's exactly what I just said. It's a really solid uptrend, maybe not quite as steep, but without the profound volatility that we've seen in precious metals.

And of course that's copper. And I think the fundamentals are, a lot of speculators love gold, but the real economy needs copper.

Ole: Yeah.

Erik: Is that actually the better trade to speculate on instead of gold?

Ole: It's the it should be the less volatile trade because if copper price only double, then you would also have a you, we would've some problems with some of the the big projects that requires copper.

But I think the. The direction is pretty clear. We've gone through a correction. I actually used a weekly chart here, but if I put in a daily chart, that low point back in March was exactly the 200 day moving average as well. So some technical so some technical support emerged at that area but since then, the recovery has been quite strong.

And again, it's. Copper is not only a question about demand, it's most certainly also a supply story. And what we, what I don't think we knew or realized was that the, that minus in, in Chile, Peru, and Congo and all the places they need to sulfuric acid in order to break down the copper and to release it for, from the underground.

And suddenly we realize come to realize that 50% of global seaborne exports comes out of the Middle East. So part of the recent recovery has been part, partly a story about the recovery in China. I'm actually showing that on the next slide, on slide 12. Where we see that despite having seen a massive surge in exchange monitored copper stocks, inventories, both in London, New York, and Shanghai, copper price actually held up very well.

And what we've seen recently is that the total number of stocks that has started to come down, but it's actually coming down pretty hard in in China. So market has taken that as a sign that has been some pent up demand in China, which still remains by far the world's biggest consumer that has has started to emerge after we saw the correction.

So it does tell me that the prices copper prices are responsive to price changes. So maybe a little bit too expensive. Last year, at least, producers had to, or users of copper had to get used to it. And once we had the correction, they came back in. And the result of that is sharp drop in inventory levels in in Shanghai.

They're now paying a decent premium to import copper. That's the red line, that's the premium they're paying over London. And that indicates that the demand side is starting to recover in China. And then at the same time, when you have the supply side struggles we had multiple disruptions last year, but then you have such a basic thing as a chemical that's required to actually ensure that the production can be can take place, is another, major factor, which is underpinning, underpinning copper. So I think that both of these will continue in the coming year. Supply suppliers will, miners will struggle and demand will remain robust if they or robust to rising.

Erik: One of the biggest stories in commodity markets in recent years has been this just crazy move in cocoa prices, which chocolate lovers are certainly been affected by what happened there on page 13.

What caused that massive, what was it, quadrupling or so of or more than quadrupling of cocoa prices. And it looks like we're back down to what looks on this chart, like a pretty firm support level.

Ole: Yep. As I mentioned really just a complete classic response from the market to a rally that was triggered by by production problems in the, in, in the Ivory Coast and Ghana.

With. At a time where prices simply had been too low for production to be maintained. And then we had a two we had two events of one with too much rain at one point and and too dry at another point. And then, and suddenly the production was challenge that we saw this massive runup.

What do we what do what do we do when prices run to the point of chocolate manufacturers? They start to look at at re reducing the number of the content, the cocoa content that makes obviously the chocolate bar a bit cheaper to produce in some places. We also have shrink inflation, so the buyer is certainly not the size that you were used to.

So the combination of these things basically had a major impact on on on on demand in Europe, which is one of the biggest, grinding grinders of of the region is one of the biggest grinders, and with demand as fell to the lowest since 2013 at some point. And combined with the with the extra, the higher prices that suddenly it was starting to benefit the farmers in these areas.

They responded by increase in production to the point that now we have the reverse situation where too much cocoa is being produced. Demand is no longer as strong because producers have have reduced the content. So we're now going for another painful process, which potentially could lead to another spike in the coming years on less.

I think I read somewhere recently that someone was trying to was Israeli company that. They can replicate cocoa a lab grown cocoa. I'm not quite sure how much we can put into that but it's just. This is just a classical example of how it goes through these various big cycles where supply and demand responds to both lower prices and higher prices.

Erik: We spoke earlier about where the trades might be that are related to the oil crisis, but are less obvious and not necessarily priced in yet. Most people would never make a connection between oil prices or a oil market dislocation. And cotton prices. Explain what the connection is there. And is there a trade there?

Now I think we've got a cotton chart on page eight on the right hand side.

Ole: We come through a, as you can see on the chart there, we've been in a downtrend for cotton prices for quite a long time. We had low energy price. And what is the competitive, what is the competition for cotton?

That's in a synthetic fiber. What's that? That's a petrochemical derived product. And and that basically that's where you have the link. Partly as well I have to add, driven by some the drought that has underpinned the w winter wheat crops in the US has also been underpinning cotton price because this is New York cotton futures.

And they have also been supported by the by some dry conditions in the cotton regions. But, no doubt that quite a lot of that is also the substitution. If synthetic fiber goes up then you can return to the real deal to the real cotton and and that's underpinning, underpinning prices.

And then we have others where, as we, we talked about the direct link between fuel prices is both biofuel. That's soybean oil, but it's also ethanol especially in Brazil, which where the sugar canes are either used to produce biodiesel or biofuel or ethanol is called or to produce the sweetener that we that we unfortunately eat too much of still in the world.

And and when those substitutions occurs, then we do have impact on prices. We're seeing sugar prices move high as well. Only to a certain point because there's still ample supply in the world. But there is a direct link, and that's why we see these these movements on unfold.

When suddenly food becomes food becomes or agricultural response to an energy development.

Erik: I can't thank you enough for a terrific interview, and I have to tell you how much I appreciate and really enjoy your work. You're one of the most insightful people in the commodity market and you publish a whole bunch of stuff for free.

You, you make a daily podcast you publish, I think the best analysis there is of the commitment of traders report which is the Government data on who holds how much of each commodity. Tell us and let's take a look at page 14 in the deck. Tell us about the various different things that you produce and how people can follow your work.

Ole: Thank you very much for that, Eric. As as you probably know, but now I work at Saxo Bank. I've been doing that for 18 years as head of commodity

strategy. So obviously what we produce here is primarily is first and foremost produced on our publish on our platforms, but also on our web webpage which is the bottom at home at Saxo.com/insights

Otherwise when it comes a little bit more, quick and sharp small updates. I'm still quite actively on X and you can find me there. Hanson the n has just disappeared. We can move that, but but yeah reason also moved on a substack. Multiple different ways of finding me.

But the most, UpToDate most for now is I'll say is on X and that's also where I link back to stories that are published on our websites. Patrick Rena and I will be back as Macro Voices continues right here macrovoices.com.