MACRO Voices
with hosts Erik Townsend and Patrick Ceresna

Ole Hansen: Year of The Metals

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Erik: Joining me now is Saxo Bank's commodity chief Ole Hansen. Ole prepared a slide deck to accompany this week's interview. You'll find the download link in your Research Roundup email. If you don't have a Research Roundup email, just go to our homepage, macrovoices.com, click the red button above Ole's picture that says, *looking for the downloads*. Ole, I love this picture of the 747 on the opening page here. Let's dive into the slide deck and talk about the next page, which, of course, is the table of commodities, lot of things in the green this year. But give us the rundown.

Ole: Well, hello Erik and thank you very much for inviting me back. We passed the halfway mark. And I think the first observation is that if we look at the commodity sector as a whole, we're back to square one. The Bloomberg commodity index, which tracks 24 major commodity futures, is especially unchanged on the year, following a relatively strong rally during the later part of the first quarter and into the second. And then since then, the rally has deflated, and questions are clearly being asked right now, whether that whether rally is done, or what's going on in the market. But as we can also see, it's as per usual, some big movements are unfolding. I think those that has really attracted a lot of attention this year are also the ones that we can see on this performance, where we have precious metals out in front. From a sector perspective, we continue to see gold making new record high. Silver is struggling a little bit recently because of the weakness in the industrial metals, but that seems to be returning as well, as we speak. And then this big divergence in the agricultural space between soft commodities like coffee, cocoa and orange juice and sugar as well. And then grains on the other side, which is really struggling, another bumper crop year across the northern hemisphere, leaving bread prices hopefully relatively subdued into the coming winter. And then in the middle, we got the energy sector, where, basically we are in the Big Three scheme of things. We are trading unchanged almost in crude oil for the past year and a half and the range there is getting increasingly narrow, so obviously something is going to happen eventually.

Erik: Let's move on to page three and talk about this idea of a new commodity super cycle that so many people are talking about. What do we mean by a super cycle? Are we having one? Seems like we were off to the races, as you just said. But then the recession fears came, and now all of a sudden, everybody's forgotten about it, been quite a whipsaw here. What do we make of this? Was this the buying opportunity that we just hit? Or are we still looking at some turbulence ahead?

Ole: If we look at the super cycles we had in the past, especially the big one that happened at the start of this millennium, I was in London trading for hedge fund that time, and remember this one very, very fondly. We had some massive run up in commodities during that first decade. And then we had the stimulus induced rally following the great financial crisis back in 2008, spanning a couple of years. And then we had the one that really kicked off with the pandemic, back in 2020 where governments threw a lot of money into the system, and people went on. The consumers around the world went on a spending spree. And commodity prices were driven sharply higher, ultimately peaking when we had Russia's attack on Ukraine, which briefly brought some of these commodities to even higher levels. And we have deflated since then. And I think, there's no doubt, about right now is that the demand outlook globally is not that healthy, especially when you look at China. I think China has been the big negative surprise once again this year. And while we saw this stimulus boom back in after 2008 and we also saw quite a bit of activity after the pandemic, that I think the market is realizing this time that China is not going to throw money after new houses and construction which is not going to be used. So we're seeing some commodities like iron ore and steel really struggling on that account, even crude oil. And I think some of the question that's being asked is, is whether we are starting to see the green transformation, especially a place like China where half the fleet now, a new fleet, is EVs and hybrid, where that's starting to have a peak impact on Chinese demand. But then other countries will pick up the baton. And so, I think going forward, the bull cycle, I think is still there, but is as much as it's going to be as a lack of supply than a strong demand driven rally. And we've seen some false starts this year. We've seen some like copper off to the races in the beliefs that the green transformation would increase demand rapidly. It will, but it also highlights the fact that commodities are spot traded, commodities products, so you have to balance on a daily basis, and you cannot buy a commodity and you believe that it will be tight next year. It has to be tight now for the price actually to be supportive. And that's also the experience I think we've had in the past three months, that some of these commodities probably have run ahead of themselves, even though the long-term outlook looks great and the short-term outlook is not enough to support the rally, and that's really where we are. But I highlighted several things, areas that could drive such a rally, and I think most of these are still really in place. And with that in mind, I think it's more a question of being patient than completely giving up on the idea that we're going to see higher prices.

Erik: Moving on to page four, I think most of our listeners are familiar with the concepts of backwardation and contango, for anyone who isn't, just listen to one of Ole's previous interviews. But as we look over on the right side, what is the red line about, how does that relate to cost of funding, and what does it mean in terms of how these commodities are all performing?

Ole: Well, it basically means that you can go in and just check the spot price of a product, and then check what the price is 12 months out, and then you can get the percentage difference between the spot price and this price 12 months out. And if the price 12 months out is lower than the spot price, then we have backwardation. If it's higher, then we have contango. And just to some of the classic examples right now, we have natural gas, where the backwardation or contango is quite extreme, basically, meaning that the current price is way cheaper than what the price is expected to be in a year time. And you can go in the other direction, where we have

some like WTI crude, at the other end of the scale, where prices a year out is trading lower than the spot price. And that's backwardation. But the red line that really is the neutral rate, you can almost say, because what is it they don't deliver that prints the bond market delivered, that is interest. And that basically also means that if you are long commodities, you have to fund it, and what is the funding cost? And we use, as we're looking at the one-year spreads, here, we are also using the one-year T bill rate, and that was recently around 5%. It has started to come down, as we anticipate rate cuts to start fairly soon. That basically shows that the red line is the neutral rate. Because if you buy gold today, as an example, and you hold it for a year, then you're basically losing whatever the TPL, the funding rate is. So that's around 4.5% right now, and that's what the red line is reflecting. So normally, you say contango marketing contango, that's because they're oversupplied. But you have to move down the bar a bit in order to get the starting point correct. And that basically means looking at the red line. Quite a few of these are actually trading. It almost, what you can call backward days, simply because the prices, the spreads, are less than what the cost of holding of the funding cost of the holding the position for a year. So, as we move towards lower rates, as the Fed starts to cut rates, then the funding costs will come down. That basically means investing in commodities, in ETFs that invest into commodities. Gold is a classic example that will come down as well, and that potentially may open up new interest from investors that may have been bulking at the idea of buying into commodities with this kind of carry, that they had to pay away to be long in commodities. So that's why we we're seeing this red line eventually starts moving closer to zero, and that will potentially attract some fresh demand into commodities.

Erik: Now, a lot of us, myself included, tend to only hold December contracts for long term strategic hold. So for example, in my gold futures position, I don't roll it over every month. I'm not trying to capture that, that month to month aspect of the term structure. I just roll the December contract from '23 to '24 I'm assuming I want to hold off and wait for some rate cuts before I roll my December '24 futures into '25. Any other considerations, other than trying to kind of time the bottom of interest rates for when to do that?

Ole: That's by far the biggest consideration you need to have, Erik. And then, yes, you are right. As the one-year rate has come down from five to four and a half, or even lower than that right now. That basically also means that the December contract has relatively outperformed the front month. So, wait, hold on to that as long as possible, in the anticipation that we will see one, two or maybe three cuts before we get to the roll time in November. And apart from that, and the relative tightness in the market, if some of that occurs, but we haven't really seen much of that recently. So really, most of the discrepancy of the price gap between the front month and the end of December contract is the cost of funding.

Erik: Moving on to page five, let's go a little bit deeper on this gold bull market. I'm definitely bullish gold, but boy, it really does look like we're right at the top of the channel. That matches what I have on my chart as well. Should we be concerned here that it's time to take some profits, or we may be looking at a breakout above that channel?

Ole: Well, what we telling our clients is that, at these kind of levels, because we just reached our revised target for the year, 2500 on Friday, we had that at 2300 at the start of the year. Obviously had to revise when we broke high and kind of used that channel also as just as a point, because, again, whether it's 2500, 2600, 2700, that's anyone's guess, but we have ran it a long way already. This year, we're up around 22%, the corrections have been extremely shallow, and that basically indicates that there are buyers and dips in this market, and they have been active since, least since October last year. And knowing what we, from the data we can collect as we move along, we can see that there is some major players in this market. That is not that easy to see just from data, because with data we can see ETF flows, we can see net positions in the futures market. But we saw recently the World Gold Council, just highlighting some like family offices and high net worth individuals in the OTC market, they were really substantial buyers during the second quarter, and that basically means that there are buyers in this market. And what we can see as well is that they are not interest rate sensitive, because interest rates have been going up since 2022, it has plateaued now, and now we're looking for cuts. The rally has occurred while the world rates were going up the same time. So, we have investors out there who are buying gold, not because they're looking at trying to look for correlations to interest rates, then they're buying it for other reasons, and some of the reasons are well known, and we highlight them on the left hand side. And I think the one that's really starting to sneak in as well, is simply a great deal of uncertainty regarding the presidential election, the US in November, because at this point in time, it really seems like we got two candidates willing to offer anything in order to get elected. That basically means they're going to spend a lot of money they don't have, and that means that that burden of the US government is going to go up even further. I'm not saying we're seeing a default by all means, but just the risk of something breaking, I think, is also one of the reasons why we're seeing in family offices and high net individuals moving into gold, on top of what we're seeing already from central banks who are worried about the clunking fist of the of the West taking their money away, like how it happen with Russia and the sort de-dollarization move. And then again, also in China, where the property sector was the preferred choice when it comes to investing for your future and for your retirement, that seems to have been broken for now. And that means middle class wealthy investors in China, they look towards other markets, and gold is one of them.

Erik: Let's go a little bit deeper on de-dollarization and central bank demand, because I think that's where a lot of the buying has been coming from. You know, back in the day, what we used to say in professional finance is, the gold bugs might have a point philosophically, but the reality of the system is, the entire system is designed around the US dollar. You can't just ditch the US dollar because all of the systems are designed around. It seems to me like the pressure from other governments to eliminate some of those risks you talked about, about the US being able to seize their assets and so forth, is maybe starting to force that change, that a lot of people thought would never come. Am I right to think that? And if so, how long does it take before we have a realistic chance of the dollar being displaced as global reserve currency?

Ole: Oh, gosh, something seriously needs to happen for that to happen, but I think it's mostly for now and again, countries expressing the need to diversify and reduce their direct exposure in the dollar, and dollar assets, like government bonds and so on. What's categorized as

reserve currency are things like very, very deep liquidity and the general use, and the dollar is still really raining quite on top when it comes to that, and liquidity especially. And in order to talk about alternative currencies back by other countries, well, it doesn't really help, but some of these other countries still have currencies that they try to control themselves. It has to be free floating for that to really happen. But I think the move is ongoing and it will continue. But for it really to have an impact, that will require a lot more gold to be accumulated. And if that is the case, then that underlying bit that we've seen in gold for the past couple of years looks like to continue.

Erik: Now on page six, you make the point that what happens to gold usually happens even bigger and better in silver. Seems to me, in this cycle, though, silver hasn't quite outpaced gold the way we might have expected it to.

Ole: It did initially, when we raised highs with 32 and a half and I think part of that was simply the fact that we were making new heads, the new record highs in gold on a regular basis. And the investor said, so we look at the chart and say, well, hey, silver wasn't, we hit $50 a decade at plus ago, and so well below its peak. So perhaps it's got some more upside. So, that helped drive silver. But at the same time, also, we have to remember, two or three months ago, we had a significant rally in copper. And both silver and copper, they have a green transformation story attached to them. And the same time they also tend, to certain extent, to be dependent on each other, because silver, especially on copper, simply because copper represents the industrial metal space to which silver derives half of its overall demand. The correction we've had now as recently has been quite deep. But just before that happened, Silver was actually performing quite a bit better than gold on the year. So, it's got some catching up to do. And for that to happen, it needs not only a gold to stick around these levels, but it also needs copper to find its footing. After that, quite significant corrections went through and the same time also perhaps still some additional dollar weakness to spur on the move. And I think the prospect for all three to occur in the coming months, I think they are there and with that in mind, silver potential still has the percentages, still prosper relatively better than that gold this year.

Erik: Now, the other common wisdom that used to exist in precious metals markets was, if you didn't want to get stuck having to pay that funding cost that we talked about, the full carry contango in the gold futures market, the smart trade was you'd buy the gold mining shares because they actually gave you leverage to the price of gold. Except it seems like that just broke down completely and doesn't work anymore. Is that just inflation making it harder to stay profitable in the mining business? Or what's going on?

Ole: It is a combination of several things. But actually, if we look at some of the mining companies' performances, it's mostly the industrial miners that have been struggling. Gold miners actually have been picking up the pace recently, if you look at something like Newmont and Barrick Gold, actually not Barrick, because they have some mergers they're trying to get through. But Newmont is up around 23% year to date, so actually outperforming gold, but some of the others have been struggling to a certain extent. And part of that story is absolutely the question of cost of production, which has been going up as well. We have all been exposed to

inflation now for the past few years, and that's also hit the sector. So, the profitability has been struggling a little bit. And then this whole problem with new investments, and then new found fines, it just takes more than a decade, really, for them to be able to make money on new assets they find. So, the volatility is in the minor miners. But generally, yes, it is a question of cost that has less left and by the wayside. But again, if gold continues to move higher, and as it has been doing now for the past couple of months, and then the profitability of the production, they will ensure that they will generate some good revenues, which would benefit the price.

Erik: I'm sure a lot of our listeners are in the same boat that I'm in, which is, for the last several years, I've had long positions in both gold and gold miners. And I see the underperformance of the miners, and I scratch my head and I think, well, look, I'm convinced that gold is headed all the way up to 2500 and when it gets there, surely the miners will have recovered. That's when I'm going to go ahead and cash out of my mining shares, but it hasn't happened yet. Should I just give up and cash out of the mining shares and increase my allocation on the gold longs? Or is it worth holding out a little longer?

Ole: I think it's worth holding out, especially if the belief is in higher gold price now that the funding cost starts to come down. Because remember, if funding cost starts to come down, then the cost of production starts to come down as well. So, it's kind of a double whammy that these companies are going to get. Not only are they potentially seeing higher prices because investors get involved with gold as the cost of carry comes down, but the mining companies, they see the potential cost of production go down as well because of the lower funding costs. So, I think that these two would, could be quite a decent force that could start to see these companies perform again.

Erik: Let's move on to base metals. On page seven, copper is, of course, the favorite child of the green energy movement and energy transition, because in order to electrify the economy, we need so much copper, and there's really no good replacement for it. Aluminum can be used instead of copper, but, you know, it costs more. So what do we see? And are we at a buying point? Here, it looks like we just had a really significant correction, and touched that trend line and we're bouncing off of it.

Ole: I think we are at the buying points. I think we've seen a lot of speculative froth come into the market. Remember back in March, April, when we had the massive run up in AI stocks, investors were looking for alternatives, perhaps worrying that the rally had run away from them, and then suddenly copper became, well, hang on, all this AI needs data centers. Well, the data centers need electricity. They need copper. So, the AI story is going to be a copper story as well. And that was probably part of the final leg we saw higher in copper then, not also simply the strong momentum from front buying, because funds, they watch the price, backlit traders like hedge funds, they will watch the price and the price action. And if there's momentum though, continue to buy into strength until the market capitulates, until it reverses. Basically, that we were left with a market where the fundamentals, the short-term fundamentals, did not underpin or support the prices that we were seeing, and the subs, the consequence of that was quite a significant retracement back down to this $4 level in high grade on the chart there. I think

the market has flushed out the longs. If you look at the COMEX, copper future, the net long has collapsed by 90%, we're nearly back to neutral. That basically means there's a lot to, potentially, a lot of fresh new money that can move back into the market when the technical or the fundamental outlook play ball, the technical outlook is starting to improve. The fundamental outlook probably needs some more work to be done, simply because we have seen this big spike in copper inventories and exchanges monitored by the big exchanges in the London, New York and Shanghai, and just last week, we did see a small reversal. But what we have seen in the past few months is that inventories started to come down in China, but they've just been exporting it out of the country because there was an arbitrage, and that basically means it's gone from Shanghai focused over monitored warehouses into LME monitored warehouses. We're not really out of the starting block yet, but I'll be watching these inventory levels quite closely in the coming weeks that we need to see those start to reverse lower, and that could be a good sign. At the same time, we have some labor discussions going on in Chile right now. Last week probably kicked off with the risk of a strike action at the world's biggest mine in Chile, run by PHP, the Escondida mine, but that was sold over the weekend, but there's still quite a lot of units there they need to agree on the wage packages for the next two to three years. So that's one we need to watch. But generally, the speculative fraud is out the market and the long term, the outlook, in my mind, is most certainly still one where copper will be supported simply because mining companies are more busy trying to cannibalize each other. They're buying each other, trying to buy each other's assets, instead of trying to find new assets, simply because it's too expensive and it takes too long, 12 years on average now, from first discovery to first metal. And that basically means we are potentially looking into a shortfall in the coming years, not right now, and that's why the market has come down. Because this market, you cannot buy copper in the assumption they would be tight in one or two years' time. You have to look at where's the situation right now, and right now, it's still reasonably well balanced, perhaps with an overhanger supply. And that's why the prices come back down again.

Erik: Ole, you're describing an imbalance between short-term and long-term fundamentals in terms of supply and demand mismatch. It just brings to mind another trade that many of our listeners are in, which is the long uranium trade. Feels to me like we've got an extremely long-term bullish opportunity, but maybe short-term is not quite in fashion right now. Is that what you think is going on? Or do you have any other perspective on the uranium market?

Ole: Well, I think there's one word, absolutely. The kind of developments we've seen in those two metals this year has been, has almost been identical. Quite a lot of speculative interest coming into the market at the start of the year, only for the supply and demand outlook, not underpinning the very high price levels that we reached in uranium, was 110 or something that we reached at one point. Now, we're back into the 80s. We're down on the year. So I think it's the same story that's playing out there, that a lot of these investments have gone into not only uranium through ETFs, but also mining companies. There's been some dissatisfaction with that performance, and that basically led to some additional selling. So I think, again, just like copper, it is a question that we will see additional rollout of nuclear power in the coming years. Supply is likely to become reasonably tight, and that, I think is going to be underpinning prices as we move into the future. But again, it happened too soon. In the spot market, the daily balance has

to be, is what really takes the spot price. And we've had an ample supply at this point in time, and that's been sending prices down as we go into the future, and demand starts to tighten, our supply starts to tighten up, and demand goes up, then we should see uranium start to recover.

Erik: As I think about that same phenomenon of imbalance between short and long term supply demand fundamentals, the next commodity that comes to my mind is crude oil. Hey, look at that next slide, crude oil, page eight. What have we got here?

Ole: Well, on face value, we have a very boring market to say the least, at least for the last year and a half. And you can say that's probably the success of OPEC+, the ability to maintain a stable price by cutting production. So, it does indicate the market that would have been significantly lower if OPEC+ hadn't taken barrels out of the market. And that raises, obviously, the question, well, can they ever get these barrels back into the market? And that's where some concerns are starting to come in. From some of the data, we see that, especially China, where it looks like all the mine is going to peak this year. We have a few refinery activity falling on a year on year basis, simply because the rollout of EVs and hybrids in China is really quite aggressive right now. And they're also trying to flock their cars to the rest of the world, and that is starting to have a slow impact. So, we're trading near 18 brands. Sorry for the American listeners, but I just tend to use brands because of the global benchmarks. So even though the courtesy and trading involved desire is probably way bigger than what we see in Brent, but Brent is currently trading around 90, and I'm sure that this is not the level OPEC was looking for. They were looking at 90 plus, and at this point in time, it's difficult to see how we can get back to that level, especially with all the spare capacity that has been building up as OPEC cut production. Then obviously spare capacity rose, and it's going to be interesting to see whether it will actually start to increase production this October, as they’re planning to. I believe they won't, I think the market is too fragile at this point in time for that to take. But at the same time, we’ve also seen speculative interest through the futures market has really collapsed. We saw, coming to that later in the CoT report, but we saw Brent net long fall to a record low basis, since they started recording cut dates on Brent back in 2011, so positioning is extremely light. So that does obviously support an upside surprise, if something starts to, something should change on the fundamental outlook. What I'm also watching is this massive gap between what OPEC believes demand is going to be this year, a d again, if they base their production hike on an assumption that demand will grow by more than 2 million barrels, as they've been steadfastly been holding on to for many months now, then they're probably right. But if the IEA is closer to the truth, with less than 1 million barrels, then there's no rule. So, we're probably going to end up somewhere in between. But it's just astonishing to see that even with the eight months of the year gone and we are now trading October contracts, that we still have such a discrepancy in the outlook for this year, and so it just makes you wonder.

Erik: Let’s bring term structure into this conversation, because it seems to me, and if I look at the charts, they frankly look pretty darn bearish to me. And I think you can make the argument for economic slowdown and so forth. But boy, when I look at the term structure of WTI, and that's, I have to apologize, you're on the Brent chart. I'm on the WTI chart, I look at not only a very steep backwardation, but that backwardation is not falling off at the very front of the curve,

as it very typically does when you see the beginning of a move toward contango. And although we did see some selloff in that backwardation, it seems to be picking up again. I'm reading on Twitter about people talking about fears of tank bottoms in Cushing. We've had significant drawdowns in Cushing inventory, even as the national inventory has built in the same week. Seems to me like physical market tightness is a theme that maybe not everybody's talking about, but ought to be.

Ole: True, and there's no doubt, looking at the numbers, that WTI has got a bigger prompt tightness, than the one we're seeing currently in Brent. And yeah, part of that has to do with Cushing. Well, again, Brent is the global benchmark, and then where the market has been focusing somewhat on the weakness in Chinese demand. But again, I think that the fact that it's not high, and Brent does also indicate the market is having a very lukewarm approach to the Middle East and the potential risk to supplies. Basically, there's not a strong enough bit in the spot market there right now. But overall, yes, the market is still in backwardation and especially in WTI, it's quite elevated. And I think that’s something to do with, there's a bit some flow reductions from Canada, I believe, down to Cushing, which is part of the story of lower inventories, but it's mostly one that that's keeping the prompt spreads relatively tight. And as long as we don't see these switch into a contango, then perhaps the market is running a little bit ahead of themselves in terms of expressing too much of a negative view on prices.

Erik: Let's move on to agricultural commodities on page nine. What's the story here?

Ole: Simply that we have a major discrepancy between the soft sector and the grain sector. We’ve all been watching this steep rally in cocoa prices. We also know that coffee prices, especially one Robusta produced in Vietnam, is hitting record highs, replica from Brazil, which is traded in New York, is also up quite substantial. And then we've got orange juice, also trading up by quite a big percentage. And apart from the orange juice is South America, but also obviously Florida, but you can almost make a little bit too general to say that we have a discrepancy in the weather between the North and the southern hemisphere. The southern hemisphere is really struggling with very, very high temperatures that we are continuing to see making new record highs, and that these have really been challenging the crops of some of these Soft Commodities. We know the story with cocoa in West Africa. We also know the story of coffee in Vietnam. But generally, the very extreme heat that we've seen has been underpinning prices of such commodities. If you turn to the grain market, which is mostly well apart from Brazil and Argentina, it's really a North American and European story, and they once again, just like last year, the weather has been relatively benign and quite crop friendly. And that basically means we're left with an overhang of supply from last year, which so very soon is going to be built up even further as this year's harvest is going to hit the silos. And that basically means we've got ample supplies, and that's adding downward pressure to prices for almost, for a second year running. So, the grain sector is really, not only the most sold markets and the biggest shorted market by hedge funds, but it has been a very profitable trade now for quite a long time. And it just highlights how weather is a major influence on food commodities, because we know how many people there are in the world. We know how many animals there are, how much feed we need, and also to certain how much needs to be used to towards biofuel

production. And that basically leaves the supply side as the one that adds the volatility to the market. And we've seen a lot of that volatility now in the past year and a half.

Erik: I'm going to ask you to weigh in on a speculative trade that I've been entertaining in the grain market, which is, I just look at this escalation in the Russia-Ukraine conflict, and now Zelenskyy is talking about seizing the land in Kursk and kind of turning the tables on Russia and saying, you know, we're going to keep some of your territory instead of you keeping some of ours. Look, I have no idea who's going to win or lose in that fight, but it seems like things are heating up, and I know that Russia and Ukraine combined make up a massive percentage of the wheat market globally. Does it make sense to consider a speculative trade there? Is it a bull call spread? Is it another trade? What do you think about that view?

Ole: I think the level of production that we, well, if we've gone through a troubled growing season elsewhere, and we were heading into the winter with tight supplies, then, yes, then they would most certainly have a much more, much bigger impact than what we're seeing right now. Russia is a major exporter, and they will continue to be able to export, weather permitting, and it looks like now, an early scare has been mitigated by decent weather here towards the harvest period. So, Russia has lots of supplies that they can export, and if they were struggling to export, then buyers would just have to go somewhere else, or have to go to Chicago and pick up the wheat. So, I think we tried it on a couple occasions, because there's been plenty of bad news being presented to us in the last two years with the war in Ukraine. And the biggest one was, it was the initial invasion, where the bargain really, really worried that we were going to see exports drop completely. That didn't happen. And even though some of the export facilities in Ukraine got bombed on a regular basis, they still manage to get the wheat out, and Russia, most certainly as well. So, I think it's a difficult one to trade. And again, looking at spreads that should obviously then be within the same crop year, we're comparing spreads for futures price one year. So next is like apple and pears, because there's a new season in between, which is weather dependent, but generally, I will struggle to find the right trade for that. I've been looking at milling wheat trade in Paris. Paris, France, is heading for the worst wheat crop in I think, since the '80s, and the wheat contract in Paris has hardly moved to the upside simply because there's ample supplies coming in from elsewhere. And that just highlights how difficult is to speculate in the squeeze, when there are multiple sources of supply as there is right now.

Erik: The best source of analytical data in the entire commodities market is probably the Government's Commitment of Traders report, which indicates where big traders are positioned. Problem with the government data is, it's not well visualized. It's very cryptic and difficult to decode. You do a fantastic job of reorganizing that official government data, putting charts to it, getting all kinds of visual cues to indicate trends and so forth. And you give that away for free. How come you give it away for free? Where can people find it? And walk us through what slide 10 is telling us about the Commitment of Traders report.

Ole: Well, thanks for that, Erik. I I've been following this report since I was a trader myself back in the days in London, and really found it useful, simply to get an idea about how the big boys were positioned, and where they were getting too overextended in either to the upside or the

downside. So just like everyone else, I picked the data from CFTC when they publish them on the Friday. I normally send out a couple of tweets during the weekend just highlighting the main movements in the commodity space, but also the Forex space, where actually, as a binder note, we've seen a phenomenal amount of buying of the yen. This momentum crash, deleveraging crash we had the start of August, has just seen the phenomenal amount of yen buying. We're now seeing the first long there since 2021, the gross long is the biggest, highest since 2016 and these are historic moves that we see. But that's another side. I publish, as I said on Twitter but obviously, Saxo Bank has a website and a trading platform, and that's where we tend to publish the articles that that come with it, but I put them out on Twitter as well, for everyone to see. But, and as I said, on the slide there's a lot of numbers, but what's really important is just to see, take a look at the change and the net, and how the net has been developing in the previous weeks, and if there's been some major changes, if something can start to get too elevated. And last week was a classic example, because we had that momentum crash, even though it was a question of yen and AI and other very proper stocks taking a hit initially, then the whole deleveraging, where volatility spiked, also hit the commodities. Because commodities is not an isolated part of the investment world. If volatility goes up one place, and you are a fund manager investing across markets, you simply have, you are forced to reduce your overall exposure. That takes some of your exposure and commodities down as well. And just last week, as I mentioned, the Brent long, which is now as of last Tuesday, was just around 70,000 lots, that saw 174% increase in that week. So basically, we came from a record low, and that leaves this mine extremely exposed to recovery, if there's any change, anything that sniffs of a recovery in either the fundamental or the technical outlook. And that's what we saw in that week, where the Brent price returned to, at one point trading above 80, and also highlights the very big short we're seeing in the grain market right now. But for now, it's being fundamentally justified, and the technical outlook has to improve quite significantly for that to be reduced. But when and if that happens, then there will be a massive short covering rally in the grain market. But it's difficult to see what really should trigger that right now.

And just finally, by far the biggest position right now is, I think this is more than probably 70%-80% almost of the total nominal exposure, is in gold. And that tells two things. Obviously, that there is a strong momentum in gold. Also that the corrections that we've seen since the breakout in February, March, when we broke above 2200 that have been so shallow that hedge funds had not been forced to adjust their positions, and that's normally what creates a lot of volatility. Because in the first few days after entering into a position, they're very trigger happy, because if it doesn't go in the right direction, they will reduce some of the exposure straight away, because they don't want to be caught out to buy too much. But we haven't really seen that in gold, and at this point in time, gold needs to correct by at least, I would say $150 perhaps even $200 for this really to start to hurt and to trigger some longer liquidation. And that's why the gold rally has been so relatively low in terms of volatility, because there hasn't been any major need to adjust positions, because the move has been so one sided.

Erik: You've got a contact information page on slide 12, which our listeners can use to see where to find you. But before I let you go, please tell us a little bit about your own podcast that you produce for Saxo Bank.

Ole: Yes, we used to do a daily one. It was growing in popularity, but we also had to take stock and see whether we were doing the right thing. So we're changing now to a weekly, more of a dialogue, one or two, two or three in the room, and by the time this episode is broadcast, we have recorded one where we will be looking at some of the same themes that we've been talking about today, Erik, but also how that works together with the equity market, where there are some opportunities in the equity market related to commodities. And again, also just discussing about this cycle, the so called super cycle. So, we do that on a more than a thematic basis, on a weekly basis. Normally comes out on Tuesdays.

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