MACRO Voices
with hedge fund manager Erik Townsend

Ole Hansen: Commodities Are Heating Up!

Erik: Joining me now is Saxo Commodity Chief Ole Hanson. Ole prepared a slide deck to accompany today's interview. Registered users will find the download link in your research roundup email. If you don't have a research roundup email, just go to our homepage, macrovoices.com. Look for the red button above Ole's picture that says looking for the downloads. Ole, before we dive into the slide deck, let's start with the big picture In the wake of Trump's, tariffs and everything else, where do we stand with commodities? It seems like in general the theme is very much toward hard assets over financial assets ought to do very well for commodities.

Some are doing quite well, some doing not so well. How do you think about the overall market?

Ole: Hello Eric. And yeah, thank you very much for having me back. Interesting times to say the least. And and also developments that obviously are impacting the the commodity space as we, we see it.

We've seen some big moves already this year. A lot of that is is obviously to do, the world as we see it. It's the uncertainty that, still prevailing, that's driving demand, for hard assets, especially for the investment metals. We're seeing an energy sector that is, fairly stable.

The questions about the, lag of oversupply in the short term. Also, a bit of a difference between, I would say, what the forecasters are looking for and what the prices are currently telling us. So there's a bit of a mismatch there that needs to be explained. We have shenanigans going on in some of the markets.

Some of that driven by Tariffs, which is really creating in, some uncertain times for traders. Great opportunities for some and big losses for others. So that's also part of developments. And then. I would say from an inflation, from a food perspective, even, I don't think, many people really feel that food prices are behaving nicely.

I think we if we look at the prices in Denmark, it's they're really going in the wrong direction. But actually looking at the producer level, we are having another very strong production here. So key crops are at multi lows. We've got ample supplies.

We also know there's a story in the US where cattle prices are have gone through the roof as well this year so generally a mixed bag where we. We're trying to, not to get too involved in the day-to-day noise. But at the same time we also have a market which is trying to work out what's gonna happen to to FED policies, what's gonna happen to interest rates what's gonna happen to the energy transition. How's that gonna impact? How's, what about geo geopolitics, the de-globalization, the reindustrialization especially in the us. So a lot of things which I think ultimately Eric in the short term creating a lot of noise, perhaps not the best or the strong moves that we would perhaps have been looking for.

But I think ultimately still setting the foundation for strong gains in the future. And also, creating the reason why investors should be not big, ignoring commodities, but at least have that as part of their portfolio.

Erik: Diving into the slide deck, we've got the commodity performance overview chart on page two.

Precious Metals, the big winner this year, orange Juice, the Big Loser. What's going on in, why don't we just talk through the, these first few slides that, that talk about the commodity performance generally, give us an overview of where we're headed in this market.

Ole: If you look at precious metals, it is a phenomenal returns.

We've seen 30 this is just this is more or less up to date. And again, these are total returns, so we have to remember that one thing is what the futures price were was at the beginning of the year comparison. Now you have to just to take into consideration the. The rolling of contracts and the the cost to carry and so on, and also whether there's tightness or not. So these are total returns. Gold is up 30%, still the same with silver. So they're really having a having a strong year. There's a bit of a pause right now. I think we are waiting five.

The probably Jackson Hole is the next major potential trigger. But then also whether we are seeing a dovish tilt from the FMC towards lower rates that could lead to the next move higher. And I think one one, which I think we're, I've been calling it Sleeping Beauty for quite a long time.

And finally it woke up and took off and that was platinum. And really it is the best performer this year. 50% we.

Perhaps still some further upside to be had there, especially if gold continues to higher, because then platinum looks historically very cheap. As I mentioned, the brand, the energy sector is is fairly low. But it's interesting there to note that the WTI Brent, on a total return basis are down a couple percent.

But if you look at the futures prices, probably down more than close to 10%. So that's obviously the backwardation in the futures market that supports a long position there, which is which is underpinning and of reducing the. The loss that the price action otherwise has dictated the copper market or that industrial metals in general?

Doing very well. We can talk about the tariffs and the big jump we had in copper, but it's, it seems like data from China is holding up. It is still the world's biggest consumer raw materials and that's providing some underlying support. And then this whole weakness across the grain sector I was at a party at the weekend. I met a farmer who's got a massive production here in Denmark and he was complaining already. And that's how it is when prices are too high. That's, that tend tends to be seeking, low production, which is not good, but now prices are low and that's seeking

Very high production. And he says, I just have to work even harder because I have to shift all this production to, to make the money. I would've do in another year where price were higher, but perhaps where the production was lower. But that's good for the consumer.

Ultimately, we have ample supplies for the coming coming winter. Then elsewhere the livestock sector is really one about, it's really US or these are US traded contracts and they really mostly reflect what's happening in the US market, where there's some tightness right now.

And then the software, some of these massive moves, which were rather related in cocoa and coffee. They have abated somewhat recently, but still holding above long-term averages.

Erik: Let's move on to page four, where you're showing the supercycle concept. Why would we expect commodities to have longer overall cycle patterns than we see in the shorter, business cycle and therefore market cycle and equity markets?

Ole: Because commodities tend to these are long cycle markets because you don't increase or reduce but, or you don't increase, especially production overnight and production requires a certain amount of revenues in order to be increased. So generally we see these long cycles where periods of Ample supply lowers investments and that sets up the next stage where.

Where we then run into period where production struggles to keep up with demand. And that's where we see the big moves. And and literally since 65, I'm not disclosing my age, but we're not far from that that starting point. We've had a few major moves in commodities and it also highlights that, the, commodities can, as a whole be boring for decades for quite a long period of time. But when they move, they do move quite substantially. Obviously there's always big moves within the individual sectors and individual commodities. But as a whole, we can see we had these three major or two major moves since the mid sixties.

And and right now what we are trying to work out right now, whether the next major cycle that that is really the fifth cycle that we had since since modern day. And it started in in 2020, whether we can call this a green transition the rally in the market simply because the green transition requires.

So many different commodities in in, in major, in, in major quantities in order to be achieved. That is part of the story behind the the next cycle that we potentially could see has started to unfold and we are. We have doubled up in, in price terms since since the low point, which obviously happened around the Corona or the COVID times which is so maybe a little bit cheating when it comes to that.

But generally we are higher and we are looking for that green transition over time. But I think also. The way the world is developing right now, we are dis, we are seeing a world that's dislocating. We are seeing production is no matter, no more a question about where is produced cheapest.

But it's a question about where is produced safest or closest to home. So you don't so you don't run into supply problems. And that basically means that that we will see some investment going into to commodity and co and to the ability to produce commodities in the coming years.

That may not, and that may not necessarily be the cheapest, but but there are basically other reasons why we are, we're seeing this and just talk about the, we talk about the US the reindustrialization, whether they will succeed or not. That will obviously require a lot of investments into the US and and that will require commodities.

Erik: Let's talk a little bit more about that green transition commodity demand and how it translates and when it's gonna translate. Because it seems to me like what's going on is with the transition to the Trump administration, the immediate emphasis on climate mitigation I think is coming out of the system to the point where that doesn't exist.

But what I think a lot of the market is not yet seeing and it's coming is. AI demand and everything else is gonna create so much electricity, demand, and so much demand for copper. That aspect of copper demand, which is driven by something else, I think is gonna be even bigger than the than the climate driven copper demand that was perceived previously.

What do you think about that and how long do you think it takes before the market figures that out? Because I don't think it has yet.

Ole: It will take some time because because it doesn't happen, it doesn't happen overnight. But I think we are well into the, to that transition.

And I think also, yeah it's really important to, to call it the energy transition, not the green transition because it's not all a question about that we all that it's all energy has to reduce from unreliable sources like solar and wind. But it's simply that, that we are electrifying the world for various reasons.

Demand pattern moves more and more towards electricity per from some of the fossil fuels, the fossil fuel based energy forms that we have been used to for decades. And as you mentioned, the the one thing is the increased need of electricity for data centers.

I can just, at the. Given my, at my age and I'm an old hack. I've been around for a long time. But when you then could progressively go down and be to the younger people, they obviously much more digital savvy than probably I am. But if I just look at the kind of way that I use AI already than imagine what younger people younger generations, what they are using and it just means it all boils down to a lot of

Power that needs to be produced in order to produce all that data that is being requested every single second of the day. So that's one thing, but but then we have the, the electrification as such is also a question about the a, a global population that is still rising.

It is the industrialization of emerging countries. It is the move from country to to, to cities. It is the need for more cooling as the as. Certain parts of the world heats up. Then, so it just all boils down to more, the more demand for power and that demand, that power has to be produced.

And that's where we the kind of the. Some part of the sector really don't like the green part of it, but it's it will continue to grow. And I would say probably solar, especially because that's technology. The other wind is just mechanics. But technology can be improved.

So that will continue to grow, but we need some more power and we need that to come from gas and we need that to come from uranium. And then one thing is to what the demand for the power is. Another thing is actually how do we supply the power? And that's where you. What you mentioned about copper area comes in because we need the we need the infrastructure to supply all that the electricity.

And and that's why I put in on actually we a little bit further down when we get to the copper that some of the big winners this year is in the last year is not is not the actual underlying copper is up, but it's not up that much. But those, that has to provide or to build that infrastructure, these are really some of the.

Big winners that can easily compete with some of the big tech companies because they're running flat out to with orders to build power stations to to build out the the infrastructure. So I think it's a fascinating and very interesting part of the space. And copper is one thing, aluminum is another one.

Natural gas over time will be be one. And when will it happen? I think the next it could happen sooner than we expect especially if we start to see the. Supply of these commodities struggl to keep up. And that's really where the focus, I would say is in for something like copper.

Where the the, it is a mined metal. We just recently saw the accident in Chile and how suddenly a certain amount was was caught offline. But if the numbers that are being thrown around in terms of hubs, how much more copper we need in the coming few decades compared to to the past.

Then we are, we will be struggling. We will be very busy and copper needs to reach levels that really incentivizes miners to go all out or go all in.

Erik: Ole with respect to copper, I want to talk specifically about page 10, because this has been bothering me. Something that's very clear to me is that President Trump and Secretary Bessent clearly they've got some policy objectives that they feel are very important for the country.

That's great. I don't think they're taking seriously enough the collateral damage that they're doing in markets, because as you're showing on the left side of page 10 the European LME copper market looks just fine. It looks like a healthy market. The US copper market looks like a nuclear bomb just went off, and it's all a result of this market being effectively whipsawed up and down by President Trump.

Intentionally giving misleading, bluffing as part of his negotiation around tariffs. And I guess what's on my mind is, look the president has the authority to bluff about such things if he wants to. Do they understand what it's doing to markets? And would you agree with me that the damage that happened on this technical chart, I mean that triggers a lot of technical funds.

A lot of CTAs, trend followers, they're going to be potentially doing things in markets that create. Recession invoking risks is a result of what I think. I'm on a soapbox here, obviously, is what the President and Secretary Bessent just did to the American Copper market. Am I crazy? Am I over? Am I exaggerating to have this reaction?

Ole: If you're crazy, you're probably both crazy. Because it's the it's the line of thought that that I have as well because it tariff is, has become a very popular weapon to to get your to to, to use as a negotiating tool. Obviously tariff only works if you really are sure that you have the alternatives in place because tariff is all about, yeah, one thing is to make some extra revenues, which again, can always be discussed who's paying for it.

That, I don't think we should get into that. I think we, I think most people has a clear understanding of who pays for tariffs. But another thing is if you raise a trade barrier, that is obviously in order to incentivize. Production at home. And and this is where it, this thing just went off rail because you even contemplating adding tariffs on a metal, which is paramount important for the us as everyone, as other, every other country in the coming years.

Not only given the the re industrialization that the US wants to embark on, but also this being being number one within AI and data centers and so on. This simply doesn't make any sense that you suddenly make domestic copper prices 10, 20, 30, 40% higher than what what your competitors elsewhere are paying.

The fact that the, you can increase production in the in or an increase in production in copper in the US may take five to 10 years. The, at the minimum, the fact that refining, which is obviously a major issue because a lot of copper in, no, not refined, the scrap copper in the US is being re-exported simply because there's no refinery.

Capacity in the US to to chair to switch the scrap back into into a refined copper. And so that's where, really, where they should start. But who, who wants to who wants to run these businesses? And so all in all, this is, this was a, this was one step too far. This was certainly hitting a market where the the potential or the gain they wanted to to achieve from raising tariffs were not going to be successful or going to be achieved.

Anytime soon. And the only thing you you would succeed in was raising prices domestically at a time where for critical metal that is, will be in, in hot demand. And yeah it has created some some major disruptions now across the global market and it's clear for all to see that.

That the winners here are the physical traders who are, who've been able to handle or source copper around the world depleting stocks levels in Europe and in Asia, and shipping it to US sell the futures against as long as you get the copper here onshore before the tariff war was was was erected.

And and that basically creates a windfall. But but. As the tariff were suddenly removed or took, taken off the table then obviously the spread had to come back to a normal. And in the short term, there's probably risk now that the US is stuck with a lot of copper that they don't need.

And that is now that now needs to find its way back into the market. So we could potentially see a period where us traded copper or highgrade copper futures may trade at, or perhaps even below international prices.

Erik: It certainly seems to be the case. I, my call on this was, boy, the way we just got whipsawed here.

This is a buy the dip opportunity on copper. I think I'm the only one buying this dip. It certainly feels that way.

Ole: It will take us, it'll take some time to to even out. But at the same time, as long as the cost of storing it is not too high, then then yeah, demand will, will be there in, in the coming years.

But but it was a way, it was a bit of a, I would say a wake up call for for the administration that tariffs cannot be applied to. It doesn't work for, it doesn't fit every product that the us would like to to, to onshore.

Erik: Ole, I got so excited about copper that I skipped ahead a little bit.

I wanna go back to page seven where you brought up rare earth elements. That's stuff like neodymium that they make the magnets out of and so forth. This graphic on the right is a little bit disturbing to me. You've got 70% of what we rely on. And by the way, some of what we rely on this stuff for is weapons systems like important national defense stuff.

So 70% of this we get from China, that's the country we're. Trying to start a war with 13% comes from Malaysia. That's a country that would, in a war situation with China almost certainly fall under China's pressure that we wouldn't be getting any favors outta Malaysia. What could go wrong in this story?

Ole: Well, a lot of things can go wrong. And and what the, what China has obviously realized that they, that even though errors in terms of in terms of turnover, in terms of monetary value is relatively small. It's, it has a paramount, it is paramount important and the same thing goes for europe, they've fallen sleep by the wheel

The production of rare earths is done in China because they have the refinery capacity. But the rare Earth is not rare as such, it's found across the world and can be dug out the ground. But the rarity comes when it, in the production of, or the refining of the, all the material in order to to get these these small amounts of individual errors.

And that's really where China holds a lot of cards right now. And, and we'll see how that plays out. But but they do have a they do have a, you can almost call a weapon that that the US cannot mitigate anytime soon. But we have obviously seen some steps being made, both in the US and I, but in general outside at China.

And that's where probably I hit myself a little bit over the head with with something because it's clear that there would, there was going to be a very. Big focus on US production capacity or ability of rare earths. And there's really only one major company, which just a few years ago were almost non-existent MP materials.

It's gone up 300% since late May. And because they've also made a contract, I believe, with Pentagon. And they will, they'll get all the, they'll get all the finances they need to to try to achieve some of this some of this independence from. From from China, but there's also other countries around the world where, which will, which probably will become in, come in focus in terms of being able to deliver some of these rare earths, but again, rare earths that we all put 'em into one box.

But as you mentioned, a lot of these are. Are specifically used for in, in high? They are all in high technology, but also within the weapon industry. And some of these are just extremely difficult to to get hold of. It is, for now it's the probably China, one of China's biggest cards that hold against the us.

Because of the importance, even though in, in terms of size it's very small.

Erik: It seems to me like there's a potential speculative trade here, which is I think President Trump very much wants to secure America's access to all critical things when he figures out that there is a a problem here and frankly I think he thought that he was gonna negotiate to get Ukraine's rare earth elements.

Took a while before he figured out that Ukraine doesn't really have rare earth elements. Despite Javier Blas jumping up and down for weeks on Twitter saying, Hey guys, it doesn't make sense. What. What would be the play? Let's imagine that President Trump figures this out and says, we can't be just reliant on China for rare earths.

We've got to go and make a deal with Country X and get all of their rare earth and lock 'em up for us because we can't have this risk with China. Where would the play be? How do we front run that and get ahead of President Trump figuring out this play?

Ole: Oh, that's a difficult one. And again the, it would probably have to be some of the countries where there are established production already, but again, it all boils down to who wants to build up?

This refinery capacity, which which as far as I understand is extremely polluting and is a very dirty job. hence the reason why the countries in the west had basically said let someone else let someone else take care of this and we'll just buy the finished product.

I don't, I haven't got the answer. The only thing I know is it's going to it's going to be extremely expensive. Because setting this up and from an environmental perspective, there also has to be some compromises. I think found in order to to be able to set this up.

And the same thing goes some like copper refining. Again it's not it's not the cleanest of businesses that you can find out there, but it, if it becomes paramount important, then it probably will be done, but. The question is who will do it and where it can be done. I haven't got a, I haven't got a good answer to it, but I think it, it'll still take time and in, in that in that meantime it probably means that the rhetoric towards China we obviously getting close to the next deadline here around mid August.

That we have. We're probably not going to see the same kind of militant response, I'll say from Trump because again, they learned from this as well. And what what kind of cards the Chinese Chinese hold. And we just saw overnight that, that Trump basically was asking the Chinese to quadruple their purchase of soybeans as a way of bringing down the deficit.

The only problem there is that China hasn't booked one single cargo for soybeans from the us as a vendor, as the end of July for the new season. So something really big. Dramatically needs to change there on, on that front. So really it's, so us wants to buy the high tech at the same time they what they can offer.The other direction is low tech.

Erik: Let's move on to page eight. Talk about the oil complex.

Ole: Yeah. What is that to say? Really, Eric? I'm just a little bit confused, but at the same time also and confused in terms of how well the market has actually been holding up. Considering the fact that we have been that OPEC has has increased production.

I at least has agreed to be able to increase production by two and a half million barrels now since. Start of the year. There's obviously few, a couple things happening there. First of all, some of these are currently producing above their agreed quotas, so they will not increase.

That's countries like Iraq. At the same time some others have been struggling to to, to increase as per that new quota. And then we just gone through I would say quite a strong demand period during the peak season in terms of summer demand. And that's also helped disguise some of these, this increase in, in, in production.

But I think in. I listened to one of your previous guest a couple weeks back. And I think it's very very important to, and I agree to decipher between short, medium term developments and longer term develop developments because the question is really whether we are.

Whether we have the en enough appetite for the continued investment into the sector, because I think it's clear to see right now, oil demand is not gonna fall off a cliff. We are still seeing an in increased demand for energy around the world. Some of that is is obviously due to living standards, but also demographics the industrial industrializations and urbanization and so on.

So the demand for crude oil is not going to work. Disappear anytime soon. And that basically means investment to find the next barrel needs to be there. And that's really where you can start to be a little bit worried that in, in, in four to five years time, that we may struggle on that front, which potentially depends.

Then could see oil prices trade higher, but at the same time oil at 70 bucks. Now I'm looking at Brent. I know others like to love the WTI. Brent is really just also looking at expectancy, positioning. Double tier positioning is quite weak. It's being used it's, it has become a little bit of a domestic market even though it's still the main futures market, Brent is, has been trying to to preempt any impact of potential secondary sanctions against Russia and and and also this increase in production from OPEC.

So I think the. I think it would be struggling above 70, at least in the short term. But I think the longer term trajectory is still for higher prices. And that, that also means that even though we are, even though we are not seeing seeing the price really moving going anywhere fast, we still have a market that is in is somewhat backwardated.

And that basically means that as I as I mentioned earlier, even though the future's return so far this year is around. Minus 10, 11%, the total return is actually only down 2%. So you, it's not costing a lot to try to bet on higher prices in the future, but at the same time I'm still a little bit concerned that as we move into the autum months, that we could see this overhang of supply start to have a negative price impact.

And we potentially could trail back down towards the low end of that. The, that brains we have established. And as you can see on slide eight, what we don't know at this point in time when we're recording this is what will happen on Friday in Alaska Between Trump and Putin. Whether we are going to see any deal that that is tolerable by, not only by Ukraine, but I say also by Europe and what kind of impact that potentially could have on sanctions and and whether that also on, on prices.

So I, I think in the short term, there might be some risk of of lower prices. But I think the long term outlook is for higher prices simply in order to. Make sure that production is being incentivized in a world where demand for energy is not going to go away anytime soon.

Erik: Ole let's talk a little bit more about the backwardation that you mentioned in this market. I find it absolutely fascinating. I don't know if I'd quite go so far as to say it's unprecedented, but it seems striking to me that at a time when really I don't think $65 oil is particularly expensive.

It's not really high prices yet or anything close to it, but boy, the backwardation in the market is. Pretty darn significant. What do you make of that? It seems to me, given various other risk factors, there's more backwardation at this price level than I would expect.

Ole: That's true. And and there's also and I think sometimes we say that the prompt price can be can lie because the prompt price is there's a lot of other factors impacting the prompt price speculative interest and so on.

But the curve is seems to be a little bit more of of a, of the smart guy in the room. That tells us a better story than what the prompt price is doing. And the curve is. It's telling us that right now, that there is a demand that in the spot market that is, is strong enough to to to make traders pay a higher price than what they can they will have to pay in the future.

And looking at the, if now we're flipping a little bit around, but yeah, we just to, if you take a look at on slide 14 where let's talk about the cut report. We can talk about that later. But just on the far right hand side of the, of this table, which I produce on a weekly basis, I just show the one year.

Spread between yes, basically between spot the for front contract and the one year. And you can see in, in the crude WTI. We and Brent we are picking up a small premium. It has come down a bit, but but the fact that it's still positive does indicate that the market is is still recently tied, obviously, where the most of the time has been recently is in in gas oil and and the products.

Where. Where where some of the storage levels has been quite tight and that, that really has kept that backwardation quite quite high. But talk about that. It also indicates why some of the other markets are really suffering. Look at natural gas.

You natural gas prices in a year's time has to be at least 29% higher. Before you start making any money we have the metals, which is mostly about funding. And then you have the agricultural sector where again, prices needs to be before and we need to see a 15% rally in in corn in the next 12 months before investment worthwhile.

And that really is attracting short sellers, whatever. There is a pause in the market. We are seeing rallies from time to time, but as long as you stay in the contango, as soon as the market. Runs outta steam and the contango is still there, then you are being rewarded for rolling a short position on a monthly basis.

And you can see those that are highlighted in red. These are the ones that, that, that continues to struggle. amid this this focus in the market on how you make return from either being long or short.

Erik: We covered copper earlier. Let's move on to gold on page 11. What's the take there?

Ole: Gold is only that several things, but first of all that it's it's taking it's having a bit of a break. It's having an extended summer holiday. We're struggling and not struggling, but we're stuck in I would say 200 range. 3250, 3450 big numbers. And and it's taken quite a lot of the recent use on the chin without really attracting much much in terms of movements.

I think the, you can argue that they, it's a, it that's both bulls and bears can can argue that case, but I think the bulls probably have it right now because having run up by 30% and then only managing. Actually then only managing to trade sideways. Not even correcting lower, gold could go down to 3000 and will still be in an uptrend.

The fact that we haven't corrected much in the last three to four months basically means that the, it looks like the correction in gold for now is just a sideways or is just a consultation, not a correction. But at the same time it just tells us that, that. Market is looking for more in terms of the, of a trigger to to get some life back kicked back into the market.

And I think that's where we need to look ahead to, to action from the FMC, we need to see whether we're gonna get this double shift. We are need to, we need to see whether the, might increasingly get worried about the US debt situation. That they are, that they're just prepared to to, to support the market through through cutting rates, but with, without thinking about what happens in the long end and what happens to inflation. So that would be key as well. And then I think the central bank demand physical demand probably dried out a little bit just like everyone else with I think if you are a fiscal buyer, you're probably sitting a little bit on your hands here.

You just really want to see it. Can, it really makes does really make sense that we're not having any 10 or 15% correction after such a big run up. I think there will be some. So that's why if we once if, and once, and if we take out these these highs, which I think we will some time into the autumn months.

The next move could be quite quite significant. And I put in some of the reasons why precious metals are still such a, as such a demand. And I think the really, the key is it's political neutral. It's it's compared to other investments, it's recognized and it's not linked to any countries credit worth and there's not, I think that would probably be an increased focus in the coming years.

Erik: Now some people are saying, okay, this gold market has already had its move. Silver has been lagging. Boy, the trade here has gotta be silver. You want to be in silver because gold already had the move. Its silver's turn to catch up. The counter argument is, wait a minute, what's driving gold is primarily been central bank purchases.

They're not gonna buy silver. There's no reason to expect them to buy silver. Stick with gold. What's your take on that?

Ole: Has been that has been one of the reasons why the gold silver ratio has been ticking higher simply because silver has not enjoyed, not been enjoying that underlying demand.

And that also means that whenever we've seen a small. Correction in gold, silver has corrected by a lot because it just felt anyway, every time there was a correction in gold, there was this big clunking fist just being put in under the market, just picking up whatever there was was came to them.

That was silver. Didn't have that luxury. So it is still gold. It, but on steroids and that basically means that it, the movements are big, but also the rewards are similarly similar, big as well. And I think at this point in time, we're 55% from industrial applications. Some of them that we still see will be, is a.

We we experienced an increased demand in the coming years with over, above ground inventories stock levels, relatively relatively weak. And with the production not being price sensitive, simply because silver is mostly produced as a byproduct from other mine metals. So it's not as if suddenly price silver goes through the roof, that you'll increase production from mining.

That has to be tied with some of the other metals. And I think just recently, the the fact that silver's been holding up as well as it did after the collapse in the copper price in New York, that that also speaks speaks volume. So both silver and a gold currently up 30% if a bit more than that.

And you just have to look at the chart that going all the way back to 2010. For, in order to buy gold these levels, you have to believe that it will hit a new record high if you buy silver. Here we are still. Quite a few below that high from 2010 or 11, which also makes it an easier proposition for some to to trade.

Erik: Let's move on to grains on page 13.

Ole: Yeah, it's as I mentioned it's it's been a it's been almost been a perfect storm of bearish News this year. It started up just as we started the planting season, there was a few concerns not only the US weather wise, but also in, in the around the Baltic Sea, but that really, no, not about the Black Sea, but that really has has been.

Put to rest. And we are, we just got a, we got a monthly report coming out from the US government on Tuesday, I believe just before this one goes out, which would give us an indication of where the US government sees production this year of corn and soybeans and some, and now we are looking for some bump upgrades.

What does that do? It basically means that. That if you are short in grains you are not only seeing the prompt price moving down, but you're also seeing a monthly or whenever you roll your contracts being profitable. And so we, we need to see a, we need to see the tightness in, we need to see some tightness emerge in the spot market for this trade to to unravel.

But and that for now that we are not gonna see that for at least next six months. We now with the next. Big season is the next South America season. We need to get so I'll say six months down the line. So obviously there can be movements in between. Again, if China signs a deal with the US to buy a massive amount of soybeans, that could that could shift the tone.

But right now, speculators are holding onto. To quite elevated short positions in corn and wheat. Wheat has been short. They've been holding short positioning wheat, as you can see on that little insert all the way back since 2022 for three years nonstop. There's not been a net long position in the wheat market, and that just highlights the predicament that this market in is in.

So the combination of prompt prices on the pressure and the contango in the market basically makes these very profitable trades for speculators in the futures market. One of the most powerful tools that we have in commodities markets for gauging investor sentiment is the commitment of traders reports published by the government.

Those reports in the raw form are pretty cryptic and hard to read. You provide a free service completely free, as I understand it to anybody who wants it. To basically reshape that data into a much more user-friendly graphical form as we see here on page 14. Tell us a little bit more about that, including where people can get ahold of it.

Yeah it's as you mentioned, it is, it's data that is provided by or given to or demanded by the CFTC on a weekly basis from the large from the last clearinghouses. And and sometimes and often get asked why do you only look at money managed money account? Because that's obviously only a part of the.

Part, the open interest, but we have to look at the futures market. And that's really where it's it commodities I think is fascinating because one thing is looking at the S&P future or the the 10 year, 10 year future, there's so many other things going on. So whether the market is long or short, you can't really read anything into that because quite often there's a trade on the other side.

But when you look at the the futures market for commodities think about the open interest as the cake, as the full picture. And then you can break this cake into into participants. And that's where. We tend to focus on managed money account. I used to be a I used to trade for hedge fund in London back in the days.

And and some of the way that these funds behave today is also how we were taught to, to trade market. So it basically means that they are not married to the positions. They seek a divorce if something goes wrong.

And that means as well, they're most, they're very responsive to any change in the technical or the fundamental outlook.

So that's why we keeping track of what the managed money traders are doing, that's the hedge fund, CJs and others. Basically doing trading for leverage trade trading the investment on, on, on the leverage. And it, it boils down to obviously long and shorts and with the nets.

And what we watch is the obviously how the net position, how it develops over time gives us a idea about how extended or if something starts to get a big. Bit extended, then there has to be a darn good reason to, for that, to to happen. And, but the same time also gives us a warning sign that if there is any change in the outlook, then then potentially there could be a bigger than expected move simply because some of these positions that need to be be reduced.

And these are big, a lot of these traders are like oil tankers. If they see that they need to change direction it doesn't happen. It's not a u-turn. It takes quite a while. So hedge funds, they can easily take two or three weeks to to, for, to, to change the position around.

So quite that means that if you suddenly have a week where there's been a big move. Opposite direction of the position. The position reduction may not actually be that, that big because it takes time. But if it stays at those new and changed levels then that, that will continue to attract either short covering or longer, long liquidation.

So that's one thing. Open position relatively to extremes, that's just relative to the highs and lows we've seen within the last year. Price change in recent weeks. Long, short ratios quite liked by some, just indicating how extended is the market. That basically means let's say go for instance, right now, there's a long short ratio.

Six, six to six to two six. One, two to one basically means for every short, there are six six longs. And that is in. It's good to know, maybe not so much for gold again, because there's a lot of different other activities. But if it, if there is a market where really the go-to place is the futures market, then if that ratio becomes too too large in one direction, that basically means that if suddenly it changed around let's say in the example of, we can take feeder cattle or yeah, feeder cattle towards the bottom, or actually take hawks. Right now there are 12 longs per each short. If suddenly that if there's market starts to trade turnaround, then these 12 longs. We'll be looking for a very small amount of shorts that wants to close their shorts out, and that's adding some pressure to the downside.

So that's why long short are interesting. And then just finding the forward curve as we talked about earlier, Eric how the the ang backwardation also impact how investors they look at these markets.

Erik: Just to make sure that I understand the long short ratio. For every long futures contract, there has to be exactly one short futures contract to match it.

So what we're really talking about here is the long short ratio within the managed money category. And that's the reason it doesn't have to balance out one-to-one.

Ole: Absolutely. Because what you, quite often you will find that who's, who tends to hold the short position. That tends to be the one who producing the damn thing.

So they're short they're short a commodity in order to hedge their physical production. So that's so even if the market goes up, they may not necessarily want to they may not necessarily need to to buy it back. But if you look at the other side of the equation, the if, whereas the managed money account they would be much more responsive to to any move if, especially if the position is very overextended.

Yes, it is the longer short ratio within this. Managed money category, and you'll quite often find that the opposite is is found among the producers and consumers, not producers.

Erik: Ole, I can't thank you enough for another terrific interview, but before I let you go, please tell us a little bit more about what you do at Saxo Bank where people can follow your work.

And particularly you have a podcast, a daily podcast that's just about commodities. How can people follow that?

Ole: Yes, indeed. I've, I work at Saxo Bank. It's based in Copenhagen. I've been working there for 17 years. I've been covering commodities for the last 15. Just trying to make heads and tails of the market and put that in rain rising towards our clients client base, which is global.

And just trying to help them navigate these markets. And also what to be aware of when when things starts to starts to unravel. You can find what everything we put out is obviously on a, on the Saxo trader. If you're not a client yet, you can find it on analysis.saxo that will, that's where me and my colleagues put out everything that we produce. You mentioned the podcast is run by my colleague John Hardy. We just recently changed it back to a daily format. It's getting a lot of traction already. I tend to join him. When something breaks or something happens, or at least then on a once or twice a week.

Do see that as well. And obviously finally I'm still on x where I where I take information in, but I also try to give as much relevant information back as as I can.

Erik: Patrick Ceresna and I will be back as Macro Voices continues right here at macrovoices.com.