

Strategy Team

# Commodity Outlook

Everything is perfect, or is it?

January 2020

Ole S. Hansen, Head of Commodity Strategy

[WWW.ANALYSIS.SAXO](http://WWW.ANALYSIS.SAXO)

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# Q1 Outlook: Climate and inflation two new priorities for the markets

[www.home.saxo](http://www.home.saxo) => Insights => Quarterly Outlook



“ For the first time since WWII we sense a shift in which climate and the environment – not growth – will become the priority of governments and their citizens ”

“ The provision of Fed liquidity and the risk that this eventually results in inflation and more highly negative US real rates look enough to finally turn the USD lower ”

“ More and more consumers will want to use their spending capital to vote for companies that practice sustainability ”

“ We believe that these green stocks could, over time, become some of the world’s most valuable companies — even eclipsing the current technology monopolies ”

“ Based on a strict interpretation of the Treaty, the ECB can play a role to protect the environment ”

“ The trend towards a warming atmosphere is likely to see weather become more volatile and unpredictable, thereby creating a challenge to global food supply chains ”



# "Climate first, economic growth second" will be the new operating model

WORLD ECONOMY

## Inequality and climate change will be at the forefront of developments in 2020, says Saxo Bank's chief economist

### Top 10 risks in terms of Likelihood

- 1 Extreme weather
- 2 Climate action failure
- 3 Natural disasters
- 4 Biodiversity loss
- 5 Human-made environmental disasters
- 6 Data fraud or theft
- 7 Cyberattacks
- 8 Water crises
- 9 Global governance failure
- 10 Asset bubbles

Source: World Economic Forum Global Risks Perception Survey 2019–2020.

Climate Changed

## Germany Goes Greener With \$95 Billion Push for Train Over Plane

By [Arne Delfs](#) and [Brian Parkin](#)

January 14, 2020, 12:10 PM GMT+1 Updated on January 14, 2020, 1:11 PM GMT+1

## BlackRock's CEO Says It's Time to Tackle Climate Change — Starting With Coal

By [Leslie P. Norton](#) Updated Jan. 14, 2020 6:59 am ET / Original Jan. 14, 2020 6:49 am ET

DealBook / Business & Policy

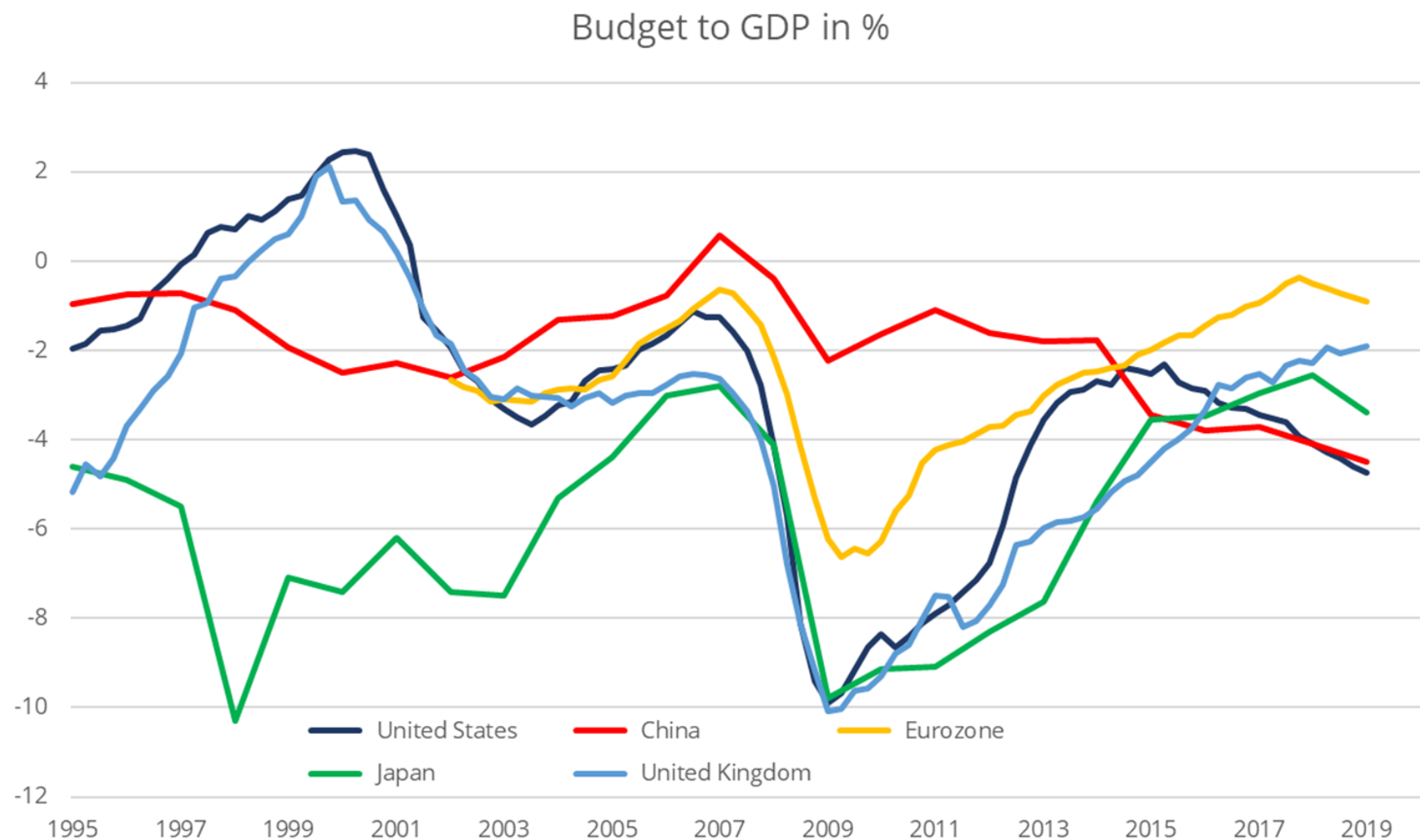
DEALBOOK

## BlackRock Will Put Climate Change at Center of Investment Strategy

In his influential annual letter to chief executives, Larry Fink said his firm would avoid investments in companies that "present a high sustainability-related risk."

# Fiscal impulse will increase in 2020 due to economic slowdown and climate

Raising inflationary concerns



Source: Bloomberg and Saxo Bank

# Macro trends: Everything is perfect, but...

A new decade brings new trends



Growth momentum rising, but real growth is not



Trade deal: Can China deliver?



Negative yields coming to an end: Policy cost too high on credit, equality and growth



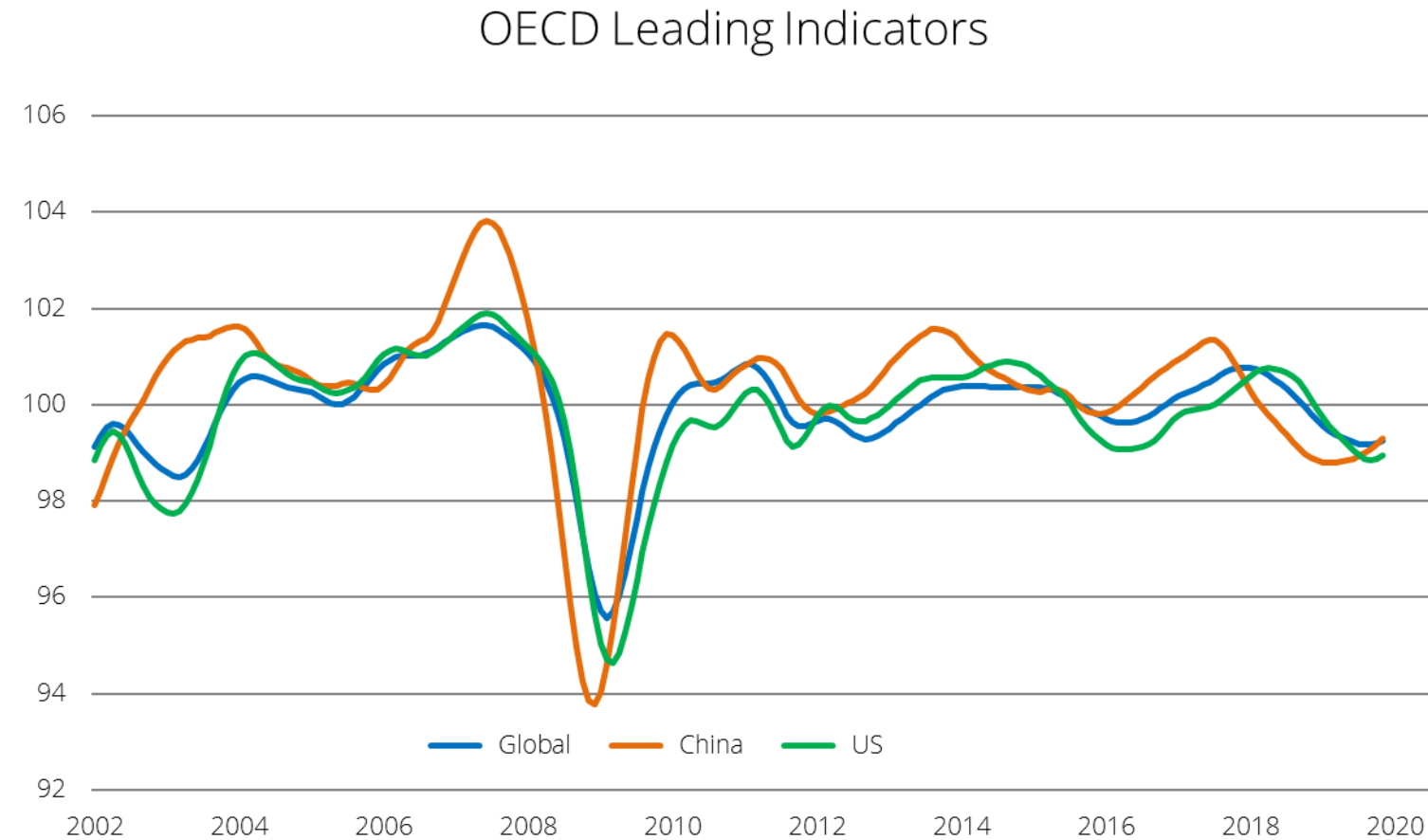
Risks to market: US Election, credit risk and inflation



Climate is the next megatrend

# Recession risks fade with OECD's leading indicators turning higher

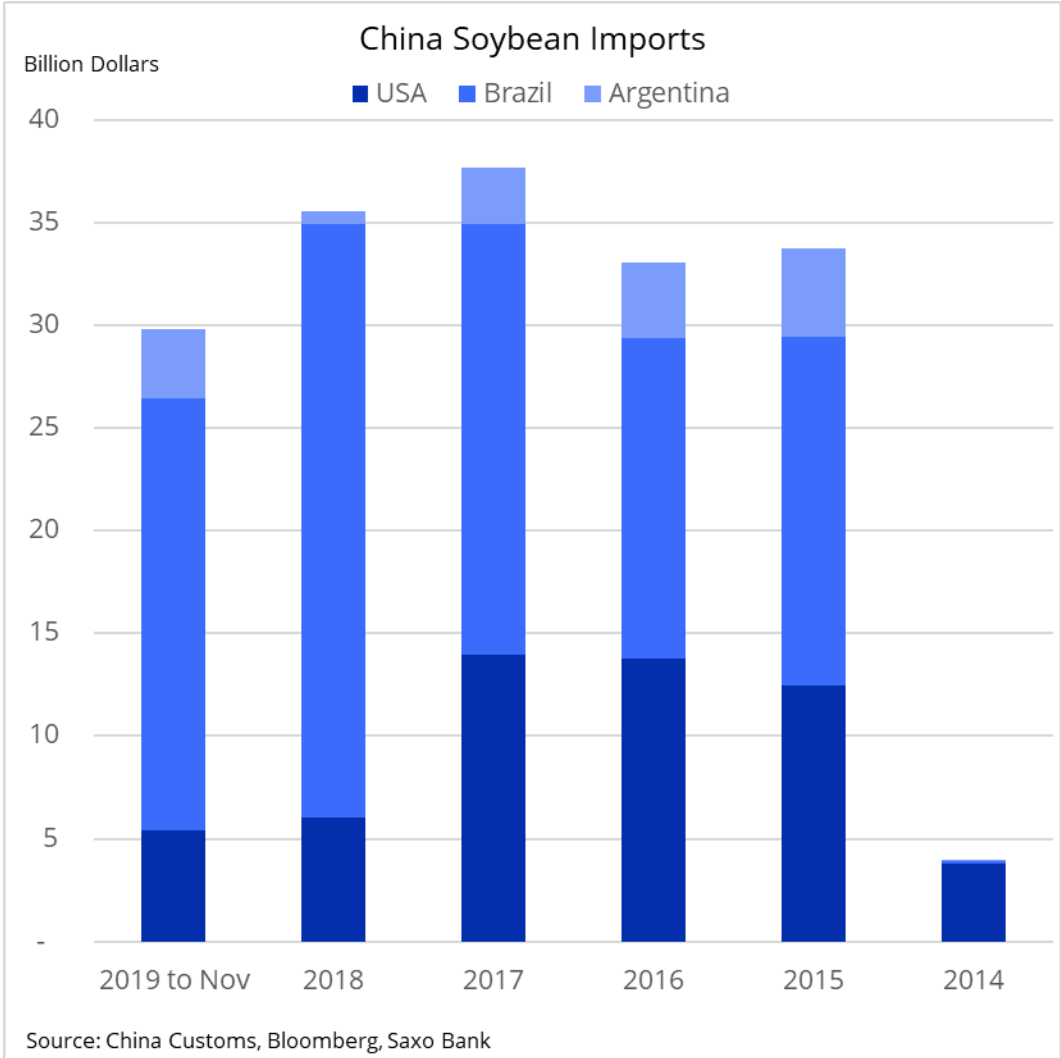
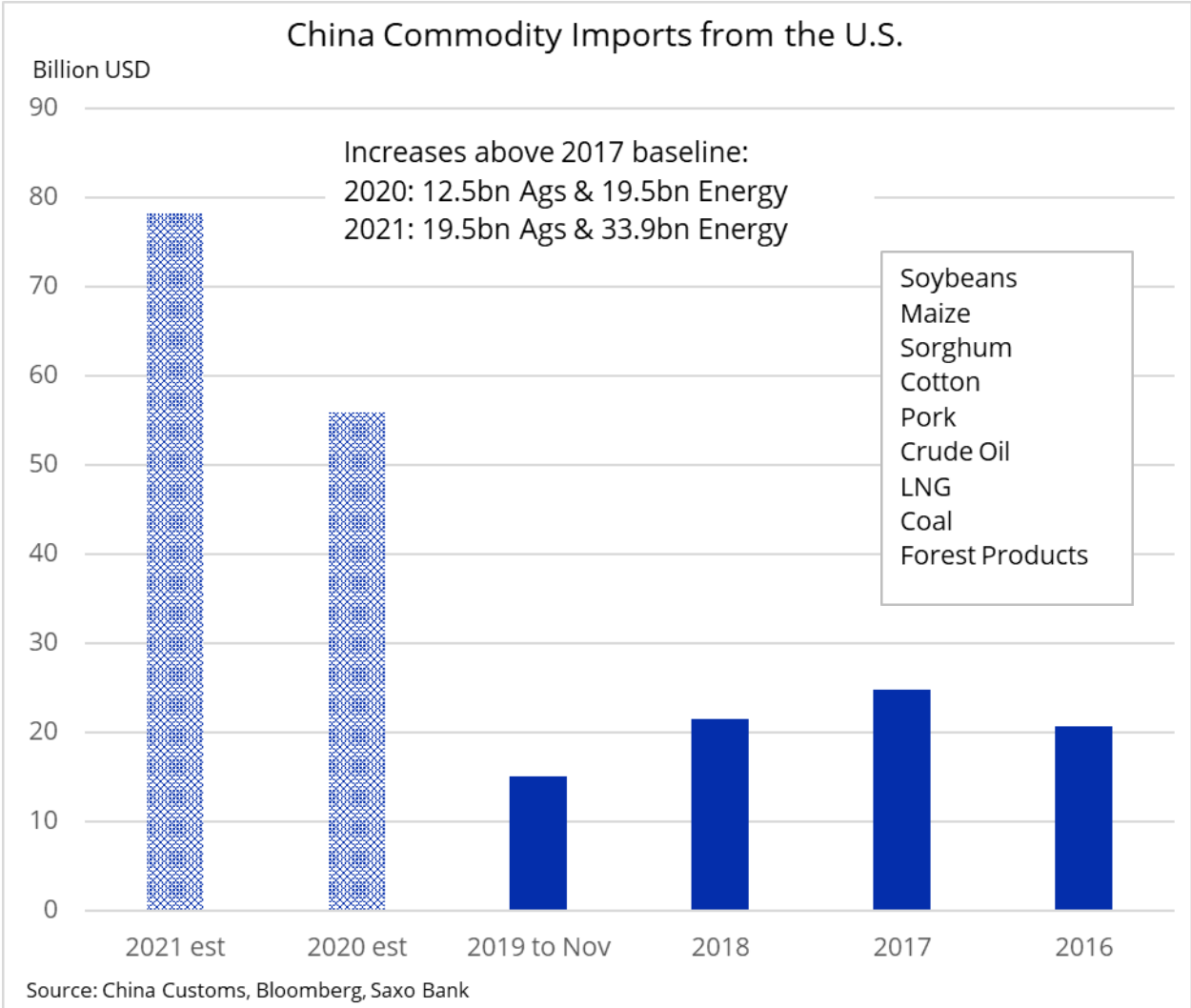
Sentiment improved after the US and China returned to the negotiation table



Source: Bloomberg and Saxo Bank

# China unlikely to deliver the promised pick up in commodity buying

“Today is the best day for China vs. US relationship in several years to come.....”





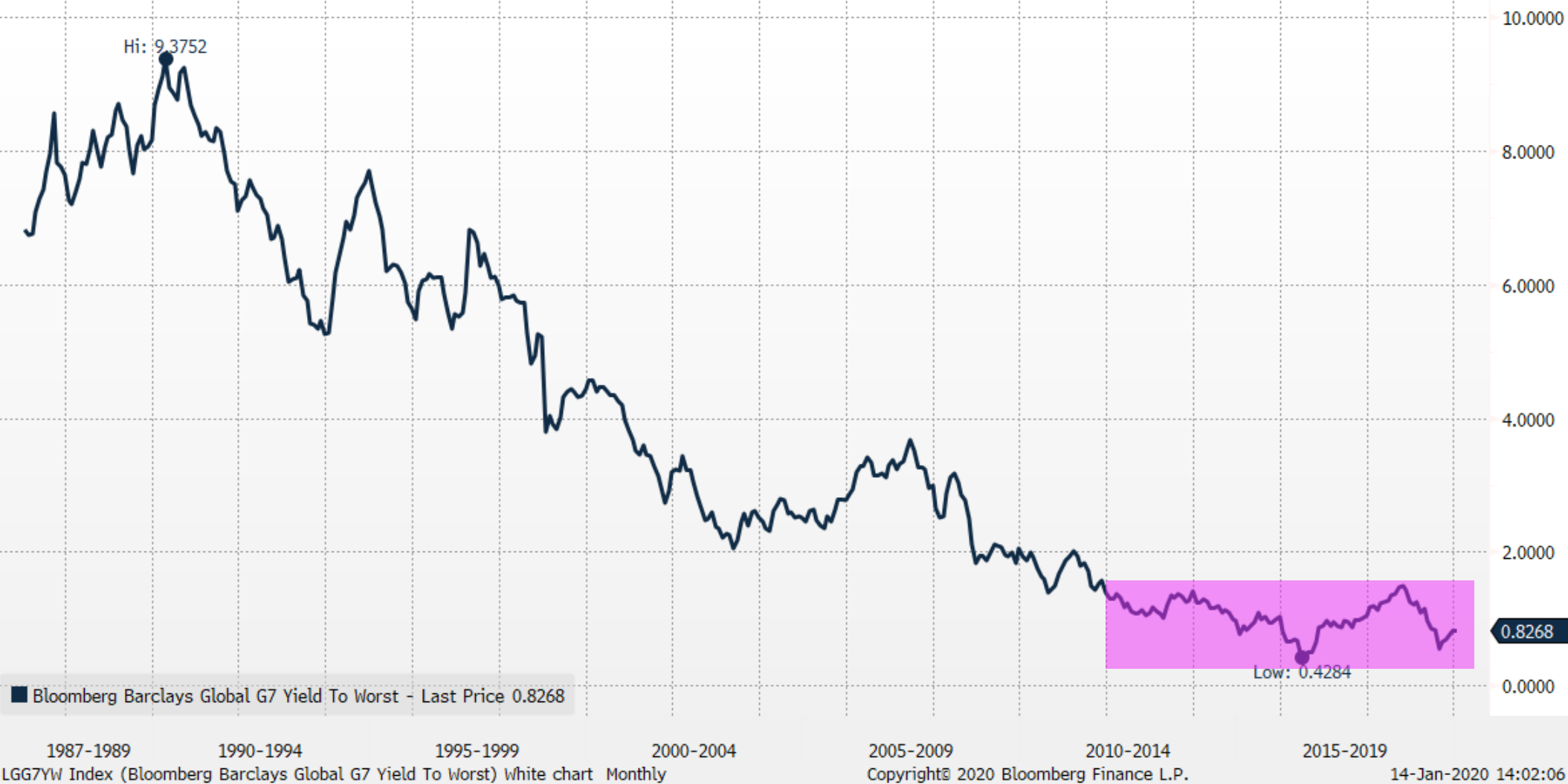
# Stocks in unhealthy acceleration due to TINA – “There is no alternative”



Source: Saxo Group

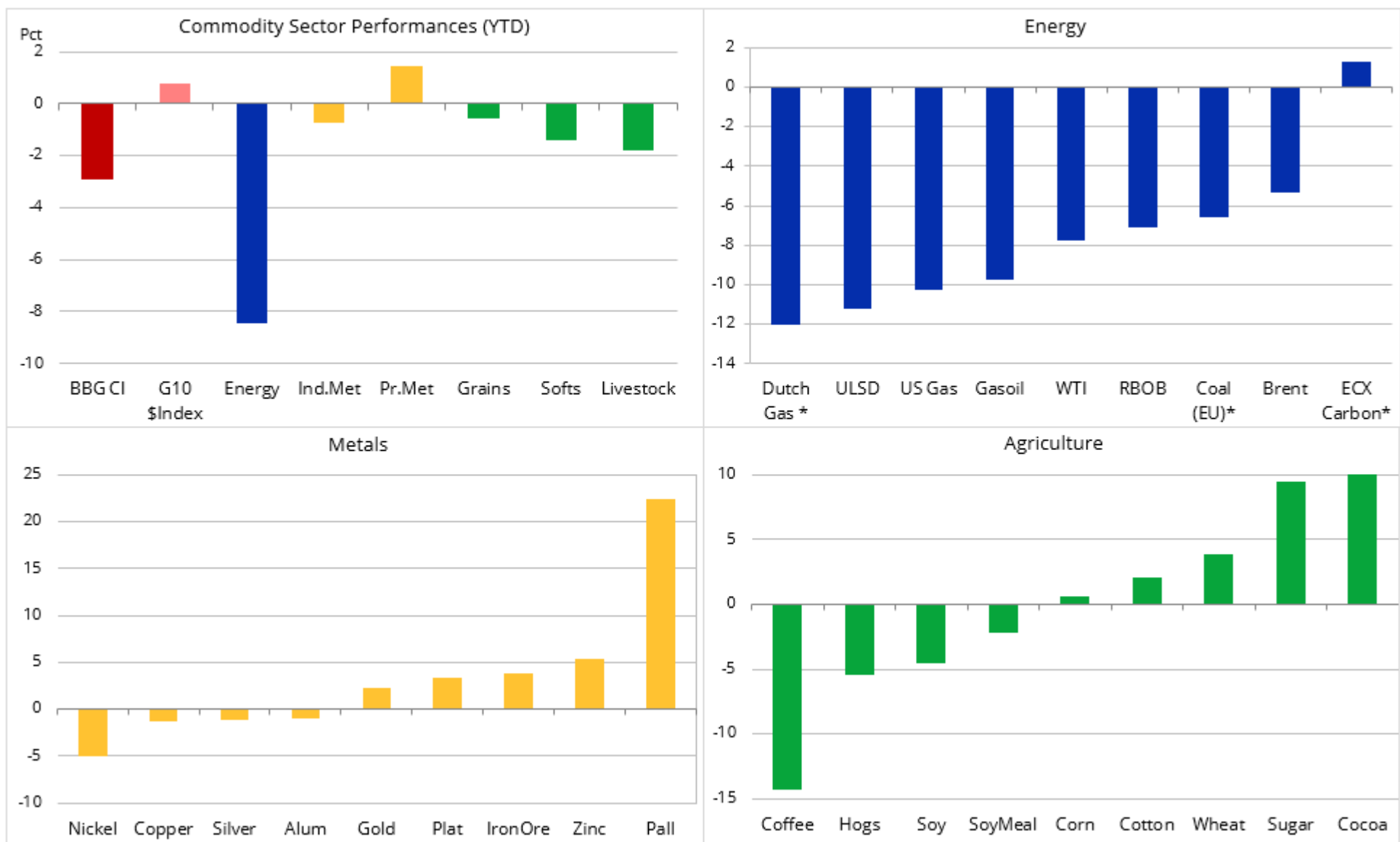
# TINA is driven by low global interest rates and anchoring of investor expectations

A break higher is needed to change this outlook



Source: Bloomberg

# Commodities: Tough start to the year for energy



Source: Bloomberg Commodity Index, Saxo Bank

\* Not part of the BCOM Index

# COT reports: Why the focus on hedge funds behaviour?

The Commitments of Traders (COT) report is issued by the US Commodity Futures Trading Commission (CFTC) every Friday at 15:30 EST with data from the week ending the previous Tuesday. The report breaks down the open interest across major futures markets from bonds, stock index, currencies and commodities. The ICE Futures Europe Exchange issues a similar report, also on Fridays, covering Brent crude oil and gas oil.

In commodities, the open interest is broken into the following categories: Producer/Merchant/Processor/User; Swap Dealers; Managed Money and other.

In financials the categories are Dealer/Intermediary; Asset Manager/Institutional; Managed Money and other.

Our focus is primarily on the behaviour of Managed Money traders such as commodity trading advisors (CTA), commodity pool operators (CPO), and unregistered funds.

They are likely to have **tight stops** and **no underlying exposure** that is being hedged. This makes them **most reactive** to changes in fundamental or technical price developments. It provides views about **major trends** but also helps to decipher when a **reversal** is looming.



# COT Report: Long positions building in agriculture

Week to: 14-Jan-20	Leveraged Fund Positions								Trend	52-weeks Position Extremes			Open Interest					
	Long	Change	Short	Change	Net	Change	Change Pct	High		Low	Relative to max	Pct of net	1-yr Hi	1-yr Lo	Price change	Long / short	1st - 2nd month	Change Bn. USD
WTI Crude (CME)	276,649	-49,537	50,855	13,099	225,794	-62,636	-22%		314,387	86,530	72%	8%	11%	3%	-7.1%	5.4	-0.1%	-3.6
Brent Crude (ICE)	494,942	-4,587	68,780	-4,986	426,162	399	0%		426,162	202,893	100%	13%	14%	6%	-5.5%	7.2	1.3%	0.0
Gas Oil (ICE)	104,431	-23,264	17,804	7,622	86,627	-30,886	-26%		128,644	20,623	67%	10%	13%	2%	1.0%	5.9	-0.2%	-1.8
RBOB Gasoline	119,420	-373	9,499	-3,810	109,921	3,437	3%		115,295	41,807	95%	26%	28%	11%	-3.9%	12.6	-0.9%	0.2
NY Harbor ULSD	36,406	-9,972	33,484	5,995	2,922	-15,967	-85%		21,226	-18,990	14%	1%	5%	-4%	-6.0%	1.1	-0.2%	-1.3
NatGas (4 contr.)	181,712	10,384	448,629	28,992	-266,917	-18,608	7%		235,342	-266,917	-100%	-18%	16%	-19%	1.2%	0.4	0.9%	-0.4
Gold	290,193	-9,621	27,858	346	262,335	-9,967	-4%		292,066	-22,328	90%	22%	26%	-3%	-1.9%	10.4	-0.4%	-1.5
Silver	91,531	2,770	33,091	3,118	58,440	-348	-1%		65,327	-39,042	89%	22%	23%	-16%	-3.5%	2.8	-0.5%	-0.0
Platinum	56,188	2,335	4,928	-69	51,260	2,404	5%		51,260	-23,479	100%	47%	47%	-26%	1.6%	11.4	-0.5%	0.1
Palladium	14,864	483	3,023	571	11,841	-88	-1%		15,042	8,119	79%	44%	60%	39%	5.4%	4.9	0.4%	-0.0
HG Copper	81,511	8,523	74,605	1,867	6,906	6,656	2662%		23,126	-74,597	30%	2%	0%	0%	2.9%	1.1	-0.3%	0.5
Soybeans	81,879	1,472	75,589	-3,659	6,290	5,131	443%		72,325	-168,835	9%	1%	9%	-18%	-0.2%	1.1	-1.4%	0.2
Soybean Meal	52,223	-480	83,943	3,326	-31,720	-3,806	14%		6,892	-54,751	-58%	-6%	2%	-12%	0.2%	0.6	-1.5%	-0.1
Soybean Oil	136,631	249	23,720	-1,800	112,911	2,049	2%		119,420	-80,406	95%	19%	21%	-14%	-1.9%	5.8	-1.0%	0.0
Corn	179,389	21,628	257,831	19,183	-78,442	2,445	-3%		187,929	-322,215	-24%	-4%	8%	-15%	1.2%	0.7	-1.5%	0.0
Wheat (CBOT)	117,055	7,147	87,268	5,047	29,787	2,100	8%		37,097	-83,502	80%	5%	8%	-14%	3.3%	1.3	-0.1%	0.1
Wheat (KCBT)	53,143	4,165	45,208	-954	7,935	5,119	182%		7,935	-58,866	100%	3%	3%	-17%	4.6%	1.2	-1.5%	0.1
Sugar	204,762	33,151	127,686	-30,855	77,076	64,006	490%		77,076	-234,839	100%	6%	6%	-21%	5.4%	1.6	0.3%	1.0
Cocoa	74,918	1,688	35,404	-738	39,514	2,426	7%		65,791	-41,317	60%	12%	18%	-14%	4.8%	2.1	-0.7%	0.1
Coffee	50,662	-4,659	17,544	1,530	33,118	-6,189	-16%		43,181	-81,667	77%	9%	12%	-21%	-6.1%	2.9	-2.1%	-0.3
Cotton	45,557	5,475	15,294	-3,909	30,263	9,384	45%		30,263	-47,428	100%	10%	10%	-18%	2.2%	3.0	-1.3%	0.3
Live Cattle	114,457	3,172	30,854	255	83,603	2,917	4%		154,550	-6,885	54%	19%	31%	-2%	0.4%	3.7	-0.7%	0.1
Feeder Cattle	15,308	1,537	8,395	-69	6,913	1,606	30%		7,603	-7,214	91%	11%	13%	-12%	0.4%	1.8	0.2%	0.1
Lean Hogs	59,386	3,235	49,838	2,882	9,548	353	4%		61,753	-9,892	15%	3%	14%	-3%	-1.0%	1.2	-9.5%	0.0
Total	2,933,217		1,631,130		1,302,087	-38,063	-3%		1,340,765	37,605	97%							

Source: CFTC, ICE, Bloomberg and Saxo Bank

# COT Report: How to read the table

The report covers a seven-day period up until this date

Position extremes:  
One year high/low with percentage distance between current position and one-year max

Open Interest:  
The size of the current position as a percentage of the total open interest.

The long/short ratio:  
The number of longs per one short position. It's showing how potentially stretched a market is getting.

Week to: 5-Nov-19	Leveraged Fund Positions								Trend	52-weeks Position Extremes			Open Interest						
	Long	Change	Short	Change	Net	Change	Change Pct	High		Low	Relative to max	Pct of net	1-yr Hi	1-yr Lo	Price change	Long / short	1st - 2nd month	Change Bn. USD	
WTI Crude (CME)	224,921	7,949	108,453	-3,844	116,468	11,793	11%		314,387	81,512	37%	4%	11%	3%	3.0%	2.1	0.0%	0.7	

Showing changes to both long and short positions provides insights about the strength of the change. For example, an increase in a net-long due to short-covering is potentially not as strong as change driven by fresh long positions.

Last five weeks

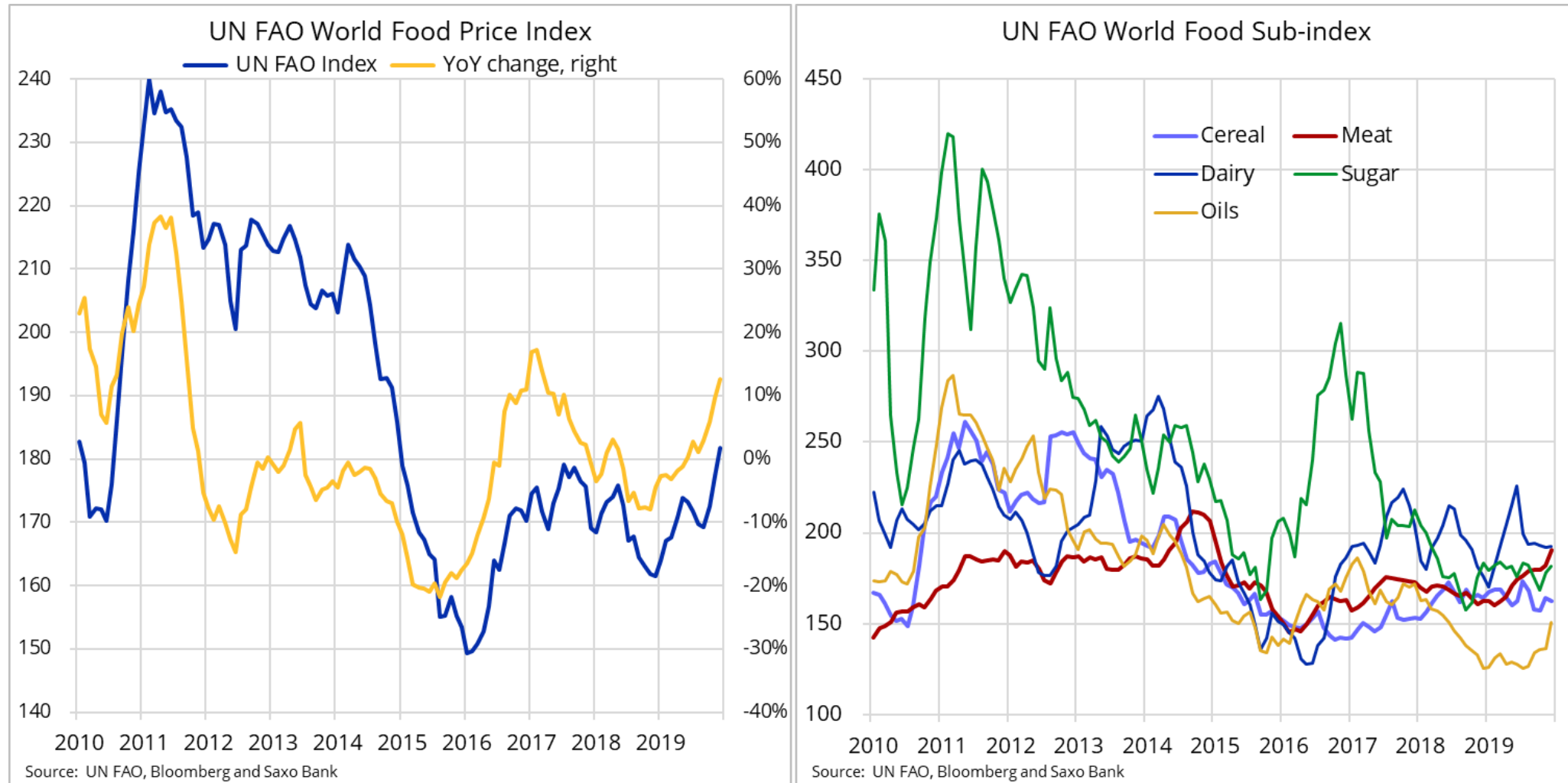
Price change during the reporting week

The spread between the first and the second futures contract. A negative number or contango reflects an oversupplied market which favours short sellers. A positive number or backwardation favors long positions

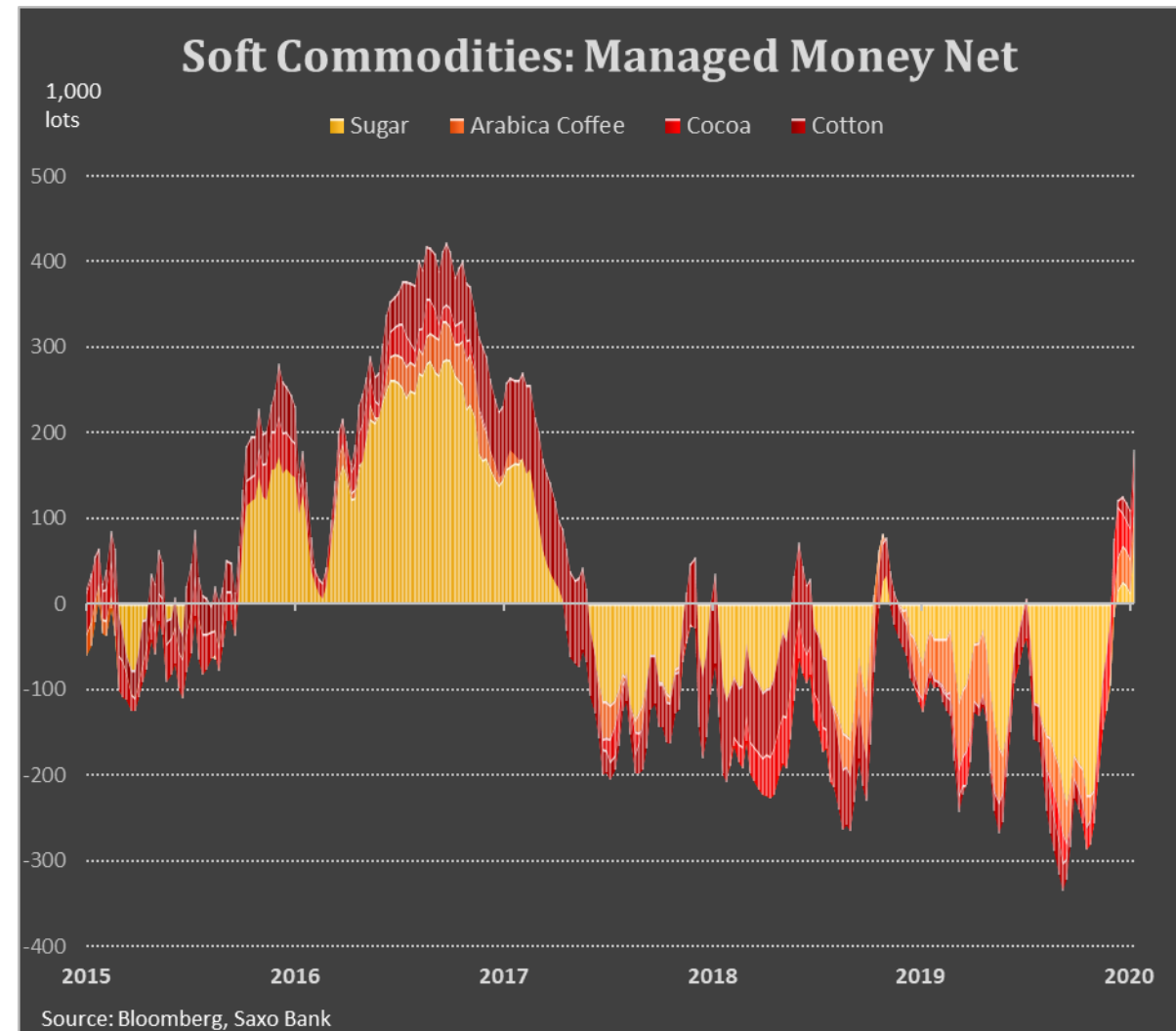
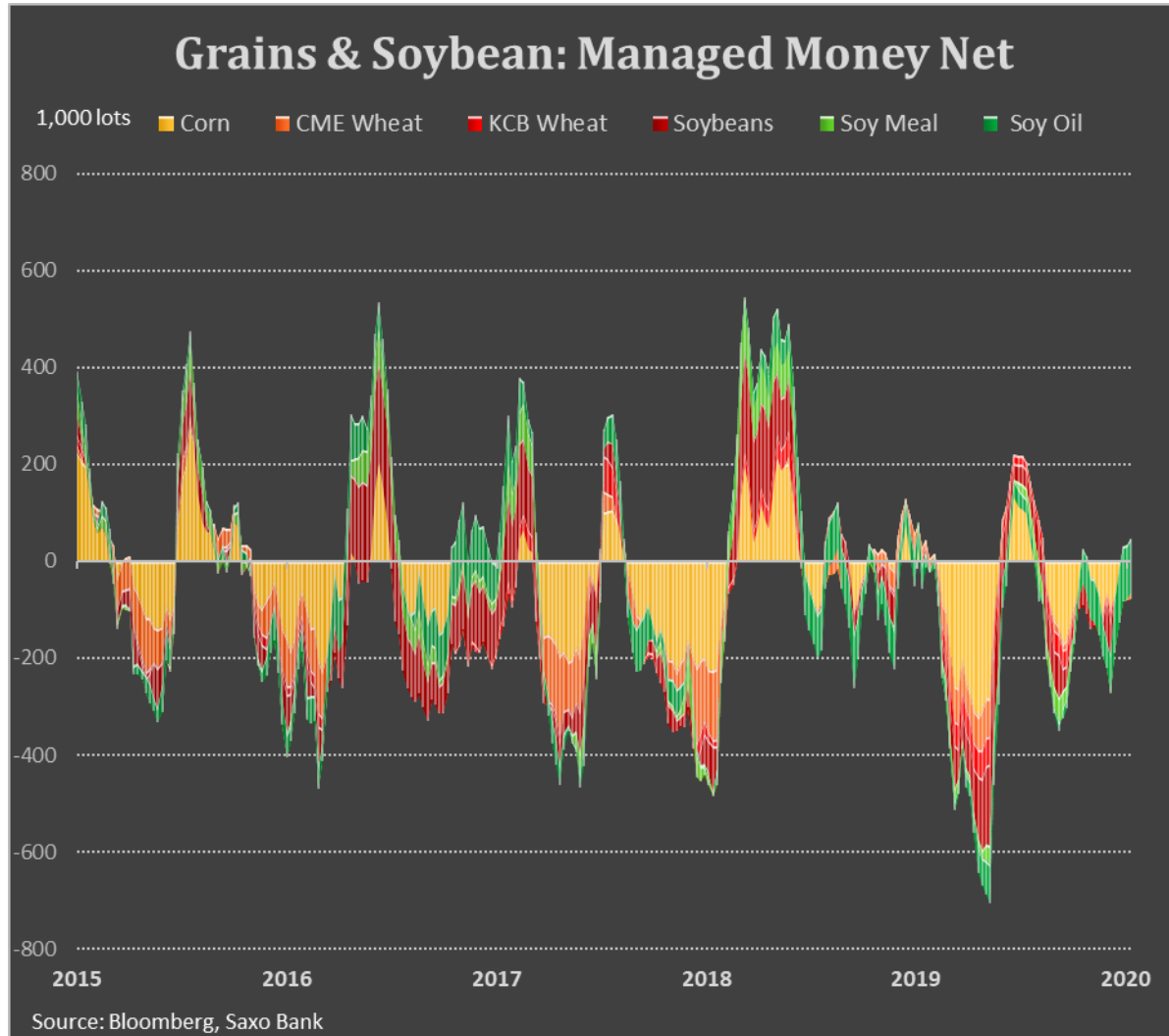
The notional value of the net-change in billion dollars

# Agriculture: One to watch as climate becomes more volatile

UN FAO's Food Price Index hit 5-year high in December – Rising 12.5% YoY



# Agriculture: Funds are neutral grains; softs long near 3-year high





# Agriculture: ETF's showing signs of life following dismal decade



Source: Saxo Bank

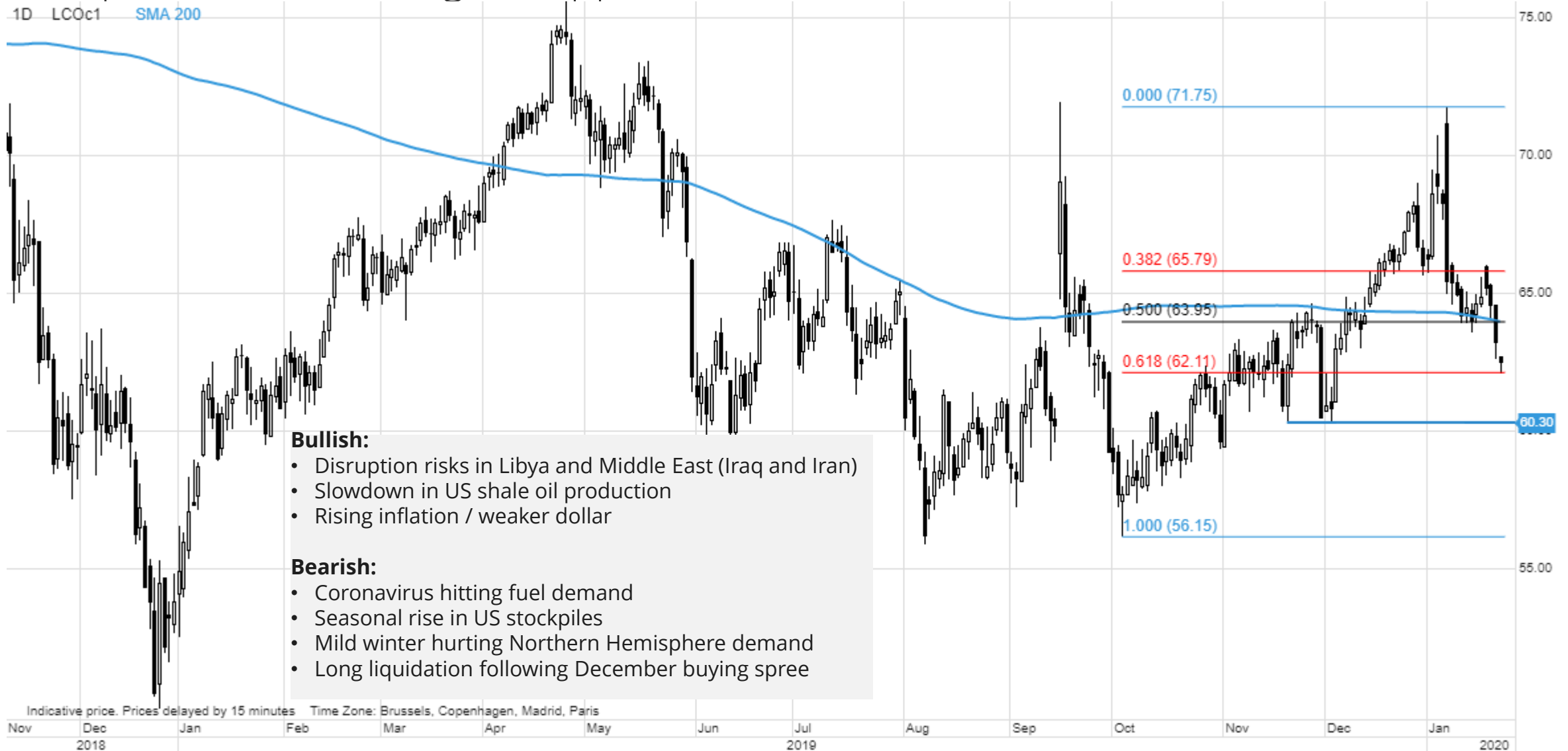


Source: Saxo Bank

Saxo Bank

# Crude oil: Likely to remain stuck before moving higher in 2H

Geo-political risks failing to support



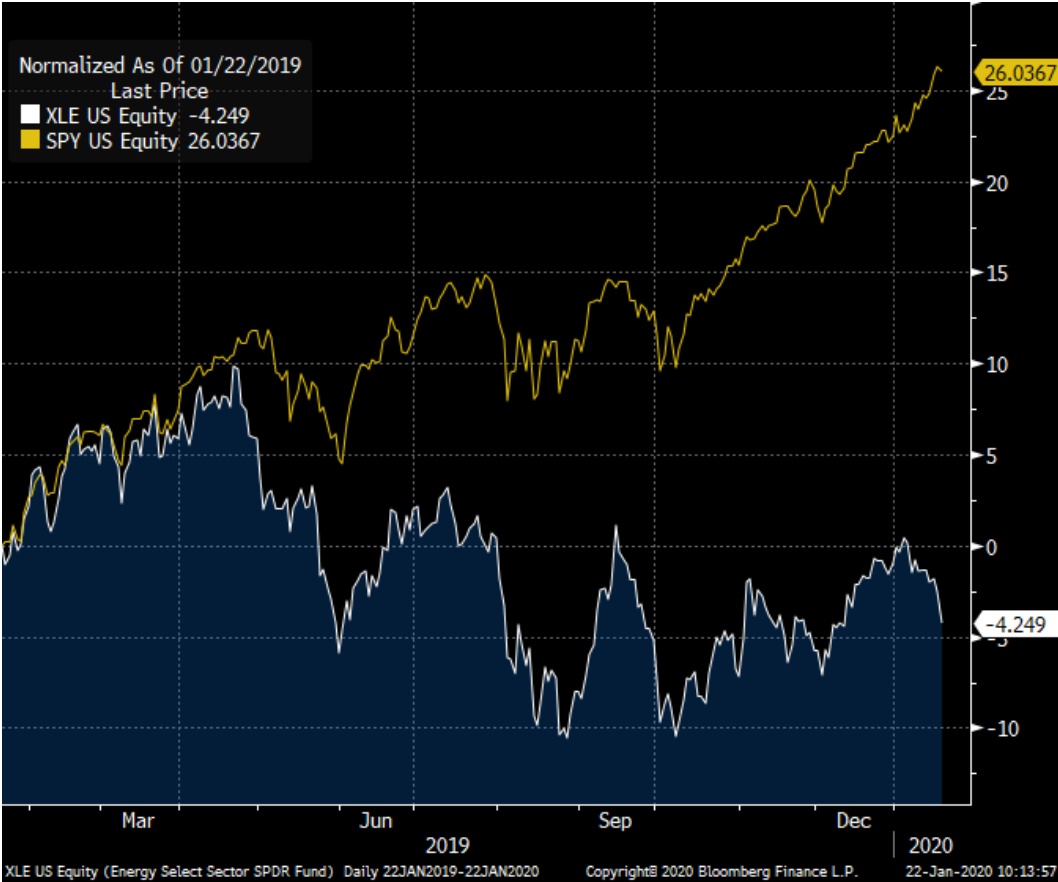
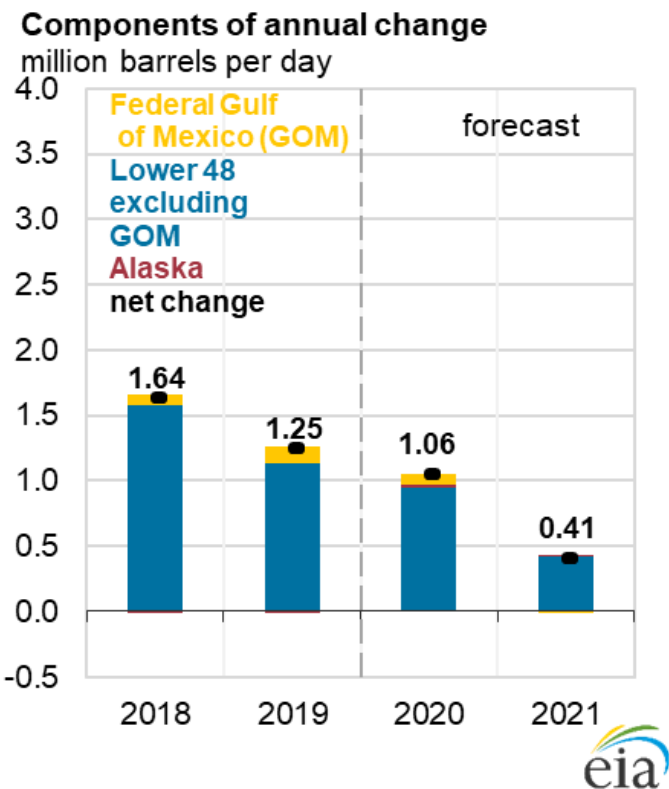
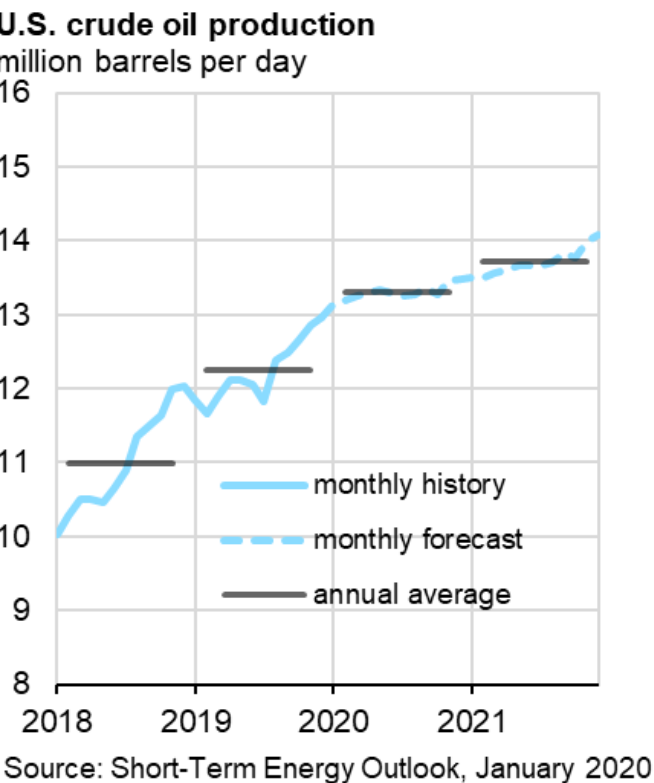
Source: Saxo Bank

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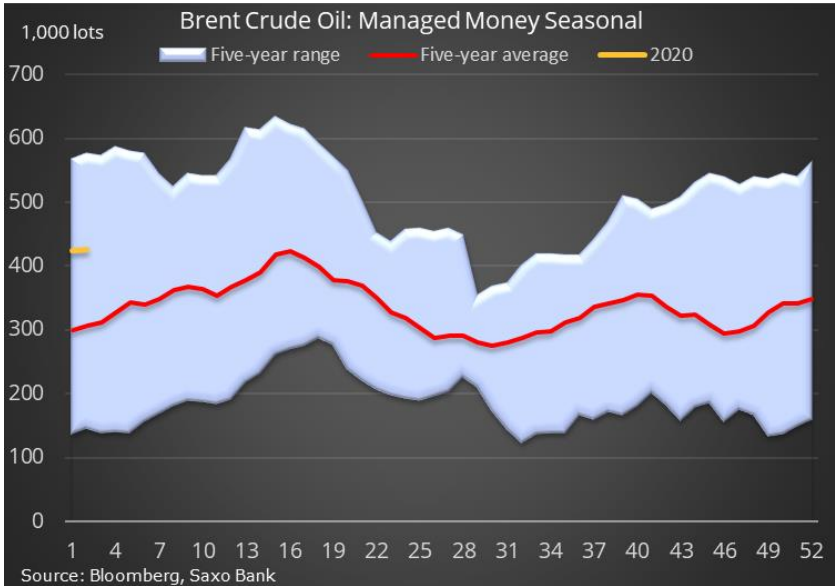
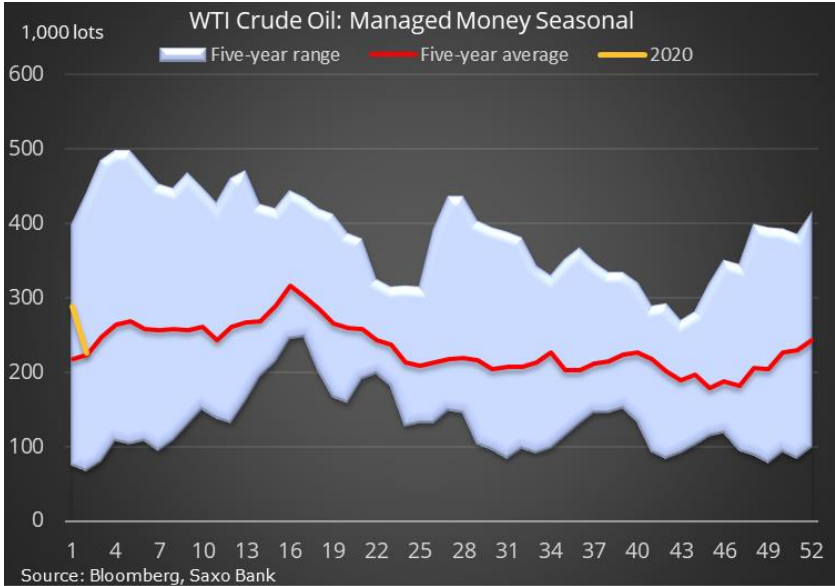
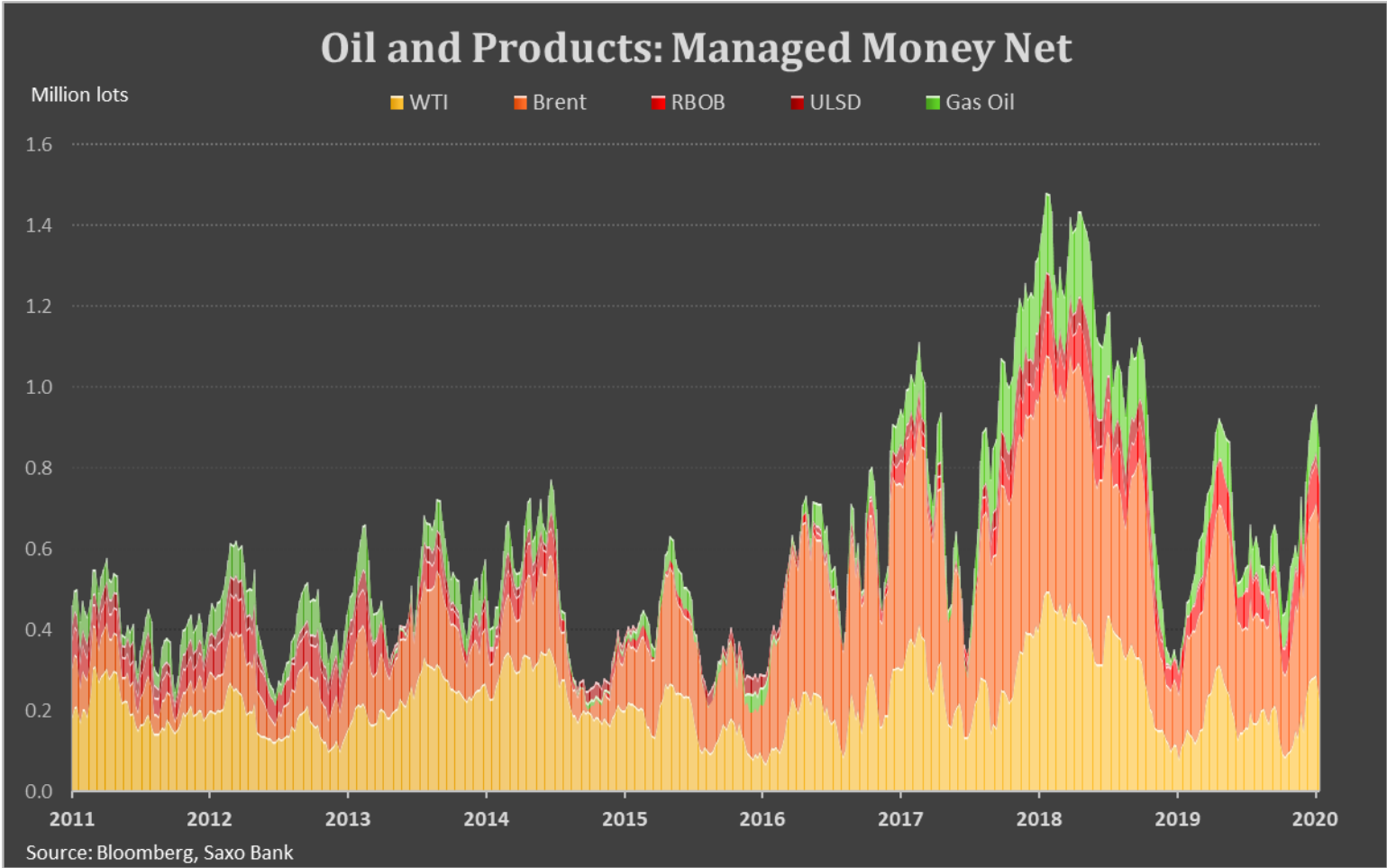
# US shale boom stalls with growth beginning to slow

Falling returns and raised investor concerns causing producers to become selective



# COT on crude oil: Strong December buying being challenged

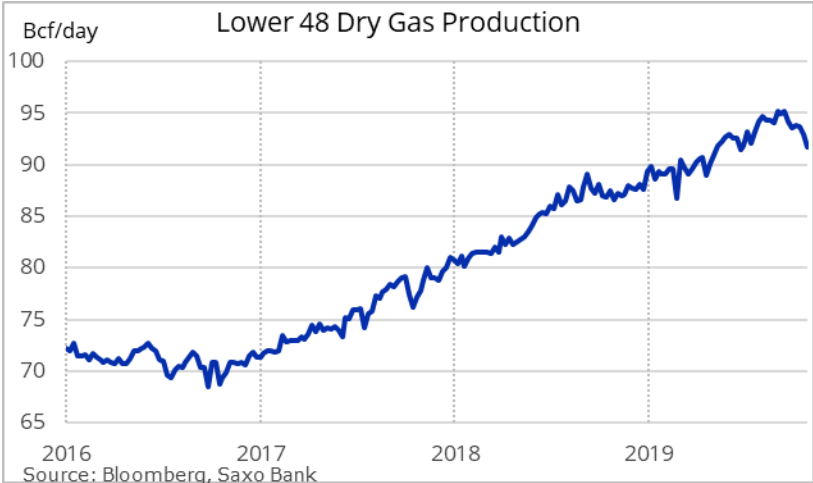
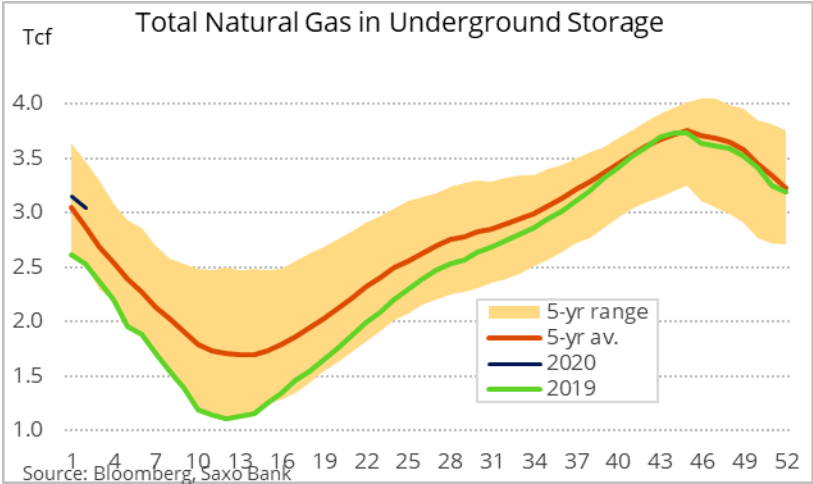
Divergence between WTI and Brent





# NatGas hits record seasonal low < \$2/therm with stocks 20% > last year

Voluntary or involuntary production cuts needed to stabilize market

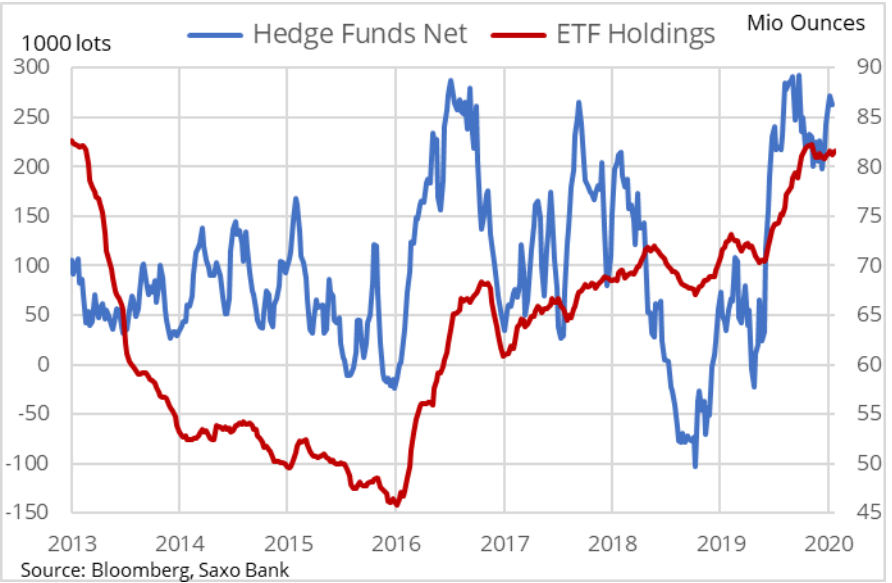
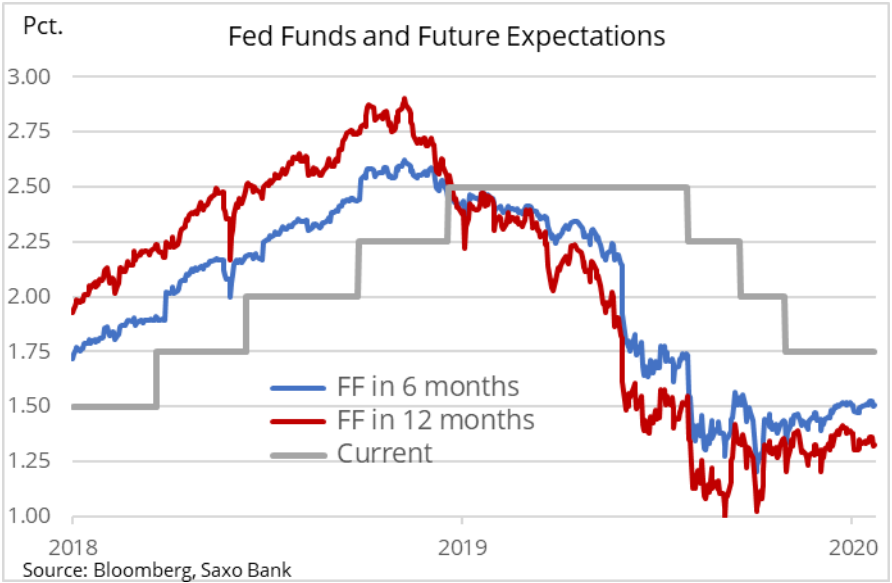
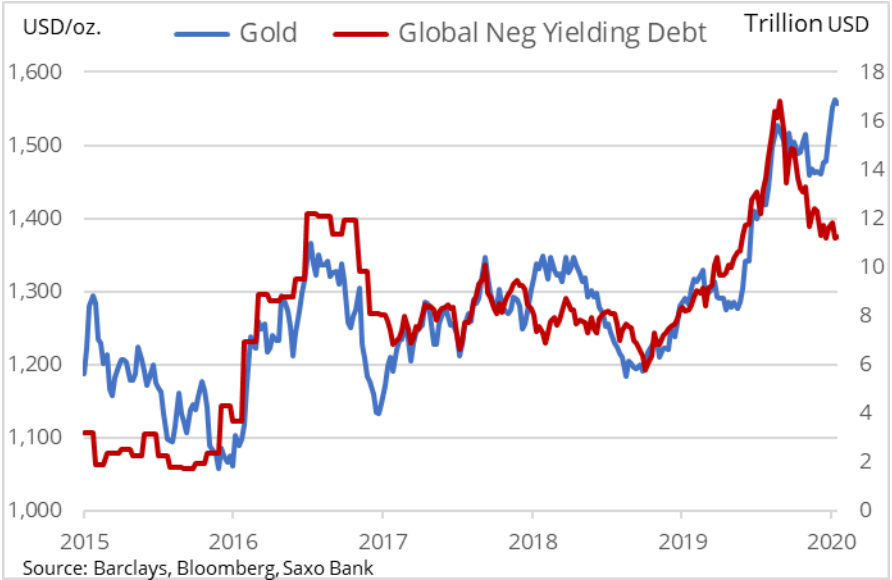
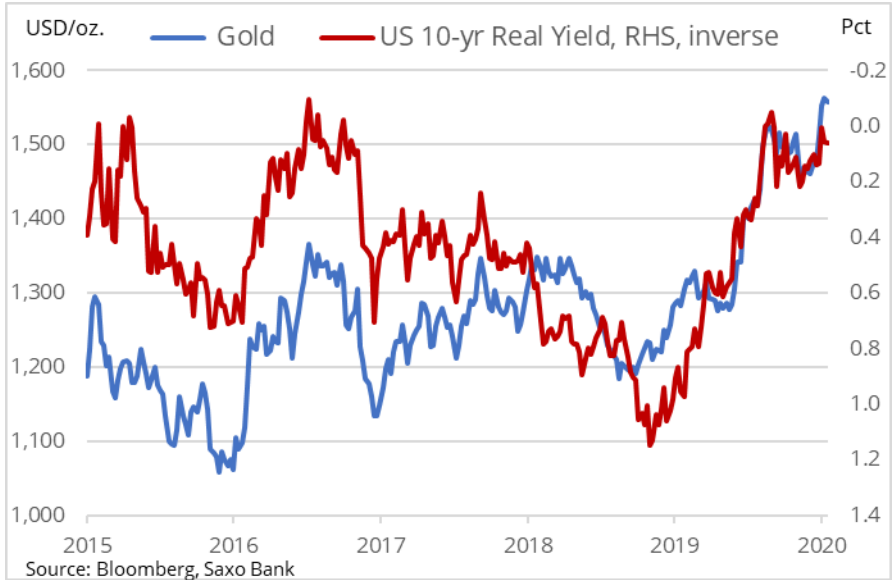


# Gold to consolidate during Q1 before moving higher

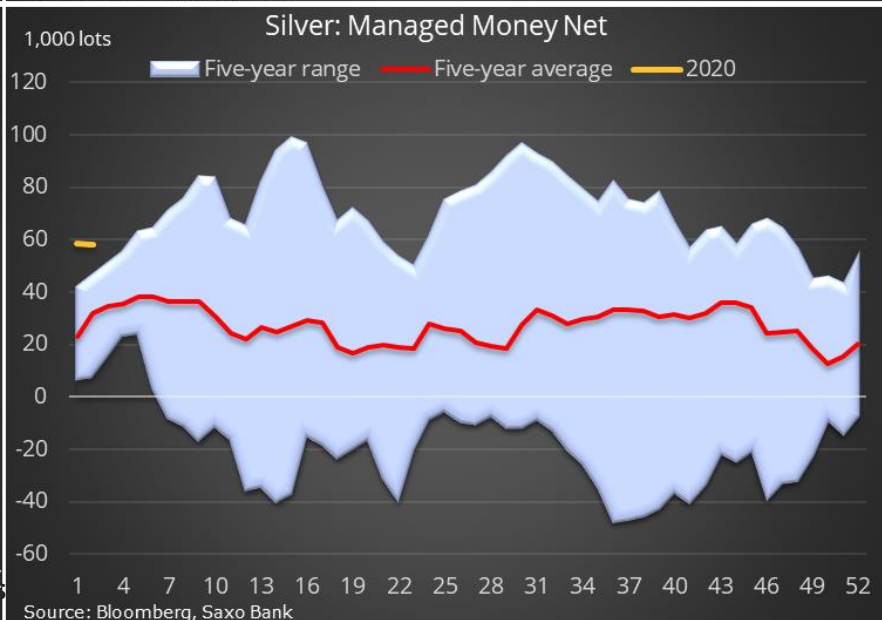
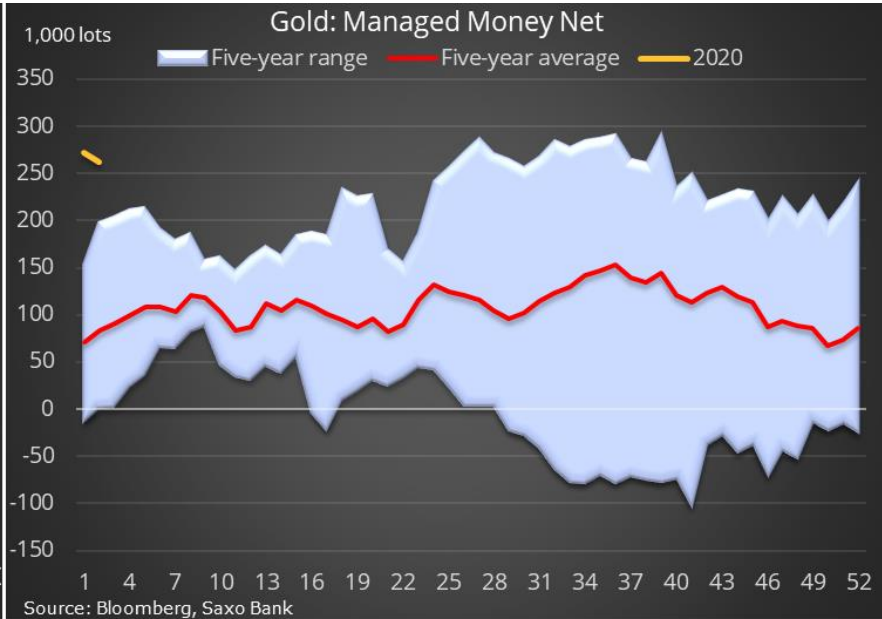
- The US dollar
- Inflation and inflation expectations
- Real interest rates
- Opportunity costs (dividends and yields)
- Overall commodity price trends
- Paper demand through futures and ETFs
- Geopolitical/financial risks => tail-end protection
  - Economic and financial crisis
  - Elections and political votes
  - Military attacks/strikes

Precious Metal Impact Monitor				
	2019	Impact	YTD	Impact
Gold	15.5%		2.7%	
Silver	13.2%		-0.4%	
<b>Currencies</b>				
Dollar Index	0.2%	Neutral	1.2%	Negative
USDJPY	-1.0%	Positive	1.2%	Negative
<b>Bond yields</b>				
Dec-20 Fed Funds Future	-0.79	Positive	-0.05	Positive
US 2-year	-0.92	Positive	-0.04	Positive
US 10-year	-0.77	Positive	-0.14	Positive
US 10-yr Real yield	-0.84	Positive	-0.10	Positive
<b>Bonds</b>				
High Yield Corp (HYG)	7.8%	Negative	0.3%	Neutral
Emerging (EMB)	9.3%	Negative	0.5%	Neutral
<b>Stocks</b>				
S&P 500	22.5%	Negative	2.7%	Negative
EuroStoxx50	19.9%	Negative	1.2%	Negative
<b>Commodity trend</b>				
BBG CI	7.1%	Positive	-2.3%	Negative
S&P GSCI	13.5%	Positive	-2.5%	Negative
<b>Position change</b>				
ETF Holdings (tons)	323	Positive	8	Positive
Hedge Funds (lots)	190,289	Positive	-665	Neutral
Source: Bloomberg, Saxo Bank				

# Gold: Charts to watch



# Elevated spec long a s/t challenge





# Gold s/t focus on support at \$1535 and \$1520. End year: \$1625/oz



Gold's continued rally driven by:

- Further US rate cuts and QE
- U.S. – China trade deal doubts
- Real bond yields expected to stay low as inflation climbs
- Continued buying by Central Banks looking to diversify and for some to reduce dependency on the dollar (de-dollarization).
- Robust demand from portfolio managers looking for insurance
- The dollar is potentially on its final leg of strength
- Multiple uncertainties led by the US elections in November

# HG Copper's supported by tight supply, low stocks and neutral position

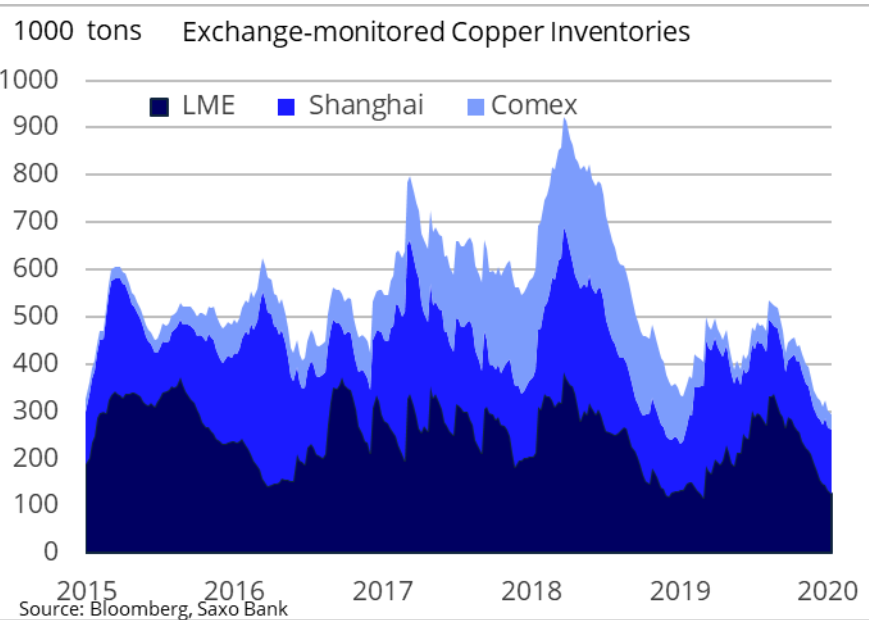
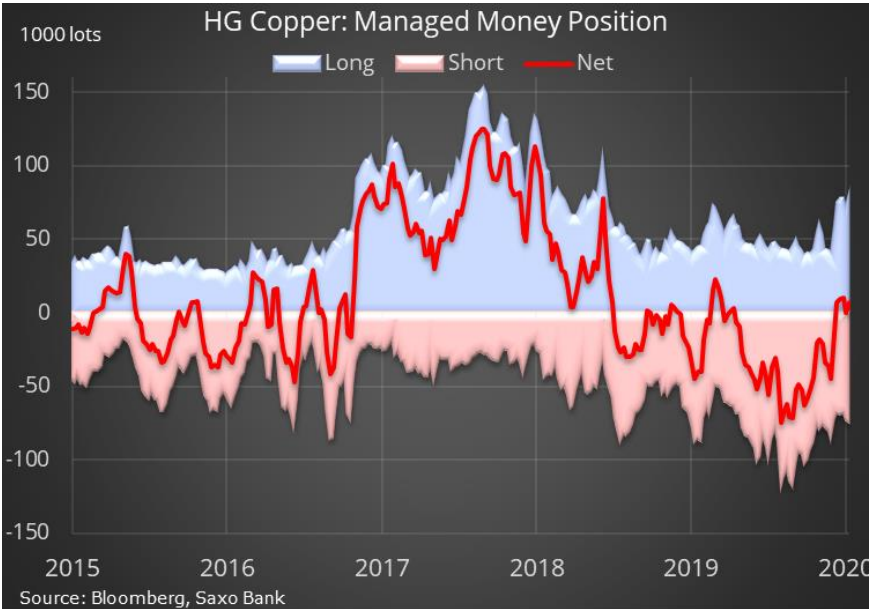
Corona virus a worry in China and beyond



Source: Saxo Bank

Saxo Bank

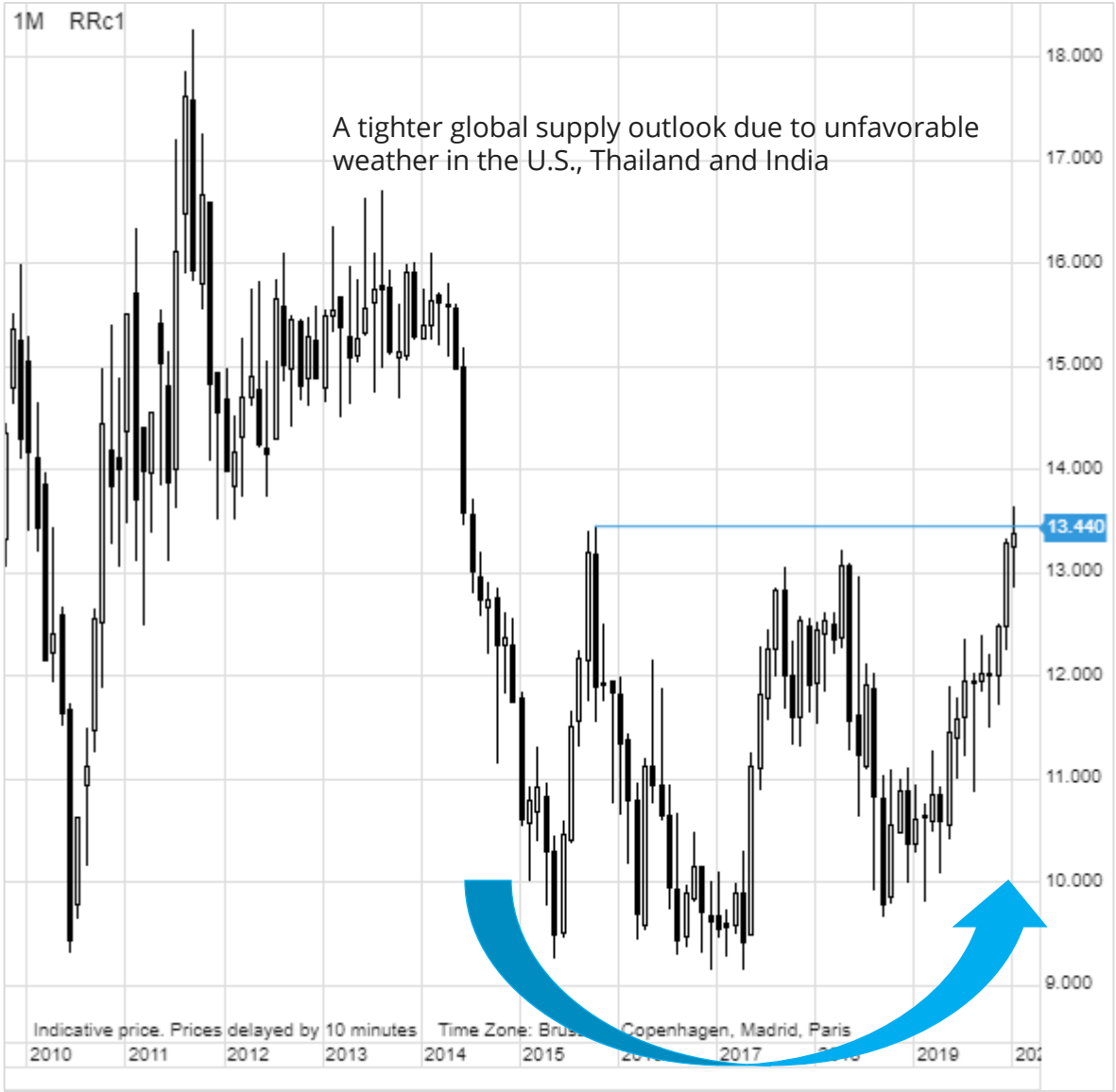
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# Two to watch: Wheat and Rice



Source: Saxo Bank



Source: Saxo Bank

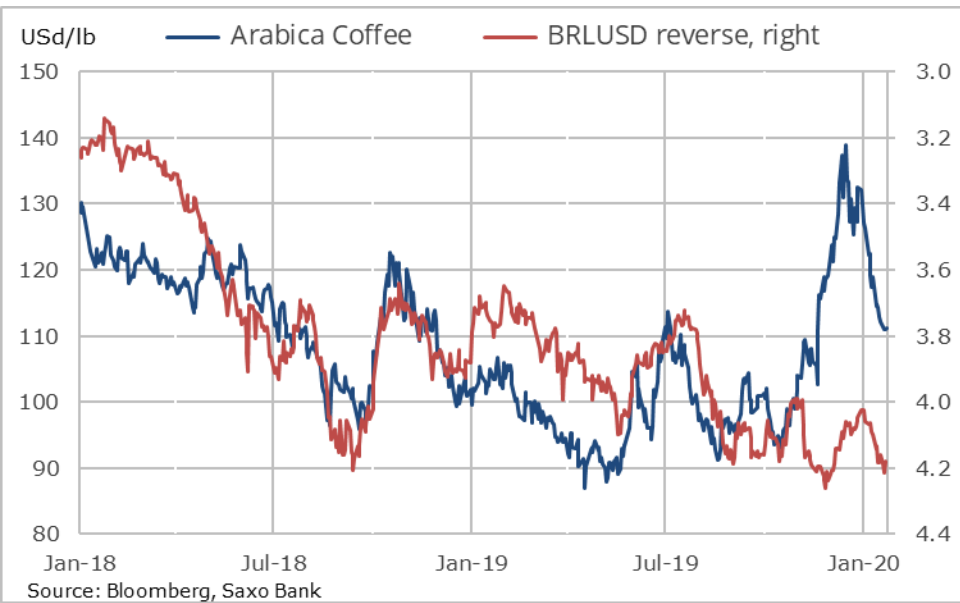
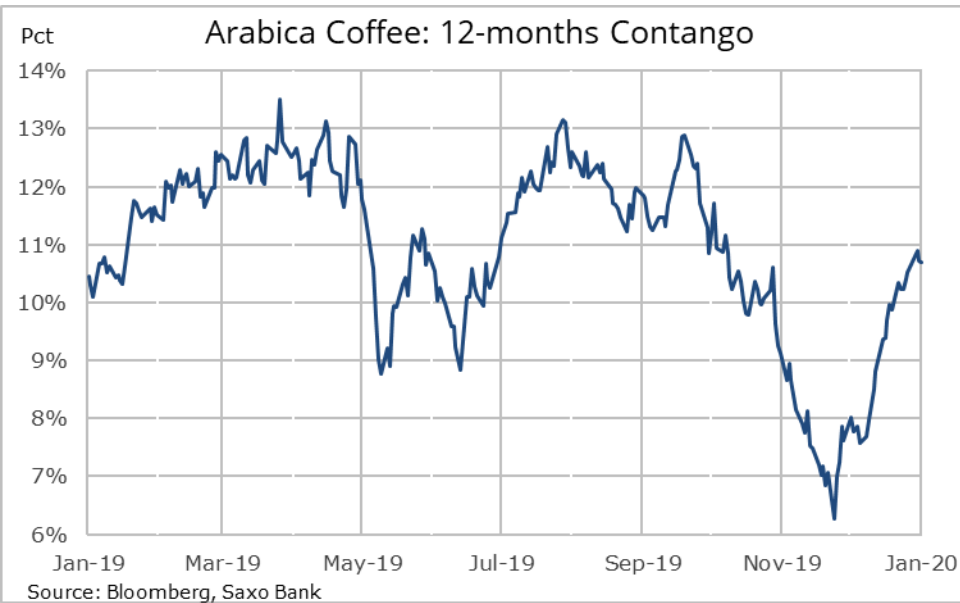
Saxo Bank

# Coffee tanks as stock rise drives contango higher; BRL weakness



Source: Saxo Bank

Saxo Bank



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Corona virus issue remains, CAD and crude oil sharply lower  
January 23, 2020

USD trading at 2020 highs, Oil and Gold, Bank of Canada  
January 22, 2020

Coronavirus outbreak, Boeing, Macro & Earnings calendar  
January 21, 2020

January 20, 2020 - Oil prices on the move as Libya conflict worsens  
January 20, 2020

Can anything stop this equity market?  
January 17, 2020

What now after US-China trade deal signing? EURCHF alert!  
January 16, 2020

US-China trade deal surprises, equity market concerns  
January 15, 2020

Equity short squeeze soon exhausting?  
January 14, 2020

Trade deal overhyped? Treasuries too quiet. Sterling struggling.  
January 13, 2020

US payrolls on tap, thoughts on USD, yields, and energy markets  
January 10, 2020

Iran retaliation, oil, the Aussie, what is wrong with Germany?  
January 8, 2020



# Thank you

by Ole Hansen,  
Head of Commodity Strategy



@ole\_s\_hansen

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# What impacts the price of commodities?

- Global economic growth
- Cost of production
- Supply versus demand
- Interest rates and the dollar
- Geopolitical events
- Speculative positioning
- Weather and climate change

