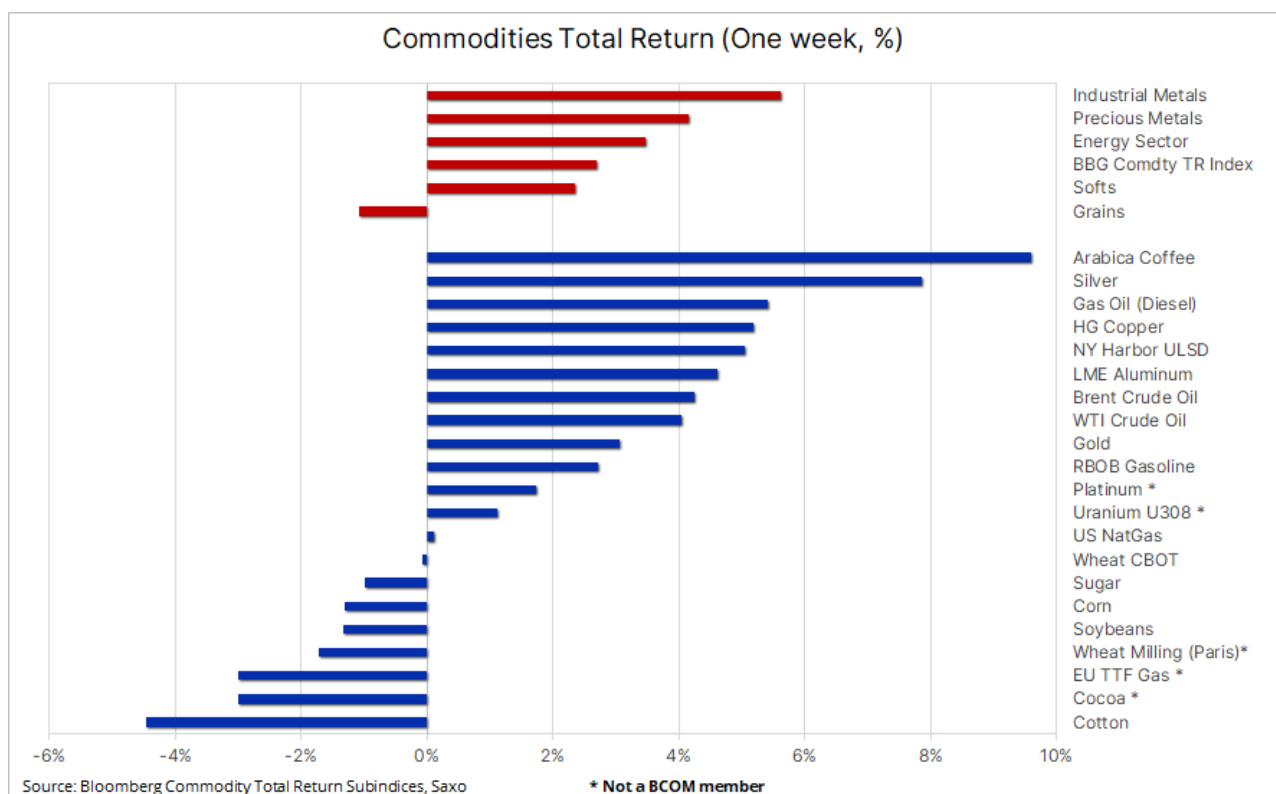


Commodity market sees broad gains, enjoying best week in nine months

By Ole S. Hansen // April 5, 2024

- Broad gains drive the Bloomberg Commodity Index to a six-month high
- Global growth optimism, supply risks and geopolitical tensions the main drivers
- Speculators hold the biggest nominal position in crude, copper and gold in four years

The broad recovery in commodities, which began in early March, picked up some additional momentum this past week, resulting in the Bloomberg Commodity Index heading for its best week since last June. As per the table below, all sectors, except grains, saw strong gains, and for once, the industrial metal sector led the gains after a jump in copper prices supported the best week for this sector in 15 months.



A year-long consolidation phase, following the 2020 to 2022 surge and subsequent correction, shows signs of maturing. In our [Q2 Outlook](#) published this past week we ask the question whether the [correction in commodities](#). Since hitting a two-year low in late March, the Bloomberg Commodity Index has now rallied by close to 8% with the bulk of the increase seen during the past couple of weeks. There are multiple developments impacting individual commodities, some short while others may end up being more long-term supportive.

- Demand is being supported by global growth optimism after a global manufacturing PMI measure rose above 50 for the first time since August 2022. A reading above 50 generally suggests expansion, and it is often used as a leading indicator of economic growth. The recent pick up was led by China and the USA, the world's top consumers of raw materials.
- Heightened geopolitical tensions in the Middle East on concerns Iran may retaliate against Israel following their recent strike against an Iranian diplomatic compound in Syria. This focus helped drive Brent back above USD 90 while adding an additional layer of support to gold which in recent weeks has benefitted from investors focusing on geopolitical risks and market stability given the amount of debt seen around the world.
- Supply risks remain a key factor, not least across the softs sector where adverse weather in West Africa and Vietnam have lifted cocoa and Robusta coffee prices to record levels. This past week, copper prices jumped to a 14-month high, and besides global optimism, the rally has been fuelled by the closure in late 2023 of several copper mines, reducing available supply to the extent Chinese smelters have warned they may need to cut output following a collapse in treatment charges. In addition, the prospect of another wave of industrial action in Chile causing supply disruptions has also emerged as a supply risk factor.
- Expectations for US rate cuts in 2024 have been moderated from above six 25-basis-point cuts at the start of the year to less than three, but following recent comments from Fed Chair Powell, the market is still looking for a rate cut cycle to commence later this year. Lower funding cost may boost the general level of activity while supporting a restocking of raw materials, thereby reversing some of the destocking that last year led to weakness, not least across industrial metals.
- Sticky inflation: The Federal Reserve has indicated that it is willing to tolerate sticky inflation, as it continues to prioritize bringing inflation down to its 2% target. Despite upgrades to growth and inflation in the Fed's economic projections, Chair Powell recently signaled that rate cuts remain likely this year. The combination of sticky inflation and rate cuts supports investments in tangible assets such as commodities and producers of commodities.

Gold and silver: This week, gold reached the USD 2,300 target we set out in our Q1 24 outlook titled "[Year of the metals](#)", where we expressed our bullish views on gold, silver, copper, and eventually also platinum. It is, however, interesting to note the target was achieved without three important drivers, namely rate cuts driving a weaker dollar, lower real yields, and a pickup in demand for ETFs (Exchange Traded Funds) from real money managers. Neither of these has yet materialised, and instead, gold has been driven higher by hedge funds, or speculators enjoying the strong momentum that has been set in motion by strong demand from investors around the world responding to heightened geopolitical tensions and worries about financial stability in a heavily indebted world.

In the short term, both gold and silver may consolidate, but with rate cuts leading to dollar and yield tailwinds still awaiting on the horizon, we see gold potentially make an extension

towards USD 2,500 and silver towards USD 30, the February 2021 high. The biggest threats to prices being the unlikely lowering of the geopolitical temperature, central banks pausing their aggressive gold-buying spree while adapting to higher prices, and hedge funds pairing back part of the near 300 tons of gold they accumulated through the futures market last month.

Gold and gold miners ETFs						
4/5/2024	Tracking	Saxo Ticker	CCY	Market Cap (USD)	YTD %	1 Year %
SPDR Gold Trust	Spot Gold	GDx:arcx *	USD	61.13	10.6	12.6
iShares Gold Trust ETF	Spot Gold	IAU:arcx *	USD	28.26	10.7	12.8
iShares Physical Gold ETC	Spot Gold	IGLN:xlom	USD	14.99	11.0	13.6
Xetra-Gold ETC	Spot Gold	4GLD:xetr	EUR	13.35	13.6	14.6
VanEck Gold Miners ETF	Major miners	GDx:arcx *	USD	14.02	5.7	-4.5
VanEck Junior Gold Miners ETF	Minor miners	GDJ:arcx *	USD	4.80	6.8	-2.1
iShares Gold Producers UCITS ETF	Major miners	IAUP:xlom	USD	1.60	6.8	-0.5
iShares Gold Producers UCITS ETF	Major miners	ISOE:xetr	EUR	1.60	8.4	0.5
Newmont Corp	Miner	NEM:xnys	USD	43.47	-8.9	-27.6
Barrick Gold Corp	Miner	GOLD:xnys	USD	30.53	-3.9	-11.6
Agnico Eagle Mines Ltd	Miner	AEM:xnys	USD	30.17	10.5	8.4
Franco-Nevada Corp	Miner	FNV:xnys	USD	22.89	7.5	-22.5

Source: Bloomberg, Saxo * Regional restrictions apply

Crude oil continues to be supported by geopolitical uncertainty, which accelerated this past week on worries Iran would retaliate following a recent attack by Israel on an Iranian diplomatic compound in Syria. In addition, Ukraine drone attacks on Russian oil infrastructure have cut Russia's refinery capabilities in the process tightening up the diesel and gasoline markets ahead of the spring and summer peak demand period. Adding to this the mentioned global growth and demand optimism, and suddenly OPEC+ production cuts have finally the desired positive impact on prices sought by producers, led by Saudi Arabia, with Brent being catapulted back above the USD 90 per barrel threshold.

On several occasions since December, when Houthi attacks on ships in the Red Sea raised the geopolitical temperature, we have seen the risk premium in crude oil ebb and flow, and the latest premium may deflate soon unless an unlikely event of Middle East supply disruptions occur. However, with the demand outlook into the northern hemisphere spring and summer showing signs of strength, the price risks seemed skewed to the upside, but in our opinion limited to around the mid-90's where previous price peaks may provide some formidable resistance.

Copper and copper mining stocks continue to push higher with HG copper reaching a 14-month high at USD 4.25, while ETFs tracking copper mining stocks surged to a two-year high. Over the past six weeks, the metal has steadily climbed, buoyed by global growth and

demand optimism, and material downgrades to 2024 mine supply increasingly tightening market conditions. Several mining companies have announced production downgrades due to factors like increased input costs, declining ore grades, rising regulatory expenses, and weather-related disruptions.

Supply concerns have been fuelled by Chinese smelters discussing jointly cutting production of refined metals to cope with shortages of raw material. China, the world's largest copper production hub, has witnessed smelters vie for scarce supply by slashing their processing fees, resulting in a downward trend in treatment and refining charges to near zero.

Furthermore, the ongoing green transformation and increased use of AI applications are augmenting demand from traditional sectors like housing and construction. An anticipated initiation of a US rate-cutting cycle later this year may prompt companies, which depleted inventories last year to mitigate funding costs, to restock. We maintain our long-standing bullish stance on copper, and with copper miners also exhibiting signs of resurgence, the possibility of a fresh record high in the second half of the year appears achievable.

Copper and copper miner ETFs						
05/04/2024	Tracking	Saxo Ticker	CCY	Mkt Cap (Bn. USD)	YTD %	1 Year %
WisdomTree Copper ETC	BCOM Copper Index	COPA:xlom	USD	1.79	8.8	7.3
WisdomTree Energy Transition Metals	Basket incl. copper	WENT:xmil	EUR	0.16	7.7	-1.8
Global X Copper Miners UCITS ETF	Global copper miners	COPX:xlom	USD	0.10	17.5	19.9
iShares Copper Miners UCITS ETF	Global copper miners	COPM:xams	USD	0.02	15.7	
Southern Copper	Miner	SCCO:xnys	USD	84.73	27.3	47.7
Freeport-McMoRan	Miner	FCX:xnas	USD	70.54	15.5	22.0
Zijin Mining Group	Miner	2899:xhkg	HKD	62.15	31.9	30.7
Antofagasta	Miner	ANTO:xlom	GBP	27.04	29.3	45.8
Ivanhoe Mines Ltd	Miner	IVN:xtse	CAD	15.71	30.5	37.0
Lundin Mining Corp	Miner	LUN:xtse	CAD	8.76	41.4	68.1

Source: Bloomberg, Saxo

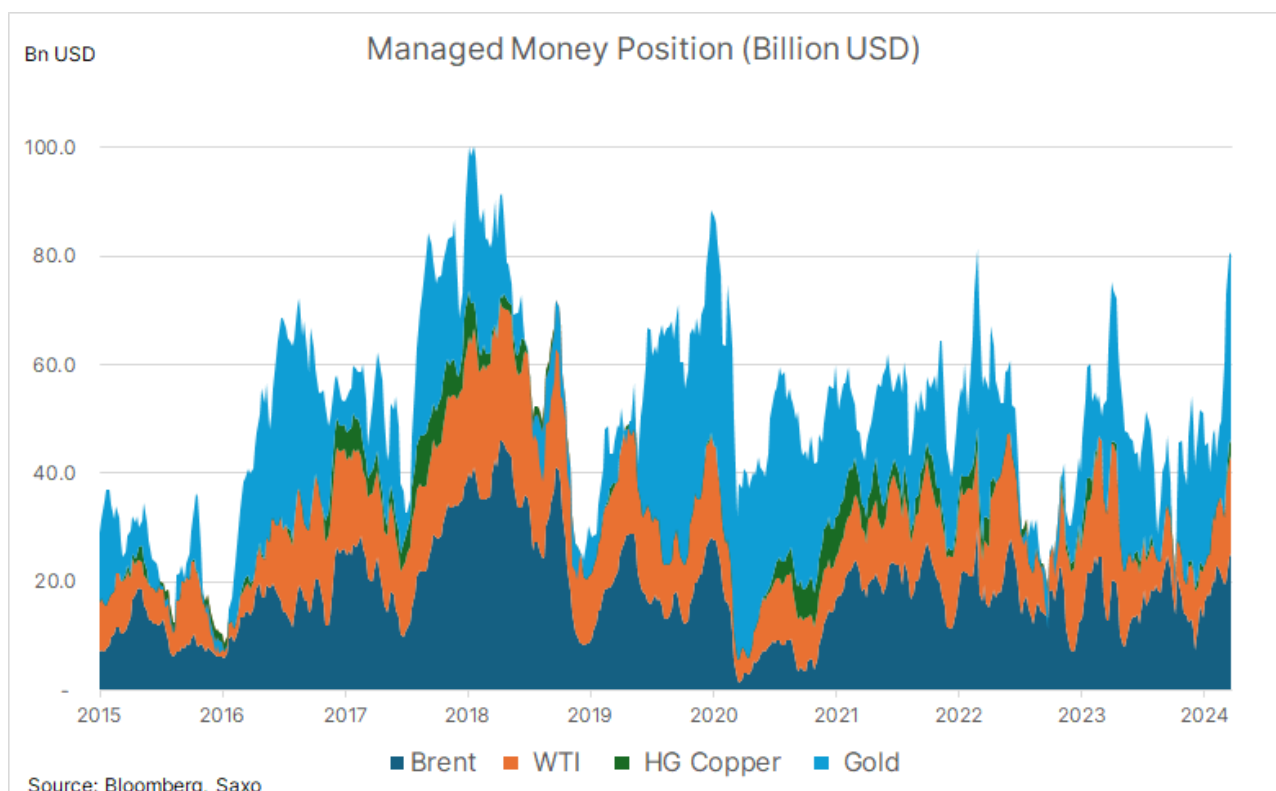
Speculators focusing on the three major commodities

According to weekly positioning data collected by the CFTC in the US and ICE Exchange Europe, managed money accounts from hedge funds to CTAs on 26 March held positions in crude oil, gold, and copper futures valued at USD 81 billion, the biggest exposure in more than four years. The increase has primarily been driven by last month's aggressive accumulation of gold longs, close to 300 tons, while copper has only just started to attract some renewed interest following many months of sideways action. The main reasons why

we focus on the behaviour of speculators, such as hedge funds and trend-following CTAs, are:

- 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.

Do note that this group tends to anticipate, accelerate, and amplify price changes that have been set in motion by fundamentals. Being followers of momentum, this strategy often sees this group of traders buy into strength and sell into weakness, meaning that they are often found holding the biggest long near the peak of a cycle or the biggest short position ahead of a trough in the market. In other words, the short-term direction of these markets depends not only on the long-term fundamental outlook but probably more importantly on whether we can avoid a correction that sets the long-liquidation ball rolling once again.





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