

THE KUEMMERLE REPORT

by **Lukas Kuemmerle.**
Research

Published August 14th, 2022

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All external data sources are named directly in the charts.

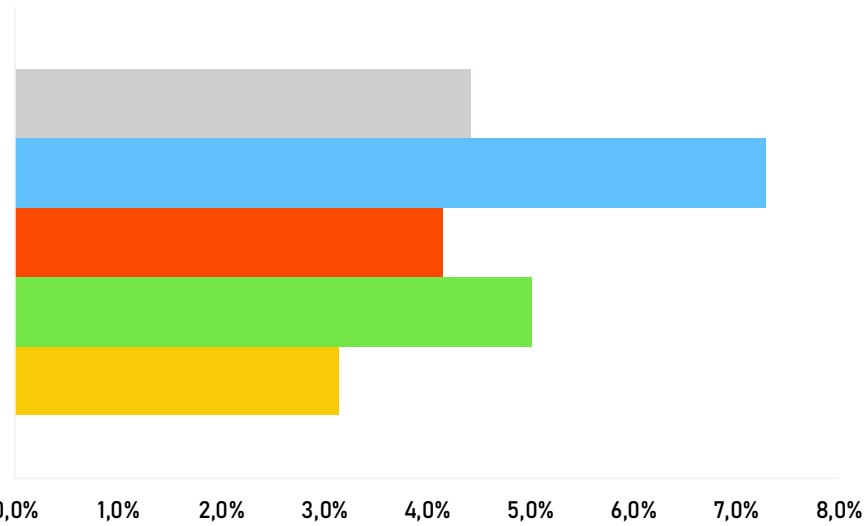
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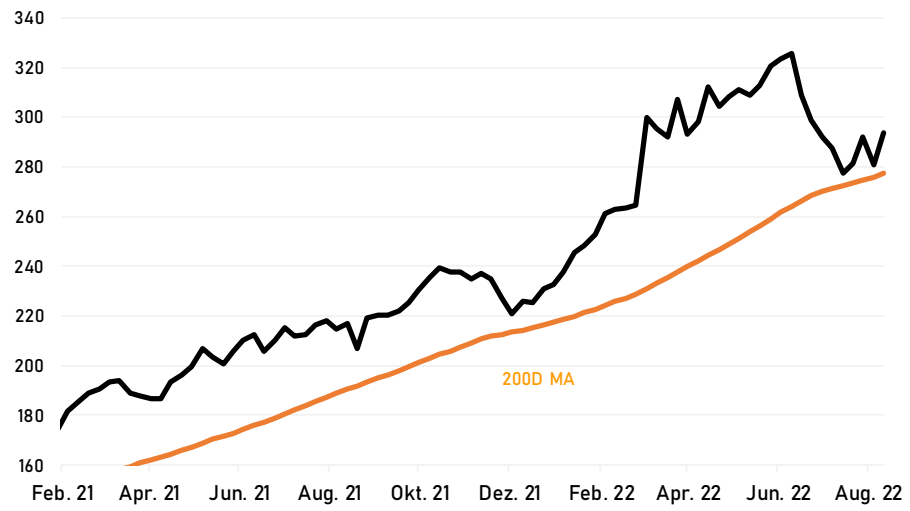
Last Weeks Commodity Performance

Weekly Performance Update by **Lukas Kuemmerle.** Research

■ CRB Commodity Index ■ Energy ■ Softs ■ Grains ■ Metals



CRB Commodity Index +4,4% w/w



Energy	
Heating Oil	6,8%
Natural Gas	7,6%
Crude Oil	4,6%
Gasoline	10,2%

Metals	
Gold	0,4%
Silver	2,7%
Platinum	3,8%
Copper	5,6%

Grains	
Soybean Oil	5,5%
Soybeans	4,0%
Soybean Meal	3,8%
Wheat	3,8%
Oats	6,7%
Corn	6,3%

Softs	
Coffee	1,0%
Orange Juice	-0,6%
Cocoa	1,9%
Sugar	5,3%
Cotton	13,2%
Live Cattle	1,8%

Crypto	
Bitcoin	4,7%
Ethereum	12,8%
Market Cap	5,7%

US Dollar Index	
105,51	-0,92%

10Y Treasury Yield	
2,87%	0,19%

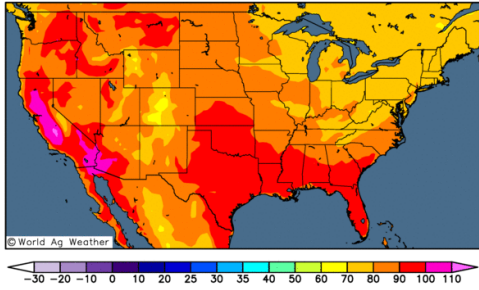
10Y Break. Inflation	
2,47%	0,01%

10Y Realyield	
0,40%	0,18%

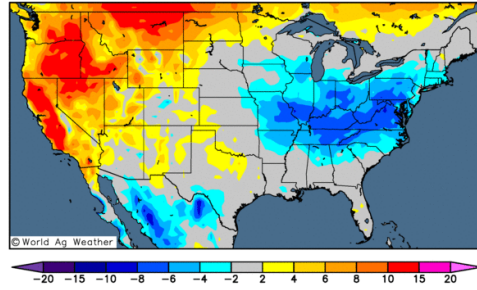
Sources: CME, ICE, Stooq, Kuemmerle Research

Temperature & Precipitation

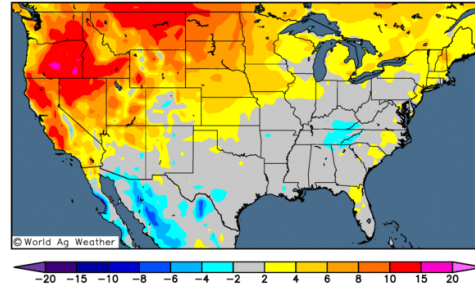
GEFS Ensemble Mean 7-Day Average Max Temp (°F)
15 Aug 2022 – 21 Aug 2022
Model Initialized 00UTC 14 Aug 2022



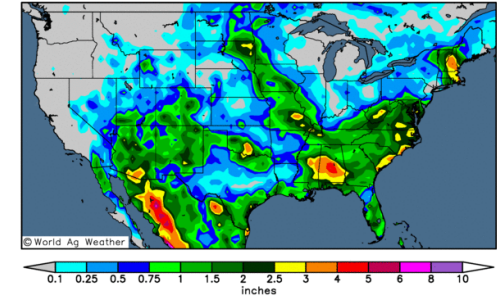
GEFS Ensemble Mean Temperature Anomaly (°F)
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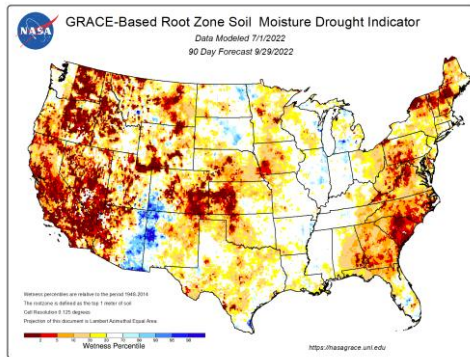
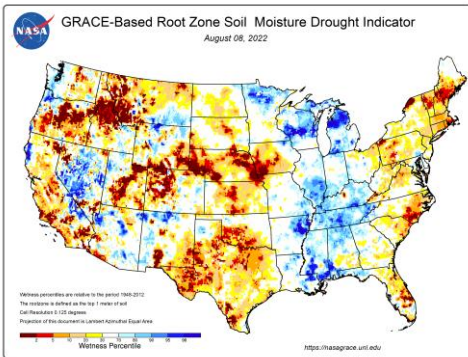
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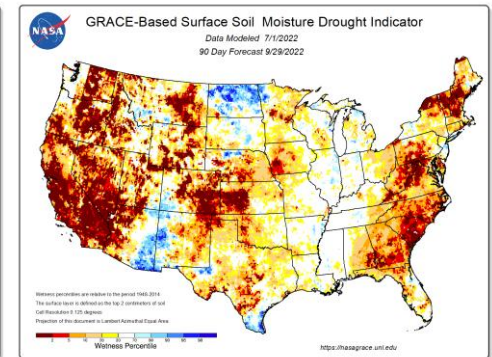
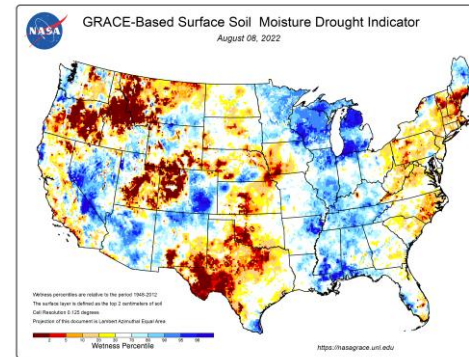
GFS High-Resolution Precipitation Forecast
Days 1-7: 00UTC 15 Aug 2022 – 00UTC 22 Aug 2022
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Drought Conditions Root Zone



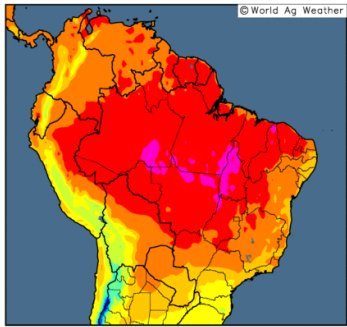
Drought Conditions Surface Soil



Temperature & Precipitation

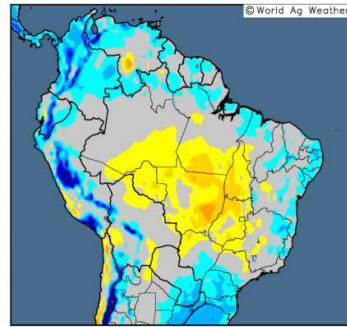
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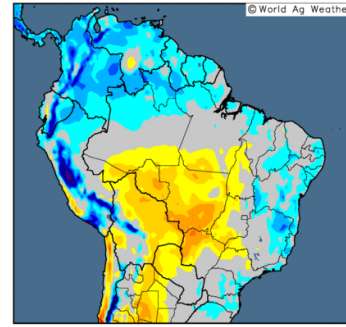
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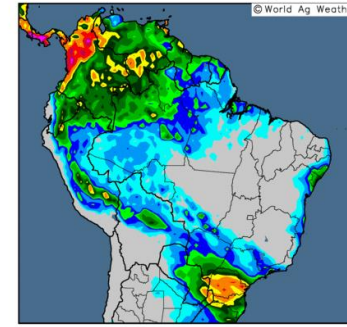
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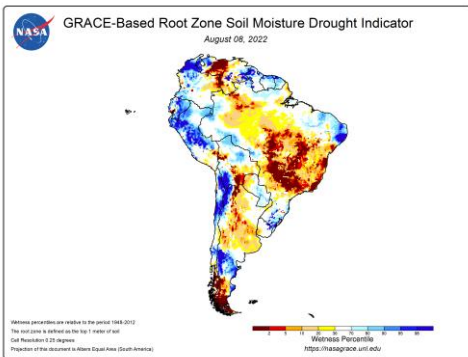


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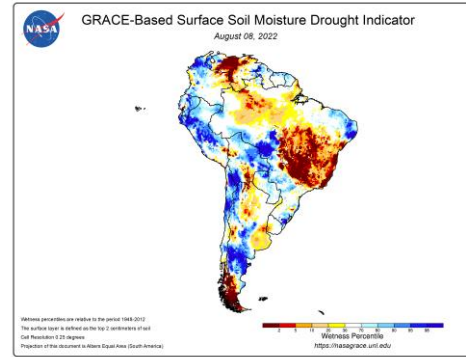
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Drought Conditions Root Zone

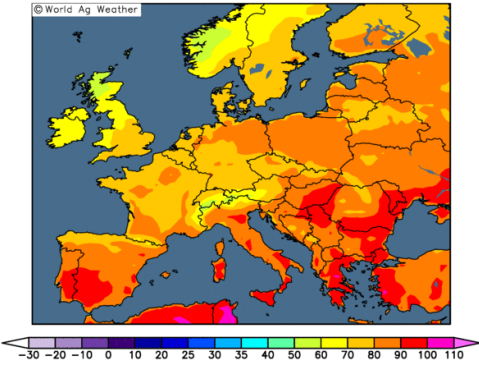


Drought Conditions Surface Soil

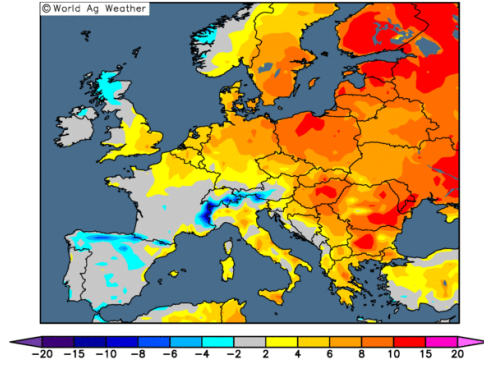


Temperature & Precipitation

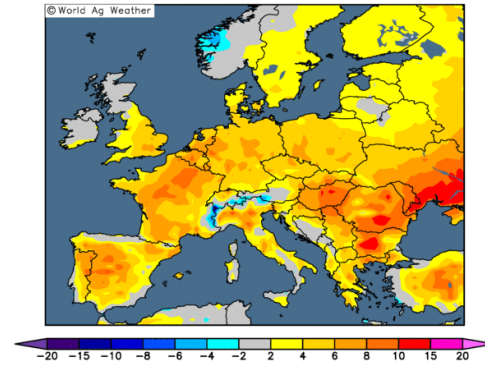
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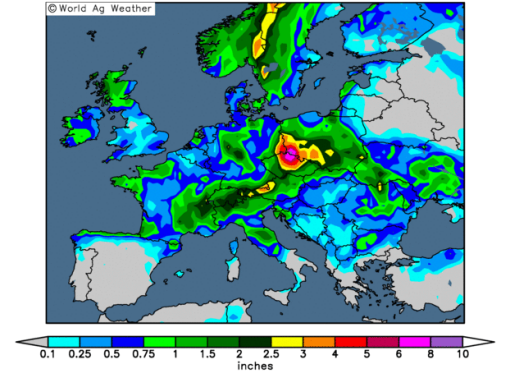
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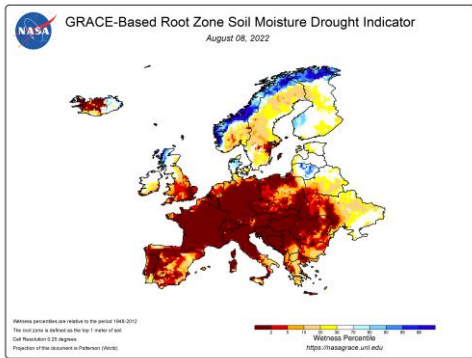
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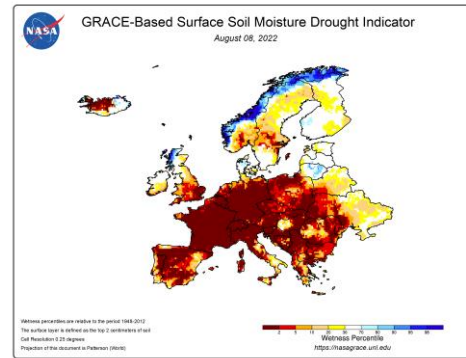
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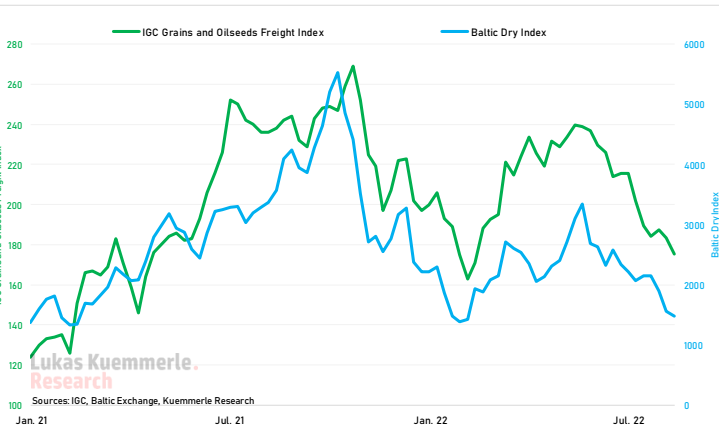
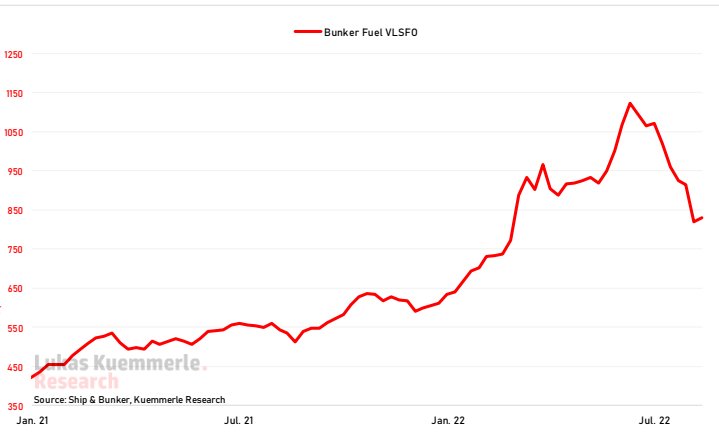
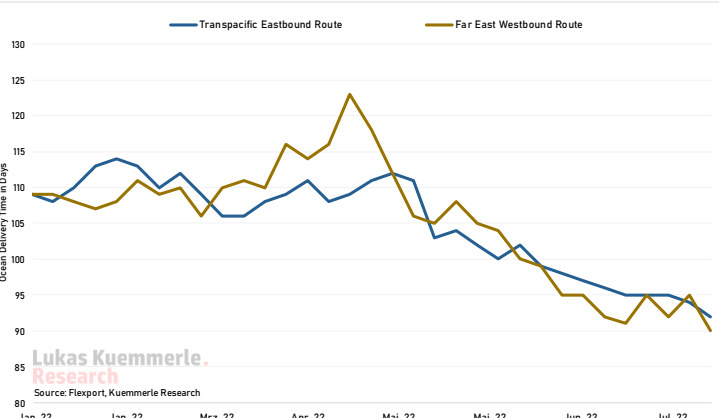
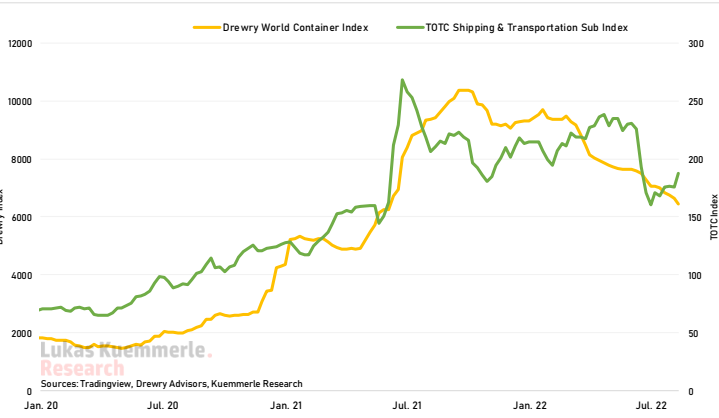
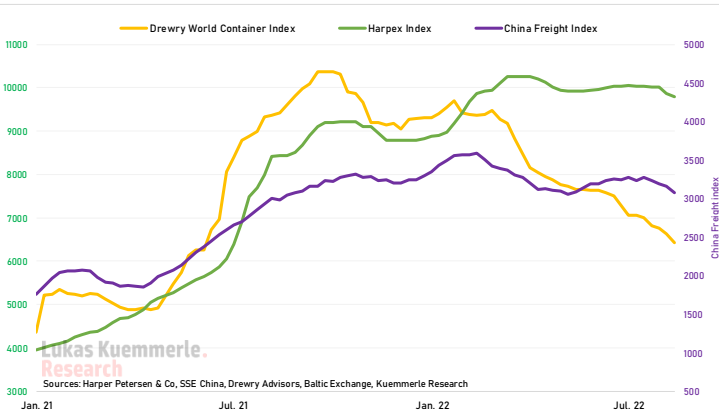
Drought Conditions Root Zone



Drought Conditions Surface Soil

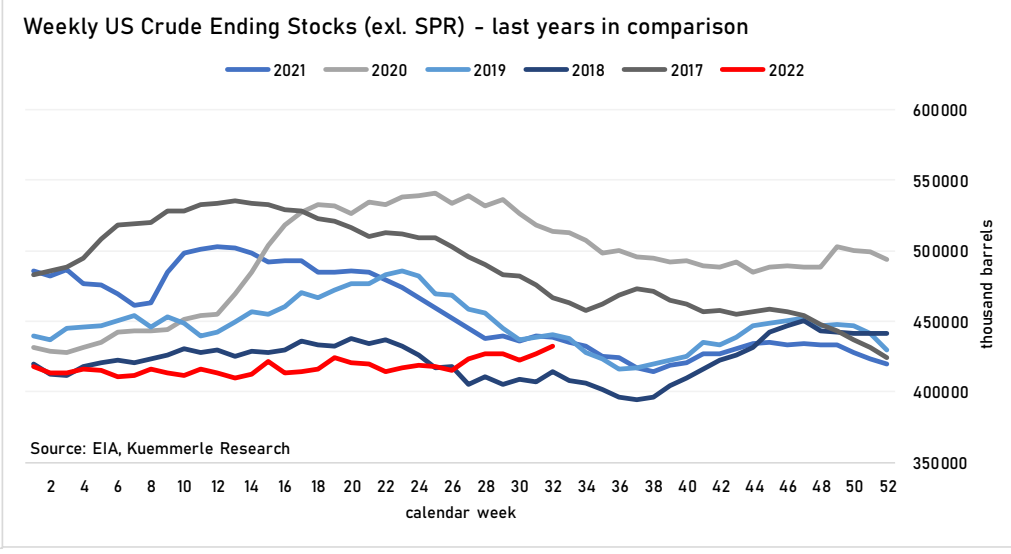
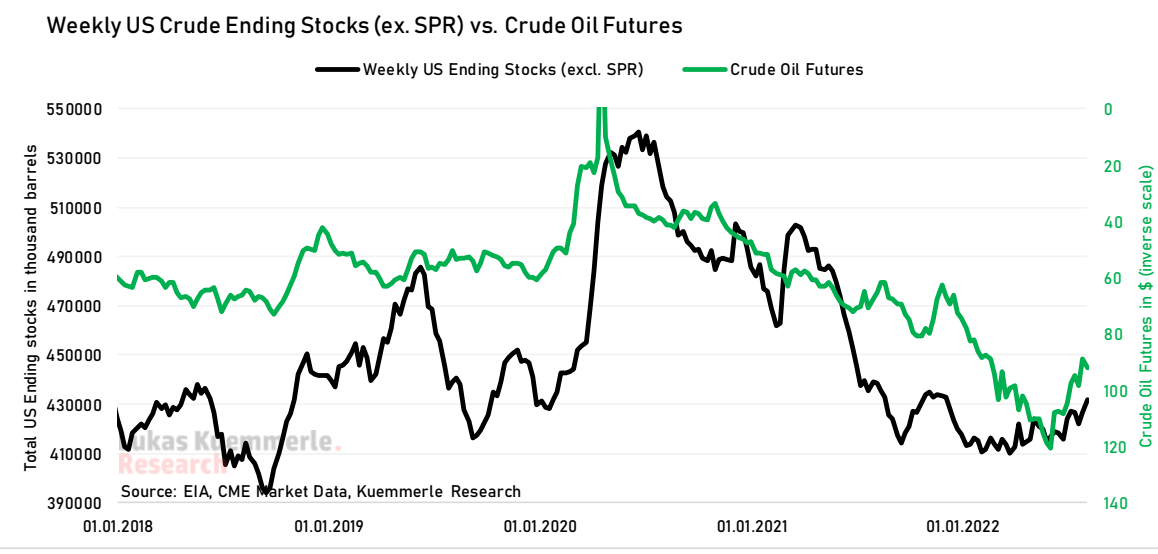
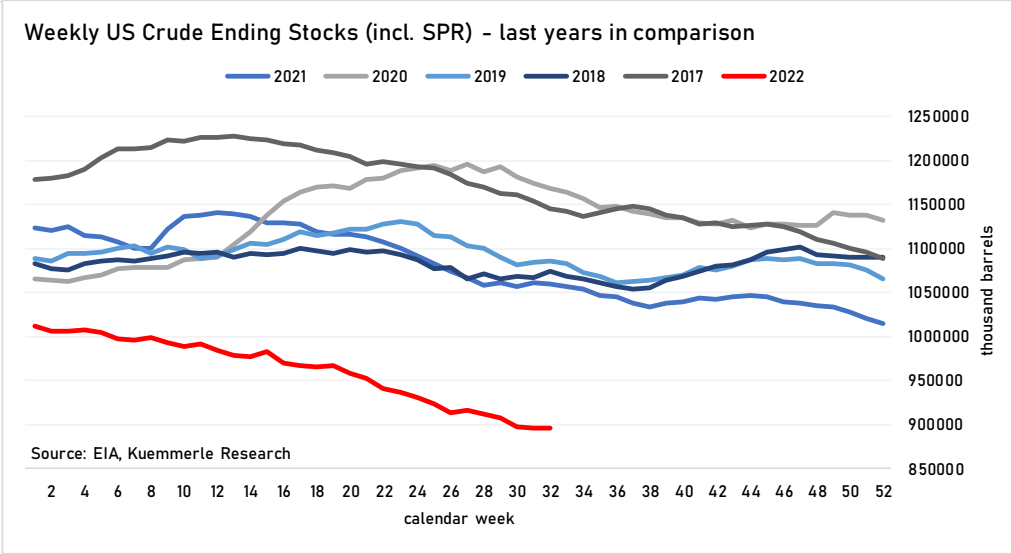
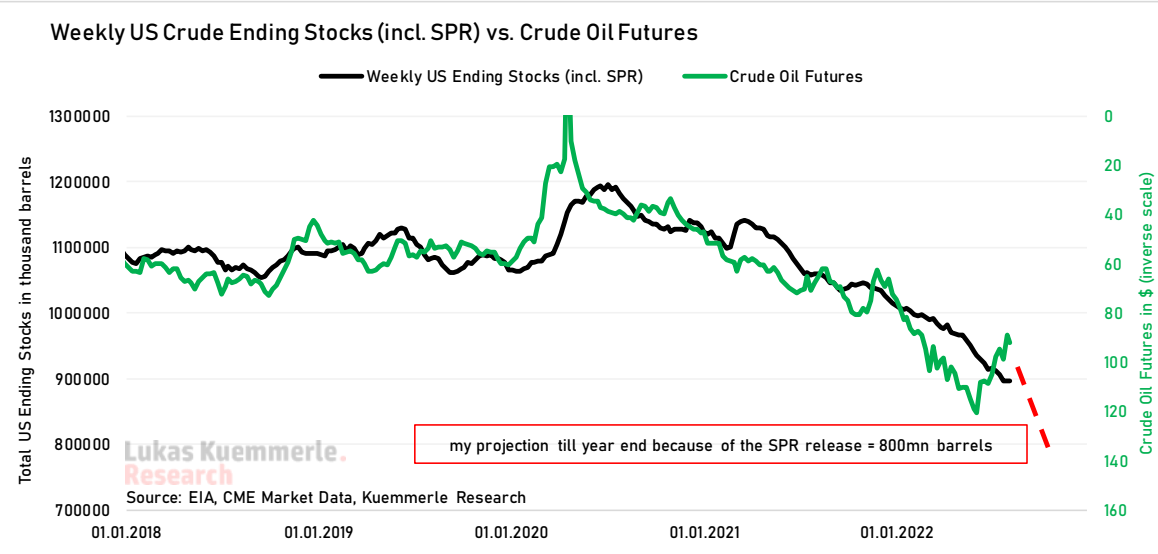


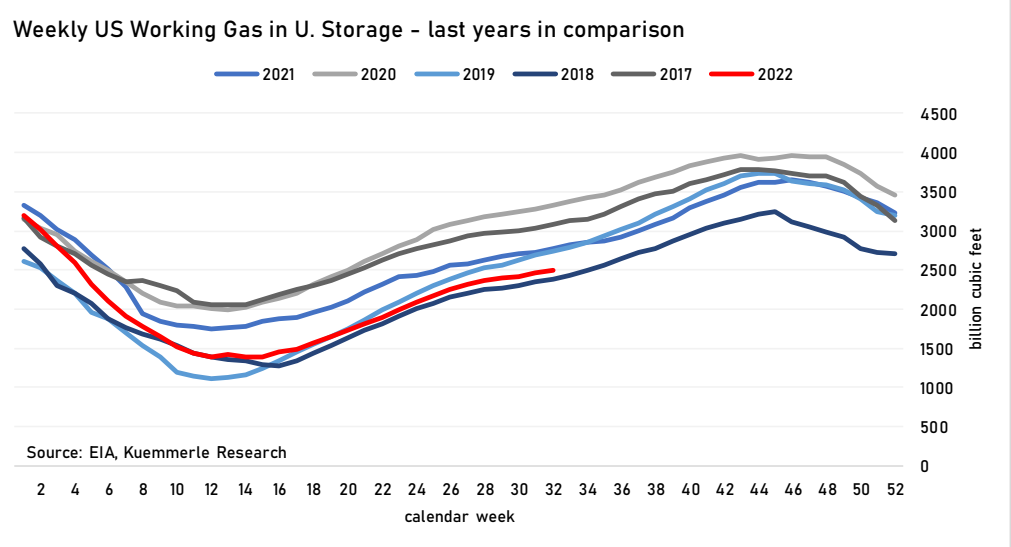
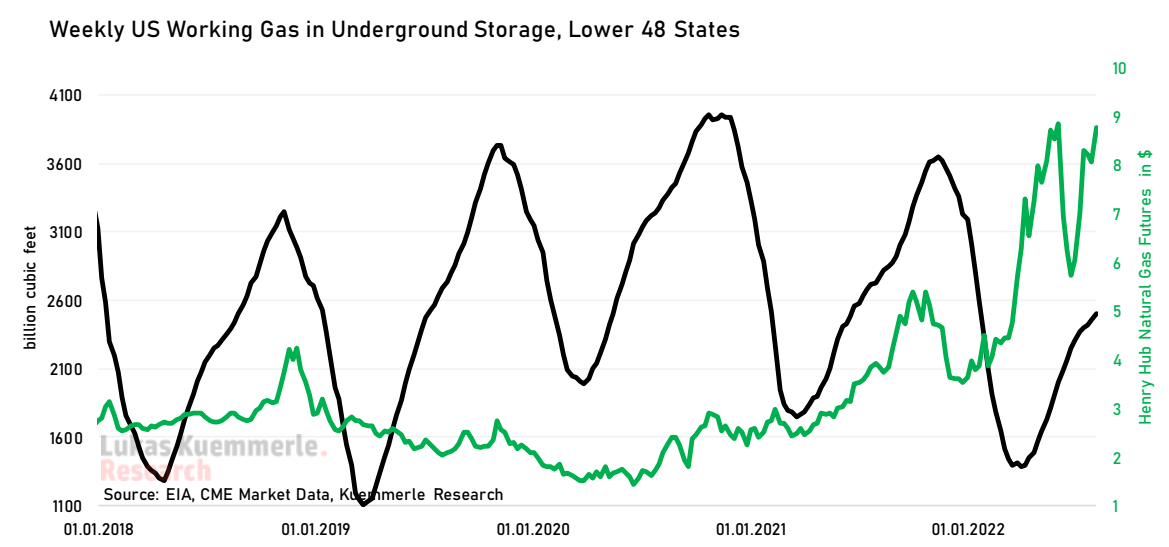
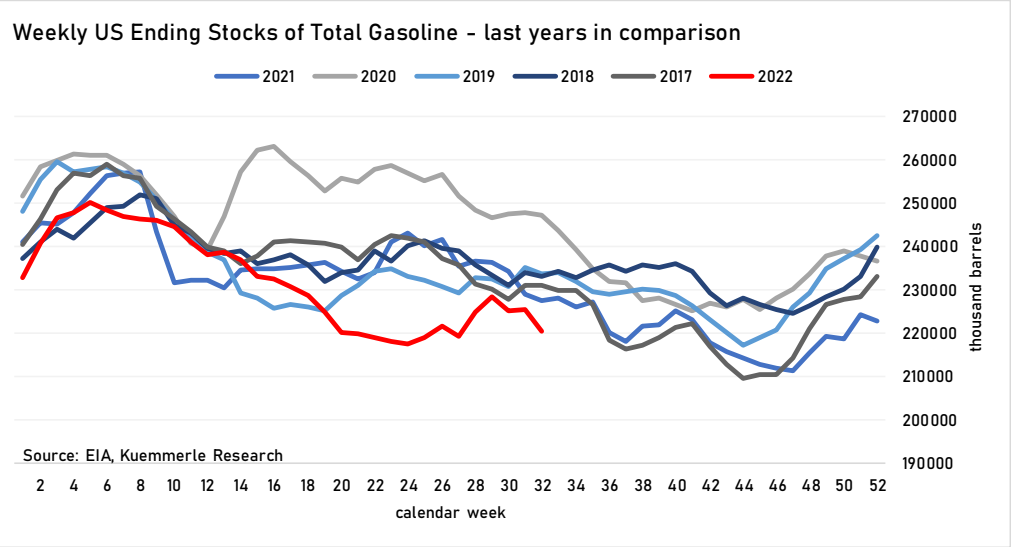
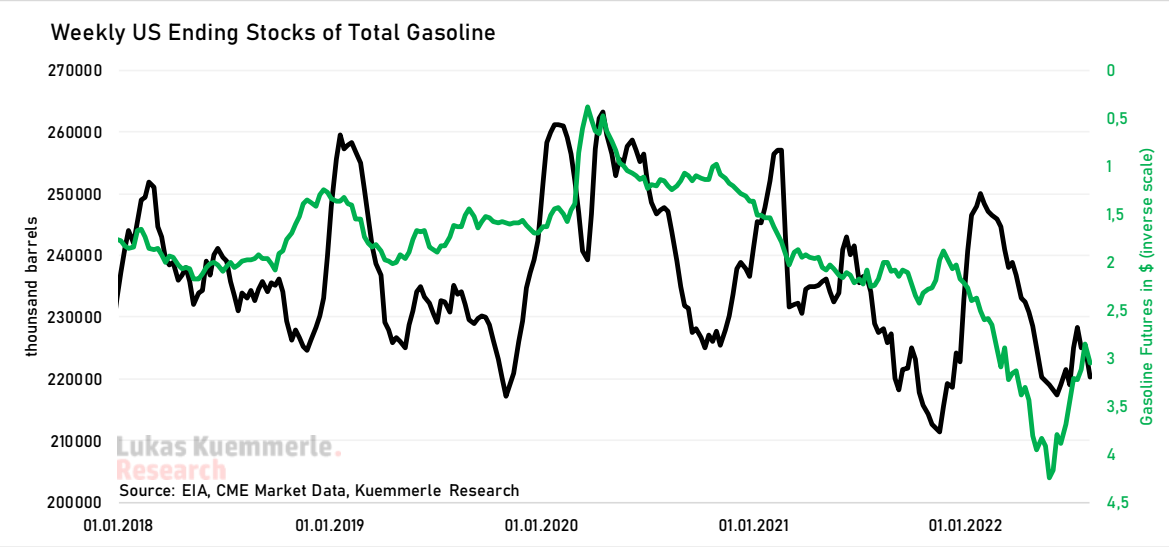
Shipping Conditions



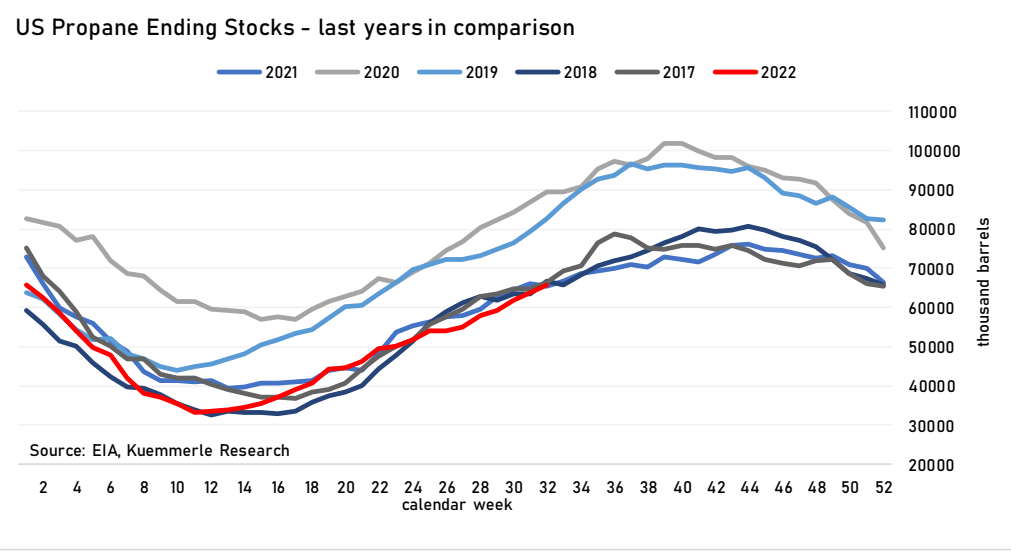
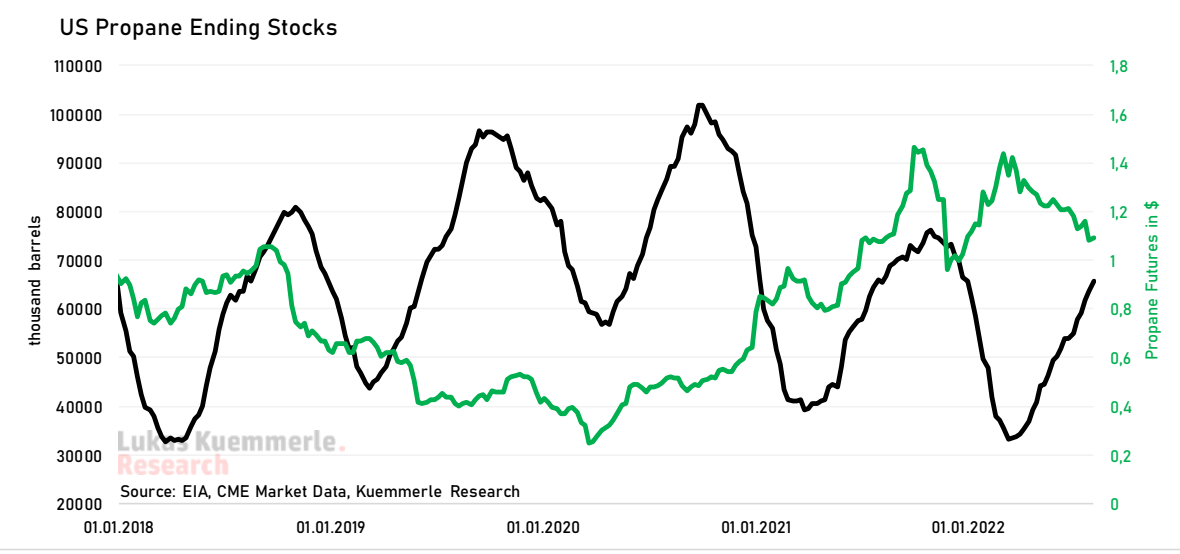
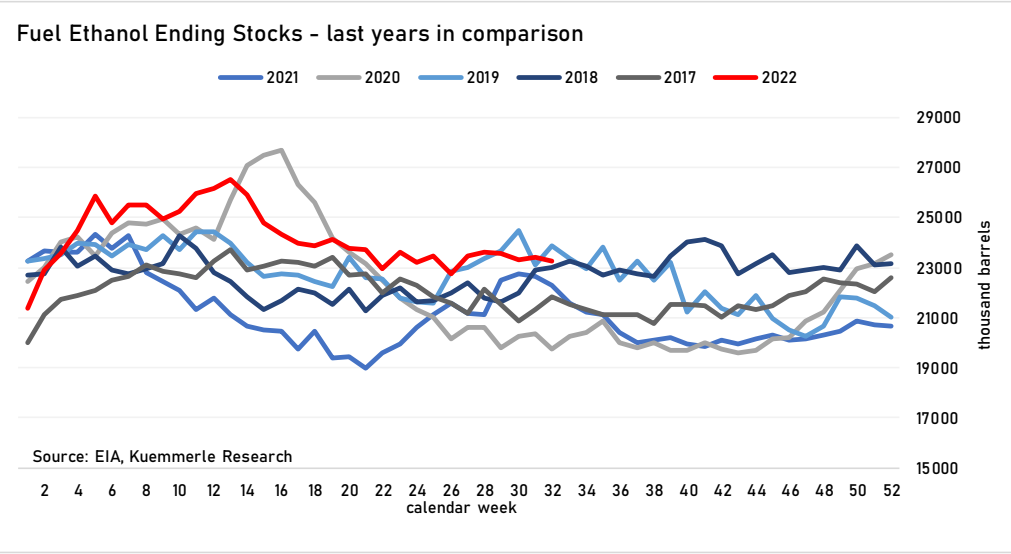
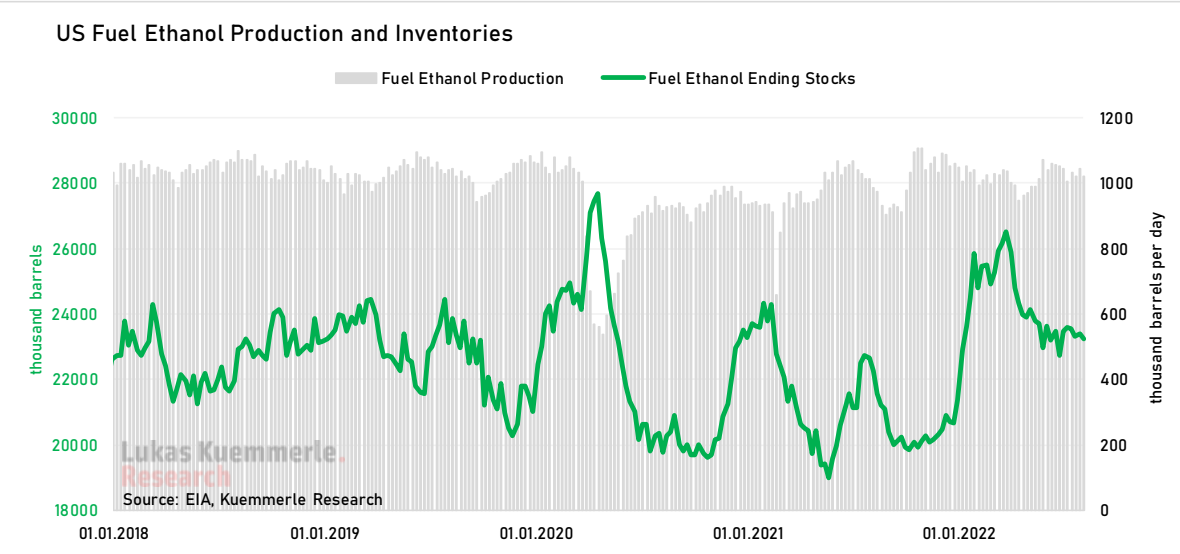
HARPEX (reflects the worldwide price development on the charter market for container ships), **Drewry** (reports actual spot container freight rates for major East-West trade routes for a 40ft container), **China Freight** (Price index for the container transport market for worldwide container transport from and to China), **Baltic Dry** (important price index for the worldwide shipping of major cargoes (mainly coal, iron ore and grain) on standard routes), **IGC** (important price index for the worldwide shipping of grains and oilseeds on standard routes), **VLSFO** (Bunker Fuel Oil, Global 20 Ports Average Price), **TPEB** (Transpacific Eastbound, e.g. China-to-US), **FEWB** (Far East Westbound, e.g. China-to-Europe)

Energy Inventories

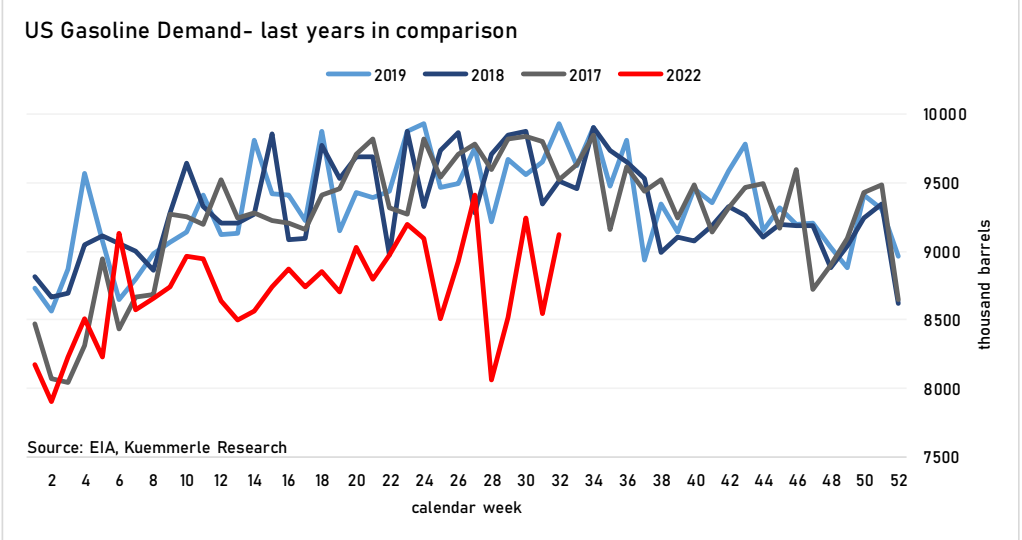
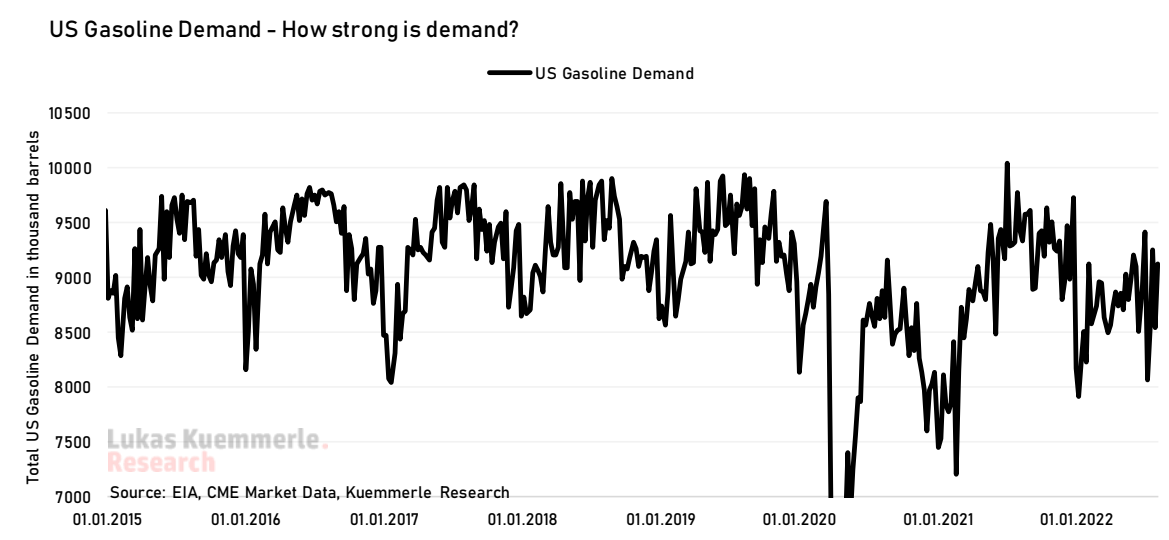
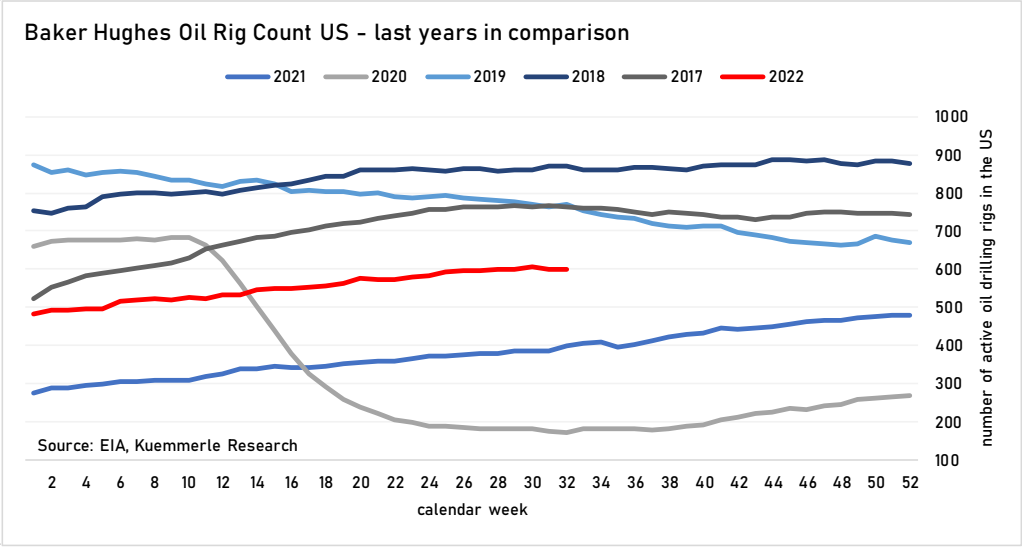
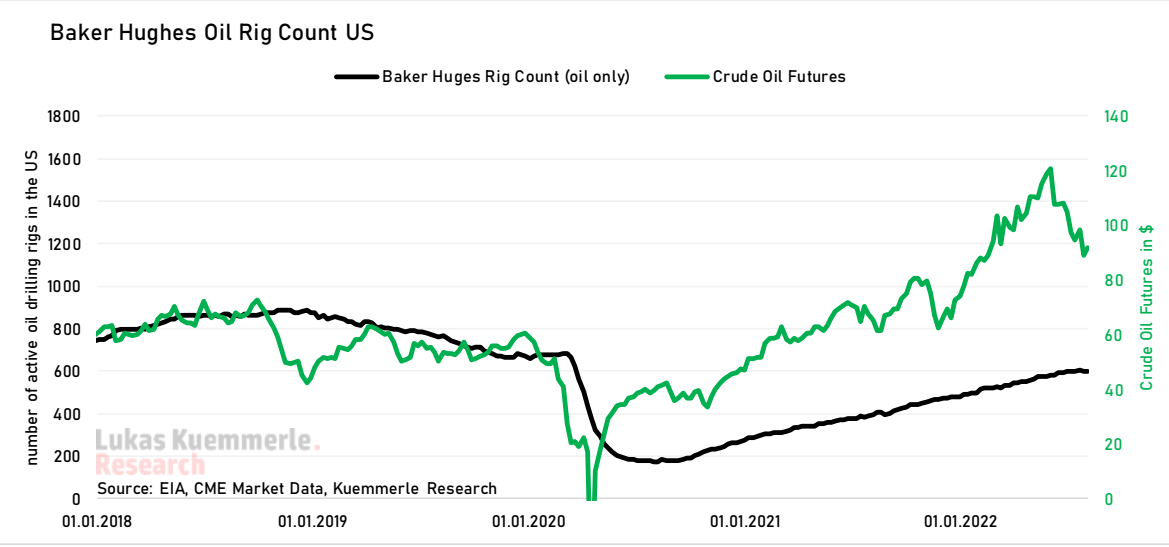




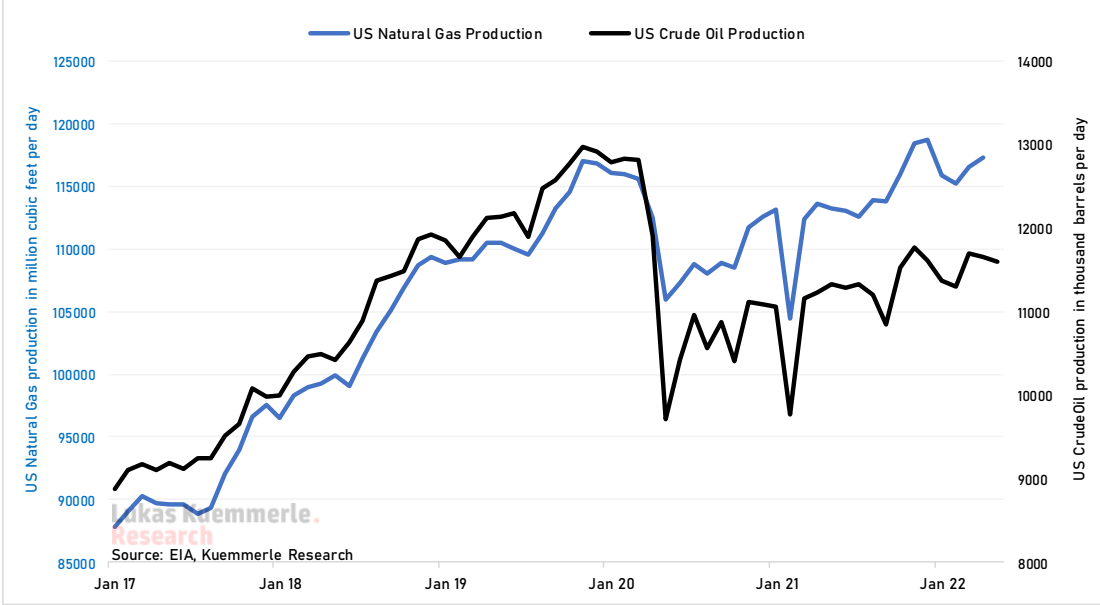
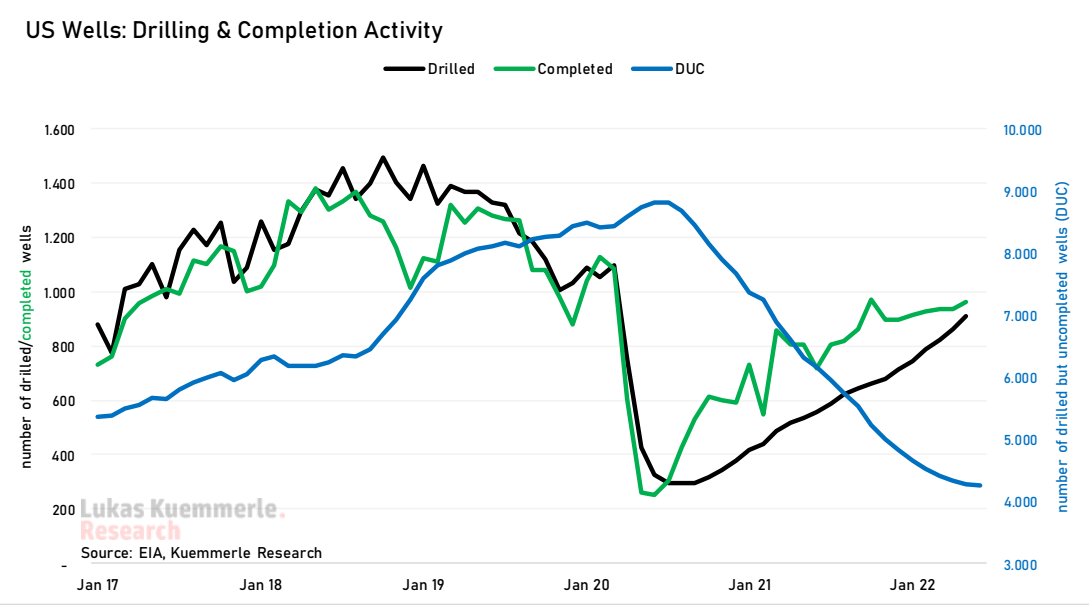
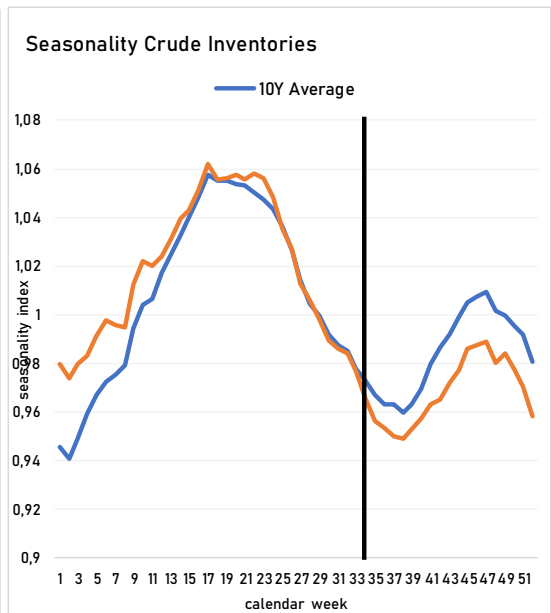
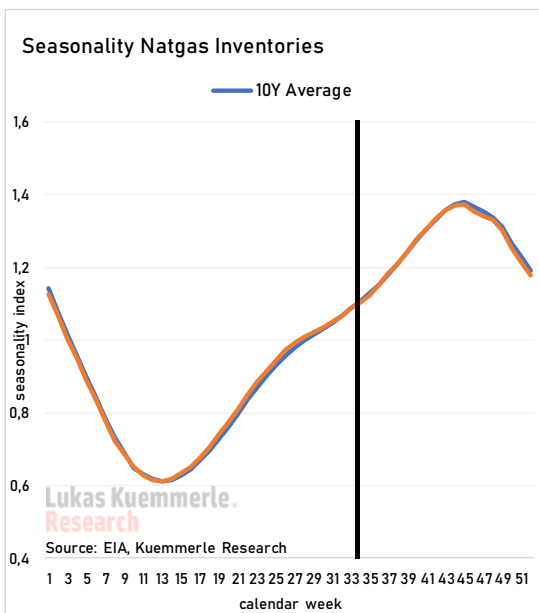
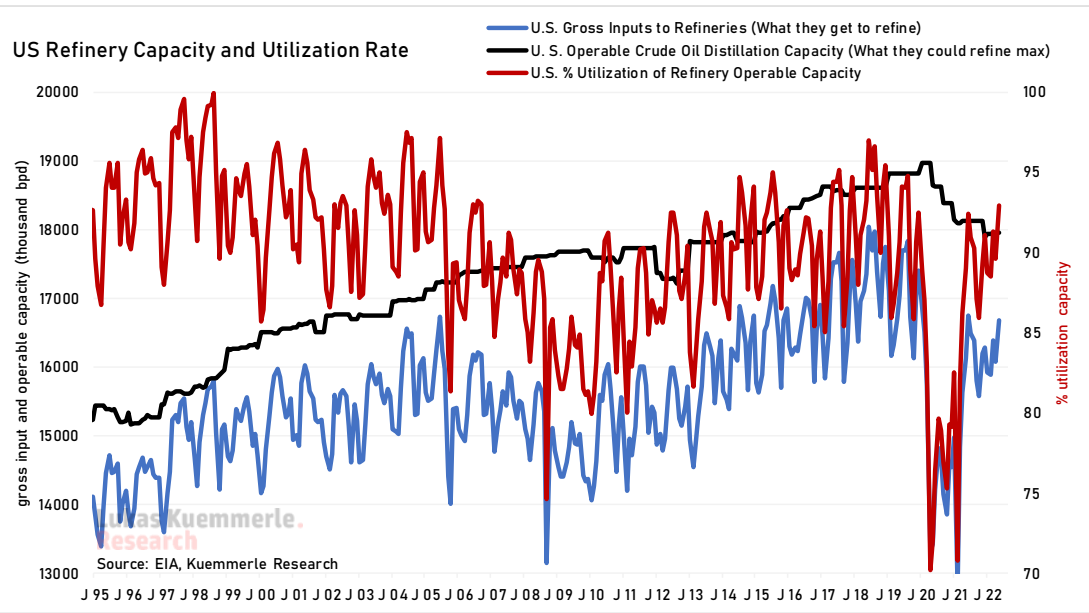
Energy Inventories



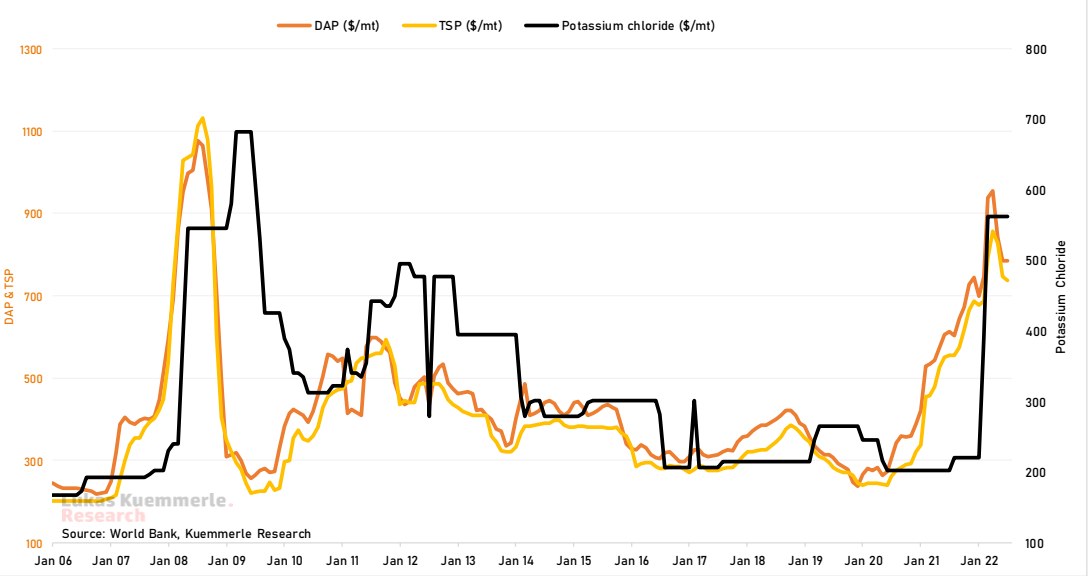
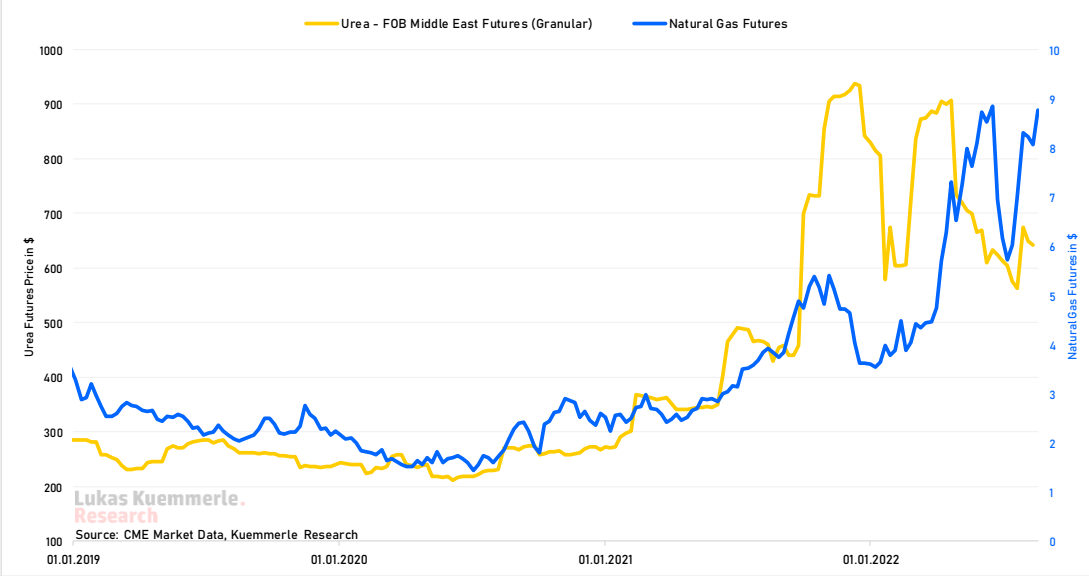
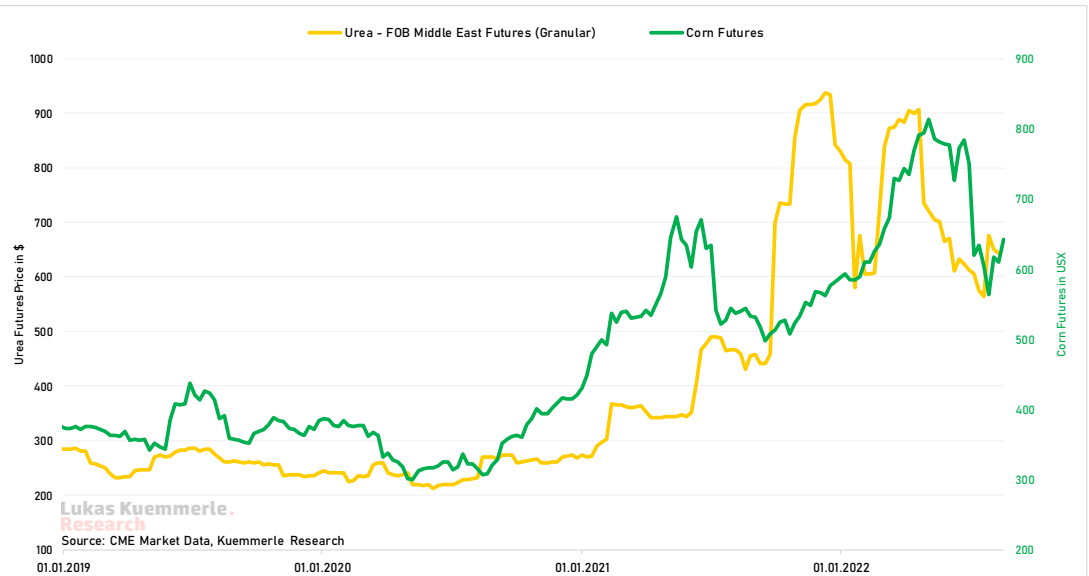
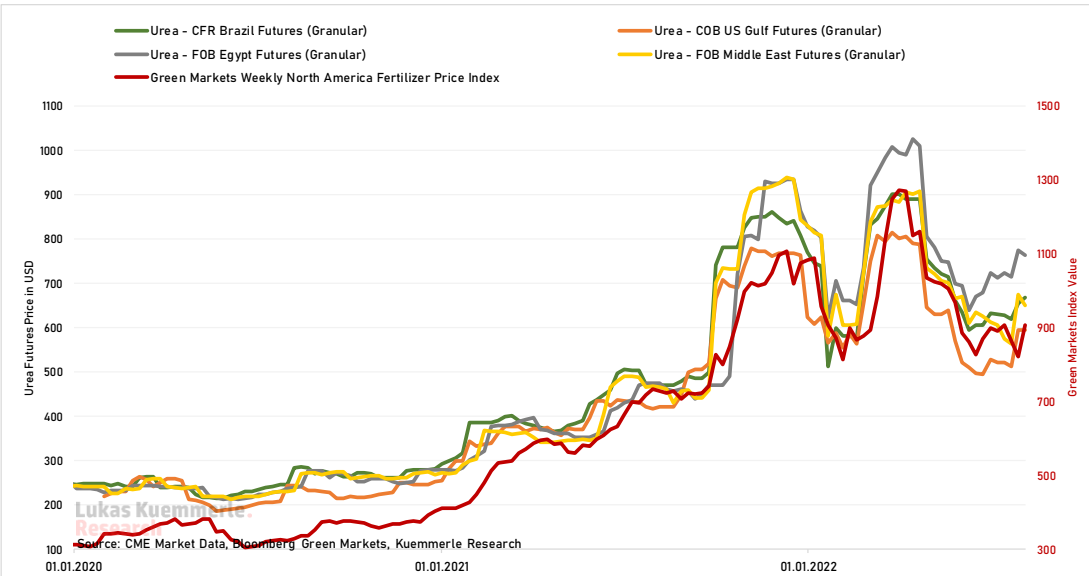
Energy Inventories



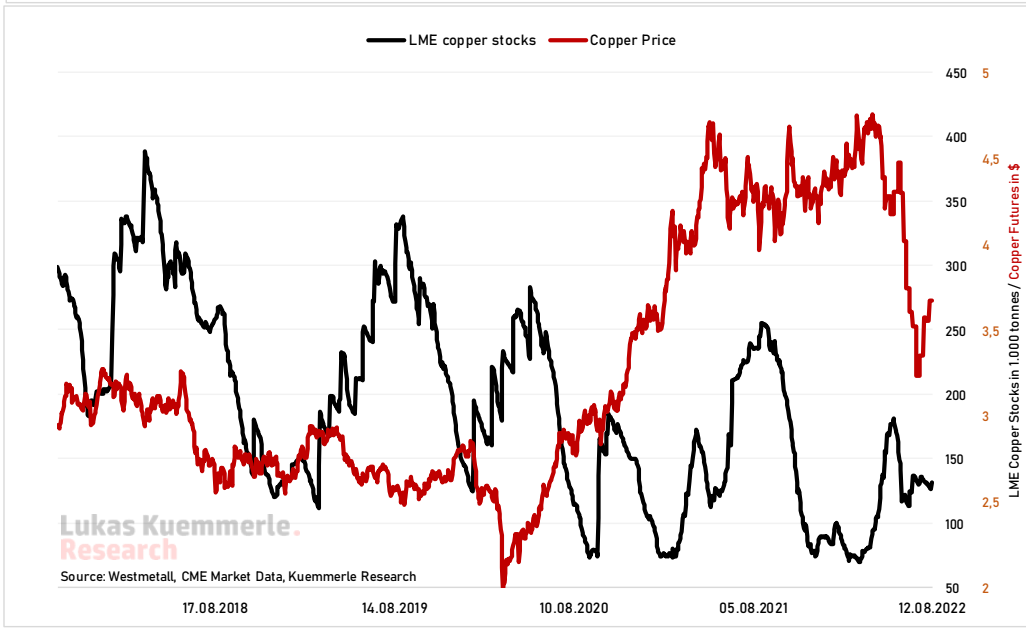
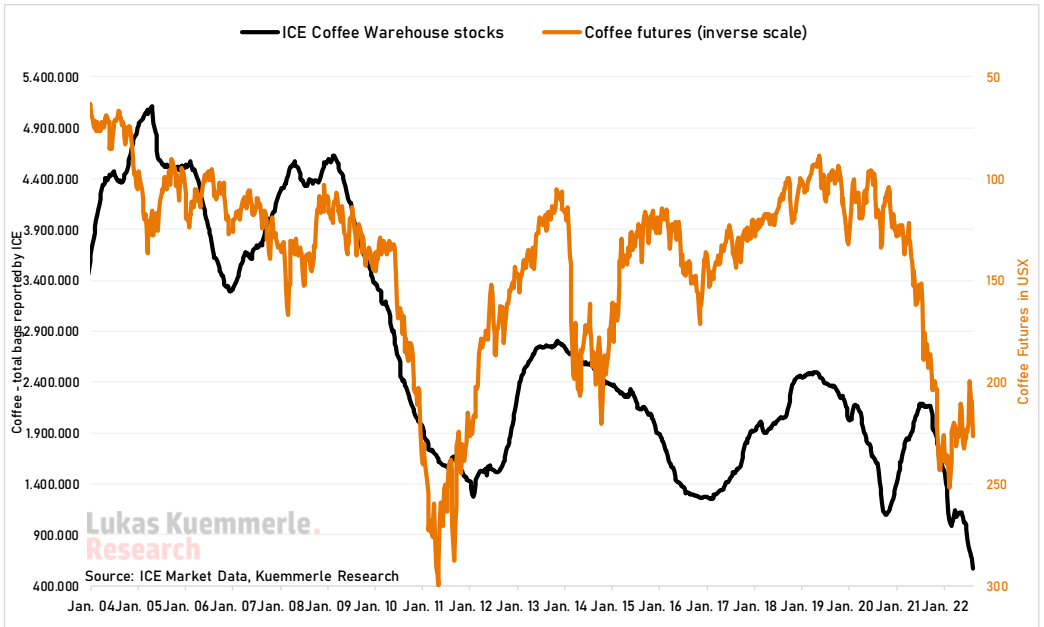
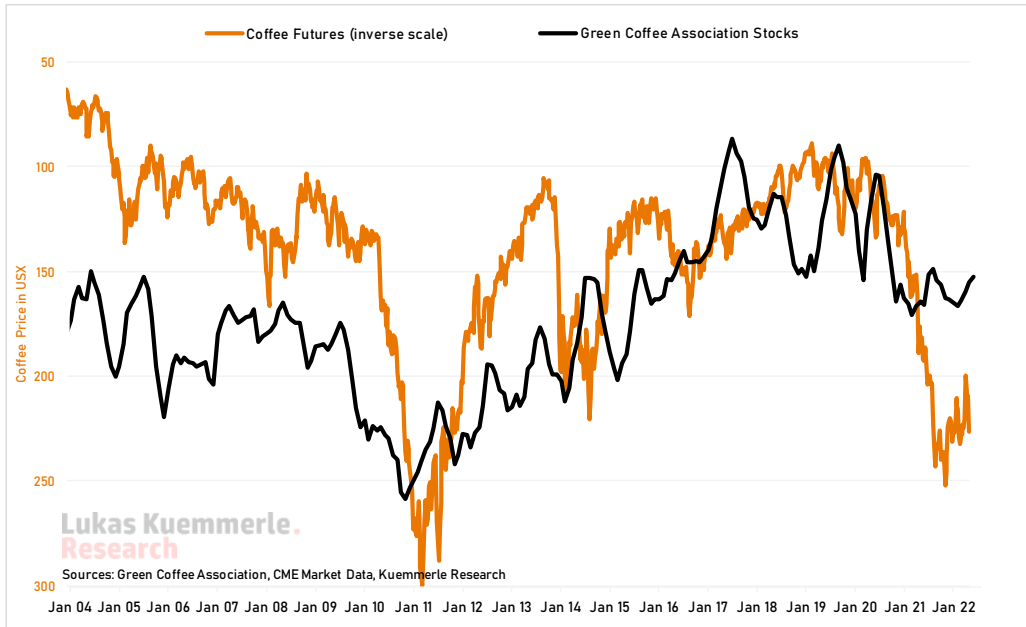
Energy Inventories

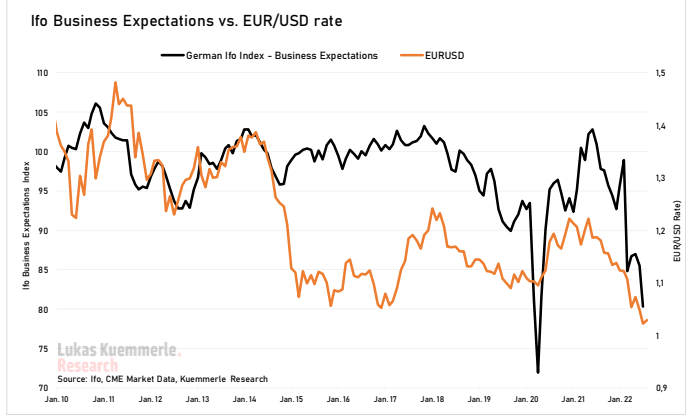
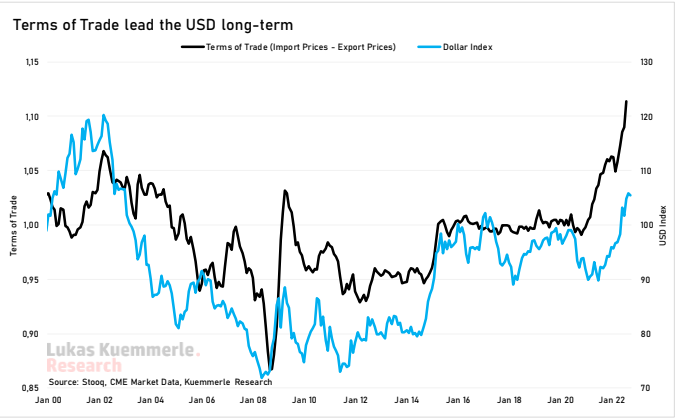
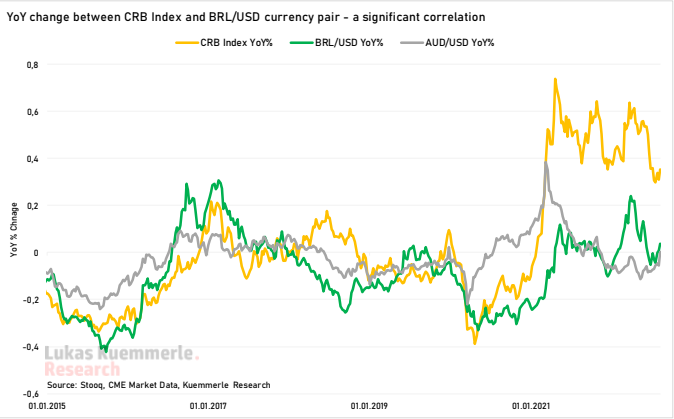
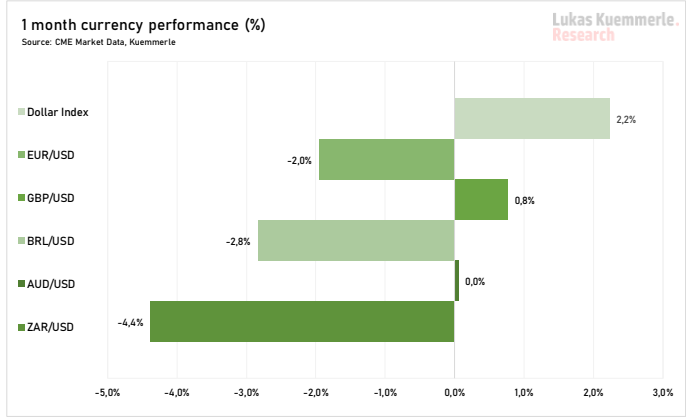
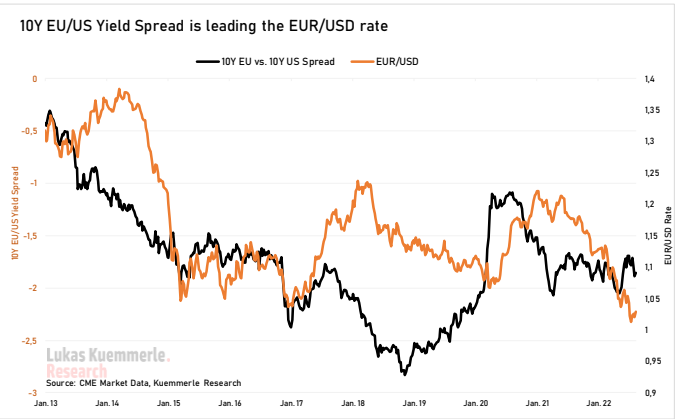
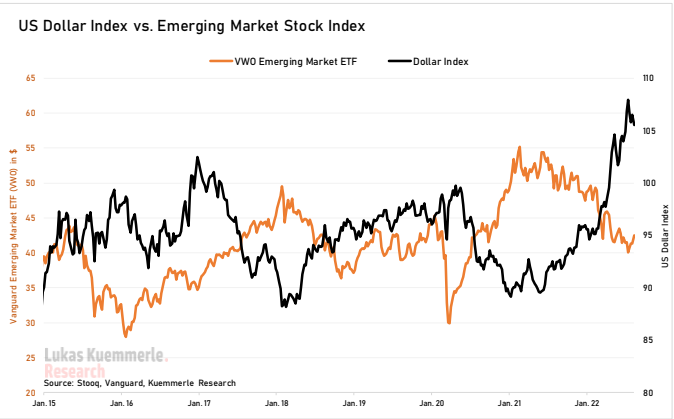
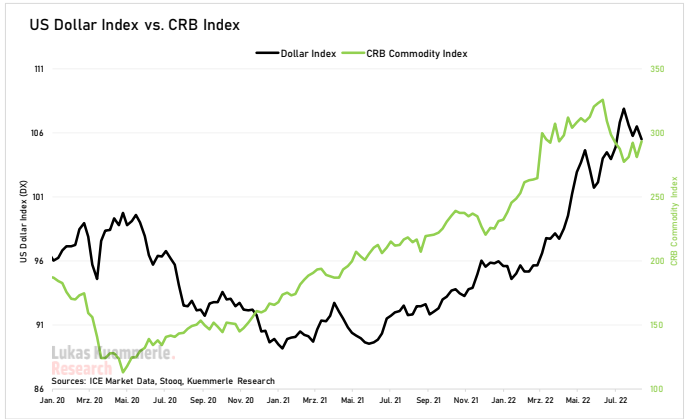


Fertilizer Market

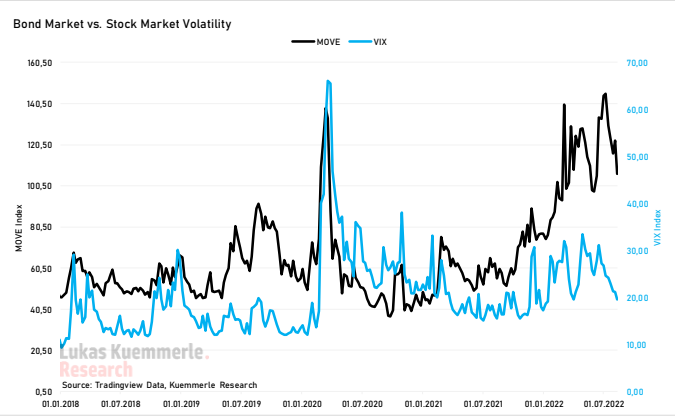
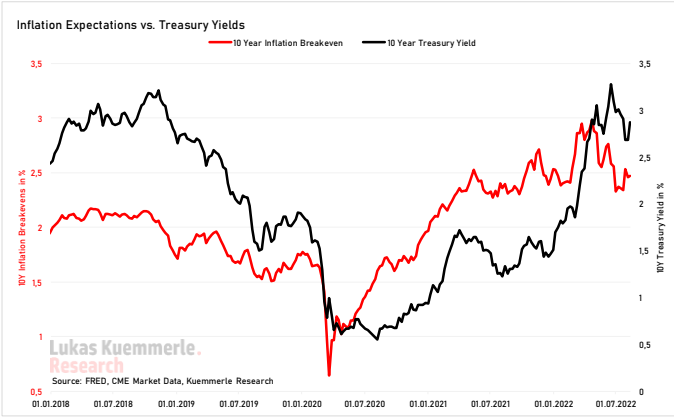
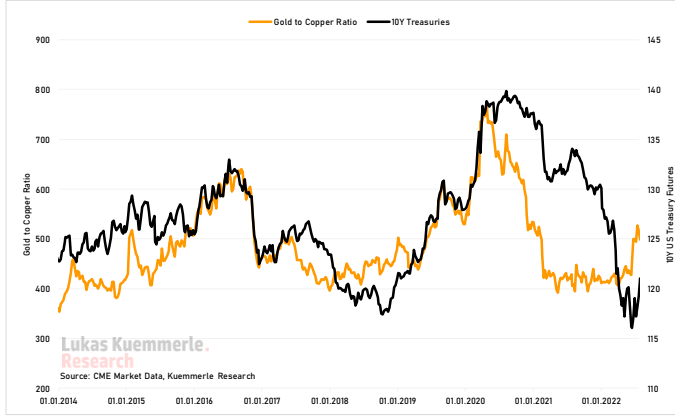
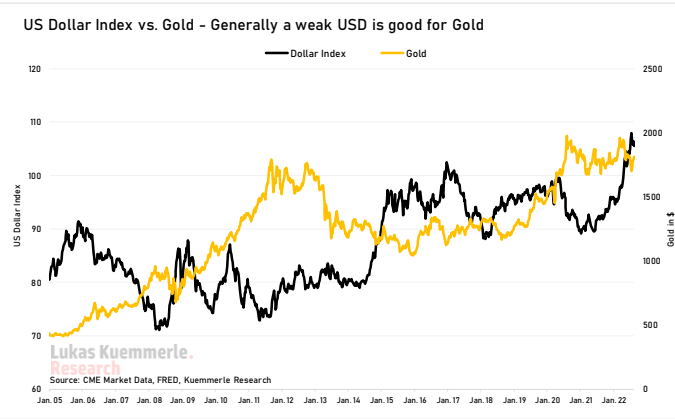
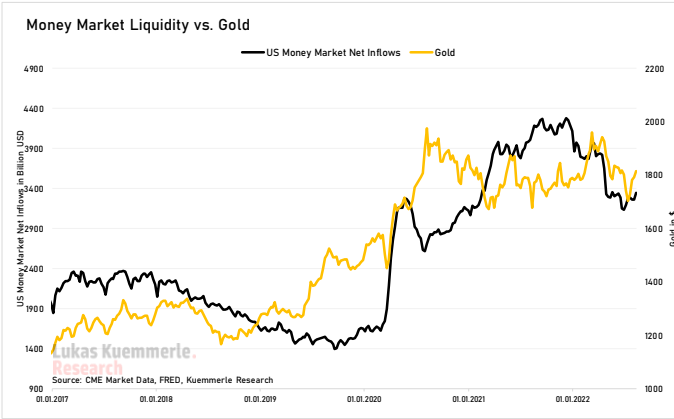
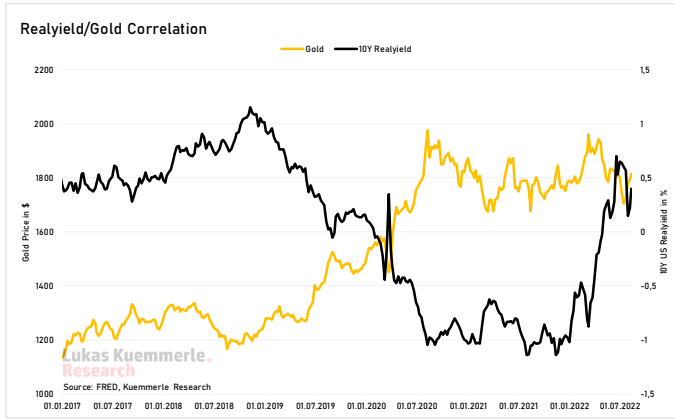
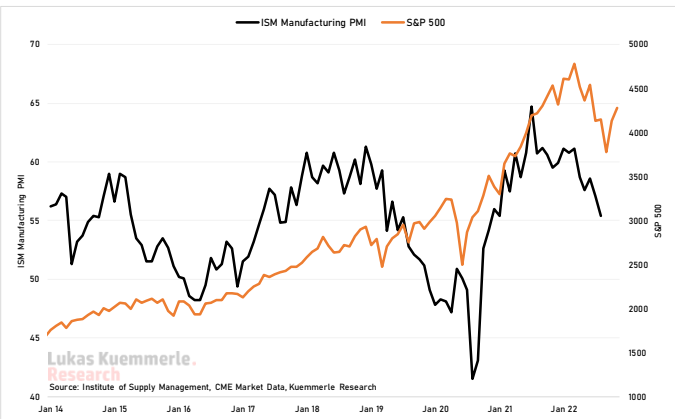
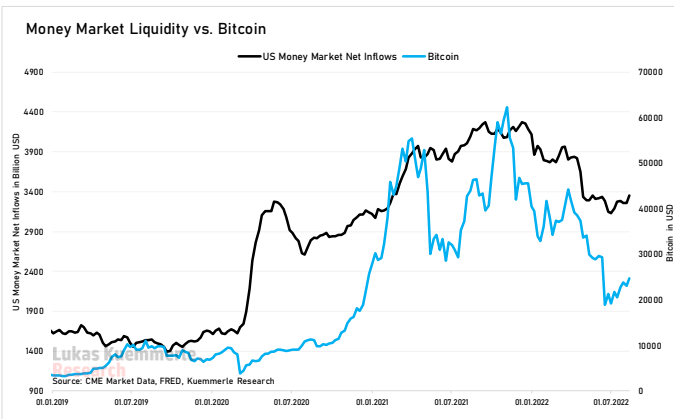
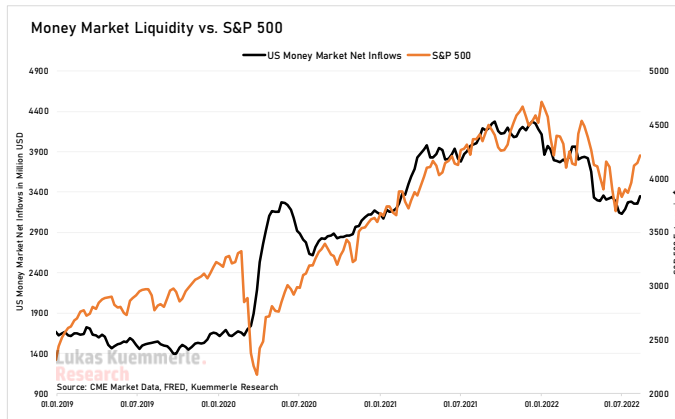


Coffee & Copper Ending Stocks Data





Macro Picture – Bonds/High-Beta/Gold

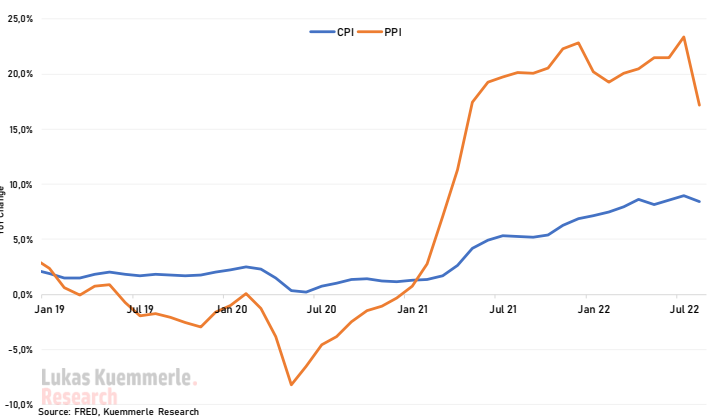


Macro Picture – Inflation

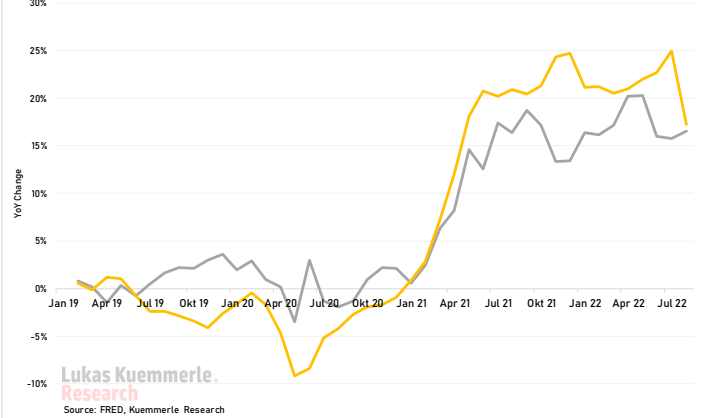
Inflation Expectations Futures Market



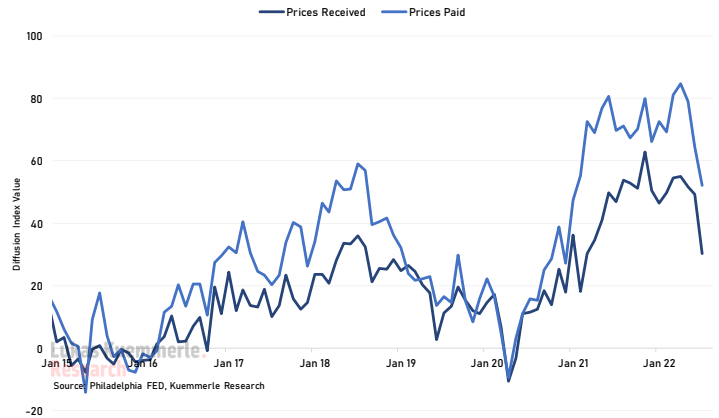
YoY change is the key metric when it comes to measuring inflation



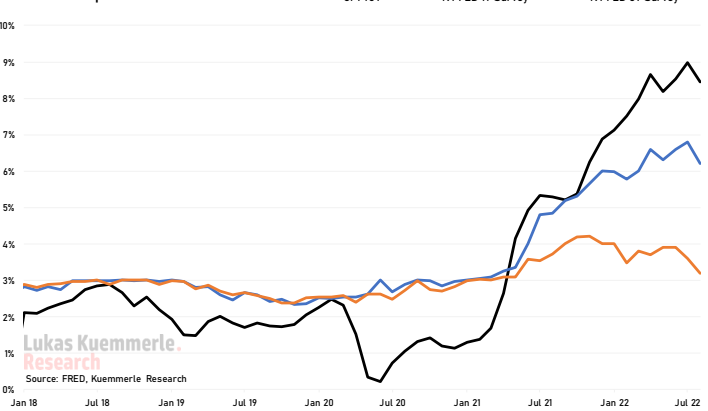
PPI Farm Products, Processed Foods, Feeds vs PPI Industrial Commodities



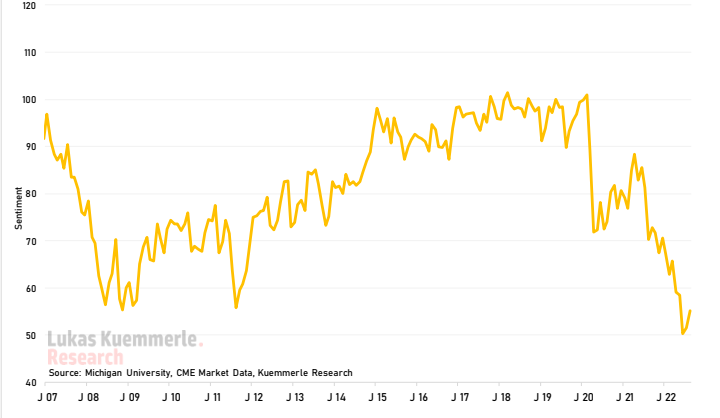
Phily Manufacturing Business Outlook - Prices Paid & Prices Received



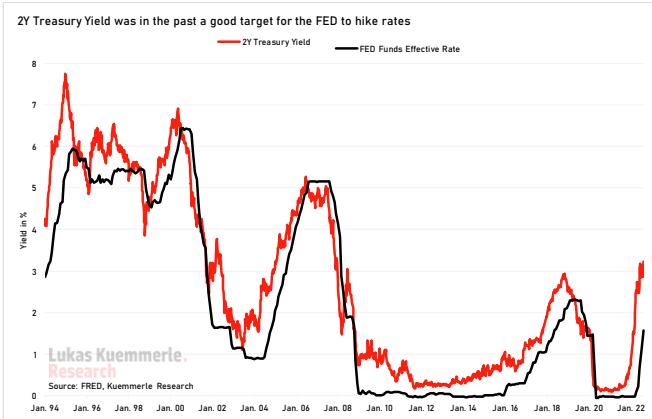
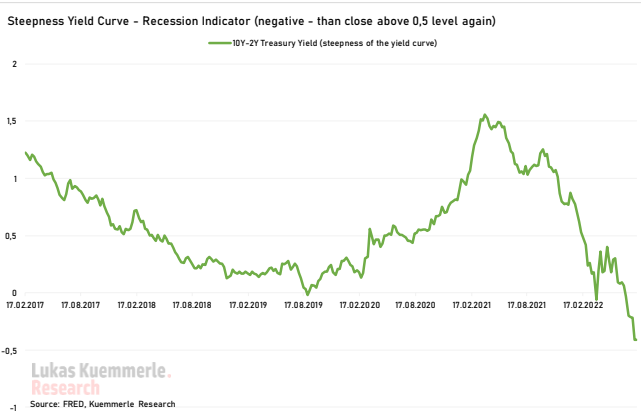
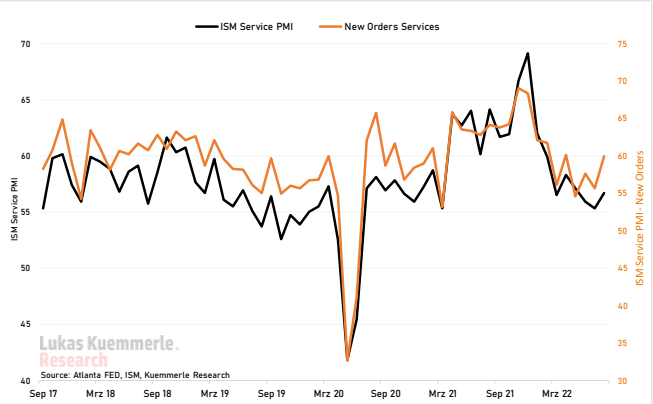
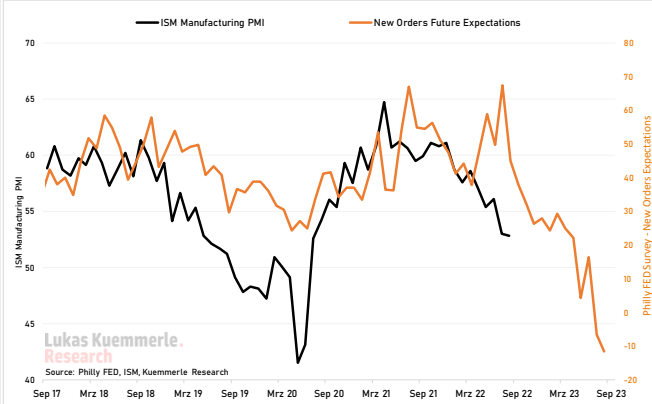
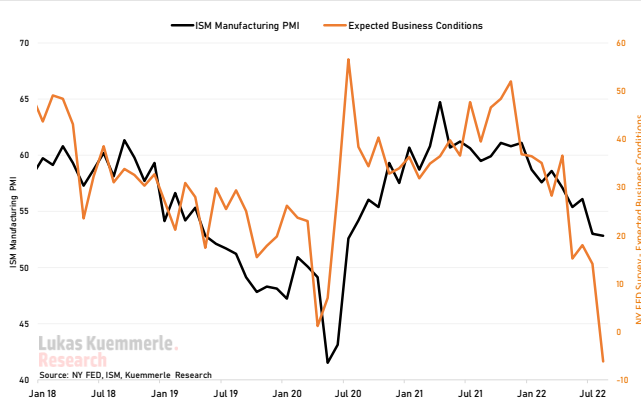
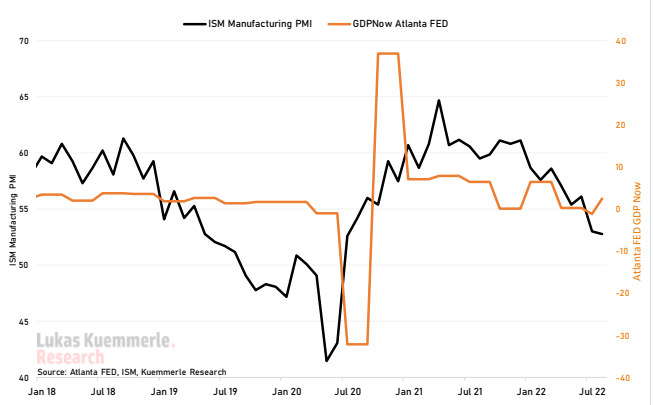
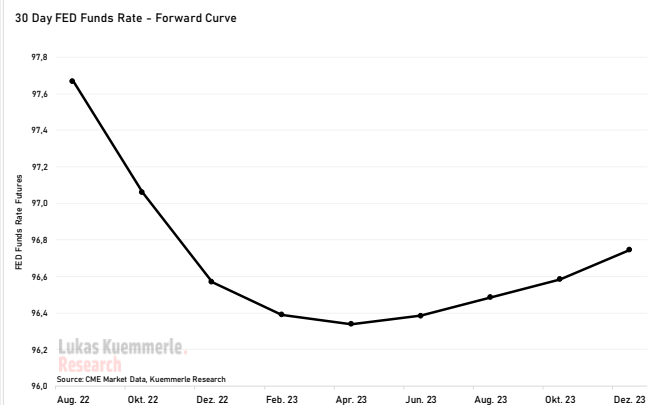
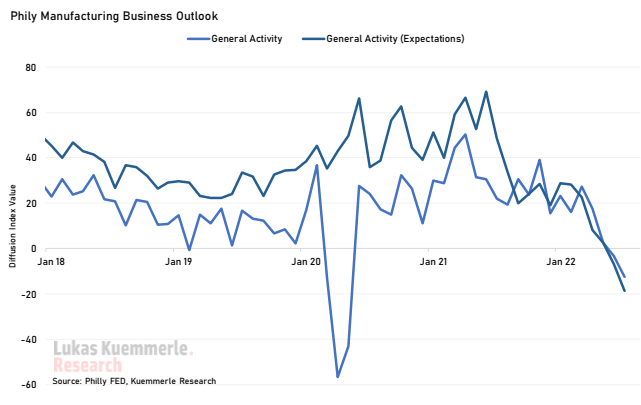
Inflation Expecations vs. Actual CPI YoY



Michigan Consumer Sentiment

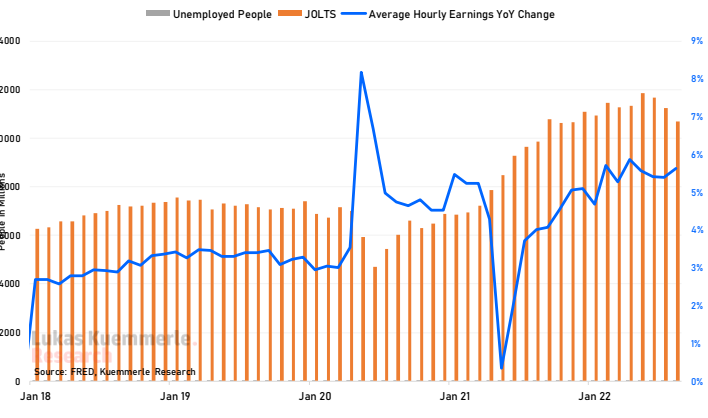


Macro Picture – Economic Momentum

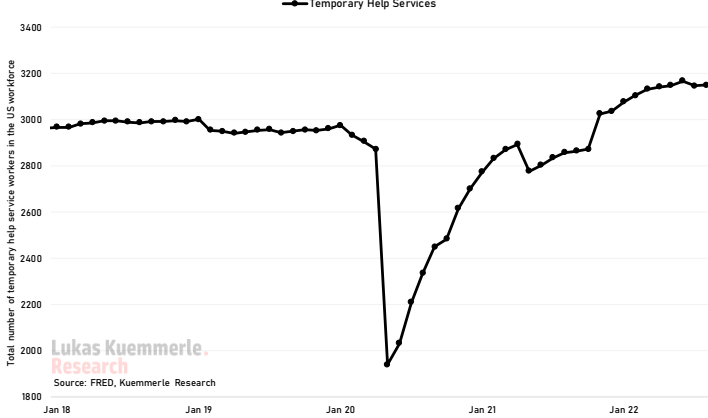


Macro Picture – Job Market

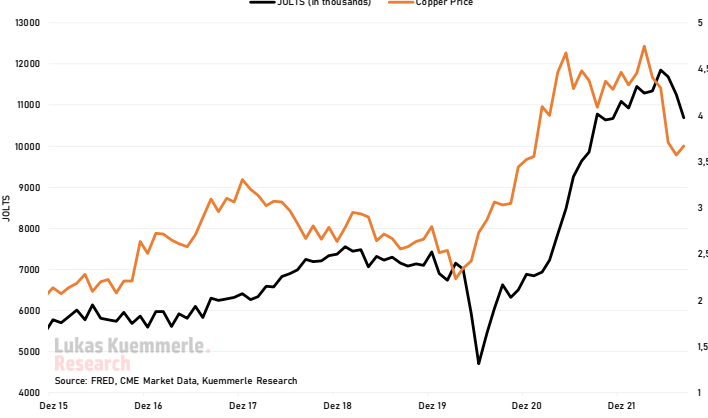
How is the job market doing



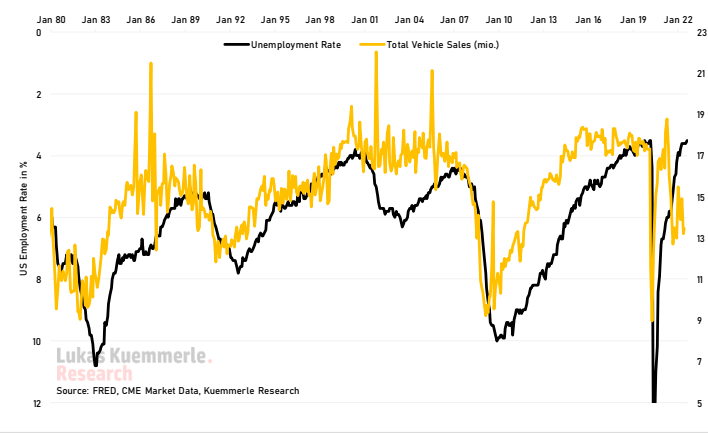
Temps and Contractors get cut first - if economic growth slows strongly



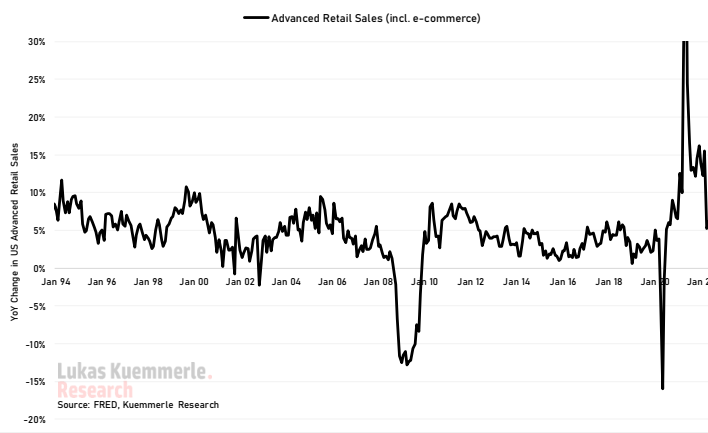
Since 2015 Dr. Copper is leading the number of new job openings



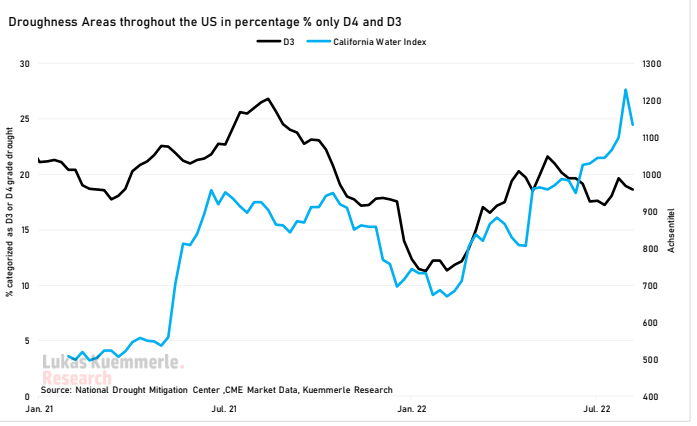
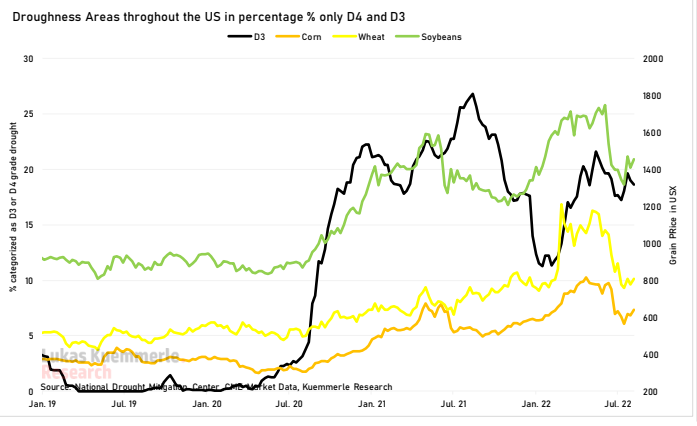
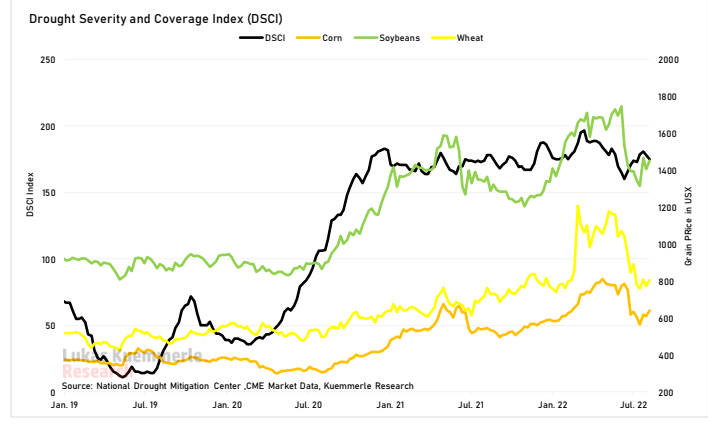
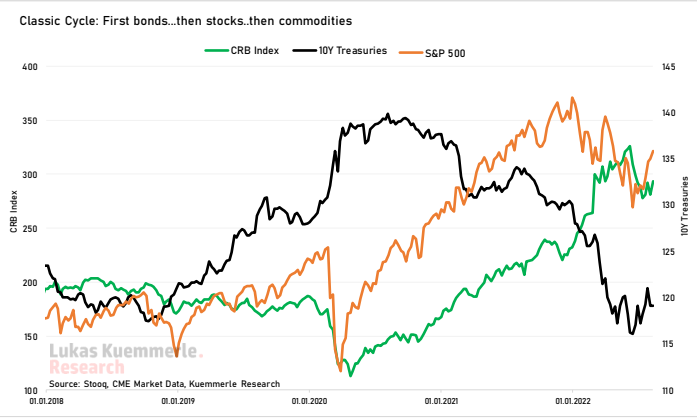
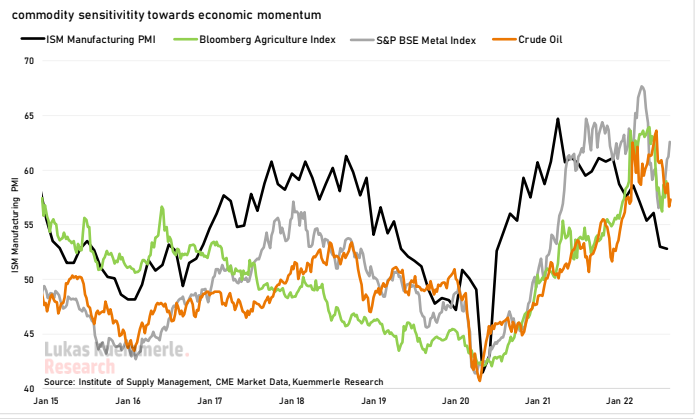
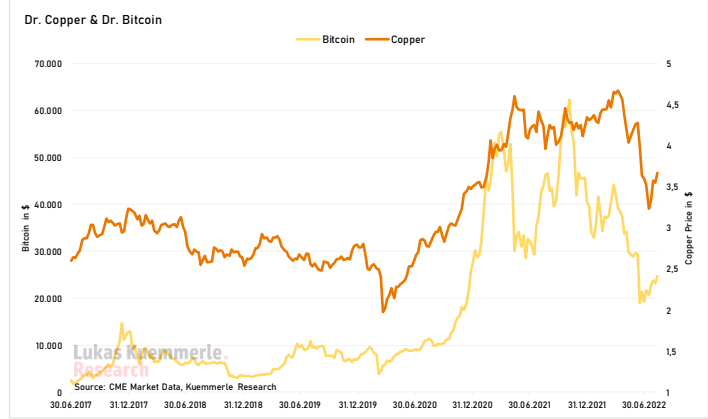
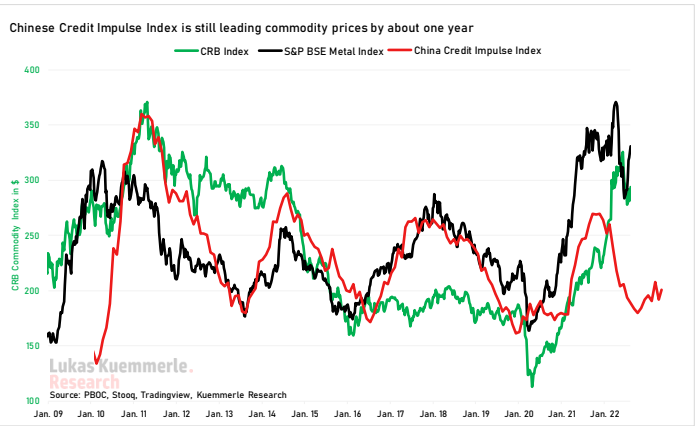
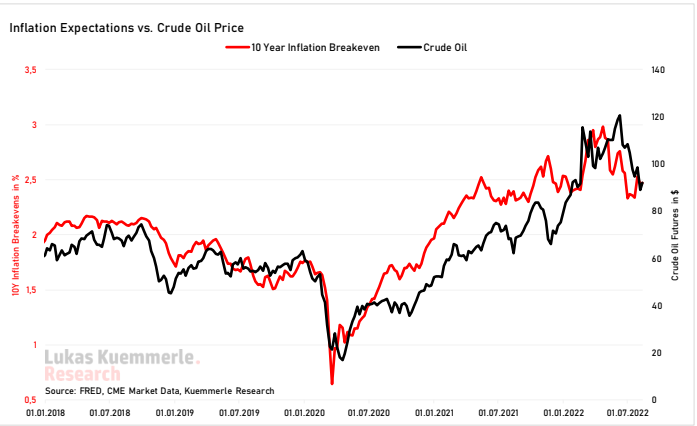
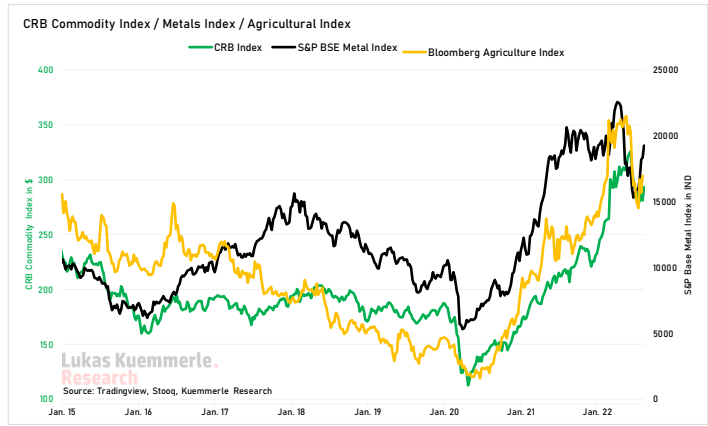
Divergence between US Vehicle Sales and Unemployed People (inverted scale)



Is the consumer still strong on a relative basis?



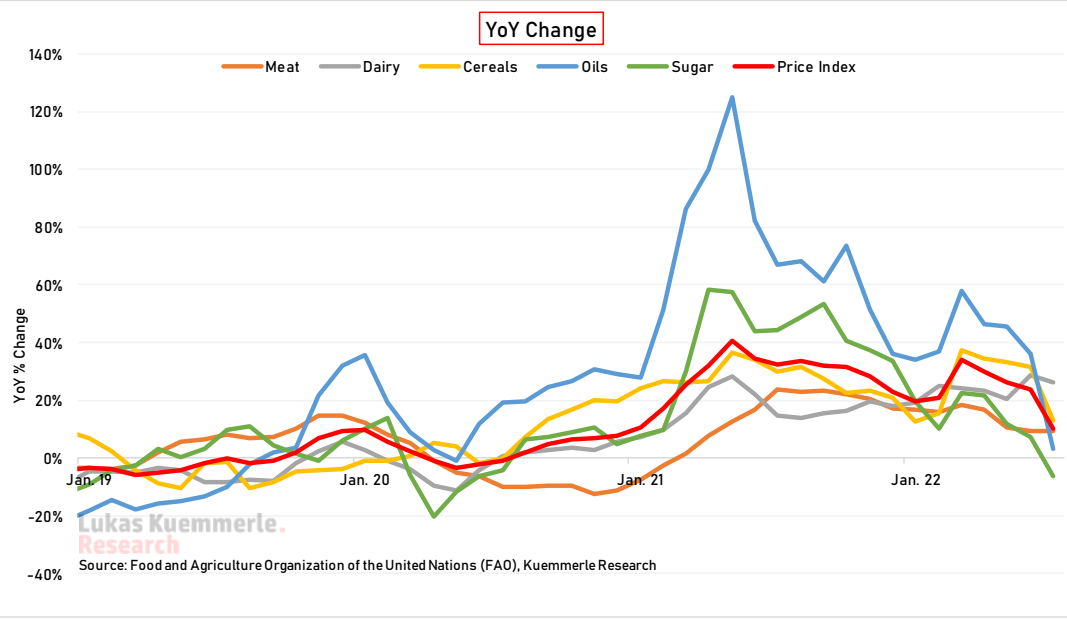
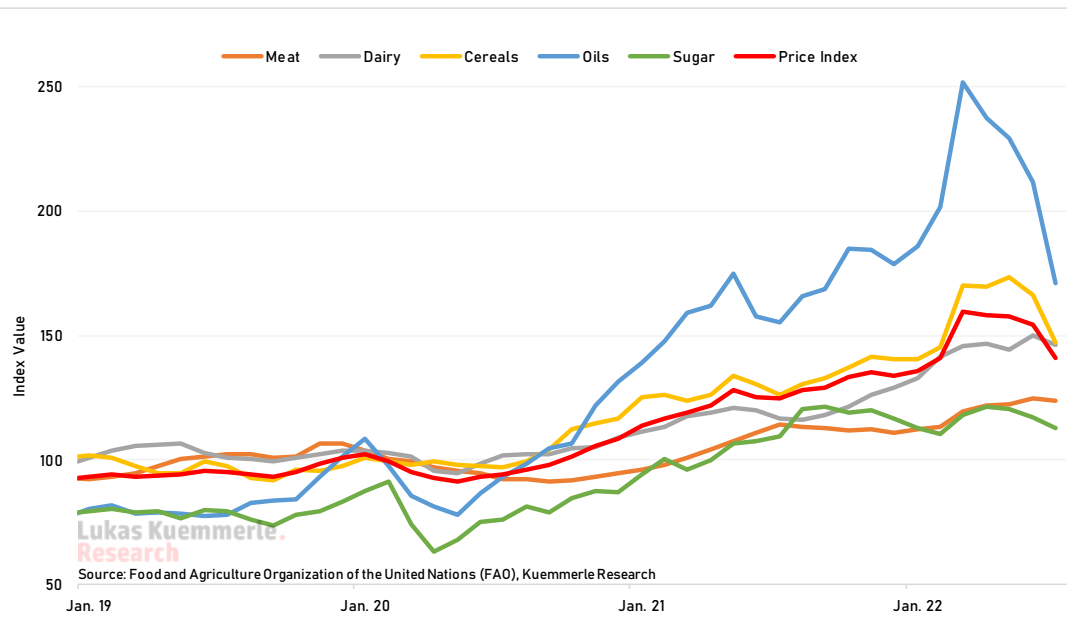
Macro Picture – Commodity Linked



Futures Spreads - 1 Year (confirm breakouts and highlight divergences)

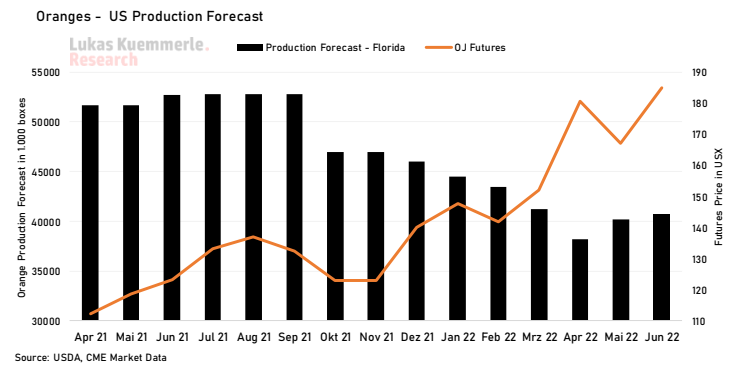
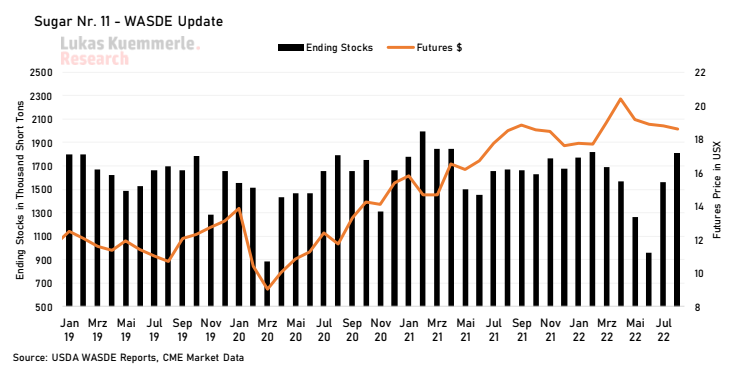
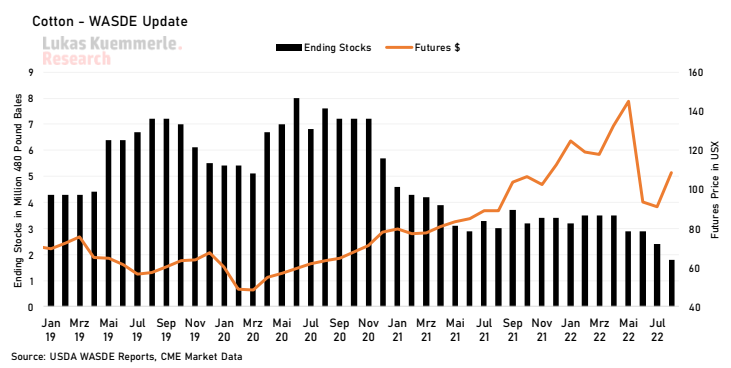
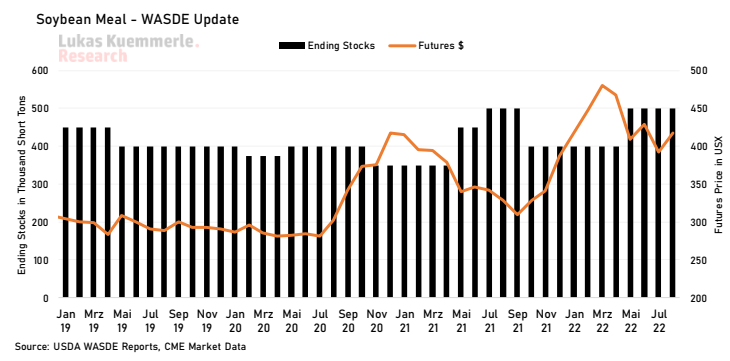
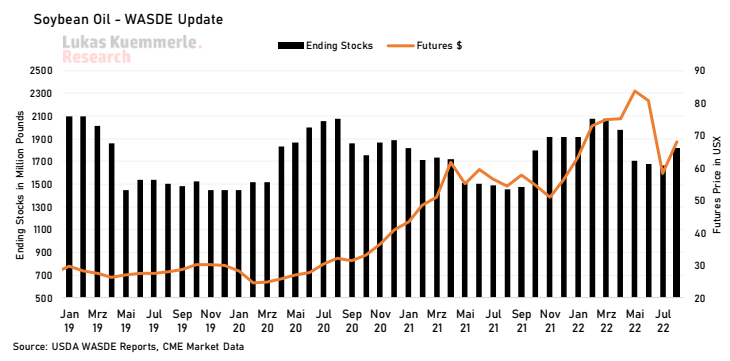
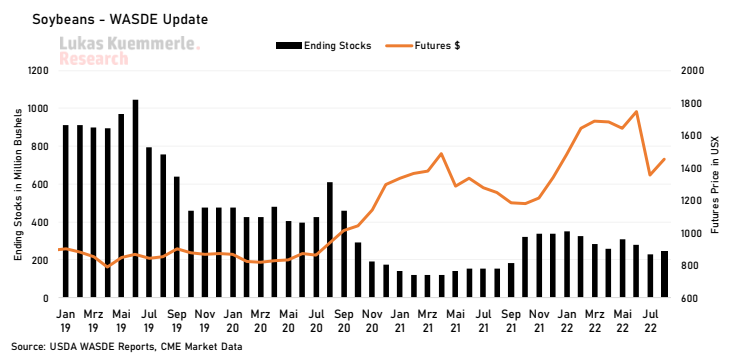
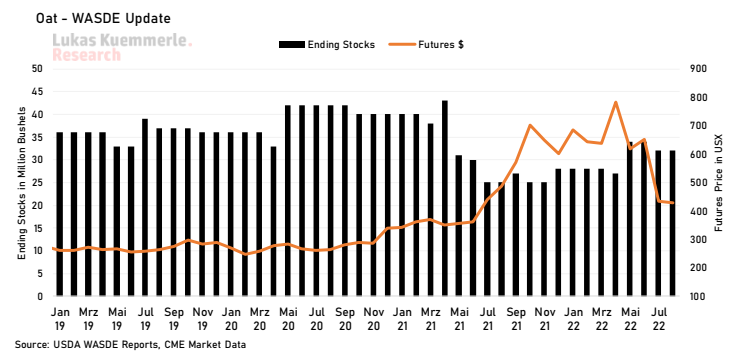
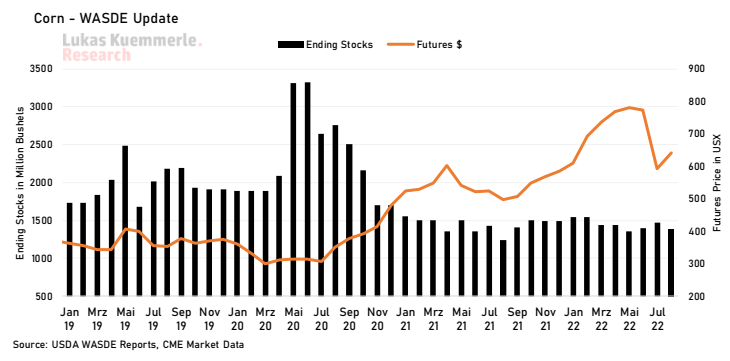
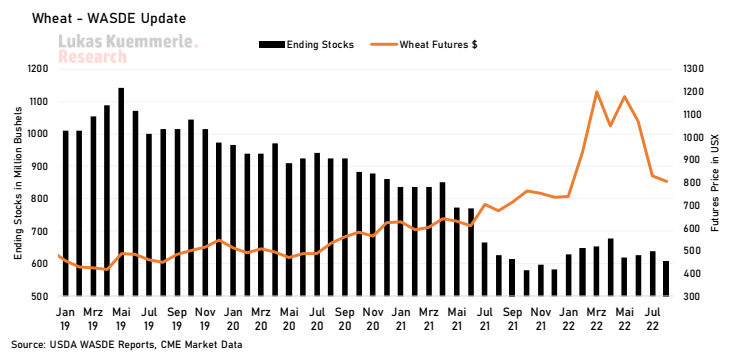


FAO Food Price Development // July 2022

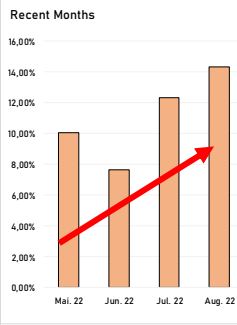
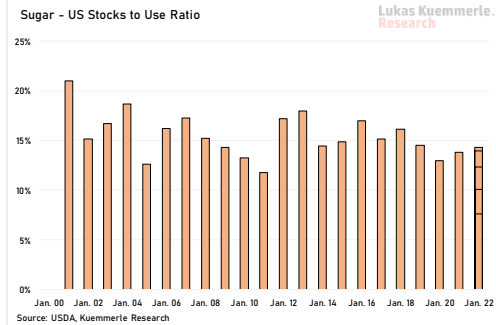
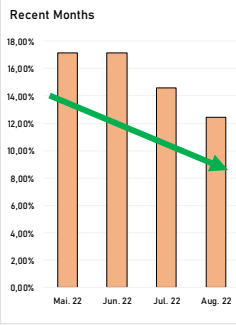
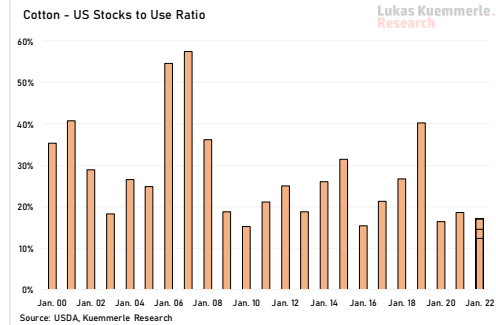
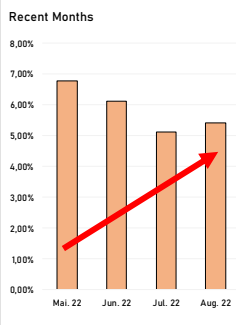
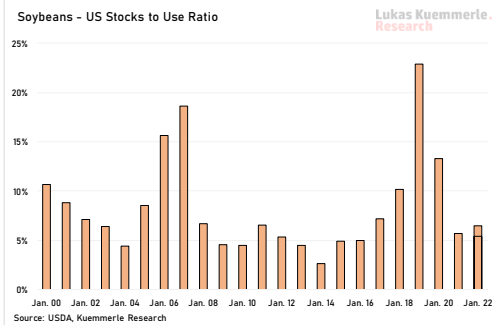
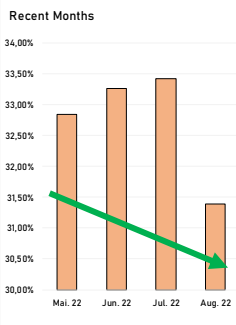
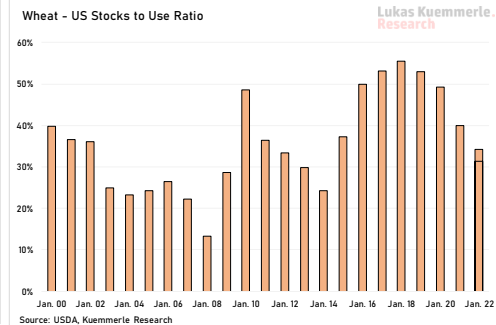
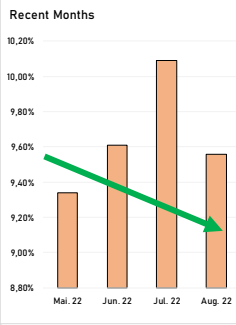
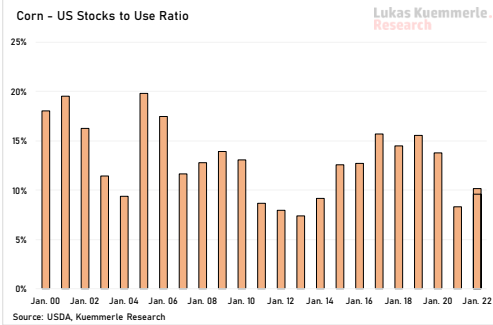
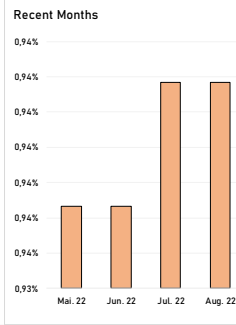
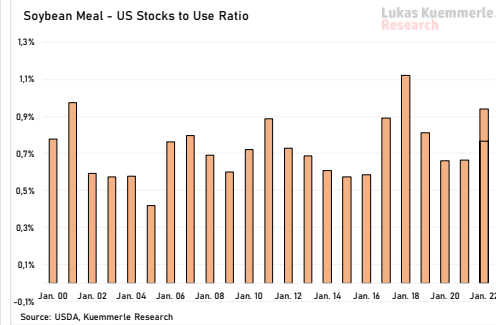
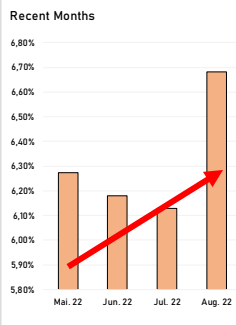
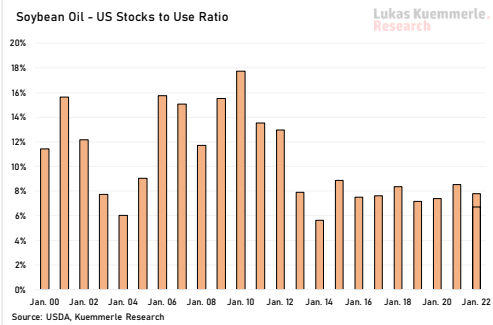


Date	INDEX	YoY	Meat	YoY	Dairy	YoY	Cereals	YoY	Oils	YoY	Sugar	YoY
Jul. 22	140,9	10,1%	124,0	9,3%	146,4	26,0%	147,3	13,0%	171,10	3,2%	112,8	-6,4%
Jun. 22	154,3	23,9%	124,6	9,2%	150,2	28,7%	166,3	31,7%	211,80	36,2%	117,3	7,1%
Mai. 22	157,9	26,0%	122,4	10,6%	144,2	20,3%	173,5	33,1%	229,20	45,4%	120,4	11,8%
Apr. 22	158,4	29,8%	121,9	16,8%	146,7	23,2%	169,7	34,5%	237,53	46,5%	121,5	21,6%
Mrz. 22	159,7	33,9%	119,3	18,4%	145,8	24,2%	170,1	37,3%	251,83	58,1%	117,9	22,6%
Feb. 22	141,1	21,0%	113,5	16,0%	141,5	25,2%	145,5	15,3%	201,72	36,8%	110,5	10,3%
Jan. 22	135,6	19,4%	112,1	16,9%	132,6	19,2%	140,6	12,5%	185,93	33,9%	112,7	19,7%
Dez. 21	133,7	23,1%	111,0	17,1%	129,0	18,1%	140,5	20,7%	178,51	36,1%	116,4	33,6%
Nov. 21	135,3	28,2%	112,5	20,6%	126,0	19,6%	141,4	23,2%	184,56	51,4%	120,2	37,3%
Okt. 21	133,2	31,4%	112,0	22,0%	121,5	16,3%	137,1	22,4%	184,84	73,6%	119,1	40,6%
Sep. 21	129,2	31,8%	112,7	23,2%	118,1	15,5%	132,8	27,3%	168,57	61,2%	121,2	53,5%
Aug. 21	128,0	33,4%	113,4	23,0%	116,2	13,8%	130,4	31,4%	165,86	68,0%	120,5	48,6%
Jul. 21	124,6	32,5%	114,1	23,7%	116,7	14,7%	126,3	29,8%	155,50	66,8%	109,6	44,1%
Jun. 21	125,3	34,3%	110,7	16,7%	119,9	21,9%	130,3	33,9%	157,68	82,1%	107,7	43,8%
Mai. 21	128,1	40,6%	107,4	12,5%	121,1	28,3%	133,7	36,4%	174,88	124,9%	106,8	57,4%
Apr. 21	122,1	31,9%	104,3	7,7%	119,1	24,4%	126,2	26,6%	162,19	99,8%	100,0	58,3%
Mrz. 21	119,2	25,3%	100,8	1,3%	117,5	15,7%	123,9	26,4%	159,30	86,5%	96,2	30,1%
Feb. 21	116,6	17,3%	97,8	-2,7%	113,1	9,9%	126,1	26,7%	147,46	51,2%	100,2	9,5%
Jan. 21	113,5	10,7%	96,0	-7,4%	111,2	7,1%	125,0	24,2%	138,87	27,7%	94,2	7,6%
Dez. 20	108,6	7,5%	94,8	-11,1%	109,2	5,4%	116,4	19,5%	131,20	29,3%	87,1	5,0%
Nov. 20	105,6	7,1%	93,3	-12,4%	105,4	2,9%	114,8	20,2%	121,90	30,8%	87,5	10,5%
Okt. 20	101,4	6,4%	91,8	-9,6%	104,5	3,6%	112,1	16,8%	106,45	26,6%	84,7	8,9%
Sep. 20	98,0	5,0%	91,5	-9,4%	102,3	2,7%	104,3	13,6%	104,60	24,7%	79,0	7,4%
Aug. 20	95,9	1,9%	92,2	-9,8%	102,1	1,8%	99,2	7,1%	98,70	19,5%	81,1	6,4%
Jul. 20	94,0	-1,2%	92,2	-10,0%	101,8	0,7%	97,3	-0,3%	93,20	19,3%	76,0	-4,3%

Latest WASDE Report Ending Stocks // August 2022

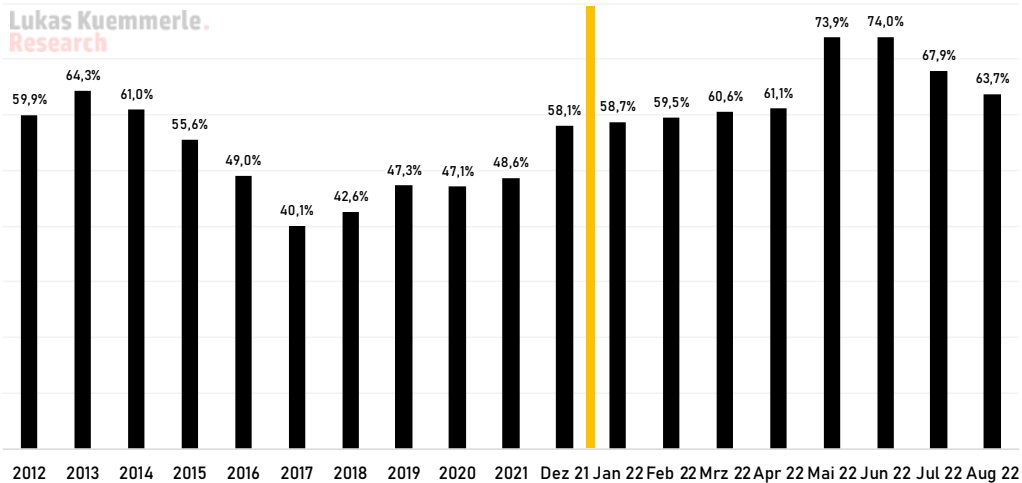


Stocks to Use Ratio// August 2022



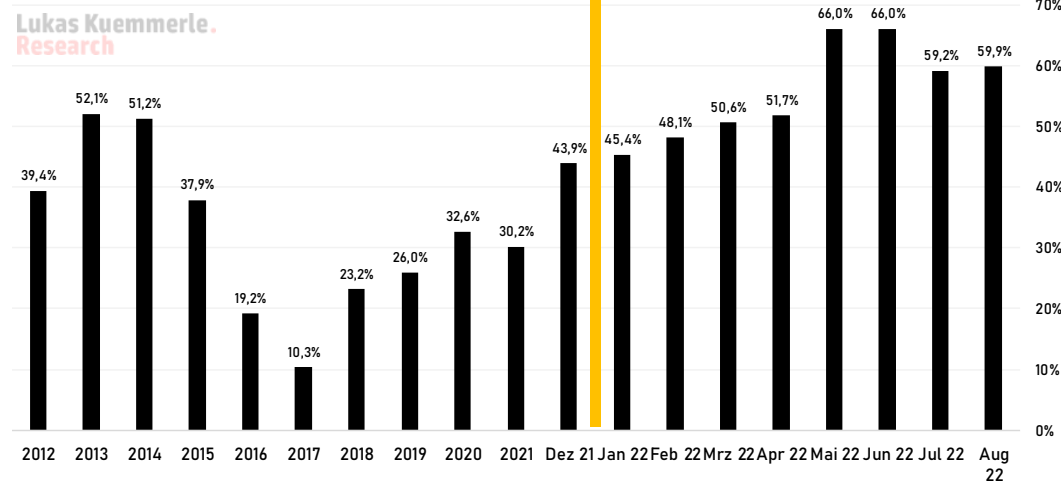
Theoretical Operating Margin (How attractive is it to plant?) // August 2022

Wheat - theoretical average operating margin



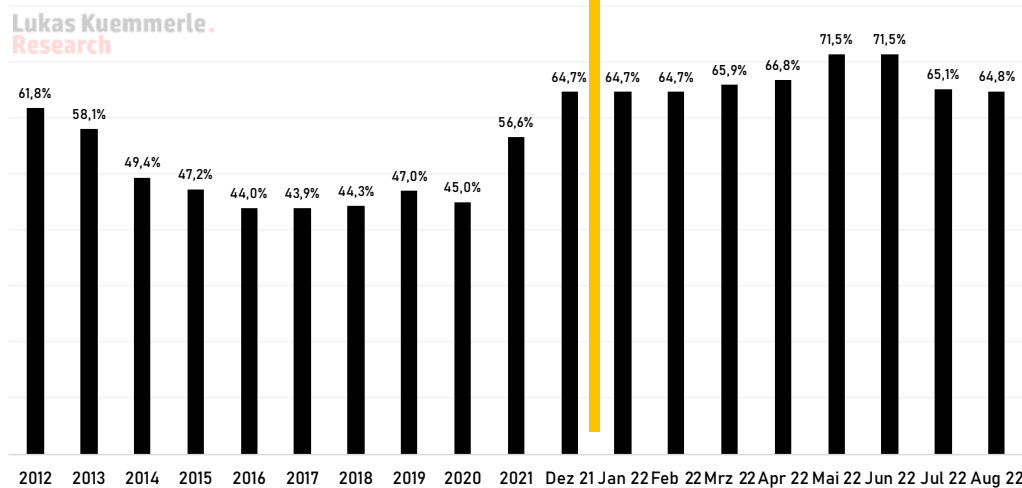
Source: USDA WASDE Reports, Kuemmerle Research Calculations

Oat - theoretical average operating margin



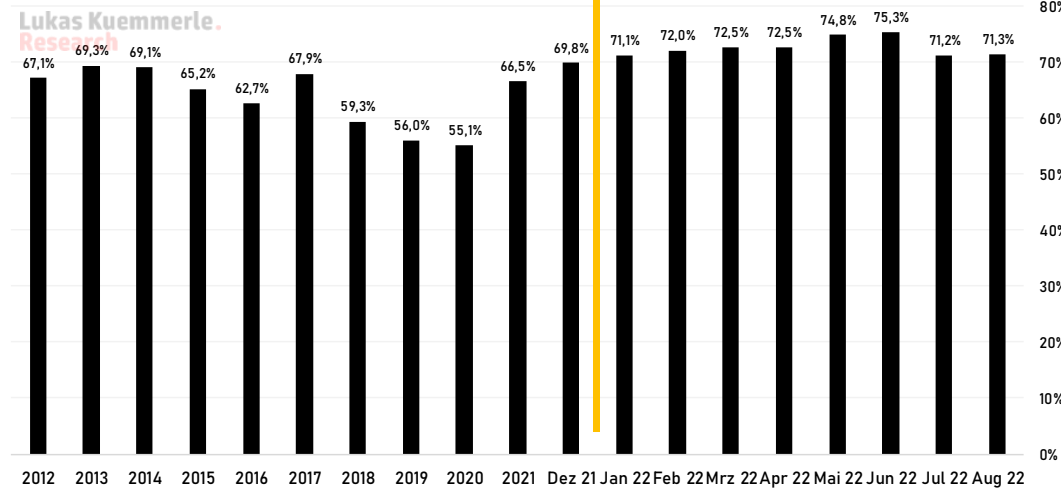
Source: USDA WASDE Reports, Kuemmerle Research Calculations

Corn - theoretical average operating margin

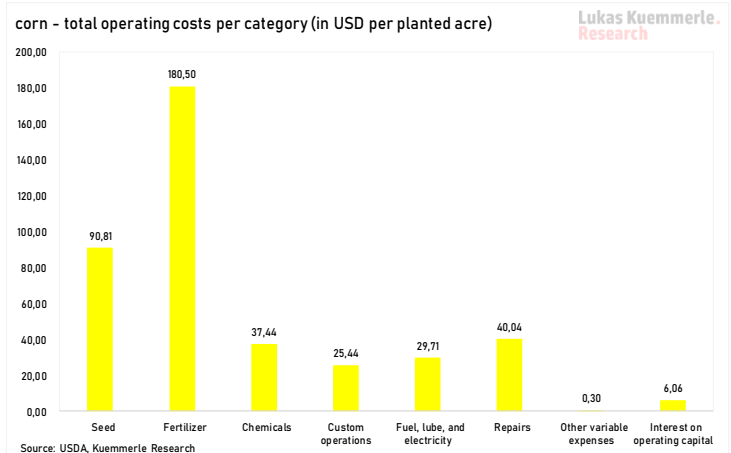
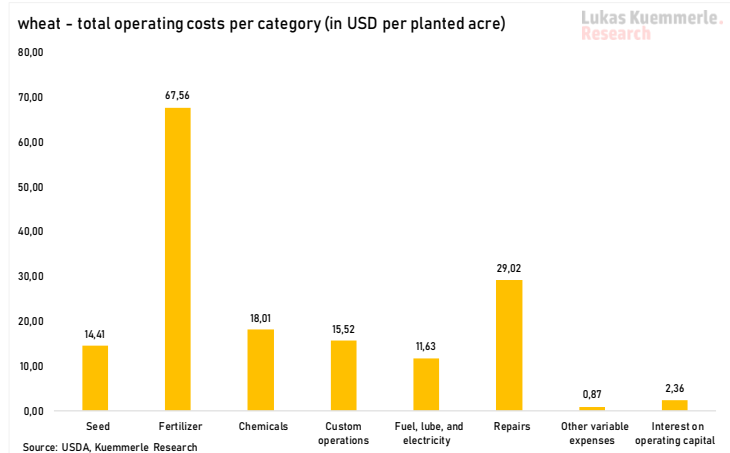
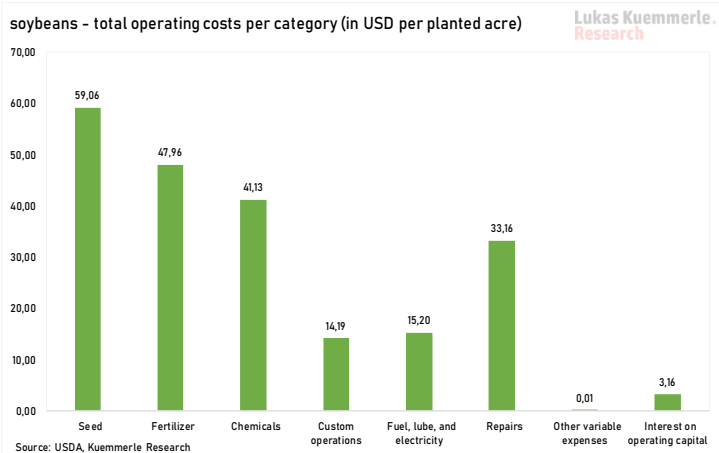
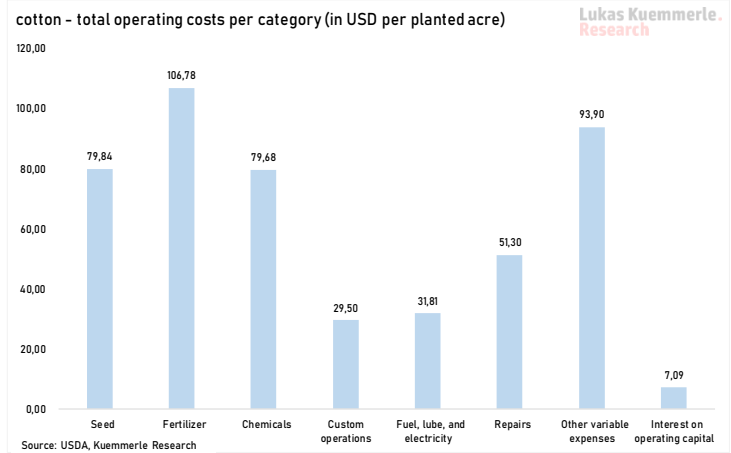
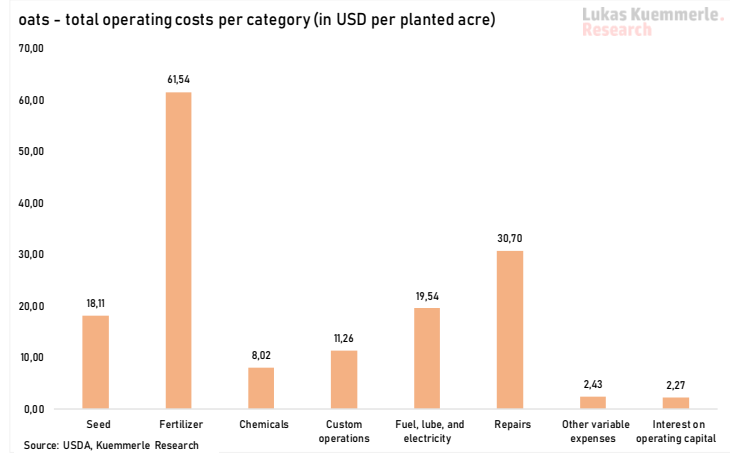
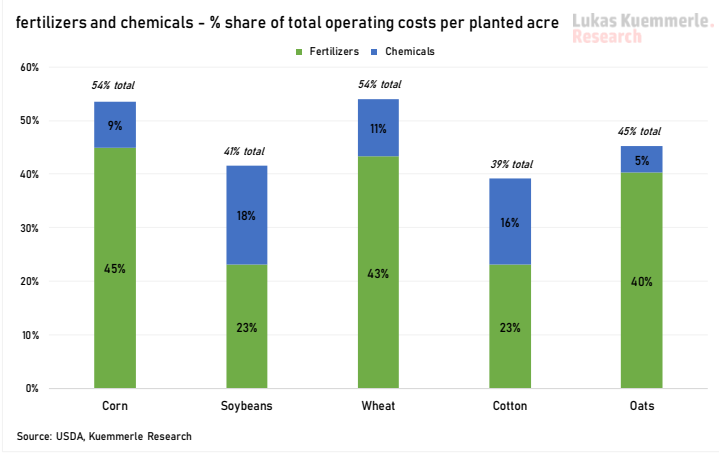


Source: USDA WASDE Reports, Kuemmerle Research Calculations

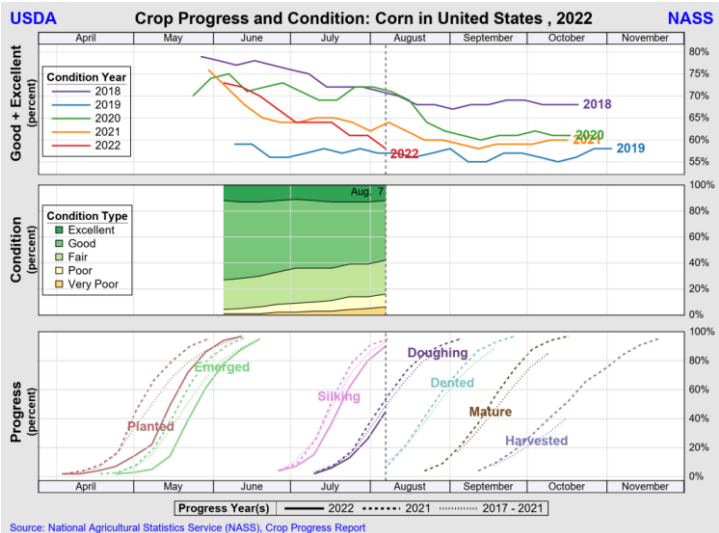
Soybeans - theoretical average operating margin



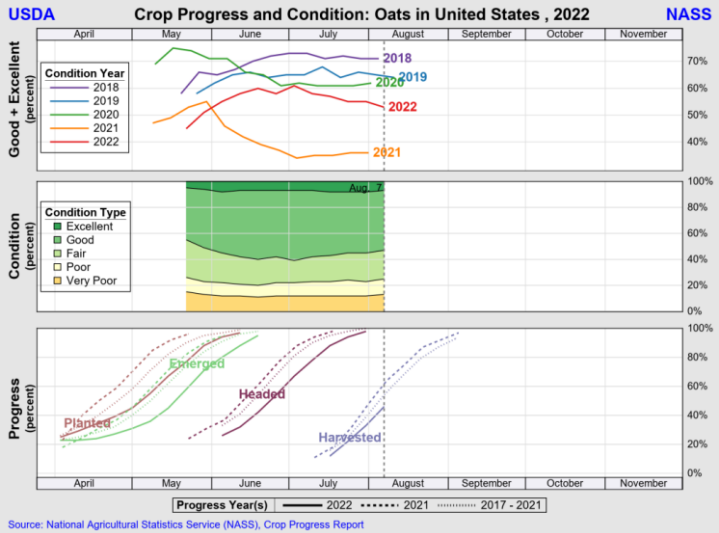
Source: USDA WASDE Reports, Kuemmerle Research Calculations



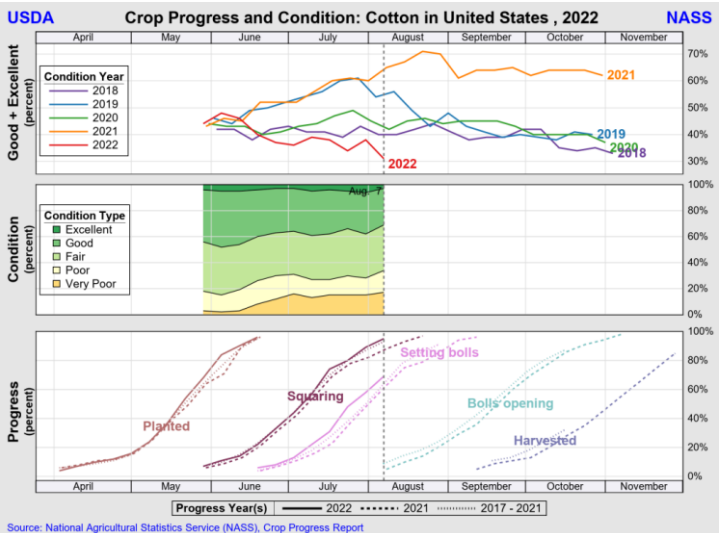
US Crop Progress and Conditions



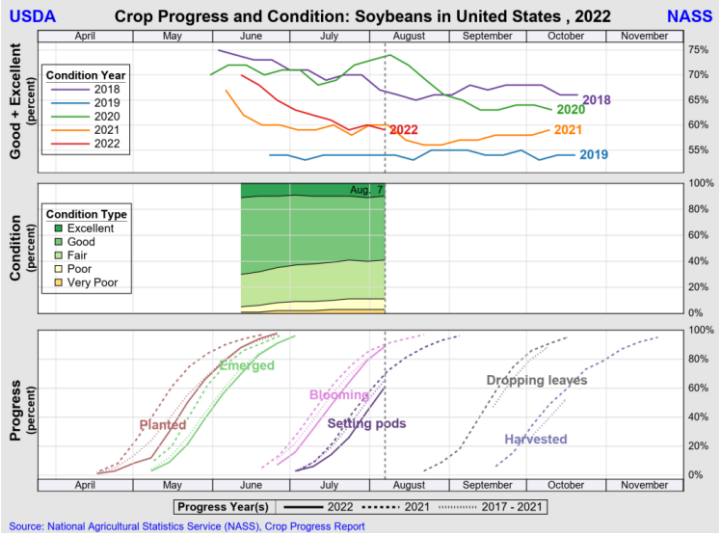
Source: National Agricultural Statistics Service (NASS), Crop Progress Report



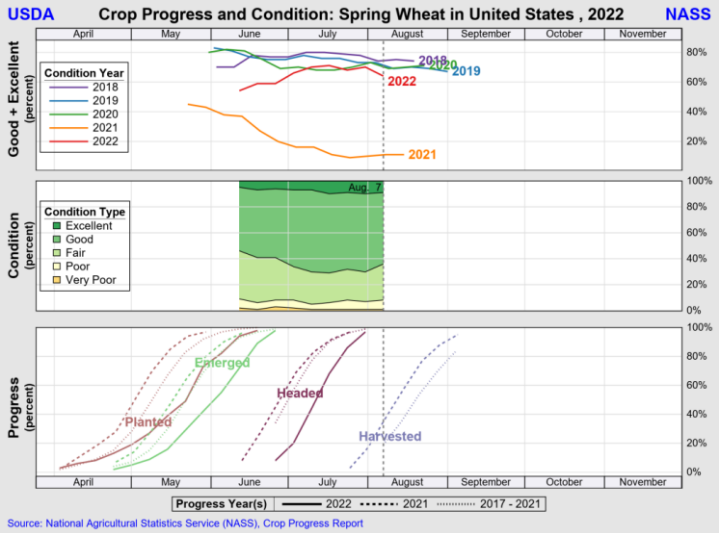
Source: National Agricultural Statistics Service (NASS), Crop Progress Report



Source: National Agricultural Statistics Service (NASS), Crop Progress Report



Source: National Agricultural Statistics Service (NASS), Crop Progress Report



Source: National Agricultural Statistics Service (NASS), Crop Progress Report

Drought is currently en vogue

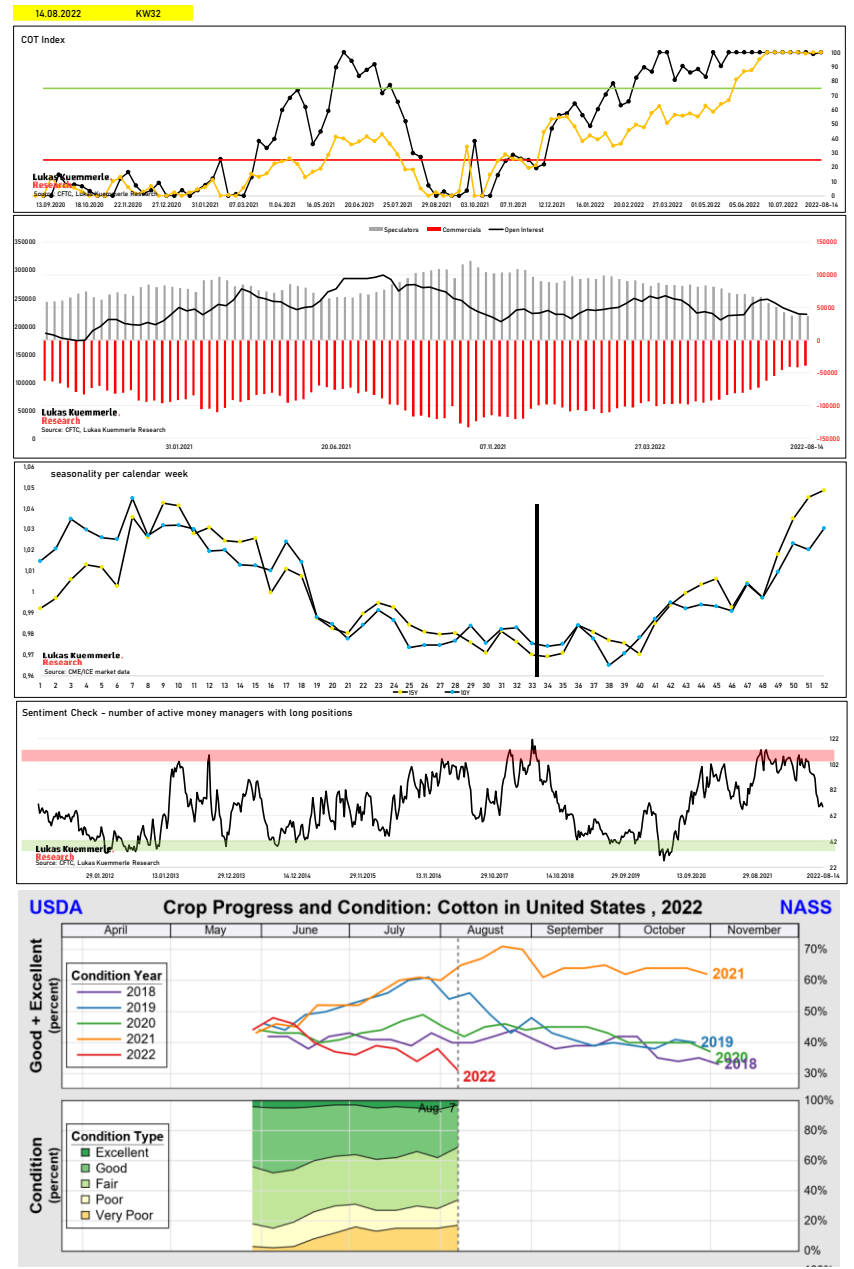
It seems like changes in drought conditions around the world are currently a major driver of commodity prices, besides the slowing economic growth and demand destruction.

Fortunately, I was able to enter the long cotton trade two weeks ago and published the idea in last weeks report and it played out very well. But there are reasons for that. It was a great technical setup and combined with the latest drought and weather forecast the setup became better and better. Last weeks WASDE report also showed that the important stocks to use ratio dropped by a lot.

If you performed this trade as well, my advice would be to take profits here. (I closed out 50% of the position on Friday)

I placed the SL to breakeven and will close out the position completely once prices closes again below the 18 Day MA.

Nevertheless, the setup is still valid, as long that's the case I will also use potential price weakness as entry opportunities and will notify you accordingly.



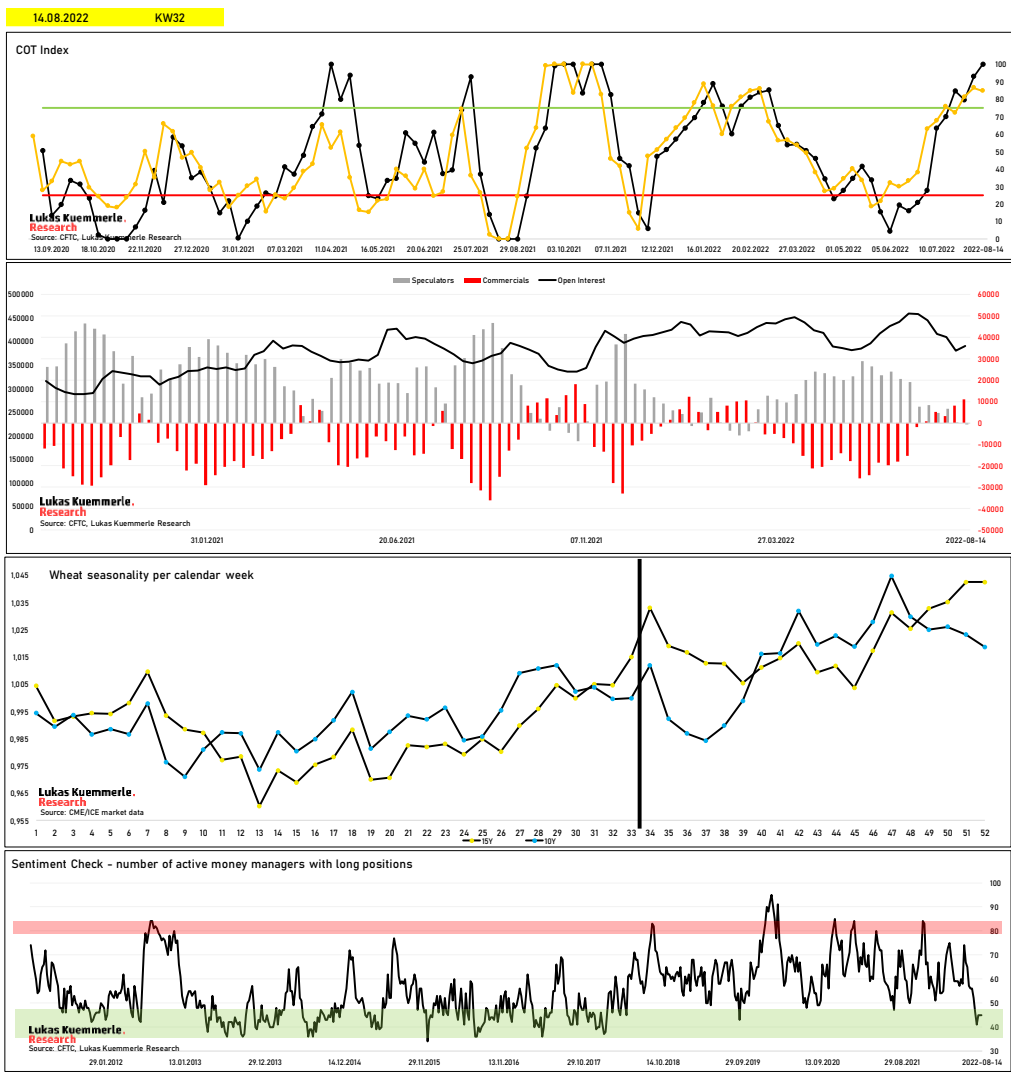
Long Wheat Setup – Not yet confirmed

wheat trades at a lower price than before Russian troops invaded Ukraine. Of course, a lot of fear and the worst-case scenario of a complete halt to exports of grains from Ukraine was priced into the price increase. In the meantime, however, we know that some farmers in Ukraine can continue to cultivate their fields and that some exports are now leaving the port again.

However, nothing is as before, except the price. In my opinion, a clear divergence between price and fundamental data.

Nevertheless longer-term spreads remain weak and there is not much momentum in the price action at the moment. If this changes during the next days/weeks, I'll be a buyer of wheat again.

I'm really quite worried about next years harvest as farmers are really struggling with the drought conditions and low water reserves. A bad combination if you ask me.



Long EUR/USD – setup confirmed

Pessimism and Unified Consensus

The euro is currently receiving little love, either from portfolio managers, analysts or the media. This is also quite rightly the case, as political as well as monetary policy decisions have caused the euro to fall to where it currently stands. From a sentiment perspective, however, the situation is enormously interesting, as broad pessimism has repeatedly led to trend reversals in the markets in the past. As a final example, one should cite the excessive positioning of fund managers in the long commodities trade, which meanwhile has proven to be critical.

ECB has surprise potential

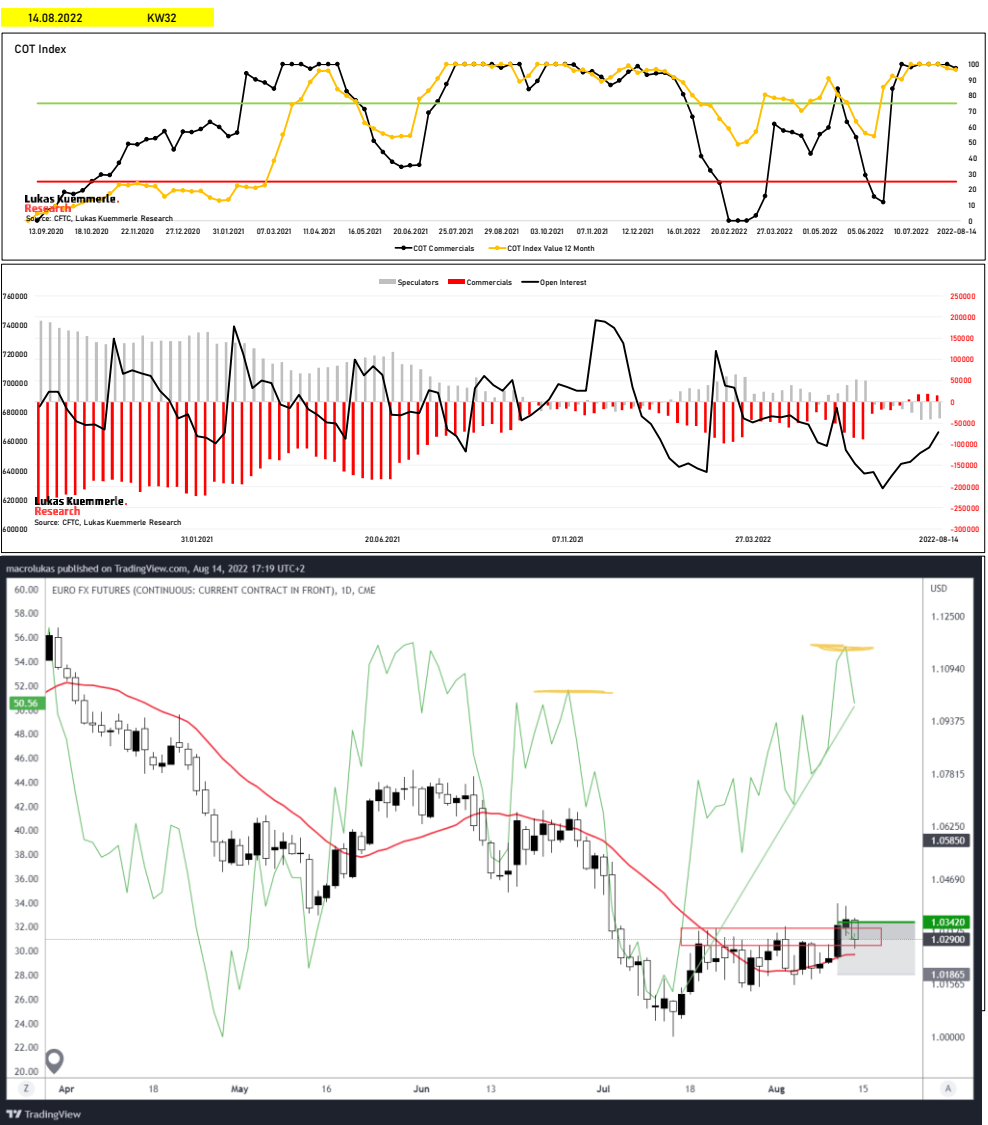
The ECB must also pay close attention to the fact that the bond spreads of the peripheral countries do not decouple too strongly from the rest of the euro countries. A new instrument could therefore soon come into play here. Leaving interest rates untouched or raising them only slightly by 25bps but launching a bond-buying program of bonds from the peripheral countries in return. This announcement would have the potential to strengthen the euro area and euro as a whole again. However, since the ECB is unlikely to turn the interest rate screw much, it is important to pay attention to how the Fed will act from now on. Meanwhile, one can already discuss that a maximum "hawkishness" of the U.S. Federal Reserve is already priced in and that it is rather likely that the team around Jerome Powell will rather disappoint expectations due to the flattening economic growth. This, in turn, would be good for the euro in relation.

Hope for easing of gas supply freeze

Another issue that is currently weighing heavily on the euro is the question of supply security and whether Europe will be able to build up sufficient natural gas/LNG capacity by next winter. This factor will determine the depth of the likely upcoming recession in Europe and thus be decisive for the further exchange rate.

Peak-Inflation

Generell sollte die Inflationsdynamik zum Jahresende abflachen, da die Vorjahresvergleiche dann enorm schwer zu schlagen sein werden. Ein Inflationspeak im Euroraum sollte den Euro ebenfalls stärken.



The RSI made a relative higher high and the price itself broke out of a consolidation as well. Combined with the fundamental setup this was enough for me to pull the trigger on the long side.

(be aware that we use small SL but often make many re-entries in order to achieve the best timing and risk management. I always use the most liquid contracts to trade and roll contracts accordingly.)

Closed/Stopped-Out:

Still Active:

- Long ZN September 22 contract (28.07)
- Long Cotton December 22 contract (01.08)
- **Long EURUSD (10.08)**

Key-Investor-Takeaways at the moment

- The summer months in the world of commodities are often slow and show less liquidity. Therefore, I expect the commodity correction to endure till the end of August, before it resumes in a more differentiated way than it did since 2020.
- The combination of declining growth (Manufacturing PMI), low liquidity and a weak Chinese Credit Impulse, that will on the other hand support markets again towards the end of the year, continue to weigh on commodity markets for now.
- Cash and Safe Haven assets remain the place to be at the moment

Last week's agenda	
Crude Oil	buy higher highs
Gasoline	buy higher highs
Natural Gas	neutral
Corn	buy higher highs
Soybeans	buy higher highs
Soybean Oil	buy higher highs
Soybean Meal	neutral
Wheat	buy higher highs
Coffee	buy higher highs
Orange Juice	buy higher highs
Cotton	buy higher highs
Sugar	buy higher highs
Copper	buy higher highs
Gold	buy higher highs
Bitcoin	neutral
S&P 500	neutral
10Y Treasuries	buy higher highs
US Dollar Index	neutral
EUR/USD	buy higher highs
GBP/USD	buy higher highs
BRL/USD	buy higher highs

My current agenda	
Crude Oil	buy higher highs
Gasoline	buy higher highs
Natural Gas	neutral
Corn	buy higher highs
Soybeans	buy higher highs
Soybean Oil	buy higher highs
Soybean Meal	neutral
Wheat	buy higher highs
Coffee	buy higher highs
Orange Juice	buy higher highs
Cotton	buy higher highs
Sugar	buy higher highs
Copper	buy higher highs
Gold	buy higher highs
Bitcoin	neutral
S&P 500	neutral
10Y Treasuries	neutral
US Dollar Index	neutral
EUR/USD	buy higher highs
GBP/USD	buy higher highs
BRL/USD	buy higher highs

My investment framework

Here is what is structurally wrong in the way leaders/politicians and people in general talk about the green transition, about fossil fuels, oil, gas and metals. A cyclical commodity bull market.

I'm in favor of combating man-made climate change and replacing most fossil fuels with renewables in the long term, but the way we are currently going about it is not realistic and will end badly for society and also in high commodity prices and much higher cost of living. Why is that the case? Everyone wants renewable energy, but no one wants to invest in the raw materials needed to build the EVs, the power lines, or the battery capacity. Due to political pressure, the financial world has had to jump on the #ESG bandwagon. Which is difficult.

Investing in new copper, cobalt or lithium mines is considered "dirty" and not ESG compliant. At the same time, we need vast amounts of metals to build our green world of tomorrow. As long as no rethinking takes place, prices will rise in the long run, as demand grows. The same dilemma applies to #oil and gas. Both energy sources will continue to be used for a very long time. Current estimates suggest that peak demand will not be reached until 2040. These estimates are being pushed further and further into the future - and there are reasons for this.

While OECD countries will replace fossil fuels with more climate-friendly alternatives in the coming years, non-OECD countries will use more fossil fuels to expand their economies at the same time. (ever heard of "industrialization") We therefore often see the problem through "western glasses". For developing countries, however, fossil fuels are more accessible, less costly infrastructure is needed to use them, and they are still cheaper than alternatives. So, it is not a question of will but of growth. But enough talk about problems, what is the solution? Invest. But less in renewable energies itself, but more in the expansion of extraction of the needed metals and fossil fuels. Investments in mining companies and oil and gas production are urgently needed.

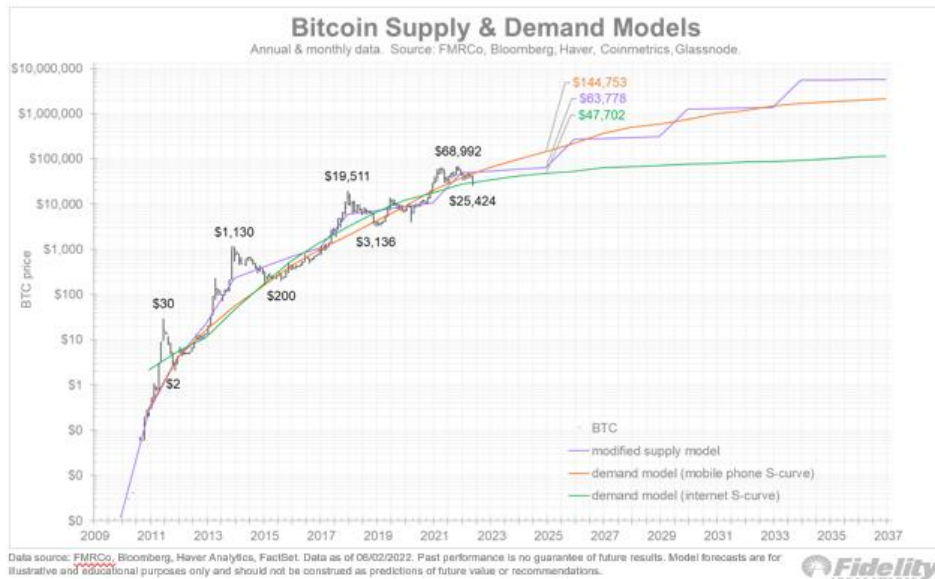
Commodity prices have corrected in recent weeks. The main driver is slowing economic growth and demand destruction due to high prices. But beware of what happens once the economic cycle turns up again. Commodity prices will most likely become even pricier over time. I'm pro-renewables and fighting climate change but people seem to attack the problem the wrong way. The solution is not black or white, it's grey. Therefore, I believe that the cyclical commodity bull market will continue for a very long time unless we see a re-thinking.



Bitcoin Adoption Curve

Jurrien Timmer from Fidelity did some great research comparing the network adoption curve of the internet and the usage of mobile phones with bitcoin.

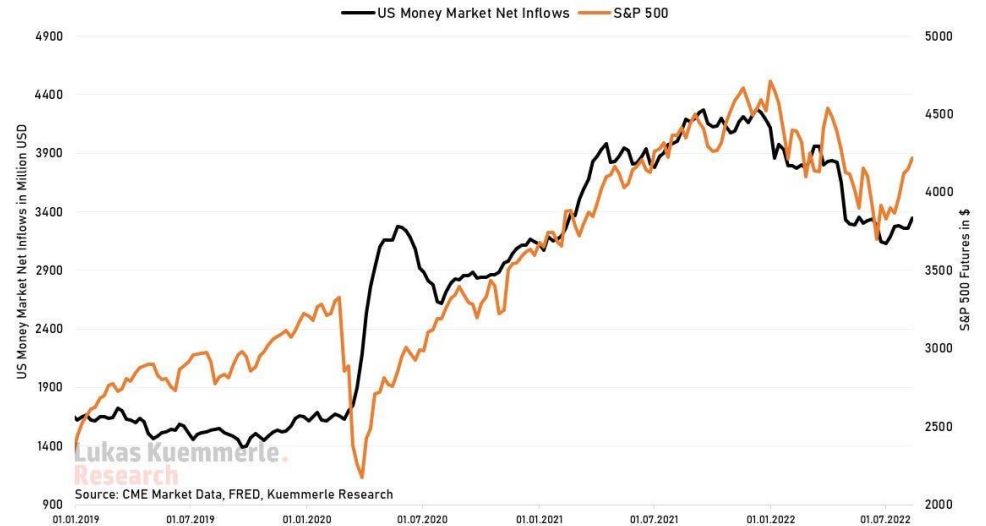
I think this is a much more realistic supply/demand model if you share the view that blockchain technology is of the same magnitude as the internet.



I can only repeat it - there is still no QE

Another week and another increase in net money market injections by the FED (black line). What is happening? This has nothing to do with QT, therefore the latest rally, especially in high-beta assets, is also fundamentally backed.

Money Market Liquidity vs. S&P 500



Many commodities bounced already big time

The correction that for some commodities has since the end of July increasingly been showing signs of reversing, driven by recent economic data strength and further signs of dollar weakness. The focus has returned to supply which in many cases remains tight, thereby providing renewed support, especially across the sectors of energy and key agriculture commodities. To highlight some numbers:

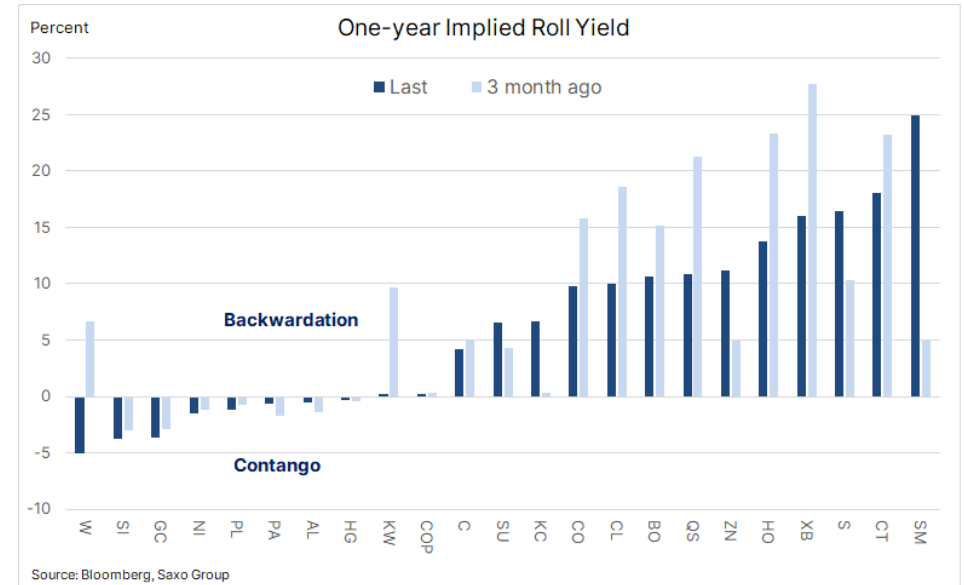
S&P Industrial Metals index bounced back 28% from recent lows

Bloomberg Agricultural Index bounced back 9% from recent lows

Meanwhile, backwardations across the commodity complex remain elevated despite the recent headwinds, as this great chart by Ole S Hansen from Saxo Bank shows.

In other news, investors reduced their commodity exposure further in July. Seems to me like much of the speculative positioning gets washed out of the market.

I'm quite certain that the long-term trends in the commodity complex haven't changed a bit but are instead only delayed a bit further into the future, caused by an economic slowdown and recession fears. Be patient.





Founder & Editor Lukas Kuemmerle

„It is one thing to write nice reports about what is happening in the commodity world, it is a whole different story if you write a report which investors and institutions can use to identify the right commodity setups and provide the right timing to trade them.“



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