State Of The Commodity Market – March 2023

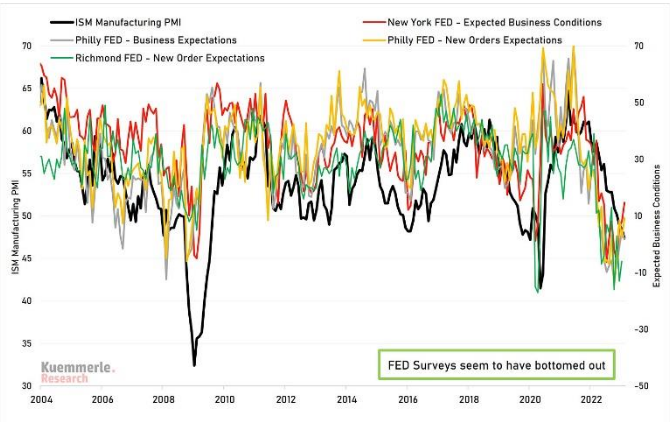
01.03.2023 – Kassel, Germany

We continue to see mixed signals in economic momentum, but the risk remains on the bearish side. A number of divergences between economic momentum and especially soft commodities have become visible. As you can see in the graphic below - the only commodity sector which remains green all across the board is the soft sector.

Energy		Metals		Grains		Softs		High Beta	
Heating Oil	-15,1%	Gold	-0,5%	Soybean Oil	-4,4%	Coffee	12,2%	Bitcoin	39,4%
Natural Gas	-43,1%	Silver	-10,5%	Soybeans	-0,3%	Orange Juice	21,6%	S&P500	3,0%
Crude Oil	-4,9%	Platinum	-16,0%	Soybean Meal	1,9%	Cocoa	5,7%	VWO EM ETF	1,2%
Gasoline	4,2%	Copper	3,7%	Wheat	-8,9%	Sugar	6,2%		
				Oats	-5,7%	Cotton	1,8%		
				Corn	-4,2%	Live Cattle	4,8%		

Economic Momentum

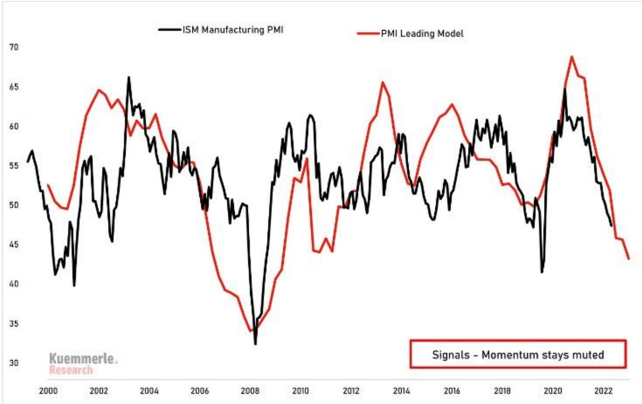
While the regional Fed surveys signal that business expectations for the future are brightening and about half of our leading indicators continue to point to a trend reversal and a firming of economic activity in Q2, the credit impulse from the US and our Leading PMI Model don't look very promising.



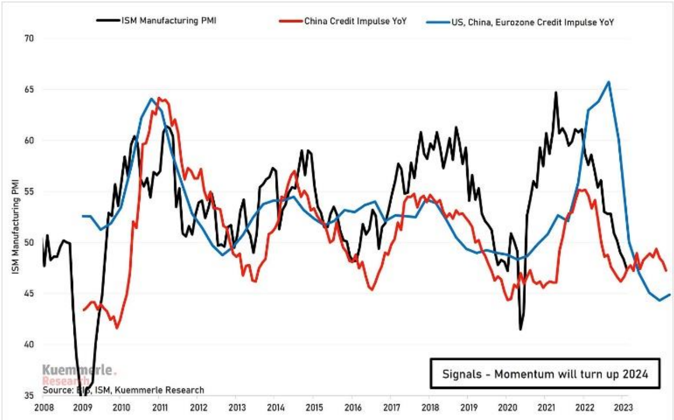
It is now becoming apparent that the coming economic downturn will slowly but surely penetrate the markets and will therefore continue throughout most of 2023. Our turnaround signals are therefore shifting further and further towards the end of the year. We are currently sticking to our forecast for the end of Q3.

Our leading PMI model suggests something similar. We, therefore, now suspect that, after all the current euphoria, a recession could be in the offing in the second half of the year that will last a little longer than previously assumed. This is something to keep in mind also when selecting raw open trades on the long side. We, therefore, remain primarily on the short side. We, therefore, continue to find long trades in commodities with a high correlation to economic activity difficult to evaluate and do not plan to play them on the log side so far (these include copper, oil, and cotton).

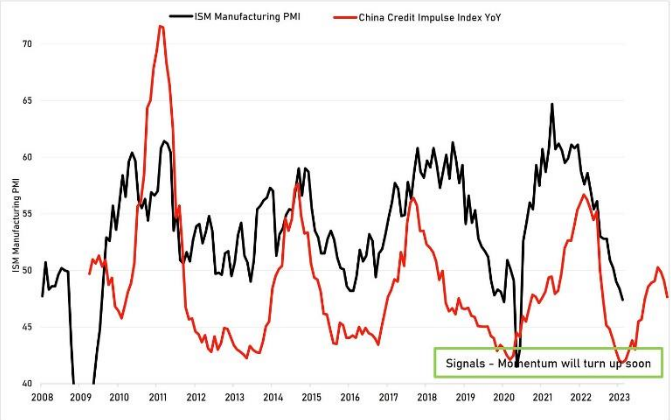
Too many new outlets and government officials continue to sell us the case of the soft landing - we don't see that happening as inflation is on the brink of getting out of control again. the FED will most likely shift its position once gain and increase its hawkish tone.



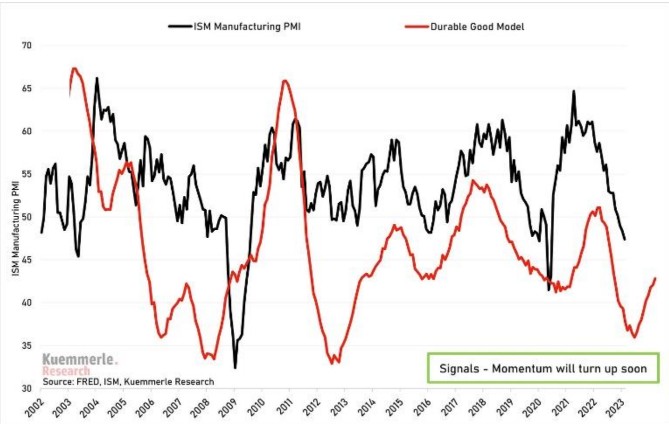
As mentioned above the US and also the World Credit Impulse growth slowed not much further but usually, the time leg is about six to nine months - therefore more weakness in economic momentum seems likely on that front. Still - we expect that the component will start picking up the pace again reasonably soon, simply because of the basis effect during the next quarters.



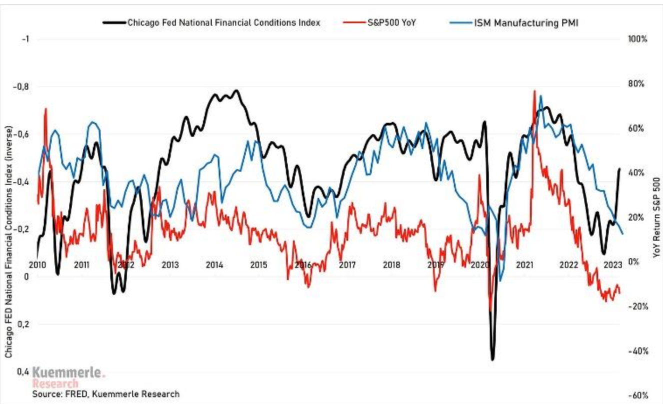
The credit impulse from China continues to look promising and provides corresponding support for global growth. Nevertheless, the index is also losing momentum again - so all in all, mixed signals on the credit impulse front.



Our Durable Good Model still suggests that a turning point in economic momentum is near. On these low levels, the index already produced one wrong signal…yes at the beginning of the GFC in 2008.

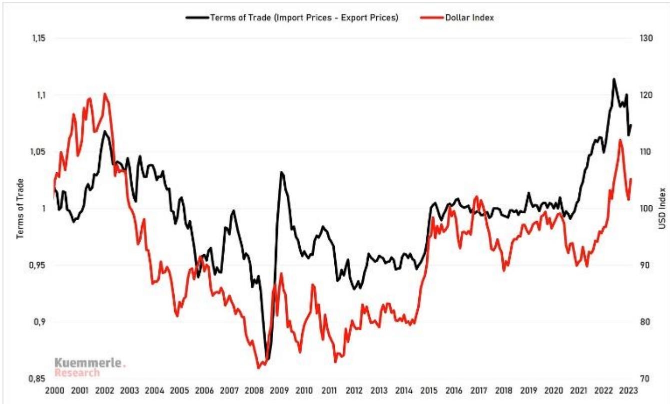


Last but not least there remains a large divergence between financial conditions and the ISM Manufacturing PMI. We also believe that this divergence will resolve in the form that financial conditions will tighten again, otherwise inflation could pick up the pace again and we don't think that the FED is willing to risk that again.

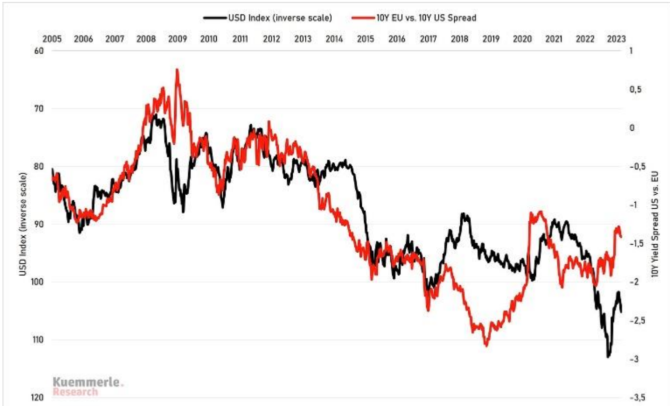


The US Dollar

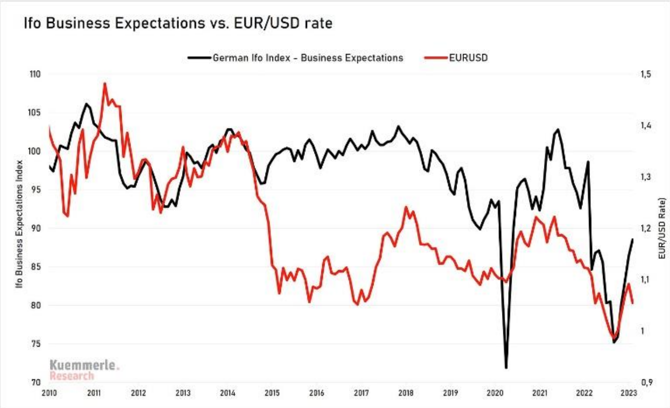
As we expected- a pullback move in the DXY has started. However, we will use temporary dollar strength to sell off the greenback. Our Terms of Trade Model already signaled last year that the US dollar peaked from a fundamental perspective. In 2023, a steady depreciation of the dollar should continue to prevail.



We continue to like the Euro vs. the USD - also because the ECB is not as far with its hiking cycle as the FED. The spread between 10Y treasuries from the EU and the US confirms that there is actually more upside for the Euro.

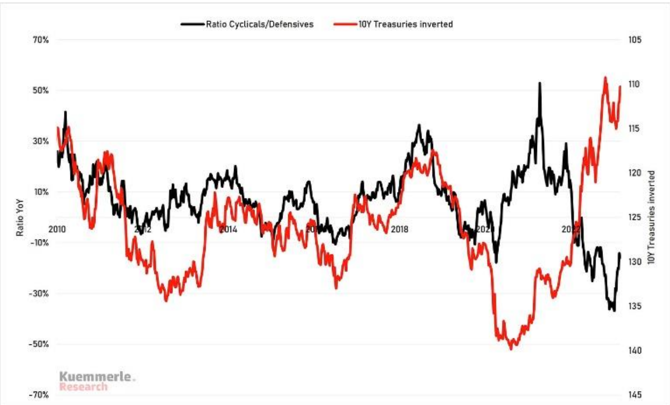


As long as the Business Expectations in Germany continue to improve that should give the EUR some kind of stability or tailwind.



Yields

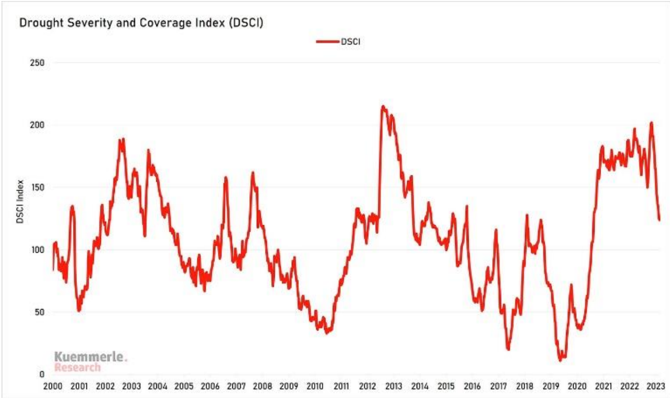
We're still waiting for a sustainable turnaround in the treasury market. But as we highlighted over the last three months, the sentiment was very euphoric. Also as we highlighted - bond yields tested the highs again. The consensus seems to change and we think we'll soon get the opportunity to go long bonds again as it will become evident that economic momentum will stay muted for some time.



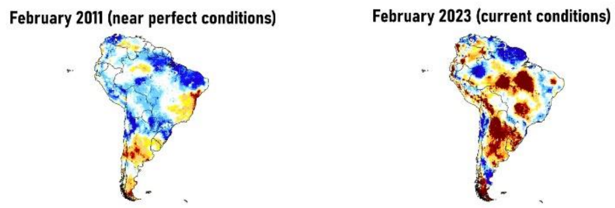
However, yields are a tricky game and we will stay flexible. If inflation for example, shows to be more sticky towards the second half of the year, inflation expectations could surge and drag yields higher again.

Weather & Drought Conditions

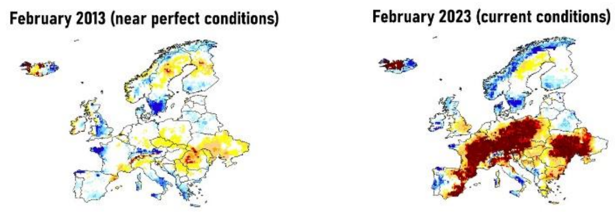
The US remains dry - but it gets better. Groundwater levels in the US have recovered in recent months (see DSCI index). However, conditions are still just not good compared to January 2019, when conditions were almost perfect and set the stage for an excellent harvest.



South America also remains dry in some key agricultural places - but it is essential to distinguish between the two, as this has become a "normal" phenomenon. South America has experienced more extreme weather and drought in the past than the US.

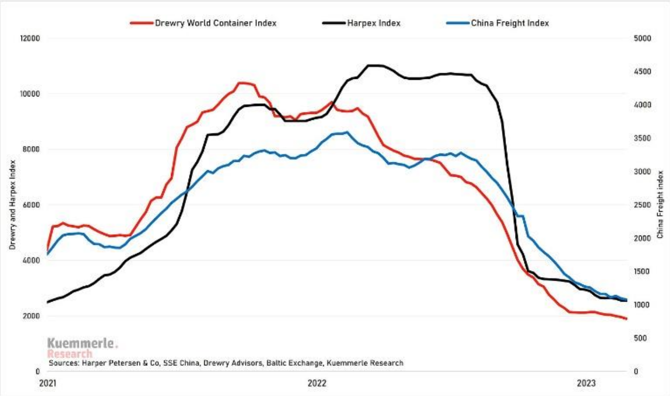


Conditions in Europe remain challenging as well.

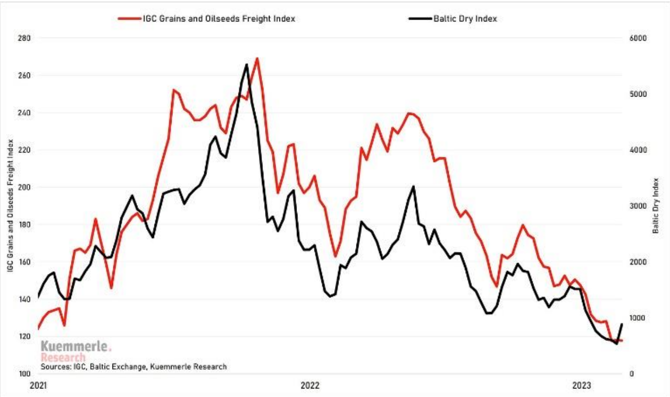


Shipping Conditions

Shipping conditions worldwide continue to improve - with freight rates for containers and ships falling. Nevertheless, as stated in last month's report, it seems like container rates are trying to find a bottom at these levels.

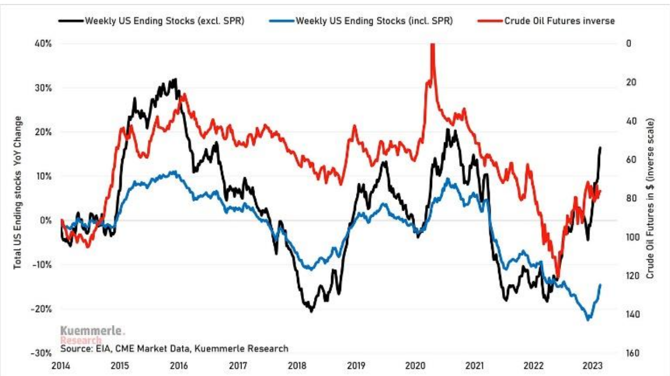


On the Bulk Dry front, it also seems like the rates for shipping grains and other bulk dry freight around the world continue their downtrend direction.

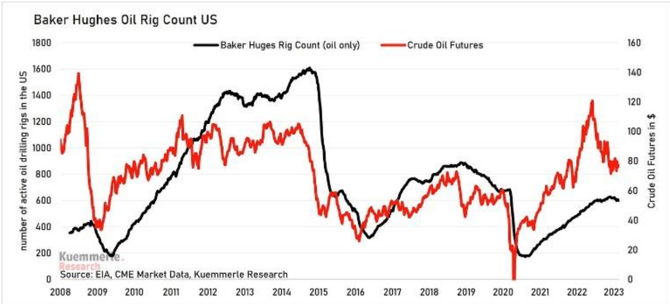


US Energy Report - Oil & Gas

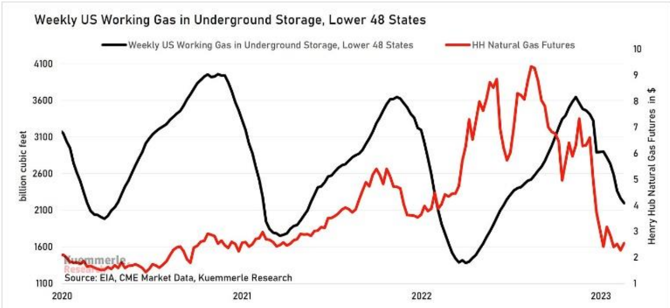
There remains a significant mismatch between inventory data and the price of crude oil. This gap seems to close now fast due to the fact that oil demand slowed and a stock build of oil inventories became visible again over the last three months.



It will also be important to keep an eye on the oil rig count. Notice that oil usually rallies when rigs are added - we're now at a turning point and rigs seem to become less again as demand fades.

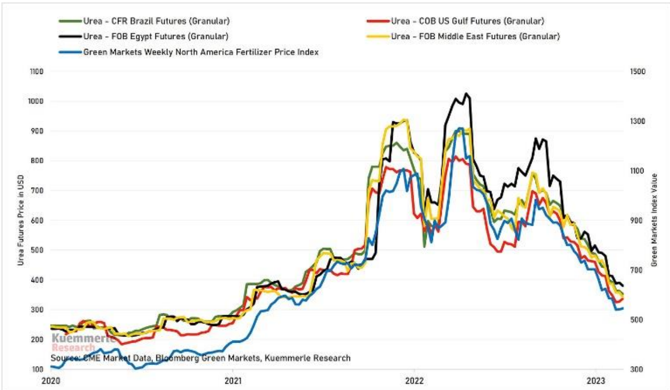


The natural gas picture looks more in order and in line with the previous year's trend. On the other hand, Henry Hub futures are currently being sold off mercilessly and hedge funds have very high short positions. Opportunities could arise again soon, which we will highlight in the Kuemmerle report.

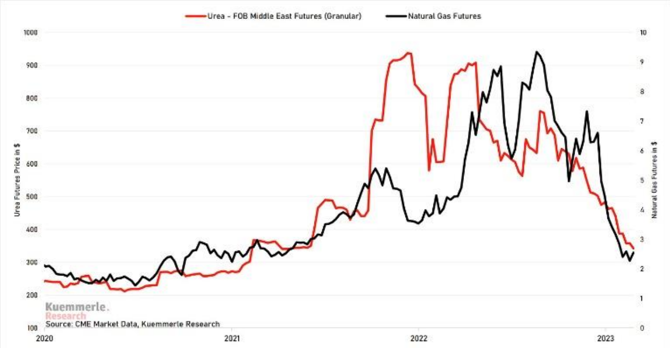


Fertilizer Prices

Fertilizer prices almost completely reverted back to pre-Covid levels.



The natural gas market remains primarily driven by temperature changes in the US and Europe. Significant changes in the price action of Henry Hub Natural Gas will therefore remain the primary driver of prices going forward.



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All external data sources are named directly in the charts.

Sources used in the report:

CME Market Data, ICE Market Data, Tradingview Charts & Market Data, NASA Weather Service, World Ag Weather, USDA, EIA, CFTC Data, Nasdaq Data-Link,

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