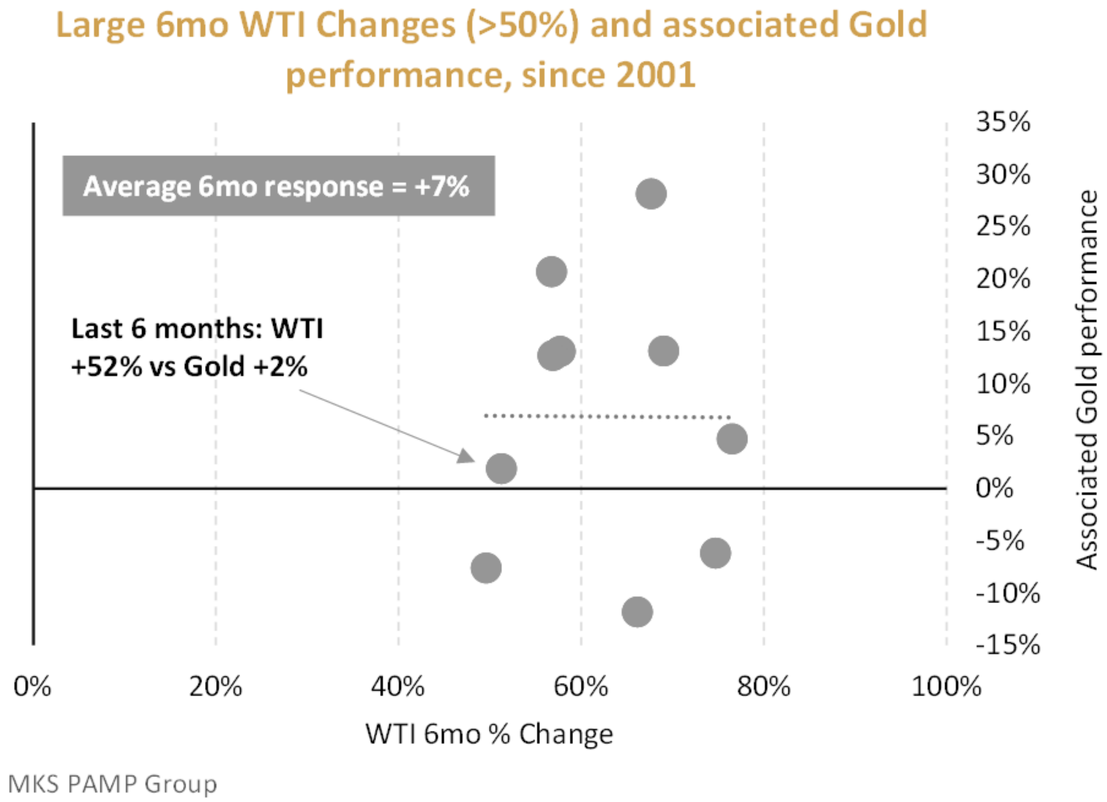
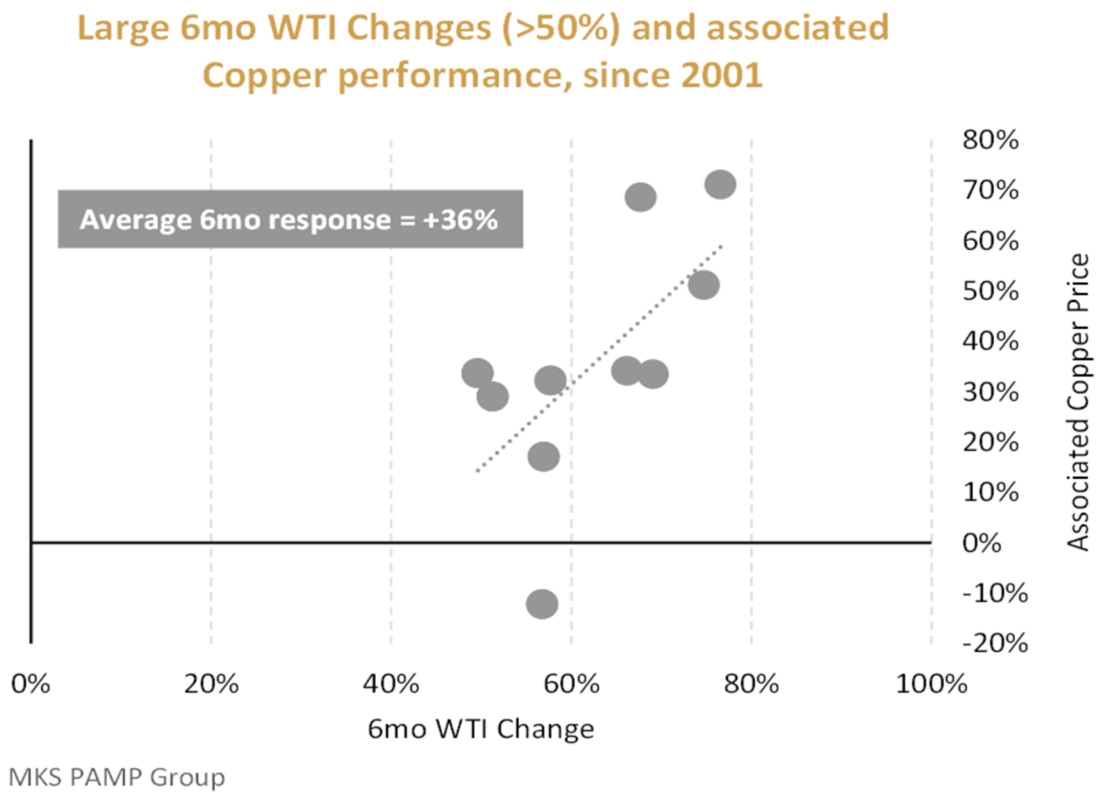
Commodities Report: Oil & Metals

Daily correlation matrix: July 2001 - July 2021 with Energy (WTI)	
	WTI
US 2yr yields	-21%
US 10yr yields	-13%
SPX	-7%
Palladium	-1%
Zinc	37%
Gold	44%
Silver	65%
Aluminum	66%
Copper	79%
Platinum	89%
Brent	98%
WTI	100%
MKS PAMP Group	





Oil and implications for metals, other assets

1H 2021 was defined by an explosion in fossil-fuel like investments, driven primarily by oil rallying >50%, gasoline almost 60% and NG 35%. Ironically, markets are tighter (with curve backwardation) and more vulnerable to upside surprises now than 1year ago, internalizing a V-shaped demand explosion and a concerning supply backdrop (capex expected to hit a 6-year low in 2021 as investment in new production is being ‘”crimped by environmental concerns”). Now energy is back in the headlines after OPEC+ cancelled further talks (on ramping up production & fulfilling demand); initially the impasse caused prices to spike to $77/bbl but the markets have began to fret that producers will unilaterally increase supply, given no unity. Niggling higher energy prices has implications for commodities markets, for macro policies and the inflation outlook. The below explores this theme a little deeper and looks at model implied metals prices for WTI at various prices (recently $75/bbl), the bull case many banks/analysts have called for (> $100/bbl), and the bear case ($50/bbl).

Full Report: [MKS Commodities report - Oil vs Metals; correlations and implications of higher prices]

SUMMARY:

1. **Energy trends have important (dis)inflationary implications for the global economy beyond being a growth (or recession) gauge. This current inflationary rally provides bullish tailwinds for all commodities but especially inflation hedges like Gold, and it puts commodities as a sector back on the map. There is also a positive feedback loop in that it raises the cost of production floors for many producers. However, this oil repricing arguably only accelerates the urgency to taper/hike global rates earlier, injecting some skittish fears for precious.**
2. **Over the past 2 decades, Oil prices help explain a large amount of the variation in metals — 89% of Platinum, 79% Copper, & 65% of Silver prices. Gold vs WTI has a weaker correlation at only 44%, while there are negative correlations between US bond yields & SPX and WTI.**
3. **Regressing oil prices on all metals over the past 20years, shows some dislocations - under recent oil pricing (~$75/bbl) the bearish potential in Silver & Copper is large at almost 30%. Platinum on the other hand, is very cheap and as the “party metal” should currently be priced closer to $1274, given it enjoys a v strong correlation with WTI of +0.89.**

4. **Short-term US yields should also be over 130BP higher (US 2year yields closer to 1.6% vs the current 0.22%) IF oil price are indicative of real sustaining demand and are correct… If Oil moves to $100, that's when it starts to hurt growth, and the model implied US 2year yield price is actually lower at 1.3%**
5. **There are 10 historical instances since 2001, when Oil has ripped higher by more then 50% in 6 months; all metals often follow the large rally in oil with average 6mo increases ranging from +7% (Gold), to +29% (Platinum) and +36% (Copper).**
6. **Platinum, once again, is the standout and is relatively underpriced and cheap versus historical trends/responses to largescale oil rallies; its meant to rally on average 29% but currently is only up less than half as much, at 12%. Palladium & Copper have priced in most of the correlated gains from this 2021 recent oil move.**

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