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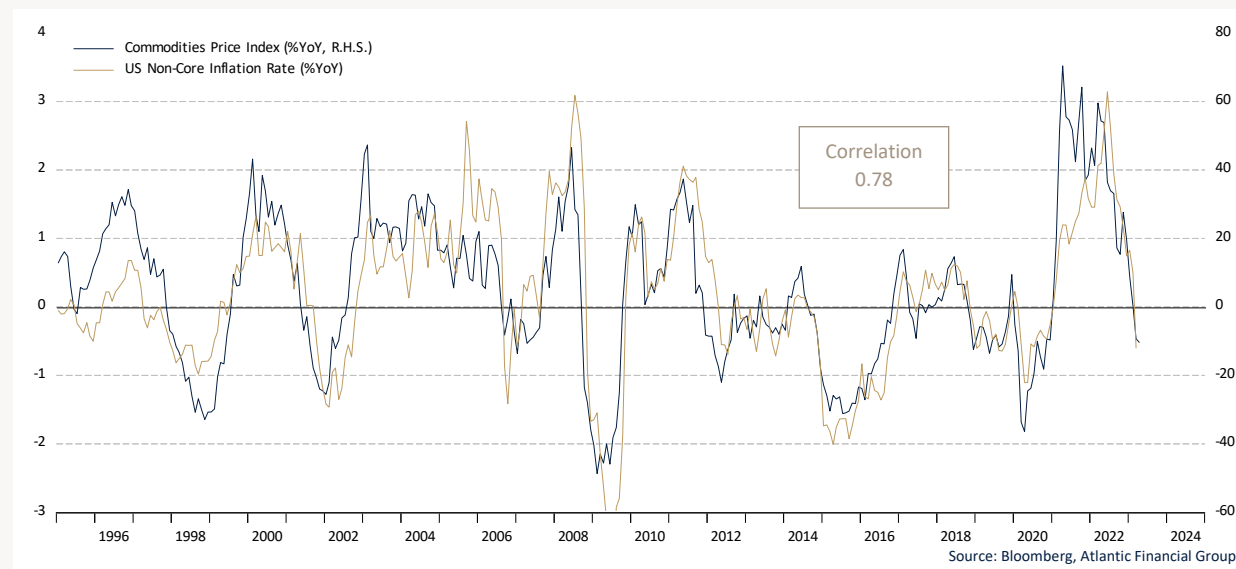
Weekly Investment Focus

1st May 2023

"COMMODITIES, A HEDGE AGAINST INFLATION"

- ◆ No trend since the beginning of the year
- ◆ Recession fears weigh on energy prices...
- ◆ ...While political instability seems to have taken a back seat
- ◆ The fundamentals are good and the sector has strong finances

CHART OF THE WEEK: "High correlation between commodities and inflation"



ANALYSIS OF THE RAW MATERIALS MARKET

Investors and central banks have their eyes on inflation, which is largely due to post-Covid logistical problems and the war in Ukraine pushing up commodity prices.

Shortages first affected product sales (e.g. cars, computers, etc.) before impacting margins and now consumers' wallets.



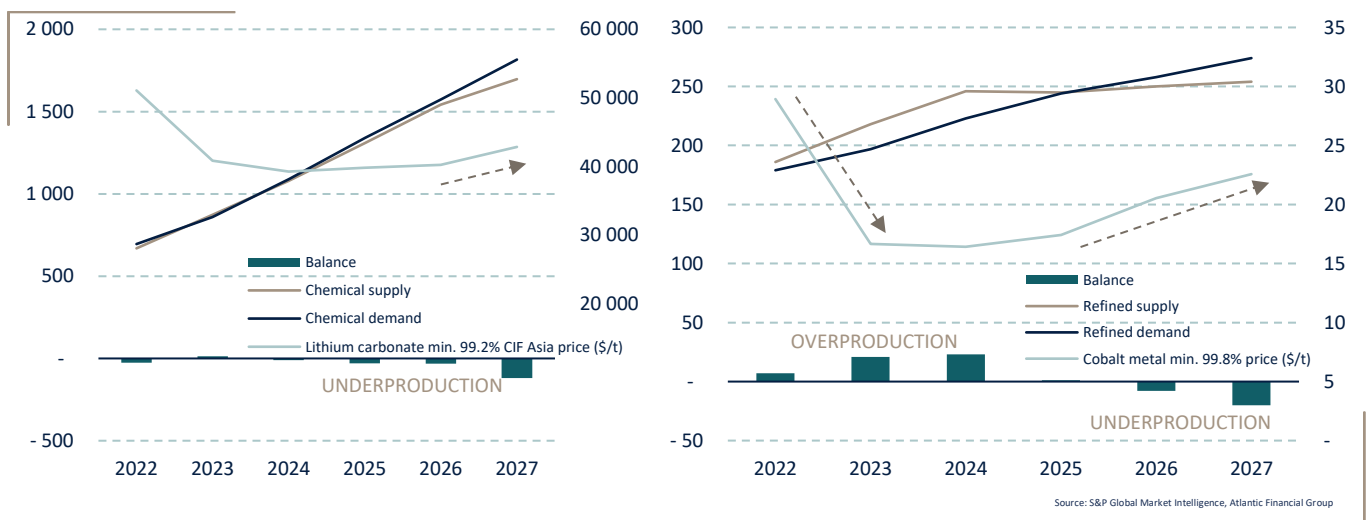
◆ No trend since the beginning of the year

Since 1st January, the price of lithium has fallen by almost 69%, even as sales of electric vehicles have soared. Cobalt, another important material for batteries, has fallen by 33%. Copper, essential for electric motors and batteries, is up 3%, while iron ore is down 5%.

Raw material prices remain highly volatile and are the result of a balance between supply and demand (see Fig. 2). What are the reasons for the fall in the price of some of the raw materials needed to build electric batteries at a time when the Chinese economy is recovering and policies seem to be supporting the transition to renewable energy more than ever?

In the short term, **the expiry of subsidies for the purchase of electric cars** is slowing down sales and thus the demand for raw materials. On the other hand, **the underproduction of lithium could be solved sooner than expected by the opening of new mines and refineries**. Lithium is not a scarce resource and is mainly found in salt form. It is the 33rd most abundant element on earth, but the exploitable quantities are mainly in Chile and Bolivia. Projects are being developed in France (Alsace) and the UK (Cornwall) but these new capacities will not be able to meet demand. The establishment of refineries in Europe will only just reduce dependency on China.

Fig. 2 - Lithium and Cobalt supply and demand forecasts



Technological developments are helping to explain the fall in cobalt prices. Batteries made without cobalt from lithium, iron and phosphate, a combination known as **L.F.P.**, are also more environmentally friendly and cheaper to produce. In addition, **the stockpiling of cobalt by a major supplier** has also had an impact on prices.

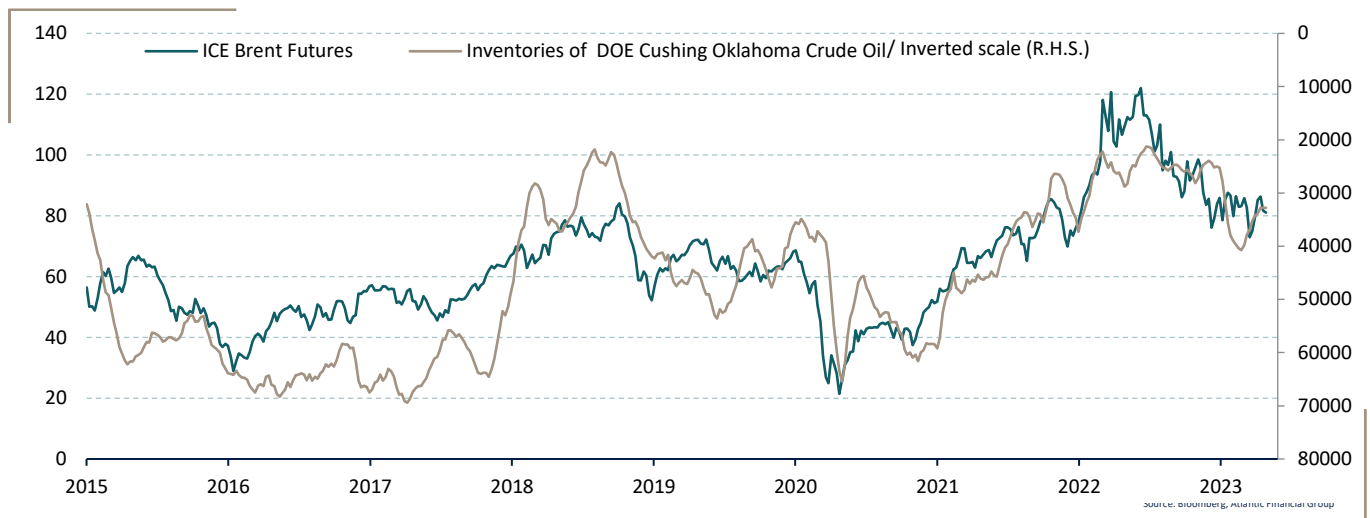
Industrial materials such as **copper and iron ore** are holding up better, supported by the reopening of **China and the stabilisation of its property market**.



◆ Recession fears weigh on energy prices

Oil prices have fallen slightly since the beginning of the year (-4.5% for WTI and -6.4% for Brent) as the risks of a global recession increase and winter comes to an end. However, prices are expected to remain in a relatively stable range. In mid-April, OPEC+ announced its decision to cut production in response to the economic slowdown and weaker demand from developed countries. Following this announcement, the price of Brent crude oil rose from \$71 (20/03/23) to \$86 (03/04/23), i.e. +21%, in the space of two weeks (see Fig. 3). Finally, prices are expected to hold up as the Chinese holidays approach, which will encourage a recovery in tourism.

Fig. 3 - OPEC+ supports oil prices by cutting production



◆ But political instability seems to have taken a back seat

Natural gas, whose price had soared following the invasion of Ukraine, is down 48% this year and 76% from the 2022 highs (see Fig. 4). Natural gas prices have fallen thanks to a relatively mild winter and efforts to reduce consumption. **Energy supply has also diversified. It now comes from more expensive sources than Russian gas, notably Liquefied Natural Gas (LNG) from the US or Qatar.**

This correction is already having a positive impact on Europe, reducing costs for businesses and households. Natural gas accounts for about 2% of manufacturing costs in North America, while electricity adds 1%. In most other countries, natural gas costs represent 5% to 8% of the cost of manufactured goods and electricity costs 2% to 5% (see Fig. 5).

The geopolitical impact on commodity prices is therefore less, even if the cards on the political chessboard have been largely redistributed. Europe seems to have found alternatives, but not all of them are sustainable.



Fig. 4 - Price of natural gas

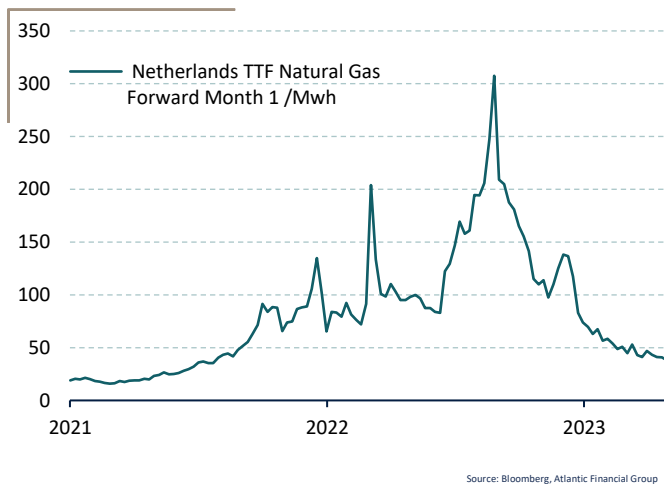
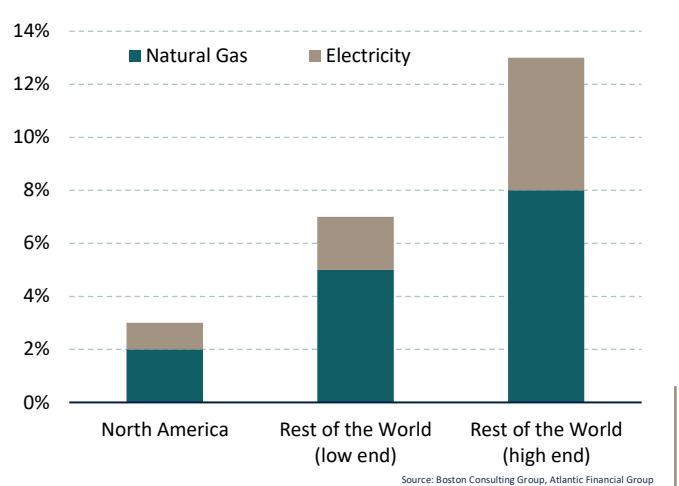


Fig. 5 - Energy contribution to production costs

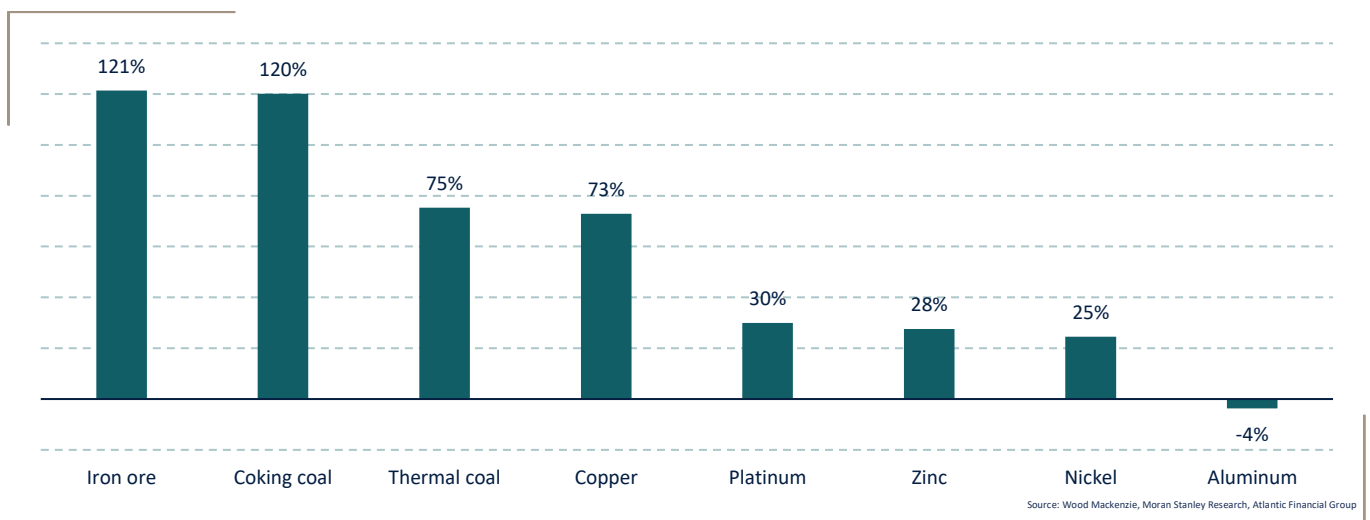


◆ Fundamentals remain good and the sector has strong finances

Mining and oil companies have learned from their past mistakes and are managing their finances in a much stricter and more disciplined way. **They have kept exploration and production spending at historically low levels.** The opening of new mines or production sites will not be enough to supply the quantities demanded or to prevent the prices of certain raw materials from rising, further improving the profitability of companies in the sector.

Today **these companies are mostly cash generative and their debt ratios are close to zero (net debt/EBITDA ~0.1x), which allows them to evolve serenely in a rising interest rate environment. Cash flow as a percentage of sales (FCF/Sales) is astronomical for mining companies: BHP 40%; Rio Tinto 17%; Vale 14%; Fortescue Metal group 22%. For oil companies, the ratio is 12% for TotalEnergie and BP, 11% for Shell.** Finally, despite inflation in wages and other manufacturing costs, **the marginal cost of production remains far below the spot price** (see Fig. 6).

Fig. 6 – Spot price as a percentage of marginal production cost





Conclusion:

Commodities play a fundamental role in the construction of a diversified portfolio. Moreover, the correlation between inflation and commodity prices, both energy and agricultural, is particularly high. This should be taken into account in periods of high price volatility, as it can help protect investments against adverse movements caused by inflation, such as pressure on corporate margins or a decline in household consumption.



RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2023 Year-to-Date (%)	2022 (%)	2021 (%)
Equities							
World (MSCI)	655.0	60.53	0.5%	1.5%	9.0%	-17.9%	19.0%
USA (S&P 500)	4 169	61.11	0.9%	1.6%	9.2%	-18.1%	28.7%
USA (Dow Jones)	34 098	61.42	0.9%	2.6%	3.5%	-6.9%	20.9%
USA (Nasdaq)	12 227	59.40	1.3%	0.1%	17.1%	-32.5%	22.2%
Euro Area (DJ EuroStoxx)	461.2	55.38	-0.4%	1.6%	13.7%	-11.4%	23.5%
UK (FTSE 100)	7 871	58.47	-0.5%	3.4%	7.1%	4.6%	18.4%
Switzerland (SMI)	11 437	63.06	0.3%	4.1%	9.4%	-14.3%	23.7%
Japan (Nikkei)	29 139	65.32	1.0%	2.9%	11.7%	-7.3%	6.7%
Emerging (MSCI)	977	46.41	-0.3%	-1.1%	2.8%	-19.8%	-2.3%
Brasil (IBOVESPA)	104 432	52.66	0.1%	2.5%	-4.8%	4.7%	-11.9%
Russia (MOEX)	2 635	74.73	-0.2%	7.7%	22.8%	-38.9%	21.9%
India (SENSEX)	61 112	69.59	2.5%	3.6%	0.7%	5.8%	23.2%
China (CSI)	4 029	47.26	-0.1%	-0.5%	4.1%	-19.8%	-3.5%
Communication Serv. (MSCI World)	83.60	61.17	2.5%	1.8%	19.3%	-35.3%	10.9%
Consumer Discret. (MSCI World)	312.9	55.47	0.0%	-0.8%	13.3%	-31.5%	9.2%
Consumer Staples (MSCI World)	284.6	78.42	0.9%	3.9%	7.5%	-6.0%	11.7%
Energy (MSCI World)	240.3	54.50	0.7%	4.1%	1.2%	34.6%	37.5%
Financials (MSCI World)	133.1	55.76	-0.1%	3.4%	2.0%	-9.2%	25.1%
Health Care (MSCI World)	346.4	57.75	-0.7%	3.5%	1.9%	-5.7%	18.0%
Industrials (MSCI World)	303.1	56.47	0.0%	0.7%	7.7%	-12.6%	16.6%
Info. Tech. (MSCI World)	468.5	59.01	1.3%	-0.6%	19.8%	-30.9%	27.6%
Materials (MSCI World)	323.9	48.18	-0.9%	-0.3%	5.2%	-11.0%	15.4%
Real Estate (MSCI World)	174.4	58.24	1.3%	1.7%	2.4%	-24.0%	23.6%
Utilities (MSCI World)	153.7	59.55	0.0%	3.0%	2.6%	-3.8%	11.1%
Bonds (FTSE)							
USA (7-10 Yr)	3.46%	54.87	0.9%	0.7%	4.2%	-14.5%	-2.4%
Euro Area (7-10 Yr)	2.99%	54.70	1.4%	0.0%	3.3%	-19.4%	-2.9%
Germany (7-10 Yr)	2.31%	54.06	1.3%	0.0%	2.0%	-17.8%	-2.7%
UK (7-10 Yr)	3.72%	45.03	0.3%	-1.3%	1.4%	-17.1%	-4.9%
Switzerland (7-10 Yr)	1.05%	55.82	0.5%	1.0%	3.4%	-12.5%	-2.3%
Japan (5-10 Yr)	0.41%	64.54	0.5%	-0.1%	1.5%	-2.8%	0.0%
Emerging (5-10 Yr)	7.87%	57.26	0.9%	0.2%	2.3%	-17.4%	-2.3%
USA (IG Corp.)	5.10%	58.15	0.4%	0.8%	4.3%	-15.8%	-1.0%
Euro Area (IG Corp.)	4.15%	58.77	0.7%	0.7%	2.5%	-13.6%	-1.0%
Emerging (IG Corp.)	7.62%	59.49	0.3%	0.7%	2.7%	-14.9%	-3.0%
USA (HY Corp.)	8.48%	65.86	0.3%	1.0%	4.6%	-11.2%	5.3%
Euro Area (HY Corp.)	8.03%	57.62	0.1%	0.5%	3.2%	-10.6%	3.4%
Emerging (HY Corp.)	11.29%	46.21	0.4%	-0.9%	0.5%	-12.4%	-3.2%
World (Convertibles)	372.3	46.42	-0.7%	1.0%	3.8%	-18.2%	2.4%
USA (Convertibles)	489.3	44.30	-0.8%	1.3%	3.2%	-20.1%	3.1%
Euro Area (Convertibles)	190	61.77	0.0%	0.8%	5.0%	-12.1%	1.2%
Switzerland (Convertibles)	174.7	61.64	0.4%	1.0%	1.6%	-7.5%	-0.5%
Japan (Convertibles)	205.1	54.46	-0.2%	-0.3%	3.6%	-1.3%	3.3%
Hedge Funds (Crédit Suisse)							
Hedge Funds Indus.	736	61.90	n.a.	-0.7%	0.2%	1.0%	8.2%
Distressed	930	54.37	n.a.	-0.9%	0.7%	-4.5%	12.5%
Event Driven	767	54.75	n.a.	-0.5%	1.3%	-6.8%	12.9%
Fixed Income	396	68.21	n.a.	-0.3%	1.7%	-1.0%	5.2%
Global Macro	1294	49.23	n.a.	-5.2%	-7.3%	15.4%	9.6%
Long/Short	909	60.16	n.a.	1.6%	4.0%	-5.8%	8.3%
CTA's	379	52.48	n.a.	-5.1%	-6.9%	19.1%	8.2%
Market Neutral	299	66.02	n.a.	1.0%	1.4%	1.7%	6.2%
Multi-Strategy	714	65.07	n.a.	0.3%	1.2%	1.3%	7.0%
Volatility							
VIX	15.78	37.06	-5.9%	-15.6%	-27.2%	25.8%	-24.3%
VSTOXX	17.43	43.88	2.0%	-10.3%	-16.5%	8.4%	-17.6%
Commodities							
Commodities (CRB)	547.5	n.a.	-0.0%	-0.2%	-1.3%	-4.1%	30.3%
Gold (Troy Ounce)	1 982	50.42	-0.4%	0.6%	8.6%	-0.3%	-3.6%
Oil (WTI, Barrel)	76.78	n.a.	-1.4%	4.9%	-4.3%	4.2%	58.7%
Oil (Brent, Barrel)	80.02	n.a.	-3.0%	0.4%	-5.8%	9.7%	51.4%
Currencies (vs USD)							
USD (Dollar Index)	101.82	46.93	0.5%	-0.7%	-1.6%	8.2%	6.4%
EUR	1.1001	56.35	-0.4%	0.9%	2.8%	-5.8%	-7.5%
JPY	136.93	32.34	-2.0%	-3.3%	-4.2%	-12.2%	-10.2%
GBP	1.2550	61.47	0.5%	1.1%	3.9%	-10.7%	-1.0%
AUD	0.6638	44.75	-0.9%	-2.2%	-2.6%	-6.2%	-5.6%
CAD	1.3553	47.83	-0.1%	-0.9%	0.0%	-6.8%	0.7%
CHF	0.8945	58.40	-0.8%	2.0%	3.4%	-1.3%	-3.0%
CNY	6.9126	41.47	-0.3%	-0.5%	-0.2%	-7.9%	2.7%
MXN	17.996	58.60	-0.1%	0.4%	8.4%	5.3%	-3.0%
EM (Emerging Index)	1 687.4	49.62	-0.1%	-0.3%	1.6%	-4.3%	0.9%

Source: Bloomberg, Atlantic Financial Group

Total Return by asset class (Negative \ Positive Performance)



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