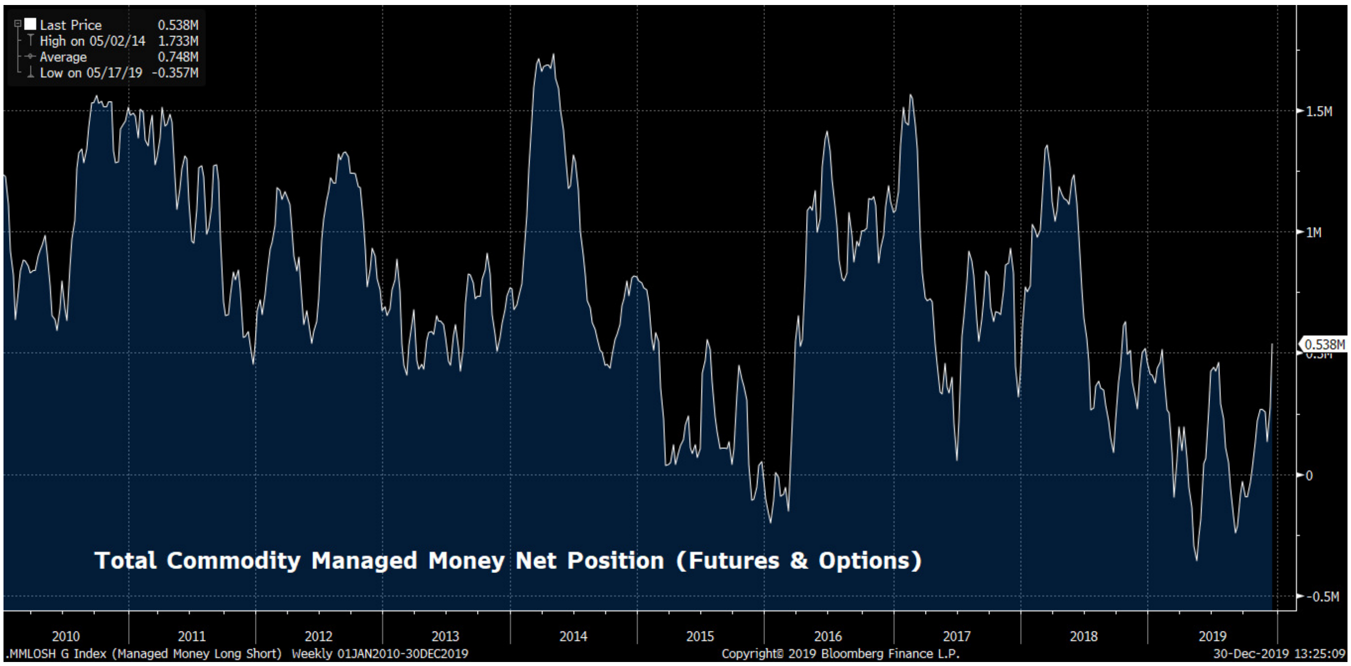
I thought I'd do something a little different today since is the last day of the year and most of you have your attention elsewhere anyway. Instead of breaking today's piece down into sections, I thought I'd briefly take a look at the recent history of the commodity "complex" in general over the past few years and maybe a few what-ifs going into the New Year.

The chart below looks at the past decade of the Bloomberg Commodity Index. Obviously the past 10 years have not been kind to the commodity markets in general. Especially over the past year or two we've seen countless stories noting how different banks/firms/etc were shutting down or at least down-sizing their exposure to the commodity markets. The markets have been left for dead. That being said, what actually stands out to me from the chart below is that the "death" in commodities actually ended about 4 years ago at the end of 2015. Since then, commodity markets have merely moved sideways. While that isn't necessarily something to get excited about, the nature of this index (essentially rolling out the curve) makes that sideways action actually somewhat respectable except when compared to equity market performance during the same period.

Of course not all commodities are equal in such a large basket. As we all know too well, the Bloomberg grains sub-index has continued to put in new lows, bottoming earlier this year (hopefully) ahead of a decent Q4. Precious metals have moved sideways during this period but appear on the brink of a potential upside breakout. The energy and livestock sub-indices have both simply moved sideways during this period. Industrial metals have moved higher from their late-2015 lows, but over the past year and a half have consolidated in a sideways trading range. The point here is, aside from grain markets (sigh), the commodity complex has held together fairly well over the past few years. And it should be noted it has done so largely without the involvement of the managed money crowd. The chart below shows the combined net position across all major commodity markets for managed money traders. You can see that despite sideways price action in the past years across most markets, in 2019 managed money spent more money net short the commodity complex than net long. As you can see in the chart, being net short is a rarity to begin with. The only time prior to this year the entire commodity market was net short was in early 2016, which of course corresponds to the prior low in the Bloomberg Commodity Index. You can also see below that over the past few weeks there has certainly been a strong interest in establishing some longs in the commodity space, but there is clearly a lot more room for bigger positions in the space.



And of course that doesn't include the "index" trader either. Accounting for index positions is a bit trickier these days due to the expansions of speculative position limits for various contracts as well as the fact that the CFTC doesn't track index fund positions across all markets like they do for managed money. We know that index trader positions have been in decline across the agricultural space so it is probably reasonable to assume that index positioning across commodity markets in general has been flat at best and probably lower over the same time frame.

Keep in mind that we, as always, have index rebalancing to work through at the opening of 2020. I've seen several different estimates of what to expect from the rebalance. While I am not permitted to forward exact copies of those estimates, I can share the general bottom line themes across the various guesses…

"Big" net buying expected in –
Natural Gas
KC Wheat
Aluminum
Zinc
Cotton

NESVICK TRADING GROUP, LLC

"Big" net selling expected in-
Hogs
Chicago Wheat
Soybean Oil
Copper
Nickel
Coffee

Modest Changes-
Cattle modest net buying expected
Crude oil modest net selling expected
Corn modest net buying expected

Of course those projections mainly reflect estimates based on relatively flat investments. If there are money flows, the net buying could be bigger and/or the net selling less. Which leads me to one final point. The chart below shows a comparison of the DX spot futures contract (white) vs. the Bloomberg Commodity Index (orange – axis inverted). Over the past 10 years, the Bloomberg Commodity index has largely been the inverse of the dollar, which of course isn't a huge surprise to us who follow the commodity markets. However, IF IF IF we want to believe that the dollar's best days are behind us (for now) does that mean better times ahead for commodities? Does that mean a renewed spirit of index and managed money interest in the sector? I obviously don't have the answer this morning, and clearly there is no guarantee that the dollar has peaked either. There are certainly plenty of smart and successful people that would suggest I'm wrong on that assumption. However, it is worth keeping in mind. Thoughts appreciated

I wish everyone a safe and happy New Year celebration tonight. I hope we all have a happy, healthy, and prosperous 2020.
DZ

Today's Calendar (all times Central)

- Consumer Confidence – 9:00am

Thanks for reading.

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