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WisdomTree Europe

Commodities and Inflation – A Time-Tested Relationship

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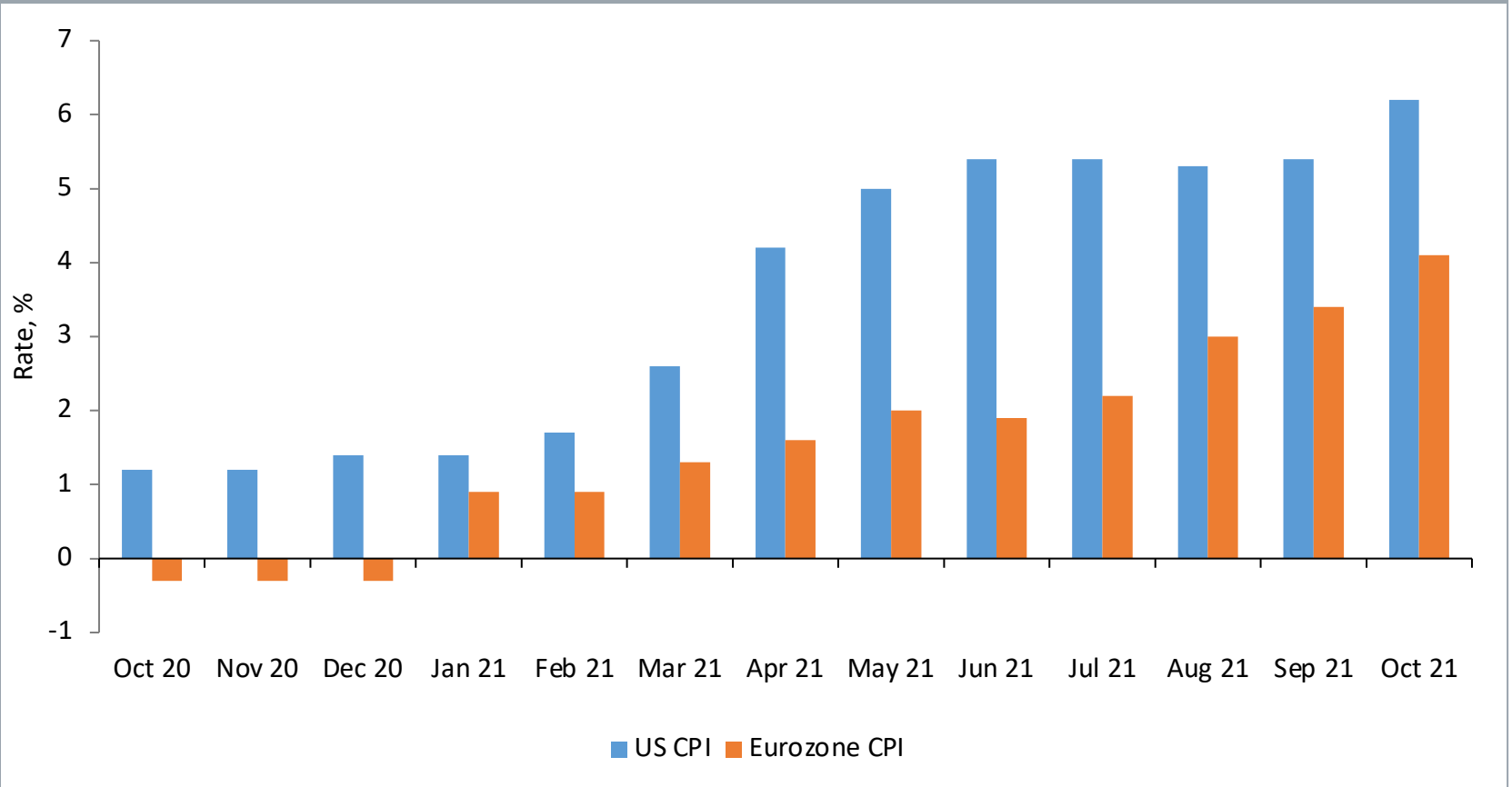
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Commodities and Inflation – A Time-Tested Relationship

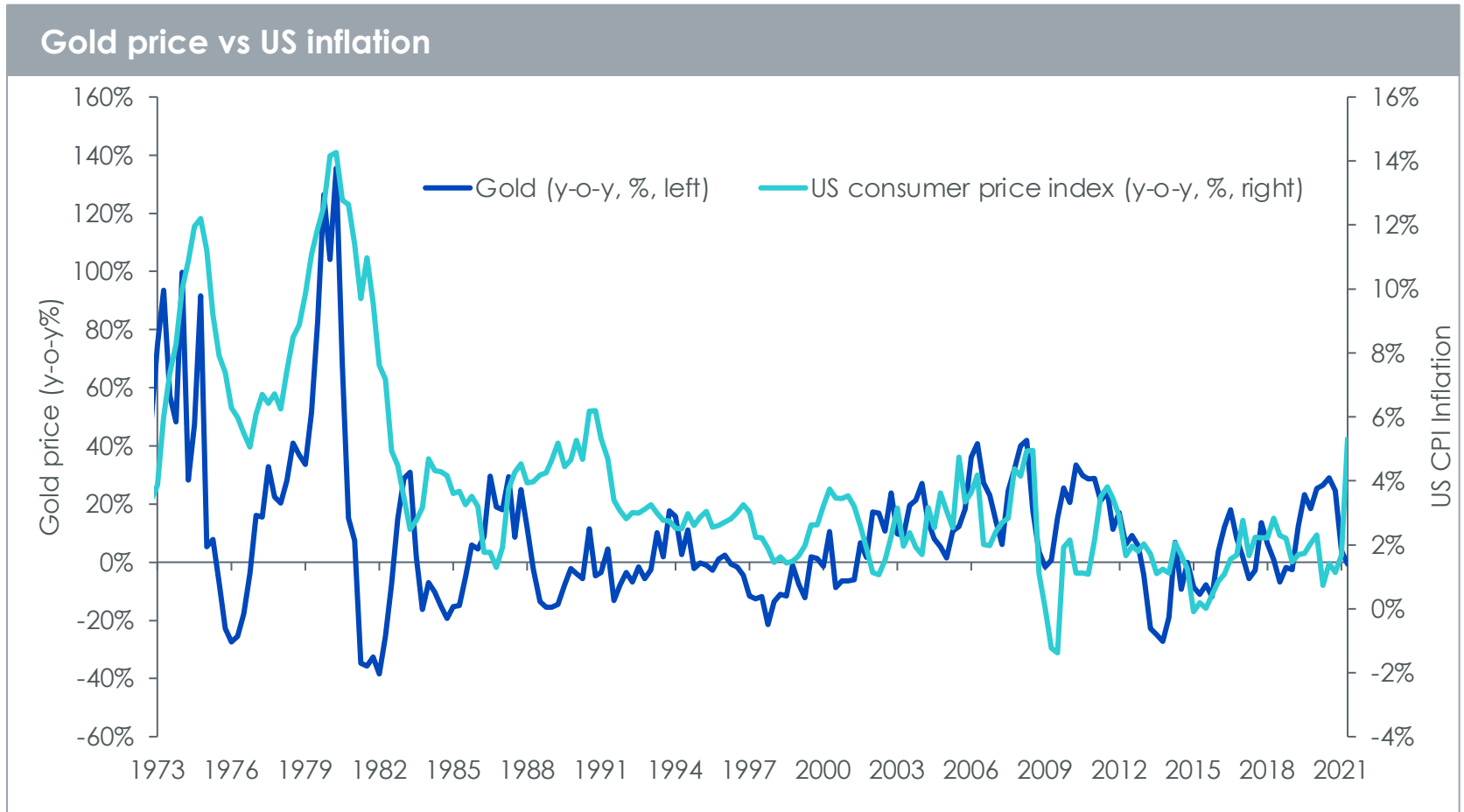
Is the transitory inflation narrative still believable?

Eurozone inflation is now also on the rise alongside the US



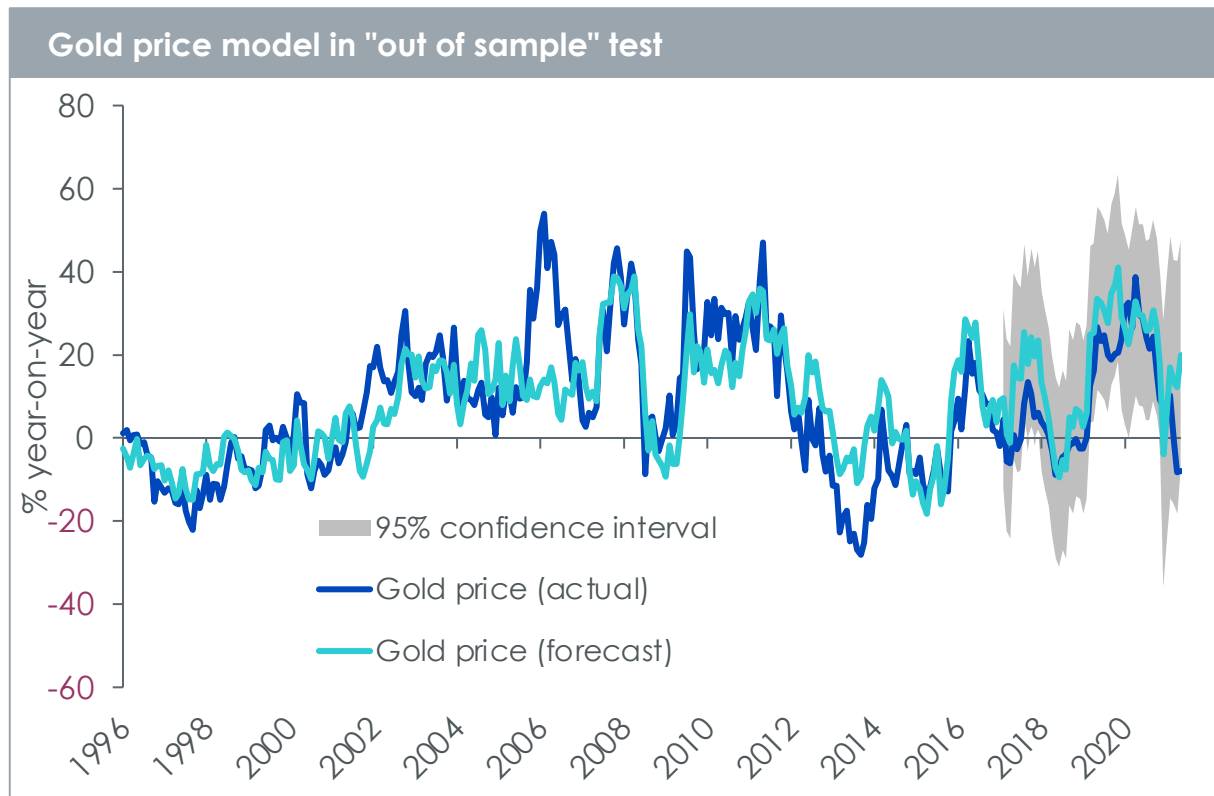
Source: WisdomTree, Trading Economics. Data as of 26 November 2021.

Is gold misbehaving?



Source: Bloomberg. Quarterly data from Q1 1973 to Q3 2021.

A model for gold – the conflicting variables



We have built a model that demonstrates that changes in gold price (in US Dollars) are driven by (direction in parenthesis):

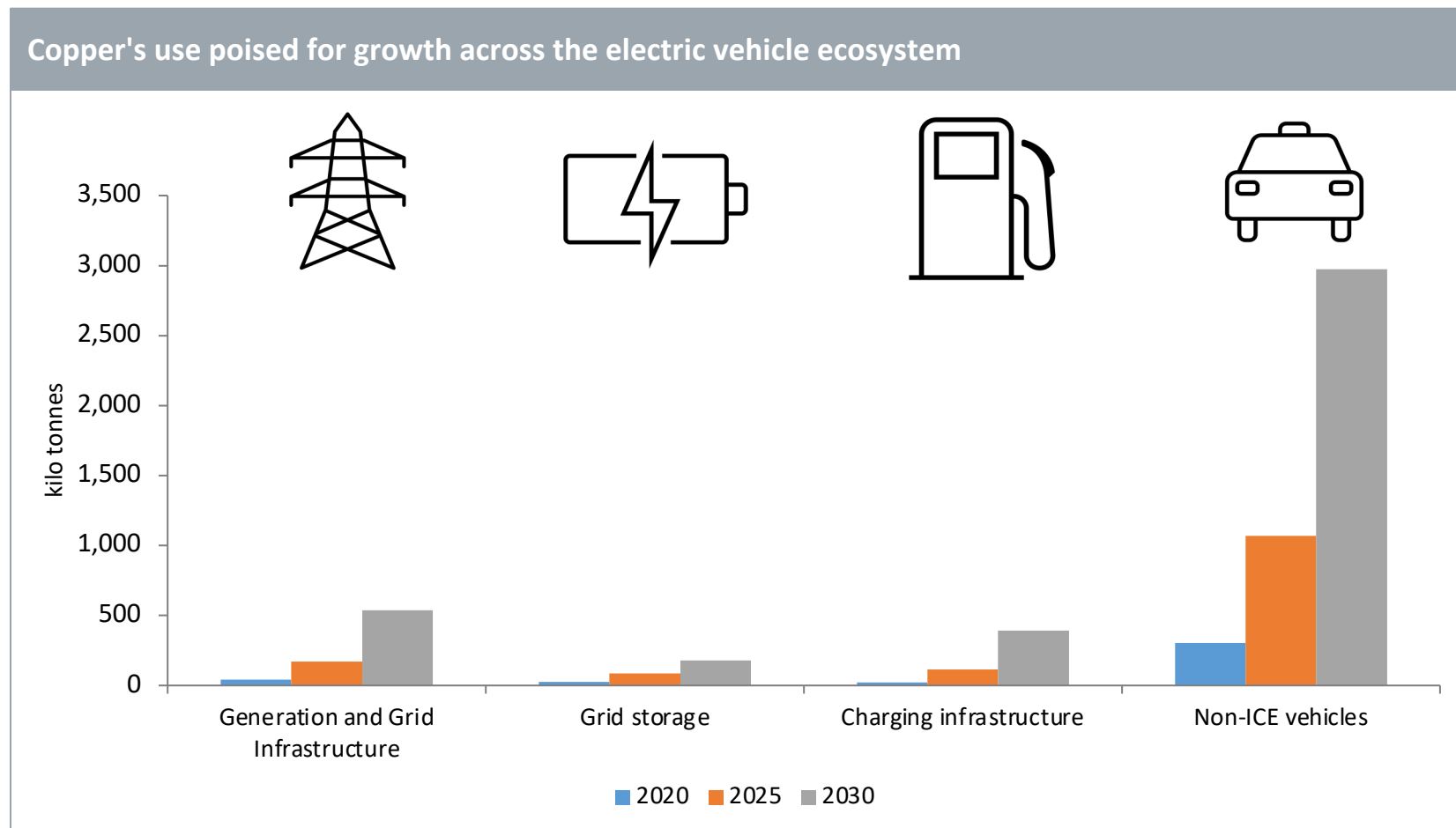
- + Changes in the trade weighted US Dollar (-)
- + Consumer Price Index (CPI) inflation (+)
- + Changes in nominal yields on 10-year US Treasuries (-)
- + Investor sentiment (measured by speculative positioning in the futures market) (+)

Source: Bloomberg, WisdomTree price model, data available as of 31 December 2020. Model calibration: April 1996 to April 2017. "Out of sample" period: May 2017 to September 2021.

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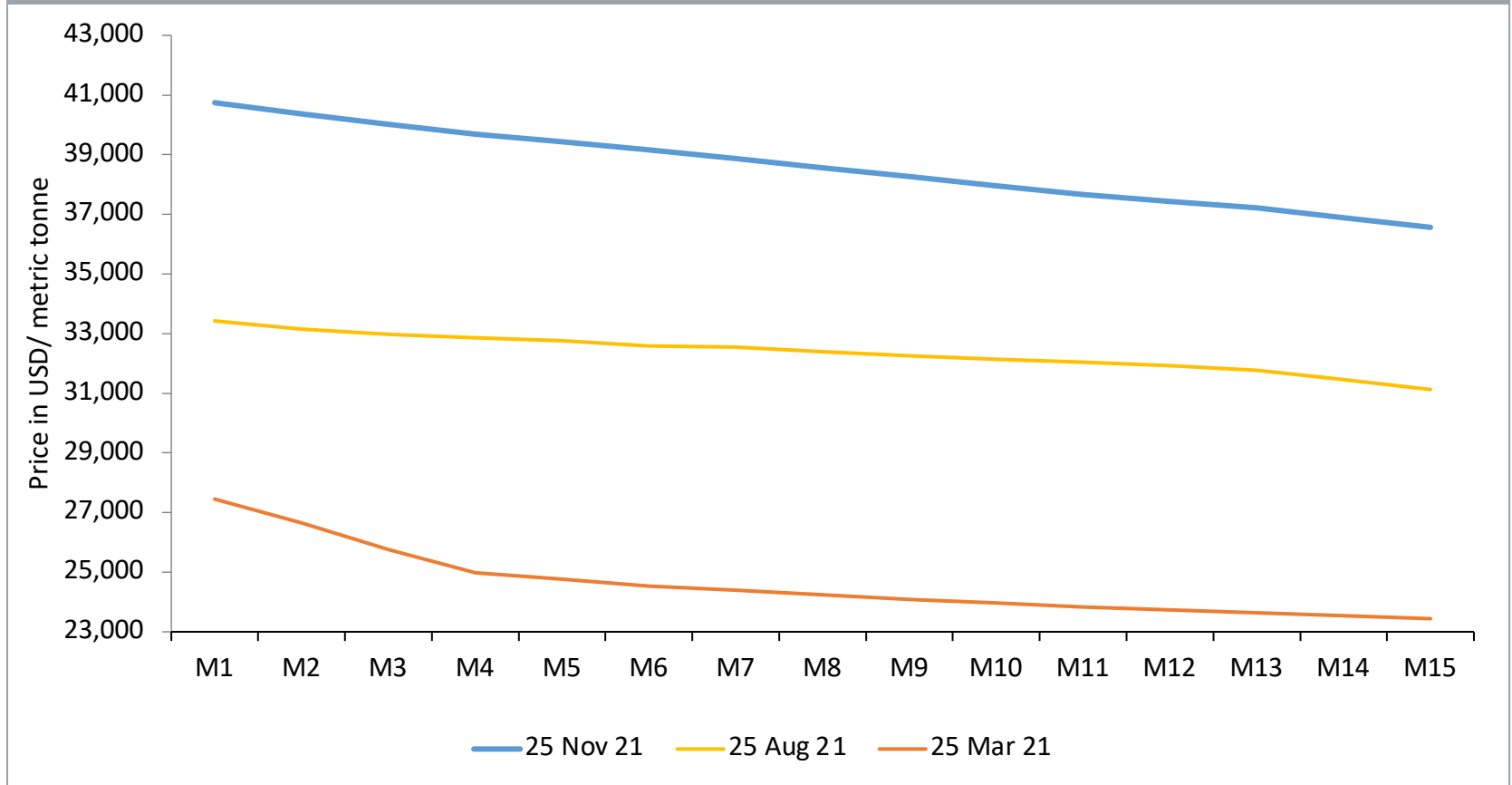
Copper – crucial in the energy transition



Source: Glencore 2017 Report, "Electric Vehicles - A disruptive force underpinning our commodities". ICE refers to 'Internal Combustion Engine'.

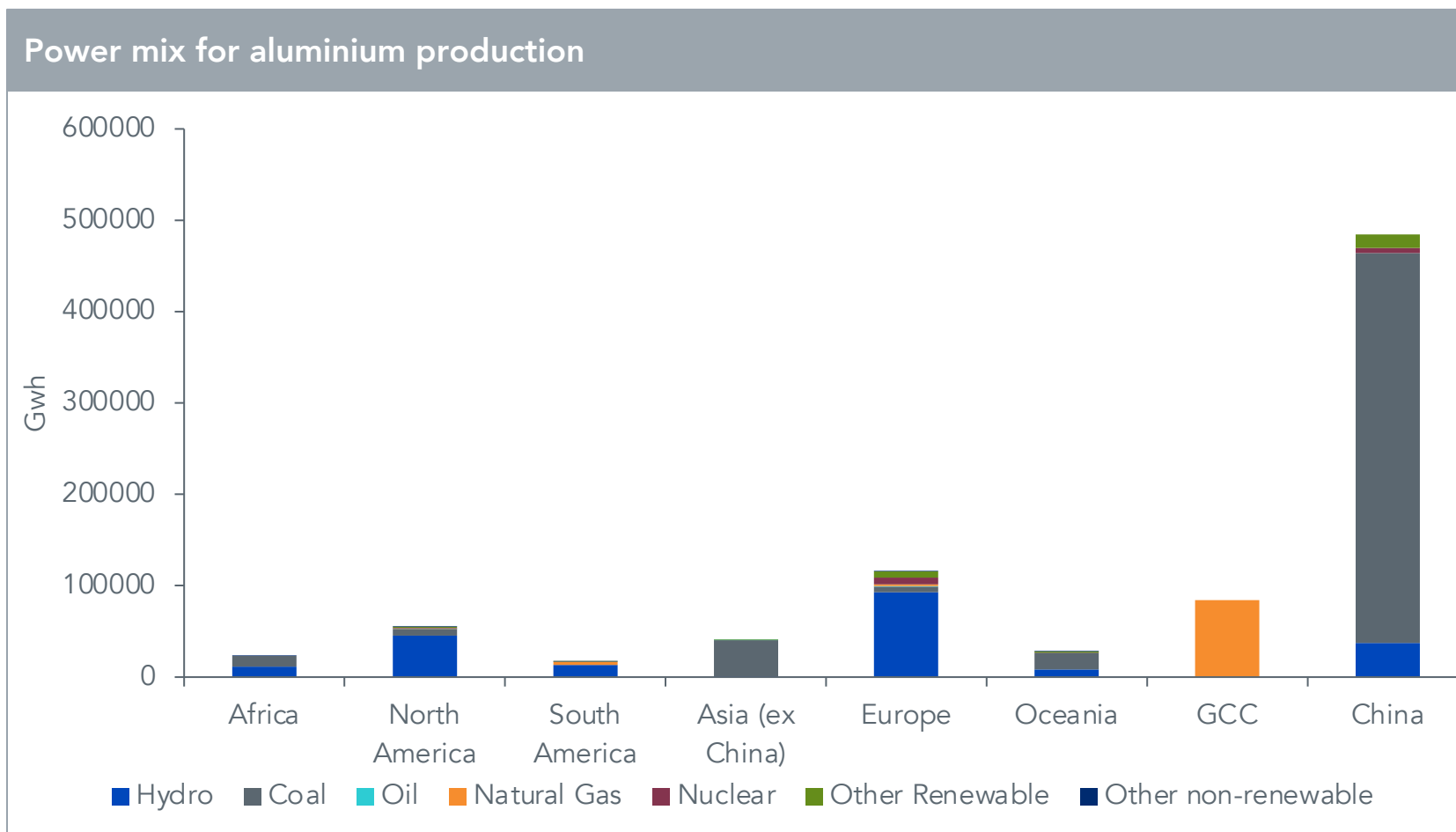
Tin pricing indicates market tightness

Futures curve backwardation highlights tin's tight supply relative to demand



Source: WisdomTree, Bloomberg. Data as of 26 November 2021.

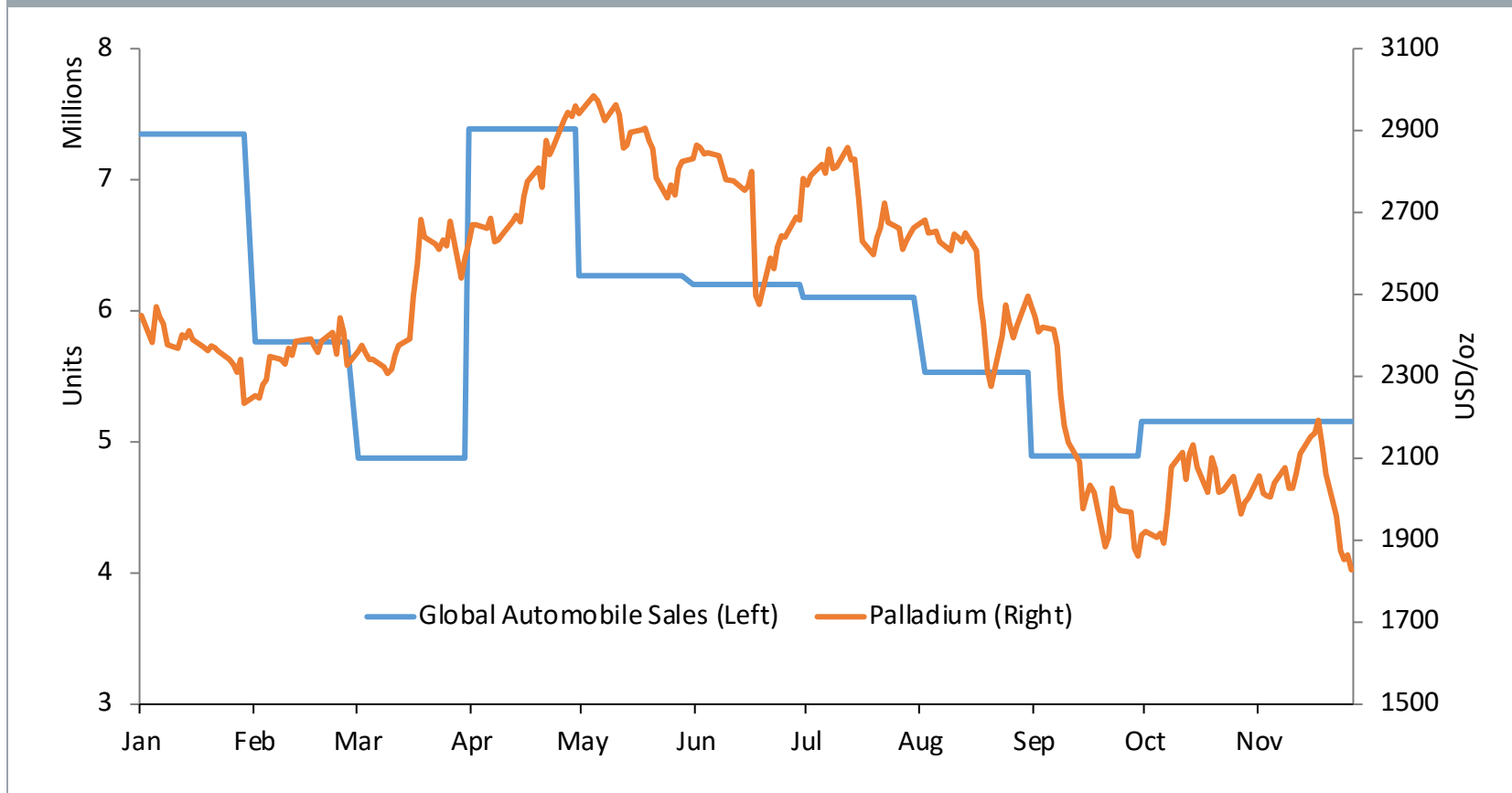
Decarbonisation of China's aluminium industry could take years



Source: International Aluminium Institute, 2019

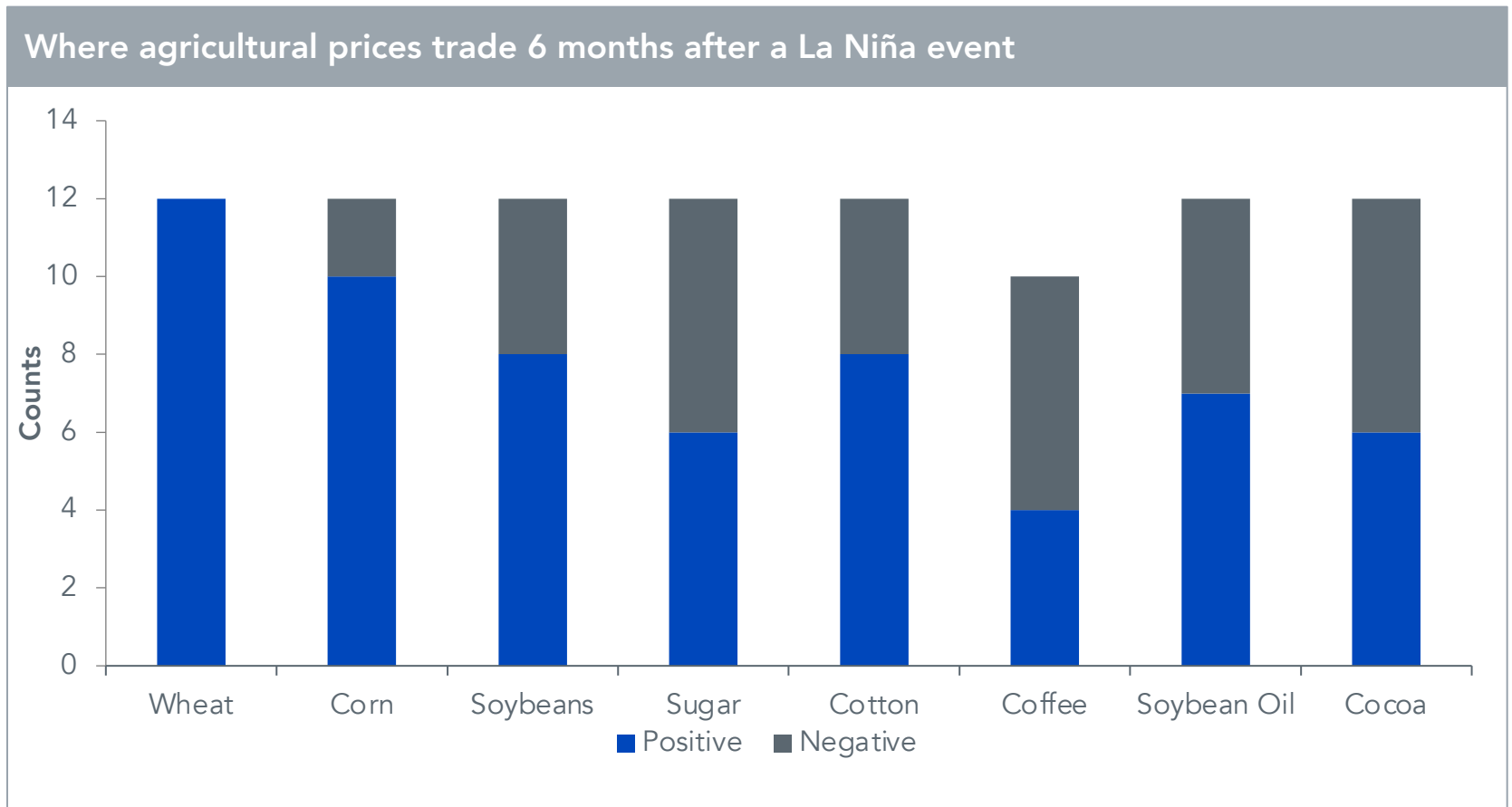
Supply disruptions aren't always price positive

Automobile Sales have been hit by supply chain difficulties



Source: Bloomberg. Data as of 26 November 2021.

La Niña is back on the radar – watch out for agricultural commodities?

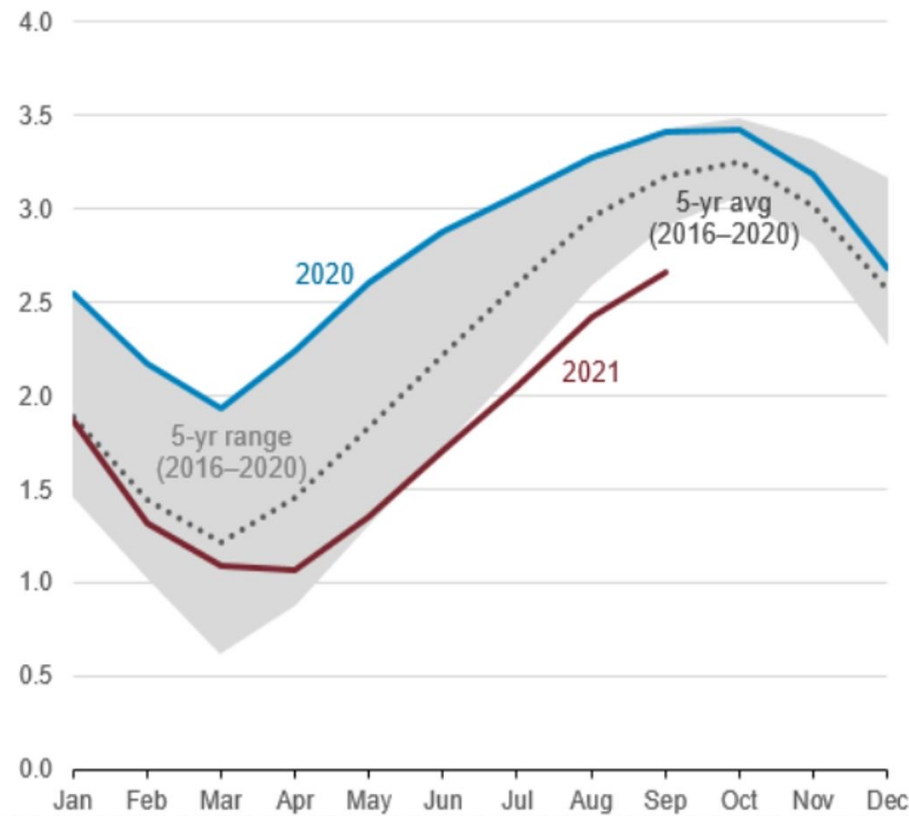


Source: WisdomTree, National Oceanic and Atmospheric Administration, Bloomberg. Based on 12 La Niña episodes since 1950. **Historical performance is not an indication of future performance and any investments may go down in value**

European Union stocks are below previous 5-year range

Natural gas inventories in the European Union (2016–2021)

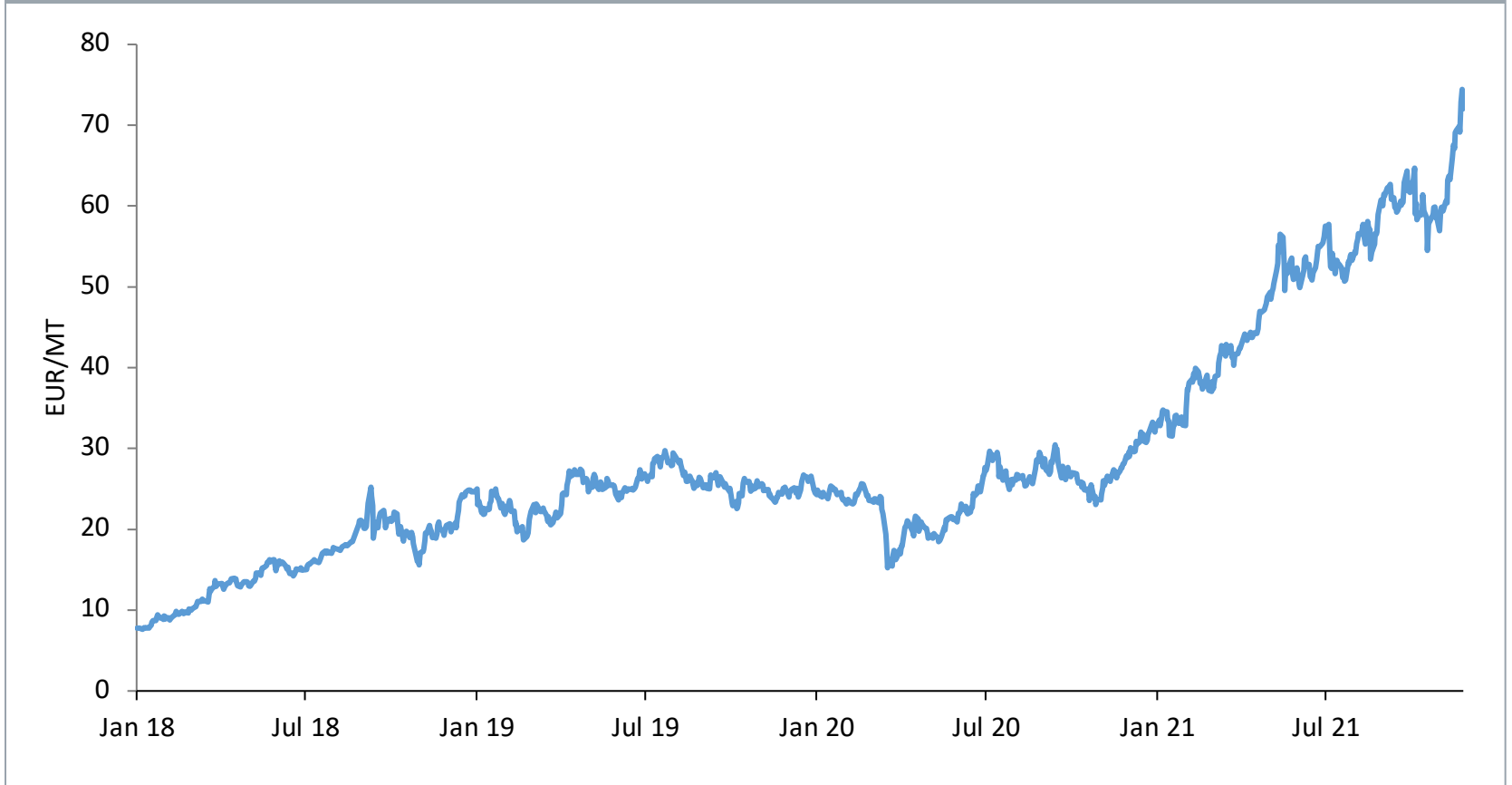
trillion cubic feet



Source; Energy Information Administration with data as of 26 November 2021.

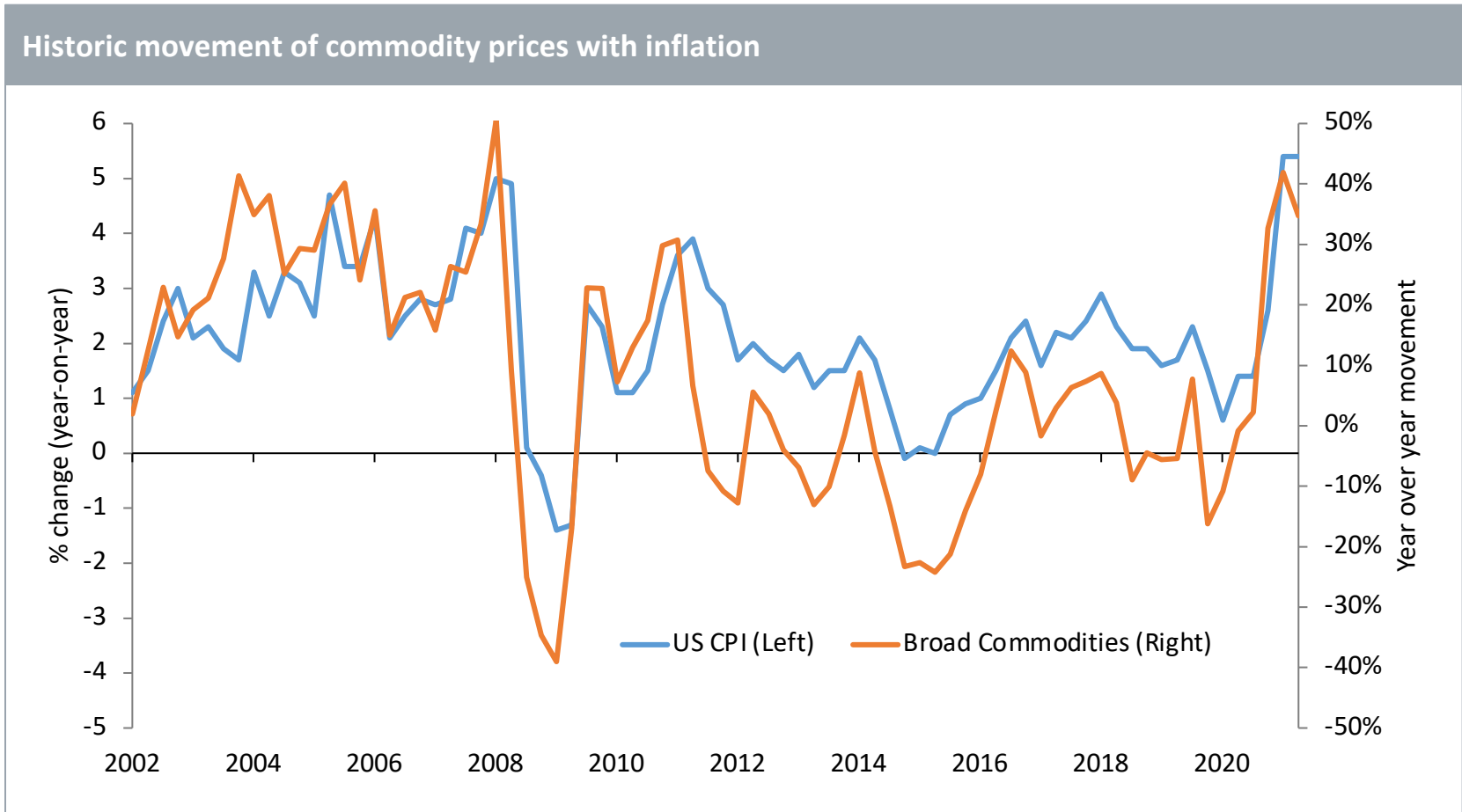
Carbon pricing – Europe’s preferred tool for climate action

Market pricing is moving in response to policy action



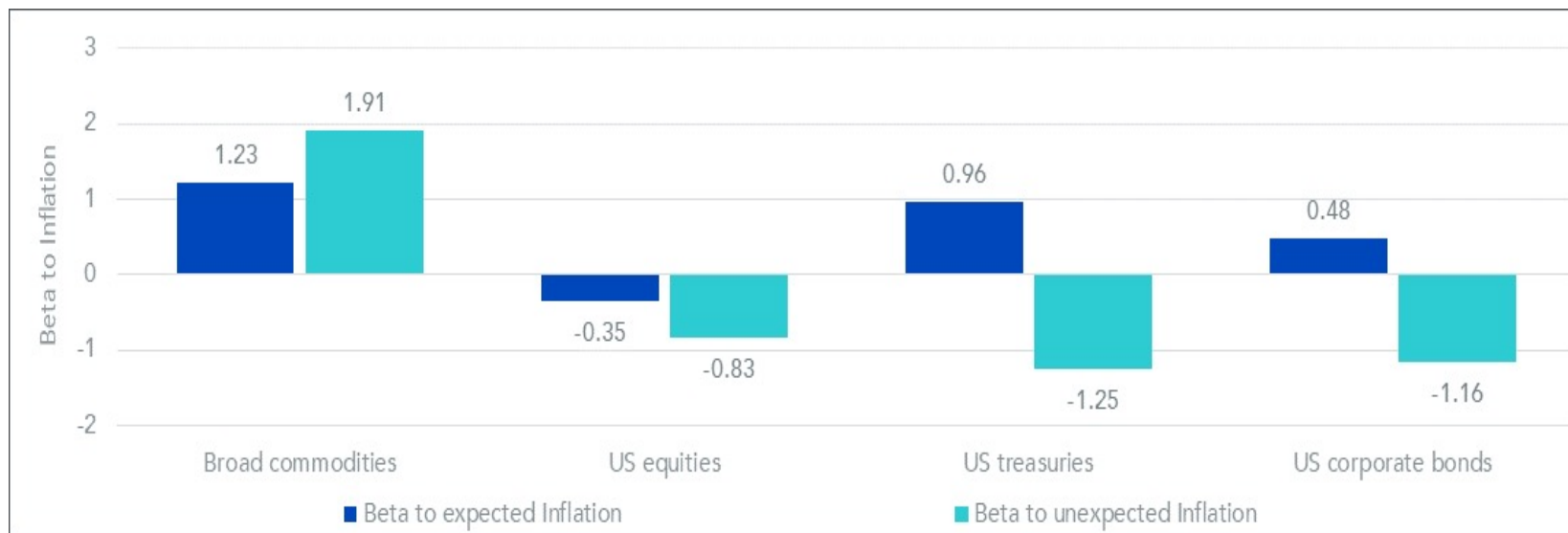
Source: WisdomTree, Bloomberg. Data as of 26 November 2021. Generic 1st European Union Carbon Emission Allowance (EUA) futures price shown.

Commodities are a potential hedge against inflation



Source: WisdomTree, Bloomberg. Quarterly data to 30/09/2021. Commodity price based on Optimized Roll Commodity Total Return (EBCIWTT Index), US CPI inflation, June 2002 to September 2021.

Broad commodities, an unusually effective hedge to unexpected inflation



- + Broad commodity exhibit high positive beta to expected inflation and even more so to unexpected inflation.
- + Bonds perform well as a hedge against expected inflation but fail against unexpected inflation.

Source: WisdomTree, Bloomberg, S&P. From January 1960 to September 2021. Calculations are based on monthly returns in USD. Broad commodities (Bloomberg commodity total return index) and US equities (S&P 500 gross total return index) data started in Jan 1960. US treasuries (Bloomberg US treasury total return unhedged USD index) and US corporate bonds (Bloomberg US corporate total return unhedged USD index) data started in Jan 1973. We use the short-term T-bill rate as a proxy for the market's inflation expectations and unexpected inflation is measured as the actual CPI rate minus the nominal interest rate at the beginning of each period.

Commodities Outlook



Reflation

A cyclical force behind commodities



Structural recovery

A multi-year tailwind for commodities



A focus on the environment

An energy transition and environmental supply restraint to shake up winners and losers

Source: WisdomTree.

Questions

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