I had the privilege of attending the much-coveted Commodities Global Summit of the Financial Times in Lausanne on the 28 and 29th of March 2017. This forum is unique as it gathers the major players of the industry, usually personified by Chairmen, CEO's, CFO's and/or Global Heads of Trading. None could do better than the Financial Times to attract such high-quality speakers and panellists and over the years, this conference, held in the prestigious Hotel du Belvédère on the shore of the Leman lake, has become the "Davos" gathering of the commodity players.

Extensive press coverage from the FT, Bloomberg, Reuters, the WSJ, and the always well-informed Swiss press have already provided a very good account of the discussions held in Lausanne this year, but here after is my take-away for what it is worth:

1- On the general mood of the market:

As ever this was a mix bag but the tone was rather positive despite one looming cloud:

- The backdrop of the 2017 FT Commodities Global Summit is much better than 2016's: The world economy is growing at a much faster pace and commodity prices have rebounded from their lows of the 1st quarter of 2016.
- A key worry when pondering commodities is always about China. But when last year, questions about the health of the second economy in the world and the sustainability of its GDP growth were all over the debates, there is a large consensus this year amongst market players that China will not falter and that the Chinese Government has been "doing what it needs" to ensure the pace is maintained and growth target achieved.

For commodity players, a positive global growth environment with the Chinese engine roaring is as good a playground as it gets and sets the scene for more stable commodity prices. Not perfect for some, especially in the agri sector, this provides to most, producers, traders and consumers, with a reasonably positive market environment for the year ahead.

What could derail this though – and that was the cloud over Lausanne this year- is the return of geopolitics.

- Never before had we heard some much concerns about the future of trade, the rise of borders, the more nationalistic stances of many countries, protectionism and the challenge to a hitherto globalised economy.
- The new stance of the US administration, if confirmed, with China, NAFTA, WTO was much mentioned as a significant threat for trade and in particular, strategic trade such as commodity flows.

2- On specific sectors:

a. Oil and energy

The rebalancing of the oil market post OPEC/NOPEC cuts was much discussed. Here after is my take away:

- OPEC /NOPEC cuts have certainly helped rebalancing the market. Whether this will happen this year though remains in doubt:
  - Global demand is probably moving faster than expected at 1.4mbpd. World growth outlook is improving and it could take demand above that.
  - On the supply side, cuts have been rather effective with Saudi taking most of the burden on their shoulders. Russia gradually doing their part of the deal; Iraq is playing ball; Iran is reaching almost maximum production capabilities; Libya still struggling.
  - the wild card is US production. So far, the current ramp-up we have witnessed is due to conventional producers; The catch 22 question is when the shale producer ramp-up will happen? Number of rigs and technology improvement hint at a significant push, but experts here in Lausanne tell me that this is not to happen before 3rd or 4th quarter 2017.

So quite a mix bag overall. And it will all depend of price economics.

- Have the OPEC cuts been working?
  Cutting production is a rather effective way to rebalance, but 2 things have to be put in perspective:
  - The importance of the us stocks which some experts say are just on-shoring of stocks previously held off-shore as on-shore storage in the US are cheaper. Import and export flows in and out of the US are very significant, hence large stocks.
  - The Shale equation. During CERAweek in Houston, it dawned on the market that the Shale ramp-up was much faster than anybody expected. Hence the price pressure.

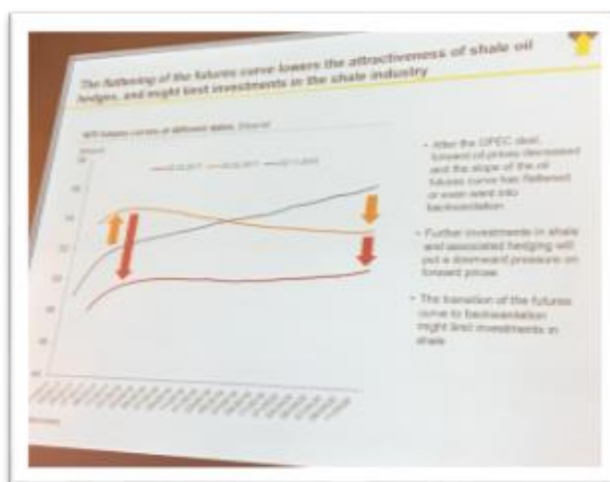
It is all a matter of economics: 48TI/51 Brent the market tells the Saudi: go for more cuts or else. KSA's challenge is clear:

- If prices drop further, the bleeding on foreign exchange reserves will continue (6-8bn USD a month!), the budget deficit will deepen and the much-needed success of the Aramco's IPO be challenged because of too-low a valuation.
- If OPEC cuts its production further, the bulk of the cuts is to be done by the KSA itself, with little chance this is swiftly relayed by the Russians (they are already doing their part of the Algiers deal albeit very gradually).

At the same time, too low a price too long and we will see the number of rig counts in the US stabilizing and maybe even falling again.
It all depend on the actual ramp-up of shale production in the US. Too strong a push and rebalancing is history. That shows how effective the "shale band" is in the current market conditions.

- Traders and Hedge Funds

Last year Hedge Funds managers were very vocal and openly bullish. They proved right most of the time in 2016. What about this year? Well, we do not know because no Hedge Fund manager came on stage… In itself, this provides a hint upon the general doubt of the market about a sharp price rebound in the current environment. All the more when keeping in mind the curtailing of many long positions post CERAweek and looking at the forward curve as presented during the summit:



A game of volume for physical traders it is and a lot of work on spreads to optimise them.

b. Metals and Mining

If one sector which has benefited in 2016, this is the Metals and Mining sector and this showed in Lausanne this late March.

- Traders, which are not looking to bet on flat-prices did not comment much if only to say, well, that they are not speculating on flat-price… and that they could deal with any market conditions – we would not have expected anything else, wouldn't we…
- Mining companies, though were much more vocal. After extremely difficult times in 2015 and the trough of 2016, when the strategy was all about selling mines, mothballing some, cost cutting and reassuring disgruntled shareholders, 2017 looks extremely promising:
    - Prices are strong
    - China is holding well
    - Cost bases are as lean as they could be
    - Cash flow is strong and liquidity ample
- The question is what are they going to do with this? And this is where it gets interesting. In a similar situation 5 years ago as growth in demand for metals is correlated with economic development, you would have heard executives talking about new production investments. Well, whilst a handful mentioned that they are still looking to *expand*, the buzz world this year was not about expansion: it was about productivity, optimisation and rewarding shareholders. Mind you that today's investment decision will translate into production capacity in 5 to 8 years. What the miners are telling us today is: we will pass, sorry for the potential disruptions in the future but no worries dear shareholders, we still take good care of you.
- Selfish or smart? A bit of both: the need to focus on profitability is clear, and even this is done at the expense of supply down the road. But more fundamentally – and this is my take away, this tells me that the miners do not believe a "new China" is going to emerge: India – and India was mentioned several times as having a strong growth potential for several years – is too small an economy (2.1Tn+ GDP i.e. less than 3pct of the world GDP) to justify large investments, just yet. And in the rest of the world, there is not much hidden reserves of economic miracle.
  So, we bound to see mining companies taking a much more careful approach in investing in new production capacities in the next few years but as shareholders, we do not have to worry…

c. Agri sector

As mentioned, the context for agri is a challenging one. Production levels are very high in most parts of the world, quality is good, research and forecasting have allowed producers to anticipate and "manage" large climatic events like el Niño

and la Niña phenomena. The key question is: can a pure agri trader continue to thrive when engaged in the trading of quasi industrial productions such as wheat, maize, soybeans trades? Traders take advantage of disruptions whilst making sure they ensure the necessary supply level to urbanised middle classes "no matter what". But in a world where supply disruptions look like events of the past, where is the profitable path?

One Large trading company executive, after having listened to his CEO's speech told me that, more than ever, he believes he no longer works for a trading house, but for a food industry company! Another executive explained that the "C" in the trading house's name now means "Company", not "Commodity"… It is all about added-value, no longer about pure trading.

The key challenges hover around the ever-growing need for protein based food. Can we shorten the circuit between agri proteins and the consumer who todays eat meat of animals fed with agri proteins? This does not look too appealing maybe but with 9bn people in 2050 on this planet, our diet is bound to evolve as the current chain is simply not sustainable.

3- Technology

It is not often that technology is discussed in commodity forums. Well, that may have been the case in the past but, no longer:

- traders are looking to streamline their costs and more importantly be more effective in managing the paperwork enabling information, control, transfer of ownership and financing of the commodity flows.
- New developments give hope to the community that this can be achieved now sooner than later:
    - Decentralized ledgers and electronic documentation. Some attempts to test and handle some regular flows of trade through blockchains are developing. Is this serious? Well, traders I have discussed with seem to believe that at least flows between regular parties could be effectively handled in a dematerialized fashion sharply reducing the lead-time to business. The FT Commodities Global Summit discussions certainly hint that there is much more to come on this front.
    - In commodity trading, information is key. Artificial intelligence, big data gathering is probably the most convincing development I have seen demonstrating in Lausanne: The ability to assess, real-time and history all crude transit flows, where from, where to, which quality, by who, for who? All this with a 94 pct. accuracy: very impressive and certainly a game changer for traders. Crude first, then products, then on shore trade … A revolution is at the corner of the street: This looks to me as transformative as the transition between short wave radio to ultra-high definition TV.

4- Banking and Finance

Liquidity is ample. And still relatively cheap. No trading houses really complained. This is not surprising: commodity prices have rebounded but we are still far-off the super cycle era heights. US dollar rates are on the rise, but still very acceptable. Overall funding cost is still cheap and some traders even mentioned that they were able to improve their RCF margins… It is always amazing to see what competition amongst banks could result in!

But banks also have recovered some colour: their facilities are more utilised than one year ago when prices were at their lowest, and risk have receded, baring one or two specific and unfortunate cases.

Dealing with trading companies, is no longer a simple trade finance or pure cash relationship: Traders invest upstream and downstream, and this means project finance, longer term debt raising exercise with investors, optimized payment and document technology. So far banks are forthcoming and responding to their large trading house clients' needs, or so they said.

The need to attract investors in the commodity trade business remains strong, if only to rebalance the requirement for bank financing. The same questions are tackled though around 3 themes: culture, culture and culture. What is trade? How sure I am to understand the dynamics of trade? How can I sell the risk of trade to my investment committee? This looks like an area where there is still a lot of work to do. Meanwhile I have seen many investors in Lausanne this year. Might they be less interested?

A last point on finance about regulation. Never-before more on-the-record comments were made about over-regulation hampering banks from fulfilling their job to support the economy. No regulators in the room though... The recalling of Dodd-Frank was mentioned but interestingly, very few participants believe that to be feasible although a reforming of the act was welcome by many.

(30th March 2017)