



Chart Logic

Global Rates, FX & Commodities Strategy

16 January 2020

▶ GLOBAL

▶ COMMODITIES

▶ GLOBAL MARKETS

Palladium: This Rally is Driven by Tight Fundamentals

- Increasingly tight emissions control regulations will see South Korea, India, China and Europe all raise their standards in 2020. These regulatory changes are part of a growing global trend toward sustainability (ESG), which will continue to increase demand for emission control devices containing palladium.
- A potential rebound in auto sales, after one of the most prolonged periods of contraction on record, could also drive demand higher. South African power outages and unavailability of inventory represent upside risks. Given the improved demand outlook, the chronic deficit is likely to get worse and make it difficult for the market to clear at lower prices.
- We see little evidence of excesses in spec activity, which suggests the rally is fundamentally-driven, despite the parabolic move. In fact, our dry-powder analysis suggests that traders hold a below-average total position, and positions per-trader are also below-average, thereby reducing the risk of a sharp reversal. We think the rally has room to run, as periods of extreme scarcity send prices sharply higher. No substitutes imply that near-term demand will not be destroyed.

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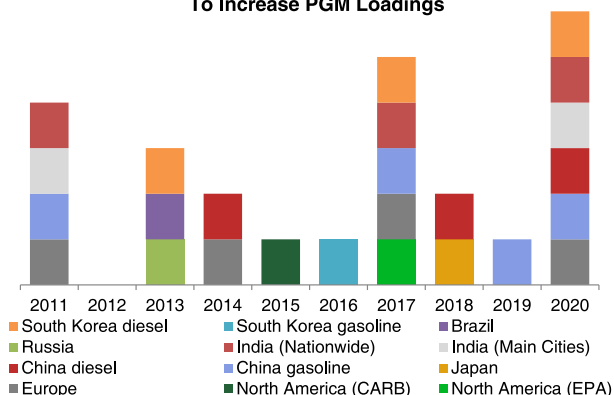
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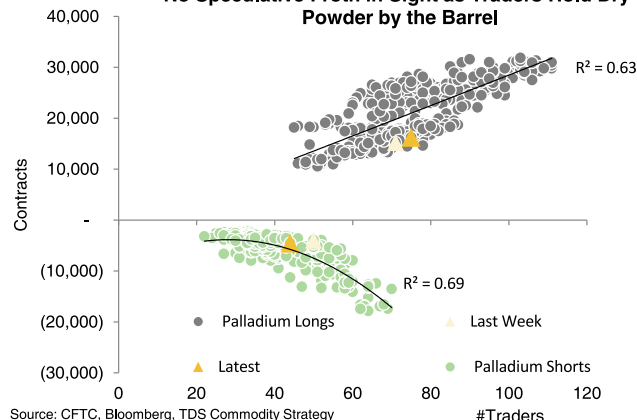
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The Year of ESG: Bump in Environmental Legislation To Increase PGM Loadings



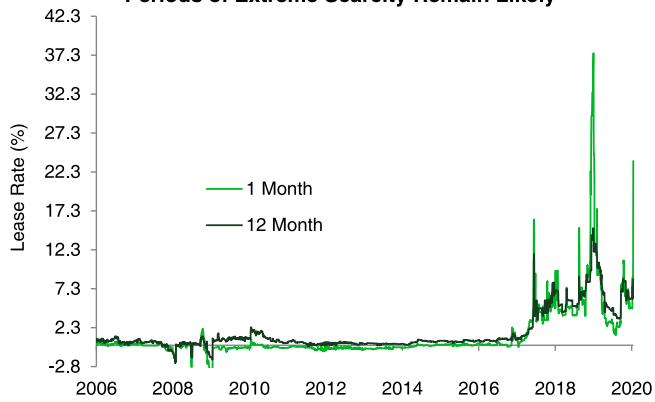
Source: JM, TDS Commodity Strategy

No Speculative Froth in Sight as Traders Hold Dry-Powder by the Barrel



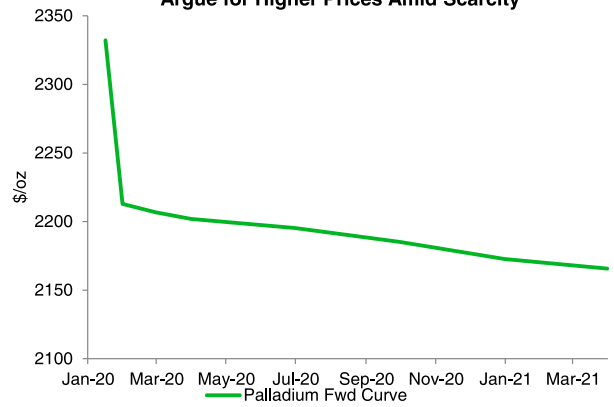
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**We Haven't Seen the Last of it:
Periods of Extreme Scarcity Remain Likely**



Source: Bloomberg, TDS Commodity Strategy

**Steep Backwardation & Sharp Basis Momentum
Argue for Higher Prices Amid Scarcity**



Source: TDS Commodity Strategy



Recent Publications

Global Rates, FX & Commodities Strategy

Global Macro		
Region	Publication	Date
Weekly	Upcoming Week - The Big Three (13 Jan)	10 Jan
Commentary	US Dec CPI: Core Softness	14 Jan
	Confidence Abounds in BoC Business Outlook Survey	13 Jan
	US Employment (Dec): Downside Surprises	10 Jan
	Canadian Labour Market Closes 2019 on a Bright Note	10 Jan
US	U.S. Outlook: Good as It Gets?	15 Jan
	Global Growth: Green Shoots or False Dawns?	13 Jan
Europe	January Too Soon for Bank of England Rate Cut	14 Jan
	Global Growth: Green Shoots or False Dawns?	13 Jan
	Eurozone Inflation Sees a Winter Thaw	7 Jan
Rates		
Weekly	Happy New Year	10 Jan
US	Repo: A Gradual Weaning	15 Jan
	Repo Scaries: Now What?	9 Jan
Canada	CAD Fixed Income is Attractive: Taking FX Hedging Costs into Account	15 Jan
Europe	January Too Soon for Bank of England Rate Cut	14 Jan
	Strong Start to Primary Issuance	7 Jan
Trades	5s30s Bund Curve Flatteners	16 Jan
	Take Profit on Rec 5y5y USD vs. 5y5y EUR	14 Jan
	EUR Portfolio Update	9 Jan
	Taking Profit on Long US 5y Swap Spreads	2 Jan
FX		
Analysis	USDJPY: Not the Breakout You Are Looking For	14 Jan
	January Too Soon for Bank of England Rate Cut	14 Jan
	Global Growth: Green Shoots or False Dawns?	13 Jan
Trades	Close GBPCHF longs	15 Jan
	Buy GBPCHF	10 Jan
	Take Profit On Long TWDKRW	8 Jan
EM		
Trades	We Achieve Target on PLN Fwd Swap Payer at 1.80%	8 Jan
	Take Profit On Long TWDKRW	8 Jan
Commodities		
Weekly	Middle East Tensions Light a Fire Under Crude and Gold	6 Jan
Analysis	Cessation of Aggression Knocking Gold Off Highs, for Now	13 Jan



Global Strategy

Global Rates, FX & Commodities Strategy

Global Strategy

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