



Weekly Wrap 31 March 2023 – Commodity price movements creating investment opportunities

Thank you for joining me this Friday the 31st March, I'm Grady Wulff, Market Analyst with Bell Direct and this is the weekly market update.

The unfolding global banking crisis has sent shockwaves through many elements of the markets over recent weeks, with particular impact on commodity prices as investors fear a global financial crisis will lead to economic slowdown and cut demand for key commodities like oil.

Following a year of sky-high prices for oil as a result of Russia initiating war with Ukraine and cutting supply of oil to European and other regions globally, we have seen oil prices dive in recent weeks as the collapsing of some banks dents demand outlook for the near future.

Despite the weakened demand outlook, oil remains a hot commodity in 2023 amid declining stockpiles. The American Petroleum Institute (API) data showed earlier this week that crude oil inventories in the US fell by 6.076m barrels, which fell well short of the expected increase of 187,000 barrels. Year to date, the total number of barrels of crude oil gained is still more than 53 million however this week SPR inventory, an emergency stockpile of petroleum maintained by the US Department of Energy, held steady for an 11th straight week at 371.6m barrels, which is the lowest amount of crude oil in SPR since December 1983. Production of oil in the US is now 800,000 barrels per day below the peak production seen in March 2020 in another sign oil supply is tightening.

The supply decrease should traditionally cause a spike in the price of oil due to the disruption to the supply demand equilibrium, however the global banking crisis unfolding has spelt turbulence for commodity prices, with oil falling as low as US\$64/barrel on the week the banks began collapsing. But what impact does the banking crisis have on commodity prices? Well, economic growth is closely linked to commodity demand and rising interest rates cause slowing economic growth to control inflation. Paired with banks like SVB and Credit Suisse coming under pressure, commodity prices especially crude oil, sharply declined as the prospect for economic growth cooled and subsequently, demand for commodities, contracted.

The yo-yo in commodity prices returned to rally mode later this week as investor fears of a GFC 2.0 eased after global authorities and big banks stepped up to promise security and support for the banks crumbling under pressure, to restore faith in the global banking sector. The easing in fears of a global economic slowdown was paired with demand growth for oil out of China as the country continues ramping up operations post the scrapping of harsh COVID-19 lockdowns. Crude oil rose 4% this week to US\$73.83/barrel as conditions eased across the contributing price factors.

Looking ahead, economists are seeing the recent decline in oil prices as an opportunity to buy into the energy sector, as the price of oil is expected to hit US\$100/barrel in 2023. And with China coming back online, the demand outlook for oil, iron ore and other key commodities is looking bright.

With a bullish outlook for commodities across the board for the remainder of 2023, Bell Potter is bullish on Paladin Energy with a speculative buy rating and price target of \$0.60/share, Liontown Resources with a Spec buy rating on the lithium producer and a price target of \$3.35/share, and Strike Energy with a spec buy rating on the oil and gas development company and a price target of \$0.39/share.

Locally from Monday to Thursday the ASX the key index felt some relief after a few weeks of turbulence as investor fears of a global banking crisis eased when regulators and industry bodies stepped in to support crumbling banks. The ASX200 rallied 2.40% over the four days driven by the materials sector jumping 5.04% amid increasing commodity prices. Utilities and energy stocks also jumped over 3% each from Monday to Thursday.

The winning stocks this week were led by lithium giant Liontown Resources announcing it had received and rejected a takeover offer from Abermale, the world's largest lithium producer, in a deal worth \$5.5bn on the grounds of the offer substantially undervaluing Liontown and its assets. The announcement sent shares in Liontown soaring 68.5% on Tuesday. United Malt Group also jumped over 36% this week after also receiving a takeover offer, but unlike Liontown, UMG accepted the offer from Malteries Soufflet in a deal worth \$1.5bn.

Allkem also jumped over 18% this week amid the surge in lithium miner shares driven by Liontown's takeover rejection.

On the losing end, Life360 fell 5.54% from Monday to Thursday despite no price sensitive news out of the location tracking company this week. QUBE Holdings and Imugene also each fell over 3.8% from Monday to Thursday.

Taking a look at the broader market through the All Ords, Global Lithium Resources jumped almost 31% despite no price sensitive news out of the company this week.

While on the other end of the All Ords, Jervois Global tumbled almost 51% announced the suspension of final construction at Idaho Cobalt Operations due to continuing low cobalt prices and US inflationary impacts on construction costs.

The most traded stocks by Bell Direct clients from Monday to Thursday were Computershare, Fortescue Metals Group, Coronado Global Resources, and Woodside Energy.

Clients also bought into ANZ, Pilbara Minerals, Westpac Banking Corporation and Macquarie Group, while taking profits from Liontown Resources, and Chalice Mining.

On the diversification front, the most traded ETFs by Bell Direct clients from Monday to Thursday were BetaShares Nasdaq 100 ETF, BetaShares US Treasury Bond 20+ Year currency Hedged ETF, and SPDR ASX200 ETF.

Taking a look forward to the week ahead, it's a big week on the local calendar with the RBA meeting to decide Australia's next interest rate announcement with the market

expecting the RBA to pause its rate hikes following the release of Australian CPI data this week showing Australia's inflation has come down to 6.8% in a second month of disinflation.

Australia's trade balance data is also out next week, while overseas, the US trade balance is also released on Wednesday with the market expecting a decline in trade deficit to \$69bn from \$68.3bn in January.

US JOLTS job openings and unemployment data for March is also released next week, which will give an insight into the current state of America's labour market during the high interest rate, high inflation environment.

And that's all we have time for today, have a wonderful Friday and weekend, and as always, happy investing!

- Grady Wulff, Market Analyst