Hedge fund manager Tor Svelland on the gas crisis: - Now is the time for settlement

The fall in commodity prices is completely unrelated to fundamentals and will quickly be reversed, Tor Svelland believes. The experienced commodity trader believes that even a small recession cannot stop oil and shipping now.

- The root of the energy crisis is a disastrously failed energy policy, and now it is the time of reckoning, says hedge fund manager Tor Svelland, who this year has a return of over 21 per cent with his fund, which has NOK 1.2 billion under management. (Photo: Mikaela Berg)

In recent weeks, the prices of a wide range of the world's most important raw materials have fallen sharply. Oil contracts have fallen 20 percent in one month, while wheat trades at lower levels than before the war in Ukraine broke out. The prices of aluminum and copper, which tend to be good indicators of the temperature in the world economy, have not been lower since spring 2021.

Among other things, the decline has been attributed to increased fear of recession, while the hopefuls are betting that the falling prices can testify that the commodity markets have already regained their balance.

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in 140 years

Tor Svelland, founder and CEO of the London-based hedge fund Svelland Capital, believes recession fears can explain some of the decline, but believes the main explanation lies elsewhere.

- The movements are very special, because it has absolutely nothing to do with supply and demand. The reason is that funds with large bets have had to liquidate their positions, says Svelland.

He refers to the broad market fall. Almost all asset classes – with the exception of energy and raw materials – have taken a beating so far this year as a result of high inflation and increased interest rates.

- That puts liquidity under pressure, and then you get a chain reaction that has now played out to the maximum. When the funds have to sell off, they usually start with the winners, which this year have been commodities.

At the top, the development is reinforced by the fact that so-called CTA funds, which act based on trends, according to Svelland, now have huge short positions in metals. Selling short means, in short, betting on a fall in price.

- I think the price movements we see are completely temporary, and that the market can bounce back very quickly.

- The hour of settlement

While "everything" in terms of energy and commodity prices has turned downward, European gas prices have risen steeply, driven by a reduction in Russian gas exports and fears of a complete stoppage in supply. In normal years, Russia has accounted for around 45 per cent of the EU's gas consumption.

The coming winter is likely to be worse than the last, and in Germany the danger of industrial death and rationing is being talked about with the utmost seriousness.

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- Europe does not have enough energy, and there is no "quick fix". We must do what we can to increase the production of oil and gas, while at the same time we must support investments in renewable energy that can contribute to increased electricity production. Now there can be no political quagmire with lengthy processes. We need energy fast, and we need a lot of it. Unfortunately, we have to use coal, and nuclear power just has to be restarted straight away, says Svelland.

In an interview with DN last autumn, Svelland warned that Europe was heading into a deep energy crisis, as a consequence of underinvestment in oil and gas since 2014. Russia has worsened an already precarious situation, but it would have been a full-blown crisis regardless , emphasizes Svelland.

- Placing all the blame on Putin is not right. The root of the energy crisis is a disastrously failed energy policy, and now is the hour of reckoning. We all want it to be green, but the policy that has been pursued has been based on a utopia that has been completely unrealistic. That is why I have hit the market, says Svelland.

His fund, which trades exclusively in commodity securities and commodity and energy-related shares, had an average annual return of over 32 percent in the years 2019–2021. So far this year, the fund has risen 21.2 per cent, after a fall of 2.5 per cent in June.

- Bordering on madness

As for oil, the very lubricant of the world economy, the EU has already decided to phase out most of Russian oil by the end of the year. Currently, Russian oil production is running at full capacity, with much being diverted to China and India, which have bought the oil at a deep discount compared to reference prices.

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On Wednesday, the spot price for North Sea oil burned around 100 dollars a barrel, but Svelland still thinks it is likely that the price will rise to between 130 and 150 dollars towards the end of the year. He notes that the oil market was very tight even before the war, and also points out that the demand for aviation fuel is currently at its highest since before the pandemic.

Energy editor David Sheppard in the Financial Times is also scratching his head over the movements in the oil market. On Twitter, he asks if anyone has an explanation for the downturn, to which

Svelland's hedge fund colleague Pierre Andurand replies that he thinks the algorithms may have found a correlation to the financial crisis in 2008. It is difficult to defend the movements in the "short, medium and long term", it writes the world-renowned oil trader.

Svelland also sees a joker in Kazakhstan, after a Russian court last week ordered the Caspian Pipeline Consortium to stop all oil deliveries for 30 days, which would mean stopping a pipeline that carries around 1.5 million barrels of oil from Kazakhstan daily. The decision was overturned by a Russian court on Monday, but uncertainty remains.

Like most investors, Svelland now considers the likelihood of a recession, as an economic downturn could reduce demand drastically. As of now, recession is not his "base case", but it depends on the central banks, he states.

- The monetary policy of the central banks has bordered on madness. But the stupidest thing they can do now is raise interest rates too quickly and too much, because then we will have a deep recession.

- We already have austerity on households via higher energy prices, says Svelland.

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has more to go on

Even if there were to be an official recession in the US, Europe or globally, it does not have to mean a collapse in oil prices, he believes.

- I think oil prices will remain high even in the event of a mild recession. We have to enter an extreme recession for it to drop significantly.

A Russian court last week ordered the Caspian Pipeline Consortium to halt all oil deliveries for 30 days, which would have meant shutting down a pipeline that carries around 1.5 million barrels of oil from Kazakhstan a day. The decision was overturned by a Russian court on Monday (Photo: Reuters/NTB)

- Completely wrong

Svelland has over 30 years of experience from shipping and raw materials, including from brokerage house Pareto, investment bank Goldman Sachs and trading house Trafigura.

In 2020 and 2021, he was also chief executive of John Fredriksen's management company Seatankers, with responsibility for an extensive restructuring. Together with his daughters Cecilie and Kathrine, Fredriksen controls one of the world's largest fleets.

If Svelland is to be believed, the Fredriksen family has a lot to look forward to in the future.

- What is the big opportunity now is the tank market. Together with lng, tank is going to have some absolutely fantastic years. There are too few boats, while there are more loads to be moved over longer distances, he says.

LNG is natural gas that has been liquefied using cooling, and is transported with our own LNG ships.

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And if commodity prices remain high for several years, as Svelland believes they will, there is no reason to fear heights on the Oslo Stock Exchange.

- We are only at the beginning of a long super cycle. Starting to think that it is over for raw materials and related stocks because you have a temporary "sell off" is completely wrong. There is no more oil out there, there is no more copper, and there is no more aluminum. It is equally tight across the board.(Terms)