

Commodity Forecasting

How to save millions in 2025

11th February 2025

Simon Frost

FROST
PROCUREMENT ADVENTURER



Founder

Tom Bundgaard

 Expana



VP Price Forecasting

Expana overview

Expana is the largest IOSCO-assured, market leader in independent global commodity data, price forecasts, and hedging advice.

Our new platform is built on the successes of our legacy brands, which paired independent price data alongside powerful cost modelling analytics and tools within customer workflows, supporting procurement, sourcing, and category management functions and driving significant cost savings.



200+ Years

of experience in global data collection

30,000+

collected and curated independent raw material prices

70 million+

Market data & commodity price points released each year

Top Brands

trust us to deliver the very best data

1000+ Forecasts

& 70+ hedging recommendations

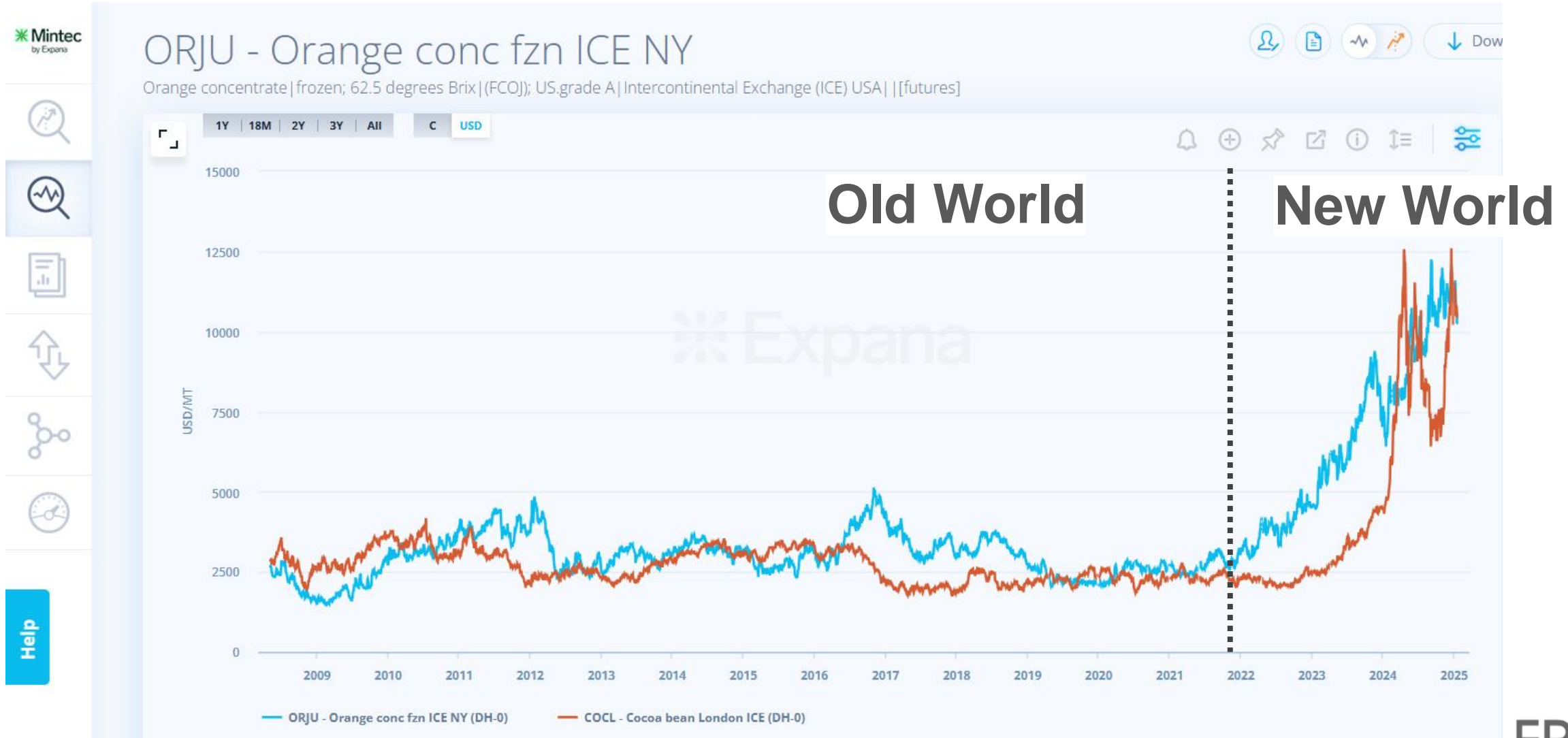
25%

of Expana's food data are proprietary by usage

The World has Fundamentally Changed:

- **Covid**
- **Geo-Politics**
- **Climate Change**
- **Population Growth**

Paradigms have been totally broken:



Help

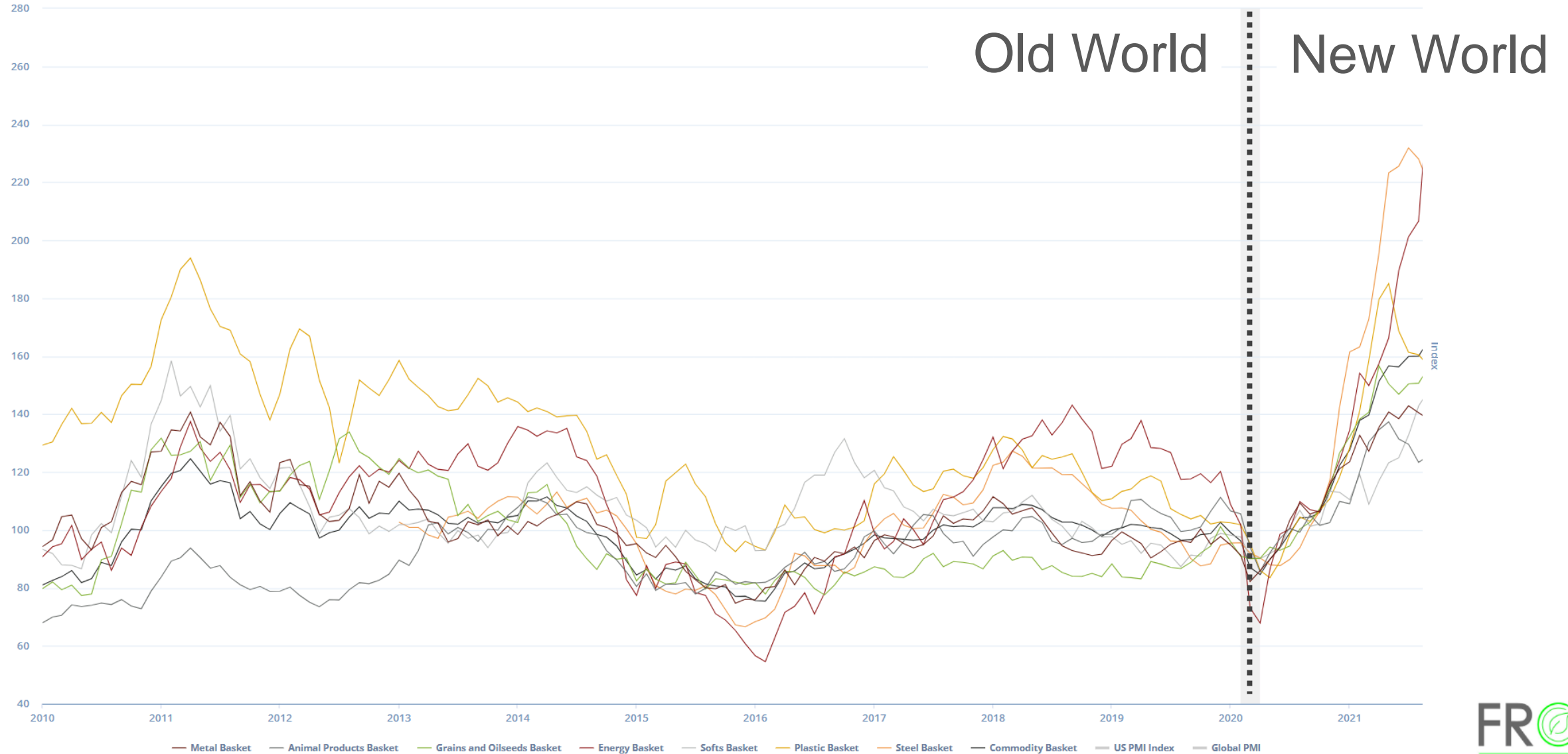
This raises several questions...

1. Is the **story** the same for all commodities?
2. What type of **decisions** do we need to make?
3. How should we **forecast**?
4. How do we measure **success**?
5. How can we unlock **value**?
6. What does the **future** hold?

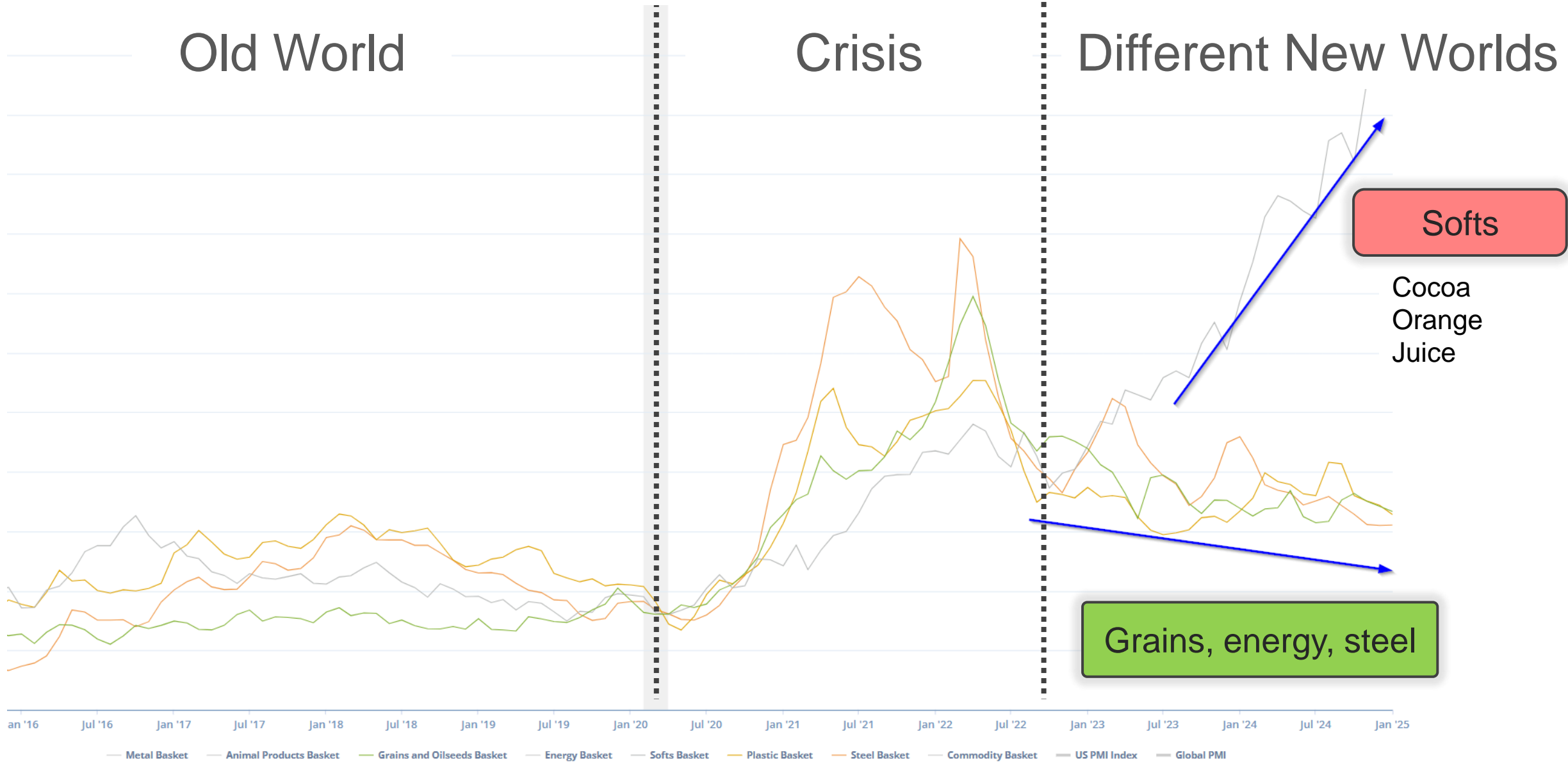
1. Is the story the same for all commodities?

Tom

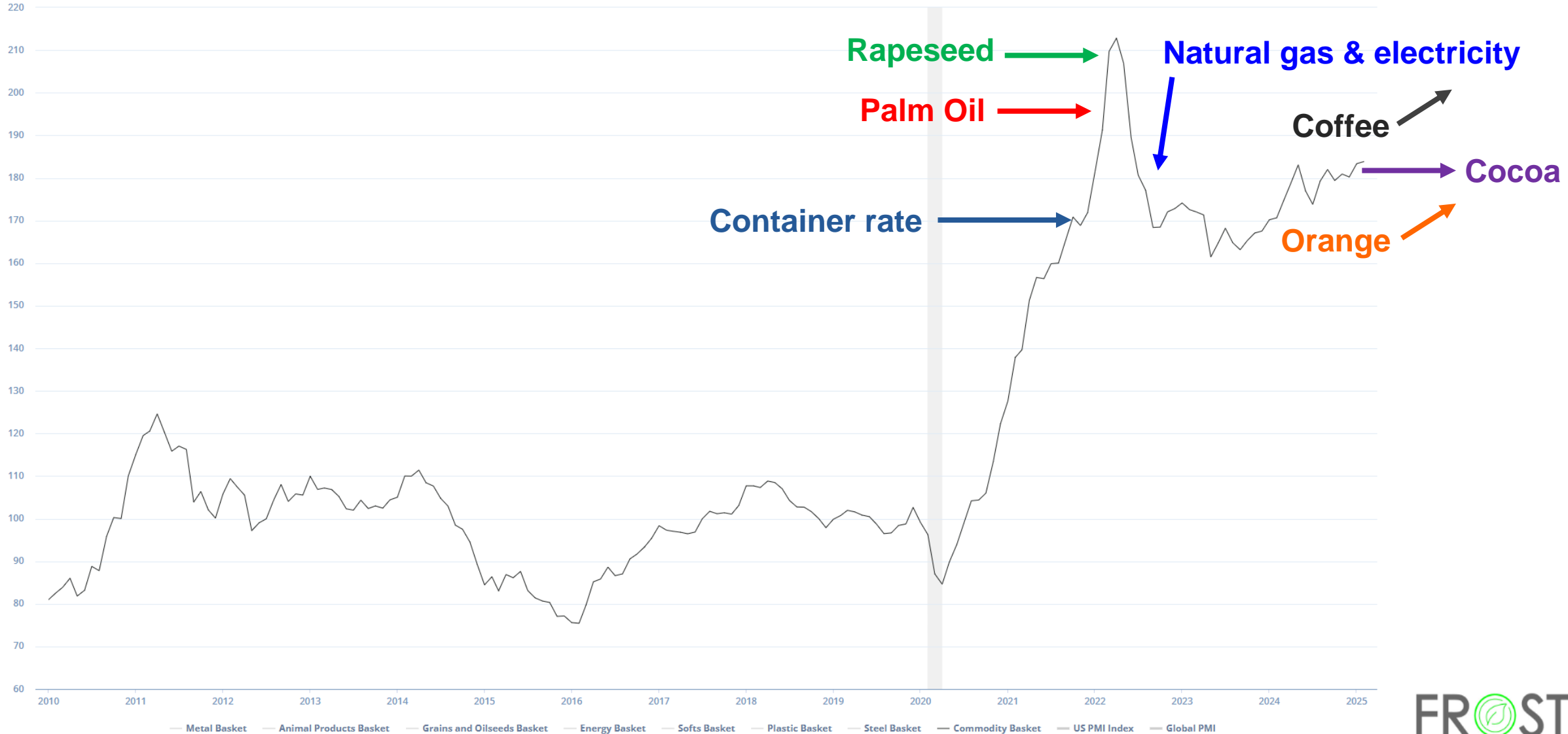
In the old World there was some sort of pattern:



But there is more than one scenario:



Eight extreme price peaks



2. What type of decisions do we need to make?

• Simon

“I find making decisions in the current markets:

5/5 – Very Challenging

4/5 – Above Average

3/5 – Average

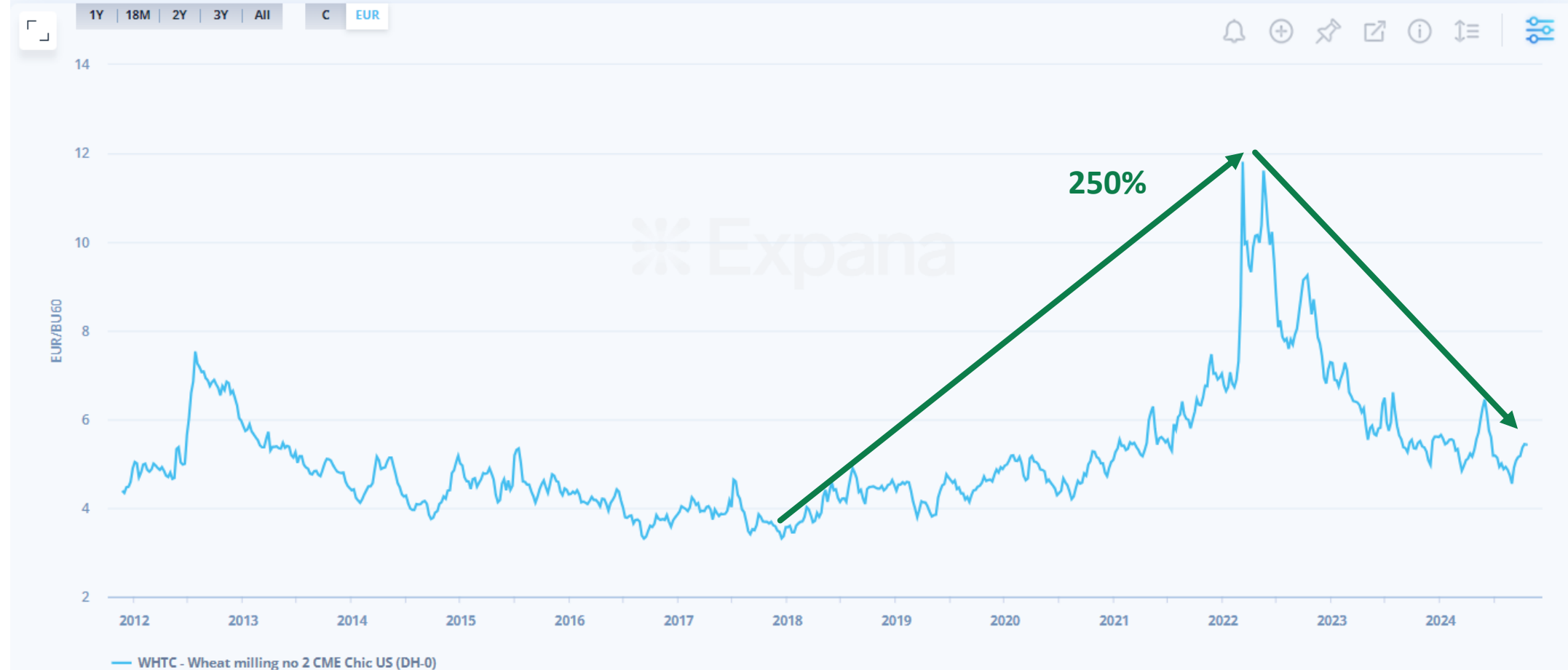
2/5 – Below Average

1/5 – Easy

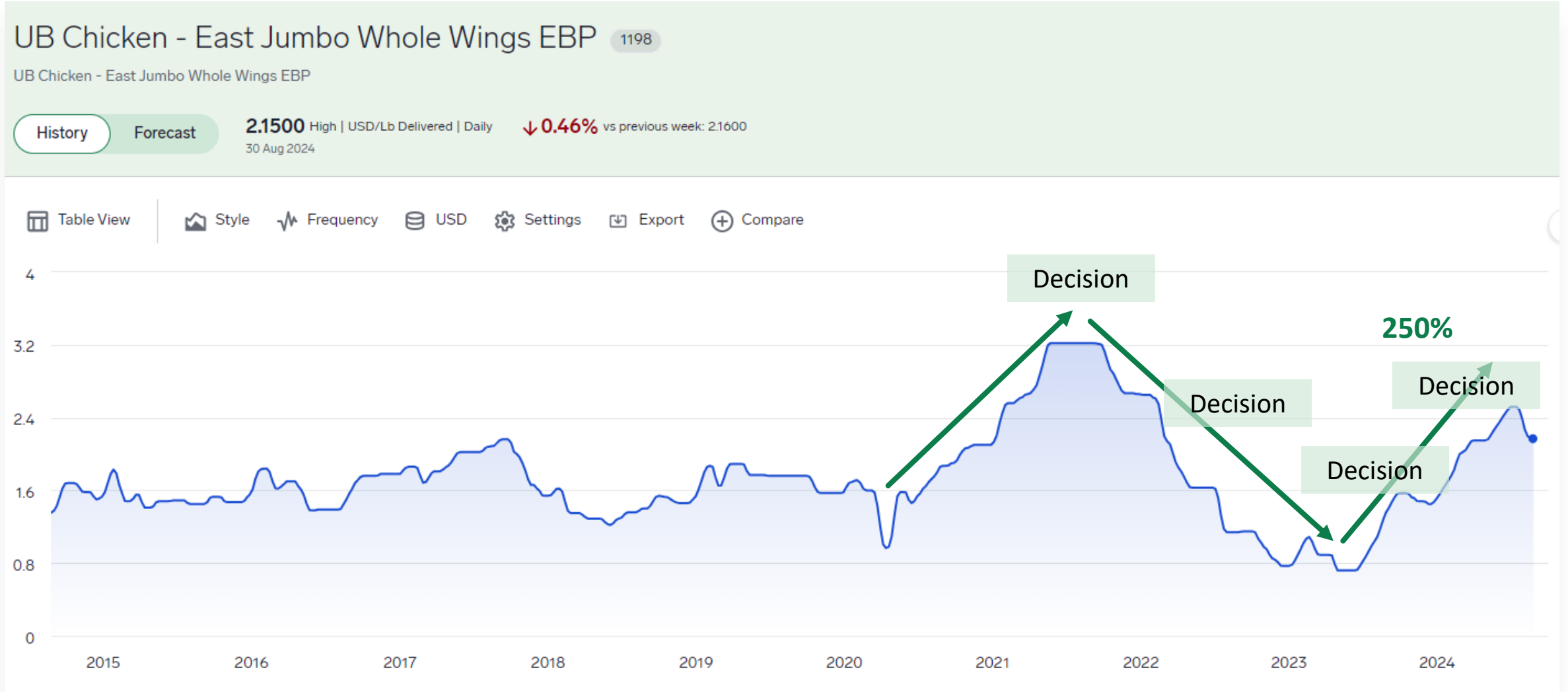
The stakes have become miles higher:

WHTC - Wheat milling no 2 CME Chic US

Wheat | no 2 Soft Red Winter | exchange-approved grades and standards | Chicago Mercantile Exchange (CME); Chicago USA | [futures]



The buyer needs to be able to make different decisions:



Your previous office...



Your real office:



Typically, decisions will be external or internal focused:

Externally Focused:

- **Timing** – when to buy/take cover & when to sell cover
 - **Quantity** – how much cover or quantity to buy
 - **Duration** – for how short/long should you buy (physical vs trading)
-
- **Regions** – change sourcing region
 - **Supplier** – change supplier

Internally Focused:

- **Recipe reformulation** – use more or less of something (linear programming)
- **Specifications** – evaluate parameters of the specification
- **Portfolio optimisation** – cut low margin SKUs
- **Stock** – physical stock holding
- **Production** – factory utilisation

3. How should we forecast?

Tom

Let's pick Brent Crude as an example:

Brent Crude Oil Price Targets

Fig. 1 ICE Brent Crude Oil (1st position continuous)



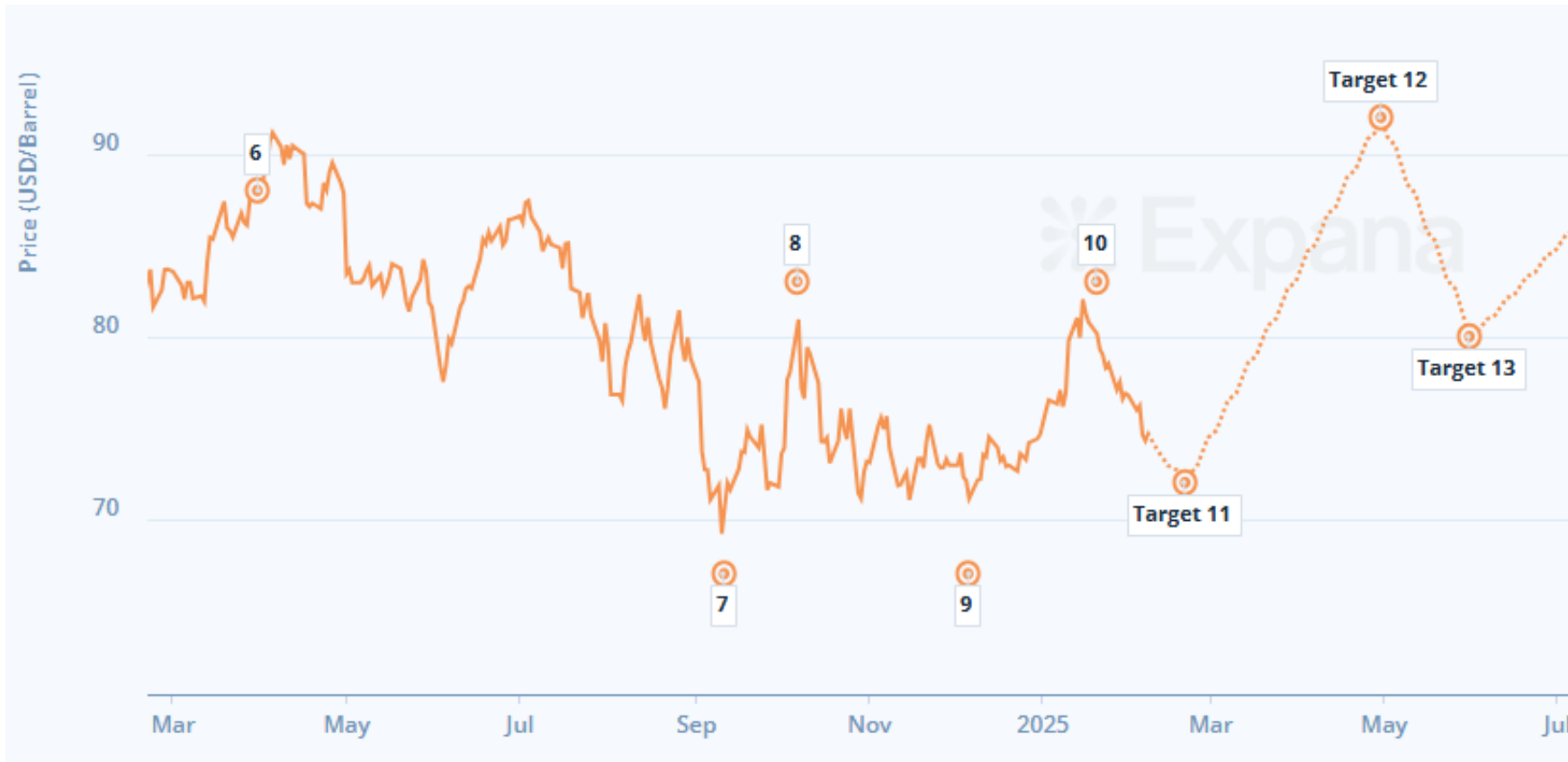
10 second look

10 minute analysis

1 hour deep-dive

Expana predicts future price points:

Brent Crude Oil Price Targets

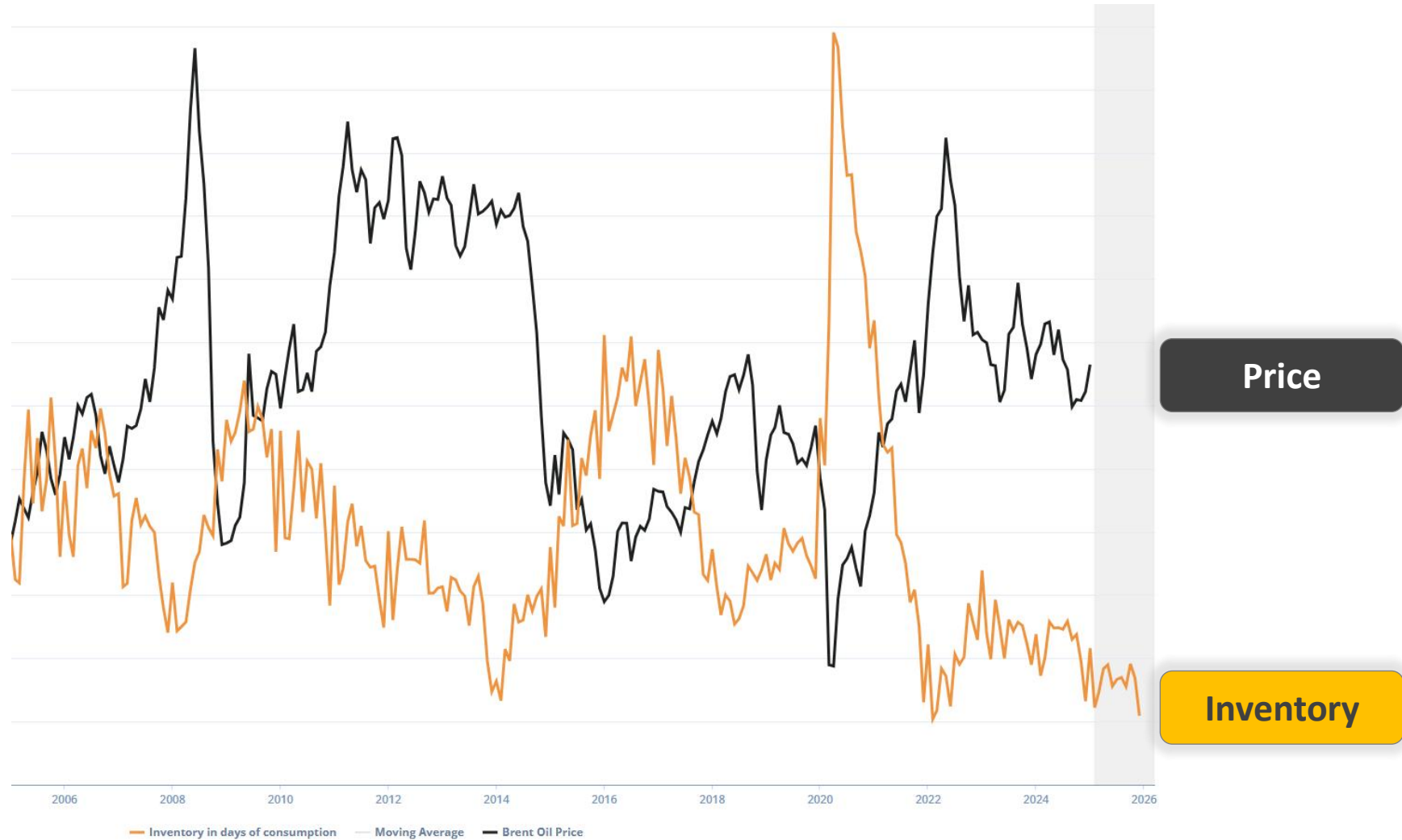


- 10 second look
- 10 minute analysis
- 1 hour deep-dive

We bring together multiple elements for our forecasts:

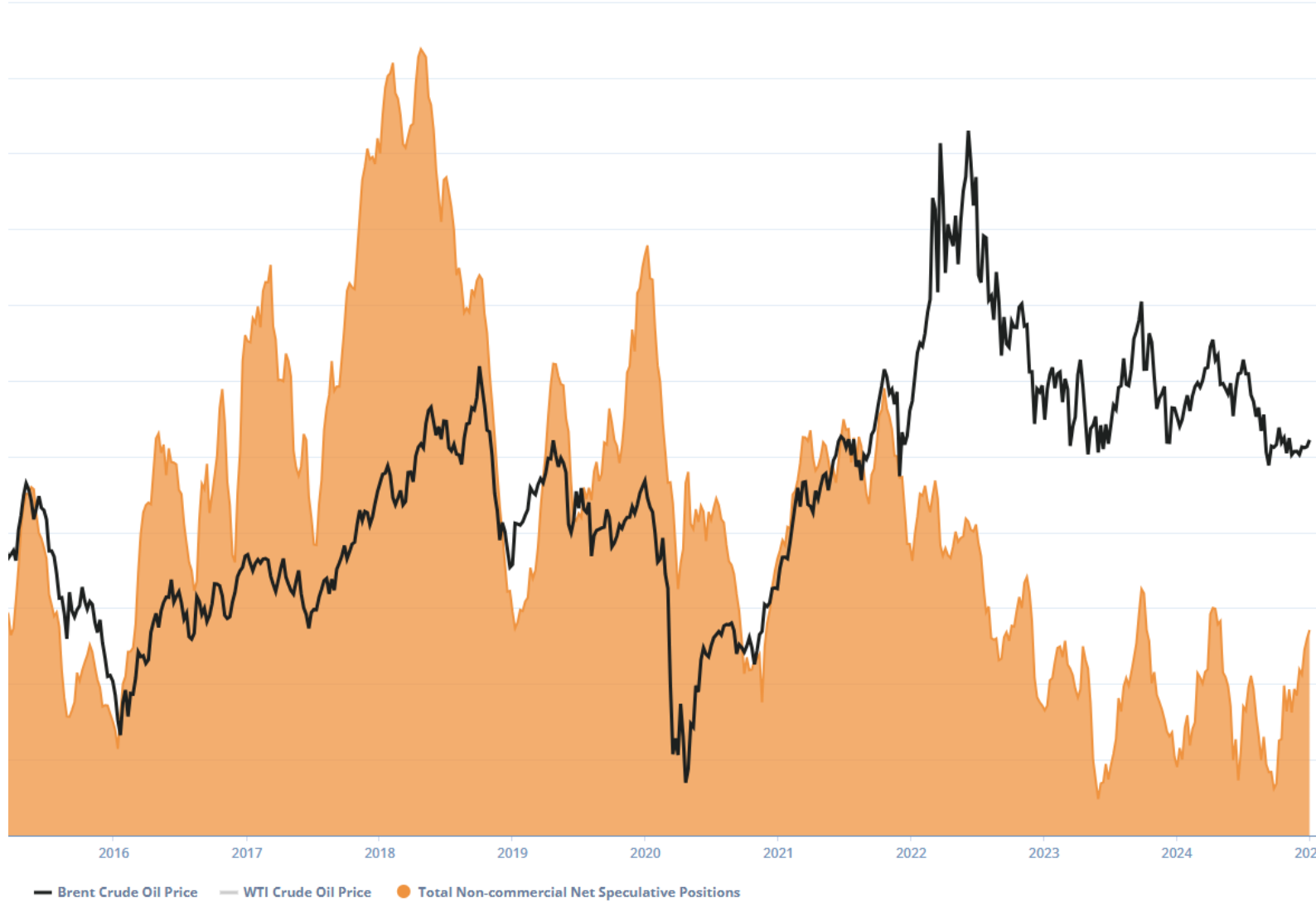


We look at inventories vs prices:



Source: EIA, ICE, Expana © Mintec Limited. Last update: Jan 13, 2025

We look at speculators vs prices:



Price

Speculators

— Brent Crude Oil Price — WTI Crude Oil Price ● Total Non-commercial Net Speculative Positions

Source: CFTC, CME, ICE © Mintec Limited. Last update: Jan 13, 2025

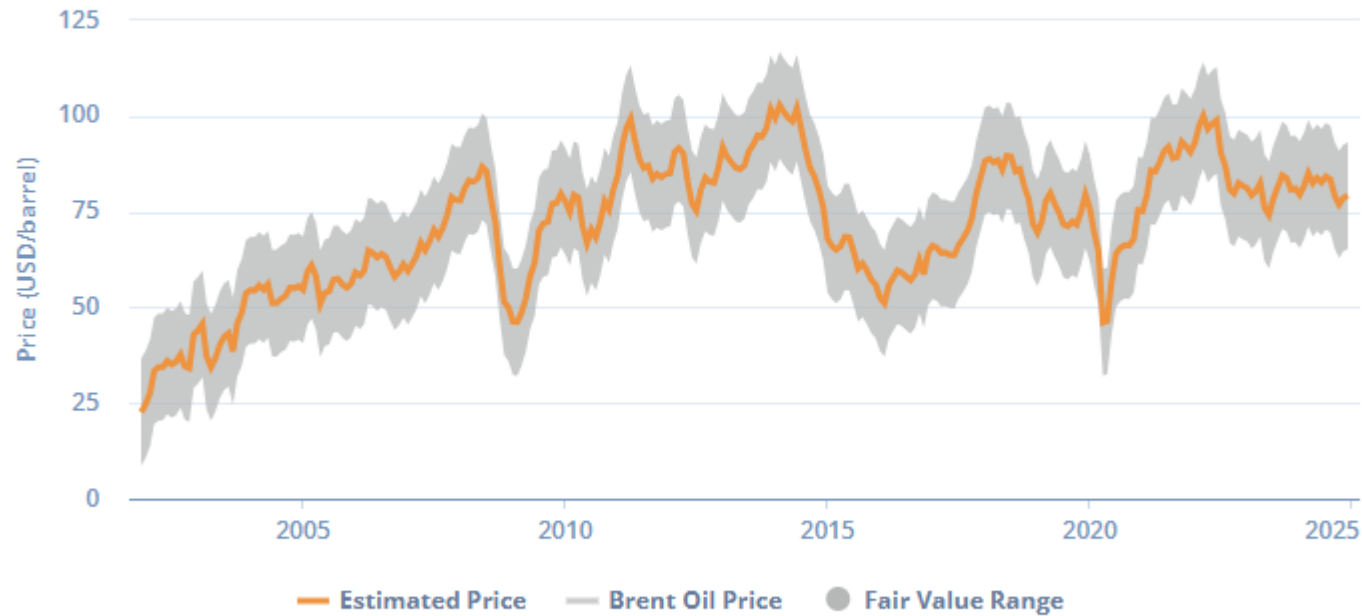
We compile the factors into a conclusion:



The fundamental conclusion of Brent Oil is:

Oil Regression Model

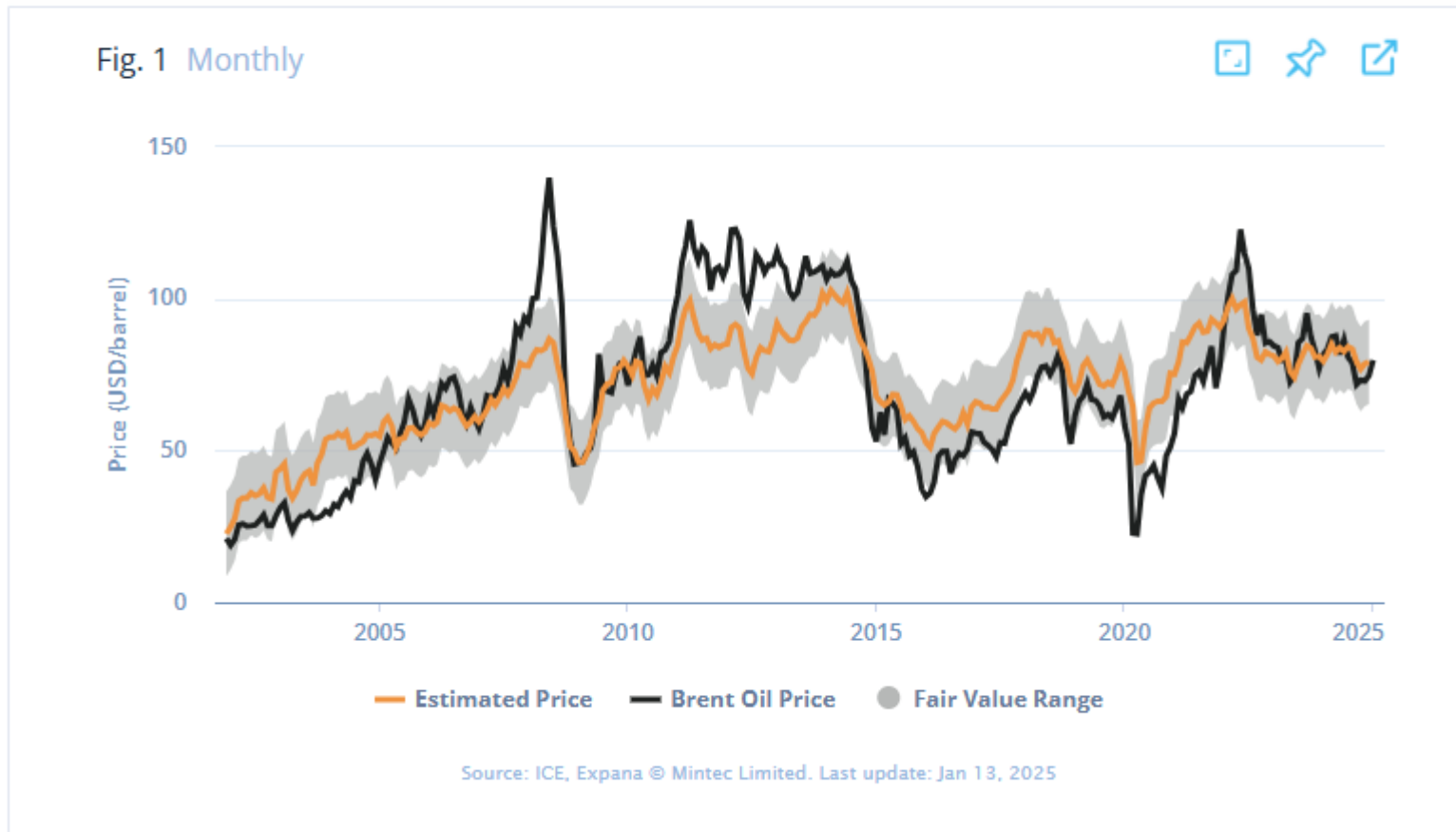
Fig. 1 Monthly



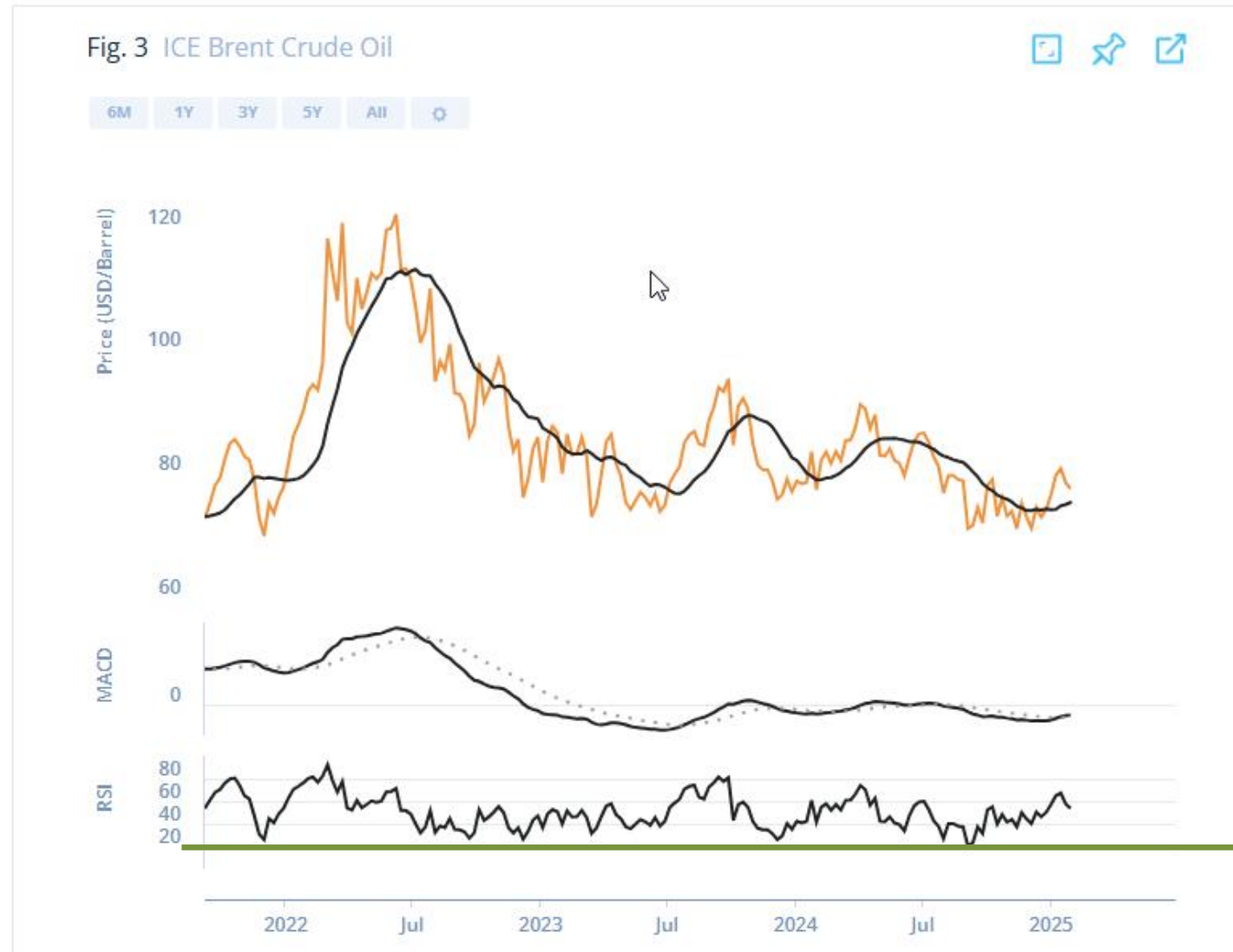
Source: ICE, Expana © Mintec Limited. Last update: Jan 13, 2025

The fundamental conclusion of Brent Oil is:

Oil Regression Model



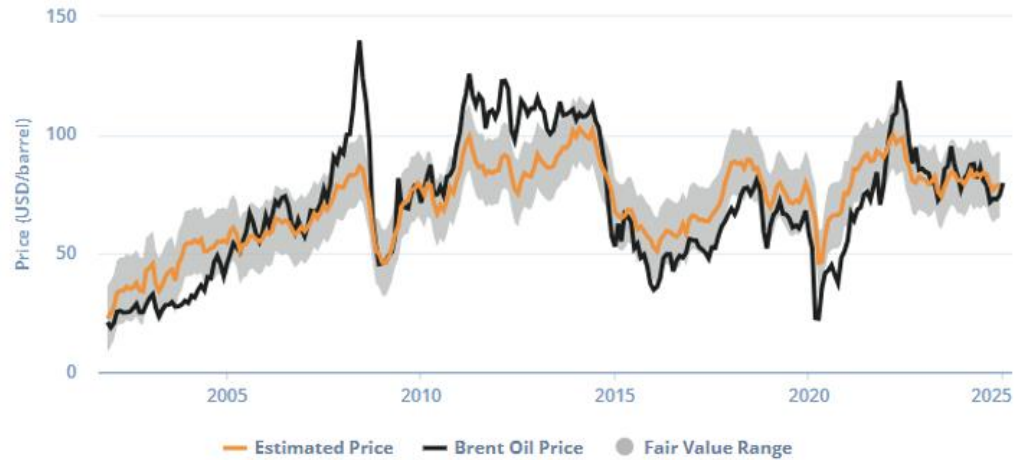
Technical Analysis (moving averages etc) of Brent Oil is:



We then compare fundamental and technical analysis:

Oil Regression Model

Fig. 1 Monthly



Source: ICE, Expana © Mintec Limited. Last update: Jan 13, 2025

Fig. 3 ICE Brent Crude Oil

6M 1Y 3Y 5Y All ⚙

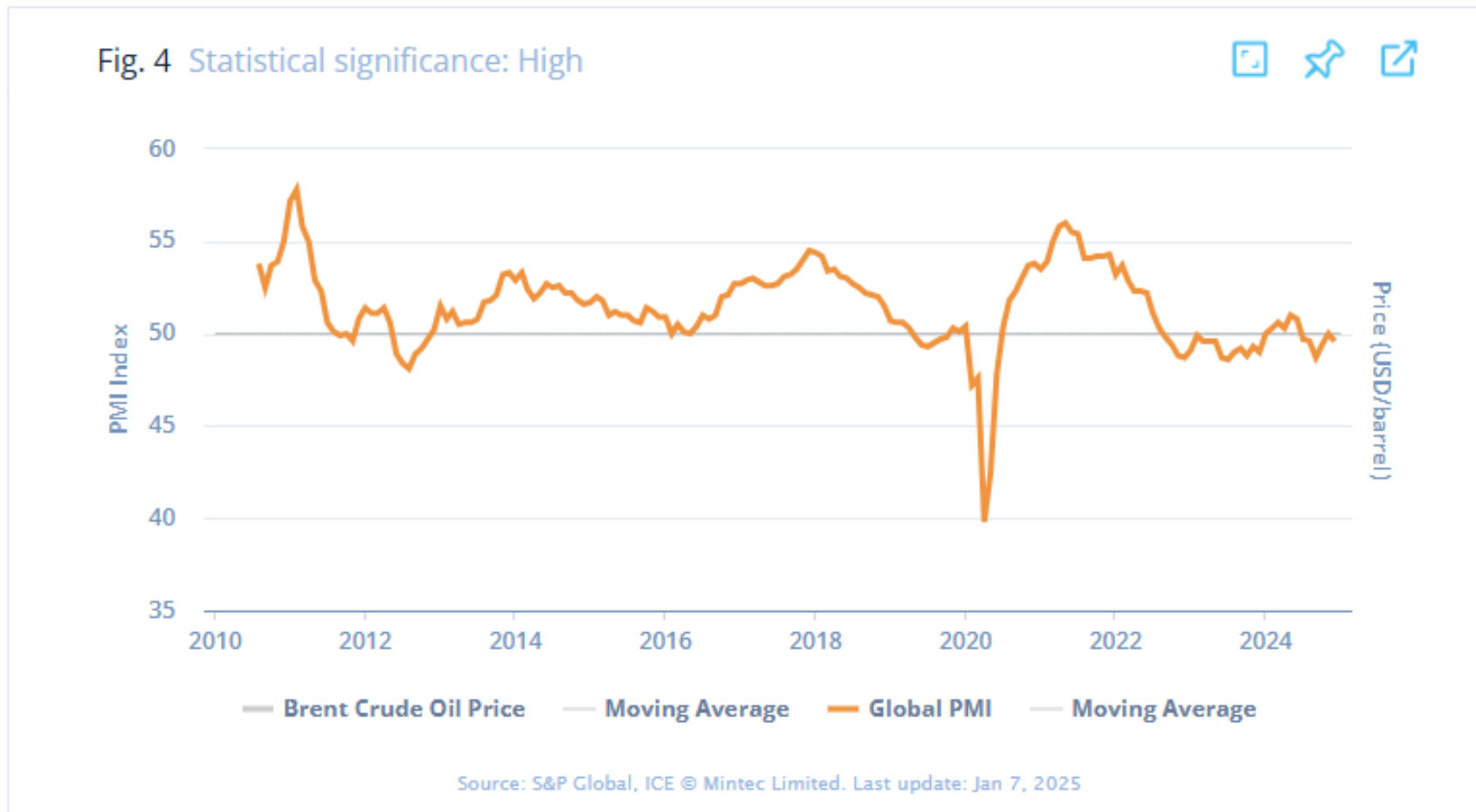


Now we look at the macro view:



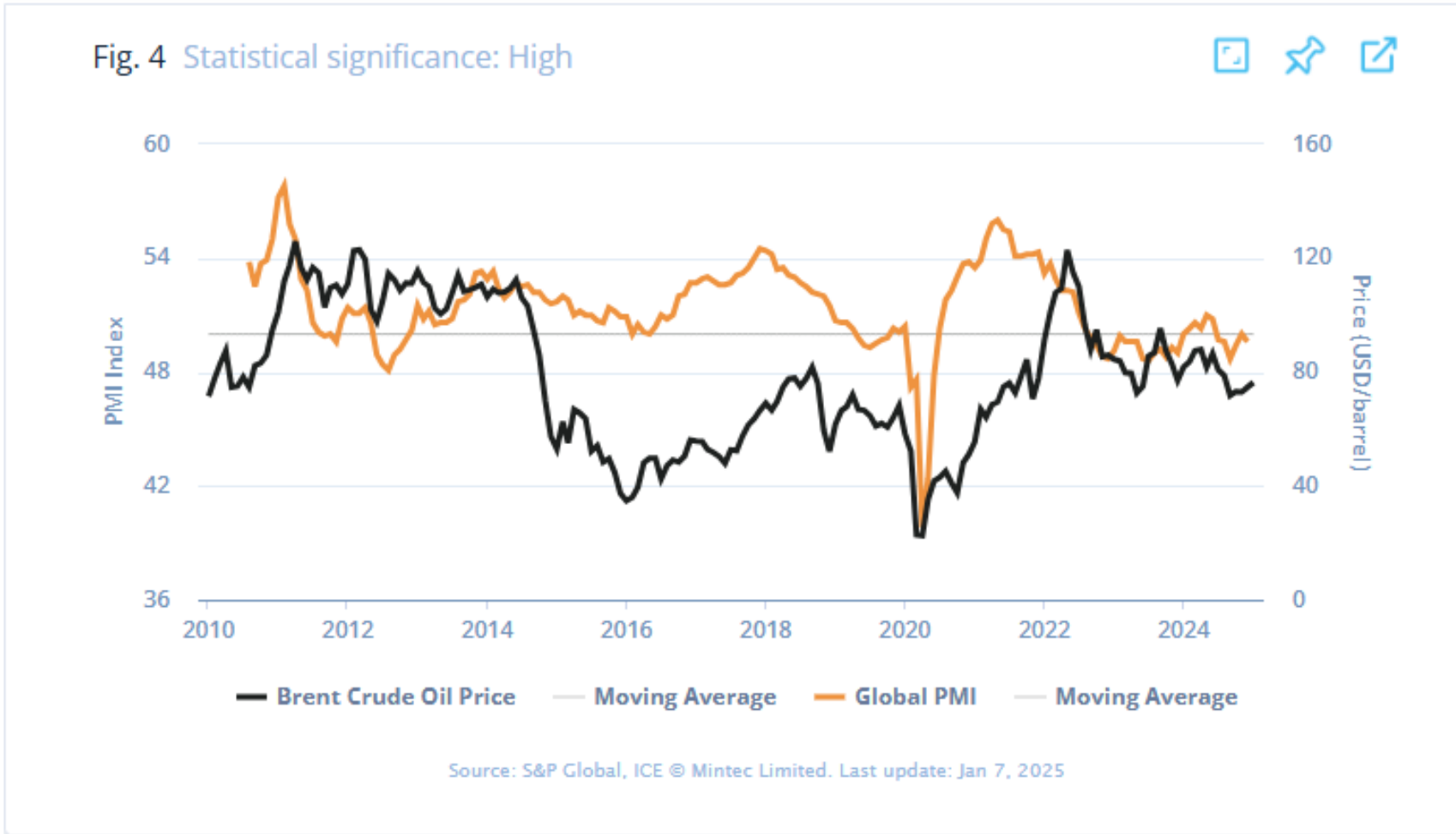
This is the macro view:

Global PMI vs Brent Crude Oil Price



This is the correlation between macro and Brent Oil:

Global PMI vs Brent Crude Oil Price

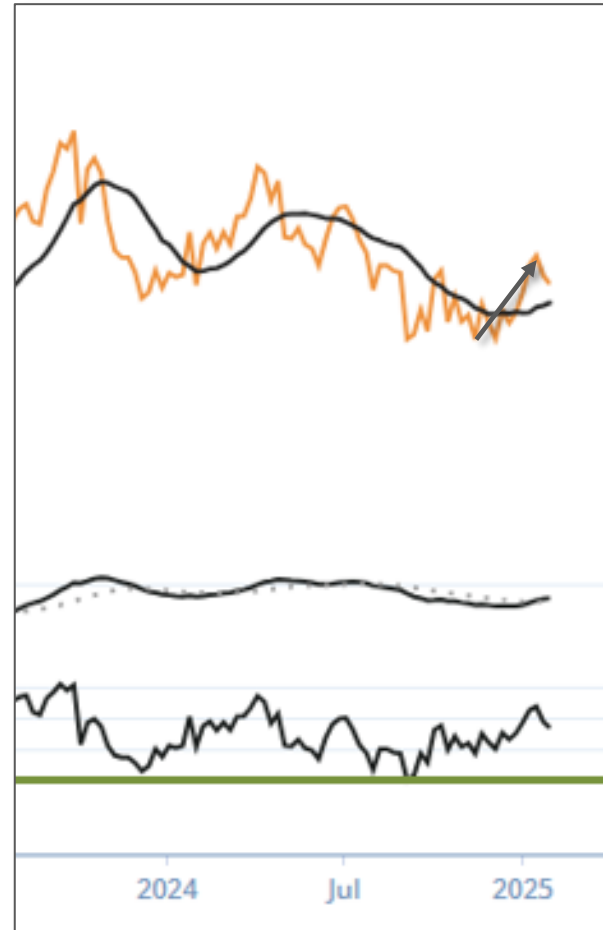


We bring together 3 different types of forecast:

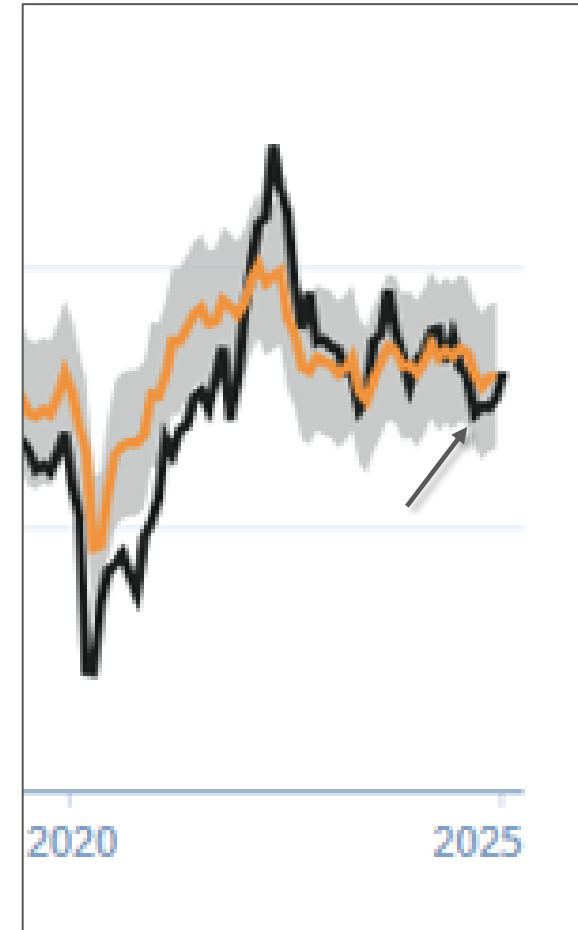
Macro



Technical



Fundamental



We always give a recommendation of what strategy to take:

Brent Crude Oil Price Targets



Hedging recommendation



Last change: Jan 8, 2025. Last update: Jan 27, 2025

>>Taking the right/wrong action can result in saving/losing millions <<

We forecast across a broad spectrum of commodities:

Dairy				Economics				Energy & Transport				Grains & Oilseeds				Steel			
	Trend	Trend Start	Hedging Recommendation		Trend	Trend Start	Hedging Recommendation		Trend	Trend Start	Hedging Recommendation		Trend	Trend Start	Hedging Recommendation		Trend	Trend Start	Hedging Recommendation
Butter EU	▼	07/01/2025		EUR/GBP	▲	14/01/2025		Bitumen CN	▶	08/02/2024		Maize (Corn) EU	▶	05/11/2024		Cold Rolled Coil	▲	07/01/2025	
Butter US	▼	17/10/2024		EUR/USD	▼	24/10/2024		Bunker Fuel	▲	10/01/2025		Maize (Corn) US	▲	30/09/2024		Hot Dipped Galvanized	▲	07/01/2025	
Cheese EU	▼	10/01/2025		GBP/USD	▼	08/11/2024		Coking Coal	▶	02/10/2024		Oats US	▼	17/12/2024		Hot Rolled Coil China	▼	10/01/2025	
Cheese US	▶	17/01/2025		PMI	▶	02/08/2024		Container Rates CN-EU	▶	02/01/2025		Olive Oil ES	▼	16/07/2024		Hot Rolled Coil EU	▲	07/01/2025	
Milk Fresh EU	▼	08/01/2025		USD/CNY	▲	19/11/2024		Container Rates CN-US	▶	01/12/2024		Palm Oil	▼	16/01/2025		Hot Rolled Coil US	▲	07/01/2025	
Milk Fresh US	▶	05/11/2024						Container Rates US-EU	▲	08/11/2024		Rapeseed Oil (Canola Oil)	▶	06/01/2025		Merchant Bars	▲	07/01/2025	
Milk Powder SMP	▲	05/06/2024						Crude Oil	▶	08/01/2025		Rice	▼	11/11/2024		Pig Iron	▶	04/12/2024	
Milk Powder WMP NZ	▶	03/01/2025						Electricity DE	▶	05/09/2024		Soyabean	▶	24/09/2024		Scrap	▼	27/11/2024	
Milk Powder WMP US	▼	06/01/2025						Electricity NORD	▼	03/01/2025		Soyabean Oil	▶	22/11/2024		Stainless	▼	19/09/2024	
								Natural Gas EU	▲	02/01/2025		Sunflower Oil	▼	07/01/2025					
								Natural Gas US	▲	20/11/2024		Wheat EU	▲	17/12/2024					
											Wheat US	▼	30/12/2024						
Meat, Poultry & Fish				Metals				Paper & Wood				Plastics & Textiles				Softs			
	Trend	Trend Start	Hedging Recommendation		Trend	Trend Start	Hedging Recommendation		Trend	Trend Start	Hedging Recommendation		Trend	Trend Start	Hedging Recommendation		Trend	Trend Start	Hedging Recommendation
Beef EU	▲	06/12/2024		Alu Alloy	▼	23/09/2024		Kraftliner US	▲	29/04/2024		ABS	▶	19/06/2024		Almond US	▲	20/06/2024	
Beef US	▶	19/12/2024		Aluminium	▼	09/01/2025		Testliner EU	▶	01/11/2024		Cotton	▶	15/11/2024		Cocoa	▲	19/11/2024	
Chicken EU	▼	13/12/2024		Copper	▼	21/11/2024		Wood	▶	22/08/2024		PA6 Nylon EU	▼	05/12/2024		Coffee Arabica	▲	25/11/2024	
Chicken US	▶	24/10/2024		Nickel	▶	30/10/2024					PET EU	▼	17/12/2024		Coffee Robusta	▶	27/11/2024		
Cod	▲	14/10/2024		Tin	▶	21/08/2024					PET US	▼	16/12/2024		Orange Juice	▶	30/10/2024		
Pork EU	▼	15/08/2024		Zinc	▶	19/11/2024					Polyethylene CN	▲	12/12/2024		Potato	▶	04/12/2024		
Pork US	▲	14/01/2025									Polyethylene EU	▶	19/06/2024		Sugar #11	▼	27/12/2024		
Salmon	▲	09/01/2025									Polyethylene US	▶	16/01/2025		Sugar EU	▲	10/01/2025		
											Polypropylene EU	▶	13/06/2024						
											Polypropylene US	▶	16/01/2025						
											Polystyrene	▶	14/01/2025						
											Rubber	▶	17/01/2025						

4. How do we measure success?

Simon

“I find measuring cost saving/value success...”

5/5 – Very Easy

4/5 – Above Average

3/5 – Average

2/5 – Below Average

1/5 – Hard

PREMIUM | Help Procurement Teams
... amazing
... value

Simon Frost

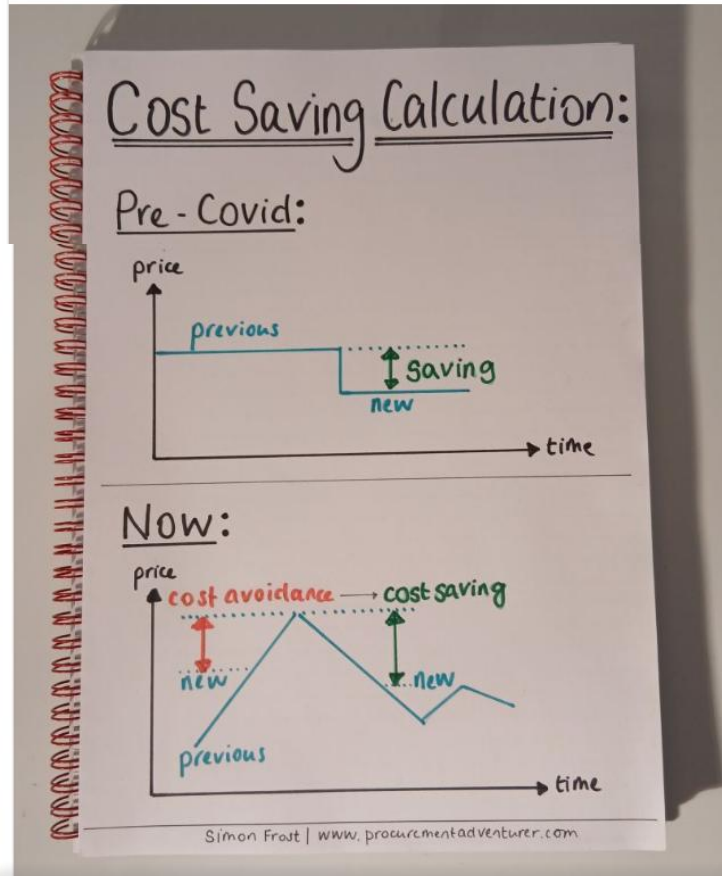
Sustainable Procurement,
Supply Security, Cost
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Simon Frost • You
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Post Covid, calculating savings became much more complicated

Here's how to adapt your approach: ...more



1,032 124 comments · 65 reposts

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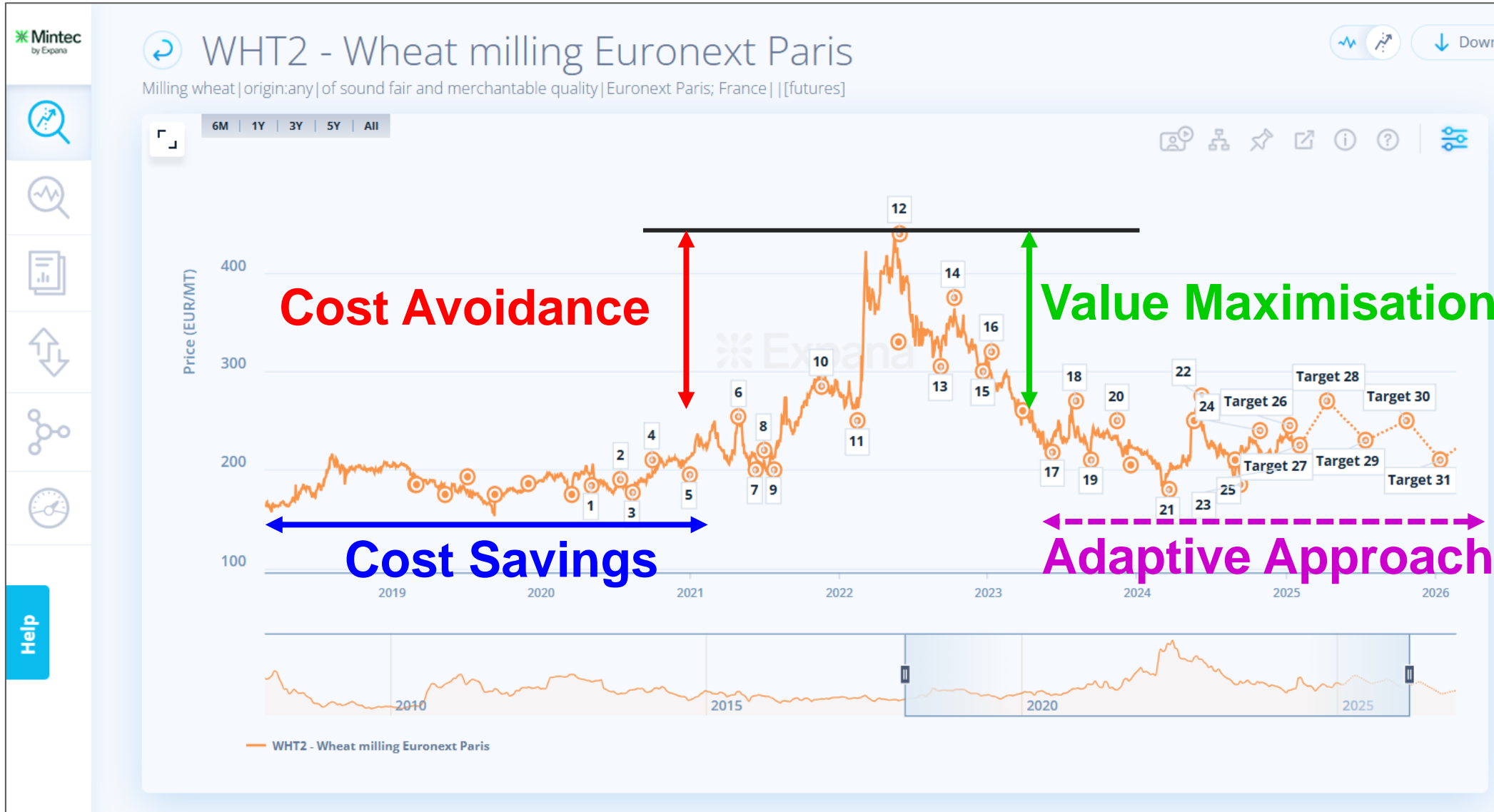
The ecosystem is interested!

What is a saving in these markets?

Unlike with GMT (Greenwich Mean Time), there is not always a clear datum:



There are likely to be several scenarios:



There are multiple options all with pros and cons:

Method	Pro	Con	Notes
Vs P&L	The CFO's favourite True benefit	Very hard in volatile markets	The business lens
Vs Last Year	Simple	Market could have moved up/down significantly	
Vs Rolling 3-6 months	Fairly easy to manage	Time base might be longer/shorter	
Vs Index	Trusted 3 rd party	Accuracy of index Supplier might have bought miles better than index	
Vs Competition	It's the competition you need to beat	Hard to get accurate competitor dataset	
...some other ones besides these	-	-	>> what mechanisms do you use?

How to measure success:

- Budget accuracy?
- Cost Savings or Cost Avoidance?
- Performance against the market?



How to measure success:

- Budget accuracy? **Yes!**
- Cost Savings or Cost Avoidance?
- Performance against the market?



How to measure success:

Budget accuracy? **Yes!**

Cost savings or Cost avoidance? **Cost savings of 15 = 10%**

Performance against the market?



How to measure success:

- Budget accuracy? **Yes!**
- Cost savings or Cost avoidance? **Cost savings of 15 = 10%**
- Performance against the market? **Loss during price decline. If your competitors didn't hedge, then your costs are higher than theirs**



5. How can we unlock value?

Tom

This is a real-life example. For confidentiality:

- **Company A = Blue**
- **Company B = Red**

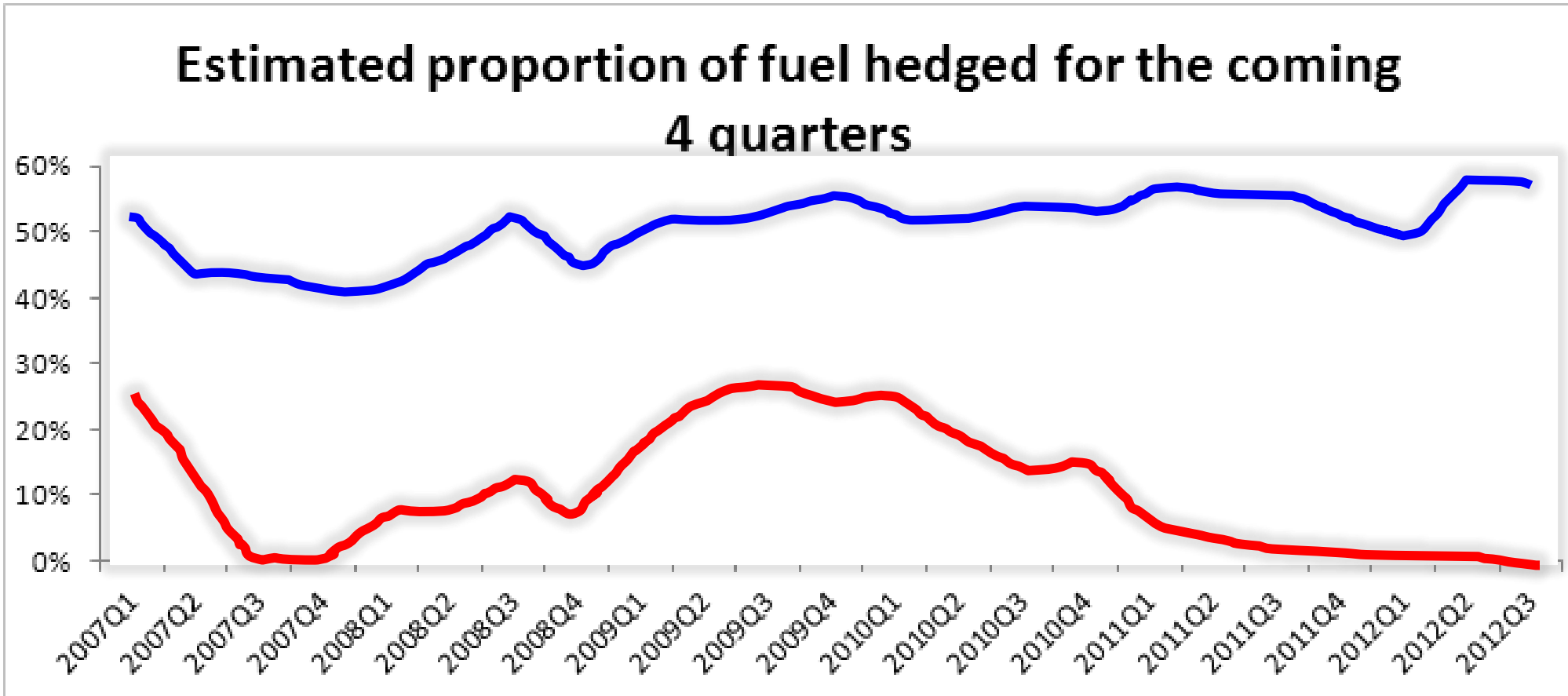


Each company had a different hedging strategy:

	Blue Company	Red Company
Hedging Horizon	18 months	12 months
Hedging Policy	40-80% of the anticipated consumption for the next 12 months	0-100% of the anticipated consumption for the next 12 months
Main Hedging Instruments	Swaps and options	Forwards

The two companies had very different cover positions

- **Blue was covered ~55%**
- **Red was 0%**



At this point, if the market:

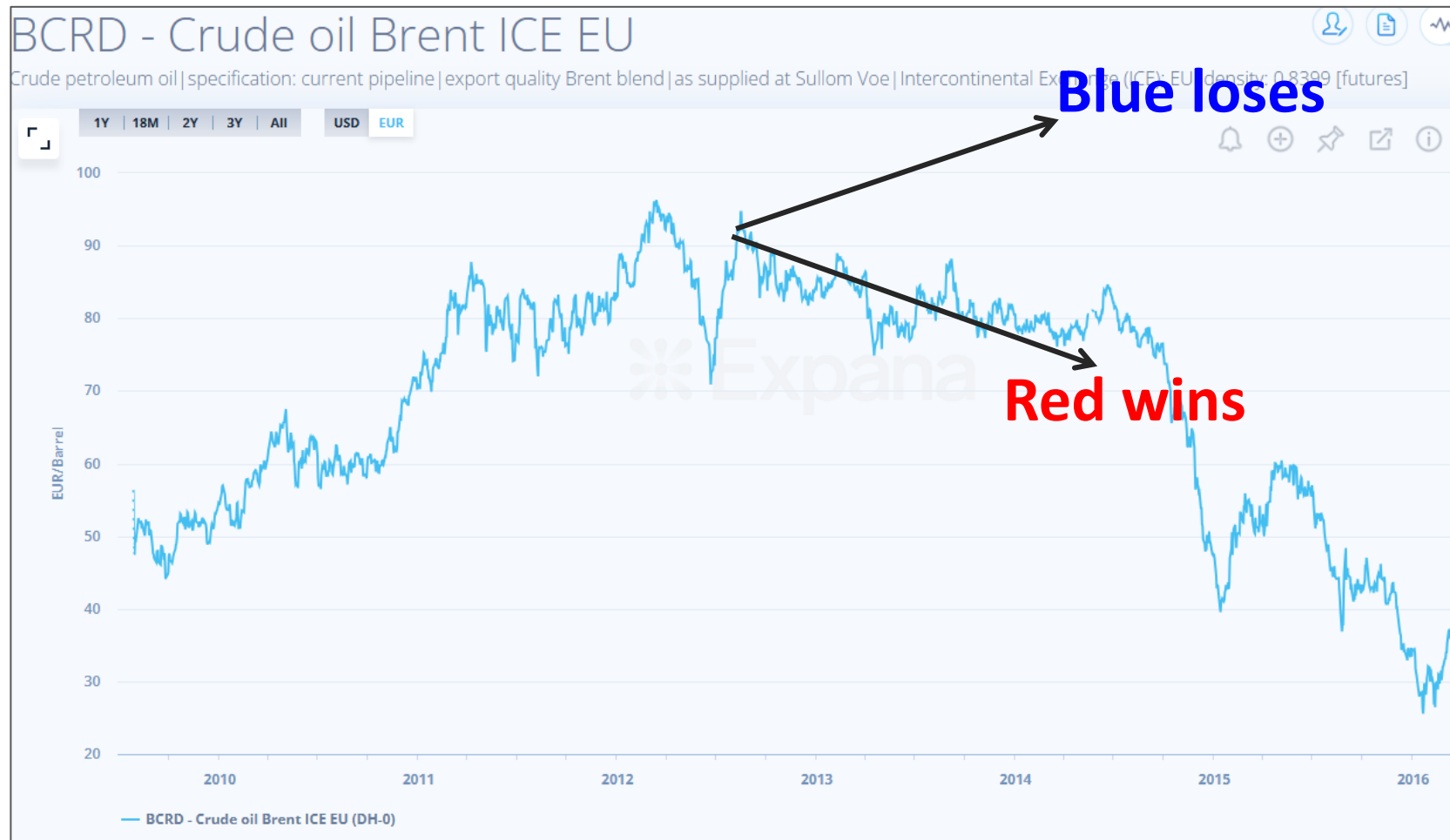
- rises, blue wins (more cover in rising market)
- falls, red wins (can benefit from the falling market)



Blue would win

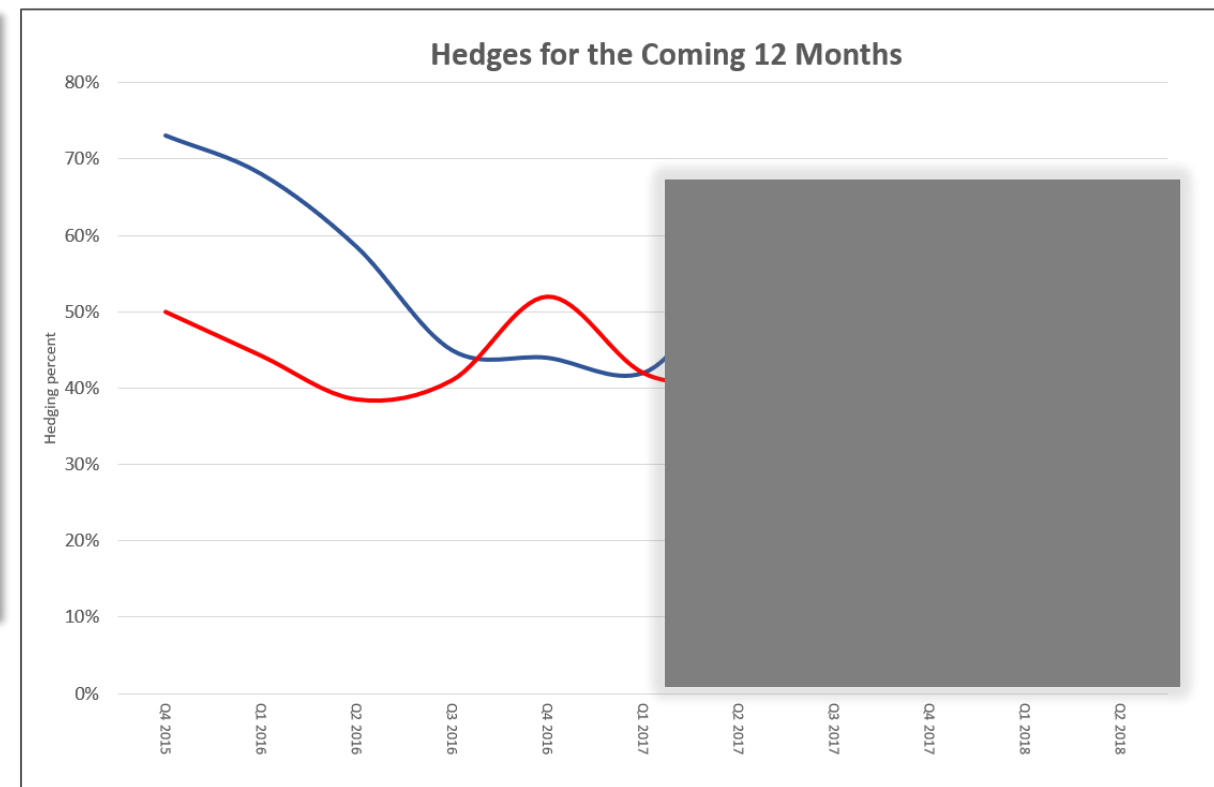
Red would win

As the market falls, red can take more advantage of the falling market:

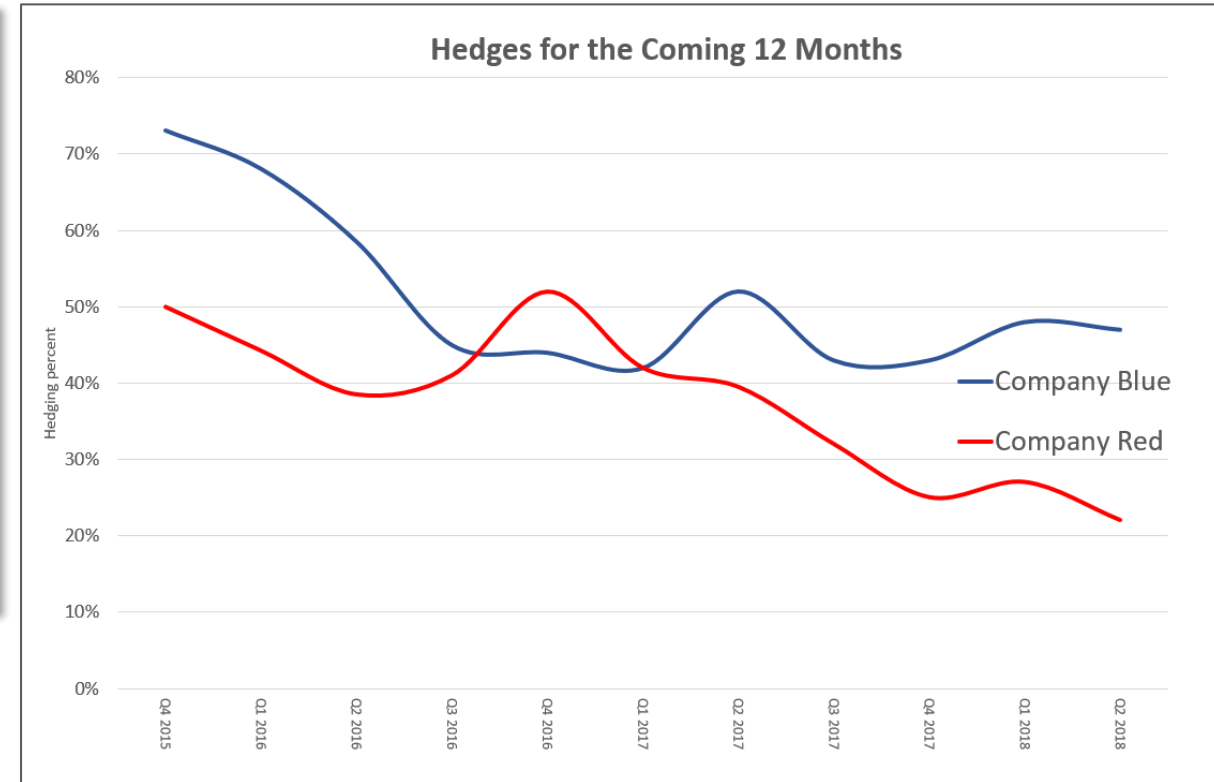


>> Fast forward to 2016-2018

Blue – increases their hedge
Red – decreases their hedge



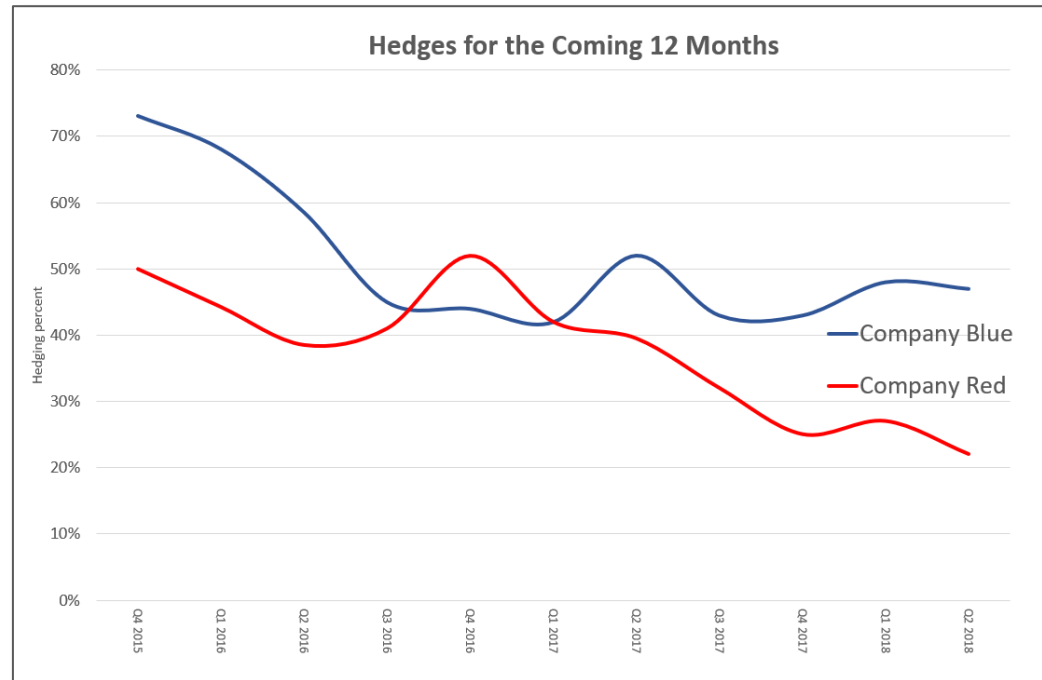
Blue – increases their hedge
Red – decreases their hedge



Fuel costs

Fuel	2016	2017	2018
Fuel expense – company Red	5.0 bill	7.3 bill	12.5 bill

Filed for bankruptcy (but was saved)

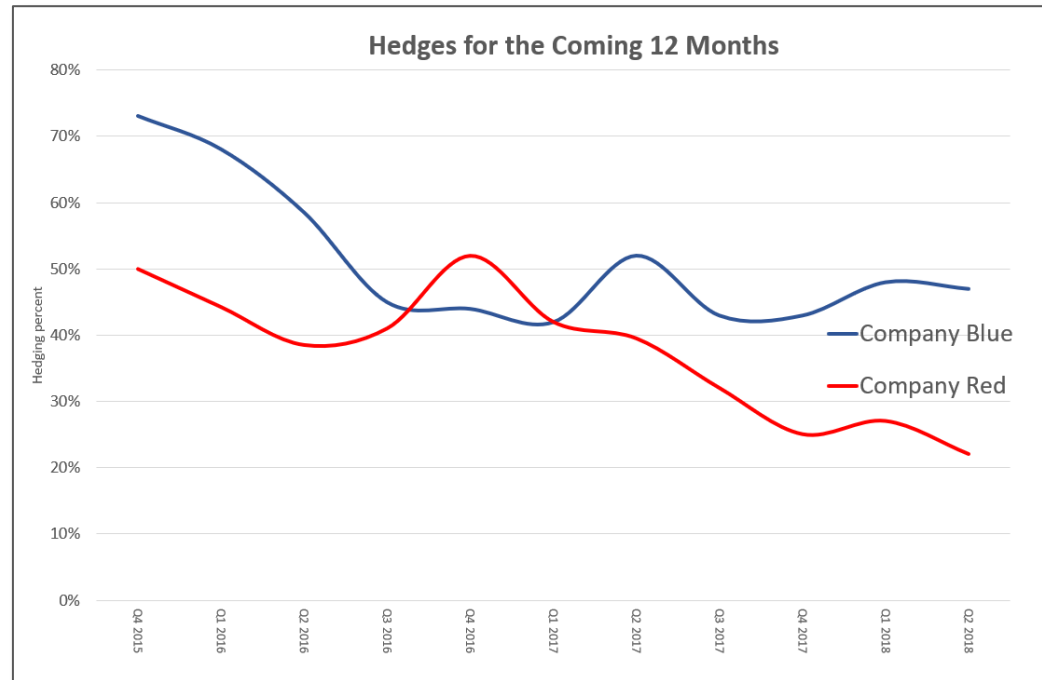


Fuel costs

Fuel	2016	2017	2018
Fuel expense – company Blue	6.4 bill	6.8 bill	8.0 bill
Fuel expense – company Red	5.0 bill	7.3 bill	12.5 bill

4.5 bill difference
56% difference

← Filed for bankruptcy
(but was saved)

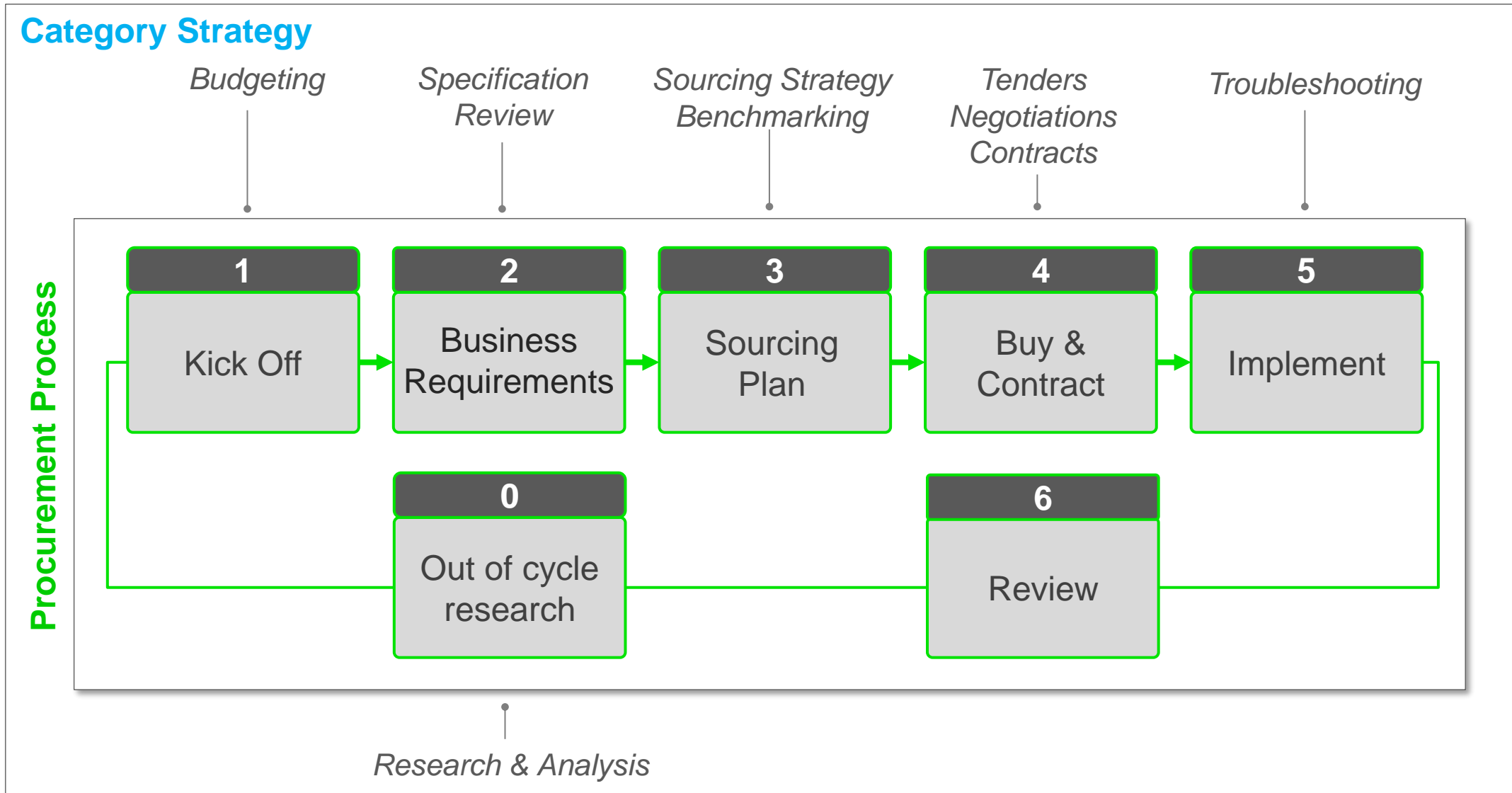






**The winner is the one who:
Navigates the jungle better
than their competitors**

Forecasting can add value right across procurement:



There are multiple value levers that forecasting enables:

Value Lever	Category Strategy Longer term/strategic	Procurement Process Shorter Term/Operational
Point of taking cover, cover length, cover quantity	Agreed Approach Governance	Operational Execution
Alternative Sourcing	Strategic Sourcing Plan	Deliver new sourcing
Recipe Optimisation	Consumer tests Fundamental recipe redesign	Linear Programming New specs for tender
Portfolio Optimisation	Strategic Review	New range for next contract window
Inventory Optimisation	Min/Max limits of buffer stock	Manage to agreed stock levels
Spot buying	Rules of engagement	Rapid execution

Let's now have a quick look at some key commodities in our website:

- **Wheat**
- **Olive Oil**
- **Palm Oil**
- **Cocoa**
- **Coffee**
- **Orange**
- **Chicken**
- **Paper**
- **Polypropylene**
- **Shipping**
- **Gas**
- **Steel**

6. What does the future hold?

Tom

“I think the volatility of the next 10 years is going to be:

5/5 – Much higher than the last 10 years

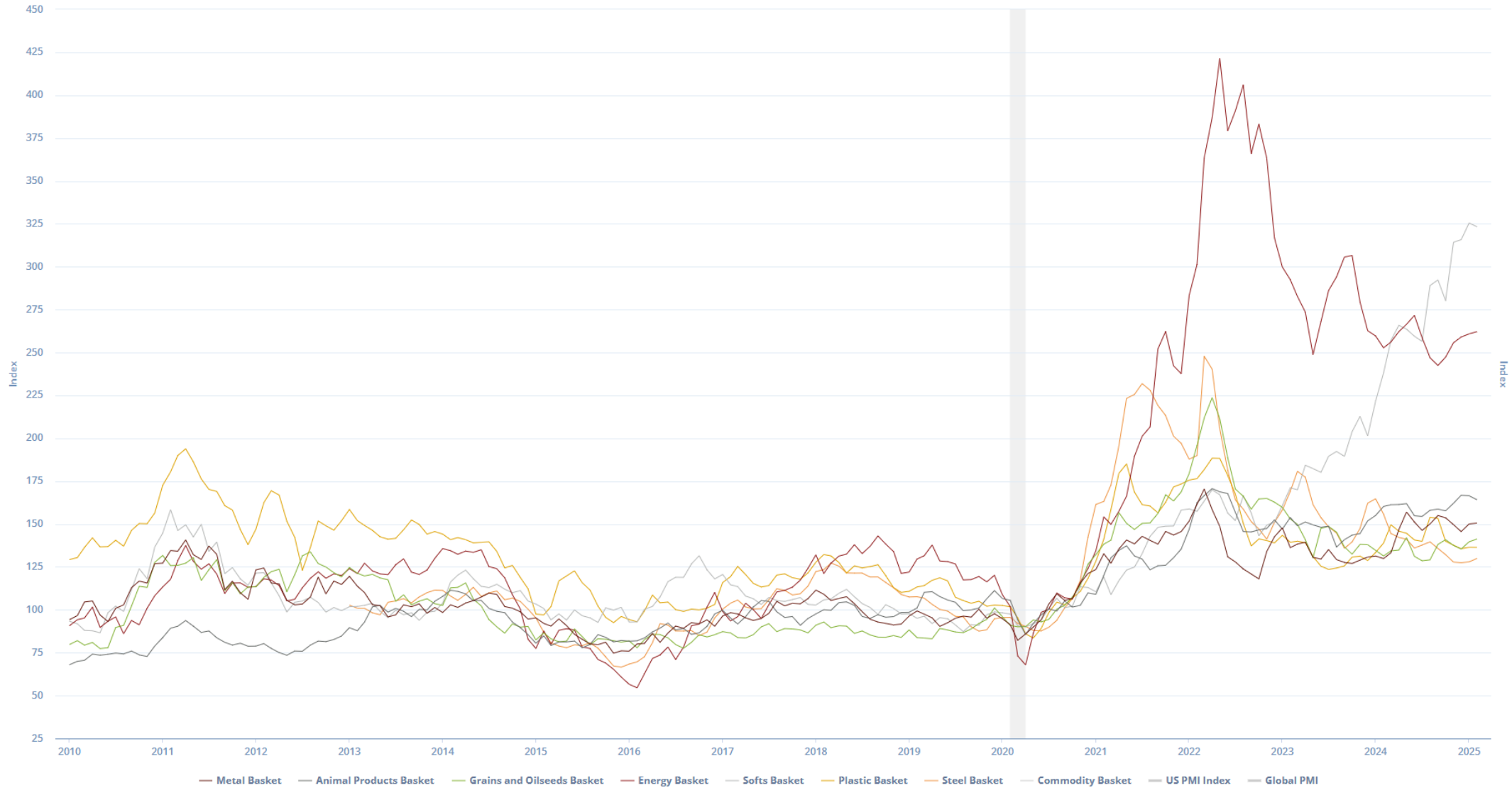
4/5 – A bit higher than the last 10 years

3/5 – About the same as the last 10 years

2/5 – A bit lower than the last 10 years

1/5 – Much lower than the last 10 years

The bigger view on all commodity baskets:



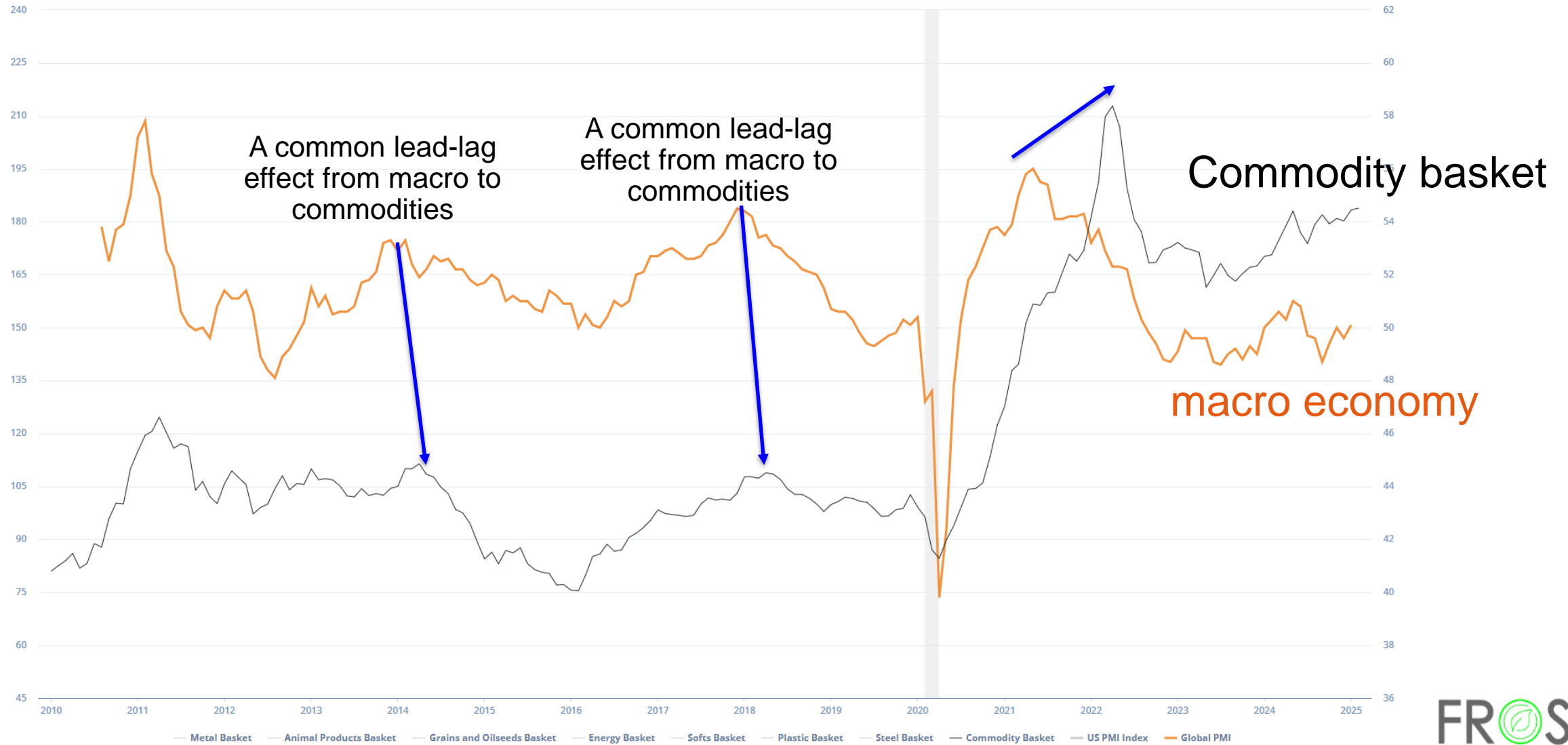
Source: Expana, ISM, S&P Global © Mintec Limited. Last update: Feb 6, 2025

All commodities condensed into one final basket:



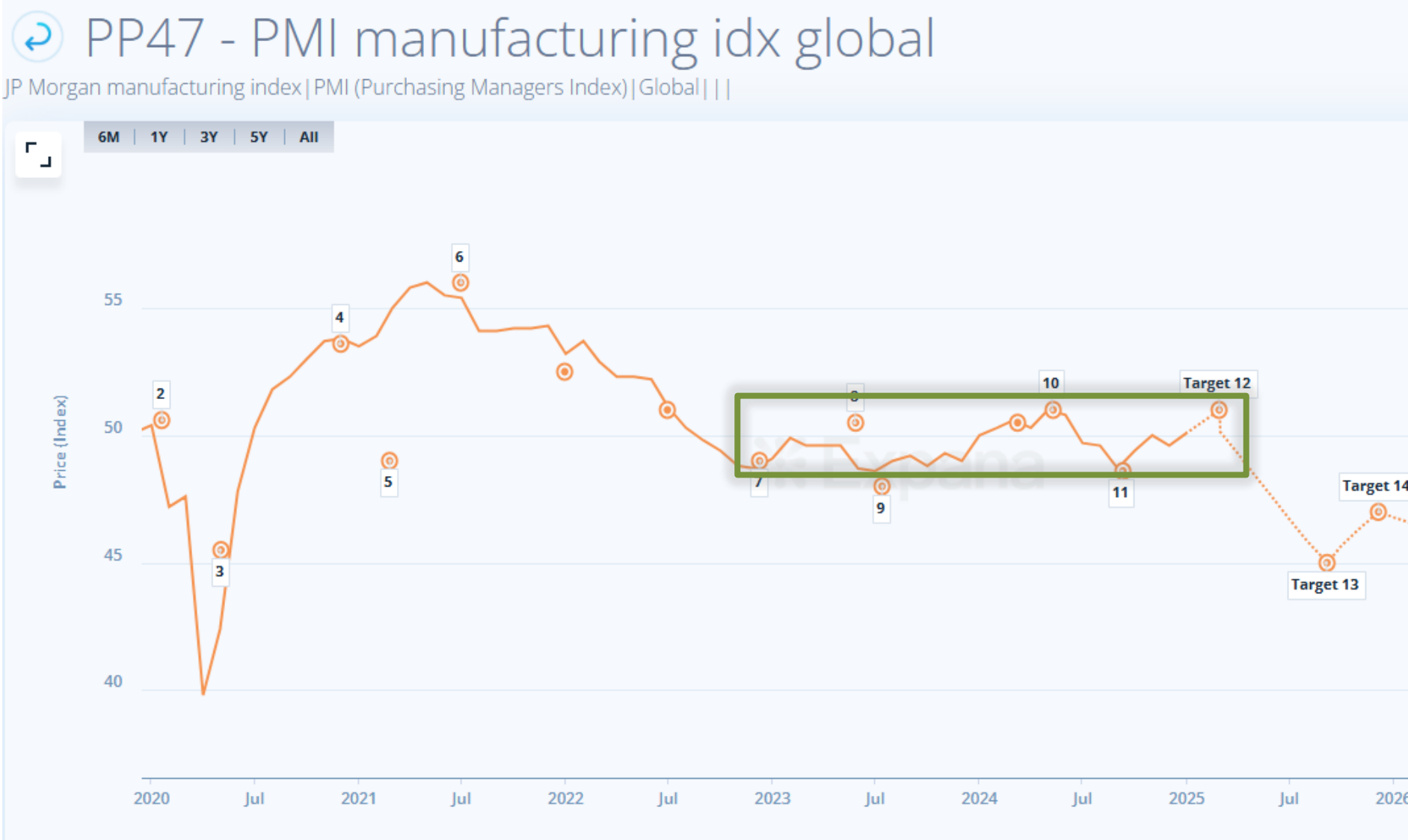
Source: Expana, ISM, S&P Global © Mintec Limited. Last update: Feb 6, 2025

Commodities are following the macro economy:

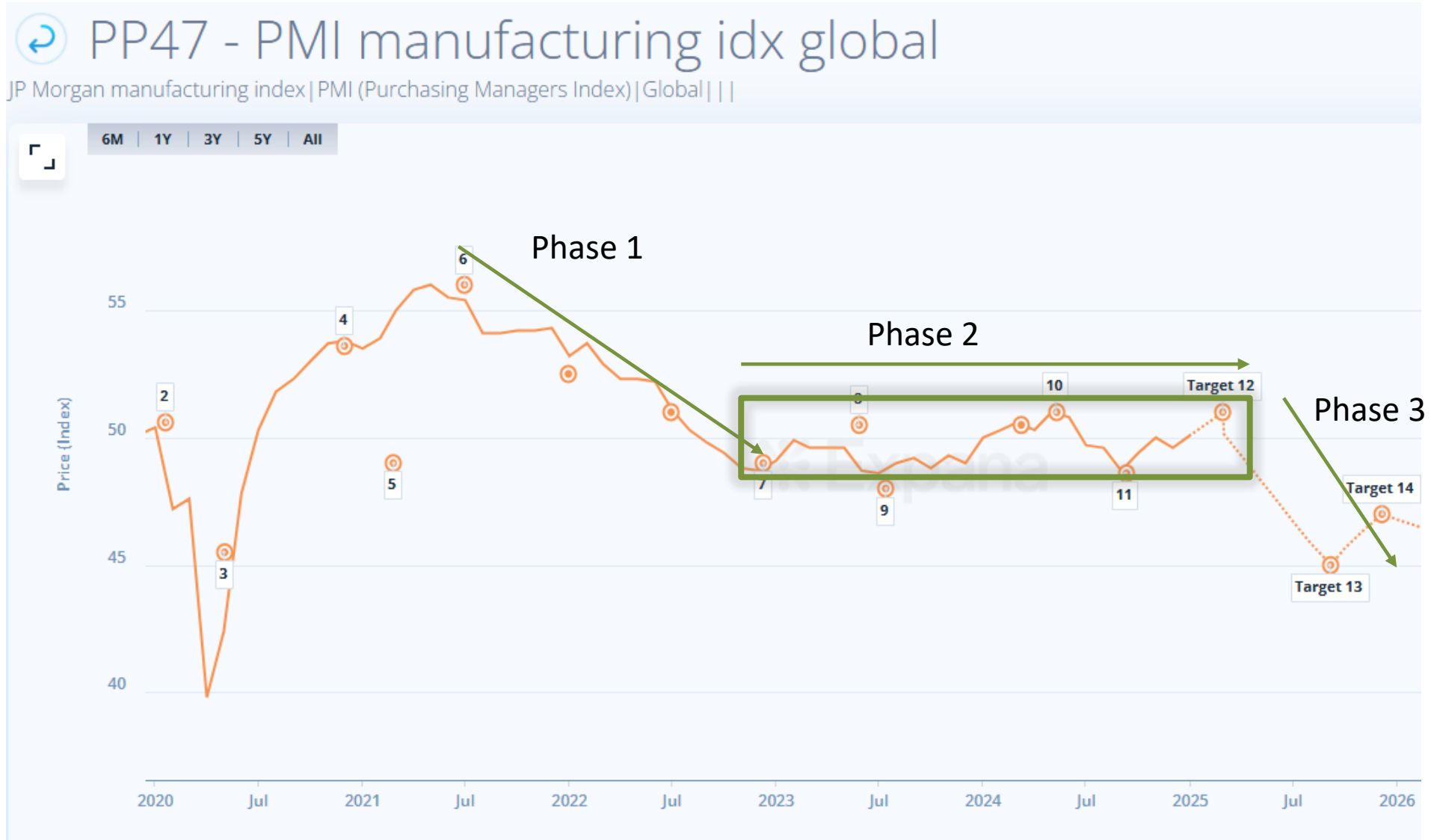


Source: Expana, ISM, S&P Global © Mintec Limited. Last update: Feb 6, 2025

Where is the macro economy heading?



Where is the macro economy heading?



Wrap Up Simon

Our top tips are:

- ✨ **Internal/External** – savings come from external & internal levers
- ✨ **Strategy** – clear and defined, written strategy with decision points
- ✨ **Governance** – agree the plan upfront with stakeholders
- ✨ **Technical/Fundamental** – decide on one, the other or blend
- ✨ **Optimising** – don't hang out for perfect answer. Decide and act
- ✨ **Success** – may need several measures + adaptive

Questions

Thank you