The Commodities Feed: China's covid policy change

The commodities complex pushed higher on Friday after China eased some of its quarantine restrictions related to Covid. This more positive sentiment should continue today with reports that the Chinese government is also rolling out a number of measures to help out the weak property sector

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Energy - oil rallies on China Covid policy change

The oil market continued its move higher on Friday. ICE Brent settled almost 2.5% higher on the day. This followed China's relaxation of its covid-related quarantine measures. These measures reduce the quarantine period for inbound travellers and close contacts of those who have tested positive. In addition, secondary contacts will no longer need to be traced. However, while we are seeing these changes in policy, China is also experiencing its highest numbers of daily Covid cases since April and Guangzhou has tightened restrictions. The latest easing in quarantine requirements is certainly a step in the right direction, but the market will likely need to see further easing if this recent enthusiasm is to be sustained.

European natural gas prices continued to come under pressure on Friday. TTF December futures fell by almost 14%, leaving the market below EUR100/MWh. EU storage is now close to being 96% full compared to a 5-year average of 89%. Mild weather means that storage is still filling up at a time when we usually see drawdowns. Forecasts show that temperatures in Western Europe are likely to be warmer than usual over the next week. Meanwhile, the European Union's Copernicus Institute, said that Europe could see a milder than usual winter, which if the case, will continue to provide some relief to the market.

As for the calendar this week. OPEC will release its latest monthly market report later today, which will include the group's latest views on the market outlook for the remainder of this year and 2023. This will be followed by the IEA monthly oil market report on Tuesday.

Metals – LME decides against Russian metals ban

Metals prices surged on Friday after China eased some Covid restrictions, fuelling speculation of a broader relaxation in measures. The easing, including a shortening of the quarantine period, comes at a time when Covid cases nationwide have surged, with outbreaks in Guangzhou and Beijing. A weakening US dollar, following a lower-than-expected US CPI reading for October, has also been supportive. This optimism is likely to continue this morning after reports that China will implement 16 property measures to help out the weak property sector. Some of these measures include debt extensions to the industry and relaxing deposit requirements for homebuyers.

The metal markets also have a bit more clarity now, following the LME's decision to take no action on the delivery of Russian metals into LME warehouses, after receiving a number of responses to its discussion paper. The LME was looking at potentially banning the delivery of Russian metal into its warehouses, limiting Russian flows or taking no action. In the lead-up to the decision, there were a number of producers who were quite vocal in calling for Russian metal to be banned, whilst consumers were keener for there to be no changes. If we continue to see an increasing amount of self-sanctioning of Russian metals, the risk is that we see more Russian metal being delivered into LME warehouses, which could potentially mean that LME prices trade at discounted levels to actual traded prices.

Nyrstar's Budel plant in the Netherlands will partially restart production in November. The operations at the plant will depend on market conditions, the company said, which remain extremely challenging. The Budel smelter was shut on 1 September, however, the plant had been operating at lower capacity since 4Q21 due to high energy prices. Budel is one of Europe's largest zinc smelters, with a nameplate capacity of 315ktpa.

Agriculture – Indian wheat area increase

The latest data from the Indian Ministry of Agriculture & Farmers Welfare shows that farmers have planted wheat on 4.5m hectares during the current sowing season that began on 1st October, up 9.7% when compared to last year. Meanwhile, there is speculation that the Indian government might take price-cooling measures to try to rein in soaring domestic prices, which could include the release of state reserves in the open market and possibly reducing the 40% import duty. Wheat stocks in state warehouses totalled 22.7mt at the start of October, quite a bit lower than the 46.9mt from a year earlier. The market is expecting wheat production to total around 95mt this year, much lower than the government forecast of 106.8mt.

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