

The Commodities Feed: Powell speech and lingering tensions

Oil has rallied following Fed Chair Powell's Jackson Hole speech, which suggested that the Fed will cut rates in September. Developments in the Middle East over the weekend have provided further support to oil this morning



Source: Shutterstock

Energy - Middle East tension supports crude

Oil settled marginally lower last week, despite a strong end to the week. ICE Brent settled more than 2.3% higher on Friday, following Fed Chair Powell's speech at Jackson Hole, where he said that the "time has come" to cut interest rates. The focus now for the market is whether the Fed will cut by 25bp or 50bp at its September meeting. The upcoming jobs report will likely influence the size of the cut. The strength in the market on Friday has carried through to early morning trading today. A preemptive Israeli strike on Hezbollah over the weekend has raised concern about the Middle East once again. We would expect any rally on the back of these developments to be rather short-lived except if Iran were to become more directly involved, as this would raise oil supply risks more meaningfully.

Speculators reduced their net long in ICE Brent by 8,587 lots over the last reporting week, leaving

them with a net long of 61,197 lots as of last Tuesday. NYMEX WTI saw a larger reduction in the speculative net long. Speculators cut their net long by 22,131 lots to 178,609 lots. However, it was ICE gasoil which saw the bigger shift. Speculators increased their net short by 26,875 lots over the week to 27,207 lots. This is the largest net short that speculators have held in gasoil since May last year. The move was driven predominantly by fresh shorts entering the market. Product markets remain bearish, and while the upcoming refinery maintenance season might provide some support, well-supplied markets are likely to keep sentiment negative.

Agriculture – Sugar moves higher on fires

Sugar prices rallied on Friday with no.11 raw sugar settling a little more than 3% higher on the day due to dry weather conditions as well as fires in the cane-growing regions of CS Brazil. The CS Brazil crop has been performing well for much of this season, however, drier weather conditions will raise concern over how the rest of the crop may evolve. Exacerbating the move higher in sugar has been the fact that speculators have been caught on the wrong side. Speculators increased their net short in no.11 raw sugar by 18,327 lots over the last reporting week to 27,014 lots. Reports of fires in some growing regions would likely have led to shorts rushing to cover positions.

The latest CFTC data show that money managers increased their net short position in CBOT soybeans by 8,311 lots for a second consecutive week to 182,758 lots as of 20 August. The move was dominated by falling long positions with gross longs decreasing by 5,469 lots to 46,851 lots. Similarly, speculators increased their net bearish bets in corn by 8,889 lots over the last week, leaving them with a net short position of 257,896 lots. The move was fuelled by a drop in gross longs. In contrast, the net speculative short position in CBOT wheat fell significantly by 20,303 lots to 52,985 lots over the last reporting week.

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