

The Commodities Feed: Middle East tensions

Oil prices are receiving support this morning after reports of a drone attack in Iran, while the return of China from the Lunar New Year holidays will also help. OPEC+ will meet on Wednesday to discuss output policy. However, no change is expected from the group



Energy - specs boost buying

Price action in oil over the last week was rangebound with the market awaiting this week's OPEC+ meeting and the return of China from the Lunar New Year holidays. As for Wednesday's OPEC+ meeting, we do not expect any change in output policy from the group, given the lingering uncertainty that overshadows the market, both from a supply and demand perspective.

However, the market has started this week on a firmer footing, trading close to 1% higher in early morning trading in Asia today. The return of China from holidays and rising tensions in the Middle East appear to have provided some support. There were reports over the weekend of an Israeli drone attack on certain targets within Iran. It is still unclear whether a fire at a refinery was also connected to the attack. Iran is pumping a little more than 2.5MMbbls/d and there have been reports of increased exports in recent months.

The latest positioning data show a large increase in speculative buying in oil. Speculators increased their net long positions in ICE Brent by 39,690 lots over the last reporting week to 252,142 lots as of last Tuesday. This is the largest net long seen since March last year and the buying appears to reflect the more bullish outlook for the market. The expectation is that the market will tighten as we move through the year due to lower Russian supply and a recovery in Chinese demand. Meanwhile, for ICE gasoil, speculators also boosted their net long position over the last week, buying 9,924 lots and leaving them with a net long of 80,266 lots - the largest position held since May 2022. This increased speculative buying in gasoil comes ahead of the EU's ban on Russian refined product imports.

Metals – Cochilco expects copper surplus

Chile's copper commission, Cochilco, expects copper supply to expand 5% this year and 4% next year, compared with demand increases of 2.3% and 2.9%, respectively.

In Chile, which accounts for more than a quarter of global supply, 2023 production is estimated at 5.7 million metric tonnes, a 7.5% increase on 2022. Cochilco sees Chilean mine supply expanding a further 3.3% in 2024.

In zinc, the cash/3m spread tightened to a backwardation of US\$25.25/t on Friday, up a little over US\$10/t over the course of the week. The strength in the spread comes as LME zinc inventories continue to stand at historically low levels, falling by 950 tonnes on Friday to 17,675 tonnes - the lowest since 1986.

Agriculture – Ivory Coast to boost domestic cocoa processing

The latest reports suggest that the Ivory Coast will increase the amount of domestic cocoa processing to 49% starting from October, in line with the local government's objective to process a minimum of 50% of cocoa domestically. As per the current numbers, only 35%-40% of cocoa is processed within the West African country, while the rest is being exported.

The latest survey from the International Cocoa Organization (ICCO) shows that global cocoa inventories stood at 1.78mt at the end of the 2021/22 season, higher than the previous projection of 1.62mt, but lower than the 1.8mt at the end of the 2020/21 season. The group said that it may revise down last season's supply deficit estimate of 306kt, considering the recent data set.

Recent comments from the Ukrainian Grain Association (UGA) highlighted concern over a smaller grain harvest in 2023 as a result of the ongoing war. Officials expect planting acreage to shrink, while the total harvest is forecast at 53mt for 2023 compared to 65mt in 2022.

The latest CFTC data shows that money managers decreased their net longs in CBOT soybeans by 22,037 lots to 146,261 lots as of 24 January. The move was predominantly driven by longs liquidating with gross longs decreasing by 13,988 lots to 172,806 lots. For wheat, speculators increased their net short position in CBOT wheat (for the third consecutive week) by 8,844 lots to 73,933 lots.

Authors

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

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