

The Commodities Feed: Negative sentiment persists

Sentiment in markets remains negative given the latest Covid developments in China. Meanwhile, energy markets will be keeping an eye on whether EU members manage to agree on price caps for Russian oil and TTF natural gas futures



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Energy - price cap decisions

Sentiment in the oil market remains negative, and developments over the weekend in China will certainly not help. China continues to see record daily cases of Covid, which has resulted in some cities tightening mobility restrictions. Reports of Covid protests in China will also likely prove harmful for sentiment.

Unsurprisingly, investor appetite has taken a hit in recent weeks - one only needs to look at the price action to see this. Positioning data adds confirmation to this thesis. The latest exchange data shows that speculators reduced their net longs in ICE Brent by 70,502 lots over the last reporting week, leaving them with a net long of 138,048 lots as of last Tuesday. This is the smallest position held since August. The market appears not to be concerned about the ongoing uncertainty over Russian supply. Instead, attention seems fully focused on the demand story.

Over the weekend the US government relaxed oil sanctions against Venezuela by allowing Chevron to restart oil production at some of its joint ventures in the country. The easing in sanctions will have a limited impact on the market, given that volumes will be relatively small. The easing also appears to allow the export of this crude to the US. This will be helpful for US refiners on the hunt for heavier grades of feedstock.

As for the week ahead, we should start to get some preliminary production numbers for OPEC members for November. This will obviously give a good insight into which members have reduced their output in accordance with the latest OPEC+ supply cuts. OPEC+ agreed back in October to reduce their production targets by 2MMbbls/d from November.

However, the market will likely be closely watching price cap developments this week. EU members failed last week to agree on a level for the price cap for Russian oil. The EU and G-7 will want to come to an agreement this week, before the EU ban on Russian seaborne crude oil kicks in on 5 December. EU members will also have to agree on the proposed price cap on TTF gas futures with the Commission last week suggesting setting the cap at EUR275/MWh, which some members believe is too high.

Metals – Aluminum stocks decline in China

The latest data from the Shanghai Metals Market (SMM) shows that inventories of aluminium ingots have dropped 10% in the last two weeks and currently stand at 51.8kt (the lowest in almost six years) as of Friday. SMM also said that smelters in northern China are reducing output during the winter months to reduce emissions, while a resumption of plants in the southwest (that were forced to halt production due to power shortages) has been slower than expected. Meanwhile, the latest data from the Shanghai Futures Exchange (ShFE) shows that aluminium inventories on exchange dropped by 15kt (-12% WoW) to 110kt - the lowest since 2017.

US miner Freeport-McMoRan agreed with the Chinese copper smelters (Tongling Nonferrous Metals Group Co. and Jiangxi Copper Co.) to set treatment charges at US\$88/t (+35% YoY) for copper concentrate supply agreements for 2023. The higher treatment charges indicate expectations of rising mine supply relative to smelting capacity. There are suggestions that two big mines - Quellaveco in Peru and the Quebrada Blanca 2 project in Chile, will roughly add 616kt of copper to the market once ramped up.

The latest monthly update from the International Copper and Study Group shows that the supply deficit for copper stood at 10kt in September, compared to a deficit of 13kt in the previous month. Over the first nine months of the year, the copper market encountered a deficit of 295kt, compared to a deficit of 233kt during the same period last year. Global mine and refined copper production increased by 3.5% YoY and 2.3% YoY respectively, whilst overall apparent refined demand grew 2.6% YoY for January-September 2022.

Agriculture – Downside to Argentine wheat output

The latest data from a crop tour organized by the Bahia Blanca Grain Exchange shows that wheat production in the southern Buenos Aires and La Pampa provinces in Argentina is set to decline by 31% YoY following drought and frost conditions. The survey estimates for the wheat harvest (which starts next month in the region) is around 3.7mt, compared to 5.3mt last season. Meanwhile, barley production in the region is expected to drop by 20% YoY to 2.3mt.

Authors

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

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