

The Commodities Feed: Oil edges up on increased risk premium

The risk premium for the oil market has increased after the Houthis attacked a tanker carrying Russian oil products in the Red Sea



Energy – Risk premium increases for oil

- The risk premium for the crude oil market shot up last week as geopolitical tensions around the Red Sea transit route continued to escalate. ICE Brent has been firm at around US\$84/bbl this morning after gaining nearly 6% over the last week. NYMEX WTI also firmed up to US\$78.4/bbl this morning. The spread between the March 2024 - April 2024 contract increased to a backwardation of US\$0.6/bbl on Friday compared to around US\$0.1/bbl at the start of the month highlighting the oil supply risk in the immediate term.
- In the latest developments, the Houthis attacked a crude oil tanker carrying Russian oil products in the Gulf of Aden on Friday. The damage to the ship or cargo is still being assessed. Russian cargo was assumed to be relatively safe in the Red Sea transit corridor. The conflict in the Red Sea is likely to add shipping costs, transit time and risk premium for some of the crude oil shipments and is likely to support crude oil prices.
- Speculators pushed up their net position for NYMEX WTI over the last week, although they trimmed net longs for ICE Brent. Money managers increased net longs in NYMEX WTI by a huge 43,980 lots over the week as speculators cut short on account of rising tensions in the Red Sea. Speculative shorts dropped by 33,649 lots over the last week while longs increased by 10,331 lots. On the other hand, money managers trimmed their net longs by 18,726 lots

last week as some of the longs built over the last two weeks were squared off.

Metals – Chinese copper smelters plan output cuts

- Some Chinese copper smelters are planning to implement voluntary production cuts as copper concentrate supply tightens and profit margin fall. The copper treatment charges in China have dropped to a record low of US\$22.7/t as copper mine supply remains tight. The smelters target to set a floor of US\$50/t for treatment charges to keep the operations commercially viable. The smelters could bring forward the maintenance of smelting plants and reduce operating rates to tighten smelting capacity and bring back the market into balance.

Agriculture– Ivory Coast halts forward sales of cocoa

- Ivory Coast has suspended forward sales of cocoa beans for the 2024/25 season amid uncertainty about the production volumes. The country has seen its cocoa production falling this year due to adverse weather and diseases damaging the crop. Against this backdrop, the country doesn't want to oversell the 2024/25 crop until the production estimates are available. The forward sales are used by buyers to secure longer-term supplies and in the absence of forward buying, spot purchases could increase in the near term – especially as inventory remains low. Cocoa prices have increased by around 11% this month on stronger buying activity in the physical market.
- The latest CFTC data show that money managers increased their net short position in CBOT soybeans by 15,045 lots to 91,842 lots (most bearish in almost four years) as of 23 January. The move was dominated by rising shorts positions with gross shorts increasing by 9,234 lots to 139,807 lots. Similarly, speculators increased their net bearish bets in corn by 4,743 lots over the last week, leaving them with a net short position of 265,285 lots. The move was predominantly driven by rising short positions with gross shorts increasing by 7,703 lots to 423,528 lots. On the other hand, the net speculative short positions in CBOT wheat fell by 4,034 lots to 64,541 lots over the last reporting week following a decrease in gross shorts by 6,297 lots to 135,763 lots.

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