The Commodities Feed: Risk premium increases for oil

Reports of continued drone attacks by Ukraine on oil facilities in Russia have helped oil prices to hold onto their gains at the start of the week. Meanwhile, better-than-expected refining activity from Asia further buoyed the optimism

Energy – Oil edges higher

The oil market opened higher this week following reports of continued Ukraine drone attacks on Russian oil refineries over the weekend. Meanwhile, strong oil processing numbers from the major Asian countries further boosted optimism in the complex. The oil calendar for this week is fairly light. There will be the usual weekly inventory reports from the EIA and API. The market will be tracking Ukraine-Russia tensions closely this week.

Weekly data from Baker Hughes shows that US oil rigs rose by six rigs over the last week, with the total oil rig count increasing to 510 for the week ended 15 March 2024. This is the highest oil rig count since the week ending 15 September 2023, indicating that the stronger oil prices are bringing investment back into oil exploration activities. Meanwhile, gas rigs rose by one, taking the total rig count (oil and and gas combined) to 629 over the reporting week.

The latest government data from India shows that domestic refiners processed 20.9mt of crude oil in February, exceeding the government target of 20.7mt set for the month. Total crude processing now stands at 238.2mt (up 2.6% year-on-year) for the fiscal year 2023/24 (ending in March 2024). Meanwhile, February crude imports came in at 18mt, down 6.7% YoY, while total imports over the 2023/24 fiscal year came in at 212.6mt, remaining almost flat YoY.

Chinese activity data was also constructive this morning, with the country processing a record amount of crude at the start of the year. Domestic refiners processed 14.5MMbbls/d over the first two months of the year, up 3% YoY, as refiners increased operations to meet holiday demand. Activity and trade data also suggest that apparent oil demand over the first two months was strong at around 14.4MMbbls/d, up 6.1% YoY. Data from the National Bureau of Statistics shows that crude oil production in China increased 3% YoY to 35.1mt between January and February this year.

The latest positioning data from CFTC shows that speculators decreased their net long position in NYMEX WTI by 14,067 lots after reporting gains for three consecutive weeks, leaving them with net longs of 169,893 lots as of 12 March 2024. Similarly, money managers continued to decrease their net longs in ICE Brent by 14,067 lots for the third week straight, leaving them with a net long position of 169,893 lots as of last Tuesday. The move was dominated by falling gross long positions, which decreased by 8,406 lots to 203,563 lots over the reporting week.

Metals – China's metals output rises

LME copper prices are trading above $9,000/t this morning following better-than-expected industrial production and investment data from China, while persistent supply threats for mines and smelters continue to support the metal. The latest data from the National Bureau of Statistics (NBS) shows that industrial production rose 7% YoY, higher than the average market expectations of 5.3%, while fixed-asset investment also grew faster than estimated. However, growth in the country’s property sector remains a concern as investments in real estate development fell 9% YoY in the first two months of the year.

Meanwhile, Chinese primary aluminium output rose 5.5% YoY to 7.1mt over the first two months of 2024 due to better profit margins for smelters. Among other major non-ferrous metals, Chinese output rose 5.7% YoY to 12.8mt for the period mentioned above. Crude steel production rose 1.6% YoY to 168mt as mills continued to maintain healthy production levels, while steel products output also gained 8% YoY to 213.4mt from January-February 2024.

Data from the Shanghai Futures Exchange (ShFE) shows that weekly inventories for all major base metals have expanded over the last week. Copper stocks increased by 47,150 tonnes (+19.7% week-on-week) for the 11th consecutive week to 286,395 tonnes as of Friday, the highest since the week ending 17 April 2020. Among other metals, zinc inventories rose by 10,913 tonnes (+10% WoW) for a seventh consecutive week to 119,584 tonnes (highest since the week ending on 10 March 2023). Weekly stocks of aluminium, lead and nickel all saw increases of 12%, 7% and 6% respectively at the end of last week.

The latest positioning data from the CFTC shows that managed money net longs in COMEX gold increased by 28,500 lots for the fourth consecutive week to 159,560 lots over the last reporting week, the highest bullish bets since the week ending 8 March 2022. The move higher was driven by rising gross longs by 25,734 lots to 190,374 lots. Meanwhile, speculators moved to net long positions in COMEX copper as short positions outnumbered long positions by 8,546 lots over the last reporting week, the most bullish bets since the week ending 1 January 2024.

Agriculture – Coffee quality premium shrinks

Arabica's coffee premium to robusta dropped to around US$661/t on Friday (the lowest since May 2019) amid diverging fundamentals between the two types of coffee. There are expectations that the arabica harvest will encounter a supply surplus while robusta coffee will see a fourth consecutive year of deficit for the 2024/25 season. Recent reports suggest that upcoming dry El-Nino weather conditions in Southeast Asian countries have raised concerns about robusta coffee harvest.

The latest CFTC data show that money managers decreased their net short position in CBOT soybeans by 16,862 lots after reporting gains for 16 consecutive weeks to 155,137 lots as of 12 March. The fall was led by a decrease in gross shorts by 13,029 lots, taking the total to 211,427 lots. Similarly, speculators decreased their net bearish bets in corn by 40,867 lots over the last week, leaving them with a net short position of 255,928 lots. The move was fuelled by a decrease in gross shorts by 37,587 lots, taking the gross shorts to 432,985 lots over the reporting week. On the other hand, the net speculative short positions in CBOT wheat rose by 13,331 lots for a second consecutive week to 78,870 lots (the most bearish bets since 5 December 2023) over the last reporting week, following a decrease in gross longs by 11,851 lots to 77,445 lots.

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