# The Commodities Feed: Sentiment improves after China shift

Sentiment in commodities markets improved after China refined its approach to dealing with Covid-19 and the government said it will bolster vaccinations among senior citizens. The move comes just days after demonstrations against strict Covid curbs across the country

## Energy – US inventory draw supports crude

Crude oil has been supported this morning after the US reported a bigger crude oil inventory draw over the last week, helping offset the broader negative sentiment prevailing over the past few weeks. WTI crude relatively outperformed Brent this week with the ICE Brent/NYMEX WTI prompt-month spread falling to a six-month low of US$4.9/bbl currently.

The weekly inventory report from the API was overall constructive for the oil market. The API reported that US crude oil inventories dropped by 7.85MMbbls over the last week, compared to market expectations of a roughly 2.5MMbbls draw. However, the API reported that gasoline and distillate fuel oil stocks increased by 2.9MMbbls and 4MMbbls, respectively, over the week. The official EIA report will be released later today.

OPEC and its allies, including Russia, are scheduled to meet virtually on 4 December to decide on output agreements. Some market reports suggest that the group could discuss the possibilities of further output cuts in addition to the 2MMbbls/d of cuts already announced during its October meeting, as the demand slowdown from China continues to weigh on the market balance. A weaker manufacturing PMI report from China has further weakened demand expectations for the rest of the year as Beijing adopted tight measures to control the resurgence of Covid.

In refined products, the ICE Gasoil forward curve eased over the last few sessions with the Dec22/Jan23 spread falling to a negative US$4.25/t (contango) yesterday compared to a backwardation of around US$32/t at the end of October 2022. December is the last month when the Russian diesel cargoes can be delivered at ARA storage tanks against ICE future contracts and that appears to have increased the overall availability of diesel cargoes in the spot market. ICE diesel Jan/Feb spread still trades at a backwardation of around US$13/t; although this has also dropped from a high of around US$29/t earlier in the month.

In LNG, Qatar agreed to supply Germany with LNG under a long-term deal as it seeks to secure energy options and replace piped flows from Russia.

State-owned Qatar Energy and ConocoPhillips signed a deal that will see Qatar send up to 2 million tonnes of LNG a year to Germany from 2026. The deal will last at least 15 years and equates to about 6% of the volumes of Russian gas that Germany imported in 2021. Russian gas accounted for more than half of Germany's total supplies before the invasion. The gas will come from ConocoPhillips' joint ventures in Qatar and will be delivered to the Brunsbuttel floating import terminal that is under construction. It is the first long-term agreement for LNG supplies to an EU country since Russia's invasion of Ukraine in February.

## Metals – Market shifts to risk-on mode

Speculation over the loosening of some of the Covid curbs in China along with a weaker dollar improved sentiment in the metals complex yesterday, with prices of all major metals (with the exception of zinc) trading in the green. However, China released its manufacturing PMI numbers this morning, and at 48 for November (once again below market expectations of 49), this indicates how the newly imposed virus curbs have dampened economic activity in the nation.

LME copper 3M prices rose as much as 2% DoD yesterday following the outflows reported in the LME on-warrant inventories. The latest data from the LME shows that on-warrant stocks for copper declined by 4.89kt (biggest daily decline since 9 November) for a second consecutive day to 71.8kt as of yesterday. The majority of the outflows were reported from Busan, South Korea and New Orleans warehouses. Meanwhile, the cash/3m spread for copper jumped by US$22.3/t and reached a contango of US$1.5/t as of yesterday, when compared to a contango of US$23.75/t a day earlier and a contango of US$42.75/t in the previous week.

The latest CFTC data shows that speculators decreased their bearish bets in COMEX copper by 11,653 lots over the last reporting week (after four weeks of consecutive gains) leaving them with a net long position of 13,727 lots as of last Tuesday. In precious metals, speculators decreased their bullish bets in COMEX gold by 8,807, to leave them with a net long of 31,919 lots as of the last reporting week. Money managers also lowered their net bullish bets in silver by 3,268 lots as of last Tuesday.

# Agriculture – US winter-wheat crop rating remains low

The final crop progress report from the USDA rated around 34% of the winter wheat crop to be in good-to-excellent condition compared to 32% a week ago and around 44% at this stage in the season last year. The current wheat crop rating is the lowest crop rating in over nine years as the dry conditions in wheat-growing regions weigh on crop development. Meanwhile, the report also shows that the US winter wheat crop is now 91% emerged, compared to around 90% a year ago.

Weekly data from the European Commission shows that soft wheat shipments from the EU reached 13.9mt as of 27 November, up from 13.5mt for the same period last year. Algeria, Morocco and Egypt were the top destinations for these shipments. Meanwhile, given lower domestic output, EU corn imports stand at 12.1mt, compared to 5.3mt last year.

## Authors

**Ewa Manthey**
Commodities Strategist
ewa.manthey@ing.com

**Warren Patterson**
Head of Commodities Strategy
Warren.Patterson@asia.ing.com