

The Commodities Feed: Sentiment sours

Oil prices are under increasing downward pressure as sentiment sours. Friday's sell-off in US equities only added to the weakness in energy markets



Energy- Speculators trim oil positions

Oil prices sold off heavily on Friday, with ICE Brent settling 2.68% lower on the day and WTI briefly trading below US\$70/bbl this morning for the first time this year. Recent weakness in prices comes amid intensifying noise about where OPEC+ will take supply levels. The group is currently cutting supply by 2.2m b/d. It's scheduled to bring this supply back onto the market gradually from April. However, there are suggestions that OPEC+ is considering a delay.

Any delay would lead to a change in the oil balance, leaving the market relatively tighter than we expected. Any delay would also likely not go down well with President Trump, who's calling on OPEC+ to increase supply.

The latest positioning data suggests market sentiment turning negative, with speculators cutting positions in ICE Brent by 23,931 lots. This left them with a net long of 265,223 lots as of last Tuesday. Driving the move is a combination of longs being liquidating and fresh shorts entering the market. Trade and tariff concerns, along with a push for a peace deal between Russia and Ukraine, will weigh somewhat on the market.

Middle distillates, meanwhile, are garnering better support in the market. The ICE gasoil crack spread is holding above US\$20/bbl, while the prompt timespread has moved into deeper backwardation. The spread is trading at more than US\$14/t. In addition, speculators have become more constructive towards the market. Recent positioning data shows speculators bought 14,222 lots of ICE gasoil over the last reporting week, leaving them with a net long of 20,872 lots as of last Tuesday. Stronger natural gas prices and colder weather through parts of the northern hemisphere may be providing support for middle distillates demand. While gasoil stocks in the ARA region fell by 36kt last week, according to Insights Global, they remain at a very comfortable level of 2.54mt.

Agriculture – Cocoa under pressure

London cocoa came under additional pressure on Friday, with the front-month contract falling more than 7.6% to settle at a little over GBP7,300/t. This is the lowest level since November. However, prices remain historically high, raising concerns over demand destruction. Given the tightness in the cocoa market, demand destruction may help return some balance to the market. Prices are likely to continue trading in a volatile manner.

Weekly positioning data from the CFTC show money managers trimmed their net short position in wheat by 21,232 lots to 61,577 lots as of 18 February. The move was mostly driven by short covering, with gross shorts decreasing by 26,733 lots to 132,334 lots. As for corn, managed money net longs rose by 21,144 lots to 353,533 lots over the last reporting week.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by

the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.