

The Commodities Feed: Specs continue to cut oil longs

The latest positioning data shows that speculators remain bearish towards the oil market. Meanwhile, US producers continue to reduce drilling activity



Energy - Specs continue to cut

Oil managed its first week of gains since mid-April. ICE Brent settled 1.9% higher over the last week, which has left it trading above US\$75/bbl. Despite this, speculators remain negative towards the market with the net speculative long in ICE Brent falling by 6,020 lots over the last reporting week to 106,722 lots as of last Tuesday. This is the smallest position that speculators have held this year. Looking deeper into the data reveals that the move was driven by longs liquidating, while the gross short position is fairly sizeable at 94,880 lots. Meanwhile, ICE gasoil continued to see further short covering over the last week. Speculators bought back 7,059 lots over the last reporting week to leave them with a net short of 20,652 lots. This still leaves speculators holding a large net short in gasoil, which suggests that there is still the risk of a short covering rally.

Drilling activity in the US continues to slow. The latest data from Baker Hughes shows that the oil rig count fell by 11 over the last week to 575. This is the lowest count since June 2022 and the rig count has now fallen by 48 from a YTD peak of 623 seen back in January. A slowdown in US drilling

activity is a concern for the oil market, which is expected to see a sizeable deficit over the second half of this year. Producers appear to be responding to the weaker price environment, rather than expectations for a tighter market later in the year. The macro picture is also likely making producers a little more hesitant. However, the trend will be good news for OPEC+, as it suggests that they will be able to continue supporting prices without the risk of losing market share to US producers.

Metals - China metal output rises

Recent data from the Shanghai Futures Exchange (ShFE) shows that weekly inventories for all base metals declined over the last week. Copper weekly stocks fell by 15,872 tonnes to 102,511 tonnes as of Friday. Among other metals, weekly exchange inventories for nickel fell sharply by 48% WoW to a fresh low of 908 tonnes, while aluminium inventories fell 9% WoW, and zinc and lead stocks fell 7.6% and 20.2% WoW respectively as of Friday.

The recent numbers from the National Bureau of Statistics (NBS) show that refined copper output in China rose 14% YoY to 1.06mt in April, while zinc and lead output rose 13% YoY to 594kt and 4% YoY to 614kt respectively.

The latest trade data from China Customs show that imports of unwrought aluminium and products rose 27% YoY to 223kt in April. This leaves cumulative imports over the first four months of the year at 797.6kt, up 12.6% YoY. On the export side, alumina exports jumped 56.4% YoY to 70kt last month, while YTD exports have risen by 100% YoY to 380kt. This increase is driven largely by stronger flows to Russia.

Agriculture – China's corn imports fall

The latest trade numbers from China Customs show that corn imports declined significantly by 54.6% YoY to 1.0mt last month, which leaves cumulative imports so far this year at 8.5mt, down 8.4% YoY. While corn imports came under pressure, wheat imports surged 141% YoY to 1.68mt in April, which takes cumulative imports over the first four months of the year to 6.03mt, up 61% YoY.

The latest CFTC data shows that money managers reduced their net bearish bets in CBOT corn by 17,658 lots over the last week to 91,985 lots as of 16 May. The move was predominantly driven by an increase in gross longs. Similarly, the speculative net short position in CBOT wheat decreased by 4,137 lots to 112,769 lots over the last reporting week. However, the pressure seen on prices since the reporting week, due to an extension in the Black Sea grain deal, suggests that speculators have likely increased their net shorts in both corn and wheat more recently.

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.