The Commodities Feed: Speculators dump oil

The oil market has started the trading week under pressure with geopolitical risks continuing to ease. However, fundamentals remain constructive, which should limit the downside. Copper prices broke above US$10kt for the first time since April 2022

Source: Shutterstock

Energy - Specs dump oil

After a relatively strong end to the week the oil market has started the week under pressure. ICE Brent is trading back below US$89/bbl at the time of writing. Geopolitical risks appear to have eased considerably, removing some of the risk premium priced into the market. However, there are still signs of tightening in the physical market with prompt timespreads continuing to strengthen. The Brent Jun/Jul spread traded to a high of $1.34/bbl on Friday, after trading closer to a backwardation of US$0.70/bbl at the start of the week. The strength in spreads is aligned with our oil balance which continues to show a deep deficit over the second quarter of the year. The outlook for the year's second half is less clear and depends on OPEC+ policy.

The easing of geopolitical risk in the market has resulted in speculators heading for the exit. The latest positioning data shows that speculators reduced their net long in ICE Brent by 39,101 lots to

295,831 lots as of last Tuesday. This move was exclusively driven by longs liquidating. NYMEX WTI saw a similar move with speculators cutting their net long by 24,251 lots to 179,646 lots over the reporting week. There were also big reductions in positioning in ICE gasoil. Speculators reduced their net longs by 31,589 lots to 49,536 lots - the smallest position speculators have held in gasoil since January. The fundamentals in middle distillates have shifted significantly in recent weeks and the market looks increasingly bearish. Inventories have been building at a good pace, and in Europe, gasoil stocks in the ARA region increased by 52kt last week to 2.18mt, taking stocks above the 5-year average for this time of year. The prompt ICE gasoil spread has been trading in contango since mid-April, while the prompt gasoil crack is trading at its weakest since June last year.

While middle distillate fundamentals are more bearish, there are still lingering risks in the market. There were reports over the weekend of another Ukrainian drone attack on Russian refining capacity. The Slavyansk oil refinery in Krasnodar was the latest to be attacked, and reportedly led to a halt in its operations. The refinery has a capacity of around 1m b/d.

There is not much on the energy calendar this week. We could get the latest Saudi official selling prices later in the week. In contrast, there is a lot on the macro calendar this week, which will also be important for energy and commodity markets. The Fed will meet on Wednesday, where no change in interest rates is expected, while the April US jobs report will be released on Friday.

Metals – Copper hits $10,000/t

Copper hit $10,000/t for the first time in two years on Friday on expectations for a global recovery in demand this year, especially from the green energy sector, and tightening supplies after setbacks at global mines. However, in the short-term, there are still signs of weak demand. In China, copper inventories remain elevated while premia for imported metal in China has sunk to zero. In addition, the higher-for-longer narrative from the US Fed could put some downward pressure on copper prices. We believe, in the short term, the upside to copper prices might be capped by macro drivers, including ongoing demand concerns in China and lingering uncertainty over US monetary policy.

Agriculture – Specs reduce bearish positioning

The latest CFTC data shows that money managers reduced their net bearish bets in CBOT wheat by 20,219 lots over the last week to 76,184 lots as of 23 April. The move was predominantly driven by falling gross shorts. Similarly, the speculative net short in CBOT corn decreased by 41,024 lots to 238,546 lots, after reporting gains for four consecutive weeks. Meanwhile, for soybeans, speculators reduced their net shorts by 18,861 lots, leaving them with a net short position of 149,014 lots over the last reporting week, following a decrease in gross shorts by 16,705 lots to 196,259 lots.

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