The Commodities Feed: Speculators pull back

The oil market has come under significant pressure and has seen increased volatility over the last week due to external developments. This volatility is likely to continue this week with broader markets still nervous and uncertain over the outcome of the FOMC meeting

Energy - Specs cut their Brent net long

Broader market concerns weighed heavily on the oil market last week, while fundamentals have clearly not been strong enough to prop up the market. ICE Brent finished the week almost 12% lower, leaving the market at its weakest level since December 2021. Volatility is likely to linger this week, with broader financial market concerns likely to remain at the forefront. In addition, we have the FOMC meeting this week, which adds further uncertainty to markets. External developments and a softer supply & demand balance have led us to cut our price forecast last week. While we still expect the market to trend higher over the course of the year, $100/bbl plus Brent is less likely.

It shouldn't come as too much of a surprise that there was significant liquidation in oil from speculative longs over the last reporting week. The latest positioning data shows that speculators cut their net long in ICE Brent by 64,907 lots to 233,384 lots as of last Tuesday. This move was predominantly driven by longs liquidating - 49,465 lots sold - although 15,442 lots of fresh shorts were also added. Given that the sell-off in the oil market has continued since last Tuesday, current speculative positioning is likely even smaller.

While the crude oil market has come under pressure over the last week, refined products have held up better. Refinery margins have strengthened over the week with most cracks moving higher. The scale of the sell-off in crude oil explains some of the strength in refinery margins, but continued strike action in France, which is affecting energy infrastructure, including refineries, will also be providing some support to the products market.

The second batch of Chinese trade data released over the weekend shows that middle distillate exports over February increased further YoY. Diesel exports in February totalled 2.15mt, up about ten-fold YoY, whilst jet fuel exports came in at 1.31mt, up almost 96% YoY. These gains were not unexpected, given the increase in export quotas, and have helped to ease tightness in middle distillates. However, how these flows evolve through the year will really depend on how strong a recovery we see in domestic demand. Meanwhile, LNG imports in February came in at 5.21mt, up 8.2% YoY. This leaves LNG imports over the first two months of the year at 11.12mt, down 11.9% YoY.

Metals – LME invalidates nickel warrants after irregularities

The LME said it has found irregularities in the metal underpinning nine nickel contracts. The amount of the metal represents just 0.14% of live nickel inventories on the LME, it said in a statement. The exchange discovered bags of stones, Bloomberg reported, instead of the nickel that underpinned a small number of its contracts at a warehouse in Rotterdam. The issue affected nine contracts, representing 54 tonnes of nickel. The exchange said the issues were discovered after it received information that a number of physical nickel shipments, out of one specific facility of an LME-licensed warehouse operator, have been subject to irregularities.

This will add to troubles for the LME, which has struggled to regain confidence in its global benchmark nickel contract ever since the short squeeze in March last year when fears of sanctions on Norilsk Nickel coincided with a huge short squeeze, forcing the exchange to suspend trading for a week and cancel billions of dollars' worth of nickel trades.

The exchange also said that it will postpone a resumption of Asian trading hours for nickel by one week. It had been due to restart on Monday and was expected to provide a significant boost to liquidity.

The news comes weeks after Trafigura said it is facing more than half a billion dollars in losses in what it believes is a systemic fraud against it involving missing nickel cargoes. The trader said the LME announcement has no connection with its fraud case and it does not own any of the nine warrants that have been invalidated by the LME.

Agriculture – Black Sea grain deal extended

The latest reports suggest that the deal that allowed exports of Ukrainian grain through the Black Sea was extended over the weekend (just before its expiration date). However, the agreed tenure for the deal extension still remains uncertain. There are mixed statements from the parties involved in the negotiations, Ukraine said it had been extended for 120 days while Russia said that they agreed to extend the deal only for 60 days. Despite the confusion over the duration of the extension, grain markets are still trading somewhat softer in early morning trading today.

The latest data from the Indian Sugar Mills Association (ISMA) show that Indian sugar production fell marginally to 28.2mt so far this season through until 15 March. Cumulative output stood at 28.5mt at the same stage last year. Mills are ending operations at a quicker pace than last year with ISMA reporting that just 336 mills were crushing cane by mid-March compared to 438 mills at the same time last year. Uncertainty over where output will end this season has meant that the government is reluctant to issue further export quotas for this season.

The Buenos Aires Grain Exchange slashed its forecast for the 2022/23 Argentine soybean crop to 25mt, which would be down from 43.3mt last season and the smallest crop since at least 2001. The extended drought combined with high temperatures continues to hurt yields across a large part of the growing region. The exchange also trimmed its corn production estimates by another 4% to 36mt for 2022/23.

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