

The Commodities Feed: Supply tightness vs demand concerns

Energy prices traded lower last week with macro pressures proving too much for markets. However, supply concerns remain, not just in the energy complex, but across the broader commodity space



Energy: gasoil tightness

The oil market is seeing somewhat of a relief rally in early morning trading today. This follows a relatively large sell-off last week. ICE Brent settled more than 6.4% lower over the course of last week. And this is despite the announced OPEC+ cuts from the previous week. Clearly, the market is concerned over the demand outlook given a deteriorating macro outlook. Last week's higher-than-expected US CPI only clouds the outlook further with expectations that the Federal Reserve will need to be more aggressive when it comes to hiking rates.

Also not helping the demand outlook is China's insistence on following a zero Covid policy. Markets have been keeping an eye on China's 20th Party Congress to see whether this policy might be eased. However, there appears to be no change, so localised lockdowns could very well be a theme that runs through 2023.

The latest positioning data shows that speculators increased their net long in ICE Brent by 15,831 lots over the last reporting week to leave them with a net long of 201,163 lots as of last Tuesday.

This increase was predominantly driven by fresh longs. The move likely reflects the market's initial reaction to the OPEC+ meeting. However, given the more recent weakness in the market, the current net long is likely somewhat smaller.

The latest data from Baker Hughes shows that the US oil rig count increased by eight over the week to 610. This is the highest number of active rigs seen since March 2020. The weakness we have seen in oil prices for much of the summer has meant that the rig count has been largely flat since early July. The EIA will also be releasing its latest drilling productivity report later today.

The prompt ICE gasoil spread continues to trade in a deep backwardation of around US\$70/t, reflecting the tightness in middle distillate markets as we move closer to winter. Strike action at French refineries has only further tightened the middle distillate market. Exxon Mobil will restart two of its refineries in France after workers came to an agreement with the refiner. However, operations at Total Energies refineries are still affected after the CGT union rejected the company's latest offer, despite two other unions agreeing on a deal. The tightness in the gasoil market has attracted speculative money with the managed money net long increasing by 10,050 lots over the last week to 62,085 lots as of last Tuesday.

Metals: major copper producers increase European copper premiums

Two major copper producers, Codelco and Aurubis, have increased their premiums to supply copper in Europe next year, anticipating tight supplies, stable demand, and lower availability of stocks in exchange warehouses, according to media reports. Codelco increased its premium to mid-US\$230/t, compared to US\$128/t in 2022. Aurubis raised the European copper premium to a record of US\$228/t, a rise of almost 85% on an annual basis. Spot copper premiums in Europe, suppressed for years, are now getting a boost from recent supply concerns in Russia and surging freight costs. Spot copper premiums shipped to Rotterdam are now around US\$75/t, compared to the levels of US\$45/t before Russia's invasion of Ukraine, according to Fastmarkets.

The latest data from the LME showed on-warrant stocks for copper decreased by 11.3kt (the biggest daily decline in almost a year) to 98.9kt (the lowest since 20 September) as of Friday. The majority of the declines came from the US, Taiwan and South Korean warehouses.

Agriculture: specs trim soybean position

The latest CFTC data shows that money managers continued to reduce net longs in CBOT soybean for a fourth consecutive week by 11,750 lots, leaving them with a net long position of 65,738 lots as of 11 October- the lowest net long held this year. The move lower was predominantly driven by longs liquidating with the gross long falling by 7,963 lots to 86,799 lots. For wheat, speculators increased their net short position in CBOT wheat by 7,283 lots as of last Tuesday to 19,502 lots. Meanwhile, speculative net longs in CBOT corn grew for a second consecutive week by 23,649 lots to a net long of 267,377 lots as of 11 October.

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.