

The Commodities Feed: US CPI release is key for markets this week

Commodity markets had a weak start to the year, driven predominantly by the energy complex. Immediate demand concerns from China and milder weather in Europe were key catalysts. For this week, market direction (at least towards the end of the week) will likely be dictated by US CPI data



Source: Shutterstock

Energy - Speculators add to Brent long position

The first trading week of 2023 saw a lot of weakness in the oil market. ICE Brent fell by almost 9% over the week. Global growth concerns and Chinese covid infections have hit sentiment in the immediate term. However, the change in China's covid policy is constructive for the market in the medium to long term. Speculators also appear to have taken advantage of the recent weakness to enter the market. The latest positioning data shows that speculators increased their net long in ICE Brent by 17,753 lots over the last reporting week, to leave them with a net long of 161,456 lots as of last Tuesday.

According to Bloomberg, the US Department of Energy rejected a number of offers it received for the potential purchase of crude oil in February in order to start refilling the strategic petroleum

reserve. Reports suggest that the DOE will delay the process after offers were either too high or didn't meeting the necessary specifications. The Biden administration had previously said that it would look to refill the SPR if WTI was to trade towards US\$70/bbl. And in doing so providing some good support to prices around these levels.-

Looking at the calendar for the week, the EIA will release its monthly Short Term Energy Outlook on Tuesday, which will include the latest forecasts for US crude oil output. The outlook for US production growth has become increasingly more modest over the last year and the recent weakness in prices will likely not help this trend. Then on Thursday, broader markets will be focused on US CPI data, with this an important data point for assessing what the US Fed may do in terms of monetary policy in upcoming meetings. Finally, on Friday, China will release its first batch of trade data for December, which will include oil import data.

Metals - Boosted by more property measures in China

Copper and iron ore prices rose again on Friday, on a report that China may ease curbs on borrowings by developers. Beijing may allow some property firms to add leverage by easing borrowing caps and pushing back the grace period for meeting debt targets, according to a report from Bloomberg. A raft of policy moves in recent weeks in China has boosted confidence that the economy is stabilizing, improving the outlook for industrial metals.

In mine supply, Peru's latest official numbers showed copper output in the country rising 15.3% YoY (although declining 3.2% MoM) to 225kt in November. Most of the annual production gain came from mines including Antamina, Cerro Verde and Southern Peru Copper. Amongst other metals, zinc production in the country declined 2.9% YoY in November.

Aluminium exchange inventories in Chinese warehouses continue to show signs of recovery. The latest data from Shanghai Futures Exchange (ShFE) showed weekly inventories for aluminium increasing by 22.6kt for a fourth consecutive week to 118.5kt as of Friday. Other base metals stocks also reported inflows over the week.

In nickel, Tsingshan Holdings Group Co., the largest nickel producer, has started a primary nickel plant in Hubei province with monthly capacity of 1,500 tonnes, according to a report from SMM.

Agriculture – Ukraine corn harvest progress

The latest data from Ukraine's Agriculture Ministry shows that farmers in the nation harvested 22.1mt of corn from 3.4m hectares as of 6th January, which accounts for 81% of corn area for the 2022/23 season.

The USDA released its weekly export sales report on Friday, which shows that US soybean sales remained strong, while shipments for wheat and corn remained weak for the week ending 29th December. Export sales of soybean rose to 872kt for the week, higher than the 706kt a week ago. For wheat, the agency reported that US export sales fell to 144kt for the above-mentioned week, lower than the 511kt seen the previous week. US corn export sales declined to 319kt; from 952kt a week ago.

The latest CFTC data shows that money managers increased their net longs in CBOT soybeans by 14,378 lots over the last week, leaving them with a net long position of 142,994 lots as of 3 January. The move was predominantly driven by rising long positions with gross longs increasing

by 15,672 lots to 166,894 lots. For wheat, speculators decreased their net short position in CBOT wheat by 3,497 lots to 57,715 lots. Speculative net longs in CBOT corn increased by 37,142 lots to 196,457 lots.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@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.