# The Commodities Feed: USD & Covid speculation dictate direction

Commodity markets received a boost on Friday after unverified rumours that China could ease its zero-Covid policy, whilst a weaker USD would have only provided further support. However, China made it clear over the weekend that its zero-Covid policy will continue to be followed, setting the scene for weaker markets this morning


## Energy - China crude oil imports increase

ICE Brent rallied to its highest levels since late August on Friday, leaving the market in striking distance of US$100/bbl. A weaker USD also provided a boost to oil and the broader commodities complex. It was further unverified reports of China looking to ease its zero-Covid policy which really provided the boost to markets.It appears these reports were nothing more than a rumour, after the National Health Commission said that China will stick to its zero-Covid policy. Unsurprisingly, oil markets opened lower this morning, following these comments.

The latest trade data from China shows that crude oil imports in October averaged 10.2MMbbls/d, up from 9.83MMbbls/d in September and 8.9MMbbls/d in October last year.  It is the strongest monthly imports since May, when 10.83MMbbls/d of inflows were seen. Crude oil imports over the first ten months of the year are still down 2.7% YoY to average 9.97MMbbls/d. Demand this year has been largely under pressure due to China's zero-Covid policy.

The Saudis released their latest official selling prices (OSPs) for December loadings at the end of last week, which saw reductions for almost all grades into Asia. This includes cutting Arab Light into Asia by US$0.40/bbl to US$5.45/bbl over the benchmark. Meanwhile, all grades to the US were left unchanged for the month, whilst all grades into Europe were increased with the exception of Arab Medium which was unchanged.

Speculators appear to have a growing appetite for the oil market. The managed money net long in ICE Brent increased by 22,214 lots over the last reporting week to leave them with a net long of 227,665 lots as of last Tuesday- the largest net long since June. Speculators appear to be getting increasingly constructive on the oil market likely due to the expectation that the market will tighten due to a combination of the EU ban on Russian oil soon coming into effect as well as OPEC+ supply cuts.

Commercial operations have begun at the first stage of the 615Mbbls/d Al-Zour refinery in Kuwait and the refinery could reach full capacity in early 2023. This would leave total Kuwaiti refining capacity at a little over 1.4MMbbls/d. Additional refining capacity would come as a relief to product markets, particularly middle distillates, which have been extremely tight this year.

## Metals – USD weakness & Covid speculation boost metals

Industrial metals rallied amid China reopening speculation, whilst USD weakness would have provided further upside. LME copper managed to settle more than 7% higher on Friday as a result. However, clarification from China's National Health Commission that the zero-covid policy will remain in place has unsurprisingly seen base metals trade lower this morning.

Zinc prices rose more than 5.6% on Friday- its largest gain since August. The latest data from the Shanghai Futures Exchange (SHFE) showed that exchange inventories declined 44% WoW (the biggest weekly drop since 2007) to 24.9kt (lowest since December 2018) as of Friday. SHFE contracts for nearby delivery traded at huge premiums to later-dated futures, resulting in a widening backwardation.

## Agriculture – India announces sugar export quota

The Indian government finally announced sugar export quotas for the current 2022/23 marketing year. Domestic mills can export up to 6m tonnes of sugar through until the 31 May 2023. Given that this only covers a portion of the season, we could very well see the government issue further export quotas for the remainder of the season (June-September) at a later stage. There have been reports that a second tranche could be in the region of 3m tonnes, depending on how the current crop evolves. In the 2021/22 season, the sugar export quota totaled 11.2m tonnes.

CBOT wheat remained volatile with mounting production concerns in Australia and Argentina. There are suggestions that excessive rains and flooding in the major wheat-growing areas in Australia have lowered expectations of a record high-quality crop. Meanwhile, the Buenos Aires grains exchange revised its forecasts for Argentina's 2022/23 wheat harvest further to 14mt last week, down from a previous forecast of 15.2mt and initial expectations of 20.5mt. The downward revision was primarily due to a prolonged drought, worsened by extended frosts over the main wheat-producing region.

The latest CFTC data shows that money managers continued to build net longs in CBOT soybean for a third consecutive week, adding 25,918 lots and leaving them with a net long position of 101,329 lots as of 1 November. Meanwhile, speculative net longs in CBOT corn increased for a second consecutive week by 7,586 lots, taking the net long to 271,960 lots.

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