

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 615Mbbbls/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 1.4MMbbbls/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.

Authors

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 <http://www.ing.com>.