

The Commodities Feed: All eyes on Jackson Hole

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Energy

Having sold off by almost 8% last week (the largest weekly selloff since October last year), ICE Brent is benefitting from somewhat of a relief rally in early morning trading today. A weaker USD today is offering some support to the broader commodities complex, whilst the US Fed's Kaplan has said that he may rethink his call for tapering if the delta variant weighs on the recovery- which is probably providing some further support. There is little on the agenda for oil this week, but broader market focus will be on Jackson Hole later in the week, where the market will be keen for any signs on when the Fed will start tapering its asset purchase program.

There is likely to be growing noise around OPEC+ in the coming days, with the group set to meet for their monthly meeting on 1 September. Prior to the recent sell-off, the market would have likely placed not much focus on this meeting, with production policy set until the end of the year. However, with the recent weakness in prices, the market will now be eagerly waiting to see if the group decides to delay some of its easing in cuts. We believe OPEC+ will continue with its plan, although much will depend on developments in the market between now and 1 September.

The latest positioning data shows that speculators continued to reduce their net long in ICE Brent over the last reporting week, with their position reduced by 24,528 lots, leaving them with a net long of 254,818 lots as of last Tuesday- the smallest position since December last year. Speculators are clearly nervous about the delta variant and the potential impact this could have on the demand recovery.

Finally, the US rig count crossed the 400 mark for the first time since April last year. The number of active oil rigs increased by 8 last week, leaving the count at 405. There has been a substantial recovery in the rig count over the last year, with the industry adding 233 rigs since last August, which is when the number of active rigs bottomed.

Metals

Metal markets are stronger this morning, clawing back some of last week's losses. A weaker USD, along with comments from the US Fed's Kaplan regarding tapering, has provided some tailwinds to the metals complex this morning. All attention this week will be on Jackson Hole, and for any signs of when the Fed may start tapering its asset purchase programme.

Aluminium smelters in Qinghai province in China received notice from the local grid over the potential for power shortages, according to Mysteel. The region has a total capacity of 2.83 million tonnes. If power rationing goes ahead, smelters are likely to be required to keep power loads around 15-30% lower, and would likely have to lower their utilisation rates.

Meanwhile, China's strategic planner, the National Development and Reform Commission (NDRC) published a heatmap where it ranked the provincial performance on dual-control i.e. energy consumption and energy intensity. Major regions with high aluminium smelting capacity such as Qinghai, Fujian, Guangxi, and Yunnan received red alerts after failing to hit both parameters. Xinjiang, another major aluminium production province, with over 7 million tonnes of smelting capacity, had been flagged with a red alert as it failed to bring down energy intensity during 1H21, whilst receiving a yellow alert on total energy consumption. Earlier this year, smelters in Inner Mongolia had been forced to slash capacity as the region failed to comply with the requirements of dual-control and the commissioning of a newly built project had been put on hold. The latest alerts issued by the NDRC highlights the risk of potential supply disruptions across larger parts of China. However, for Yunnan and Guangxi, even if power shortage issues gets resolved, there is still pressure on the dual-control front. The combined impact from power shortages in Southern China and the efforts to comply with controls continues to take its toll on Chinese primary aluminium supply growth this year, which has been propping up prices.

In lead, the front-end spreads spiked to cross over \$200/t last week, levels not seen in decades. However, record-high shipping costs and massive delays have so far prevented Chinese traders from sending any decent amount of the battery metal out of the onshore market. In addition, spreads beyond September were not attractive enough to push lead out of the onshore market, despite record levels of stocks on ShFE.

Lastly, the latest CFTC data shows that speculators decreased their net long position in COMEX copper, selling 12,021 lots for a third consecutive week over the last reporting week, and leaving them with a net long of 19,944 lots as of last Tuesday. For precious metals, speculators increased their net long in COMEX gold by 26,636 lots, to leave them with a net long of 77,649 lots, whilst they decreased their net long in silver by 2,146 lots, with the net long position reaching the lowest level in more than two years.

Agriculture

The CBOT soybean prompt contract slipped by around 3% on Friday to settle at US\$12.93/bu, down around 9% for the last week. CBOT wheat and corn also dropped by around 6% and 5% respectively over the last week pointing to soft sentiment for the agri complex. The US has seen weather prospects improving over the last week, with rains and colder weather believed to be helpful for the crop at the current stage of development. Meanwhile, the ongoing Pro Farmer crop tour has also been reporting better-than-expected corn yields and growth of soybean pods, which has been putting pressure on prices. Additionally, media reports suggest that the EPA may recommend a biofuel blending mandate for 2021 at levels below the 2020 mandate which could weigh on corn and soybean demand in the short term.

Data from the CFTC shows that money managers increased net long position in CBOT corn by around 24,867 lots over the last reporting week, with them holding a net long of 278,911 lots as of 17 August. CBOT soybean and wheat also saw speculators increasing net longs over the last week by 5,531 lots and 5,058 lots respectively.

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