

The Commodities Feed: Asian Covid-19 worries

Your daily roundup of commodity news and ING views



Newly arranged beds lie inside a Covid-19 treatment centre set up for emergencies in the wake of spike in the numbers of positive coronavirus cases in Mumbai, India

Source: Shutterstock

Energy

Oil markets are trading higher this morning, with ICE Brent trading around US\$69/bbl at the time of writing. This move higher comes despite worries over the Covid-19 situation in Asia, with Taiwan and Singapore tightening Covid-19 related restrictions in recent days, whilst Japan has also recently extended its regional states of emergency. In India (where we saw a surge in Covid-19 cases in April and May), we are getting a better idea of the impact that the latest wave of Covid-19 had on oil demand. According to Bloomberg, preliminary data from the three largest fuel retailers in India show that road fuel demand over the first half of May was down by around 20% from the previous month.

The latest production data from China this morning shows that domestic crude oil production in April totalled 16.45mt or 4.02MMbbls/d, which is slightly down from the 4.04MMbbls/d produced in the previous month. In addition, refiners processed 14.19MMbbls/d of crude oil, up more than 7% YoY, and marginally higher MoM. Taking into consideration these numbers, along with previously released crude oil import numbers, Chinese crude oil inventories declined by around 308Mbbls/d over April.

Finally, latest positioning data shows that speculators reduced their net long for both ICE Brent and NYMEX WTI over the last reporting week, likely with concerns over how the Covid-19 situation in India will evolve. Speculators reduced their net long in ICE Brent by 20,737 lots over the reporting week, to leave them with a net long of 295,833 lots as of last Tuesday. This was driven predominantly by longs liquidating, rather than fresh shorts. Similarly, NYMEX WTI saw speculators cut their net long by 24,208 lots, leaving them with a net long of 360,228 lots.

Metals

Workers at BHP's remote operations center in Santiago for the Escondida and Spence copper mines rejected a final wage offer on Saturday, with almost 97% of the union members opting to strike in voting that concluded over the weekend. The company will now have the right to call for government mediation in an effort to avoid strike action.

Turning to ferrous metals, and the local governments in Shanghai and Tangshan have warned domestic steel producers against price gouging, collusion and spreading false market information. Steel producers in Tangshan were told on Friday that they may be suspended from doing business or have their licenses revoked if they don't follow the law. This news did put some pressure on iron ore prices on Friday, although this was short-lived, with the SGX most active contract trading back above US\$200/t this morning.

Finally, the latest CFTC data shows that speculators reduced their net long position in COMEX copper after three consecutive weeks of gains, selling 5,388 lots over the last reporting week, and leaving them with a net long of 61,033 lots as of last Tuesday. This was driven by longs liquidating, and suggests that we have seen some profit taking at these higher levels. For precious metals, speculators increased their net long in COMEX gold by 29,452 lots, to leave them with a net long of 95,585 lots.

Agriculture

Corn prices saw big declines last week, with the active-month contract on CBOT falling over 12% over the week, following comfortable supply estimates from the USDA. The USDA's first estimates for the 2021/22 crop assuaged some fears over the supply tightness in the physical market and pushed speculators to reduce their longs in the market and take profit. The CFTC's weekly Commitment of Traders report showed that speculators reduced net longs in CBOT corn by 56,212 lots for the week ending 11th May, although given this data predated the WASDE report, we would have seen only a further reduction from speculators since.

However, China's demand for US corn continues to be quite strong for next year, with the USDA reporting another sale of around 1.36mt of corn to China for delivery in 2021/22. With this purchase, China has already bought around 5mt of next year's corn crop, and reflects a strong appetite for the animal feed in the Chinese market.

CFTC data also showed speculative longs in No 11 sugar continued increasing on tight supply expectations from Brazil. Money managers increased their net long by 9,254 lots over the last week, with them holding a net long position of 259,721 lots as of 11th May. Speculative net longs in sugar are in striking distance of the recent peak of around 263k lots made in October 2020.

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