

The Commodities Feed: Brent approaches US\$60/bbl

Your daily roundup of commodity news and ING views



Source: iStock

Energy

Oil continues to edge closer towards US\$60/bbl, with growing hopes for a large US stimulus package, along with falling Covid-19 cases providing a boost for risk sentiment. It seems even bearish data points, such as Friday's jobs data, markets take in their stride, with it only increasing the likelihood for larger stimulus. Fundamentally, the oil market continues to tighten, and in fact with deeper cuts from Saudi Arabia this month and next, the market should tighten at a quicker rate. This tightening continues to be reflected in the timespreads, with the prompt Brent spread remaining in firm backwardation at just under US\$0.30/bbl.

However, while the market outlook continues to improve, there remains demand risks in the near term. Until vaccination rates pick up around the world, it is difficult to be overly bullish on oil demand, with it still held back by lockdowns in certain regions and restrictive international travel.

Meanwhile speculators continue to increase their net long in ICE Brent. Over the last reporting week, speculators increased their net long by 7,900 lots to leave them with a net long of 346,053 lots as of last Tuesday, with the bulk of the buying over the reporting week being fresh longs rather

than short covering. Clearly given the move in the market since last Tuesday, it is very likely that the current net long is somewhat larger. Obviously if there was to be another demand wobble, the risk is that you do see a sizeable amount of these longs liquidating.

If we stick with positioning data, but focus on WTI, it does seem that higher prices are attracting more producer hedging, with the gross producer/merchant/user short increasing by 69,808 lots over the last week, and leaving this gross short at the highest level since June. Further strength in the market would likely only attract further producer hedging, which should start to provide some resistance to the market.

Metals

The weaker US job data on Friday has rekindled some optimism over Biden's stimulus proposal, which proved positive for risk assets, including base metals. LME nickel led the gains in the metals space, rallying by more than 2% and topping US\$18,000/tonne.

Meanwhile copper reportable inventories continue to edge lower, only reinforcing the more supportive environment. Last Friday, LME copper stocks are down by around 31kt since the start of the year, while COMEX stocks are down by 7kt. Unusually, ShFE inventories are also down by 18kt, and levels are far below those historically seen at this time of the year. The nearby spreads have also tightened for both LME and ShFE.

In nickel, the premium of briquette over cathode in the Chinese spot market remained firm, partially reflecting the strong demand for battery-grade nickel. In the meantime, briquettes supply has been very tight. Meanwhile, stainless scrap (304) prices have surged to more than a five-year high in the North American market, meanwhile, prices in some European countries are following the same trend. Rising scrap prices are clearly driving up stainless steel production costs in those regions.

Finally, latest CFTC data shows that speculators decreased their net long position in COMEX copper, selling 1,101 lots over the last reporting week, leaving them with a net long of 77,732 lots as of last Tuesday. For precious metals, speculators reduced their net long in COMEX gold by 9,875 lots, to leave them with a net long of 105,481 lots. Meanwhile for COMEX silver the net long was reduced by 3,705 lots, and this is despite the recent short squeeze from the retail segment.

Agriculture

Soybean harvest progress in Brazil has improved somewhat over the past week but remains well below average due to persistent rains over the past few weeks. The rains have been helpful for crop conditions; however, it has been delaying harvesting activities. Mato Grosso's rural economy institute IMEA reported that the state has harvested 11.2% of soybean crop as of 5 Feb, compared to 4.7% a week ago and around 44.5% at this stage last year. The state produces nearly one-quarter of the country's soybean output. Harvesting progress in other regions of the country also remains lacklustre to date. Obviously delayed harvesting of the soybean crop will likely have an impact on the country's second corn crop.

Looking ahead, the USDA is scheduled to release its Monthly WASDE report on Tuesday with market expectations of a sharp downward revision in US corn and soybean stocks for the 2020/21 marketing year, according to a Bloomberg survey. The consensus shows that the US corn stock estimates could be revised down from 1,552mn bushels to 1,384mn bushels at the end of 2020/21

mainly on increasing shipments to China. Meanwhile, for soybeans expectations are that US ending stocks could be revised down from 140m bushels to 121m bushels.

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