The Commodities Feed: Explosive rally in Nickel

Your daily roundup of commodity news and ING views

Nickel's poor performance in 2023 has been driven by a supply surge from Indonesia

Energy

ICE Brent soared to above US$130/bbl in the morning session today after the US and Europe were reported to be discussing plans to restrict crude oil imports from Russia to further tighten economic sanctions against the country. The market was already factoring in supply tightness due to voluntary import curbs by some buyers and logistical issues around the Black Sea; however, any official restrictions on Russian crude could make it further challenging to balance the oil market given that Russia is one of the major crude oil suppliers to Europe and Asia. US imports of Russian crude oil are relatively small at an average of around 198Mbbls/d in 2021 (contributing only around 3% of total US imports) and restrictions on only US imports may not be detrimental to global crude oil supplies in the immediate term although this could continue to support sentiment.

Meanwhile, OPEC+ has so far resisted calls to increase output in addition to its monthly increment of around 400Mbbls/d. Meanwhile, Libya's oil production is reported to have dropped from 1.2MMbbls/s to around 0.9MMbbls/d as Sharara and El Feel oilfields were shut by militia.

Saudi Aramco has increased its oil price for all buyers for April delivery as the physical market tightens and demand for its oil increases. Aramco has increased the premium of its benchmark

Arab light oil for Asian buyers to US$4.95/bbl for next month's delivery compared to a premium of US$2.8/bbl charged this month. For European buyers, Saudi Aramco will charge a premium of US$1.6/bbl next month for Arab light oil compared to a discount offered of around US$0.1/bbl for the current month. The country also increased the premium for US buyers by around US$1/bbl to US$3.45/bbl.

Managed money net longs in ICE Brent increased by 18,047 lots last week with speculators building fresh longs of 13,678 lots and trimming shorts by 4,369 lots. Money managers also increased net longs in NYMEX WTI by around 8,430 lots last week due to a build-up of fresh longs and shorts liquidation. Threats on Russian crude oil supplies continue to support the bullish sentiment.

Metals

The latest attack by Russia on the Ukrainian nuclear plant last Friday continued to worsen tensions and exacerbated fears of prolonged supply shortages of commodities. On Saturday, China revealed a firmer GDP target for 2022 at 5.5%, sparking speculation of firmer demand this year as officials doubled down on stimulus measures to defend the target. The continued fall in LME inventories and increased supply chain issues prompted the market's scarcity pricing. The market positioning issue may have further sparked the explosive run in some metals as we noted last week (War risk spurs repricing in base metals). Nickel continued this rally this morning with LME 3M prices exploding across US$35,000/tonne. Meanwhile, LME 3M aluminium touched US$4,000/tonne.

The stronger prices in LME versus SHFE has seen profitable China export arbitrage in some metals semis products or primary metal. But any primary outflows from China at this stage may come from the bonded warehouse or under tolling business. Should we see metals flow from China, this could offer a reprieve but is unlikely to reverse the current situation.

Turning to mine supply, the latest government data shows that Peru's total copper output jumped 13% year-on-year in January. The gains were led by the Las Bambas mine where production rose 28% YoY, followed by Cerro Verde copper mine, with copper output rising by 12% YoY. In addition, production at the Antamina copper mine also rose by 3.8% YoY last month. However, on a monthly basis, production was still 5.8% lower when compared to the levels seen in December.

Lastly, the latest CFTC data shows that speculators decreased their net long position in COMEX copper, selling 2,422 lots over the last reporting week and leaving them with a net long of 30,989 lots as of last Tuesday. Moving to precious metals, speculators continued to boost their long positions in gold for a fourth consecutive week as Russia-Ukraine tensions continued to intensify, resulting in increased uncertainty in the market. Money managers boosted their net longs in COMEX gold by 7,121 lots, to leave them with a net long of 168,103 (highest since the week ending on 4 Aug '20) lots, while increasing their net long in silver by 16,633 lots as of last Tuesday.

Agriculture

The Indian Sugar Mills Association (ISMA) has increased its estimates of sugar exports from the country to 7.5mt for 2021/22 compared to its earlier estimates of around 6mt on the bumper harvest. The association has increased sugar production forecasts in the country from 31.5mt to 33.3mt. Moreover, India's sugar export sales have picked up over the past few weeks with the association reporting around 6mt of export contracts signed so far; export sales were around 4.6mt a month ago.

Speculators trimmed their positions in CBOT grains over the last week as uncertainty around Russia pushed traders to trim exposure. Money managers trimmed both longs and shorts in CBOT corn by around 17,699 lots and 12,485 lots, respectively to push net longs down by 5,214 lots. For CBOT soybean, money managers reduced gross longs and gross shorts by 6,166 lots and 1,553 lots respectively over the last week to leave them with net longs of 175,721 lots as of 1 March. For wheat, money managers covered 5,577 lots of shorts whilst building fresh longs of 5,440 lots over the week to push down net shorts to 7,036 lots.

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