

# The Commodities Feed: Further WTI spread strength

Your daily roundup of commodity news and ING views



## Energy

Having settled higher for the seventh consecutive week, ICE Brent has edged higher in early morning trading in Asia. Comments from the Saudi energy minister which suggests that OPEC+ will continue to take a cautious approach in increasing output is likely providing some support to the market, particularly with other members of OPEC+ echoing the Saudi view. For now, the market does not appear concerned about the Covid-19 outbreak in a number of provinces in China. China has, however, demonstrated multiple times that it is able to get outbreaks under control fairly quickly.

NYMEX WTI is also offering support to Brent at the moment. The WTI/Brent discount has narrowed from around US\$4/bbl in early October to close to US\$1.50/bbl currently. The move in this spread is largely due to a tightening US market. Oil inventories at Cushing continue to decline and are close to 30MMbbls. This has seen the prompt timespread also strengthen significantly recently. The prompt WTI spread is trading at a backwardation of more than US\$1.40/bbl, which is the strongest the spread has been since 2018, when Cushing inventories fell a little under 22MMbbls. If this trend continues, it should start to weigh on US crude oil exports.

The latest positioning data shows that over the last reporting week speculators reduced their net long in ICE Brent by 23,754 lots, leaving them with a net long of 277,167 lots as of last Tuesday. The bulk of this reduction was driven by longs liquidating, rather than fresh shorts. It appears that

higher prices have led to some profit taking. As for NYMEX WTI, given the tightness in the US market, speculators added to their net long. The speculative net long increased by 20,231 lots over the last reporting week, leaving them with a net long of 346,836 lots as of last Tuesday. Given the move in WTI timespreads more recently, the next set of positioning data could show a fairly large increase in speculative spread positions.

## Metals

LME metals remained volatile amid the energy crisis and China's efforts to rein in the domestic coal market. LME aluminium was down around 1.5% on Friday, while LME copper settled around 1.3% lower. The focus seems to have quickly shifted to greater uncertainties around demand in China, which is undergoing triple-shocks, including the property slowdown, Covid-19 outbreaks and the power crisis.

China announced on Saturday that it will expand trials for a property tax, a move that may further rein in speculation and add to the doom and gloom within the property sector. The nation's property sector, an engine for metals demand growth, is faced with increasing headwinds. In addition, Chinese health officials said on Sunday that the latest Covid-19 outbreak is increasingly likely to spread further and urged all regions to step up monitoring and called for travel restrictions across provinces. This would add further uncertainty to demand.

The copper inventory situation continues to be precarious, even though LME warehouses witnessed a marginal increase in on-warrant stocks over the last few sessions. After falling to a low of 14.2kt on 15 October, LME on-warrant copper stocks increased to 21.9kt last Friday, even as total copper inventories at LME warehouses continue to fall. Total LME copper stocks fell to 161.6kt compared to around 181kt a week ago. Copper inflows into LME warehouses continues to trickle, while outflows remain elevated at around 6.1kt per day over the last week. Copper inventories at SHFE warehouses also dropped to a fresh 5-year low of 39.8kt last week, pointing to healthy demand in the physical market in China. On the supply side, Vale restarted operations at its 197ktpa Salobo copper mine in Brazil last week after around 18 days of disruptions due to a fire. The company expects a production loss of around 8kt of copper due to the disruptions.

## Agriculture

Weekly positioning data from the CFTC shows that speculative sentiment continued to be soft for grains, as higher prices were seen to be hurting demand prospects in the longer term. Managed money net longs in CBOT soybean fell by 10,903 lots over the last week with the current net long falling to a 16-month low of just 18,165 lots as of 19 October. Money managers increased their gross shorts by 12,468 lots over the last week even as soybean oil prices push higher and soybean crushing margins increased to a 3-year high of around US\$1.9/bu. Managed money net longs in CBOT corn dropped by 8,363 lots over the week to 219,568 lots with gross longs falling by 12,017 lots. While money managers also increased their net short position in CBOT wheat by 9,192 lots over the last week with money managers trimming their gross long position and adding to the gross short position.

## Author

**Warren Patterson**

Head of Commodities Strategy

[Warren.Patterson@asia.ing.com](mailto:Warren.Patterson@asia.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>.