The Commodities Feed: Large spec liquidation

Your daily roundup of commodity news and ING views

Energy

Oil spent much of last week clawing back losses, with ICE Brent managing to finish the week almost 8% up from last Monday's close. The recovery over the week has come despite a growing number of Covid-19 infections, along with a number of countries in Asia extending or tightening restrictions. Clearly where vaccination rates are low there is a concern, however, when looking at regions where a large portion of the population is vaccinated (the UK for example), hospitalization levels are a fraction of what they were back at the start of the year, providing some confidence to the market.

With the OPEC+ drama behind us, volatility in the market has eased, which leaves the market with a couple of key known uncertainties for now. The first key uncertainty unsurprisingly is Covid-19. Any significant reversal of easing in restrictions in parts of Europe and the US would send a fairly bearish signal to the market, particularly when you consider the higher vaccination rates in those regions. The other uncertainty, which is on the supply side is Iran. Noise around the nuclear deal has quietened down more recently, and we will have to wait until the new Iranian president takes office in August before indirect talks resume. The unknown is whether the incoming president takes the same approach towards trying to reach a deal with the US, or if he takes a more hardline stance. There were recent reports that the US was considering a crackdown on Iranian oil sales to China, possibly wanting to use this as leverage to reach a deal. What is clear, is that it is taking longer than initially expected to reach a deal, and so as a result the expected increase in Iranian oil supply over 2H21 is likely to be delayed. We will continue to assume Iranian oil supply at 3MMbbls/d by the end of this year, however, will revisit this forecast once talks resume.

Turning to the US, and the latest data from Baker Hughes shows that the US oil rig count increased by 7 over the last week to total 387. This is the fourth consecutive weekly increase in the count, and also takes the number of active rigs in the US back to levels seen in April last year. We still have a while to go before getting back to pre-Covid-19 levels, with the count still 43% below mid-March 2020 levels. However, in the current price environment we would expect rig activity to continue edging higher. Similarly completion activity in the US also continues to trend higher, with Primary Vision's US frac spread count totaling 243, up just by one over the week, but up almost 83% so far this year.

Finally, the latest positioning data for both ICE Brent and NYMEX WTI showed some big moves over the reporting week, with a significant amount of longs liquidating. Speculators reduced their net long in ICE Brent by 50,786 lots over the reporting week, to leave them with a net long of 261,841 lots as of last Tuesday- the smallest position since late May. This reduction was driven predominantly by longs liquidating, while it also appears that some shorts took some profit over the week, with the gross short position also decreasing. The move was even larger for WTI, with speculators reducing their net long by 64,702 lots, leaving them with a net long of 316,789 lots, the smallest position speculators have held since November last year. Similarly, the reduction was predominantly driven by longs liquidating.

Metals

Last week saw several weather-related disruptions from central China and Germany that impacted everything from copper to aluminium and lead. These events led to increased volatility across markets amid traditionally quiet summer trading conditions. Furthermore, as Typhoon In-Fa started to hit east coastal regions in China on Sunday, work at many construction sites has been suspended, which may throw a damp towel on short term demand, particularly for construction steel.

Sticking with the Chinese steel market, Shandong province revealed plans to rein in production growth for the remainder of the year, followed by other provinces. As a result, steel prices surged last week, while iron ore has backed off. Despite the short-term disruptions to demand due to the typhoon, there is a broader consensus that steel demand will remain resilient later this year. Therefore, any strict production curbs could lead to market tightness and fuel speculation in steel, while putting pressure on iron ore.

On the base metals front, markets have shrugged off the increased volumes to be offered in the latest stock release from China's state reserves. Most LME base metals extended gains on Friday along with a rebound in inflation expectations, while the dollar remained steady. Nickel surged by 2% on Friday, and this momentum has continued this morning, with supply concerns in Indonesia. Rising Covid cases has led the country to ban non-citizens from entry, leading to speculation of slower supply growth in NPI and stainless steel. A large stock fall in ShFE reported copper inventories on Friday also boosted copper prices, with LME 3M copper settling higher, and trading back above US$9,600/t this morning.

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