

The Commodities Feed: Oil and metals keep on rising

Your daily roundup of commodity news and ING views



Energy

Crude oil continues its rally with ICE Brent making a high of US\$86/bbl due to a tight physical market. The OPEC+ reported having compliance of around 115% to the agreed cuts in September 2021 only marginally down from 116% in August 2021 as some of the countries struggle to increase output due to lack of operating capacity or other production-related issues. Over-compliance by the OPEC+ on output cuts have been helping crude oil supplies to remain tight. Bloomberg data shows that the group has underproduced around 740Mbbbls/d of crude oil in September 2021 compared to the agreed production limit.

China issued the 4th batch of import quotas for private refiners at around 14.9mt for the current year. With this, the total import quota for private refiners has now increased to 177.1mt for 2021 to date, although this is still lower than 184.6mt of quota for 2020. The new quota is likely to help crude oil imports recover in China which dropped 15% YoY (down 5% MoM) to around 10MMbbbls/d in September 2021. Beijing has been relatively stricter with import quotas this year to cut down on operating inefficiency and limit emissions.

The latest positioning data shows that money managers increased their net long positions in

NYMEX WTI by another 10,448 lots over the last reporting week to 326,605 lots, 3rd consecutive week of longs build-up. On the other hand, speculative activity in ICE Brent was soft and managed money net longs dropped by 31,756 lots over the last reporting week with the move predominantly driven by longs liquidation. Managed money gross longs dropped by 31,018 lots over the week on profit booking at higher prices.

Metals

Market continue to price in the risk premium stemmed from rising disruptions to some metals productions amid the ongoing energy crisis from Europe to China. In the meantime, escalating damage to the supply chains has been fanning inflation fears, which may have prompted macro investors to chase metals for an inflation hedge (see [note](#)). LME frontend spreads have tightened significantly as inventories such as copper and zinc continue to drop as fears of rising prices may lead to buyers pull out the stocks. Last Friday, Glencore announced curtailments at its three operations in Europe, producing zinc ingots and alloys. As a result, LME 3M zinc surged to the highest at \$3,944/t, its 14-years high. As for aluminium, stocks began to rise from the China market in line with the seasonality pattern. According to Mysteel, this has risen by 31kt since last Thursday to the latest total of 941kt. The direction is in line with its seasonality pattern, but a faster pace may de views as signs of demand destruction.

In Asia, it's worth watching the ongoing energy crisis closely from China and rising risks of coal supply potentially hitting metals production in India. Despite efforts made by the authorities to tackle the power crunch, including expanding the coal production, the thermal coal prices in China Zhengzhou Exchange surged to record levels last week. A slight reprieve is that the local news reported that coal production and transportation is back on track from Shanxi province after severe floods complicated the situation. However, demand for coal and power is set to rise as cold snap started to hit northern and eastern regions in China over the weekend, implying rising demand for coal and power from the households as winter heating season is approaching. All this could mean that instead of existing restrictions to the metals supply side to be eased or lifted, there could be an escalation of the disruptions.

The latest CFTC data shows that speculators have increased their net long position in COMEX copper, buying 9,158 lots over the last reporting week, and leaving them with a net long of 35,564 lots as of last Tuesday. For precious metals, speculators increased their net long in COMEX gold by 1,976 lots, to leave them with a net long of 69,817 lots.

Agriculture

Soybean prices traded firm on Friday as the USDA reported stronger demand for US soybeans in the overseas market. The agency reported soybean export sales of around 722.8kt to unknown destinations and 132kt to China on Friday. Earlier in the week also, the USDA has reported soybean sales of around 660kt to China and other destinations, taking total sales over the last week to over 1.5mt. Weekly export sales from the USDA showed that soybean export sales increased to 1.15mt for the week ended 7 October compared to 1.04mt over the preceding week reflecting stronger demand for US soybean since the start of the month. Among other grains, wheat export sales increased from 333kt to 568kt; whilst corn sales softened from 1.27mt to 1.04mt for the week ended 7 October.

Meanwhile, domestic demand for US soybean continues to be soft with data from the National Oilseed Processors Association (NOPA) reporting that soybean crush in the country dropped to a

three month low of 153.8m bushels in September 2021, down around 5% YoY. US soy oil inventory was also higher at 1.68b lbs at the end of September compared to 1.67b lbs a month ago and 1.43b lbs a year ago, pointing to soft demand for soybean oil.

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