The Commodities Feed: Nuclear talks remain in focus

Your daily roundup of commodity news and ING views

Energy

The commodities complex closed lower for a second consecutive week, with inflation concerns raising the prospect of monetary tightening. In addition, the oil market has come under further pressure, with the US moving closer towards rejoining the Iranian nuclear deal. ICE Brent saw its largest weekly decline since March, falling by 3.3% last week, while timespreads have also weakened, with the prompt spread also at its lowest levels since March, trading in a backwardation of just US$0.07/bbl.

The latest positioning data shows that speculators reduced their net long in ICE Brent by 9,833 lots over the last reporting week, to leave them with a net long of 286,000 lots as of last Tuesday. Gross shorts increased by 5,710 lots and gross longs fell by 4,123 lots over the week. Given that we have seen only further downward pressure on oil prices since last Tuesday, the current net long is probably somewhat lower still. NYMEX WTI also saw speculators reduce their positions, selling 12,399 lots, to leave them with a net long of 347,8239 lots as of last Tuesday. This is the smallest net long speculators have held in WTI since January. The growing possibility of an increase in Iranian supply, along with an increase in Covid-19 cases in parts of Asia has been enough to get some speculators nervous.

The latest data from India's Ministry of Petroleum and Natural Gas shows that refiners' utilization rates over April averaged 96.82%, up from 71.8% last year, but below the 98.89% seen in the previous month. Refiners in India have had to reduce utilization rates given the demand hit in the domestic market following the latest wave of Covid-19. May numbers are likely to show a larger impact on refinery operations, as this is the month when daily Covid-19 cases peaked.

Looking at the week ahead, all eyes will be focused on how nuclear talks in Vienna evolve. After positive comments from several officials last week, there is a growing expectation that we are close to a deal, with the potential for an announcement. If and when the US rejoins the Iranian nuclear deal, this will likely hit sentiment in the oil market, however we are still of the view that the market will be able to absorb this additional supply, so would expect price weakness to be short-lived.

Metals

The metals complex continued its move lower on Friday, with copper declining to an intra-day low of US$9,848/t. Aluminium and zinc were buoyed by the news of a strict power usage cap on smelters in Yunnan province, which could lead to production losses. Over the weekend, the president of the China Nonferrous Metals Industry Association (CNIA) warned that 'commodity prices have largely deviated from the price chain in the process of industrial operation, and institutions should not underestimate the determination and capability of regulation.'

The latest data from the World Steel Association (WSA) shows that global steel output rose 23.3% YoY to 169.5mt in April, with mills recovering from Covid-19 related shutdowns, (higher prices will also have helped). Daily average steel output increased 3.5% MoM, compared to the 1.8% MoM increase seen in March. Chinese steel production grew 13.4% YoY and 7.5% MoM to total 98mt in April, despite efforts by local authorities to curb steel output. Among other Asian countries, India's steel output declined 14.4% MoM due to the latest Covid-19 wave.

Lastly, the latest CFTC data showed that speculators decreased their net long position in COMEX copper for a second consecutive week, selling 9,097 lots over the last reporting week, to leave them with a net long of 51,936 lots as of last Tuesday. For precious metals, speculators increased their net long in COMEX gold by 11,311 lots, leaving them with a net long of 106,896 lots.

Agriculture

Russia's Agriculture Ministry estimates that local wheat production could drop to 80.7mt in 2021/22 compared to 85.9mt in 2020/21, with total grains output (including barley, corn and others) falling from 133.5mt to 127.4mt. Despite lower production, Russia could increase grains exports by around 3mt to 51mt in 2021/22 with the rollover of un-used export quotas from this season. Russia's new export duty formula will be implemented from 2 June, with the wheat export duty likely to be set at around US$30/t compared to the current duty of €50/t (c.US$61/t).

CFTC data showed that speculators exited their long positions in both corn and soybeans last week, which is not too surprising given the soft estimates from the USDA's WASDE report. Money managers reduced their net long position in CBOT corn by 25,311 lots over the last reporting week, whilst they also decreased their net long in CBOT soybeans by 25,238 lots over the same period.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

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