

The Commodities Feed: Oil pressure

Your daily roundup of commodity news and ING views



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Energy

Oil managed to claw back some of its losses on Friday, with ICE Brent settling almost 2% higher on the day. Despite this, oil has still seen its worst week this year, as concerns grow over a flaring up in Covid-19 cases across Europe. This comes at a time when there are clear signs of weakness in the physical oil market, with a number of unsold West African cargoes for April loading, Bloomberg suggests that there are 40-50 unsold cargoes for the upcoming month. In addition, Iranian flows have slowly crept higher, and this doesn't help during a time when Chinese buying appears to have slowed. Iran appears to be in no hurry to return to the nuclear deal, insisting that the US must remove sanctions before they will return to their commitments under the deal. However, despite this standoff and sanctions remaining in place, Iranian oil flows have been edging higher.

Time spreads also suggest a less tight market, with the prompt ICE Brent spread seeing its backwardation falling from US\$0.55/bbl at the start of last week to just US\$0.18/bbl currently. Although this could also reflect a large amount of speculative money (which would have been in the nearby contracts) exiting. Positioning data does not reflect the large sell-off we saw on Thursday, for that we will need to wait for the Commitment of Traders report released at the end of this week. However, the latest data still shows that speculators reduced their net long in ICE Brent by 5,756 lots over the last reporting week, leaving them with a net long of 334,403 lots as of

last Tuesday. The data also shows that speculators reduced their spread position over the reporting week by 8,855 lots. This reduction in spread positions would have also put pressure on time spreads.

The wobble in the market will give OPEC+ something to think about ahead of their meeting on 1 April. It will likely also make it more difficult for the market to second guess what the group may do. Clearly, prior to the recent downward pressure, expectations were that OPEC+ would start to ease cuts. However, the group may be more hesitant to do so now, particularly if sentiment does not shift ahead of the meeting. There is still room for some downward pressure in the near term, however, in the medium term we continue to hold a constructive outlook on the market, with inventories set to continue drawing through the year, assuming we do not see any downward surprises on the demand side.

Finally, the latest data from Baker Hughes shows that the US oil rig count increased by 9 over the last week to total 318. Rig activity was disrupted over late February and early March as a result of the freezing conditions that were seen across the southern US. Completion activity also continues to grow, with Primary Vision's frac spread count increasing by 13 over the week to 195.

Metals

Metals were whipsawed last week amid volatility in US Treasury yields. However, the complex ended the week on a higher note as a result of growing inflation expectations. Looking ahead, developments on the new wave of Covid-19 could weigh on market sentiment, adding to the uncertainty around the demand recovery.

Turning to the ferrous market, iron ore prices have come under pressure, with the most active SGX contract falling below US\$150/t, as a result of further announcements regarding steel production cuts in China. There are suggestions that Tangshan city will further cut steel output for some mills. Seven steelmakers will halve production between 20 March and 30 June, and will then operate at a 30% lower rate in 2H21. In addition, another 16 mills will cut 30% of total production, and Tangshan's utilisation rate will drop to 70.6% until June, compared to the current rate of 73%.

The latest data from Steelhome shows that Chinese iron ore port inventories rose by 2.9mt, the fifth straight week of increases. Total stocks stand at 133.9mt, the highest level since October 2019.

Finally, CFTC data shows that speculators trimmed their net long position in COMEX copper for the fifth consecutive week, selling 6,652 lots over the last reporting week and leaving them with a net long of 44,570 lots as of last Tuesday. For precious metals, speculators boosted their net long in COMEX gold by 12,845 lots after four weeks of consecutive declines, leaving them with a net long of 54,741 lots.

Agriculture

The USDA reported corn sales of 800kt to China on Friday, taking total weekly sales to China to around 3.9mt. Stronger demand in the physical market also saw the forward curve tighten, with the May/Jul 21 spread increasing to US\$19/bu (backwardation) on Friday compared to US\$10.5/bu a week ago.

CFTC data showed that money managers increased their net long position in CBOT corn by 14,386

lots over the last week, with them being net buyers of 370,900 lots as of 16th March. The move higher was predominantly driven by fresh longs, with 9,696 lots of new longs added over the week, whilst 4,690 lots of shorts were covered.

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