

The Commodities Feed: Oil prices extend gains

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Energy

ICE Brent started the week on a very strong note today and has been trading up around 1.4% in the morning session - to above US\$91/bbl. Mounting concerns over Russia-Ukraine tensions continued to boost supply risk premia for energy products. NYMEX WTI has also increased to around US\$88/bbl in morning trade today. Brent timespread has also widened today, with prompt/next month spread increasing to a one year high of US\$1.7/bbl of backwardation as buyers rush to secure physical cargoes of oil. Refined products have also seen demand strengthening in the spot market, with ICE gasoil cracks increasing to around US\$15.8/bbl whilst gasoline cracks also trade firm for this time of the year.

Earlier, positioning data from CFTC showed that money managers trimmed their net long positions in ICE Brent and NYMEX WTI over the last week. Money managers were reported to have reduced their net long position in ICE Brent by 5,361 lots for the week ended 25 Jan. Speculative net longs in NYMEX WTI also dropped by 14,154 lots over the last week, predominantly driven by longs liquidation ahead of the Fed meeting. However, the continued escalation of supply risks since then and the price movement over the past few sessions suggest that money managers might have

returned to buying crude oil.

Weekly data from Baker Hughes shows that US drillers continue to add oil rigs at a cautious pace, even as the global oil market faces supply tightness and higher prices increase economic incentives to support production. The US added 4 oil rigs over the last week, taking the total oil rig count to 495. Another 2 rigs were added for gas exploration, taking the total rig count (oil & gas combined) to 610 for the week ended 28 Jan. US oil rig counts are still significantly below pre-COVID levels of around 683, even as NYMEX WTI trades comfortably above pre-COVID price levels.

Metals

The overall metals complex remained on a weaker footing during the early sessions on Monday amid thin liquidity in the absence of Chinese onshore traders for the Chinese New Year Holidays. Meanwhile, China released a weaker manufacturing PMI for January, showing that activities have moderated at the beginning of the year. This may also have weighed on market sentiment. Copper remained steady after closing 1.7% lower on Friday, giving up all the gains made this year. Aluminium largely avoided the sell-off as increasing risks over Russian supplies and the high power costs in Europe continue to support the metal ([see note](#)). Looking ahead, the Chinese Lunar New Year holidays could keep the metals market relatively quiet this week.

In precious metals, gold tumbled after last week's FOMC meeting due to a strong dollar spike and fears of more aggressive Fed normalization moves. Spot gold prices erased all the gains so far this year and touched as low as US\$1,785/oz earlier this morning.

In bulks, the rally in iron ore stalled, and prices took a tumble during earlier Asian sessions after surging to their highest level since last September. On Friday, the China National Development and Reform Commission (NDRC) vowed to strengthen oversight of iron ore prices and crack down on speculation. That said, the latest data release from the National Statistics Bureau suggests that the PMI for the steel sector has jumped from 38.7 last December to 47.5 in January. Overall steel output also increased, despite the mandate cuts at some steel mills due to the Winter Olympics.

Agriculture

Both CBOT corn and soybean continued their positive trends over the last week and settled with gains of around 3.3% and 4% respectively on stronger speculative demand, healthy export sales from the US and firm energy prices. Money managers increased bullish positions in corn and soybean last week, ahead of the Fed meeting outcome on Wednesday. CFTC data shows that managed money net longs in CBOT corn increased by 39,082 lots over the last week to 365,605 lots as of 25 Jan 2022. Money managers built fresh longs of 35,722 lots whilst also covering 3,360 lots of short positions. Speculative net longs in CBOT soybeans increased by 15,256 lots over the week to 114,895 lots, levels not seen since early June 2021. Speculators built fresh long positions of 10,019 lots over the week whilst also covering around 5,237 lots of short positions. Money managers remain bearish on wheat, although net shorts in CBOT wheat were trimmed by 11,474 lots over the week.

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