Snap | 17 January 2022 COMMODITIES DAILY

The Commodities Feed: Oil settles above $86/bbl

Your daily roundup of commodity news and ING views

Energy

Oil prices continue to trend higher. ICE Brent settled almost 1.9% higher on Friday and this strength has continued this morning. Brent is now trading firmly above US$86/bbl and has managed to break above the October highs of last year leaving it at levels last seen in 2018. Concern over tightness in the oil market continues to support prices, although the market appears to be ignoring several developments in recent days. In particular, the Covid-19 situation in China. Beijing has now reported its first Omicron case and with China's zero-Covid policy, developments will need to be watched closely, given the significant demand risk. The market is also trading at levels where we will likely see further pressure on OPEC+ to increase output more aggressively. Noise around political intervention leaves the market at risk of further volatility.

The latest market positioning data shows that speculators increased their net long in ICE Brent significantly over the last reporting week. The managed money net long increased by 43,019 lots over the week, leaving speculators with a net long of 249,927 lots as of last Tuesday. This increase was driven predominantly by fresh buying. NYMEX WTI also saw an increase in speculative positioning. Speculators increased their net long in WTI by 21,449 lots, leaving them with a net long of 287,826 lots at the end of the reporting week.

The latest data from Baker Hughes shows that the US oil rig count increased by 11 over the last week. This takes the total number of active oil rigs in the US to 492, which is a 186% increase from the lows seen in August 2020. While the count still has some distance to go before reaching pre-Covid levels (683 in March 2020), the current price environment should ensure that we continue to see the rig count trending higher.

Metals

Base metals had a volatile week with individual fundamental dynamics in conjunction with macro forces continuing to drive divergence across the board. Copper retreated at the end of last week. As of Friday's close, copper has almost pared all the gains it made so far this year. This weakness follows the 3M price breaking briefly above US$10,000/t on Wednesday after the US inflation data.

However, aluminium and nickel have outperformed the rest of the complex. Both metals are up more than 6% year-to-date. On Friday, LME nickel touched US$22,935/t, its highest levels since 2011. As nickel stocks continue to move out of LME sheds (98kt as of last Friday vs 265kt last April), the front end of the curve has shifted into deeper backwardation with the cash/3M spread spiking to the highest level since 2007. The China battery and EV market have helped fuel this momentum. In 2021, total new energy vehicle sales in China grew by 169% YoY according to the latest data released by the China Passenger Car Association (CPCA). Meanwhile, total vehicle battery installations have grown by 143% YoY, with ternary battery installations surging by 91%, according to the latest data from the Battery Union.

Agriculture

Ahead of the WASDE report, speculators continued to build fresh short positions in CBOT wheat on expectations of improved supply prospects. The latest CFTC data shows that money managers increased net shorts in CBOT wheat by 7,919 lots over the last week to a one-year high of 27,764 lots as of 11 January. The move higher was predominantly driven by longs liquidating. As the WASDE report was largely soft for wheat, speculative net shorts have probably increased since the report was released on 12 January. The other notable number from the CFTC report was for sugar, where speculative net longs in No 11 dropped by a huge 61,616 lots over the week. Money managers now hold a net long of only 76,523 lots - levels not seen since June 2020.

Author

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

Disclaimer