The Commodities Feed: Saudis increase January OSP's

Your daily roundup of commodity news and ING views

Energy

After a weak close on Friday oil markets have opened stronger this morning. Brent is trading comfortably back above US$70/bbl, after the Saudis raised their official selling prices (OSP) for all grades of their crude oil into Asia for January. Aramco's flagship Arab Light into Asia was increased by US$0.60/bbl MoM to US$3.30/bbl over the benchmark. All grades to the US were also increased, while all grades into Europe saw a cut in their OSP's for January. The increase in OSP's into Asia comes despite OPEC+ agreeing to stick to its plan of increasing output by 400Mbbls/d in January, and despite uncertainty over the Omicron variant and the expectation that the market will be better supplied in 1Q22. What makes the move even more strange is that the increase has come at a time when the Brent/Dubai spread has been narrowing. A weaker Brent/Dubai spread along with stronger Saudi OSP's will make Atlantic Basin crude into Asia more competitive, possibly weighing on demand for Saudi crude. However, the move suggests that the Saudis have confidence in the demand outlook, and the market appears to be taking comfort in that.

The latest positioning data shows that speculators cut their net long in ICE Brent by 44,654 lots over the last reporting week to leave them with a net long of 167,166 lots. This is the smallest position they have held since November last year. The move was driven exclusively by longs liquidating. NYMEX WTI also saw significant liquidations over the week. The speculative net long in WTI was cut by 45,171 lots, leaving a net long of 257,631 lots. This is the smallest position speculators have held in WTI since April last year. The flushing out of longs leaves the door open for speculators to come back into the market at these lower levels.

Metals

Omicron uncertainty continues to whipsaw the metals complex. Speculation about China policy easing has sparked optimism within the ferrous sector, resulting in Shanghai steel and iron ore extending their gains last week. But LME aluminium finished the week lower, as exchange inventories continued to fall. The latest LME data shows that inventories have now declined for 55 consecutive days, reaching a fresh 14-year low of 883kt as of last Friday.

MMG is planning to halt production at Las Bambas copper mine in Peru as road blockades by community groups impact key inputs and restrict metal shipments. Stockpiles of about 50kt of copper concentrate have built up at the site, with operations slowing down and production set to stop by mid-December.

China's Ministry of Industry and Information Technology revealed a detailed plan for green development for the fourteenth Five Year Plan (14th FYP,2020-2025) last Friday. According to the plan, China aims to boost steel scrap recycling to 320mt and base metals scrap to 20mt by 2025. In addition, it aims to boost secondary copper, aluminium and lead output to 4mt, 11.5mt and 2.9mt respectively during the 14th FYP.

The latest CFTC data shows that speculators decreased their net long position in COMEX copper, selling 6,131 lots over the last reporting week and leaving them with a net long of 13,382 lots as of last Tuesday. For precious metals, speculators decreased their net long in COMEX gold by 13,737 lots to leave them with a net long of 104,992 lots.

Agriculture

Weekly positioning data from the CFTC shows that money managers trimmed their net long position in grains over the last reporting week as the Omicron variant weighed on demand prospects. The biggest sell-off was in CBOT corn, where managed money net longs fell by 51,422 lots over the last reporting week with the move predominantly driven by longs liquidating. Managed money gross longs fell by 38,276 lots whilst gross shorts increased by 13,146 lots. Managed money net longs in CBOT soybeans declined by 15,931 lots over the last reporting week to a net long position of 33,425 lots as of 30 November.

Looking ahead, China's first set of trade data will be out on Tuesday and will be watched to gauge demand. The USDA is scheduled to release its monthly WASDE report on Thursday and market expectations are that the US and global grains balance sheet could see only marginal changes this time. Brazil's CONAB will also release its report on Thursday which will be watched closely for soybean and corn crop acreage, yield and production forecasts.

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