The Commodities Feed: Silver rally

Your daily roundup of commodity news and ING views

Metals

Spot gold edged higher yesterday, while silver saw another surge in prices, with spot prices rising as much as 11.5% at one stage, and trading briefly above $30/oz for the first time since 2013. Retail demand has increased significantly, with large inflows into silver ETF's. The iShares Silver Trust exchange-traded fund (largest silver-backed ETF) witnessed inflows of nearly US$944 million on Friday, while total known silver ETF holdings increased by almost 35moz yesterday to total nearly 940moz.

A number of retail dealers said that they were unable to process orders until Asian markets opened yesterday due to the extraordinary demand for bars and coins. Demand was almost six times more than a normal day on Monday and dealers expect existing premiums to rise quickly in the current scenario. Meanwhile, the US Mint on American Eagle silver-coins sales showed that total sales jumped 24% YoY to 4.8moz in January; the largest monthly sales for a January since 2017. While we have already seen a significant rally in silver, one has to question how much more it can be squeezed, with the biggest hurdle being the sheer size of the market. If we look at daily average volumes on Comex silver since the start of 2020, they equate to around US$10.97b. Then if we look at positioning data for Comex futures, money managers hold a net long, and so at least from this portion of the market, there is not much to squeeze.

Most industrial metals remained under pressure amid yesterday's dollar strength, with LME 3m copper touching the intra-day low of US$7,765/t. LME copper stocks continued their downward trend, with inventories standing at 74.2kt compared to 105.8kt at the start of the year. The nearby spreads have tightened up with the cash/3M spread remaining at around US$5/t (backwardation) since late last week. In the concentrate market, delay in shipments from South American miners added to further pressure on spot treatment charges (TC) in the China market, and the average TC is currently quoted at around US$45.5/t. Lead inventories in China continue to buck the trend by declining, which has offered some optimism to the market. According to the latest data from SMM, refined lead inventories stood at 43kt this week compared to 53kt at the start of the year.

Energy

The oil market rallied yesterday, with Brent trading more than 2% higher on the day, and settling comfortably above US$56/t. There is little fundamental news behind yesterday's strength, instead, oil markets appear to have got caught up in the strength in equity markets. More estimates for OPEC production over January are coming out, and the Bloomberg survey estimates that OPEC production increased by 190Mbbls/d MoM to average 25.67MMbbls/d. Production between the OPEC-10 is estimated to total a little over 22MMbbls/d last month, which was slightly below the 22.12MMbbls/d they agreed to produce.

Looking ahead, and there will be various OPEC+ meetings over the next two days, starting with the Joint Technical Committee today, and then the Joint Ministerial Monitoring Committee tomorrow. No changes in policy are expected from the group, with OPEC+ having already agreed on output levels for the remainder of the first quarter earlier this year.

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