

The Commodities Feed: Speculative longs liquidate

Your daily roundup of commodity news and ING views



Energy

ICE Brent continues to gravitate around the US\$70/bbl mark, with demand concerns around the delta variant lingering. Concern over the Delta variant has brought some further downward pressure in the oil market in early morning trading today. The latest Commitment of Traders report also reflects speculators' mounting anxiety. The data shows that speculators reduced their net long positions in ICE Brent by 30,319 lots over the last reporting week, leaving them with a net long of 279,346 lots as of last Tuesday. This move was driven by longs liquidating, rather than fresh shorts entering the market. Growing uncertainty has led to speculators taking risk off the table. NYMEX WTI also saw a reduction in speculative net longs, with the position reduced by 17,883 lots to 286,903 lots. This is the smallest net long in WTI since November last year.

Sticking with positioning data, but looking at products, and ICE gasoil also saw some significant speculative liquidation over the reporting week, with the net long position reduced by 28,858 lots, to leave a net long of just 99,490 lots as of last Tuesday. This is the smallest position held by speculators since March, and similar to crude oil, it was predominantly driven by longs liquidating. Middle distillates have also suffered heavily over Covid-19, with poor jet fuel demand weighing on gasoil. The latest spread of the delta variant will be a worry for jet fuel demand, particularly in

China, where we had seen a fairly strong recovery in domestic air travel following the initial Covid-19 outbreak.

Turning to the US, Tropical Storm Fred in the US Gulf of Mexico does not appear to have had any impact on US offshore oil and gas production, with operators up until now not reporting any closures. US forecaster, the NOAA, is expecting a fairly active Atlantic hurricane season this year. The NOAA is forecasting a 65% chance of above-normal activity. While this can clearly have an impact on offshore oil & gas production in the US, it can also have a significant impact on US refinery output, since more than 50% of US refining capacity sits in the US Gulf Coast.

Finally, the latest data from Baker Hughes shows that the US rig count increased by 10 over the last week to 397. This is the largest weekly increase in rig activity since April. WTI prices are not too far away from US\$70/bbl. And along with the forward curve trading above US\$60/bbl all the way through to the middle of 2023, we would expect rig activity to continue trending higher.

Metals

Gold has continued to recover, settling around 1.5% higher on Friday and near to US\$1,780/oz. A sell-off earlier in the month had pushed gold below the US\$1,700/oz mark following the strong US jobs report. CFTC data shows that speculative net longs in COMEX gold fell by 55,649 lots over the reporting week ending 10th August, leaving speculators with a net long of just 51,013 lots. However, softer economic data since then has softened Fed taper expectations and provided support to precious metals.

For copper, supply-side issues from Chile continue to remain supportive with workers at Codelco's Andina mine and JX Nippon's Caserones mine continuing their strike. On Saturday, Teck Resources also temporarily suspended operations at its c.130ktpa Highland Valley copper mine in Canada due to wildfire-related evacuations. While in China, SHFE reported another draw of 6,454 tonnes of copper from warehouses over the last week, with stocks falling to 93kt, the lowest levels since February. SHFE copper withdrawals hint at a stronger appetite for copper in the Chinese market. The SHFE forward curve slipped into backwardation this week, with the prompt month contract trading at a premium of CNY130/t on Friday over the 3M contract, which reflects stronger demand in the physical market. Meanwhile, CFTC data shows that money managers reduced net longs in COMEX copper by 7,475 lots over the last week, to leave them with a net long of 31,965 lots as of 10 August.

As for LME lead, the cash/3M spread briefly spiked to US\$130/t last Friday, the highest in the last two decades, due to a steady decline in on-warrant stocks and dominant positions. However, SHFE stocks surged to a record high of 191kt at the end of last week. The decoupling of the two markets is to be closely watched to seek arbitrage opportunities by onshore traders should London prices/spreads continue to spike. This should put a cap on LME prices.

Agriculture

Russia's agriculture ministry maintained its forecasts of around 81mt for wheat production in the 2021/22 season, whilst total grains production is estimated at 127.4mt for the season. Last week, the USDA reduced its Russian wheat production estimate from 85mt to 72.5mt on lower acreage and poor yields. Some reports suggest that Russian farmers have replanted wheat on around 1mn hectares which had been affected by adverse weather earlier and hence overall production may not suffer that significantly. The USDA may have used acreage data as of 1 June, whilst ministry

data appears to have used operational data as of the end of July, creating a large difference in both estimates. More clarity is likely to emerge over the next few weeks.

Weekly data from the CFTC shows that money managers increased their net long position in grains for the week ended 10th August as they waited for a constructive USDA report. Managed money net longs in CBOT corn increased by 7,544 lots over the last week. Speculators also increased their net long in CBOT soybean by 13,362 lots to leave them with a net long of 91,648 lots as of 10 Aug. While for No.11 raw sugar, speculators increased their net long by 17,248 lots over the week, to leave them with a net long of 264,821 lots which is not far off from the record net long seen in 2016. There are concerns with the Center-South Brazil sugarcane crop, with drought followed by frost weighing on yields.

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