The Commodities Feed: Strong Chinese corn buying continues

Your daily roundup of commodity news and ING views

Energy

Oil has come under some further pressure this morning with ICE Brent now trading below US$55/bbl. Chinese manufacturing PMI data released over the weekend would not have helped, coming in lower than the market was expecting, and below what was seen over December. The more localized lockdowns that we have seen in parts of China over January would also have weighed on manufacturing activity. Unrelated to this, a group of Republican senators are pushing President Biden to scale back the size of the proposed US$1.9t Covid-19 relief package, and have proposed an alternative package of US$600b.

Despite the recent pressure we have seen on oil prices, the latest positioning data shows that speculators increased their net longs in ICE Brent over the last reporting week by 23,980 lots, leaving them with a net long of 338,153 lots. The bulk of this increase was driven by fresh longs, rather than short-covering.

Last Friday, the EIA released its latest monthly production numbers, which showed that US crude oil production in November averaged 11.12MMbbls/d, an increase of 692Mbbls/d MoM, and the highest monthly production number seen since April when output averaged a little over

12MMbbls/d. The US industry is making a slow but steady recovery following the price collapse last year, and according to Baker Hughes data, we have now seen 10 consecutive weeks of increases. Last week the number of active oil rigs in the US increased by 6, taking the total count to 295. In fact, since bottoming out in August, the oil rig count has increased by 123.

Looking at the week ahead, and the OPEC+ JMMC are set to meet on Wednesday. However given that OPEC+ has already agreed on production targets for February and March, it is unlikely that we will see any recommendations for changes to output levels. Instead, the focus will likely remain on compliance for all members. According to Bloomberg, an OPEC+ delegate has said that compliance between the group was 99% in January. However, we will need to wait for Wednesday in order to get confirmation on compliance levels.

Metals

Metal markets have remained fairly cautious over the last week. The extreme volatility seen in certain equities as a result of retail traders has spilled over into precious metals markets, and silver in particular. In the US, there's been no meaningful progress in President Biden's proposed stimulus package. But there are headwinds from China's money markets, with China's PBoC tapping the brakes on liquidity injections, which has raised market speculation that we are seeing the PBoC shifting to tighter policy already.

On Friday, most base metals traded lower with LME 3M copper closing at US$7,856/t; while zinc reported its worst monthly decline since February due to the sharp rise in LME exchange inventories recently, along with demand growth concerns from China. LME exchange inventories for zinc have increased by almost 45% in January, reaching the highest level since 2017. In addition, Japan's largest zinc smelter, Mitsui Mining and Smelting Co., expects the zinc market to experience a supply surplus of 370kt in 2021, primarily driven by output increases along with rising ore supplies. Global demand is expected to remain below pre-Covid-19 levels, with growth estimated at 3.3% YoY in 2021.

Finally, the latest CFTC data show that speculators increased their net long position marginally in COMEX copper, buying 460 lots over the last reporting week, and leaving them with a net long of 78,833 lots as of last Tuesday. For precious metals, speculators increased their net long in COMEX gold by 10,720 lots, to leave them with a net long of 115,716 lots.

Agriculture

CBOT corn rallied 2.3% on Friday, taking the month's gain to around 13%, as purchases from China accelerated. The USDA reported the sale of 2.1mt of corn to China on Friday, the second largest one day sale on record, taking the total amount of corn sold to China over the past week to around 5.9mt. This leaves China's total commitment to buy US corn at 17.7mt in the current marketing year, well above the 7.6mt of imports seen in 2019/20. Meanwhile, speculators continue to build long positions in CBOT corn, with the managed money net long increasing by 14,734 lots over the last week. This increase was predominantly driven by fresh longs.

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