

The Commodities Feed: Strong LNG demand

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Energy

ICE Brent was marginally soft in morning trade, with the market waiting for more clarity from the OPEC+ monthly meeting scheduled for later today. Energy shortages in China and Europe ahead of the winter have led to discussion on increasing crude oil supply by more than the currently agreed monthly increment of 400Mbbls/d - a one-time increment of 600Mbbls/d or even 800Mbbls/d for November remains on the table to fill the supply gap. The OPEC+ decision to continue with existing increments is likely to be supportive for oil prices in the immediate term whilst any further increase in output could keep prices under pressure. The latest data from Russia shows that crude and condensate output in the country increased by around 2.7% MoM to 10.72MMbbls/d (+0.18MMbbls/d compared to August levels) in September 2021.

The latest positioning data shows that speculators increased their net long in ICE Brent by 9,303 lots over the last reporting week, leaving them with a net long of 328,954 lots, levels last seen in March 2021. The increase was driven by fresh longs, with gross longs increasing by 19,458 lots over the last week. This was the fifth consecutive week of speculative longs build up and reflects optimistic sentiment among money managers due to healthy demand in the physical market.

Turning to natural gas and LNG demand in Asia continued to be strong. Initial trade estimates from Bloomberg shows that Chinese LNG imports increased by around 20% YoY in September 2021, with Asia remaining the preferred destination for LNG cargoes. Arbitrage reversed in September, with ICE NBP trading at a premium over Asian LNG prices due to the precarious inventory situation in Europe before the start of the winter season. Gas Infrastructure Europe data shows that European gas stocks were 75.1% full as of 2 Oct, compared to the 2016-20 average of 89.9% at this stage of the year. High natural gas prices are necessary to attract required cargoes in a tight physical market. On Friday, ICE NBP traded at a premium of around USD1.6/MMBtu over Asian LNG prices.

Metals

The base metals complex ended higher on Friday, LME copper led the gains, with prices rising over 2% DoD at the close, as China's efforts to ensure power supplies for the remainder of the year helped to boost optimism for the complex. Last week, the central government in China ordered top state-owned energy companies to secure supplies for the winter 'at all costs', aiming to avoid any shocks and to keep industrial and supply chains stable. The low stock levels on the Shanghai market, which is at its lowest since June 2009, may also provide some support to the red metal. LME stocks have also been drifting lower over the last couple of weeks.

The latest CFTC data shows that speculators have increased their net long position in COMEX copper, buying 6,816 lots over the last reporting week, and leaving them with a net long of 29,629 lots as of last Tuesday. For precious metals, speculators increased their net long in COMEX gold by 19,471 lots, to leave them with a net long of 42,123 lots, while increasing their net long in silver by 2,618 lots.

Agriculture

The Indian Sugar Mills Association expects India's sugar production to remain flat at around 31mt for the 2021/22 season that started on 1 October. India's sugar production was around 31.1mt in 2020/21. The Association expects India's sugar consumption to increase marginally, from 26.2mt in 2020/21 to 26.5mt in 2021/22. Sugar exports from the country could slow from 7.1mt in 2020/21 to around 6mt in 2021/22. The export subsidy for the current year remains uncertain due to higher prices in the international market. The association expects India's sugar inventory to continue falling this year, and estimates sugar stocks to be around 7mt at the end of 2021/22, compared to around 8.5mt at the end of 2020/21. The ISMA also estimates that sugar diversion for ethanol production could increase from around 2.1mt in 2020/21 to around 3.4mt in 2021/22 as government emphasize increasing biofuel share in fuel consumption. Meanwhile, India's food ministry reported that sugar mills in the country have contracted to export around 1.5mt of sugar for the current year to date.

Money managers increased net longs in CBOT corn by 30,391 lots over the last reporting week with their net long position increasing to 244,741 lots as of 28 Sep. The move higher was predominantly driven by fresh longs as gross longs increased by 19,712 lots. Recovery in US exports as Gulf Coast ports resumes operations, combined with stronger demand from China, helped boost sentiment. Speculative net longs in CBOT soybeans also recovered by 9,610 lots over the last reporting week, after falling for five consecutive weeks.

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