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Snap

The Commodities Feed: Supply risks vs. China Covid concerns

Your daily roundup of commodities news and ING views

Energy

After settling around 4.6% lower last week, ICE Brent has continued to weaken in early morning trading today. The move might be a slight surprise given developments over the weekend related to both Iranian nuclear talks and the Russia/Ukraine conflict. Iranian nuclear talks have been suspended due to external factors and so dashing hopes of increased oil supply from elsewhere amid Russian disruptions. Progress in talks has slowed recently due to Russia wanting guarantees that current sanctions against Russia will not impact their trade, investment and economic cooperation with Iran. In addition, over the weekend, Iran claimed responsibility for a missile strike near the US consulate in the city of Irbil in Northern Iraq. Russia's assault on Ukraine appears to be moving further west. And a Ukrainian military base that is less than 25km away from the Polish border was hit by multiple missiles.

However, the market could be focusing more on the latest Covid developments in China. More than 3,300 new cases were reported on 12 March. The rising number of cases has seen the city of Shenzhen go into lockdown. This will raise concern over the potential hit to demand. But also importantly, it suggests that China is not ready to let go of its zero-covid policy.

The latest positioning data for ICE Brent shows that speculators decreased their net long by 97,122 lots over the last reporting week, leaving them with a net long of just 157,672 lots as of last Tuesday. Given the current uncertainties in a market that is already tight, it is surprising to see speculators taking risk off the table. Although possibly the increased volatility we have seen in the market in recent weeks has left market participants nervous.

Metals

The chaos in the nickel market has spilled uneasiness into other base metals. Elevated volatility in markets currently has made traders extremely cautious, at least until the LME restores market order and reopens nickel for trading. This has seen market liquidity draining out and some margin strapped traders have opted to sell other metals, which put some pressure on prices. Almost all base metal nearby spreads in London eased off into contango last week. This may be part of the consequence of the wide dislocation at the moment between the LME and SHFE market, in which it is favourable for Chinese onshore reverse arbitrage and traders lend their positions in the London market.

In China, weaker than expected credit data has also weighed on sentiment. However, the latest severe Covid outbreak in some Chinese megacities is more worrying amid the upcoming stronger demand season. Some cities such as Shanghai are seeing the worst outbreak since early 2020, which has prompted a flurry of restrictions or partial lockdowns.

The latest CFTC data shows that speculators increased their net long position in COMEX copper, buying 11,260 lots over the last reporting week and leaving them with a net long of 42,249 lots as of last Tuesday. Moving to precious metals, speculators continued to boost their long positions in gold as market participants continued to assess the impact of ongoing Russia-Ukraine tensions on global markets. Money managers boosted their net longs in COMEX gold by 7,591 lots, leaving them with a net long of 175,694 lots.

Agriculture

After peaking above US$14/bu, CBOT wheat gave up a significant part of its gains over the last week and settled at around US$11/bu on Friday as the market continues to assess the Russia-Ukraine conflict and its impact on wheat supplies. Meanwhile, CBOT corn and soybean traded sideways last week and managed to hold onto the gains made so far on the back of healthy demand and some supply concerns from South America due to poor weather. Weekly data from the CFTC shows that speculators increased their net long position in CBOT wheat by 27,244 lots for the week ending 8 March 2022. Speculative activity was strong in No 11 sugar last week. Money managers increased their net long position by a huge 80,476 lots over the last week to 139,963 lots. Stronger crude oil prices have increased the prospects of a stronger ethanol mix in Brazil, which would obviously eat into sugar output.

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