

14 March 2022

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.

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group NV and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice. The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is deemed authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. The nature and extent of consumer protections may differ from those for firms based in the UK. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.