

The Commodities Feed: The oil rally continues

Your daily roundup of commodity news and ING views



Oil prices have sold off aggressively

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Energy

The downward correction in oil prices with the return of US production was short-lived. ICE Brent yesterday rallied more than 3.5% taking it back above US\$65/bbl, and this strength has only continued this morning. Oil has been caught up in the broader commodities move higher, with a weaker USD proving constructive for the complex. Meanwhile, there is also a growing view that the oil market is looking increasingly tight over the remainder of the year, with a number of analysts revising higher their price forecasts over the last week, [including us](#).

The tighter market is reflected in the timespreads, with the prompt ICE Brent spread rallying to a backwardation of around US\$0.90/bbl, up from around US\$0.25/bbl at the start of February. Meanwhile, the 12-month Brent spread is quickly approaching a backwardation of US\$7/bbl. This steepening of the forward curve is obviously increasing roll yields, and so making oil an increasingly attractive option for investors. If we look at positioning data, the spread positions under managed money for ICE Brent continue to increase, and are at levels last seen back in April.

If we stick with positioning data, another segment of the market where we continue to see an

increase is the commercial short, highlighting the fact that at these higher prices we have seen a significant increase in producer hedging. For ICE Brent, the commercial short is at levels last seen in June. For WTI the amount of producer hedging we have seen is also impressive, with the commercial short basically at levels last seen back in 2017. For WTI it's no surprise that we are seeing this increase in producer hedging, particularly when you consider that the entire WTI forward curve is trading above US\$50/bbl now. What is a bit surprising is the fact that this increased producer hedging has not really provided much resistance to the market.

Metals

The positive momentum on the macro front continues to power copper's rally, with prices now trading above US\$9,200/t for the first time since 2011. However, the recent price surge has seen the physical market in China become quieter.

For aluminium, stock building is picking up pace in China, while there has been a surge in bonded stocks thanks to import arrivals. As for the latest IAI data release, global primary aluminium average daily output rose by a marginal 0.2% month-on-month, while increasing 4.3% year-on-year to 184.1kt in January. On a monthly basis, total output reached 5.7mt last month, compared to 5.47mt during the same month a year earlier. China's daily average production remained unchanged MoM but jumped 6.9% YoY to stand at 106.5kt in January. Production in Asia (ex-China) rose by 6.5% YoY and 3% MoM last month.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

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