

The Commodities Feed: USD rebound hits the commodities complex

Your daily roundup of commodity news and ING views



Energy

Having broken above US\$56/bbl briefly on Friday, ICE Brent has come under some selling pressure this morning in Asia, with a stronger USD providing some resistance to the market. The market has done a lot over the last week thanks to the surprise announcement from Saudi Arabia regarding additional supply cuts. Meanwhile commodities in general have had a strong start to the year, with investors anticipating that a recovery in the global economy this year will benefit commodities. Latest COT data shows that speculators increased their net long in ICE Brent by 12,021 lots over the last reporting week, leaving them with a net long of 292,319 lots as of last Tuesday (levels last seen in February), although given the move we have seen in the market since then, the current net long is likely to be somewhat larger.

Moving on, and Iraq has increased its official selling price (OSP) for all its crude oil sales into Asia for the month of February. Basrah Light into Asia was increased by US\$0.70/bbl to US\$1.10/bbl over the benchmark for February. This comes after Saudi Arabia increased its OSP's last week, following its surprise output cut announcement. Arab Light to Asia in February will be sold at US\$1/bbl over the benchmark, also an US\$0.70/bbl increase MoM. These increases will not be welcomed by refiners, with them having suffered from low margins for much of 2020, and rising OSP's will do

little to help.

Finally, looking ahead to data releases over the course of the week, Tuesday will see the EIA release its latest Short Term Energy Outlook. In the last release the EIA forecast that US crude oil output will average 11.1MMbbls/d in 2021, down from an estimated 11.34MMbbls/d in 2020. The EIA should also be releasing its first production forecasts for 2022. Meanwhile, on Thursday OPEC will release its latest oil market report, and as usual the market will be looking at the group's demand assumptions, particularly with the recent surge in Covid-19 cases, and resulting lockdowns.

Metals

A rebound in the USD, along with a rally in US treasury yields has put renewed pressure on spot gold prices, with the market now trading well below US\$1,850/oz, meanwhile the self-off in silver has been even more aggressive, falling more than 6% on Friday, and this downward pressure has only continued this morning. Rising yields will make it more challenging for the yellow metal to trend higher, however much will depend on inflation expectations and what this means for real yields. Meanwhile, last Friday Joe Biden called for fiscal spending and said, 'it will be in the trillions of dollars'. Hopes for spending in clean energy and infrastructure will likely increase investor appetite for metals. Meanwhile, investors this week will also pay attention to money supply and credit data from China.

In the Chinese metal market, metal inventories started to build following the usual seasonal pattern. Total reportable aluminium inventories have risen by 78kt since the start of this year, while zinc stocks have grown by 8.3kt to 132.5kt as of last Friday. Meanwhile treatment charges for Chinese domestic zinc concentrate came under further pressure with a cold winter keeping a lid on mining operations. In the short term, zinc appears to be caught between these two opposing forces, although for now the bulls don't seem very concerned with the pace of the inventory build.

Agriculture

Both CBOT soybean and corn rose ahead of the WASDE report, which is scheduled to be released on Tuesday. Expectations in the lead up to the report are fairly constructive, with US production estimates expected to be trimmed, while the market is also anticipating a reduction in US ending stocks for both soybeans and corn. In the last WASDE, the USDA estimated that US ending stocks for soybean and corn to be at 175m bushels and 1,702m bushels respectively.

Meanwhile, money managers continue to be bullish on corn, with speculative net longs in CBOT corn increasing to a 10-yr high of 349,888 lots (+17,843 lots WoW) over the last week. The move higher was mainly driven by fresh longs. On the other hand, money managers reduced their net long position in CBOT soybean by 20,660 lots over the last week, with them holding a net long of 175,827 lots as of last Tuesday.

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