

What's in the price?

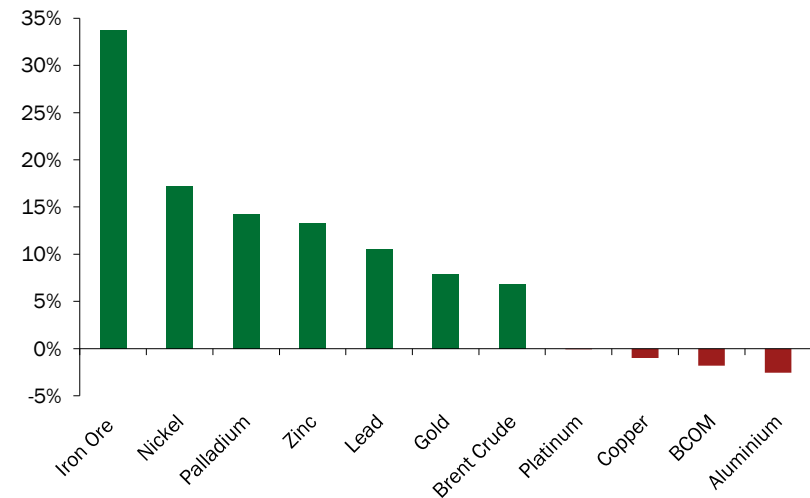
Cross-commodity investor positioning – 5th February, 2019



Summary Points

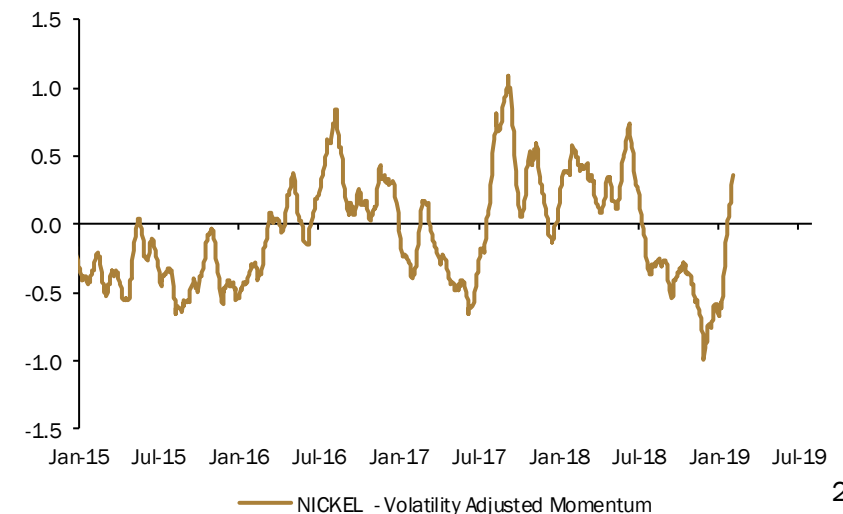
- Since our last positioning update at the end of November, the BCOM Index has declined by 1.9%. This figure, however, is distorted by a c.40% sell-off in US natural gas.
- Indeed, across the commodities that we cover – within which the PGMs, lead and iron ore are not in the index – prices are generally higher than they were two months ago, having staged a strong recovery from 2018's year-end sell-off.
- Following the recent tragedy in Brazil, iron ore has understandably out-performed, with investors adding length to reflect increased supply risk premium. Outside of this, nickel – where we previously argued that short-positioning created the “possibility of a snap-back”¹, has made the sharpest recovery.
- Both palladium and zinc, where backwardated spreads remain illustrative of tight underlying market conditions, have also rallied but copper has disappointed expectations.
- Crude oil has seen a tentative return of investor length but positioning remains light after its dramatic Q4 pull-back.
- With Chinese markets closed for lunar new year, momentum buying could carry prices higher in the coming days but we are cautious about the foundations on which this rally is being built:
 - The FOMC has made an about turn but, absent the market starting to price in rate cuts, how much more dovish can the committee get?
 - Chinese authorities have ramped up their rhetoric around stimulus but, as discussed in *Stimulus, where art thou?*², meaningful signs of policy relief are yet to emerge.
 - US-China trade negotiations are progressing but remain far from resolved.
- Once short covering has played out, we will need to see confirmation that growth – and, hence, commodities demand – is picking up, if another leg higher in prices is to be justified.

Price performance since November 28th



Source: ICBC Standard, Bloomberg, CME, ICE, LME, LBMA, LPPM, DCE

Nickel momentum suggest investors will have covered shorts



Source: ICBC Standard, Bloomberg, LME

1 & 2: <https://www.icbcstandardbank.com/CorporateSite/ResearchStrategy/Reports>

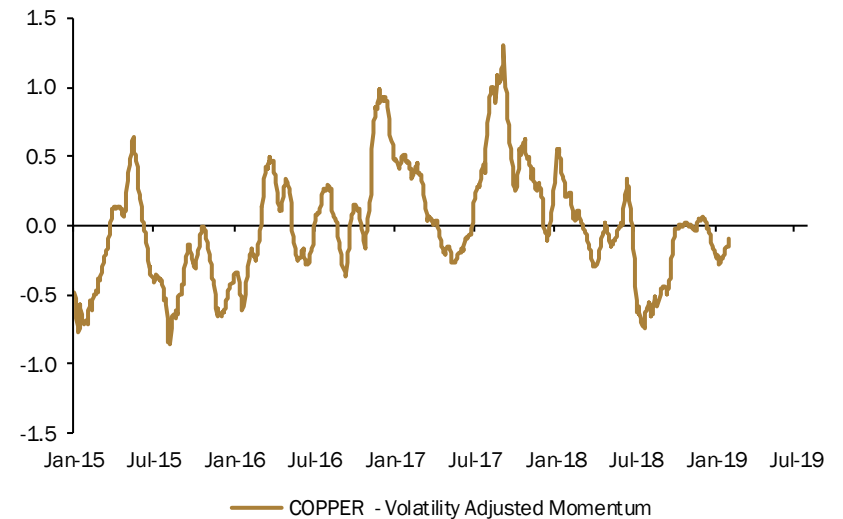
Copper – Getting back to flat

Increased net length on the LME COTR



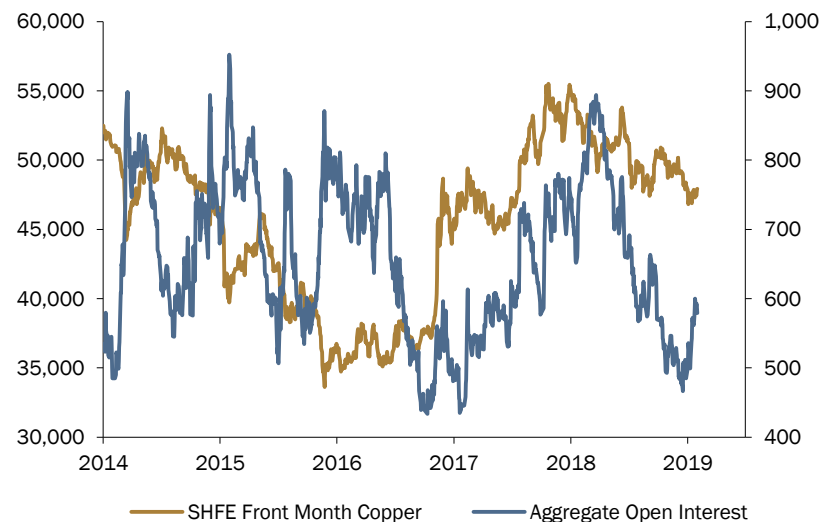
Source: ICBC Standard, Bloomberg, LME

As improving momentum should be reflected in short covering



Source: ICBC Standard, Bloomberg, LME

Shanghai positioning marginally short pre-holiday



Source: ICBC Standard, Bloomberg, SHFE

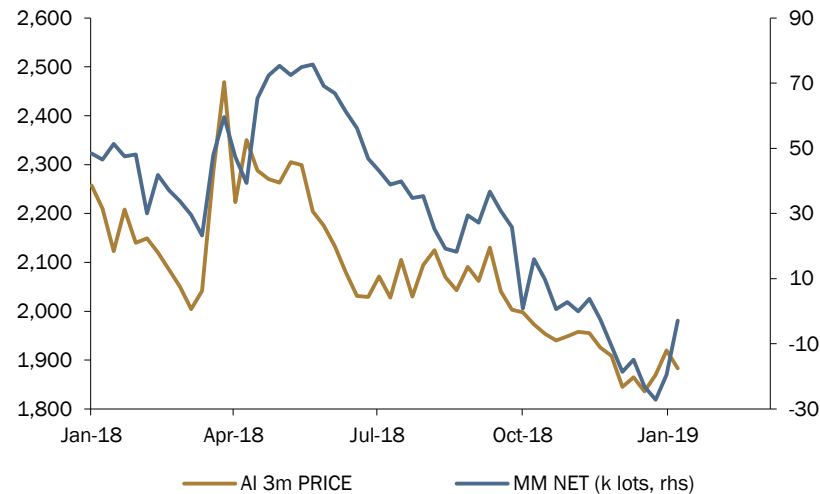
While Comex has also seen small short-covering



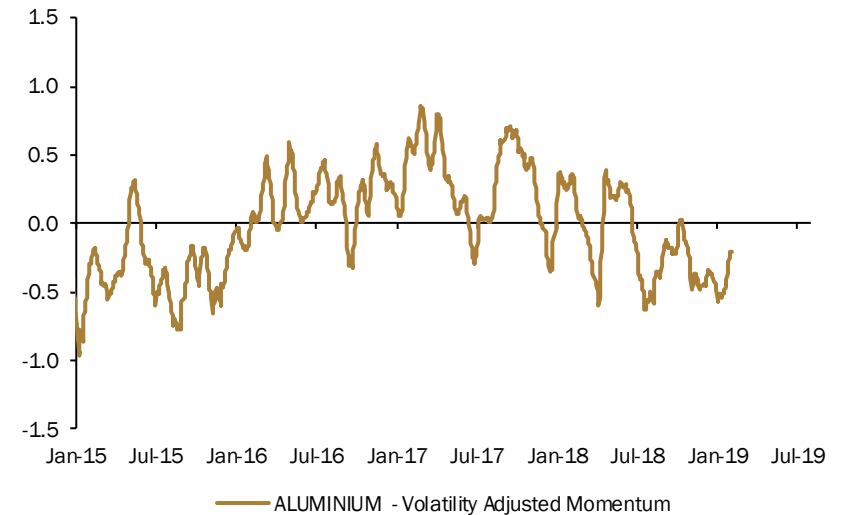
Source: ICBC Standard, Bloomberg, CME

Aluminium – Limited short covering

LME position still short but some covering showing in the data



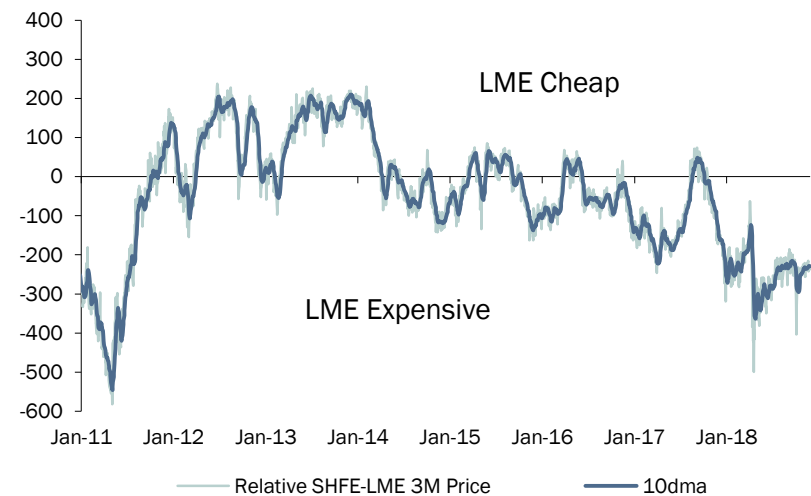
Momentum has picked-up but remains negative



Small pre-holiday short built on SHFE

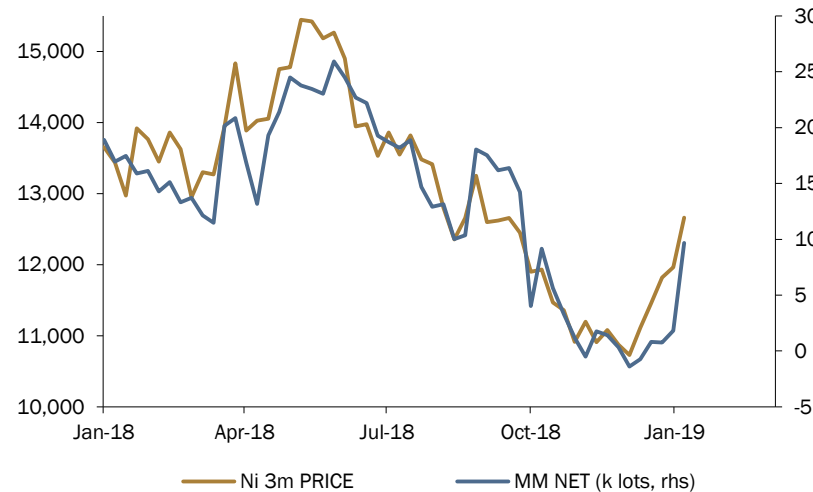


LME-SHFE price disparity continues to incentivise semis exports



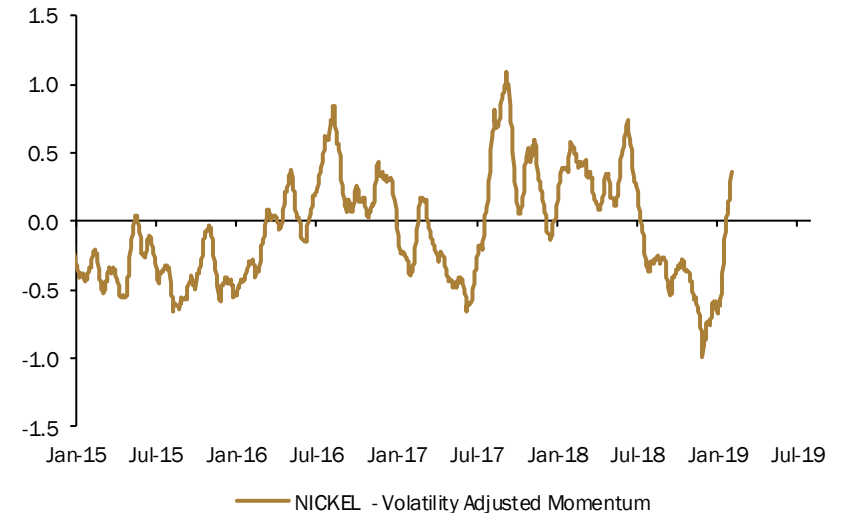
Nickel – Shorts covered and length being added

Substantial short-covering in the COTR



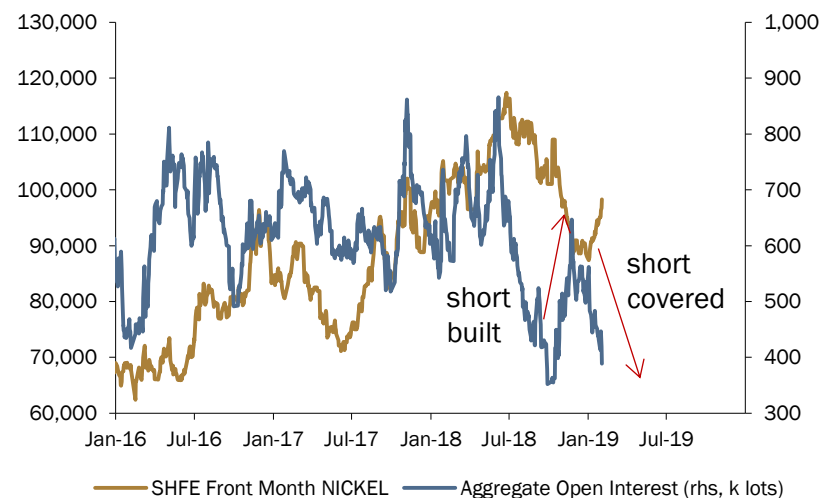
Source: ICBC Standard, Bloomberg, LME

Momentum traders should have swung from short to long



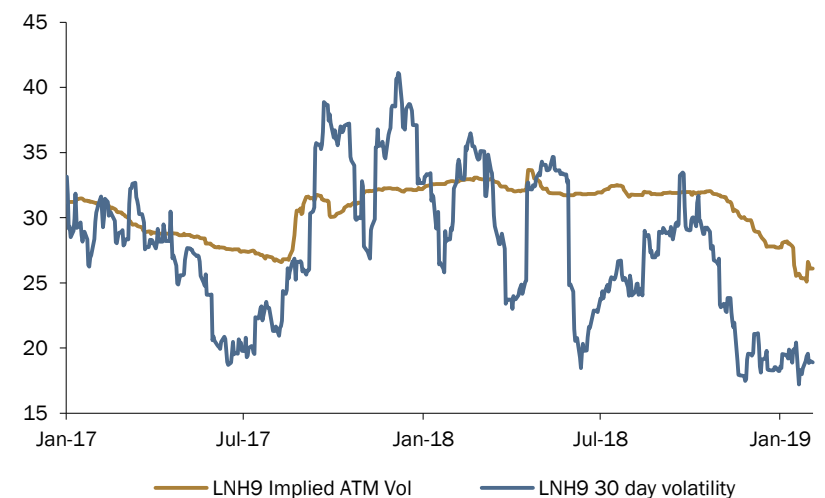
Source: ICBC Standard, Bloomberg, LME

The SHFE short has also been covered



Source: ICBC Standard, Bloomberg, SHFE

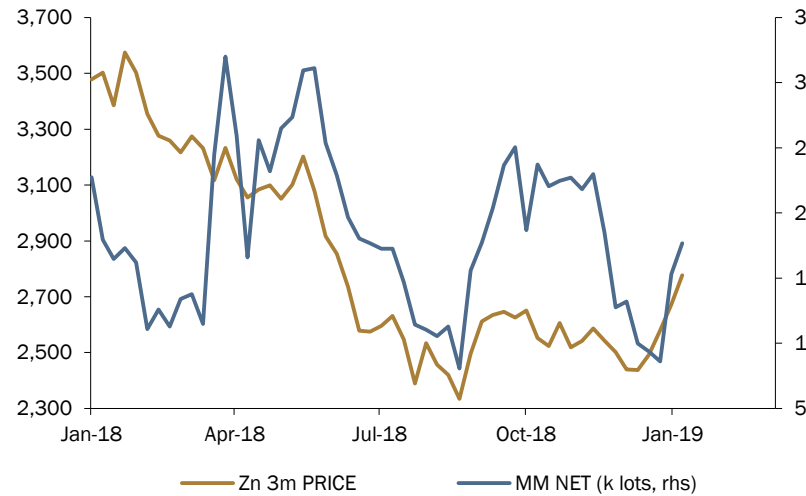
Implied – realised volatility gap has narrowing but still elevated



Source: ICBC Standard, Bloomberg, LME

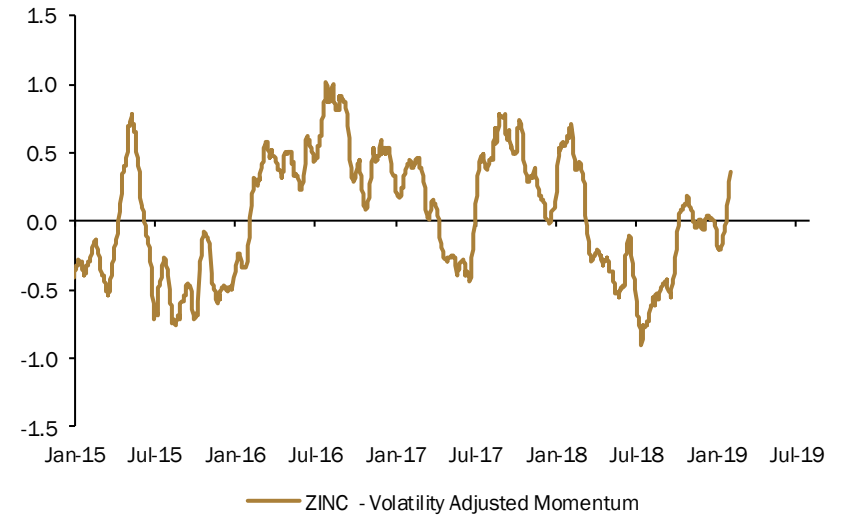
Zinc – Length creeping back in

COTR reflects the addition of small length



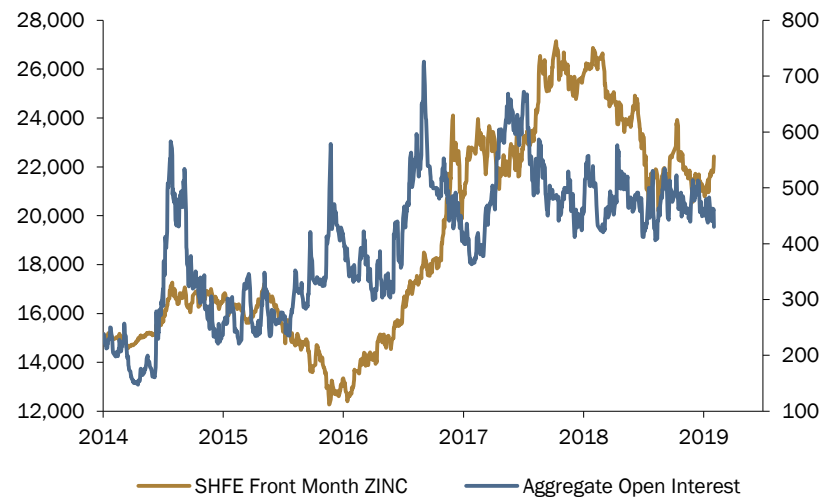
Source: ICBC Standard, Bloomberg, LME

As momentum returns to positive territory



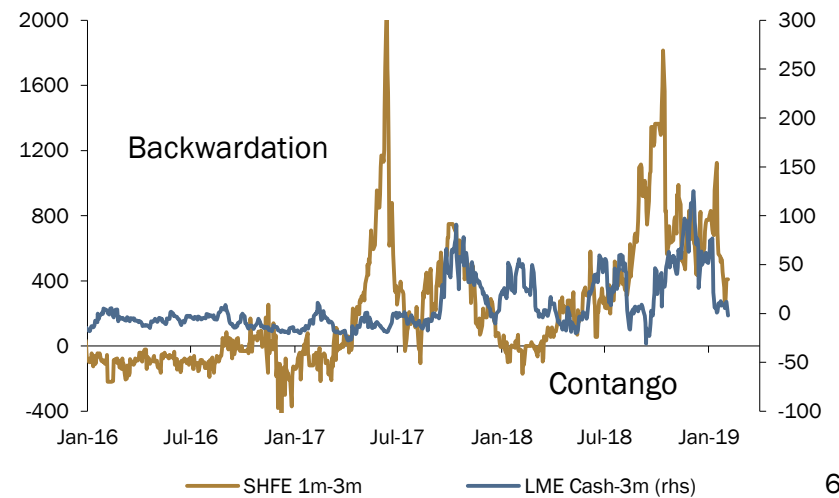
Source: ICBC Standard, Bloomberg, LME

SHFE position changes have been muted



Source: ICBC Standard, Bloomberg, SHFE

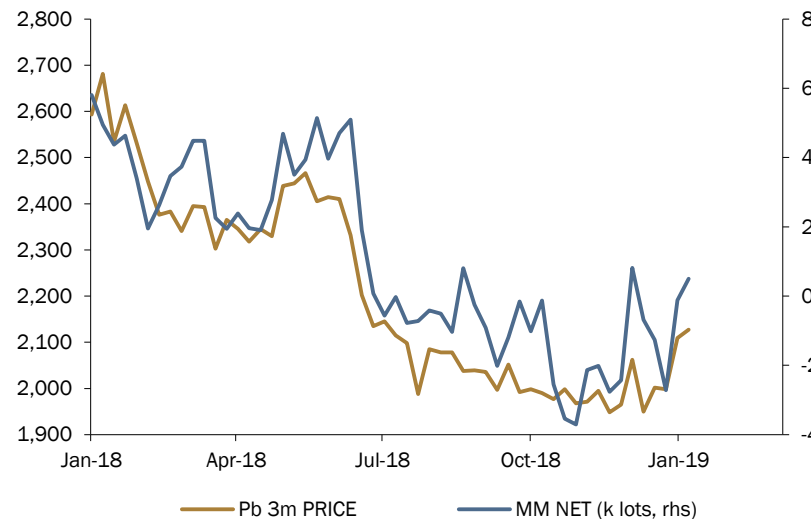
Spreads have calmed but remain backwardated



Source: ICBC Standard, Bloomberg, LME

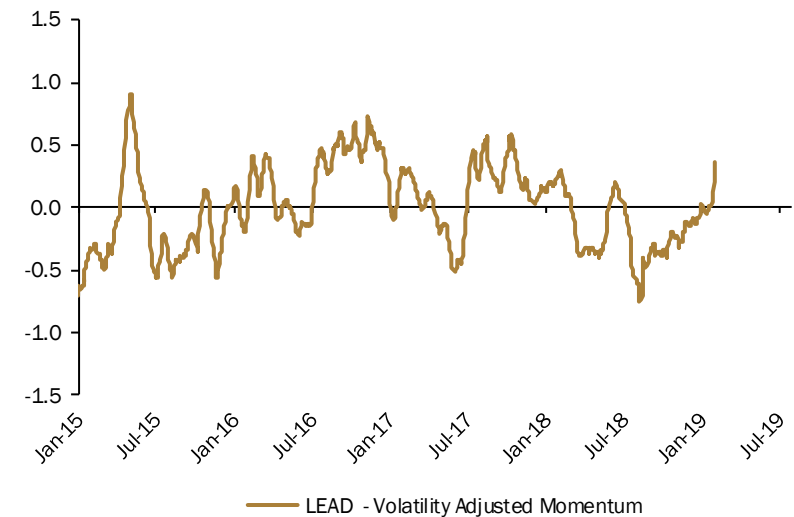
Lead – LME picks-up but SHFE interest wanes

LME interest showing signs of life



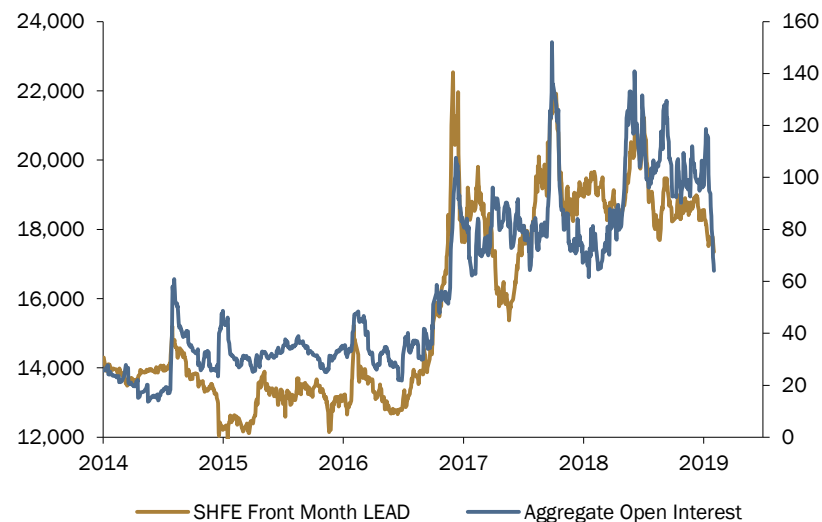
Source: ICBC Standard, Bloomberg, LME

As momentum picks-up sharply



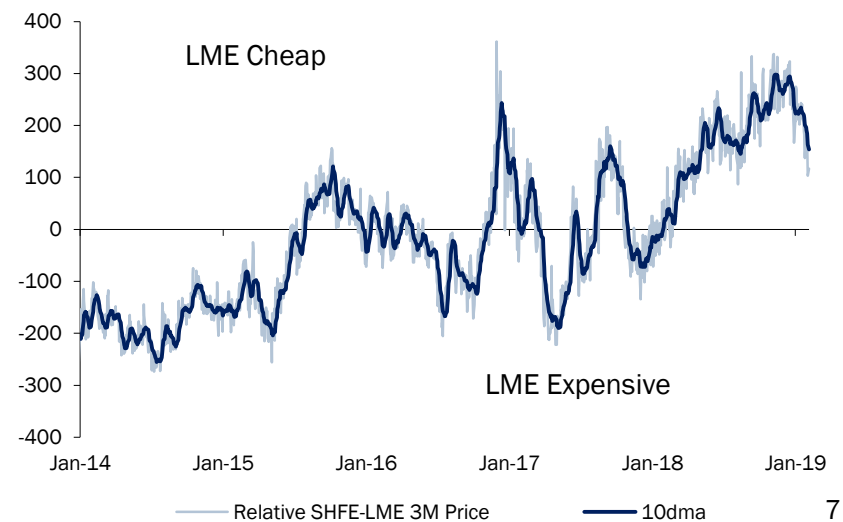
Source: ICBC Standard, Bloomberg, LME

But SHFE position cut back



Source: ICBC Standard, Bloomberg, SHFE

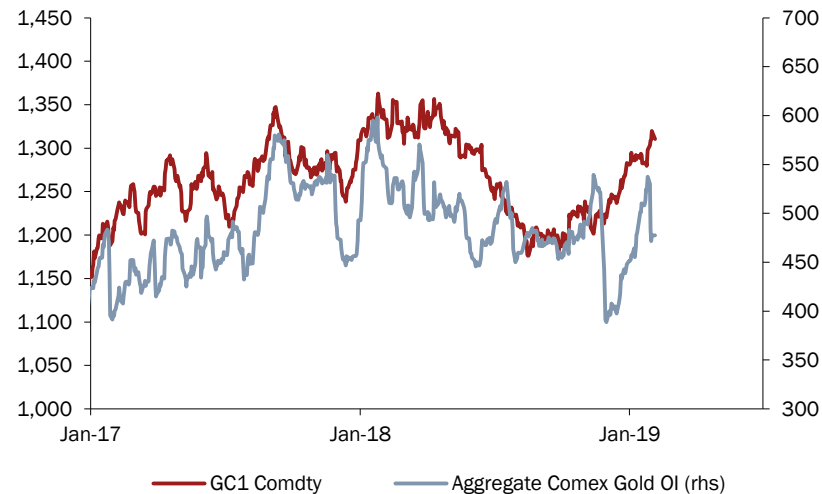
Driving a big swing in the “arb”



Source: ICBC Standard, Bloomberg, LME

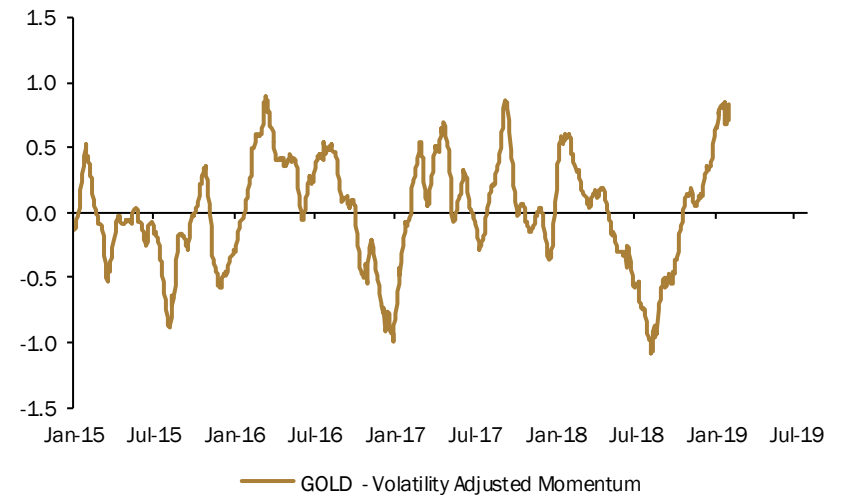
Gold – Material length being built

Both shorts covered and length added in futures



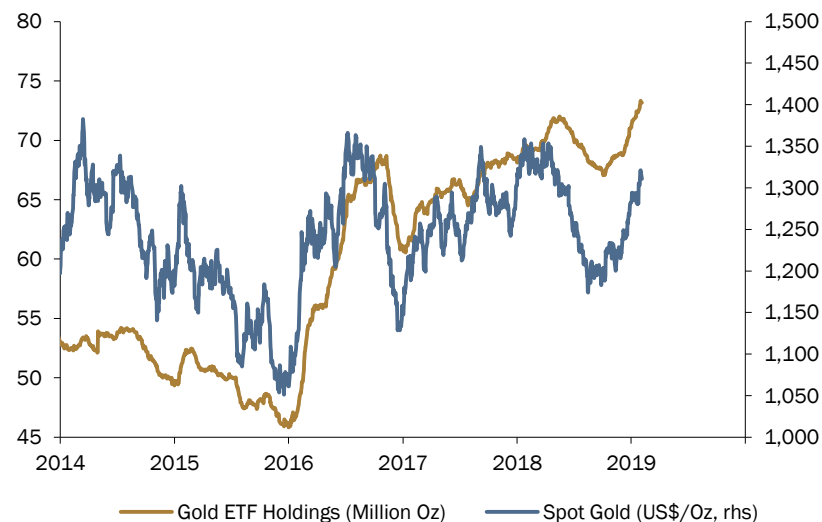
Source: ICBC Standard, Bloomberg, CME

As momentum strength returns to recent highs



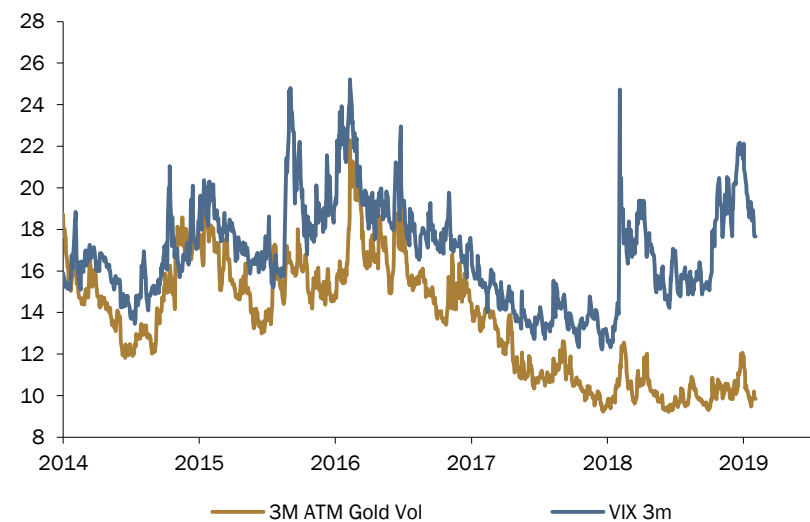
Source: ICBC Standard, Bloomberg, CME

And ETF investors increase holdings



Source: ICBC Standard, Bloomberg

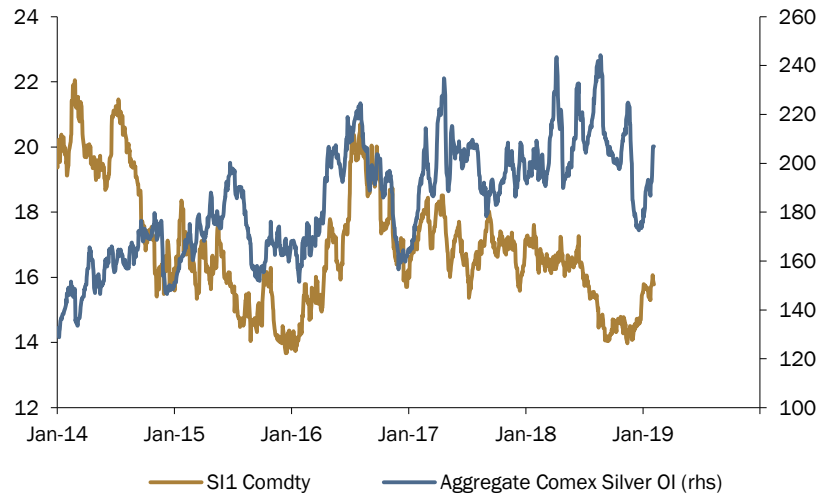
But volatility remains subdued given recent cross-asset moves



Source: ICBC Standard, Bloomberg, CME

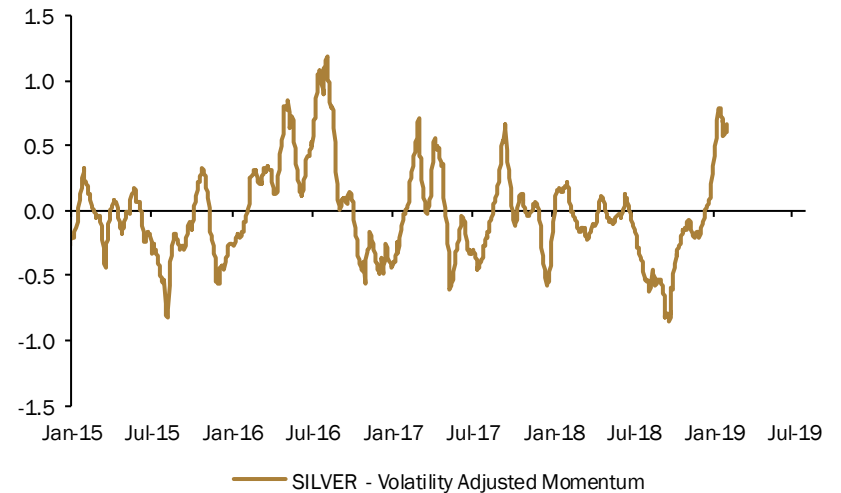
Silver – Still struggling for traction

In keeping with gold, some length has returned in futures



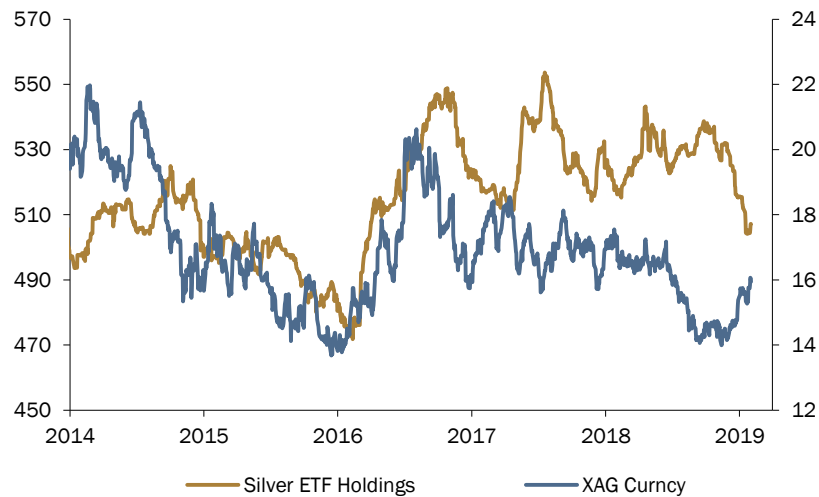
Source: ICBC Standard, Bloomberg, CME

With strong momentum developing on the recent rally



Source: ICBC Standard, Bloomberg, CME

But physical holders have been taking profit



Source: ICBC Standard, Bloomberg

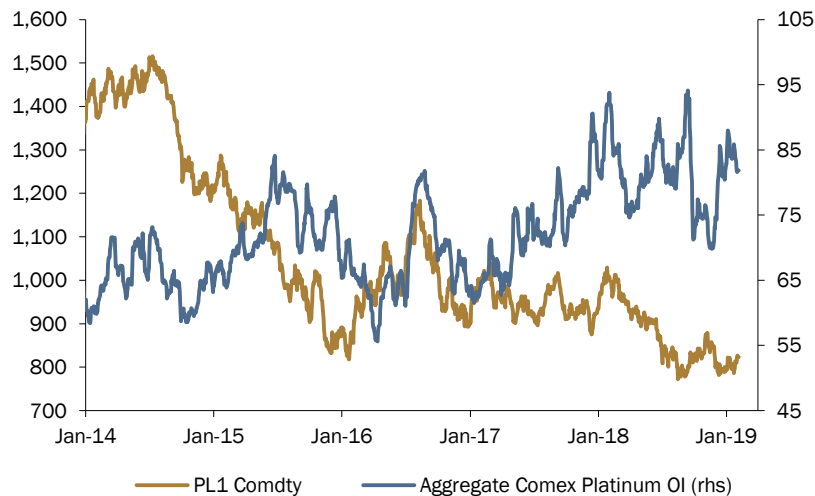
Maintaining silver's substantial ratio discount to gold



Source: ICBC Standard, Bloomberg

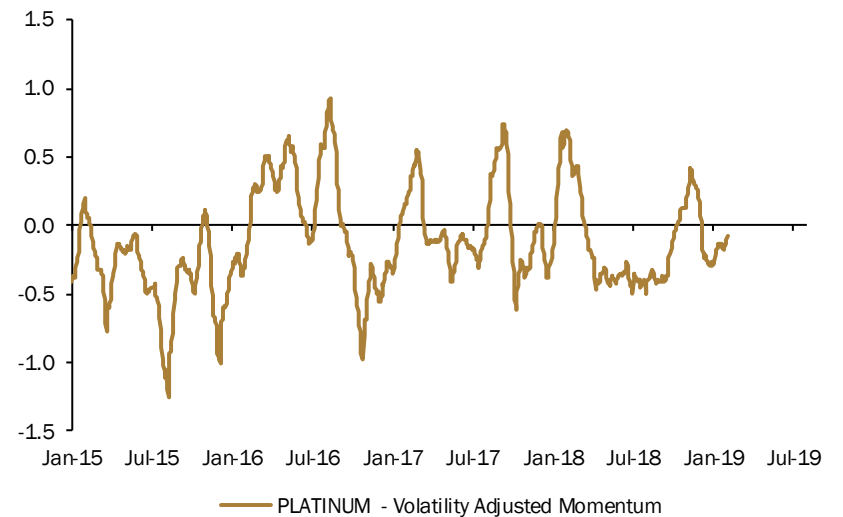
Platinum – Incremental short covering from the lows

Year end shorts partially covered back



Source: ICBC Standard, Bloomberg, CME

But momentum remains subdued



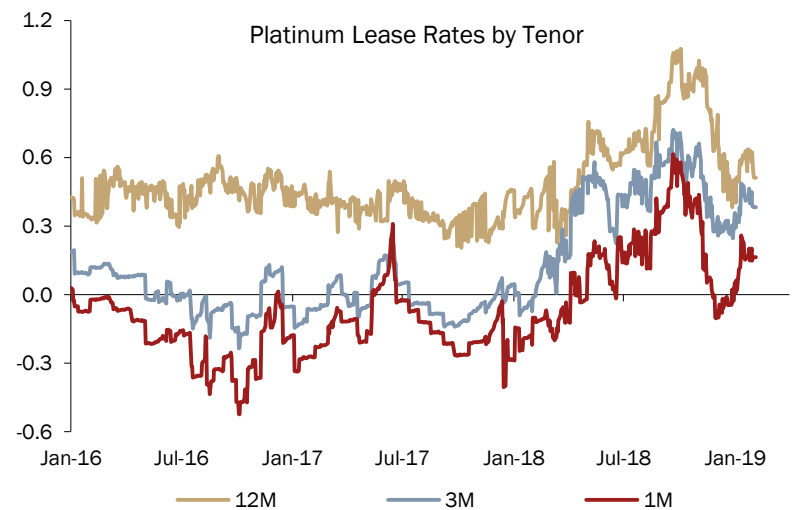
Source: ICBC Standard, Bloomberg, CME

Some counter-cyclical buying of ETFs



Source: ICBC Standard, Bloomberg

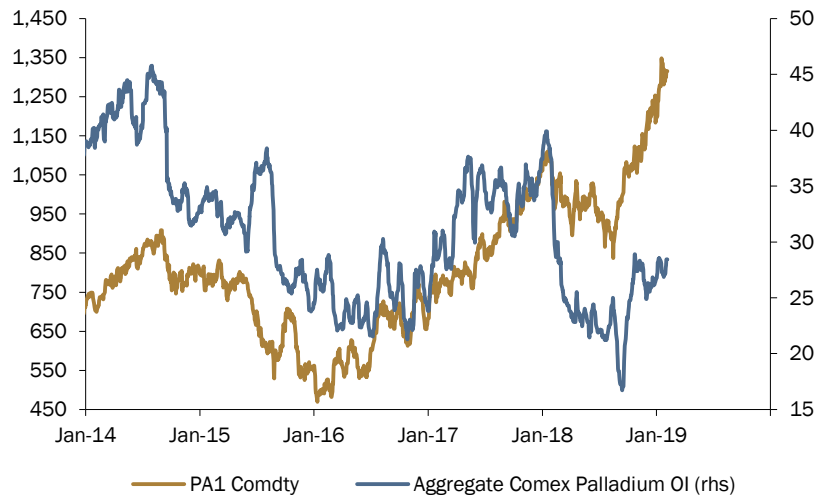
Calm lease rates reflect ample physical supply



Source: ICBC Standard, Bloomberg, CME

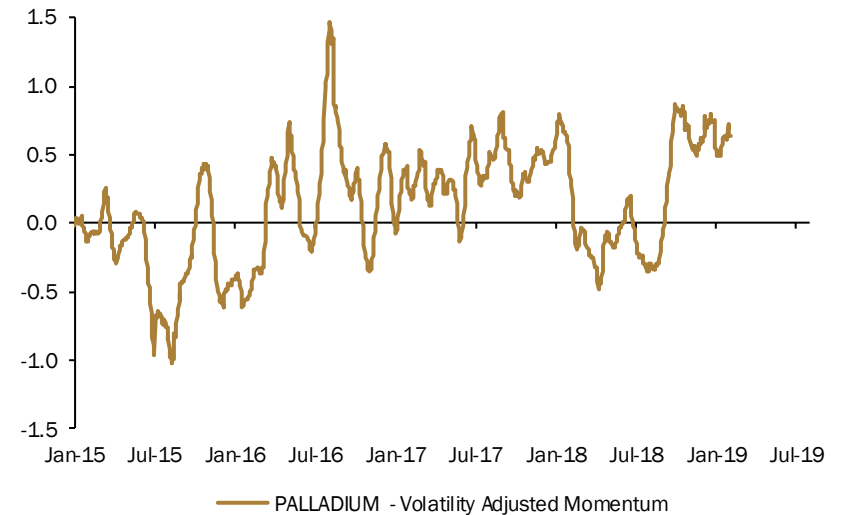
Palladium – Significant investor length but not yet stretched

Positioning has picked-up but is well short of Q1 2018



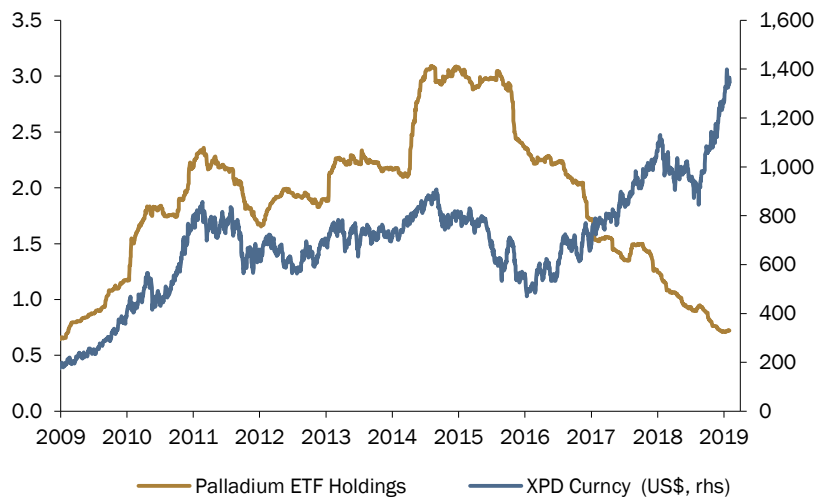
Source: ICBC Standard, Bloomberg, CME

With momentum strength maintained



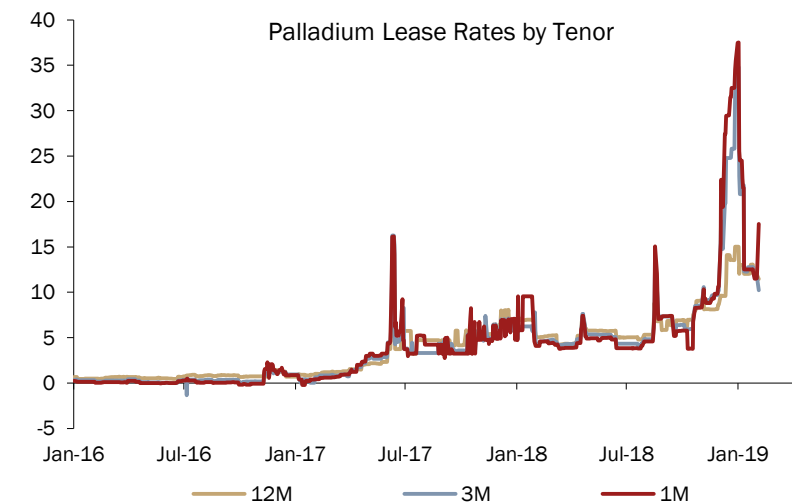
Source: ICBC Standard, Bloomberg, CME

ETF holders continue to take profit



Source: ICBC Standard, Bloomberg

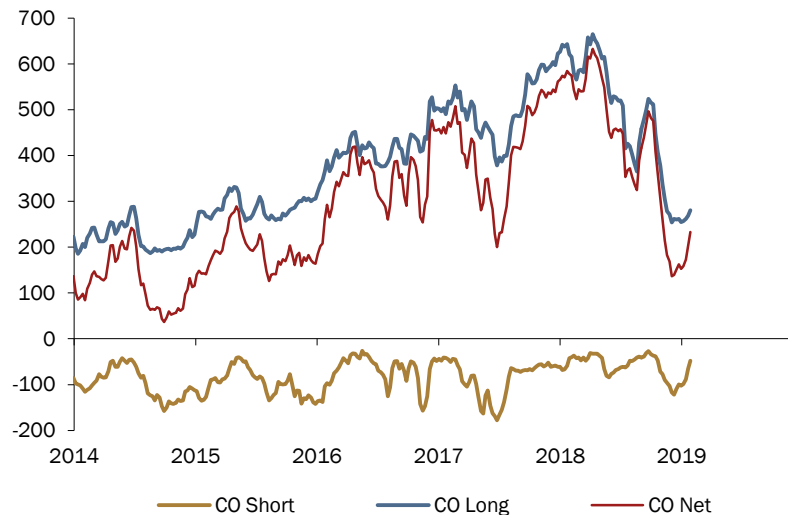
Lease rates have calmed but remain elevated



Source: ICBC Standard, Bloomberg

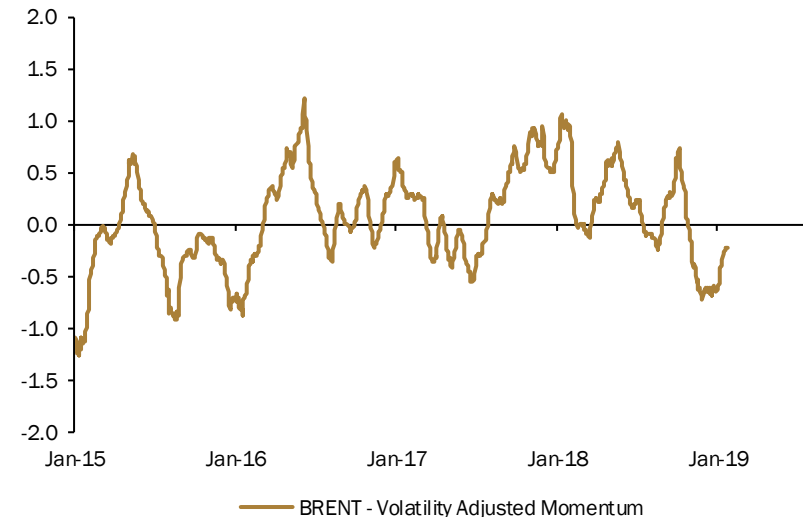
Crude – Length tentatively returning, after Q4's washout

Q4 2019 shorts being covered more than length yet returning



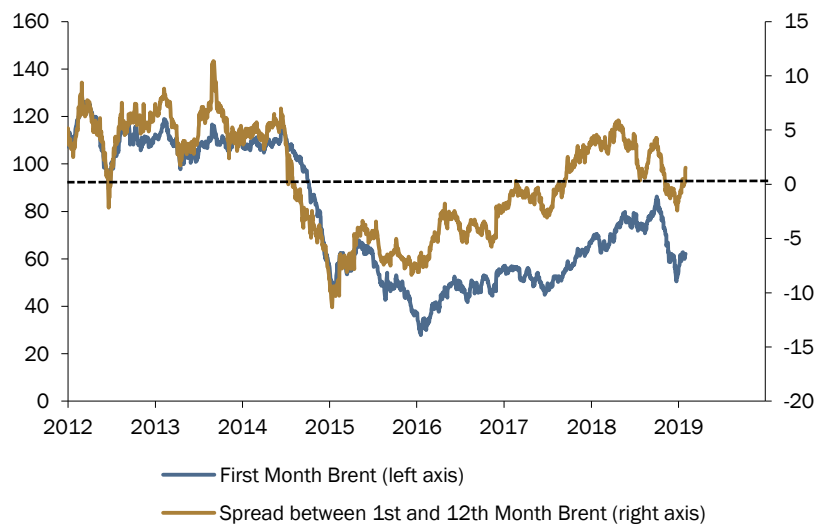
Source: ICBC Standard, Bloomberg, ICE, CFTC

As momentum approaches neutral



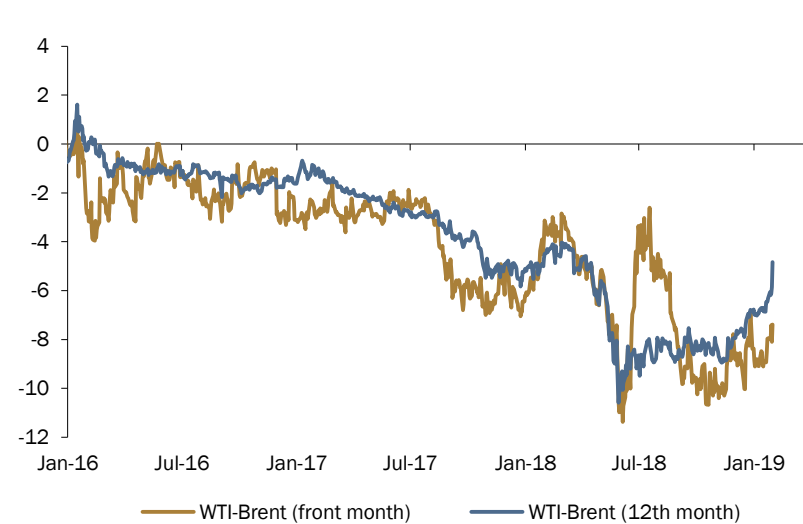
Source: ICBC Standard, Bloomberg, ICE

Spreads have continued to outperform flat price



Source: ICBC Standard, Bloomberg, ICE

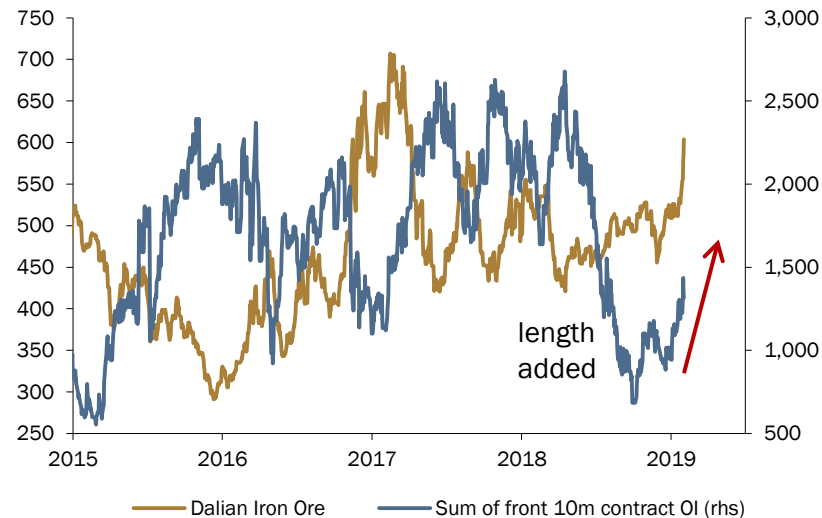
WTI discount narrowing but far from eliminated



Source: ICBC Standard, Bloomberg, CME, ICE

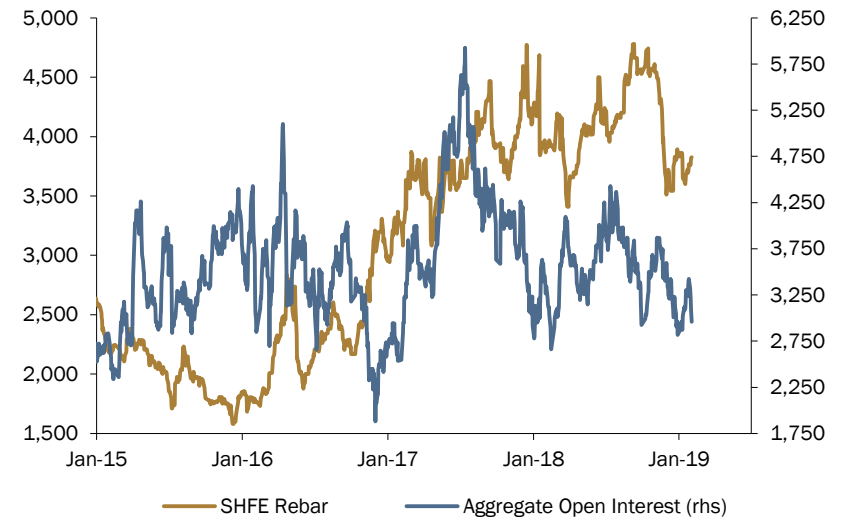
Ferrous – Brazilian disaster draws length to iron ore

Dalian investors adding pre-holiday length to iron ore



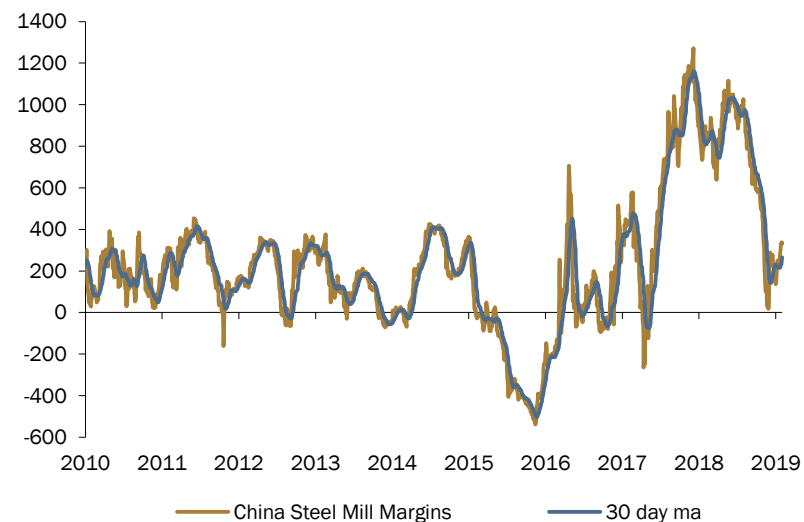
Source: ICBC Standard, Bloomberg, DCE

But rebar positioning still subdued



Source: ICBC Standard, Bloomberg, SHFE

Mill margins have retreated from historically abnormal levels



Source: ICBC Standard, Bloomberg, SHFE

Narrowing grade differentials in front of Brazilian news



Source: ICBC Standard, Bloomberg

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