# WCU: Virus and election jitters slam brakes on commodities

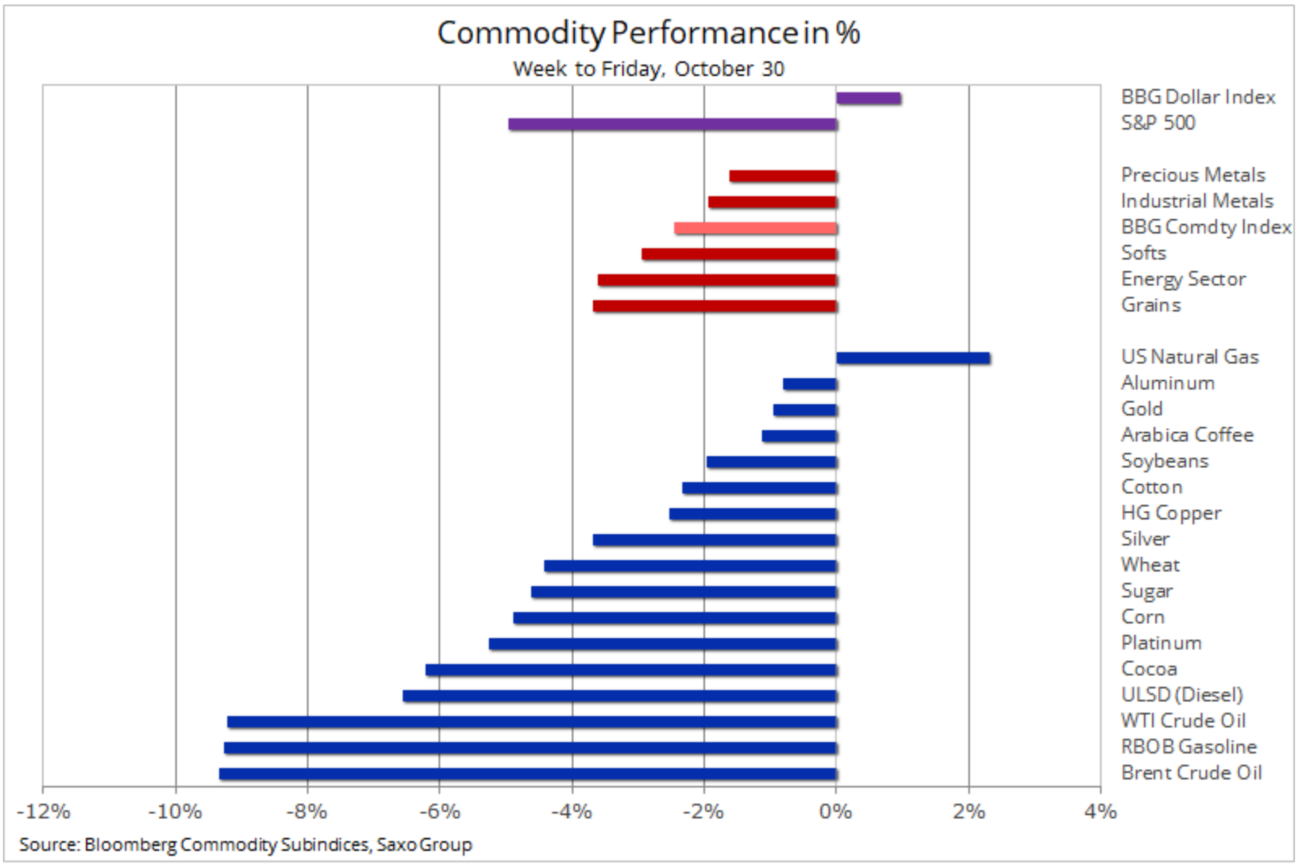
**By Ole S. Hansen | October 30, 2020**

Link: https://www.home.saxo/content/articles/commodities/commodity-weekly-30102020

The commodity sector has seen a sharp reversal this week from the strong gains recorded during the past couple of months. Faced with a renewed surge in Covid-19 cases in Europe and the U.S. as well as next week's ultimate risk event, the U.S. presidential election, it is perhaps not that surprising to see investors turn more defensive.

Up until recently, the potential reflationary impact of a Biden win, global weather worries and strong Chinese demand had provided strong fundamental support for metals, both precious and industrials as well as key crops, while crude oil traded sideways with fuel demand worries being off-set by lower OPEC+ production.

The rise in risk adversity, which saw the S&P 500 lose around 5% while the dollar rose 1%, put an end, at least temporarily, to these developments and it helped drive the Bloomberg Commodity index lower by 2.5% with fuel and grain contracts the hardest hit. With regards to the grain sector, one of the best performing sectors in recent weeks, it highlights the risk when positions become too elevated in a period of lower risk appetite.




Crude oil took a tumble to record its worst month since March this year with rising fuel demand worries in virus-hit regions and rising production from Libya attracting more attention than robust demand from Asia and a growing belief that OPEC+ will postpone the agreed January production increase. Brent crude oil tumbled below $39/b support in response to a bigger-than-expected jump in U.S. stockpiles and renewed lockdowns being introduced in France and Germany with other European countries set to follow suit during the coming week. Overall however, we suspect that a combination of long liquidation having run its course and vocal intervention from OPEC+ ahead of $35/b, may prevent the price from falling much further.


Source: Saxo Group

These latest developments add up to an immediate future where investors are more concerned about capital preservation than capital gains. With this in mind, we find the commodities most at risk being the ones where speculators are holding large and mostly long positions as the focus switches from a long-term bullish outlook to a short-term and more defensive attitude. These developments have seen the grain and fuel sectors suffering the most while metals, both precious and especially industrials, have seen sharp reversals.

In recent weeks, the aforementioned supportive fundamentals helped drive strong demand for futures from leveraged funds and CTAs. In the latest COT report covering the week to October 20, the combined net long across 24 major futures markets reached 2.3 million lots, the highest since February 2017. New multi-month highs were seen in natural gas, HG copper, soybean meal, corn, Kansas wheat, sugar and cotton while strong buying was also seen in crude oil and gold. In grains, the combined net long across six soy, corn and wheat contracts reached 702,249 lots, the highest since 2012. A clear reflection of the strong underlying fundamental support but equally a warning sign that any short-term change in the outlook carries the risk of a correction.

*The table below highlights the speculative long/short and net positions held by large speculators such as hedge funds and CTA's across key commodity futures. Data is compiled by the U.S. CFTC and released every Friday with* *data to the previous Tuesday. The coloured numbers in the net column show net positions at a +12 month*

| Week to: 20-Oct-20 | Leveraged Fund Positions | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Long | Change | Short | Change | Net | Change | Change Pct | Trend |
| WTI Crude (CME) | 399,465 | 20,281 | 67,205 | -18,150 | 332,260 | 38,431 | 13% | |
| Brent Crude (ICE) | 240,937 | 15,070 | 100,807 | -4,952 | 140,130 | 20,022 | 17% | |
| Gas Oil (ICE) | 79,240 | -2,352 | 68,733 | 3,023 | 10,507 | -5,375 | -34% | |
| RBOB Gasoline | 66,235 | -317 | 18,894 | -809 | 47,341 | 492 | 1% | |
| NY Harbor ULSD | 35,231 | 3,209 | 41,434 | 800 | -6,203 | 2,409 | -28% | |
| NatGas (4 contr.) | 493,319 | 5,351 | 133,821 | -11,802 | 359,499 | 17,153 | 5% | |
| Gold | 185,578 | 12,470 | 50,267 | -3,018 | 135,311 | 15,488 | 13% | |
| Silver | 61,927 | 1,603 | 21,862 | -3,990 | 40,065 | 5,593 | 16% | |
| Platinum | 14,010 | -44 | 16,235 | 1,386 | -2,225 | -1,430 | 180% | |
| Palladium | 5,513 | 242 | 1,356 | 53 | 4,157 | 189 | 5% | |
| HG Copper | 117,490 | 11,105 | 25,912 | 65 | 91,578 | 11,040 | 14% | |
| Soybeans | 235,401 | -728 | 3,509 | -6,176 | 231,892 | 5,448 | 2% | |
| Soybean Meal | 95,606 | 5,778 | 13,982 | 1,222 | 81,624 | 4,556 | 6% | |
| Soybean Oil | 93,967 | 900 | 11,933 | 1,054 | 82,034 | -154 | 0% | |
| Corn | 278,859 | 32,680 | 60,034 | -15,276 | 218,825 | 47,956 | 28% | |
| Wheat (CBOT) | 108,289 | 11,978 | 58,561 | 840 | 49,728 | 11,138 | 29% | |
| Wheat (KCBT) | 63,008 | 807 | 24,862 | -5,142 | 38,146 | 5,949 | 18% | |
| Sugar | 282,979 | 15,793 | 28,423 | 3,580 | 254,556 | 12,213 | 5% | |
| Cocoa | 38,129 | -7,569 | 27,039 | 557 | 11,090 | -8,126 | -42% | |
| Coffee | 43,077 | -2,502 | 23,339 | 4,723 | 19,738 | -7,225 | -27% | |
| Cotton | 68,380 | 5,070 | 3,185 | -183 | 65,195 | 5,253 | 9% | |
| Live Cattle | 67,567 | -8,154 | 32,626 | 12,943 | 34,941 | -21,097 | -38% | |
| Feeder Cattle | 8,151 | -1,175 | 16,682 | 3,522 | -8,531 | -4,697 | 123% | |
| Lean Hogs | 57,544 | 1,419 | 15,486 | -3,485 | 42,058 | 4,904 | 13% | |
| **Total** | **3,139,902** | | **866,187** | | **2,273,716** | **160,130** | **8%** | |

Source: CFTC, ICE, Bloomberg and Saxo Bank

*extreme.*

Take gold as another example of a market where the outlook has been and continues to be overwhelmingly supportive. After hitting a $2075/oz record high in early August, gold has spent the past three months drifting lower. This lack of performance has, however, not deterred investors as they continued to increase exposure, primarily via exchange-traded funds backed by bullion.

In our latest gold market update we warned that gold was not ready for an election shock or other adverse developments. This was a conclusion we made after taking a closer look at activity in the options market ahead of the U.S. election, which in terms of risk events, doesn't come much bigger. An overview of the most actively traded options in GLD:arcx and GDX:arcx, the biggest gold and gold miners ETF's found, perhaps not surprisingly but also somewhat concerningly, an overwhelming focus on the upside via calls. With such an overwhelmingly bullish view on the market, the risk of an adverse reaction rose to the point where renewed stock market weakness and a stronger dollar helped send not only metals, but most commodities lower.

However, looking at the gold chart we have yet to see a trend that raises concerns about a deeper and more prolonged sell-off. Despite the latest bout of weakness, the metal has not yet tested the September low at $1849/oz, let alone $1837/oz, the 38.2% retracement of the March to August rally. We view the current correction as temporary with rates at rock bottom low levels and continued fiscal and monetary intervention providing the support needed for gold. With that, we also expect to see silver trade higher once the election jitters have died down.


Source: Saxo Group

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