

The Commodities Feed: All eyes on the Fed

The Federal Reserve is expected to raise rates by 25bp today, and markets will be on the lookout for any signals suggesting this could be the central bank's final hike or whether there could be more still to come



Jerome Powell, Chair of the Federal Reserve

Energy – Fed key for short term price direction

Sentiment in the oil market has improved with ICE Brent settling a little more than 1% higher yesterday. The market is more optimistic following China's Politburo meeting, where there were promises for more support measures for the domestic economy. However, up until now, there haven't appeared to be any actual policies that have been announced. Overnight, the API also released US inventory numbers which showed that US crude oil inventories increased by 1.32MMbbls, whilst crude stocks at Cushing fell by 2.34MMbbls. On the product side, gasoline inventories fell by 1.04MMbbls, whilst distillate stocks increased by 1.61MMbbls. The report was a bit of a mixed bag, with little in the way of a strong takeaway from the numbers. The more widely followed EIA report will be out later today.

The market will be watching closely the outcome of the FOMC meeting later today. Expectations are that the Federal Reserve will hike rates by 25bp, which could very well be the last hike in this

cycle. However, any signal from the Fed that they have more to do will likely put some downward pressure on risk assets, including oil.

The Saudis will be happy to see Brent trading back above US\$80/bbl with their additional voluntary cut of 1MMbbls/d starting to have its desired effect. However, the broader OPEC+ cuts are leading to some distortions within the market (tightness in medium sour crudes) and this is evident in the unusual discount that Brent continues to trade at relative to Dubai. However, the decision that Saudi Arabia will need to make in the coming weeks is whether they will roll this additional cut into September or start to unwind it. The recent price strength might give the Saudis the confidence to start unwinding these cuts, but expectations will have to be managed and they will have to be careful how they go about it – too aggressively and it could put renewed pressure back on the market.

Metals – China's gold consumption rises

The latest data from China's Gold Association shows that gold consumption rose 16.4% year-on-year to 555t in the first half of the year. Jewellery consumption rose 14.8% YoY to 368.3t, while demand for bars and coins jumped 30% YoY to 146.3t in the same period. Gold output also increased 2.24% YoY to 178.6t.

The latest data from the World Steel Association (WSA) shows that global steel production remained almost flat year-on-year and stood at 158.8mt in June, as lower output from European countries was offset by higher production from India and Russia. However, cumulative global steel output declined 1.1% YoY to 944mt in the first half of the year. In the EU, monthly crude steel output fell 11.1% YoY to 10.6mt last month. Meanwhile, Chinese steel production reported marginal gains of 0.4% YoY to 91.1mt in June, as domestic mills continue to struggle with weak margins and stringent production curbs from local authorities. In contrast, India's monthly steel output rose by 13% YoY to 11.2mt last month.

Recent data from China's Iron and Steel Association (CISA) shows that steel inventories at major Chinese steel mills fell to 15.7mt in mid-July, down 1.5% compared to early July. Crude steel production at major mills fell marginally by 0.3% to 2.25mt/d in mid-July.

Agriculture – UNICA reports higher cane crush

The latest fortnightly report from UNICA shows that sugar cane crushing in Center-South Brazil increased by 4.2% YoY to 48.4mt in the first half of July, as dry weather conditions boosted the harvesting pace. However, this was slightly lower than average market expectations of 48.8mt. The cumulative sugar cane crush for the season rose 10.1% YoY to 258.3mt. Sugar production rose by 8.9% YoY to 3.2mt in 1H July, while the market was expecting a number closer to 3.3mt. Around 50% of cane was allocated to sugar production in the fortnight, higher than the 47.1% allocated to sugar in the same period last year. Cumulative sugar output so far this season stands at 15.5mt, up 21.9% YoY.

Cocoa futures trading in London and New York surged to multiyear highs on the back of a worsening supply outlook for the 2023/24 season. Recent reports suggest that the Ivory Coast has suspended forward sales to overseas buyers for the main crop starting in October. The move came as excessive rainfall, floods and black-pod disease undermined production. Previously, the producer also said that it had slowed the mid-crop harvest due to unfavourable weather conditions.

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