

The Commodities Feed: Brent breaks above \$80

A below-consensus US CPI release has provided a boost to the commodities complex, with it weighing on the USD and leading to a rethink on how much more hiking there is to come from the Federal Reserve. For oil markets, attention will be on today's IEA and OPEC monthly reports



Energy: Urals trading above price cap

The oil market continued its move higher yesterday, which saw ICE Brent not only break above US\$80/bbl, but settle above this level. As a result, Brent has finally broken out of the range it has spent almost two months trading in. The key catalyst for the move was [US CPI data coming in below consensus](#). And while the data is unlikely to change expectations for the Fed to hike at its next meeting, it does call into question the need for further tightening after the July meeting. While the fundamentals continue to support the view that oil prices should trend higher over the remainder of the year, there are still clear macro concerns in the market. In addition, in the very short term, the 200-day moving average is likely to provide some strong resistance to the market.

According to Argus, Russian Urals are now trading slightly above the US\$60/bbl G7 price cap for shipments from Black Sea ports. Western insurance and shipping services can only be used for

Russian crude priced under the cap. Obviously, there is nothing stopping this crude oil from moving with the use of alternative ships and insurance. And the fact that Russia has managed to secure a large amount of non-western shipping capacity does make the price cap less effective. If Urals remain above the cap for a sustained period, it will be interesting to see if it eventually has any impact on Russian export volumes.

The latest trade data from China this morning shows that crude oil imports averaged 12.67MMbbls/d over June, up 4% month-on-month and 45% higher year-on-year. Obviously imports were under pressure last year due to Covid related lockdowns. Meanwhile year-to-date crude imports are up 11.7% YoY.

Yesterday's EIA report saw some big inventory builds in crude and products. Commercial US crude oil inventories increased by 5.95MMbbls over the last week, which was quite a lot more than the 3MMbbls increase reported by the API the previous day. The crude build was largely driven by lower exports with crude oil exports falling by 1.76MMbbls/d week-on-week to 2.14MMbbls/d, which is the lowest weekly export number since January. On the product side, distillate fuel oil inventories increased by 4.82MMbbls, whilst there was little change in gasoline stocks. Meanwhile, refinery run rates increased by 2.6pp over the week to 93.7%. Overall, the report was on the bearish side, given the large builds and weaker implied demand. However, clearly the market was more focused on US CPI data yesterday.

Both the IEA and OPEC will be releasing their monthly oil market reports today, which will include their latest outlook for the oil market. Despite broader macro concerns, last month the IEA remained constructive on the demand picture, with the agency forecasting oil demand to grow by 2.4MMbbls/d in 2023. However, the agency believes the macro picture will provide more headwinds for demand in 2024, with demand estimated to grow by 860Mbbbls/d next year.

European natural gas prices continue to come under pressure. TTF settled more than 8% lower yesterday and front month prices have traded down to their lowest levels in more than a month. Norwegian gas flows continue to edge higher from the lows seen in late May and over much of June (due to maintenance), whilst European storage is more than 80% full at the moment, well above the average of 65% for this time of year. Prices are likely to remain under pressure through the summer with storage expected to be full well ahead of the heating season. The Asian market is more profitable for LNG, with Asian spot LNG prices trading at its largest premium to TTF since January- more than US\$3/MMBtu.

Agriculture: Bearish WASDE report

The USDA's latest WASDE report was a largely bearish affair, particularly for corn and soybeans. The USDA revised up its US corn production estimate by 55m bushels to 15.32bn bushels, on the back of a larger than expected planted area as reported in its recent acreage report. A reduction in yield estimates (due to recent dry weather) was not enough to offset the higher acreage. The market was expecting a larger fall in yields, therefore the USDA's production estimate was above the 15.15b bushels the market was expecting. Higher output sees US ending stock estimates for 2023/24 at 2,262m bushels, up slightly from the previous forecast and above the 2,166m bushels the market was expecting. For the global balance, corn production for 2023/24 is forecast to increase by 1.7mt to 1,224.5mt, as output increases from Canada (+0.7mt) and Ukraine (+0.5mt) partially offset by reductions from the EU (-0.9mt). 2023/24 global ending stocks for corn were left largely unchanged at 314.1mt, although this was above the little more than 312mt the market

was expecting.

The USDA lowered 2023/24 US soybean output estimates by 210m bushels to 4,300m bushels due to lower acreage. The market was expecting further downside to soybean output, however, the agency left yields unchanged from last month. US 2023/24 ending stock estimates were reduced from 350m bushels to 300m bushels, which was still well above the roughly 206m bushels the market was expecting. For the global market, 2023/24 soybean production estimates were lowered by 5.4mt to 405.3mt, which leaves ending stocks for 2023/24 at just under 121mt.

Lastly, the USDA projects US wheat supplies to increase by 74m bushels to 1,739m bushels. This pushes US ending stock estimates up by 30m bushels to 592m bushels, which is above the roughly 565m bushels the market was expecting. For the global wheat market, the USDA expects 2023/24 wheat production to fall to 796.7mt this season, down from an earlier estimate of 800.2mt. As a result, ending stocks for 2023/24 were lowered by 4.2mt to 266.5mt, which is less than the market was expecting.

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