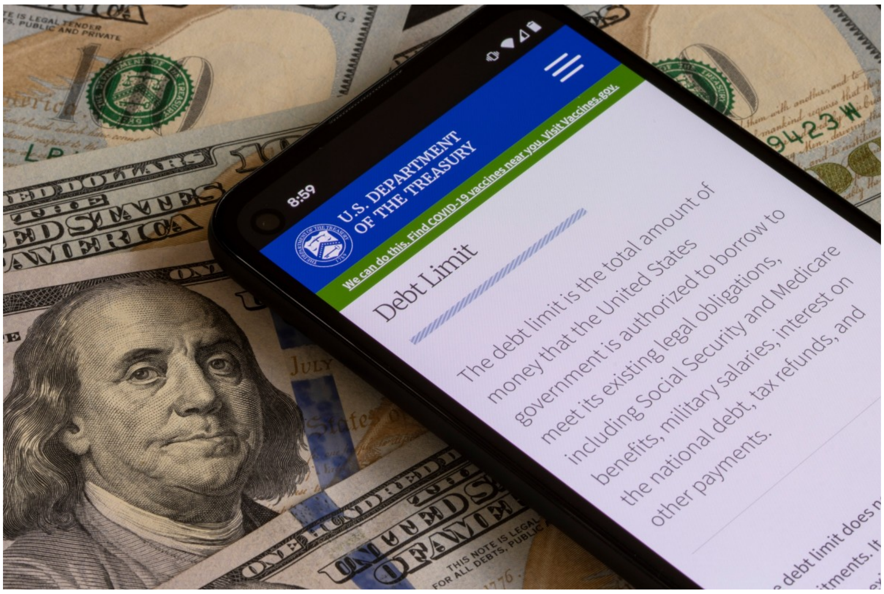
The Commodities Feed: Debt ceiling talks & a more hawkish Fed

Oil has managed to hold up relatively well, despite little progress in US debt ceiling talks as well as some more hawkish comments from US Fed officials



A US debt ceiling deal inches closer as talks continue

Energy - oil edges higher

The oil market managed to edge higher yesterday despite there still being little progress in US debt ceiling talks as well as some hawkish comments from Fed officials. A couple of officials suggested that the Fed may still have to hike rates further. Obviously, the more the Fed increases rates, the more likely we are to see a hard landing, which would hit oil demand hard. For now, we are assuming that 2023 US oil demand will be largely flat year-on-year. Despite the move higher yesterday, sentiment still remains mostly negative in the oil market and this is evident in positioning data which shows that speculators have reduced their net long in ICE Brent significantly in recent weeks. Positioning data shows that there is still a sizeable gross short in ICE Brent, however, these shorts will want to be careful as we approach the next OPEC+ meeting, which is scheduled for 4 June. OPEC+ have surprised the market a couple of times recently, so market participants may be reluctant to carry too much risk into this meeting.

The 650Mbbls/d Dangote oil refinery in Nigeria has finally opened after years of delays. While the refiner has said it will start shipping refined products by July or August, it is still unclear how quickly it will be able to ramp up operations. According to reports, there has been little in the way of commercial activity from the refiner, which suggests that any meaningful volumes coming out of the refinery will still be several months away at least. The refinery will be important for both crude and product trade flows when fully operating, potentially meaning reduced crude exports as well as reduced imports of refined products.

Metals – Global aluminium output remains flat

The latest numbers from the International Aluminium Association (IAI) show that daily global primary aluminium output stood at 187.6kt in April, compared to 187.5kt a month earlier. Total monthly output for the metal remained almost flat year-on-year at 5.63mt in April, although it was down 3.2% MoM. Cumulative aluminium production over the first four months of the year rose 2% YoY to 22.6mt. Chinese output is estimated to have fallen 3.2% MoM, while remaining flat YoY at 3.3mt in April. Although YTD production is still up 3.3% to 13.3mt. Production in Western and Central Europe is still under pressure, falling 2.6% MoM and 8.2% YoY to 262kt in April.

Agriculture – ISO expects global sugar surplus to shrink

In its latest report, the International Sugar Organization (ISO) expects the global sugar surplus to fall to 852kt in 2022/23, down about 79% from its previous estimate. Total sugar output projections were trimmed to 177.4mt for 2022/23, compared to a previous estimate of 180.4mt, due to lower output from the EU, India and Thailand. In contrast, the group expects global consumption to increase to 176.5mt in 2022/23, up by 233kt from its previous estimate.

The latest reports from the Joint Coordination Centre showed that Ukraine's exports under the Black Sea Grain Initiative stood at 118.3kt for the week ending 21 May, down 78% WoW. While the deal has been extended for two months, no inbound vessels were cleared in that week which led to a significant drop in volumes. However, considering the recent extension, we may see a revival in Ukrainian exports in the weeks ahead.

The USDA's weekly export inspection data for the week ending 18 May show that US corn and wheat shipments rose while soybean exports eased over the last week. US weekly inspections of corn for export stood at 1,323.1kt, up from 1,173.8kt in the previous week but lower than the 1,752.5kt reported a year ago. For wheat, export inspections stood at 407.7kt, up from 263.4kt last week and 275.5kt seen for the same period last year. Soybean export inspections stood at 155.1kt, lower than 186.8kt from a week ago and 582.3kt from a year ago.

The USDA's latest crop progress report continues to show that US corn plantings are progressing well with 81% of plantings completed, this is up from 69% at the same stage last year and also above the 5-year average of 75%. Similarly, soybean plantings are advancing quickly with 66% planted as of 21 May, well above the 47% seen at the same stage last year and also above the 5-year average of 52%. Meanwhile, spring wheat plantings are 64% complete, which is above the 48% planted at the same stage last season, but still below the 5-year average of 73% for this time of year.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com