The Commodities Feed: Demand worries linger

The commodities complex came under pressure yesterday with a stronger USD weighing on markets. Demand also remains a key concern for the oil market, while for grain markets, a resumption of Black Sea shipments has helped ease some supply worries

Energy - demand worries grow

The oil market came under further pressure yesterday with ICE Brent falling to its lowest level this month. The 100-day and 50-day moving averages should provide some immediate support to the market. However, if these support levels fail, it could trigger some further selling. A stronger dollar weighed on large parts of the commodities complex yesterday, whilst specifically for oil, demand remains a key concern. The weakness seen in refinery margins is not a great demand signal and this weakness could start to see refiners trimming run rates.

EIA data did not help ease these demand concerns. Implied US gasoline demand fell by 417Mbbls/d WoW to a little over 8.5MMbbls/d, which is down from around 8.9MMbbls/d at the same stage in 2022. Implied demand for distillate fuel oil was largely flat WoW. Weaker gasoline demand helped lead to the 1.3MMbbls build seen in US gasoline inventories over the week. Inventory changes for crude were more supportive with US commercial crude oil inventories falling by 4.58MMbbls. In addition, crude stocks at Cushing declined by 1.09MMbbls, leaving stocks at the WTI delivery hub at 32.75MMbbls- the lowest level since January. However, clearly, the market was more interested in the demand data.

Oil flows from Northern Iraq via Ceyhan in Turkey remain halted, which is keeping around 450Mbbls/d of supply from the market. The Iraqi prime minister had said that flows could resume this week, after coming to an agreement with the Kurdish regional government. However, Iraq still needs to reach a settlement with Turkey before these flows can restart. Oil supplies via Ceyhan were halted in late March after the International Chamber of Commerce ruled in favour of Iraq, which claimed that oil from the Kurdish region was being exported via Ceyhan without the Iraqi government's approval.

Metals – Global steel demand to recover

The World Steel Association expects global steel demand to rise by 2.3% YoY to 1,822.3mt in 2023 and then a further increase in 2024 of 1.7% YoY to 1,854mt amid recovering manufacturing activity. Looking at China, domestic steel demand declined by 3.5% YoY in 2022 and it is now expected to grow by 2% YoY in 2023 following supportive government measures, especially for the real estate sector. Meanwhile, Chinese steel demand growth is expected to remain flat in 2024. The group also expects steel demand in developed economies to recover after declining sharply last year due to monetary tightening and high energy costs. Demand from these economies is forecast to grow by 1.3% YoY in 2023 and 3.2% YoY in 2024. As for developing economies (ex-China), steel demand is expected to rise this year by 3.6% and then by a further 3.9% in 2024.

In mine supply, Antofagasta reported that its copper mining output rose over 5% YoY to 145.9kt in 1Q23. Although, production fell by 25% on a QoQ basis mainly due to temporary output losses at the Los Pelambres mine and scheduled maintenance at the Centinela mine. The miner expects its copper production to remain healthy for the remainder of the year and maintained its full-year production guidance of between 670kt-710kt for 2023.

In ferrous metals, iron ore prices came under pressure yesterday as China's National Development and Reform Commission (NDRC) said it would protect the market's normal order and crack down on unreasonable price gains in the iron ore market. The group also pledged to continue strengthening the exploration of domestic resources, accelerate project building, and improve used-steel recycling.

Brazilian miner, Vale SA released its latest quarterly update, which showed that its iron ore production fell 17% QoQ to 66.8mt in 1Q23. It is fairly normal to see production impacted over the first quarter of the year, given it is the rainy season in Brazil. However, production YoY was still up 5.8%. Vale maintained its annual production guidance of 310mt-320mt for the year.

Agriculture – Black Sea grain shipments resume

Inspections of grain vessels shipped from Ukrainian ports under the Black Sea Grain Initiative resumed yesterday after being blocked for two days. This move would have helped ease some supply concerns in the global market, but there are still risks around these flows.

The Brazilian Corn Ethanol Union (UNEM) estimates that the sector will produce 6b litres of corn-based ethanol in the 2023/24 season. This would account for about 20% of total domestic ethanol production. The union further added that the future growth in Brazil's biofuel supply will come from corn, in a country where sugarcane has dominated the market. If this is a trend that continues, it clearly would be supportive of corn prices, whilst also potentially leaving more sugarcane for sugar production.

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