# The Commodities Feed: Fed comments weigh on the complex

The Fed kept rates unchanged while also trimming hopes for a March cut, and this weighed on the commodities complex yesterday. Meanwhile, a bearish weekly oil inventory report from the EIA added to the downward pressure on the oil market


## Energy – Crude oil retreats

- Crude oil prices retreated sharply yesterday amid broader negative sentiment in the market after the Federal Reserve left rates unchanged and dashed hopes for a rate cut anytime soon. ICE Brent front-month contract has been trading at around US$80.2/bbl as of the time of writing, down around 5% since making its peak earlier in the week.
- The EIA weekly oil report was somewhat bearish for oil prices. US commercial crude oil inventories increased by 1.2MMbbls for the week ended on 26 January, the first increase in over three weeks. The market was anticipating a drawdown of around 0.2MMbbls, while API reported a decline of 2.5MMbbls. However, when factoring in the SPR releases, the build was even larger, with total US crude oil inventories increasing by around 2.1MMbbls. Total US

commercial crude oil stocks now stand at 422MMbbls, still around 5% below the five-year average.

- The unexpected build in the stocks could be largely attributed to the slowing refinery operations due to lingering winter storm outages and planned refinery maintenance. Refinery operating rates in the country continued to decline and dropped by 2.6% over the week to 82.9% as of 26 January. As for refined product inventories, gasoline inventories increased by 1.16Mbbls, against a forecast for an addition of 2.34MMbbls. Distillate stockpiles fell by 2.54MMbbls last week, compared with expectations for a drawdown of 347Mbbls.
- A Reuters survey showed that OPEC output dropped by a sharp 410Mbbls/d over January to 26.33MMbbls/d as Libya faced disruption at one of its major oil fields, whilst some other countries also lowered production for the month. However, output is still higher than OPEC's targeted levels as some countries including Iraq, Nigeria and Gabon pump more than the agreed quota.

## Metals – LME aluminium cancelled warrants rise

- Gold held steady while industrial metals edged lower this morning as the latest comments from the Federal Reserve dashed hopes of an interest rate cut in March. Meanwhile, base metals were further pressurised on slowing demand concerns in China ahead of the Lunar New Year holiday next weekend.
- LME data shows that cancelled warrants for aluminium jumped 17,575 tonnes (the biggest daily addition since 9 January) for a second consecutive day to 219,000 tonnes as of yesterday, the highest since 21 December. The increase was driven by warehouses in Kaohsiung Port, Taiwan. Aluminium on-warrant inventories fell by 17,825 tonnes for a second straight session to 318,575 tonnes, while exchange inventories fell by 250 tonnes for a third consecutive day to 537,575 tonnes as of yesterday. Net inventories outflows for the January month stood at 11,475 tonnes, compared to the net inflows of 89,675 tonnes seen in December last year.
- As for copper, the latest data from the National Statistics Institute of Chile shows that domestic copper output increased 11.4% month-on-month (flat compared to year-ago levels) at 495.5kt in December driven by strong growth in the manufacturing and mining sectors. Meanwhile, cumulative copper output continued to remain weak and fell 1.7% year-on-year to 5.27mt in the whole of 2023, due to a series of operational issues this year.
- In zinc, recent reports suggest that Boliden plans to slash operations and reduce output at its Tara zinc mine in Australia when it restarts this year. Earlier in June, the mine was put on care and maintenance when the zinc prices touched three-year lows. Boliden plans to resume the mine operations in the second quarter of this year, with new conditions which include a one-week closure for the mill every three weeks and a production target of 180kt of zinc concentrates a year. Tara is Europe's largest zinc mine, with zinc concentrate output at more than 300ktpa when operating at its peak.

## Agriculture – ISMA revises sugar output estimates

- Recent estimates from the Indian Sugar Mills Association (ISMA) show that gross sugar production (including sugar diverted for ethanol production) in India could rise to 33.05mt in 2023/24, compared to its previous forecast of 32.5mt. However, it is lower than the 36.6mt produced for the last year. Sugar production after ethanol diversion is expected to fall to

31.4mt in 2023/24 when compared to 32.82mt produced a year earlier. Sugar allocation for ethanol production stood around 1.7mt for the 2023/24 season, while ISMA expects the government to allow the diversion of around 1.8mt of sugar this year. Sugar consumption in the nation is expected to average around 28.5mt this year. Meanwhile, 2023/24 ending stock estimates for the nation rose to 8.45mt, compared to 5.6mt a year ago. The group added that around 520 mills were crushing cane as of January end, compared to 517 a year earlier.

- In a separate data release, the National Federation of Cooperative Sugar Factories Ltd. shows that sugar production in India fell 3.2% YoY to 18.7mt so far this season through 31 January. Cumulative output stood at 19.3mt at the same stage last year. The group said that some 517 sugar mills were operating as of 31 January compared to 523 mills a year earlier.

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