

The Commodities Feed: FOMC day

Price action across commodities is likely to be dictated by today's FOMC meeting. A 75 bps hike is likely priced in, but anything more aggressive could put further pressure on the complex



Fed Chair Powell will make a speech today at the Jackson Hole Economic Symposium

Energy - macro influences

The oil market sold off yesterday, awaiting the outcome of the FOMC meeting later today. A rebound in the USD would have only added further pressure. ICE Brent settled 1.5% lower on the day and below US\$91/bbl. A 75bps hike from the Fed is likely priced into markets already. It would likely take a more aggressive hike or hawkish outlook to see more weakness in oil prices.

Overnight the API released its weekly inventory numbers, which were relatively bearish due to stock builds across the board. US crude oil inventories are reported to have increased by 1.04MMbbls, whilst Cushing crude oil stocks grew by 510Mbbls. Refined products saw larger builds, with gasoline and distillate fuel oil inventories increasing by 3.23MMbbls and 1.54MMbbls respectively. The more widely followed EIA report will be out later today, and the market is expecting US crude oil inventories to have increased by around 2.2MMbbls. Gasoline and distillate stocks are expected to see small draws. Similar numbers to the API could put some immediate downward pressure on refined product cracks.

Two US senators are proposing legislation to the Biden administration which would impose secondary sanctions on those who facilitate the trade of Russian oil outside of the G-7's proposed

price cap on Russian oil. The senators want to implement the G-7 price cap by March 2023, which would then be reduced by one third a year until the break-even price for Russian oil is hit. In addition, the pair of senators are also proposing that countries which increase their share of Russian purchases relative to pre-war levels should be penalised. The Biden administration has been reluctant to go the route of secondary sanctions with it unlikely to help relations with key buyers, China and India.

Metals – China's zinc output drops in August

Zinc prices climbed on the LME after data from China showed lower production numbers; the latest data from the National Bureau of Statistics (NBS) showed China's zinc production falling 5.2% year-on-year to 528kt in August. Zinc stockpiles held by the LME also declined by the most since February 2019. Most of the outflows was reported from the Malaysia's Port Klang warehouses.

In other metals, refined copper output rose 3.9% year-on-year to 917kt, while lead production increased 6.2% year-on-year to 638kt last month, the latest NBS data showed.

The latest numbers from the International Aluminium Association showed global primary aluminium daily output at 189.9kt in August, compared to 189.6kt a month earlier. Total monthly output for the metal rose 3.5% year-on-year to 5.9mt last month. Production was unchanged on a monthly basis due to largely flat output from major producers last month. Cumulatively, production rose marginally by 0.7% to a total of 45.4mt in the first eight months of the year. Similarly, Chinese output rose 6.4% year-on-year to 3.5mt, while it was flat on a monthly basis last month due to the ongoing power issues. Year-to-date output still rose 1.8% year-on-year to 26.7mt from Jan'22-Aug'22. Chinese output could be further constrained over September due to the ongoing power rationing in Yunnan province. Meanwhile, aluminium production in Western and Central Europe fell 10.4% year-on-year to 250kt in August. It declined 11.3% year-on-year in the first eight months of the year as domestic smelting activities continue to remain impacted by high power prices. Aluminium production in Asia (ex-China) increased by 1.3% month-on-month last month, while year-to-date output also gained 2.2% year-on-year.

Bloomberg reports that Russian aluminium producer, Rusal, is looking to deliver some of its metal directly into LME warehouses in Asia, as the producer increasingly struggles to find buyers. We have seen signs in recent weeks of buyers excluding Russian aluminium from their supply tenders for 2023. It is suggested that Rusal could deliver a small amount of aluminium into LME warehouses initially. Increased flows could cause some issues, firstly a strong increase in LME inventories could put pressure on prices, whilst there could also be a growing amount of aluminium in LME warehouses, which buyers are not willing to touch. This could potentially lead to a disconnect in prices.

In precious metals, gold is trading near its two-year low as the dollar continues to strengthen ahead of the Fed's decision on further interest-rate hikes. Physical buying from China appears strong. Total imports of non-monetary gold jumped to the highest since June 2018 last month, according to China's customs data.

Agriculture - China imports

China Customs data shows that soybean imports from Brazil fell 31% YoY in August, whilst soybean shipments from the US rose to 287.9kt last month from 17.6kt a year earlier. Chinese corn imports from the US stood at 1.78mt in August, down from 2.93mt for the same period last year.

Corn inflows from Ukraine stood at just 209t, down from 301.4kt last year.

Weekly data from the European Commission shows that soft wheat shipments from the EU reached 8.06mt as of 18th September, broadly in line with the 8.07mt shipped by this point last season. Algeria, Morocco and Egypt were the top destinations for these shipments.

Authors

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.