

The Commodities Feed: Gold nears record highs

Gold prices reached the highest level in three months yesterday amid rising expectations for a US Fed rate cut in June. We believe Fed policy will remain key to the outlook for gold prices in the months ahead



Metals – Gold breaks above US\$2,100/oz

Gold is trading above \$2,100/oz this morning after reaching near-record highs yesterday on growing expectations for a US rate cut in June. Swap markets now suggest a 60% chance of a Federal Reserve rate cut by that point. A weaker US dollar and lower treasury yields, along with ongoing geopolitical uncertainty, have been gradually pushing up gold prices since mid-February. We believe Fed policy will remain key for the outlook of gold prices in the months ahead and expect gold prices to remain volatile in the coming months as the market also reacts to macro drivers and geopolitical events.

LME data shows that copper exchange inventories decreased by 4,600 tonnes (the biggest intra-day decline since July) for a fifth straight session, with total inventory declining to 116,775 tonnes yesterday, the lowest since 6 September 2023. The majority of the inflows were reported from warehouses in Rotterdam. Meanwhile, cancelled warrants for copper fell by 3,825 tonnes to 13,725 tonnes, while on-warrant stocks also declined slightly by 775 tonnes for a second consecutive session to 103,050 tonnes as of yesterday. The cash/3m spread for copper narrowed to a contango of US\$88.6/t as of yesterday compared to a contango of US\$87.5/t a day earlier.

Energy – Oil trades softer

ICE Brent has been trading softer this morning as moderate economic growth targets from China weighed on sentiment. The country has kept GDP growth unchanged at around 5% for 2024, with the fiscal deficit target set at 3% of GDP compared to expectations of around 3.5%. Lower fiscal spending could restrict the economic stimulus measures by China even as the government aims to push the economy higher. The market also appears to be cautious about compliance to the OPEC+ cuts for the second quarter of this year, which is essential for keeping the market in balance until demand recovers.

In products, US gasoline cracks have been trading strong on tight supplies and improving demand. Refinery maintenance and the operational switch from winter to summer-grade gasoline has tightened supplies in the US domestic market. Meanwhile, a warmer-than-usual winter keeps driving activities high pushing up demand for the motor fuel.

Agriculture – Indian sugar output falls

Recent numbers from the Indian Sugar Mills Association (ISMA) show that sugar production in the country fell to 25.5mt through February in the 2023/24 season, lower than the 25.9mt produced during the same period last year. The group further said that 466 mills were crushing cane by the end of February compared to 447 mills at the same time last year.

Recent estimates from Australia's Bureau of Agriculture and Resource Economics and Science (ABARES) show that grain production will reach 51mt for the 2024/25 season, 9% higher than the 10-year average or the previous season's output of 46.7mt. The increase will be led by wheat, with production rising 9% year-on-year to 28.4mt in the period on account of favourable weather conditions in the country. The government has also raised its 2023/24 wheat production estimates to 26mt from previous estimates of 25.5mt due to improved crop conditions in Eastern states. However, production estimates are still down 36% YoY.

Lastly, USDA's weekly export inspection data for the week ending 29 February showed weaker export demand for US grains. Export inspections for corn stood at 1,083.5kt over the week, lower than 1,289.1kt in the previous week but slightly higher than the 944.8kt reported a year ago. Similarly, US wheat export inspections stood at 353.1kt, down from 482kt a week ago but marginally higher than the 341.1kt seen last year. For soybeans, US export inspections came in at 1,021.4kt, compared to 1,059.1kt from a week ago and 551.2kt reported a year ago.

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