

The Commodities Feed: Hawkish Fed comments weigh on the complex

Hawkish comments from the US Federal Reserve – that it could potentially raise interest rates in July and September – have weighed on the commodity complex this morning. Meanwhile, the weekly crude oil report from the Energy Information Administration (EIA) yesterday was constructive for the oil market, with inventory falling at a rapid pace



Jerome Powell, Chair of the Federal Reserve of the United States

Energy – EIA reports sharp decline in crude oil inventory

ICE Brent and NYMEX WTI jumped higher yesterday after the EIA reported a largely constructive crude oil market report with a sharp inventory decline. However, the market has been trading softer this morning on account of hawkish comments from the US Fed as inflationary concerns continue.

The weekly report from the EIA shows that commercial crude oil inventories in the US fell by 9.6MMbbls (the largest weekly decline since 19 May) over the week to 453.7MMbbls (the lowest since 27 January). The decline was higher when compared to the market expectation of a drawdown of 1.3MMbbls and the decline of 2.4MMbbls reported by API for the week. When

factoring in the Strategic Petroleum Reserve (SPR) releases, the decline was even sharper, with total US crude oil inventories falling by around 11MMbbls, as SPR stocks fell by 1.4MMbbls for the week. US crude oil exports increased to 5.3MMbbls/d for the week which has weighed on the inventory.

Meanwhile, crude oil inventories at Cushing, Oklahoma, rose by 1.2MMbbls to 43.2MMbbls, the highest level since June 2021. The EIA reported that US crude oil production was unchanged at 12.2MMbbls/d last week.

As for refined products, gasoline inventories rose by 0.6MMbbls, against a forecast for a marginal build of 0.1MMbbls. Meanwhile, distillate stockpiles rose by 0.1MMbbls last week, slightly lower than expectations for a build of 0.2MMbbls. Refinery utilisation rates dropped from 93.1% to 92.2% for the week.

Metals – Risk-off sentiment weighs on the complex

The prevailing risk-off sentiment in the broader financial markets weighed on the industrial metals complex with prices of most of the metals trading under pressure this morning. LME copper extended the declines for a third consecutive day after falling by more than 1% yesterday to close at the lowest level since 2 June. LME copper cash/3m backwardation eased to US\$4.5/t as of yesterday, after reaching its year-to-date high of US\$31/t of backwardation early this week.

Meanwhile, copper exchange inventories at LME warehouses extended the declines for a second straight session with total stocks falling by 1,775 tonnes to 75,275 tonnes as of yesterday, the lowest since 9 May. A stronger US dollar, following hawkish comments from the US Fed and a soft set of economic data from China, weighed on the complex.

A stronger USD has also weighed on precious metals with gold prices softening to US\$1,905/t in the morning session today, the lowest levels in around three months. Hawkish comments from the Fed and the ECB at this week's Sintra conference in Portugal have pushed money away from gold. Total ETF gold holdings have dropped by around 0.8mOz over the past week and around 1.5mOz from the recent peak in May 2023.

Agriculture – Canada increases grain planting estimates on supportive weather

The latest report from Statistics Canada shows that farmers in the nation are expected to increase the planting of grain in 2023 compared to a year ago following supportive weather conditions, high prices, and stronger demand. Statistics Canada forecast all-wheat plantings to increase to 26.9m acres (+6.7% year-on-year), marginally down from previous estimates of 27m acres but exceeding the market expectation of 26.5m acres. For soybean, the agency revised the planting area projections from 5.5m acres to 5.6m, in line with market expectations. Similarly, corn planting acreage projections were increased from 3.7m acres to 3.8m, up 5.5% YoY. The agency stated that favourable weather conditions in most parts of Canada helped complete the planting on time.

The General Statistics Office of Vietnam released trade volume estimates for June which show that coffee exports are seen at 150kt, up 9.1% compared to 137.5kt reported a year ago. However, the coffee export estimates for June are down 9.1% compared to the 165kt shipped in May. In the first half of 2023, coffee exports are projected to fall by 2.2% YoY to 1.02mt. The overall decline in exports could be attributed to severe rains that have battered the country.

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