

The Commodities Feed: Hawkishness weighs on the complex

The commodity complex has come under pressure in recent days, with more hawkish talk from some US Fed officials. Recent data from the US suggests the Fed may have to hike by more than expected



US Federal Reserve building in Washington, DC

Energy - Natural gas continues to weaken

European natural gas prices continue to come under pressure, with TTF falling below EUR50/MWh on Friday and trading at its lowest levels since August 2021. Forecasts for milder than usual weather for large parts of Europe over the next week have put pressure on prices, whilst the imminent restart of Freeport LNG certainly wouldn't have helped sentiment. However, we are likely getting to levels where the market should find some form of support. Coal-to-gas switching levels are not too far away and so if we see much more weakness this is likely to stimulate some demand from the power generation sector. The latest data from GIE shows that European gas storage is a little more than 63% full, above the 5-year average of 44% and well above the 31% seen at this stage last year.

US natural gas prices also weakened further, trading down to their lowest levels since September 2020. This weakness comes despite the progress made with the restart of the Freeport LNG export plant. Milder than usual weather over large parts of the US is weighing on heating demand. This

has meant that the gap between current US storage and the 5-year average is widening.

As for oil, prices came under renewed pressure last week, with ICE Brent falling by almost 4% over the week. A raft of strong data in recent weeks has raised expectations for a more hawkish Fed, which has weighed on the bulk of risk assets. There is very little on the calendar for the oil market this week, apart from the usual weekly EIA inventory data, which will be delayed by a day due to a public holiday in the US on Monday.

Metals - Lead exchange stocks in China surge

The latest data from Shanghai Futures Exchange (ShFE) shows that weekly inventories for metals posted another week of gains as of Friday. Lead weekly stocks jumped by 52% WoW to 77,216 tonnes (highest since September 2022) over the last week. Among other metals, zinc stocks rose 15% WoW to 121,413 tonnes (highest since June), while aluminium inventories climbed 8% WoW to 291,416 tonnes at the end of last week.

The latest data from Zambia's Finance Ministry shows that copper production reached 763.3kt (its lowest since 2015) in 2022, a decline of 4.7% YoY. The decline came despite the government's aim to boost mining output for copper to 2mt by 2026.

The latest statements from Ukraine's Justice Ministry suggest that the nation's top anti-corruption court has ordered the seizure of a key alumina plant linked to United Co. Rusal International and more than 300 assets linked to Deripaska. The Mykolayiv alumina refinery has been offline since early March 2022, following Russia's invasion. The refinery could produce about 1.76mt of alumina annually.

Agriculture – Sugar spread strength

There are reports that the Indian government has decided not to allow further sugar exports this season beyond the already approved 6mt. There have been growing concerns for several weeks now that the government would not allow further exports, given worries over the domestic crop. The government will once again evaluate the domestic balance in March, at a time when cane crushing nears its end before deciding on exports. The move does raise concerns over tightness in the global market, which is reflected not only in the strength in the flat price, but also the March/May spread, which is trading in deep backwardation of more than US\$1.60/lb. Worries over tightness should ease once the CS Brazil harvest gets underway in the second quarter.

The Rosario Grains Exchange expects corn shipments in Argentina to fall by 40% YoY between March and June as severe drought impacted crop plantings this season. The exchange projects corn shipments to total just 8.7mt in these four months, as only 19% of the estimated area (7.3m hectares) was planted in the initial weeks. Previously the exchange trimmed its corn production estimates to 42.4mt for the second time following severe drought conditions, much lower than initial expectations of 55mt.

Recent numbers from Ukraine's Agriculture Ministry show that farmers harvested 53.9mt of grain from 98% of the expected area as grain harvests near completion. The wheat harvest stood at 20.2mt, whilst farmers harvested 26.5mt of corn from 94% of the expected area in 2022.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

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