The Commodities Feed: Iraqi oil supply cut uncertainty

Oil prices have continued to come under pressure after comments from Iraq raised doubts over a rollover of OPEC+ supply cuts. Meanwhile, LME warehouses saw a record increase in aluminium inventories on Friday

Energy - OPEC+ uncertainty

Oil prices remain under pressure this morning after settling 1.3% lower on Friday. Confusion over OPEC+ supply cuts appears to have put pressure on oil prices. There were reports over the weekend that Iraq's oil minister said that the country would not agree to further supply cuts, and it is not clear whether this refers to a rollover of existing cuts or deeper cuts. However, the minister later said that an extension to supply cuts would be a decision for OPEC. Iraq has fallen short of its additional voluntary cuts since the beginning of the year and so the willingness and ability for Iraq to cut more is likely limited. There will likely be increased noise in the lead-up to the next Joint Ministerial Monitoring Committee (JMMC) meeting scheduled for 1 June.

The pressure on oil prices comes despite a growing supply risk from the oil sands region of Canada. An evacuation alert was issued for Fort McMurray, Alberta, due to wildfires near the town. In 2016, wildfires in the region saw residents evacuating the town and more than 1m b/d of oil production shut-in.

Speculators reduced their net long in ICE Brent significantly over the last reporting week, Speculators sold 60,125 lots to leave them with a net long of 260,648 lots as of last Tuesday, a move which was predominantly driven by longs liquidating. NYMEX WTI also saw a large amount of selling. Speculators cut their net long by 55,038 lots to 117,651 lots, the smallest position held since February. ICE Gasoil also saw a large amount of speculative selling over the week, as the market becomes more bearish towards middle distillates. Money managers reduced their net long in gasoil by 16,662 lots to 32,914 lots, the smallest position held since January.

It is a fairly busy week for the energy calendar. OPEC will release its latest monthly oil report on Tuesday, the last release before the JMMC meeting in early June. This will be followed by Wednesday's International Energy Agency's (IEA) monthly oil market report. Friday will see China release industrial output data for April, including crude oil output and refinery activity. However, US CPI data for April will probably be the biggest driver for oil markets on Wednesday. This data will likely shed more light on the path the US Federal Reserve may take in the months ahead.

Metals – LME aluminium inventories jump

LME aluminium inventories jumped by a significant 424,000 tonnes on Friday to 903,850 tonnes. On-warrant stocks increased by 560,875 tonnes (a record increase in on-warrant stocks), while cancelled warrants fell by 136,875 tonnes. The increase in inventories occurred at Port Klang in Malaysia and media reports suggest that Trafigura was possibly behind the move. The increase comes after the LME's off warrant stocks report has shown for several months a build up of aluminium in private warehouses in Port Klang.

Recent data from Shanghai Metals Market (SMM) shows that primary aluminium output in China rose 5% year-on-year to 3.52mt in April, as several smelters in the Yunnan province resumed production activity. SMM reported that existing aluminium capacity was about 45.2mt, while the operating rate grew by 4.3% YoY to 94.3% last month. The improvement of electricity supply in Yunnan Province and higher aluminium prices drove these increases. Additionally, two smelters located in Xinjiang and Guangxi resumed production after completing maintenance.

Data from the Chilean copper commission Cochilco shows that copper output in Chile fell marginally by 0.7% YoY to 433.3kt in March. However, production rose 3.7% month-on-month, while year-to-date output also increased 3% YoY to 1.3mt in the first three months of 2024.

The latest positioning data from the CFTC shows that managed money net longs in COMEX gold decreased by 4,007 lots 163,132 lots over the last reporting week. Speculators increased their net long position in COMEX copper by 1,663 lots over the last reporting week to 65,966 lots. This increase in speculative positioning comes despite a number of short-term indicators, which suggest that copper prices may be due a downward correction.

Agriculture – USDA's first crop estimates for 2024/25

In its latest WASDE report, the USDA expects US corn production in 2024/25 to fall by over 3% YoY to 14.86b bushels in its first estimates for the next marketing year. Despite lower output and higher demand, 2024/25 ending stocks are estimated at 2.1b bushels, up from 2b bushels at the end of 2023/24. However, this was still lower than the roughly 2.3b bushels the market was expecting. The global corn balance sheet shows that world output is forecast to total 1.2b tonnes in 2024/25, down 0.7% YoY. Global ending stocks for 2024/25 are projected at 312.3mt, down 0.8mt from the previous year and below market expectations of around 319mt.

The USDA forecasts 2024/25 US soybean ending stocks at 445m bushels, up from an estimated 340m bushels for 2023/24 and also above the 439m bushels the market was expecting. US soybean production is seen at 4.45b bushels in 2024/25, up from an estimated 4.17b bushels in 2023/24 primarily due to higher yields and harvest area. This was broadly in line with market expectations. For the global market, the agency forecasts global soybean production to rise almost 6.4% YoY to 422.3mt (+25.3mt YoY). Meanwhile, the agency projects soybean demand to also remain healthy, increasing 4.7% YoY to 401.7mt. Global soybean ending stocks are forecast at 128.5mt for 2024/25, compared to 111.8mt from a year ago, and above market expectations of a little more than 119mt.

For wheat, the USDA projects US 2024/25 ending stocks to rise by 78m bushels (+11% YoY) to 766m bushels, the highest in four years. Although, the market was still expecting a number closer to 782m bushels. Forecasts for higher output drove the increase with the USDA expecting US wheat production to come in at 1,858m bushels, up from 1,812m bushels in 2023/24. However, the market was expecting an even higher output forecast of around 1,896m bushels. On a global level, wheat ending stocks are forecast at 253.6mt for 2024/25, down from 257.8mt for 2023/24 and below expectations of a little more than 257mt.

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