

The Commodities Feed: Macro headwinds

The complex held up relatively well yesterday, despite a number of central banks hiking rates and the stronger USD. However, commodities are likely to face headwinds in the months ahead with expectations of only a further tightening in monetary policy



Energy - Russian oil price cap talks

Despite a raft of central banks hiking rates yesterday in a bid to rein in inflation, the oil market held up well. ICE Brent managed to settle 0.7% higher on the day. However, with expectations of only further monetary tightening in the months ahead, commodity markets are likely to face some strong headwinds. The dominance of the USD at the moment will only add to these headwinds.

According to reports the EU is trying to push ahead with the G-7 price cap on Russian oil, after Putin's latest escalation in the war. Member states will apparently be meeting over the weekend to discuss the cap, along with a number of other new potential sanctions. There are suggestions that the aim is to come to a preliminary agreement by early October, ahead of an EU leaders' meeting. Getting all members to agree on a price cap could prove difficult, just like we saw with the EU ban on Russian oil, which was watered down to include only seaborne trade, given objections from Hungary. EU members will want to come to a final decision by 5 December, which is when the ban on Russian seaborne crude into the EU comes into force.

Latest data from International Enterprise Singapore shows that oil product stocks in Singapore increased by 3.64MMbbls over the week to 47.15MMbbls. The increase was driven fully by residues, with them increasing by 3.98MMbbls over the week to 23.4MMbbls. Light and middle distillates both saw small declines over the course of the week. As for Europe, refined product stocks in the ARA region increased by 15kt to 5.34mt. Fuel oil and gasoline stocks fell by 40kt and 20kt respectively, whilst gasoil inventories increased by 30kt over the week. However, like most regions, gasoil stocks are still very tight for this stage of the year and are at their lowest levels since at least 2007 for this time of year.

US natural gas prices came under pressure yesterday, falling almost 9%. This weakness came after the EIA reported that US natural gas storage increased by more than expected over the week. The latest data shows that storage increased by 103bcf last week, whilst the market was expecting a number closer to around 95bcf. The build was also significantly larger than the 5-year average of 81 bcf.

Metals – LME zinc stocks drop

Zinc inventories held in London Metal Exchange warehouses fell by 3,650 tonnes to the lowest since February 2020, while prices rebounded from their lowest in almost two months. The decline was driven by port Klang, Malaysia warehouses, aggravating supply tightness in the zinc market. LME on-warrant copper stockpiles rose to the highest level since 11 July. Earlier this week, data from China showed domestic output sliding more than 5% on the year.

In precious metals, the latest data from World Gold Council shows gold prices in Shanghai trading at a premium of more than US\$43/oz (highest since 2019) over their London equivalent due to strong demand for the metal in the Chinese market. China's gold imports jumped to a four-year high in August. Jewellery demand is expected to pick up ahead of the Golden Week at the start of next month. Chinese banks will also receive new import quotas post the October holidays, which are currently only allowed to import quantities set by the People's Bank of China.

Agriculture – wheat production estimates revised upwards

The latest update from the International Grains Council was moderately constructive for corn, whilst relatively soft for wheat and soybeans. The council revised down its estimates for 2022/23 global corn production by 11mt to 1,168mt. This was mainly driven by a cut in US production forecasts, which were lowered from 364.7mt to 354.2mt. Corn ending stocks for 2022/23 were cut to 262m, down from a previous estimate of 265mt. For soybeans, production in 2022/23 is expected to rise by 10% YoY to a record of 387mt, led by South American and Black Sea production. For wheat, the council increased its ending stock estimates for 2022/23 from 275mt to 286mt due to expectations of higher production. Global wheat output is seen increasing to 792mt in 2022/23 compared to an earlier estimate of 778mt. This increase is partly driven by Russia, where output is expected to reach 93.4mt, up from an earlier estimate of 87.6mt.

The latest weekly data from the USDA shows that US grain sales remained quite weak for the period ending 15 September. Weekly export sales of wheat dropped to 185kt, well below market expectations of 406kt and week ago levels of 217kt. For soybeans, US export sales declined to 446kt, down from 873kt in the previous week and below expectations of more than 890kt. Similarly, US corn export sales fell to 182kt down from 583kt in the previous week.

Authors

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

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