The Commodities Feed: Macro pressure

The commodities complex came under further pressure yesterday from a stronger USD and hawkish comments from Fed officials

Energy - weakness persists

The oil market sold off aggressively yesterday with ICE Brent falling by more than 3.3% to settle below US$90/bbl - its lowest close since early October. Macro developments continue to weigh on oil with a stronger USD and comments from some US Fed officials pointing towards hawkish policy. However, the sell-off in the oil market is not all macro-driven. There are signs of weakness in the physical oil market despite the looming EU ban on Russian crude oil. Prompt time spreads have also weakened significantly, suggesting that the spot physical market is loosening. The prompt WTI spread is trading at a backwardation of less than US$0.30/bbl, compared to US$1.18/bbl at the start of the month. Similarly, for Brent, the prompt spread has fallen from US$1.86/bbl at the start of November to just below US$1/bbl currently. The loosening in the market is a surprise, particularly given that we are seeing OPEC+ reducing supply at the moment. However, we still hold a constructive outlook for the market through 2023 on the back of falling Russian supply and OPEC+ cuts.

In the US, Henry Hub natural gas settled more than 2.7% higher on the day with colder-than-usual weather expected across large parts of the US in the coming days. In addition, US natural gas inventories increased by 64bcf over the week, which was below market expectations for an increase of around 66bcf. Despite coming in below expectations, this was still a record build for this time of year and compares to a 5-year average draw of 5bcf.

Metals – China's alumina market to move to a surplus next year

China's alumina market is expected to move to a surplus of 520kt in 2023 following capacity expansions, compared to a deficit of 490kt this year, according to Antaike. Total alumina capacity is already around 98mt, and China needs only about 100mt over the long term to feed aluminium capacity. Strong Chinese alumina exports (mainly to Russia) are expected to ease as other nations such as India and Indonesia increase shipments. Meanwhile, around 70% of Chinese alumina producers are currently making losses due to surging raw materials costs (primarily coal).

Refined copper output in China rose 11% YoY to 953kt in October, according to the latest data from the National Bureau of Statistics (NBS). Zinc output rose 9.4% YoY to 595kt while lead production increased 7.2% YoY to 687kt last month.

The global zinc market remained in a deficit of 43kt in the first nine months of 2022, compared to a deficit of 101kt during the same period a year earlier, according to data from the International Lead and Zinc Study Group (ILZSG). Total refined production fell 2.4% YoY to 10.1mt, due to lower output in Europe, while total consumption declined 3% YoY to 10.2mt in Jan'22-Sep'22. As for lead, total production fell 1.6% YoY to 9.1mt, while consumption remained almost flat at 9.2mt in the first nine months of the year. The lead market reported a deficit of 52kt in Jan'22-Sep'22, compared to a surplus of 75kt during the same time last year.

Sinter plants in the Tangshan region in China (a major steel-making hub) are cutting production by 30% for 10 days starting from 15th November, according to reports from Mysteel, as low profits continue to discourage domestic steel mills from resuming their full capacity. The group's latest survey showed that Jiangsu province-based steel plants are also expected to curb crude steel output over the coming days. Meanwhile, the latest data from China Iron & Steel Association (CISA) showed that steel inventories at major Chinese steel mills were up 1.5% in early November from late October.

Agriculture – Black Sea Grain deal renewed

Grains came under pressure yesterday after Russia agreed to renew the Black Sea grain deal, which will allow the export of Ukrainian agricultural products through Black Sea ports for another 120 days. There were no major changes made to the terms and conditions of the previous deal. While this will come as a relief, it probably is still worth pricing in some form of supply risk when it comes to Black Sea grains, given the risk that Russia could still pull out of the deal. The latest data from the UN shows that Ukraine has shipped over 11mt of wheat, corn, sunflower oil and other goods from three ports located in the Odesa region since exports resumed in August.

According to the International Sugar Mills Association (ISMA), India has entered contracts for the export of around 3.5mt of sugar so far for the 2022-23 season. Exports in October totalled around 0.2mt, below the 0.4mt shipped over the same period last year. ISMA also reported that mills have produced 2mt of sugar through until 15 November for the season that started 1 October, slightly lower than the 2.1mt produced over the same period last year. Lower production appears to be due to a number of mills in the West starting operations later this season.

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