

The Commodities Feed: Oil recovers on demand hopes

Prospects of Chinese stimulus and an unchanged demand estimate from OPEC were supportive of oil prices yesterday with ICE Brent recovering to above US\$74/bbl. For agriculture, CONAB has raised its corn and soybean production estimates for Brazil on favourable weather



Energy – OPEC keeps supply demand estimates unchanged

OPEC released its latest monthly oil market report yesterday, in which it left global oil demand growth projections unchanged at around 2.3MMbbls/d for 2023 with global oil demand pegged at 101.9MMbbls/d. However, OPEC highlighted the uncertainties to this outlook due to global economic developments and ongoing geopolitical tensions that could change the demand dynamics. On the supply side, non-OPEC supply growth estimates for the year were left unchanged at 1.4MMbbls/d with global non-OPEC oil supply estimated to be around 67.2MMbbls/d. The group continues to see the requirement for OPEC crude at around 29.3MMbbls/d for 2023 compared to the actual output of 28.8MMbbls/d for the first quarter and 28.1MMbbls/d in May 2023. OPEC's crude oil production dropped by 464Mbbbls/d in May 2023 due to supply cuts from Saudi Arabia (-519Mbbbls/d) and the UAE (-140Mbbbls/d).

Meanwhile, the API reported that the US crude oil inventories increased by around 1MMbbls over the last week, in contrast to the average market expectations of the addition of around 0.3MMbbls. Cushing crude oil stocks are reported to have increased by 1.5MMbbls. On the products side, API reported that gasoline and distillates inventories rose by 2.1MMbbls and 1.4MMbbls respectively, over the week ending 9 June. The more widely followed EIA report will be released later today.

The latest market reports suggest that the US could purchase around 12MMbbls of crude oil for its State Petroleum Reserves as soft crude oil prices provide comfort on the supply side. The abovementioned figure includes the 3MMbbls of crude oil that is scheduled for delivery in August and another 3MMbbls/d of purchase that the US approved last week. SPR witnessed a withdrawal of around 180MMbbls last year (pushing total SPR inventory to a 40-year low of 354MMbbls currently) due to crude oil supply shortages after the Russia-Ukraine war and these purchases are aimed to refill the inventory.

Metals – Aluminium production resumption plans in Yunnan

SMM expects that the increase in rainfall has resulted in increased hydropower generation in the Yunnan province in China. It is expected that the local government will issue a specific power load distribution notice on 15 June. As per the reports, aluminium smelters in Yunnan would be allowed to resume 20% of the halted capacity and further resumption will depend on future power supply. As of 12 June, installed aluminium capacity in Yunnan stood at close to 5.6mt (including 400kt to be transferred), while operating capacity was about 3.3mt, with roughly 2mt of capacity being idled.

As per the latest reports, Boliden halted operations at its Ronnskar copper smelter following a major fire incident at the facility located in Northern Sweden. The company further added that the plant's electronic refinery has been completely damaged and needs to be rebuilt. Meanwhile, an initial assessment indicates that the main part of the smelter production can be resumed within a few weeks, however, it can take several years to bring back operations fully back to normal. The smelter produced 218kt of copper last year. As for zinc, Boliden announced to temporarily halt production and exploration at its Tara zinc mine in Ireland and would place the mine into care and maintenance within the next month. The decision came as the mine had been hit by operational issues, declining zinc prices and high energy costs. It is Europe's largest zinc mine with more than 2mt of ore being extracted annually.

Meanwhile, the latest LME COTR report shows that net bullish positions for copper increased by 3,104 lots for a second consecutive week to 45,549 lots as of last Friday. Among other metals, speculators increased their net long positions in zinc by 1,831 lots after declining for two consecutive weeks to 23,350 lots in the week ending 9 June. In contrast, speculators reduced their net long positions in aluminium by 1,725 lots for a third consecutive week to 106,991 lots as of last Friday.

Agriculture – Unica reports higher cane crush

The latest fortnightly report from UNICA shows that sugar cane crushing in Centre-South Brazil increased by 5.5% year-on-year to 46.2mt in the second half of May as favourable weather boosts productivity. This was largely in line with the average market expectation of around 46.3mt. Cumulatively, sugar cane crush rose 16.8% YoY to 125.4mt in the 2023/24 season so far. Meanwhile, sugar production rose by 25.2% YoY to 2.9mt in the second half of May, with around 48.8% of cane allocated to sugar production. The market was expecting a number closer to around

2.8mt. Cumulatively, sugar production rose by 37.7% YoY to around 7mt.

Brazil's agriculture agency, CONAB, has raised its soybean production estimates for 2022/23 as supportive weather conditions resulted in improved yields. In its monthly report, CONAB estimates domestic soybean production to reach record highs of 155.7mt in 2022/23, in line with the average market expectations and higher than its previous estimates of 154.8mt. Soybean production was reported at 125.6mt in 2021/22. Corn production estimates were marginally revised up to 125.7mt for 2022/23 compared to the previous estimates of 125.5mt, hovering below the lower end of the market expectations of 126mt. In 2021/22, Brazil's corn output was at 113.1mt.

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