

The Commodities Feed: OPEC lowers demand expectations

Oil prices came under pressure after OPEC revised down its forecasts for oil demand. Aluminium supply risks are growing after reports that the US is considering imposing a ban on Russian aluminium



Energy- OPEC lowers demand forecasts

Oil prices traded lower yesterday with ICE Brent settling down 1.95%. The market is now down almost 6% from its recent peak last Friday. The latest monthly report from OPEC did not help sentiment. OPEC have lowered their demand growth forecasts for both 2022 and 2023. For 2022, demand growth forecasts were reduced by around 460Mbbbls/d, which would leave demand growing by 2.64MMbbbls/d this year. For 2023, growth forecasts were lowered by around 360Mbbbls/d to leave demand growth at 2.34MMbbbls/d. These downward revisions were driven by a combination of Covid restrictions in China, inflationary pressure and growth concerns, particularly in Europe. OPEC also sees demand for their crude oil at 29.4MMbbbls/d, which is below September production levels of around 29.8MMbbbls/d. It is, however, important to remember that if we see effective cuts from OPEC of a little over 1MMbbbls/d through 2023, this should mean that global oil inventories continue to decline next year.

There are more concerns around European energy infrastructure after an oil leak was detected

along part of the Druzhba pipeline in Poland. The section, in which the leak was found, carries Russian oil to Poland and Germany. For now, Poland believes that the leak is due to an accident rather than sabotage. European countries are on high alert when it comes to energy infrastructure following the Nord Stream incident.

The latest numbers from the API released overnight show that US crude oil inventories increased by 7.05MMbbls over the last week, whilst gasoline stocks increased by 2.01MMbbls. However, the concern going into winter is still around the middle distillate market. The API reported that distillate fuel oil inventories fell by 4.56MMbbls over the week.

Metals – US considers Russian aluminium ban

LME aluminium prices rallied yesterday, settling more than 3% up on the day. This came after reports that the US is considering a complete ban on Russian aluminium in response to Russia's military escalation in Ukraine. According to a Bloomberg report, the Biden administration is considering three options: an outright ban, increasing tariffs to levels which would basically result in an effective ban or sanctioning Rusal. Russia is the world's second-largest producer of aluminium after China and Russian supplies account for around 10% of total US aluminium imports.

The latest data from the International Lead and Zinc Study Group (ILZSG) shows the global zinc market remained almost balanced with a marginal supply deficit of 4kt in the first eight months of 2022, compared to a deficit of 49kt during the same period a year earlier. Total refined production fell 2.6% YoY to 8.97mt, largely due to lower output in Europe, while total consumption declined 3.1% YoY to 8.98mt in Jan-Aug'22. For lead, total production fell 1.9% YoY to 8.1mt, while consumption fell marginally by 0.5% YoY to 8.1mt in the first eight months of the year. The lead market reported a supply deficit of 25kt in Jan-Aug'22, compared to a surplus of 92kt during the same time last year.

Significant volumes of unwanted Russian-origin copper have been deposited in London Metal Exchange-approved warehouses in Germany, the Netherlands and Taiwan since the middle of September, according to a report from Reuters. LME data shows that since 15 September, copper stocks in LME warehouses in Rotterdam, Hamburg and Kaohsiung have climbed 225%, 153% and 26% respectively. LME copper stocks are up more than 40% since 15 September at 145,525 tonnes. But while inventories have increased from the lows earlier in the year (below 70kt over February/March), they remain at near historical lows, representing just two days' worth of global supply. Russia produced 920,000 tonnes of refined copper last year, about 3.5% of the world's total, according to the U.S. Geological Survey, out of which Nornickel produced 406,841 tonnes. Asia and Europe are the main export markets for Russian copper. Although Russian copper is not officially sanctioned, self-sanctioning could already be disrupting trade dynamics in the European market. The LME launched a formal discussion paper on the possibility of banning new supplies of Russian materials, including aluminium, copper, and nickel. The LME also previously announced that it will restrict new deliveries of copper and zinc from Russia's Ural Mining & Metallurgical Co. and one of its subsidiaries after the UK sanctioned its co-founder Iskandar Makhmudov.

Agriculture- US supply cuts

The latest WASDE report from the USDA was constructive for soybeans, as US yields and production estimates came in below market expectations. The agency lowered its US soybean production estimate by 69m bushels to 4.3b bushels, while yields were revised down from 50.5

bu/acre to 49.8 bu/acre. The market was expecting a production number of around 4.4b bushels and yields to be around 50.6 bu/acre. While ending stocks were left unchanged at 200m bushels (following demand revisions), the market was expecting an ending stock number of closer to 245m bushels. As for the global soybean balance, ending stocks for 2022/23 were increased from 98.9mt to 100.5mt, largely on account of Brazil. Global soybean production estimates were increased by around 1.2mt to 391mt with the majority of the supply addition coming from Brazil (+3mt).

For corn, 2022/23 US ending stocks were lowered from 1.22b bushels to 1.17bn bushels due to lower yields and production. However, the latest numbers still come in above the roughly 1.13b bushels the market was expecting. Meanwhile, global corn production estimates were lowered by 3.8mt to 1,168.7mt due to lower supply from the US (-1.2mt) and the EU (-2.6mt), which saw global ending stocks fall by a little more than 3.3mt to 301.19mt.

Finally, the USDA lowered its 2022/23 ending stock estimates for US wheat from 610m bushels to 576m bushels, although this was still above market expectations of 563m bushels. The USDA lowered production estimates from 1.78b bushels to 1.65b bushels due to lower acreage and yields.

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