

# The Commodities Feed: Positive US macro data increases likelihood of further rate hikes

Oil prices came under pressure yesterday despite better-than-expected macro data from the US. The oil market instead is focused on the implications of this stronger data - the potential for further rate hikes



## Energy - Brent-Dubai spread flip

The oil market sold off quite aggressively yesterday following a raft of stronger-than-expected data from the US with durable goods orders surprisingly climbing in May. New home purchases also came in much better than expected, whilst consumer confidence rose to its highest level since early 2022. This strong set of data once again suggests that the Fed will likely have to hike rates further, which is obviously aligned with Jerome Powell's testimony last week. Equity markets took the data as a positive sign. However, the oil market did not. ICE Brent settled almost 2.6% lower yesterday.

Overnight the API released weekly US inventory numbers which showed that US crude oil inventories fell by 2.41MMbbls over the last week, which is more than the roughly 1.5MMbbls

decline the market was expecting. As for refined products, gasoline inventories fell by 2.85MMbbls, while distillate fuel oil stocks increased by 780Mbbls. The more widely followed EIA report will be released later today.

The Brent-Dubai spread has continued to see significant weakness over the last month - a trend that has been at play since late last year. However, the spread now sees Brent trading at a discount to Dubai. This is fairly unusual, as the Dubai benchmark reflects a lower quality of crude oil relative to Brent. OPEC+ supply cuts have played an important role in the narrowing of the spread, while the expectation that Saudi Arabia may extend its additional voluntary cut of 1MMbbls/d beyond July will also be contributing to the relative strength in Dubai. However, the move in the spread should see Asian buyers looking to the Atlantic Basin for cheaper barrels.

## Metals – LME aluminium on-warrant stocks decline

The LME copper cash/3-month spread eased slightly yesterday, falling back to a backwardation of \$19/t after the LME reported an increase in on-warrant stocks. These inventories increased by 6,175 tonnes yesterday to 31,900 tonnes, while cancelled warrants fell by 9,225 tonnes to 45,150 tonnes. Meanwhile, LME on-warrant aluminium stocks fell by 28,500 tonnes (the biggest daily decline since 2 June) to 258,875 tonnes yesterday. Cancelled warrants for aluminium also rose by 27,150 tonnes to 277,550 tonnes. The cash/3m spread did not react to changes in aluminium inventory numbers, although the flat price did settle more than 2% higher on the day. However, this was more likely on the back of hopes for more Chinese stimulus.

## Agriculture – CS Brazil sugarcane crush

The latest fortnightly report from UNICA shows that sugar cane crushing in Center-South Brazil increased by 4.2% year-on-year to 40.3mt in the first half of June, which is slightly lower than the roughly 42mt the market was expecting. The cumulative sugar cane crush for the season as of mid-June rose 13.9% YoY to 166.3mt. Meanwhile, sugar production rose by 18.7% YoY to 2.6mt in the first half of June, lower than the 2.7mt expected. Around 49% of cane was allocated to sugar production in the fortnight, higher than the 44.5% allocated to sugar in the same period last year, as higher sugar prices prompted mills to increase sugar output. Cumulative sugar output so far this season stands at 9.5mt, which is up 32.1% YoY.

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