

The Commodities Feed: Record highs for copper

Copper has hit new record highs this week as speculators jump into the market on expectations of tighter fundamentals. However, short-term fundamentals remain less constructive, which casts doubts over how sustainable the recent rally is



Energy - Natural gas strengthens on Norwegian maintenance

Rangebound trading continues in the oil market despite recent developments in the Middle East and the strength seen in other parts of the commodity complex- specifically metals. As the market waits for clarity from OPEC+ on its output policy for the second half of the year, there are some signs of weakness in the market. Refinery margins have been trending lower for some time, raising the prospect of cuts in refinery runs, particularly in Asia. In addition, the physical crude market is also weaker, reflected in the prompt Brent spread, which is trading at a backwardation of a little over US\$0.20/bbl, down from more than US\$1/bbl in late April. Signs of weakness in the lead-up to the OPEC+ JMMC meeting increase the likelihood of a full rollover of supply cuts rather than a partial rollover.

While price action in oil has been relatively boring, the natural gas market has been more buoyant. TTF continues its move higher, settling 3.25% higher yesterday, and leaving the market close to EUR32/MWh. Heavy maintenance at Norwegian facilities is providing support to the market, at a

time when we are seeing robust Asian LNG demand. The Troll field and Kollsnes processing plant will be offline today and Wednesday and flows will slowly return to normal towards the end of May. This will obviously impact pipeline flows to Europe. However, European storage is 67% full, above the 65% seen at the same stage last year and the five-year average of 53%.

Metals – Copper jumps to record highs

Industrial metals extended their rally yesterday, with copper prices breaking above US\$11,000/t and hitting record highs. Speculators have been piling into copper on the bullish narrative around tightening supply. However, recent price action is detached from short-term fundamentals, which are less supportive. Demand indicators from China are still poor. SHFE copper stocks are at record highs for this time of year, refined import premiums into China are zero and the strength in global prices should see increasing volumes of refined copper coming out of China. While it is difficult to call a top in the current market, we do not believe the recent move is sustainable. We only need to look at the recent price action in cocoa and coffee to see how quickly this trend can reverse as speculators head for the exit.

Recent numbers from the International Aluminium Association (IAI) show that average daily global primary aluminium output rose marginally to 196.6kt in April, compared to 196.5kt reported a month earlier. Total monthly aluminium output rose 3.3% year-on-year to 5.9mt last month, following higher production across all major producing nations. However, output fell 3.2% month-on-month. Cumulative production rose 4.2% YoY to 23.7mt over the first four months of the year. Chinese output increased by 4.7% YoY to 3.5mt last month, while cumulative production rose 5.5% YoY to 14.1mt.

Agriculture – US plantings gather pace

The USDA's latest crop progress report shows that corn plantings picked up well over the last week, increasing from 49% planted the previous week to 70% last week. While this is still below the 76% planted at the same stage last year, it is broadly in line with the five-year average of 71%. Soybean plantings also picked up with 52% planted, up from 35% the previous week. This leaves plantings above the five-year average of 49%, but below last year's 61%.

Weekly export inspection data from the USDA for the week ending 16 May shows that US corn shipments rose while wheat and soybean exports slowed over the last week. US weekly inspections of soybean stood at 184.1kt, down from 433.1kt in the previous week but up from the 170.1kt reported a year ago. Export inspections for wheat stood at 205.6kt over the week, lower than 383.1kt in the previous week and 440.1kt reported a year ago. Meanwhile, US corn export inspections came in at 1,210.5kt, compared to 1,004.6kt from a week ago and 1,328.8kt reported a year ago.

The Association of Indonesian Coffee Exporters and Industries expects domestic coffee production to rise 14% YoY to 10m of 60kg bags in 2024, up from 8.8m bags estimated in 2023 due to favourable weather conditions. The group added that Indonesia's bean exports may reach 250kt or less this season largely due to rising domestic demand.

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