The Commodities Feed: Renewed pressure

The commodities complex has come under further pressure. China demand concerns, lingering banking sector worries, and uncertainty over the US debt ceiling have all weighed on the complex

There appears to be some progress on the resumption of Kurdish oil flows via Ceyhan in Turkey

Energy – possible restart in Kurdish oil flows

After a strong start to the week, the oil market has come under renewed pressure more recently with Brent settling almost 1.9% lower yesterday. Most of the commodities complex came under pressure due to lingering banking concerns, worries over the US debt ceiling and questions growing over how strong a Chinese recovery we are seeing. Chinese consumer inflation data for April came in at just 0.1% year-on-year, which was below market expectations. Similarly, the producer price index also came in below expectations.

During testimony, the US energy secretary said that the Department of Energy (DoE) could start to refill the strategic petroleum reserves (SPR) once mandated releases come to an end in June. Originally the US administration had said that it would look to start refilling the SPR if WTI traded down to the US$67-72/bbl area. The market has traded down to these levels this year, but we have seen no signs of refilling. The DoE had said previously it would be difficult to refill the SPR until later in the year due to mandated releases and maintenance at storage sites.

On the supply side, there appears to be some progress on the resumption of Kurdish oil flows via Ceyhan in Turkey. Iraq's oil minister has said that exports via Ceyhan would resume on 13 May with Iraq's state-run oil company informing Turkey's Botas of the resumption. Although, there does not appear to be confirmation from Turkey yet. A return of this oil would bring in the region of 450Mbbls/d back to the market.

Markets will need to keep an eye on wildfires in Canada. Up until now, it has been the gas-producing regions within Alberta that have been affected by the fires. However, there are concerns that rising temperatures over the weekend could increase the risk of wildfires in Northern Alberta, which could affect output in the oil sands.

OPEC's monthly market report yesterday had very little in the way of changes. The group left its non-OPEC supply growth estimate for 2023 unchanged at 1.43MMbbls/d, whilst global demand growth was also left virtually unchanged at 2.33MMbbls/d for 2023. The group also reported that OPEC production fell by 191Mbbls/d MoM to 28.6MMbbls/d in April. This decline was largely driven by Iraq and Nigeria.

Metals – Copper gives up 2023 gains

Copper slumped to its lowest level since November after China's inflation data added to concerns over the strength of the country's economic recovery. Both CPI and PPI numbers for April came in below market expectations, with CPI close to zero and PPI in negative territory. Copper climbed to a high of $9,550.50/t in January amid bets of a revival in Chinese demand following the end of Covid-19 lockdowns, but it has now given back all of the 2023 gains.

In aluminium, LME on-warrant stockpiles fell by 132,675 tonnes, the most since 2019, according to data from the exchange. Most of the outflows were reported from warehouses in Port Klang, Malaysia. Meanwhile, cancelled warrants for aluminium rose by 132,500 tonnes following two consecutive days of declines, to 197,375 tonnes, the highest since 19 January, and signalling potential further outflows.

On the supply side, the Shanghai Metals Market (SMM) reported that aluminium capacity in China is expected to rise significantly in the second half of the year. Operating rates of aluminium smelters in major producing regions of Shandong, Xinjiang and Inner Mongolia remained high in March. The combined capacity in the three provinces totals around 20.65mt, which is nearly half of the country's total capacity. The group believes that roughly 930kt of aluminium capacity has been resumed as of 20 April while 212kt was newly commissioned, which almost equates to the 1.2mt of capacity reductions seen earlier. SMM estimates that another 2.63mt of aluminium capacity will be resumed while 1.57mt of new capacity will be commissioned later this year.

In steel, Mysteel reported that Baoshan Iron & Steel Co., the top steel producer in China, trimmed its factory-gate prices of steel products by CNY200/t in June due to subdued demand. The producer said that the orders for June have weakened when compared to the current month, while slow overseas consumption has resulted in lower exports.

Agriculture – UNICA reports lower cane crush

The latest fortnightly report from UNICA shows that sugar cane crushing in Centre-South Brazil stood at 21mt over the second half of April, down 12.5% from a year ago as excessive rains disrupted crushing activity. The group reported that mills lost about 10 days of crushing in April due to the above-average rainfall. The market was expecting a number closer to 26mt. However, the cumulative cane crush is still up 18.8% YoY this season to stand at 34.8mt.

Sugar production stood at 989kt over the fortnight, with around 43.8% of cane allocated to sugar production. Cumulative sugar production rose by 43.7% YoY to 1.5mt. UNICA said that around 197 mills had started processing cane for the season by the end of April, higher than the 184 mills that had started by the same stage last season.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com