

The Commodities Feed: Risk-off sentiment prevails

Uncertainty over the US debt ceiling agreement will keep the broader market sentiment cautious this week. For oil, the OPEC+ meeting this weekend will be watched closely for a decision on the output agreement



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Energy – oil trades sideways ahead of OPEC+ meeting

ICE Brent has continued to trade sideways this week as the market awaits a decision from the OPEC+ meeting this weekend (4 June). The warning from the Saudi energy minister over short-selling in oil supported prices last week, however, broader macro-economic concerns, uncertainty around the US debt ceiling agreement and the possibility of a continued rate hike in the US weighed on the sentiment. Speculative shorts in ICE Brent fell the last week after Saudi's warning, although speculative shorts in NYMEX WTI increased, giving no clear indication about the market sentiment. The possibility of another production cut from the OPEC+ at its June meeting appears slim for now, but it can't be ruled out completely.

Asian LNG prices returned to trade at a premium over European gas prices as natural gas prices in Europe continued to trade softer given ample inventories and softer demand prospects. TTF gas prices have dropped by around 37% since the start of the month while Asian LNG has dropped by

only around 17% so far. As a result, Japan-Korea LNG currently trades at a premium of around US\$1.5/MMBtu over the TTF, compared to a discount of around \$1/MMBtu at the start of the month. LNG demand from China and India appears to be recovering due to low prices which has been supportive for the Asian LNG market.

Metals – Risk-off sentiment weighs on the complex

Copper, along with other major metals, edged lower in the morning session following weakness in the Chinese equity market along with a stronger USD index. LME copper prices fell to \$8,080/t (at the time of writing) while zinc prices fell more than 1% day-on-day and led the declines among base metals this morning. The market awaits the conclusion of the ongoing US debt ceiling agreement, and any positive outcome might help to lift up the mood in the risk assets.

Meanwhile, the latest reports from the Shanghai Metals Market suggest that some smelters in China, Japan and South Korea have started the initial round of negotiations on copper treatment charges for long-term contracts with Antofagasta. The 2023/24 copper treatment charges are expected to be at least higher than the benchmark charges of \$88/t, while some Chinese smelters are expecting it to be in the triple digits due to the estimated supply shortage of copper concentrate next year.

In ferrous metals, the most active contract of iron ore trading at the Singapore Exchange failed to keep up the upward rally (seen over the last three trading days), with prices falling more than 2% day-on-day due to softening demand in the Chinese end-use industry. In China, falling industrial profits and poor demand have impacted the profit margins at domestic steel mills recently. Meanwhile, the China Metallurgical Industry Planning and Research Institute expects the total steel demand in China to drop to 910mt this year from 920mt in 2022 following weak demand from the construction sector. Steel demand from the property sector is expected to decline this year as well, while China will continue to reduce domestic steel output and replace older steel capacity this year in its constant effort to meet the set decarbonisation goals.

Agriculture – Unfavourable weather conditions hurt Vietnam's coffee shipments

The General Statistics Office of Vietnam released trade volume estimates for May which showed coffee exports at 165kt, up 16% compared to 143kt reported a year ago. However, the coffee export estimates for May are down 18% compared to the 200kt shipped in April. In the first five months of 2023, coffee exports are projected at 882kt, down 2.2% year-on-year. The fall in exports can be attributed to the severe rains witnessed in the country and many farmers shifting from coffee to alternative crops undermining production activities.

The latest comments from Russia's Agriculture Ministry on Monday confirmed that authorities are not planning to increase the grain state intervention fund to 10mt in 2023. The Ministry added that 3mt has already been purchased, which is enough for now. Previous comments from the nation's deputy prime minister suggested that the Russian government is considering the possibility of increasing the state intervention fund by 7mt to 10mt of grain for the year. In 2022, the state purchased 3.08mt of grain.

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