The Commodities Feed: Risk-off sentiment weighs on the complex

The overall risk-off sentiment has weighed on the commodity complex with both energy and metals facing the pressure. US crude oil inventory dropped by a record 17MMbbls last week, reflecting a tight physical market

Rising US treasury yields along with a stronger dollar further soured sentiment in the complex

Energy – US weekly oil inventories report record declines

The oil market came under pressure yesterday and traded weak this morning as rising US Treasury yields and strength in the USD index overshadowed a record drop in the US crude oil inventories.

The weekly petroleum status report from the Energy Information Administration (EIA) was constructive for the oil market and shows that US commercial crude oil inventories dropped by a record 17MMbbls over the last week to 439.8MMbbls, the lowest since January and around 1% below the five-year average for this time of the year. The market was anticipating a drawdown of just 0.8MMbbls while the American Petroleum Institute (API) reported a withdrawal of 15.4MMbbls the day before.

Meanwhile, oil inventories at Cushing, Oklahoma, fell by 1.3MMbbls for a fifth consecutive week to 34.5MMbbls, the lowest since the first week of May. The inventory withdrawal mainly comes amid a backdrop of a jump in exports which increased to around 5.3MMbbls/d last week compared to 4.6MMbbls/d in the preceding week. The majority of the demand came from Asian refiners as they boosted the purchase of US oil following the output cuts by OPEC+ members.

As for refined product inventories, gasoline inventories rose by 1.5MMbbls, against a forecast for a decline of 1.3MMbbls, while distillate stockpiles fell by 0.8MMbbls last week, higher than expectations of a decline of 0.3MMbbls. Meanwhile, refineries operated at 93.5% of their capacity, up from 93.1% in the previous week and 92.9% for the same period last year. Domestic crude oil production remained largely unchanged at 12.2MMbbls/d last week.

Metals – Risk-off sentiment weighs on the complex

The overall risk-off sentiment across the financial markets weighed on the industrial metals yesterday. Rising US treasury yields along with a stronger dollar further soured the sentiments in the complex. LME copper extended the declines for a third straight session yesterday, while nickel led the decline amongst the base metals.

Recent data from the Chilean copper commission Cochilco show that Codelco's total copper production stood at 120.3kt in June, the highest since the start of the year. However, cumulative output fell by 12.7% year-on-year to 642kt over the first half of the year, primarily due to delays in structural projects. Codelco also trimmed its annual production guidance to the lowest in 25 years. However, BHP's Escondida copper mine reported gains of 8.7% YoY (32.8% month-on-month) to 111.4kt (the biggest monthly output in at least 3.5 years) last month, while year-to-date production rose by 5.5% YoY to 558.8kt in the first half of the year.

Meanwhile, officials from the China Iron and Steel Association (CISA) are proposing the cancellation of night-time trading of futures for metals, which includes iron ore and steel futures. The recommendation came primarily to ease the volatility and to facilitate stable prices and trading for major metals.

Agriculture – Indian sugar output to decline

The latest estimates from the Indian Sugar Mills Association (ISMA) show that sugar production in the nation could fall by 3.4% YoY to 31.7mt in the 2023/24 season (starting 1 October), roughly in line with the market expectations. It is expected that mills would divert 4.5mt of sugar to make ethanol in 2023/24, up from 4.1mt a year earlier. y

Meanwhile, the association estimates domestic consumption to be around 27.5mt, leaving a surplus of 4.2mt in 2023/24. The area under sugar cane is estimated to be around 5.98m hectares next season, similar to the level seen a year earlier.

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