The Commodities Feed: Sentiment remains negative

Sentiment remains largely negative for the commodities complex. For oil, the market will be keen to see what revisions, if any, the IEA makes to its global oil demand forecasts later in the week

Energy: Specs cut net long in Brent

The oil market has now gone through a fourth consecutive week of declines and price action early Monday suggests that sentiment remains negative. WTI is trading back below US$70/bbl once again, whilst Brent continues to trade comfortably below US$75/bbl. The market is struggling to shake off demand concerns, whilst uncertainty over the US debt ceiling will certainly not be helping.

Speculators reduced their net long positions in ICE Brent by 25,094 lots over the last reporting week to 112,742 lots as of last Tuesday - the smallest net long since December. The move was predominantly driven by fresh shorts with the gross short position now just over 100k lots, the highest level since July 2021. This relatively large short does leave some positioning risk for the market. Any convincing move higher in the market could lead to a short-covering rally. As for ICE gasoil, whilst speculators slightly reduced their net short over the last reporting week, they still hold a sizeable net short of 28,547 lots.

Reports over the weekend suggest that the G7 and EU are looking to ban the import of gas via pipelines that Russia has already halted. Given that this shouldn't lead to any changes in flows in the short term, it shouldn't change the fundamental outlook for the market. Instead, the move would be more symbolic. Since the war, Russia has halted almost all pipeline gas flows to the EU with the exception of volumes via Ukraine and TurkStream. Daily Russian gas flows are currently down in the region of 85% from the same time in 2021. Given that European gas prices have fallen more than 50% so far this year and with EU gas storage more than 60% full already, the EU is likely confident in formalising such action. The move could also give other suppliers to the EU the needed assurances to make the necessary investment in infrastructure. We will likely need to wait for the G7 summit in Hiroshima later this week for confirmation of the ban.

As for the calendar this week, as already mentioned, G7 members will be meeting in Hiroshima for three days starting on Friday with energy on the agenda. The IEA will also release its latest monthly oil market report on Tuesday, which will include the agency's latest outlook for the market. Given current concerns over the demand outlook, the market will be on the lookout for any revisions to their demand numbers. Lastly, China will release April industrial output numbers on Tuesday, followed by further trade data for April on Thursday and Saturday.

Metals: Risk-off sentiment weighs on the complex

Sentiment across the commodities complex remains negative, including for base metals. Speculators increased their net short position in COMEX copper for a third straight week by 503 lots over the last week, leaving them with a net short of 16,170 lots as of 9 May, the most bearish position held by speculators since the week ending 16 August.

In precious metals, the World Platinum Investment Council expects the global platinum market deficit to widen to 983koz in 2023 following higher demand from the automotive and investment sector along with limited supplies from South Africa. This compares to a previous estimate of a supply deficit of 556koz for the current year. Total consumption is expected to rise by 28% year-on-year to 8.18moz, whilst global supply is forecast to fall by 1% YoY to 7.19moz in 2023. Investment demand is expected to increase significantly this year, whilst automotive demand is expected to grow by 12% YoY and industrial demand is expected to increase by 17% YoY.

Agriculture: USDA's first crop estimates for 2023/24

Friday's WASDE report from the USDA provided the first forecasts for the 2023/24 marketing year. The report was fairly bearish for corn and soybeans, whilst constructive for the wheat market. For corn, the USDA expects domestic production to rise 10% year-on-year in 2023/24, to a record 15.3b bushels due to improved yield and higher acreage. Consequently, the US ending stocks for 2023/24 are estimated at 2.22b bushels, higher than the 1.42b bushels at the end of 2022/23. For soybeans, the USDA expects domestic ending stocks to total 335m bushels, much higher than the 215m bushels estimated for 2022/23. US soybean production is seen at 4.51b bushels in 2023/24, up from an estimated 4.28b bushels in 2022/23 primarily due to higher yields. Meanwhile, US exports are projected to decline by 40m bushels to 1.98b bushels following increased overseas competition. The USDA numbers were somewhat bullish for wheat, with domestic ending stocks for 2023/24 set to fall by 42m bushels (-7% YoY) to 556m bushels, the lowest in 16 years.

For the global market, the USDA expects world corn production to total 1.22bn tonnes in 2023/24, up 6% year-on-year. Supply gains from the US (+39mt), Argentina (+17mt) and the EU (+11.3mt) should more than offset supply losses from Ukraine (-5mt) and Brazil (-1mt). Global ending stocks for 2023/24 are projected at 312.9mt, up by 15.5mt from the previous year. Similarly, for soybean, the agency forecasts global soybean production to rise almost 11% YoY to 410.6mt (+40.2mt YoY) with higher supplies coming from Argentina (+21mt), Brazil (+8mt), the US (+6.4mt) and Paraguay (+1.2mt). Meanwhile, global soybean demand is also expected to remain healthy, increasing by 6% YoY to 386.5mt with demand growth mainly coming from Argentina (+5.5mt), China (+5.3mt) and Brazil (+2.7mt). Global soybean ending stocks are estimated at 122.5mt for 2023/24, compared to 101mt from a year ago. For wheat, the USDA expects global wheat ending stocks to total 264.3mt for 2023/24, slightly lower than the 266.3mt estimated for 2022/23.

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