

The Commodities Feed: Steel demand in China disappoints

The pick-up in Chinese steel demand remains slower than expected this year, continuing to weigh on steel profit margins and iron ore prices. Meanwhile, a bearish inventory report from the API put pressure on WTI prices this morning



Source: Shutterstock

Metals – Chinese steel industry under pressure

Steel inventories at major Chinese steel mills rose 3% year-on-year to 19.5mt in mid-March and remained almost flat compared to levels seen in early March, according to data from the China Iron and Steel Association (CISA). Inventories are increasing as the pick-up in steel consumption from end-users is weaker than expected at this time of the year. Meanwhile, crude steel production at major mills fell marginally by 0.5% from mid-March and 9% YoY to 2.05mt/d in late March, as some steelmakers had begun maintenance stoppages on their blast furnaces in response to margin losses. The most active contract of iron ore trading at SGX fell for a second consecutive day this morning with prices falling below \$103/t amid weak demand from the Chinese steel industry primarily due to the prolonged property sector crisis.

Meanwhile, the latest LME COTR report released yesterday shows that investors boosted net bullish positions for copper by 841 lots for a sixth consecutive week to 80,535 lots for the week ending on

22 March 2024, the highest bullish bets since mid-October 2020. The fund managers have been increasing bullish bets in copper following signs of supply stress and higher prices. Similarly, net bullish bets for aluminium rose by 8,010 lots for a third straight week to 122,900 lots at the end of last week. This was the highest level since the week ending on 2 February 2024. In contrast, money managers decreased net bullish bets for zinc by 2,851 lots to 26,074 lots as of last Friday.

Energy – Oil declines on higher inventory pressure

Oil traded under pressure in early morning trading as a report from the American Petroleum Institute showed a substantial build in US inventories, against the market expectations for a drawdown. Prices of both ICE Brent and NYMEX WTI fell almost 1% today amid a mixed performance in the broader financial markets.

Numbers released by the API overnight were bearish for the oil market. US crude oil inventories are estimated to have increased by 9.3m barrels over the last week, significantly higher than the market expectations of a draw of 0.7m barrels. In addition, the API reported that Cushing crude oil stocks increased by 2.4m barrels. If confirmed by the more widely followed Energy Information Administration report, this would be the biggest weekly gain since January 2023. On the products side, gasoline inventories fell by 4.4m barrels, while distillate stocks increased by 0.5m barrels over the week. The EIA report will be released later today.

Agriculture – Cocoa prices hit record highs

Cocoa futures surged over \$10,000/t to the highest level on record yesterday amid increasing concerns over supply shortages. The cocoa market is currently struggling with poor crops in major producing regions in West Africa. As per the estimates from the Ivory Coast cocoa regulator, the upcoming mid-crop, which officially starts in April, is expected to fall to 400-500kt due to adverse weather and lack of fertilisers, compared to 600-620kt reported a year earlier. The regulator further added that the weather will play a crucial role in shaping the market balance for the season. Earlier, the International Cocoa Organization (ICCO) also projected that the ratio of stockpiles to grindings will fall to the lowest in more than four decades this season. The group also forecast the existing supply deficit to widen to 374kt this season, compared to a deficit of 74kt seen last season.

Weekly data from the European Commission shows that soft wheat shipments from the EU fell 2% YoY and reached 22.8mt as of 23 March, down from 23.2mt for the same period last year. A move by the EU to extend free trade measures with Ukraine has further weighed on the shipments from the bloc. Morocco, Nigeria, and Egypt were the top destinations for these shipments. Meanwhile, EU corn imports continued to fall and stood at 13.2mt, down 38% YoY due to strong domestic output.

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