

The Commodities Feed: Supply risks vs demand concerns

Commodity markets largely shrugged off developments in Russia over the weekend, with the focus now back on China demand concerns and the US Federal Reserve



Energy – Rangebound crude

Energy markets largely shrugged off events over the weekend in Russia. Oil opened strongly yesterday, but gave back a lot of these gains as the day progressed. As a result, ICE Brent settled just 0.45% higher on the day. The more hawkish tone from the US Fed appears to be capping oil prices and the broader commodities complex, while there remain broader concerns over China's economic recovery. Up until now, oil demand indicators for China have been good, with stronger crude oil imports and higher apparent domestic demand. The concern is whether this can continue as there are clearly still some weak spots within the Chinese economy – specifically with industrial production and the property sector.

For the oil market, there is little on the calendar for today. ICE Brent August options expire today, which will be followed by the August futures expiring on Friday. The latest open interest data (which is up until Friday) shows that there is still open interest of more than 17k lots at the \$75 strike for August call options. Meanwhile, we will also get US inventory numbers from the American Petroleum Institute (API) later in the day.

The European natural gas market had a volatile trading session yesterday with TTF trading in a range of EUR5.40/MWh over the day. Obviously, there would have been concerns over the remaining Russian pipeline flows to Europe following developments in Russia over the weekend. However, fundamentals for the European gas market are still bearish in the short term.

EU gas storage continues to fill up and is now more than 76% full, well above the 57% seen at the same stage last year and also higher than the five-year average of 60%. In the absence of any significant supply shocks, EU gas storage will hit the European Commission's target of 90% full well before 1 November. This suggests that later in the summer we could see further pressure on prices and a deeper contango along the forward curve – there is already an almost €20/MWh contango between the August 2023 and December 2023 TTF contract.

Metals – Copper spreads strengthen

While LME copper prices remain under pressure given concerns over Chinese demand and a more hawkish Fed, LME copper spreads continue to strengthen, reflecting some tightness in the prompt market. The cash/3m spread rallied by more than \$12/t yesterday to a backwardation of \$31/t – the strongest we have seen this spread since November last year. Available inventories in LME warehouses continue to fall with on-warrant stocks yesterday falling by 4,400 tonnes to just 25,725 tonnes, the lowest since October 2021.

Recent data from the China Iron and Steel Association (CISA) show that steel inventories at major Chinese steel mills climbed for a second consecutive week to 16.2mt in mid-June, up 2.64% compared to early June. Meanwhile, crude steel production at major mills rose by 1.4% from the abovementioned period to 2.26mt/d in mid-June.

Agriculture – US corn and soybean concerns

The United States Department of Agriculture's (USDA's) latest crop progress report continues to highlight concerns for the US corn and soybean crop, given current dry weather conditions. The USDA rated 50% of the corn crop in good-to-excellent condition over the last reporting week, lower than 55% a week ago and 67% seen at the same stage last year. In fact, the rating for the corn crop is the lowest seen for this time of year since 1988, whilst it is a similar story for soybeans, with 51% of the soybean crop rated good-to-excellent condition, down from 54% a week ago and 65% seen at the same stage last year. These poor crop conditions will leave speculative shorts nervous as we move through the growing season, and this is the reason why we have already seen some large amounts of short covering. Meanwhile, for winter wheat, an improvement was seen in crop conditions with 40% of the crop in good-to-excellent condition, up from 38% seen a week ago.

Ukraine's Agriculture Ministry reported that Ukrainian grain exports remained almost unchanged from the previous year and stood at 48.4mt for 2022/23 as of 26 June with the current season nearing its end. These shipments include 16.6mt of wheat (down 11% year-on-year) and 28.8mt of corn (up 23% YoY). In a separate data release, the EU's Monitoring Agricultural Resources unit projects Russia's wheat harvest to fall 17% YoY to 86.7mt for 2023, as mixed weather conditions continue to hurt the wheat crop.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

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