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COMMODITIES DAILY

The Commodities Feed: Supply tightness could support copper

Codelco has lowered its copper production guidance for the year due to production disruptions that could tighten the market. Meanwhile, copper inventories at LME and SHFE remain low



We see a brighter outlook for copper amid easing trade tensions and resilient China demand

Energy: EU gas inventory continues to increase at a stable pace

Crude oil prices continued positive momentum on Friday and ended the week on a high note with ICE Brent rising to around US\$85/bbl while NYMEX WTI also strengthened to US\$80.6/bbl. Market expectations of an extension of the supply cut by Saudi Arabia remain supportive of oil prices in the immediate term.

The price discount for Western Canada Select (WCS) crude oil over the WTI increased to around US\$15.3/bbl last week as an unplanned outage and advanced maintenance schedule at BP's Whiting refinery fuelled pessimistic sentiment. BP had to shut the 100Mbbbls/d cat feed hydrotreater plant on Friday, which could push the maintenance schedule for the refinery from September to August. The 435Mbbbls/d Whiting refinery is one of the major refiners of Canadian crude and early maintenance at the plant could result in lower demand for Canadian crude in the short term. Higher discounts also reflect the additional cost of transportation as the crude travels further for refining.

TTF gas prices retreated to below €26/MWh on Friday after increasing to €32.6/MWh earlier in the week. The supply side remains healthy, as reflected by inflows of gas into storage tanks. The EU gas inventory increased by another 22.6TWh over the week, taking the gas storage to 85.4% full as of 29 July. European gas storage currently is comfortably above the five-year average of around 70% for this point in the season. The gas injection has been consistent at around 20-23TWh per week for the last two months and at this rate, European gas storage could reach near-full capacity by the end of September 2023. Meanwhile, the discount of European gas prices compared to Asian LNG prices increased to an average of around US\$2.1/MMBtu in July compared to an average of around US\$0.3/MMBtu in June 2023. The higher discount in the European gas market could help divert more LNG cargoes towards Asia and reduce the supply glut in the European market.

Metals: Codelco lowers copper output guidance

Codelco has lowered its 2023 annual production guidance to 1.31mt-1.35mt, from its previous guidance of 1.35mt-1.42mt, as it expects more production halts in the second half of the year. The revised output guidance includes the recent damage at its El Teniente underground mine which is expected to curb production levels. Codelco's copper output has declined 14% year-on-year to 633kt over the first half of the year, while quarterly output also declined 17% YoY in 2Q23, primarily due to project delays and accidents at mines.

Weekly data from the Shanghai Futures Exchange (ShFE) shows that inventories for base metals remained mixed over the last week. Copper weekly stocks fell by 16,608 tonnes (-21.3% week-on-week) for a second consecutive week to 61,290 tonnes, while aluminium inventories declined by 2,049 tonnes (-1.8% WoW) to 110,996 tonnes as of Friday. In contrast, weekly exchange inventories for zinc, lead and nickel rose by 7.7%, 20.4% and 13.9%, respectively, at the end of last week.

In steel, US Steel confirmed that it has idled a blast furnace out of three in Slovakia. A blast furnace at US Steel Kosice has been temporarily idled for about 40 days amid seasonally weak demand. The shipments from the facility are expected to be 10kt lower in 3Q23 compared to the previous quarter.

Lastly, the latest CFTC data shows that speculators increased their bullish bets in COMEX copper by 2,803 lots for a second consecutive week over the last reporting week, leaving them with a net long position of 13,502 lots as of last Tuesday.

In precious metals, speculators decreased their bullish bets in COMEX gold by 19,616 (after increasing for three consecutive weeks), to leave them with a net long of 116,291 lots as of the last reporting week.

Agriculture: Wheat extends decline

CBOT wheat futures extended the fall for a fourth consecutive session this morning as worries surrounding the Black Sea dilemma were overshadowed by the prospects of increasing supplies from other major producing nations. Recent reports from the last week's US crop tour showed that the estimates of the spring wheat yield were higher than the USDA's latest estimate, whilst France's soft wheat production is also expected to remain higher than last year. Meanwhile, Russia is expected to increase its overseas shipments of grains to as much as 60mt in the new season.

In its latest report, the European Commission projects that the EU's soft wheat harvest will reach 126.4mt this year, down from 128.9mt estimated in June. The group also trimmed the corn crop projections to 63mt, compared to the earlier estimate of 63.7mt whereas the export estimates were kept unchanged at 32mt.

The latest CFTC data shows that money managers turned net bullish in CBOT corn as gross longs outnumbered gross shorts by 26,603 lots as of 25 July, compared to the net bearish bets of 46,926 lots from a week ago. Looking at wheat, the net speculative short positions decreased by 14,086 lots to 40,332 lots over the last reporting week. The move was driven by a drop in gross shorts by 13,674 lots taking the total to 98,192 lots. Meanwhile, speculators increased their net bullish bets for soybean by 24,925 lots for a second consecutive week to 120,739 lots fuelled by an increase in gross longs. For sugar, money managers increased their net bullish positions by 31,980 lots to 178,530 lots. The gross long position in sugar increased by 29,183 lots compared to last week taking the total to 229,126 lots.

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