

The Commodities Feed: USDA pushes up wheat supply estimates

The monthly WASDE report from the USDA was soft for wheat as higher supplies from Russia and India have pushed up inventory estimates. Aluminium output in China remains constrained due to power shortages which could keep supplies tight



Energy: ICE Brent retreats further

ICE Brent extended losses today and has been trading down 1% in the morning session on continued demand concerns and some chatter about an interim US-Iran nuclear deal in the pipeline; although both countries have denied any progress on the deal for now. ICE Brent has dropped below the level it was trading at before the latest OPEC+ meeting and Saudi's surprise cut of 1MMbbls/d for July. Looking at the calendar for the week, OPEC and the International Energy Agency (IEA) are scheduled to release their monthly oil reports on Tuesday and Wednesday. On the macro front, the Federal Reserve and the European Central Bank have meetings this week and will make a decision on interest rates on Wednesday and Thursday, respectively. The rate decisions will be watched closely for broader economic projections and crude oil demand expectations.

Meanwhile, speculators increased long positions last week apparently in response to the supply

tightness from OPEC+ especially from Saudi Arabia. Exchange data shows that the managed money net longs in ICE Brent increased by 21,759 lots over the last reporting week to leave them with a net long of 182,059 lots as of last Tuesday - the largest net long since end-April. Meanwhile, speculators built fresh longs of 2,862 lots in NYMEX WTI to push up the speculative net long position by 8,086 lots to 119,424 lots as of 6 June 2023.

The latest data from Baker Hughes shows that the US oil rig count increased for the first time in seven weeks by one over the last week to 556. However, the total rig count (oil & gas combined) in the US extended its decline for a sixth consecutive week and stood at 695 (lowest since 15 April 2022) as of 9 June, compared with 733 during the same period last year. This is not a great signal for the market in terms of US supply growth, particularly with the tighter supply outlook following OPEC+ supply cuts.

Metals: Supply woes for aluminium

Recent reports suggest that a rising drought in China is once again threatening to undermine the production of aluminium in the country. Rainfall in China's Yunnan region has declined to multi-decade lows which might result in power shortages, impacting operations of the aluminium smelters. This has also raised doubts over the recent plans of Yunnan province to restart the smelters on increased power supplies. Meanwhile, a recent survey from SMM showed that China's aluminium output rose last month while according to Mysteel, total primary aluminium production declined by 0.6% year-on-year to 3.44mt in May.

Weekly data from Shanghai Futures Exchange (ShFE) shows that aluminium weekly stocks fell by 23,370 tonnes (-16% week-on-week) for a twelfth consecutive week to 126,669 tonnes (lowest since the start of the year) as of Friday. Among other metals, weekly exchange inventories for copper fell by 10,175 tonnes (-12% WoW) to 76,473 tonnes while nickel inventories declined by 384 tonnes (-10.4% WoW) to 3,294 tonnes at the end of last week. Meanwhile, lead and zinc inventories rose by 7% WoW and 1.4% WoW, respectively as of Friday.

LME tin prices rose to the highest level in over a month last Friday as Guangxi China Tin Group announced an extension of the maintenance period for its Laibin smelter. The smelter operations have been put on hold for 40-50 days starting from 27 May. Meanwhile, China's total refined tin production is estimated to decline by 12.2% YoY (down 8.3% MoM) to 14.4kt in May due to the tightening of raw material supplies.

The latest CFTC data shows that speculators decreased their bearish bets in COMEX copper by 12,047 lots over the last reporting week, leaving them with a net short position of 10,965 lots (lowest since the last week of April) as of last Tuesday. Moving to precious metals, speculators increased their bullish bets in COMEX gold by 6,312 lots to leave them with a net long of 114,165 lots as of the last reporting week.

Agriculture: USDA revises estimates for wheat supplies higher

In its latest WASDE report, the USDA increased estimates for US corn inventory at the end of 2023/24 to 2.26bn bushels compared to earlier estimates of 2.22bn bushels mainly on account of upside revisions in beginning stocks; the market was expecting inventory estimates to be around 2.24bn bushels. The agency left the production, exports, and demand estimates unchanged at 15.27bn bushels, 2.1bn bushels and 12.39bn bushels, respectively. Globally, the agency revised higher the 2023/24 production estimates by 3.1mt, reaching 1.22bn tonnes, primarily due to

higher corn production in Ukraine (+2.5mt) following the expansion in the cultivated area. Projections for global corn demand have been revised up by 2.2mt to 1.21bn tonnes with the majority of it coming from the European Union (+2mt). Meanwhile, global corn ending stock projections were increased to 314mt, compared to the average market estimates of 312.9mt.

For soybeans, the agency increased the US ending stock estimates from 335m bushels to 350m bushels at the end of 2023/24 again due to upside revisions in beginning stocks. The inventory estimates are higher than the market expectation of around 341m bushels. Domestic supply, demand and export estimates were left unchanged. Similarly, the global soybean inventory estimates at the end of 2023/24 were revised higher by 0.8mt to 123.3 largely due to upside revisions in beginning stocks. The market was expecting a number closer to 122.2mt. Beginning stocks are revised higher by 0.3mt to 101.3mt, as higher stocks in the United States and Brazil partially offset the lower stocks in Argentina. Global supply and demand witnessed marginal changes with supply estimates going up by 0.1mt on higher supply from the EU (+0.1mt) and demand estimates falling by 0.4mt mainly on lower demand from Argentina (-0.3mt).

For wheat, the USDA revised up its projections for 2023/24 domestic supplies by 6m bushels to 1.66bn bushels; in line with the average market expectation of 1.67bn bushels. The increase is driven by higher Hard Red Winter production, offsetting the output reductions in other varieties of wheat. Meanwhile, ending stock projections were revised higher to 562m bushels considering the higher production estimates. However, it remained lower compared to the market expectations of 566m bushels. For the global market, production estimates are revised higher by 10.4mt to 800.2mt, primarily due to larger supplies from Russia (+3.5mt), India (+3.5mt), the EU (+1.5mt), and Ukraine (+1mt). Global consumption estimates were revised higher by 4.4mt to 796.1mt driven by higher demand from China (+2mt), Russia (+1mt), and India (+0.5mt). Meanwhile, ending stock projections for 2023/24 are raised by 6.4mt to 270.7mt, higher than the market expectations of 264.3mt.

Authors

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

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