

The Commodities Feed: Under pressure

Commodities have come under pressure. Poor macro data from China and a rebound in the USD have weighed heavily on the complex. Specifically for oil, the prospect of an Iranian nuclear deal is certainly not helping



Energy - edging closer to a nuclear deal

Oil is under further pressure. ICE Brent settled more than 3% lower yesterday, whilst WTI broke below US\$90/bbl. This weakness has carried through into early morning trading today. Weaker than expected Chinese data has raised demand concerns once again, not just for oil, but for the broader commodities complex. As mentioned in [yesterday's note](#), refinery activity in July fell to its lowest levels since March 2020, whilst apparent demand was down around 10% YoY. These demand concerns have coincided with a recovery in the USD, which surged yesterday.

Prospects of an Iranian nuclear deal have only weighed further on the market. Iran has reportedly responded to the EU's proposal for a resumption of the Iranian nuclear deal. And the Iranians expect to receive a response in the next couple of days. The Iranian foreign minister is of the view that a deal could be reached in the next few days, although it will require some 'flexibility' from the US. As for the US' stance, they will reportedly relay their views directly to EU negotiators. A revival of the deal and lifting of oil sanctions could potentially see Iran increasing oil supply in the region of 1.3MMbbls/d over time, which would help to ease some of the expected tightness in the oil

market over 2H23.

While the short term outlook appears more negative, the longer term outlook is still somewhat constructive. US drilling activity is increasing, although the pace has been slower than we have seen in previous upcycles. US producers still seem to be relying on drilled but uncompleted wells (DUCs). The latest drilling productivity report released by the EIA yesterday shows that DUC inventory fell by 20 over July, to leave the total number of DUCs at 4,277- the lowest since at least December 2013. We have seen 25 consecutive months of declines in the DUC inventory, falling by 4,530 over that period. US producers have relied on DUCs to sustain production post Covid, however, given the low inventory, producers will be unable to rely on DUCs moving forward, instead we will need to see a further increase in drilling activity.

Hot weather in Europe has provided a boost to European natural gas prices. TTF settled almost 6.8% higher yesterday, whilst prices hit EUR230/MWh at one stage yesterday- levels we have not seen since early March. However, European gas storage continues to edge higher, reaching almost 75%, which is in-line with the 5-year average and well above the 62% seen at this stage last year. Assuming we do not see any further reductions in Russian gas flows, the EU should hit its target of having storage 80% full by 1 November. However, that is a big assumption to make in the current environment.

Metals - power shortages in Sichuan province

The announcement of an interest-rate cut from the People's Bank of China (PBoC) failed to stop a slide in the metals complex yesterday. Instead market participants continue to be concerned about the demand outlook, following the latest poor economic data from China, as well as the domestic Covid situation. A stronger USD only applied further pressure to metal markets.

Whilst there are clear demand concerns, supply risks are growing. Sichuan province in China has ordered some industrial plants to halt activities from 15 August until 20 August, as heat waves have led to power shortages. The region has been struggling with high temperatures and dry weather since July, and relies heavily on hydro for power generation. According to the Shanghai Metals Market, around 390ktpa of capacity in Sichuan province has been affected by the power shortages.

Turning to ferrous metals, the SGX's most active iron ore contract fell close to 4% yesterday, given the weaker macro data from China. The latest data from the National Bureau of Statistics shows that crude steel output fell 6.4% YoY to 81.43mt in July, as demand from the property sector continues to worsen. Cumulatively, output fell 6.4% YoY to 609.3mt over the first seven months of the year. Shandong province (the third largest steel producing hub) in East China, plans to cap steel output at around 76mt in 2022, slightly lower than the 76.5mt produced last year.

Agriculture - Russian grain exports off to a slow start

The latest numbers from the Russian Grain Union shows that Russia exported 4.67mt of wheat in the season that began on 1 July, down 13% compared to a year earlier. It is also estimated that the number of nations buying Russian wheat has reduced from 43 a year ago to just 23. Total grain exports declined 12% YoY to 5.6mt over the same period.

The USDA's latest weekly crop progress report for the US shows that 90% of the winter wheat crop was harvested as of 14 August, compared to 86% a week ago and 97% at the same stage last

season. For corn, the USDA rated 57% of the crop in good-to-excellent condition, down from 58% a week ago and 62% last year. 58% of the soybean crop was rated good-to-excellent, marginally down from 57% last year.

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