The Commodities Feed: Unfavourable weather pushes softs higher

The unfavourable weather in Africa has tightened the supply-demand balance of cocoa, with prices reaching a multi-decade high. Bad weather has also been impacting sugar supply from Asia with the market likely to see a deficit this season

Energy: Volatility remains high with focus on the Middle East

Crude oil prices have been trading firm this morning after falling by around 2.5% on Monday to below US$90/bbl as the uncertainty in the Middle East keeps the energy market volatile. Although there was no further escalation in the Israel-Hamas conflict yesterday, the market remains on edge and the focus continues to be on any further developments within the region.

The International Energy Agency (IEA) released its annual World Energy Outlook today. In its base case scenario, the agency estimates that global oil demand could see a peak of around 102MMbbls/d by late 2020s and volumes may shrink from there on due to the transition to cleaner energy, especially in the transport sector. Similarly, the agency estimates global natural gas demand to peak by the end of the current decade as demand from power and building sectors softens.

For natural gas, data from the GIE shows that European gas storage tanks are at 98.6% of capacity as of 22 October compared to the five-year average of around 90%. High storage levels are providing comfort to the market in the current uncertain environment with TTF prices largely stable since last week at around EUR50/MWh.

Metals: China's copper output remains strong

The latest data from China's National Bureau of Statistics shows that refined copper output in the country increased to a fresh record high of 1.14mt (+20% year-on-year) in September 2023 as newly added smelting and refining capacity increased operating rates. Cumulatively, refined copper production has increased by 18.4% YoY to 9.5mt over the first nine months of the year. China's copper demand has been healthy for the current year despite some signs of a slowdown as consumption from new sectors including electric vehicles offsets weaker demand from the property sector. Apparent demand for copper in China has increased by around 10% YoY in the year so far.

The latest data from the International Lead and Zinc Study Group (ILZSG) shows that the global zinc market recorded a surplus of 489kt for the first eight months of the year while the global lead market also witnessed a surplus of 71kt over the same period. Global zinc production increased by around 3.8% YoY to 9.3mt during Jan-Aug 2023 while global demand was largely flat at around 8.8mt. Similarly, for lead, global supply increased by around 2.1% YoY to 8.4mt while consumption softened marginally to 8.3mt.

Gold prices have been firm as tensions in the Middle East keep demand for safe-haven assets elevated. US 2-year Treasury yields softened from recent highs of around 5.25% to 5.06% currently which have also helped gold to retain its recent strength.

Agriculture: Supply concerns from Africa send cocoa higher

ICE cocoa prompt-month prices settled at a fresh four-decade high of GBP3,321/t on Monday as supply concerns from the Ivory Coast and Ghana have pushed prices higher; cocoa prices are up around 61% for the current year making it one of the best-performing commodities this year. The supply-demand balance is extremely skewed towards a supply shortage; especially in the short term given the approaching holiday season. Persistent rain in Africa has delayed harvesting activities in some of the top-producing countries including Ghana and Cameroon while also increasing the risk of disease and rot.

The International Sugar Organization estimates the global sugar market to see a deficit of around 2.1mt for the 2023/24 season due to tight supplies. Global sugar production is estimated to drop by around 2.2mt to 174.8mt for the season while demand is estimated to increase marginally by 0.2% year-on-year to 177mt. Protective export policies from some countries including India and Thailand could further exacerbate supply tightness.

In its monthly crop monitoring MARS report, the European Commission estimates that corn yields could drop to 7.13t/ha from a previous projection of 7.26t/ha; this is also below the five-year average of 7.48t/ha. Dry weather conditions and low rainfall in the Southeastern region of Europe pushed down corn yields. In contrast, soybean yield estimates rose to 2.87t/ha, compared to 2.83t/ha for September estimates and 2.76t/ha for the five-year average.

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