The Commodities Feed: All eyes on US CPI

The commodities complex held up well yesterday despite the IMF downgrading its global growth forecasts. For today, all attention will be on US CPI data, which is expected to show a further slowing

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Energy: Middle distillate market under pressure

Despite the IMF slightly lowering its global growth forecasts for the year and signalling that risks are skewed to the downside, the oil market still managed to close higher yesterday. ICE Brent settled 1.7% higher on the day. A weaker USD provided some support not just to oil but to the broader commodities complex. For today though attention will be on US CPI, where the market is expecting to see a further slowing. The year-on-year and month-on-month CPI are expected to come in at 5.1% and 0.2%, respectively. Clearly, any surprises to the upside could prove negative for risk assets with the market likely having to readjust its expectations on how much more tightening we will see from the Federal Reserve.

The EIA released its latest Short Term Energy Outlook, where US crude oil production estimates were slightly increased. The EIA revised its 2023 US supply growth number from 560Mbbls/d last month to 660Mbbls/d this month, which would leave output averaging 12.54MMbbls/d. The EIA also expects slightly stronger growth over 2024 with supply set to grow by 210Mbbls/d, which would see output averaging 12.75MMbbls/d.

Overnight, the API released US inventory data. US crude oil inventories are reported to have increased by a marginal 400Mbbls, although the market was expecting a draw of closer to 1MMbbls. However, crude inventories held at Cushing are reported to have fallen by 1.4MMbbls. Stocks at Cushing have been declining for several weeks now, which has provided some support to the prompt WTI timespread with it having shifted from contango into a small backwardation.

Meanwhile, we are seeing a further easing in strike action in France, which has plagued the French energy industry for the last month. TotalEnergies has said that it is restarting its 247Mbbls/d Normandy refinery, whilst the restart of the 219Mbbls/d Donges refinery is already in progress. This is after workers voted to end strike action and follows ExxonMobil workers also voting to end strike action last week. The increase in French refinery runs and broader concerns over global growth have weighed heavily on gasoil cracks with the prompt crack trading below US$20/bbl for the first time since February last year. In addition, nearby ICE gasoil timespreads have collapsed.

Metals: Higher zinc treatment charges

The latest reports suggest that zinc smelters have agreed to a 19% YoY increase in treatment charges for 2023 supply. Korea Zinc Co. and Teck Resources Ltd. have agreed on a treatment charge of US$274/t, up from US$230/t last year and the highest in three years. European smelter closures would have played a large role in these higher treatment charges, although lower energy prices should see some of these smelters restart production.

The latest data from the LME shows that the share of Russian aluminium stocks in LME warehouses has climbed to 53% (220,575 tonnes) in March, compared to 46% and 41% reported in February and January, respectively.

Agriculture: USDA cuts Argentine corn and soybean production

The USDA left its estimates for US corn ending stocks for 2022/23 unchanged at 1.34b bushels in the April WASDE update. Although this was higher than expectations of around 1.32b bushels. The global corn balance saw 2022/23 ending stocks lowered from 296.5mt to 295.4mt, which was largely in line with market expectations. There were some fairly large revisions lower in output. Given the unfavourable weather in Argentina, the crop was downgraded from 40mt to 37mt, whilst EU output was also lowered from 54.2mt to 52.97mt. These reductions were partly offset by a 1.83mt revision higher in Russian output. Overall, the report was slightly bearish for corn prices.

For soybeans, yesterday's price action was surprising given that both US and global ending stocks came in above market expectations. The US domestic balance saw 2022/23 ending stocks left unchanged at 210m bushels, whilst expectations were for a number closer to 198m bushels. As for the global balance, 2022/23 ending stocks were increased slightly from 100mt to 100.3mt, higher than the 98.6mt expected. Higher projected stocks come despite Argentine production being cut from 33mt to 27mt. This reduction was partly offset by a 1mt increase in Brazilian output, whilst consumption was also lowered by a little more than 5mt.

Wheat prices came under pressure with US 2022/23 ending stocks increased from 568m bushels to 598m bushels, which is higher than the roughly 574m bushels the market was expecting. The revision higher was a result of largely weaker domestic demand. Changes to the global balance were more supportive. Global 2022/23 ending stocks were lowered from 267.2mt to 265.1mt, which is lower than the roughly 267mt the market was expecting. Projected ending stocks for this season are the lowest since 2015/16. The decline was driven by stronger feed demand from both

China and the EU.

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