The Commodities Feed: US CPI provides support to the complex

Oil prices moved higher yesterday on the back of a weaker-than-expected US CPI print, while the release also pushed gold back above $2,400/oz

Energy - China oil demand worries

Oil prices edged higher yesterday supported by a weaker-than-expected US CPI print, which has boosted expectations of a Federal Reserve rate cut in September. This strength has continued in early morning trading today with ICE Brent edging closer towards US$86/bbl. Growing expectations of a rate cut from the Fed along with a constructive oil balance suggest that prices will remain well supported. We continue to hold onto our view that ICE Brent will average US$88/bbl in the current quarter.

There are of course risks to this view and these risks are largely centred around demand. Chinese demand has been a concern in the market for some time. And the latest trade data from China is unlikely to help ease these concerns. June crude oil imports averaged 11.35m b/d down 10.4% year-on-year. This also leaves cumulative imports so far this year down 1.6% YoY.

Yesterday's IEA oil market report has also failed to soothe concerns over Chinese demand. The agency estimates that Chinese oil demand contracted YoY in April and May. This is aligned with our apparent oil demand estimates for China over those months. This is a concern for the global oil market given that China is expected to make up the bulk of demand growth this year. The IEA expects global oil demand to grow by 970k b/d and 980k b/d in 2024 and 2025, respectively. These numbers are largely unchanged from last month.

Front-month Henry Hub gas futures came under pressure yesterday, settling more than 2.6% lower on the day. The sell-off was driven by the EIA's weekly storage report which showed that US natural gas storage increased by 65Bcf over the last week, above expectations for a 58Bcf increase and the five-year average of 57 Bcf. Total US natural gas storage stands at 3.199Bcf, 9.7% higher YoY and also 18.7% above the five-year average.

Metals – Further nickel mine closures

Miner, BHP has decided to temporarily suspend its Western Australia Nickel operations due to oversupply in the global nickel market, driven by Indonesia. The company said it will place its Nickel West operations into "care and maintenance" from October and halt development of its West Musgrave project. The company will review the temporary suspension by February 2027. In FY23, Nickel West production totalled 80kt.

Gold rallied above $2,400/oz yesterday after weaker-than-expected US consumer prices in June, which bolstered hopes for an interest rate cut. We believe gold is poised to keep its positive momentum going into the second half amid the current global geopolitical and macroeconomic landscape while central bank demand is expected to grow. The US presidential election in November and the long-awaited US Fed rate cut will also continue to add to gold's upward momentum through to the end of the year, in our view.

Agriculture – European cocoa demand grows

The latest cocoa grinding data from the European Cocoa Association was released yesterday. While 2Q24 European cocoa grindings fell 2.7% quarter-on-quarter, they still grew by 4.1% YoY to almost 358kt in the second quarter. This stronger demand data comes despite the broader strength we have seen in cocoa prices this year. London cocoa settled more than 3% higher yesterday following the release.

The latest fortnightly report from the UNICA shows that sugarcane crushing in Centre-South Brazil stood at 48.8mt over the second half of June, compared to 43.2mt during the same period last year. As of the end of June, the cumulative sugarcane crush for the season rose 13.3% YoY to 238.4mt. Meanwhile, sugar production rose by 20.1% YoY to 3.2mt over the fortnight. Cumulative sugar output so far this season stands at 14.2mt, up 15.7% YoY.

The USDA is scheduled to release its monthly WASDE report today. The market expects the agency to increase its US corn-ending stocks for the 2024/25 season by roughly 187m bushels to 2,289m bushels while trimming its soybean-ending stock estimates by 8m bushels to 447m bushels. Turning to global supply, the agency is expected to revise its Argentine corn and soybean output estimates to 51.3mt (-1.7mt) and 50mt, respectively. Brazil's corn and soybean production estimates are expected to be trimmed to 121.3mt (-0.7mt) and 151.7mt (-1.3mt), respectively. Global ending stocks for corn are expected to increase from 310.8mt estimated in June to 311.5mt. Soybean and wheat ending stock estimates are expected to fall to 126.8mt and 252.1mt, respectively.

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