

The Commodities Feed: US CPI weighs on the complex

A higher than expected CPI reading out of the US put downward pressure on most assets yesterday, including commodities. The above-consensus number will only add to speculation of the need for more aggressive Fed rate hikes



Energy- SPR refill to provide support to the market

A broader risk-off move across assets saw Brent give back some of its earlier gains yesterday. The move was largely driven by a higher than expected US CPI reading while overnight, the API also reported that US crude oil inventories increased by a little over 6MMbbls. This is quite some distance above the 1.85MMbbls build the market was expecting. However, this large build was partly offset by a roughly 3.2MMbbls drawdown in gasoline inventories over the week. As for distillates, stocks increased by around 1.75MMbbls over the week.

OPEC released its latest monthly market report yesterday, and there was little in the way of changes to supply and demand numbers. Global oil demand growth for 2022 and 2023 was kept unchanged at 3.1MMbbls/d and 2.7MMbbls/d, respectively. Meanwhile, there were marginal changes to non-OPEC supply. According to the report, OPEC output averaged 29.65MMbbls/d in August- an increase of 618Mbbls/d month-on-month. The increase was driven predominantly by

Libya, where output grew by 426Mbbbls/d as production recovered following months of disruptions. According to OPEC, demand for crude oil in 2022 remains unchanged at 28.9MMbbbls/d, whilst it is expected to increase to 29.8MMbbbls/d over 2023- which is not far off from August production levels.

There are reports that the US administration is looking to potentially refill its Strategic Petroleum Reserve (SPR) when oil prices trade below US\$80/bbl. In addition to refilling storage, which has been heavily tapped into this year, the move would reportedly also be taken to try to support prices at lower levels, so as to try to ensure that we continue to see growth in US oil output. US SPR releases have helped out the market significantly this year, however, these releases are set to come to an end in October.

Metals – more supply cuts for aluminium

Base metals prices were under pressure yesterday after US inflation data came in higher than expected in August. Core inflation rose 6.3% in August from a year earlier – up from the 5.9% rate in both June and July, boosting the US dollar.

Aluminium is in the spotlight as supply disruptions in Europe and China continue. Aluminium smelters in China's Yunnan province, including Henan Shenhua Coal and Power Co. and Yunnan Aluminium, have been ordered to reduce output by 10% amid hydropower shortages. Yunnan province accounts for more than 12% of China's aluminium production. The output cuts in China are coming on top of European and North American smelter closures and curtailments in production over the past 12 months amid the energy crisis.

Meanwhile, China Evergrande Group removed most of its construction-project freezes as China enters its peak building season, which traditionally lasts until the end of October. Evergrande, one of China's largest developers, said it will restart construction at 668 of its 706 frozen projects with more than 600 sites reaching normal construction levels. China has been stepping up its efforts to support the housing sector, with more Chinese cities announcing credit support and subsidies for home purchases.

Agriculture – Ukraine winter grain sowing area to fall

The Ukrainian Agrarian Council (UAC) said that the winter grain sowing area could fall at least 30%. The agriculture ministry expects the winter wheat sowing area to fall to 3.8m hectares compared to 4.6 million last year, due to the Russian invasion. The UAC also said that the high cost of fertilisers, slowing sales of grain and low purchase prices are forcing producers to reduce sowing areas.

The latest fortnightly report from UNICA shows that sugar mills in Brazil's Center-South region crushed more cane in the second half of August compared to last year, as dry weather improved harvest conditions. However, cumulative production remains below last season's levels due to a delayed start of the crushing season. UNICA reported that sugar cane crushing in Center-South Brazil increased 1.8% year-on-year to 44mt over the second half of August, while cumulative crushing so far this season is down 6.9% YoY to a total of 366mt. Sugar production increased 5.8% YoY to 3.1mt, with around 48.5% of cane allocated to sugar production. However, cumulative sugar output is still down 10.5% YoY to 21.7mt.

According to China's agricultural ministry, the main corn-growing areas in China received

significant rainfall last month, while it was also reported that crop conditions in northern China are better compared to last year. Meanwhile, corn yields have been affected by the heat wave and drought in southern Shaanxi and the Sichuan Basin, however, the overall impact is not massive due to the limited planting in those areas.

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