

The Commodities Feed: USD strength and demand worries

The broader strength seen in the USD has weighed heavily on the commodities complex, whilst Chinese demand concerns are certainly not helping. For oil, we will need to keep an eye on OPEC+ and how they might react to the more recent weakness in the market



Energy - Brent breaks below \$90/bbl

The oil market continues to come under pressure. Brent settled more than 5% lower yesterday at US\$88/bbl. This morning we are seeing somewhat of a relief rally. The strength that we have seen in the USD is not helping oil or the broader commodities complex, whilst there are clear demand concerns, particularly when it comes to the continued Covid-related lockdowns that we are seeing across parts of China. Chengdu has seen another extension to its lockdown.

The more recent weakness in oil prices does increase the risk that we see some form of intervention from OPEC+. The group made it clear that further action could be taken if they felt it was necessary, and the market is likely trading towards levels where they are starting to get a bit uncomfortable.

While there are clear demand concerns in China, imports of crude oil rebounded in August. Imports

averaged 9.54MMbbls/d over the month, up 8.1% MoM and the highest import volumes seen since May. These flows are still down 9.4% YoY, while cumulative imports over the first 8 months of the year are down 4.7% YoY. We will get a better idea on how much of these imports in August went towards stock building once output data is released.

In its latest Short Term Energy Outlook, the EIA made revisions lower to its US oil production forecasts. US crude oil output in 2022 is expected to average 11.78MMbbls/d, up around 540Mbbls/d YoY. In August the EIA was forecasting output to average 11.86MMbbls/d. As for 2023, output is expected to grow by around 850Mbbls/d to average 12.63MMbbls/d. This is down from a previous forecast of 12.7MMbbls/d.

Finally, comments from Putin yesterday were a clear sign of an escalation in the use of energy as a weapon. The Russian president threatened that any country which adopts the G-7 oil price cap would see all flows of Russian energy stop - including oil, refined products, natural gas and coal. While Russia may be able to afford taking this action if big buyers don't take part in the cap, it becomes a little bit more difficult to follow through with this threat if the likes of China and India were to join the price cap. Clearly that is a big "if", as it could be a significant challenge for G-7 nations to convince China and India to take part in a price cap.

Metals - rising USD weighs on the complex

Weaker-than-expected trade data from China along with a stronger USD weighed on the metals complex yesterday. Copper settled lower on the day, whilst aluminium fell to an intra-day low of US\$2,233/t (the lowest levels since April 2021) yesterday.

Aluminium supply cuts in Europe continue to get more severe as yet another smelter announced production cut plans yesterday. Speira GmbH announced it will curb production by 50% at its smelter in Germany due to elevated energy costs. The smelter expects the curtailment process to be completed in November for an indefinite period. Speira's plant in Germany can produce about 160ktpa of aluminium, however, current output is around 140kt. The market continues to ignore these cuts, with the market of the view that downstream demand is taking a bigger hit than supply.

The latest trade numbers from China Customs shows that imports for unwrought copper rose 7.4% MoM and 26.4% YoY to 498kt in August. Cumulative imports over the first 8 months of the year are up 8.1% YoY to total 3.9mt. Meanwhile, copper ore and concentrate imports rose 19.5% MoM and 20% YoY to a record high of 2.27mt last month. Iron ore imports saw somewhat of a recovery, rising 5.4% MoM to 96.2mt in August and reaching their highest levels since February. Lower prices and peak construction season are likely to have supported imports. However, YTD inflows are still down 3% YoY to total 723mt.

Agriculture – Putin questions Ukrainian grain deal

Wheat prices surged higher yesterday, trading almost 7% higher at one stage during the day. This comes after Putin questioned the Ukrainian grain export deal from the Black Sea, claiming that poorer countries are not benefiting from this supply and that instead the bulk of these supplies are going to Europe. Ukraine has pushed back on these comments, saying that two thirds of shipments from the deal have gone to Africa, Asia and the Middle East.

The latest trade data from China Customs shows that soybean imports fell by 24.5% YoY (down

9% MoM) to 7.17mt in August, as higher prices and softer demand for edible oils weighed on import requirements. Soybean crushing margins in China have been in negative territory for quite some time now, with current margins at around negative CNY170/t. Although a significant improvement in hog farming profits in recent months should support soymeal demand in the latter half of the year.

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