The Commodities Feed: USD strength, commodity weakness

The commodities complex came under pressure yesterday due to USD strength. Markets will likely be focused on the FOMC meeting later this week, where the US Fed is expected to hike rates by 75bps

Energy - US oil output hits highest levels since March 2020

While ICE Brent settled almost 1% lower yesterday due to a stronger USD, the market still managed to hold onto a monthly gain of 7.8%, which is also the first month since May that Brent has managed to trade higher. Clearly, announced OPEC+ supply cuts have stabilised the oil market to a certain extent. However, how stabilising this action will be in the medium to long term will really depend on the full impact of the EU's ban on Russian oil, which comes into effect on 5 December for crude oil and 5 February for refined products. Meanwhile, at the ADIPEC energy conference in Abu Dhabi, OPEC's secretary general said that an expected surplus over 4Q22 and early 2023 was the key reason behind the group agreeing on supply cuts back in early October. Our balance suggests that the actual cuts will now leave the market balanced over 4Q22 and in deficit through 2023.

The latest data from the EIA shows that US crude oil production increased by 102Mbbls/d MoM and 698Mbbls/d YoY to average 11.975MMbbls/d in August. This is the highest monthly output since

March 2020. Unsurprisingly, the increase has been driven by PADD3 and in particular Texas. The latest data set from the EIA also shows that gasoline demand in August increased by 330Mbbls/d MoM to 9.08MMbbls/d. However, demand was still disappointing when compared to last year, falling 102Mbbls/d from August 2021 levels. Clearly, the higher price environment has done its job of ensuring demand destruction to help balance the market.

Metals – Zinc plunges amid China's demand woes

LME zinc prices fell sharply yesterday to their lowest level since March 2021 after a slump in China's economic activity. China's factories and services activity contracted as Covid restrictions and the crisis in the property market continued to put downside pressure on the country's growth. A rising US dollar added to the bearish sentiment across the metals complex, while the market also awaits the FOMC meeting later this week where the Fed is expected to hike rates by a further 75 basis points.

Annual smelting charges for copper concentrate in China may exceed US$100/t in 2023 due to expectations of a rising global surplus in concentrates, according to a report from Mysteel. Charges to be agreed between global miners and Chinese smelters for 2023 may reach their 2015 peak of $107/ton. Copper ore inventories at Chinese ports as of end-October are 48% above last year, while inventories at Chinese smelters are 13% higher.

Agriculture – India plans to cut sugar export quota for the season

The latest reports suggest that India may cut its sugar export quota by almost 20% this year due to higher biofuel demand. Expectations are that the government will allow domestic mills to export 9mt of sugar in the 2022/23 season, lower than the 11.2mt quota for 2021/22. The potential for lower Indian exports comes at a time when rains have delayed the pace of the Center-South Brazilian harvest.

Weekly data from the European Commission shows that soft wheat shipments from the EU remained almost flat and reached 11.54mt as of 30 October, in line with the 11.44mt shipped by this point last season. Algeria, Morocco and Egypt were the top destinations for these shipments.

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