The Commodities Feed: USD strength weighs on complex

USD strength following developments over the weekend in the US is putting pressure on the commodities complex

Energy – Speculators cuts gasoil long

After four weeks of gains, oil prices settled lower last week with ICE Brent down more than 1.7% over the week. While fundamentals are still supportive, there are growing demand concerns, largely emanating from China. This is reflected in the move lower in apparent domestic oil demand, while June crude oil imports fell YoY once again. Given that China is expected to make up the majority of oil demand growth this year, it is not surprising signs of weakness in Chinese demand are a concern. USD strength following the attempted assassination of former president Trump over the weekend is putting pressure on oil prices in early morning trading today.

Positioning data showed small changes over the last reporting week. Speculators increased their net long in ICE Brent by 4,438 lots to 200,249 lots, which still leaves the net long some distance from the recent high of almost 335k lots in mid-April. The market needs a fresh catalyst to bring in a new round of sizeable speculative buying, particularly with demand concerns hanging over the market.

Sticking with market positioning, ICE gasoil saw a fair amount of speculative longs liquidating. The managed money net long fell by 12,449 lots to 82,798 lots over the last week. Given the bearish fundamentals for middle distillates, we still believe that speculators are overextended and could see further selling in the weeks ahead.

US natural gas prices remain largely under pressure, front-month Henry Hub futures are trading below US$2.30/MMBtu, after hitting US$3.20/MMBtu back in mid-June. Speculators have also returned to holding a net short in Henry Hub, after selling 37,483 lots over the last reporting week, leaving them with a net short of 34,317 lots. More recent weakness in Henry Hub appears to be due to an outage at Freeport LNG, following Hurricane Beryl. The LNG export plant is taking longer than expected to resume operations. The outage will also be providing support to European gas prices with TTF strengthening by 3% in the last two trading sessions of last week.

Metals – China's unwrought copper imports decline

China released preliminary trade numbers at the end of last week showing that monthly imports for unwrought copper fell 14.5% month-on-month and 3% year-on-year to 436kt in June as high global prices and weak domestic demand reduced buying appetite. Persistent weakness in China's property sector also weighed on copper consumption. However, cumulative imports are still up 6.8% YoY to total 2.76mt in the first six months of the year. Meanwhile, imports of copper concentrate grew 8.5% YoY to 2.3mt last month. Cumulatively, imports rose 3.7% YoY to 14mt in Jan'24-June'24, as strong domestic refined output supported import demand for the raw material. In ferrous metals, iron ore monthly imports fell 4.3% MoM to 97.6mt last month (lowest since Feb'24) amid weak demand from the end-use industry. Although imports were 2.2% higher YoY, while cumulative volumes rose 6.1% YoY to 611.2mt in the first six months of the year.

Shanghai Futures Exchange (ShFE) inventory data showed copper stocks falling by 5,534 tonnes last week to 316,108 tonnes. While ShFE copper stocks have been trending lower since early June, they are still well above seasonal norms. Aluminium inventories increased by 18,180 tonnes (7.5% WoW) to 262,200 tonnes (highest since 21 April 2023), while nickel and zinc stocks fell by 3% WoW and 0.6% respectively.

Agriculture – A mostly bearish WASDE

The USDA's latest WASDE report was largely bearish, as reflected in grains price action. The USDA revised up its 2024/25 US corn production estimates by 240m bushels to 15.1bn bushels on the back of higher area. The market was expecting production estimates of around 15.05bn bushels. However, lower beginning stocks and revisions higher in domestic and export demand meant that the USDA still lowered its 2024/25 ending stocks estimate by 5m bushels to 2.1bn bushels. For the global corn balance, 2024/25 production estimates were revised to 1,224.8mt from 1,220.5mt. As a result, 2024/25 ending stocks were increased from 310.8mt to 311.6mt. For wheat, US 2024/25 ending stocks were revised up by 98m bushels to 856m bushels, up 22% YoY and the highest since 2019/20. Meanwhile, global wheat ending stock estimates were increased from 252.27mt to 257.24mt. Revisions to soybeans were less bearish with US ending stock estimates cut from 455m bushels to 435m bushels due to slightly lower output. As for the global soybean balance, ending stocks were cut marginally from 127.9mt to 127.76mt.

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