

The Commodities Feed: Coffee rally

Your daily roundup of commodity news and ING views



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Energy

While oil prices appear to have stabilized somewhat following the big moves last week, the natural gas market remains firm. In Asia, spot LNG prices are now trading in the mid-\$14/MMBtu region, levels that we last saw back in January. Hotter than usual weather in parts of North-East Asia has been increased demand for cooling, while a rallying coal market would have also provided support to the gas market. In Europe, gas hub prices continue to trade near record levels, with TTF trading just shy of EUR37/MWh. Gas inventories remain at a 5-year low and more than 21% below the 5-year average. The return of the Nord Stream pipeline following maintenance should help the supply picture, although we have seen some unplanned outages from Norway this week, and outages there are expected through until next week.

Metals

A weaker USD amid record-low US real yields has stoked some exuberance within the base metals complex. LME copper broke above its 50-day moving average and settled more than 3% higher on the day, which may have triggered further systematic buying interest.

Chinese onshore copper stocks continued to fall after consumers returned for restocking. This has sparked an appetite for imported copper, which is evident with dwindling bonded stocks. Onshore

destocking during a traditionally weak period, along with increased supply from the state reserves is a positive sign for underlying demand dynamics. The Delta variant and rising Covid-19 cases have failed to show strong evidence of demand destruction. Instead, on the supply side, secondary copper flows from Malaysia to China are said to be disrupted, which has led to a quick spread narrowing between secondary and cathode.

Agriculture

The European Commission released its latest monthly crop monitoring report yesterday and once again increased wheat yield estimates in the region due to relatively favourable weather. The Commission now estimates European wheat yields to average 5.82t/ha compared to its previous estimate of 5.79t/ha and a 5-year average of 5.47t/ha. The Commission noted the exceptionally heavy rainfall in some countries including France, Germany and Ukraine; which may negatively affect grains quality rather than yields at the current stage of crop development. The European Commission also revised higher its corn yield estimates from 7.84t/ha to 7.88t/ha. On the other hand, sugar beet yields were revised marginally lower from 73.6t/ha to 73.5t/ha.

US weather prospects are reported to be improving in the short term with rain and colder weather predicted over the next few days. Favourable weather is likely to help crop development following a spell of hot and dry weather. The latest weekly crop progress report from the USDA shows that 64% of the domestic corn crop is rated good to excellent, down from 65% last week, and lower than the 72% seen at the same stage last year. As for soybeans, 58% of the crop is rated good to excellent, lower than the 60% reported last week, and well below the 72% seen at the same stage last year.

Finally, there is a risk of further frost in Brazil later this week, which will be a worry for a number of crops including sugarcane, coffee and the safrinha corn crop. Arabica coffee prices have already rallied by more than 30% over the last week, taking prices to levels last seen back in 2014. Frosty conditions last week are thought to have affected around 11% of total Brazilian arabica acreage, and so there will be plenty of concern if we do see further frost.

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