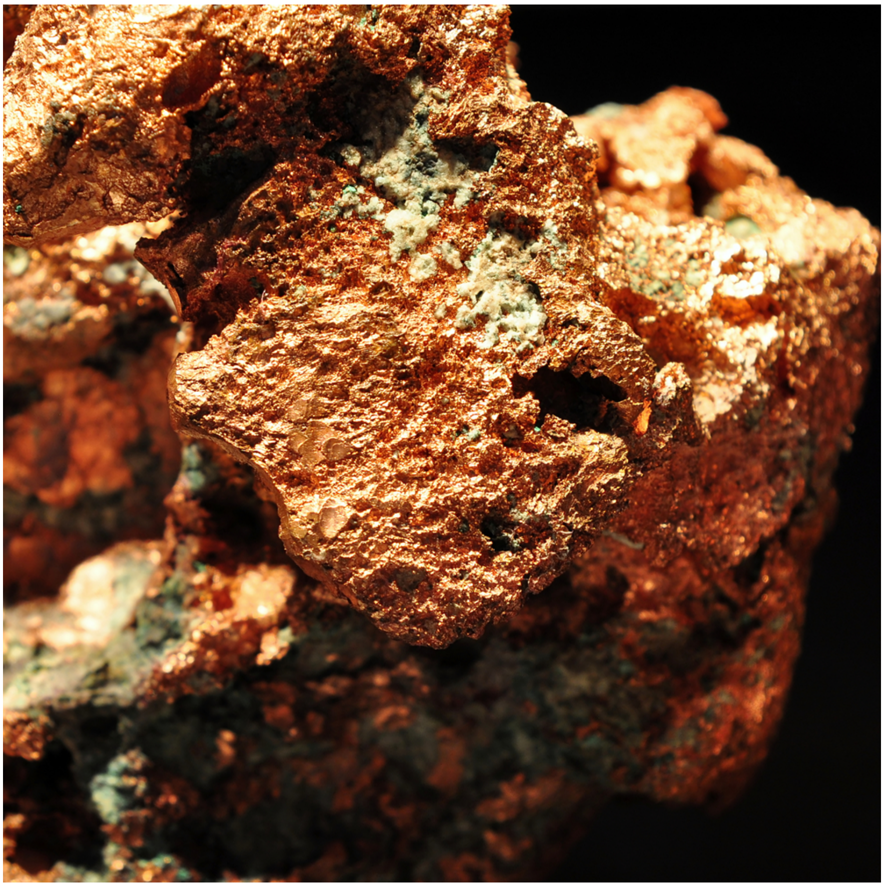
The Commodities Feed: Copper supply risks grow

Your daily roundup of commodity news and ING views



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Energy

Oil prices got a boost yesterday, with ICE Brent rallying almost 1.8% to settle above US$76/bbl for the first time since mid-July. While a continued tightening in the US market (as reflected in the EIA report earlier in the week) remains supportive for prices, a large part of yesterday's rally was part of a broader move, with the USD coming under quite a bit of pressure. Although in early morning trading this morning, the market is giving back some of these gains, with the USD trading higher.

The structure of the forward curves for both Brent and WTI continue to suggest a healthier market structure, with both firmly in backwardation, and in fact prompt spreads for both have firmed in recent days. However, while these spreads remain firm, refinery margins continue to be a concern. Margins in Asia and Europe remain weak, and so it is difficult to be overly constructive on the crude oil market. The Saudis are also expected to increase their official selling price for crude for September loadings, which will do little to help refinery margins. If we look at the physical crude market, we are also seeing some weakness, with the Urals differential weakening once again. So there still seems to be some disconnect between the physical and futures markets, and as a result it is difficult to justify significant further upside in the market for the time being.

Natural gas prices in Europe continued to strengthen yesterday, with TTF trading above EUR41/MWh. While net injections have picked up in pace over the last week it is looking increasingly likely that we will enter the winter season with gas inventories at a 5 year low, and that is likely to continue offering support to the market. However, with the strength we have seen in European prices, the spread between spot Asian LNG and TTF has narrowed quite significantly from more than US$1.9/MMBtu at the end of last week to near US$0.9/MMBtu currently. The spread is getting closer to levels where we could see more spot US LNG cargoes making their way to Europe instead of Asia, due to relatively cheaper freight into Europe.

Metals

In its quarterly report, the World Gold Council (WGC) reported that the gold market remained in a surplus of 193.7tonnes over 2Q21, which took the surplus over the 1H21 to around 423 tonnes. Global gold demand (excluding OTC) fell marginally 1% YoY to 955t in 2Q21, while declining 10% YoY to 1,833t over 1H21. Global jewellery demand continued to recover and jumped 60% YoY to 391kt in 2Q21 with YTD demand rising 57% YoY to a total of 874t. Meanwhile, total bar and coin investment rose 56% YoY to 244t in 2Q21 and gained 45% YoY to 594t in 1H21 (strongest since 2013). Looking at the supply side, global gold supply rose 13% YoY to 1,172t in 2Q21, while gaining 4% YoY to 2,308t in 1H21, as the industry experienced far less COVID-related disruption than in the same quarter last year. Looking ahead, Jewelry demand could rise to 1,600-1,800t in 2021 compared to about 1,400t in 2020 but will remain below the 10-year average of 2,210t. Investment demand is seen around 1,250-1,400t, down from 1,773t in 2020, but in line with the 10-year average. Central banks are likely to continue buying gold on a net basis in 2021 at a similar or higher rate than in 2020. Meanwhile, the total supply of gold in 2021 is expected to increase modestly, as mine production growth is partially offset by a lower level of recycling activity.

Turning to copper, and the risk of potential strike action intensified at the Escondida copper mine as the main union advised its members to reject BHP's latest wage offer. The latest offer by the company includes increased working hours, decreased breaks, changing working hours in its effort to increase productivity and profits. The members will vote on the offer through 31st July. Meanwhile, workers at Codelco's Andina mine in Chile rejected the final wage offer by management and opted for a strike yesterday. Both sides will now go through a mandatory five-day government-led mediation process which can be extended by another five days to reach a deal. The mine produced 184kt of copper last year, around 11% of Codelco's total output. Until now, Codelco managed to avoid strike action in the current wage negotiation cycle in Chile.

As for Aluminium, Chinese aluminium producer Henan Shenhuo Coal & Power Co. said its aluminium-smelting unit in Yunnan province will miss its annual production target of 800kt this year due to the ongoing power shortages. The unit is running at 61% of its total capacity after local power grids reduced electricity supply to the smelter by 30% on 27th July. Earlier this week, Rio Tinto said that it started slashing production at its Kitimat smelter in Canada due to a strike. The company will trim output to about 35% of the smelter's 432kt annual capacity. Kitimat's supply accounts for about 10% of North American production.

Lastly in ferrous metals, the most active SGX iron ore futures fell more than 5% this morning, while futures at DCE fell more than 4.5% on expectations of weaker raw material demand in the second half as China aims for more steel curbs. As per the latest suggestions, Shagang Group (the world's fourth-largest steel mill) located in China's eastern province said that it's curtailing production and overseas sales to comply with government efforts to cut emissions. The group received government orders to cut overseas sales of steel products by 50% to 1.5mt this year to ensure domestic supply. As per the World Steel Association (WSA) data, Shagang produced 41.6mt of crude steel in 2020. Meanwhile, on the supply side, Brazil's Vale SA said it's confident of reaching its annual iron ore output guidance of 315-335mt this year despite recent disruptions. However, reduced its year-end iron ore production capacity to 343mt/year for 2021, when compared to its previous estimate of 350mt/year.

Agriculture

Brazil is experiencing further cold weather, and this is likely to persist today, with expectations that Friday could be the coldest day of the year, and with this raising the risk of further frost. There is a risk for sugar, coffee and corn growing areas, with frost potentially impacting yields. However, the uncertainty over the extent of damage has kept coffee and sugar prices volatile.

In addition, the Brazilian state of Parana, the second largest corn-producing state in the country lowered its Safrinha corn production estimate to 6.11mt for the 2020/21 season (down around 50% YoY) compared to its earlier estimate of 9.82mt made in June. A drought during much of the season combined with frosty weather over June and July has negatively impacted corn yields in the region. The state has revised down safrinha corn yield estimates from 4.7kg/ha in June to 3.8kg/ha currently.

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