The Commodities Feed: Demand concerns & OPEC+ uncertainty

Your daily roundup of commodity news and ING views

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Energy

Oil prices came under some pressure yesterday, with Brent down as much as 1.75% at one stage. However, the market managed to claw back a lot of these losses, finishing the day around 0.5% lower. While there is uncertainty over OPEC+, there are also concerns over demand, given the growing number of Covid-19 cases in several regions as the Delta variant spreads. In Asia, where vaccination rates remain relatively low, we are seeing more governments tightening restrictions in a bid to slow the spread. The market has held an optimistic view on the demand recovery, but clearly, there are some very real risks that the recovery will not be as quick as many in the market had anticipated.

The EIA yesterday released its latest Drilling Productivity Report, in which they forecast that US shale oil production will increase by 42Mbbls/d in August to average 7.91MMbbs/d. In addition, EIA data also showed that the number of drilled but uncompleted wells (DUCs) fell by 269 over June to 6,252- the lowest number since June 2018. Over the last year, US producers have reduced the number of DUCs by 2,713, as we have seen a pick up in the completion of wells. The higher oil price environment suggests that well completions should continue to increase, which should continue to see DUCs edging lower.

Finally, the IEA will be releasing its monthly oil market report later today, in which they will share their outlook for the market for the remainder of this year and 2022. The report will be of interest to the market, particularly given the spread of the Delta variant, along with the OPEC+ fallout. In its last report, the IEA estimated that oil demand would grow by 5.4MMbbls/d this year and 3.1MMbbls/d in 2022. Further mobility restrictions in parts of Asia over the last month leaves the potential for a downward revision in 2021 demand estimates.

Metals

Most LME base metals were subdued following the initial boost from the PBoC's liquidity injection last Friday. With few catalysts on the fundamental front, most metals traded in a narrow range during yesterday's London session. However, the Chinese onshore ferrous sector seems to still be taking a "glass half-full" approach following the PBoC's move, with ShFE traded steel products, including hot-rolled coil, rebar and Dalian Iron ore, continuing to climb. As for the macro front, Monday was quiet, and it seems as though pressure from the unwinding of the reflationary trade has eased ahead of a data-rich week. There are scheduled major economic data releases from both sides of the Pacific, which could provide some volatility as we move through the week.

The Shanghai Metals Market (SMM) reported an equipment failure at a copper smelter in Shandong province and expected it would take approximately one month to repair. This could offer some support to treatment charges, and help draw down inventories at an accelerated pace. ShFE reported copper stocks have declined from this year's peak of 229kt during mid-May to 129kt as of 9 July. The prolonged inventory drawdown in the onshore market partially results from reduced import flows with cathode largely piled at bonded warehouses. According to SMM, bonded stocks have risen to 440kt - a 25-month high.

Agriculture

The USDA released its latest WASDE report yesterday, in which it revised its US corn production estimate to 15.2b bushels for 2021/22 compared to a previous estimate of around 15b bushels. Higher output expectations also pushed up 2021/22 ending stock estimates to 1,432m bushels, compared to an estimate of 1,357m bushels last month. For US soybeans, estimates were left unchanged. And despite the uptick in the acreage of wheat for 2021/22, production estimates were revised down from 1.90b bushels to 1.75b bushels due to lower yields. The US wheat balance is estimated to be tighter this year, with ending stock estimates revised lower from 770mn bushels to 665m bushels.

Globally, the USDA made minor changes to the corn balance for 2021/22, with ending stock estimates revised up from 289.4mt to 291.2mt, largely on account of the US. For soybean, production and demand, estimates were largely left unchanged; however, stocks at the end of 2021/22 were revised up by around 2mt owing to a sharp upward revision in beginning stocks. On the other hand, wheat stock estimates at the end of 2021/22 were revised down due to lower beginning stocks and weaker US supplies. Ex-US production was seen to be improving with estimates of Australia and EU production increasing by 1.5mt and 0.7mt respectively on the back of favourable weather.

For sugar, UNICA's fortnightly data show that sugar production in Center-South Brazil increased 5.6% YoY to 2.89mt over the 2nd half of June 2021. Sugar cane crushing increased 4.4% YoY to

45mt, whilst cane allocation for sugar production was higher at 47.6% compared to 47.4% for the same period last year.

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