The Commodities Feed: Demand downgrades

Your daily roundup of commodities news and ING views

Energy

The oil market was choppy yesterday. ICE Brent traded in almost a US$4/bbl range, although settled almost unchanged on the day. We had a number of data releases, including the IEA's and OPEC's monthly oil market reports. The IEA estimates that Russian crude oil supply fell by nearly 1MMbbls/d in April and expects that as we move through the year, we could see Russian oil output fall by around 3MMbbls/d over 2H22. However, the agency expects that severe deficits will be avoided due to growth in output from the US and Middle Eastern OPEC+ countries. The IEA estimates that ex-Russia oil production will grow by 3.1MMbbls/d between May and the end of this year. Weaker demand has also meant that the balance looks less tight. The agency expects demand to grow by around 1.8MMbbls/d this year, significantly lower than the 3.3MMbbls/d of growth they were expecting when we came into this year. Unsurprisingly, expectations for lower demand have been driven by the Covid related lockdowns in China, higher prices and more modest economic growth. While the IEA expects refinery runs to increase quite significantly over the summer months, refined product markets are expected to remain tight for the remainder of the year, particularly for middle distillates, where we continue to see tightness in most regions across the globe.

At the moment, OPEC appears less bearish on demand. Whilst the group revised their demand growth estimates down by 310Mbbls/d MoM, they still expect oil demand in 2022 to grow by 3.36MMbbls/d, substantially higher than what the IEA is expecting. The demand revision seen by OPEC was largely offset by the group also expecting to see a 300Mbbls/d decline in non-OPEC supply. This reduction was largely driven by Russia. As a result, OPEC now expects non-OPEC supply to grow by 2.4MMbbls/d this year. OPEC production over April is estimated to have grown by 153Mbbls/d to average 28.65MMbbls/d. Saudi Arabia and Iraq drove the increase, with their output increasing over the month by 127Mbbls/s and 103Mbbls/d respectively. Disruptions to Libyan output saw the North African country's output fall by 161Mbbls/d MoM. These supply disruptions are still ongoing, which will weigh on output numbers for May as well.

Finally, there are reports that some EU members believe that a delay in the ban on Russian oil should be considered, so that the rest of the sanction package can move forward. Hungary continues to block the proposed oil ban. They want to see Russian pipeline oil exempt from the ban.

Agriculture

In its first forecast for the 2022/23 season, the USDA expects the US corn and wheat balance to tighten next year, whilst soybeans could see some easing. For corn, the USDA estimates that domestic production will fall to 14.5b bushels in 2022/23, compared to 15.1b bushels in 2021/22, largely due to lower acreage. The agency estimates that some corn acreage will be shifted towards soybeans due to better margins and a shortage of fertilizers. The USDA estimates corn inventory will drop from 1.44b bushels at the end of 2021/22 to 1.36b bushels at the end of 2022/23. The USDA left its 2021/22 numbers largely unchanged. For wheat, the USDA expects domestic stocks to fall from 655m bushels to 619m bushels at the end of 2022/23. The agency estimates that domestic production will increase from 1.65b bushels in 2021/22 to 1.73b bushels in 2022/23. Imports are also expected to rise from 95m bushels to 120m bushels, which should help narrow the inventory withdrawal to just 36m bushels next season compared to around 190m bushels of inventory withdrawal this season. USDA numbers were more bearish for soybeans, with domestic production estimated to increase from 4.4b bushels this year to 4.6b bushels in 2022/23. As a result ending stocks are expected to increase from 235m bushels in 2021/22 to 310m bushels in 2022/23.

For the global market, the USDA expects corn inventories to fall from 309.4mt to 305.1mt at the end of 2022/23 due to lower production. The market was looking for a number closer to around 298mt. The agency estimates Ukraine's corn production to drop to just 19.5mt in 2022/23, compared to 42.1mt in 2021/22 and would be offsetting production gains from Brazil and Argentina. For 2021/22, the USDA revised higher inventory estimates from 305.5mt to 309.4mt on the back of higher output. Similarly, for wheat, the USDA estimates the global balance sheet to tighten further with inventory falling from 279.7mt to 267mt at the end of 2022/23. This estimate is significantly lower than market expectations for a number around 275mt. Ukrainian wheat production is expected to fall from 33mt to 21.5mt, which combined with supply losses from Argentina, Australia and the EU, should offset supply gains from Russia and Canada. Global soybean inventories are estimated to increase from 85.2mt at the end of 2021/22 to 99.6mt for 2022/23, largely on account of a record crop. The numbers are slightly higher than the roughly 97mt the market was expecting. The agency forecasts global soybean production to increase 13% YoY to 394.7mt (+45.3mt YoY) with higher supplies coming from Brazil (+24mt), Argentina (+9mt), Paraguay (+5.8mt) and the US (+5.6mt). For 2021/22, the USDA revised down soybean inventory estimates from 89.6mt to 85.2mt on account of a marginal increase in demand and lower production.

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