The Commodities Feed: Downward demand revisions

Your daily roundup of commodity news and ING views

Energy

Oil has managed to hold its ground this morning, despite the API reporting overnight that US crude oil inventories rose by 3.91MMbbls over the last week. The bearish crude oil build was likely offset somewhat by the large 6.01MMbbls gasoline stock drawdown. Continued USD strength has also had limited impact on oil prices so far today, whilst reports that the OPEC+ Joint Technical Committee (JTC) have revised lower their demand growth forecasts for this year from 5.9MMbbls/d to 5.6MMbbls/d has had little impact on the market.

Instead, the market continues to be focused on the OPEC+ meeting taking place on 1 April. As we have mentioned, there does appear to be a growing consensus that the group will likely rollover the current cuts, with them wanting to avoid a sell-off in the market, particularly given the more recent flaring up in Covid-19 cases. The OPEC Secretary-General has also told the JTC that OPEC + needs to "remain very cautious". However, OPEC+ are still of the view that inventories will fall below the 5 year average by July, and that is assuming that the current level of cuts are not rolled over. Clearly a rollover would only speed up the process of drawing down stocks.

Metals

The metals complex remains under pressure amid the strengthening US dollar. While market-based inflation expectations fell for the second day in a row, with the breakeven 30y seeing the steepest decline since last November. It seems that the US infrastructure plan (with details to be unveiled later today from President Biden) has not sparked any optimism in the industrial metals market. The bond market seems to be focused on how he pays for the massive plan, with yields rising, which saw gold tumble below US$1,700/oz.

Fundamentally, copper stocks continue to rise in LME warehouses, with another 105kt delivered into European-based sheds. On the contrary, aluminium stocks have started declining, after a strong surge earlier this month, which is suspected to be driven by warehouse rent play. In the China market, seasonal stock building in metals seems to be peaking, with both aluminium and zinc extending a steady decline. The trend usually signals increasing demand in the coming quarter, aligning with expectation. Strong demand has already started unfolding, with major steel products' prices continuing to gain amid declining stocks. Flat steel prices in particular have been outperforming others, driven by stronger demand from manufacturers of white goods, automotive and shipping containers.

Agriculture

The European Commission (EC) released its short term energy outlook yesterday with the expectation that production of both wheat and corn would recover strongly in 2021/22 on higher acreage and better yields. The Commission expects soft wheat production to recover 8.2% YoY to 127.7mt in 2021/22 after falling 10.7% YoY to 118mt in 2020/21. Higher domestic production and relatively subdued demand could see ending stocks rising to 12.9mt (+3.4mt YoY) at the end of 2021/22, the largest stocks since 2017/18. The Commission also expects corn production in the EU to increase by a robust 9.7% YoY to 71.5mt in 2021/22, the biggest crop in 7 years with ending stocks to increase from 19.1mt at the end of 2020/21 to 21.6mt at the end of 2021/22. For sugar, the EC estimates that sugar production in the EU could drop 12% YoY to 14.4mt in 2020/21, owing mainly to beet yellow virus disease in France, which could push ending stocks to a decade low of 1.1mt at the end of the season. For 2021/22, the Commission estimates acreage to be largely flat at around 1.5m ha, whilst yields could improve which will result in healthy production gains for the year.

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