

The Commodities Feed: Iranian uncertainties

Your daily roundup of commodity news and ING views



Energy

ICE Brent had another go of trying to break above the US\$70/bbl mark, and while the market briefly traded above this level, it failed to settle above and closed more than 1% down on the day. The catalyst for the selloff were reports that the US and Iran had made progress on nuclear talks, which would bring more crude oil onto the market. However, a Russian representative to the UN has said that more time will be needed in order to reach an agreement. The potential for a further increase in Iranian supply comes at a time when OPEC+ is starting to gradually increase output. We continue to hold the view that the market should be able to absorb both additional Iranian and OPEC+ supply, but clearly, any announcement of a nuclear deal will hit sentiment. We are assuming that Iranian supply returns to 3MMbbls/d by 4Q21.

In the US, overnight the API reported that crude oil inventories increased by 620Mbbbls over the last reporting week, compared to market expectations for a build of around 2MMbbls. Refined products saw declines, with gasoline and distillate fuel oil inventories falling by 2.84MMbbls and 2.58MMbbls respectively. This data covers the period that the Colonial pipeline was shut, and numbers from the EIA later today will give a better idea of what impact the outage had on regional stocks, and how refiners on the US Gulf Coast reacted to the outage, with the Colonial pipeline a key outlet for

refined product from the region.

Metals

Most base metals traded higher yesterday, LME copper at one stage was trading as much as 1.5% higher on the day, hitting an intra-day high of US\$10,525/t following concerns over potentially tougher mining rules and higher taxes in Chile, along with the ongoing threat of potential strike action at BHP's remote operations centre in Santiago. Among other metals, zinc prices surged following suggestions of disruptions at Chinese smelters. There are reports that major zinc smelters in Yunnan province were asked to cut power consumption by 10%, which could lead to about 10% of capacity being shut according to Antaika. Yunnan's monthly refined zinc output is around 75kt, whilst China's total monthly output is about 600kt.

The latest data from Chinese Customs shows that imports of copper concentrate fell 4.8% YoY and 11.5% MoM to 1.92mt in April. However, imports during the first four months were up 4.4% YoY, to total 7.9mt. Among other metals, China's imports of unwrought aluminium and aluminium products rose 165% YoY and 36% MoM to 281kt in April, whilst YTD imports jumped 131% to 943kt. For steel, imports rose 16.6% YoY last month to 1.2mt, while cumulative imports over the first four months of the year grew by 17% YoY to total 4.89mt.

Agriculture

CBOT corn managed to settle slightly higher yesterday, with the USDA reporting another sale of around 1.36mt of corn to China for 2021/22 delivery, taking total sales in the month so far to around 8.1mt for the next marketing year. Chinese buyers appear to be taking advantage of the recent downward price correction in CBOT corn to book additional cargoes. Meanwhile, data from China's Customs showed that corn imports into the country increased 109% YoY to 1.85mt in April, while YTD imports increased by 301% YoY to 8.58mt.

Turning to sugar and Brazil's CONAB estimates sugar production in the country will fall 5.7% YoY to 38.9mt in 2021/22 on lower acreage and dry weather. Stronger soybean and corn prices have been prompting farmers to switch to grains on improved profitability. CONAB estimates sugar acreage to drop 2.2% YoY in 2021/22, leading to lower sugar cane crushing. Meanwhile, sugar production in Europe could recover in 2021/22 on better weather and improved yields. The International Sugar Organization expects sugar production in the EU to recover by around 0.8mt in 2021/22, with production rising to 14.7mt. Similarly, the Eurasian Sugar Association estimates Russian beet-sugar production will also increase by around 0.8mt in 2021/22 with total supplies of around 6mt for the year.

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