

The Commodities Feed: Wheat jumps after India restricts exports

Your daily roundup of commodities news and ING views



Energy

ICE Brent started the week on a soft note as weaker economic data from China weighed on sentiment, with Covid-related lockdowns slowing economic activity and crude oil demand. Meanwhile, the uncertainty over European sanctions on Russian crude oil continues and is likely to keep oil prices volatile.

Germany indicated plans to halt Russian crude oil imports by the end of the current year even as the EU's plans to impose wider sanctions on Russian crude oil imports remain stuck due to resistance by some member countries, including Hungary. Germany is reported to have already reduced its dependence on Russian oil to around 12% of total demand currently compared to around 35% before the Russia-Ukraine war. And the country continues to seek alternative sources of crude to move away from Russian oil completely.

Ahead of the start of summer driving season in the US, the gasoline front-month futures contract surged to a fresh high of around US\$4/g as demand for the fuel remains high amid limited supplies. The continuous inventory withdrawal over the past few weeks has pushed US gasoline stocks to levels significantly below the five-year average at this point in the season and reflects

acute supply tightness. Refineries increased operating rates last week to improve supply; however, a shortfall persists. Meanwhile, the latest data from Baker Hughes shows that the US oil rig counts increased by 6 to 563 rigs over the last week. This was the eighth consecutive week of rig additions in the US as higher prices continue to support investment in exploration.

Metals

Some base metals continued to strengthen in early London trading carrying on from the Asian session, while others remained under pressure. Aluminium continued its rally from last Friday after on-warrant stocks dropped to a record low of 260kt, reflecting the tightness in the ex-China market. However, supply growth has exceeded demand from China's market. According to the latest data from China NBS, primary aluminium production rose to 3.36mn tonnes in April, up 0.3% year-on-year. However, demand has been in a soft patch due to Covid-related lockdowns.

Covid developments remain uncertain in China. At the weekend, Shanghai officials announced a gradual reopening from Monday, with some residents being told they can leave their buildings but remain confined to their compounds. However, Beijing extended work-from-home guidance in several city districts.

On Saturday, local economists and policymakers convened in Beijing and engaged in heated discussions on measures to save the Covid-battered economy. Some asked to 'do whatever it takes' to save the economy. In addition, China's People's Bank of China announced on Sunday it would cut the mortgage rate floor by 20bps to slow the fallout of the property market, which may have offered some comfort to the markets.

Agriculture

CBOT wheat jumped around 5% in morning trade today after India announced it would restrict wheat exports from the country with immediate effect to manage domestic supplies of the grain. The announcement comes as a major surprise to the market as the country previously indicated a push for higher exports after supply losses from Ukraine pushed up prices in the global market. In fact, India was one of the few countries where the USDA was expecting wheat exports to increase and help fill the supply gap. Over recent weeks, a severe heatwave in large parts of India has created supply risks for the country, with production estimates for 2022/23 revised downwards recently, pushing the administration to take harsh measures. India will continue to send some wheat to neighbouring countries, although this would also need government approval and depend on requirements and availability.

CFTC data shows that money managers trimmed their net long positions in soybeans and corn last week ahead of the USDA's monthly WASDE report. Managed money net longs in CBOT soybean dropped by 22,592 lots over the week to a three-month low of 130,661 lots, as the market was expecting the USDA to estimate a large supply surplus for 2022/23 due to a recovery in production in South America. Similarly for corn, money managers reduced their net long positions by 14,956 lots over the week to leave them with net longs of 338,562 lots as of 10 May 2022.

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