The Commodities Feed: Oil market looking better supplied in 2022

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Energy

The latest releases from the IEA and OPEC did little to help market sentiment yesterday. The IEA reduced its oil demand forecasts for 2H21 by 550Mbbls/d on the back of the spread of the delta variant. In fact, the IEA estimates that oil demand fell slightly over July. Global oil demand in 2021 is now expected to average 96.2MMbbls/d, whilst the 2022 demand forecast was also lowered slightly. The IEA now forecast oil to average 99.3MMbbls/d. This means that oil demand is expected to grow by 5.3MMbbls/d this year and by 3.2MMbbls/d next year. In addition to lower demand expectations, the agency also increased its non-OPEC supply estimates for next year, which reduces the call on OPEC output for next year from 28.3MMbbls/d to 27.1MMbbls/d. The IEA highlighted that assuming strong non-OPEC supply growth next year, along with OPEC+ members continuing to unwind their cuts, the global oil market will likely move back into surplus in 2022.

As for OPEC, whilst the group kept its demand forecasts unchanged for the remainder of this year and 2022, the group increased its forecast for non-OPEC supply by almost 1.1MMbbls/d next year. So again, OPEC is taking a similar view to the IEA that demand for its own crude oil in 2022 will be lower than initially expected.

Metals

Most metals drifted lower yesterday (with the exception of nickel) on the back of a slight dollar uptick, while fundamental catalysts were largely absent. The world's largest copper mine, Escondida, has reached a preliminary agreement with workers, reducing the risk of strike action. But the smaller Andina mine in Chile, owned by Codelco, saw strike action begin on Thursday after the miner and workers failed to come to a wage agreement. It appears as though the market has moved on and is looking for further signals for price direction. LME spreads have further eased, with the cash/3M spread falling deeper to US$31/t (contango) as of yesterday, and stocks have remained fairly stable between 230-235k since the end of July. However, nickel stocks continue to flee LME sheds, falling by 17% YTD to 204kt. The drivers behind the recent price rally are still centred around China and Indonesia. ShFE stainless steel hit a record high at the end of July. Expectations of administrative curbs have driven market sentiment, and the strong run in stainless prices has boosted stainless margins, and as a result demand for nickel feedstocks.

Agriculture

The latest WASDE report from the USDA was constructive for the grains market, particularly wheat as the agency lowered grains production estimates due to poor weather which was seen hurting yields in the US and elsewhere. The agency revised down US corn production estimates from 15.17bn bushels to 14.75bn bushels for 2021/22 due to poorer yields. US corn acreage was left unchanged. The agency lowered US corn export estimates from 2.5bn bushels to 2.4bn bushels, with ending stock estimates also revised from 1.43bn bushels to 1.24bn bushels. The agency also lowered its US soybean production estimates from 4.41bn bushels to 4.34bn bushels - again due to lower yields. The agency left soybean ending stocks estimates unchanged at 155mn bushels as exports and domestic demand were also lowered. For wheat, the USDA lowered US production estimates from 1.75bn bushels to 1.70bn bushels, while ending stocks estimates were also lowered from 665mn bushels to 627mn bushels.

Turning to the global balance, and the USDA lowered its global corn production estimate from 1,194.8mt to 1,186.1mt for 2021/22, entirely because of lower US supply. In fact, ex-US production estimates were marginally increased from 809.6mt to 811.4mt, with higher supplies likely from Russia and Ukraine. Global ending stocks estimates were revised down from 291.2mt to 284.6mt. For soybeans, global ending stocks estimates were increased from 94.5mt to 96.2mt, mostly due to a revision higher in beginning stocks and softer demand from China. China's soybean demand estimates were revised down from 119.7mt to 117.7mt as poor crushing margins appears to be hurting demand. For wheat, the agency made some significant changes to its ex-US production estimates leading to global production estimates falling from 792.4mt to 776.9mt. The most notable revision comes from Russia, where production is seen falling to 72.5mt compared to its earlier estimates of 85mt, whilst Canadian wheat production estimates were also lowered from 31.5mt to 24mt. As a result the USDA now expects global wheat ending stocks to total 279.1mt, compared to its previous estimate of 291.7mt.

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