

# The Commodities Feed: OPEC sees strong demand recovery

Your daily roundup of commodity news and ING views



## Energy

Oil markets traded to new recent highs yesterday, with ICE Brent hitting an intraday high of US\$72.93/bbl. There was a brief moment of weakness, with reports that the US lifted sanctions against a former Iranian oil official. However, with key oil sanctions still in place, it didn't take long for the market to rebound. The stronger than expected US inflation numbers would have also provided support to oil and the broader commodities complex, with investors turning to commodities as an inflation hedge.

OPEC released its monthly reported yesterday which showed that the group pumped 25.46MMbbls/d in May, up 390Mbbls/d MoM. The bulk of this increase came from Saudi Arabia, with the Kingdom increasing supply by 345Mbbls/d. Under the OPEC+, members of OPEC were allowed to increase output by 527Mbbls/d (including the part of the additional voluntary cuts that Saudi Arabia is to bring back to the market). The shortfall was a result of lower output from a number of African producers, with Nigerian and Angolan supply falling by 72Mbbls/d and 60Mbbls/d respectively. There were some minor changes to the group's demand outlook, with demand expected to be marginally stronger than previously estimated over the second half of this year. However, OPEC still holds the view that oil demand over 2021 will grow by 5.95MMbbls/d YoY to

average 96.58MMbbls/d. The demand recovery that OPEC is forecasting later this year does suggest that we will need to see some considerable production increases from the group over 2H21.

The IEA will be releasing its monthly oil market report later today, where they will share their views on the outlook for the market. The report will likely highlight the increasingly tight outlook for later this year, and the need for OPEC+ to increase output further. If so, the report will likely be supportive for prices once released.

## Metals

Base metals came under pressure during the early London session yesterday, after China's top banking regulator warned retail investors to avoid speculation in financial derivatives, including commodities and gold. In addition to the repeated warning from officials on high commodity prices, speculation continues about the potential for a China State Reserve Bureau (SRB) stock release. While this is still unconfirmed, some investors are becoming cautious. For aluminium, it is reported that the SRB could release 800-900kt of primary aluminium from next month. However, there is also a report that the SRB will release copper, aluminium, and zinc stocks at the end of each month and continue the process until 2021, according to SHMET.

In the precious metals space, gold tumbled following the release of higher-than-expected US CPI data, but the yellow metal managed to pare losses after US yields sank lower.

## Agriculture

The USDA released its latest WASDE report yesterday, with the agency leaving its corn and soybean 2021/22 production and demand estimates largely unchanged for both US and global markets. For the US market, the agency revised down corn ending stock estimates for 2020/21 by around 150m bushels on account of larger exports, as well as higher domestic consumption. Supply estimates for 2020/21 and 2021/22 were left unchanged at 14.2bn bushels and 15bn bushels respectively. For soybean, ending stocks estimates for 2020/21 were revised higher by around 15m bushels on account of lower crushing. Production and demand estimates for 2021/22 were left unchanged at 4.41bn bushels and 4.42bn bushels respectively.

Globally, the major change for 2021/22 was seen in wheat production estimates, where the USDA increased its wheat supply forecast by around 5.5mt on account of larger supply from the European Union (+3.5mt), Russia (+1mt) and Ukraine (+0.5mt). Global wheat demand estimates were also increased by around 2.4mt, with the increment mostly coming from the EU and Russia. Wheat ending stocks estimates at the end of 2021/22 were revised higher, from 295mt to 296.8mt.

Given the drought conditions in Brazil it was no surprise to see the USDA revise lower its corn production estimates for the current 2020/21 season. The agency now expects Brazilian corn output to total 98.5mt this season, down from last month's estimate of 102mt. However, this is still larger than what CONAB in Brazil is forecasting, with them also revising lower their estimates for Brazilian corn output this season, from 106.4mt to 96.4mt, yesterday.

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