The Commodities Feed: Possible Ukrainian grain exports

Your daily roundup of commodities news and ING views

Energy

Despite starting the day strongly, the oil market lost momentum as the day progressed yesterday. ICE Brent settled marginally lower on the day, although it's still in striking distance of US$120/bbl. It is difficult to see a significant downside for the market in the coming months. The shunning of Russian oil will continue to tighten the balance, whilst very healthy refinery margins should provide further support to crude prices. There is the potential that refinery margins strengthen even further over the coming months, as we enter a period of seasonally higher demand with low product inventories.

There are reports that Indian refiners are looking to boost their purchases of Russian oil. Clearly, the large discounts available for this crude are just too tempting. Bloomberg reports that refiners will be looking to buy on a delivered basis, which would leave Rosneft, the seller, having to deal with the shipping and insurance. The volumes of Russian oil that India (along with China) buys in the coming months will be important for the market. Clearly, the more Russian crude they buy, the less tight the global oil market will be, given that it would free up alternative supplies for the likes of Europe and other countries/regions which have banned Russian oil.

There is little on the calendar for oil markets for the remainder of the week, apart from the usual US inventory reports from the API and EIA. The EIA will also release its latest Short Term Energy Outlook today, which will include the latest US oil production forecasts for 2022 and 2023. The EIA's current forecast is for US oil production to grow by 731Mbbls/d YoY to average 11.91MMbbls/d in 2022. While for 2023, output is expected to grow by 940Mbbls/d YoY to 12.85MMbbls/d.

Metals

Most industrial metals traded stronger yesterday, with optimism over a further easing in Covid-related restrictions in China. LME 3M copper prices closed almost 2.6% higher on the day, and at one stage, managed to trade above US$9,800/t - the highest level since April. Zinc was the worst performer amongst LME base metals, although 3M prices still managed to settle up on the day. LME zinc inventories increased by 4.5kt yesterday, leaving total LME zinc inventories at a little over 88kt. This is the largest daily increase since December and breaks four consecutive days of inventory draws. Yesterday's inflows were all into Asian warehouses.

Ivanhoe Mines reported that its Kamoa-Kakula copper mine in the DRC set a new monthly production record last month, as the Phase 2 concentrator ramped up. The mine reported 660kt of ore production (a run rate of 8mtpa), while output of 29.8kt of copper concentrate was reported in May. The rise in monthly output was achieved despite planned disruptions during the last month. The mine expects 2022 copper production to come in at the top end of its' guidance of 290-340kt. In addition, the existing Phase 1 and 2 concentrator plants are expected to ramp up to 9.2mt of ore per year by 2Q23.

Agriculture

CBOT wheat and corn traded firm yesterday despite some details emerging on Russia's plans to allow the export of Ukrainian grains. The price action suggests that the market is not overly confident that we will see these exports anytime soon. Unofficial reports hinted that Russia and Turkey aim to make the port of Odesa accessible for exports. However, Ukraine remains apprehensive about such an arrangement as it would leave ports vulnerable to further attacks.

Australia's Department of Agriculture, Water and the Environment (ABARES) estimates that winter wheat production in Australia could fall to around 30.3mt in 2022/23 compared to around 36.3mt in 2021/22; although this is still around 22% higher than the 10-yr average. High wheat prices have been pushing farmers to plant more wheat with acreage increasing from 13m ha in 2021/22 to 13.2m ha in 2022/23. However, yields may not be as strong as last year due to below-average rainfall predicted over the next three months.

The USDA's latest crop progress report shows that US plantings have continued to pick up in pace. Corn plantings were 94% complete as of the 5 June, down from last year's level of 98%, but still above the 5 year average of 92%. In addition, 73% of the corn crop is in good to excellent condition, which compares to 72% at the same stage last year. US soybean plantings are 78% complete, which is fairly similar to the 5-year average, but below the 89% seen at this stage last year. As for wheat, 5% of the winter wheat crop has been harvested, which is largely aligned with the 5-year average, whilst spring wheat plantings are now 82% complete. Spring wheat plantings continue to lag not only behind the 5-year average but also last year's planting pace.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

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