

The Commodities Feed: Recession fears grow

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Energy

Oil prices plunged yesterday as growing fears of recession weighed on the demand outlook. ICE Brent settled more than 9% lower on the day, while WTI settled below US\$100/bbl for the first time since early May. Fundamentally, little has changed. The oil market remains tight and given the expectation that Russian oil supply will decline as we move through the year, the market is set to remain tight. Therefore, we expect any further downside in the market to be fairly limited.

Saudi Arabia increased its official selling price for Arab Light into Asia for August by US\$2.80/bbl to US\$9.30/bbl over the benchmark, not too far from the record high of US\$9.35/bbl in May. The Saudis also increased OSPs for all other grades into Asia for the month, whilst they took similar action for Europe. Levels into the US were left unchanged for the month. Increases for Asia and Europe come despite the more aggressive supply increase from OPEC+ for August, along with growing demand risks.

European natural gas prices stood out amongst a sea of red in the commodities complex. TTF prices continued to edge higher, given the numerous supply risks facing the market. These include reduced Russian pipeline flows, tighter LNG supply, along with increased competition from Asia for

these supplies, and obviously the strike action in Norway this week. Although parties involved have apparently agreed to end the strike as soon as possible.

Metals

Risk-averse sentiment prevailed in metal markets yesterday. LME copper dropped by 4.2% to settle at US\$7,670/t, while zinc and aluminium also came under significant pressure. The market appears to be entirely focused on economic slowdown concerns and its impact on metals demand in the immediate to medium term.

China restarted some idled copper smelting and refining capacity over the 2nd quarter of the year, which is likely to help increase the supply of refined copper over the coming months. Data from Platts show that spot TC/RC in China have dropped to around US\$73/t at the end of June compared to a peak of around US\$85/t in April, reflecting the higher availability of smelting capacity.

Reports suggest that the quarterly premium for aluminium shipments to Japan has dropped to US\$148/t for the third quarter (compared to US\$172/t for 2Q22). This is the third consecutive drop for aluminium premiums in Japan, falling from its recent high of US\$205/t in 4Q21 as demand from the automobile sector softened largely due to semiconductor chip shortages and logistical issues on account of Covid-related lockdowns in China. Ongoing economic uncertainty is likely to weigh further on domestic aluminium demand which could keep spot premiums under pressure as well.

Agriculture

The USDA's weekly export inspection data shows that demand for US grains softened further over the last week. US weekly inspections of corn for export dropped sharply to just 677kt over the last week, compared to around 1.25mt a week ago. Similarly, demand for US wheat also dropped sharply, with wheat shipment inspections falling to a 5-yr low of 112kt over the last week. Soybean export inspections also softened last week from 476kt to 355kt.

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