The Commodities Feed: Recession fear weighs on the complex

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Energy

The oil market came under pressure with the rest of the commodities complex yesterday. ICE Brent traded as low as US$107.03/bbl at one stage. Growing fears over a recession have weighed on risk assets, and comments from Jerome Powell during his congressional testimony would not have helped. Powell commented that a soft landing would be "very challenging". However, the issue for the oil market is on the supply side. Russian supply disruptions and limited OPEC spare capacity should continue to offer support to the market. Although clearly, a slowdown in global growth is a risk to oil demand, which could help ease some of the tightness in the market. Already, we have seen demand estimates revised lower over the course of the year. While this may help to ease some of the tightness in the short to medium term, it does little to solve the longer-term supply shortfalls.

The IEA released its latest World Energy Investment report yesterday, in which they estimated that upstream oil & gas spending in 2022 would grow by 10% this year from 2021 levels. This would leave upstream investment for the year at around US$418b, which would still be below pre-pandemic levels. In addition, the IEA points out that a large part of the increased spending reflects increased costs, and so adjusting for inflation makes the YoY increase in spending even less impressive.

The latest data from the API overnight showed that US crude oil inventories increased by 5.61MMbbls over the last week. A similar number from the EIA later today would mean the largest crude build since early May. On the refined product side, gasoline inventories increased by 1.22MMbbls, whilst distillate stocks declined by 1.66MMbbls. If EIA gasoline inventory numbers are aligned with the API, we could see the largest build in US gasoline stocks since late January. Although, with absolute stocks still at multi-year lows, gasoline cracks are likely to remain well supported.

Metals

Metals markets were unable to escape the broader risk-off move across markets. LME copper fell almost 2.5%, which saw it trade down to the lowest levels since February last year. Supply risks due to strike action in Chile have offered little support to the market. Although, in the latest statement from Codelco, the miner said it has been able to continue its mining activities despite some disruptions caused by strikes. This is at odds with comments from unions, who have said that output has been hit across all mines.

While the macro picture is a concern for metals, micro developments for some metals continue to point towards a tight market, especially in the ex-China market. LME zinc on-warrant stocks set a fresh new low of 26kt yesterday, with another sizable increase in cancelled warrants (15.3kt). As a result, the cash/3m spread continues to strengthen, hitting US$160/t yesterday, the highest level since May 2019.

The most active SGX iron-ore contract came under further pressure yesterday, falling almost 6% to a little over US$108/t. Mysteel reported that at least 18 blast furnaces have started their planned maintenance (three times more than six days ago), with molten iron ore production falling by 54.3kt per day.

Agriculture

CBOT wheat managed to resist the broader weakness across commodities after reports of a Russian attack on the Ukrainian port of Mykolayiv. The recent attacks on Ukrainian ports do little to build confidence that we could see a restart in Ukrainian grain exports from Black Sea ports anytime soon. Further supporting wheat prices was the USDA's weekly crop progress report, which showed that US winter wheat conditions remain poor with only around 30% of the crop rated in good-to-excellent condition, compared to 31% a week ago and 49% at this stage of the crop last year.

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