

The Commodities Feed: Texas production makes a comeback

Your daily roundup of commodity news and ING views



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Energy

Oil prices have started to make their downward correction, with the worst of the US big freeze now behind us, and US producers starting to bring back crude oil production. It may take refiners a little bit longer to get back up to speed, following the cold snap and power outages. As a result, product cracks are likely to remain fairly well supported until we see refinery operations returning to normal. There are suggestions that it could take some weeks for this to happen. Given the refinery outages, crude input to refiners will likely suffer, and so in the weeks ahead, we could see some fairly large crude oil stock builds.

Last week, President Biden said that the US would rejoin the Iranian nuclear deal if Iran returns to full compliance with its terms. However, before that happens Iran has said it wants the US to lift sanctions imposed under President Trump. While a quick lifting of sanctions and a return of Iranian barrels would put some downward pressure on prices, current developments suggest that it will take some time for an agreement to be made. In our balance sheet, we continue to assume that we will start to see the return of Iranian supply over the second half of this year.

Finally, next week will see OPEC+ meet in order to decide what they will do with production levels. As usual, noise in the lead-up to the meeting has started to get louder, with media reports that Saudi Arabia is keen for the group to take a cautious approach, and keep output steady. Unsurprisingly, given the rally in the market, Russia is keen to relax production cuts further. However, both Russia and Saudi Arabia will want to avoid a repeat of their meeting in March last year, where they failed to come to an agreement, which saw the previous deal fall apart.

Metals

The recent rally in base metals has been primarily macro-driven; Copper led the rally last week, thanks to growing inflation expectations. Developments in the LME market are only providing additional optimism and reinforcing expectations that the market has tightened significantly and is moving towards a squeeze. As of last Friday, the LME frontend spreads tightened further, with the cash/3M spread surging to a backwardation of US\$37/t (the highest since last September), and the tom-next spread jumped to US\$20, a level last seen in mid-2019.

Moving away from the LME market structure, there is not much in the way of fresh developments on the fundamental side. The treatment charges squeeze has been weighing on smelters margins, and there have been media reports that China Copper, the top copper smelter based on aggregated capacity, is said to be considering production cuts. Such news only adds to the tighter outlook spilling from the concentrate market to the refined market, should meaningful cuts go ahead.

Lastly, the latest CFTC data shows that speculators decreased their net long position in COMEX copper marginally, selling 359 lots over the last reporting week, and leaving them with a net long of 87,312 lots as of last Tuesday. For precious metals, speculators reduced their net long in COMEX gold by 22,270 lots, to leave them with a net long of 83,581 lots, while increasing their net long in silver by 1,299 lots.

Agriculture

In its first estimates for 2021/22, the USDA expects that soybean ending stocks in the US could increase by around 25m bushels next year, after falling by around 405m bushels this year on the back of higher shipments to China. For next year, production could increase by around 400m bushels as higher prices prompt farmers to plant more soybeans, while demand remains stable at higher levels. Exports are expected to remain elevated at around 2.2b bushels, mainly on firm demand from China. Similarly for corn, the USDA expects ending stocks to increase by around 50m bushels to 1,552m bushels at the end of 2021/22, after the withdrawal of 417m bushels in 2020/21. The agency estimates that corn production in the US will increase by around 1b bushels next year on a very strong yield of 179.5bu/acre (+4.4% YoY) along with a recovery in acreage to 92mn acres. Exports are also likely to remain firm next year at around 2.65b bushels.

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