

The Commodities Feed: The complex surges

Your daily roundup of commodity news and ING views



Energy

Oil prices surged yesterday along with other risk assets following comments from US Fed Chairman, Jerome Powell. ICE Brent rallied by more than 3.5%, which saw it edge closer to US\$84/bbl - a level last seen back in November. WTI is trading comfortably back above US\$80/bbl. There was little in the way of a fundamental catalyst for the move in the oil market yesterday. Although clearly, sentiment has been broadly constructive since the start of the year due to a number of supply disruptions and growing concerns over OPEC spare capacity.

EIA numbers should offer some comfort to those worried about the potential for a tighter market over the next couple of years. In its latest Short Term Energy Outlook, the EIA forecasts that US oil output will average 11.8MMbbls/d in 2022, up 650Mbbls/d YoY. 2023 output forecasts were also released for the first time. These show that the EIA expects US oil output to average 12.41MMbbls/d over the year, which would be a record, exceeding the 12.29MMbbls/d produced in 2019. The higher price environment should continue to see US drilling activity pick up, although clearly, the rig count has grown at a more modest pace compared to previous up-cycles. The mentality of US producers has shifted over the last couple of years, from trying to maximise production growth to much more of a focus on capital discipline.

Overnight, the API released US inventory numbers. These showed crude oil inventories declining by 1.08MMbbls over the last reporting week, while Cushing crude inventories are reported to have fallen by 3.66MMbbls. The inventory change for crude is fairly neutral as the market was expecting a drawdown in the region of 1.6MMbbls. The increases seen in product inventories was less supportive. Gasoline and distillate fuel oil inventories are reported to have increased by 10.86MMbbls and 3.04MMbbls respectively.

Metals

The metal's complex extended gains yesterday, aided by a retreat in the US dollar following Fed Chairman Powell's hearing. A dip in real yields also saw gold climb back above US\$1,800/oz, ahead of expectations for a high US inflation print later today.

In base metals, LME nickel led the gains amongst the base metals complex with 3M prices surging by almost 5% DoD and touching an intraday high of US\$21,850/t, the highest since 2014. This is against the backdrop of low inventories and persistent tightness in the class 1 market. Reportable inventories at LME warehouses declined for a 50th straight session, adding further worries over the availability of the metal.

As for copper, prices remained firm as macro tailwinds haven't yet turned. Low inventory levels continue to lend support and the market is also contemplating some stimulus from China to drive demand. However, the concentrate market has improved with some new projects coming online. In its latest statement, Ivanhoe mines said that the Kamoa-Kakula copper complex in the DRC is expected to produce 290-340kt of copper concentrate in 2022. The project was initially commissioned in May 2021 and produced around 105.9kt of copper concentrate last year.

Iron ore prices have bounced by almost 50% from the lows seen back in November. Signs of hot metal production beginning to rise in China and policy turning more supportive for downstream demand has been constructive. More recently, prices have also been supported by supply disruptions in Minas Gerais in Brazil, driven by heavy rainfall.

Agriculture

Brazil's agricultural agency, CONAB has revised down its domestic corn production estimate to 112.9mt in 2021/22 compared to its previous estimates of 117.2mt on account of dry weather over recent weeks. The downward revision in production estimates was lower than the 115.7mt the market was expecting. The agency believes that adverse weather will have a severe impact on the first corn crop. Yields for the first crop were revised down from 6.5t/ha to 5.5t/ha. Production estimates for the larger safrinha crop were left unchanged for now. For soybeans, the agency revised down production estimates from 142.8mt to 140.5mt. The market was expecting output to be revised down to around 135.8mt.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

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