# The Commodities Feed: The US plans to go all in

Your daily roundup of commodity news and ING views

## Energy

Growing demand optimism has offered support to the market, with reports that President Biden will propose a US$6t budget for the 2022 fiscal offering further support to the commodities complex. However, optimism about demand is not driven by synchronous global recovery hopes. Instead, it's the reopening in the US that appears to be buoying sentiment. This morning NYMEX WTI is trading at its highest levels since early March, with the market trading comfortably above US$67/bbl. The narrowing in WTI's discount to Brent is evidence of a relatively more constructive market, with WTI recently trading at a discount of less than US$2.50/bbl to Brent, which is the narrowest this spread has been since early December. The demand outlook for the US remains supportive, with the economy continuing to reopen, whilst we are also about to officially enter the summer driving season, which should provide a further boost to gasoline demand. The 4-week average demand for gasoline recently crossed the 9MMbbls/d mark for the first time since March last year.

However, it is important that the market doesn't get too caught up in the rosier demand outlook for the US, as elsewhere there are still concerns. A number of countries in Asia appear to be going the wrong way, so instead of seeing an easing in restrictions, we are seeing more tightening. In Australia, the state of Victoria yesterday implemented a week-long lockdown, with a flaring up in Covid-19 cases in Melbourne.

Away from demand, and the other factor that the market needs to keep a close eye on is how Iranian nuclear talks progress. The noise around negotiations has been far less this week compared to last. However, if and when there is a breakthrough, we would expect it to lead to some immediate downward pressure on the market. We expect any weakness to be short-lived, however, given that the medium-term fundamentals are still supportive.

The big event next week for the market (assuming there is no announcement regarding the Iranian nuclear deal) is the OPEC+ meeting on 1 June, where the group will need to decide whether they will stick to their plan of continuing to increase output over June and July. The group is currently scheduled to increase output by 700Mbbls/d in June, and then by a further 840Mbbls/d in July. The question though, is if the group needs to reconsider its July output increase, given the prospect of additional Iranian supply coming onto the market. Our balance sheet shows that the market should be able to absorb this additional supply from OPEC+, along with a gradual increase in Iranian output.

## Metals

Industrial metals jumped after reports that President Biden is planning to unveil a US$6t budget for the coming fiscal year. LME base metals gained almost 3% after the news. LME 3M copper returned to above US$10,000/t yesterday and continued to find support from rising supply risks in Chile. Reuters reported that a union of remote workers for BHP's Escondida and Spence mine walked off the job early on Thursday. In addition, the market was reminded of potential supply risks from China, with Chinese Vice Premier Han Zheng calling on China to ensure it hits its target for peak carbon emissions by 2030 and net-zero by 2060 on time. Supply risks have risen after Baotou city failed to hit the target from the so-called 'dual control'; meanwhile, both aluminium and zinc smelters from Yunnan province have been asked to reduce operations due to a power shortage.

In the bulks space, iron ore rallied yesterday on both SGX and DCE, presumably boosted by officials once again stepping up efforts in curbing steel output. SMM reported that China's Ministry of Industry and Information Technology would seek to establish a mechanism to contain steel output based on carbon emission, pollutant discharges and energy consumption. The new policies are more focused on cutting steel output rather than capacity, which would eventually result in declining domestic steel production over the medium term. Meanwhile, China Iron and Steel Association (CISA) also provided assurances that it would work with regulators to avoid speculative activity and violations. The group has asked steel mills to adjust output and stockpiles to maintain supply and demand balance and market stability.

## Agriculture

CBOT corn jumped more than 6% yesterday, with the market taking comfort in a USDA report noting strong export sales over the week, which has helped to ease concerns over some cargo cancellations reported earlier. Net sales of corn for the week ending 20 May totalled a little more than 6.2mt, which is the second-largest number seen going as far back as 1990. 5.8mt of these sales were made to China, with the bulk of this volume for new crop corn.

The International Grains Council (IGC) lowered its wheat ending stock estimate for 2021/22 to 288mt compared to an earlier estimate of 298mt. The council increased wheat demand expectations for 2021/22 by around 5mt. Beginning stocks were also revised down by around 4mt on account of higher demand this year as well. Stronger corn prices have been supportive for wheat demand when it comes to animal feed. For corn, the IGC revised lower its estimate for stocks at the end of 2021/22 from 264mt to 261mt, mostly due to larger stock draws in 2020/21. The council expects corn inventories for the current year to decline by 31mt mainly due to lower production. For next year, the council increased its global corn production estimate by 2mt to 1,194mt, whilst demand estimates were also revised higher by 1mt. For soybeans, production and demand forecasts were largely left unchanged for 2021/22, with ending stocks estimates revised marginally higher from 50mt to 51mt.

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