

The Commodities Feed: USD holds the market back

Your daily roundup of commodity news and ING views



Energy

Following its recovery over the last week, the oil rally appears to be running out of steam. ICE Brent settled more than 1.6% lower yesterday. A firmer USD ahead of Jackson Hole has weighed on the broader commodities complex. Any signal from the Fed chairman that we could see a quicker than expected tapering in asset purchases could put some further downward pressure on oil prices. But despite all the excitement and expectation for some clarity from the Jackson Hole symposium, we won't be surprised if it turns out to be a non-event. The market will probably be none the wiser about the timing of any Fed tapering by the end of the weekend.

For oil markets, a key event next week will be the OPEC+ meeting on 1 September. We do not expect any change to the group's production policy and continue to believe that they will ease supply cuts by 400Mbbbls/d for September. OPEC+ will take some comfort in the fact that we have seen a fairly swift recovery in oil prices from the lows of last week. In addition, demand concerns would have likely eased following China's apparently successful attempt to deal with the latest wave of Covid-19. One issue that will likely be addressed at the meeting is the recent request from the US administration for the group to increase output further. Although a discussion will probably be where it ends. OPEC+ is unlikely to ease cuts more aggressively given the fragile state of the

market.

Tropical storm Ida which is currently in the Caribbean is set to make its way into the US Gulf Coast over the weekend at hurricane intensity. Some offshore platforms in the US Gulf have already started evacuating non-essential workers, whilst some refiners are preparing for the hurricane. The storm is expected to make landfall in Louisiana and possibly parts of Texas on late Sunday or early Monday. More than 50% of US refining capacity sits in the US Gulf Coast, leaving the risk of large supply disruptions to refined products.

Metals

As traders wait for signals from the Jackson Hole meeting, metals traded mostly lower amid a firmer dollar. Higher US Treasury yields had initially weighed heavily on the precious complex, although gold found some support later in the session following the deadly bomb attacks near Kabul airport in Afghanistan.

Copper saw a spike in cancelled warrants in the LME market, leaving them at 84.5kt on Thursday. This is the highest level since July last year, signalling potential outflows of the red metal. However, this has been largely ignored by the market as the LME 3M price slipped to an intra-day low of US\$9,268/t. Meanwhile, aluminium managed to close marginally higher yesterday, with reports that Changji prefecture in Xinjiang has imposed output limits for five smelters in the region starting this month. The latest move could result from the red alert the region received last week from China's central NDRC, as it failed to bring down energy intensity during 1H21, whilst receiving a yellow alert on total energy consumption. We discussed this in our [note on Monday](#).

Turning to mine supply, union members at the Caserones copper mine in Chile rejected management's latest wage proposal and extended the strike to a third week. The mine produced around 127kt of copper last year. Meanwhile, a union at the Salvador copper mine described a final wage offer from the management as "unacceptable" ahead of voting. Union members are scheduled to vote on the offer this weekend. In addition, a union at BHP's Cerro Colorado copper mine in northern Chile is not happy with the company's latest wage offer and is also advising members to reject the offer ahead of voting scheduled for Friday.

Agriculture

In its latest Cereals Market Situation report, the European Commission has marginally lowered the region's soft wheat production estimate for 2021/22 to 127.2mt (still up 8.5% YoY) from 127.7mt. The Commission maintained its export estimates at around 30mt for the year compared to 27.3mt in 2020/21. As a result, the Commission lowered its 2021/22 ending stocks estimate to 9.3mt. Among other crops, the European Commission lowered the region's corn production estimates from 72.8mt to 71mt, still up 8.9% YoY. The EU is expected to end the season with corn stocks of around 17.9mt compared to around 17.6mt at the end of 2020/21.

Initial forecasts from CONAB show that Brazilian soybean production could increase 3.9% YoY to a record 141.3mt in 2021/22 on the back of higher acreage (+3.6% YoY to 39.9m ha) and a healthy yield. As a result, soybean exports could increase to 87.6mt compared to around 83.4mt in 2020/21. For corn, CONAB expects domestic production to rebound sharply and increase 33.8% YoY to 115.9mt, after a smaller crop this season due to drought and frost.

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