

What to Watch in Commodities: Buffett, OPEC, Gold, Fed, La Nina
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By Grant Smith, Anatoly Medetsky and Stephen Stapczynski (Bloomberg) -- Commodities opened a busy week with a fanfare to the not-so-common investing man as Warren Buffett's Berkshire Hathaway Inc. lifted the veil on stakes in five major Japanese traders. That move will intensify a focus on the outlook for raw materials just as prices hit the highest since 2018.

In the wake of Berkshire's disclosure, there's plenty more for investors to get stuck into. In oil, tanker-tracking data plus Bloomberg's monthly output survey will illuminate the global market balance, while gold traders can track plentiful Federal Reserve commentary on the central bank's new approach to inflation.

Crop traders get a mass of information spanning global corn, wheat and soybean markets. There'll be important insights from a Black Sea Grain conference, plus the latest from Russia's agriculture ministry. And on top of that, weather forecasts are in the spotlight as odds of a La Nina escalate.

Making More Waves

Less than a month after making waves with news of a move into Barrick Gold Corp., Buffett is again rocking the world of commodities. This time, Berkshire Hathaway disclosed stakes in five Japanese trading companies that dominate the nation's energy and raw materials industries. The quintet are Itochu Corp., Marubeni Corp., Mitsubishi Corp., Mitsui & Co. and Sumitomo Corp.

Berkshire's stakes amount to a little more than 5%, but Buffett made clear that they could be increased. The trading houses are known as "sogo shosha" and have roots dating back hundreds of years. While they operate in areas like textiles and machinery, they derive much of their revenue from energy, metals and other commodities, supplying resource-poor Japan with essentials.

Tightening Up

Oil climbed to a fresh five-month high last week as Hurricane Laura bore down on oil refineries in the U.S. Gulf

Coast. But the price strength has also been driven by an underlying tightening of the market, as demand recovers and the OPEC cartel keeps a lid on supplies. This week will provide traders with another steer on the supply situation, with the release of vital tanker-tracking data and Bloomberg's monthly survey of OPEC production on Tuesday.

The OPEC+ alliance has promised that -- in recognition of the still-fragile market balance -- the increase in its production this month will be restrained. Saudi Arabia pledged to consume any extra output at home, while other members such as Iraq and Nigeria are being compelled to curtail supply further. The estimates published this week will show how well they kept their word, and so give a clue on how durable oil's latest price gains will prove.

So, Tell Me More

Gold investors will be eager this week for more texture on just how the Federal Reserve plans to put its new inflation doctrine into practice, and what that'll mean for bullion demand and prices. Fortunately there's a crowded docket of speaking events that will likely yield greater clarity on the big shift. The precious metal pushed higher on Monday, extending last week's advance.

Among those stepping up, Governor Lael Brainard will take part in a virtual discussion hosted by the Brookings Institution on Tuesday; Loretta Mester from the Cleveland Fed will discuss policy on Wednesday; and Chicago Fed President Charles Evans comments on Thursday. Vice Chair Richard Clarida, in an online event Monday hosted by the Peterson Institute for International Economics, left open the possibility of employing Treasury yield caps at some point in the future, though he indicated it's not likely now and reiterated the central bank's rejection of negative interest rates. Separately, the monthly jobs report on Friday will also shape trading.

Food for Thought

After a year in which extreme weather hurt European Union wheat crops and harvests swelled elsewhere, executives and analysts will discuss the outlook for global trade at UkrAgroConsult's Black Sea Grain conference in Kyiv. Speakers at the event on Wednesday and Thursday will include representatives from key suppliers and importers from Ukraine to Egypt. There

may also be a focus on corn, as worsening crop outlooks from the U.S. to China boost prices.

In Russia, the agriculture ministry will hold a conference on Wednesday to talk about the industry's plans as the country wraps up its second-biggest wheat harvest. Officials are expected to review the crop forecast, which the government has pegged below private estimates. The bigger crop will help Russia reclaim its ranking as the world's top wheat exporter as the nation looks to make inroads into new markets from Saudi Arabia to Algeria.

Growing Concerns

Traders are giving extra attention to the weekly U.S. crop conditions data on Monday amid a stretch of adverse weather. The report showed the percentage of corn and soybeans considered good or excellent declining, though still holding above year-earlier levels. Dry conditions in the Midwest have spurred concerns over the outlook for lower output on some farms, compounding the impact on yields of the derecho that flattened crops in parts of Iowa and Illinois this month. The table below shows the share of U.S. production within an area that experienced drought, based on a weekly USDA report.

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	Aug. 25	Aug. 18	Aug. 11	Aug. 4	July 28
Corn	25%	20%	18%	18%	19%
Soybean	18%	14%	13%	13%	16%
Hay	24%	22%	20%	19%	21%
Cattle	32%	29%	27%	27%	28%
Winter Wheat	25%	24%	25%	25%	26%
Spring Wheat	11%	9%	8%	8%	8%

*T

Meanwhile, there are signs President Donald Trump's promise that China would buy more farm goods doesn't seem to be taking hold, with U.S. Department of Agriculture forecasts pointing to a significant shortfall from the targets set forth in the trade deal. The spate of bad news may have political implications as well: while support for Trump is still strong in rural America, a survey this month of farmers showed 71% plan to vote for him, down from 89% in April.

On Alert

Few events have as much impact on global commodity markets as the swing between El Nino and La Nina weather patterns, and right now investors are alive to the chance that forecasters will declare that the latter has kicked in. This month, the Australian Bureau of Meteorology upgraded its outlook to a La Nina Alert, with odds of about 70% that it'll happen -- or roughly three times the normal likelihood. The outlook will be updated on Tuesday.

La Ninas -- driven by cooler-than-usual Pacific sea-surface temperatures-- typically bring above-average winter-spring rainfall to Australia and can drench Southeast Asia. They can also dry out the southern U.S. through winter, bringing cooler temperatures and storms across the north. In South America, croplands in Argentina can become more arid, while heavier rains are possible in Brazil. That can roil crops from soybeans and corn to palm oil and coffee.

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--With assistance from Ainslie Chandler, Krystal Chia, Nicholas Larkin, Millie Munshi, Joe Richter and Steven Frank.

To contact the reporters on this story:

Grant Smith in London at gsmith52@bloomberg.net;

Anatoly Medetsky in Moscow at amedetsky@bloomberg.net;

Stephen Stapczynski in Singapore at sstapczynsk1@bloomberg.net

To contact the editors responsible for this story:

Phoebe Sedgman at psedgman2@bloomberg.net

Jake Lloyd-Smith, Keith Gosman

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