The Commodities Feed: Aluminium supply woes grow

The bulk of the commodities complex has come under pressure recently, with sentiment remaining fairly negative. Aluminium managed to buck the trend yesterday, settling up on the day as Chinese supply risks continue to grow

China Jiangsu metal processing plant workshop

Energy - China refined product export quotas

Oil prices were unable to escape the broader pressure on risk assets yesterday. ICE Brent settled almost 3.5% lower on the day. Lingering demand concerns over China have hit sentiment, whilst recent weakness in refinery margins is certainly not helping. While our balance suggests a well-supplied market for the remainder of the year, the potential for OPEC+ intervention means that the floor for the market is not too far below current levels.

The US Department of Energy has said that the refilling of the US Strategic Petroleum Reserves (SPR) will not be triggered by hitting a certain price level, and that the refilling will likely not occur before the end of 2023. Earlier this week, there were reports that the US was potentially wanting to refill the SPR if prices traded below US$80/bbl.

ICE gasoil came under further pressure yesterday, with reports that the Chinese government may issue another batch of refined product export quotas, which could total 15mt. So far this year, three batches of quotas have been released amounting to 22.5mt, down around 39% YoY. China has been cutting export quotas in recent years to drive consolidation in the domestic refining industry as well as to tackle pollution. Suggestions are that the government is looking at a sizeable allocation of quotas to help drive growth. If confirmed, this would be welcome news for refined product markets, particularly middle distillates, which are extremely tight at the moment.

Metals – tightening supply lifts aluminium prices

Aluminium prices climbed amid speculation that some smelters in China's Yunnan province may expand production cuts by 20-30% due to ongoing power rationing. Aluminium smelters in the region have already reduced their output by 10% since the weekend. The output cuts in China are coming on top of European and some North American smelter closures and curtailments over the past 12 months amid the worsening energy crisis.

For copper, the latest data from the LME showed on-warrant stocks rising by 10.4kt - the biggest daily increase since June 27th - to 88.8kt with the majority of the gains reported from the warehouses in the US and Asia. Despite the increase, the cash/3M spread stays firmly in backwardation of a little over US$119/t.

ArcelorMittal SA said it expects its European steel output to drop in the fourth quarter of the year amid weak demand and high energy costs. Europe's biggest steelmaker expects its crude steel production on the continent down 1.5 million tonnes in the fourth quarter from the year before – down about 17% year-on-year.

In precious metals, gold fell to its lowest level in more than two years amid tightening monetary policy in the US and Europe. Weak economic growth in China may also impact gold jewelry demand in one of the top consumers of the precious metal.

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