

The Commodities Feed: Big US crude draws

The US saw large oil inventory declines over the last week. However, commodities are still struggling to find direction. A number of markets are trying to balance weaker demand with growing supply risks. This is particularly the case for metals, where yesterday another European smelter announced it would suspend operations due to high energy prices



Source: Shutterstock

Energy- large US crude inventory draw

Yesterday's EIA numbers provided some support to the oil market. However, sentiment remains largely negative, with lingering demand concerns and a potential Iranian nuclear deal casting a shadow over the market.

The EIA reported larger than expected draws in crude and product. Over the last week, commercial crude oil inventories declined by 7.06MMbbls, which is the largest drawdown since mid-April. However, when SPR releases are taken into account, total US crude oil inventories fell by a significant 10.46MMbbls. The large decline in inventories was due to a substantial increase in crude

oil exports over the week. Exports grew by 2.89MMbbls/d to hit a record 5MMbbls/d. This makes up for the weak export number last week, while the wider discount that we have seen in WTI/Brent for several weeks now should be supportive for US export volumes. On the products side, while a build of 766Mbbbls was reported for distillate fuel oil, gasoline inventories fell by 4.64MMbbls. This fall was driven by stronger implied demand, which grew by 225Mbbbls/d over the week. The more recent weakness that we have seen in pump prices appears to have provided some support to demand.

Metals- more closures for European smelters

Base metals came under further pressure yesterday, with the exception of LME aluminium, which managed to settle marginally higher on the day. This is after Norsk Hydro announced that it would suspend primary aluminium production at the Svalco smelter in Slovakia due to surging power prices. The smelter had already reduced output late last year and early this year, which left it operating at 60% of its 175ktpa capacity. Separately, Hydro has also said that production will be affected at its Sunndal smelter in Norway due to strike action which is set to start on 22 August. The planned strike is estimated to idle around 20% of primary production capacity for four weeks starting from Monday. Hydro Sunndal has a capacity of 450ktpa. While supply risks continue to grow in the aluminium market (both in Europe and China), the market still seems more focused on the poorer demand story.

Agriculture - Chinese imports off to a weak start in 2H22

The latest trade data from China's Customs shows that corn imports fell 46% year-on-year to 1.5mt in July, while year-to-date imports are down 16.7% YoY to 15.1mt. Similarly, wheat imports also came under pressure, falling 11.7% YoY to 780kt over the month. Cumulative wheat imports declined 8.4% YoY to 5.7mt over the first seven months of the year. Weaker Chinese import demand has provided some relief to grain markets, which have had to deal with Ukrainian supply disruptions.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial

Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.