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

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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 766Mbbls was reported for distillate fuel oil, gasoline inventories fell by 4.64MMbbls. This fall was driven by stronger implied demand, which grew by 225Mbbls/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 Slovalco 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.

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