The Commodities Feed: China macro data disappoints

The complex came under some pressure due to USD strength yesterday, and renewed concerns over the Chinese economy certainly won't help

Energy - Chinese refiners increase run rates

The oil market traded in a fairly choppy manner yesterday, with ICE Brent trading in a little more than the US$1.20/bbl range. China concerns and a stronger USD ensured some downward pressure not just for oil, but the broader commodities complex. Chinese data out this morning is unlikely to help soothe concerns, with both industrial production and retail sales coming in below expectations. Industrial production increased 3.7% YoY in July, compared to expectations of 4.3%, whilst retail sales grew by just 2.5% YoY, well below expectations of 4%.

Oil-specific data from China was more supportive though, with it showing that refiners processed around 14.93MMbbls/d of crude oil in July, up more than 31% YoY and also higher than the 14.89MMbbls/d processed in June. Our numbers suggest that this is the second highest number on record, with a record 14.94MMbbls/d processed in March this year. In addition, apparent oil demand came in at about 14.76MMbbls/d, up more than 35% YoY, but less than 1% lower MoM. The numbers also suggest that China drew down crude oil inventories by a little more than

500Mbbls/d over July, this is after fairly strong builds in both May and June.

Shell finally resumed crude oil exports from the Forcados terminal in Nigeriaon Sunday. Operations at the terminal were suspended for a little over a month following the discovery of leaks. The terminal had been scheduled to ship in the region of 220Mbbls/d in recent months. The resumption of these flows will do little to help the tightness in the medium sour crude market, given that Forcados crude is a medium sweet crude.

There is some optimism that a deal between the US and Iran on the release of 4 US citizens from an Iranian prison and the expected unfreezing of Iranian funds overseas could potentially lead to some progress with the Iranian nuclear deal. The failure to reach a nuclear deal on a number of occasions in recent years leaves us reluctant to assume a significant increase in Iranian oil supply. Even with current sanctions, Iran has increased supply from an average of around 2.5MMbbls/d in 2022 to a little more than 2.8MMbbls/d in July 2023. Prior to the re-implementation of US sanctions, Iran was producing in the region of 3.8MMbbls/d.

The EIA released its latest drilling productivity report yesterday in which it estimated that US shale oil production will fall by 20Mbbls/d to 9.415MMbbls/d in September. The slowdown shouldn't come as too much of a surprise given the decline in drilling activity for much of this year. Meanwhile, the number of drilled but uncompleted wells (DUCs) fell by 5 over July to 4,787- the lowest number since April 2014. Whilst well completions did increase MoM, drilled wells also fell over the course of the month.

Agriculture – US crop conditions improving

The latest data from Ukraine's Agriculture Ministry shows that grain exports for the season rose 18% YoY to 3.12mt as of 14 August. These shipments include 1.48mt (-16% YoY) of corn, and 1.25mt of wheat exports, which almost doubled from last year. Ukraine's grain exports in 2023/24 are expected to reach 48mt, comprising 22mt of corn and 15mt of wheat.

The latest crop progress report from the USDA shows that US crop conditions continue to improve. 59% of US corn is rated in good to excellent condition, up from 57% both last week and year ago levels. For soybeans 59% of the crop is also rated good to excellent, up from 54% last week, and higher than the 58% seen at the same stage last year. Spring wheat conditions are still lagging last year, with 42% of the crop rated good to excellent, down from 64% at the same stage last year. As for harvest progress, 92% of winter wheat area has been harvested, up from 89% at the same stage last year and in line with the 5-year average. 24% of spring wheat area has been harvested, higher than the 15% seen at the same stage last year, but still lagging the 5-year average of 28%.

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