

The Commodities Feed: China surprises with a cut in short-term rates

The Energy Information Administration (EIA) estimates that US shale oil production could remain flat in July, with drilled but uncompleted wells (DUCs) inventory falling further in May. For metals, China's surprise cut in short-term rates has been supportive of prices as Beijing appears to be taking measures to support economic growth



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Energy – US shale production flat

In its latest drilling productivity report, the Energy Information Administration (EIA) estimates that the US shale oil production could be flat at around 9.38MMbbls/d in July compared to an estimated 9.37MMbbls/d in June. The report also showed that drilled but uncompleted wells (DUCs) dropped by thirty over the month of May 2023 to 4,834 wells, the lowest level since May 2014. DUC have been falling continuously since start of the year with YTD drop of around 270 wells since the end of 2022 reflecting lower investment into oil exploration for the year. Low inventory of DUC could also make it challenging for the US to increase production quickly even if prices move up.

Canada is witnessing an increase in wildfires once again which could hurt the oil and gas production in the region. The Alberta province reported seventy-six active wildfires as on Monday compared to seventy-one on Friday; while across Canada, around 431 wildfires reported of which

around 208 are reported to be out of control. Last month, the country faced production disruption of around 200-300Mbbbls/d of oil and gas production at one point, although some of the oil fields have subsequently restarted production since then. Spreading wildfires could increase disruption again this month as well. WCS discount over the WTI has dropped back to US\$12.9/bbl currently after increasing to around US\$15/bbl at the start of the month.

Metals – Share of Russian aluminium in LME warehouses grows

Industrial metals (except for nickel) edged higher in the morning session as China trimmed its short-term policy interest rate unexpectedly. People's Bank of China lowered its 7-day reverse repurchase rate by 10bps to 1.9% in a sign that Beijing has been taking measures to support the flagging economic growth. The move also provides some confidence to the market that China could take further steps to push up economic growth.

Recent data from LME shows that share of Russian aluminium inventory out of total exchange inventory increased to 68% in May from 52% in April following increased withdrawals of aluminium from LME warehouses in Asia. The data shows that there was a total of 263,125 tonnes of Russian aluminium in exchange warehouses, while Indian-origin aluminium stood at 116,800 tonnes falling from 46.5% in April to 30% in May. Meanwhile, the exchange said that 19% of the 167,550 tonnes of aluminium requested for delivery in May was still Russian metal.

Agriculture – USDA slashes weekly corn crop ratings on dry weather

The USDA's latest crop progress report shows that US soybean plantings continue to rise with 96% planted as of 11 June, well above the 87% seen at the same stage last year and above the 5-year average of 86%. Similarly, spring wheat plantings are 97% complete, which is above the 92% planted at the same stage last season, and in line with the 5-year average. On the crop condition, the agency rated around 38% of the winter wheat crop in good-to-excellent condition, up from 36% a week ago, and 31% seen last year. On the other hand, the USDA rated 61% of the corn crop in good-to-excellent condition as of 11 June, lower from 64% a week ago and 72% seen at the same stage last year largely on account of dry weather.

The USDA's weekly export inspection data for the week ending 8 June pointed towards weakening demand for US grains. USDA's export inspections of corn stood at 1,169.1kt in the above-mentioned period, lower from 1,206.8kt in the previous week and 1,221.8kt reported a year ago. For wheat, US export inspections stood at 246.6kt, down from 304.4kt from a week ago and 411.9kt reported a year ago. Meanwhile, US soybean export inspections fell to 140.2kt compared to 222.3kt from a week ago and 609kt from a year ago.

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