

The Commodities Feed: China's metals inventories increase

Inventories of base metals and steel increased in China over the last week, reflecting slower demand and ample supply in the short term



Metals – Global steel output falls

Steel inventories at major Chinese steel mills rose for a second straight fortnight to 19mt in mid-February, up 25.7% compared to early February, according to data from the China Iron and Steel Association (CISA). Crude steel production at major mills rose 1.5% from early February to 2.1mt/d in mid-February. The most active contract of iron ore trading at SGX fell over 3% DoD to the lowest level in almost four months this morning amid slowing demand in the end-use industry. We believe a further boost for China's property sector will be crucial in supporting iron ore demand going forward. The downside risk for 2024 is if the stimulus effect is weaker than expected. With the recovery path for China still bumpy, we believe iron ore will remain sensitive to Chinese policies. Prices are therefore likely to remain volatile – at least in the short term.

Meanwhile, recent data from the World Steel Association (WSA) shows that global steel production fell 1.6% YoY to 148.1mt in January, as lower output in China and Brazil offset higher production levels from India, Turkey, and Iran. Chinese steel production declined 6.9% YoY to 77.2mt in January, while output in India and Russia rose 7.3% YoY and 1.2% YoY to 12.5mt and 6.2mt respectively. Meanwhile, monthly crude steel output in the EU fell 1.8% YoY to 10.2mt, while

production in North America fell 2.1% YoY to 9.2mt last month.

Data from the Shanghai Futures Exchange (ShFE) shows that weekly inventories for all base metals increased over the last week primarily due to weak consumption during the week-long holiday earlier this month. Copper weekly stocks jumped by 94,803 tonnes (+109.6% WoW) for an eighth consecutive week to 181,323 tonnes as of Friday, the highest since the week ending on 17 March 2023. Among other metals, zinc inventories rose by 55,018 tonnes (+164% WoW) for a fourth consecutive week to 88,611 tonnes (highest since the week ending on 7 April 2023). Aluminium and lead stocks increased by 65.6% WoW and 33% WoW respectively at the end of last week.

The latest positioning data from the CFTC shows that speculators trimmed their net shorts of copper by 33,502 lots to just 8,807 lots as of 20 February 2024, the least bearish bets since the start of the month. The move was driven by falling gross shorts by 22,967 lots to 72,858 lots, while gross long positions rose to the highest level in over a year. In precious metals, managed money net longs in COMEX gold increased by 17,948 lots to 64,378 lots over the last reporting week. The move higher was driven by falling gross shorts by 17,225 lots to 45,739 lots.

Energy – Oil continues to slide

The oil market continues to trade under pressure this morning extending the sell-off from the end of last week amid slowing demand and rising ex-OPEC supply. Comments from the International Energy Week scheduled for later this week will be closely watched to gauge the market balance.

Weekly data from Baker Hughes shows that the US oil rigs rose by six rigs (the biggest weekly addition since February 2023) over the last week, with the total oil rig count standing at 503 for the week ended 23 February 2024, the highest rig count since the week ending 1 December 2023. Meanwhile, gas rigs fell by one, taking the total rig count (oil and gas combined) to 626 over the reporting week. Lower gas prices appear to weigh on gas rigs with some of the exploration companies reducing investments for natural gas production.

The Wafa oil field in Western Libya has resumed operations today following a short halt over the weekend when protestors demanded better wages. The oil field produces around 40-50Mbbbls of oil a day. Meanwhile, reports also suggest that the gas pipeline to Italy is also operating again.

The latest positioning data from CFTC shows that speculators increased their net long position in NYMEX WTI by 18,492 lots for a second consecutive week, leaving them with net longs of 134,150 lots as of 20 February 2024. In contrast, money managers decreased their net longs in ICE Brent by 3,768 lots over the last week, leaving them with a net long position of 272,269 lots as of last Tuesday. The move was dominated by the rising gross short positions which increased by 4,125 lots to 69,771 lots over the reporting week, the highest since October 2021.

Agriculture – Ukraine grain shipments surge

The latest data from Ukraine's Ministry shows that grain exports from Ukraine through the seaports increased to 30mt of grains (nearly reaching pre-war level) since August 2023. These shipments include 18mt through the Black Sea port and 12mt through the Danube port route. Ukraine plans a new export route through the Danube port to avoid the Polish border clash. Shipments through ports contributed to around 80-90% of all agriculture exports by the country for the current season so far.

USDA released its weekly grains export sales report which shows that US grain sales remained weak for the week ending 15 February. Weekly export sales of soybeans were down to 55.9kt for the week, much lower than the 377.8kt a week ago and 556.6kt the same period last year. This was also lower than the average market expectations of 515kt. Similarly, wheat exports fell to 280.1kt, lower than the 397.3kt reported a week ago and 418.8kt reported a year ago. The market was expecting a number closer to 432kt. Meanwhile, US corn shipments stood at 998.1kt, lower than the 1,309.2kt reported a week ago and average market expectations of 1,020kt but higher than the 848.7kt reported a year ago.

The latest CFTC data show that money managers increased their net bearish bets in CBOT corn by 26,391 lots for an eighth consecutive week to 340,732 lots as of 20 February 2024, the most bearish bets since June 2006. The rise was led by an increase in gross shorts by 15,910 lots, taking the total to 505,097 lots. Similarly, speculators increased their net bearish bets for CBOT soybeans by 2,177 lots for the 14th straight week to 136,677 lots over the last reporting week, the highest since May 2019. The move was predominantly driven by rising short positions with gross shorts increasing by 4,746 lots to 188,294 lots. Meanwhile, the net speculative short positions in CBOT wheat rose by 12,852 lots to 68,524 lots over the last reporting week, following an increase in gross shorts by 14,389 lots to 149,392 lots.

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