The Commodities Feed: Complex moves higher on strong China data

The commodities complex traded higher this morning following stronger-than-expected Chinese manufacturing activity data. Demand for Russian crude remains strong in Asian markets due to higher discounts

Energy – Rebound in Chinese factory activity supports oil

Sentiment in the oil market remains upbeat this morning, following improving macro sentiments as China's manufacturing sector reported the biggest recovery in more than a decade – both manufacturing and non-manufacturing PMIs for February were very strong. Some sub-indices are the highest in several years. The official manufacturing and non-manufacturing PMI indices came in at 52.6 and 56.3, respectively, in February compared to 50.1 and 54.4 in January. The CAIXIN manufacturing PMI was 51.6 in February up from 49.2 in January. This set of numbers is stronger than market expectations.

Our China economist believes that that the government will set a GDP growth target of 5.5% to 6% at the Two Sessions on 5 March. This set of PMI data gives the government a very good reason to set a high growth target.

Meanwhile, the oil market largely ignored a relatively bearish API release overnight, with prices of both ICE Brent and NYMEX WTI extending gains for a second straight session today.

The API reported that US crude oil inventories increased by 6.2MMbbls over the last week, quite a bit more than the roughly 1.4MMbbls build the market was expecting. In addition, Cushing crude stocks are reported to have increased by 483Mbbls. On the products side, API reported that gasoline inventories fell by 1.8MMbbls, whilst distillates stocks decreased by 341Mbbls. The more widely followed EIA report will be released later today. If confirmed by EIA, this will be the tenth consecutive week of inventory buildup in the US with total crude stocks moving further up compared to the five-year average at this point in the season.

Media reports suggest that Russia's crude production has increased by around 2% month-on-month to 11.05MMbbls/d in February, just shy of the highs made in February 2022 at 11.08MMbbls/d. Russia is reported to have increased oil exports to China and India in recent months as demand in Europe continues to fall. Demand for Russian crude continues to remain strong in the Asian market due to higher discounts. Russia was previously reported to be planning a production cut of around 500Mbbls/d from March onwards to reduce the global supply of oil and push prices higher.

Metals – LME suspends flow of Russian metals into US warehouses

The latest market reports suggest that aluminium smelters in China's Yunnan province trimmed annual production capacity by 650kt-800kt following the latest round of power cuts in February. Total cuts (including the latest reductions) stand at around 1.9mt of capacity cuts since September, which accounts for one-third of the province's capacity.

As expected, the London Metal Exchange (LME) said yesterday that it has suspended new deliveries of Russian base metals into its US-registered warehouses following the planned imposition of tariffs on Russian metal by the United States. The exchange further added that the action was taken "in order to minimise the risk of price dislocation". The move will prevent the delivery of Russian metal in the US against LME contracts. There is currently very little Russian metal available in US warehouses registered with the LME – only 400t of a speciality aluminium alloy.

In mine supply, the latest data from the National Statistics Institute of Chile show that copper output in the nation slumped by 12.5% MoM to 435.9kt in January. However, production rose 1.3% year-on-year when compared to 430.4kt during the same month last year. Meanwhile, the Mopani copper mine in Zambia suspended mine shaft operations yesterday following an accident at the site. As for zinc, the Global Atomic-Befesa zinc plant in Turkey is all set to resume its operations in early March. The plant halted its operations on 6 February following the earthquakes experienced by the nation. However, the plant sustained minimal damage and has been declared operational.

The latest LME data show that cancelled warrants for copper increased by 4,825 tonnes yesterday (the second consecutive increase) to 24,275 tonnes; fresh cancellation of warrants has pushed the on-warrant inventory down by around 5,000 tonnes to 39,825 tonnes, the lowest since 11 November. The invenotry outflow was mainly reported from warehouses in Singapore, Hamburg, and Rotterdam. Tighter supply in the spot market has tightened the forward curve with the cash/3m contango falling to US$10/t as of yesterday, compared to a contango of US$19/t a day earlier and a contango of US$27/t at the start of the month.

Agriculture – Adverse weather in Ivory Coast could hurt cocoa supply

The latest comments from the Agriculture Ministry of Ivory Coast state that the main crop for cocoa production is being impacted due to the adverse weather conditions in some parts of the country. It is being noticed that the winds are gradually causing cocoa trees to weaken and dry up, and the harvest is expected to drop in the 2022/23 crop season. Earlier, cocoa production dropped to 2.15mt in the 2021/22 season, when compared to 2.2mt of cocoa produced in the previous season. Cocoa supply from Nigeria has also been slower in recent months due to demonetisation in the country which resulted in transaction-related issues in the local market.

Weekly data from the European Commission shows that soft wheat shipments from the EU rose 7.2% YoY and reached 20.5mt as of 26 February, up from 19.1mt for the same period last year. Morocco, Algeria and Egypt were the top destinations for these shipments. Meanwhile, EU corn imports continued to rise and stood at 17.9mt for year-to-date when compared to 11.2mt last year due to lower domestic output.

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