The Commodities Feed: Middle distillates firm up

US economic data proved supportive for crude prices yesterday by signalling that the Federal Reserve could now be nearing the end of its rate hiking cycle. Today's calendar is fairly quiet, with just the usual EIA inventory numbers to note

Energy – $80/bbl remains in play for Brent

Bad news still appears to be good news when it comes to US economic data. US retail sales for June came in below market expectations, whilst industrial production came in much weaker than anticipated. While this will do little to change expectations for a Federal Reserve rate hike next week, it does suggest that it could be the last of the hiking we see from the central bank, particularly following the softer than expected CPI release last week. Oil has reacted positively to the expectation that we are approaching the end of the hiking cycle. ICE Brent settled more than 1.4% higher yesterday, leaving the market in striking distance of the US$80/bbl level. Given the tightening that we expect in the oil market as we move through the second half of this year, we believe it is only a matter of time before Brent moves above US$80/bbl. How convincing this move will be will really depend on whether we see a big shift in speculative sentiment. Whilst we have seen an increase in speculative buying in recent weeks, historically it is still fairly modest, particularly when you consider the tightening that is expected in the physical market

US inventory numbers released overnight from the API show that there were draws across the board over the last week. Crude oil inventories fell by 797Mbbls, which was less than the roughly 2.5MMbbls decline the market was expecting. Crude stocks at Cushing fell by 3MMbbls, while gasoline and distillate inventories declined by 2.8MMbbls and 100Mbbls respectively. Overall, the numbers were fairly neutral. The more widely followed Energy Information Administration (EIA) report will be released later today.

The middle distillate market remains well supported with the prompt ICE gasoil time spread trading at more than a US$4/t backwardation, whilst the prompt ICE gasoil crack has strengthened to more than US$22/bbl. There has been revived speculative interest in middle distillates recently, with speculators buying almost 23k lots of ICE gasoil over the last reporting week to leave them with a net long just shy of 33k lots. This buying has been driven by a combination of fresh longs as well as short covering. Since early May, speculators have bought more than 65k lots in ICE gasoil. Clearly, sentiment in the market has shifted quite drastically, and this is not too surprising when looking at the drawdown in ARA gasoil inventories in recent weeks. Insights Global data shows that gasoil inventories in ARA have fallen by 577kt since mid-May, leaving stocks at 1.93mt- 16% below the 5-year average.

The second batch of Chinese trade data for June was released yesterday, which showed strong exports for gasoline and jet fuel with refiners having increased run rates (up 11% year-on-year). Gasoline exports in June increased 30.7% YoY to 950kt, which takes year-to-date exports to 6.17mt, up 10.9% YoY. Meanwhile, jet fuel exports grew by more than 109% YoY to 1.08mt in June, leaving year-to-date exports at 6.74mt, an increase of 57.3% YoY. Diesel exports over the month were weaker, falling 12.4% YoY to 290kt. However, year-to-date diesel exports are still very strong, up more than 263% YoY to a total of 7.49mt.

The latest China trade data also shows that LNG imports in June totalled 5.96mt, up 24% YoY – and this is after imports in May grew 30% YoY. Stronger imports in recent months have made up for the weaker flows seen earlier in the year. As a result, cumulative LNG imports over the first six months of the year totalled 33.62mt, up a little more than 7% YoY. This still leaves us below the roughly 10% import demand growth we were expecting for the year as a whole. China is still very quiet in the spot market, and it appears that term contract volumes are adequate to meet domestic demand. We would likely need to see a recovery in Chinese industrial production before we see stronger LNG demand, as industrial demand makes up the bulk of Chinese natural gas demand.

Metals – Vale iron ore output grows

The latest data from Chinese Customs shows that imports of unwrought aluminium and products rose 12.8% YoY to 211.2kt in June, leaving cumulative imports over the first half of the year at 1.2mt, up 10.7% YoY. On the export side, alumina exports fell 60% YoY to 80kt last month, while YTD exports remained almost flat YoY at 560kt.

The latest quarterly production update from Vale shows increased iron ore production in the second quarter by 6.3% YoY to 78.74mt. The increase was driven by record output for a second quarter from the S11D mine. This leaves iron ore output over the first half of the year at 145.52mt, up 6% YoY. The miner left its full-year guidance unchanged at 310-320mt.

Indonesia has increased export taxes for copper, zinc and iron. The new regulation sees the export tax rate for copper concentrate increase to a range of 5% to 10% as the government aims to accelerate the pace of local smelter construction. The government banned the export of raw materials in June, however, excluding companies whose smelter completion rates stood above 50% and provided they paid an export tax. Meanwhile, the tax rates for iron, zinc and lead concentrates will also rise to a range of 2.5% to 7.5% based on the same rates of smelter completion. The new rates are effective from 17 July until the end of the year and the government is expected to revise these higher once again in January 2024.

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