

The Commodities Feed: Oil price gains on pipeline closure

Oil prices continued to rise as no timeline has been given yet for the reopening of the Keystone pipeline, which suffered an oil leak last week.



Source: Shutterstock

Energy – US shale production recovery continues

The oil market strengthened for a second consecutive session amid supply disruptions and as China further eased its Covid restrictions. However, climbing Covid case numbers in the country are clouding once again the demand outlook as new cases have started to strain medical resources.

TC Energy Corp. has yet to submit a restart plan needed to resume the operation of the Keystone pipeline following recent oil spill.

The EIA released its latest drilling productivity report yesterday and expects US shale oil production to increase to 9.32MMbbls/d in January, up from an estimated 9.23MMbbls/d in December and 9.13MMbbls/d in November. Most of the addition would come from the Permian region, where output is expected to increase by 37Mbbls/d, whilst Bakken and Eagle Ford are forecast to see output increase by 21Mbbls/d and 10Mbbls/d, respectively. If realized, planned shale oil production in January will surpass the previous record of 9.27MMbbls/d set in November 2019. The report also showed that drilled but uncompleted wells (DUCs) increased last month, after falling continuously for more than two years. DUC inventory rose by 22 to a total of 4,443 at the end of November,

rebounding from the lows of 4,421 (lowest since 2014) reported in October. An increase in DUC inventory reflects slower investment in completing oil wells, and could weigh on shale oil production growth in 2023 if crude oil prices remain at lower levels.

Metals – China Covid concerns weigh on the complex

A resurgence of Covid infections in China weighed across risk assets yesterday, with base metals mostly falling across the board. LME copper fell almost 2% to close at US\$8,374/t yesterday with the market largely ignoring the ongoing protests in Peru. The latest market report suggests that the latest move by Peru's president to bring elections forward to 2024 failed to curb ongoing protests in the country. Freeport-McMoRan reported that its Cerro Verde copper mine is experiencing delays in the transport of supplies and products due to political protests but that mine operations are running normally as of now.

For aluminium, the latest LME data shows that total on-warrant stocks for the metal reported an increase of 37.4kt (the biggest daily addition since 19 October) to 261.4kt as of yesterday. All of the inflows were reported from Port Klang, Malaysia warehouses. Meanwhile, Shanghai Metals Market (SMM) reported that aluminium smelters (Zunyi Aluminium Industry Ltd. and Guizhou Liupanshui Shuangyuan Aluminum Ltd) in Guizhou province in China have received orders from the local government to reduce power usage by 20%, starting from 13 December for at least five days. Cold weather across the region has resulted in increased energy consumption and reduced supplies.

For zinc, the latest reports suggest that production at George Fisher zinc mine located outside Mount Isa, Australia has stopped as a grassfire continued for a third day. Hundreds of underground workers have been evacuated due to health safety concerns. Stocks of zinc on the LME fell for a tenth consecutive day on Monday and are now at their lowest level in three decades as producers cut output. Soaring energy costs following Russia's invasion of Ukraine have squeezed producers' margins, with energy-intensive metals, including zinc, having been particularly affected.

Last week, Nyrstar said its Aubrey smelter would remain closed indefinitely due to challenging market conditions.

Agriculture – UNICA reports higher cane crush

The latest fortnightly report from the UNICA shows that sugar cane crushing in Centre-South Brazil increased significantly by 319% YoY to 16.2mt over the second half of November, with cumulative crushing up 2.1% YoY so far this season to stand at 532mt. Sugar production increased 532% YoY to 1.03mt over the 2nd half of November, with around 47.6% of cane allocated to sugar production. Cumulatively, sugar output has risen 2.8% YoY to 33mt in the season so far. UNICA reported that 84 sugar mills were still operating at the end of November 2022, nearly three times more than last year due to a delayed start to the season. The group expects 23 sugar mills to close operations by the first half of December; typically crushing season ends in Brazil by the first half of December. A longer crushing season this year could push up supply from Brazil. The crushing report from UNICA is at odds with other market reports - where crushing looks to have concluded due to adverse weather.

USDA weekly export inspection data shows the demand for US grains remained weak over the last week. US weekly inspection of soybean for export fell to 1,840kt over the last week, lower when compared to 2,080kt in the previous week. It was slightly higher when compared to 1748kt same

time last year. For wheat, export inspections weakened last week, from 342kt to 219kt; also lower than the 269kt at the same time last year. Corn shipment inspections fell to 505kt over the last week, compared to 824kt from a week ago and 930kt at the same time last year.

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