The Commodities Feed: Oil ignores CPI print

A stronger CPI print should have meant that markets came under pressure yesterday. However, oil prices rallied, while supply concerns continue to dominate the aluminium market

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Energy - oil rallies despite bearish developments

ICE Brent managed to settle almost 2.3% higher yesterday even after the higher-than-expected inflation reading from the US. Stickier inflation only reinforces the view of a more aggressive hiking cycle from the US Fed. And this latest data supports a 75bp hike at the Fed's November meeting.

The latest weekly numbers from the EIA were also not very constructive. US commercial crude oil inventories increased by 9.9MMbbls over the last week. Although when taking into consideration SPR releases, total US crude oil inventories increased by just 2.2MMbbls The large commercial build was predominantly driven by a large decline in crude oil exports. These fell by 1.68MMbbls/d WoW. We also saw slightly stronger crude imports and lower refinery activity over the course of the week. For refined products, whilst gasoline saw a build of a little over 2MMbbls, distillate fuel oil stocks declined by 4.85MMbbls.

The IEA released its latest monthly market report yesterday in which the agency questioned the recent decision from OPEC+ to cut output. The agency believes the decision will lead to increased volatility and energy security concerns. As a result of a deteriorating economy and higher prices, the IEA revised lower its demand growth forecasts for both 2022 and 2023 by 60Mbbls/d and 470Mbbls/d respectively. This leaves oil demand growth in 2022 and 2023 at 1.9MMbbls/d and 1.7MMbbls/d respectively. As for Russian supply, the IEA reports that exports fell by 230Mbbls/d in September to average 7.5MMbbls/d, which is down around 560Mbbls/d from pre-war levels. Obviously, with the EU ban on Russian oil coming into force in December, these flows are expected to decline further. Looking at broader OPEC+ supply, IEA numbers show that the group produced 3.44MMbbls/d below its target level for September.

President Biden has suggested that some action will be taken by his administration next week to address high gasoline prices. The US is clearly not happy with the recent decision of OPEC+ to cut supply and the move has done very little to help the Saudi/US relationship. Potential action could include further releases from the SPR and potentially imposing export limits on fuel. Export limits on fuel would not be very effective, as they would likely push global fuel prices higher, and would then have a positive impact on fuel prices in US regions which import large volumes of refined products from overseas.

Metals – LME aluminium continues to surge on supply woes

LME aluminium price continued to surge for a second straight session amid worries over a potential ban on Russian supplies, largely ignoring the jump reported in on-warrant stocks. The latest LME data showed that on-warrant inventories for aluminium rose by 20kt, their seventh consecutive rise, to reach 303.6kt (highest since May 9th) as of yesterday, with the majority of the increase from Malaysia's Port Klang warehouses. Meanwhile, cancelled warrants also declined for a tenth straight session to 48.3kt as of yesterday, signalling potential further inflows.

In China, the latest SMM survey showed China's copper cathode production rising 13.2% YoY and 6% MoM to 909kt in September, as some smelters resumed normal operations. Meanwhile, a newly expanded smelter in the Zhejiang region reached its full production capacity, while a smelter in the Guangdong region resumed operations in mid-September.

Among other metals, SMM reported that Chinese primary aluminium production rose 7.3% YoY to 3.34mt in September. For the first nine months of the year, output rose 2.8% YoY to 29.9mt. Similarly, refined nickel output rose 7.7% YoY to 15.4kt in September. However, refined zinc output fell 3.1% YoY to 503.9kt last month, while YTD production also declined 3% YoY to 4.4mt. For lead, output rose 12.8% YoY and 10% MoM to 295kt in September.

For copper premiums, the latest SMM data shows Yangshan copper premiums in China surged to US$137.5/t (highest since October 2021) due to the lower availability of domestic supplies resulting in higher import demand for the metal. The nearby Shanghai Futures Exchange (ShFE) copper spread moved to a backwardation of over CNY1,600/t as of yesterday, indicating tight domestic supply conditions.

Agriculture - Black Sea grain deal uncertainty

Wheat prices saw further strength yesterday on concern that the Black Sea grains deal may not be renewed when it expires in mid-November. According to reports, Russia has sent a letter to the United Nations regarding its concerns over the deal and potentially will not renew it if these concerns are not addressed.

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