

## The Commodities Feed: Oil supported as Keystone pipeline remains shut

Oil is supported as a crucial North American pipeline remains shut while metals are under pressure this morning as growing Covid-19 cases in China are weighing on the demand outlook over winter



Rising Covid-19 cases in China are weighing on the demand outlook for oil

### Energy – Oil prices supported

ICE Brent prices have been consolidating at around current levels of US\$77/bbl as the market awaits demand/supply estimates to be released later in the week by IEA and OPEC. The supply disruptions in the US due to the Keystone pipeline closure continue to be supportive for NYMEX WTI with Brent-WTI spread trading at around a 6-month low of around US\$4.7/bbl currently compared to the spread of around US\$8/bbl a month ago. The latest market report suggests that TC Energy Corp. is progressing with its recovery efforts to resume operations at its shuttered Keystone pipeline; however, the company has still not given any timeline for the pipeline restart. Meanwhile, the latest comments from Russian President, Putin indicated the possibility of an oil supply cut in response to the oil price cap imposed by G7 last week; Russia has already made it clear that it will not sell oil to the countries participating in the price cap.

The latest positioning data from CFTC shows that speculators increased their net long position in NYMEX WTI by 5,688 lots (after three consecutive weeks of decline) over the last week, leaving

them with net longs of 171,277 lots as of 6 December 2022. Meanwhile, money managers trimmed their net longs in ICE Brent by 4,186 lots over the last week for a fourth consecutive week, leaving them with a net long position of 95,025 (least bullish in more than two years) lots as of last Tuesday.

Henry Hub was trading with gains of over 10% today, following the threats of a Pacific storm, which could push up the demand for natural gas for heating requirements in the Northern and Western US. The latest 6-10 days outlook reports from the US Climate Prediction Centre predicts a colder temperature across much of the US with below-average temperatures likely to be in the Northern, Western and Central parts of the US along with heavy snowfall. According to the latest EIA data, US natural gas inventory is around 58bcf lower than the 5-yr average at this point in the season and a stronger demand could tighten the market further in the short term.

As for the calendar this week, EIA will be releasing its monthly drilling productivity report later today which will be followed by OPEC's monthly oil market report on Tuesday and IEA's monthly report on Wednesday. EIA will have its usual weekly petroleum report also on Wednesday. China will be releasing its monthly oil and refining statistics on Thursday which will be looked closely for any hints of the oil demand in the country.

## Metals – supply concerns for copper

The ongoing political uncertainty in Peru has increased some supply-side risks for metals (copper and zinc specifically) where the South American country is a major supplier. As per latest market reports, protestors in Peru have threatened to stop work at Glencore's Antapaccay and MMG's Las Bambas copper mines in protest against the country's new president and to demand fresh general elections. Any escalation to the protests could make it challenging to mine and transport the metals from the country and create short-term supply disruptions.

Meanwhile, Anglo American Plc has trimmed its copper mines output guidance to 840kt-930kt in 2023 due to declining ore grades at its Chilean mines, when compared to its previous estimates of 910kt-1.02mt. For the current year, the miner expects the copper production to average between 650kt-660kt, compared to its previous estimates of 640kt-680kt.

The latest CFTC data shows that speculators increased their bullish bets in COMEX copper by 3,241 lots (after two consecutive declines) over the last reporting week, leaving them with a net long position of 15,951 lots as of last Tuesday. In precious metals, speculators increased their bullish bets in COMEX gold by 9,609, to leave them with a net long of 37,618 lots as of last reporting week.

## Agriculture – WASDE report mildly positive for corn

The latest WASDE report was mildly constructive for the corn market as harvest delays from Ukraine/Russia could tighten the market in short term. For soybean and wheat, the report was a non-event as estimates were left unchanged for the US market and very marginal changes were made to the global market.

The USDA increased its estimates for US corn stocks at the end of 2022/23 to 1.26b bushels compared to earlier estimates of 1.18b bushels and largely in line with the market expectations of around 1.24b bushels. The increase in inventory comes largely on account of softer exports which are now estimated at 2.08b bushels (lowest in three years) compared to earlier estimates of 2.15b bushels, primarily due to higher domestic prices. Domestic production, demand and beginning

stocks estimates were left unchanged at 13.9b bushels, 12.0b bushels and 1.4b bushels respectively. Globally, corn production estimates were lowered by around 6.5mt with major supply cuts coming from Ukraine (-4.5mt) and Russia (-1mt) due to harvest delays. Meanwhile, global demand estimates were also reduced by 4.8mt leaving inventory changes to be marginal. Global inventory estimates were lowered by 2.4mt to 298.4mt at the end of 2022/23; the market was expecting a number closer to around 301mt.

The USDA left its domestic soybean balance sheet completely unchanged with the domestic inventory at around 220m bushels at the end of 2022/23 with production and demand of around 4.35b bushels and 2.25b bushels respectively, and exports at around 2.05b bushels. For the global market, the USDA increased global inventory estimates marginally from 102.2mt to 102.7mt at the end of 2022/23, largely on account of higher stocks at the start of the year. It was also slightly higher when compared to the average market estimates of 102.3mt. Global soybean beginning stocks for the year increased from 94.7mt to 95.6mt. Global soybean production estimates were increased by around 0.6mt to 391.2mt on account of higher output from India and Ukraine. Global demand estimates for soybean rose marginally from 380.2mt to 380.9mt for 2022/23.

The USDA left its estimates for the US wheat balance sheet also unchanged for 2022/23 with ending stocks at around 571m bushels. However, the global market underwent some changes. The USDA decreased production estimates to 780.6mt (-2.1mt) with supply cuts from Argentina (-3mt) and Canada (-1.2mt) offsetting gains in Australia (+2.1mt). Similarly, the agency lowered demand estimates by 1.6mt to 789.5mt with demand downgrades seen from the EU and Ukraine. The agency lowered ending stock estimates for wheat from 267.8mt to 267.3mt at the end of 2022/23, the market was expecting a number closer to 268mt.

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