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The Commodities Feed: Slowdown concerns weigh on oil

The weak macroeconomic outlook continues to weigh on the oil market, overshadowing any optimism from China's easing of Covid-19 restrictions

Energy – weakness persists

Weakness in the oil market persists with ICE Brent settling with more than 1% losses yesterday to a fresh year-to-date low of US$76.7/bbl. Reports of the disruption to the keystone pipeline in the US helped the NYMEX WTI rally above US$75/bbl, although a quick sell-off at the higher prices pushed WTI back to below US$72/bbl later in the day as demand concerns and a softer US dollar continue to weigh.

The Keystone Pipeline remained shut on Thursday after a spill on Wednesday night prompted the pipeline operator (TC Energy Corp) to close it for crude oil flow. The operator declared force majeure on Keystone crude oil supplies for now and the restart of the pipeline remains uncertain. The 600Mbbls/d crude oil pipeline is a major link between the oil fields in Canada and refineries in the US, hence any prolonged disruption could result in tight oil supply in the US market. A continued halt to the pipeline flow could also push Canadian crude oil into a deeper discount compared to WTI; WCS crude was trading at a discount of US$29/bbl compared to US$26/bbl on Tuesday.

The latest data from Insights Global shows that refined products inventory in the ARA region (Amsterdam, Rotterdam, and Antwerp) dropped by 54kt over the last week to 5.22mt. Inventory of light products dropped significantly with naphtha inventory down 104kt and gasoline inventory falling by 63kt. On the other hand, stocks and middle and heavy distillate increased over the week. Gasoil stocks increased by 49kt to 1.77mt whilst fuel oil inventory also increased by 79kt to 1.08mt.

Freeport has delayed the restart of its LNG plant in the US to the end of December against its earlier plan of mid-December. The 2.1bcf/d LNG export plant has been shut since June 2022 after an accident. The plant closure has reduced LNG exports from the country since then with LNG shipments falling to 295.4Bcf in September 2022 compared to 351.5Bcf in May 2022. Further, the plant restart will be done in phases, in a slow and deliberate manner considering the safety aspects and full capacity utilisation may be achieved towards the end of the first quarter only. Slower exports from the US could help keep the European and Asian gas markets tight especially when winter demand increases. In Asia, Australia has capped natural gas and coal prices for domestic consumers which could help keep domestic demand firm for gas during winter months and potentially limit the availability of gas for exports.

Metals – prices firm on China optimism

Industrial metals extended their upward rally yesterday following a softer dollar (which declined for a third consecutive day) and continued optimism building over better demand prospects as China starts easing Covid-19 restrictions. Meanwhile, Chinese authorities could further soften their stance on real estate policies at a key economic meeting scheduled for next week. LME copper 3M prices rose over 1% day-on-day to close at US$8,543/t yesterday, the highest since 22 June.

The latest survey from the Shanghai Metals Market (SMM) shows that refined copper output in China fell marginally to 899.6kt in November as a smelter brought forward maintenance due to tight blister supply. The market was estimating the copper production to be around 903.3kt for November. The group expects copper output to drop further to 887.9kt in December due to the continued maintenance and tight availability of blister feedstock. Amongst other metals, primary aluminium production in the nation stood at around 3.34mt last month (an increase of 1000t/d from a month earlier), as the higher operating rates in Guangxi and Sichuan offset production cuts elsewhere due to winter pollution curbs. For December, the group expects aluminium output to rise further resulting in increasing inventories of aluminium ingots. Meanwhile, zinc production also picked up in November as smelters resume operations.

Meanwhile, the latest data from the China Passenger Car Association (CPCA) shows that passenger car sales in China fell 9.2% year-on-year to 1.65M units in November. Cumulatively, sales rose 1.8% YoY to 18.4M units in the first 11 months of the year.

Agri – CONAB reduces Brazil's corn production estimates

Brazil's National Supply Company, CONAB, has reduced its corn production estimates from 126.4mt to 125.8mt (up 11.2% YoY) for 2022/23 as excessive heat and irregular rains impacted yields; the market was expecting a number closer to 127.8mt. For soybeans, CONAB left production estimates almost unchanged at 153.5 (up 22.2% YoY) for 2022/23. The adverse weather has delayed soy planting in some of the regions which may reduce the ideal period for winter corn seeding and likely weigh on corn yields.

The latest weekly data from the United States Department of Agriculture shows that US grain exports remained strong for the week ending 1 December. Weekly export sales of soybean rose to 1,746kt compared to 694 kt over the preceding week and higher than the average market expectations of 825kt. For corn, the agency reported that the US export sales rose to 692kt for the last week, higher when compared to 633kt in the previous week. Similarly, US wheat export sales also rose to 190kt compared to 163kt a week ago, although the market was expecting a higher number of around 284kt.

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