

The Commodities Feed: Strong Chinese oil demand

The oil and gold market saw further strength yesterday as tensions in the Middle East continue to grow. Meanwhile, Chinese oil data looks robust with strong domestic demand



Energy – Constructive EIA inventory report

Growing tension in the Middle East continues to support oil prices, with ICE Brent settling 1.78% higher yesterday at US\$91.50/bbl after an explosion at a hospital in Gaza. While the explosion was quickly blamed on an Israeli strike, both Israel and the US Pentagon have since said that a militant group was responsible for the explosion. The incident only adds to instability in the region and Iran has already called on Islamic oil producers to impose an oil embargo against Israel amid the wider conflict. Israel is a relatively small oil importer, importing a little over 200Mbbbls/d with the two largest suppliers being Kazakhstan and Azerbaijan at the moment. If we were to see a disruption to these flows, given the relatively small volumes, Israel should be able to quite easily find alternatives. The oil market has demonstrated quite well since the Russia-Ukraine war how trade flows are able to adjust to trade restrictions.

Yesterday's EIA report was fairly constructive, showing that US crude oil inventories fell by 4.49MMbbbls over the last week, whilst crude oil inventories at Cushing fell by 758Mbbbls to a little over 21MMbbbls and to the lowest levels since 2014. The draw in crude stocks was largely driven by a spike in exports with them growing by 2.23MMbbbls/d WoW to 5.3MMbbbls/d. Refined products also saw inventory declines with gasoline and distillate stocks falling by 2.37MMbbbls and 3.19MMbbbls

respectively. In addition to this, implied demand jumped by 2.23MMbbls/d over the week. The concern for the market is that crude oil inventories continue to edge lower at a time when they should be building, whilst stocks are also a little more than 20MMbbls below the 5-year average. Similarly, distillate stocks are well below the 5-year average as we head into the winter months.

[Chinese macro data released yesterday came in stronger than expected](#), whilst the oil numbers were also supportive with refineries in China processing a record 15.5MMbbls/d of crude oil over the September. In addition, domestic demand remains robust coming in at around 15.2MMbbls/d, up 3% MoM and 5% higher YoY. Given these stronger numbers, domestic crude oil inventories fell at a rate of around 200Mbbls/d last month.

Metals – Gold surges

Gold has surged to its highest levels since early August, with prices briefly breaking above \$1,960/oz yesterday amid the growing conflict in the Middle East. Despite the more recent moves in US treasury yields with the 10-year yield above 4.9%, up more than 20bps since Monday's close, the gold market is holding firm amid stronger safe haven demand given the current geopolitical environment. When considering the carry along the forward curve, forward values are looking even more attractive for producers with prices trading above \$2,000/oz from April 2024 onwards.

Base metal prices saw some initial strength yesterday following [GDP data from China which beat market estimates](#). However, there are clearly still concerns over the property sector and metals were unable to hold onto all of their earlier gains.

LME copper inventories continue to increase and now stand at their highest since October 2021. Copper stockpiles jumped by 11,000 tonnes to 191,675 tonnes yesterday, driven by increases into New Orleans. LME copper stocks have been rising for the past few months and are up more than 115% since the start of 2023.

The latest data from China shows that aluminium output continues to hit new highs, with production hitting a record 119kt per day in September with smelters in the southwestern province of Yunnan continuing to ramp up output. This compares to the previous record of 116kt per day set in August.

Agriculture – India extends sugar export restrictions

As widely expected, India has extended its export restrictions on sugar beyond 31 October. This is after concerns over domestic supply, given expectations for a poorer crop this season due to a deficit in rainfall in some of the key growing regions. The Indian Sugar Mills Association currently forecasts that domestic output will fall 3.4% YoY to 31.7mt, although there are some estimating the crop to be quite a bit smaller than this. India allowed 6mt of sugar exports in the 2022/23 season and any export quotas for 2023/24 will be significantly lower than this, if any at all. The government will want to wait until it has a better idea of the size of the crop before allowing any exports.

Recent trade numbers from China Customs show that wheat imports rose 66.4% YoY to 620kt in September, although imports were down 26.2% MoM. Cumulative wheat imports over the first nine months of the year stand at 10.2mt, up 53.6% YoY. There are expectations that imports might pick up in the coming months, as domestic wheat plantings are expected to fall due to bad weather. For corn, monthly imports increased 37.5% MoM and 7.3% YoY to 1.65mt. However, cumulative

imports are still down 10.3% YoY to a total 16.6mt.

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