The Commodities Feed: Strong Russian oil flows to China

Oil prices remain rangebound, with demand concerns continuing to put a cap on the market. European gas prices saw further strength yesterday, despite fundamentals still looking comfortable

Energy - China imports record volume of Russian crude

The oil market continues to trade in a fairly rangebound manner. OPEC+ action from several weeks ago has done little to propel prices higher and demand concerns continue to put a cap on the market. In recent weeks there has been increasing concern over China's demand outlook, despite Chinese oil demand indicators looking fairly good up until now. China's National Petroleum Corporation (CNPC) now expects domestic oil demand to grow by 3.5% YoY in 2023, this is lower than the 5.1% growth that was forecast back in March. China's demand outlook is crucial for the global market, given that the bulk of global demand growth this year is expected to be driven by China. Significantly weaker Chinese demand would also mean that the global oil balance would not be as tight as currently expected over the second half of 2023.

Russian seaborne crude oil exports edged lower over the last week although, at more than 3.5MMbbls, exports are still above pre-war levels. As widely known, China and India continue to pick up large volumes of Russian oil. The latest trade data from China shows that Chinese crude oil imports from Russia in May hit a record high of 2.3MMbbls/d, up 32% MoM and 15% higher YoY.

The volatility seen in the European gas market last week has spilled over into this week with TTF rallying almost 11% yesterday. Warmer weather and recent Norwegian outages have propelled prices higher. Recent price action shows that the market remains extremely sensitive to supply/demand developments. However, European gas storage is very comfortable at around 74% full at the moment, and we suspect storage will basically be full well ahead of the start of the next heating season. Assuming no supply shocks, this suggests we should see downside in natural gas prices over the summer months.

As for the calendar today, it is fairly quiet when it comes to energy markets. The API will be releasing weekly US inventory data later in the day. This will be followed by the EIA's weekly report on Thursday. Both of these releases are delayed by a day due to a US holiday earlier in the week.

Metals – Global aluminium output remains flat

The latest numbers from the International Aluminium Association (IAI) show that average daily global primary aluminium output stood at 188.7kt in May, compared to 188.4kt a month earlier. Total monthly output for the metal remained almost flat year-on-year at 5.85mt in May, although it was up 3.5% MoM. Cumulative aluminium production over the first five months of the year rose 1.8% YoY to 28.5mt. Chinese output is estimated to have increased by 3.7% MoM while remaining flat YoY at 3.5mt in May. However, YTD production is still up 2.9% YoY to 16.8mt. Production in Western and Central Europe has shown some recovery on a monthly basis with output rising 2.2% MoM, although it still declined 8.4%YoY to 229kt last month. Meanwhile, aluminium production in Asia (ex-China) rose 2.6 YoY to 397kt in May.

The continuous inventory drawdown in nickel saw spreads spike in LME with the tom-next spread surging to US$75/t, the highest since 2010, signaling tightness in the deliverable market.

In copper, recent reports suggest that Indonesia will stop exporting copper concentrates as soon as Freeport Indonesia and Amman Mineral International finish building smelters next year. Indonesia expects both facilities to start producing in May 2024.

Agriculture – USDA slashes corn and soybean crop ratings

The USDA's latest crop progress report shows that the USDA trimmed its crop condition ratings for US corn and soybean following dry weather conditions. The USDA rated 55% of the corn crop in good-to-excellent condition as of 18 June, lower than 61% a week ago and 70% seen at the same stage last year. Similarly, the agency rated 54% of the soybean crop in good-to-excellent condition, lower than 59% a week ago and 68% seen at the same stage last year. On the other hand, the USDA rated around 38% of the winter wheat crop in good-to-excellent condition, unchanged from a week ago, and up from 30% seen last year.

Weekly data from the European Commission show that soft wheat shipments from the EU reached 30.4mt for the season as of 18 June, up 11% YoY. Morocco, Algeria, and Nigeria were the top destinations for these shipments. Meanwhile, EU corn imports stood at 25.3mt, compared to 16.1mt reported a year ago.

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