The Commodities Feed: US announces SPR purchase

The oil market strengthened yesterday on the back of the US announcing it will start refilling its Strategic Petroleum Reserve (SPR). Meanwhile, today's Chinese industrial output data was mostly disappointing, however, Chinese oil refining activity and apparent demand over April should be supportive

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Energy – US set to start SPR refill

Oil prices finally managed to settle higher yesterday with ICE Brent closing more than 1.4% up on the day, and this strength has continued in early morning trading today. While large parts of the commodities complex moved higher yesterday, for oil, part of the move was driven by the US Department of Energy (DoE) announcing that it will be looking to buy up to 3MMbbls of sour crude oil for the SPR. Delivery of the oil will be for August and results will be announced in June. The volumes are relatively small, particularly when you consider the DoE released more than 220MMbbls from the SPR in 2022. However, the move does show that the US administration is serious about refilling the SPR, something that the market started doubting in recent months.

The latest activity data from China shows that Chinese refiners processed 14.88MMbbls/d of crude oil in April, down from 14.94MMbbls/d in March, but up 17.6% year-on-year. The month-on-month decline in refinery activity should not be a surprise due to refinery maintenance. The latest activity data and April trade data suggest that domestic apparent oil demand exceeded 15MMbls/d over the month – record levels. The numbers also suggest that crude oil inventories fell by around 300Mbbls/d in April.

The IEA will release its latest monthly oil market report later today and the market will likely be focusing on whether the agency made any revisions to its demand growth forecasts for the year, given growing concerns over the outlook. In last month's report, the IEA forecast that 2023 oil demand would grow by 2MMbbls/d – 90% of this growth is expected to come from non-OECD countries.

Metals – Copper mine halts operations in China

China's Zijin Mining Group Co. said that mining operations were halted at one of its mines in Tibet following an accident. The mine is one of three mines run by Tibet Julong Copper Co. and has a total production capacity of 160kt per year.

In zinc and lead, data from the International Lead and Zinc Study Group (ILZSG) show that the global zinc market remained in a supply surplus of 44kt in the first three months of the year compared to a supply surplus of 116kt a year earlier. Total refined production remained almost flat at 3.36mt, while total consumption rose by 1.7% YoY to 3.32mt between January and March 2023. As for lead, total production reported gains of 2.7% YoY to 3.08mt, while consumption fell by 1.3% YoY to 3.1mt in the first three months of the year. The lead market was estimated to have seen a marginal supply deficit of 19kt in the first quarter of the year, lower than the 143kt deficit during the same time last year.

Recent data from the China Iron and Steel Association (CISA) show that steel inventories at major Chinese steel mills fell to 17.6mt in early May, down 2.8% compared to late April. Crude steel production at major mills increased by 2% in the period to 2.25mt/d in early April.

Agriculture– Potential sugar release from China

There are reports that the Chinese government is planning to release roughly 1mt of sugar from the state reserves given the strength that we have seen in global sugar prices. Given China is a key raw sugar importer, any significant release of sugar from government reserves potentially means lower imports from China, which would offer some relief to the global sugar market.

The latest data from the Uganda Coffee Development Authority show that Uganda's coffee shipment fell 23% month-on-month and 8% YoY to 373,610 bags of coffee (the lowest since October) in April as an early drought hit yields. Cumulative shipments for the season (October to April) stood at 3.16m bags, down 4% YoY.

The USDA's weekly export inspection data for the week ending 11 May show that US corn and wheat shipments rose while soybean exports slowed over the last week. US weekly inspection of corn exports stood at 1,173.8kt, higher than the 974.5kt in the previous week and 1,060.6kt reported a year ago. For wheat, export inspections stood at 242.3kt, up from 214.5kt last week but lower than 348.9kt seen for the same period last year. Soybean export inspections stood at 147.9kt, lower than 397.8kt from a week ago and 804.1kt from a year ago.

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