The Commodities Feed: USD weakness & China optimism

A weaker USD provided some support to the commodity complex, while expectations for an improvement in the Chinese demand outlook provided a further boost

Energy- USD supports the complex

The oil market managed to push higher yesterday, aided by a weaker USD. In addition, growing optimism around China provided further support. However, Brent still failed to settle back above US$80/bbl, whilst the prompt Brent time spread is still in contango, reflecting a comfortable spot physical market. That said, we still believe that the oil market will become increasingly tight as we move through the year.

There were reports yesterday that China issued a second batch of crude oil import quotas for independent refiners. The latest release was for 111.8mt, which takes the total quota issued for 2023 to almost 132mt. By this stage last year, the government had issued only one batch of quotas totalling 109mt. Higher quotas support the view of recovering Chinese demand this year and the quicker-than-expected change in Covid policy means that the demand recovery could be more robust than initially expected. For 2023 global oil demand is expected to grow in the region of 1.7MMbbls/d, of which 50% will be driven by China. There could be some upside risk to this.

There are signs that Russia is struggling to find homes for its oil since the EU ban on Russian seaborne crude oil came into effect back in early December. According to Argus, Urals in the Baltic are trading at a little under US$38/bbl, which is around a US$40/bbl discount to Brent. Ship tracking data also shows that weekly exports have been generally trending lower recently. If Russia struggles to find buyers for its oil, it will have to start reducing output. And demand for Russian oil will fall even further from February as the EU ban on Russian refined products comes into effect.

Metals – Prices rise on China reopening optimism

Base metal prices rose yesterday amid optimism over China's economic recovery and declining exchange inventories. A weakening US dollar further boosted the metals complex. LME copper 3M prices rose more than 3% yesterday, while zinc and aluminium rallied by more than 6%. Nickel was the only base metal to settle lower, likely a result of reports that Tsingshan is looking to boost refined nickel output by repurposing some copper facilities in China. This move would be to take advantage of the large premium for class 1 refined nickel, a part of the market which is still tight.

Copper inventories immediately available to withdraw from the LME warehouses fell by the most in a month. On-warrant stockpiles declined by 2,050 tonnes to 71,850 tonnes, driven by declines in warehouses in Rotterdam.

The latest SMM survey shows that China's copper cathode production fell 3.3% MoM to 870kt in December, as some smelters undertook maintenance last month resulting in reduced monthly output. Meanwhile, Covid outbreaks also lowered smelter production, while output from the two newly commissioned smelters remained below expectations. Chinese primary aluminium production rose 8.3% YoY to 3.44mt in December. For full-year 2022, output rose 4.1% YoY to 40.1mt.

In alumina, a production unit has been taken offline at Alcoa's Kwinana Alumina refinery in Australia, representing about a 30% cut in production at the refinery, amid ongoing gas supply challenges in Western Australia. No timeline has been given for restoring full output.

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