The Commodities Feed: Covid weighs on oil demand

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Energy

ICE Brent once again slipped below US$70/bbl this morning on growing concerns over the Delta variant of the virus and the impact this could have on the oil demand recovery, particularly at a time when OPEC+ prepares to raise oil output gradually. The prompt ICE Brent time spreads have also narrowed from a backwardation of US$0.69/bbl a week ago to US$0.36/bbl currently, pointing to an easing of supply tightness in the spot market.

China's trade data shows that crude oil imports into the country have continued to be soft over the last month. China's crude oil imports softened to 9.7MMbbls/d (41.2mt) in July 2021 compared to around 9.8MMbbls/d (40.1mt) in June 2021 and much lower than around 12.1MMbbls/d imported in July last year. Cumulatively, crude oil imports have dropped 5.6% YoY to 301.8mt (around 10.4MMbbls/d) over the first seven months of 2021. High oil prices, limited import quotas especially for private refiners, and refinery maintenance have been weighing on crude oil demand from the country. Disruptions to port operations on the east coast due to typhoon In-Fa at the end of July, also appear to have weighed on crude oil imports for the month.

The positioning data from the CFTC shows that speculators reduced their net long position in NYMEX WTI by 16,449 lots over the last week, leaving them with net longs of 304,786 lots as of 3 Aug 2021. The reduction was predominantly driven by the longs' liquidation of 15,266 lots. Meanwhile, managed money net longs in ICE Brent also dropped by a marginal 1,994 lots over the last week.

There are a few data releases this week which will be watched closely. The EIA will be publishing its monthly Short-Term Energy Outlook (STEO) on Tuesday mainly focusing on the US oil market. Later on Thursday, the IEA will release its monthly oil market report which may have the agency's latest view on the impact of the current spread of Covid-19 on the global oil demand recovery for the remainder of the year. OPEC will also release its monthly report on the same day, which will include the group's output numbers for July and its outlook on the global market for the rest of the year.

Metals

A stronger dollar post the US nonfarm payrolls data weighed heavily on the metals complex and triggered a broader sell-off last Friday. Gold crushed the US$1,690/oz level as yields spiked, though it has regained some losses this morning with spot prices trading back above US$1,740/oz.

China released its preliminary trade data for metals over the weekend; imports of copper concentrate gained 13% MoM to 1.89mt in July. Cumulatively, imports rose 6% YoY and totalled 13.4mt in the first seven months. Year-to-date, unwrought copper imports also jumped 10.6% YoY to 3.2mt. As for bulks, iron ore imports fell 1.5% YoY to 649mt Jan'21-Jul'21. On the exports side, China's unwrought aluminium and aluminium products shipments rose 12.7% YoY to 3.1mt in the first seven months. Meanwhile, exports of steel products rose 31% YoY to 43mt during the same period. However, they fell by 12% MoM to 4.6mt in July.

In addition, strike risk continues to cloud copper mine supply from Chile, as the main union at the Escondida copper mine called on workers to strike amid limited progress in mediated talks with the management so far. Meanwhile, a power system failure in Zambia impacted many copper mines yesterday. As per the latest suggestions, Konkola Copper Mines Plc switched its copper smelter to run on backup diesel, whilst Mopani Copper Mines was also hit by the blackout and continued operations with emergency diesel power generators.

Lastly, the latest CFTC data shows that speculators decreased their net long position in COMEX copper, selling 6,697 lots over the last reporting week and leaving them with a net long of 39,440 lots as of last Tuesday. For precious metals, speculators increased their net long in COMEX gold marginally by 851 lots, to leave them with a net long of 106,662 lots while they increased their net long in silver by 4,709 lots.

Agriculture

Monthly trade data from China's Customs shows that soybean imports into the country dropped 14.1% YoY to 8.67mt in July 2021 due to weaker crushing margins. Soybean crushing margins in China dropped into negative territory over June and stayed there in July which weighed on soybean crushing demand for the month. Year-to-date soybean imports are still up 4.5% YoY to 57.6mt over the first seven months of 2021 due to stronger imports over the first half of the year.

Weekly data from the CFTC shows that speculators increased net longs in CBOT corn and wheat over the last week on weather concerns and trimmed long positions in CBOT soybean. Speculative net longs in CBOT corn increased by 18,461 lots over the last week, mainly driven by fresh longs due to frosty weather in Brazil. Speculators continue to add longs in CBOT wheat due to a poor spring wheat crop in the US, increasing their net long position by 12,241 lots over the last week. However, money managers trimmed net longs in CBOT soybean by 15,765 lots over the last week, to leave them with net longs of 78,286 as of 3 Aug 2021.

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