

The Commodities Feed: API crude build

Your daily roundup of commodity news and ING views



Source: iStock

Energy

The oil market gave back a large part of its early gains yesterday as it became apparent that oil flows along the Ceyhan pipeline would return to normal fairly quickly following an explosion.

However, the market still managed to settle higher on the day, after a supportive IEA oil market report. WTI is trading weaker in early morning trading today in Asia. It shouldn't be too surprising to see the market taking a breather after the scale of the move we have seen so far this year. API data overnight was also softer than expected, with a surprise crude oil build. API numbers show that US crude oil inventories increased by 1.4MMbbls over the last week, while on the product side, gasoline inventories increased by 3.46MMbbls and distillate fuel stocks declined by 1.18MMbbls.

In its latest oil market report, the IEA made some upward revisions to its oil demand forecasts, increasing demand for 2021 and 2022 by 200Mbbls/d. OECD industry stocks continue to decline, falling by 6.1MMbbls in November, leaving them at their lowest levels in 7 years. Preliminary data for December shows stocks falling by a further 45MMbbls. The IEA also pointed out that global refining capacity fell for the first time in 30 years in 2021. Capacity closures offset new capacity, with a net decrease of 730Mbbls/d. For 2022, the IEA expects a net increase of 1.2MMbbls/d in refining capacity. The agency also expects refinery runs to increase by 3.7MMbbls/d this year. If realized, this suggests that refinery margins could face some headwinds.

Metals

Following China's pledge for more support, industrial metals rallied on Wednesday, aided by dollar weakness. Nickel led the gains with 3M prices surging by almost 5% DoD and touching an intraday high of US\$23,230/tonne as a historical squeeze flushed shorts out of the market. After yesterday's strong rally, nickel is the star performer amongst LME base metals. Nickel is up more than 11% so far this year.

The laggard so far this year has been copper, although it managed to make up some ground yesterday. In the short term, the dollar may dictate price action ahead of next week's Fed meeting. In addition, weak production reports from major miners yesterday may have also supported the market. Antofagasta reported weaker copper production during 2021. Output was down 1.7% to 734kt due to declining ore grades. BHP also reported a 12% fall in copper production to 742kt during the first half of their reporting year (2H21) and expect total production to be at the lower end of their guidance for the financial year ending June 30 2022.

In ferrous and bulks, rebar and HRC prices surged in Shanghai as Beijing's pro-growth measures fueled demand optimism. There are also reports that production cuts in the Tangshan market have resulted in billet shortages, reverberating to domestic semi-finished markets and import billets. Demand optimism has outweighed concern over production cuts during the coming Winter Olympics and Chinese New Year, and iron ore prices extended their gains.

Agriculture

CBOT soybeans rallied more than 2% yesterday on the back of stronger demand in the US domestic market. Data from the National Oilseed Processors Association (NOPA) showed that soybean crushing increased 1.8% YoY (+3.9% MoM) to a record high of 186.4mn bushels (5.1mt) in December 2021, due to strong demand from the physical market and healthy soybean crushing margins. Demand for soybean oil in both the edible oil and biofuel sector was quite healthy over the month. Strength in other edible oils, including palm oil over recent months has helped increase demand for soybean oil. Soybean crush margins in the US were around US\$154/bu in December, compared to an average of US\$104/bu for full-year 2021.

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