

The Commodities Feed: API reports further Cushing draws

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Energy

Oil prices continued to edge higher yesterday, leaving Brent in striking distance of the 2018 highs. Saudi Aramco raised concerns yesterday that spare oil capacity is falling quickly and that the market could see a deeper deficit next year, particularly if there is a strong rebound in air travel in 2022. However, this view is at odds with what OPEC+ are forecasting for next year. The group expects strong non-OPEC supply growth in 2022, while our balance sheet shows the market returning to surplus in 2Q22.

Overnight the API reported its US inventory numbers, which showed that crude oil inventories at the WTI delivery hub, Cushing fell by 3.73MMbbls over the last week. Meanwhile, total US crude oil inventories increased by 2.32MMbbls, while gasoline and distillate fuel oil stocks grew by 530Mbbbls and 986Mbbbls respectively. The market will keep a close eye on weekly EIA numbers, which will be released later today. Of particular interest will be the Cushing inventory numbers. A similar reading to the API would leave total Cushing stocks at below 30MMbbls. Such a scenario would likely continue to provide strength to WTI timespreads.

Metals

Chinese domestic thermal coal prices continue to fall, which appears to be finally feeding through to the industrial metals sector. Base metal prices fell across the board. Aluminium led declines, followed by nickel and zinc. However, despite coal prices collapsing on the Zhengzhou Commodity Exchange, prices in the country's major physical markets remained at a high premium to the spot contract.

Declining coal prices are a short-term success. Still, it remains to be seen whether the supply of coal and other energy will ultimately meet the demand from households, which is the priority, and then let industries operate at their scale. The heating season is only about two weeks away, and that could be a litmus test. Some magnesium producers from Shannxi Yulin have been allowed to ramp up, but so far, restrictions on base metals production have remained in place.

On Tuesday, China's State Council released an action plan to peak CO2 emissions before 2030. According to the newly released document, China's government calls for more efforts to achieve the goal of peak CO2 emissions for major industries, including nonferrous metals, steel, and petrochemicals. It continued to highlight the resolution to cap aluminium capacity. It called for strictly enforcing capacity swaps in primary aluminium smelting and for more recycling. Despite the ongoing power crunch leading to curtailments at more than 2mtpa of capacity, the long term goal in carbon emissions should remain a cap on primary supply growth. This leads to a high conviction that China's primary aluminium supply growth will peak before 2025, which is also the year China's industry association proposed that the aluminium industry achieve peak carbon emissions.

Agriculture

Fortnightly data from UNICA shows that sugar output in Center-South Brazil dropped sharply over the first half of October as many mills closed operations due to a lack of sugar cane availability. Sugar production in CS Brazil dropped 56% YoY to 1.15mt over the first half of October, compared to 2.32mt produced in 2H September. The sugar cane crush in the region declined 47% YoY to 19.7mt. Meanwhile, the sugar mix fell to 39.1% over the period compared to 45.3% a year ago and 43.7% in 2H September, as stronger energy prices prompted mills to divert more cane towards ethanol production. UNICA also reported that another 31 sugar mills closed operations over 1H October, taking the total number of mill closures to date to 67. 195 sugar mills were operating at the end of 1H October out of which around 83 could stop operations by the end of October. Seasonally, sugar cane crushing in the region continues until the end of December; however, the current trend suggests that the crushing season could conclude early this year.

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